

DEDICATION

This research thesis is dedicated to my parents and family for their continued support and bearing the pain of my education. May Allah bless them profusely.

ACKNOWLEDGEMENT

First and foremost, I express my appreciation to the Almighty ALLAH my savior, who has enabled me to achieve my dream in pursuing my degree in Masters in Science Finance.

I would like to take this opportunity to express my sincere gratitude to Prof. SHAHZAD BUTT, Department of Management Science at BAHRIA University Islamabad, for his expert guidance, helpful criticism, valuable suggestions and encouragement at every stage during the completion of this work.

It was pleasant and inspiring experience for me to work under his guidance.

It is my pleasure to thank former Professors at BAHRIA University who give me the relevant data that are very much valuable for this study.

I add a special note of admiration and gratitude to my friend Mr. Abdullah Bashir Fahad and my family members, without their moral support, it would have been impossible for me to go through this piece of work.

Above all, I would like to Thanks my Almighty Allah!!

Abstract

The Determinants of Financial Distress among manufacturing companies in Pakistan

The insalubrious financial condition can be enormous and it can lead to long term distress that can result to restraints of investment activities, capital flow and performance of companies. Therefore, it is important for companies to detect the reasoning that may lead to a corporate failure and take measures accordingly to abstain from such conditions. The main emphasis of this research is to examine empirically determinants of financial distress in the case of manufacturing companies in Pakistan listed on PMX. The sample consists of seventy six companies that have at least five years of annual report and balanced data. The documents review is used for the collection of data from 2010-2015 annual reports. In line with this objective, this study implements quantitative methods of research approaches to test the hypothesis of study. This study put on panel data model with its fixed effect estimate to check a series of hypotheses that developed through the review of existing literature. For a confident conclusion, normality, multicollinearity and autocorrelation test are applied on the panel data. Then, the panel data is processed by using E-views 8 statistical package. The composed data then analyze by using descriptive statistics, correlation analysis and panel data regression with its fixed effect analysis. The outcome indicates that firm size (FSIZE), profitability (Prof) and liquidity (LIQ) have progressive impact on Debt Service Coverage Ratio (DSC) as a method to measure financial distress. While on the opposite side, leverage (LEV) reveals a negative kind of relation with DSC. Remaining independent variable efficiency tells that no constructive relation exists in the way towards distress when examining the financial position of manufacturing companies in Pakistan. Thus, this study has a significant part to play in filling Gap in understanding of the determinants of financial distress among manufacturing companies in Pakistan. Such an indulgent is important because it prepares financial managers with practical knowledge of defining their financial distress.

Keywords: Debt Service Coverage (DSC), Corporate Financial Distress, Manufacturing Companies, panel data.

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ACRONYMS

DSC: Debt Service Coverage

DW: Durbin-Watson Statistic

EAT: Earning After Tax

EBIT: Earnings before Interest and Tax

EFF: Efficiency of Firm

FD: Financial Distress

FSIZE: Firm size

GDP: Gross Domestic Product

LEV: Firm Leverage

LIQ: Firm Liquidity

LOG: Natural Logarithm

PROFI: Profitability of Firm

TA: Total Assets of Firm

TL: Total Liabilities of Firm

Determinants of Financial Distress among Manufacturing Companies in Pakistan

CHAPTER-1

1 Introduction

Prior to start my working on dissertation, distressed investing in European markets was facing resurgence following the market for the period from 2000 & 2001. Whereas earlier the year 2000, distressed financing was regularly controlled by the way to make prominent investment methods and to obtain large amount of debt that is declared as distressed. Later in 2001 it began moving headed for direct investments in particular organization, replicating an upward ratio in those kinds of investor interest against the power control of these firms. The mainly reason for this is because of the diversified comfortable economic environment. The authority of a confident investment sentimentality, in order to accomplish objectives of their business plans, greater level of liquidity and flexibility in the marketplace have allowed firms to increase their leverage. The main idea about financial distress is frequently raised in the literature of asset pricing to enlighten or else inconsistent outlines in the cross-section of stock returns. The indication is that some firms may have a higher hazard that they will find disregard to meet monetary obligations, and financiers charge a premium for taking this hazard.

According to Distressed Investor Survey 2007, several financiers look for the maximum investment chances in many developed nations which include England, France, Germany and Italy. This survey analysis includes that Germany vestiges the utmost eye-catching marketplace for distressed financiers only not in Europe but also internationally due to inadequacy of robustness in the economic condition. The average anticipated profit from an investment which is directly distressed fluctuates and relay on the amount of tough rivalry, numerous chances for investors, and overall progress of the marketplace.

As quickly company have touched a definite range of leverage but do not consist to perform well according to their business strategies, financial distress can happen even in a developing financial condition. Companies with great levels of leverage and increasing instability make its equity susceptible; consequently, each probable drop in the business venture value may quickly weaken equity (Altman & Hotchkiss 2005).