

The Determinants of Capital Structure: A Study on Cement Sector of Pakistan

Author's details:

(1) **Wafa Farrukh**-School of Accounting & Finance, University of Central Punjab, Lahore, Pakistan

(2) **Muzaffar Asad**-School of Accountancy & Finance, University of Central Punjab, Lahore, Pakistan

Abstract

This exploration/ study about has been directed to the capital structure of the concrete business Pakistan taking the example of 15 organizations out of the number of population of 22 organizations enrolled on the Karachi stock trade of the period 2012 to 2016. This review utilized the panel least square method of regression through the E-View software to discover the relationship of dependent and independent factors. It has taken leverage as a dependent variable and profitability, growth, firm size, liquidity, tangibility of assets and non- debt tax shield as independent factors. Following outcomes are accomplished after the examination then appeared in this study. The independent factors comprising liquidity and profitability have a substantial effect and contrarily linked with leverage, which implies that if these factors rise leverage will diminish. Additional variable consist of non-debt tax shield plus growth likewise take critical effect and a favorable association which implies that if these two factors surge, leverage will reduce. The remaining two factors measure tangibility of assets and firm size has insignificant effect on leverage that implies that there would not be any effect of change transpires in the factors on leverage.

Keywords: Capital structure, profitability, growth, firm size, liquidity, the tangibility of assets, non-debt tax shield and leverage.

1. INTRODUCTION

Background

The source of the cement business/exchange Pakistan is going to the freedom of Pakistan; there were only 4 concrete partnerships after the autonomy of Pakistan. Around then the creation/yield of the cement enterprises was not exactly the half of the million tones limit for each annum, so it was incredible distinction/crevices in the demand and supply of the cement in Pakistan. For satisfying this distinction/hole in the request and supply it was required to import cement from abroad, when the cement business private in 1991-1992, then the generation/yield of the cement expanded with the day and age, and these creation gets to be distinctly surplus in 1997, which was effective for finishing the request of neighborhood needs and additionally Pakistan began the sending out to abroad/ overseas.

There are four (4) principle sorts of cement is produced consistently, which is (1). Ordinary Portland cement, (2) Portland B. F slag cement, (3). Sulphate opposing cement and 4) white cement, while in the Pakistan Portland cement is essential created with the huge amount of tons yearly.

At the present aggregate recorded operational Companies of concrete businesses on Karachi stock trade are 22, which is in the operational. The right now generation of recorded cement ventures as per their ability is 74%, which is approximately 45 million tones around yearly. In 2013 the generation of the cement ventures was 33 million tons, while the household deal was 25 million tones.

The part/part of the concrete industry in the Pakistan advancement is extremely productive. It contributes of 3 percent work/employments openings in the field of engineering, technical, works and from another field to the Pakistani nationals either talented or not. The concrete businesses are additionally contributing of 30 Billion Rupees to the Pakistan income as a duty, import and so forth. (Ali, 2015).

Capital Structure

The Capital Structure is the mix of debt, equity and the retained gains. Debt implies that firm uses obligation source of producing the assets as debt, debenture, security from the banks/monetary institutions premium premise, while the Equity/share source implies that the organizations are utilizing offer hotspot for creating the store from overall population/establishments as regular share and inclination share. The share is essentially proprietorship testament of the firm, which is the firm welcoming the overall population to buy them, and the organizations pay profit as a reward to the shareholder consistently. The Retained gaining additionally may be utilized as a wellspring of producing asset, which is the interior source financing of the organization, while different sources are outer. The organizations held some reserve from their return for their forthcoming circumstance such like an extension of business/activities and so forth, so the firm can utilize this source likewise to finance which is extremely shoddy in comparison to others.

The perfect capital structure is exceptionally basic/fundamental for the cement business of Pakistan. Each organization/associations don't utilize indistinguishably/one of a kind capital structure proportion, in light of the fact that the choice criteria against the capital structure are differing from firm to firm, in this way it is exceptionally troublesome errand for the administration/managerial of the organizations/organizations to took choice with respect to the venture setup/capital structure, in light of the fact that the primary points of perfect capital structure is to minimizing/diminishing the odds of misfortune (risk) and the cost of capital, and expanding the income/returns and the value of capital/speculation of the financial investor.

In the capital structure exchange off is comprised in the middle of/among the risk and return. There is a general feeling that when the debt/risk source is an increment in the firm, then the odds of misfortune/risk figure increment/creates, which raises the cost of Capital and the share costs go down. At that point instantly the financial investor/stockholder appears/appreciates the share speculation for the picking up of profoundly cost of capital and they are prepared to goes for broke of their venture. So, in a roundabout way, the costs/estimation of the share/value rises/increments and the debt goes down. The perfect/ideal venture arrangement (capital structure) are at those points where balance is comprising in the middle of/among the risk and return for picking up/accomplishing the general target of the organizations

At whatever point the cement or some other industry taking any compelling choice about their investment/enlargement of business, then the administration of the firm remembers about their capital structure, in the prior periods the concrete ventures have an idealistic/positive net income when contrasted with at present. The concrete businesses have confronted a considerable measure of difficulties such like the immense cost of capital, chapter 11(bankruptcy), disappointment in keeping up the perfect capital structure, cost of creating cement which is exorbitant/costly, owed to the gigantic cost of transportation, fuel and so forth. So, the expulsion of these issues, it is required to the best ability of fund which has a particular information and aptitudes about the venture setup/capital structure.

In Pakistan, by and large, businesses do not take after the perfect capital structure. So, the organizations can make/create ideal/perfect capital structure when their money related fares have the best information of determinants of capital structure. The principle point of the examination is to look at the every one of those components which are influencing the capital structure of the cement business. This review will give learning, data, and attention to each one of those individuals whose are keen on the back and capital structure such like speculator, administrator, and money related exports entrepreneur and so on.

The fundamental points of this review are to inspect the key determinants/components which are irritating/impacting the capital structure choice of the cement enterprises.

This review additionally tries to discover the primary determinants of capital structure which is sure impact the capital structure of the concrete business.

This study prescribed to the speculator and money related exports to give direction about every one of those determinants of capital structure on the concrete business of Pakistan, which are affecting capital structure choice, and its need consideration amid taking the choice of capital structure.

This review will give information, data, and attention to every one of those individuals whose are engrossed with funding and capital structure such like speculator, manager, economic exports entrepreneur and so on.

What are the fundamental determinants of capital structure of cement industry?

To what degree leverage, profitability, tangibility, firm size, growth, non-debt tax shield and liquidity influence the capital structure choices of the recorded organizations in a concrete segment of Pakistan?

This learning will endeavor to break down the determinants of capital structure in a systemic way and will give the useful and pertinent rule to any individual who needs to have an understanding of the subject. The research will present the fundamental determinants of capital structure and their affecting variables. As a rule, it will cover every single part of the subject however particularly it is identified with the capital structure of concrete segment firms recorded in Karachi stock trade and their financing basic leadership. It will investigate an assortment of elements that impact the determinants of capital structure and control the money related choice taken by the manager also the accomplishment or the failure to these choices

2. LITERATURE REVIEW

As per the investigation of Hijazi and Tariq (2006) who inspect the determinant of the capital structure of the example of 16 out of 22 organizations of cement segment enlisted on Karachi Stock Exchange. On the past data regression model are used for deciding their result. The testing/examining demonstrates the result/effect of positive/positive affiliation/relationship of independent variable tangibility of asset and growth with the depended variable leverage and has the unfavorable/negative relationship of independent variable size and profitability with the depended variable leverage.

In 2013 (Qayyum, 2013) analyzed the variables of the capital structuring of the cement industry taking a basic of 20 cement company of Pakistan with a recorded facts and figure/information of the span of 2007–2009. This study examined the impact of the independent variable (profitability, belongings tangibility, size, and development rate) on the dependent variable of leverage. Which result demonstrates that barring the firm size, all other independent variable has the favorable relationship/connection with the leverage, while the independent variable firm size has an unfavorable/negative relationship with the dependent variable leverage?

As indicated by Afza and Hussain (2011) whose research is instigated on the investigation of past research of Rajan and Zingales (1995), Laurence Booth and Asli Demircug-Kunt (2001). She examined the numerous segments/ventures through the utilizing of a test of twenty-two (22) organization. Which was comprise of Automobile seven firms, Cable and Electrical Goods test was eight firms, and the Engineering segments organizations are (7) firms utilizing as an example for the points of deciding the variable/components of capital structure through the assistance of utilizing statistic data and figure/information on the regression model. The state of mind of the venture of this enterprise have rest/rely on upon the arrangement for the expense, the design of advantage, non-obligation impose shield, firm size, benefit and the liquidity of the organizations. The result is in the arrangement/backing of Pecking Order Theory and Static Tradeoff Theory. The independent factors liquidity, taxation and cost of debt are taken in this research/investigation which has swayed the leverage funding/speculation choice.

As per the investigation of Rafiq and Atiq (2008) which decided the components of capital structure of the chemical segment of Pakistan, the specialist analyzed/concentrated the impact of independent variable on the dependent variables leverage, according to of their exploration the independent variable Tangibility of asset variable have the anticipative/positive relationship with the leverage, which is in regards to the examination of Shah and Hijazi (2004). Then again it is refinement/separate with the examination of Michael C. Jensen (1976) and Myers (1977) and the independent variable Growth is positively/with luck connected with the depended

variable Leverage, Which is in contradiction of/divergent with the Shah and Hijazi (2004) who proclaims the unfavorable/negative relationship in the middle of the growth and leverage, while the other independent variable profitability have likewise unfriendly/negative relationship with the leverage, Which suggests that the organization of chemical industry of Pakistan is utilizing either less or high/tremendous debt. As per the Hijazi and Tariq, (2006) firm size has the hopeful/positive association with the leverage. It additionally expresses that the greater organization is loaning debt in immense volume then the minor/little firms which are apprehensive from the excessive debt because of the bankruptcy, which endorses the assessment against the size of the enterprise as for leverage that the greater company has a more prominent level of leverage.

As per the review of Attaullah and Safiullah (2007) which attempted to decide the determinants/component of the capital structure of the non-monetary organization, which are recorded on the Karachi Stock Exchange. The exploration is comprising of 8-year monetary information of the length of (1994-2002) of the non-money related enterprise. In the exploration 7 variables are analyzed, and demonstrated their impact on the dependent variable leverage, subsequently it was found that the most noteworthy leverage proportion are of textile companies, on the grounds that every single textile company control/power are hold by the families because of their proprietorship, so they better think about the keeping overall revenue. They can't/decrease the tax from their profit to the legislature and in addition declined the dividend to the investor. The ordinary profit will be going down/negative for the whole/entire years which is at long last increment the debt proportion in their speculation. So, the independent variable Asset tangibility has a favorable relationship with the leverage.

As per the examination of Mazhar and Nasr (2010) whose look at the determinants/component of the capital structure of the 91 government and private companies. This review demonstrates the positive/idealistic relationship of Firm size and the firm growth with the depended variable leverage. The Examination of both government and private firms by the Spearman affiliation shows that the Government firms in Pakistan are utilizing high debt rather than equity then the private partnerships. It expresses furthermore that the independent variable tangibility of asset in the administration/public firms has the idealistic/positive relationship with the depended variable leverage. The enterprise's development rate has likewise equivalent/indistinguishable inclination in the Government and Private Corporation. In the private associations, the firm size has an idealistic/positive relationship with the leverage, yet in the administration firms, it has negative/unfavorable relationship concerning influence. The Profitability variable in the general population/government enterprises has the idealistic/positive affiliation, however, in the private firms, it has an unfavorable relationship with the leverage.

As indicated by the investigation of Hamid Ahmad and Zakaria (2013) it's inspected the element affecting the capital structure and the stock return/yield. In this review, 100 non-monetary associations have been taken for the time of 2006-2010. This exploration work in light of the auxiliary model to compute/decide on capital structure and stock yield. The GMM (Generalized Method of Moments) model was taken to extend the model to minimize the issue. The review demonstrates the result/end result that the profitability, growth, and liquidity are the critical determinants of capital structure regarding the leverage. The Profitability has an unfavorable/negative relationship with leverage as a positive relationship with the stock yield. The Growth variable has a hopeful/positive relationship with the leverage, while the liquidity has demonstrated the unfavorable relationship with the leverage. The Firm size has no relationship with the leverage and the stock yield, facilitate this exploration clarify/shows that the pecking request hypothesis of venture setup is well depicted the supporting mentality of the Pakistani company. It suggests that they have not certain debt proportion but rather the track the pyramid/pecking order in their methods for supporting. The examination additionally depicts that the Pakistani non-money related ventures companies have an inclination to embrace the internal wellsprings of subsidizing/financing rather than the external/outer wellspring of the fund.

As indicated by the investigation of Ume Salma Akbar (2012) who's analyzed the example of 16 companies recorded on Karachi Stock Exchange in the segment of personal care good of Pakistan of the length of 2001 - 2008, and inspected the information by utilizing of the distinctive test or condition such like pooled regression

balanced with cross sectional variety. In this review, have taken the six variables i.e. firm size, the tangibility of assets, profitability, growth, tax rate and earning volatility were analyzed as a variables/determinant of the leverage. The regression show starts the outcome about their relationship of six factors measures 89% of the components influencing leverage. Subsequent to considering it was found that only two variable size and growth openings have a positive relationship with the leverage. The examination result backing the Static Tradeoff Theory, which is predicts a hopeful/positive relationship in the middle of the firm size and leverage. The Growth in resources is subsidized through the debt which rises rate. In short/basic words for the partnership who have the higher growth have required further money spilling/streams required which are not filled/supported through the interior wellspring of the back so the enterprise goes to the outer subsidizing/financing as debt and takes credit. While the other independent variable such like profitability, tangibility, tax rate and earning volatility have a negative relationship with the leverage.

As Stated by Akhtar and Masood (2013) in their exploration about the capital structure determinants of a chemical sector of Pakistan. The specialist took the specimen of 34 chemical organizations of Pakistan recorded on Karachi Stock Exchange for their examination. It takes dependent variable leverage (Debt/Equity), and the five independent factors are Profitability, Growth, Financial Cost, Size, and Tangibility. The exploration demonstrates the outcome that the financial price and cost and tangibility are sure connected with the leverage, though the other staying independent factors have the antagonistic relationship with the dependent variable leverage (Debt/Equity).

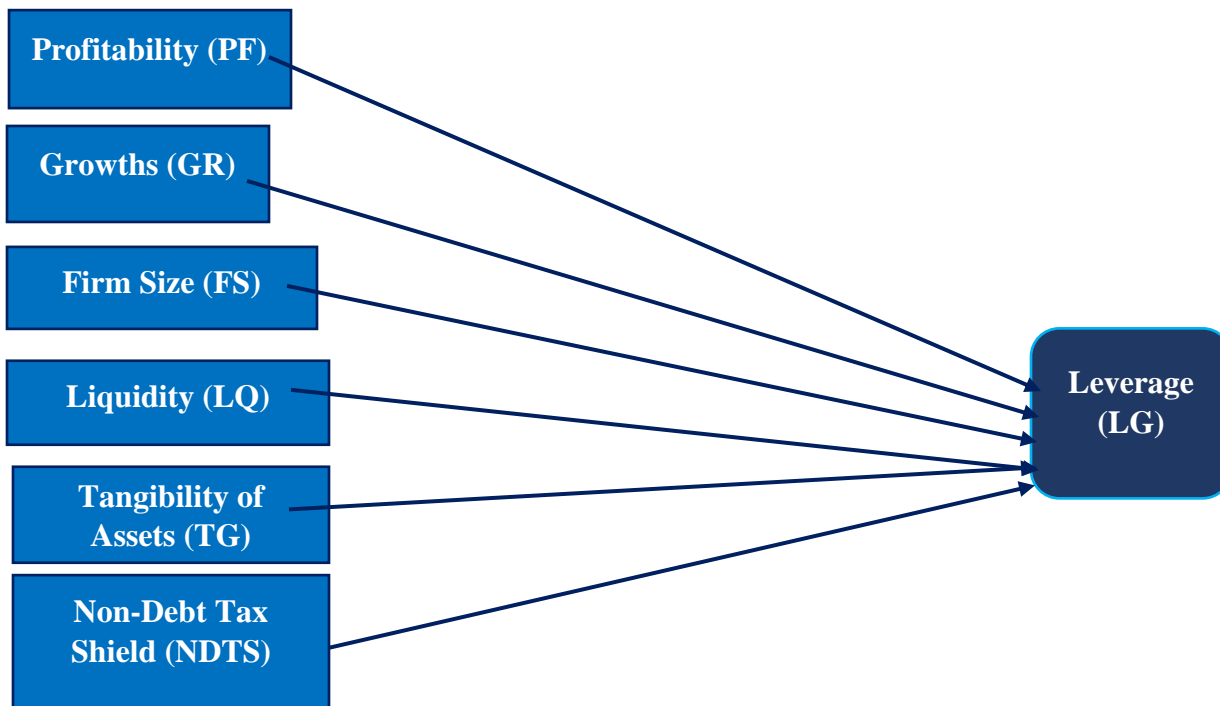
In 2011 Awan, Rashid and Zia-ur-Rehman (2011) tried to decide the determinants of capital structure of the sugar and unified industry of Pakistan recorded on Karachi stock trade. This exploration starts that a specific part capital structure has appeared/shows the elite trademark which is not, for the most part, indicated real in the aggregate/joint examination of various enterprises. This exploration work is comprising of the specimen of 33 organizations in the sugar division, which are enrolled on the Karachi Stock Exchange for the dated of 1999-2004 and analyzed the information through the working of regression in a gathering of information study/examination. The scholar chooses the dependent variable leverage and independent factor firm size, the tangibility of assets, profitability and growth, for the concentrate the relationship of independent on depended variable through the support of regression. The analyst has begun the imperative relationship of firm size and profitability with leverage, and the tangibility of assets and growth variable take the idealistic/favorable association with leverage. In addition, the result of the firm size and the growth are none commendable measurably. In this way, it may be expert that the profitability has an unfriendly relationship with the leverage in the circumstance of recorded Sugar and Allied partnerships of Pakistan.

As per the investigation of Faiza Saleem, Mehmood, Irfan, Saleem, and Sidra Tariq (2013) in 2013 who's attempted to decide the determinants of the speculation arrangement of the oil and gas Division Company's information of the term 2006 to 2011 enlisted on KSE (Karachi Stock Exchange). On the verifiable information, different regression model/strategy have been connected with the end goal of inspecting the relationship of the dependent variable (Leverage) and independent factors (Firm Size, Tangibility of Assets, Profitability, and Sales Growth). The exploration demonstrates the consequence of every single independent variable has a significant impact on the dependent variable leverage. The outcome additionally expresses that the independent factor firm size, tangibility of assets & profitability, have the idealistic/positive relationship with the influence, While the deal development has an antagonistic relationship with the leverage. So, the exploration prescribed that if the inside wellspring of the back (held procuring) is not proficient for the creating/developing firms, then the organizations have just a single decision of subsidizing is an outer wellspring of the fund (obligation) for expected augmentation/development. The profits/winning do not show the real photo of the partnership result/execution, so the loan bosses seek the certification as security of the sure due on the settled resources high extent of the intangible assets, so for the firm it is trouble in getting the long-haul debt for the reason that the intangible assets couldn't be collateralized. So, because of these reasons, the growth have the unfavorable relationship with the leverage.

3. THEORETICAL FRAMEWORK

For the purpose of directing the investigation, it has been taken the seven factors, where one is dependent variable Leverage and the other six factors are independent factors that are Profitability, Growth, Firm size, Tangibility of assets, Liquidity, and NDTs. The Relationship among all variables is presented in the figure below.

Figure 3.1 Theoretical Framework



The above mentioned relationships are summarized in the following hypothesis:

H1 = Profitability is significantly related to Leverage

H2 = Growth of firm is significantly associated with Leverage.

H3 = Firm size has a significant link with Leverage.

H4 = Liquidity has a significant relationship with Leverage.

H5 = Tangibility of the firm is significantly related to Leverage.

H6 = Non-Debt Tax Shield (NDTS) of the firm have a significant relationship with Leverage.

4. RESEARCH METHODOLOGY

Unit of Analysis in this is a capital structure on cement sector of Pakistan. This is a descriptive research (in view of just quantitative information) on the grounds that various inquiries about this have been done on this theme, and analyst is doing it to discover a connection in the middle of dependent and independent factors of capital structure. The researcher has designed the study in such a manner that after screening the firms with incomplete data, it takes only 15 KSE listed companies out of the population of the 22 cement segment, also has taken necessary financial information of 5 years since 2012-2016. These are the particular sample organizations that are used are: Attock Cement (Pakistan) Limited (ACPL), Bestway Cement Limited (BWCL), Cherat Cement Company Limited (CHCC), Dewan Cement Limited (DCL), D.G. Khan Cement Company Limited (DGKC), Fauji Cement Company Limited (FCCL), Flying Cement Company Limited (FLYNG), Gharibwal Cement Limited (GWLC), Javedan Corporation Limited (JVDC), Kohat Cement Limited

(KOHCL), Lucky Cement Limited (LUCK), Maple Leaf Cement Factory Limited (MLCF), Pioneer Cement Limited (PIOCL), Power Cement Limited (POWER) and Thatta Cement Company Limited (THCCL) to examine the relationship amid the dependent and independent variable. The information has been gathered after the taking financials of organizations' Annual reports. The gathered information then has been investigated by the E-View software. Convenience sampling technique is utilized for this research. It is selected for the purpose of the appropriate availability and proximity of the annual reports to the research.

4.1 Description of Variables

Dependent Variable

Leverage

The analyst has taken leverage as long term debt ratio. For taking the proportion, analyst takes separated aggregate debts to aggregate assets. (Modigliani and Miller, 1958; Irfan, 2011).

4.2 Independent Variables

Profitability

There remain diverse strategies used for deciding the profitability of an organization. In this, I am separating the net profit to the aggregate assets for getting esteem. (Rajan and Zingales, 1995; Titman and Wessels, 1988; Hijazi and Tariq, 2006; Céspedes, González, and Molina, 2010).

Growths (GR)

An organization can grow in various bearings. An organization can grow with alternate points of view. One can develop their business, profits (incomes), and steady assets add up to assets, plants, operations, representatives, arrive, and so forth thus, there are such a large number of strategies and approaches to quantify the growth of an organization. Specialists in there investigate looks into favor the percentage change in all out assets. (Gavin, 2003; Attaullah and Safiullah, 2007; Rafiq and Atiq, 2008; Naveed Ahmed and Ahmed, 2010; Irfan, 2011; Nadeem Ahmed Sheikh, 2011).

Firm Size

Firm size can be measured through various means. It relies upon various components. Some of them are the quantity of workers, a measure of offers, and so forth. In any case, a large portion of the experts had made the Logarithm of offers by way of a feature of the exploration. I for one am inspecting every one of the organizations' business sum and afterward take the log of them to get the esteem. (Rafiq and Atiq, 2008; Awan, Rashid, and Zia-ur-Rehman, 2011).

Liquidity

There are a few strategies and formulae to discover the liquidity of an organization. Diverse analysts have taken after various ways. I will separate the present assets for current liabilities with a specific end goal to get the estimation of liquidity. (Gavin, 2003).

Tangibility of Assets (TG)

Diverse analysts have done distinctive things for measuring substance. Here, specialist measuring substance as far as aggregate steady assets partitioned thru the aggregate assets. (Rajan and Zingales, 1995; Michael C. Jensen, 1976; Titman and Wessels, 1988; Shah and Hijazi, 2004).

Non-Debt Tax Shield

Non-Debt Tax Shield (NDTS) incorporates both deterioration and speculation assess credits. Non-obligation charge shields are compelling with enthusiasm as it is useful in the derivation of duties. Firms with higher non-obligation charge shields are anticipated that would have brought down leverage, as the tax cuts of leverage are moderately less significant. Huang and Song (2002) found that Non-obligation assesses shields are profoundly

contrarily related with the aggregate influence. NDTs substitutes the tax reductions to the firm, so the firm with bigger NDTs utilizes less obligation this shows that there is a negative relationship amongst NDTs and influence. This variable is measured by partitioning the annual depreciation cost by aggregate assets. This measure is likewise utilized by (Attaullah and Safiullah, 2007; Rafiq and Atiq, 2008).

4.3 Operationalization of variables

For the purpose of directing the investigation it has been taken the seven factors, where one is dependent variable Leverage and the other six factors are independent factors that are Profitability, Growth, Firm size, Tangibility of assets, Liquidity and NDTs and is doing it to discover an association between dependent and independent factors of capital structure. The information has been gathered from the financials of organizations' annual reports and with the help of a website opendoors.pk.

5. DATA ANALYSIS

5.1 Regression Model

For the regression examination, information of 15 organizations has been taken and broke down through utilizing panel data. The regression model has been utilized for examining the determinants of capital structure of the concrete business of Pakistan; the equation is as shown.

$$LG = \alpha + \beta_1PF + \beta_2 GR + \beta_3 FS + \beta_4LQ + \beta_5TG + \beta_6NDTS + \mu$$

Where LG is Leverage, PF is Profitability, GR is Growth, F.S is Firm Size, LQ is Liquidity, TG is Tangibility of assets, NDTs is non-debt tax shield, α is constant, μ is error term, and β is regression coefficient or slope of the line.

Table 5.2

Descriptive Statistics

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.468831	3.09	0.49	0.5203
PF	-0.685253	0.19	3.15	0.0027
LQ	-0.411268	0.22	-1.89	0.0022
FS	-0.076374	0.16548	-0.53	0.675
TG	-1.317273	1.39	-0.82	0.4686
GR	3.26E-10	0	1.06	0.0094
NDTS	3.632	1.23	2.03	0.06
R-squared	0.890583	Mean dependent var.		-0.5983
Adjusted R-squared	0.855391	S.D. dependent var.		1.70293
S.E. of regression	1.321352	Akaike info criterion		3.30247
Sum squared resid.	53.88224	Schwarz criterion		3.87278
Log likelihood	-68.6407	Hannan-Quinn criter.		3.64707
F-statistic	5.188508	Durbin-Watson stat		0.8785
Prob (F-statistic)	0.00029			

Results acquired after the analysis indicates that the profitability (PF) is factually huge and adversely associated with leverage. Liquidity is factually noteworthy and contrarily associated with leverage. Non-Debt tax shield (NDTS) is factually critical and emphatically related with leverage. The factor measure, the tangibility of assets (TG) is are factually unimportant with leverage. Growth (GR) is factually immaterial and emphatically with leverage. R- the square is 0.5408 which demonstrates that investigator regression model clarifies 54% of the variance. The model is significant at 5% level of significance.

$$LG = 1.468831 - 0.685253 (PF) + 3.26E - 10 (GR) - 0.076353 (FS) - 0.411268 (LQ) - 1.317273(TG) + 3.632 (NDTS) + \mu$$

The discoveries of result demonstrate that profitability is factually noteworthy and contrarily associated with leverage, which flagging that profitability of a firm has a huge effect on leverage. Attaullah and Safiullah (2007) additionally reasoned that profitability of an organization has a huge effect however adversely related with leverage which implies that lesser profitability will request the outside capitals to finance the new tasks and the growth of the firm.

Liquidity demonstrates the noteworthy effect on leverage and is contrarily related. Amjad (2011) has additionally discovered a huge effect and a negative connection with the leverage which tells higher the liquidity of a firm will bring about lower leverage. Firm size is measurably immaterial for the cement segment which demonstrates that firm size does not significantly affect leverage. Titman and Wessels (1988) additionally close a similar outcome. The tangibility of assets of the cement sector is not factually noteworthy with the obligation proportion. Growth outcomes have factually huge with the leverage and have favorable association with leverage.

Non-debt tax shield (NDTS) is observed to be favorably associated with leverage. The affirmative relationship amongst leverage and NDTS is not bolstered by theory. Works on capital structure recommend that Non-debt tax shield like depreciation lessen the requirement for debt to prevent net revenue from setting off to a higher tax bracket, and accordingly, debt ought to be adversely identified with leverage. The most suitable clarification for the positive relationship of depreciation to debt level can be given from the pertinence of NTDS to the capital structure in the Pakistani environment. The corporate taxation rate in Pakistan does not change with the level of pay. There are three straight rates; one pertinent to public limited organizations, the second to business associations in government proprietorship and a third to associations in the monetary segment. Organizations in a given gathering, therefore, confront a consistent rate of tax collection. Depreciation along these lines does not fill in as a substitute to debt to prevent net income from going into a higher taxation brace. Thus, the progressive relationship is just a matter of possibility. The positive relationship of NTDS with leverage is not in congruity with prior theories about NTDS, but rather it underpins (Bradley, 1984) that NDTS is favorably linked with leverage.

Conclusion

The conduction of this review is to discover the determinants of capital structure and their effects on leverage. For this purpose, information is taken of 5 years from 2012-2016 from 15 concrete organizations of Pakistan out of 22, enrolled in KSE and investigated through panel data. Six independent factors have been separated which are profitability, growth, firm size, liquidity, the tangibility of assets, and non-debt tax shield. The dependent variable is leverage. To discover the correlation amongst dependent and independent factors, a regression model is selected. The independent factors including liquidity and profitability have a significant effect and are adversely linked with leverage, which implies that if these factors rise leverage will decline. Further variable including non-debt tax shield and growth likewise have a significant effect and an optimistic association which implies that if these two factors surge, leverage will diminish. The remaining two factors tangibility of assets and firm size has no noteworthy effect on leverage that implies there would be no effect of any change ensues in these factors on leverage.

Recommendations

It is profoundly prescribed that finance administrator ought to keep a profound look at the financials of the organization. They ought to practice an ideal capital structure of the organization due to the fact that they are public organizations, also to magnify the stakeholders' riches. Administrators ought to keep the leverage structure to the lowermost level to amplify a definitive profit. It is likewise essential for the concrete division to acquire the advance as ventures and enlargement need greater assurance of capitals. To surge the profitability and liquidity of the organization, supervisor ought not to raise assets as they take the periodical expenditures of interest and principal sum.

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