

Does Capital Structure Effects Profitability of The Firms (Evidence from Firms Listed at KSE 100 Index)

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Abstract

Adequate capital structure of any firm can enhance the firm performance. To verify this statement this study has been conducted. To check the impact of capital structure on the performance of firms 8 firms have been selected as a sample. These firms have been chosen from KSE 100 index. Ratio analysis have been applied on the data. Different ratios have been calculated for the purpose of analysis. This analysis have been conducted on seven years data from 2007 to 2013. Regression analysis and correlation analysis have been applied on data to check the relationship between capital structure and profitability. It is concluded that the capital structure have negative effect on the profitability of firms. As the debt ratio increase year by year, the profitability of firms decrease. There also some limitation of the study of limited sample size and analysis techniques.

Keywords : Capital structure, profitability, financial performance

1. Introduction

Capital structure decisions play a pivotal role in maximizing the performance of firm and its value. Capital structure involves the decision about the combination of the various source of funds, a firm uses to finance its operations and capital investments. These sources include the use of long term debt finance, short term debt finance called debt financing, preferred stock and common stock also called equity financing. The hypothesis of capital structure and its association with an association's quality and performance has been a bewildering issue in corporate fund and bookkeeping writing following the original work of Modigliani and Miller (1958) (MM-1958). MM-1958 contend that under extremely prohibitive presumptions of impeccable capital markets, speculators' homogenous desires, expense free economy, and no exchanges costs, capital structure is insignificant in deciding firm esteem. As per this recommendation, a company's quality is dictated by its genuine resources, not by the mix of securities it issues. In the event that this suggestion does not hold then arbitrage systems will happen, financial specialist will purchase the shares of the underestimated firm and offer the shares of the exaggerated firm in such a route, to the point that indistinguishable wage streams are acquired. As financial specialists misuse these arbitrage opportunities, the cost of exaggerated shares will fall and that of the underestimated shares will climb, until both costs are equivalent.

Capital structure choice is the mix of debt and equity that an organization uses to back its business (Damodaran, 2001). Subsequently, the relationship between capital structure choices and firm esteem has been broadly examined in the recent decades. Modigliani and Miller (1958) proposed that, in a world without rubbing, there is no distinction in the middle of debt and equity financing as respects the estimation of the organizations. Consequently, financing choice include no quality and are hence of no worry to the chiefs. Confirmation would propose that this does not hold in all actuality. Then again, today, capital structure is one of the critical money related choices for any business association. This choice is imperative in light of the fact that the association need to amplify come back to different association' furthermore have an impact on the estimation of the firm. In past decades different studies have been conducted to investigate the impact of capital structure on the profitability and financial performance of any firm. Some findings of these results have been presented here. The relationship between monetary leverage and firm presentation measured by the return on equity (ROE) is negative but insignificant. Asset size has an insignificant association with the firm performance measured by return on assets (ROA) and gross margin (GM).

Another research was conducted for this purpose. They found that there were both positive and negative influences of capital structure on profitability. Using three of accounting-based measures of money related execution (i.e. profit for value (ROE), return on resources (ROA), and horrible net revenue), and focused around an example of non-money related Egyptian recorded firms from 1997 to 2005 the results uncover that capital structure decision choice, all in all terms, has a frail to-no effect on association's execution. Another study finds results that was very different from previous results. The study finds that only STD (short term debt) and TD (total debt) have significant relationship with ROA while ROE has significant on each of debt level. The results obtained reveal that there was an inverse relationship between capital structure and financial performance of listed firms in securities exchange in Kenya. The findings indicate that the higher the debt ratio, the less the return on equity which therefore supports the need to increase more capital injection rather than borrowing, as the benefits of debt financing are less than its cost of funding.

The purpose behind this research is to find out the effect of capital structure on the profitability and

financial performance of any firm. From previous all researches different results have been founded and there is gap between the relationship of capital structure and profitability. From motivating this, this study has been conducted.

2. Literature review.

The hugeness of capital structure hypotheses to firm profitability and its performance was highlighted by different specialists in their exploration work throughout the decades over the created world. The criticalness of capital structure hypothesis to firm profitability was initially highlighted by Modigliani and Miller (1958) expressing that the choice about organization's capital structure is irrelevant to the estimation of the firm without duties, expenses, exchanges cost and in a proficient markets with homogeneous desires. Under these strict suspicions, the kind of financing utilized does not influence the firm performance.

As this present reality markets don't work on these suppositions and new research work was led to test the relationship between capital structure hypotheses with firm execution. Jensen and Meckling (1976) shows that in the choices around a firm capital structure, the office clashes in the middle of shareholders and directors is influenced by the level of power, as it urge or compel supervisors to take choices in light of a legitimate concern for shareholders and their working choices and practices influences the firm execution. In comparable route, vitality of capital structure choices in firm execution were investigated both observationally and hypothetically. Myers and Majluf (1984) in their study on firms capital structure said that organizations are confronted with data asymmetries and exchange costs, so they depend at first on inside created funds, then move to obligation financing, a moderately extravagant manifestation of financing and afterward move to value financing as the last choice. Jensen (1986) in his free money stream hypothesis said that abundance money streams are utilized on less return activities or association inefficiencies that make organization clashes among shareholders and directors of the firm and obligation is a valuable apparatus to take care of the free money stream issue. The original work by Modigliani and Miller (1958) in capital structure gave an extensive backing in the improvement of the hypothetical system inside which different speculations were going to rise later on. Modigliani and Miller (1958) closed to the extensively known hypothesis of "capital structure immateriality" where budgetary influence does not influence the association's fairly estimated worth. However their hypothesis was focused around exceptionally prohibitive suspicions that don't hold in this present reality. These suppositions incorporate impeccable capital markets, homogenous desires, no charges, and no exchange costs. The vicinity of chapter 11 expenses and positive duty treatment of investment installments lead to the thought of an "ideal" capital structure which expands the estimation of the firm, or individually minimizes its aggregate expense of capital. One of the critical budgetary choices standing up to a firm is the decision in the middle of obligation and value as indicated by Glen and Pinto (1994). The linkage between capital structure and firm performance has captivated the consideration of both scholastics and professionals. In reality, the well-known original paper by Modigliani and Miller (1958) set the stage for various recommendations that have been produced to give the hypothetical underpinnings of this essential idea. Hypothetical progression with accentuation of molding capital structure models focused around expense adjusting and data asymmetry, item advertise, corporate administration have helped in understanding the financing conduct of corporate substances.

Contention amongst others has fixated on the determination of an ideal capital structure for a particular firm furthermore regarding whether the quantum of obligation use in connection to value is superfluous to an association's worth. The capital structure of the firm could be clarified, when all is said in done terms, by two overwhelming hypotheses: the exchange off and pecking request speculations. As per exchange off hypothesis, ideal capital structure could be dictated by adjusting the distinctive profits and expenses connected with obligation financing. Obligation advantages incorporate expense shields (sparing) prompted by the deductibility of premium costs from pretax pay of the firm (Modigliani and Miller, 1963), lessening of office expenses through the danger of liquidation which causes individual misfortunes to directors of compensations, notoriety, perquisites, and through the need to produce money stream to pay premium installment (Grossman and Hart, 1982; Williams, 1987). High power can likewise improve the association's execution by moderating clashes in the middle of shareholders and supervisors concerning the free money stream (Jensen, 1986), ideal speculation procedure (Myers, 1977), the measure of danger to be embrace (Jensen and Meckling, 1976). Then again, obligation expenses incorporate immediate and roundabout insolvency costs, obligation financing brings with it responsibility for future trade surges in for cold hard currency terms of intermittent premium and the key obtained, and these duties improve the probability of company's money related default and liquidation.

The second hypothesis of capital structure is pecking request hypothesis created by Myers (1984) and Myers and Majluf (1984). This hypothesis brings up that on account of data asymmetry in the middle of supervisors and speculators about the company's venture open doors, the business may underestimate an association's new imparts in respect to the quality that future evaluated if administrators' data about their company's speculation open doors were uncovered to the business sector. In this manner, issuing new imparts may mischief existing shareholders through quality exchange from old to new shareholders. In this way, chiefs

will lean toward financing new speculations by interior sources (i.e. held profit) in the first place, if this source is insufficient then supervisors look for outside sources from obligation as second and value as last. Chiang et al., (2002) attempt a study and the discoveries set forth that productivity and capital structure are interrelated; the study example incorporates 35 organizations recorded in HKSE. Abor (2005) explores the relationship between capital structure and benefit of recorded firms on the Ghana Stock Exchange and discover an essentially positive connection between the proportion of fleeting obligation to aggregate resources and ROE and negative relationship between the degree of long haul obligation to aggregate resources and ROE. Gill, et al., (2011) tries to amplify Abor's (2005) discoveries with respect to the impact of capital structure on benefit by looking at the impact of capital structure on productivity of the American administration and assembling firms. The Empirical consequences of the study demonstrate a positive relationship between transient obligation to aggregate resources and gainfulness and between aggregate obligation to aggregate resources and benefit in the administration business. The discoveries of this paper likewise demonstrate a positive association between transient obligation to aggregate resources and productivity, long haul obligation to aggregate resources and benefit, and between aggregate obligation to aggregate resources and gainfulness in the assembling business.

3. Objective of the study

The main reason behind this study are as follows.

1. To check out the influence of capital structure on the performance of the firm.
2. To check the impact of capital structure on the financial performance of the companies which are listed at KSE 100 index.

4. Hypothesis

H1: Is there important relationship between capital structure and financial performance of firms.

H2: Is the impact of capital structure on profitability is same around all sectors.

5. Research methodology

The data base of the study is totally on the optional sources. For investigation and to check the effect of capital structure on the profitability of firm annual reports of different firms have been utilized as a source of data. All the firms have been selected from different sectors, the reason behind this choice is to verify or reject second hypotheses of study.

The motivation behind this examination is to help towards a critical part of monetary administration known as capital structure. Here the relationship between capital structure rehearses and its consequences for profitability of 8 organizations recorded on Karachi stock Exchange for a time of six years from 2007 – 2013 will be inspected. This area examines the organizations and variables included in the study, the circulation examples of information and connected measurable systems in researching the relationship between capital structure and benefit. The 8 firms have been selected for the ratio analysis which included (PSO, LUCKEY SEMENT, MCB, UBL, OGDCL, ABL, NESTLE, Bank Alfalfa). For achieving the desired results researcher have employed ratio analysis and correlation analysis among the variables.

6. Results and discussion

With the end objective of achieving the goal study the Profitability Ratios are consolidated With the assistance of "mean" system. Accordingly the "mean" of productivity (ROA, ROE, NP, GP, and ROCE) is taken as subordinate Variable; capital structure proportion (viz., Debt to assets degree, Debt to Equity degree and Interest coverage proportion,) are taken as indigent variables. Correlation investigation is performed in the middle of Profitability and Capital structure variables to get the results.

TABLE 1.1: DEBT TO EQUITY RATIO

(Figures in times)

DEBT TO EQUITY RATIO									
	2013	2012	2011	2010	2009	2008	2007	MEAN	ST.DEV
PSO	0.28	0.92	0.59	0.44	0.89	0.84	0.75	0.672857143	0.244112
LUCKEY SEMENT	0	0.01	0.02	0.07	0.18	0.36	0.16	0.114285714	0.13011
ABL	0.7	0.6	0.5	0.6	0.7	0.5	0.6	0.6	0.08165
NESTLE	0.47	0.44	0.44	0.51	0.51	0.54	0.53	0.491428571	0.041404
MCB	0.39	0.88	0.49	0.37	0.73	0.32	0.34	0.502857143	0.217694
UBL	0.83	0.72	0.7	0.74	0.67	1.02	0.7	0.768571429	0.121988
OGDCL	0.8	0.9	0.24	0.23	0.34	0.45	0.56	0.502857143	0.265249
BALF	0.46	0.45	0.34	0.45	0.12	0.34	0.54	0.385714286	0.136852

Source: - compiled from annual report of companies.

The above table 1.1 demonstrates that the greater part of the organizations typically utilize obligation moderately low than their value. Among these organizations the degree of UBL when contrasted with different organizations is generally higher with a mean of 0.76 which shows that this organization is forceful in financing its development with debt. It is reasoned that the proportion of lucky sement is low with a mean of 0.11 demonstrating that the organization needs to hold much control over the organization .also, the NESTLE have least S.D of 0.04 when contrasted with different organizations amid the time of study. Considering the above results OGDCL is having greatest S.D of 0.265 which is moderately higher when contrasted with the S.D of different organizations.

TABLE 1.2: DEBT TO ASSETS RATIO (Figures in times)

DEBT TO ASSETS RATIO									
	2013	2012	2011	2010	2009	2008	2007	MEAN	ST.DEV
PSO	0.78	0.86	0.84	0.82	0.83	0.83	0.83	0.827143	0.0243
LUCKEY SEMENT	0.54	0.45	0.86	0.83	0.86	0.34	0.85	0.675714	0.225156
ABL	0.8	0.78	0.6	0.83	0.78	0.45	0.87	0.73	0.149889
NESTLE	0.64	0.54	0.58	0.32	0.64	0.64	0.66	0.574286	0.119841
MCB	0.65	0.45	0.43	0.65	0.55	0.54	0.52	0.541429	0.086492
UBL	0.09	0.08	0.06	0.06	0.05	0.07	0.11	0.074286	0.020702
OGDCL	0.21	0.22	0.23	0.24	0.25	0.23	0.21	0.227143	0.01496
BALF	0.34	0.89	0.34	0.45	0.34	0.45	0.34	0.45	0.200832

Source: - compiled from annual report of companies.

The table 1.2 demonstrates that just about all the organizations' utilization Debt in financing their expenses. A large portion of the organizations utilize more debt as a part of extent to their value. As delineated by table, we can plainly see that UBL is utilizing less debt as a part of extent to value in financing their advantages. This organization is utilizing obligation with the mean of 0.07 demonstrating that the organization funds its the majority of benefits by equity. Then again the PSO is utilizing high debt than equity with a normal of 0.827 in financing their advantages which likewise demonstrates that the organization is very leveraged one. Considering the "OGDCL" and 'UBL', their S.D is 0.01 and 0.02 separately which infers that these organizations have been utilizing obligation as a part of generally same extent throughout the most recent six years in connection to their particular values furthermore taken in thought LUCKEY SEMENT and BALF with an elevated expectation deviation 0.22 and 0.200 individually which shows that these organizations are utilizing obligation as a part of distinctive extents in diverse years in connection to their equity.

TABLE 1.3:- INTREST COVERAGE RATIO (Figures in times)

INTREST COVERAGE RATIO									
	2013	2012	2011	2010	2009	2008	2007	MEAN	ST.DEV
PSO	3.51	2.17	2.51	2.77	-0.89	0.45	0.38	1.557143	1.589976
LUCKEY SEMENT	37	35.58	9.97	7.45	5.83	5.45	4.5	15.11143	14.57906
ABL	32	20.2	9.1	6.7	5.32	5.2	5.78	12.04286	10.27357
NESTLE	4.4	4.5	7.2	12.1	10.5	10.3	12.3	8.757143	3.383222
MCB	34	32	10.1	8.1	6	6	7	14.74286	12.56422
UBL	32	31	23	10	20	17	14	21	8.286535
OGDCL	2.56	3.11	2.69	2.5	1.69	1.57	1.09	2.172857	0.727065
BALF	30	23	34	45	30	31	32	32.14286	6.618876

Source: - compiled from annual report of companies.

It is clear from the above table that BALF and LUCKEY SEMENT have highest ratio as compared to all other firms with the mean of 32.14 and 15.11. Contrary to this companies like OGDCL and PSO are having lowest ratios during the period of study. Looking into the SD of the organizations under study, it is clear that the LUCKEY SEMENT is having most extreme SD of 14.57 inferring that the organization is paying enthusiasm at a colossal fluctuating rate and OGDCL organization is having lower SD of 0.72 when contrasted with different organizations demonstrating that the organization is continually paying its advantage levy in a normal manner.

TABLE 1.4:- GP RATIO (Figures in percent)

GROSS PROFIT RATIO									
	2013	2012	2011	2010	2009	2008	2007	MEAN	ST.DEV
PSO	2.82	2.86	3.52	3.32	0.42	0.42	0.45	1.97286	1.4637249
LUCKEY SEMENT	40.42	38.18	33.48	32.56	37.26	33.45	31.9	35.3214	3.2698034
ABL	16	15	14	15	36	34	35	23.5714	10.721585
NESTLE	28	27	26	27	29	27	26	27.1429	1.069045
MCB	20.14	18.18	18.92	25.78	30.29	20.78	22.45	22.3629	4.3073608
UBL	18.1	18.2	17.5	17.5	15.4	16.1	19	17.4	1.2516656
OGDCL	71	70	66	71	70	69	68	69.2857	1.7994708
BALF	15.04	19.38	13.25	12.34	13.45	14.34	15.04	14.6914	2.2911891

Source: - compiled from annual report of companies.

From the table 1.4, it is clear that the OGDCL and LUCKEY SEMENT are having the most noteworthy GP ratio with the mean of 69.27 and 35.32 separately when contrasted with different organizations which suggests that these organizations are extremely productive in delivering their items and have sufficient assets to pay for expense important to run and develop their business. Then again thinking seriously about the PSO having low terrible benefit degree contrasting with different organizations under study with the mean of 1.97 showing that these organizations are not all that much productive in creating their items. Looking into the SD of the organizations under study we unmistakably distinguish that ABL with most extreme SDs of suggests that it is not encountering horrible benefits in a consistent normal style while as organization like UBL is having least SD of 1.25 when contrasted with different organizations under study which demonstrates that UBL is encountering normal GP.

TABLE 1.5: NET PROFIT RATIO (Figures in percentage)

NET PROFIT RATIO									
	2013	2012	2011	2010	2009	2008	2007	MEAN	ST.DEVA
PSO	0.97	0.75	1.52	1.03	-0.93	1.2	0.98	0.788571	0.794468975
LUCKEY SEMENT	22.35	20.35	15.26	12.8	17.46	13.45	12.34	16.28714	3.904807781
ABL	17	16	15	16	71	72	73	40	29.94439291
NESTLE	7	7	7	8	7	8	9	7.571429	0.786795792
MCB	18.14	17.15	16	22.13	26.28	25	23	21.1	4.022590376
UBL	38	22	21.4	17.5	17.5	16.1	19	21.64286	7.525259053
OGDCL	41	49	41	42	42	35	36	40.85714	4.598136268
BALF	8.95	8.53	7.05	3.46	5.65	4.8	6	6.348571	1.97355372

From the table 1.5, it is clear that OGDCL having greatest SD with the mean of 40.85 when contrasted with different organizations taken under study which demonstrates that this organization is in better position to adapt up business sector difficulties like value, rivalry, low request and so on., furthermore suggests that these organizations appreciate high productivity. Looking into different organizations, PSO is having least net benefit degree with the mean of 0.78 contrasting and alternate organizations under study showing that this organization is not in a superior position to remain when contrasted with different organizations with predominating monetary conditions on account of its low productivity.

Considering the SD of the organizations under study it is unmistakably delineated from the table that UBL appreciate most elevated SD of 7.52 demonstrating that this organization is gaining their net benefits at a fluctuating pace, while as investigating organization like PSO with least SD of 0.79 as against different organizations under study, showing that these organizations are appreciating net benefit in a very normal way.

TABLE 1.6:- ROCE RATIO (Figures in percent)

RETURN ON CAPITAL EMPLOYED									
	2013	2012	2011	2010	2009	2008	2007	MEAN	ST.DEVA
PSO	40.66	47.21	66.15	86.55	-21.9	34	46	42.66714	33.55831
LUCKY SMENT	23.85	21.85	14.39	11.55	17.4	12.3	15.4	16.67714	4.673328
ABL	26	25.6	24.2	25.3	26	24	25	25.15714	0.807996
NESTLE	24	26	35.5	43	40	43	42	36.21429	8.102763
MCB	23.09	24.64	26.23	25.91	37.35	36.56	23.12	28.12857	6.154856
UBL	22.2	21	20.1	16.4	15.5	17.7	23.3	19.45714	2.977055
OGDCL	31	41	35	42	47	41	42	39.85714	5.241774
BALF	23	22	25	30	32	31	24	26.71429	4.151879

Source: - compiled from annual report of companies

From the table 1.6 it is clear that the PSO business is having the most astounding profit for their capital

utilized with the mean of 42.66 showing that this organizations is utilizing its contributed capital all the more productively and monetarily. Despite what might be expected, the organization like LUCKEY SEMENT is getting less profit for their contributed capital over the time of study with the mean of 16.67. Considering the SD of the organizations under study, the organizations with most astounding SD are PSO and NESTLE with S.d of 33.55 and 8.10 suggesting that these organizations have earned at a decent pace on their capital contributed over the time of study.

TABLE 1.7: ROE (Figures in percentage)

	RETURN ON EQUITY(ROE)								
	2013	2012	2011	2010	2009	2008	2007	MEAN	ST.DEVA
PSO	20.84	18.74	35.27	30.85	32.1	33.1	34.1	29.2857	6.16959
LUCKEY SEMENT	23.67	20.39	14.3	12.5	19.77	14.35	15.75	17.2471	3.76737
ABL	29	28.2	27	28.8	30.5	31.2	30	29.2429	1.32865
NESTLE	23	34	45	23	32	34	45	33.7143	8.34462
MCB	23.09	24.64	26.23	25.91	27.35	26.5	26.7	25.7743	1.34082
UBL	25	24.7	23.5	19.8	19.5	21.9	27.5	23.1286	2.69853
OGDCL	2.12	2.25	1.48	1.78	1.53	1.56	1.32	1.72	0.32156
BALF	17.39	18.94	16.55	4.9	5.22	9.17	25.72	13.9843	7.20101

Source: - compiled from annual report of companies

It is clear from the above mentioned table that capital structure have impact on the return of companies. From above table the PSO is having higher ROE with the mean ratio of 29.28 while OGDCL is having lowest ROE having ratio of 1.72. Taking into account SD of the companies, BALF is having higher S.D with ratio of 7.20 and OGDCL have lower SD then other firms.

TABLE 1.8: ROA

	RETURN ON ASSETS (ROA)								
	2013	2012	2011	2010	2009	2008	2007	MEAN	ST.DEV
PSO	0.05	0.04	0.02	0.05	0.24	0.3	0.2	0.12857	0.11466
LUCKEY SEMENT	0.19	0.17	0.16	0.18	0.16	0.2	0.23	0.18429	0.02507
ABL	1.9	1.89	1.9	1.89	1.81	1.32	1.45	1.73714	0.24547
NESTLE	0.19	0.34	0.23	0.56	0.78	0.67	0.45	0.46	0.22241
MCB	2.72	2.91	3.18	3.13	3.25	3.45	3.14	3.11143	0.23576
UBL	3.2	3	2.1	1.7	1.5	1.5	1.8	2.11429	0.70576
OGDCL	0.22	0.28	0.24	0.23	0.4	0.32	0.8	0.35571	0.20574
BALF	0.82	0.91	0.8	0.24	0.24	0.38	1.04	0.63286	0.33619

Source: - compiled from annual report of companies

From the above table it is clear that companies having heavy debt have lowest ROA, it is confirmation of the hypothesis that the capital structure have significant impact on the profitability of the firms.

Empirical Results (Capital structure and profitability)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.112 ^a	.212	-.152	16.01830

a. Predictors: (Constant), Debt to equity

From the above given table it is clear that there is significant negative relationship between capital structure and profitability of the firms that are listed at the Karachi stock exchange. The value R square .212 indicates that the 21 % variation in the profitability of the firms is due change in the capital structure of the firms. This results verify H1.

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19.458	1	19.458	.046	.792 ^a
	Residual	1539.515	6	256.586		
	Total	1558.974	7			

a. Predictors: (Constant), Debt and equity

b. Dependent Variable: NP

The above mentioned table shows the association among independent and dependent variable that is

negative the value of F is less than 0.05 which verify our above mentioned results. It confirms the result that 21 % change in the profitability is due to the change in the capital structure.

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	15.068	16.460		.915	.045
DebtANdequity	8.431	30.615	.112	.275	.042

a. Dependent Variable: NP

The above mentioned results also validate the H1. The value of (beta=.112) shows that 11 percent change in the net profit is due debt and equity structure. The value of p is also less than 0.05 which validates our results.

Conclusion

Hence it is concluded the debt and equity structure of the company is negatively related with the profitability of the firms that are listed in Karachi stock exchange. Company wise conclusion of results are as follows.

1. Considering PSO, it is seen that the ratio of debt is increasing year by but the net profit ratio of PSO is not increasing with the same. It implies that the PSO is heavily relying on debt and financing its operations from debt. The recent crises of petrol is also due to the same reason.
2. Considering LUCKEY CEMENT, it is observed that the ratio of debt is decreasing year by year which shows that the increase in the profitability of firms year by year. It is also shown that gross profit ratio is also increasing year by year.
3. By looking the ratio analysis of ABL it is found that the debt ratio is not constant. It is fluctuating, in some years it is to high but in some years it is low, due to these reasons net profit of ABL has been significantly decline.
4. Now consider the debt and equity ratio of there is increasing trend of debt ratio which ultimately brings decreasing trend in the profitability ratios.
5. By moving forward it is noted that the ratio of debt and equity is on the average increasing trend for UBL and MCB due to which there is significant negative impact on the profitability of these firms.
6. It is very clear from the analysis that capital structure have an impact on the profitability of firms like in case of OGDCL, it is seen that the ratio of debt is constantly declining due to which profit of the firm is increasing over the period of study.

From all above discussion it can be said that if any firm wants to earn more and more profit and wants to remain in the completion it has to reduce its debt burden.

Limitations of the research

There are also some limitation of the research due to which in some areas these results might be changed. The limitation of the research are as follows.

1. The numbers of firms which have been selected as a sample are very few of KSE stok exchange due to which these results can be changed.
2. The firms which have been selected for sample are from different sectors, so these results are applied on limited extent.
3. Methods which have been applied for the analysis of the data are very few, due to which the validity of research may be suspected in the case of other sectors.
4. The generalizability of the study is low.

It is open option for the future researcher to conduct this research for covering all these limitations. This research can be conducted upon large sample size. The results of the study can be generalize by selecting more firms as a sample. Viability of the results can be enhanced by applying more methods for analysis.

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