
ANALYSIS OF THE CAPITAL STRUCTURE OF SELECTED PAKISTANI TEXTILE FIRMS

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ABSTRACT

The objective of this study is to analyze the financial model being opted by textile firms which are listed at the Karachi stock exchange in the context of capital structure theories. The analysis is based on a sample of 8 listed companies at Pakistan Stock Exchange and study period is 2009-2013. We used pooled regression model. Our results show that both Static trade-off theory and Pecking order theory have relationship with corporate capital structure theories. The theoretical framework includes the corporate capital structure theories and modern research work in this field. Hypotheses are formulated on the basis of theoretical framework. Regression model is used to analyze the data taken from Pakistani textile firms. Financing pattern of firms partially supports the Static trade-off theory and Pecking order theory.

Keywords: Static trade-off theory, pecking order theory, Agency cost theory, leverage ratio, listed firms, corporate capital structure.

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1. INTRODUCTION

1.1 Background.

Capital structure is defined as: “The way a firm finances its assets through Debt, Equity or Hybrid securities” usually literature gives the help that the firm’s financing has the mixture of different arrangement in which they include the equity, different level of debt and some other financial arrangements like as (bonds, bank loan, term financial certificate, leasing etc) are used to raise financing. Financing of a firm classified into two major categories such as Debt financing and Equity financing. Because every type of business depends on funding to cover its fixed assets and

working capital needs and capital is used for acceleration of business activities. Whether the business is big or small, it needs fund to fulfill their business liabilities.

Different theories give different proposal of capital structure of corporate entities. There is no specific capital structure theory which helps the manager to use it to meet its financial requirements. For example, trade-off theory emphasizes on taxes, but POT emphasize on the difference of information. Basically financial theories focused on the importance to discover the optimal combination of the capital structure (i.e debt and equity) for the firm to enhance the prosperity of the shareholders and the performance of the firms.

Large number of empirical and theoretical studies focused on structure of capital. One of the most cited theory is presented in the paper of Modigliani Miller published in 1958. Most studies have conducted in the developed countries and mostly theories relate to the business firms operating in there. A few studies have been conducted on capital structure of corporate firms in the developing countries. We are not sure that the result and findings of the developed countries can be applied to the developing countries. Rajan and zingales (1995) studies the G-7 countries, Boot et al (2001) extend the work and include some emerging markets in their study.

Awan & Amin (2014) stated that Pakistan is a developing country, and there were three stock Exchanges. Karachi stock exchange is the leading stock Exchange in which more than 600 companies were listed. These three Stock Exchanges were merged in January 2016 and Pakistan Stock Exchange was emerged as a single entity. The area of capital structure in the Pakistan is mostly unexplored like other developing countries. There are limited studies available in this field. Boot el (2001) conducted a study of 10 developing countries in which Pakistan was also included and 100 companies were included in this research work. Shah & Hijazi (2001) in their study included the all non-financial companies which are listed at Karachi stock exchange and it was first improvement in the work. In that study pooled regression model was used and avoided the random effect model and fixed effect model. In 2007 Shah & khan extend the previous work by using the panel data regression with some new variables. In 2006 Hajizi and Tariq conducted the study on cement industry. In 2008 Rafiq conducted the research on the chemical industry. In 2005 Abubakr saeed conducted the study on energy sector in which include the Pakistani listed firm.

Amir Shah (2001) conducted the study on both sugar and textile sector. In our study we have intended to analyze capital structure of selected textile mills by in the existing scenario.

Textile is the biggest industry in the Pakistan that includes the largest share in export and it employees large number of labour force. Companies in the textile sector are regarded as non-financial industries. Our sample includes eight companies of textile sector located in Multan. In this study we have used dependent and independent variable. The dependent variable is leverage and independent variables are five such as: Firm' size, Growth of the firm, profitability, Assets' tangibility and liquidity.

1.2 Objectives of the study

The objectives of our study are stated in the followings: -

1. To study relationship between profitability, growth, and liquidity of textile companies of with their financial leverage
2. To find out the relationship between the assets tangibility, and size of textile firm with financial leverage
3. To propose some measure for improving capital structure of textile sector.

2.LITERATURE REVIEW

Reviewing literature provides with body of texts which further aim to evaluate existing critical facts regarding the current knowledge i.e. substantive outcomes as well as theoretical or methodological assistances towards the underlying topic. We briefly explain the reviews of relevant literature as under: -

Frank et al: (2002) conducted the studies in different countries with different legal environment to analyze the result. Their studies show that the determinants of capital structure are comparable less or more between the different countries like Europe and America. Due to different legal environment their study found some difference throughout English countries French and Dutch. But in different legal environment within the different countries their studies found the less or more similarity between the strategies, debt planning, and Equity.

Ignacio (2006) found the capital structure's determinants by using the companies of Uruguayan. Their result show that the companies of Uruguayan use the 40% own resources and 60% based on leverage. The leverage value as consider, there is no proof to ensure the firm's size and asset's

tangibility determined the highest point of leverage. In that study pecking order theory support the Results which suggest the external financing has inverse with the profitability. The result of this study shows the negative impact of leverage with profitability and this result according to the result of the advance country.

Shah and Hijazi (2004) studied the non-financial firm of Pakistan which is listed in KSE to analyze the capital structure's determinants. Their study used the four variables and the result of the study showed the leverage has positive relationship with the assets tangibility as well as leverage show the significant result with assets' tangibility. The result of that study is also confirmed the earlier study results which conducted in 1988 by the Titman & Wessels and in 1955 by Rajan & zingales. That study show poor association between the profitability and leverage.

Ayesha et al. (2006), study the Govt. and private organization to determine the capital structure determinants. The result shows that the growth and firm' size is positively related with the leverage. Their analysis also show that the Govt. organization use the more debt as compare to the private organization. The leverage has positive relationship with the assets tangibility in the Govt. organization but it has negative relationship in the private organization. The firm' size and leverage positively related with each other in private organization but it has negative relationship in Govt. organization. In the Govt. organization profitability has positive relationship but negative relationship in the private organization and size of the firm has same relationship between the private and Govt. organization.

Hijazi et al., (2006) choose the sample of 17 organizations for the analysis of cement industry to determine the capital structure determinants. The study shows the results, the firm' size and growth negatively related with each other and leverage has negative relationship with the size of firm. That result present the large size of firms use the low financing. The study not support the STT. Leverage has positive relationship with assets tangibility. The result of that study supports the previous studies like in 1999Fama and French, in 1994 Rajan and Zingales also found the affirmative connection with the leverage.

Shah and Khan (2009) carried out study on the non-financial firm which is listed in KSE to determine the capital structure determinants during the period 1994-2002. They study the 7 variables by using the textile industry. All textiles are family owned organization and from the

avoiding of tax they show the loss. So profit has negative relationship and they use the more debt for investment. Debt has important relationship with the tangibility of assets.

3. CONCEPTUAL FRAMEWORK

3.1 Static Trade-off Theory

Capital structure's theory consists of two elements - financial distress cost and agency cost. This theory analyzed the capital structure of companies in connection with their equity and debt. When a company involves in debt financing it gets tax benefits but financial distress results in bankruptcy and its cost. As the debt level increases the possibility of defaults also increases. When a company defaults the management is transferred from shareholders to lenders who realizes their loan amount through auction of defaulting company's assets. Bankruptcy cost is of two types: direct or indirect cost because high level of leverage is the main cause of financial distress. Administrative cost is treated as direct cost while the cost to be incurred due to change in investment policy of the business firms is treated as indirect cost, which is born to cope up financial difficulties. This cost is not a serious issue for a large firm but a big issue for small firm. The firm has to bear legal and administrative cost during insolvency proceeding. In case of bankruptcy, the business firms resort to cut cost of training, education, publicity, research and development, etc. However, these measures affect the efficiency and operational activities of firms as well as reduce their profit.

3.2 Pecking order theory.

This theory was developed by Myers in 1948 and it relate to capital structure of corporate entities. This theory reveals that firms first use internal resources, for example, retained profit, right shares proceeds, preferential shares money, and then issue debt. The managers do not like to involve financial institutions into their business activities by borrowing loans and they prefer to use internal resources. (Baskin, 1989), (Holmes & Kent,1991 and Hamilton a& Fox,1998). Similarly, the manager prefers to avail short-term loan facilities because they do not involve collateral or securities and they issue equity to pay short-term debt. Thus, the management use retained profit and consider it as best and cheap source of financing. This is the reason that most of manufacturing firms retain profit for business expansion and plant replacement. If the company does not have sufficient financial reserves of unappropriated profit, then it resorts to debt-financing. Pecking order theory also highlight agency problem because the financial institutions, which invest in the

project expect handsome return. They are reluctant to invest when they expect low or no return on their investment in future.

3.3 Agency theory

This theory highlights relationship between shareholders (principal) and managers. Agency problem is produced due to separation of ownership and management. The owner supply capital while the managers manage the company by utilizing capital and other resources. The owners expect that the managers will serve their interest and maximize their wealth and they work for vertical integration of business while the managers always protect their interest and take those measures which secure their jobs and material gains. Where the interest of owners and managers match the two work together and the companies grow. Where the interest of owners and managers clash both work to secure their own interest and in this way the performance of the firms is adversely effected. In this situation, agency problem arises. The agency problem has three dimensions. First dimension is that the owners take risk to enhance return whereas managers avoid risk to secure their jobs because in case of loss due to indulging in risky business he can be fired by the owner. Thus, the managers use to avoid risk-taking. But it is not acceptable for the owners because they do not accept low profit on their investment. The second issue is the dividend which is paid to shareholders at the end of financial year out of the profit a company earned. The managers prefer to retain profit rather than distributing it in the form of dividend so that they can use it for their own personal benefits and to avoid financial distress. As the managers get salary and other financial benefits they are least interested in dividend. However, if the managers have a bulk junk of stock of the company then they will have interested in dividend. Third agency problem is periodical affiliation with the firm. If employees have short-term affiliation with the firm and has joined the firm just to get experience for better job opportunities, then he will not be interested in bonus incentives given to old employees of the firm. In order to solve this problem, it is necessary that long-term affiliation of employees with business firm should be cultivated and employees should be involved in firm's bonus scheme and other financial incentives.

4. RESEARCH METHODOLOGY

4.1. Types of data

In this paper, we have used secondary data and it is collected from the balance sheet of selected textile companies operating in Multan. The balance sheets/annual reports of these companies are available in the database of State Bank of Pakistan, Pakistan Stock Exchange and Securities and Exchange Commission of Pakistan and their websites.

4.2 Sampling

We have selected total eight textile mills listed at Pakistan Stock Exchange as a sample of our study.

5. Determinants of capital structure

5.1. Tangibility of Assets (TG)

According to the literature review we used the fixed assets as collateral for loan if a company have more fixed asset they borrow more loan as compared to company having less collateral. Static Trade-off theory describe leverage has positive association with the tangible assets are used as collateral for debt financing. Therefore, the level of debt of these companies increase as compare to the other companies which have more fixed assets because fixed assets is an imperative determinants of the capital structure. Some intangible assets also include in the fixed assets but they not used as collateral for loan so we calculate the tangibility of assets by the following ratio

$$\text{Tangibility of assets} = \text{Fixed tangible assets} / \text{Total Assets}$$

5.2 Profitability

The STT and POT has opposite relationship to the leverage and profitability. STT give the positive relation among the profitability and leverage because the profitable firms use the more debt and receive the advantages of tax on the interest' payment. According to POT the company firstly used the retained earning but if they need the more finance then they used the debt financing. Profitability is the key indicator for the capital structure. Titman and Wessels (1988) state the "profitability as ratio of average income to total assets." Wald (1995) has stated that "Profitability is as ratio of operating profit divided by the total assets." For this study the most appropriate profitability's definition is earning before the interest and tax because the earning power show the firm position before the interest and tax. In textile sector of Pakistan textile sector has been totally ignored and paying the no tax because they generating the loss. We use the ratio of net profit before taxes over total assets as a measure of firm profitability.

$$\text{Profitability} = \text{EBIT} / \text{Total Assets}$$

5.3 Size of Firm

The larger firm are more diversifiable and they have less chance of bankruptcy therefore they use the more debt financing but the small size of firm uses the less financing because they are more liquidate in this way they face the financial distress. Further the larger firms have low monitoring cost because they have low cash's volatile in this way the larger firm has lower agency cost of debt. So STT state the size of the firm and leverage has affirmative association but according to the POT leverage and size of the firm has depressing association because the large size of firm uses the more equity

$$\text{Sales} = \text{natural logarithm of sale}$$

5.4 Growth opportunities

Literature review provide the evidence most of the companies go for financing to avail the growth opportunity. According to the STT theory growth has negative with the leverage because the growth is considered the intangible assets and intangible assets provide the less collateral for loan. But according to the POT leverage has positive relationship with the growth because the growth opportunity requires the more investment and usually it made with the external debt financing. Growth is calculated by using the change of existing and previous year's assets in the international study. Similarly, there are some other factors to measure the growth like as change in the volume production, employees' number, change in sale and gross profit. If the price of the manufactured goods remains more unstable during the study period, then used the Volume of production. The price affect removed in order to the maintain accuracy. Employees are not yearly hired or fired because Human resources hired or discharged the employees on the base of the business prospectus for the long term. But Change in number of employees is consider unsuitable determine for this study. In This study we need to reflect yearly change in data because we use the panel data analysis (time variant and cross variant). So we measure the growth by the change in sale

$$\text{Growth} = (\text{sales of current year} - \text{sales of previous year}) / \text{sales of previous year}$$

5.5 Liquidity

Higher debt ratio can support the Higher liquidity ratio because the firm easily satisfy the obligation of the short term financing. In this way STT suggest the positive relationship between

the leverage and liquidity. But according to the POT leverage has negative relationship with the liquidity because the firm use the internally funds to finance investment by the liquidity =

$$\text{current Asset} / \text{current liability}$$

5.6 Leverage

The percentage of assets financed by debt is called leverage. According to the literature, different methods are used to measure the leverage in the previous research studies. In 2005 shah and Hijazi study the non-financial firm of Pakistan they used the book value to measure the leverage. The interest payments are tax deductible ad cash saving are the main benefit of the debt. The market value of the debt once it is issued are not changed the tax shield benefits (Banerjee, S. et. Al. 2000). So the market value of the debt is irrelevant for our study. In some others studies for measurement of leverage used to taking the total debt or only long term debt as a percentage of total assets and capital structure theories also used the long term loan to measure the leverage. in this study we also used the total debt as total assets but we used the interim financing instead of long term financing because in Pakistan mostly firms are small size and face the more difficulties to the access of the capital market. Therefore, Pakistani firms use the short term financing, and in Pakistan commercial banking sector is the major resource of financing and sources are not encouraging the firm for long term financing

$$\text{Leverage} = \text{Total debt} / \text{Total ass}$$

6. HYPOTHESIS

We have formulated different Hypothesis on the basis of aforementioned theories and their relationship to financial leverage. Hypothesis formulated expression of Null and alternative hypothesis. The acceptance or elimination of the Null hypothesis based on the significance of the result. Hypothesis formulated from STT and Pecking order theory. We test these hypotheses to assees whether STT or POT theory is suitable for textile sector in Pakistan.

6.1 Hypothesis 1

H1a

H1: Financial leverage and size has positive relationship with each other

Ho: Financial leverage and size has negative relationship with each other

H1b

H1. Financial leverage and assets' tangibility has positive link with each other

Ho. Financial leverage and assets' tangibility has negative link with each other.

6.2 Hypothesis 2

H2a

H1: Financial leverage and growth has positive correlation

Ho: Financial leverage and growth has negative correlation

H2b

Hi: Financial leverage and profitability has negative link with each other

Ho: Financial leverage and profitability has positive link with each other

H2c

Hi. Financial leverage and liquidity has negative association with each other

Ho. Financial leverage and liquidity has positive association with each other

7. DATA ANALYSIS

7.1 Econometric Model

We have developed the following econometric model to test the hypothesis and explore relationship between independent and dependent variables.

Model	$Y = \alpha_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon$
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Where

X_1	Profitability
X_2	Tangibility
X_3	Firm Size
X_4	Growth
X_5	Liquidity
Y	Total Debt

7. 2 Descriptive Statistics

We used the 8 listed firm of the textile sector of Multan for the data analysis. The following table shows the statistics outline for the variables used in the analysis.

Average, median skew, STD, Maximum values these are include in the Descriptive statistics. The average value of the Profitability is 0.138641 and median 0.121605, it means the financial firms earn the 13% profit before interest and tax on their total sale.

Table 1 Descriptive statistics

The standard deviation of the Profitability is 0.051354 as well as Skewness 0.569117 and maximum value 0.251141. The means (median) value of the Tangibility 0.664576 (0.51463), it means the 66% assets are the fixed assets that are connected with the manufacture of goods, therefore they require machinery, equipment infrastructure, etc for their operations. In this way, mostly non-financial firms have fixed assets but the financial firms mostly have current assets because it is mostly concerned with the liquidity. The STD and SKEW values are respectively 0.051354 and 0.56917.

Average and median of the Liquidity 1.007308 ,0.956784 representative that the firms had capital to repayment their present liabilities. Liquidity had standard deviation 0.337217 and Skewness 1.549521. The mean (median) value of the leverage 0.761516 (0.65244) it means that the non-financial firm financed the total assets 76% through leverage and 24% are financed through equity.

Measures	Profitability	Tangibility	Size	Gowth opp	Liquidity	Leverage
Average	0.138641	0.664576	8.13788	0.169441	1.007308	0.761517
Median	0.121605	0.51463	7.304285	0.17666	0.956784	0.65244
STD	0.051354	0.957451	1.442337	0.26894	0.254158	0.835575
SKEW	0.569117	6.226039	0.095254	0.694675	0.337217	6.049713
MAXIMA	0.251141	6.53935	10.17893	0.855847	1.549521	5.844396

The percentage of debt is high as compare to the equity since most of the non- financial firms are capital exhaustive and require high level of investments in fixed assets, machineries, etc to start operations. Leverage had standard deviation 0.835575 and Skewness 6.049713. The Size of the firm has the mean (median) of 8.13788 (7.304285). The STD and SKEW value of the Size are respectively 1.442337,0.095254 1.442337

7.3 Correlation Matrix

Table 2 show the abstract of correlation co-efficient among leverage and five independent variables. The symbol in the table indicates the connection among the variables.

Table-2: Correlation Matrix

	Growth	Liquidity	Profitability	Size	Tangibility	Leverage
Growth	1					
Liquidity	0.1524	1				
Profitability	0.1521	0.3306	1			
Size	-0.0223	0.2223	-0.1440	1		
Tangibility	0.0095	-0.2348	0.1880	-0.1990	1	
Leverage	0.0346	-0.2769	0.1964	-0.2184	0.9819	1

Positive sign indicates the positive relationship whereas negative sign shows the negative relationship. Growth has positive correlation with Leverage that indicate, if the total sales of the firms increase then leverage requirement also increase. Liquidity has a negative correlation co-efficient with the leverage which indicate the external borrowing increase if the liquidity of the firm decrease. POT support the negative relationship. It means the firm used the all of its accumulate capital and then borrow from the outside to meet the operating capital requirement and short term obligations. Profitability positively co-related with the leverage. STT support this relationship. It means if the profitability increase then leverage level increase. The leverage and size has negative co-efficient of correlation is - 0.2184. if the size of the firm increase then the demand of the leverage decrease. POT support this relationship. The large size of the firms uses the accumulate earning to finance the new project. Mostly the large size of the firms issues the equity due to good reputation and asymmetry of information. The tangibility of assets and leverage has positive coefficient co- relation the value is 0.9819. it means the leverage level increase if the fixed assets increase because the financial institution use the assets as collateral for lending to the firms. Profitability are positively correlated with the tangibility. If the profit of the manufacturing firms increase, then assets' tangibility (ratio of fixed assets as compared to total assets) also increased. Assets' Tangibility are positively related with the growth. Assets' Tangibility are negatively related with the Liquidity

7.4 Regression Analysis

This study used panel data; therefore, we applied the pooled regression analysis techniques for the analysis of data. Firstly, we applied the chow test on pooled Regression and Fixed Effect Model. The result was insignificant. Then we applied Haussmann test on Fixed Effect Model and Radom Effect Model but the result was insignificant. There is no problem in the data means there is no heterogeneity and endogeneity in the data. Therefore, this study uses the pooled regression analysis for panel data.

R Squared		0.9679		
Adjusted R Square		0.9632		
Standard Error		0.16035		
Residual means square		0.02571		
Predicators variables	Coefficient	Standard Error	T value	P value
Constant	0.38786	0.18474	2.09	0.0443
Growth	0.07010	0.11493	0.61	0.5460
Liquidity	-0.19576	0.11714	-1.67	0.1039
Profitability	0.35292	0.67077	0.53	0.6022
Size	-0.00586	0.01892	-0.31	0.7588
Tangibility	0.83919	0.02917	28.77	0.0000

$$Y = .38786 + 0.35292X_1 + .83919X_2 - 0.00586X_3 + 0.07010X_4 - 0.19576X_5$$

Analysis shows that profitability of the firms has positive impact on total debt of the firms. Change in the profitability 1 percent brings the 35 percent change in the total debt of the firms. Firm size has the depressing result on the total debt of the firm but its impact is in minor values. Tangibility has the positive impact on the debt of the firm and 1 percent change in tangibility brings 83 percent change on the total debt of the firm. Analysis show that expansion of the firms has encouraging impact on the debt of the firm and it shows that 1 percent change in growth caused change in the debt 7 percent. Liquidity has also harmful force on the debt of the firm. Change in liquidity 1 percent brings 19 percent change in the total debt. R-square value 0.9679 means that the fit explains

96.97% of the total variation in the data about the average. If we increase the number of fitted coefficients in our model, R-square will increase though the fit may not recover in a sensible sense.

8. FINDING AND RESULTS

8.1. Size of Firm

The analysis shows the negative association between leverage and size with the co-value -0.00586. The expected sign is rejected by the result. This shows the leverage level decrease when size of the firm increase. That result supports the POT because they suggest the negative relationship between size of the firm and leverage. Large firm' size has high earning potential, free cash flows and there is no need to reveal the information to outsiders in the case of equity. If firm used the equity, then large size of firms has good reputation and firm value increase This results in overvaluation of firm equity. Thus firms get benefit of overrated equity by issuing new equity. Preceding research also prove depressing association among leverage and size (Mazur, 2007)

8.2 Profitability

Leverage and Profitability has positive relationship with each other and show the significant result. This result supports the STT. But in the previous study, Shah and Hijazi (2004) and Tariq and Hijazi (2006) Gaud,et al. (2003) found the negative relationship. High profitability firm maintain the high debt ratio.

8.3 Growth

The result shows that the leverage and growth has a positive relationship. it also shows the growing firm in textile sector in Pakistan mostly used the debt financing then equity. Because the growing firm needed the large amount of cash flows but a growing firm cannot meet the funds through the internal sources, therefore mostly firms used the debt financing. In the previous studies Tariq and Hijazi (2006) also found the growth and leverage has a positive relationship. On the other hand, Shah and Hijazi (2004) found a negative relationship.

8.4 Tangibility

Assets' Tangibility and leverage are positively related and show the significant result. The leverage' level increased if the assets' tangibility increased. Because firms used fixed assets as collateral for getting the loan and financial institution also prefer the firms that provide the

collateral for loan. In this way leverage level increased of the firms. This result of this study expects the positive sign of the tangibility. In the Previous, leverage and tangibility of assets also found the positive relationship.

8.5 Liquidity

Liquidity and leverage has a negative relationship and it is also shows the insignificant result. The expected sign between the liquidity and leverage is negative in this way result expect the expected sign. In The Previous studies also found the negative relationship which conducted by Mazur, 2007 and Shahjanhan poor et al. (2010). Negative relationship also support by the POT. The most liquid firms decrease the leverage level by using their liquidity and own earning that is suggest by the result.

9. CONCLUSION

In this study we have analyze the textile sector of Pakistan of Multan for the determinants of capital structure. We use five years panel data of 8 listed firms in textile sector during 2009-2013. We analyzed the Pakistani textile firm may follow the capital structure theory or not. In this way we used the five explanatory variables that are the most important for the study of the capital structure. For the analysis we used the pooled Regression analysis

For the best statement of the financial behavior of companies in our sample firms: We follow the three theories of capital structure is static trade off theory, pecking order theory and the agency theory. All of these theories possess different traits to explain the structure of the capital of the company. According to the theory of static trade off theory assets' tangibility has an affirmative connection with leverage, because it is the guarantee of a financing by loans. Larger and a high level of profitability firms has the high debt ratio. According to the pecking order theory company first internal financing is used, then use the debt and equity used as a last choice. The behavior of financial firms in the framework of the relations between the agent and the principle will explain the theory of agency.

The results show that the growth has a positive association with the leverage. The results are also the size is a crucial factor in the capital structure and it is also show a depressing association with the leverage of the largest companies in the textile sector in Pakistan is still low Ratios Financial leverage effect. The size's involvement among financial leverage size supports the Picking order theory. In Pakistani textile sector firms with high growth rate use more debt financing source.

This affirmative cooperation among growth and a financial leverage only support the pecking order theory in the capital structure. For profitability, support the static trade off theory because it has the positive relationship but against the pecking order theory. The results show that it is more profitable maintenance of the high debt ratio in the textile sector, Multan. Our results show that the textile industry in Multan partially accepted the compromise static theory and the pecking order theory

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