Determinants of Capital Structure of Textile Industry in Pakistan

Prof.Dr.Abdul Ghafoor Awan
Dean, Faculty of Management and Social Sciences,Institute of Southern Punjab, Multan-Pakistan

Shumaila Bashir
Research Scholar, Department of Business Management,Institute of Southern Punjab Multan

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 was based on a sample of 8 listed firms during the period 2009 to 2013. The results of pooled regression model show that both Static trade-off theory and Pecking order theory are related corporate capital structure theories to the firms in Pakistani Textile sector. The theoretical framework includes the corporate capital structure theories and modern research work in this field. Hypotheses are formulated on the basis of theoretical background. 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.

1.   INRTODUCTION
1.1   Background.
Capital structure define 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 the assets based firms. 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 funding acceleration of business activities. If the business is big or small, that needs the fund to fulfill their business. Number of theories was established that give details about the capital structure of the firm but researcher could not identified the specific method for corporate managers to utilize the optimal level of financing because the capital structure theories are different. Such as trade off theory emphasize 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, 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 and path breaking paper of Modigliani Miller published in 1958. Most studies have conduct in the developed countries and very slight studies has been conduct in the developing countries. We are the not sure that the result of the developed countries can be applied to the developing countries. We are not sure the finding of the study on the capital structure in developed countries.Rajan and zingales (1995) studies the G-7 countries, Boot et al (2001) extend the work and include the some element of the emerging markets. There is some common feature of these studies in capital structure but more studies have acquired to identify the determinants of capital structure.

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 700 companies were listed These three Stock Exchanges were merged in January 2016 Pakistan Stock Exchange was emerge. The area of capital structure in the Pakistan is mostly unexplored like to other developing countries. There is limited studies are available in the field. Boot el(2001) conducted of 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 the 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 the 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 investigate the determinants of capital structure of textile industry by collecting in the existing scenario.

Textile zone is the biggest zone in the Pakistan that includes the largest share in export. Companies in the textile sector are regarded as non-financial industries in Pakistan. Their performance can also manipulate the other financial sector's decision making process. Our sample includes the 8 companies of textile sector located in

Multan. In this study we use the dependent and independent variable. The dependent variable is leverage and independent variable is 1.Firm' size, 2.growth of the firm, 3. Profitability, 4. Assets' tangibility and 5.liquidity.

1.2 Objectives of the study
 Mostly studies conducted in the developed countries which are based on financing theories but the results not generalized for the all environments. So the reason of this study is following as

1.To inspect the relationship between the profitability , growth, and liquidity of textile companies of Multan toward their financial leverage

2.To find out the relationship between the assets tangibility ,and size of textile firm toward financial leverage

3.To propose some measure for enhancement in capital structure running in textile sector of Multan region

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. However, reviews of the available literature have given below.

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 the some difference throughout English countries French and Deutch. 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 Uraguayon. 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 present the depressing 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 are 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 Frame Work
3.1 Static Trade of Theory
Capital structure's theory STT theory has two main ideas - financial distress' cost and agency cost. The STT theory discussed the facts of the companies that it is partially financed with the debt or equity. Debt financing

has advantages of the tax benefit which is the cost of debt financing but the financial distress has bankruptcy' cost plus non bankruptcy. The possibility of default of debt increase when the debt level increases. If a firm default for the loan repayment then the firm shifted the Control from shareholders to bondholders who will try to withdraw their investments in the process of bankruptcy. Bankruptcy' cost has two types that is direct or indirect, because high level of leverage is the cause of the financial distress .They are direct and indirect costs. Administration cost is involved in the direct cost and indirect cost occurred due to change in the investment policy of the companies to cover the financial difficulties. These costs make up a small percentage with the large size of firm and high percentage with the small size of firm. The direct costs of financial difficulties related to the cost of the company's insolvency. If insolvency proceedings are commenced, you may need to be sold at the suspense price, which is usually is less than from the current value of the business assets. Legal and administrative costs are also associated with insolvency.

Even if the company is insolvent, the economic difficulties of the firms might consist of some indirect costs, such as - the cost of staff, the cost of customers, suppliers cost, the cost of the investors, transmission cost and shareholder's cost . To avoid bankruptcy, the company will reduce the costs of training, education, research and development, and, advertising, etc. but the customers are doubted about the quality of the product related to the goods and services. In this way sale of the company fall which may lead to drop the market share of the company. This means that the possible profit from the use of leverage will be overshadowed by the possible costs of bankruptcy

3.2 Pecking order theory.

In 1984 Myers developed the important theory in the area of corporate finance linked with capital structure. Peaking order theory explains, a firm is trying to use the first domestic funding sources; retained earnings, then issue the debt, and then equity will be issue as a last option. financial decision-making of the firms also explain by the POT .and this theory more express information of asymmetric between outsiders and insiders of the company, from the companies point of view the costs and benefits of external financing is less as compare to the costs associated with the (internal financing) to issue new securities. Operating costs of external financing plays the important role in the choice of funding sources. The cost of debt transaction is not more than for issues of equity (Baskin, 1989).Managers do not like to lose control over the business (1991 Holmes & Kent and 1998 Hamilton a& Fox). In this way mangers do not accept the new shareholders and try to finance the project by the available of internal funding. If the company has not sufficient internal funds then management first try to finance the activities by the short- term funding because it is not required the guarantees and then issue the equity. Outsider always conscious about the equity and debt for a enterprise. Because the rational investor are risk taker of the share capital then debt. If they decide to issue the equity it means revalue the firm. In this enterprises use the retained Earning and consider the best source of funding as compare to external funding. Thus the retained Earnings are used first, if the company has the not sufficient amount of retained earning then choose the debt financing. If the company's insider is acknowledgeable about the business then market can misprice the equity. The firm established the certain preference to avoid the mispricing throughout the financial pecking order. The pecking order theory is also caused the agency theory because the agency problem is exit between the outsider investor and owner's mangers. Outside investor will hesitate to give the equity funds when they believe that to get the fair return.

3.3 Agency theory

Agency theory describe the association among the shareholders (principal) as well as managers (agent). Agents are hiring by the principal to perform the job in the interest of the principal. The delegation of decision making power can lead to the consequently increased cost and loss the efficiency of performance .e.g. if the principal (owner) give the decision making power to the agent(manger), then it may be possible mangers do not work hard as a owner , and that mangers do not directly share the result of the organization. In this way the agency problem exit because in this theory involve the conflict of cost resolving between the agent and principal. Agency problem arises in the result of delegating the decision making from owners to mangers.

There are three main agency problems. First problem is the risk aversion is caused by the relationship between return and risk. It is generally accepted by the shareholders, higher the risk higher the return. But it is completely different from the mangers point of view because they want the less risk because it is usually a key source of income but if the mangers continuously take the less then the result in the form of less profit and return, which shareholders not wants. The second problem is the retention of dividends, the managers pay the less divided from the earning of the firm and safe the more earning for the investment in the growth of the company and get the benefit in the form of return. But this view is opposite to the shareholders view because they want the more dividends for the further investment. Horizon problem is the third problem which is linked with the long term bonus incentives to overcome the problem. If the managers concerned with the performance of the firm, expect to stay with the firm for the short time period it means while the mange it.They have no interest in the

firm after the leave. To prevent from this issue ensure the managers take a long term views of their bonuses link with the share price and remuneration in the form of share

4. Research Methodology
4.1. Types of data
In this research we have focused on secondary type of data, all data is collected from the balance sheet of the textile companies of Multan available by state bank of Pakistan

4.2 Sampling
In this study we have paying the attention to the textile Sector, the 8 firms (which are listed at the Karachi Stock Exchange) in the textile sector (whose published data was available) are

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 used the more loan as compare to the other company who have the 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 the 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

Tangibility of assets = Fixed tangible assets / 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. 1988 titman and wessels state the "profitability as ratio of average income to total assets." (wald 1995) "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 tax 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.
Profitability = EBIT/ 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 use the less financing because they are more liquidate in this way they face the financial distress. Further the larger firms has 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 use the more equity
Sales = 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 consider 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 calculate 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 remain 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
Growth = (sales of current year - sales of previous year)/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 = **current Asset / 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 encourage the firm for long term financing

Leverage = Total debt   / Total ass

6. Hypothesis

In this case study we formulate the different cases (Hypothesis) for companies in the area of the textile industry in Multan, is based on the 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 assumptions that if STT and POT relevant in the textile sector in Pakistan or not.

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.

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

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

Where

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

MEASURES	Profitability	Tangibility	Size	Gowth opp	Lquidity	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

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. 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, equipments infrastructure etc for their operations. In this way, mostly non-financial firms have the 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. 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 4 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-4: 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 indicate 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 use the accumulate earning to finance the new project. Mostly the large size of the firms issue 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 increases 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 the 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 endogenity in the data. Therefore, this study uses the pooled regression analysis for panel data.

Table 5 Regression Analysis	
R Squared	0.9679
Adjusted R Square	0.9632
Standard Error	0.16035
Residual means square	0.02571

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

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 I percent change in tangibility brings 83 percent change on the total debt of the firm. AAnalysis 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. Findings and Result

8.1. Size od Firm

The analysis show present the negative association among the leverage and size with the co-value -0.0 0586. The expected sign is which is rejected by the result. This show the leverage level decrease when size of the firm increase. That result support the POT because they suggests the negative connection among the size of the firm and leverage . large firm' size has accumulated earning , 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 a 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 affirmative 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

References

Awan, Abdul Ghafoor & Sajid Amin (20014) "Determinants of Capital Structure," European Journal of Accounting Auditing and Finance Research, Vol 2 (9):22-41.

Awan, Abdul Ghafoor & Sobia Saeed (2015) "Impact of CSR on Firms' Financial Performance: A case study of Ghee and Fertilizer industry in Southern Punjab", European Journal of Business and Management, Vol 7(7):375-384.

Chen,J.(2001) Ownership structure as corporate governance mechanism: Evidence from Chine listed companies. Economics of Planning, 34: 53-72.

David J. Denis and vassal Mihow (2003) The Choice among bank debt, non-bank private debt, and public debt: evidence from new corporate borrowings. Journal of Financial Fama, E.F., (1985) What's Different About Banks. Journal of Monetary Economics, 29-39.

Frank, M. Z. and Vidhan K. Goyal, (2005), Trade-off and Pecking Order Theories of Debt,B. Espen Eckbo(ed.), Handbook of Corporate Finance: Empirical Corporate Finance Economics, 70: 3-28

Grossman, S. and O. Hart (1980) Takeover bids, the free rider problem and the theory of the corporation. Bell Journal of Economics 11 (1): 42-64

Hijazi. S and Y. B.Tariq (2006). Determinants of Capital of Structure: A case for Pakistani cements Industry. The Lahore Journal of Economics, 11 (1): 63-80

Houston, J.F., and C.M. James, (1996) Bank Information Monopolies and the Mix of Private and Public Debt Claims. Journal of Finance, 1863-1889.

John R. Graham (2000) How Big Are the Tax Benefits of Debt? Journal of Finance, Vol 5

Johnson A. Shane (1998) The effect of bank debt on optimal capital structure. Financial Management, 1998.

Mumtaz Mahwesh(2008) Corporate Governance in Pakistan. University of Cambridge, Cambridge Business School.

Modigliani, F. and Miller, M.H., 1958, "The Cost of Capital, Corporation Finance and the Theory of Investment", The American Economic Review, Vol. 48, No. 3.

Modigliani, F. and Miller, M.H., 1963, "Corporate Income Taxes and the Cost of Capital: A Correction", The American Economic Review, Vol. 48, No. 3.

Myers, S., and N. Majluf, 1984, Corporate Financing and Investment Decisions When Firms Have Information Investors Do Not Have, Journal of Financial Economics 13, 187-222.

Myers, S.C., 1977, "Determinants of Corporate Borrowing", Journal of Financial Economics, Myers S.C.(2001)

Capital Structure. Journal of Economic Perspectives, 15 (2): 82-102 Rajan.R.G and L. Zingales, (1998) Financial Dependence and Growth. Journal of American Economic Review, 88: 559-586.

Ross, S.(1977) The determination of financial structure: the incentive signaling approach. Journal of Economics, 8: 23-40

Shah A. and S. T. Hijazi (2004) Determinants of Capital Structure in Pakistanis Listed Non-Financial Firms. Pakistan Development Review, 605-618.

Shah S.M.Amir, (2007) The Determinants of Corporate Debt Policy-pre and post   Financial Market Reforms: A case from Textile Industry of Pakistan The Pakistan Development Review, 46: 4 part II, 465-478

Shah, Atta, and Hijazi S., 2005, "The Determinants of Capital Structure in Pakistani Listed Non-Financial Firms", presented at 20th AGM & Conference of Pak Society of Development Economics (Jan. 11, 2005).

Titman, S. and Wessels, R. (1988) The Determinants of Capital Structure Choice. Journal of Finance, 43.Vol. 5.