Impact of Capital Market Expansion on Company's Capital Structure

Snawer Gill[*], Dilbar Hassan Ch[†] and Rakhshanda Maqsood[‡]

Abstract

The purpose of the study was to investigate the impact of developing equity markets on 123 companies' debt ratios in Pakistan from 2006 to 2016, to gauge the development of equity markets, building two equal weight indexes of ten years. This study uses the dynamic model of the panel data. The results suggest that the strongest impact on the development of capital markets on industry debt ratios. The results show that manufacturers in Pakistan have used the stock market instead of a long-term financing. The study did not create a dramatic reduction in the ratio of debt in the year with a lower index of market debt.

Keywords: Pakistan, Capital Market Development, Debt Ratios,Financing Policies,Debt andEquityMarket

Introduction

The main function of the capital market is to create long-term funds for governments, banks and companies. Additionally, capital markets provide short-term and long-term trades. Funding and Funding combine with the possibility of stock equity and bond markets in capital markets. Capital markets create a relationship between savings and investor. It plays an important role in collecting savings and diversifying it for productive investment. Thus, capital markets play an important role in promoting the productivity and success of Cambodia and boosting economic growth in the country. Literature structure shows that there are five main financial sources for the company. These resources are categorized by literature. Credit, Bonds, Bonds and Capital Bonds provide rental financing and save income. Studies on the Corporate Finance Corporation (Haas et al., 2004), (Kunt and Maksimovic, 1995) suggest that operating companies in developing countries have higher boundaries, which is why they have hired less external financing. In addition, capital markets are not fully developed in these countries. That's why the debt of the company is likely to increase as capital markets in these countries have evolved over time. Pakistan's economy is so important that the economy and the main source of funding for the

[*] Snawer Gill, MS- Scholar, Finance Manager, La Salle Brothers Pakistan

[†] Dilbar Hassan Ch, MS- Scholar (GCUF). Vice President, NBP, Corporate Banking Group

[‡] Rakhshanda Maqsood, PhD- Scholar, Department of Sociology, Government College University, Faisalabad

manufacturer is bank loans. Booth et al. (2001) states that while the debt-ratio projects of their home-based companies can help more than the specific business variables. So it is an interesting question to find out if the company changes its financial policies with a capital market development in a country.

This study adds to the literature in three ways. First of all, most of the previous studies were done in the structure of Pakistan's capital (Shah and Hijazi, 2004), (Hijazi and Tariq, 2006), (Shah and O., 2007), (Yale, 2008), (Rafik et al., 2008), (Ahmad et al. 2010), (Mrs. Talat and Bitter, 2011), (Ahmad et al., 2011), (Butt and Hassan, 2009) were focused on the definition of capital structure and testing of agency theory, the theory of books Comics, and commercial patterns, this is the question that the company listed on the Canadian Stock Exchange responded to the development of capital markets. So in the study, the company has decided that financing decisions for the company explain important state of capital market development (banking and banking) in Pakistan. Secondly, for our first knowledge in Pakistan, this research market and Equity Weight Debt Equity Index are both DPA and Index Stock Index (IME). The methodology for building an index for the development of capital markets was used by Le and Ooi (2012). Third, the study examines individual responses and aggregates into the proportion of debt to capital market development. For this purpose, petrochemical, energy and textile industries are included in the manufacturing sector. The reason to select these three industries is that these industries are among the best clients of a bank loan for a decade. The three industries also represent a large part of the company's total market capitalization, which is listed on the stock exchange in Karachi. The remaining reports were divided into three sections. Section 2 reviews the literary review, followed by methodology and analysis. The fourth part summarizes the results of the research. Final grades.Continuing debate about the factors affecting the decision to finance the company, the remarkable work of Miller and Modigliani (1958). MM (1958) argues that the value of the company is not taken into consideration. The argument was strongly criticized, but provided new research questions for researchers. A number of theories, "swearing", "trade theory" and "free flow of money" have attempted to address these issues while looking for the best capital structure for the company.

Company Specific VariablesAndFinancingDecision In Pakistan

Hassan and Bout (2009) examined the impact of corporate governance measures on the capital structure of listed companies in Pakistan. The results of this study show that the size of the board of

directors and management shares had a negative impact on equity against equity. The results also show that the structure of ownership plays an important role in the company's financial configuration. In addition, the results show that companies with little profit and less use less debt in their capital structure. Ahmad et al. (2010) concluded in their study that the size of the company, risk, profitability, cash and age of the company was the key determinant of the company's capital structure belonging to the life insurance industry. Hijazi and Tariq (2006) conducted a study of Pakistan's cement industry to analyze the defining factors of the company's capital structure and to verify the application of business theory and trade. The results have been shown to be large, a company that tends to profit equally, while the company with more assets and high growth uses in its debt consolidation financial structures. Rafiq et al. (2008) found limited determinants of capital structure in chemical industry, their findings suggest that non-binding bond change volatility, corporate assets and corporate profits are the key determinants of corporate financial structure. Ox and Hijaz (2004) experimented with changing theory and ordering in Pakistan and found the determinants of capital structure of non-financial companies using data from 1997 to 2001. The results show that large companies use heavy debt because they have little chance of bankruptcy. Additionally, the results highlighted that high growth and marginalized companies tend to use less money.

Ilyas (2008) conducted a study to determine the determinants of the capital structure of non-financial companies in Pakistan. This study provides concrete evidence that the majority of companies in Pakistan need internal financing for external financing. One of the possible reasons to demonstrate this business attitude is the lack of equity markets. The second reason is that most companies are medium sized, thus avoiding long-term bank loans. Shah and Khan (2007) examined the Pakistani company's data sheet from 1994-2002 to study the policy determinism and testing of the theoretical and theoretical theories of the agency, coordinated finance. The finding clarifies that trade theory is carried out in Pakistan in the case of wealth. While company growth raises theoretically the agency cost is generally high for developers, so these companies use less external debt funds. The results also show that high quality companies follow the hierarchy of funds available. Afga and Ammer (2011) have discovered the possibility of theoretical theory and trade theory. The study concludes that as companies become more profitable and highly liquid, they tend to rely more on income retained than foreign debt. Ahmad et al. (2011) worked on the determinants of financing from the non-financial model of a non-financial company

listed on the Karachi Stock Exchange; They also tested the questions and the theory of change. Their studies have examined companies with high profit margins and international financial preferences with external financing. Expanding their local literacy literature, including three new variables (dividend payment, cash, and taxes), their studies have shown that the capital structure of the company has changed in different fields. Their study suggests that the size of the company, dividend payment and liquidity has a significant negative impact on the capital structure, while individualizing wealth and playing non-tariffs, longer Protec fees have a very positive effect.

Capital Marketsand Financing Decisions

Booth et al. (2001) analyzes the composition of corporate capital structures in developing countries. They found that business financing models in developing countries were affected by the same variables in developed countries. They also provide evidence that the differences in each country can not be ignored. There are factors influencing the company's financial decisions. The results highlighted that the company's profits and assets play a crucial role in deciding which country's debt ratio financing is influenced by different levels of capital market development, gross domestic product growth, and inflation.

Le and Ooi (2012) Investigation into the Impact of Debt Marking and Capital Markets on the Company's Debt Ratio Five Enhanced Eco-Economic Incentives In the Change. They have found positive and positive effects of debt consolidation on real estate companies' debt ratios. The results also showed a very negative impact on the capital market evolution of the ratio of debt. In addition, the study concludes that large corporations have more and more assets for increasing the chance of using more debt in their capital structure. Bokpin (2009, 2010) identified the effects of macroeconomic factors on corporate financial decisions. The results show that bank loans play an important role when the company decides on their capital structure. Gross domestic product has been found to have a negative impact on corporate decision-making, as well as return on asset returns on visibility and Q Tobin has the main predictive power of the financial company's model. Market development did not have a significant impact on corporate finance. Lemma and Negash (2013) found that decision-making on strong capital structure forecasts by industry companies and certain factors, income levels and growth rates of the economy, in which the company launched, but also financial and legal institutions, had a profound impact on the company's financial decisions. He investigated the effects of certain company variables, the development

of financial markets and the macroeconomic factors on short-term and long-term debt. The results highlighted that the maturity of the debt changes the direction and extent of the impact of financial market development. Doku et al. (2011) examines the relationship between financial market development (banking system and stock market) and the company's funding opportunities in Ghana registered. Research shows that a positive stock market development influences the company's decision to fund this. The study examined the development of capital markets that played an important role in the capital structure for developing countries, such as Ghana.

Data Analysis

The study used the annual data collected by the company's financial statements (for specific corporate variables) and the World Bank Database (for the indicators of DMI and EMI) for ten years. The model of the study includes companies that have not been listed on the 180 stock exchanges in Karachi. These companies are petrochemical and energy and textile. Using the Dynamic Model Module (Effective Fixing and Risk Impact), the study examines the company's financial model to produce individually and collectively. Houseman (1978) Testing is used to select a model that will have a fixed effect on the model to have a random effect. Panel data refers to groups, companies, and countries, etc. Time series, there are constraints to being the same in these groups. Technical data for the panel data into the problem account with this disintegration. By combining the timing of the observations of the cross-sectional data series, we offer the additional variation of the co-ordinate inter-neutral data between independent variables, the degree of freedom, and the more effective.

Resultsand Discussion

Figures 4.1 and 4.2 shows the debt market indexes and indexes in Pakistan from 2001 to 2010. After 2003, debt rates remained stable until 2007 and then showed a steady decline. On the other hand, the market index showed a change from 2003 to 2006, and then the stock index showed a downward trend. Pakistani market has faced six major disasters since 2000-2008. These disasters are a major factor in the continued downward trend. Another reason for the decline in EMI rankings may be the removal of a large number of stock companies. Table 1 shows the descriptive statistics for all variables. The standard deviation of the capital market index is very high compared to the debt market index due to the high fluctuations in the stock market. The company's debt ratio to the textile industry is higher than the other two industries. The average debt ratio of all companies is 67%. The chemical industry has the greatest potential for future investment, while the textile sector (0,951)

and the energy sector (0,978) have an equal opportunity investment opportunity. To confirm that manufacturing companies consume more debt (less) in the year, with a (market) and similar index of equity indexes for the equity market index. We divided the company into two types based on the average price of DMI and EMI.

In Table 2, it can be seen that the share of common debt does not represent a significant difference in two years, with lower and higher debt indexes. The difference in the debt ratio for the individual, as well as for the overall model, did not provide a clear assessment. Table 3 shows that corporation debt ratios generally were slightly higher in the year, with a lower market capitalization index than a year higher than the equity market index. This shows that in the year market stocks are falling, makers in Pakistan are leasing more debt into their capital structure. Based on these results, it can be claimed that the Pakistan-based company uses the stock exchange as an alternative source of funding. This finding is compatible with Doku et al. (2011) explores the impact of the financial market development on the company's capital structure registered in Ghana. But our conclusion contradicts the evidence provided by Le and Oh (2012). To verify the consistency of this search, we will check specific factors in the next section of this article.

Table 1 Descriptive

	Mean	**Median**	**Max**	**Min**	**Std. Dev.**	**Skewness**	**N**
EMDI	49.875	49.814	53.1483	44.5838	2.9152	-0.5645	10
DMDI	89.988	79.3377	170.253	18.9232	45.661	0.0653	10
Chemical							**27**
LEVERAGE	**0.4227**	**0.34336**	**3.8333**	**0.00724**	**0.3928**	**5.084653**	
ROA	-32.232	9.58201	62.618	-1920.6	212.41	-6.33597	
SALES	5977	1415.68	88155	3.751	11568	3.545691	
F.A (Net)	2205.6	389.15	33396	12.1	4752.9	3.624012	
TQ	2.0461	1.22440	37.737	0.10295	3.6845	6.12562	
Feul& Energy							**12**
LEVERAGE	0.52	0.58726	1.1037	0.01053	0.2882	-0.24418	
ROA	3.8237	4.15	42.7	-22.4	8.9444	0.135292	
SALES	15649	1832.3	197531	0	36261	3.068281	
F.A (Net)	5966.5	2434.3	40912	42.4	9919.1	2.384119	

TQ	0.9784	0.88561	2.9631	0.0677	0.5051	1.313314	
Textile							**84**
LEVERAGE	0.7786	0.72929	3.9963	0.00047	0.3463	3.683305	
ROA	0.9094	1.46	173.7	-187.5	14.328	-0.7945	
SALES	1535.3	827.9	19885	0	1985.2	3.347575	
F.A (Net)	826.73	523.9	6097.4	0.681	925.08	2.567934	
TQ	0.9516	0.86585	4.167	0.3441	0.3623	3.437937	
Overall							**123**

LEVERAGE	0.6751	0.6718	3.996	0.000	0.383	2.900
ROA	-5.852	2.2	275.5	-1920	101.3	-13.471
SALES	6.884	6.843	12.193	-1.609	1.636	-0.290
F.A (Net)	1634.3	536.29	40912	0.681	4181	6.182
TQ	1.194	0.907	37.737	0.067	1.813	12.527

Table 2 Total Debt Ratios of Firms Partitioned ByYears with HigherandLower DMI

	Years With HigherDMI					**Years With LowerDMI**			
Industry	2003	2004	2005	2006	***2001***	**2008**		**2009**
	2007				**2010**			
Chemical	0.45	0.45	0.41	0.37	0.40	*0.43*	0.38	0.46	**0.46**
Feul&Energy	0.47	0.48	0.46	0.44	0.44	*0.48*	0.43	0.54	**0.53**
Textile	0.74	0.77	0.74	0.74	0.74	*0.74*	0.80	0.79	**0.74**
Overall	**0.66**	**0.67**	**0.65**	**0.64**	**0.67**	***0.65***	**0.68**	**0.69**	**0.66**

Table 3 Total Debt Ratios of Firms Partitioned ByYears with HigherandLower EMI

Years With HigherEMI						**Years With LowerEMI**			
Industry	2002	2003	2004	2005	2001	*2007*	2008	2009	
2006						2010			
Chemical	0.41	0.45	0.45	0.41	0.37	0.43	*0.40*	0.38	0.46	0.46
Feul&Energy	0.54	0.47	0.48	0.46	0.44	0.48	*0.44*	0.43	0.54	0.53
Textile	0.65	0.74	0.77	0.74	0.74	0.74	*0.78*	0.80	0.79	0.74
Overall	0.65	0.66	0.67	0.65	0.64	0.65	*0.67*	0.68	0.69	0.66

Table 4 Hausman Test

Test Summary	Model 1	Model 2	Model 3	Model 4
Chi- Sq. Statistics	23.8274	0.000	0.000	0.0000
Chi-Sq. d.f.	7	7	7	7
Prob.	0.0006	1.0000	1.000	1.000

In Table 4, we can see Chi-sq. Statistics are important for model 1 ($p < 0.05$), Hausman's hypothesis that the randomized sample is inappropriate is denied. For Model 2, 3 and 4, alternative assumptions are recognized that the model of stable effects is appropriate. Another method, F-Stat, is also used by the researchers to select a model between general effects and constant effects.

As discussed in the review of company documentation, the decision on the company's financing was influenced by the company's characteristics, so using this data at the company's level was analyzed firmly. Table 5 shows the results of the sample data sheet. The results of Sample 1 represent a combined response to the company's debt-to-equity ratio of 180 to the Capital Market Index. The DMI and EMI ratios are expected to be important and important statistics. This shows that as debt markets become mature, the financial policies of manufacturing companies in Pakistan are becoming more and more debt-intensive. This finding supports the results of Le and Ooi (2012). Debt market indexes are still not important for different sectors in models 2, 3 and 4. Conversely, the capital market ratio (-0.001) shows the major effects in the chemical industry. For the textile sector, the Capital Markets Index shows more debt because it has a positive factor. Of the company's specific variables, there are only margins and sizes that show a very negative impact on the debt ratio that supports the order model. The results also show that textile-related companies use their debt to finance investment opportunities and assets that can help them get loans from the bank. Our results are consistent with Afza and Amer (2011) Ahmad et al. (2011), Shah and Han (2007), Ox and Hyper (2004), and Rafiq et al. (2008). To gain a better understanding of the impact of the equity market index on debt ratio for each segment, we manage three extra-sample prototype.

Table 5 DynamicPanel Data models

	Model1		**Model 2**		**Model 3**		**Model 4**	
	Coefficient	t-Stat	Coefficient	t-Stat	Coefficient	t-Stat	Coefficient	t-Stat
Constant	**-0.1738**	**-1.1593**	**1.5125**	**2.8599**	**0.3052**	**0.8520**	**-0.0360**	**-0.316**
DMI	0.006***	2.1586	-0.0002	-0.022	-0.0052	-0.7319	0.0018	**0.7815**
EMI	-0.0002**	-1.8316	-0.001***	-2.189	0.0001	0.3758	0.0003***	**-2.651**
PROFIT	-0.002***	-5.5828	-0.003***	-2.072	-0.004***	-2.1799	-0.002***	**-5.451**
SIZE	-0.008***	-2.2931	-0.16***	-4.120	0.0088	1.0171	-0.0035	**-0.868**
TANGIB	0.00	1.1901	-0.00	-0.606	0.00	0.8039	0.00***	**2.6292**
TQ	0.0029	1.1327	0.00197	0.3342	0.07123	1.5550	0.5531***	**24.494**
R Squared	0.7492		0.73170		0.87367		0.88230	
Adj. R	0.7476		0.68934		0.84812		0.86637	
DW Statistic	2.2317		1.92385		1.85077		1.79831	
F-statistic	460.6675		17.2727		34.1957		55.3919	
Prob(F-stat)	0.0000		0.0000		0.0000		0.0000	
N	**1087**		**243**		**108**		**756**	

Notes:***Significantatthe0.01level.**Significantatthe0.05level.AllModelsinthistableare DynamicPanelModels.Model1isRandomEffectModeldealingwithoverallcrosssections. While Model2,3and4areFixedEffectModelsforIndustrywiseSubSamplesofchemical,fuel& energyand textile respectively.

Conclusion andFuture Research

This study aims to analyze the impact of the development of capital markets in the debt ratio of 180 manufacturers in Pakistan from 2006 to 2016 to measure the development of capital markets bond index both scoreboard and for the development of capital market index constructed from the results of this survey show that the 2006-2016 production in Pakistan market The company is a substitute for long-term financing, but the source of financing for the company's favor is pazara debt. The results indicated that there was no significant reduction in debt proportion in years with low scores of MDI. Although the impact of the equity market index is significant compared to the ratio of debt, it is very small. In Pakistan, large and profitable companies are trying to use less debt and rely more on their internal resources. The results show that Pakistani capital markets are young, smaller and more unstable, with poor accounting standards and inefficiencies in law. Because of these conditions on capital markets, lending institutions require high risk,

leading to higher borrowing costs. This has led businesses to like local finance. Index Market Capitalism does not have a permanent sign to slow down demand. The study's findings suggest that the level of debt market development has a slight positive impact on the financing of business in Pakistan. On the other hand, the maturity of the stock market has a negative effect on the company's debt ratio. The result of this study has consequences on many policy issues. Manufacturers in Pakistan are generally limited to loans from banks. Regulators need to take significant steps to promote all aspects of financial markets, so the company has more options to raise money from the financial market. Future studies can increase models by considering other key industries.

References

Ahmed,N.,Ahmed,Z.,& Ahmed,I. (2010). Determinants Of Capital Structure : A Case Of Life Insurance Sector Of Pakistan *European Journal of Economics, Finance and Administrative Sciences*,(*24*), 7-12.

Ahmad,F.,Nasir,R.U.,Ali,M.,&Ullah, W.(2011). Extension Of Determinants Of Capital Structure: Evidence From Pakistani Non- Financial Firms. *African Journal of Business Management*, *5*(28), 11375–11385.

Bokpin,G.A.(2010). Financial Market Development And Corporate Financing: Evidence From Emerging Market Economies. *Journal of Economic Studies*, *37*(1), 96–116.

Bokpin,G.A.(2009).Macroeconomic Development And Capital Structure Decisions Of Firms: Evidence From Emerging Market Economies. *Studies in Economics and Finance*, *26*(2), 129–142.

Booth,L.,Aivazian,V.,Demirguc-Kunt, A., & Maksimovic, V. (2001). Capital Structures In Developing Countries. *Journal of finance*, 56(1), 87-130.

Butt,S.A.,Hasan,A.(2009).Impact Of Ownership Structure And Corporate Governance On Capital Structure Of Pakistani Listed Companies. *International Journal of business and Management*, *4*(2), 50–57.

Doku, J., Adjasi, C., &Sarpong-Kumankuma, E. (2011).Financial Market Development And Capital Structure Of Listed Firms: Empirical Evidence From Ghana. *Serbian Journal of Management*, *6*(2), 155–168.

Fama, E.F, &Jensen, M. (1983) Separation of Ownership and Control.*Journal OfLaw And Economics*, 26, 301-325.

Ilyas,J.(2008).TheDeterminantsofCapitalStructure :AnalysisOfNonFinancialFirms ListedInKarachi StockExchange.*Journal of ManagerialSciences*, 2(2),280-307.

Lemma, T. T., &Negash, M. (2013). Institutional, Macroeconomic And Firm Specific DeterminantsOfCapitalStructure:TheAfricanevidence.*ManagementResearchReview*, *36*(11), 1081–1122.

Levine,R.(1999).Bank-BasedAndMarket-BasedFinancialSystems.TheWorldBank Development ResearchGroup Finance, *PolicyResearchWorking Paper*No. 2143.

Le,T.T.T.,&Ooi,T.L.(2012).FinancialStructureofPropertyCompaniesAnd Capital Market Development.*Journal of Property Investment&Finance*, *30*(6), 596–611.

Modigliani,F.,&Miller,M.,(1958)TheCostsofcapital,CorporateFinanceand Theoryof Investment.*American EconomicReview*, 48, 261-297.

Modigliani,F.,&Miller,M.(1963)CorporateIncometaxesandtheCostofcapital: A Correction.*AmericanEconomicReview*, 53, 443-453.

Myers,S.,&N.Majluf.(1984).CorporateFinancingAndInvestmentDecisionswhenFirms HaveInformationThatInvestorsDoNotHave.*JournalOfFinancialEconomics*13,187-221.

Rafiq,M.,Iqbal,A.,&Atiq,M.(2008).TheDeterminantsOfCapitalStructure OfThe Chemical Industry In Pakistan. *TheLahore Journal ofEconomics*, *13(1)*, 139–158.

Shah,A.,&Hijazi,T.(2004).TheDeterminantsOfCapitalStructureOfStockFirmsIn Pakistan. *ThePakistan Development Review*, 43(4), 605–617.

Shah,A.,&Khan,S.(2007).DeterminantsOfCapitalStructure :EvidenceFromPakistani Panel Data. *InternationalReview of Business ResearchPapers*, *3*(4), 265–282.