

[DOI: 10.20472/IAC.2015.017.042](https://doi.org/10.20472/IAC.2015.017.042)

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DETERMINANTS OF DEBT MATURITY STRUCTURE: CASE OF NON-FINANCIAL FIRMS IN PAKISTAN (KSE)

Abstract:

After a firm decides to finance itself with debt, it has to decide on the duration of the maturity of debt: short, medium or long term. This study attempts to illustrate the effects of Growth Option, Firm Size, Leverage, Liquidity and Assets Maturity on a firm's debt maturity structure. The data of variables under study has been drawn from the 60 random sample companies taken from non-financial sector of Karachi Stock Exchange (KSE). Data is taken from KSE and State Bank of Pakistan websites for ten years (2004-2013). Descriptive analysis, correlation and regression are run to show the relationship between the variables using SPSS and Stata. Both pooled regression and fixed effects model is run to analyze the data.

Pooled regression results show that Growth Option, Firm Size, Leverage and Assets Maturity have positive relationship whereas liquidity has negative relationship with debt maturity. Only leverage and liquidity have significant relationship. Fixed effects model show positive relationship of Firm Size, Leverage and Assets Maturity with debt maturity and negative relationship of growth options and liquidity with debt maturity. Company size, leverage and liquidity have significant relationship whereas growth option and assets maturity have insignificant relationship.

No such study has been conducted for Pakistan. There are options for further research on the topic by adding variables like short and long term debt, assessment of market value of growth options, firm's credit ratings, information of flotation costs etc.

Keywords:

Debt maturity structure,
Pakistan,
KSE,
Determinants,
Growth Option,
Firm size,
Leverage,
Assets Maturity

JEL Classification: G31, G32