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The Impact of Capital Structure on the Liquidity and Growth of Corporations

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Abstract

Business existence and profitability depend on financial management. Foreign, private, public, and business funds could participate. This course covers managing business assets, cash flows, and other finances. Make careful investments and fund allocation decisions. The best way to fund capital investments—savings, debt, or stocks—has major implications. Working capital management requires present-day decisions to balance an organization's assets and liabilities. Company capital structure is the strategic organisation of assets to support business operations, according to corporate finance. The capital structure is diverse because it includes the different ways the company might raise funds for short- and long-term investments. A company's capital structure includes retained earnings, preferred shares, common stock, and credit. The capital structure of a company organises its long-term revenues. Organisations seek cash for many reasons, including debt and stock financing's pros and cons. Stockholders' voting and profit rights depend on their common stock holdings. Part of the company is theirs. Preferred stock is worth more than bonds and common stock. Preferred stock conversion to common equity. Face value reflects theoretical value. Individuals invest a certain amount. This is "market value." Give them due. The market value of a privately owned firm is calculated when a minority investment is taxed or the company is sold. When a company distributes equal-value shares, NOMAD and market share prices correspond. Whether market value exceeds nominal value matters. The nominal value may match, exceed, or fall below market value. Large debt categories include long-term and short-term. Many businesses started with debt. Corporate finance experts consider a company "highly leveraged" if its debt-to-assets ratio is high. Debt might be secured, unsecured, public, private, or guaranteed. Businesses have liquidity when they can meet immediate financial obligations without incurring further fees. A product or service that businesses may sell for cash quickly and easily is "marketable".

Keywords- Capital Structure on the Liquidity and Growth of Corporations

Introduction

Finance, which manages money, is crucial to a company's survival and success. It may involve personal, company, corporate, and international money. This course examines corporate finance, which manages assets, cash flows, and financial resources. Participate in financial and investing decisions. Choosing equity, debt, or reserves to fund capital investments is a long-term decision. Working capital management involves short-term decisions to balance current assets and

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liabilities. According to corporate finance, a company's capital structure allocates capital strategically to run its activities. Capital structure—the sources of financing for running activities, long-term investments, and short-term investments—is diverse. Credit, preferred shares, common stock, and retained earnings make up a company's capital structure. Capital structure is long-term firm funding. Factors affecting debt and equity financing costs and rewards push businesses to arrange capital. Common stock allows shareholders to receive dividends and vote in proportion to their shareholding. Their corporate ownership interest. Preferred stock is better than common stock, while bonds are worth less. Converting preferred shares to common stock. Face value is an equity's notional value. The price an investor is willing to pay determines market value. Pay for them. Stock exchange trading determines the value of publicly traded company shares. When a privately owned company is sold or a minority investment is taxed, its market value is determined. The nominal and market values of shares are linked when a corporation issues equal shares. The market value is equal to the nominal value, higher than it, and lower than it, as it exceeds it. Debt financing can be short-term or long-term. Many enterprises started with debt. In corporate finance, "highly leveraged" means having a high debt ratio. Debt might be secured, unsecured, private, public, or syndicated. Business liquidity is a company's ability to meet urgent financial obligations. Marketability, or the ability to quickly convert assets into cash, helps businesses liquidate their holdings. Liquid assets can be quickly converted into cash without depreciation. Companies with lots of liquid assets have a good history of paying down debt. So solvency is vital to recruiting creditors. A company's option to preserve liquid assets helps it survive low profitability and limited capital market access. Thus, organisations must develop cash reserve techniques to handle cash efficiently. Growth or expansion affects a company's financial structure and liquidity. A society's prosperity depends on its industry and population growth. Spending cuts and production efficiency drove economic growth. The economy's ability to create jobs and grow businesses helps people succeed. Firm expansion involves improving a company's ability to recruit, educate, and incentivize employees while improving its operational efficiency. Firm expansion increases a firm's size, longevity, profitability, and asset investment. Company growth is driven by R&D investments. To keep competitors from outperforming it, the company is developing new products and improving quality. Growth is crucial for a company's market position and performance, which are needed to

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compete globally. Lack of growth-oriented businesses hinders economic growth. Politicians, economists, and international development organizations recognize the importance of firm growth and have invested much in measures to promote economic growth. Political instability, economic crises, and agency engagement hurt efforts, lowering corporate growth. Resources greatly impact corporate growth. Without sufficient funding, companies cannot expand and succeed in the market. This study illuminates capital structure and business growth.

Literature Review

Several studies have examined growth, liquidity, and capital structure. The literature study covers capital structure, firm liquidity, and corporate growth, as well as its causes and effects, using a limited number of academics. Interconnections. Tsegaye et al. (2018) studied three foreign investment kinds' determinants. The South African Development Community (SADC) evaluates cross-border bank flows (CBF), foreign direct investment (FDI), and oversight of development assistance (ODA). Three-stage least squares (3SLS) and general methods of moments (GMM) estimation were used to draw conclusions from 1980–2012 data. External factors influenced SADC cash flows. This contrasted with local capital uses. Matteo et al. (2016) compared Italian and German SMEs' funding methods. Comparisons were made using several tools and an educational matrix. Similar results were achieved for Italian and German SMEs using the same technique, helping companies change their financial thinking and use new financial instruments. This showed how the same approach could provide different findings in diverse financial cultures, adding value to existing information. Giacosa et al. (2016) analysed SMB efficacy trends. They used a model with multiple topologies to differentiate these organisations across three years. The study examined small and medium-sized firms' economic and financial status throughout time. They found that improving their expansion, profitability, and debt repayment capacity is the best way to achieve financial well-being. Giacosa et al. (2016) surveyed medium-sized Italian food and beverage enterprises about financial leverage. They sampled 4705 medium-sized companies to demonstrate the impact of financial leverage. Their research showed that insufficient financial allocation can strain medium-sized enterprises' finances. Multiple causes can cause stress. Liabilities and revenues had a strong and decreasing relationship, but liabilities and fixed assets had little. This was seen in good debt management. Rossi (2015) assessed Italian company capital

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budgeting projects using various capital budgeting methods. Payment Period (PP), Net Present Value (NPV), and Internal Rate of Return were used. This early investigation can benefit decision-makers and investors. Avoiding its common flaws can assist policymakers, investment project evaluators, and the financial and budgeting industry. Benefits and normal problems are present. Matteo found that evaluators use net present value (NPV) capital budgeting most often, which worldwide firms use. Rossi et al. (2015) used different finance theories to study Italian agri-food companies' capital structures. A sample of 82 Italian agri-food SMEs was analysed to determine how companies fund themselves and what factors influence their financing decisions. The sample supported the hypothesis. The investigation showed that firms prioritise internal resources, followed by bank debts, according to the Pecking Order Theory (POT), Trade-off Theory, and Fiscal Theory. Rossi (2014) examined Italy, France, and Spain's capital budgeting systems using diverse methods. The methods included payback duration, accounting rate of return, present value, IRR, and profitability index. According to this theoretical research, these nations mostly used payback period and net present value. Because different financial cultures use leverage differently. Thus, large and small enterprises have different results. This essay showed the complexity of capital budgeting decisions and how SMEs underestimate them to improve the literature. Rossi (2014) hypothesised how Italian SMEs obtain finance for operations and investments to understand their capital structure. How does their financial situation affect their choices? An empirical study examined 764 Italian SMEs. Despite its variability, the sample gave policymakers a concrete foundation. Several finance assumptions were tested on the samples to verify accuracy. The pecking order hypothesis supports SMEs' funding strategy. Mihai et al. (2013) used relationship management, banking, economics, and finance theories to analyse the elements that influence bank-SME collaborations. This chapter studied how the economic crisis affected bank-SME partnerships. Additionally, the crisis has far-reaching effects, some of which may affect entities outside the Bank more than inside it. This chapter adds to the literature by providing ways to strengthen bank-SME relations through technology and social media. Anderson and Carverhill (2002) examine growth, liquidity, and capital structure relationships. He created a theoretical framework of the corporation's dividend distribution and liquid asset reserves to prove the correlation. Thus, the model considers new data. Equity was scarce due to high costs of accessing external financial markets, forcing the usage of liquid assets as reserves.

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This action was done for that purpose. Solvent companies were thought to be immune to bankruptcy since their easily convertible assets generated enough cash to cover their debts and fixed expenses. This shows how liquid assets motivated the firm to act. The model shows that high debt financing is linked to large liquid asset holdings. The correlation was then empirically examined to determine the characteristics that affect liquid asset preservation. Individuals and organisations' liquid asset holdings depend on liquid assets, cash flow, long-term and medium-term debt, short-term debt as a percentage of total assets, R&D expenditures relative to sales, and market to book value ratios. The criteria were matched to assets. In addition, industry-specific fictional values were considered. T-statistics were used in linear regression to compare groups' significance. Eleven years of annual reports from Belgian and UK stock exchange-listed companies were analysed to determine the association. The results show that leverage and liquid asset ownership are directly related and that a higher proportion of liquid assets slows corporate growth. Company capital structures may include more debt than equity. This study explores the causes and effects of business overleveraging. This article discusses bank capital structures and leveraged investments. Most banks' subordinate and unsecured debt exceeds their leverage framework. Based on the concept, leverage always increases risk. This is because banks cannot fully benefit from backing enterprises in which they have no ownership position. Banks also evaluate the investment project's creditworthiness before lending more money. Banks with enough leverage are unaffected by riskiness. Inderst and Mueller (2008) argue that banks must follow legal criteria to sustain leverage and make good loan decisions. Conversely, leverage-heavy companies may struggle financially. John (1993) claims that businesses' financial problems stem from the gap between their easily available assets and their tight financial arrangements. The researcher created a regression model that accounted for liquidity and debt's proxy variable dependence. Tobin's Q, R&D, an asset specificity index, advertising expenditures, and a chance of financial default index were used as proxy variables. During the financial crisis, reorganising the company's assets and securing capital were considered. Liquidity correlates with financial stress indicators, while debt correlates oppositely with Tobin's Q, asset specificity, and intermediate cash flow metrics. The research revealed this. The best capital investment alternative influences all of these factors. Salehi (2009) defines optimal capital investment decisions as those that boost productivity and fully use resources. He defined the capital structure using book,

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market, and adjusted value. Alternatively, liquidity, leverage, return on assets, return on equity, and return on investment are used to evaluate a company's performance. Pearson's correlation and ANOVA tests were used to evaluate 117 Tehran stock exchange-listed non-financial firms. These tests examined how capital structure affects corporate performance. According to studies, capital structure market value is a key evaluation factor. When assessing a company's financial structure and performance, high leverage leads to lower profitability and concerns about performance. Company capital structures often include convertible bonds, long-term and short-term debt, and leasing finance. A company may issue convertible bonds to achieve a balanced capital structure, which allows it to compete in a fiercely competitive market, generate large profits, and increase its market valuation. These characteristics help the firm grow efficiently. This study empirically examined capital structure and profitability. It did this by testing capital structure theories like agency costs, pecking order, and bankruptcy costs. For five years, 22 Ghana Stock Exchange (GSE) companies were investigated to determine the relationship between capital structure and profitability. The capital structure debate used leverage ratios, which are derived by dividing short-term, long-term, and total debt by total capital. Profitability was measured by return on equity, which was earnings before interest and taxes divided by equity. Overall, leverage ratios helped describe capital structure. Regression models used firm size and sales growth as control variables. The regression model results demonstrated a positive association between the ratio of short-term debt to total debt and return on equity, whereas a negative correlation was detected between the ratio of long-term debt and return on equity. Abor (2005) observed that productive organisations generally depend on short-term funding for the majority of their operations, with short-term debt constituting 85 percent of overall debt financing for Ghanaian enterprises.

Hypothesis

Ho: Leverage is negatively related to liquidity and positively related to growth.

H1: Leverage is positively related to liquidity and negatively related to growth.

Methodology

Only three tobacco companies are listed on the Karachi Stock Exchange. The aforementioned companies comprise the Khyber Tobacco Company (KHTC), the Lakson Tobacco Company

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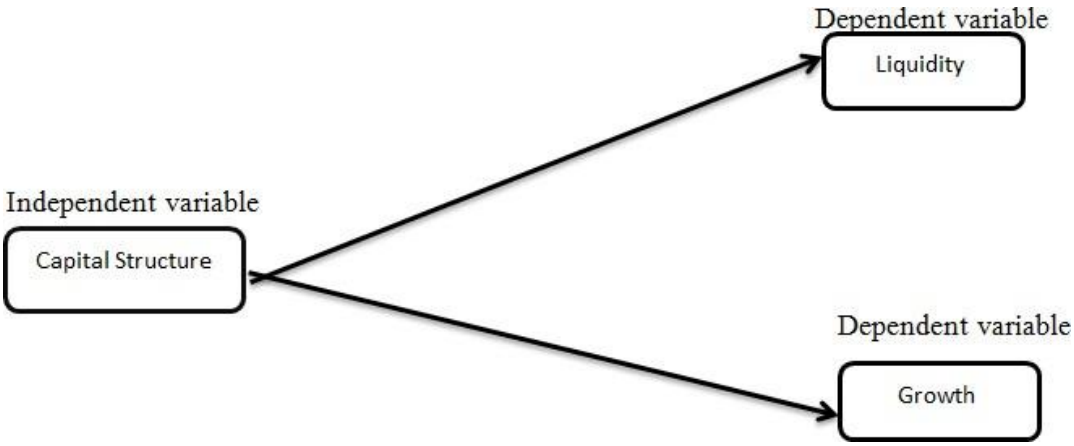
(LAKST), and the Pakistan Tobacco Company (PAKT). Pakistan Tobacco Company and Lakson Tobacco Company are the sole entities in this industry. Their eligibility for inclusion in the study sample was determined by the presence of their annual reports and market share data for a six-year period (2011-2016). The study utilised secondary data obtained from annual reports that were publicly available on the companies' websites.

Ratios

Ratios are utilised to quantify variables and are computed. Every variable is characterised by a distinct combination of ratios. Such as liquidity ratio, growth ratios and leverage ratios. These leverage ratios serve to determine the organization's manner of financing and its degree of financial stability. If these ratios are elevated, it indicates that the company is acquiring a larger portion of its capital from debt and is making timely interest payments.

Figure 1



Results

The financial statements from a span of six years are utilized in the computation of ratios for a corporation. There are four ratio formulas that are utilized to compute leverage, which is an independent variable. The 10 ratio formulas, however, analyze the relationship between growth and liquidity, which are two interconnected variables. Since each ratio corresponds to a distinct characteristic of each variable in relation to the others, they remain constant and preserve their initial values. SPSS, a statistical software, is utilized for doing multiple regression analysis to

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ascertain the correlation between each dependent and independent variable. This study employs eleven distinct models to assess the relationships between independent and dependent variables. The objective of this study is to meticulously examine the interaction of each model. Prior to commencing the examination of each model, it is imperative to thoroughly understand the summary and coefficient tables, specifically Tables 1-3. The basic model illustrates the impact of leverage ratios on liquidity assets. Based on the latest R-square value of 0.66, it can be concluded that leverage ratios explain 66% of the variations in liquid asset ratios. After completing the analysis of variance, the F value was found to be 6.349, the significance level was determined to be 0.019, and the Durbin Watson statistics yielded a value of 1.894. The model of the show is pivotal. The results of the R square, analysis of variance, and Durbin Watson tests suggest that the model is effective in examining relationships. When trying to assess the connections between variables, the coefficients, t value, and beta value are considered to be meaningful. All of the leverage ratios, such as total debt to equity, total debt to assets, and times interest earned, are more than 0.05, suggesting that there is no correlation between leverage ratios and liquid asset ratios. The long-term debt to equity ratio is 0.038, suggesting a correlation with the proportion of liquid assets. The t-value of -2.574 for debt to equity and the beta value of -1.404 suggest a negative correlation between liquid assets and long-term debt. The second model examines and quantifies the influence of leverage ratios on current ratios. The updated R-square value of 0.945 suggests that 94% of the variations in the current ratio can be attributed to changes in leverage ratios. The ANOVA findings ($F = 48.701$, $p < 0.001$) and Durbin Watson statistic indicate that the regression model is appropriate for representing the relationship. Both the long-term debt to equity ratio and the interest earned ratio are below 0.05, suggesting a lack of correlation between the two. The elevated values of the total debt to equity ratio (0.046) and total debt to assets ratio (0.002) signify the correlation between each leverage measure and the current ratio. The current ratio and the total debt to equity ratio have a strong positive correlation, as indicated by the t value of 2.443 and the beta value of 1.318, respectively. Based on the t-value of -4.808 and the beta coefficient of -2.153, it can be inferred that there is a significant negative correlation between the total debt to asset ratio and the current ratio. The third model examines the impact of leverage ratios on the fast ratio. The R square value of 0.8967 suggests that 89% of the variability in fast ratios can be explained by changes in leverage ratios. The regression model demonstrates its effectiveness in

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investigating associations by its highly significant significance level of 0.000, ANOVA F value of 24.751, and Durbin Watson value of 3.178. Given that all of these ratios exceed 0.05, it may be inferred that the fast ratio is not correlated with the total debt to equity, long-term debt to equity, or total debt to assets ratio. Take into account both the quick ratio and the interest coverage ratio. Both the t value of 5.436 and the beta value of 0.7812 demonstrate a positive correlation between the fast ratio and the times interest earned ratio. Another model illustrates the impact of leverage ratios on cash ratios. The updated R square coefficient of 0.974 indicates that leverage ratios explain 97% of the variability observed in cash ratios. The regression model's p-value of 0.000, American Statistical Association F value of 100.40, and Durbin Watson value of 1.598 indicate that it is a highly effective tool for assessing relationships. Both the long-term debt to equity ratio and the overall debt to assets ratio exceed 0.05, suggesting that there is no correlation between the cash ratio and these ratios. The debt-to-equity ratio is 0.024, and the interest earned is 0.000. Based on the data, there is a significant association between the cash ratio and cash ratio. The debt-to-equity ratio exhibits a beta coefficient of -1.101 and a t-value of -2.898. The t-value for the amounts of interest earned over time is 12.784, and the beta value is 0.935. The cash ratio exhibits a negative correlation with the overall debt-to-equity ratio, whereas it demonstrates a positive correlation with interest earned. The fifth model investigates the impact of leverage ratios on the price-to-book ratio. The updated R-square coefficient of 0.38 signifies that 38% of the variability in price-to-book ratios can be explained by leverage ratios. The observed volatility can be attributed to the R square value being lower than the mean. The Durbin Watson statistic, with a value of 2.68, confirms the model's utility by indicating the lack of multicollinearity. The ANOVA F value of 2.657 and a significance level of 0.0124 indicate that the model lacks statistical significance. The regression model employed to examine the correlation yielded inaccurate results. There is no correlation between high leverage ratios (at least 0.05 percent) and price-to-book ratios. The sixth model takes into account both the leverage and dividend payout ratios. The adjusted R-square coefficient of 0.18 indicates that alterations in leverage ratios result in a 17% rise in dividend payout ratios compared to their original value. Due to the lower-than-anticipated R square value, there was a modification in the dependent variable. The analysis of variance (ANOVA) F value is 1.578, and the p-value is 0.282, suggesting that the model lacks statistical significance. The Durbin-Watson statistic's value of 1.961 suggests the absence of

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multicollinearity. Consequently, the regression model lacks the ability to accurately quantify the relationship under consideration. The leverage ratios with significant values greater than 0.05 indicate the absence of a correlation between leverage ratios and dividend payout ratios. The seventh model states that leverage ratios have an impact on the return on assets. The R square statistic of 0.698 indicates that leverage ratios alone explain 69% of the variability in the return on assets. The ANOVA F value of 7.398, the significance value of 0.012, and the Durbin Watson value of 2.564 all indicate that the regression model is a suitable option for identifying links. All three ratios, total debt to equity, long-term debt to equity, and total debt to assets, are greater than 0.05, suggesting that there is no correlation. There is a strong correlation between the rate of return on assets ratio and the times interest earned ratio, both of which have a value of 0.003. The t-value of 4.342 and beta value of 1.062 indicate a negative correlation between the return on assets ratio and the times interest earned ratio. The correlation is statistically significant and positive. The eighth model considers the impact of leverage ratios on return on equity. The adjusted R square value of 0.846 indicates that 84% of the variation in return on equity can be explained by leverage ratios. The ANOVA F value of 15.961, the significance level of 0.002, and the Durbin Watson value of 1.666 all indicate that the regression model effectively estimates the relationship. The ratios of total debt to equity, long-term debt to equity, and total debt to assets all exceed 0.05, suggesting that they are not correlated with the return on equity ratio, but rather exist independently of it. The return on equity ratio and the times interest earned ratio have a significant correlation, indicated by a coefficient of 0.005. The t-value of 4.051 and the beta coefficient of 0.713 suggest a significant association between the return on equity ratio and the times interest earned ratio. In addition, the ninth model analyzes the influence of leverage ratios on net profit margins. The revised R-squared value is 0.667, signifying that leverage ratios explain 66% of the variability in net profit margin. The regression model's ANOVA F value of 6.496, significant value of 0.018, and Durbin Watson value of 2018 suggest that it effectively established the link. The beta coefficient is 1.064, whereas the net profit margin ratio is 4.135, suggesting a robust positive correlation between the two variables. The ratios of total debt to equity, long-term debt to equity, and total debt to assets all exceed 0.04, suggesting a lack of correlation among the three. The tenth model examines the impact of leverage ratios on operational profit margins. Based on the revised R-squared value of 0.696, it can be concluded that variations in leverage ratios

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contribute to a 69% rise in operational profit margin compared to the initial ratio throughout the assessment. The regression model seems suitable for establishing the link, as indicated by the ANOVA's F value of 7.258, the significance value of 0.013, and the Durbin Watson value of 1.881. With a long-term debt-to-equity ratio of 0.233, there seems to be no correlation between these two variables. The debt-to-equity ratio is 0.024, implying a substantial correlation. In addition, the t value of -2.898 and the beta value of -3.704 suggest a strong negative correlation. Significant statistical correlations exist between the operational profit margin ratio, total debt to assets ratio, and times interest earned ratio (p-value = 0.008, 0.005-0). The t value (3.751) and beta (3.791) indicate a positive correlation between the total debt to assets ratio. The operating profit margin ratio and the times interest earned ratio have a high positive correlation, as evidenced by the t value of 5.041 and the beta value of 1.243.

Table 1

Table 1 REGRESSION MODEL SUMMARY				
Models	Adj. R sq.	Durbin Watson	ANOVA	
			F	Sig
1	0.661	1.894	6.349	0.019
2	0.946	3.028	48.701	0.000
3	0.897	3.178	24.751	0.000
4	0.973	1.599	100.40	0.000
5	0.377	2.691	2.659	0.124
6	0.174	1.961	1.578	0.282
7	0.698	2.566	7.400	0.013
8	0.846	1.667	15.961	0.002
9	0.667	2.019	6.495	0.018
10	0.696	1.881	7.260	0.013

Table 2

Table 2 COEFFICIENTS							
Models	Dependent Variables	Lev 1			Lev 2		
		Beta	T	Sig	Beta	T	Sig
1	Liq 1	1.106	0.821	0.438	-1.404	-2.574	0.038
2	Liq 2	1.319	2.443	0.046	-0.082	-0.373	0.722

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3	Liq 3	-0.353	-0.474	0.652	-0.153	-0.506	0.628
4	Liq 4	-1.101	-2.88	0.022	0.321	2.087	0.077
5	Gro 1	0.308	0.169	0.872	0.655	0.856	0.406
6	Gro 2	0.491	0.234	0.823	0.991	1.165	0.283
7	Gro 3	-2.84	-.225	0.831	0.056	0.108	0.919
8	Gro 4	0.945	1.037	0.356	-0.307	-.832	0.434
9	Gro 5	-0.633	-.474	0.651	0.005	0.012	0.993
10	Gro 6	-3.709	0.024	0.024	0.677	1.309	0.233

Table 3

Table 3 COEFFICIENTS							
Models	Dependent Variables	Lev 3			Lev 4		
		Beta	T	Sig	Beta	T	Sig
1	Liq 1	-0.601	-0.538	0.609	-0.092	-0.353	0.736
2	Liq 2	-2.153	-4.808	0.001	0.001	0.004	0.999
3	Liq 3	0.128	0.211	0.841	0.782	5.436	0.002
4	Liq 4	0.587	1.864	0.106	0.937	12.784	0.000
5	Gro 1	-0.146	-0.098	0.927	0.223	0.628	0.548
6	Gro 2	-1.041	-0.598	0.568	-0.252	-.618	0.556
7	Gro 3	0.965	0.917	0.388	1.063	4.343	0.004
8	Gro 4	0.355	0.468	0.655	0.713	4.051	0.006
9	Gro 5	0.859	0.776	0.466	1.066	4.134	0.004
10	Gro 6	3.971	3.751	0.006	1.243	5.041	0.002

Discussion and Recommendation

The regression analysis study found a substantial relationship between leverage, liquidity, marketability, and profitability ratios. To begin, let us analyse the correlation between leverage and liquidity ratios. The fundamental model states that there is an inverse relationship between long-term debt and liquid assets. Previous investigations did not discover any mutual connection, to clarify. Tobacco firms can perhaps account for this trend due to their reduced long-term debt and stronger liquidity levels. Based on the second model, there is a positive correlation between the current ratio and the total debt to equity ratio, but a negative correlation between the current ratio and the total debt to assets ratio. Consequently, an increase in debt has the potential to either increase or decrease existing assets. Multiple discernible and imperceptible elements exert effect on this symbiotic connection. Tobacco enterprises are increasingly seeking additional funds and prioritising short-term financial arrangements. A larger leverage ratio necessitates the company to maintain a significant portion of its present assets to fulfil its obligations, potentially leading

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to a decrease in administrative expenses. Conversely, the negative correlation indicates that the company's assets are adequate to offset its liabilities. A significant proportion of the overall debt consists of short-term loans and financing assets. Short-term debt, albeit less risky, requires the retention of assets that are less easily converted into cash. The third model demonstrates a direct correlation between the fast ratio and the times interest earned ratio. When corporations pay interest, they are required to keep a significant portion of their assets that can be quickly converted into cash. Based on the positive correlation, tobacco companies obtain loans and possess sufficient liquid assets to afford high interest rates, enabling them to sustain their operations. The fourth model demonstrates a negative relationship between the cash ratio and the debt-to-equity ratio, whereas it shows a positive link between the cash ratio and interest income. Ultimately, an increase in debt leads to a decrease in cash flow, while substantial interest payments necessitate a significant quantity of cash. Tobacco companies rely predominantly on debt financing, as cash alone is insufficient to secure such a substantial amount of debt. Conversely, cash should be adequate to meet the annual interest payments on short-term debt. In general, the results indicate that businesses that heavily depend on loans for financing are particularly vulnerable. Indebted companies have a higher probability of experiencing failure and incurring agency charges. In order to reduce risk, it is necessary for them to keep a substantial portion of their assets readily accessible. Despite their substantial debt burden, tobacco corporations manage to evade bankruptcy through the utilisation of short-term borrowing. They maintain a substantial amount of liquid assets to cover agency charges. Finally, the analysis investigates the potential correlation between leverage and liquidity. Anderson (2002), Anderson and Carverhill (2006), and Hirth and Uhrig-Homburg (2010) all reached comparable findings in their respective research. The relationship between marketability and leverage ratio is ambiguous. The fifth and sixth models demonstrate that leverage ratios are not correlated with the marketability of radio programmes. In contrast to previous research, these results are both surprising and contradictory. Multiple studies have demonstrated a negative correlation between leverage and marketability. Multiple researchers, such as Anderson (2002), Brockman and Chung (2003), and Chen and Zhao (2006), have confirmed a negative correlation between market value and opportunity. Since we solely relied on data provided by the tobacco industry, our findings are not correlated with one other. Investors are willing to pay premiums over the book values in the

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tobacco industry because of the company's substantial debt and immediate funding need. This mitigates the likelihood of default, so incentivizing investors to allocate their funds to tobacco enterprises. There is a possibility that tobacco corporations with significant debt are participating in a growing financial sector. The tobacco sector is predominantly comprised of enterprises related to tobacco. Tobacco companies' marketability does not seem to be influenced by leverage. After elucidating the concepts of leverage and marketability ratios, we shall proceed to examine profitability ratios. The seventh model demonstrates a direct correlation between asset returns and the frequency of interest earned. The eighth model illustrates a positive correlation between return on equity and interest coverage ratio. The ninth model has a direct correlation with the times interest earned ratio, leading to the net profit margin. The results unequivocally demonstrate that the frequency of interest payments has a direct impact on profitability. Substantial interest payments enhance a company's return on assets, equity, and net profit margin, as demonstrated below. There is a direct correlation between the operational profit margin, the ratio of total debt to assets, and the interest coverage ratio, while an inverse correlation exists with the total debt to equity ratio. This is illustrated by the eleventh model. Data indicates a distinct correlation between the proportion of overall debt to assets and both interest payments and operational success. If a company's liabilities surpass its assets and it incurs substantial interest payments to its creditors, the operating profit will be substantial. Elevated total debt-to-equity ratios might lead to a reduction in operational profit margins. A portion of the total debt consists of long-term borrowing, which is frequently costly and intricate. This could lead to a decline in operational profits. Obtaining funding is a crucial factor in establishing a company's overall profitability. The tobacco industry is widely recognised for its corporate debt and profitability. Therefore, the study examines the impact of leverage on profitability, specifically to confirm the conclusions of Abor (2005). Enterprises that largely depend on borrowed funds experience financial setbacks as a result of heightened risk, expenditures, dependence on external resources, and market inefficiencies. Regarding this matter, our research contradicts the findings of other prior studies. Tobacco companies heavily depend on short-term financing. Short-term financing is characterised by its high reliability, lower cost, and absence of impact on the marketability of the product. This demonstrates that the financial decisions made by tobacco corporations have a significant impact on the future. The correlation between business growth

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and leverage is extensively examined by evaluating the company's marketability and profitability throughout its expansion. Our research indicates that the financial framework significantly influences the growth of businesses. Toy et al. (1974) found that companies with a substantial amount of debt experience rapid growth. Conversely, several specialists have proven that utilising leverage can result in setbacks in the advancement of a project. An often encountered reason for inverse correlations is the utilisation of liquid assets by highly influential firms as reserves to fulfil their obligations. Anderson (2002), Lang et al. (1996), and Carpenter and Petersen (2002) argue that these enterprises fail to take advantage of investment possibilities, hence constraining their growth potential. Notwithstanding our divergent viewpoints, tobacco enterprises are adeptly handling their immediate financial obligations, optimising their readily available resources, upholding a robust market standing, and generating substantial profits. The utilisation of leverage has a beneficial effect on the growth and liquidity of the tobacco sector. This conclusion was derived by a meticulous analysis of the facts and active participation in intellectual discussions. The names Ho and H1 are well acknowledged.

Conclusion

The objective of this analysis is to examine the precise correlation between economic growth, the internal availability of funds within an organisation, and the configuration of the organization's financial architecture. The association is supported by empirical validation in the tobacco business, utilising secondary data obtained from 2011 to 2016. The presence of additional data facilitated the computation of ratios. For each variable separately. In order to initiate the assessment of leverage, it is necessary to compute the ratios of total debt to equity, long-term debt to equity, total debt to assets, and times interest earned. This will enable you to evaluate the degree of leverage. Various ratios, such as the liquid assets ratio, the current ratio, the quick ratio, and the cash ratio, are employed for the assessment of liquidity. Evaluating growth involves assessing marketability using metrics such as return on assets, return on equity, and net profit margin ratios. Further multiple regressions are conducted on previously acquired ratios with the SPSS programme. The regression test is a statistical procedure that requires the building of ten models, each of which simultaneously calculates the ratios between the independent and dependent variables. Consequently, the coefficient tables and quantitative regression model

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summary reveal both significant and insignificant associations between models. Based on the statistics, it is reasonable to infer that tobacco companies own a reasonably ample amount of readily available funds in comparison to their long-term financial obligations, as long-term debt and liquid assets exhibit a significant negative association. The relationship between the overall debt-to-asset ratio and liquidity is inversely correlated when observed from a different perspective. The results of this study suggest that businesses in the liquid industry have a lower probability of securing funding for their assets through general loans. Tobacco firms are increasingly dependent on short-term financing, and they are placing a greater emphasis on managing their working capital. Consequently, reversible connections arise. Conversely, the data showed a direct correlation between the amount of available funds and the frequency of interest payments. The regression analysis uncovered a statistically substantial and very positive correlation between the overall debt-to-equity ratio and liquidity. This pertained to the correlation between the aggregate amount of debt in respect to the ownership of stocks and the level of liquidity. The data indicate a strong correlation between leverage and liquidity, and also suggest that financially stable organisations tend to prefer debt financing over equity funding. The data indicate that there was no discernible relationship between leverage ratios and marketability ratios. This suggests that the use of debt financing did not impact the marketability of tobacco companies. Tobacco companies want immediate, low-risk funding, and investors are willing to offer excessively elevated interest rates in exchange. Moreover, the results indicated a statistically significant correlation between the frequency of interest payments and profitability, suggesting that financially prosperous businesses are capable of paying higher interest rates. Conversely, the analysis uncovered a clear correlation between the ratio of total debt to assets and operating profit. Due to the company's need on short-term financing for its operations, there is a negative correlation between the operational profit and the overall debt to equity ratio. Consequently, prosperous companies are increasingly dependent on borrowing funds, and this study examines the advantageous correlation between debt leverage and growth. Upon examining the regression model, it was found that both assumptions are somewhat upheld. Therefore, it may be inferred that there is a positive correlation between leverage and both corporate growth and liquidity. Two potential options for further research include expanding the data set and implementing a

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questionnaire in response to the findings from the ratio analysis. Furthermore, a CHAID analysis can be conducted to authenticate the findings of the study.

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