

ABSTRACT

The objective of the study is to examine the effect of financial leverage on firm's performance of listed firms in the Glass and Ceramic sector of Pakistan. A quantitative approach has been applied by taking secondary data period from 2011 to 2020. The performance of firms has been measured with the help of profitability indicators such as return on asset (ROA), Net profit margin (NPM) and return on equity (ROE). Moreover, to analyze the influence of leverage explanatory variables were selected such as debt-to-equity ratio (DER), debt ratio (DR) and short-term debt (STD). Because of the nature of Panel data, the Panel Least squares method for regression has been used. To confirm the appropriateness of the model equations Breusch-Pagan technique has been used that help in estimating Random and fixed effects, which was then confirmed by the Hausman test.

Hence, the Findings of the research study indicated a significantly negative relationship of the debt ratio, the debt-to-equity ratio on Return on Asset (ROA) and Net Profit margin (NPM). Additionally, the interest coverage ratio (ICR) has a positive significant impact only on NPM. STD has no effect on all independent variables; hence DR, DER and ICR show no impact on the profitability of firms measured by ROE.

Keywords: *Return on Asset (ROA), Return on Equity (ROE), Debt ratio (DR) and Debt to Equity Ratio (DER), Interest Coverage Ratio (ICR) and Net Profit Margin (NPM).*