UNIVERSITI TEKNOLOGI MARA

THE IMPACT OF CAPITAL GEARING ON FIRMS' PERFORMANCE IN AUTOMOTIVE SECTOR LISTED IN INTERNATIONAL MARKET

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ABSTRACT

By looking at our economic condition, financing is one of the important issues in establishing a firm. Most of entrepreneurs are worried about their liabilities especially on the combination of debts and equity incurred by the firm. Higher gearing indicates that a company has higher degree of leverage and thus the company is more responsive to the economy downturn and decline in business cycle while low gearing is more rely on equity as their sources of funds which may be indicates as preservative financial management. However the capital gearing is part of the supportive factor that may leads to the increase or decrease of the firm's performance. Therefore in order to determine the significant of the variables, this study was undertaken to further the knowledge. The primary objective of this study is to identify the impact of capital gearing on firms' performance. This research paper is based on secondary data that involve empirical evidence between different variables which consists of return on assets (ROA) as dependent variable while debt ratio (DR), debt to equity ratio (DER), time interest earned (TIE) and gearing ratio (GR) are used as independent variables. 13 companies are selected as sample from automotive sector which listed in international market. The data for this research is collected from relevant annual reports of the companies and is gathered over the period of 2012 to 2016 respectively. The results is expected that debt ratio and debt to equity ratio have negative relationship with return on assets while time interest earned and gearing ratio have positive relationship with return on assets.

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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

A general perception shows that there is a relation between financial leverage and firm performance. It is very hard for finance managers to receive or gather the funds. Mostly, some finance managers get benefit from the use of financial funds for continuous operation, while some of them failed in the use of financial funds (Madan, 2007). Therefore, hypotheses are going to be tested in this study. By using 13 listed firms from automotive sector in international market. The main aim of this study is to explore how firm gearing or leverage effect on their performance. Return on assets will be used as an indicator for firm performance and act as dependent variable of the study while leverage of the firm is measured by debt ratio, debt equity ratio, time interest earned and gearing ratio. It is expected that results will shows the real picture of this study.

1.2 BACKGROUND OF STUDY

Financing is one of the crucial platforms in a firm. Normally, a manager is worried regarding on combination of debts and equity or in determining of what is the best financing mix for his firm. According to Entebang, S. (2002) pointed that for companies who were have strong financial were able to survive during the financial crisis while for companies with weak financial had no choice but to seek more financial help either by borrowing or issue shares.

A firm capital structure refers to how a firm finances its overall operations and growth by using different sources of funds. It can be describe as a combination of long term debt, short term debt, common equity and preferred equity. A company's proportion of funds can be accurately measured when analysing capital structure. To gain more understanding and knowledge regarding on the role of financial leverage in