COMPARATIVE ANALYSIS OF CAPITAL STRUCTURE OF INDIAN COMPANIES

MISS.VAISHALI GHATALIYA

Research Scholar, Faculty of Commerce, Gujarat University

vaishalicghataliya@gmail.com

ABSTRACT *: Capital Structure Theories deals with the question whether change in capital structure influence the value of a firm. There are four approaches to this, viz. net income, net operating income, traditional and M&M approach. A mix of a company's long-term debt, specific short-term debt, common equity and preferred equity. The capital structure is a firm finances its overall operations and growth by using different sources of funds. The selected company are select for this sample and no.of different sector and their contribution to GDP. Analysis of capital structure – Analysis of Assets and capital structure – analysis of long term and short term funds – Debt of equity Ratio. Here Debt to Equity Ratio is Dependent variable and through the multiple regression analysis, to major the relationship of the different variable of dependent variable.*

1.0 Introduction

Capital structure is the proportion of all types of capital viz. equity, debt, preference etc. It is synonymously used as financial leverage or financing mix. Capital structure is also referred as the degree of debts in the financing or capital of a business firm. Financial leverage is the extent to which a business firm employs borrowed money or debts. In financial management, it is a significant term and an important decision in a business. In the capital structure of a company, broadly, there are mainly two types of capital i.e. Equity and Debt. Out of the two, debt is considered a cheaper source of finance because the interest payments are a tax deductible expense. Capital structure or financial leverage deals with a very important financial management question. The question is – 'what should be the ratio of debt and equity?' Before scratching our minds to find the answer to this question, we should know the objective of doing all this. In the financial management context, the objective of any financial decision is to maximize the shareholder's wealth or increase the value of the firm. The other question which hits the mind at the first place is whether a change in the financing mix would have any impact on the value of the firm or not. The question is a valid question as there are some theories which believe that financial mix has an impact on the value and others believe it to be not connected.

2.0 Finding Analysis

Some Study of Literature Paper Analysis Explains that long-run Dynamic Investment decisions about firm Expansion involve adding new physical capital to the existing plant, equipment, Production and administration.

Gordon Donaldson (1985), William.E.Fruhan (1988), David.L.Wenner and Richard. Leber (1989) have advocated the importance of managing for superior shareholder value by identifying value drivers and using the same to reduce the value gap by concentrating on RONA, growth, retention rate and debt equity ratio.

Alfred Rappaport (1980, 1981, 1992), Balachandran et al (1986) and Copeland et al (1990) have dealt with the issue of shareholder value creation. In all the papers the basic proposition is that shareholder value of alternative business strategies, including growth and expansion, can be estimated by discounting cash flows from strategic investments by an appropriate discount rate.

Peterson and Peerson (1996) analyzed traditional and value added measures of performance and found that traditional measures are not empirically less related to stock returns than return on capital.

Dalborg (1999) pointed out that value is created when the return to shareholders, in dividend and share price increases, exceed the risk-adjusted rate of return required in the stock market (the cost of capital).

Hogan et al (1999) state that in a competitive environment, shareholder value is created when a company invests in projects that earn a return in excess of the cost of capital. Knight (1997) said that higher profitability does not guarantee value creation for shareholders in a company.

Clark (2000) added that what is important is that a company adhering to shareholder value principles concentrates on cash flows rather than profits.

Petty and Martin (2001) state that value creation involves much more than merely monitoring firm performance. Value is created when managers are actively engaged in the process of identifying good investment opportunities and taking steps to capture their value potential.

Olson and Knight (1997) argue that creating value for shareholders is consistent with creating value for the other constituents of the company. Pablo Fernandez (2002) is of the opinion that accounting based measures (including EVA, Economic Profit, Cash Value Added), being historic in nature do not measure value creation.
The broader purpose of the study will examine the A study on Efficacy and Efficiency Measurement of Capital Structure of Selected Indian companies. The said objective will be divided into the following sub objectives;

- To study the concept of financial structure and capital structure.
- To study concept of cost of capital and financial leverage.
- To analyse cost of capital of selected companies.
- To analyse financial leverage of selected companies.
- Analyses inter relationship between cost of capital and financial leverage of selected companies.
- To analyse inter relationship among cost of capital, financial leverage and firm value of selected companies.

3.0 Conclusion

This study will be based on secondary data taken from published annual reports and accounts of selected companies and as such its findings depends entirely on the accuracy of such data. There are different methods to measure the capital structure of an industry in this connection views of experts differ from one-another. The present study is largely based on sselected components; such analysis has its own limitations, which also applies to the study.

4.0 References

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