CHAPTER – VII

THE IMPACT OF CAPITAL STRUCTURE ON THE PROFITABILITY OF SELECTED SERVICES SECTOR INDUSTRIES IN INDIA

Introduction:

This chapter attempts to study the extent of relationship between profitability and capital structure. The capital structure decision is also very important to maximize the profitability position of firms. Profits are the soul of the business without which it is lifeless. In fact, profits are useful intermediate beacon towards which a firm's capital should be directed[137]. It may be regarded as a mirror of the operating performance of a business enterprise. In the real business environment of today, profit is, thus, not the sole objective but one of the most important objectives, which normally guide and direct business operations.

Since profit should be a key indicator of production efficiency and effectiveness, Cohen and Robbins[138] have observed that despite their loose base, profits are probably the most widely used measure of performance. Investors employ it when they evaluate a company; competitors rely upon it for gauging relative progress and employees resort to it in wage determination. Profitability is a relationship of the earnings to total resources of the corporation[139].

Theoretically, optimum capital structure implies that combination of debt and equity shall be at which overall cost of capital is minimum and value of the firm is maximum. Use of fixed cost bearing capital in the capital structure is termed as financial leverage. Such capital, especially debt is cheaper than the equity as the cost of debt is generally lower than that of equity and tax advantage is attached with its use. A result of

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137 Bradley, J.P.(1968), *Administrative Financial Management,* (New York: Holf Rinechart and Winston, Inc, 1968), p.173.

138 Cohen and Robbins, *The Financial Managers* (New York: Harper and Row), p.151.

139 Howard and Upton, *Introduction to Business Finance* (New York: Mc Graw Hill, 1961), p.150.

using cheaper source of fund will lead to the magnification of Return On Equity (ROE) And Earnings Per Share (EPS) (Santimoy Patra, 2004)[140].

The primary motive of a company in using financial leverage is to magnify the shareholders' return under favourable economic conditions. Thus, when the difference between the earnings generated by assets financed by the fixed-charges funds and costs of these funds is distributed to the shareholders, the Earnings Per Share (EPS) or Return On Equity (ROE) increases. However, EPS or ROE will fall if the company obtains the fixed-charges funds at a cost higher than the rate of return on the firm's assets (I.M.Pandey, 1999)[141].

In this chapter the impact of capital structure on the profitability of selected service sector industries in India is tested by analyzing the relationship of debt-equity ratio with ROE and EPS by using regression analysis. The influence of debt-equity choice on ROE and on EPS of the services sector has been analysed by combining together all the selected service sector industries in India. Further, the services sector is classified on the basis of its leverage class, asset growth and nature of their business i.e. financial and non-financial for more clarity in the analysis. Industry wise analysis of the same is done along with the growth base classification of companies of services sector to know the influence of debt-equity ratio on ROE and on EPS in each of these categories.

The following hypotheses have been framed and tested in all the selected industries and the results of the same have been discussed below.

Ho1: There is no significant influence of debt-equity choice on ROE of selected services sector industries in India.

Ho2: There is no significant influence of debt-equity choice on EPS of selected services sector industries in India.

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[140] Santimoy Patra, "Financial Leverage, Earnings and Dividend- A Case Study", *The Management Accountant*, June, 2004, p.496.

[141] Pandey, I M. (1999), "*Financial Management*", 8th Edition, Vikas Publications, New Delhi.

I. Analysis of Return on Equity (ROE) of Selected Service Sector Industries in India

The table 66 shows that the mean ROE of services sector in India is 5.92%. It is observed from the table that the ROE of all the selected services sector industries in India were varying from industry to industry. From the analysis, it is observed that among the ten selected industries, banking services has got the highest ROE of 12.85%, followed by information and technology with 9.29%. The lowest ROE of 3.17% was recorded in investment services industry, followed by recreational services industry with 3.42%.

Table -66

Analysis of Return on Equity Ratio (ROE) of Selected Services Sector Industries in India

Nature of Industry	Mean – ROE Ratio in %	S.D	C.V%
Services Sector	5.92	4.62	77.76
Asset Financing Services	5.34	6.14	115.04
Banking Services	12.85	7.19	55.97
Fee Based Financial Services	7.83	6.32	80.77
Health Services	5.24	5.19	98.98
Hotels & Tourism	5.72	6.43	112.38
Information and Technology	9.29	5.22	56.13
Investment Services	3.17	9.12	287.43
Recreational Services	3.42	9.07	264.72
Transport Services	9.04	4.27	47.26
Wholesale & Retail Trading	4.82	3.52	73.01

Source: Computed, Period: 1995-96 – 2009-10.

There are six industries which have ROE lower than the services sector and four industries have ROE higher than the services sector. The variation in the ROE of selected industries is measured by coefficient of variation (CV). The variations of CV among the industries are observed from the analysis. A highest variation of 287.43% in investment

services to a low variation of 47.26% in transport services industry is identified. It shows that the services sector companies in India did not have stable returns to the equity shareholders during the period of study.

The growth rates of ROE of selected service sector industries in India could not be calculated as the series contains non-positive values. It suggests that for some companies in some of the years the ROE is decreasing during the period of study. From the analysis of ROE of selected service sector industries in India, it can be inferred that a moderate variation is there among the ROE of selected service sector industries. The mean ROE of all the selected services sector industries in India are positive.

II. Analysis of Earnings Per Share (EPS) of Selected Service Sector Industries in India

The table 67 shows that the mean EPS of services sector in India is Rs.5.99. It is observed from the table that the EPS of all the selected services sector industries in India were varying moderately from industry to industry. From the analysis, it is observed that among the ten selected industries, banking services has got the highest EPS of Rs18.77. The lowest EPS of Rs1.33 was recorded in Recreational Services industry, followed by health services industry with an EPS of Rs2.12.

The variation in the EPS of selected industries is measured by coefficient of variation (CV). It is found from the analysis that the variations of CV among the industries are high. The overall services sector has the CV of 27.78%. A highest variation of 212.38% in recreational services to a low variation of 33.09% in banking services industry is identified. It shows that the EPS of services sector companies in India did not have stable returns to the equity shareholders during the period of study.

The growth rates of EPS of selected service sector industries in India have been calculated using Compound Annual Growth Rate (CAGR). From the analysis, it is observed that there are high variations among CAGR of the EPS of selected service sector industries in India. A highest CAGR of 9.63% is found in health services and a lowest CAGR of -0.87% is recorded in wholesale and retail industry. For 4 industries the

CAGR could not be calculated as the series contains non-positive values. It suggests that for some companies in some of the years the EPS is seen in negative. These companies should carefully design their capital structure to minimize the risk of equity shareholders.

Table -67

Analysis of Earnings Per Share (EPS) of Selected Services Sector Industries in India

Nature of Industry	Mean (In Rs.)	S.D	C.V%	CAGR (%)
Services Sector	5.99	1.67	27.87	3.35
Asset Financing Services	4.42	7.54	170.57	- # -
Banking Services	18.77	6.21	33.09	1.11
Fee Based Financial Services	2.35	2.5	106.24	- # -
Health Services	2.12	1.13	53.33	9.63
Hotels & Tourism	5.2	2.76	53.06	-0.46
Information and Technology	8.14	3.32	40.81	5.12
Investment Services	7.41	5.99	80.87	- # -
Recreational Services	1.33	2.83	212.38	- # -
Transport Services	5.3	3.32	62.69	8.99
Wholesale & Retail Trading	4.68	2.19	46.78	-0.87

- Growth Rates could not be computed as the series contains non-positive values.
Source: Computed, Period: 1995-96 – 2009-10.

From the analysis of EPS of selected service sector industries in India, it can be inferred that a moderate variation is there among the EPS of selected service sector industries. The analysis of the growth rate of EPS reveals that not all the selected service sector industries in India have positive growth in their EPS.

III.1. Impact of Capital Structure on ROE and on EPS of Services Sector in India

Regression analysis has been applied for the services sector in India to know the impact of capital structure on ROE and on EPS and the results are discussed below.

Table-68

REGRESSION ANALYSIS FOR SERVICES SECTOR IN INDIA

Dependent Variables: ROE and EPS

Variables	ROE, N=260	EPS, N=260
(Constant)	8.473	5.554
Debt-Equity Ratio (Regression Coefficients)	-3.805 (-13.825*)	0.559 (2.376*)
R	-0.216	0.038
R Square	0.0467	0.001444
F	191.131	5.648
Sig.	*	*

* - Significant at 5% level, **- Significant at 1% level.

Source: Computed, Period: 1995-96 – 2009-10.

Impact of D/E Ratio on ROE

It is observed from the regression table 68 of services sector in India that the correlation coefficient which measures the degree of relationship between the debt-equity ratio and ROE was found to be -0.216. This indicates that there is a low correlation between debt-equity ratio and ROE. The F ratio value (191.131) shows that the correlation coefficient is significant at 5% level. The R^2 value (0.0467) shows that only 4.67% of variation in ROE was explained by the independent variable debt-equity ratio. An observation of the results of the model shows that debt-equity ratio have significant effect on ROE of services sector in India at 5% level with negative sign. Therefore, the null hypothesis 1 has been rejected in this category of companies.

Impact of D/E Ratio on EPS

The regression table 68 of services sector in India reveals that the correlation coefficient which measures the degree of relationship between the debt-equity ratio and EPS was found to be 0.038. This indicates that there is a low correlation between debt-

equity ratio and EPS. The F ratio value (5.648) shows that the correlation coefficient is significant at 5% level. The R^2 value (0.0014) shows that only 0.14% of variation in EPS was explained by the independent variable debt-equity ratio. An observation of the results of the model shows that debt-equity ratio have significant effect on EPS of services sector in India at 5% level with positive sign. Therefore, the null hypothesis 2 has been rejected in this category of companies.

2. Classification of Services Sector in India on the Basis of their Leverage Class

To find out the influence of capital structure on ROE and on EPS of different leverage class companies of services sector in India, the services sector companies comprising of all the selected industries have been classified on the basis of high, moderate and low leveraged companies. The companies having debt-equity ratio of 1:1 and below, from 1:1 to 2:1 and 2:1 and above are categorized as low, moderate and high levered firms respectively.

Impact of Capital Structure on ROE and on EPS of Services Sector in India on the basis of their Leverage Class

Regression analysis has been applied for the services sector in India to identify the impact of capital structure on ROE and on EPS of different leverage class companies and the results are discussed below.

Low Levered Companies

Impact of D/E Ratio on ROE

The regression table 69 of low levered companies of services sector in India suggests that the correlation coefficient was found to be -0.014. This indicates that there is a low negative correlation between the independent variable debt-equity ratio and the dependent variable ROE. The F ratio value (0.637) shows that the correlation coefficient is not significant. The R^2 value (0.0002) shows that 0.02% variation in ROE was explained by the independent variable debt-equity ratio. From the regression coefficients, it is observed that the debt-equity ratio has no significant effect on ROE of low levered companies of services sector industry in India. Therefore, the null hypothesis 1 has been accepted in this category of companies.

Table-69

REGRESSION ANALYSIS FOR SERVICES SECTOR IN INDIA BASED ON THEIR LEVERAGE CLASS

Dependent Variables: ROE and EPS

Variables	Low Levered, N=209		Moderately Levered, N=28		High Levered, N=23	
	ROE	**EPS**	**ROE**	**EPS**	**ROE**	**EPS**
(Constant)	5.781	4.97	20.579	6.809	35.370	12.585
D/E Ratio (Regression Coefficients)	-0.725 (-0.798)	1.702 (1.788)	-10.236 (-9.876**)	-1.07 (-2.194*)	-7.180 (-8.891**)	-0.271 (-0.536)
R	-0.014	0.032	-0.435	0.107	-0.433	0.029
R Square	0.0002	0.001024	0.1892	0.011449	0.1875	0.000841
F	0.637	3.196	97.535	4.814	79.050	0.287
Sig.	Ns	Ns	**	*	**	Ns

* - Significant at 5% level, **- Significant at 1% level.

Source: Computed, Period: 1995-96 – 2009-10.

Impact of D/E Ratio on EPS

It is observed from the regression table 69 of low levered firms of services sector in India that the correlation coefficient which measures the degree of relationship between the debt-equity ratio and EPS was found to be 0.032. This indicates that there is a low correlation between debt-equity ratio and EPS. The F ratio value (3.196) shows that the correlation coefficient is not significant. The R^2 value (0.001) shows that only 0.1% of variation in EPS was explained by the independent variable debt-equity ratio. An observation of the results of the model shows that debt-equity ratio does not have significant effect on EPS of low levered companies of services sector in India. Therefore, the null hypothesis 2 has been accepted in this category of companies.

Moderately Levered Companies

Impact of D/E Ratio on ROE

It can be inferred from the regression table 69 of moderate levered companies of services sector in India that the correlation coefficient was found to be -0.435. This indicates that there is a moderate negative correlation between the independent variable

debt-equity ratio and the dependent variable ROE. The F ratio value (97.535) shows that the correlation coefficient is significant with negative sign. The R^2 value (0.1892) shows that 18.92% of variation in ROE was explained by the independent variable. An observation of the results of the model shows that the debt-equity ratios have significant negative effect on ROE of moderate levered companies of services sector in India. Therefore, the null hypothesis 1 has been rejected in this category of companies.

Impact of D/E Ratio on EPS

It is observed from the regression table 69 of moderately levered firms of services sector in India that the correlation coefficient which measures the degree of relationship between the debt-equity ratio and EPS was found to be 0.107. This indicates that there is a low correlation between debt-equity ratio and EPS. The F ratio value (4.814) shows that the correlation coefficient is significant. The R^2 value (0.011449) shows that only 1.14% of variation in EPS was explained by the independent variable debt-equity ratio. An observation of the results of the model shows that debt-equity ratio have significant negative effect on EPS of moderate levered companies of services sector in India at 5% level. Therefore, the null hypothesis 2 has been rejected in this category of companies.

High Levered Companies

Impact of D/E Ratio on ROE

It is seen from the regression table 69 of high levered companies of services sector in India that the correlation coefficient was found to be -0.433. This indicates that there is a moderate negative correlation between the independent variable debt-equity ratio and the dependent variable ROE. The F ratio value (79.050) shows that the correlation coefficient is significant at 1% level. The R^2 value (0.1875) shows that 18.75% of variation in ROE was explained by the independent variable. An observation of the results of the model shows that the debt-equity ratios have significant negative effect on ROE of high leverage companies of services sector in India. Therefore, the null hypothesis 1 has been rejected in this category of companies.

Impact of D/E Ratio on EPS

It is observed from the regression table 69 of high levered firms of services sector in India that the correlation coefficient which measures the degree of relationship

between the debt-equity ratio and EPS was found to be 0.029. This indicates that there is a low correlation between debt-equity ratio and EPS. The F ratio value (0.287) shows that the correlation coefficient is not significant. The R^2 value (0.000841) shows that 0.08% of variation in EPS was explained by the independent variable debt-equity ratio. An observation of the results of the model shows that debt-equity ratio have no significant effect on EPS of high levered companies of services sector in India. Therefore, the null hypothesis 2 has been accepted in this category of companies.

3. Classification of Services Sector in India on the Basis of their Services

The services sector in India is further classified on the basis of their nature of services to know the influence of capital structure on the profitability of each category of firms. For the purpose of this analysis the services sector industries are broadly classified into two major groups namely financial services and non financial services.

Asset financing services, banking services, fee based financial services and investment services industries are taken under the category of financial services. Health services, hotels and tourism, information technology, recreational services, transport services and wholesale and retail trading industries have been brought under the head of non financial services.

Impact of Capital Structure on ROE and on EPS of Services Sector in India on the basis of their Services

Regression analysis has been applied for the services sector in India on the basis of their nature of services to identify the impact of capital structure on ROE and on EPS. The results are discussed below.

Financial Services

Impact of D/E Ratio on ROE

It is seen from the regression table 70 of financial services category of companies of services sector in India that the correlation coefficient was found to be 0.080. This indicates that there is a low correlation between the independent variable debt-equity ratio and the dependent variable ROE. The F ratio value (9.272) shows that the correlation coefficient is significant at 1% level. The R^2 value (0.0064) shows that only

0.64% of variation in ROE was explained by the independent variable. An observation of the results of the model shows that the debt-equity ratio has significant effect on ROE of financial services category of companies of services sector in India with positive sign. Therefore, the null hypothesis 1 has been rejected in this category of companies.

Impact of D/E Ratio on EPS

It can be inferred from the regression table 70 of financial services firms in India that the correlation coefficient which measures the degree of relationship between the debt-equity ratio and EPS was found to be 0.079. This indicates that there is a low correlation between debt-equity ratio and EPS. The F ratio value (8.848) shows that the correlation coefficient is significant. The R^2 value (0.006241) shows that only 0.62% of variation in EPS was explained by the independent variable debt-equity ratio. An observation of the results of the model shows that debt-equity ratio has significant effect on EPS of financial services firms of services sector in India at 1% level with positive sign. Therefore, the null hypothesis 2 has been rejected in this category of companies.

Table-70

REGRESSION ANALYSIS FOR SERVICES SECTOR IN INDIA BASED ON THEIR NATURE OF SERVICES
(FINANCIAL AND NON-FINANCIAL CATEGORIES)
Dependent Variable: ROE and EPS

Variables	Financial Services, N=95		Non-Financial Services, N=165	
	ROE	EPS	ROE	EPS
(Constant)	5.272	5.537	11.537	5.808
D/E Ratio (Regression Coefficients)	0.775 (3.045**)	1.31 (2.975**)	-10.199 (-22.474**)	-0.564 (-2.391*)
R	0.080	0.079	-0.412	0.048
R Square	0.0064	0.006241	0.1697	0.002304
F	9.272	8.848	505.081	5.715
Sig.	**	**	**	*

* - Significant at 5% level, **- Significant at 1% level.

Source: Computed, Period: 1995-96 – 2009-10.

Non Financial Services

Impact of D/E Ratio on ROE

It is observed from the regression table 70 of non financial services category of companies of services sector in India that the correlation coefficient was found to be -0.412. This indicates that there is a moderate negative correlation between the independent variable debt-equity ratio and the dependent variable ROE. The F ratio value (505.081) shows that the correlation coefficient is significant at 1% level. The R^2 value (0.1697) shows that only 16.97% of variation in ROE was explained by the independent variable. An observation of the results of the model shows that the debt-equity ratio has significant negative effect on ROE of non financial services category of companies of services sector in India. Therefore, the null hypothesis 1 has been rejected in this category of companies.

Impact of D/E Ratio on EPS

It can be inferred from the regression table 70 of non financial services firms in India that the correlation coefficient which measures the degree of relationship between the debt-equity ratio and EPS was found to be 0.048. This indicates that there is a low correlation between debt-equity ratio and EPS. The F ratio value (5.715) shows that the correlation coefficient is significant. The R^2 value (0.002304) shows that only 0.23% of variation in EPS was explained by the independent variable debt-equity ratio. An observation of the results of the model shows that debt-equity ratio has significant effect on EPS of non financial services firms of services sector in India at 5% level with negative sign. Therefore, the null hypothesis 2 has been rejected in this category of companies.

4. Classification of Services Sector in India on the Basis of their Growth

The services sector in India is further classified on the basis of their growth to understand the influence of capital structure on the profitability of each growth category of firms. For the purpose of this analysis the services sector industries are broadly classified into three groups such as low, moderate and high growth companies.

Impact of Capital Structure on ROE and on EPS of Services Sector in India

The selected companies of services sector have been classified on the basis of their growth as low, moderate and high growth companies. A regression analysis taking debt-equity ratio as the independent variable and ROE and EPS as the dependent variable has been applied for all the groups classified on the basis of their growth and the results are discussed below.

Impact of D/E Ratio on ROE

It is observed from the regression table 71 of services sector that the correlation coefficient which measures the degree of relationship between the independent variable debt-equity ratio and ROE was found to be -0.647, 0.060 and -0.085 in the low, moderate and high growth companies respectively. This indicates that there is a good correlation between the independent variable and the dependent variable only in low growth categories of firms with negative sign. It is low in other categories of companies, with positive sign in moderate and negative in high growth companies.

Table-71

REGRESSION ANALYSIS FOR SERVICES SECTOR ON GROWTH BASIS

Dependent Variable: ROE and EPS

Variable	Low Growth Companies N=78		Moderate Growth Companies N=104		High Growth Companies N=78	
	ROE	EPS	ROE	EPS	ROE	EPS
(Constant)	9.563	1.595	7.485	6.224	10.680	9.155
D/E Ratio (Regression Coefficients)	-19.203 (-28.809**)	-0.178 (-1.248)	0.796 (2.393*)	0.742 (2.493*)	-1.129 (-2.884**)	0.356 (0.689)
R	-0.647	-0.037	0.060	0.063	-0.085	0.020
R Square	0.4186	0.0014	0.0036	0.004	0.0072	0.0004
F	829.958	1.557	5.726	6.213	8.317	0.475
Sig.	**	Ns	*	*	**	Ns

* - Significant at 5% level, **- Significant at 1% level.

Source: Computed, Period: 1995-96 – 2009-10.

The F values of each category of firms show that the correlation coefficient is significant in all the categories of firm at 1% level of significance except moderate growth category of companies where it is at 5% level. The R^2 values of different groups of the companies in the services sector show that there is from a low of 0.36% variation in the moderate growth companies to a high of 41.86% variation in the low growth category in ROE was explained by the independent variable debt-equity ratio. From the analysis it can be inferred that the influence of debt equity ratio on ROE is not increasing with the increase in the growth rate of services sector companies in India. It is also observed from the regression coefficient that the debt-equity ratio has significant effect on ROE with positive sign only in moderate growth categories of firms of services sector. In other categories of firms it has negative significant impact. Therefore, the null hypothesis 1 has been rejected in all the categories of companies.

Impact of D/E Ratio on EPS

It is understood from the regression table 71 of services sector that the correlation coefficient which measures the degree of relationship between the independent variable debt-equity ratio and EPS was found to be -0.037, 0.063 and 0.020 in the low, moderate and high growth companies respectively. This indicates that there is a low correlation between the independent variable and the dependent variable in all the categories of companies. The correlation is negative in low growth companies and positive in other categories of firms. The F values of each category of firms show that the correlation coefficient is significant only in moderate growth companies category at 5% level of significance. The R^2 values of different groups of the companies in the services sector show that there is from a low of 0.04% variation in the high growth companies to a high of 0.4% variation in the moderate growth companies category in EPS was explained by the independent variable debt-equity ratio. From the analysis it can be inferred that the influence of debt equity ratio on EPS is not in line with the different growth rates of services sector companies in India. It is also observed from the regression coefficient that the debt-equity ratio has significant positive effect on EPS only in moderate growth categories of firms of services sector companies. Therefore, the null hypothesis 2 has been rejected only in moderate growth categories of companies.

IV. Industry wise Growth Based classification of Services Sector Industries in India

1. Impact of Capital Structure on ROE and on EPS of Asset Financing Services Industry in India

The selected companies of asset financing services industry have been classified on the basis of their growth as low, moderate and high growth companies. A regression analysis taking debt-equity ratio as the independent variable and ROE and EPS as the dependent variable has been applied for all the groups, classified on the basis of their growth along with the industry classification and the results are discussed below. Regression analysis has been applied for the asset financing services industry in India to know the impact of debt-equity ratio on ROE and on EPS and the results are discussed below.

Impact of D/E Ratio on ROE

It is observed from the regression table 72 of asset financing services industry that the correlation coefficient which measures the degree of relationship between the independent variable debt-equity ratio and ROE was found to be from a low of 0.134 in the low growth companies to a high of 0.474 in the high growth companies category. This indicates that there is a moderate correlation between the independent variable and the dependent variable in the high growth categories of firms and a low correlation is observed in other two categories of firms. The F values of each category of firms show that the correlation coefficient is significant and positive in all the categories of firm at 1% level of significance. The R^2 values of different groups of the companies in the asset financing services industry show that there is from a low of 1.80% variation in the low growth companies to a high of 22.47% variation in the high growth companies category in ROE was explained by the independent variable debt-equity ratio. From the analysis it can be inferred that the influence of debt equity ratio on ROE is increasing with the increase in the growth rate of asset financing services companies in India. It is also observed from the regression coefficient that the debt-equity ratio has significant effect on ROE at 1% level with positive sign in all the categories of firms of asset financing services industry. Therefore, the null hypothesis 1 has been rejected in all the categories of companies.

Table-72

REGRESSION ANALYSIS FOR ASSET FINANCING SERVICES INDUSTRY

Dependent Variable: ROE and EPS

Variable	All Companies N=34		Low Growth Companies N=10		Moderate Growth Companies N=14		High Growth Companies N=10	
	ROE	**EPS**	**ROE**	**EPS**	**ROE**	**EPS**	**ROE**	**EPS**
(Constant)	1.400	-1.295	-0.802	0.23	1.585	2.164	5.534	-10.38
D/E Ratio (Regression Coefficients)	1.943 (7.830) **	2.814 (3.665) **	2.580 (1.644) **	0.555 (1.237)	1.233 (2.766) **	1.48 (5.602) **	1.719 (6.544) **	4.655 (2.077) *
R	0.328	0.161	0.134	0.101	0.188	0.363	0.474	0.168
R Square	0.1076	0.026	0.0180	0.0102	0.0353	0.1317	0.2247	0.0282
F	61.309	13.433	2.703	1.529	7.651	31.386	42.824	4.316
Sig.	**	**	**	Ns	**	**	**	*

* - Significant at 5% level, **- Significant at 1% level.

Source: Computed, Period: 1995-96 – 2009-10.

Impact of D/E Ratio on EPS

It is understood from the regression table 72 of asset financing services industry that the correlation coefficient which measures the degree of relationship between the independent variable debt-equity ratio and EPS was found to be from a low of 0.101 in the low growth companies to a high of 0.363 in the moderate growth companies category. This indicates that except moderate growth companies where there is a moderate correlation, in other categories of firms, there is a low correlation between the independent variable and the dependent variable. The F values of each category of firms show that the correlation coefficient is significant in the all companies category and moderate growth companies category at 1% level of significance and the correlation coefficient is significant at 5% level in high growth companies. At the same time, the correlation coefficient is not significant in the low growth companies of asset financing services industry. The R^2 values of different groups of the companies in the asset financing services industry show that there is from a low of 1.02% variation in the low growth companies to a high of 13.17% variation in the moderate growth companies

category in EPS was explained by the independent variable debt-equity ratio. From the analysis it can be inferred that the influence of debt equity ratio on EPS is not changing with the different growth rates of asset financing services companies in India. It is also observed from the regression coefficient that the debt-equity ratio has significant positive effect on EPS in all the categories of firms except low growth companies of asset financing services industry. Therefore, the null hypothesis 2 has been rejected in all the categories of companies except low growth categories of companies.

2. Impact of Capital Structure on ROE and on EPS of Banking Services Industry in India

The regression analysis has been applied for the banking services industry in India to find the impact of debt-equity ratio on ROE and on EPS and the results are discussed below.

Impact of D/E Ratio on ROE

It is identified from the regression table 73 of banking services industry that the correlation coefficient which measures the degree of relationship between the independent variable debt-equity ratio and ROE was found to be from a low of 0.009 in the all banks category to a high of 0.292 in the moderate growth banks category. This indicates that there is a low correlation between the independent variable and the dependent variable in all the categories of banks with positive sign, whereas it is negative in low growth category banks. The F values of each category of banks show that the correlation coefficient is not significant in all the categories of banks except moderate growth category of banks, where it is significant at 1% level. The R^2 values of different groups of the banks in the Indian banking services show that there is from a low of 0.01% variation in the all banks category to a high of 8.5% variation in the moderate growth banks category in ROE was explained by the independent variable debt-equity ratio. From the analysis it can be inferred that the influence of debt equity ratio on ROE is not found with the increase in the growth rate of banking services industry in India. It is also observed from the regression coefficient that the debt-equity ratio has no significant effect on ROE in all the categories of banks except moderate growth banks. Therefore, the null hypothesis 1 has been rejected only in moderate growth categories of banks.

Table-73

REGRESSION ANALYSIS FOR BANKING SERVICES INDUSTRY

Dependent Variable: ROE and EPS

Variable	All Banks N=13		Low Growth Banks N=3		Moderate Growth Banks N=6		High Growth Banks N=4	
	ROE	**EPS**	**ROE**	**EPS**	**ROE**	**EPS**	**ROE**	**EPS**
(Constant)	12.665	20.459	19.609	8.46	14.816	17.194	13.713	1.703
D/E Ratio (Regression Coefficients)	0.179 (.125)	-1.810 (-1.166)	-28.120 (-1.867)	-5.611 (-1.015)	3.827 (2.868) **	-42.447 (-2.115) *	0.174 (.340)	1.071 (0.85)
R	0.009	0.084	-0.274	0.158	0.292	0.229	0.045	0.117
R Square	0.0001	0.007	0.0751	0.0249	0.0853	0.0524	0.0020	0.0136
F	0.016	1.359	3.486	1.03	8.225	4.472	0.116	0.723
Sig.	Ns	Ns	Ns	Ns	**	*	Ns	Ns

* - Significant at 5% level, **- Significant at 1% level.

Source: Computed, Period: 1995-96 – 2009-10.

Impact of D/E Ratio on EPS

It is understood from the regression table 73 of banking services industry that the correlation coefficient which measures the degree of relationship between the independent variable debt-equity ratio and EPS was found to be from a low of 0.084 in the all banks category to a high of 0.229 in the moderate growth banks category. This indicates that there is a low correlation between the independent variable and the dependent variable in the banking services industry. The F values of each category of banks show that the correlation coefficient is not significant in all the categories of banks except moderate growth banks and the correlation coefficient is significant at 5% level in the moderate growth banks of India with negative sign. The R^2 values of different groups of the banks in the banking services industry show that there is from a low of 0.7% variation in the all banks category to a high of 5.247% variation in the moderate growth banks category in EPS was explained by the independent variable debt-equity ratio. From the analysis it can be inferred that the influence of debt equity ratio on EPS is not changing with the different growth rates of banking services industry in India. It is also observed from the regression coefficient that the debt-equity ratio has no significant

effect on EPS in almost all the categories of banks except moderate growth banks of banking services industry. Therefore, the null hypothesis 2 has been accepted in all the categories of banks except moderate growth categories of banks.

3. Impact of Capital Structure on ROE and on EPS of Fee Based Financial Services Industry in India

Regression analysis has been applied for the fee based financial services industry in India to identify the impact of debt-equity ratio on ROE and on EPS and the results are discussed below.

Impact of D/E Ratio on ROE

It is seen from the regression table 74 of fee based financial services industry that the correlation coefficient which measures the degree of relationship between the independent variable debt-equity ratio and ROE were found to be -0.131, -0.143, -0.179 and 0.153 in all companies, low growth, moderate growth and high growth category companies respectively. This indicates that there is a low correlation between the independent variable and the dependent variable in all the categories of companies with negative sign except high growth companies where the correlation is low and positive.

Table-74

REGRESSION ANALYSIS FOR FEE BASED FINANCIAL SERVICES INDUSTRY IN INDIA

Dependent Variable: ROE and EPS

Variable	All Companies N=17		Low Growth Companies, N=5		Moderate Growth Companies, N=7		High Growth Companies, N=5	
	ROE	EPS	ROE	EPS	ROE	EPS	ROE	EPS
(Constant)	8.825	2.230	3.487	0.357	9.365	2.553	11.873	3.239
D/E Ratio (Regression Coefficients)	-6.960 (-2.098) *	0.862 (0.477)	-4.847 (-1.239)	-0.372 (-0.919)	-8.546 (1.843)	-2.874 (-1.725)	11.902 (1.319)	20.107 (3.206) **
R	-0.131	0.030	-0.143	0.107	-0.179	0.168	0.153	0.351
R Square	0.0172	0.001	0.0204	0.0114	0.0320	0.0282	0.0234	0.1232
F	4.402	0.227	1.535	0.844	3.397	2.977	1.740	10.281
Sig.	*	Ns	Ns	Ns	Ns	Ns	Ns	**

* - Significant at 5% level, **- Significant at 1% level.

Source: Computed, Period: 1995-96 – 2009-10.

The F values of each category of companies show that the correlation coefficient is significant only in all companies category at 5% level with negative sign. The R^2 values of different groups of the companies in the fee based financial services show that there is from a low of 1.72% variation in the all companies category to a high of 3.20% variation in the moderate growth category of firms in ROE was explained by the independent variable debt-equity ratio. From the analysis it can be inferred that the influence of debt equity ratio on ROE is not found with the increase in the growth rate of fee based financial services industry in India. It is observed from the regression coefficient that the debt-equity ratio has significant effect on ROE in the all companies categories, whereas, there is no significant effect of debt-equity ratio on ROE of other category companies of fee based financial services industry in India. Therefore, the null hypothesis 1 has been rejected only in all companies category.

Impact of D/E Ratio on EPS

It is found from the regression table 74 of fee based financial services industry that the correlation coefficient which measures the degree of relationship between the independent variable debt-equity ratio and EPS was found to be from a low of 0.030 in the all companies category to a high of 0.351 in the high growth firms category. This indicates that there is a low correlation between the independent variable and the dependent variable in the different categories of fee based financial services industry except high growth category of firms, where it is moderate. The F values of each category of firms show that the correlation coefficient is not significant in all the categories of companies except high growth companies and the correlation coefficient is significant at 1% level in the high growth companies of fee based financial services industry in India with positive sign.

The R^2 values of different groups of the companies in the fee based financial services industry show that there is from a low of 0.1% variation in the all companies category to a high of 12.32% variation in the high growth firms category in EPS was explained by the independent variable debt-equity ratio. From the analysis it can be inferred that the influence of debt equity ratio on EPS is found only with the high growth rate companies of fee based financial services industry in India. It is also observed from the regression coefficient that the debt-equity ratio has no significant effect on EPS in almost all the categories of companies except high growth companies of fee based

financial services industry in India. Therefore, the null hypothesis 2 has been rejected only in high growth categories of companies.

4. Impact of Capital Structure on ROE and on EPS of Health Services Industry in India

Regression analysis has been applied for the health services industry in India to identify the impact of debt-equity ratio on ROE and on EPS and the results are discussed below.

Impact of D/E Ratio on ROE

From the regression table 75 of health services industry in India, it is observed that the correlation coefficient which measures the degree of relationship between the independent variable debt-equity ratio and ROE were found to be -0.965, -0.997, 0.066 and -0.110 in the all companies, low growth companies, moderate growth companies and high growth companies categories respectively. This indicates that there is a very high correlation between the independent variable and the dependent variable in all companies and low growth categories of companies with negative sign. In the moderate and high growth companies there is a low correlation observed with positive and negative signs respectively.

Table-75

REGRESSION ANALYSIS FOR HEALTH SERVICES INDUSTRY IN INDIA

Dependent Variable: ROE and EPS

Variable	All Companies N=9		Low Growth Companies N=2		Moderate Growth Companies N=4		High Growth Companies N=3	
	ROE	EPS	ROE	EPS	ROE	EPS	ROE	EPS
(Constant)	22.404	2.327	20.482	0.175	4.580	1.067	11.941	3.471
D/E Ratio (Regression Coefficients)	-29.102 (-42.645) **	-0.241 (-2.057) *	-30.134 (-67.807) **	-0.159 (-3.606) **	1.580 (0.507)	0.258 (0.872)	-5.436 (-.729)	4.857 (1.508)
R	-0.965	0.176	-0.997	0.563	0.066	0.114	-0.110	0.224
R Square	0.9312	0.031	0.9940	0.3170	0.0044	0.0130	0.0121	0.0502
F	1818.59	4.233	4597.78	13.004	0.257	0.761	0.531	2.273
Sig.	**	*	**	**	Ns	Ns	Ns	Ns

* - Significant at 5% level, **- Significant at 1% level.

Source: Computed, Period: 1995-96 – 2009-10.

The F values of each category of companies show that the correlation coefficient is significant in all companies and low growth companies at 1% level with negative sign and in other categories of companies the correlation coefficient is not significant. The R^2 values of different groups of the companies in the health services show that there is from a low of 0.44% variation in the moderate growth companies category to a high of 99.40% variation in the low growth category of firms in ROE was explained by the independent variable debt-equity ratio. From the analysis it can be inferred that the influence of debt equity ratio on ROE is found only with the all companies and low growth rate companies category of health services industry in India, whereas, there is no significant effect of debt-equity ratio on ROE of other category companies of health services industry in India. Therefore, the null hypothesis 1 has been rejected only in all companies and low growth categories of companies.

Impact of D/E Ratio on EPS

It is found from the regression table 75 of health services industry that the correlation coefficient which measures the degree of relationship between the independent variable debt-equity ratio and EPS was found to be from a low of 0.114 in the moderate growth companies category to a high of 0.563 in the low growth companies category. This indicates that there is a low correlation between the independent variable and the dependent variable in the different categories of health services industry except low growth category of firms, where it is good. The F values of each category of companies show that the correlation coefficient is not significant in moderate and high growth categories of companies. The correlation coefficient is significant at 1% level in the low growth companies and significant at 5% level in the all companies categories of health services industry in India with negative sign. The R^2 values of different groups of the companies in the health services industry show that there is from a low of 1.3% variation in the moderate growth companies category to a high of 31.7% variation in the low growth firms category in EPS was explained by the independent variable debt-equity ratio. From the analysis it can be inferred that the influence of debt equity ratio on EPS is found in all companies and low growth rate companies of health services industry in India. It is also observed from the regression coefficient that the debt-equity ratio has no

significant effect on EPS in the moderate growth and high growth companies of health services industry in India. Therefore, the null hypothesis 2 has been rejected in all companies and low growth categories of companies.

5. Impact of Capital Structure on ROE and on EPS of Hotels and Tourism Industry in India

The regression analysis has been applied for the hotels and tourism industry in India to identify the impact of debt-equity ratio on ROE and on EPS and the results are discussed below.

Impact of D/E Ratio on ROE

From the regression table 76 of hotels and tourism industry in India, it is observed that the correlation coefficient which measures the degree of relationship between the independent variable debt-equity ratio and ROE were found to be -0.407, -0.512, 0.189 and -0.228 in the all companies, low growth, moderate growth and high growth companies category respectively. It is understood from this that there is a low correlation between the independent variable and the dependent variable in moderate and high growth category companies and there is a moderate correlation in the all companies and low growth categories of companies. The F values of each category of companies show that the correlation coefficient is significant at 1% level with negative sign in all companies and low growth companies categories. It is significant at 5% level in high growth category of companies and there is no significant influence is identified in moderate growth category of companies. The R^2 values of different groups of the companies in the hotels and tourism industry show that there is from a low of 3.57% variation in the moderate growth companies category to a high of 26.21% variation in the low growth category of firms in ROE was explained by the independent variable debt-equity ratio. From the analysis it can be inferred that the influence of debt equity ratio on ROE is found almost in all the categories of companies except moderate growth rate companies of hotels and tourism industry in India at 1% level of significance. Therefore, the null hypothesis 1 has been accepted only in moderate growth categories of companies.

Table-76

REGRESSION ANALYSIS FOR HOTELS AND TOURISM INDUSTRY IN INDIA

Dependent Variable: ROE and EPS

Variable	All Companies N=23		Low Growth Companies, N=9		Moderate Growth Companies, N=7		High Growth Companies, N=7	
	ROE	EPS	ROE	EPS	ROE	EPS	ROE	EPS
(Constant)	12.346	7.197	9.983	1.283	9.218	7.863	13.896	16.083
D/E Ratio (Regression Coefficients)	-6.883 (-8.240) **	-2.053 (-6.082) **	-8.106 (-6.883) **	-0.431 (-3.835) **	5.047 (1.956)	-4.997 (-2.744) **	-4.451 (-2.370) *	-5.186 (-6.552) **
R	-0.407	0.312	-0.512	0.316	0.189	0.261	-0.228	0.544
R Square	0.1656	0.098	0.2621	0.0999	0.0357	0.0681	0.0520	0.2959
F	67.898	36.992	47.376	14.704	3.826	7.528	5.617	42.922
Sig.	**	**	**	**	Ns	**	*	**

* - Significant at 5% level, **- Significant at 1% level.

Source: Computed, Period: 1995-96 – 2009-10.

Impact of D/E Ratio on EPS

It is seen from the regression 76 table of hotels and tourism industry that the correlation coefficient which measures the degree of relationship between the independent variable debt-equity ratio and EPS was found to be from a low of 0.261 in the moderate growth companies category to a high of 0.544 in the high growth companies category. This indicates that there is a low correlation between the independent variable and the dependent variable in the moderate growth category and moderate correlation in the all companies and low growth companies categories and good in the high growth category companies of hotels and tourism industry in India. The F values of each category of companies show that the correlation coefficient is significant in all the categories of companies at 1% level of significance with negative sign. The R^2 values of different groups of the companies in the hotels and tourism industry show that there is from a low of 6.8% variation in the moderate growth companies category to a high of 29.5% variation in the high growth firms category in EPS was explained by the independent variable debt-equity ratio. From the analysis it can be inferred that the

influence of debt equity ratio on EPS is found in all the categories of companies at 1% level of significance with negative sign. Therefore, the null hypothesis 2 has been rejected in all the categories of companies.

6. Impact of Capital Structure on ROE and on EPS of Information Technology Industry in India

The regression analysis has been applied for the information technology industry in India to identify the impact of debt-equity ratio on ROE and on EPS and the results are discussed below.

Impact of D/E Ratio on ROE

From the regression table 77 of information technology industry in India, it is seen that the correlation coefficient which measures the degree of relationship between the independent variable debt-equity ratio and ROE were found to be -0.090, -0.337, 0.294 and -0.162 in all companies, low growth companies, moderate growth companies and high growth companies respectively. It is understood from this that there is a low correlation between the independent variable and the dependent variable in all the categories of companies except low growth companies where it is moderate. Expect moderate growth category of companies the correlation coefficient is negative in all the categories of companies. The F values of each category of companies show that the correlation coefficient is significant at 5% level in all companies and high growth categories, whereas, it is significant at 1% level in the low growth and moderate growth category of companies. The R^2 values of different groups of the companies show that there is from a low of 0.81% variation in the all companies category to a high of 11.36% variation in the low growth category of firms in ROE was explained by the independent variable debt-equity ratio. From the analysis it can be inferred that the influence of debt equity ratio on ROE is found in all the categories of companies of information technology industry in India. Therefore, the null hypothesis 1 has been rejected in all the categories of companies.

Table-77

REGRESSION ANALYSIS FOR INFORMATION TECHNOLOGY INDUSTRY IN INDIA:

Dependent Variable: ROE and EPS

Variable	All Companies N=45		Low Growth Companies N=13		Moderate Growth Companies N=19		High Growth Companies N=13	
	ROE	**EPS**	**ROE**	**EPS**	**ROE**	**EPS**	**ROE**	**EPS**
(Constant)	7.338	8.215	2.802	1.345	8.514	7.417	13.933	15.799
D/E Ratio (Regression Coefficients)	-6.117 (-2.342) *	-0.176 (-0.097)	-23.669 (-4.976) **	0.242 (0.38)	9.530 (5.165) **	0.644 (0.421)	-20.472 (-2.263) *	0.403 (0.056)
R	-0.090	0.004	-0.337	0.027	0.294	0.025	-0.162	0.004
R Square	0.0081	0.000	0.1136	0.0007	0.0864	0.0006	0.0262	0.0000
F	5.485	0.009	24.761	0.145	26.677	0.177	5.121	0.003
Sig.	*	Ns	**	Ns	**	Ns	*	Ns

* - Significant at 5% level, **- Significant at 1% level.

Source: Computed, Period: 1995-96 – 2009-10.

Impact of D/E Ratio on EPS

It is seen from the regression table 77 of information and technology industry that the correlation coefficient was found to be from a low of 0.004, in the all companies as well as high growth companies category to a high of 0.027 in the low growth companies category. This indicates that there is a low correlation between the independent variable and the dependent variable in all the categories of information and technology industry in India. The F values of each category of companies show that the correlation coefficient is not significant in all the categories of companies. The R^2 values of different groups of the companies in the information technology industry show that there is from a low of 0.00% variation in the all companies category and in the high growth category companies to a high of 0.007% variation in the low growth firms category in EPS was explained by the independent variable debt-equity ratio. From the analysis it can be inferred that the influence of debt equity ratio on EPS is not found in any of the categories of companies considered for the study of information technology industry in India. Therefore, the null hypothesis 2 has been accepted in all the categories of companies.

7. Impact of Capital Structure on ROE and on EPS of Investment Services Industry in India

The regression analysis has been applied for the investment services industry in India to identify the impact of debt-equity ratio on ROE and on EPS and the results are discussed below.

Table-78

REGRESSION ANALYSIS FOR INVESTMENT SERVICES INDUSTRY IN INDIA

Dependent Variable: ROE and EPS

Variable	All Companies N=31		Low Growth Companies N=9		Moderate Growth Companies N=13		High Growth Companies N=9	
	ROE	EPS	ROE	EPS	ROE	EPS	ROE	EPS
(Constant)	4.189	8.211	0.922	2.672	4.850	6.696	8.233	14.464
D/E Ratio (Regression Coefficients)	-1.785 (-2.619) **	-1.408 (-1.807)	-12.450 (-3.489) **	2.298 (2.04) *	2.568 (1.214)	1.026 (0.419)	-1.498 (-2.022) *	-2.227 (-1.583)
R	-0.121	0.084	-0.290	0.174	0.087	0.03	-0.173	0.136
R Square	0.0146	.007	0.0841	0.0303	0.0076	0.0009	0.0299	0.0185
F	6.859	3.264	12.173	4.16	1.474	0.175	4.088	2.507
Sig.	**	Ns	**	*	Ns	Ns	*	Ns

* - Significant at 5% level, **- Significant at 1% level.

Source: Computed, Period: 1995-96 – 2009-10.

Impact of D/E Ratio on ROE

It is identified from the regression table 78 of investment services industry that the correlation coefficient which measures the degree of relationship between the independent variable debt-equity ratio and ROE were found to be -0.121, -0.290, 0.087 and -0.173 in the all companies, low growth companies, moderate growth companies and high growth companies respectively. This indicates that there is a low correlation between the independent variable and the dependent variable in all the categories of companies of investment services industry with negative sign, except in moderate growth

category, where it is positive. The F values of each category of companies show that the correlation coefficient is significant at 1% level in all companies and low growth companies and significant at 5% level in high growth category of companies and there is no significant relationship established in the moderate growth companies. The R^2 values of different groups of the companies in the Indian investment services industry show that there is from a low of 0.76% variation in the moderate growth companies category to a high of 8.4% variation in the low growth companies category in ROE was explained by the independent variable debt-equity ratio. From the analysis it can be inferred that the influence of debt equity ratio on ROE is not found with the increase in the growth rate of companies of investment services industry in India. It is also observed from the regression coefficient that the debt-equity ratio has significant effect on ROE in all the categories of companies except moderate growth companies of investment services industry in India. Therefore, the null hypothesis 1 has been accepted only in moderate growth companies.

Impact of D/E Ratio on EPS

It is understood from the regression table 78 of investment services industry that the correlation coefficient which measures the degree of relationship between the independent variable debt-equity ratio and EPS was found to be from a low of 0.03 in the moderate growth companies category to a high of 0.174 in the low growth companies category. This indicates that there is a low correlation between the independent variable and the dependent variable in the investment services industry. The F values of each category of companies show that the correlation coefficient is not significant in all the categories of companies except low growth companies and the correlation coefficient is significant at 5% level in the low growth companies of Indian investment services industry with positive sign. The R^2 values of different groups of the companies in the investment services industry show that there is from a low of 0.09% variation in the moderate growth companies category to a high of 3.03% variation in the low growth companies category in EPS was explained by the independent variable debt-equity ratio. From the analysis it can be inferred that the influence of debt equity ratio on EPS is not changing with the different growth rates of investment services industry in India. It is

moderate growth companies category to a high of 10.30% variation in the low growth firms category in EPS was explained by the independent variable debt-equity ratio. From the analysis it can be inferred that the influence of debt equity ratio on EPS is found only in low growth rate companies of transport services industry in India at 5% level. It is also observed from the regression coefficient that the debt-equity ratio has no significant effect on EPS in the all companies, moderate growth and high growth companies of transport services industry in India. Therefore, the null hypothesis 2 has been accepted in all the categories of companies except low growth categories of companies.

10. Impact of Capital Structure on ROE and on EPS of Wholesale and Retail Trading Industry in India

Regression analysis has been applied for the wholesale and retail trading industry in India to identify the impact of debt-equity ratio on ROE and on EPS and the results are discussed below.

Impact of D/E Ratio on ROE

It is seen from the regression table 81 of wholesale and retail trading industry that the correlation coefficient which measures the degree of relationship between the independent variable debt-equity ratio and ROE were found to be -0.275, -0.395, -0.206 and -0.288 in the all companies, low growth companies, moderate growth and high growth companies respectively. This indicates that there is a low correlation between the independent variable and the dependent variable in all the categories of companies except low growth companies where it is moderate with negative sign. The F values of each category of companies show that the correlation coefficient is significant in all the categories of companies at 1% level with negative sign. The R^2 values of different groups of the companies in the wholesale and retail trading industry show that there is from a low of 4.24% variation in the moderate growth companies category to a high of 15.60% variation in the low growth category of firms in ROE was explained by the independent variable debt-equity ratio. From the analysis it can be inferred that the influence of debt equity ratio on ROE is not found with the increase in the growth rate of wholesale and

retail trading industry in India. It is observed from the regression coefficient that the debt-equity ratio has significant effect on ROE in all the categories of companies at 1% level of significance with negative sign in the wholesale and retail trading industry in India. Therefore, the null hypothesis 1 has been rejected in all the categories of companies.

Impact of D/E Ratio on EPS

It is found from the regression table 81 of wholesale and retail trading industry that the correlation coefficient which measures the degree of relationship between the independent variable debt-equity ratio and EPS was found to be from a low of 0.025 in the all companies category to a high of 0.103 in the low growth companies category. This indicates that there is a low correlation between the independent variable and the dependent variable in the different categories of wholesale and retail trading industry in India. The F values of each category of companies show that the correlation coefficient is significant in moderate growth category of companies only at 1% level with negative sign. The R^2 values of different groups of the companies in the wholesale and retail trading industry show that there is from a low of 0.1% variation in the all companies category to a high of 1.69% variation in the moderate growth companies category in EPS was explained by the independent variable debt-equity ratio. From the analysis it can be inferred that the influence of debt equity ratio on EPS is found only with the moderate growth rate companies of wholesale and retail trading industry in India at 1% level of significance. It is observed from the regression coefficient that the debt-equity ratio has no significant effect on EPS in almost all the categories of companies except moderate growth companies of wholesale and retail trading industry in India. Therefore, the null hypothesis 2 has been accepted in all the categories of companies except moderate growth categories of companies.

Table-81

REGRESSION ANALYSIS FOR WHOLESALE AND RETAIL TRADING INDUSTRY IN INDIA

Dependent Variable: ROE and EPS

Variable	All Companies N=66		Low Growth Companies N=20		Moderate Growth Companies N=26		High Growth Companies N=20	
	ROE	**EPS**	**ROE**	**EPS**	**ROE**	**EPS**	**ROE**	**EPS**
(Constant)	7.817	4.834	4.121	1.089	9.051	6.454	11.598	8.002
D/E Ratio (Regression Coefficients)	-4.239 (-8.998) **	-0.212 (-0.776)	-8.577 (-7.421) **	-0.45 (-1.781)	-3.645 (-4.145) **	-2.09 (-2.574) **	-4.162 (-5.197) **	-0.301 (-0.654)
R	-0.275	0.025	-0.395	0.103	-0.206	0.13	-0.288	0.038
R Square	0.0756	0.001	0.1560	0.0106	0.0424	0.0169	0.0829	0.0014
F	80.964	.602	55.071	3.171	17.181	6.628	27.009	0.428
Sig.	**	Ns	**	Ns	**	**	**	Ns

* - Significant at 5% level, **- Significant at 1% level.

Source: Computed, Period: 1995-96 – 2009-10.

Conclusion

The effect of capital structure as a result of using cheaper source of fund will lead to the magnification of return on equity (ROE) and earnings per share (EPS). The results of analysis of the impact of debt-equity choice on ROE and EPS of the services sector in India in table 82 reveals that the impact of debt-equity on ROE is negative and significant at 5% level and on EPS is positive and significant at 5% level. It suggests that there is no strong support from the analysis for the impact of capital structure on the profitability of services sector in India due to the mixed results.

Table - 82
Consolidated Results of Impact of Capital Structure on ROE and on EPS of Services Sector in India

Industry	ROE						
	All Comp-anies	Low Levered Compa-nies	Moderate Levered Compa-nies	High Levered Compa-nies	Low Growth Compa-nies	Moderate Growth Compa-nies	High Growth Compa-nies
Services Sector N=260	- ve *	- ve	- ve **	- ve **	- ve **	+ ve *	- ve **
	EPS						
	All Comp-anies	Low Levered Compa-nies	Moderate Levered Compa-nies	High Levered Compa-nies	Low Growth Compa-nies	Moderate Growth Compa-nies	High Growth Compa-nies
	+ ve *	+ ve	- ve *	- ve	- ve	+ ve *	+ ve

Source: Computed, Period: 1995-96 – 2009-10.

From the results of analysis of impact of debt-equity choice on ROE and EPS of low, moderate and high levered companies of services sector in India in the table 82 revealed that the impact of debt-equity on ROE is significant in the moderate and high levered companies of services sector and the impact is negative. At the same time, negative, non significant impact of debt-equity on ROE is revealed from low levered companies. Whereas, the impact of debt-equity on EPS is found significant only in the moderate levered companies and the relationship is negative. Positive and negative non significant relationships are found in the low and high levered companies respectively. This analysis suggests that there is a negative impact of capital structure on the profitability of different leverage classes of services sector in India. The services sector has been further classified on the basis of their growth rate. The impact of debt equity ratio on ROE of the low and high growth companies is negative at 1% level. In the moderate growth companies the impact is positive at 5% level. But, the impacts of debt equity ratio on EPS of moderate and high growth companies are positive, and significant only in moderate growth companies. In the low growth companies it is negative and non significant. It suggests that there is no much evidence of impact of capital structure on the profitability of different growth rate companies of services sector in India.

Table - 83

Analysis of Services Sector – Services Based Classification

Industry	Financial Services N=95		Non Financial Services N=165	
	ROE	EPS	ROE	EPS
Services Sector	+ve **	+ve **	-ve **	-ve *

Source: Computed, Period: 1995-96 – 2009-10.

In addition to the above classification, based on their nature of the services the service sector has been divided into two categories namely, financial and non financial services. From the results of this analysis in the table 83 it is seen that the impact of debt-equity choice on ROE and EPS is positive and significant in the financial services. The impact of debt-equity on ROE and EPS is significant and negative in the non financial category of companies in the Indian services sector. It reveals that there is positive impact of capital structure on profitability of financial services in India and a negative impact of capital structure on profitability of non financial services in India.

Same analysis has been extended to the various services sector industries also. The results of this analysis shown in the table 84 reveals that there is a positive association between debt-equity ratio and ROE of all companies category in four industries out of ten industries selected for the study in which the positive impact is significant only in two industries namely, asset financing services and recreational services industry. The impact is negative and significant in the remaining industries, namely, fee based financial services, health services, hotels and tourism, information technology, investment services and wholesale and retail trading. It suggests that in majority of the selected services sector industries the impact of debt equity ratio on ROE is negative.

Table - 84

Consolidated Results of Impact of Capital Structure on ROE and on EPS of Selected Services Sector in India

Industry	ROE				EPS			
	All Comp-anies	Low Growth Compa-nies	Moderate Growth Compa-nies	High Growth Compa-nies	All Comp-anies	Low Growth Compa-nies	Moderate Growth Compa-nies	High Growth Compa-nies
1.Asset Financing Services	+ve **	+ve **	+ve **	+ve **	+ve **	+ve	+ve **	+ve *
2.Banking Services	+ve	-ve	+ve **	+ve	-ve	-ve	-ve *	+ve
3.Fee Based Financial Services	-ve *	-ve	-ve	+ve	+ve	-ve	-ve	+ve **
4.Health Services	-ve **	-ve **	+ve	-ve	-ve *	-ve **	+ve	+ve
5.Hotels & Tourism	-ve **	-ve **	+ve	-ve *	-ve **	-ve **	-ve **	-ve **
6.Information and Technology	-ve *	-ve **	+ve **	-ve *	-ve	+ve	+ve	+ve
7.Investment Services	-ve **	-ve **	+ve	-ve *	-ve	+ve *	+ve	-ve
8.Recreational Services	+ve **	+ve	+ve *	+ve *	+ve	+ve *	+ve	+ve
9.Transport Services	+ve	-ve **	-ve	+ve	+ve	-ve *	-ve	+ve
10.Wholesale & Retail Trading	-ve **	-ve **	-ve **	-ve **	-ve	-ve	-ve **	-ve
No. of Positive Significant Impacts N=15	2	1	4	2	1	2	1	2
No. of Negative Significant Impacts N=26	6	6	1	4	2	3	3	1

Source: Computed, Period: 1995-96 – 2009-10.

In the low growth category of the industries selected for the study, the impact of debt-equity on ROE is positive in two industries out of ten industries and it is significant only in one industry, namely, asset financing services. There is a negative impact observed in eight industries where the impact is significant in six industries, namely, health services, hotels and tourism, information technology, investment services, transport services and wholesale and retail trading. It suggests that in majority of the low

growth companies of selected services sector in India there is a negative impact of debt equity ratio on ROE.

The impact of debt-equity choice on ROE of the moderate growth categories of companies reveals that there is positive association in seven industries and it is found the positive impact is significant in four industries, namely, asset financing services, banking services, information technology industries and recreational services. The impact is negative in three industries and the impact is found significant only in one industry, namely, wholesale and retail trading industries. This suggests that the impact of debt equity ratio on ROE of majority of the moderate growth companies of services sector industries in India is positive.

The analysis of impact of debt-equity on ROE of high growth companies of various industries reveals that it is positive in five industries but significant in two industries, namely, asset financing services and recreational services. At the same time, the impact is negative in five industries but significant in four industries, namely, hotels and tourism, information and technology, investment services and wholesale and retail trading. It suggests that there is a mixed result of impact of debt equity ratio on ROE of high growth companies of selected services sector industries in India.

The results of analysis of impact of debt-equity choice on EPS in the table 84 reveals that in the all companies category it is positive in four industries and the positive association is significant only in asset financing services industry. The impact is negative in six industries and the negative association is significant in two industries, namely, health services and hotels and tourism industry. It suggests that in majority of the selected services sector industries the impact of debt equity ratio on EPS is negative.

In the low growth companies category, the impact of debt-equity on EPS is positive in four industries where it is significant in two industries, namely, investment services and recreational services. The impact is negative in six industries where it is significant in three industries, namely, health services, hotels and tourism and transport

services. It suggests that majority of the low growth companies of selected services sector industries in India the impact of debt equity ratio on EPS is negative.

The moderate growth category companies of analysis reveal that the impact of debt-equity on EPS is positive in five industries and significant in asset financing services industry. The impact is negative in five industries where it is significant in three industries, namely, banking services, hotels and tourism and wholesale and retail trading industries. It suggests that there is a mixed result of impact of debt equity ratio on EPS of moderate growth companies of selected services sector industries in India.

It is seen from the analysis of high growth companies of different industries that the association between debt-equity ratio and EPS is positive in seven industries and the impact is found significant two industries, namely, asset financing services and fee based financial services industry. The association is negative in three industries and the negative impact is significant in the hotels and tourism industry. This suggests that the impact of debt equity ratio on EPS of majority of the high growth companies of services sector industries in India is positive.

From the above discussion, there are nine positive and seventeen negative significant impact of debt-equity ratio on ROE is identified out of forty observations. There are six positive and nine negative significant impact of debt-equity ratio on EPS is identified out of other forty observations. It is also observed that an equal number of positive and negative impacts of capital structure on profitability are seen in the higher growth companies than the low growth companies of services sector industries in India. In low growth companies the impact of capital structure on profitability is negative in more observations. The impact of capital structure on profitability which is measured through the R^2 is very less in almost all the categories of companies. Comparatively, the impact is slightly high in the low growth category of companies in the services sector industries in India. The results of the analysis suggest that there is no much impact of capital structure on profitability of services sector industries in India.