CHAPTER VIII
SUMMARY AND CONCLUSION

Capital is important not only to establish any business entity but also for the expansion and diversification of an enterprise. The financing or capital structure decision is a significant managerial decision. It influences the company's debt equity mix. The debt-equity mix has implications for the shareholder's earnings and risk, which in turn, will affect the cost of capital and the value of the firm. The financial goal of the firm should always be the maximization of owners' economic value. Primary motive of using fixed-charges funds in the financial structure of a firm is to magnify the shareholder's return, which can be measured by ROE and EPS. Thus, capital structure plays a vital role in any business concern.

The study aims at studying the capital structure and its impact on profitability of selected services sector industries in India. The main objectives of the study are (i) To analyse the components of capital structure of selected services sector industries in India. (ii) To analyse the debt – equity ratios of selected services sector industries in India. (iii) To analyse the factors determining the capital structure of selected services sector industries in India. (iv) To analyse the financial leverage of selected services sector industries in India. (v) To study the impact of capital structure on profitability of selected services sector industries in India.

This study covers 10 services sector industries viz., Asset Financing Services, Banking Services, Fee Based Financial Services, Health Services, Hotels & Tourism, Investment Services, Information and Technology, Recreational Services, Transport Services, and Wholesale & Retail Trading. All these industries collectively contributing 260 companies for the study to satisfy the criterion set for the sample selection. These 260 companies have been treated as the representation of the services sector in India for this study. Three industries namely, business consultancy, storage and distribution and communication are excluded from the list since they have less than 5 companies in the sample list. For the purpose of the study necessary data on debt-equity mix and other related variables were collected for the period from 1995-96 to 2009-2010. The audited balance sheets and income and expenditure statements of the reported enterprises were used to calculate variety of financial ratios to accomplish the objectives.

Various statistical tools namely mean, standard deviation, co-efficient of variation, compound growth rates and repeated measures ANOVA have been applied to evaluate the debt-equity ratio and its components. The study also used multiple regression analysis to determine the variables which influence the debt-equity ratio. To analyse the relationship between the capital structure and profitability, regression analysis has been used.

This chapter articulates the major findings of the study and offers a few suggestions for efficient management of selected services sector industries in India.

I. Analysis of the Components of Capital Structure of Selected Services Sector Industries in India

The debt-equity structure has been analysed to know the various funds contributing towards the debt-equity combination. Five key components, viz., equity share capital, preference share capital, reserves and surplus, long term debt and short term debt have been analysed. From the analysis it is observed that the various sources of funds are not equally contributing to the total funds in all the selected service sector industries.

For the services sector in India about 3% of the total funds have been utilized through the equity share capital. Though the equity share capital reflects the ownership of the firm, it is very less in percentage. This may be due to the interest of the equity shareholders in controlling the business and at the same time, there is more contribution by the owners through reserve funds. Highest contribution of equity funds among the selected industries is seen in fee based financial services to the tune of 36.89%. A low percentage of equity capital of 1.24% is evident in asset financing services industry.

A very negligible amount of contribution i.e. 0.27% is received for the total funds of services sector in India through the preference share capital. This may not likely to affect or influence the debt-equity ratios of any of the industry chosen for the study.

For the services sector in India about 35% of the total funds have been utilized through the reserves and surplus. Except asset financing services and banking services, in all the service industries the reserve funds are dominating and used as their main source of funds. Information technology and recreational services are the industries using reserve funds as their significant source. More than 80% of their fund requirements are met through their reserve funds.

The long term debts have been used as an important source by majority of the firms. For the services sector in India about 53% of the total funds have been utilized through long term debt. Fee based financing services, information technology, and recreational services are the industries using very low long term debt. Asset financing services is the industry which is using long term debt as its important source of funds. 76.6% of the total funds of this industry has been financed by its long term debts. Banking services has also used long term debt as its main source of fund to the tune of 59.35%.

The short term source of fund used by the service sector industries in India is 7.96%. In wholesale and retail trading 18.65% is observed, followed by investment services at 16.38%, whereas in other industries the contribution of short term borrowings towards the total funds is less than 10%.

From the analysis of various components of capital structure of each selected service sector industry, it is inferred that reserve funds and the long term debt are the two key sources of funds used to mobilize the essential funds of the business in the services sector in India. About 88% of their funds have been gained through these two sources. Preference share capital is in a very negligible quantity. Equity share capital and short term capital are contributing to the tune of 3% and 8% respectively, which is not an outsized contribution. It is also noted that the contribution of short term debt is more than the equity share capital in majority of the services sector industries in India.

II. Analysis of Debt-Equity Ratios of Selected Services Sector Industries in India

The industry-wise average debt-equity ratios of selected service sectors industries in India were analysed for the period 1995-96 to 2009-10. By using the descriptive statistics, the industry wise mean, standard deviation, and co efficient of variation for the average debt-equity ratio have been calculated. To understand the growth rate of debt equity ratio Compound Annual Growth Rates (CAGR) were also calculated.

The mean debt-equity ratio of services sector has been calculated by finding the average debt-equity ratio of all the selected 260 companies of services sector industries for the period 1995-96 to 2009-10 and has been recorded as 0.80, which is a low ratio. The average debt-equity ratios of various industries have been varying widely during the period of study from a low ratio of 0.14 in fee based financial services industry, followed by information technology with 0.28 to a high ratio of 2.03 in the asset financing services industry. From the analysis, it is found that majority of the service sector industries in India have very low debt-equity ratio which falls below 1:1.

The variation in the debt-equity ratios of industries is measured by coefficient of variation (CV). It is observed from the table 10 that the highest CV (134.92) is in the health services industry followed by recreational services industry (84.46).The industry with a low CV (13.99) is asset financing services industry. The CV of services sector is 12.04. It suggests that the services sector in India is following a stable financial policy without changing the proportion of debt-equity ratio frequently during the period of study.

The growth rate of debt-equity ratios of selected service sector industries in India have been calculated by using Compound Annual Growth Rate (CAGR). The CAGR of services sector is 1.47. The analysis of CAGR of the selected service sector industries reveals that there are 6 industries with positive CAGR and 4 industries with negative CAGR. A highest CAGR of 8.07 is found in health services and a lowest CAGR of -10.88 is recorded in recreational services industry. It shows that the services sector industries in India had not increased their debt-equity ratio during the study period.

From the analysis of debt-equity ratios of selected service sector industries in India, it is understood that the asset financing industry has the highest debt-equity ratio of 2:1, in the banking services it is of 1:1 and in rest of the other 8 service sector industries it falls well below 1:1. The analysis of the growth rate of debt-equity ratio reveals that nearly 40% of the service sector industries in India have negative growth in their debt-equity ratio. Therefore, it can be inferred that the service sector industries in India did not rely on debt and to some extent reduced their debt from the capital structure during the period of study.

A. Results of Repeated Measures ANOVA for the Debt-Equity Ratios of Selected Service Sector Industries in India

The debt-equity ratios of services sector in India have been analysed by considering all the selected companies of all the selected services sector industries in India. The selected companies have been classified based on their growth rate as low, moderate and high growth rate companies. The high growth companies in services sector have got the highest debt-equity ratios in all the years during the period of study, when compared to the other growth categories of companies. From the analysis, it is inferred that the average debt-equity ratios of firms in the services industry are differing in accordance to its growth rate. Higher the growth, higher will be the debt-equity ratio in the services sector industries in India. It reveals the fact that the high growth firms in the services sector industry in India have been using more borrowed funds than owner’s funds in their capital structure.

From the analysis of debt-equity ratios based on the growth rates of companies in each industry, it is observed that in 2 industries, namely, asset financing services and transport services, the debt-equity ratios of firms are increasing as the growth rate of these industries goes up. In other three industries, namely, banking services, investment services and wholesale & retail trading services, the debt-equity ratios are increasing as the growth rate of firms goes up, but it happened only when the growth rate is very high in these industries. This outcome suggests that the high growth firms of these industries use more borrowings in their capital structure than the low growth firms.

The debt-equity ratios of two industries, namely, fee based financial services and health services are decreasing as their growth rates goes up. In two of the industries, namely, information technology and recreational services, the debt-equity ratios are stable irrespective of their growth rate. In hotels & tourism industry the debt-equity ratios are high in low and high growth rate firms, but low in the moderate growth firms. It suggests the fact that the borrowing policies of these industries are irrelevant of their growth rate.

The average debt-equity ratios of low growth firms in the information technology and wholesale & retail trading industries are decreasing as the time progress. Similarly, in the moderate growth firms of banking services and recreational services also the average debt-equity ratios are decreasing as the time progress. It can be inferred that some of the firms in services sector are minimizing their debt portion from its total funds during the period of the study.

Since, there is variation among high, moderate and low growth companies as well as among years, the following hypotheses were framed and tested by using Repeated Measures ANOVA.

Ho1: There is no significant difference among the high, moderate and low growth companies in their debt-equity ratios

Ho2: There is no significant variation in the debt-equity ratios among the years (In the study period)

Ho3: The mean debt-equity ratios do not vary across high, moderate and low growth companies based on changes in years.

From the Repeated Measures ANOVA of debt-equity ratios of services sector in India, it is observed that there is significant difference among the high, moderate and low growth companies. It is also identified that there is significant variation in the debt-equity ratios among the years. Further, it is found that the mean debt-equity ratios vary across high, moderate and low growth companies based on changes in years. Therefore, all the null hypotheses of the services sector in India set for this analysis have been rejected.

The Repeated Measures ANOVA has been administered for all the selected service sector industries. From the analysis, it is found that the difference among the debt-equity ratios based on the growth rate is found only in two industries, namely, asset financing services and banking services industries. Therefore, the null hypothesis 1 has been accepted in the remaining 8 industries considered for the study.

A significant variation in the debt-equity ratios among the years are found in 6 industries, namely, asset financing services, health services, information technology, investment services, recreational services and transport services. Hence, the null hypothesis 2 has been rejected in all the above said 6 industries.

From the ANOVA test it is understood that the mean debt-equity ratios vary among high, moderate and low growth companies based on the changes in years in 5 industries, namely, asset financing services, fee based financial services, health services, information technology, and wholesale & retail trading services industries. Hence, the null hypothesis 3 has been rejected in all the above said 5 industries

III. The Determinants of Capital structure of Selected Service Sector Industries in India

The determinants of capital structure of Indian services sector have been analysed by using the step wise multiple linear regression to find out the explanatory variables contributing to the variations in the capital structure. Further the same analysis has been extended to all the selected services sector industries in India. For the purpose of analysis of determinants of capital structure for the services sector as well as for each selected industry in India, there are 11 variables taken for the study. At the same time, for the banking services industry, additional variables such as deposits and total loan portfolio have been included.

The overall results of this analysis revealed that the independent variable asset structure has been contributing towards the variation in capital structure of six industries out of twelve selected industries. It has been influencing the capital structure of two industries with negative sign such as services sector as a whole and the asset financing services industry. At the same time, for four industries such as banking services, hotels & tourism, transport services and wholesale & retail trading industries it has been contributing with positive sign towards the variation of capital structure.

Trading on equity has been contributing towards the variations in capital structure of only three out of twelve selected industries with positive sign. The services sector as a whole; fee based financial services and investment services are the industries where the influence of trading on equity on capital structure is seen. The independent variable liquid assets have been contributing towards the variation of capital structure of six out of twelve selected industries with negative sign. The whole of services sector, asset financing services, banking services, fee based financial services, information technology and transport services are the industries influenced by liquid assets.

Profitability has been the variable influencing the most among the independent variables selected for the study. It has been influencing the variation of capital structure of seven industries out of selected twelve industries. In all the seven industries profitability has been contributing with negative sign. Services sector, fee based financial services, health services, hotels and tourism, information technology, transport services and wholesale & retail trading industries capital structure have been influenced by profitability. The variable size has been influencing only three industries namely, asset financing services, recreational services and wholesale & retail trading. In recreational services its contribution is with negative sign, whereas in other two industries it is positive towards the variation in the capital structure.

Business risk has been influencing the capital structure of four industries out of twelve selected industries such as services sector, asset financing services, banking services and transport services. Except asset financing services, business risk is positive in influencing the capital structure of selected industries. The independent variable growth has been contributing towards the variations of capital structure positively in four industries out of the selected twelve industries. Asset financing services, banking services, fee based financial services and investment services are the industries in which growth becomes an influential variable. All these industries belong to financial services business.

Debt service capacity has been influencing the capital structure of banking services with negative sign. Corporate tax has been seen as a contributing variable of capital structure of asset based financial services and fee based financial services with negative sign. The collateral value of assets have been observed as an influencing variable towards the capital structure of service sector as a whole and asset based financial services industry with negative sign. The independent variable non debt tax shield has been influencing the capital structure of two industries such as services sector as a whole with negative sign and wholesale and retail industry with positive sign. For the banking services industry the independent variables deposits and total loan portfolio are selected as the additional variables along with the other variables and both these variables found to have no influence over the capital structure of banking services industry.

From the above it is observed that the determinants of capital structure of various industries in the services sector in India differ widely. Asset structure, trading on equity, business risk and growth are the variables have positive influence over the capital structure of few services sector industries in India. Other variables are found to have influence in very few industries with both the signs. At the same time, Liquid assets and profitability are the two important variables found to be one among the variables influencing the capital structure in most of the industries. In all the industries they are with negative sign. It means that there is a reduction in the debt-equity ratio of services sector industries in India whenever their profitability and liquid assets increase. This is possible with the increase in the reserves as a result of increase in profitability or reduction in debt by using the profits. However, it reveals that the pecking order theory is applicable in the services sector industries in India.

IV. Analysis of Financial Leverage of Selected Service Sector Industries in India

This part of the analysis is focused on the influence of DFL on EPS of the services sector in India and for its different categories of industries. From the analysis it is observed that there is no significant influence of DFL on EPS of services sector in

India. In the category of different leverage classes also the significant influence of the DFL on the EPS is not seen in any of the leverage class. Likewise, when the service sector industries are analysed on the basis of their nature of services, the same results of no influence of independent variable on the dependent variable is observed. It is also observed from the different growth categories of services sector in India that there is no impact of DFL on EPS.

Further, to know the influence of DFL on EPS the industry wise analysis is done. In that analysis also the impact of DFL on EPS is not seen. In addition to the industry wise analysis, the industries have been classified on the basis of their growth rate. In this analysis, the low growth banks of Indian banking industry and low growth companies of recreational services industry in India have significant influence of DFL on EPS at 1% level. The high growth companies of wholesale and retail trading have significant effect of DFL on EPS at 5% level. There is no evidence of the impact of DFL on EPS of other growth category of firms of selected services sector industries in India. Therefore, it can be inferred that there is no much evidence for the significant influence of DFL on EPS of services sector industries in India.

V. The Impact of Capital Structure on the Profitability of Selected Services Sector Industries in India

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

The mean ROE of services sector in India is 5.92%. It is observed from the analysis that the ROE of all the selected services sector industries in India were varying from industry to industry. From the analysis, it is also 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%.

There are six industries which recorded 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.

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

The mean EPS of services sector in India is Rs.5.99. It is observed from the analysis that the EPS of all the selected services sector industries in India were varying moderately from industry to industry. The overall services sector has the CV of 27.87%. From the analysis, it is also 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. 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.

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.

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

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 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 due to the mixed results there is no strong support for the impact of capital structure on the profitability of services sector in India.

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 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. A positive and a negative non significant relationship 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.

In addition to the above classification, the service sector has been divided into two categories namely, financial and non financial services based on their nature of the services. From the results of this analysis, 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 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.

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 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 inputs, 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 another 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.

Suggestions

Keeping in view the above observations relating to the study, the following measures are suggested which would improve the value of the firm of selected services sector industries in India.

1. The financial strength of services sector industries is very sound. The use of external funds in their financial structure is limited. In the information technology industry almost 90% of their funds are utilized through the shareholders funds including share capital and reserve funds and as also in recreational services. The growth rates of these industries are very good to the tune of 49.39% and 24.67% respectively. Moreover, it is observed from the regression analysis used to find out the determinants of capital structure that growth has a positive impact on the debt-equity ratio in 4 industries, namely, asset financing services, banking services, fee based services, and investment services. There is no negative relationship observed between growth and debt-equity ratio. This indicates that growth opportunities add value to the firm and hence increase the debt taking capacity. As growing firms require more finance to support their planned capital expenditure. To capitalize on the potential of growing further and to compete in the international market, it is suggested that these industries may liberalize their financing policy to absorb the cheapest source of fund that is debt in their capital structure. This may increase the shareholders return also.
2. In general the services sector industries in India are not using the short-term borrowings in a considerable size. Only 7.96% in their total funds are utilized through short-term borrowings. Since the risk premium of short-term borrowings is less and it involves less risk for the creditors, the services sector industries may use this form of debt more to meet their fund requirements.
3. Though the financial strength of the services sector in India is very sound, there is no much evidence of influence of financial leverage on the profitability of the services sector industries in India. Therefore the financial managers of the companies may look to arrive at an optimum capital structure for their companies to improve upon their shareholders' earnings.
4. 21.79% of the EPS observations [850 out of the 3900 (260companies * 15 years)] are negative during the period of the study. Therefore, the companies having negative EPS should carefully plan and review their capital structure frequently to avoid the adverse effect of financial leverage on EPS, which in turn may affect the value of the

firm. The growth rate of EPS also do not have positive sign in some of the services sector industries, hence, they should cautiously plan their capital structure.

5. The collateral value of assets has no positive association with debt-equity ratios of any industry. This indicates a possibility of not using the available assets to employ debts. Therefore, the companies may utilize their available assets the maximum possible extent to employ debt in their capital structure.
6. Since the capital structure has no significant influence on the profitability of the services sector industries in India, the investors are recommended to look into the other aspects of the companies which may affect the profitability of a company before making an investment decision.
7. The companies with positive DFL can further increase their debt portion in their capital structure. The companies with negative DFL should constantly review their financial policies and should reduce their debt portion to the maximum possible extent.
8. In case of raising debts for the future requirement of funds, the companies should have an eye on the interest rates. The timing of adding debt into the financial structure is important. They should also compare the interest rates with the companies' earnings to minimize the risk of the equity shareholders.

Scope for further research

Any research study can explore only a limited field of knowledge. There are many aspects which need to be probed further. This study has the potential to promote further. Industry wise firm distribution studies can be undertaken on various aspects of capital structure. The research could be continued with a sample of small, medium and big industrial companies in order to identify if there exist a difference in the use of the financial variable according to the size of the companies. Other interesting area is to explore the capital structure to compare the public sector companies and private sector companies. A considerable scope for further research is wide open in the areas of mergers and acquisition. Another interesting theme would be to identify sick and healthy units separately in the corporate sector and find out the discriminating characteristics of each group with respect to capital structure. Future research shall further explore the concepts and various theories of capital structure and its existence in the services sector industries. A comparative study of manufacturing sector with the services sector may also be an interesting area to explore. The age of the companies influence the financial structure of the companies, therefore, an attempt shall be taken to test the company's in different age groups. To explore further in the area of capital structure, research shall be extended to compare the domestic companies financing policies with the multinational companies. An examination of external factors affecting the capital structure is another interesting area of study.

Every attempt has been made to make the study intensive but due to obvious reasons there exists certain gaps in the present study of capital structure in the services sector industries in India. Hence, further work may be undertaken to bridge the gap so as to enhance the scope of the analysis. The coverage of this study is limited to only 10 services sector industries with 260 listed private sector companies. This can further be extended. Data for the purpose of analysis have been collected chiefly from secondary sources which have their own limitations. A more useful study can be done by collecting data from primary sources. This will help to enhance the scope of the study and have a better insight into the analysis of capital structure in the Indian corporate sector. However, it is hoped that the analysis presented in this study will act as a base for further extension of this important investigation.

To conclude the study it may be said that the services sector industries in India have followed conservative policy in their financial decision. The services sector industries in India have depended more on internal funds rather than using external sources. The negative relationship between profitability and debt-equity ratio in the analysis of determinants of capital structure proves the existence of pecking order theory in the services sector industries in India. This also reveals that the services sector industries are financially sound and healthy. There is no much evidence of impact of financial leverage on the profitability in these industries. Since, there are high possibilities for the services sector industries in India to grow further, they may liberalize their borrowing policy and add the cheapest source of fund that is debt into their capital structure to broaden their growth and contributions towards the development of Indian economy.