Chapter VIII

Findings, Suggestions and Conclusion

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FINDINGS, SUGGESTIONS AND CONCLUSION

The study made an attempt to analyse the determinants and impact of capital structure on firm value of service sector in India.

Based on the tittle the following objectives have been framed.

1. To study the pattern of capital structure of service sector in India.
2. To determine the factors that influence the capital structure of service sector in India.
3. To analyse the impact of capital structure on profitability of service sector in India.
4. To investigate the effect of capital structure on firm value of service sector in India.

The present chapter covers the summary of key findings of the study based on the results of analysis. The findings of the study are as follows:

8.1 FINDINGS

Chapter I presents the introduction, statement of the problem, objectives, scope of the study, importance of the study, research methodology, limitations of the study and the chapter scheme.

A review of literature made from both the Indian and foreign studies relating to determinants of capital structure and the impact of capital structure on firm value has been summarised in the **Chapter II.** Barely very few studies has been found in impact of capital structure on firm value of service sector which has helped in identifying the research gap.

Chapter III presents the overview of capital structure and its determinants. It also deals with the profile of the four service industries such as, healthcare, hotels, software and transport industry.

Chapter IV deals the result of the first objective i.e. to analyse the components of capital structure of service sector in India. Various statistical tools namely mean, standard deviation, coefficient of variation and ANOVA has been applied to evaluate its components. The findings of descriptive statistics and ANOVA are as follows:

Healthcare Industry

- ❖ The components of capital structure of large cap companies indicates that the ESC and debentures shows an increasing trend whereas retained earnings and PSC shows a fluctuating trend throughout the study period. It concludes that large cap companies are highly depend on the external financing for their capital structure.

- ❖ Test of comparison of mean values across the large cap companies shows that ESC, PSC and debentures significantly vary across the year during the study period.
- ❖ The components of capital structure of mid cap companies indicates that ESC and retained earnings shows an increasing trend whereas debentures shows a fluctuating trend throughout the study period.
- ❖ Analysis of variance across the mid cap companies indicate that ESC and debentures has varied significantly throughout the study period. It shows that ESC and debentures played a predominant role in mid cap companies
- ❖ The components of capital structure of small cap companies indicates that ESC shows an increasing trend whereas retained earnings and debentures shows a fluctuating trend throughout the study period.
- ❖ Test of comparison of mean values across the small cap companies shows ESC and debentures significantly vary across the year during the study period. It indicates that capital structure of small cap companies highly depend on the owners fund and external finance.

In general it has been found that, owners fund and external finance are the predominant source of finance and the companies raise their majority of the funds through these sources.

Hotel Industry

- ❖ The components of capital structure of large cap companies shows that the ESC shows an increasing trend whereas retained earnings and debentures shows a fluctuating trend throughout the study period.
- ❖ Analysis of variance indicates that ESC, PSC and debentures significantly vary across the year during the study period.
- ❖ The components of capital structure of mid cap companies shows that all the components has fluctuating trend throughout the study period. It also conclude that mid cap companies in hotel industry has highly depend on external finance.
- ❖ Analysis of variance indicates that ESC, PSC and debentures has significant variation across the year during the study period.

- ❖ It concludes that the components of capital structure of small cap companies shows that ESC shows an increasing trend while retained earnings and debentures shows a fluctuating trend throughout the study period.
- ❖ Analysis of variance across the small cap companies indicates that ESC and debentures significantly differ among the small cap companies in hotel industry. This result indicates that these components played a major role in capital structure of small cap companies.

It concludes that, ESC and debentures are dominating and are used as their main source of finance in their capital structure. The companies in hotel industry has highly raised their funds through ESC and debentures.

Software Industry

- ❖ It concludes that ESC shows an increasing trend whereas retained earnings and debentures shows the fluctuating trend throughout the study period. Results indicates that the large cap companies in software industry highly depend on internal finance and it supports the pecking order theory that the companies resorting to internal finance.
- ❖ Test of comparison of mean values across the large cap companies shows that all the components significantly vary across the year during the study period.
- ❖ The components of capital structure of mid cap companies shows that ESC shows increasing trend while retained earnings and debentures shows a fluctuating trend throughout the study period.
- ❖ Analysis of variance across the mid cap companies show that all the components significantly vary across the year during the study period. It indicates that all the components has played a major role in the capital structure of mid cap companies.
- ❖ The components of capital structure of small cap companies indicates that ESC shows an increasing trend whereas retained earnings and debentures shows an fluctuating trend throughout the study period.
- ❖ Test of comparison of mean values across the small cap companies in software industry shows that ESC and debentures vary significantly across the year during the study period. It indicates that these components has highly influenced the capital structure of small cap companies.

In general, software companies in large cap are using retained earnings as its predominant source of finance in their capital structure and it supports the pecking order theory while companies in mid and small cap highly raise their funds through ESC and debentures.

Transport Industry

- ❖ The components of capital structure of large cap companies in transport industry indicates that all the components are showing an increasing trend throughout the study period. It concludes that the debentures played a major role in capital structure of large cap companies in transport industry
- ❖ Analysis of variance indicates that ESC, retained earnings and debentures significantly vary across the year during the study period.
- ❖ The components of capital structure of mid cap companies shows an increasing trend in case of ESC whereas retained earnings and debentures shows a fluctuating trend throughout the study period. It concludes that mid cap companies in transport industry raise their funds on external finance.
- ❖ Test of comparison of mean values across the mid cap companies shows that ESC, PSC and debentures vary significantly across the year during the study period. It indicates that these components has played a major role in the capital structure of mid cap companies in transport industry.
- ❖ The components of capital structure of small cap companies shows an increasing trend in ESC whereas retained earnings and debentures shows a fluctuating trend throughout the study period. It has been observed that debentures are the major source of finance in transport industry followed by ESC.
- ❖ Analysis of variance indicates that ESC, PSC and debentures significantly vary across the year. It indicates that these components has played a predominant role in the capital structure of small cap companies in transport industry

To conclude it has been observed that, the companies in all capitalisation has highly raised their majority of the funds through debentures. It indicates that external financing is the key source of finance in capital structure of transport industry.

Chapter V depicts the analysis of determinants of capital structure of service sector using correlation analysis, multiple regression and step wise regression analysis. The key findings has been discussed below.

CORRELATION ANALYSIS

Healthcare Industry

It has been evident from large cap companies, tangibility and non-debt tax shield has significant positive correlation with capital structure whereas size of the firm, inflation and GDP shows a negative significance with capital structure.

It has been found from the mid cap companies, capital structure has significant positive correlation with current ratio, Interest coverage ratio and profitability. Size of the firm, tax rate, age of the firm and non-debt tax shield has been found to have significant negative correlation with capital structure.

Cost of debt has a significant positive correlation with capital structure. Interest coverage ratio, tangibility and non-debt tax shield has significant negative correlation with capital structure of small cap companies.

To sum up, tangibility has a positive relationship with capital structure and it reveals that companies with more tangible assets have greater borrowing capacity by using fixed assets as collateral for debt. Non debt tax shield has negative association capital structure of mid and small cap companies. These findings are supported by the results of Rachel Nancy Philip (2002), Kibrom Melhari Fisseha (2010), Afzal (2012), Ajanthan (2013), Marym Ahani (2015), Nadeem Ahmed Sheikh (2015) and Cristian Paun (2016).

Hotel Industry

Capital structure has significant negative correlation with size of the firm in large cap companies and no variables has positive relationship with capital structure.

It has been evident from mid cap companies, tax rate and tangibility has significant positive correlation with capital structure. Capital structure has significant negative correlation with return on equity, dividend payout ratio and cost of debt.

In small cap companies, non-debt tax shield has significant positive correlation with capital structure. Capital structure has significant negative correlation with the return on equity, GDP and bank rate.

In general, the capital structure of large cap companies in hotel industry has negative association with size of the firm. In case of mid and small cap companies, return on equity has a negative relationship with capital structure. The results are in line with the findings of Kibrom Mehari Fisseha (2010) and Cristian Paun (2016).

Software Industry

In large cap companies, capital structure has significant positive correlation with tax rate whereas profitability has a significant negative relation with capital structure.

It has been found from mid cap companies, size of the firm and tax rate has significant positive correlation with capital structure. Capital structure has been found to have significant negative correlation with current ratio, profitability, return on equity, dividend payout ratio and cost of debt.

In small cap group, tangibility and non-debt tax shield has significant positive correlation with capital structure whereas capital structure has significant negative correlation with Current ratio and return on equity at one per cent significance level.

To conclude, it has been observed from the above that profitability has positive relationship with capital structure as retained profit is the quickest and easiest source of finance for most companies compared with new equity issuance due to the transaction costs associated with share issuance. Therefore retained profit is the primary method of raising additional capital. Tax rate has negative association with capital structure in large and mid cap companies whereas tangibility and non debt tax shield has positive association with capital structure in small cap companies. These findings are supported by the earlier studies of Yuankin Liu and Jing Ren (2009), Ajanthan (2013), Gichangi Nicholas Kinyua (2014) and Santhiyavalli (2004).

Transport Industry

In large cap, capital structure has significant positive correlation with tangibility. Current ratio and interest coverage ratio has significant negative correlation with capital structure.

It has been found from mid cap companies, interest coverage ratio, profitability, tax rate, return on equity, dividend payout ratio, cost of debt, GDP and bank rate has significant negative correlation with capital structure, In small cap group, profitability and non-debt tax shield has significant positive correlation with capital structure. Age of the firm has significant negative correlation with capital structure.

To summarise, tangibility has positive relationship with capital structure in large cap companies reveals the important role of fixed assets as collaterals in borrowing process while the variable profitability has a negative association with capital structure in mid cap and positive association with capital structure in small cap companies. These results are supported by Yuankin Liu and Jing Ren (2009) Kibrom Melhari Fisseha (2010), Karunaiathal (2013), and Gichangi Nicholas Kinyua (2014).

MULTIPLE REGRESSION

The following are the results of multiple regression analysis for the determinants of capital structure of service sector.

Healthcare Industry

The regression results shows that the regression co-efficient of tangibility has a positive effect on capital structure whereas cost of equity and inflation has negative effect on capital structure. Step wise regression results reveal that tangibility and size of the firm highly contributes to the capital structure.

The regression results of mid cap group shows that the regression coefficient of tangibility has a positive effect on capital structure while tax rate, non-debt tax shield, dividend payout ratio and cost of debt has negative effect on capital structure. Step wise regression results shows that tangibility and non-debt tax shield highly contributes to the capital structure followed by cost of debt, tax rate and GDP.

The regression result of small cap companies depicts that size of the firm and non-debt tax shield has positive effect on capital structure while tangibility has a negative effect on capital structure. Step wise regression results reveal that tangibility and size of the firm are most prominent variables that influence capital structure followed by bank rate and interest coverage ratio.

To sum up, the variable tangibility has a positive influence on capital structure in case of large and mid cap companies. It has supported the agency theory, trade off theory and pecking order theory. According to agency theory, companies with more fixed assets may provide collaterals and benefits from lower interest rate. The variable namely non debt tax shield and cost of debt negatively influence the mid cap companies while non debt tax shield positively influence the small cap companies. Similar findings are related to the earlier studies of Ferina Nurality (2011), Qurat Ul Ain and Sharif Ullah Jan (2011), Afzal (2012).

Hotel Industry

The regression coefficient results of large cap companies shows that age of the firm shown a positive influence on capital structure whereas size of the firm and profitability shows a negative impact on capital structure. Step wise regression results show that size of the firm contributes highly on capital structure followed by profitability and current ratio.

The regression result of mid cap companies shows that tax rate, age of the firm, and GDP shown a significant positive effect on capital structure while size of the firm, return on equity and dividend payout ratio has revealed a significant negative impact on capital structure. Step wise regression has revealed that tax rate and dividend payout ratio are most significant variables that influence capital structure followed by GDP and return on equity.

It is found from regression results of small cap companies, age of the firm, non-debt tax shield and GDP shows a significant positive impact on capital structure whereas return on equity and dividend payout ratio has significant negative impact on capital structure. Step wise regression analysis shows that return on equity, GDP and non- debt tax shield are the variables prominently associated with capital structure.

On the whole, the variable age of the firm has positive influence on capital structure in large cap companies. The variables return on equity, dividend payout ratio and GDP has negative influence with capital structure in mid and small cap companies. Similar findings are related to the earlier studies of Yesodha devi (1992), Sandhiyavalli (2004), Kibrom Melani Fisseha (2010), Charles Muthama (2013), Hashmukhkumar Babubhai Ghelani (2015) and Sakshi Khanna (2015).

Software Industry

From the regression result of large cap group, return on equity have significant positive impact on capital structure whereas profitability, age of the firm and dividend payout ratio has significant negative influence on capital structure. Step wise regression analysis discloses that profitability and return on equity are the most prominent variables that accounts for the variation in capital structure.

The regression result of mid cap companies shows that size of the firm and tax rate has a significant positive influence on capital structure and current ratio has a significant negative impact on capital structure. Step wise regression analysis shows that tax rate and current ratio are most significant variables that influencing capital structure followed by size of the firm and return on equity.

From the regression analysis of small cap group**,** it reveals that capital structure has significant positive impact on age of the firm, growth, GDP and bank rate while current ratio, return on equity, dividend payout ratio and bank rate has negative influence on capital structure. Step wise regression analysis revealed that current ratio and return on equity are most prominent variables influence capital structure followed by GDP and age of the firm

On the whole, the variables namely age of the firm and dividend payout ratio has negative influence with capital structure in large and small cap companies. Whereas size of the firm and tax rate has positive influence with capital structure in mid cap companies. Similar findings are related to the earlier studies Rajeshwari (2009), Palti Maruli Tua Sitorus (2014), Maruthu Pandian and Hema Prassana (2015), Nadeem Ahmed Sheikh (2015) and Luis Pacheco and Fernando Tavares (2016).

Transport Industry

The regression coefficient result of large cap companies shows that return on equity and tangibility has significant positive influence on capital structure. Interest coverage ratio, profitability, tax rate, age of the firm and inflation has negative impact on capital structure. Step wise regression analysis shows that tangibility and non-debt tax shield are the most prominent variables that accounts for the variation in capital structure followed by age of the firm and interest coverage ratio.

The regression coefficient analysis of mid cap companies discloses that size of the firm, growth and GDP has positive impact on capital structure and current ratio, return on equity, dividend payout ratio and inflation has significant negative influence on capital structure. Step wise regression analysis revealed that interest coverage ratio and GDP are the variables prominently influence the capital structure followed by return on equity and growth.

From the regression analysis of small cap group revealed that current ratio, age of the firm and tangibility has significant negative impact on capital structure whereas growth, non-debt tax shield, inflation and GDP has positive influence on capital structure. It has been found from the step wise regression analysis that non-debt tax shield and tangibility are the most prominent variables that accounts for the variation in capital structure.

To sum up, tangibility has a positive influence on capital structure in large cap companies it has supported the agency theory, trade off theory and pecking order theory. It explains that companies with more tangible asset has greater borrowing capacity by using tangible asset as collateral for debt. The result gained support from the studies conducted by Ferina Nurlaily (2011), Quart Ul Ain (2011) and Natalia Mokhova and Marek Zinecher (2013).

Chapter VI reveals the third objective i.e., impact of capital structure on profitability of service sector. To achieve this objective variables namely return on investment is used to calculate the profitability. The statistical tools correlation, regression and step wise regression has been applied. The results has been discussed below.

CORRELATION ANALYSIS

Healthcare Industry

Companies in large cap shows that ESC has negative relationship with profitability. It indicates that increase in owners fund decrease the profitability during the study period. In mid cap, it indicates that increase in internal financing through retained earnings shall increase the profitability. In small cap, it shows that increase in ESC shall decrease the profitability whereas raising in retained earnings shows a significant increase in profitability.

Hotel Industry

Large cap companies shows that financial leverage has a negative relationship with profitability whereas internal financing shows a significant increase in profitability.

Debentures shows a negative relationship with profitability under mid cap companies clearly indicates that internal financing through retained earnings has significant increase in profitability.

In small cap group companies, ESC shows a negative relationship with profitability whereas retained earnings has a positive relationship with profitability. It indicates that companies has minimum capital in their structure would prefer internal financing to increase their profitability.

Software Industry

Companies in large cap group indicates that raising funds in internal financing such as PSC and retained earnings shows a significant increase in profitability. Leverage shows negative relationship with profitability whereas internal financing through retained earnings aid to enhancement of profitability in mid cap companies. In small cap companies, through internal financing has increased considerably the profitability has increased modestly.

Transport Industry

Large cap group companies indicates that, increase in owners fund shall decrease the profitability whereas retained earnings played a significant role in maximising the profitability. Raising funds in internal sources such as PSC and retained earnings aid to maximise the profitability in mid cap group companies. Companies with small capitalisation indicates that, increasing considerably in internal funds maximise the profitability modestly.

MULTIPLE REGRESSION AND STEP-WISE REGRESSION

Healthcare Industry

Multiple regression analysis of large cap companies indicates that leverage has no impact on profitability. It states that changes in capital structure does not affect the profitability. Internal financing through retained earnings has an effective influence on profitability of companies with medium capitalisation. In small cap, retained earnings is the prominent component account for the variation in profitability.

Hotel Industry

In large capitalisation companies, the net profit margin shows a steady increase when the companies increase their internal financing through retained earnings whereas increase in ESC shows a decline in profitability. In mid cap group companies, profitability shows a modest rise while retained earnings has been increase indicating that raising funds in retained earnings helps to generate the higher turnover. Companies with minimum capitalisation shows that profit margin has a steady growth when retained earnings has increased.

Software Industry

In large, mid and small capitalisation level of companies, increase in internal financing through retained earnings helps to improve the turnover. It indicates that retained earnings is the prominent component for variation in profitability. It concludes that as per pecking order theory the companies in software industry has resorted internal finance through retained earnings helps to generate higher turnover.

Transport Industry

In large cap companies, steady increase in debentures and utilisation of internal funds such as retained earnings has helps the companies to attain a healthy turnover. In group of mid cap companies, increase in internal financing such as PSC and retained earnings shows a steady increase in profitability whereas increase in owners fund and debentures shows a decline in profitability. In companies with minimum capitalisation, external financing such as retained earnings has an effect on profitability indicates that increase in retained earnings helps to generate higher turnover.

Chapter VII deals with the fourth objective i.e., impact of capital structure on firm value of service sector. To analyse this objective variables namely enterprise value and market capitalisation are used. The statistical tools correlation and regression has been applied. The results of analysis has been discussed below.

CORRELATION ANALYSIS FOR ENTERPRISE VALUE

Healthcare Industry

In large cap companies, debentures play a significant role in maximising the enterprise value while other components has a minimum contribution towards magnifying the enterprise value. In mid cap group companies, results indicate that retained earnings and debentures components contribute significantly in enlarging the enterprise value as retained profit is the quickest and easiest source of finance for most companies compared with new equity issuance due to the transaction costs associated with share issuance. Owners fund and debentures has played a vital role in maximising the enterprise value in case of companies with minimum capitalisation.

Hotel Industry

The components of capital structure of large cap companies indicates that ESC and debentures has played a significant role in maximising the enterprise value. In mid cap companies, PSC, retained earnings and debentures has shown a significant increase in enterprise value. ESC, retained earnings and debentures shows a significant importance in magnifying the enterprise value in companies with minimum capitalisation.

Software Industry

In large cap companies, ESC, PSC and retained earnings has shown a significant role in enlarging the enterprise value while debentures is being minimised to magnify the enterprise value. ESC, PSC and debentures has shown a significant increase in enterprise value in case of mid cap companies. In small cap group, internal financing such as retained earnings and debentures has played a significant role in maximising the enterprise value as retained profit is the quickest and easiest source of finance.

Transport Industry

In large cap, components namely ESC, PSC, retained earnings and debentures has shown a significant increase in enterprise value. External financing such as debentures has played a vital role in enhancement of enterprise value of mid cap companies. The company would use more debt instruments so as to maximize the value of the firm, which will in turn maximize the shareholders wealth. In small cap companies, ESC, retained earnings and debentures has significant role in maximising the enterprise value.

MULTIPLE REGRESSION FOR ENTERPRISE VALUE

Healthcare Industry

In large cap, external financing has played a vital role in enhancement of enterprise value and it supports the trade-off theory. Internal financing such as ESC and retained earnings has played a significant role in maximising the enterprise value which supports the pecking order theory with companies resorting to internal financing in mid cap companies. In companies with minimum capitalisation, ESC has an effective influence on enterprise value.

Hotel Industry

ESC and debentures played a significant role in maximising the enterprise value of large cap companies. In mid cap companies, retained earnings and debentures shown a significant increase in enterprise value. The results of companies with small capitalisation indicates that internal financing such as ESC and retained earnings has an effective influence on enterprise value.

Software Industry

In large cap, internal financing such as ESC and retained earnings played a significant role in maximising the enterprise value while debentures is being minimised to magnify the enterprise value. Debentures has an effective influence on enterprise value of mid cap companies. The company would use more debt instruments to maximize the value of the firm, which will in turn maximize the shareholders wealth. In small cap companies, retained earnings and debentures played a significant role in enlarging the enterprise value.

Transport Industry

In large cap, retained earnings and debentures are the major components that magnifies the enterprise value which will in turn maximise the shareholders wealth. Debentures has an effective influence on enterprise value of mid cap companies and it supports the existing theory such as trade off. In small cap group, ESC, retained earnings and debentures has an effective influence on enterprise value.

CORRELATION ANALYSIS FOR MARKET CAPITALISATION

Healthcare Industry

In large cap, external financing like debentures has played a significant role in maximising the market capitalisation. The components namely retained earnings and debentures has shown a significant increase in market capitalisation of mid cap companies. In small cap group, internal financing such as ESC has played a vital role in enhancement of market capitalisation.

Hotel Industry

ESC has a significant increase in market capitalisation of companies with large capitalisation. In mid cap, internal finance namely PSC and retained earnings has played a significant role in maximising the market capitalisation. In small cap group, ESC and retained earnings has played a vital role in enhancement of market capitalisation.

Software Industry

Market capitalisation of large cap companies has increased when the companies prefer internal financing such as ESC and retained earnings. In mid cap, retained earnings played a significant role in maximising the market capitalisation. Companies with small capitalisation, retained earnings is the only component played a significant role in enlarging the market capitalisation.

Transport Industry

In large capitalisation companies, leverage played a significant role in enlarging the value of market capitalisation. In mid cap group, debentures is the component that magnifies the value of market capitalisation. ESC, retained earnings and debentures has played a vital role in enhancement the value of market capitalisation.

MULTIPLE REGRESSION FOR MARKET CAPITALISATION

Healthcare Industry

In large cap group, debentures has played a significant role in enhancement of value of market capitalisation. Companies in mid group results indicate that retained earnings has a significant role in maximising the value of market capitalisation and it supports the pecking order theory with companies resorting to internal financing. In mid cap group, ESC has an effective influence on market capitalisation.

Hotel Industry

In large cap, ESC played a significant role in maximising the value of market capitalisation which will in turn maximise the shareholders wealth. Retained earnings has played a vital role in enhancement of market capitalisation of mid cap companies. In small cap group, internal financing played a significant role in maximising the value of market capitalisation while debentures is being minimised to magnify the value of market capitalisation.

Software Industry

In large cap group, ESC and retained earnings has positive influence on market capitalisation while in case of debentures it reveals insignificant influence over market capitalisation. Retained earnings has an effective influence on market capitalisation of mid cap companies. In small cap, retained earnings has played a vital role in enhancement of value of market capitalisation.

Transport Industry

Retained earnings and debentures has an effective influence on market capitalisation of companies with large capitalisation. In mid cap companies, debentures played a significant role in maximising the value of market capitalisation. In small cap group, ESC, retained earnings and debentures played a significant role in magnifying the value of market capitalisation while PSC is being minimised to enlarging the value of market capitalisation.

8.2 SUGGESTIONS

The following suggestions can be considered for the growth and development of select service industries in India.

- Raising debentures for the future requirement of funds, the companies should observe the interest rates. The timing of adding debentures into the financial structure is important. Management should also compare the interest rates with the companies' earnings to minimize the risk of the equity shareholders.
- The advantage of a tax shelter motivates the company to raise more debt as external finance. A higher level of debenture increases default risk, which in turn, increases the chance of bankruptcy for the company. Therefore, the company should concentrate on optimal capital structure by including debentures which in turn will minimize the cost of capital and it will reduce the chances of bankruptcy.
- Owners of the firm and managers should take a positive initiative in improving firms' accessibility to external sources of debt and equity financing. Owners should recognise that asymmetric information would restrain firms from accessing bank loans or other external sources of funds. This would allow the firms to receive larger levels of credit in general.
- The Management should look into the future prospects of the companies while designing the capital structure policies, because it affects the return on equity and market price of its shares for longer periods.
- The companies are taking capital structure decisions without any strategic focus. Hence, it is recommended that the management need to focus on issues like changes in tangible assets, growth prospects and tax advantage while taking decision on capital structure.
- Management should be completely aware of the important role of tangible assets as collaterals in one hand. As a result, the companies trying to use more funds, should try to increase their tangibility of assets. Thus tangible assets are more secured and banks can rely more on their liquidation value.
- Highly tangible firms are found to have an easy access to long term finance. Hence growing firms should emphasis to accumulate more tangible asset and utilize their fund very effectively to generate high return.

- The firm has to give importance to long-range planning, day-to-day administration and appraisal of results to check the profitability position on regular intervals. The firms have to make the best use of the capital and increase the return on equity so that it attracts investors.
- Management should be aware of the issues as they reflect the overall capital structure decision-making at different stages of the economy within India. Effective and efficient decision-making leads to cost reductions and, thus, maximizes the wealth of the shareholders.

8.3 SCOPE FOR FURTHER RESEARCH

The present study on the whole is a fact finding research on the capital structure and impact on firm value of service sector from 2002-03 to 2016-17. Any research study can explore only a limited filed of knowledge. There are many aspects which need to be research further.

- A scope for further research also exists in the area of technological trends, global competitiveness, merger and acquisitions, takeovers, diversification etc.
- Other interesting area is to explore the area of capital structure by comparing the public sector companies and private sector companies of large cap, mid cap and small cap companies.
- 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 capital structure of the companies, therefore, an attempt shall be taken to test the companies in different age groups.
- There is scope for studying the effect of the capital market on the capital structure.

8.4 CONCLUSION

A study on capital structure is very much needed in the present competitive globalised economic environment. An appropriate capital structure make every company to achieve the efficient capitalisation, earning capacity and the sustainability of company performance in its operational activity. Even though there are several factors that contribute to the company’s performance, determinants of the capital structure play an important role.

Therefore, it is necessary to identify that which variable plays a predominant role in company's capital structure composition. Hence, the present study has been undertaken with the objective of finding out the influence of determinants in capital structure and impact on firm value of service industries. The result of analysing components of capital structure reveals that predominance of debentures as a major source of finance in service industries. In large cap companies, equity share capital, preference share capital and debentures plays a vital role in capital structure where as in mid cap companies debentures are major source of finance followed by equity share capital. In small cap companies both equity share capital and debentures are main component in capital structure.

The major factors influencing the capital structure in service industries, namely, tangibility, non- debt tax shield, tax rate and size of the firm are the most significant variables in healthcare industry. Size of the firm, profitability, tax rate, GDP and non- debt tax shield seem to have significant influence in hotel industry. Variables namely, profitability, tax, current ratio, size of the firm and return on equity highly influence the capital structure in software industry. Tangibility, interest coverage ratio, GDP, tax rate, age of the firm along with non- debt tax shield has dominated the capital structure of the companies in transport industry. From the analysis of impact on profitability, the results shows that retained earnings have a significant influence on profitability of service sector. The analysis of impact of capital structure on firm value discloses that debentures plays a significant role in enterprise value of service sector while equity share capital and retained earnings have a minimum contribution towards magnifying the enterprise value of the firm. According to the market capitalisation, retained earnings plays a major role to increase the market capitalisation whereas other components except preference share capital shows a lowest influence on market capitalisation. Hence, the optimal capitalisation plays a vital role in every company to taking all the financial decision. An ideal debt-equity ratio may vary to the different type of companies with different size. Each company has its own internal and external factors. Thus, the findings, suggestions given in the study would help the company to take efficient decision during the unexpected occurrences of losses and to maximise the profitability of the company.