Chapter II

Review of Literature

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REVIEW OF LITERATURE

2.1 INTRODUCTION

A literature review is a critical and an in depth evaluation of previous research. It helps to know the work in the context of what have been done already and provides a framework for further research. Capital structure is an area which has been studied over a long period in different perspectives by the researchers, economists and academicians in India and foreign. Most of the studies have concentrated on the capital structure theories whereas other studies focused on the factors affecting the capital structures of companies in manufacturing sector. The works contemplates on finding out the optimal capital structure that enhances the value of the firm in service sector. The review of the past literature give us a detailed knowledge of different aspects of research that has been carried out and how important will the study be in this concern and helps in identifying the research gap to carry out the research. Here a few Indian and foreign research reviews relating to the topic has been presented.

2.2 INDIAN REVIEWS

Anshu Bhardwaj (2010)[1] made a study on "**An Analysis of the Debt Equity Structure of Selected Pharmaceutical Firms in India"** The present study examine, the industry benchmark and scrutinize how capital structure plays a momentous role in the company's overall growth. The paper analyses the capital structure of 7 pharmaceuticals firms in India whose turnover is more than Rs.1500 crore as per the financial year of 2009-2010. The financial results of the various pharmaceutical firms have been considered and concluded that leverage seems to be working in favour of a few firms while moving in opposite direction for the other firms. Firms that have been moderately geared are able to generate good returns to shareholders (ROE). The reassessment of the debt-equity mix would result in a better financing decisions and enhances financial performance for other firms. Besides new ROE have also been calculated and findings confirmed that the firm generating highest ROE is the same. In order to evaluate more realistically on a firm's performance, market capitalisation can also be a true barometer. The movement in stock prices may also be one of the factors that affects the investor's decision making. Despite low ranking in ROE for few firms, they are quiet popular amongst the investors.

Manokaran (2011)[2] made an attempt on **"Capital Structure and Its Impact on Profitability of Selected Services Sector Industries in India"** The study aims at analysing the capital structure and its impact on profitability of selected services sector industries in India. Sample selection of the study is 260 companies in service industry. Data were collected from the period of 1995-96 to 2009-2010. 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. The researcher suggested that the service industries may liberalize their borrowing policy and add the cheapest source of fund to broaden their growth and contributions towards the development of Indian economy. To conclude that the services sector industries in India have depended more on internal funds rather than using external sources.

Ramachandran Azhagaiah and **Candasamy Gavoury (2011)[3]** inspect on **"The Impact of Capital Structure on Profitability with Special Reference to IT Industry in India"**. The study establish the Capital Structure (CS) effects on business revenue and interrelationship between cs and Profitability. Analysis has been made for a period of 8 years ranging from 1999-2000 to 2006-2007 and the regression Analysis has been used to analyse the objective. The study concluded that there has been a strong relationship between capital structure variables and Profitability variables i.e Return on Assets (ROA) and Return on Capital Employed (ROCE) and the capital structure has significant influence on Profitability. Increasing debt fund in capital structure tends to minimize the net profit of the IT firms listed in Bombay Stock Exchange in India.

Avanish kumar shukla (2012)[4] made a research on **"Capital Structure Determinants: Critical Review for Selected Indian Companies"**. This study is conducted with an Ordinary least square (OLS) regression method, to identify major determinants of capital structure. For conducting the study, annual reports of 55 companies, listed in stock exchange in India, were collected for the last 6 years i.e. from 2006 to 2011. The multiple OLS regression model and tobit regression model were used for analysis which shows that negative impact of agency cost on total debt ratio of Indian companies. Tax rate shows positive impact on the long term debt and non-debt tax shields shows negative impact on the total debt ratio. There is no significant impact of bankruptcy and

profitability on leverage ratios, while total and long term debt ratios are significantly determined by firm size. Collateral volume of assets positively influence on the total debt ratio while industry characteristic has been found to be a significant determinant of debt ratio.

Gurmeet Singh (2013)[5] conducts a study on **"Interrelationship between Capital Structure and Profitability with Special Reference to Manufacturing Industry in India"**. This study analyses the influence of capital structure (CS) on profitability of manufacturing firms in India. The data has been collected for the period of 8 year from 2004-05 to 2011-12 of 110 manufacturing firms and correlation & regression tools were used. The study shows that Capital Structure variables have a significant relationship with Return on Assets (ROA), Return on Capital Employed (ROCE) and the Capital Structure has significant influence on Profitability. It is concluded that the increase in use of debt fund in Capital Structure tends to minimize the net profit of the Manufacturing firms listed in Bombay Stock Exchange in India.

Khalid Ashraf Chisti et al. (2013)[6] inspect a study on "**Impact of Capital Structure on Profitability of Listed Companies (Evidence from India)".** The paper attempts to ascertain the impact of capital structure on profitability of ten firms in automobile study. The study covers the period of five years from 2007-08 to 2011-12. To achieve this objective ratio analysis and correlation tools has been used. The findings of the study disclose that debt to equity ratio is negatively correlated with profitability ratio whereas debt to asset ratio and interest coverage ratio are positively and significantly correlated with profitability ratio. Debt to assets and interest coverage ratios are negatively correlated with debt to equity ratio while debt to assets ratio is significantly and positively associated with Interest Coverage ratio. The study concludes that the capital structure of firms in automobile industry have significant impact on the profitability of the firm.

Nilesh M Patel and Viral Bhatt (2013)[7] investigates on **"Capital Structure and Profitability: Case of National Stock Exchange".** The main objective of this research is to make effort to know the relationship between capital structure and profitability of non-financial firms listed on National Stock Exchange for the period from 2007 to 2011 in India. To analyse this objective correlation and regression tools has been used. The results show that net operating profitability have a negative relationship with debt ratio and long term debt. Profitability shows a positive relationship with shareholder's equity and size of

the firm. It concludes that the firms having more profitability tend to use less debt in their financing decisions and the firms having less profit are influenced to have more debt.

Sukhdevsingh and rajniluthra (2013)[8] conduct a study on "**A Comparative Study of Trends in Corporate Capital Structure Pattern of Refinery and Metal Industry"** to understand the importance of financing pattern in capital structure decision. The authors has analysed the emerging trends & practices in financing pattern of capital structure pattern of metal and refinery industry in India. To analyse these objective 13 refinery companies and 11 metal companies has been chosen for a period of 10 years from 2002-2003 to 2011- 2012 and trend analysis tool has been used. The data of these companies have been collected from the audited financial statements of the companies published in their annual reports as well as from capital line database. It has been concluded that metal industry is using more debt financing in its capital structure pattern as compared to refinery industry.

Avinash Jawade (2014)[9] made a research on **"Capital Structure and its Impact on Profitability: An Empirical Study for Pharmaceutical Companies with Special Reference to their Market Capitalisation".** The paper analyses the influence of capital structure on profitability of pharmaceutical companies across various market capitalisations. To analyse the seven pharmaceutical companies, data has been collected for a period of 6 years from 2008 to 2013 were collected. It concludes that large cap companies have high leverage and it increases the profitability whereas mid cap firms increases debt financing to increase its profitability. Small cap companies concerned for the study have a moderate leverage with steady profitability.

Kamlesh S. Dave (2014)[10] made a study on "**Trend Analysis of Capital Structure in Indian Two Wheeler Automobile Companies**". The main purpose of the study was to analyse the capital structure trend in automobile industry in India. To analyse this objective secondary data has been used. The period covered for the analysis is from 1999-2000 to 2009-2010.The findings of the study discloses that the profitability ratios like net profit ratio, ROI, EPS and return on net worth of Bajaj Auto Ltd are better than that of Hero Honda Motors Ltd. It concluded that the capital structure of both the selected companies are satisfactory, Bajaj Auto Ltd is more consistent in its performance than that of Hero Honda Motors Ltd.

Ruchi Malhotra et al. (2014)[11] made an attempt on **"Empirical Analysis Determinants of Capital Structure in Selected Sectors".** The objective of this paper is

to examine vital determinants of capital structure decisions of selected sectors like banking, textile, pharmaceutical, computer and software, power generation and distribution and FMCG. Data has been collected for a period of 13 years for 203 companies from 2000-01 to 2012-13 were collected. The results indicate that debt equity or leverage change with liquidity, DPR, profitability, size, NDTS, growth and tangibility. This shows that trade-off and pecking order theories support the external financing than internal financing.

Sathyanarayana Nagesh Malavalli (2014)[12] examined on **"An Analytical Study on the Determinants of Capital Structure in Indian Automobile, IT and Hotel Sectors".** This study intends to examine the relationship between various factors and its impact on the capital structure of the Indian Automobile, IT and Hotel sector. Data for ten years from the years 2003-04 to 2012-13 of automobile, IT and Hotel companies are tested for multicolinearity and multiple regression models are used to assess the influence of defined explanatory variables on capital structure. The study reveals that the tangibility and profitability have a significant influence on capital structure in all the three sectors.

Vincent KonaduTawiah (2014)[13] conduct a study on "**Trend in Capital Structure; A Comparative Study of companies in Ghana and India**". The objective of the study is to investigate the emerging trends in capital structure patterns of firms in Ghana and India. To analyse this objective, 20 listed firms were selected from Ghana and India. The study covers a period of 5years from 2009 - 2013 and trend analysis was used to analyse these objectives. It was found out that firms in Ghana is less debt financing in its capital structure pattern as compared to firms in India. Indian firms are decreasing the debt finance over the period while Ghana firms are increasing at (1 per cent) a marginal rate. Due to the higher interest rate, there was a less debt finance in Ghana. In India, to reduce the firm borrowing shareholders has been boosted by higher performance and efficient capital market.

Nilesh P. Movalia (2015)[14] inspects "**A Study on Capital Structure Analysis and Profitability of Indian Tyres Industry**". Major purpose of this research is to know the relationship between Capital Structure and Profitability of Tyre Industry in India by studying all the 14 companies listed under BSE and NSE in India. The five years data from 2009-10 to 2013-14 were undertaken for the study and the study is based on secondary data where Durbin- Watson Statistic test was used for testing hypotheses. From the analysis it is found that there is a significant relation between Capital structure (Debt-equity ratio) and

Profitability ratios (Net Profit Ratio, Return on Equity and Return on Capital Employed) of tyre companies. MRF, Apollo Tyres, Dunlop India and Modi Rubber companies are showing that debt equity ratio helps to increase profitability of the company.

Rajesh Tiwari and **Priyanka kumara (2015)**[15] made a study on **"Dividend and Capital Structure Pattern in Information Technology Industry: A Case Study of Tata Consultancy Services"**. The paper attempts to analyse the financial performance and relationship between dividend payment and capital structure of Tata Consultancy Services (TCS). The study was analysed for a period of five years from 2008-2009 to 2012-2013. The findings of the study support the Modigliani and miller approach of irrelevance and dividend policy on the market value of the firm. The financial performance of the company has been found to be satisfactory and the company provides a good investment opportunity in the long-term returns. The study found that the capital structure and dividend payouts are not correlated with market price of share.

Sakshi Khanna et al. (2015)[16] investigate on "**The Effect of Macroeconomic Variables on the Capital Structure Decisions of Indian Firms: A Vector Error Correction Model/ Vector Autoregressive Approach**". This paper sheds light on how the macroeconomic variables affect the capital structure decisions of the firms listed in BSE India. The firms are classified into Primary, secondary and tertiary sector. The period of the study is twenty years from 1991-1992 to 2012-2013 and vector error correction model/vector autoregressive model has been used. The result shows that changes in macroeconomic environment are the reason for changes in the firm's choice of finance and the firms in primary sector depend on debentures whereas firms in secondary sector preferring retained earnings which support pecking order theory. The firm in tertiary sector prefer equity finance which support market timing theory. The regression results shows that changes in macroeconomic variables have a significant impact on the capital structure.

Gangadhar, Narasimha Chary and Deepasri (2016)[17] inspect a study on "**Capital Structure Pattern of Public Sector Enterprises- A Study of Select Companies**". The paper has attempted to study the various practices in the capital structure pattern of refinery industry in India to understand the importance of financing pattern in capital structure decisions. To achieve the objective of analysing the trend in financing pattern of selected industries, trend analysis of debt-equity ratio of 3 refinery companies has been chosen as sample size from

100 manufacturing companies for 10 years. The data of these companies have been collected from annual reports as well as from capital line database. The result concludes that firms are using both debt & equity financing as a part of their capital structure pattern. Although the trend in debt & equity financing is increasing in refinery industry which implies that due to fear of financial risk, the companies are using debt financing to the maximum.

Mohan kumar (2016)[18] investigates on in the paper entitled **"Impact of Leverage on the Capital Structure Practice of Selected Automobile Companies in India"** This study analysis the relationship between leverage & profitability of the companies using statistical tools like mean, standard deviation, variance, skewness, Kurtosis and Pearson correlation. To analyses the objective, the top five automobile companies were selected on basis of sale turnover & listed in BES stock exchange and the data has been collected from 1991-92 to 2012-13. The result reveals that there is a positive correlation between DOL, DCL & EPS and negative correlation between DFL, DER & EPS. The operating expenses of the firm and leverage of the firm have a significant influence on the earning capacity of the firm. The study concludes that leverage is considered to be an important factor which have a great impact on the profitability of the company.

Rajesh Bagga and Jaspinder Kaur (2016)[19] made a research on "**Capital Structure: A Study of Manufacturing vis-a-vis Service Industries in India**". This paper identifies the factors affecting the capital structure of manufacturing and service industries in India. To achieve this objective a sample of 196 companies for 11 years from 2003-04 to 2013- 14 has been taken for the study. The findings of the study indicates that non debt tax shield and tax has positive significant effect on the capital structure of manufacturing industry, whereas tangibility and profitability are the significant factors which greatly impacts the capital structure decision of Indian service industry.

Divya Aggarwal and Purna Chandra Padhan (2017)[20] made an attempt on '**Impact of Capital Structure on Firm Value: Evidence from Indian Hospitality Industry**'. This study inspect the effect of capital structure and firm quality on firm value of selected BSE listed Indian hospitality firms for a time period from 2001 to 2015. To analyse the objective panel data techniques by applying pooled OLS, fixed effect and random effect regression tools has been used. The findings of the study reveals that there is a significant relationship of firm value with firm quality, leverage, liquidity, size and

economic growth. The study confirms that Modigliani miller's irrelevance theorem of capital structure does not hold for Indian hospitality sector.

Deepanjali Babu Mazumder (2018)[21] inspects on **"The Impact of Capital Structure on Profitability of Listed Indian Infrastructure Companies".** The purpose of this paper is to analyse the effect of debt equity ratio on performance of infrastructure companies in India. The study covers 9 infrastructure companies listed in Bombay stock exchange and data has been collected for a period of ten years from 2007- 2017. The study concludes that the infrastructure firms under consideration have moderate debt-equity composition in their capital structure.

Kavita Chavali and Shireen Rosario (2018)[22] conduct a study on **"Relationship between Capital Structure and Profitability: A Study of Non-Banking Finance Companies in India".** The study investigated the relationship between capital structure and profitability of Non-Banking Finance Companies in India. To evaluate this objective correlation analysis has been done for the period of ten years from 2006 to 2016 of 23 non-banking finance companies in India. The findings reveal that the debt equity ratio is positively correlated with debt to Total Assets and Long term Debt to Total Assets. Debt Equity and Short term debt to Total Assets is positively correlated with ROCE and Long term debt is negatively correlated with ROCE. The study concludes that increase in debt financing will increase the profitability as debt is the cheapest source of financing.

2.3 FOREIGN REVIEWS

Arun Upneja (2001)[23] investigate on "**The Choice of Long-Term Debt in the Hotel Industry**" The purpose of this paper is to provide an empirical test of factors determining the long-term debt of hotel firms. To identify the factors determining the Long-term debt of hotel firms, regression model has been used. Variables selected for this study are growth opportunities, firm size, physical plant assets (PP&E), bankruptcy and non-debt tax shield. The result of the analysis shows that there is no significant relationship between the growth opportunity and long-term debt. The long term debt shows a positive relationship with the firm risk and fixed assets and a negative relationship with depreciation and tax shields.

Kuben Rayan (2008)[24] made a research on "**Financial Leverage and Firm Value**". The main objective of the paper is to investigate how the capital structure

influences the value of the firm. To analyse the objective, firms listed on the JSE excluding the banking and mining industries for the period of 10 years from 1997 to 2007 were collected. The result of analysis indicates that an increase in financial leverage is negatively correlated with firm value. The evidence from this study also showed that capital structure vary by industry and relationship between interest rates and capital structure is inconclusive.

Rafiu Oyesola Salawu and Akinlolu Ayodeji Agboola (2008)[25] conduct a study on "**The Determinants of Capital Structure of Large Non-Financial Listed Firms in Nigeria**". This paper inspects the capital structure determinants of non-financial firms in Nigeria. Regression tool were performed for the period of 1990-2004 for 33 large firms. The results shows that profitability, tangibility and company size are positively associated with total debt whereas long-term debt, and growth opportunities are negatively associated with total debt. The study concludes that the management ought to identify and maintain the capital structure since the point where the market value of the firm is maximized.

Waliullah and Mohammed Nishat (2008)[26] inspect on "**Capital Structure Choice in an Emerging Market: Evidence from Listed Firms in Pakistan**". This study examines the determinants of capital structure choice of listed firms in Pakistan. To achieve this objective sample of 535 public listed non-financial firms are analysed for the period of seventeen years from 1988 to 2005. To analyse this objective Autoregressive distributed lag (ARDL) econometric frame work has been used. The result shows that the firm and growth opportunities are positively related to debt ratio. The results regarding the corporate tax, dividend earnings ratio and degree of operating leverage are insignificant. It concludes that more profitable and highly liquid firm highly rely on equity financing. The result shows that state owned firms have been financed heavily through bank loans and that there is a substantial decrease in leverage after the reforms in financial and corporate sector of 1990s in Pakistan.

Rafiu Oyesola Salawu and Obafemi Awolowo (2009)[27] investigate on **"The Effect of Capital Structure on Profitability: An Empirical Analysis of Listed Firms in Nigeria".** This study investigates the influence of the capital structure on profitability of 50 non-financial companies listed in Nigeria and the data has been collected for 14 years from 1990 to 2004. The Pooled Ordinary Least Squares, Fixed Effect Model and Random Effect Model has been used in the analysis. The findings of the study reveals that the impact of capital structure on the profitability is not significant, but there is positive relationship

between profitability and short-term debt and equity on total debts is positively correlated with profitability. It concludes that firms in Nigeria depends on the external financing.

Yuanxin Liu and Jing Ren (2009)[28] identified the **"Determinants of Corporate Financial Structure for the IT Industry in China".** Researchers analysed the determinants of the capital structure for a panel of 92 IT companies listed in the China stock exchange. To achieve the objective regression tool has been used and the period of the study is 2004 -2007. Six traditional explanatory variables were adopted in the study including size, profitability, tangibility, liquidity, growth rate and growth opportunity. It was found that the size of companies is positively related to leverage while growth, profitability, liquidity, profit growth rate and opportunity are negatively associated with leverage. The sign of these relations suggest that both the pecking order theory and trade-off hypothesis are at worth in explaining the capital structure of IT companies in China.

Anup Chowdhury and Suman Paul Chowdhury (2010)[29] conduct a study on '**Impact of Capital Structure on Firm's Value: Evidence from Bangladesh**'. The paper seeks to study the impact of capital structure on the value of firm in the context of Bangladesh economy. The study analysed 77 companies from pharmaceuticals and chemicals, fuel and power, food, and engineering industry. Secondary data has been used for the period of ten years from 1994 to 2003. The finding of the paper reveals that maximizing the wealth of shareholders requires a perfect combination of debt, equity and cost of capital has a negative correlation in this decision. It also seen that market value has been increased by changing the capital structure composition of a firm

Afzal (2012)[30] studied on **"The Determinants of Capital Structure: A Comparative Study of Public and Private Firms"**. This paper inspects the determinants of capital structure of incorporated firms in United Kingdom, Netherlands and Germany. It also analyses the differences in capital structure and financing behaviour of quoted and unquoted firms. Data have been collected from 14863 firms for the year 2003- 2011. The tools used were panel OLS regression, fixed effect model and ANOVA. It is concluded from the analysis that private firms have significantly higher leverage than public firms. Leverage is positively correlated with size, tangibility and volatility while it is negatively correlated with profitability in public firms, In case of private firms, leverage is positively

correlated with growth, tangibility and volatility whereas it is negatively correlated with size and profitability.

Attiya Yasmin Javidand **Qaisar Imad (2012)**[31] inspect on **"A Decomposition Analysis of Capital Structure: Evidence from Pakistan's Manufacturing Sector"**. This study investigates the determinants of the various components of short term and long-term debt of 77 nonfinancial listed firms in Pakistan for the period 2008-2010 and panel data analysis has been used. The result shows that large firms are more likely to have access to long-term debt borrowing than small firms and that, due to supply constraints, small firms resort to short-term forms of debt.

Emil K Bratlie and Andreas Jøtne (2012)[32] in their paper "**Capital Structure in the Airline Industry - An Empirical Study of Determinants of Capital Structure**" had analysed the factors that affect the capital structure in the airline industry. The sample consists of 39 airlines from different parts of the world, and data were collected for the period of 10 years from 2000-01 to 2009-10. To analyse this objective econometric approach has been used. The result reveal that the market model explains 31.1 per cent of the variation in capital structure of airline companies, and independent variables namely size, profit, collateralize value of assets, fuel and market book are found to be significant.

Mohammad Fawzi Shubita and Jaafer Maroof alsawalhah (2012)[33] examined the paper entitled **"The Relationship between Capital Structure and Profitability".** This study tries to find out the effect of capital structure on profitability of the industrial companies listed on Jordan Amman Stock Exchange for the period of 2004-2009. The study sample consists of 39 companies. Using correlations and multiple regression analysis, the result reveals that the debt shows significantly negative relationship with profitability. These finding imply that an increase in debt position is associated with a decrease in profitability. The results also show that profitability increases with control variables such as size and sales growth. It is concluded that the profitability of the firm is decreasing when the debenture is high.

Natasa sarlija and Martina Harc (2012)[34] investigate on "**The Impact of Liquidity on the Capital Structure: A Case Study of Croatian Firms**". The purpose of this paper is to examine the impact of liquidity on the capital structure of Croatian firms. A study has been conducted on the sample of 1058 Croatian firms. Pearson correlation coefficient has been

applied to the test on the relationship between liquidity ratios and debt ratios. The results shows that there are statistically significant correlations between liquidity ratios and leverage ratios. Also, there are statistically significant correlations between leverage ratios and the structure of current assets. The liquidity ratios have a strong relationship with short-term leverage and a moderate relationship with the long-term leverage. It concludes that the more liquid assets firms have, the less they are leveraged. Long term leveraged firms are more liquid.

Onyemachi Maxwell and Francis Kehinde (2012)[35] studied on **"Capital Structure and Firm Value: Empirical Evidence from Nigeria**". This study seeks to analyse the impact of capital structure on a firm's value. The analysis was conducted on a sample of 124 firms quoted on the Nigerian Stock Exchange for the year 2007-2012. The ordinary least squares method of regression was used in this analysis. The result of the study reveals that equity capital as a component of capital structure is irrelevant to the value of a firm and Long-term-debt was found to be the major determinant of a firm's value in Nigeria.

Ajanthan (2013)[36] studied on "**Determinants of Capital Structure: Evidence from Hotel and Restaurant Companies in Sri Lanka**". The aim of this study is to find out the factors that affect the capital structure of hotels and restaurant companies and to investigate whether the capital structure models derived from Western settings provide convincing explanations for capital structure decisions of the Sri Lankan companies. The investigation is performed for a sample of 15 companies listed on the Colombo Stock Exchange during the period from 2007-08 to 2011-12. The results suggest that only profitability is negatively related to the debt ratios (long term; short term and total debt) whereas tangibility (asset structure), size and growth do not appear to be significantly related to the debt ratios. The author concluded that Pecking order theory is more relevant to Sri Lankan context.

Simona Maria Draniceanu (2013)[37] inspect on "**Capital Structure and Firm Value - Empirical Evidence from Romanian Listed Companies**". This paper aims to investigate the impact of capital structure on firm value of Romanian companies and considering the determinants of leverage. The sample included 48 companies listed on Bucharest Stock Exchange for the period of 2003 - 2012. Five regression models i.e. pooled regression model, fixed effects model, Time effects model, the two way fixed effects model and Simultaneous regressions model were used. The results show that capital structure of a firms facing low growth opportunities and firms facing high growth opportunities has a

positive impact on firm value. Profitability, liquidity and tangibility have been found as negative determinants of capital structure, while growth opportunities, firm size and firm financial quality have been found as positive determinants of capital structure.

Sri Hermuningsih (2013)[38] studied on "**Profitability, Growth Opportunity, Capital Structure and the Firm Value**". This paper inspect the influence of profitability, growth opportunity, and capital structure on firm value. The Structural Equation Model (SEM) was used on 150 listed companies on the Indonesia Stock Exchange during 2006 to 2010. The result shows that profitability, growth opportunity and capital structure are positively affect the company's value. The capital structure intervene the growth and not affect the profitability. It conclude that capital structure will increase the positive effect of firm profitability toward the firm value.

Adedoyin Isola Lawal (2014)[39] in his paper **"Capital Structure and the Value of the Firm: Evidence from the Nigeria Banking Industr**y" focused on the factor that magnifies the value of a firm. The paper analysis capital structure of Nigerian commercial banks for the periods of 2007 to 2012 by used OLS technique and White HAC heteroskedastcity test. It observed that debentures play significant role in amplifying the value of Nigerian banking firms and equity share was partially significant. It concluded that bank managers as well as regulators adopt measures that will endorse leverage to maximise the overall value of the firm.

Aleksandr Klimenok (2014)[40] made a research on "**The Influence of Capital Structure on the Value of the Firm - A Study of European Firms**". The Purpose of the thesis is identifying market value depending on factors related to the structure of capital for 37 oil and gas companies in the region of northern Europe for the period of 2000 - 2012. To analyse these objectives regression model has been used. The study has revealed two factors namely size and capital structure have the most significant effect on the market value of the shares of oil companies. These factors have a sustained impact on the value of the company.

Asifa Kausar, Mian Sajid Nazir and Hashim Awais Butt (2014)[41] made a research on "**Capital Structure and Firm Value: Empirical Evidence from Pakistan**". The purpose of this paper is to empirically examine the impact of capital structure on firm performance of the Pakistan firms listed in Karachi Stock Exchange. The study used both multiple regression model and panel regression as a techniques applied to 197 companies in Pakistani market listed

on Karachi Stock Exchange for the period of 2004 to 2011. These study conclude that capital structure has influence on the performance of listed firms in Pakistan. Size also has shown a negative impact on performance measured by P/E and Tobin's Q. It shows that large companies in size are inefficient in using and exploiting its assets to enhancement in performance.

Gichangi and Nicholaskinyua (2014)[42] examined "**The Relationship between Capital Structure and Profitability of Listed Non Financial Firms in Kenya**". The authors aim of the study is to investigate the relationship between capital structure and profitability of listed non financial firms in Kenya over the 5 year period from 2007-08 to 2011-12. The sample of the study was 40 listed non-financial firms. Descriptive analysis and regression were used to analyse the data. The long-term liability to equity indicated an inverse relationship with profitability and the firm's profitability was positively correlated with the short-term debt ratio. The result shows that the capital structure indicate a negative relationship with profitability. It recommends that firm's should aim to minimize the cost of capital and increase the profitability of firms.

Luís Pacheco and **Fernando Tavares (2014)[43]** made a research on "**Capital Structure Determinants of Hospitality Sector SMEs**". The main aim of this paper is to study the capital structure determinants of SMEs in the hospitality sector. Author used panel data methodology to analyse a sample of 43 Portuguese hotels between 2004 and 2013. The paper intends to examine the indebtedness level in light of the two main theories i.e. Trade-off theory and the Pecking Order theory. The results suggest that profitability, assets tangibility, firm dimension, total liquidity and risk are key factors affecting the capital structure of hospitality sector SMEs, while growth, other tax benefits and age were not deemed relevant. The results concluded that Trade-off and Pecking Order theories are necessary to explain the capital structure of hospitality sector SMEs.

Milcah Khakayi Kulati(2014)[44] inspect on "**The Relationship between Capital Structure and Firm Value for Companies Listed at Nairobi Securities Exchange**". The study sought to establish the relationship between capital structure and firm value of the companies listed at Nairobi Securities Exchange. The study sampled 38 companies for period from 2009 to 2013.The study has used a regression model to predict the independent variables affect the dependent variable. The study concludes that capital structure and size

of the firm influence the firm value positively. The study recommends that increases in growth and size, increases the value of the firm.

Odongo Kodongo, Thabang Mokoaleli Mokotelil and Leonard N. Maina (2014)[45] attempt a study on "**Capital Structure, Profitability and Firm Value: Panel Evidence of Listed Firms in Kenya**". This paper investigates the relationship between leverage and the financial performance of listed firm in Kenya for the period of 2002 - 2011. Using various panel procedures, the study found that leverage significantly and negatively affects the profitability of listed firms in Kenya. However, leverage has no effect on firm value. The findings expose that asset tangibility, growth of sales and firm size are important determinants of profitability. Asset tangibility has a negative relationship with profitability. The results indicate that growth of sales and firm size are important factors influencing the firm value of small firms.

Pornpen Thippayana (2014)[46] made a research on "**Determinants of Capital Structure in Thailand**". The objective of the paper is to examine the influences of the selected variables that relate the capital structure theories based on the firm financing mix in the Thai listed companies. The annual data of 144 listed firms in the Stock Exchange of Thailand for the twelve years from 2000 to 2011 are collected from the Data stream database. The study confirms that leverage ratios significantly increase with firm size, and decrease with profitability. There are no significant relationships between tangibility, growth opportunity, business risk and leverage ratios whereas the firm size and profitability are significant determinants of capital structure in Thailand.

Tiago Rodrigues Loncan and JoãoFroisCaldeira (2014)[47] studied on **"Capital Structure, Cash Holdings and Firm Value: a Study of Brazilian Listed Firms**". This study analysed the relationship among the capital structure, cash holdings and firm value for a sample of publicly traded Brazilian firms, through panel data regressions, employing the fixed-effects estimator for the period of 2002 - 2012. The results of this study show that short and long-term debt is negatively related to cash holdings, and the level of cash holdings is also associated to a lower leverage. The study also reveals that financially constrained firms hold more cash. It concluded that short-term debt, long-term debt and the financial constraint had a negative marginal effects on the firm value.

Achchi Mohamed Inunjariya (2015)[48] examined a study on **"Effect of Capital Structure on Profitability of Food and Beverage Sector in Sri Lanka".** The purpose of the study is to recognize the impact of capital structure on profitability of companies of food, beverage and tobacco listed in Colombo stock exchange for the period of five years from 2007 to 2012. Correlation and regression analysis have been applied to analyse the objective. The findings of the study revealed that the capital structure, total debt to asset and total debt to equity ratio have a significant negative impact on the profitability whereas size of the firm have a positive impact on the profitability of food and beverage companies in Sri Lanka.

Beatriz Fougo (2015)[49] conducted a research on **"Determinants of Capital Structure: Differences between Northern and Southern Europe".** The aim of this study is to analyse the determinants of capital structure between companies from Northern European countries and Southern European countries. The sample of this study is composed by 236 non-financial companies listed in the main stock indexes of 12 European countries. The data was collected from Data Stream for a period of 3 years from 2010 to 2013. Regression model has been used to analyse these data. The results showed that the significant variables in one country are not necessarily significant in others. Besides, it was found that there are differences in the determinants of capital structure between northern and southern European companies, mainly regarding firms' size and profitability, asset tangibility and non-debt tax shield.

Cristian Paun and **Vladimir Topan (2015)**[50] had investigation on **"Capital Structure in the Global Shipping Industry"**. The study was focused on financing strategies adopted by shipping companies during the crisis. The study analysed using the OLS regression that the impact of various factors derived from the trade-off and pecking-order theories on the capital structure. Data have been collected from 238 companies for the years from 2008- 2009 to 2010-2011.The study confirmed that there was a positive relationship between the size of the company and the capital structure and there was a negative relationship between the profitability of the company and the capital structure. It also shows a positive relationship between the tangibility of fixed assets and capital structure, and a negative relationship between business growth perspectives and capital structure.

Jason S. Turner et al. (2015)[51] in their paper "**A Comparison of Capital Structure: The Use of Debt in Investor Owned and Not-For-Profit Hospitals"** focuses on the differential use of debt financing among investor owned (IO) and not-for-profit (NFP) hospitals

The sample of this study is 470 IO and 2175 NFP hospitals. Period of the study is 2006 to 2011. The findings of the study indicate that NFP and IO hospitals structure their capital differently and marginal benefits and costs of debt are differentially influenced by profitability, risk, growth, and size. Investor-owned hospitals use substantially more debt than their NFP peers and the capital structure of NFP hospitals was more sensitive to profitability. Growth and size also have different relationship with debt. It is concluded that the NFP hospitals use more debt and IO hospitals use less debt as they experience growth and their size increases.

Maryam Ahani (2015)[52] in his study "**Determinants of Capital Structure: The Case of Turkish Hotels from Tourism Industry"** have made an investigation and describe the determinants of capital structure in the five major hotels in the Tourism Industry of Turkey, over the period of 1998-2010. Correlation result shows that there is a significant positive relationship between the tangible proportion of hotel's assets and their debt ratio. The results also indicate that the capital structure of hotel is significantly related to the size of their sales and assets. Non-debt tax shield shows a negative relationship and growth rate shows a positive relationship with leverage. Results from the study conclude that hotel's level of risk is significantly and negatively associated with debt leverage. It is expected that risky firms try to avoid making more risks through borrowing more debt.

Maryam Alhani Fumani and Abdolkarim moghadam (2015)[53] investigate on "**The Effect of Capital Structure on Firm Value, The Rate of Return on Equity and Earnings Per Share of Listed Companies in Tehran Stock Exchange**". In this study, the effects of capital structure of the company value, the rate of return on equity and earnings per share of listed companies in Tehran Stock Exchange were analysed. To achieve this objective data has been collected for 55 Malaysian companies listed in Tehran Stock Exchange during the years 2010-2014. The results shows that the rate of return on equity has a negative impact on financial leverage and there is no significant relationship between earning per share and financial leverage. The paper concludes that changes in financial leverage does not affect the earning per share of Malaysian companies listed in Tehran stock exchange.

Nadeem Ahmed Sheikh (2015)[54] made a study on "**Capital Structure Determinants of Non Financial Listed Firms in Service Sector: Evidence from Pakistan**". This paper detects the important factors that affect the capital structure of non-financial listed firms in service sector. This study used the data gathered by the State Bank of Pakistan during 2005-2013 of

21 non-financial firms in service sector. Empirical results show that profitability is inversely related to capital structure and liquidity is negatively related to total leverage and short-term leverage. Firm size is positively related to all measures of capital structure and negatively related to short-term leverage in the fixed effects method. Tangibility is inversely related to total leverage and short-term leverage whereas dividends are positively related to total leverage and short-term leverage. The positive and negative coefficients of different explanatory variables are found consistent with the implications of pecking order theory and trade of theory. The results helps the managers of service sector firms to enunciating a balanced capital structure.

Rafiuddin Ahmed (2015)[55] attempt a study on **"Capital Structure and Profitability in the Australian Service-Sector Firms: A Panel Data Analysis"**. This study examines the effect of profitability and firm performance on capital structure (debt/equity) choices using cross sectional panel data of 63 Australian listed companies over three years from 2012 - 2014 were analysed. The panel data regression finds that short-term debt controls debt choices of Australian service-sector firms. The analysis of data reveals the significant association between return on equity and leverage levels. It also shows that the Short-term debt significantly affects the profitability. The impacts of long-term and total debts on profitability are less whereas short-term debt is extensively used by the service-sector organizations in Australia.

Ahmed Adeshina Babatunde (2016)[56] attempts a study on **"Empirical Evidence on Capital Structure Determinants in NIGERIA"**. The purpose of the paper is to investigate empirical evidence on capital structure determinants in Nigeria. This research has been performed using a sample of 50 companies listed on the Nigeria Stock Exchange for the period of 2001 to 2010. The relationship between the short-term and long-term debt and four explanatory variables were observed. The findings of this study confirm that profitability, growth, firm size and tangibility are explanatory variables of capital structure. The results of the cross-sectional Ordinary Least Square regression reveals that the static trade-off theory and agency cost theory are relevant to Nigerian companies and there is a little evidence in support of pecking order theory.

Karasahin Ramazan and Kucuksarac Doruk (2016)[57] inspects on "**Revisiting Capital Structure of Non-Financial**". This study examines the determinants of capital structure of non-financial public firms listed in Borsa Istanbul. Researchers explore the

effects of firm-specific, industry-specific and macroeconomic variables on book and market leverages by employing panel data. Authors study the effects of these variables on short term and long-term leverage ratios. The results indicate that the size of a firm is positively associated with long-term leverage ratio. Tangibility, profitability and liquidity are negatively related to the short-term leverage ratio and tangibility is positively related to the long-term leverage ratio. It is also reveals that the firms tend to follow their peers in their capital structure decisions. The effect of macroeconomic variables is uncertain. There seems to be a positive association between inflation and leverage whereas economic growth are negatively related. Lastly, recursive panel regression methods show that the evolutions of the parameter estimates are stable over the time.

Lilian Njeri Gichuhi (2016)[58] made an attempt on **"The Effect of Capital Structure on Profitability of Firms Listed at the Nairobi Securities Exchange"**. The study aims to determine the effect of capital structure on profitability of firms listed in Nairobi Securities Exchange. To analyse this objective, 67 firms have been chosen for five years from 2011 to 2015. Correlation and regression tools has been used. The findings of the study reveals that the firms utilized debt which minimized their cost of financing and operational costs. There is no correlation amid capital structure, firm size, leverage and profitability of listed companies while operating efficiency was found to be weakly correlated with profitability. The regression model has been found to be significant. It concludes that there exist an insignificant link among capital structure and profitability of listed companies in Nairobi Securities Exchange.

Muhammad Sualehkhattak and MazherHussain (2017)[59] investigate on **"Do Growth Opportunities Influence the Relationship of Capital Structure, Dividend Policy and Ownership Structure with Firm Value: Empirical Evidence of KSE**". The purpose of the study is to explore empirically the association among leverage, dividend pay-out ownership structure and firm value and influence of growth opportunities on this relationship. To attain this objective, 148 non-financial firms listed on Karachi Stock Exchange (KSE), for a period of Five years from 2010- 2011 to 2014-2015 were selected and correlation analysis and Ordinary Least Square (OLS) regression analysis were used. The study found that dividend payout ratio shows insignificant relationship with firm value in case of high growth companies and low growth companies. The ownership structure seems to have positively

significant influence over firm value in case of high growth companies while in case of low growth companies it reveals insignificant influence over corporate value.

Peter Njagi Kirmi (2017)[60] examine the paper entitled **"Relationship between Capital Structure and Profitability, Evidence from Listed Energy and Petroleum Companies Listed in Nairobi Securities Exchange".** The main objective of this study is to determine the relationship between capital Structure and profitability of listed energy and petroleum companies in Kenya. To analyse this objective data has been collected for 4 energy and petroleum companies for a period of five years from 2012-2016. The study concluded that Long term loan negatively affects firm's Profitability and Short term loan positively affects the firm's profitability.

Setiadharma and Machali (2017)[61] examined on "**The Effect of Asset Structure and Firm Size on Firm Value with Capital Structure as Intervening Variable**". The purpose of this study is to analyse the effect of asset structure and firm size on the firm value. To achieve this objective thirty four properties and real estate firms registered in Indonesia Stock Exchange during the period 2010-2014 were analysed. The result of this study shows that there is a direct effect of asset structure on the firm value and there is no indirect effect of asset structure on the firm value with capital structure as dominant variable. It is also found that there is no direct effect of firm size on the firm value and there is no indirect effect of firm size on the firm value with capital structure as dominant variable. It concluded that capital structure as intervening variable cannot mediate the relationship between asset structure and firm size on the firm value.

2.4 CONCLUSION

It is quite clear from the above review of empirical works that different authors have approached capital structure in different ways. Various studies on capital structure have been carried out to explain the condition under which capital structure does affect the profitability. These research on capital structure are restricted to the manufacturing sector. Very few studies has been done in impact of capital structure on firm value of service sector. Hence there is a research gap identified. To fulfil the gap this study attempts to analyse the capital structure of Indian service sector and impact of capital structure on firm value.

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