CHAPTER – VII

SUMMARY AND CONCLUSIONS

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7.1 CHAPTER SUMMARY:

Financial structure refers to the owners equity and creditors equity. It is the structure of equity capital, preference capital, reserve and surplus, debentures, long-term and short-term loans and the current liabilities and the provisions which appear on the left hand side of the balance sheet. The capital structure represnts the permanent financing of the firm. It is the structure of equity capital, preference capital, reserve and surplus, debentures and other long-term debt. The short-term liabilities are excluded while analyzing the capital structure. The capital structure is thus a part of financial structure.

As revealed by chapter on literature survey, a number of studies have been carried out to examine the impact of various factors on firm's capital structure. The mention can be made here of the studies carried out by authors who supported that with increase in proportion of fixed asset in total asset the debt proportion goes up. On the other hand, contradictory findings are also available that they move in opposite direction. Precisely, asset structure is identified as one of the important determinant of capital structure. Moreover, the profitability has also its effect on capital structure. Two broad theories, Trade-off and Pecking order give contradictory results. According to Trade-off theory the profitable companies borrow high whereas according to Pecking order theory they need to borrow less on account of retained earnings

availability as internal source of fund. Here, various measures are developed over a period of time as measure of profitability. Moreover, during the course of study size is also found as one of the determinant of capital structure. Looking to above studies in the present study an attempt is made to examine the impact of above mentioned factors on financial structure of company. Moreover the financial structure of a company can also be examined with various measures which are indicators for capital structure.

Chapter I consists of Introduction, Background of the study, Rationale of the study, Objectives of the study, Research methodology, sources of data, etc. Chapter II consists of Literature Survey. While carrying out the literature survey, it is observed that numerous studies have been carried out in India and abroad, to identify the factors affecting to capital structure, as discussed in the chapter, for various measures of financial and capital structure. However, it is found that especially with reference to India, a study covering long span, and yearwise and aggregate analysis was missing. In the light of this background it is found interesting to examine the relationship and hence the study is carried out. Chapter III "Theory of Financial and Capital Structure" throw light on the theoretical aspects of financial and capital structure. Over a period of time various theories of capital structure has emerged. Some are the progression of preceding one, some are contradiction with preceding theory. Before proceeding to empirical analysis it was considered a prerequisite to carryout the study of theoretical development in the field. Chapter IV "Determinants of Financial and Capital Structure"

highlights the various factors like liquidity ratios, leverage or capital structure ratios, activity ratios, profitability ratios and assets structure ratios. Chapter V "Analysis of Financial and Capital Structure" presents computation of different ratios of different companies. In Section-I ratio computations for 45 companies considering 16 years data are presented and in Section-II ratio computations for 28 companies considering 19 years data are given. The ratio calculation is divided into two parts. Considering the fact that for 17 companies data are not available for last three years. The findings are briefly as follows:

1. The **liquidity ratio** of the sample companies shows that on an average all companies have more (1.44 and 1.40) current assets than current liabilities. Generally the quick ratio of 1:1 is considered to represent a satisfactory current financial position. The study finds that the minimum ratio is 0.10, while the maximum ratio is 2.76. Both conditions do not imply sound liquidity position. The grand average 0.78 and 0.74 indicate that on an average the liquidity position of sample companies are sound.

2. The **debt-equity ratio** of sample companies show that on an average all companies have a good structural position. The grand average is 1.60 and 2.00. But some companies have substantially low debt, e.g. in the analysis of 45 companies with 16 years data.

3. **Proprietory ratio** or (TE/TA) for all companies are found to be satisfactory. The grand average of 45

companies and 28 companies are found to be 0.37. This indicates that about 37% of assets are financed through equity.

4. **Interest coverage ratio** for sample companies is found to be satisfactory over a period of time. For the 45 companies the grand average is found to be 4.28 and for 28 companies it is found to be 5.05. This again is a good cover for interest.

5. **LTD/TA ratio** shows that some of the companies do not have any long-term debt at all. For the 45 companies the grand average is found to be 0.09 and for 28 companies it is found to be 0.0.08. The grand average of this ratio implies that on average the sample companies are managing their assets with very lower long-term debt.

6. **TD/TA ratio** is found to be satisfactory. The minimum and maximum ratio for 45 companies are 0.27 and 0.89 respectively. For 28 companies it is found to be 0.18 and 0.89 respectively. The grand average for 45 as well as 28 companies are found to be 0.63. The high proportion of total debt implies that all companies can easily get funds from outside lenders. It also indicates the good financial strength of the companies.

7. **Inventory turnover ratio** is found to be satisfactory. The grand average for 45 companies are found to be 4.42 and for 28 companies it is found to be 4.15. This indicates that companies are turning their inventory 4 times in a year. This shows good position of inventory.

8. **The average collection period** is found to be 57 to 61 days on an average. This is a high ratio. However, it had been as low as 9 days for some companies, who are managing their receivables well. However, on the whole the average collection period depends on the industry and competitor's norms.

9. **Fixed assets turnover** ratio is found to be satisfactory. The grand average of this ratio is found to be 6.74 and 7.87 for 45 and 28 companies respectively. It indicates that on an average the companies can have sale of Rs. 7 and 8 for 1 rupee investment in fixed assets. This indicates good efficiency of sample companies in utilizing fixed assets of the firm.

10. The grand average of **total assets turnover ratio** indicates that on an average sample companies generate a sale of Rs. 0.52 and Rs. 1.54 for 1 rupee investment in fixed plus current assets investment. This ratio indicates that the sample companies are efficiently generating sales from the financial resources available to the firm.

11. The grand average of **working capital turnover ratio** is 11.92 and 13.50 respectively. This indicates that the sales are generated of 12 to 13 times the working capital. This indicates the efficient use of working capital.

12. The **gross profit margin ratio** or OPI/Sale ratio is found to be reasonably good. The grand average of the ratio is found to be 11.23 and 10.63 respectively for 45 and 28 companies. This

indicates that the sample companies have a low profitability. The minimum ratio is found to be negative on account of negative gross profit.

13. The **net profit margin ratio** is found to be 5.06 and 5.00 on an average. This indicates that on an average companies are generating 5% of sales as profit. This is also considerably less. If one considers the availability of profit for dividend distribution then it is substantially less.

14. The grand average of **cost of goods sold (CGS) ratio** is found to be 78.30 and 77.90 respectively. This shows that the companies have a small amount of operating income to meet interest, dividend etc.

15. **OPI/TGA ratio** is found to be satisfactory. The grand average of this ratio is found to be 11.35 for 45 companies and 11.77 for 28 companies. This shows that on an average companies earn around 12% of its total gross assets as operating income. This ratio indicates the capability of gross assets to generate surplus.

16. **PBT/TNA ratio** is found to be reasonably good. The minimum ratio is found to be negative on account of negative PBT, whereas the highest ratio is found to be 40.39. The grand average of this ratio for 45 companies are found to be 9.34 and for 28 companies it is found to be 9.83, indicating that on an average the sample companies are using properly the total net assets and can earn sufficient profit.

17. **Returns of total asset ratio** is derived by applying three methods. The grand average of these ratios

are found to be 6.19, 11.41 and 14.28 for 45 companies. For 28 companies they are found to be 6.42, 11.54 and 14.28 respectively. This indicates that on an average companies' financial position or the profitability of companies is reasonably good. This ratio also indicates that sample companies have a reasonably good earning power.

18. **Return on total shareholders' equity ratio** is derived by applying two methods. The grand average of this ratio is found to be 17.11, 17.05 and 17.46, 17.37 respectively for 45 and 28 companies respectively. It shows that the sample companies have a good earning attributable to the shareholders.

19. The grand average of **GFA/TGA ratio** is found to be 0.46 for 45 companies and 0.42 for 28 companies respectively. This indicates that the sample companies have a sufficient proportion of gross fixed assets in the total assets.

20. The grand average of **NFA/TNA ratio** is found to be 0.34 for 45 companies and 0.30 for 28 companies. This indicates that after accounting for depreciation on an average net fixed assets constitute about 34% and 30% of total net assets.

In chapter VI we have tried to examine the effect of some of the independent variables on the capital structure. For this purpose as discussed in Chapter IV, four variables are selected indicating capital structure, viz, D/E, LTD/TA, TD/TA and TE/TA and 6

variables are selected indicating profitability, asset structure and size affecting to capital structure.

The whole exercise is carried out in the following manner

a. Running simple regressions, taking one indicator of capital structure and one independent variable, taking average for 45 (16 years) and 28 (19 years) companies.

b. Running multiple regressions, wherein with one indicator of capital structure, more than one independent variables are taken. Again taking average for 45 (16 years) and 28 (19 years) companies.

c. Running yearwise simple regressions as mentioned in (1) above.

d. Running yearwise multiple regressions as mentioned in (2) above.

FINDINGS ABOUT D/E RATIO AS INDICATOR OF CAPITAL STRUCTURE:

21. *Simple regression between two average ratios*:

When D/E ratio is taken as an indicator of capital structure, GFA/TGA and NFA/TNA is found to have negative significant effect on D/E ratio. This is contradictory to trade-off theory. When regressions of OPI/Sale and PBT/TNA are run on D/E ratio, the result shows that these variables had negative and significant effect on D/E ratio. This is in line with pecking order theory according to which

profitable companies borrow less. However, average size is not found to have any significant effect on D/E ratio. These results are same for 45 (16 years) and 28 companies (19 years).

22. *Multiple regression between average D/E ratio and various independent variables*:

When the multiple regressions are run of D/E ratio on various combinations of independent variables it is observed that out of eight runs only for three runs the model fits well i.e. for run 5 with NFA/TNA and PBT/TNA, for run 6 with average size alongwith two preceding variables, for run 8 with OPI/Sale alongwith three preceding variables. In all this three cases, it is worth noting that NFA/TNA has got negative significant effect on D/E ratio. PBT/TNA is also found to have negative significant effect supporting pecking order theory.

When the multiple regression is run of D/E ratio on various combinations of independent variables taking 28 companies it is observed that out of eight runs for all runs the model fits well. In all these eight cases, it is worth noting that GFA/TGA and NFA/TNA have got negative significant effect on D/E ratio. OPI/TGA and PBT/TNA is also found to have negative significant effect supporting pecking order theory.

23. *Yearwise simple regressions*:

On running yearwise simple regressions of D/E on various independent variables, GFA/TGA is found to have negative significant effect for 8 years

(1982, 1983, 1985, 1986, 1987, 1988, 1989 and 1990), NFA/TNA is found to have negative significant effect for 4 years (1982, 1985, 1986 and 1987), and average size is also found to have negative significant effect for 3 years (1982, 1986 and 1990). OPI/TGA is found to have negative significant effect for 10 years (1981, 1983, 1984, 1988, 1989, 1990, 1991, 1993, 1994 and 1998), OPI/Sale have have negative significant effect for 10 years (1981, 1983, 1989, 1990, 1994, 1995, 1997, 1998 and 1999) and PBT/TNA is found to have negative significant effect for 17 years (1983, 1984, 1985, 1986, 1987, 1988, 1989, 1990, 1991, 1992, 1993, 1994, 1995, 1996, 1997, 1998 and 1999). This is in line with pecking order theory according to which profitable companies borrow less.

24. *Yearwise multiple regressions*:

While running yearwise multiple regressions of D/E ratio, for run five astonishing result are observed, where out of 19 years, for 17 years (except 1981 and 1982) the model for run 5 fits well. The next in line is run 8 where out of 19 years, for 16 years the models fit well except years 1981, 1982 and 1997. The independent variables are average size, OPI/Sale, NFA/TNA and PBT/TNA. The third in sequence is run six where the model fits well for 15 years, out of 19 years barring years 1981, 1982, 1996, and 1997. For all other five runs the model fits well for less than 10 years. Hence it can be concluded that NFA/TNA, and PBT/TNA plays a significant role in determination of D/E ratio. The second is indicator

of profit and findings go in line with pecking order.

FINDINGS ABOUT LTD/TA RATIO AS INDICATOR OF CAPITAL STRUCTURE:

25. *Simple regressions between two average ratios*:

On analysis it is found that when LTD/TA ratio is taken as an indicator of capital structure, GFA/TGA and NFA/TNA is found to have positive significant effect on LTD/TA ratio. This finding is found to be in line with trade-off theory according to which companies with high tangible assets borrow more. PBT/TNA is found to have negative significant impact. This is in line with pecking order theory. OPI/Sale is found to have positive significant impact on LTD/TA. This is in line with trade-off theory. However, on running the regression of LTD/TA on OPI/TGA and average size, it is not found to have any significant effect on LTD/TA ratio. On running the regression for 28 companies similar results are found except that OPI/Sale which is found to have insignificant effect and OPI/TGA shows negative and significant effect.

26. *Multiple regressions between average LTD/TA ratio and various independent variables*:

When the multiple regressions are run of LTD/TA ratio on various combinations of independent variables it is observed that out of eight runs, for all runs model fits well. In all these eight cases, it is worth noting that GFA/TGA, NFA/TNA and OPI/Sale have positive significant effect on LTD/TA

supporting trade-off theory, and OPI/TGA and PBT/TNA is found to have negative significant effect on LTD/TA supporting pecking order theory. Average size has got negative significant effect on LTD/TA ratio. The same results are obtained while running the regression for 28 companies and 19 years data.

27. *Yearwise simple regressions*:

While running yearwise simple regressions, it is found that when LTD/TA ratio is taken as an indicator of capital structure, GFA/TGA and NFA/TNA are found to have positive significant effect for 18 years (except 1984) and 19 years respectively on LTD/TA. This is in line with trade-off theory. OPI/TGA is found to have negative significant impact for 4 years (1994, 1997, 1998 and 1999). OPI/Sale is also found to have positive and significant impact for 12 years (1981, 1982, 1983, 1984, 1985, 1986, 1987, 1988, 1991, 1992, 1995 and 1996) on LTD/TA ratio. This is in line trade-off theory. PBT/TNA is found to have negative and significant impact for 11 years (1984, 1985, 1990, 1991, 1993, 1994, 1995, 1996, 1997, 1998 and 1999) on LTD/TA ratio. This is in line with pecking order theory. Average size is found to have negative significant impact for 4 years (1983, 1984, 1985 and 1986) and positive significant impact also for 4 years (1992, 1993, 1994, 1995) on LTD/TA. Thus some contradictory results are also observed. This may be on account of impact of reforms.

28. *Yearwise multiple regressions*:

While running yearwise multiple regressions of LTD/TA, for runs 1, 2 and 3 astonishing results are observed, where out of 19 years, for 18 years except 1984 the model for runs 1, 2 and 3 fits well. While for run 4, for all 19 years the model fits well.

For run 5, 6, 7 and 8, the model fits well for all 19 years, at 1% level of significance. Where in NFA/TNA is the first indicator of assets structure and the findings go in the line with trade-off theory and PBT/TNA is indicator profitability and sthe findings goes in the line with pecking order theory.

FINDINGS ABOUT TD/TA RATIO AS INDICATOR OF CAPITAL STRUCTURE:

29. *Simple regressions between two average ratios*:

On running regressions of TD/TA as an indicator of capital structure on various independent variables, OPI/Sale and PBT/TNA is found to have negative and significant effect on TD/TA. This is in line with pecking order theory. However, on running the regression of GFA/TGA, NFA/TNA, OPI/TGA and Average size on TD/TA ratio, it is not found to have any significant effect on TD/TA ratio. However different results are observed for GFA/TGA and NFA/TNA while running the regression for 28 companies. Here GFA/TGA and NFA/TNA are found to be negative and significant effect on TD/TA ratio.

With reference to other variables findings is in line with 45 companies.

30. *Multiple regressions between average TD/TA ratio and various independent variables*:

When the multiple regression is run of TD/TA on various combinations of independent variables it is observed that out of eight runs only for three runs viz, run 5,6 and run 8 the models fits well. In all these three cases, it is worth noting that NFA/TNA has got negative significant effect on TD/TA ratio supporting Ferri and Jones and PBT/TNA is also found to have negative significant effect supporting pecking order theory. When similar exercise is carried out for 28 companies over and above the said three runs, for run 7 the model fits well. All other findings are same as those of 45 companies.

31. *Yearwise simple regressions*:

On analysis it is found that when TD/TA is taken as an indicator of capital structure, GFA/TGA is found to have negative significant effect for 6 years (1981, 1982, 1985, 1986, 1987 and 1992), NFA/TNA is found to have negative and significant effect on TD/TA ratio only for 1986. This finding is found to be in line with the findings of Ferri and Jones. The average size is found to have negative and significant effect for 2 years (1981 and 1982). This finding is found to be in line with the findings of Gupta. Contradictory results are also found for GFA/TGA 2 years (1998 and 1999) where

they are found to have positive and significant impact on TD/TA ratio and NFA/TNA is also found to have positive significant effect for one year. This is in line with trade-off theory. OPI/TGA is found to have negative and significant impact for 9 years (1981, 1983, 1984, 1985, 1988, 1989, 1990, 1991 and 1994), OPI/Sale is found to have negative and significant impact for 8 years (1981, 1983, 1989, 1990, 1991, 1992, 1998 and 1999) and PBT/TNA have been found to have negative and significant impact for 14 years (1981, 1983, 1984, 1985, 1988, 1989, 1990, 1991, 1994, 1995, 1996,1997, 1998 and 1999) with TD/TA ratio. This is in line with pecking order theory according to which profitable companies borrow less.

32. *Yearwise multiple regressions*:

While running yearwise multiple regressions of TD/TA, for run five astonishing results are observed, where out of 19 years, for 13 years the model fits well, except 1982, 1986, 1987, 1988, 1993 and 1997. The next in line is run 6, where, for 10 years the model fits well. The third in sequence is run 8, where out of 19 years, for 8 years the models fits well. Hence it can be concluded that NFA/TNA and PBT/TNA plays a significant role in determination of TD/TA ratio. Where in the first is the indicator of assets structure. The finding goes in line with Ferri and Jones and second is indicator profitability, for which findings go in line with pecking order theory.

FINDINGS ABOUT TE/TA RATIO AS INDICATOR OF CAPITAL STRUCTURE:

33. *Simple regressions between two average ratios*:

On running regressions of TE/TA as an indicator of capital structure on various independent variables, PBT/TNA is found to have positive and significant impact on TE/TA. This is in line with pecking order theory. But, on running the regression of GFA/TGA, NFA/TNA, OPI/TGA, OPI/Sale and average size on TE/TA ratio, they are not found to have any significant effect on TE/TA ratio. However, when regression is run by taking 28 companies and average of 19 years data, OPI/TGA, OPI/Sale and PBT/TNA are found to have positive and significant impact on TE/TA ratio. This is in line with pecking order theory. Also GFA/TGA and NFA/TNA are found to have positive and significant impact on TE/TA ratio.

34. *Multiple regressions between average TE/TA ratio and average of various independent variables*:

When the multiple regression is run of TE/TA on various combinations of independent variables it is observed that out of eight runs only for three runs the model fits well, viz, run 5, run 6 and run 8. In all these three runs, it is worth noting that NFA/TNA and PBT/TNA have positive significant effect on TE/TA ratio. The finding for PBT/TNA is in line with pecking order theory. The OPI/Sale has negative significant effect on TE/TA. This supports trade-off theory. On carrying out similar exercise

for 28 companies, it is found that over and above the three runs mentioned above for runs 1, 2 and 4 the model fits well. From all these six runs it emerges that GFA/TGA and NFA/TNA has got positive significant effect on TE/TA ratio. OPI/TGA and PBT/TNA is also found to have positive significant effect on TE/TA ratio. This is in line with pecking order theory.

35. *Yearwise simple regressions*:

On running yearwise simple regressions it is found that when TE/TA ratio is taken as an indicator of capital structure, GFA/TGA is found to have negative and significant impact for 2 years (1997 and 1998) and NFA/TNA is found to have negative and significant impact for 3 years (1997, 1998 and 1999) on TE/TA ratio. This is in line with the trade-off theory. Also contradictory results are found for GFA/TGA for 6 years (1981, 1982, 1985, 1986, 1987 and 1988). The impact is found to be positive and significant. The average size is found to have positive significant effect for year 1982 on TE/TA ratio and for 1995 it is found to have negative significant effect. OPI/TGA is found to have positive and significant impact for 12 years (1981, 1983, 1984, 1985, 1986, 1988, 1989, 1990, 1991, 1994, 1995 and 1999), OPI/Sale is found to have positive and significant impact for 8 years (1981, 1983, 1989, 1990, 1994, 1995, 1998 and 1999) and PBT/TNA is found to have positive and significant impact for 17 years (1981, 1983, 1984, 1985, 1986, 1987, 1988, 1989, 1990, 1991, 1992, 1993, 1994, 1995, 1996, 1996, 1998 and 1999) on

TE/TA ratio. The findings for OPI/TGA, OPI/Sale and PBT/TNA are in line with pecking order theory.

36. *Yearwise multiple regressions*:

While running yearwise multiple regression of TE/TA, for run five astonishing results are observed, where out of 19 years, for 18 years (except 1982) the model for run 5 fits well, where the independent variables are NFA/TNA and PBT/TNA. For run 6, out of 19 years, for 16 years the model fits well (except for years 1982, 1987 and 1997). For run eight, the model fits well for 14 years (except years 1981, 1982, 1983, 1987 and 1997). For all other runs the model fits well for less than 10 years. Hence it can be concluded that NFA/TNA and PBT/TNA, plays a significant role in determination of TE/TA ratio, where in the first is indicator of assets structure. The findings go in line with trade-off theory and the second is indicator profitability. The finding goes in line with pecking order theory.

37. On running the regressions using dummy variable to find out the changes in impact, if any, attributable to reform, it is found that for all four capital structure ratios, there is a significant difference in degree of impact in post-reform era of GFA/TGA and NFA/TNA. For, OPI/Sale also there is found to be a significant difference in the degree of impact for three capital structure ratios except LTD/TA. PBT/TNA is found to have significantly affected by reform, on its degree of impact on D/E and TD/TA in post-reform era. For all

four capital structure ratios, average size has either significant shift in intercept and/or degree of impact in the post-reform era.

7.2 CONCLUSIONS:

From the foregoing discussion the following conclusions are drawn.

1. On running the regression of D/E ratio on six independent variable taking simple as well as multiple regressions NFA/TNA is found to have negative significant impact on D/E ratio, this clearly contradict with the trade-off theory. However, it is important to note that by running the simple regression GFA/TGA is found to have negative significant effect on D/E ratio, but while running the multiple regression it is not found to have significant effect.

   PBT/TNA is found to have negative significant effect while running simple and multiple regression. This supports pecking order theory. On the other hand OPI/Sale is found to have negative significant effect while running simple regression. However, while running the multiple regression it is not found to have significant effect on D/E ratio. On running yearwise multiple regression PBT/TNA is found to have negative significant effect for 17 years again supporting pecking order theory. OPI/Sale is also found to have negative significant effect for 9 years while running simple regression and for 2 to 7 years while running multiple regression this again supports the pecking

order theory. However, the contradictory observation is found for OPI/Sale where for 7 years the positive impact is found on D/E ratio. OPI/TGA is also found to have negative significant effect while running simple as well as multiple regression. This also supports pecking order theory. While running the regression of GFA/TGA and NFA/TGA again negative significant effect is found. This contradicts with the trade-off theory. While running the multiple regression also negative significant effect is found. On examining the results for average size it is found to have negative significant effect for 3 years while running simple regression and maximum for 4 years while running multiple regression. This indicates that with increase in size the D/E ratio goes down of course this is observed only for less number of years. On the whole it can be said that not support for trade-off theory is found.

2. While running the regression of LTD/TA on six independent variables for GFA/TGA as well as for NFA/TNA positive significant impact is found for all runs. Simple, multiple as well as yearwise simple and multiple barring one year for GFA/TGA. This necessarily supports trade-of theory. While running the regression on OPI/Sale for simple as well as multiple regressions positive significant effect is observed. This gain tends to support trade-off theory. While running the yearwise regression for OPI/Sale for simple regression positive significant effect is found on LTD/TA supporting trade-off theory, however, on running

multiple regression mixed results are observed. When PBT/TNA is taken as independent variable negative significant impact is found for simple as well as multiple regression and for OPI/TGA also while running multiple regression negative significant effect is found both of these support pecking order theory whearing according to which profitable companies need to borrow less while running yearwise simple regression for PBT/TNA negative significant effect is found for 11 years and for OPI/TGA negative significant effect is found for 4 years. On running the multiple regression mixed results are observed. However, the negative significant effect is found in more number of situations as compared to positive significant effect. On the other hand OPI/Sale which is again an indicator of profitability is found to have positive significant effect while running the simple and multiple regression as well as for 12 years while running yearwise simple regression. On running yearwise multiple regression mixed results are observed with more number of situations for positive significance. This supports the trade-off theory. When the average size is taken as an indicator, negative significant impact is found while running multiple regression while running yearwise simple and multiple regressions mixed results are observed. On the whole, it can be concluded that from the assets structure view point it supports trade-off theory and from return on assets view point it supports pecking order theory.

It is very important to note here that when the D/E ratio is taken as an indicator of capital structure, it does not support trade-off theory, however, when the financing pattern is taken (LTD/TA), it supports trade-off theory.

3. The conclusions for TD/TA are also found to be quite interesting. Neither GFA/TGA nor NFA/TNA is found to have significant effect while running simple regression. However while running multiple regression NFA/TNA is found to have negative significant effect contradicting with trade-off theory. When yearwise simple regression is run, negative significant impact is found for 6 years for GFA/TGA. Whereas positive significant impact is found for NFA/TNA only for 2 years. When yearwise multiple regression are run negative significant impact is found for number of years as compared to positive significant impact for both GFA/TGA and NFA/TNA. When regression is run of PBT/TNA, negative significant impact is found while running simple and multiple regression. Majority of the years this supports pecking order theory. OPI/Sale is found to have negative significant impact while running simple regression and while running yearwise simple and multiple regression negative significant impact is observed for some years. OPI/TGA is not found to have any significant effect while running simple and multiple regression. However while running yearwise simple and multiple regressions negative significant impact is found for some years. This again supports pecking order theory. Average size is not found to have any

significant effect while running simple and multiple regression, but on running yearwise simple and multiple regressions maximum for 3 years it is found to have negative significant impact. This supports the findings of Gupta.

4. When the equity component is taken for financing assets, NFA/TNA is found to have positive significant impact on TE/TA. This contradicts the Trade-off theory. On running the regression on PBT/TNA for simple and multiple regressions, positive significant impact is found on TE/TA. This supports pecking order theory. When yearwise simple and multiple regression are run they also supports pecking order theory. When the regression is run on OPI/Sale, while running multiple regression in (8) run it is found to have negative significant impact, however, in the yearwise simple regression is run for 8 years, it is found to have positive significant impact. On running yearwise multiple regression in run (7) for 11 years it is found to have positive significant impact. On examining the impact of OPI/TGA on running simple and multiple regression no significant impact is found. However, running yearwise simple and multiple regressions positive significant impact is found for more number of years. This again supports pecking order theory. Average size is not found to have any significant effect while running simple and multiple regressions, however, on running yearwise simple and multiple regressions mixed results are observed.

From all above it follows that in majority of cases it follows pecking order theory. However, from the assets view point, when the financing pattern viz, LTD/TA is taken it supports trade-off theory. Moreover for OPI/Sale also it supports trade-off theory, when LTD/TA is taken. However it can be concluded that the finding may differ depending on the choice of dependent variable.

From the analysis it follows that the selection of dependent and independent variables, time span for study and the nature of industry plays a vital role in generating the findings in the form of impact of assets structure, profitability or size of the organization. It is neither trade-off nor packing order theory which always holds good.

The studies for different industries, with different variables and time span are likely to throw more light on the subject.