Chapter Five provides a summary of this study such as to identify the impact of all aforesaid variables on the leverage of individual industry, to see the existence of interrelationship between leverage and the intervening variables, to assess firm level performance of different industrial sectors, to study the inter companies’ variation in respect of debt-equity ratio with different industries and also provides some their possible implications and recommendations for further research.
CHAPTER-V

SUMMARY AND CONCLUSIONS

In the previous chapters, this thesis introduced the main issues and hypothesis of the thesis, presented the theoretical and empirical literature, outlined the methodology followed in search for answer for the basic research hypothesis and described the result. This chapter aims to present the main conclusions and discuss some of their possible implications for the financing policy. Finally, it ends with suggestions for future research. The chapter is structured as follows: section 5.1 provides findings of the study. Section 5.2 provides conclusion of the study, section 5.3 provides some of their possible implications and section 5.4 some of the recommendations for further research.

5.1. FINDINGS OF THE STUDY

Since the seminal work of Modigliani and Miller (1958), the search for understanding capital structure choice continues to be an important area of research. In their efforts to understand the incentives for a firm to use debt, research scholars have developed various theories and models. Each theory has explained facts about one or more factors that might determine a firm’s capital structure. However, the findings of prior empirical studies have provided varying evidence related to the impact of these factors on capital structure.

In addition, the modern theories and empirical research programs are primarily based on aspects and data from developed economies. Few researchers are carried on the perspective of developing economies and also empirical results show no strong agreements about desirable features for theories despite several decades of intensive negotiations. This is not end of the story and not only there is any universal theory of capital structure, but also the assumptions of several conditional theories that contradict with one another.

As a result, the study of capital structure determinants bears significant importance. This study attempts to reduce the gap by test and analyzing the influence of various independent factors in the capital structure of Indian firms in thirteen manufacturing
industries and one service industry other than financial and the conformity of these factors with the predictions drawn by capital structure theories.

In addition, the study significantly contributes to other studies to be made in different economic sectors by providing the image of the factors determining capital structure policies in manufacturing sector of economy by serving as a reference point. The researcher hopes that the findings from the study shall be useful to the business community since it will throw more light on the role that capital structure has in determining financial performance.

The study will also enlighten various interest groups such as shareholders (promoters, minority shareholders, financial institutions, venture funds, sovereign funds), managers, suppliers, creditors, debtors, bankers, consumers, competitors, government bodies and scholars on the importance of the capital structure to any business and will highlight areas for further research.

The overall focus of this thesis rests up on adding some contributions to capital structure studies in India. Accordingly, the thesis aimed at finding out which theoretical determinants of capital structure are relevant to Indian condition and identifying the potential capital structure theories that can best explain the capital structure heterogeneity in the manufacturing and service industrial firms operating in India.

The study is constructed to achieve four objectives: firstly, to examine the sources of finance and factors influencing the capital structure of selected companies in India. Secondly, to study the correlation and regression analysis between the capital structure determinants of firm-level characteristics, viz., profitability, size, asset tangibility, growth opportunity, risk, non-debt tax shield and liquidity. Thirdly, to make a comparative analysis of the components of capital structure among selected industries in India and finally, to suggest the measures for the effective capital structure design in the selected industries so that it can attract the investment from various sources and forms.

For the purpose of analysis, a sample of 3151 Indian firms listed on Bombay Stock Exchange (2280 Manufacturing Companies and 871 Service Companies) was used and analyzed using pooled and panel data analysis. The sample data was extracted from
availability of secondary data source named as “Industry; financial aggregates and ratios” as a corporate database (PROWS) maintained by the Center for Monitoring Indian Economy (CMIE).

The study covers all major manufacturing and service industrial groups includes public sector companies (restricted, not by design but by availability, mostly to the central government public sector enterprises), private sector, cooperatives and statutory bodies that function as listed as well as unlisted companies, these groups, are as per the classification provided in the official directory of the Center for Monitoring Indian Economy (CMIE). This study covers a period of 14 years starting from 1997-98 to 2010-2011.

In this study, firm-specific determinants (internal factors) are examined. To achieve the intended goal, the researcher has formulated seven hypotheses. To test these hypotheses, total of seven variables; namely profitability, size of the firm, tangibility, growth, earning volatility, non tax shields, and liquidity were selected from prominent previous research works on capital structure. For analysis, both financial statistical tools and techniques were used by SPSS Version 20 software applications to evaluate the determinants of capital structure of Indian industrial sectors. Financial tools like ratio analysis and statistical tools such as descriptive statistics (mean, maximum, minimum and standard deviation), correlation coefficient, multiple regressions and ANOVA were used. The statistical results were verified by applying t-test, F-test in appropriate cases.

In this paper, variables considered for the analysis include; debt equity ratio (the ratio of long term debt and equity) as a dependent variable and profitability (EBDITA/Total Assets), firm size (Log of total assets), tangibility (Net Fixed Assets / Total Assets), growth (Change in total sales/ Total sales), risk (Absolute variation in profitability), non debt tax shield (Annual Depreciation / Total assets), and liquidity (current assets / current liabilities) as independent variables.

Using a multiple regression tests we estimated the regression coefficients initially for all independent variables identified from the Trade-Off Model, Pecking Order Model and other capital structure theories. On the second stage we tested for subsets of independent
variables which were composed of variables that best explained a certain model Pecking Order Theory.

The test showed that the variables identified explain a relatively large amount of debt behavior. Most of the coefficients were small but significant at 5% level. Based on the findings discussed so far, the following key conclusions are drawn vis-à-vis verified that determinant factors affecting capital structure of manufacturing and service industries in India.

5.1.1 Determinants of Capital Structure of Different Industrial Sectors

To see that the findings of aggregate regression analysis tally with the regression results of different individual industry, it is necessary to identify the impact of all aforesaid variables on the leverage of individual industry, we in this respect fitted regression line among the variables states Appendix 2. The forthcoming paragraphs provide a thorough analysis of the combined implications of all the results from various models of capital structure of Indian industries. Thorough examination of the above summary provides the following insights.

- We can be observing the determinants of capital structure of the firms in Automobile sector, profitability, size, tangibility, growth and non-debt tax shield have the negative relationship with leverage out of seven variables except growth, the remaining variables are consistent with Pecking Order Theory. Similarly, risk and liquidity have the positive relationship with the leverage. By observing the regression analysis that only one factor (profitability) is statistically significant at five percent out of the seven variables in automobile sector firms in India, while for making leverage decision should consider profitability is the important factor that determines the leverage in Automobile industry sector and all those variables having significant impact on leverage in this sector.

- By analyzing the regression results of Beer and Alcohol industry sector, profitability, size, non-debt tax shield, and liquidity have negative relationship with leverage and the remaining three variables (tangibility, growth and risk) have positive relationship with leverage.
leverage. In all these seven variables, profitability, size, growth, non-debt tax shield, and liquidity are consistent with Pecking Order Theory and should preferably use internal funds for financing needs. After the analysis out of seven variables only four factors are significant and it implies that leverage of the firms is affected by profitability, size, growth and risk. An ANOVA result shows that strong relationship between leverage and all the explanatory variables of Beer and Alcohol sector i.e., one percent significant. It implies that all factors having significant impact on capital structure decision in this sector.

- By observing the relationship between leverage and all other research variables that affect the firm’s financial performance in the cement industry through the regression test, profitability, size, tangibility, and liquidity have negative relationship with leverage and growth, risk, and non-debt tax shield have positive relationship with leverage. Yet profitability, size, tangibility, growth and liquidity are consistent with Pecking Order Theory. We can find that two factors (size, liquidity) are statistically significant at five percent out of the seven variables. While for making leverage decision should consider size, liquidity as the important factors that determine the capital structure of firms in the cement industry and overall research variables have 5 percent significant impact on leverage in this sector.

- If we observe the Computer Software industry sector all factors are statistically insignificant, while for making leverage decision should not consider all factors that determine the leverage in Computer Software sector and there was no significant impact on firms leverage in this sector. After examining the seven variables tangibility, risk, non-debt tax shield have negative relationship with leverage and also supporting with Pecking Order Theory.

- From the Construction sector, we can notice that only one factor (liquidity) has five percent significant in affecting the firm’s financial structure and similarly, all factors having five percent significant impact on firms leverage decision. In the same way by observing relationship between the leverage and independent variables size, risk and
non-debt tax shield have positive relationship and profitability, tangibility, growth and liquidity have negative relationship but profitability, tangibility, and liquidity are consistent with Pecking Order Theory. While for making leverage decision should consider liquidity is the important factor that determines the leverage in Construction industry.

- By observing the Food and Beverage industry sector, all factors are statistically insignificant. It indicates in all these seven variables don’t have any impact on leverage of firms in this sector and also growth, non-debt tax shield and risk have negative relationship and the remaining variables have positive relationship but only two factors (risk and non-debt tax shield) are consistent with Pecking Order Theory.

- In the Paper and Paper Products sector, we can see that profitability, risk, non-debt tax shield, and liquidity have negative relationship with leverage and the remaining variables have positive relationship but the growth has five percent significance in influencing firm’s capital structure and also the overall determinants of corporate leverage has five percent significance. It indicates that there is uniformity in the determinants of capital structure and the factors influencing firms’ leverage. After examining seven variables profitability, growth, risk, non-debt tax shield and liquidity have consistent with the Pecking Order Theory.

- Analysis of Pharmaceutical sector showing that profitability, size, tangibility, and risk have negative relationship with debt-equity ratio and positive relationship with growth, non-debt tax shield and liquidity. In all these variables profitability, size, tangibility, and growth have the significance in affecting the firm’s capital structure ratio. Industry wise regression results also confirm the justification of the Pecking Order Theory. Finally, the firm leverage decision is influenced by all the independent variables of pharmaceutical industry and it has more significance i.e., five percent.

- By observing the research variables that affect the capital structure in Plastic Products industry, we can understand that only one factor (non-debt tax shield) is statistically
significant at five percent out of the seven variables and overall independent variables having 1 percent significant impact on leverage in this sector. After observing the seven variables only profitability, size, and growth are consistent with Pecking Order Theory.

- By researching the Poultry and Meat Products sector, from the regression analysis we can find two factors (size, liquidity) are statistically five percent significant out of the seven variables but there was no significance impact on firms’ leverage. We tested seven variables profitability, size, tangibility, risk and liquidity have negative relationship with leverage and the remaining two variables growth and non-debt tax shield have positive relationship except, non-debt tax shield all the remaining variables are consistent with the Pecking Order Theory. While for making leverage decision should consider size and liquidity are the important factors that determine the leverage in Poultry and Meat Products industry sector of India and having significant impact on leverage in this sector.

- Regression results of Sugar industry are suggesting that those four factors (profitability, size, tangibility and non-debt tax shield) are influencing the firm’s capital structure and have statistically significance. It is also important to note here that all results are statically significant at one percent level. In all these observed factors profitability, size, tangibility, and liquidity have the negative relationship with leverage and the remaining growth, risk, and non-debt tax shield have the positive impact on leverage. Out of seven variables selected in the study, negative association is found for three variables. These findings strongly advocate the Pecking Order Theory.

- We can observe the relationship between leverage and the seven explanatory variables of the firms in Textile sector, from the analysis that only size, growth, risk non-debt tax shield and liquidity have the negative relationship with the leverage. Similarly, profitability, and tangibility have the positive relationship with the leverage. In all the affecting factors of the firm capital structure of profitability, tangibility and liquidity have the statistically significance. In the regression analysis, size, risk, non-debt tax
shield, and liquidity are consistent with the pecking order theory. The authors should consider profitability, tangibility, and liquidity as the important factors that determine the leverage in textile sector of India. Similarly, the firms overall predicted variables have also the most significant impact on leverage in the textile sector i.e., one percent significant.

- From the observations of the Tobacco Products sector, the relationship between leverage and all other independent variables are more significant i.e., five percent. Similarly, by observing research variables that affect the firms’ capital structure, all factors have the negative relationship and there was no significance in it. Except growth variable all the remaining variables are consistent with the Pecking Order Theory (POT).

- By the study of the Service sector, we can observe from the regression results that only two factors (profitability, size) are statistically significant out of the seven variables, while for making leverage decision should consider profitability, size are the important factors that determines the leverage in Service industry sector of India and having one percent significant impact on leverage in this sector. By the analysis of regression test the relationship between capital structure and research variables in service sector, profitability, size, risk, non-debt tax shield and liquidity have negative relationship with leverage and tangibility, growth positive relation. Except tangibility all the remaining variables are consistent with the Pecking Order Theory (POT).

5.1.2 Testing Results of Hypothesis According to Pecking Order Theory

Following from these theoretical assumptions, a number of empirical studies have been identified firm level characteristics that affect the capital structure of firms in Indian industries. Among these characteristics are profitability, size, tangibility, growth, volatility, non-debt tax shield, and liquidity. From regression model will be incorporated with past empirical studies results and capital structure theories. The Variable wise hypothesis testing result is exhibited in Appendix 3.
5.1.2.1 Profitability

It is measured by the ratio of EBITDA to total assets. The regression results show that profitability is negatively related to leverage in the firms of automobile (-0.805), beer and alcohol (-0.681), cement (-0.616), construction (-0.160), paper and paper products (-0.576), pharmaceutical (-1.092), plastic products (-0.214), poultry and meat products (-0.113), sugar (-0.767), tobacco products (-0.113), and in service (-1.368) sectors and has the positive relation with the firms of computer software (0.955), food and beverage (0.273), and textile (0.916) but it has the more significance in the firms of automobile, beer and alcohol, pharmaceutical, sugar, textile and service sectors.

Thus, the hypothesis H1 holds true and profitable companies do not prefer higher ratio of debt, even the potential bankruptcy risk becomes lower with the high profit figures. These results are supported by the pecking order theory. According to Pecking Order Theory, companies which are profitable prefer to retained earnings as a primary source of financing new investments. This finding implies that profitable companies prefer internal financing rather than external financing. On the other hand, the negative sign of profitability does not support the Trade-Off Theory. Trade-Off Theory suggests that companies with the figures of high profit tend to have higher leverage and more taxable income to shield (Barclay and Smith, 2005). Therefore, this theory fails to prove why profitable companies have relatively less debt ratio.

**Hypothesis 1:** Firms with higher profitability will have lesser leverage.

5.1.2.2 Firm Size

The proxy of natural logarithm of total assets is used for size. The regression result proves that size is negatively related to leverage ratio in the firms of automobile (-0.223), beer and alcohol (-0.872), cement (-1.067), pharmaceutical (-1.609), plastic products (-0.167), poultry and meat products (-1.422), sugar (-1.021), textile (-0.248), tobacco products (-0.269), and service (-1.138) industry sector and it is consistent with Pecking Order Theory. Therefore the hypothesis which claims that there is a negative relationship between sizes and leverage, hold true. Even though, it has positive relation with leverage in the firms of
computer software (0.011), construction (0.846), food and beverage (0.528), paper and paper products (0.076). These findings are consistent with Static Trade-Off Theory. It is affecting the capital structure of firms in automobile, beer and alcohol, pharmaceutical, sugar, textile and Service sectors and it was accepted according to the regression results in the above sectors. The results illustrate that the bigger the company in terms of total assets, the larger amount of debt it has in its capital structure. The risk of bankruptcy for larger a company is less than smaller a company. The reason behind this could be larger companies are too big to fail, since they operate in large scales and more diversified. As a result, small companies tend to borrow less than larger ones. It is worth to make for several years the relationship between size and leverage at book value has negative sign.

**Hypothesis 2:** There is negative relationship between size and leverage of the firm.

**5.1.2.3 Tangibility of Assets**

The proxy for tangibility is taken as ratio of fixed asset to total assets. The firms which have enough fixed assets can generate external finance easily and on less rate of interest because they can secure these loans. According to the static Trade-Off Approach, firms with higher ratio of fixed assets serve as collateral for new loans, favoring debt. However, the Pecking Order Theory is of the view, firms with low levels of fixed assets would have more problems of asymmetric information, making them issue more debt, since equity issues would only be possible by under pricing them. On the other hand, firms with higher levels of asset tangibility are generally larger firms that issue equity at fair prices, so they do not need to issue debt to finance new investment.

The results from regression indicate that there is mix correlation between tangibility and leverage. Tangibility has negative relation with leverage in automobile (-0.110), cement (-0.808), computer software (-1.099), construction (-0.604), pharmaceutical (-1.034), poultry and meat products (-0.683), sugar (-0.335), and tobacco products (-0.599) sector. It is consistent with Pecking Order Theory. Thus, the hypothesis H3 holds true. Even though, tangibility has positive relation with leverage in beer and alcohol (0.026), food and beverage (1.109), paper and paper products (0.067), plastic products (0.311), textile (0.520), and service (0.038) sector firms. This variable has more influence on capital structure of firms in
The companies with higher ratio of tangibility assets have an incentive to borrow more because loans are available to them at a relatively cheaper rate.

**Hypothesis 3:** Firms with higher percentage of fixed assets are generally larger firms that issue equity.

### 5.1.2.4 Growth Opportunities

It is measured as the change in total Sales between two consecutive years divided by previous year total Sales. The empirical evidence regarding the relationship between leverage and growth opportunities is rather mixed. Normally the growing firms are not capable to finance all its growth by the internally generated funds. These growing firms need external finance and so the leverage of the growing firms is higher. When the leverage of the firm is higher than the cost of new debts will go up. In this way, the growing firms have to be depending upon the equity than on debts.

In consonance with the regression results, beer and alcohol (0.361), cement (0.055), computer software (0.150), paper and paper products (0.629), pharmaceutical (0.435), plastic products (0.172), poultry and meat products (0.152), sugar (0.007), and service (0.100) sector companies with high growth rates are more likely to have higher cost of bankruptcy and less amount of debt in capital structure. Similarly, we can observe that it has negative relation with leverage in automobile (-0.196), construction (-0.434), food and beverage (-0.099), textile (-0.091), tobacco products (-0.029) sector. However, these finding are consistent with the pecking order theory. According to this theory, the company prefers retained earnings as first source of financing itself instead of debt. Therefore there is positive relationship between growth and leverage and statistically significant of firms in beer and alcohol, paper and paper products, and pharmaceutical sector, so it was accepted in such type of industries.

**Hypothesis 4:** Firms with higher growth rate will have higher leverage.
5.1.2.5 Business Risk

Absolute variation in profitability has been taken as a proxy of volatility and the results indicate ambiguous relation between this variable and leverage. The relationship between volatility and leverage is negative and significant. The theory states that companies that have high level of operation volatility tend to have low level of debt ratio. The results from regression indicate that risk variable has negative relation with leverage in the firms of computer software (-0.291), food and beverage (-0.379), paper and paper products (-0.151), pharmaceutical (-0.143), plastic products (-0.028), poultry and meat products (-0.555), textile (-0.385), tobacco products (-0.161), and service (-0.050) sector.

On the other hand, the results shows that there is positive relation between risk and leverage in some sectors such as automobile (0.371), beer and alcohol (0.565), cement (0.094), construction (0.174), and sugar (0.214) sector. The positive relation between this variable and leverage at book value supports the theory which states companies that are exposed to high market risk that are expected to have high level of leverage. Having negative relation and consistent with Pecking Order Theory it was rejected because it has no significance in any type of sectors.

**Hypothesis 5:** Firms have high level of business risk tend to have low level of debt ratio.

5.1.2.6 Non-debt Tax Shield

Non-debt tax shield is proxy as ratio of annual depreciation to total assets. Companies that have higher non-debt tax shields, tend to have less long-term debt ratio rather than other companies. It is worth to make note that the relations between this variable and leverage are more robust. The regression results illustrate that non-debt tax shield and leverage are correlated negatively in automobile (-0.349), beer and alcohol (-0.067), computer software (-0.141), food and beverage (-1.056), paper and paper products (-0.075), textile (-0.325), tobacco products (-0.160), and service (-0.034) sector and is consistent with Pecking Order Theory. Even though, it has positive relation with leverage of firms in cement (0.010), construction (2.740), pharmaceutical (0.024), plastic products (0.453), poultry and meat...
products 90.240), and sugar (0.400) sector and it was statistically significant of firms in plastic and sugar sector. so it was accepted in such types of firms in above industries.

**Hypothesis 6:** Firms with higher non-debt tax shield will have less long term debt ratio.

### 5.1.2.7 Liquidity

The ratio of current assets to current liabilities has been used as a proxy of liquidity. Liquidity of companies contributes significantly to the variation in leverage. All these results illustrate that there is significant negative relationships between liquidity and leverage of firms in beer and alcohol (-0.289), cement (-0.508), construction (-1.201), paper and paper products (-0.484), poultry and meat products (-0.782), sugar (-0.326), textile (-1.324), tobacco products (-0.037), and service (-0.033) sector and positively relation with leverage of firms in automobile (0.349), computer software (0.354), food and beverage (0.140), pharmaceutical (0.795), plastic products (0.057) sector firms, and it is only statistically significant of firms in cement, construction, poultry and meat products, and textile sectors. So it was accepted in such type of industries. The results are consistent with the Pecking Order Theory of liquidity level of companies implies lower level of leverage. Namely, companies with high level of liquidity have more liquid assets and hold less amount of debt which results in lower leverage.

**Hypothesis 7:** Firms with high level of liquidity have hold less amount of debt.

### 5.1.3 Intercompany Variations of Firms within Different Industrial Sectors

To study the inter companies’ variation in respect of debt-equity ratio with different industries we used ANOVA technique. We considered the null hypothesis that there is no significant difference between the leverages of companies within a particular industry. The analyses were performed for each of industry separately and the results are demonstrated in Appendix 4. It has been observed that the F -values for selected industrial sectors except Computer Software (0.451, $F_t$ - 0.839) is found to be greater than the table values. Therefore, the null hypotheses of the debt equity ratios of firm in an industrial sector are similar and were rejected. A significant variation was noticed among firms in case of pharmaceutical (F-42.596, $F_t$ - 0.000), service (F-25.781, $F_t$ - 0.000), plastic products (F- 20.062, $F_t$ - 0.001),
beer and alcohol (F- 15.114, F_t- 0.002), textile (F- 13.406, F_t- 0.003), sugar (F- 12.654, F_t- 0.003), automobile (F- 9.589, F_t- 0.007), cement (F- 7.353, F_t-0.013), tobacco products (F- 5.882, F_t- 0.023), construction (F- 5.207, F_t- 0.031), paper and paper products (F- 4.393, F_t- 0.045), food and beverage (0.942, F_t - 0.538), and poultry and meat products (2.710, F_t - 0.123) as the calculated value of F -statistic is higher than the table value (F > F_t). In other words the industry has employed capital of different magnitude based on their nature and growth over the years.

It is observed from ANOVA of regression results that F > F_{0.05} which implies that the debt equity ratios of different industry are not similar. Therefore the null hypothesis was rejected and it is concluded that debt ratios differ significantly across industrial sectors in India. The reasons for the differences may be attributed to the inherent characteristics of the firms particularly in the context of their financing pattern i.e, debt equity mix implies that single jacket does not fit all and capital structure differs in industry as well as companies wise due to host of several factors.

5.2 CONCLUSION OF THE STUDY

It is found from the analysis that some of the variables are significant for specific dependent variable. The major factors influencing the capital structure in Indian industries show that profitability is the important factor that determines the leverage in automobile, beer and alcohol, pharmaceutical, sugar, textile and service industry sectors of India. Size is important factor that determines the leverage in beer and alcohol, cement, pharmaceutical, poultry and meat products, sugar and service industry sectors. Tangibility is the important factor that determines the leverage in pharmaceutical, sugar, and textile sectors. Growth is the important factor that determines the leverage in beer and alcohol, paper and paper products, and pharmaceutical sectors. Risk is the important factor that determines the leverage in beer and alcohol industry sector only. Non-debt tax shield is the important factor that determines the leverage in plastic products and sugar industry. Liquidity is the important factor that determines the leverage in cement, construction, poultry and meat products, and textile sectors and above all factors having significant impact on leverage of such industries
while all factors are statistically insignificant in computer software, food and beverage, and tobacco products sector.

All the components of capital structure have significant relationship with other components of capital structure. Reserves and surplus is having significant negative relationship with equity share capital, debentures and long term debt. There is significant difference between the industries with respect to preference share capital, equity share capital and debentures. As regards the other components the difference between the industries is not significant. In our study, profitability, size, growth, liquidity and tangibility were found as the most significant factors deciding the capital structure among selected industries in India, instead of risk and growth. The results indicate that most of the determinants of capital structure suggested by capital structure theories appear to be relevant for Indian firms.

The above discussion regarding the empirical examination of different hypotheses as mentioned earlier, yields the result, which almost discards the findings of the developed countries. We found that the result does not confirm to our hypotheses most of the times, which stand opposed to findings of the firms of the developed countries.

5.3 IMPLICATIONS OF THE STUDY

Capital structure decision is debatable for both developed as well as underdeveloped economy that how optimal capital structure will be achieved. Neither financial theory nor empirical researches provide an appropriate answer for it. The question of optimal capital structure choice remained unanswered till now. It argued that financial manager must consider the factors and carefully analyze sector specific attributes before attempting to achieve the so-called optimal capital structure, as they are vital in Indian context. It has been found in the case of some Indian firms that the capital structure is too rigid to offer any scope for adjustment. A capital structure of course is based on multiple considerations, which has to be undertaken before trying to achieve an optimal capital structure.

This study can give information for external investors and shareholders who will be able to know the main variables that affect the capital structure and to observe manufacturing and Service Company’s performance before making the decisions of whether or not to buy or
sell the stocks when secondary market is being practiced in India. Several implications can be drawn from the previous analysis of the study findings and conclusions.

5.3.1 Implications to Stakeholders

It can be argued that managers and/or regulators (even investors) won’t have control over several dimensions of firm characteristics, while they will have partial or complete control over some. Firm managers, decision-makers, financial institutions, retail investors and policy makers can use various instruments to influence firm characteristics that are within their control to obtain a favorable outcome, i.e., a better financial performance of the firm. Before rounding off the discussion, we briefly reiterate the implications and utility of the insights obtained in the study for corporate strategists, policy makers, regulators, fund managers, equity investors and other stakeholders of a firm.

5.3.1.1 Domestic Financial Institutions

The negative effect of domestic institutional investor’s stake on firm performance strengthens the long held notion that financial institutions in India have been unable to perform a proper governance role, although with a simultaneous debt and equity exposure, they had the potential to emerge as significant monitors of large firms.

The problem lies in the domain of political economy and the institutional-legal mechanisms in India, particularly those governing bankruptcies and treatment of firms during financial distress (see, Chakravarty, 1985). The State owned institutions could probably do well to avoid political interference due to the costs involved and they may also pressurize policy makers to provide a proper institutional framework for dealing with firms in distress or otherwise, where they have significant stakes in the form of equity or debt exposures.

5.3.1.2 Firm Managers/Strategists

Managers should think beyond cost reduction exercises to increase the firm’s value in the new operating environment. For example, depending on their line of business managers, can consider an increase in the firms marketing expenditure to create intangible assets, which can
provide greater returns. Managers could also increase the international exposure of their firms to capture the large gains involved.

5.3.1.3 Policy-Makers and Regulators

Regulators ought to think of mechanisms by which widely held firms (i.e., firms with high public stake) with low promoters stake can have better corporate governance structures. To the extent that owners controlling a firm with low equity stakes do rake in positive private benefits (see, Nicodano, 1998), the problematic of corporate governance in India is very different from developed economies. Rather than conflict between owners and managers of firms, it is the conflict between the interests of minority shareholders and promoters (say, business groups) that is more relevant for India and that needs to be addressed.

5.3.1.4 Retail Investors

Retail investors would do well to avoid investing in firms with high Domestic Institutional Investors (DIIS) and/or Minority (Public) Shareholders. Since, monitoring by these stakeholders turns out to be inadequate, as we discuss in our study. Small equity investors may also think of concentrating their equity investments in relatively large sized low-leveraged firms that have high international diversification and marketing spend. It is cleared that the findings regarding the pecking order and trade-off theories that Indian stock market is not in minimum use. Non financial firms in general and small ones in particular use equity more than debt.

The findings also demonstrated the need for improving the bond market in India to increase the availability of long-term external source of funds and provide Indian firms with more alternative sources of finance. A well developed bond market is important for financial development in developing market. Moreover, policy makers in India should take in consideration the inefficiency of credit management and practices of Indian banks. Such inefficient management hinders the objectives of the monetary policy to stimulate economic growth and to fix the imbalances in the economic sector.
5.4 SCOPE FOR FURTHER RESEARCH

Opening up of the economy and the new policies pose big challenge to the Indian corporate sector. Today business is more global in nature. Issues are more global in character. The new globalised business environment, Indian companies have to relook at change and adapt accordingly, Indian companies should evolve suitable financial strategies to play a pivotal role in the liberalized economy. This can be achieved by careful attention to the environment, a focused and well knit financial and organizational strategy, capitalizing on its people, resources and adding value to its customers and shareholders. The results of this study have delivered some insights on the capital structure decisions under these industries. The issue of capital structure is an important strategic financing decision that firms have to make. It is therefore recommended that:

- Firms belonging to industries dealing with fast moving, non-durable, consumer goods or with inexpensive products having inelastic demand will be in a position to afford moderate to high debt in their capital structure. However, industries which pass through trade cycles and run the risk of not being able to meet the debt obligations, defect, should rely less on debt.

- A financial manager should consider a number of factors to set an optimal capital structure decision for a firm giving considerable weight to age, cash flow, coverage ratio, dividend payout ratio, debt service ratio, cost of borrowing, corporate tax rate, operating leverage and uniqueness etc., as the internal factors and important external (macroeconomic) variables like inflation, GDP growth, interest rate, corporate governance, legal framework and impact of the country’s financial system could be added besides the firm-specific factors to determine capital structure of firms. But because of lack of time the researcher did not include the above mentioned factors so the researcher recommends for future researcher to accommodate the external factors which can affect capital structure of manufacturing companies.

- Overall, further research work should be carried out to discover other determinants of corporate capital structure because as Sewart Myers (2001) unambiguously suggests, “there is no universal theory of the debt-equity choice and no reason to expect”.