ABSTRACT

The primary aim of this study is empirically evaluate the importance of various sources of finance used for the purpose of making capital expenditure decisions in manufacturing industries from public and private sector in India. Furthermore, the study aims to understand the significance of various sources of funds for financing long-term investment decisions and the importance of cashflows in firm’s investment decisions and the nature of its relationship with corporate investment have also been explored. A sample of 176 large sized Indian companies spread across fourteen different industries has been analyzed for the period from 1994-95 to 2008-09. This has been sourced primarily from PROWESS and panel data model with balanced dataset has been used for multiple regressions. The regression results have been estimated using LIMDEP Software. It has been found that accelerator theory of investment plays a determining role in firm’s fixed investment behavior as both change in output in the current year and the previous year have been statistically significant. As hypothesized, change in inventory has been found as negatively significant. The variables representing different sources of finance have been positively significant in investment equation. As postulated, U-shaped relationship between investment and cashflow has been reinstated by empirical findings.