CHAPTER 1

INTRODUCTION

This chapter starts its journey with a purpose to give a better understanding of the meaning of capital structure and its importance. It also gives us an idea about the multinational companies and the fast moving consumer goods sector.

1.1 BACKGROUND OF THE RESEARCH

1.1.1 Capital Structure

Capital structure is considered as one of the most controversial topic in the area of financial decision making because it is related with the other financial decisions variables such as payment of dividend, financing of project, acquisition or mergers, buyout and so on. If the firm’s financial condition is affected by the financial deficit then it is the duty of the financial manager to take both financial and managerial decision to keep the viability of the firm on track. So, we can say that the capital structure decisions or capital restructuring decision, particularly debt restructuring decisions act as the foundation of many other decisions in the field of corporate finance. Ignoring any of them in corporate financing decision making is very difficult. The main aim of the financial manager is to maximize the wealth of the shareholders with the minimum cost of capital. Thus, to attain the aim, the company can decide from various options of investment to fund its assets and it is called as capital structure of a company. Cost of capital can be controlled by one of the efficient tool of management known as capital structure. Thus, the point at which the minimum cost of capital is attained is considered as the optimum capital structure. During the last fifty years many researchers have
devoted their research in studying the market imperfections in order to determine the optimal capital structure.

The meaning of capital structure is the proportion of various long term sources of capital which includes equity capital, preference capital and loan capital. The rate of dividend on preference capital and the rate of interest on loan capital is fixed hence these two types of capital are known as ‘fixed charge bearing capital while dividend on equity capital is more if profits are more and less dividend if profits are low’. If there is no profit no dividend is distributed on equity capital. Therefore, equity capital is variable dividend capital. The main function of the financial manager is to decide the proportion of equity capital, preference capital and debt capital in capital structure.

Capital structure means the way firms fund its investments by a combination of equity, debt and retained earnings. So, it can be said that the capital structure is the collection of debt and equity. The mixture of debt and equity can be any one of the following: 100% equity and 0% debt or 0% equity and 100% debt or X% equity and Y% debt. From the above mentioned three options, if option one is taken it means that the firm is an unlevered firm and the firm cannot take the advantage of leverage (if any). The option two is not realistic or possible in reality because no investor will like to invest his money in the firm which does not have any amount in the firm’s equity capital. This also mentioned the term ‘Trading on Equity’, which means that the debt providers are encouraged to give their scarce resources to the firm only when the equity element is present in the firm’s capital structure. Option three the most realistic one in the real life economic situation because it is the combination of both the equity and debt in some proportion in the capital structure and thus, the advantages of leverage (if any) is exploited. Normally, an organization has different options to finance its assets such as debts, equity or other financial agreements like bank loans, bonds, lease financing and
other alternatives to enhance the overall worth of the organization. The cheapest source of funding is retained earnings as it does not contain any explicit cost as compare to funds arranged from outside sources. On the other hand if the funds are arranged through debt, then the financial risk for the firm increases because debts are given priority while structuring, at the time of maturity or taking decision regarding any other type of debt contracts (Peirson, Brown, Easton and Howard, 2002: Barclay et al., 2003). If the equity shares or preference shares are the part of the capital structure, then the shareholders are considered as the owner of the company. Thus, there is no need to repay if the company went bankrupt. Furthermore, the dividend paid to the equity shareholders and the preference shareholders are not tax-deductible where as interest paid on the debt can be treated as tax- deductible expenses. Therefore, the mixture of the liabilities is known as the company’s capital structure. For example, if the company issues Rs 30 crore as equity and 70 crore as debt, then it is considered that the company is financed with 30% equity and 70% debt. Or in other word it can be said that the company’s leverage is 70%. In actuality, the capital structure can be the composition of various sources.

According to Gestionberg, “Capital structure of a company refers to the composition make up of its capitalization and it includes all long term capital sources viz loans, reserves, shares and bonds”\(^1\).

According to Weston and Brigham, “Capital structure is the permanent financing of the firm represented by long term debt, preferred stock and net worth”\(^2\).

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According to I. M. Pandey, “Capital structure refers to the composition of long term sources of fund, such as debentures, long-term debt, preference share capital and ordinary share capital including reserves and surplus (retained earnings)”¹.

**Does Capital structure matters?**

If we talk about some forty years back there was an article which discussed that the important banks would fail, and investors were saying that they would never purchase the shares again. In the meantime some part of the government also seemed to be on the edge of an end. At that time the debentures were sold for paisa on the rupee while the firms which are profitable and were growing were not able to finance their capital.

If even today that happens, then it is good to remember the year 1974 which was considered as a turning point. Due to the downturn the financial institutions were at the edge of an end and their place was taken over by the public and private markets, which were becoming the most important source of providing finance to the investments. In 1975-76 bonds supported strongly, forming the keystone for the share market. Some funds with high yield attained unleveraged, and the return for two years approach to 100%.

Thus, since 1974 the ease to access the capital market has been growing. The banks are not the only source of proving finance to the investments. They own only 30% of the loan which they own before. The firms are not dependent on the banks. In 2009, advantage of low levels of interest rates was taken by many firms and raise a huge sum of money in the global bond market which was 100% more

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than the year 2008. Just as a downturn in 1974 the investment firms had started to re liquefy. After that the market started to be opened for the lower rated bonds. Due to all this mostly all the companies borrow the money for their investments through the issue of fresh debts and equity shares.

Thus, today also it appears to be repeated as in the year 1975, when the companies having the strong capital structure started taking over the other companies. Rapidly many companies financed their investment through the issue of shares and debentures in the share market. Whereas the other companies issued bonds to pay off their short term bank loan, making their balance sheet strong and helping to bring back the bank liquidity.

In 1958 there was an argument that if the management of the capital structure is an important job for the managers of the firm. But, in argument to this Miller believed that the capital structure plays no role in the valuation of the firm or with the risk associated with the investment in them.

But due to the passage of time many researchers believed that the both value of the firm and risk in investment is significantly affected by the capital structure. They believe that there must be some optimum capital structure and every manager must take into consideration the few factors such as industry dynamics, the management of the firm, the economy of the country, the state of capital market, rules and regulations laid down by the government and social trends. When these factors point out the business risk, then even a small amount of debt may be considered as too much for some firms.

From the last forty years, due to the wrong capital structure many companies have to fight back. During the phase of credit growth, many companies were unsuccessful in creating enough cash in hand to persist in inevitable contractions.
Particularly the companies at risk with irregular income streams end up with large amount of debt at the time of firm’s slowdowns. All this happened 50 years back or 30 years back and is happening again and again.

In year 1960 many industries particularly airlines, technology and aerospace were over levered. As in 1970’s the superficial risk of investing in companies increases, the prices of the debt decreases in the capital market. As the companies were selling their debt at lower prices the equity were exchanged for debt, debts were exchanged for new debts, assets were exchanged for debts and even the cash was exchanged for debts- the many companies avoided failure to pay and saved their jobs.

The value of the shares can be weakening by issuing new equity in two ways: if the supply will increase, it will decrease the price; and it indicates that the management thinks that due to the firm’s true value the share prices are high. On the other hand if the company buy back its own shares indicates an undervalued stock. The theory says that if the company buy back its shares, this will decrease the supply which will led to the increase in the share price. Many students of finance have gained their PhDs by indicating such signaling dynamics. But in the real sense if the stock prices are reduced or increased are wrong with respect to deleveraging the companies which are seen at credit risk.

The decision with respect of raising or reducing the proportion debt in the capital structure depends on the condition of the market and the accessibility of the investors towards the debt. The debt financing was preferred between the year 1970’s and 1980’s. After 1980’s the equity share market came into existence for the first time in time span of 15 years. This was the indication towards the deleverage.
These days, most of the companies, government and the financial institutions have again started to raise finance through debt.

Through the history we can see that there are many repeated patterns. But, today also the history is repeating as it was in 1970’s. The companies are using the capital market drive out the maturity of debts so that loans can be easily paid off. This gives them relaxation and expectations that history will itself repeat and there will be the strong recovery of the economy.

Whether the firm has a large business or a small business has nothing to do. Capital structure has always mattered and it will always matter.

In 1958 the publication of Modigliani and Miller’s on capital structure model gave birth to the theory of the capital structure. Modigliani and Miller showed that the firm’s value and the capital structure are two distinct entities. The firm’s value is not affected by the capital structure of the firm i.e. firm’s value is independent of the capital structure under strict assumptions of no taxes in capital market, no transaction cost in the perfect and frictionless capital markets. However, in reality market frictions exist. He believed that the investors could make or unmake any level of gearing they desired by borrowing or lending on personal account. Since then attempt has been made to explain the amount of leverage to be undertaken through a cost – benefit analysis of leverage with the help of four main theories which have been proposed since 1958 when MM approach came into existence. These theories try to explain the choices behind corporate financing sources in light of potential costs associated with each source vis-à-vis agency, information asymmetry, transaction and bankruptcy costs.

The present study examines the capital structure pattern and its determinants in Multinational companies (MNC) in India with special reference of Fast Moving
Consumer Goods (FMCG) sector in India. Why? The reason is a number of studies have been conducted regarding capital structure but these have been done on Indian corporate firms in general. However, after liberalization in 1991 a number of MNC’s have entered into the Indian market and set up them over here. They have also offered shareholdings to Indian investors. Taking this into account it became necessary to study their capital structure pattern and determinants of their capital structure which can be compared with non MNC’s firms. Attempt will therefore be made to gather the current information related to capital structure decisions in the selected Multinational companies in India.

When the company administers its production or operation of its goods and services from more than one country then such company is considered as multinational company or international company. International Labor Organization has also defined multinational company as the company which have its headquarters which is in operation in one country and has its many other branches which are operating in other countries of the world. The country in which the head quarter of the company is located is considered as the home country and countries where the branches are located are considered as the host countries. These multinational companies play an important role around the world in international relations and these companies also have impact on the economy of the host country as well as on the world economy. As per the economic data, in 1991 i.e. after liberalization, it has brought many foreign companies whose host country was not India, brought them to India for their operational branches. Maximum number of the companies which make India as the host country was from US i.e. total of 37% of the sales turnover of top 20 companies were from the companies which operate in India. In our study we have taken multinational companies related to only one sector i.e. FMCG Sector.
FMCG sector known as Fast Moving Consumer Goods Sector is further dividend into different segments. The major segments of FMCG sector are as follows:

**Major segments of FMCG**

![Figure: 1.1 Segments of FMCG Sector](http://securities.indiabulls.com/market/Useful_Information/budget/budget13-14/BudgetHighlights.aspx)

- Food and Beverages
- Personal Care
- Tobacco
- Household Care
- Lighting

**Food and Beverages**

Food processing industries such as Britannia Ltd, health beverage industry such as Herbal Life, bread and biscuits such as Parle G Ltd, chocolates & confectionery such as Nestle Ltd, mineral water such as Bisleri Ltd and ice creams such as Mother dairy comes under the food and beverages segment. Packed food such as packed tea, biscuits and soft drinks comprises the three of largest categories.
which are consumed. Tea has the leading market in the Indian hot beverage market. There is leading share of unorganized players than that of organized players in the tea market. HUL, ITC, Godrej, Nestle and Amul are the most important players in food and beverages segment.

**Personal Care**

Personal wash products such as Lux, hair care products such as almond oil, oral care products such as Colgate and cosmetics like L’Oreal Ltd comes under the segment of personal care. HUL, Colgate Palmolive, Gillette India and Godrej are the leading players in the segment of personal care. Personal care can be further segmented into various parts such as hair care products can be divided into hair oil products, shampoos, hair conditioners and hair gels. Marico and Dabur are the leading players under the hair care products segment. HUL is the leader in the personal care products and P&G is the follower.

Personal wash is also further divided into three different parts such as Premium, Economy and Popular. HUL is again the leader of the personal wash segment followed by the Godrej Ltd. The future demand of the Indian consumer is towards the Premium brand due to the growing income of the consumer which shifts their demand from the economy product towards the premium product.

The initial stage in India is of the skin care products. But due to the increase in the income of the consumers and availability of wide range of products, there is a change in the life style of the people and they are giving preference to their personal grooming. HUL is again the leader in the skin care market followed by Cavin Kare and Godrej.
The oral care market can also be further divided into toothpaste, toothpowder and toothbrushes. Colgate Palmolive is the leader in the oral care market followed by the HUL and Dabur.

**Tobacco**

The major player under Tobacco is ITC

**Household Care**

Detergent plays the important role under the household care segment. Unorganized player has the major share as compare to the organized players on account of the total volume of sales in the detergent market. In rural areas bars are mostly preferred as compare to detergents. On the other hand detergents are more preferred in the urban areas as compare to the bars. HUL is the leader in the household care segment followed by Nirma, Henket and Proctor & Gamble.

**Lighting**

Lighting such as switches, batteries, bulbs etc. The major players in this field are Havells, Anchor, and Siemens etc.

The companies taken for this research are

1. Britannia.
2. Colgate
3. Dabur
4. Emami
5. Gillette India
6. Glaxo Smith Kline Pharmaceutical
7. Godrej
8. Gofgrey Phillips India Ltd
9. Havells India
10. Hindustan Unilever Ltd.
11. ITC (Indian Tobacco Company)
12. Lotte India Corporation
13. Marico
14. Mcleod Russel (India)
15. Nestle India
16. Proctor & Gamble House Hold
17. Radico Khaitan
18. Siemens
19. Tata Coffee
20. United Breweries
21. Whirlpool of India

From the past so many years the FMCG sector has shown the tremendous growth by increasing the single digit figure to the double digit figure. FMCG sector is considered as the largest segment when compared with the other segments of Indian economy with the annual revenues of more than Rs 75000 crores. Due to the increase in the disposable income of the Indian consumers and the availability of the various ranges of the products expects the bright future of the industries under the FMCG sector. But if we compare the purchasing power parity of the Indian consumer with the consumers of the other developed countries, it is still low. This is due to the understanding power of the Indian consumer and the unbranded categories of various products. Due to these factors the potential of the industry remains untouched. FMCG sector is less capital intensive as compare to the other manufacturing sectors but still it demands enormous skills and huge cost on the distribution and branding of the products. Differentiation in the products, innovative ideas in the packaging of the products, Differentiation in the prices of
the competitive products and mentioning the important features of the product creates the value of most of the companies. Inflation is another aspect which also creates the hurdle in the growth of the industry under FMCG sector. The producer tries to pass the inflation cost to the customers by increasing the price of the products or by decreasing the size of the products or by changing the product mix. On the other hand the consumers respond by shifting towards the lower priced products or constant in the demand of their preferred products if the increase in the price is fair.

The change in the life style of the consumer, easy access of the large variety of products and growing awareness has been the important growth variables for the FMCG sector. All these factors have even increased the demand in the rural sector of the economy.

Fast moving consumer goods (FMCG) manufacturing is very much as the name suggests:” high quality products that fly off the production lines as fast as they fly off supermarket shelves”

1.1.2 Research Motivation

This research is being motivated due to the various important questions running in the mind of the researcher. These questions are: How do the operations of the firm is being financed? What are the various factors that influence these choices? According to the various theories explained by various researchers my knowledge blends that the characteristics of the firm benefit with cost and reaction of market affects the firm’s choice of capital structure thus the theory of the capital structure is to be known to every finance manager. The large number of research is done either to explain all the factors or few of these factors which affects the choice of firm’s capital structure.
After being motivated, with the help of this research, we try to answer the questions regarding the few factors that affect the choice of the capital structure by formulating research hypotheses. Our research is based on the issues like, the few determinants that affects the capital structure of multinational companies situated in India in FMCG sector, study how the multinational companies in India particularly in FMCG sector raise capital for investments: to investigate how the multinational companies particularly in FMCG sector finance their financial deficit.

The different characteristics of multinational firms of FMCG sector in India motivate to test Hypothesis 1 regarding the determinants of capital structure. The pecking order theory and the trade-off theory are used to test the Hypothesis 1. According to trade-off theory profitability, size and debt ratio are positively related to each other. On the other hand as per pecking order hypothesis profitability and size have a negative relationship with the level of debt. The determinant such as liquidity also have the positive relationship with debt ratio as per trade off theory but the negative relationship is seen as per pecking order theory. Along with this the variable tax shows the positive relationship with trade off as well as pecking order theory.

In this research, the most important thing that we would like to test is that how the multinational companies in FMCG sector in BSE and NSE index finance the firms deficit because the table shown below shows the over a period of time these firms are experiencing financial deficit. Frank and Goyal (2003) and Shyam-Sunder and Myers (1999) also used a regression model of debt issued on the financing deficit to test the pecking order theory. The financial deficit means that debt issuance arise due to the uses of more funds than the available internal sources of fund. Thus, the reason is that the original pecking order expects that
firms issue debt whenever their internal cash flows are not enough to finance the actual investments or to pay the dividends to the shareholders.

According to trade off theory, if the firms expect some benefits then only they will take actions. The trade off theory believes that the market reacts positively with both equity as well as debt securities. If the firm changes its leverage proportion then it can lead to good or bad news for the firm. If the securities are issued by the firm to take benefit of assuring new opportunity that has not previously been predictable, then it is considered as good news. It can take the shape of bad news if the securities are issued by the firm because the more capital is required than predicted to carry out its operations.

The pecking order theory normally predicts the market reaction will be more negative if the company issues more equity. On the other hand there will be no market reaction or less negative reaction if the company issues less debt. Meanwhile, the explanations for buybacks are based on the information signaling theory that has three instant implications: positive price change should be associated with repurchase announcements; profitability or cash flows should be escorted with repurchase announcements (though not necessarily immediately); and positive change in the market’s expectation about future profitability should also be associated with repurchase announcements.

Previous research and theories findings can be compared with our research findings. Thus, our thesis can be considered as add on to literature.

1.2 PROBLEM IDENTIFICATION

If the multinational firms want to widen its operation in FMCG sector in India, then they need to finance their new projects or even their financial deficit. Therefore, it is important for them to put into practice the theories of capital
structure previously expressed in deciding cautiously their capital structure for financing their projects. All the merits and demerits associated with each capital structure choices based on the theories should be looked after by the finance manager because each choice can affect market reaction which will be imitated in the firms share price valued by the market.

Why are Multinational Companies in India?

The reason of being the fastest growing economies of the world and the huge market make India the host as well as the home country for many multinational companies. The government policies regarding FDI may be another reason for magnetizing many multinational companies towards India.

Before liberalization, particularly before 1991 many companies were not interested in investing in the Indian market due to the restrictive policies of the foreign direct investment. But the post 1991 era has changed the situation. Now a day’s government has made many liberal policies to attract the foreign investment in India. As a result the number of multinational companies has increased in India.

Higher returns have been brought in India by the Multinational companies across sectors such as FMCG, pharmaceutical, automobile ancillaries, banks, Insurance, telecom, tea plantation and capital goods over the last many years due to the superior technology, products and brand equity.

In this study we have taken one sector i.e. FMCG sector. With the predictable size of more than Rs 1,500 billions made FMCG sector as the fourth largest sector in the economy. The FMCG sector is growing almost 11% per annum over the previous decade. By the year 2015, FMCG sector is projected to grow up to 33 billion USD and up to 2015 it is estimated to reach 100 billion USD. The well
established network of the distribution, strong competition between unorganized and organized players and low cost of operation such as cheap labour and easy availability of important raw material are the major variables of strong MNC presence in the Indian FMCG sector. Fast Moving Consumer Goods (FMCG) can be defined as those goods which are required by the consumer on the regular interval of time (other than groceries or pulses). Due to the daily requirement of these products, they have the fast rate of consumption and a high return. It can also be expressed as those goods whose cost is comparatively low and have a quick turnover is termed as Fast Moving Consumer Goods (FMCG). These goods can be easily replaced by other goods within a short span of time. Soaps, detergents, oral care, personal care, bulbs, batteries, glassware, paper products, plastic goods, cosmetics, toiletries, pharmaceuticals, consumer electronics, packed food such as tea coffee etc are the few examples of FMCG products. These products are consumed by the consumer on the daily basis and hence there is need to purchase FMCG products on the regular basis.

In various categories of products there is very low level of penetration and per capita consumption as compare to world average standards. This represents the unused market capability. Rapidly growing population of India, mainly in the rural areas and middle class sector, represents the vast untouched opportunity to players of FMCG sector. Due to the preferences of the consumers in the developed product categories like packaged and processed food, mouth wash etc, there are chances of growth in the FMCG industry. The noticeable feature of the FMCG sector is that many international players such as HLL, P&G, and Nestle etc are present in India through their subsidiaries, which guarantee the launch of innovative products in the Indian market from the portfolio of their parents.

India is the main producer of food processing industries the sub section under FMCG sector due to the diverse climatic condition. India is also the main
producer of milk, coconut, spices, livestock, sugarcane and cashew. India also acquires the second position in the production of fruits, vegetables, rice and wheat. India also has the plentiful supply of raw material (caustic soda and soda ash) which is used to manufacture soaps and detergents. Due to this reason the growth is seen in the household section of the FMCG sector.

Nestlé, ITC, Hindustan Unilever Limited, Reckitt Benckiser, Unilever, Procter & Gamble, Coca-Cola, Pepsi, Gillette etc are the global leaders in the FMCG sector.

The growth in the FMCG sector can be due to the following factors:

- Huge growth can be seen due to the increase rate of urbanization.
- Due to the increase in the consumer’s income, there can be increase in demand for premium brands which will led to the faster growth.
- The consumer in the rural areas can have the easy access to the products due to the new, modern and stronger channel of distribution.
- Companies in FMCG sector are expected to increase their investments in the stock market.

The challenges in the FMCG sector can be due to the following factors:

- The cost of raw material is likely to increase due to the increase in the rate of inflation.
- The cost of cereals, beverages, detergents, flour, salt and mineral water is likely to increase due to the standardization of packaging norms.
- The distribution costs are likely to increase due to the increase fuel costs.
- The demand of the FMCG products can be decreased due to the slowdown in the economy.
1.3 RESEARCH QUESTIONS

We have constructed some of the major and minor research questions which are to be answered in this research work.

1.3.1 Major Research Questions

The major research questions that are going to be answered are as follows:

1. What are the determinants of capital structure of the firms in the multinational firms in the FMCG sector in India?
2. How do the multinational firms in the FMCG sector in India raise capital for their new projects i.e. either the funds are raised internally or externally through the issue of debt, equity or via debt to repurchase equity?

1.3.2 Minor Research Questions

The minor research questions that are going to be answered are as follows:

1. What are the determinants of capital structure of the firms in the multinational firms in the FMCG sector in India?
   a. Does there lay the positive relationship with firm’s liquidity and debt ratio as suggested by trade off theory? And, does according to pecking order theory there lay the negative relationship between the firm’s liquidity and the level of debt?
   b. As explained by trade off theory does the firm’s profitability have the positive relationship with the debt ratio? Along with, does the firm shows the negative relationship of profitability with debt ratio as per pecking order theory?
c. As implied by trade off theory and the pecking order theory, do corporate taxes paid have a positive relationship with the debt ratio?

d. As explained by trade off theory does the firm’s size have the positive relationship with the debt ratio? Along with, does the firm shows the negative relationship of size with debt ratio as per pecking order theory?

2. How do the multinational firms in the FMCG sector in India raise capital for their new projects i.e. either the funds are raised internally or externally through the issue of debt, equity or via debt to repurchase equity?

1.4 RESEARCH OBJECTIVES

On the basis of research questions framed above, the research objectives are as follows:

1. To determine the determinants of capital structure of multinational firms in FMCG sector in Indian capital market.
   a. To examine the relationship between the firm’s liquidity and the debt ratio as explained by trade off theory and pecking order theory.
   
   b. To examine the relationship between profitability of the firm and its debt ratio as per pecking order theory and trade off theory.
   
   c. To investigate the relationship between tax and debt ratios according to the pecking order theory and trade off theory.
   
   d. To determine the relationship between firm’s size and debt ratio as implied by the pecking order theory and trade off theory.
2. To investigate how do the multinational firms in the FMCG sector in India raise capital for their new projects i.e either the funds are raised internally or externally through the issue of debt, equity or via debt to repurchase equity.

1.5 SCOPE AND COVERAGE OF THE STUDY

This research study is limited in scope to only to the firms indexed in India. The comparison of this study with the indexed firms in advance countries like USA will not be practically possible because there lies the differences in the reporting standards as well as the market size of developed countries may also differ. The definition of debt may also vary from the country to country. This study also covers only the non financial firms. The firms which are financial in nature such as banking firms are not included as they demonstrate different characteristics from non-financial firms. Therefore, their debts features are not strictly comparable with each other. The scope of this study is also limited to 10 years i.e. the period from 2004 to 2013.

1.6 LIMITATION OF THE STUDY

There are many issues related to the topic studied, but all the issues are not covered. Only few of them are focused in the research questions mentioned above. The limitations of the study are discussed as follows:

1. The study only discussed the few variables such as liquidity, tax, profitability and size. Other variables such as tangibility, growth, age, non – debt tax shield,
volatility, political risk, operating leverage, bankruptcy risk and market leverage are not discussed.

2. The present study lacks the complete data availability of all the multinational firms in the FMCG sector due to the incomplete data sets provided by financial databases.

1.7 ORGANIZATION OF THE STUDY

Figure 1.2 Organization of the study

The above figure clearly depicts the structure of our thesis. In more detail, the chapter 1 is an introductory chapter which gives the meaning of capital structure, problem identification, research questions, research objectives, significance of the study in attempting to find out the determinants of capital structure and its effect. Besides this, the chapter also gives the scope, limitation and organization of the study.
The chapter 2 gives the overview of the capital structure theories and the determinants of the capital structure. Chapters 3 discuss the various empirical studies which have been reviewed related to the determinants of the capital structure.

Chapter 4 lays down the research methodology used in the present study. This chapter is divided into 2 sections. The design of the study in terms of its proposition, information about data base, criteria for sample selection and lastly the statistical techniques used are spelt out in the first section. The second section empirically defines the variables and ratios used in the study.

Chapter 5 shows the empirical results and analysis of the study. Chapter 6 is the concluding chapter containing the summary and conclusion, recommendations of the whole study.

Finally, at the end bibliography and the appendix providing the statistical information and figures related to the research is mentioned.