PREFACE

Capital structure is the composition of debt and equity securities that are used to finance a company's assets, and both these securities are used in most of the companies. Having determined its investment policy, a company should plan these sources of finance and their mix. Companies which do not formally plan their capital structure are likely to have uneconomical and unbalanced capital structures, and could face formidable difficulties in raising capital on favourable terms in the long run. Also inappropriate mix of sources of finance can render the operations of companies inflexible. Notwithstanding this, management of capital structure is one of the most important functions of finance executives because it affects the price of shares in the stock market and return to the shareholders. A financial manager has to plan the corporate capital structure properly in such a way that the plan would give the maximum benefit to the owners. This proper design can be arrived at only when long term debt and equity is properly blended to result into an optimum capital structure.

The problem of companies while raising funds is whether to raise debt or equity capital. Though there is continuing theoretical debate on this issue, relatively less empirical evidence exists on how companies actually select between financing instruments. In spite of the fact that each management makes its own decisions regarding its capital structure, there may be certain general factors, which seem to influence the capital structure of an enterprise. In general, companies needing funds issue equity if they are above their target debt level, and debt if they are

below. Since, targets are unobservable, we need to concern ourselves with these likely determinants. Consequently, the present study investigates the relationship between corporate capital structure and several institutional characteristics viz. assets composition, business risk, corporate size, debt service capacity, growth rate, earning rate, industry class and ownership pattern. All these determinants of corporate capital structure may affect it in some way or the other and help the management in arriving at an optimum capital structure.

The entire work of the study has been divided into seven chapters. Chapter one is an introduction, deals with the work plan, methodology, selection of sample and data and objectives of the study. Chapter two enumerates the previous works in India and abroad. Chapter three briefly states the theoretical background of the capital structure and its theories. While chapter four, five, six and seven bring out empirical investigation of the determinants of corporate capital structure and results obtained from it.

The finance area is constantly undergoing changes. It is both stimulating and rather awesome. I hope that this study will contribute to a better understanding of corporate finance and it would be of immense assistance to the finance executives to know how they should select between debt and equity capital to raise funds.

Dated: **DEBASISH CHAKRABARTI**