Open door economic policy has brought a number of choices to our doorstep. As consumers we often have to compare objects ranging from shoes to television while making a purchase. Just like human resource managers are required to make performance assessment of a staff at regular intervals, like marketing managers are required to achieve sales beyond predetermined targets, the finance manager are required to evaluate the opportunities that come across regularly over a period of time.

During the last 50 years or so, the role of financial management has undergone a tremendous change. The ownership structure, size of business firms, security markets, financial system and instruments have greatly changed. As a result, the role of a finance manager has become far more important now a day. The finance manager is expected to maximize the economic welfare of the owners, which is represented by the market value of the firm. To achieve this objective, one has to take a number of decisions, the most important.

The questions that arises in the minds of the finance manager is whether or not to make use of the opportunities offered by the technologies advancements, market developments, or economic development of the society. Today the economy continuously offers business opportunities that need to be examined whether or not these must be exploited by the business enterprises. In any kind of a situation, one needs a standard against which the comparison or assessment is made. In the context of the financial management and for the purpose of evaluation of business opportunities, the return of the business opportunities need to be compared with the benchmark. If return exceed this benchmark we give a favourable thought to the business opportunity, else we reject the same. The benchmark against which the benefits of the business opportunities
are compared is called discount or hurdle rate. In most cases, this hurdle rate happens to be the *Cost of Capital*.

The terminology of cost of capital is not recent phenomenon in the perspective of financial management. But the recent study witnessed that particularly Indian companies has not been considering cost of capital while undertaken finance and investment decisions. The available studies revealed that the Indian companies irrespective nature of industries have been using different financial instruments towards the mobilization of funds for smooth running of business depending on the availability of source.

Still at present the question of whether the changes in capital structure helps to minimize the overall cost of capital or whether there is any relationship exists in between the cost of capital and capital structure has been puzzling the minds of both the finance managers and academicians for the last 40 years, especially since the publication of the path breaking articles by Franco Modigliani and Merton Miller. In India, no significant work has been done in this regard. This study made a humble attempt to empirically test whether there exists an interrelationship between cost of capital and capital structure as well in between cost of capital and companies performance of Indian companies, both at the micro and the macro level. Moreover in this regard the hypothesis of Franco Modigliani and Merton Miller was tested.

The present study is divided into six chapters. However, the first chapter being introductory in nature spells out the parameters of the study of statement of the problem, the objective behind the study, methodology used in the study and organization and chapterisation of the thesis. The second chapter decorated with the theories of capital structure prior to the vision of Franco Modigliani and Merton Miller and reviewed the available literature work on cost of capital and capital structure. The chapter was
organized mainly to find out the gap of research. The third chapter deals with the modern theory of capital structure mainly after the theory pro-founded by Franco Modigliani and Merton Miller and where an empirical study was conducted on the nature of capital structure of Indian industries and on its influential factor. The chapter was carried with a view to see that on which source the Indian companies are more or less relied on.

The fourth chapter was ornamented to evaluate and analyse the financial performance of sample companies of India and also to examine the factors responsible for the variation of financial performance of the companies. The fifth chapter was devoted to the performance appraisal of sample companies in the context of influence of cost of capital. Moreover, Franco Modigliani and Merton Miller (MM) hypothesis with and without corporate tax was empirically verified.

The concluding chapter gives a brief summary of main findings and some workable suggestions with regard to cost of capital in business decision. It has been seen that there are insufficient evidences to deny the fact that the cost of capital has no relationship or no affect on companies’ performance like companies growth, liquidity, dividend pay out although the relationship is industry specific. Similarly, cost of capital is not only influenced by only capital structure decision but influenced by the host of number of factors depending on nature of business and prevailing economic environment of the country as a whole.