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CHAPTER: 2
LITERATURE REVIEW

Literature survey is a process of developing awareness about conceptual and research-based studies available on the area and the topic selected for the proposed research. The objective of such review is to understand the importance of the topic and find out research gaps, if any, in the chosen area.

According to Cooper (1988), "A literature review uses as its database reports of primary or original scholarship, and does not report new primary scholarship itself. The primary reports used in the literature may be verbal, but in the vast majority of cases, reports are written documents. The types of scholarship may be empirical, theoretical, critical/analytical, or methodological in nature. Second a literature review seeks to describe, summarize, evaluate, clarify and/or integrate the content of primary reports."

Literature Review provides base for historical information about the research to be done. This enables researchers to know the present status of area of research. This provides the base to researchers from where and how the research of the selected area should be pursued.

Before proceeding to any desired area of research, the study of research already carried out in the concerned area is very essential. Literature survey is the study of those concerned areas of proposed research, which have direct or indirect influence thereon. Literature survey is the foremost condition of any research work to be pursued; because it gives the broad view about the study of different researches already made in relation to different areas and issues related to the proposed study. From the study of research already done, a researcher can know the basic information like objective, scope, hypothesis, methodology and inference of the study. Such information provides guidelines and helps to plan the proposed study.

Not only this, but the literature review also throws light on the new areas having scope for the further research. Research in the new areas makes the proposed research more meaningful, contemporary and contributory to the relevant field. Moreover, by exploring the available research in depth, the new researcher can develop an art of conducting a research work, building up broad framework, describing the research problem, analyzing the collected information, arriving at conclusion and making meaningful suggestions.
Change in the capital of a company is a regular phenomenon as and when the need of funds arises and consequently the capital structure is changed by the financing and investing decision of the respective company. Many doctoral and non-doctoral researches have been carried out on the different issues affecting capital structure. To facilitate the study, an extensive literature review was undertaken from different dimensions relating to the proposed research. This literature survey was concerned with research already done in India and abroad regarding different components of capital structure. Research done on policy reforms initiated in India after independence by various regulatory authorities from time to time regarding various sources of funds, domestic and foreign capital markets was also studied. Therefore in the present literature survey, the review of the previous studies was classified according to determinants of capital structure, inter industry capital structure, sources of funds, routes of capital issue, reforms in capital market, buyback of shares, bonus issues and Employees Stock Option Plan (ESOP). Research undertaken regarding all these areas included published as well as unpublished research. The outcome of various works done in this area is described below.

2.1 RESEARCH RELATING TO DETERMINANTS OF CAPITAL STRUCTURE

Determinants of capital structure are the key factors which are responsible for the decision of capital structure in a particular industry or in a particular structure of capital market that has been developed in a country due to Government’s economic policy i.e. market driven capital market or institutional oriented capital market. The determinants of capital structure decide the degree of gearing of the capital structure. Apart from these, many internal factors within the firm also affect the formation of capital structure.

Dimitrios at al (2009) studied capital structure of 143 Greek Companies listed on Athens Stock Exchange during 1997-2001, found that the debt-equity ratio was depended on the asset structure, size of the firm, and return on assets. The debt ratio was positively related to assets structure and size of the firm and negatively related to its profitability. The firms, which maintained a large proportion of fixed assets, tend to maintain higher debt ratio than smaller firms and the firms with high profitability ratio tend to use less debt than the firms, which did not generate high profits. Findings also suggested that firms did follow target capital structure.

Srivastav and Joshi (2007) studied the capital structure of 27 non-financial Nepalese firms for the period 1996-2005 and found that size of the enterprise, profitability, fixed
assets ratio, growth opportunities, earning volatility, liquidity and non-debt tax shield were the major determinants of capital structure. They found that Nepalese firms were highly geared and the ratio of short-term debt was significantly high. Fixed assets ratio, growth rate and earning variability were positively related to financial leverage, while liquidity and profitability were inversely related to leverage.

Datta and Majumdar (2007) studied the factors affecting borrowing decision of 729 non-financial and non-banking firms selected from BSE-100, BSE Mid cap index and BSE Small cap index during period of 2001-2005. They found that small firms preferred to borrow from market whereas larger firms preferred to generate necessary funds from internal sources or through equity issue in India. Thus, size of a firm was closely associated with debt-equity ratio in India.

Rastogi at al (2006) studied the debt financing decisions and practices of the public sector, private sector and foreign controlled companies in India under the liberalized environment by analyzing the capital structure of 601 corporate enterprises during 1992 to 2003. They found that the economical and financial reforms caused a significant declined in long-term financing strongly backed by the factor of ownership control.

Bhaduri (2002) found that large sized firm relied more on the long-term borrowings, while the small firms relied more on short-term borrowing in India. Growth opportunities increased long-term debt taking capacity. No relationship was found between long-term borrowing and fixed assets.

Mondher and Inassel (2002) was of the view that the capital structure of the firm could be optimized if the effect of leverage on debt values and yield spreads could be known. They studied the simple dynamic model of a levered firm by introducing the concept of incomplete information in the valuation process of securities, debt characteristics, optimal leverage and absolute priority of payments, when there were no protective covenants in the presence of an indigenous bankruptcy and shadow cost of incomplete information. They found that rise in the cost of debt financing led to a greater optimal debt level. This was because higher interest rates led to a greater tax benefits, which in turn encouraged this source of financing despite of its higher cost. However, the firm would prefer lower optimal leverage in case of substantial bankruptcy cost making the debt less risky.

Negash (2002) studied association between tax rate and leverage of 64 selected companies traded in Johannesburg Stock Exchange and found that there was negative association between the tax rate variables and extent of leverage. The trade off between
investment related tax shield and debt related tax shield was not observed. The determinants of leverage were cash flow, asset tangibility, size of the firm and actual tax paid.

Alan and Jo (2000) studied further the prior research made by Rajan and Zingale in 1995. The research made by Rajan and Zingale suggested that the level of gearing in U.K. companies was positively related to size of the firm and tangibility and negatively correlated with profitability and level of growth opportunities. This study noticed the significant difference in the determinants of long-term and short-term debt. If trade credit and equivalents were included in gearing measure, the results would have become sensitive and therefore analysis of capital structure was incomplete without a detailed examination of all forms of corporate debt.

Kakani (1999) conducted a study on capital structure of 100 large Indian manufacturing firms over the time frame of 5 years of pre liberalization period and 5 years of post liberalization period to analyze the debt structure, to identify the factors affecting the corporate short-term and long-term debt structure and to compare the determinants of Capital Structure between pre and post liberalization period. He found profitability, non-debt tax shield and capital intensity were negatively related to the short-term and long-term debt ratio. Regulated and growth oriented firms had higher total and long-term debt during 1984-89 period. In the liberalized era, the net export was the deciding factor of total and long-term debt ratio. Uniqueness of the firm also positively related to the short term and total financial leverage.

Sureshbabu (1999) in his doctoral study analyzed the capital structure practices of 527 corporate firms during 1980-1994 with specific objective of comparing the Capital Structure practices of foreign controlled companies in India with the domestic companies. He examined the constituents of debt, risk characteristics, existence of pecking order theory and factors affecting capital structure decision in the wake of liberalization in India. He found that pecking order hypothesis did exist and growth rate, financial risk, corporate control, capital market situation, SEBI regulations and chief executive’s values affected the decision of capital structure in India. He also observed that foreign controlled companies in India had an equity oriented capital structure while domestic companies had debt oriented capital structure and in the wake of liberalization firms had more freedom of choice in financial decision making and firms were more dependent on capital market in meeting their funds requirement.
Chen et al. (1998) studied capital structure of listed Dutch firms and found that as the role of financial institutions was negligible in the capital market of The Netherlands, the firms preferred internal financing to external financing and debt financing to equity financing.

Chatrath et al. (1997) investigated the relationship among cost of capital, capital structure and dividend policy of firms traded in the New York Stock Exchange (NYSE) for the period 1973 to 1990. The results indicated the significance of the cost of capital on financing and distribution policy. They also found the significant relationship between cost of capital and degree of financial leverage.

Mittal and Singla (1992) made an empirical study on problem faced by the Indian companies requiring additional finance to be raised by debt or equity. They found that several companies considered size, asset composition, debt service capacity, business risk and growth rate as important determinants of debt equity mix. Impact of such determinants was studied on debt equity ratio. In the cement industry size, asset composition, business risk and growth rate were significant while in automobile industry only business risk was found significant.

Allen (1991) studied the financial policy decision of Australian companies by field research method and majority of the executives, accountants and analysts agreed that tax issue had a major influence on the decision of Capital Structure and they had target debt ratio and they maintained policy of spare debt capacity. Equity issue was preferred to reduce leverage, if market conditions were found favorable. It was also found that debt issue was preferred to fund a major expansion.

### 2.2 RESEARCH RELATING TO THEORIES OF CAPITAL STRUCTURE

Many Theories of Capital Structure have been developed over the time. All theories try to establish the desirable proportion of debt-equity. The factors affecting the proportion or determinants of this blend vary among all theories. Some experts view that, debt has a significant impact on the over all cost of capital and value of the firm, whereas some find no such relevance. Some analyze the same issue under the tax effect. Few experts give importance to agency cost and asymmetric information for determination of capital structure. Research on various aspects discussed in different theories of capital structure was studied.

Huang and Ritter (2009) examined time series patterns of external financing decisions and showed that publicly traded U.S. firms funded a much larger proportion of their financing deficit with external equity when the cost of equity capital was low. The
historical values of the cost of equity capital had long-lasting effects on firms’ capital structures through their influence on firms' historical financing decisions. They introduced a new econometric technique to deal with biases in estimates of the speed of adjustment towards target leverage. They found that firms adjust toward target leverage at a moderate speed, even after controlling the traditional determinants of capital structure.

As per the opinion of Kakani and Reddy (2008), studies on capital structure have been concentrated in developed countries; a few of them have been in countries such as India. Their study provided an empirical examination to the widely held existing theories on the determinants of corporate capital structure and their maturity; and attempted to develop and test a new theory on capital structure for large manufacturing firms in developing economies such as India. For the different empirical and managerial implications about different periods of debt instruments, they analyzed measures of short-term and long-term debt rather than only an aggregate measure of total debt. The study also analyzed the empirical implications of liberalization of Indian economy, on the determinants of capital structure of the firm. Some of the results were found contrary to the classical financial theory.

As per Robert and Susan (2008), finance scholars' approach to capital-structure issues reflected a progression of thought over time. They provided an overview of the current state of capital-structure theory. One perspective on capital-structure choice was to view it as posing trade-offs among five elements: (i) the tax benefits of financing, (ii) the explicit costs of financial distress, (iii) the agency costs of debt including indirect costs linked to financial distress), (iv) the agency costs of equity, and (v) the signaling effect of security issuance. The first two elements reflected the "modern, traditional" balancing theory of capital structure. The third and fourth, on agency theory and imperfect information and emphasized the individual incentives of decision makers. The fifth element recognized that the very act of issuing a security could convey new information to investors when there was imperfect information. While newer theories provided a rich array of insights into aspects of financial policy beyond how much debt the firm should undertake, the downside was that at present there was no overarching synthesis of these theories. As a result, practical application required careful identification of how these particular theories were relevant to the business, the markets, and the situation at hand.

As per Frank and Goyal (2007), taxes, bankruptcy costs, transactions costs, adverse selection, and agency conflicts were advocated as major explanations for the corporate
use of debt financing. These ideas have often been synthesized into the trade-off theory and the pecking order theory of leverage. They reviewed these theories and the related evidence. A number of important empirical stylized facts were identified. Private firms were found to use retained earnings and bank debt heavily. Small public firms actively used equity financing. Large public firms primarily used retained earnings and corporate bonds. Direct transaction costs and indirect bankruptcy costs appeared to play important roles in a firm's choice of debt. The relative importance of the other factors remained open to debate. No currently available model appeared capable of simultaneously accounting for all of the stylized facts.

Chen and Haines (2005) analyzed factors influencing firm leverage. They used market capital ratio, book capital ratio and book debt ratio as measures of leverage. They compared factors influencing firm leverage using unbalanced panel data of seven countries: Canada, Denmark, Germany, Italy, Sweden, the UK, and the US. They found that firm size, profitability, tangibility, and market-to-book ratio had significant impact on the capital structure choices of firms. Tangibility was positively related to leverage, while profitability showed a negative significant relation to leverage across all seven countries. More profitable firms tend to borrow less. Size of the firm was positively and significantly related to firms' financial leverage. The impact of market-to-book ratio varied in the book debt ratio model but showed a negative and significant relation in the market leverage model for all countries except Denmark, which showed an insignificant parameter value. Evidences found from the seven countries were consistent with the findings in conventional capital structure theories, for example the pecking order theory and the static trade-off theory, i.e. risky firms borrow less.

Medeiros and Daher (2004) tested two models with the purpose of finding the best empirical explanation for the capital structure of Brazilian firms. The models tested were developed to represent the Static Tradeoff Theory and the Pecking Order Theory. The sample was taken from firms listed in the Sao Paulo (Brazil) stock exchange from 1995 to 2002. By using panel data econometric methods, they aimed at establishing which of the two theories had the best explanatory power for Brazilian firms. The analysis of the outcomes led to the conclusion that the pecking order theory provided the best explanation for the capital structure of those firms.

Stein (2004) reviewed the central theoretical literature. The most important arguments for what could determine capital structure was the pecking order theory and the static trade off theory. These two theories were reviewed, but neither of them provided a
complete description of the situation and why some firms prefer equity and others debt under different circumstances. The option price paradigm was proposed as a comprehensible model that could augment most partial arguments. He was of the view that the capital structure and corporate finance literature was filled with different models, but few could give a complete picture.

Dasgupta (2003) observed that if Pecking Order behavior of financing choice was mitigated by debt capacity concerns, then Tradeoff and Pecking Order theories were difficult to distinguish empirically. He extended the Myers and Majluf (1984) model to derive new testable implications of the interaction between adverse selection and debt capacity constraints. His model predicted that the probability of debt issuance would be a non-monotonic function of the size of the financing deficit - first increasing in the size of the deficit, then decreasing, and finally increasing again. He conducted empirical tests on a sample of firms from COMPUSTAT from 1971-1998 classified into five size groups demonstrated that, even after allowing the financing deficit, the predicted non-monotonic prevailed for all size group of firms. Even for the smallest size group of firms, more than 60% of the issues were in the initial range over which the probability of debt issue was increasing in the deficit size, and adverse selection concerns dominated debt capacity concerns. For the largest size group, the probability of debt issue increased monotonically in the size of the deficit up to a level that exceeded 80% of the issues. The non-monotonic pattern also prevails when firms were classified into three groups based on age. Consistent with the predictions of the model, the range between the two turning points (over which the probability of debt issue decreases in the size of the deficit and debt capacity concerns dominate) was larger for smaller and younger firms. It was also larger, for all size groups of firms except the highest, for firms with lower past profitability, and firms with higher growth opportunities. He also found that the probability of debt issue was lower (higher) for firms that were above (below) an estimated target debt ratio, and higher for firms with higher past profitability, lower market-to-book, and poor recent stock price performance. The results suggested that both adverse selection and Tradeoff theoretic issues affected the debt-equity choices of firms.

Frank and Goyal (2003) examined the relative importance of 39 factors in the leverage decisions of publicly traded U.S. firms. The pecking order and market timing theories did not provide good descriptions of the data. The evidence was generally consistent with tax/bankruptcy tradeoff theory and with stakeholder co-investment theory. The most reliable factors were median industry leverage (+ effect on leverage), bankruptcy risk as
measured by Altman's Z-Score (- effect on leverage), firm size as measured by the log of sales (+), dividend-paying (-), intangibles (+), market-to-book ratio (-), and collateral (+). Somewhat less reliable effects were the variance of own stock returns (-), net operating loss carry forwards (-), financially constrained (-), profitability (-), change in total corporate assets (+), the top corporate income tax rate (+), and the Treasury bill rate (+). Using Markov Chain Monte Carlo multiple imputation to correct for missing-data-bias they found that the effect of profits and net operating loss carry forwards were not robust.

Mira and Gracia (2003) explored two of the most relevant theories that explained financial policy in small and medium enterprises (SMEs), pecking order theory and trade-off theory. Panel data methodology was used to test the empirical hypotheses over a sample of 6482 Spanish SMEs during the five-year period 1994-1998. The results suggested that both theoretical approaches contribute to explain capital structure in SMEs. However, while they found evidence that SMEs attempted to achieve a target or optimum leverage (trade-off model), there was less support for the view that SMEs adjust their leverage level to their financing requirements (pecking order model).

The impact of debt capacity on recent tests of competing theories of capital structure was examined by Lemmon and Zender (2002). Controlling for debt capacity, the pecking order appeared to be a good description of the financing policies of a large sample of firms. The main results were first, that internally generated funds appeared to be the preferred source of financing. Second, if external funds were required, in the absence of debt capacity concerns, debt appeared to be preferred to equity and, when possible, debt capacity was "stockpiled." Demonstration of this preference also provided evidence directly contradictory to the tradeoff theory. They presented evidence consistent with the hypothesis that asymmetric information and its attendant costs were the basis for the observed pecking order of financing choice.

Bernadette and Karen (2001) examined the phenomenon of financial conservatism by studying firms that adopted a persistent policy of low leverage. Their major findings were, conservative firms followed a pecking order style financial policy. A high flow of funds and substantial cash balances allowed them to fund the bulk of discretionary expenditures internally, financial conservatism was largely transitory. Seventy percent of low leverage firms dropped their conservative financial policy; almost 50% did so within five years, conservative firms stockpiled financial slack or debt capacity. Their "stockpiles" were utilized later to finance discretionary expenditures, particularly
acquisitions and capital expenditures, financial conservatism was not an industry-based phenomenon. Conservative firms had relatively high market-to-book and operate relatively frequently in industries thought to be sensitive to financial distress and conservative firms did not have low tax rates, high non-debt tax shields or face severe information asymmetries.

Pandey (2001) examined the determinants of Capital Structure of Malaysian companies utilizing data from 1984 to 1999. He classified the period into four sub periods according to the stages of Malaysian capital market. Debt was decomposed into short-term, long-term and total debt. Both book value and market value debt ratios were calculated. The result showed that profitability, size, growth, risk and tangibility variables had significant influence on all types of debt. Investment opportunity had no significant impact on debt policy. Profitability had a persistent and consistent negative relationship with all types of debt ratios in all periods and under all estimation methods. This confirmed that the Capital Structure prediction of the pecking order theory in an emerging capital market

Laurent (2000) tested whether existing capital structure theories relating to the use of straight debt and equity explained the use, in the UK, of preference shares as equity securities and convertible debt as debt securities. The study provided an empirical examination of the influence of non-debt tax shield, size, volatility of earnings, growth, asset structure and profitability. A second aim of the study was to examine to what extent firms in the UK might be using preference shares for their debt attributes and convertible debt for their equity attributes. The sample comprised 331 firms for the period 1992 to 1997. The sample included firms who use preference shares and convertible debt as well as a similar number of firms who did not use these instruments.

Evidence obtained so far provided strong support for the suggestion that tax shields on debt play a minor, rather than major role, in the financing decision as the use of preference shares were found to have significant negative relationships with non-debt tax shields. Asset structure was also found to have an unexpected relationship with preference shares. These findings supported the idea that firms might consider the agency, characteristics of preference shares as being more advantageous, when looking at what type of security to issue. Firms used less risky securities, other than straight equity, in order to reduce the agency conflicts of debt. Convertible debt was also found to have a counter-intuitive relationship with non-debt tax shields. Further evidence for convertible debt supported a recent study by Munro (1996) that convertible debt issuers tended to be large and intangible intensive.
The evidence obtained for both preference shares and convertible debt did not rationalize the use of these instruments according to traditional capital structure theories. The study provided scope for further research to support the idea that firms used these hybrid securities for reasons other than those explored by traditional capital structure theories. The study of Myers (1984) was in contrast to the "static tradeoff" and "pecking order" theories of capital structure choice by corporations. In the static tradeoff theory, optimal capital structure is reached when the tax advantage to borrowing is balanced, at the margin, by costs of financial distress. In the pecking order theory, firms prefer internal to external funds, and debt to equity if external funds are needed. Thus, the debt ratio reflects the cumulative requirement for external financing. Pecking order behavior followed from simple asymmetric information models. He reviewed of empirical evidence relevant to the two theories.

2.3 RESEARCH RELATING TO INTER INDUSTRY CAPITAL STRUCTURE AND CORPORATE GOVERNANCE

There may be some similarity among Capital Structure of companies engaged in the same industry or belong to a country or an association. The literature review included research made on factors affecting such trend like tendency of the management, decision mechanism, share holding pattern, policy relating to different industries, financial performance etc. As the companies selected for the study were from diversified sectors, it is quite relevant to study research made on this issue.

Inter-Industry differences in Capital Structure of twelve different Indian manufacturing industries during pre liberalization period (1979-80 to 1991-92) and post liberalization period (1992-93 to 1998-99) was studied by Das and Roy (2007) to measure the effect of policy change on the Capital Structure of selected industries. The analysis revealed that during the pre liberalization period almost all the industries showed a consistently proportional rise in the level of debt whereas after the reforms majority of the industries did not follow any systematic trend in their external financing pattern.

Bahng (2002) investigated the convergence trend of Capital Structure of Organization of Economic Co operation & Development (OECD) countries on the basis of 20 years (1975-1994) data by using four ratios namely total debt-stock holders' equity/stockholders' equity, total debt/total assets, fixed debt/total assets, and total debt/stockholders' equity. The study revealed that capital structure of four major
countries US, Canada, Japan and Germany converged whereas the capital structure of Japan was found converging towards the global trend.

Panchali and Desai (1997) investigated the relationship between the ownership structure and the financial performance of 990 Indian firms during the period 1959 to 1997 based on defined financial variables. They observed the relationship between ownership structure and financial performance with mixed evidence.

Impact of corporate governance on the decision of Capital Structure of 27 firms was studied by Rastogi and Rao (1997). They found that as per strategic decisions, capital structure of the firm was either under the control of the board of directors who act on behalf of the shareholders (governance mechanism) or under the control of management (implicit contract). They found that an implicit contract was in operation in 21 firms and a governance mechanism was applicable only in the case of the other 6 firms. The general considerations were, the long-term opportunities and strengths affected the decision of capital structure and a general preference for internal sources of funds to finance capital investments, but when business opportunities arise debt may be preferred. They found that governance mechanism preferred higher debt equity ratio and higher salaries and wages but implicit contract preferred internal funds to debt and low salaries and wages.

Singla and Mittal (1997) studied the influence of industry class and ownership pattern on capital structure of 209 companies of private sector in India, such as the domestic public holders, foreign holders, Indian financial institutions, foreign financial institutions, body corporate, promoters, directors and their relatives etc. The study revealed that the ownership pattern had its impact on the degree of leverage. They observed the low degree of leverage in case of foreign holding group and high degree of leverage in other category. It was also observed that debt-equity ratio was also influenced by industry class. Power generating and supply industry had the maximum debt-equity ratio followed by electronics, tire-tube and rubber, cement, automobiles and iron and steel. It was also observed that the debt-equity ratio varied significantly among the industries. They suggested that the companies in a particular industry should design its capital structure commensurate with particular characteristics of concerned industry.

2.4 RESEARCH RELATED TO SOURCES OF FUNDS

After independence, the Government of India adopted the policy of socialism and consequently the capital market initially became institutional oriented and central and state government owned financial intuitions were developed to lend funds to private firms to ensure regional industrial development and therefore equity oriented sources of
funds were not developed initially. After liberalization, economic reforms took place and new economic policy discouraged institutional finance and market oriented sources of funds were encouraged and policies were made favorable for foreign investments. Various sources of funds were suggested by different reform committees and many equity and debt oriented sources of funds were developed. The sources of funds have direct relation to this study, as one of the objectives of the study was to identify the various sources of funds tapped by Indian companies.

Dubey (2007) studied the Leverage Buy Out (LBO) debt taken by Indian firms to buy foreign companies. A dozen of Indian companies like Tata Steel, Hindalco, and Aban Offshore etc. took 4 to 5 times debt of their net worth even at higher rate of interest at 8 to 9.5%. The great concern was the Novelis of Canada having a debt-equity ratio of 7:1, which was bought by Hindalco. The debt raised by Hindalco to acquire Novelis amounted to five times of company’s net profit in 2006-07 and equal to its net worth. He viewed this trend as a great concern for stakeholders. LBOs resulted into adverse effect on stock prices after acquisition. Dozens of debt heavy companies in India suffered heavily during the economic slow down of 1999-2002.

Mohammed (2006) discussed the favorable points of External Commercial Borrowings (ECBs), Foreign Currency Convertible Bonds (FCCBs), Global Depository Receipts (GDRs), American Depository Receipts (ADRs) etc. resorted to by Indian companies. During 2005-06, the resource mobilization through domestic public issues was just half of the funds raised by FCCBs and GDRs. The reasons behind the spurt in the euro issue were low cost of borrowing and listing in overseas market, shorter listing period, funds realized can be used as acquisition currency, handsome profit when there was a lag between raising the resources and investing them, due to strengthening of rupee, no provision in regulation for answerability to shareholders and utilization of funds, promoters can legitimize their money parked abroad etc. These phenomena became the matter of concern for the regulators in terms of export of domestic capital market and non-utilization of funds raised for the purpose originally intended. To arrest the export of the domestic capital market and undue advantage taken by promoters, SEBI permitted Indian listed companies by amending SEBI (DIP) Guidelines 2000 to raise funds from domestic capital markets by making placements of securities with Qualified Institutional Buyers (QIBs) and Qualified Institutions Placement (QIP).

As per Singh (2002), financial institutions hesitated to fund projects which involve high risk and which were unconventional and unproven. Venture capital financiers were
available to finance such projects. But the growth of venture capital financing was not so encouraging in India since venture capital companies were governed by multiple regulatory bodies like SEBI, CBDT and Government of India.

Effects of foreign financial inflows on the domestic financial system in India during 1990s were analyzed by Saha (2000). He observed that foreign investment inflow into India increased sharply in the 1990s especially in comparison to the pre reform period as a response to liberal policy in this decade. The effect was more pronounced on the private commercial sector whose leveraging capacity declined during this period.

Salient features of foreign instruments as long-term sources of funds were studied by Mohinder and Aparna (1995). They found that Indian companies were allowed to raise funds through international equity markets only after 1991 in response to the introduction of reforms in different segments of financial sectors and new economic policy. The liberalization measures, growth of corporate sector, stable government and reliable legal system ensured the Indian companies credibility in the international capital market. Companies also made euro issues through the mechanism of Global Depository Receipts (GDR) and Foreign Currency Convertible Bonds (FCCBs).

Financing plan adopted by Reliance Petroleum Ltd. (Merged into Reliance Industries Ltd.) to part finance its Rs. 5142 crore project of setting up a fuel refinery of crude processing was analyzed by Patel (1994). The company issued 45, 82, 30,000 Secured Triple Option Convertible Debentures (TODC) of Rs.60 each. The novel features of the issue were favorable for both, the company as well as investors. The amount of TODC was payable by investors in five installments and they had options and opportunity to get 4 equity shares or 2 equity shares and assured double amount of the remaining portion over 6th, 7th and 8th years. The company had an advantage in maintaining the low debt-equity ratio, no cash outflow towards payment of interest for the first five years, avoiding the restrictions imposed in SEBI guidelines on charging premium on IPO by a new company, high probability of investors’ preference to convert a part of debenture into equity shares and no cash outflow on redemption, wide distribution of share holding and right of the company to sell the partly paid up portion of warrant to outsiders.

Thiripalraju (1993) studied the financial innovations in the Indian capital market during 1980-81 to 1989-90. He was of the view that the government of India extended many incentives on new financial instruments like convertible debentures, public sector bonds, cumulative convertible preference shares, dividend linked debentures, different kinds of
warrants, loyalty coupons, zero coupon convertible debentures and secured premium notes etc. became popular with issuers and investors.

A new and unique source of long term fund was studied by Mishra (1992) and found that venture capital was the capital committed as shareholding for small firms specializing in new technology or new ideas with a large element of risk but having potentiality of rapid growth. He was of the opinion that the concept of venture capital was growing in India with roaring business opportunities unlike U.S.A. and U.K., India did not have full-fledged venture capitalists offering a broad spectrum of specialized services like technical, financial, managerial and entrepreneurial and found a need for sound and broad based venture capital movement in India. For this, the rigid guidelines governing the functioning of venture capital funds should be made more flexible and certain financial and institutional arrangements need to be incorporated.

In 1993, he further studied in the same area and held that the concept of venture capital was not so popular in India. He traced the origin of venture capital in U.S.A. in 19th and 20th centuries. The global growth of this innovative mode of financing was seen during 1970 and 1980. Venture capital was a high risk capital generally financed by equity and quasi equity instruments, with and without managerial assistance and the return on investment in the form of capital gains were realized at the time of disinvestment of shares. In various countries, the norms and theoretical framework were developed in the same area.

2.5 RESEARCH RELATING TO DIFFERENT ROUTES OF CAPITAL ISSUES

After the process of liberalization in India, different routes through which, companies can raise capital were developed. The different routes of capital issues like private placement, preferential allotment, bonus issue, right issue, Employees Stock Option Plan (ESOP), Qualified Institutional Placement (QIP), Private Equity(PE), EURO issues etc. became popular to augment capital, apart from the conventional routes of financial Institutions, Initial Public Offering (IPO) and Follow on Public Issue (FPO).

As per Chartergy and Sinha (2009), the Qualified Institutional placement (QIP) became more popular than Private Equity (PE) in the year 2009. During 2009, Indian listed companies raised Rs.32,000 crore, which was 10 times higher than the funds raised in 2008 whereas the funds raised through PE in 2009 was reduced to half of 2008. The reasons behind the unpopularity of PE and increased popularity of QIP were the requirement of a place in Board of Directors for PE participants, strict due diligence
process adopted by PE participants and longer procedural period for raising funds through PE.

Arana (2008) analyzed SEBI’s new proposal for primary market regarding mandating the Initial public Offering (IPO) grading for unlisted companies from January 2007. As per the amendment of SEBI (DIP) guidelines 2000, the companies offering shares through IPO must obtain a grade for its IPO from at least one credit rating agency regarding fundamentals of the company. The IPO grading did not affect the fundamentally strong companies but some companies with poor grading had to withdraw IPOs. The concern about this provision was that the grading was based on fundamentals only and not about the justification of the issue price of the share.

AL Babu (2007) discussed the preferential allotment of securities in India. He observed that one of the quick routes for mobilizing funds by the companies in India was allotment of either equity shares or Fully Convertible Debentures (FCD) or Partly Convertible Debentures (PCD) or warrants on preferential basis to promoters or promoters’ group or persons controlling the management of company affairs. For making allotment of securities on preferential basis, the company had to comply with the requirements of Section 81 (IA) of the Companies Act 1956 and guidelines issued by SEBI under chapter XII of the SEBI (DIP) guidelines 2000. He viewed preferential allotment of shares as an attractive, cost effective and hassle free means of raising funds. He also warned that by this allotment the decision making power of the general investors and Earning per Share (EPS) should not be affected adversely.

As per Datar (2001) private placement of debt securities increased considerably during the period 1994-95 to 2001-01. He was of the opinion that private placement was easy and quick source of fund with less floatation cost compared to public issue and borrowing from financial institutions. Private placements were dominated by institutions like public sector units, Banks and Financial Institutions by issuing bonds and debentures. For retail investors, it fetched attractive returns as well as tax benefits also. He suggested that the mechanism of private placement should be analyzed to find whether its working resembled with markets or Institutions to help the regulators in policy formulation for regulation and development of financial system.

Development of Private Placement Market (PPM) in India and its regulatory aspect was studied by Thiripalraju and Sahadevan (1995). They found that PPM had been as popular as public issue market even before liberalization. The PPM gained a new dimension in 1994 due to the government’s policy of attracting more foreign capital by allowing the
Foreign Institutional Investors (FIIs) to enter the domestic market through the private placement route. This helped the smaller companies to slash their issue expenses and raise resources promptly. The main reason behind popularity in India was the limited role of regulatory authority in the process of Private Placement. They also discussed the development of PPM in developed capital markets of U.S., U.K., Japan and Germany.

2.6 RESEARCH RELATING TO REFORMS AND ECONOMIC POLICY

Government of India initiated reforms in capital market, foreign investment policy, financial sector, public sector etc. For this purpose various committees were set up by the government from time to time like S. Chakravarty Committee on working of the monetary system (May, 1985), G.S.Patel Committee on organization and management of stock exchanges (1986), Abid Hussain Committee (1989) on development of capital market, M.Narasimham Committee on financial Systems (December, 1991), Pherwani Committee (March, 1991) on formulation of guidelines for issue of new instruments, Shah Committee on financial companies (1992), Nadkarni Committee on trading in Public sector bonds and units of mutual funds and Jankiraman Committee (April 30, 1992) to investigate irregularities in funds management by commercial banks and financial institutions and their dealings in Government Securities, Public sector Bond, units of UTI and similar instruments (Shekhar, 1994 and Verma, 1996).

The Government adopted the policy of implementing the economic liberalization and reforms since June 1991 by making changes in its industrial policy, trade and exchange rate policies, foreign investment policy, taxation, financial sector reforms etc. All these reforms made a tremendous impact on the health of corporate sector and the capital market in India. Bureaucratic control on the economic system was also streamlined by liberalizing the licensing system, foreign exchange control and removing of MRTP hindrances etc. Many researchers studied the changes brought in Indian capital market.

Bhanot (2008) discussed Securities and Exchange Board of India (SEBI)'s amendment in SEBI (DIP) Guidelines, 2000 to adopt a revised system of payment of application money through a bank account under Application Supported by Blocked Account (ASBA). Under this system, the applicants of IPO do not require to pay application money in advance and waiting many weeks for the refund. Under this system, the amount of shares allotted is transferred from the bank account of applicant to company's bank account only after the finalization of allotment process. He was of the opinion that the new
process would be in the interest of investors in terms of no loss of interest and no problems of getting refund in case of no allotment or pro-rata allotment.

Gerela (2007) analyzed the Paradigm shift in the India Stock Market. He found some of the changes, which transformed the face of Indian stock market like setting up of market regulator, computerized trading, Physical Paper to electronic holding, reduction in settlement period, inflow of Foreign Institutional Investors (FIIs), guaranteed settlements, introduction of derivative products, setting up of on line multi commodity exchanges, rise in trading activity, Straight Through Processing (STP), Real Time Gross Settlement (RTGS) and electronic contract notes, retail trading in Government securities, Stronger Risk Management System (RSM), margin trading, regulation of takeovers, corporate governance, globalization, investor protection, BSE Indonext etc.

Krishna (2007) measured the impact of economic reforms on Indian economy. He found that Indian Economy grew at an average growth rate of 3% from 1950 to 1980. By the end of 1980s, India confronted to the problems of low growth, poor socio-economic conditions and added to this, the external sector crisis. Soon in 1991, India launched its economic reforms program to face the economic crisis. The concepts such as ‘Liberalization’, ‘Privatization’ and ‘Globalization’, popularly known as LPG became the slogan of its reforms agenda. Governments actively pursued the reforms agenda set in the year 1991. The major thrust areas were public sector reforms, trade reforms, financial sector reforms and social sector reforms. Since then, India made rapid stride in all these areas, which helped it for the first time since reforms to post a growth rate of over 8% and 9% in 2004 and 2005 respectively.

Pathak; (2007) studied factors affecting Foreign Direct Investment (FDI) in developing countries and found that FDI implied a situation in which a company from one country obtains the controlling interest in a new or existing firm of another country and operated as a part of the multinational business of the investing firm. The significance of FDI for developing countries was two fold, one as a method of enhancing the amount of investible funds in the economy and the other as an effective channel to transfer technology and foster growth. Factors influencing flow of FDI were regulatory framework, international investment arrangements, measures facilitating business, economic determinants etc. Inflow of FDI to the services sectors, such as finance, telecommunication and real estate was significant and increasing in developing countries. He found that India was the fifth country in Asia to attract FDI until 2004-05
after China, Hong Kong, Singapore, and Korea. Only 20% of FDI approval was found to
translate into actual investment due to the time consuming procedure for FDI approval,
environment clearance and legal hassles.

Gupta, and Biswas, (2006) studied Indian stock markets and found that Indian stock
markets were having low turnover and market capitalization ratio vis-a-vis stock markets
of developed countries. This was because of presence of large number of liquid stocks,
excessive volatility and speculative trading in Indian markets and the subdued
environment in the primary market in the second half of the 1990s. The major area of
concern was a little volume of corporate debt trading. SEBI's step of establishing a
separate Call Action Market (CAM) to widen securities market reflected in foreign
investment inflows and control of firms.

The impact of liberalization policy in India on FII was studied by Bose and Coondoo in
2004. They suggested that liberalization policies had the desired expansionary impact on
FII flow. On the other hand, the restrictive measures aimed at achieving greater control
over FII flow also did not show any significant negative impact on the net inflows. FII
regulations of 1995 introduced by SEBI brought an upward shift in the average level of
FII flows in the post regulation period.

Malhotra (1998) studied impact of financial liberalization on economic growth. Her
analysis revealed that economic liberalization program opened doors of Indian economy
for the foreign capital. Also the financial sector reforms helped in eliminating distortions
in the allocation of resources, increased competition in the domestic and international
market, encouraging productivity for higher growth, increasing economic growth rate
and making the Indian capital market global.

Shanti Swarup and Verma (1998) studied the effect of Stock Exchange Reforms (1992-
97) on the development of Indian capital markets and found that the Indian capital
markets showed a spectacular growth during the reform period. The phenomenal growth
necessitated the need to control and regulate capital market and protect interest of
common investors. Ministry of finance under the Government of India and SEBI
initiated a series of structural reforms to promote, regulate and control stock markets to
protect interest of common investors. During the study, brokers were of the view that the
reforms had resulted in a fair, transparent, and strong regulatory structure for the efficient
and smooth functioning of the capital markets but far from international standards.

Tripathi (1994) highlighted the important structural developments that took place in the
Indian capital market. The repealing of the capital issues control act in May 1992,
abolition of the CCI and formation of SEBI boosted the growth of Indian capital market. Indian companies no longer required taking permission of the government to approach the capital market and they were free to fix up the issue price subject to clearance of SEBI. Emergence of mutual funds, credit rating agencies, venture capital funds and over the counter stock exchange were the important structural development in the capital market.

In 1989, Agarwal studied the changes in the structure of industrial finance and its impact on industry in India. He found that most of the industrial finance agencies were developed during the post independence period with the objective to facilitate balanced regional development, growth of new entrepreneurial talents and development of indigenous industrial technology to contribute to the industrial growth. The scenario of industrial financing in India changed with the floatation of India growth fund in USA in 1988 by the UTI in association with Merril Lynch, establishment of SEBI, two new mutual funds as subsidiaries of public sector commercial banks in 1988-89, permitting multiple membership on stock exchange, establishment of framework for launching new venture capital companies, increasing the number of stock exchanges, launching of credit rating information services of India Ltd., sharp rise in the size of investment approvals and launching of new venture capital companies.

2.7 RESEARCH RELATING TO EMPLOYEES STOCK OPTION PLAN (ESOP)

ESOP is a scheme under which employees of the companies are imparted ownership of the firm by offering shares of the firm at some pre-determined price with an option to exercise the offer or not during the period of the scheme. Employees' efficiency in high tech industries directly affects the performance of the firm and its stock prices. Naturally, employees are rewarded considerably by offering shares under such schemes, which consequently enhances affinity as well as loyalty towards the employer firm. Thus, ESOP was considered as a tool to retain and attract highly talented employees as well as to increase internal equity. In India ESOP was initiated by Information Technology (IT) firms followed by reputed firms from other industries. On examining the trend of companies and perception of employees in India as well as in other countries, ESOP got momentum during nineties but due to some problems, the momentum could not be sustained. Problems faced by ESOP over the glob including India were, its valuation, accounting, reporting practices and regulations. The literature regarding ESOP throws light on such issues.
Gada (2010) compared Indian GAAP for expensing ESOP with international accounting standard and found that Indian accounting norms were fairly liberal and companies have option to expense ESOP as (i) the amount by which the market price/value of underlying share exceeds exercise price, or (ii) fair valuation as per Black-Scholes model or the binomial model. He was of the view that the ESOP expense under the first alternative was mostly lower than that under the second method. He suggested that such practices should be discontinued and Indian accounting norms must be modified and companies should be mandated to carry out the fair valuation, which is followed internationally.

Venkatasubramanian (2010) observed that the improved market conditions in the year 2009 lured the beneficiaries of ESOP in India resulting into more than two fold increase in exercise of options in 2009 compared to 2008. He also observed that companies adopted different basis for deciding the offer price and different methods of accounting.

West (2009) suggested the model to be used instead of Black-Scholes framework for the purpose of fair valuation of stock to be granted under ESOP by taking two additional parameters; one, the rate at which employees forfeit unvested options and the another, which controlled the rate at which the employees exercise vested options.

Madhani (2007) discussed the new Financial Accounting Standards FAS 123R introduced by FASB in USA. The new standards recommended expensing the ESO by using the fair value method. The companies were not expensing ESO by using intrinsic value method but as per US GAAP, expensing ESO was made obligatory from January 1, 2006 to enhance transparency in financial reporting. He also discussed the limitations of traditional Black-Scholes model of option pricing in ESO fair value and suggested lattice model as an alternative method.

Guay at al (2006) reviewed various controversies created by ESOs on accounting issues and economic consequence due to various regulations and concluded that the accounting should facilitate a clear and consistent understanding of the costs of doing business and that expensing ESOs to achieve the objective

Landsman at al (2004) compared the equity valuation implications of four approaches to ESOs accounting proposed by regulators namely “recognize nothing”, “recognize ESO expense”, “recognize and expense ESO asset” and “recognize ESO asset and ESO liability” by using residual income valuation framework. Their sample tests were largely consistent with theoretical expectations and provided support for the grant date recognition of an ESO asset and liability.
Wong and Li (2004) investigated the use of a warrant-pricing approach to incorporate ESOs into equity valuation and to account for the dilutive effect of ESOs in the valuation of option grants for financial reporting purposes. They found that the fair value was overstated by six percent by the heavy users of ESOs firms and small R&D intensive firms.

Bettis at al (2003) studied the behavior of employees of exercising the ESO and its effect on cost of granting the ESOs. They found that the FASB adjustment overstated the cost of granting ESOs in highly volatile firms and understated the cost of firms having low volatility. Their research suggested that modeling the exercise behavior of employees who held stock options and different exercise pattern based on different firm and individual characteristics was important in understanding and accounting for the costs of granting stock based compensation to employees.


Corrado at al (1998) developed a new valuation model for pricing ESOs incorporating explicit repricing rules. Simulation of the study suggested that the Black-Scholes model understated ESO value but without a repricing provision, the Black-Scholes model would overstate ESO value because risk aversion had a significant effect on ESO value.

2.8 RESEARCH RELATING TO PUBLIC OFFERINGS

Reforms initiated by the Government in the post liberalization period discouraged the government owned financial institutions and encouraged the public participation in the capital market. SEBI also introduced various measures for investors’ protection through regulations to widen the Indian capital market. Consequently, Indian companies went to the open market for raising funds through debt and equity both and Capital Structure of Indian companies became more flexible by increased volume of public offerings.

Vijaylakshmi and Angayarkanni (2007) studied regulatory requirements governing Initial Public Offerings (IPO) like eligibility norms, issue procedure, pricing of securities and global scenario of IPOs.

Saha (2006) was of the opinion that the book building process was a transparent and flexible price discovery method used in developed countries for making Initial Public Offerings (IPOs) and Follow on Public Offerings (FPOs). He reviewed the different
aspects of the Book building process of public issues and merchant banking activities in the Indian primary capital market.

Sanjeev Kumar (2006) studied book-building process introduced by SEBI for price discovery and found that IPOs were either over priced or under priced. He suggested that manual co-operation among the regulatory authority; companies and book runners could minimize the price discrimination between offer price and listing price.

IPO grading system was studied by Rathod (2006) from the viewpoints of rationality of equity grading, and disconnection between offer price and assigned grading. He suggested that SEBI should monitor the concept of IPO grading and promote more research in this direction.

Reddy (2006) analyzed the growth of new capital issues in India during the period of 1991 to 2005-06 with a view to bring out the diversities in the capital issues as well as factors affecting the diversity such as ownership, industry, size, region, and type of issues. During this period public sector raised more funds than private sector through IPO. In the first half of the post liberalization period, the public and right issues contributed a major share in the total number and the amount of capital issues but in the second half only private placements dominated the capital issues. In terms of region, the western region contributed more than 50% of the total capital issues.

2.9 RESEARCH RELATING TO BONUS ISSUES

In present world of corporate governance, one of the main objectives of the corporate is to maximize the wealth of shareholders. Wealth of shareholders can be maximized by the companies by many ways like better rate of return on capital employed, reducing debt-equity ratio, creating more reserves and rewarding the shareholders in the form of dividend, bonus shares, right shares offering at discounted price and increase in stock prices. Bonus shares are the shares issued to shareholders out of reserves and surplus of the company without taking any consideration from them. Thus, the reserves are capitalized by the issue of bonus shares. There are also provisions in regulations to be complied with while issuing the bonus shares. A research made on the bonus issues throws light on different aspects and implications of bonus issues.

Mehta et al (2009) made the field research study by using the responses from 2008 mail survey, conducted for private sector enterprises in India, to examine the managerial opinion about stock dividend (bonus shares) and the motives for issuing them. The sample consisted of 544 firms that issued stock dividend during the ten years from 1998
to 2007. It was found that the main motive for issuing stock dividend was to increase the
total returns for the shareholders followed by improving liquidity.
Malhotra at al (2007) studied share price reaction to the announcement of bonus issue for
a sample of Indian Companies. Standard event study methodology was used to study the
bonus issue announcement reaction. Bonus issue announcement yielded negative
abnormal returns around the announcement date. It was also observed that there was no
information leakage prior to the announcement. There was an insignificant reduction in
the liquidity ratio after the announcement of bonus. Cross sectional regression revealed;
that the numbers of shares issued convey a positive signal to the investors. The size of
the firm issuing bonus shares did not affect the abnormal returns of the company. The
study supported signaling hypothesis and cash substitution hypothesis.
Mohanty (2006) studied the reaction of investors towards the announcements of bonus
issues. The results of the study indicated that the investor did not give importance to the
announcements of bonus issues.
Barnes and Ma (2004) applied event study analysis to investigate stock price reaction to
the announcement of bonus issues for the emerging stock markets of China. Results
indicated that the issues with a high bonus ratio (number of bonus shares in the
issue/number of existing shares) usually attracted positive returns for both Chinese (A-
share traders) and foreign (B-share traders) residents. Issues with a low bonus ratio were
rewarded with negative returns for A-share traders and did not stimulate significant
activity by B-share traders. The hypothesis of semi-strong firm market efficiency was
rejected only for small bonus issues traded on the A-share market; the B-share market
showed stronger evidence of semi-strong firm market efficiency than the A-share market.
Lukose and Sapar (2002) investigated the operating performance behavior around bonus
distribution for a large sample of firms listed on Bombay Stock Exchange (BSE) to
examine the relevance of signaling hypothesis in India. Consistent with the signaling
hypotheses, the bonus candidate companies performed better than other companies even
prior to and subsequent to the bonus issues.
Kakati (2001) studied the impact of 115 bonus issues on stock prices around the
announcement date and ex-bonus date. The results indicated that much of the impact of
the bonus issue on the stock prices occurred before the announcement date. The study
revealed that price performance of bonus issues were not uniform across the companies.
The factors influencing the performance of bonus issue were found to be equity base and
sales performance. The industry performance, floating stock level, current EPS, P/E
ratio, dividend, net profit and book value were found to have least influence on the bonus performance.

Jaiswal (1993) examined the true nature, purpose and effects of bonus issues made by non-government companies listed on the stock exchanges in India during 1971-92. He viewed that bonus issue had great impact on dividend, share prices and the degree of financial flexibility. Bonus issue was intended to protect the interest of existing shareholders or as a remedy to the state of under capitalization. Thus, the issues of bonus shares were the signals of higher growth rate, brighter future for the company and possibility of higher dividends. The amount of bonus issues went high during the study period due to changes in industrial and economic policies, company’s performance and government guidelines regarding bonus issue from time to time.

The literature review from different aspects affecting the capital structure like determinants of capital structure, corporate governance, sources of funds, routes of capital issue, regulatory reforms, buy-back of shares, ESOP, public offerings and bonus issues threw light on the effect of all these issues on capital structure of Indian as well as foreign companies.

The capital structure of Indian companies was found to be affected by various determinants like debt-equity ratio, size of the firm, profitability, fixed assets ratio, growth opportunities, earning volatility, liquidity, tax-shield, interest rates, cash flow, asset tangibility, capital market situation, regulations, CEO’s values, cost of capital, distribution policy, debt-service capacity, business risk and asset composition.

It was found from the literature survey that debt-equity ratio was reduced during post liberalization period. Few researches indicated that Indian companies raised funds through different sources of funds using conventional as well as new routes of capital issues after implementing the reforms in India.

The literature review also found some research on reforms initiated in India. Various reforms were initiated to make the Indian capital market global and avail the foreign capital markets for Indian companies, which resulted into more freedom for the companies to choose their capital structure. The study made on buyback of shares, ESOP, bonus issues found that these activities were the consequence of regulatory changes made by regulatory authorities during the post liberalization period in India.

Research made on foreign companies indicated determinants of capital structure, impact of tax shield on debt-equity ratio, role of financial institutions, impact of cost of capital
on financing and profit distribution policy, convergence trend, role of venture capital factors affecting buy-back of shares, ESOP practices, its problems and regulations effect of bonus issues on stock prices etc.

At international level, no research was found to focus on regulatory aspect prevailing there and its impact on capital structure practices. The reason behind this may be; in the developed capital market, there is hardly any scope left for regulation changes except very few cases like ESOP.

Indian capital market has gone through the reforms during last 17 years only. The research made on the issue of policy changes and its impact on the capital structure is restricted to debt-equity ratio of different industries, evolution of different sources of funds and routes of capital issues, access of foreign capital market and participation of foreign capital in India.

No research was found to investigate the impact of regulation changes regarding each source of funds affecting the capital structure of Indian companies during post liberalization period. Hence, there is further scope of detailed investigation of changes in regulatory aspect made in India during post liberalization period and its impact on capital structure of Indian companies. Such research can help to study the link between regulatory changes and response of Indian corporate to the regulatory policy reforms.