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A Sem Approach : Determinants of Capital Structure

TARIKA SINGH SIKARWAR*
SHIKHA GOYAL**

Abstract

The analysis is done using SEM analysis of thirty five organizations of the NSE through 2001-2014. The results recommended that growth, uniqueness, non-debt tax shields, collateral value, size, profitability and volatility were positively related to capital structure. It was found that the profitability was the most important factor in defining the capital structure of the company. Also variables like growth, uniqueness, an d volatility help in defining the capital structure of the company. This study helps researchers to classify the elements of the capital structure; financial managers to give consultancy services to the company for designing their capital structure; organizations and investors. Organisation after understanding relationship between capital structure and its determinants can strive more for value creation and investors can invest thier money after considering the relationship.

JEL Code : D70 ; L20 ; L80 ; L90 ; L30
Keywords : Capital Structure, Tax, Growth, Profitability.

I. Introduction

THIS RESEARCH IS about the determinants of capital structure. In general terms the capital structure refers to the way assets of a firm are financed through the combination of debt, equity or hybrid securities. Decision making related to the capi tal structure is a crucial one, because it affects company's value in the market. As, if there is a levered factor in its capital structure then it reduces the cost of capital and increases its value in the market and vice versa. However, some theories have been given by the researcher explain that the capital structure does not have any impact on firm's market value. A company finances its funds mainly through debt and equity. Debt come as bonds issues or long haul notes payable, while value is

* Professor, Prestige Institute of Management, 2, Education & Health Sector, Scheme No 54, Indore, Madhya Pradesh 452010, INDIA
** PIM Alumni, Prestige Institute of Management, 2, Education & Health Sector, Scheme No 54, Indore, Madhya Pradesh 452010, INDIA

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company if a company grows that its capital structure also improved. The uniqueness of the company needs to spend more on the research and development aspect of the company for that it needs sound capital structure. The volatility of the company also determines the capital structure of the company as the volatility of the company ensures the firm debt level.A similar relationship had been found out by Kouki and Said (2012) used"size, tangibility, growth opportunities, profitability, NDTS, bankruptcy risk, funding gap,timing the market as a variable in the study In correlation and descriptive statistics they have found that the overall correlation between the variables is low and found an affirmativeaffiliation between the "profitability" and free cash flow variable "profitability" has anaffirmative and noteworthy effect for the "book measure of debt" and significant negative effect for the market measure,Titman andWessels (1988). Study results support the predictions of these researchers. Titman and Wessels(1988) found that the "debt" levels are adversely interconnected to the "uniqueness" of the business. The result is in line consistent with the study results as the negative value of correlation was found in the improved model.

5.1 *Implications*

This study would further help the researchers to recognize the determinants of the capital structure of the company This study will also help the financial managers to give consultancy services to the company for designing their capital structure. Further, this study will contribute to checking the relationship of different variables with the capital structure.

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