

IMPACT OF DETERMINANT FOR THE SELECTION OF CAPITAL STRUCTURE OF PUSs IN INDIA: A STUDY

NLDIMSR Innovision Journal of Management Research

ISSN: 2457-0893, Volume 6, Issue 2, July – December 2022

DOI: 10.31794/NLDIMSR.6.2.2022.1-13

MOUMITA ROY

Assistant Professor, Department of Commerce,
Kanchrapara College, University of Kalyani,
Kanchrapara – 743145,
West Bengal, India

✉ moumita@kpcoll.ac.in

ABSTRACT

Purpose of Research: Public Sector Undertakings (PSUs) have been playing a pivotal role in accelerating the pace of industrialization and achieving social and economic goals. The capital structure decision of the firm and the impact of determinants in capital structure decision is an important issue in the recent era for measuring the performance of any firm. Determinants of leverage can influence the selection of the capital structure of the business. Hence, in this study, we try to find out the relationship between the determinant of capital structure and leverage in the capital structure decision-making process of the PSUs in India. This study has been conducted to identify important factors along with the measurement of their level of significant capital structure theory. From the analysis, it is observed that most of the determinants follow the trade-off theory which means PSUs follow the trade-off theory of capital structure in the present situation in India.

KEYWORDS

Capital structure, Determinants, Disinvestment, Leverage, Pecking Order Theory, Public Sector Undertakings, Trade-off Theory

INTRODUCTION

The term capital structure defines the combination of different sources of funds. Sources of funds can be of different types. These are external and internal sources of funds. External sources of funds can generate a fixed periodic contractual obligation. Fixed periodic contractual obligation implies that a company has an obligation, to pay interest and principal amount after a certain period, no matter whether the company earns a profit or incurs a loss. It includes debenture, loans, etc. The company has to pay the amount to the provider of external capital or fund. On the other hand, an internal source of funds implies funds generated within the firm. It includes equity shares, preference shares, reserve and surplus and retained earnings, etc. In the case of an internal source of funds, the company does not have any obligation to pay interest. Here, firms can declare dividends if they earn a profit. The long-term solvency of the firm can be examined with the help of the capital structure ratio or leverage ratio. To judge the long-term financial performance of the company, capital structures also play a very important role. Multiple factors which are very vital to adopt an optimum capital mix in the competitive business world, affect the leverage of the firm.

To identify the important factors with the measurement of their level of significant capital structure theory this study has been conducted. Some financial indicators viz. profitability of the firm, size of the business, growth opportunity of the business, tangibility of asset, non-debt tax shields, income variation of business, liquidity of the firm and uniqueness of the product are the important determinants of capital structure. To judge the performance of the capital structure position of any organisation, it is very important to examine whether the determinant of capital structure is associated with leverage positively or negatively, significantly or insignificantly. Capital structure formation mainly depends upon the relationship between the important factors by which the leverage of the firm is influenced. The relationship between leverage and independent variable is clearly explaining the different capital structure theories. While the formation of capital structure is also determined with the help of influencing factors. Hence, it is also examined which particular capital structure theory has been followed by the selected PSUs in the decision-making process during the study period.

REVIEW OF LITERATURE

Velnampy and Nireesh (2012) in their article “The Relationship between Capital Structure and Profitability” has shown the linkage between leverage and profitability of ten listed Sri Lankan banks. In this paper, the authors used a simple regression methodology. In the conclusion, the authors explained that there has a negative association between capital structure and profitability. Further, the authors also opined that debt is represented by the total asset in the banking sector in Sri Lanka by 89%. It's confirming the fact that banks are highly geared.

Pinkova (2012) in his paper “Determinants of Capital Structure Evidence from Czech Automotive Industry” explained that four factors i.e., size, tangibility, profitability and liquidity are the relevant determinants of capital structure decision and growth is not a significant determinant of leverage. The author also shows that the study does not confirm the universal volatility of any of the capital structure theories. However, in the case of Czech automotive companies both pecking order and trade-off theories have been applicable in explaining the capital structure.

Rakesh (2013) in his article “Capital Structure and Financial Performance Analysis of Selected Business Companies in Bombay Stock Exchange” delivers some points regarding the impact between capital structure and financial performance. The author considers the study period from 2009 to 2013. In the conclusion, the author comments that capital structure and financial performance are having a negative association. In India, most of the companies depend on debt capital and they have to pay more interest expenses.

Niranjini and Priya (2013) in their article “Impact of Capital Structure on Financial Performance of the Listed Trading Companies in Sri Lanka” tried to investigate the impact of firms' capital structure on their financial performance. The authors conducted the study on 237 listed companies in Sri Lanka. In this study, the authors examine the nature of the relationship between debt and equity and identify the factors determining the optimal capital structure. The summarised that capital structure and financial performance have a positive relationship and capital structure has a significant impact on the financial performance of the firm.

Malinic, Mihajlov and Ljubenovic (2013) in the study “The Determinants of Capital Structure in Emerging Capital Markets: Evidence from Serbia” has shown the determinants of the capital structure of Serbian firms. In this study, the authors used panel regression analysis. In this paper, the authors explained that profitability, liquidity, size, asset structure-tangibility, growth, earning volatility and cash flow are the influencing determinants of the capital structure of Serbian firms. In the conclusion, the authors opined that liquidity, tangibility, profitability, and cash flow hurt leverage and income volatility and growth opportunity have a positive impact on leverage.

S. Pal (2014) focuses few attributes of the capital structure of steel companies in India in her article “A Study on Capital Structure Determinants of Indian Steel Companies”. In this study, the author deals with 37 Indian steel companies listed on National Stock Exchange and Bombay Stock Exchange. Correlation and simple regression methods have been applied in the study and the author concludes that some factors like tangibility, size, growth and opportunity have significant effects on the capital structure and profitability and business risk also have significant effects on the capital structure.

OBJECTIVE

To judge financial performance, the evaluation of capital structure also plays an important role. The proper mix of Capital is a very vital decision in any business organization. The capital structure decision of the firm and the impact of determinants in capital structure decision is an important issue in the recent era for measuring any firm's performance. The objectives of the present study are as follows:

- To measure the impact of the determinant in capital structure choices of the selected divested PSUs in India.
- Determine the choices of capital structure theory followed by the PSUs during the study period.

HYPOTHESIS

For selecting an appropriate combination of debt and equity of a firm, determinants of capital structure play an important role. Here, we consider leverage as a dependent variable, and the determinants of capital structure are considered independent variables. Panel data regression analysis has been applied to judge the PSUs' capital structure position during the pre-and post-economic crisis period. Hence, we consider the following hypotheses.

1. Profitability (PE)- According to the conservative point of view, it is observed that highly profitable firms generate their fund from internal sources because they have adequate internal funds for their further investment. Hence, according to this point of view, the study can formulate the following hypothesis:

H₀₁: Negative association has been revealed between profitability and leverage.

2. Size (SE)- In general it is noticed that larger companies are more diversified in their investment compared to smaller companies and they have lower bankruptcy also. Based on the above point of view we may formulate the following hypothesis

H₀₂: Positive association has been observed between size and leverage.

3. Growth (GR)- According to the growth opportunity, it can be summarised that growing firms like to borrow fewer funds because they have sufficient tangible assets. From this point of view, the hypothesis can be formulated as follows:

H₀₃: Negative association has been found between growth and leverage.

4. Tangibility of Assets (TA)- Tangibility implies that if any firm has a higher amount of tangible assets the firm can afford a higher amount of debt fund. Therefore, in this perspective, the hypothesis is:

H₀₄: Positive association has been noticed between tangibility and leverage.

5. Non-Debt Tax Shield (NDTS)- The firm will require less debt if there is depreciation in the tax shield. Under these circumstances, it can be explained that a tax shield on depreciation is considered an alternative source of funds, which can fulfil the firm's requirement. Hence, from this point of view, the study hypothesizes that:-

H₀₅: Negative association has been observed between non-debt tax shield and leverage.

6. Income Variation (IN)- Income variation is the indicator of profitability. In the case of income variation, it can be noticed that income variation and leverage are negatively related. In this situation, the firm will have to pay a risk premium to the debt holder. Hence, from this point of view, the hypothesis can be formulated as follows:

H₀₆: Negative association has been revealed between income variation and leverage.

7. Liquidity (LQ)- Firms having more liquidity means less requirement for external sources of funds. Similarly, less liquid firms need more debt capital for their business operation. Hence, the hypothesis can be formulated as follows:

H₀₇: Negative association has been found between liquidity and leverage.

8. Uniqueness (UQ)- Uniqueness and leverage are negatively related. Those firms that are engaged with unique products bear a higher risk of bankruptcy, hence these firms should maintain a minimum amount of leverage in their capital structure. In this circumstance, the study formulates the following hypothesis:

H₀₈: Negative association has been observed between Uniqueness and leverage.

DATABASE AND STUDY PERIOD

In this paper, we consider 2001-02 to 2015-16 as a study period. 16 PSUs have been selected for the study based on the availability of relevant data for the study performance analysis. The study is mostly based on the data collected from secondary sources. It deals with the financial data of the PSUs. Data sources are mainly annual reports of the relevant company, the selected companies' official websites, etc. Capital line- 2000 database package has been used to collect the financial data of the concerned companies viz: Profit and Loss account and Balance Sheet.

METHODOLOGY

In empirical studies, available data are mainly time series, cross-sectional and panel data. In this paper to build a relationship between leverage and its determinant panel data are used. A combination of time series and cross-section data is termed panel data, pooled data, micro panel data, longitudinal data, etc. Hence, the regression models which are based on panel data are called Panel regression models.

PANEL DATA REGRESSION MODEL

Pooled OLS Model: The pooled OLS model is the easiest method among the panel data models. It minimizes the error between the expected impact and the actual results but cannot control the unobserved firm-specific effect that would likely produce biased estimation. Besides, the model is based on the flawed assumption that all firms are homogeneous concerning capital structure.

Fixed Effect Model: The fixed-effect model controls the unobserved firm-specific effect, which is assumed to be constant over time and correlated with the regressors. An important assumption of

the model is that the intercept differs across the individual, but the regressors' regression coefficients remain the same.

Random Effect Model: If the variance of the error across the individuals influences leverage, then the random effect model should be used. The random effect model can estimate the effect of time-invariant regressors, which cannot be estimated by the fixed-effect model. An important assumption of the model is that unobserved firm-specific effects are random and uncorrelated with the regressors. Following statistical tests have been employed to detect the best model.

Hausman Specification Test: Hausman specification test has been employed to select the best model between the fixed effect and random effects model if the above test provides a significant result that rejects the null hypothesis (H_0) then the fixed effect model is the appropriate method for regression analysis, otherwise random effect model.

Breusch Pagan Lagrange Multiplier Test: Finally, the Breusch Pagan L M test has been employed to confirm the random effect model and pooled OLS model if the random effect model is selected after Hausman's test. If the above test provides a significant result that rejects the null hypothesis (H_0) and indicates that the random-effects model is the appropriate specification, otherwise pooled OLS model will be applied.

Diagnostic Tests: Before running regression analysis, some important tests are essential to check the validity of basic assumptions and data reliability to be used for regression analysis.

Multicollinearity Test (VIF Test): If the degree of association among the explanatory Variables is high, then a Multicollinearity problem may arise and produces bias estimation of regression results. The Variance Inflation Factor (VIF) test is employed to detect the Multicollinearity problem. As a rule of thumb, if a variable's VIF value is lower than ten, this variable does not pose a serious Multicollinearity problem for estimation.

Normality Test (Kolmogorov-Smirnov and Shapiro-Wilk Test): Both Kolmogorov-Smirnov and Shapiro-Wilk statistics are employed to confirm the normality of data are used. If the p-value of the statistical tests is greater than 0.05, imply that the null hypothesis is accepted, meaning that the errors are consistent with the normal distribution assumption.

Heteroskedasticity Test (White's general test): If variances of the errors are not constant, then heteroskedasticity problems may arise. White's general test is employed to detect the problem of heteroskedasticity. If the p-value against χ^2 is more than 0.05, the null hypothesis is accepted, meaning that there is no problem with heteroskedasticity.

If the above tests produce favourable results, then it is considered that data are reliable to be used for regression analysis.

FINDING AND ANALYSIS

The capital structure of the firm and its determinant are important issues for corporate financial managers in the recent era. To evaluate the financial performance of any organization capital structure analysis of that company is a very crucial task for the manager. On the other hand, predicting the

determinant of leverage and its impact on capital structure are also very important. Both microeconomic factors and macroeconomic factors play a key role regarding the financial choice as well as the pattern of financing of the firm. Determinants of capital structure play a very important role. Therefore, recently many developed and developing countries are conducting several studies to acknowledge potential factors which dominate on capital structure choice of the firm. Different macroeconomic variables are inflation rate, GDP growth rate, the tax policy of the government, capital market conditions, etc., which have an impact on the capital structure of the firm. Consequently, various internal factors also have an important role in the case of the capital structure decision-making process. The most important microeconomic factors are profitability, size, growth, opportunity, liability, non-debt tax shield, income variation, liquidity and uniqueness. In this analysis, we consider 2000-01 to 2015-16 as the study period for measuring the long-term financial performance of selected PSUs in India, in the context of capital structure analysis.

CORRELATION ANALYSIS

TABLE 1. CORRELATION MATRIX

	Leverage (LE)	Profitability (PE)	Size (SE)	Growth (GR)	Tangibility (TA)	NDTS	Income Variation (IN)	Liquidity (LQ)	Uniqueness (UQ)
Leverage (LE)	1.0000								
Profitability (PE)	0.9199*** (0.0000)	1.0000							
Size (SE)	0.0080 (0.8925)	0.0595 (0.3585)	1.0000						
Growth (GR)	0.0311 (0.6317)	0.0431 (0.5064)	0.0861 (0.1836)	1.0000					
Tangibility (TA)	-0.2204*** (0.0006)	-0.2860*** (0.000)	-0.1721*** (0.0075)	-0.2120*** (0.0009)	1.0000				
NDTS	0.1963*** (0.0023)	0.1590** (0.0137)	0.0887 (0.1706)	-0.1946*** (0.0025)	0.8386*** (0.0000)	1.0000			

Table 1 exhibits Pearson's correlation coefficients, identifies the relationship between dependent and independent variables and it also explains the relationship among the independent variables and it also finds the multi-collinearity problem of the model. Table 1 highlights that the correlation coefficient between leverage and profitability, size, growth, tangibility, non-debt tax shield, income variation, liquidity and uniqueness are 0.919, 0.008, 0.0311, -0.220, 0.196, 0.1136, -0.113 and -0.204 respectively. It indicates that out of these eight explanatory variables, five variables are positively associated with the leverage but profitability and non-debt tax shield are statistically significant at 1% level and income variation is statistically significant at a 10% level. On the other hand, tangibility, liquidity and uniqueness are negatively related to leverage and statistically significant at the 1% level. Similarly, correlation coefficients of the PSUs in India between the independent variables of capital structure are quite low in general except income variation with size and non-debt tax shield with tangibility are observed at 0.7961 and 0.8386 respectively, which is statistically significant at 1% level. Hence, there may be a chance of multicollinearity due to a high degree of association existing between income variation and size, tangibility and non-debt tax shield.

DIAGNOSTIC TEST

Different tests have been applied to prepare the data in a usable form for analysis. For getting reliable data and to check the validity of the basic assumption of the regression model, a test of multicollinearity, a test of normality and a test of heteroscedasticity are essential. If the model is free from all biasness, then it can draw a definite result, otherwise, it will produce misleading results. Following tests may be applied to judge the model whether is a good fit or not.

TEST OF MULTICOLLINEARITY

TABLE 2. MULTICOLLINEARITY TEST

Variable	Tolerance	VIF
Leverage (LE)	0.785746	1.27
Profitability (PE)	0.294579	3.39
Size (SE)	0.922590	1.08
Growth (GR)	0.239577	4.17
Tangibility (TA)	0.284981	3.51
NDTS	0.292617	3.42
Income Variation (IN)	0.814215	1.23
Liquidity (LQ)	0.922590	1.18

Source: Own Computation Using Stata (Version 12)

To examine the multicollinearity problem, the Variance Inflation Factor (VIF) test has been employed in the present study. In Table 2 it is observed that VIF values of all the explanatory variables do not increase more than 10. It indicates that the model is free from multicollinearity problems among the explanatory variables.

TEST OF NORMALITY

TABLE 3. TESTS OF NORMALITY

Standardized Residual	Kolmogorov-SmirnovTest			Shapiro-WilkTest		
	Statistic	df	Sig.	Statistic	df	Sig.
	.098	240	0.10	.962	240	0.23

Source: Own Computation Using SPSS (Version 17)

In the case of normality test of the residuals Kolmogorov-Smirnov test and Shapiro-Wilk test have been employed. Numerical as well as graphical presentations can be drawn in this study. In Table 3 it can be observed that the P values of Kolmogorov-Smirnov and Shapiro-Wilk are 0.10 and 0.23 respectively. This value is greater than the significant level i.e., 0.05. It implies that the null hypothesis is accepted and the alternative hypothesis is rejected. This denotes that residuals and normal distribution assumptions are consistent. Simultaneously, the histogram (Figure 1A) and normal Q-Q plot (Figure 1B) produce the same result where residuals are normally distributed.

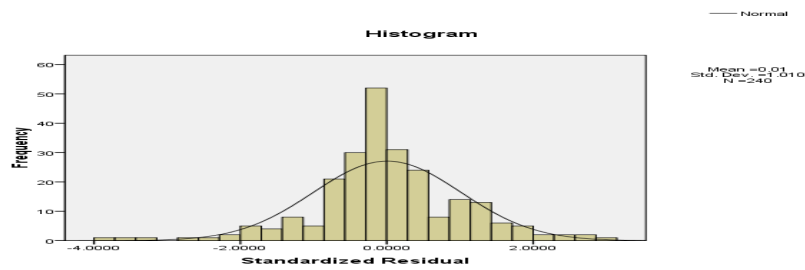


FIGURE 1(A). HISTOGRAM.

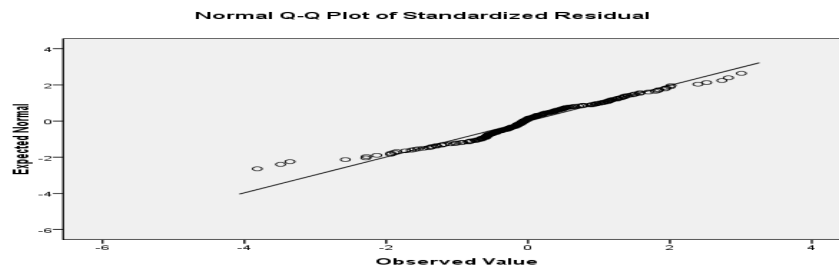


FIGURE 1(B). NORMAL Q-Q PLOT.

TEST OF HETEROSKEDASTICITY

TABLE 4. HETEROSKEDASTICITY TEST

White's test for Ho: Homoskedasticity, against Ha: Unrestricted Heteroskedasticity
Chi2 (44) =159.70 , prob.> Chi2 = 0.0000

Source: Own Computation Using Stata (Version 12)

White's general test for heteroskedasticity has been applied to identify the problem of heteroskedasticity with the residuals. Both numerical and graphical methods have been used. Table 4 shows that the P-value of the White test is 0.000, which is less than the significance level i.e., 0.05. It indicates that the null hypothesis is rejected and the alternative hypothesis is accepted. This implies that the model is not free from the heteroskedasticity problem and the graphical representation (Figure 2) also supports the same conclusion that residuals are not of the same size for all fitted values. Hence, the heteroskedasticity problem can be removed through the robust standard error and made the model unbiased.

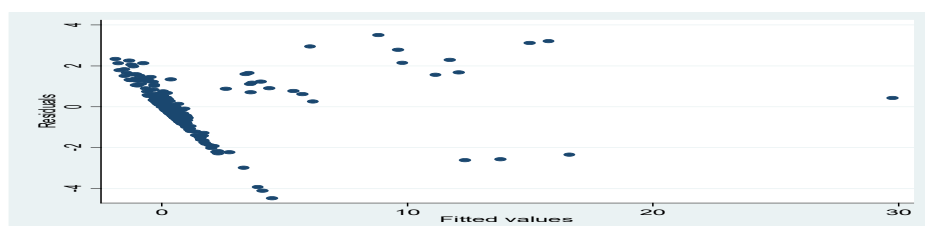


FIGURE 2. SCATTER PLOT.

The above test result shows that there is no multicollinearity problem in the explanatory variable and residuals are normally distributed in regression analysis. The panel data removes autocorrelation au-

tomatically and the problem of heteroscedasticity can be eliminated by the robust standard error, thus regression analysis and testing of hypothesis data are suitable.

REGRESSION ANALYSIS

TABLE 5A. HAUSMAN SPECIFICATION TEST

Dependent variables	Chi ²	Prob > Chi ²
Leverage (LE)	26.710	0.000

Source: Own Computation Using Stata (Version 12)

TABLE 5B. BREUSCH-PAGAN LAGRANGE MULTIPLIER TEST

Dependent variables	Chi ²	Prob > Chi ²
Leverage (LE)	147.39	0.000

The Housman's Specification test is used to judge the suitability between the fixed effect model and the random effect model. Table 5A shows that the p-value of the Hausman Specification test is less than the significance level of 0.05. It indicates that the null hypothesis is rejected and the alternative hypothesis is accepted and it would explain that the fixed effect model is more effective than the random effect model. It indicates that the difference in coefficient is systematic. A further step i.e., Breusch-Pagan Lagrange Multiplier (LM) test has been employed to judge the OLS pooled regression and random effect model and identify the appropriate model which is shown in Table 5B. The null hypothesis in the LM test claims that there is no variance across individual units which means there is no significant difference across units. Table 5B shows that the p-value of the LM test is less than the significance level of 0.05. It indicates that the alternative hypothesis is accepted. It means that the random effect model is much more stable than the Pooled OLS model. On the other hand, it is already shown that in Table 5A fixed effect model is more suitable than the random effect model. Hence, the fixed effect model is more suitable than Pooled OLS model. The result of panel data regression using the random effect model is depicted in Table 5C.

TABLE 5C. SUMMARY RESULT OF REGRESSION (UNDER FEM)

Independent Variables	Coefficient	t- Statistics	P > t
Profitability (PE)	5.958***	26.60	0.000
Size (SE)	-0.440***	-2.860	0.005
Growth (GR)	-0.0036***	-3.010	0.003
Tangibility (TA)	0.6843*	1.810	0.071
NDTS	-36.725***	-5.520	0.000
Income Variation (IN)	0.1947**	2.170	0.031
Liquidity (LQ)	-0.1043***	-3.050	0.003
Uniqueness (UQ)	-0.4713	-0.470	0.637
Cons.	3.223***	2.910	0.004
Observations	240.000		
R Square overall	0.870		
F (8, 216)	129.250		

Independent Variables	Coefficient	t- Statistics	P > t
Prob > F	0.000		

Source: Own Computation Using Stata (Version 12)

Notes: *, ** and *** are significant at 10%, 5% and 1% levels.

According to the results the regression equation is as follows-

$$\text{Leverage (LE)} = 3.3223 + 5.958 (\text{PE})^{***} - 0.440 (\text{SE})^{***} - 0.0036 (\text{GR})^{***} + 0.684 (\text{TA})^* - 36.72 (\text{NDTS})^{***} + 0.195 (\text{IN}) - 0.104 (\text{LQ})^{**} - 0.471 (\text{UQ})^{***}$$

The coefficient of determination which explains the explanatory power of the model is denoted as R^2 . The value of R^2 is 87%. It indicates the level of explaining the power of all selected variables. The model explains the higher level of explaining the power of the selected variable. Other factors are responsible for the remaining variability. According to the fixed effect model among eight explanatory variables, the most significant variables are profitability of the firm, size of the business, growth opportunity of the business, the tangibility of asset, non-debt tax shields, income variation of business and liquidity of the firm which decides the capital structure of the PSUs in India. Out of these eight explanatory variables, size and liquidity confirm the pecking order theory whereas profitability, growth opportunity, non-debt tax shield, tangibility, and uniqueness follow the trade-off theory and profitability, growth opportunity, tangibility, income variation and liquidity follow the agency cost theory. Besides the high explanatory power of the model, the value of the F test is 129.25 and the p-value is 0.000 which is significant at the 1% level. This is also strongly recommended in favour of the model which is a good fit for the PSUs in India.

CONCLUSION

TABLE 6. TEST RESULTS WITH THE PREDICTION OF DIFFERENT THEORIES

Determinants	Impact according to Hypothesis	Actual Relation	Theory
Profitability (PE)	Negative	Positive	Trade-Off
Size (SE)	Positive	Negative	Pecking Order
Growth (GR)	Negative	Negative	Trade-Off
Tangibility (TA)	Positive	Positive	Trade-Off
NDTS	Negative	Negative	Trade-Off
Income Variation (IN)	Negative	Positive	Agency Cost
Liquidity (LQ)	Negative	Negative	Pecking Order
Uniqueness (UQ)	Negative	Negative	Trade-Off

Source: Based on the previous calculation

In the conclusion from table no 6 we conclude the test result with the prediction of different theories. The final result is mentioned as follows:

The Profitability (PE) of the PSUs has a positive coefficient with a statistically significant level of 1% during the study period. Profitability is an important determinant and plays a significant role in determining capital structure. A positive coefficient implies that the higher the profitability, the higher the leverage is. Hence, profitability supports the trade-off theory and also the agency cost theory.

The Size (SE) of the PSUs has a negative coefficient with statistically significant at a 1% level during the study period. It indicates that there has been a negative relationship between the size of the firm and leverage. Hence, it supports the pecking order theory. Pecking order theory explains that large firms issue more equity as a preferred source of finance than external sources.

The Growth (GR) opportunity of the PSUs has a negative coefficient with a statistically significant level of 1% during the study period. It indicates that there has been a negative relationship between growth opportunity and leverage. It follows the trade-off theory as well as the cost theory. According to the Trade-off theory and Agency cost theory, it can be seen that there is no surety in the future growth opportunity which is intangible by nature. Hence, if the growth opportunity of a firm is higher, leverage will be lesser.

The Tangibility (TA) of the PSUs has a positive coefficient with a statistically significant level of 10% during the study period. Tangibility is also an important determinant of capital structure. In the present study, tangibility supports the Agency cost theory and Trade-off theory.

Non-Debt Tax Shield (NDTS) of the PSUs has a negative coefficient with a statistically significant level of 1% during the study period. Non-debt tax shield with a negative coefficient implies that if firms get a higher non-debt tax shield, they use lesser debt financing in their capital structures. The present study goes with the Trade-off theory which states that non-debt tax shields reduce the need for debt financing.

The Income Variation (IN) of the PSUs has a positive coefficient with a statistically significant level of 5%. In the current study, income variation is positively correlated with leverage. However, income variation and leverage explain the negative association as per the hypothesis. The current study goes in favour of the agency cost theory. The presences of the direct cost of bankruptcy create more income variability thereby bringing a positive relationship with the PSUs. The total value of the firm is affected by this and it also does not help in making more debt as it is negligible in the case of big firms.

The Liquidity (LQ) of the PSU has a negative coefficient with a statistically significant level of 1% level. This study supports the Pecking order theory and Agency cost theory. The use of a higher amount of internal source of funds than the external source is the preference of the firm when a negative coefficient arises.

The Uniqueness (UQ) of PSUs shows a negative coefficient with a significant relationship with leverage. It supports the trade-off theory. Negative relation indicates that a unique product may result in a high-risk factor by a firm and thus such a firm should be conservative about debt financing. On the other hand, if a firm is engaged with a specialised or unique product it cannot afford an external source of finance due to the risk of fixed interest and principal amount of debt. Therefore, it supports the theory that uniqueness is negatively related to leverage.

In conclusion, it can be concluded that during the study period divested PSUs support trade-off theories. From the study from Table 6, it is observed that out of eight factors, most of the factors support the trade-off theory. Hence, the trade-off theory is more eligible during the study period of the capital structure. During the study period size and liquidity follow the pecking order theory. And income variation follows the agency cost theory. From this, it can be concluded that in the context of India, PSUs mainly support the trade-off theory and followed a target leverage ratio and tried to make the balance between the tax benefit of debts with the cost of financial distress and agency cost.

REFERENCES

- Malinic, D., Mihajlov, K. D. and Ljubenovic, E. (2013). The determinants of capital structure in emerging capital market: Evidence from Serbia. *European Research Studies*, 16(2), 98- 119. <https://doi.org/10.35808/ersj/391>
- Niranjini, K. and Priya, K. (2013). Impact of capital structure on financial performance of the listed trading companies in Sri Lanka. *International Journal of Scientific and Research Publication*, 3(5). <https://doi.org/10.5958/j.2249-7137.3.6.001>
- Pal, S. (2014). A study on capital structure determinants of Indian steel companies. *International Journal of Business Management and Research*, 4, 89-98.
- Pinkova, P. (2012). Determinants of capital structure: Evidence from the Czech automotive industry. *Acta Univ Agric et Silvc Mendel Brun.*, 60(7), 217-224. <https://doi.org/10.11118/actaun201260070217>
- Rakesh, H. (2013). Capital structure and financial performance analysis of selected business companies in bombay stock exchange. *IOSR Journal of Economics and Finance*, 2(1), 59-63. <https://doi.org/10.9790/5933-0215963>