

**A STUDY ON IMPACT OF FIRM SPECIFIC FACTORS ON CAPITAL
STRUCTURE DECISION WITH REFERENCE TO
SRINIDHI DESIGNBUILD PVT LTD**

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Abstract

The purpose of study is to examines the impact of factors affecting Capital structure decision, a Descriptive statistic, correlation analysis and regression analysis method used to analyze firm capital structure. This study involves understanding relationship between the variables. The study mainly deals with the various Factors affecting capital structure. Analysis for the last 5 years' have been done, by collecting financial statements. Tangibility assets impacting more compare to other variables. The study used Leverage as dependent variable and Profitability, Tangibility asset, Non-Debt tax shield, Growth opportunity, Liquidity, Firm Size as Independent variable.

keywords: Capital Structure, Leverage, Tangibility asset, Regression model, Correlation Analysis.

Introduction

Capital structure decision-making is the process by which a business decides how to finance its operations and investments by striking a balance between debt and equity. Determining the ideal ratio of debt-to-equity financing that maximizes company value while lowering capital expenses is the goal of capital structure decisions. Selecting capital structure means figuring out how much debt and equity to put in place to minimize the company's cost of capital and increase shareholders' return on investment. Since it affects its capacity to raise capital, control risk, and turn a profit. Construction companies operating in capital-intensive sectors would need more debt financing, whilst those operating in service-oriented sectors might want more equity funding because their changing nature and need for innovation.

Statement of the Problem

The process of choosing the ratio of debt-to-equity financing that a business will employ to finance its operations and investments is known as capital structure decision-making. It is critical that the business understands the precise variables influencing its choice of capital structure.

Objective of the Study

- To ascertain the factors which affects the capital structure decision.
- To understand the relationship b/w firm specific factors on Leverage.
- To understand the impact of firm specific factors on Leverage.

Review of Literature

The impact of capital structure on a firm's performance was examined in this study by Ahmed Sakr and Amina Bedeir (2019), with a focus on Egyptian firms that are not listed in the financial sector. The functioning of enterprises in Egypt is influenced by their financial structure in addition to other regulating elements such as size and potential for future expansion.

relied more on current assets than traditional borrowing to fund operations, indicating that management used less debt, according to Evans Akomeah, Paula Bentil, and Alhassan Musah's (2018) research on The Impact of Capital Structure Decisions on Firm Performance in the Case of Listed Non-Financial Institutions in Ghana Businesses.

The review continues with support of less debt, Rana Al Bahsh, Ali Alattar, Aziz N. Yusuf (2018) studied The Firm, Industry, and National Levels Jordanian evidence suggests that more profitable and liquid enterprises tend to have capital structures with lower debt levels. The business climate in Jordan needs to be improved and facilitated by policymakers in order for businesses to raise more money.

Conversely, leverage is positively correlated with business size and growth rate in Oman, and debt is preferred over equity financing, according to research by Dharmendra Singh (2016) Studied a Panel Data Analysis of Capital Structure Determinants of Non-Financial Firms in Oman. The data available for the five years between 2011 and 2015 supports this finding.

Acaravci, S. K. (2015). The determinants of capital structure, the Turkish manufacturing sector found that, on the other hand, leverage is positively correlated with business size and growth rate in Oman and that debt financing is preferred over equity financing. This conclusion is corroborated by the data available for the five years.

Conversely, Anila Cekrezi (2013) investigated the factors influencing capital structure using data from Albania. Six firm-specific attributes are tangibleness, liquidity, profitability, scale, risk, and non-debt tax shields. Tangibility, liquidity, profitability, size, and risk all affect leverage, but NDTs is negatively correlated with both interest rates and inflation.

Suzana Petrovic (2013) conducted research on the factors influencing the capital structure of Croatian enterprises both before and during the financial crisis, and Ena Mostarac used a sample of 10,000 of these businesses for this study. Big businesses employ physical assets as

collateral to reduce default risk, which increases firm size in times of crisis.

Khairul Alom (2013) conducted an empirical investigation on the capital structure choice of Bangladeshi firms. The objective of this study is to determine the impact of firm-specific factors on the capital structure choice of 44 Bangladeshi companies that are listed on the DSE. Information was collected from 2004 to 2011. Profitability, collateral, liquidity, market to book value ratio, and dividend distributions all have an impact on leverage.

The other theory to be considered, Md. Faruk Hossain & Prof. Dr. Md. Ayub Ali (2012) researched on Impact of Firm Specific Factors on Capital Structure Decision: An empirical investigation of companies in Bangladesh. 39 Bangladeshi companies that are listed on the DSE are selected for analysis. Leverage has both positive and negative connections with managerial ownership, tangibility, profitability, and liquidity across the five years from 2003 to 2007.

Güven Sayılğan, Hakan Karabacak, and Guray Kucukkocaoglu (2006) conducted a study on the Firm-Specific Determinants of Corporate Capital Structure Evidence from Turkish Panel Data. Their findings support the trade-off theory, showing that while profitability, tax shelters, growth opportunities, and tangibility are inversely related to debt level, the two are positively correlated.

Methodology

Variable definition and data

The secondary data used in this study was gathered from the company's annual reports. The study's description of the dataset's features is descriptive in nature. The data used in this study's sample came from Srinidhi Design Build Private Limited's financial statements.

The secondary data used in this study was taken from Srinidhi Design Build Private Limited's company financial records.

Period of study

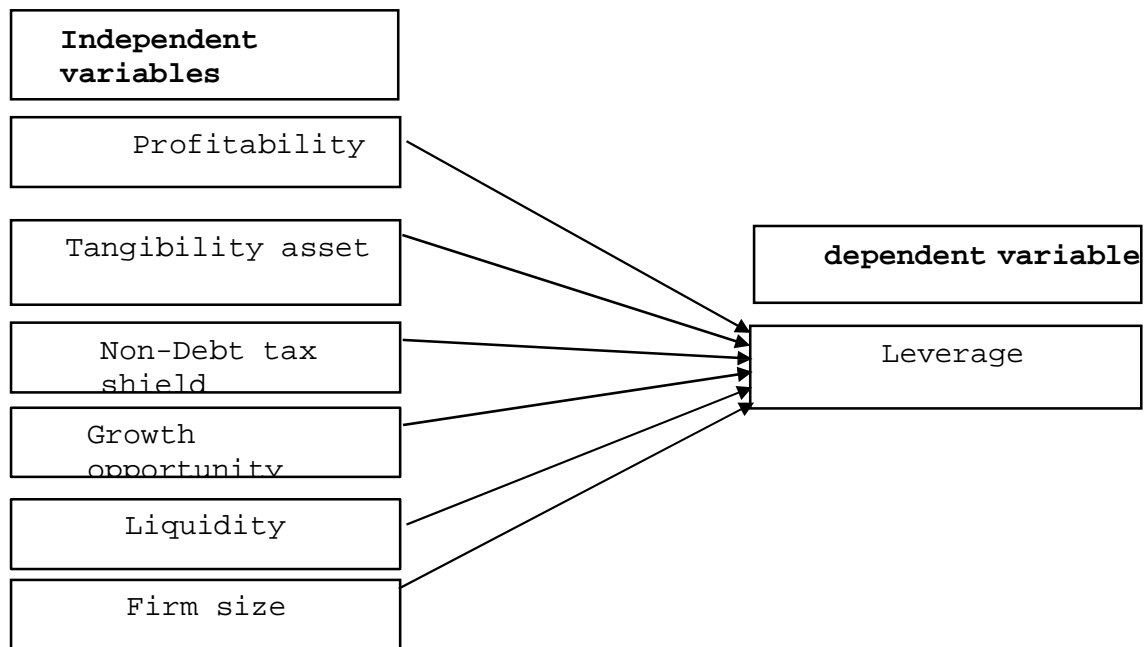
Data collected from April 2017 to March 2022.

Tools Used

Descriptive Statistics, Correlation analysis, Regression analysis.

Conceptualization

Different elements have an impact on a company's capital structure. This conceptual framework comprises six characteristics that are thought to be crucial in determining the capital structure of the organization, including leverage.



This model is developed in following equation

$$Y = \beta_0 + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + \beta_4x_4 + \beta_5x_5 + \beta_6x_6 + e_i$$

$$\text{Lev} = \beta_0 + \beta_1\text{Prof} + \beta_2\text{Tang} + \beta_3\text{Ndots} + \beta_4\text{Grow} + \beta_5\text{Liq} + \beta_6\text{FZ} + e_i$$

Hypothesis

In this study we examine the predictability of Specific Factors components on the Capital Structure by testing 6 developed Hypothesis.

- H0: Tangibility asset has no significant impact on leverage
H1: Non-Debt tax shield has no significant impact on leverage
H2: Growth opportunity has no significant impact on leverage
H3: Liquidity has no significant impact on leverage.
H4: Size has no significant impact on leverage.
H5: Profitability has no significant impact on leverage.

Limitations

- These studies are restricted to the particular factors which are collected.
- The data that relates to internal company factors does not include macroeconomic elements.
- The analysis is specialized to the construction company that was chosen for the study not the entire industry.

Data Analysis and Findings

Table showing Descriptive Statistics

	Lev	Prof	Tang	NDTS	Grow	Liq	F Z
Mean	0.75	0.06	0.18	0.04	0.32	1.20	4.93
Median	0.76	0.06	0.14	0.04	0.25	1.06	4.93
Standard Deviation	0.09	0.01	0.10	0.01	0.80	0.36	0.15
Minimum	0.60	0.05	0.12	0.03	-0.37	0.95	4.71
Maximum	0.82	0.08	0.36	0.04	1.66	1.84	5.09

Source: Company's financial report

Interpretation

Table 4.1 shows that the standard deviation is 0.09 and the leverage is 0.75. It implies that there is a 0.09 deviation in the capital structure's value from the mean on both the positive and negative sides. ROA has a lowest value of 0.60 and a highest value of 0.82. Therefore, based on capital structure, those are in favorable positions when looking at the average value of Srinidhi Design Build's leverage.

Table 4.2 Table showing Correlation analysis

	Leverage
Lev	1
Prof	0.7819
Tang	-0.8495
NDTS	-0.6702
Grow	0.6942
Liq	-0.1267
F Z	0.7512

Source: Company's financial report

Interpretation

The data presented in the above table, we can infer that: Profitability has a strong positive correlation with leverage; Tangibility has a strong negative correlation with leverage NDTS has a moderately negative correlation with leverage; Growth opportunity has a moderately positive correlation with leverage; Liquidity has a low negative correlation with leverage; and Firm Size has a strong positive correlation with leverage.

Table 4.3 Table showing Regression analysis

Regression Statistics	
Multiple R	0.58218
R Square	0.39605
Adjusted R Square	0.19473
Standard Error	0.07869
Observations	5.00000

ANOVA					
	df	SS	MS	F	Significance F
Regression	1.00000	0.01263	0.01263	2.73270	0.32558
Residual	3.00000	0.01925	0.00642		
Total	4.00000	0.03188			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	-1.43166	1.10530	-1.29526	0.28590	-4.94923	2.08591
Prof	-2.14488	2.65936	-0.80654	0.47894	-10.60814	6.31838
Tang	-0.73136	0.28525	-2.56395	0.08293	-1.63914	0.17642
NDTS	-8.74353	5.59074	-1.56393	0.21579	-26.53575	9.04869
Grow	0.07733	0.04629	1.67067	0.19338	-0.06997	0.22463
Liq	-0.03128	0.14143	-0.22116	0.83916	-0.48136	0.41880
F Z	0.44151	0.22397	1.97127	0.14327	-0.27127	1.15429

Source: Company's financial report

Interpretation

According to the Anova table above, the F statistic value is 2.732, which is higher than 2.56 and so expected. R squared has an influence on leverage of 0.39605, or 39.61%. This indicates that the variables mentioned above have a 39.61% impact on leverage; the remaining impact is attributed to other independent variables that were not studied in this study, with the exception of the other six independent variables.

For each unit variation in the variables mentioned above, profitability generates a negative change of -2.14. A 73.13% negative change is being created by the tangible asset. The non-debt tax shield is causing an 8.74 percent negative change. The growth opportunity is generating a 7.73% positive change. Firm size is producing a positive change of 44.15%, while liquidity is producing a negative change of 3.12%.

Findings

- Profitability, growth opportunity and firm size has positive relationship on Leverage.
- Tangibility asset, NDTs, and liquidity has a negative relationship on Leverage.
- The above variables that has a 39.61% impact on Leverage.
- Profitability, Tangibility asset, NDTs, and liquidity creating negative a change on leverage.
- Growth opportunity and firm size is creating positive a change on leverage.

Conclusion

According to this study, 39.61% of return on assets is impacted by the aforementioned variables. Leverage is more affected by tangible assets since they demonstrate the company's capacity to employ debt financing. In the event that a company has a loss of default, creditors will believe that it is less hazardous and can repay its loans. Srinidhi design build ought to priorities asset expansion. Leverage and tangible assets are negatively correlated.

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