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STATEMENT OF THE PROBLEM
OBJECTIVES
HYPOTHESIS (ES)
RESEARCH METHODOLOGY
RESULTS & DISCUSSION
FINDINGS
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DETERMINANTS OF CAPITAL STRUCTURE: A CASE STUDY OF AUROBINDO PHARMA LIMITED

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ABSTRACT
This study aims to explore the various factors that determine the choice of financing sources of Aurobindo Pharma Ltd. The effect of firm's Liquidity, Profitability, Debt Service Capacity, Tangibility, Non Debt Tax Shield and Cost of Debt on firm's Capital Structure have been analysed for the period of sixteen years from 2000 to 2015. Panel data of a company is studied through regression analysis. It is found that Capital Structure is negatively related with Profitability, Debt Service Capacity, Tangibility, Non Debt Tax Shield and Cost of Debt and positively correlated with Liquidity. The econometric analysis shows that the selected variables Liquidity, DSC and COD strongly determine the capital structure.

KEYWORDS
NDTS and Cost of Debt, liquidity, profitability, debt servicing capacity, tangibility.

JEL CODES
G31, G32, G39.

INTRODUCTION
Capital structure consists of debt and equity used to finance the firm. Capital structure in finance term means the way a firm finance its asset across the blend of debt, equity or hybrid securities. Capital structure decisions are vital for the financial soundness of the company. Inappropriate decisions about the capital structure may lead to financial distress and eventually to bankruptcy. The Pharmaceutical industry is one of the key drivers of Indian economy, accounting for around 4 percent of India's GDP.

The determinants of capital structure have been widely discussed subject in the finance literature. The purpose of this paper is to determine the relationship between the firm's capital structure and its industrial Liquidity, Profitability, Debt Servicing Capacity, Tangibility, Non Debt Tax Shield and Cost of Debt.

REVIEW OF LITERATURE
A survey of literature shows that a large number of researchers have carried out extensive research in the field of capital structure. Some of them are as per following:

DAVID DURAND VIEWS

Net Income Approach: According to David Durand the cost of capital (Cost of Debt and Cost of Equity) is assumed to be independent of the capital structure. The Weighted Average Cost of Capital declines and the total value of the firm rise with increased use of average. Net Income Approach proposes that there is a definite relationship between Capital structure and value of the firm.

Net Operating Income Approach: Net Operating Income position has been advocated meaningfully by David Durand, that the market value of a firm depends on its Net Operating Income and business risk. The change in the degree of leverage employed by a firm cannot change these underlying factors. It merely change the distribution of income and risk which influence the market value of the firm.

MODIGLIANI AND MILLER THEORY (1958): According to this theory, the market value of a business is based on its earnings power and by the potential risk of its main assets. Moreover, the value of the business is not dependent on the way, it selects to finance its investment or distribute dividend. It offered the behavioral support for the independence of the total valuation and the cost of capital of the firm from its capital structure.

MYERS AND MAJLUF (1984): Pecking Order Theory (POT) is proposed by Myers and Majluf, in which they argue that equity is a less preferred means to raise capital. According to Pecking Order Theory, it does not take an optimal Capital Structure as a starting point, but instead asserts the empirical fact that firms shows a distinct preference for using internal finance. If internal funds are not enough to finance investment opportunities, firms may or may not acquire external financing by choosing among the different external finance to minimize additional cost of asymmetric information.

KIBROM MEHARI FISSEHA (2010): He discovered the determinants of Capital Structure by selecting six firm level explanatory variables such as profitability, tangibility, size, growth, age and tax shield for sample of seven Ethiopian Commercial Banks by using multi variant regression analysis over the study period of nine years (2000-2009). His findings indicate that profitability, size, age and tax shield are the significant determinants of capital structure in Ethiopian Commercial Banks.

RIYAZ AHMED (2012): He analyzed the capital structure determinants of Indian Automobile Manufacturing Companies listed in NSE by employing Multi Regression Model to access influence the defined explanatory variables like size, business risk, earning rate, dividend payout, debt servicing capacity and operating leverage. Out of six explanatory variables he found that business risk, dividend payout, Debt servicing capacity and degrees of leverage are statistically significant determinants of financial leverage.

Md.FARHAN IMTIAZ (2016): He analyzed the determinants of capital structure of listed pharmaceutical firms in Bangladesh for the period of 5 years (2009-2013) by employing correlated panels corrected standard error model using six variables i.e, profitability, tangibility, growth, size, liquidity and operating leverage. He found that tangibility, profitability and operating leverage were found to be statistically significant determinants of capital structure.

STATEMENT OF THE PROBLEM
The determinants of capital structure still remains elusive despite much research done over the past three decades. The relationship between a firm's capital structure and its Profitability and other similar operating characteristics has gained a considerable importance. As a result of debt dominated Capital Structure the Indian corporate are expected to a very high degree of total risk as reflected in high degree of Capital Structure, only a few researches undergone in identifying the factor that determine Capital Structure decision in Indian Pharmaceutical sector. Keeping in view an attempt is made to seek the extent up to which the factors are related to Capital Structure.

RESEARCH METHODOLOGY

DATA COLLECTION

Secondary data is used to conduct this research. Sources of data includes

i) Data from CMIE Data Base maintained by Centre for Monitoring Indian Economy, Mumbai.

ii) Company's website, Journals and Internet.

PERIOD OF STUDY

The present study covers a period of sixteen years from 2000-2015.

SAMPLE DESIGN

There are 134 leading private pharmaceutical companies in India, among these companies Aurobindo Pharma Ltd. have been considered as sample for the study under case study method.

OBJECTIVES OF THE STUDY

The present study is intended to examine the Determinants of Capital Structure of Aurobindo Pharma Ltd.

HYPOTHESES

Based on the literature review and theoretical implications of capital structure, the following hypotheses were framed and tested.

H_{01}:- There is no significant relation between Liquidity and financial leverage.

H_{02}:- There is no significant relation between Profitability and financial leverage.

H_{03}:- There is no significant relation between Debt Servicing Capacity and financial leverage.

H_{04}:- There is no significant relation between Tangibility and financial leverage.

H_{05}:- There is no significant relation between Non Debt Tax Shield and financial leverage.

H_{06}:- There is no significant relation between Cost of Debt and financial leverage.

SCOPE AND LIMITATIONS OF THE STUDY

- The study is restricted to a single company in the pharmaceutical sector.
- The study covers a period of 16 years (2000-2016) only.
- The study considered six explanatory variables only.

MODEL SPECIFICATION

Multiple regression analysis have been applied to measure the effects of the selected independent variables on the Capital Structure. The following regression models were applied to study the factor determining the Capital Structure.

DER = $\alpha + \beta_0 + \beta_1$ LIQ + β_2 PRO + β_3 DSC + β_4 TAN + β_5 NDTS + β_6 COD + Ɛ. –Model 1

DCER = $\alpha + \beta_0 + \beta_1$ LIQ + β_2 PRO + β_3 DSC + β_4 TAN + β_5 NDTS + β_6 COD + Ɛ. –Model 2

DTAR = $\alpha + \beta_0 + \beta_1$ LIQ + β_2 PRO + β_3 DSC + β_4 TAN + β_5 NDTS + β_6 COD + Ɛ. –Model 3

Where,

Dependent Variable:

DER = Debt Equity Ratio

DCER = Debt to Capital Employed Ratio

DTAR = Debt to Total Asset Ratio

Independent Variable:

LIQ = Liquidity

PRO = Profitability

DSC = Debt Servicing Capacity

TAN = Tangibility

COD = Cost of Debt

α = Regression constant value

Ɛ= standard error.

TABLE 1: DEFINITION OF VARIABLES

Name of the Variable	Definition	Supported by
Debt to Equity Ratio	Debt / Shareholders' Equity.	Maryam Mansoor (2014), Rakshmi Soni (2015), Kibrom Mehari Fisseha (2015).
Debt to Total Asset Ratio	Short term Debt + Long term Debt / Total Assets.	Rajan & Zingales (1995), Booth et al (2001), Tariq N Awan (2011)
Liquidity	Current Assets / Current Liabilities.	Maryam Mansoor (2014), Kausik Basu (2013), Neha Poddar (2014).
Profitability	Earnings before Interest and Tax / Total Asset.	Tariq N Awan (2011), Tunga bas et al (2009), Riyaz Ahmed (2012).
Debt Servicing Capacity	Operating Income / Total Interest Charges.	Riyaz Ahmed (2012), Prateek Bedi (2015).
Tangibility	Fixed Asset / Total Asset	Sarune sidlauskien (2009), Tariq N Awan (2011), Paulo f Peraira Alves (2011).
Non Debt Tax Shield	Total Depreciation on Charges / Total Asset.	Kausik Basu (2013), M S Ramaratnam (2013), Kibrom Mehari Fisseha (2015).
Cost of Debt	(Interest /Debt)*(1-tax).	Rakshmi Soni (2015), Hina Agha (2015), Nguyen (2006).

EMPIRICAL ANALYSIS

In order to assess the factor determining the Capital Structure three regression equation have been developed and panel data have been run. The result of regression analysis have been presented below:

TABLE 2: SUMMARY OF CORRELATIONS AND REGRESSION ANALYSIS

DER = $\alpha + \beta_0 + \beta_1$ LIQ + β_2 PRO + β_3 DSC + β_4 TAN + β_5 NDTS + β_6 COD + Ɛ. –Model 1

Model	Indep Var	Corr	Dep Var	R Square	F Value	Sig	Co-efficients		
							Var	t Value	Sig
I	LIQ	0.092	DER	0.837	7.693	0.004	Cons	-1.256	0.241
	PRO	-0.685***					LIQ	2.491**	0.034
	DSC	-0.532*					PRO	-3.220*	0.010
	TANG	-0.279					DSC	2.863*	0.019
	NDTS	-0.309					TANG	-1.365	0.205
	COD	0.129					NDTS	-2.524**	0.033
							COD	2.433*	0.038

***** - 10% level of significance ** - 5% level of significance * - 1% level of significance.**

The empirical results of model 1 shows that Profitability, DSC, Tangibility and NDTS negatively related with Debt Equity Ratio whereas, Liquidity and Cost of Debt positively associated with DER not statistically significant.

From the regression analysis, it is found that Liquidity, DSC and COD have positive and significant impact on Capital Structure. Whereas, Profitability and NDTS have negative and significant impact on DER. The analysis R^2 is 83.7% and the F value that the model is highly significant.

The regression result of Model 2 is presented below:

TABLE 3: SUMMARY OF CORRELATIONS AND REGRESSION ANALYSIS

DCER = α + β_0 + β_1 LIQ + β_2 PRO + β_3 DSC +β_4 TAN + β_5 NDTS + β_6 COD + Ɛ. –Model 2

Model	Indep Var	Corr	Dep Var	R Square	F Value	Sig	Co-efficients		
							Var	t Value	Sig
II	LIQ	0.030	DCER	0.903	13.922	0.000	Cons	-0.890	0.397
	PRO	-0.742**					LIQ	2.822**	0.020
	DSC	-0.598*					PRO	-3.793*	0.024
	TANG	-0.253					DSC	3.513*	0.007
	NDTS	-0.378					TANG	-1.869***	0.094
	COD	0.116					NDTS	-3.769**	0.004
							COD	3.523*	0.006

***** - 10% level of significance ** - 5% level of significance * - 1% level of significance.**

The correlation co-efficient between dependent variable and independent variable shows that the explanatory variables Profitability and DSC have negative and significant relationship with leverage ratio (DCER). Whereas, the other variables Liquidity, Tangibility, NDTS and COD have insignificant relationship with DCER.

From the regression results it has been found that Liquidity, DSC and COD have positive and significant impact on Capital Structure. Whereas, Profitability, Tangibility and NDTS have negative impact on Capital Structure. The adjusted R^2 90.3% and F value shows that all the selected independent variables explains 90.3% of the variations with the Capital Structure.

The result of the correlation and regression analysis for model 3 has been presented below:

TABLE 4: SUMMARY OF CORRELATIONS AND REGRESSION ANALYSIS

DTAR = α + β_0 + β_1 LIQ + β_2 PRO + β_3 DSC +β_4 TAN + β_5 NDTS + β_6 COD + Ɛ. –Model 3

Model	Indep Var	Corr	Dep Var	R Square	F Value	Sig	Co-efficients		
							Var	t Value	Sig
III	LIQ	0.078	DTAR	0.911	15.399	0.000	Cons	0.138	0.893
	PRO	-0.692**					LIQ	3.406*	0.008
	DSC	-0.538*					PRO	-3.896*	0.004
	TANG	-0.278					DSC	3.754*	0.005
	NDTS	-0.451					TANG	-2.371**	0.042
	COD	-0.005					NDTS	-4.131*	0.003
							COD	3.491*	0.007

***** - 10% level of significance ** - 5% level of significance * - 1% level of significance.**

The empirical results of model 3 shows that Profitability and DSC have negatively related with Debt to Total Asset Ratio and significant. Whereas, other variables like Liquidity, Tangibility, NDTS and COD have insignificant relationship with DTAR.

From the regression results, it has been found that Liquidity, DSC and COD has positive and significant impact on Capital Structure at 1% level of significance. Whereas, Profitability, Tangibility and NDTS have negative impact on Capital Structure.

The Adjusted R^2 91.1% and F table value shows that the model is highly significant.

FINDINGS OF THE STUDY

- From the correlation analysis, the linear relationship between selected explanatory variables (Profitability and DSC) and Capital Structure (DER, DCER & DTAR) are found to have significant relationship.
- Significance F at (α = 0.05) is below 0.004 suggests that overall model is good.
- With regard to regression results of the determinants of Debt Equity Ratio (DER), Debt to Capital Employed Ratio (DCER) and Debt to Total Asset Ratio (DTAR), R square is found to be 0.837, 0.903 and 0.911 respectively indicating that 83 percent to 91 percent of variations in the capital Structure of Dependent Variable are well explained by the selected explanatory variables like Liquidity, Profitability, DSC, Tangibility, NDTS and COD.
- It is found that in regression analysis, the six explanatory variables Liquidity, Profitability, DSC, Tangibility, NDTS and COD are statistically significant both positive and negative relationship in all the three models.

CONCLUSION

The present study analysed the factors determining the Capital Structure behavior of Aurobindo Pharma Ltd for the period of sixteen years (2000-2015). Correlation and Multiple Regression Analysis is carried out for the study. Debt Equity Ratio, Debt to Capital Employed Ratio, Debt to Total Asset Ratio has been used as dependent variable. Liquidity, Profitability, Debt Servicing Capacity, Tangibility, NDTS and Cost of Debt have been used as independent variable. The result shows that Liquidity, DSC and COD found to be an important variable that determine the Capital Structure behavior of selected sample company.

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