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**OBJECTIVES**

**HYPOTHESES**

**RESEARCH METHODOLOGY**

**RESULTS & DISCUSSION**

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**CAPITAL STRUCTURE AND ITS IMPACT ON PROFITABILITY OF AUTOMOTIVE INDUSTRY: THE INDIAN CASE**

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**ABSTRACT**

*Capital structure represents the proportion in which equity capital and debt capital is employed to finance the assets of the companies. Over the years capital structure decision is very crucial and important because of the fact that it affects net profit, earning per share, cost of capital, dividend pay-out ratio and liquidity position of the companies and consequently the value of the companies. The purpose of this paper to measure, evaluate and empirically studies the relationship between capital structure and financial performance of automotive companies in India. The data of nine major companies from automotive industry, listed in Indian Stock Exchange (BSE/NSE) has been taken as sample for the study. Study depicts that there is a weak negative correlation between proxies of capital structure and proxies of financial performance. A linear regression model has been developed and it is observed that there is negative and low degree of relationship between the variables under study and there are many other elements and factors apart from capital structure which determine and affect the financial performance of the companies under study.*

**KEYWORDS**

Capital structure, Debt equity ratio, Financial performance, Leverage and Profitability ratios.

**INTRODUCTION**

Capital structure is one of the most important and effective parameters to the valuation of economic enterprises. There are multiple sources of financing by which a Company can finance its operations. Sources of financing classify into two categories, the internal sources which consists Equity and Preference shares issued and retained earnings of the Company and the another is external source which includes Long term and Short term borrowings and Debentures issued. The Capital Structure of any Company is the combination or blend of such internal and external sources of financing. Why investors park their savings in Equity? The answer is because every equity investors wants to maximise their wealth and how their wealth will maximise? The answer of these questions lies on the decisions of finance manager about the source of financing. The decision to use debts to finance assets is called leverage which affects the return and risk of owners and lenders. In case of major proportion of debt into capital structure of a Company then it is said to be highly levered, using more debt increases the riskiness due to fixed interest obligations and leads to increase expected return on equity as higher the risk higher will be the expected rate of return by owners. Hence the decision of financing the assets of a Company is very important so that there can be a balance between risk and return to achieve the goal of maximisation of wealth and the value of the Company. The purpose of the present study is analyse the role of capital structure to identify the relationship with financial performance of the automotive companies listed in India.

**REVIEW OF LITERATURE**

A lot of research has been conducted so far by various researchers all over the world to identify the impact of capital structure on financial performance of the companies. To develop a clear understanding about such relationship review of some of the literatures available are as under:

**Modigliani and Miller (1958)** establish that under certain assumptions i.e perfect capital market with symmetric information, no transaction and bankruptcy cost exist, absence of taxes, equity and debt choice becomes irrelevant and there will be no impact on company's performance due to selection of source of financing. In 1963, **Modigliani and Miller** argued that companies will prefer debt financing because of the tax shield on interest. On the other hand, tax shield from depreciation and other provisions will discourage some management to arrange for debt capital according to **DeAngelo and Marsalis (1980)**.

**Myers and Majluf (1984)** postulates that a company that are generating high earnings are expected to use internal generated funds first due to cost of financing increases with asymmetric information hence financing preference comes from internal funds, debt and new equity.

**Sumitra Das and Malabika Roy (2003)** in their paper Inter industry in capital structure: The evidence from India conclude the existence of inter-industry difference in the capital structure of Indian companies and identified the factors responsible for such variation. Both company size and industry classes contribute to the existing variation but industry nature and technology used are dominating elements. Though it seems that the relatively large firms were given more importance so far as debt financing is concerned and access to capital markets in particular, in the years immediately after the reforms, this tempo was not maintained over the years.

**Zeitun and Tian (2007)** investigated the effect of capital structure on firm performance. Their results showed that a firm's capital structure had a significantly negative impact on the firm performance measures, which are return on assets, Tobin's Q, market value of equity to book value of equity ratio and profitability. Firm size and firm performance were found to have a positive relation, because of low bankruptcy costs of large company.

**Abor (2007)**, which investigate the relationship between debt policy and firm performance, with the evidence from small and medium enterprises in Ghana and South Africa from 1998 to 2003. His results is that, in Ghana, the relation between return on assets and all measures of capital structure is found to be significant and negative, short-term debt and gross profit margin is significant and negative relation while long-term debt is significantly and positively related to gross profit margin.

**Mat Kila Suhaila and Wan Mansor Wan Mahmood (2008)** in their study tests the determinants of capital structure for the firms listed in the Bursa Malaysia Securities Berhad (BMSB) market during the six year period from 2000 to 2005. Applying pooled OLS estimations, the result shows that the size, liquidity and interest coverage ratio is significantly negatively related to total debt. However, the study finds insignificant negative relation between capital structure and growth of the firm, expressed by the annual changes of earnings.

**Anurag Pahuja and Anu Sahi (2012)** in their study on factors affecting capital structure decisions: Empirical evidence from selected Indian firms, confirmed that independent variables i.e. growth and liquidity indicates positive and significant relationship with debt equity ratio in consistence with pecking order theory of capital structure.

**Gill, et al., (2011)** undertaken a study on the relationship between capital structure and profitability. The correlations and regression analyses were used to estimate the functions relating to profitability with measures of capital structure. Empirical results show a positive relationship between short-term debt to total assets and profitability and total debt to total assets and profitability.

**Mohammad Fawzi Shubita and Jaafer Maroof alsawalhah (2012)**, their research consists of 39 companies. Applying correlations and multiple regression analysis, the results reveal significantly negative relation between debt and profitability. This suggests that profitable firms depend more on equity as their main financing option. Yet recommendations based on findings are offered to improve certain factors like the firm must consider using an optimal capital structure.

**Abbasali Pouraghajan and Esfandiar Malekian (2012)**, in this study, Variables of return on assets ratio (ROA) and return on equity ratio (ROE) used to measure the financial performance of companies. Results suggest that there is a significant negative relationship between debt ratio and financial performance of companies, and a significant positive relationship between asset turnover, firm size, asset tangibility ratio, and growth opportunities with financial performance measures.

**Bimal Jaisawal, Namita Srivastava and Sushma (2013)**, studies the relationship of capital structure and financial performance of companies in cement industry in India. Study indicates that there is weak positive correlation between capital structure and two determinant of performance GPR and ROE. The other determinants of financial performance NPR, ROCE, ROA are negatively correlated with capital structure. A linear regression model has been developed to estimate the effect of variation in capital structure to the variation in the firm financial performance and it is observed that there is negative and low degree of relationship between the variables under study.

The other major studies undertaken by Mesquita and Lara (2003), Philips and sipahioglu (2004), Hadlock and James (2002), Arbabiyan and Safari (2009), Chakraborty (2010) and Huang and Song (2006) came up with the findings which were conflicting in nature as some studies confirm positive relationship between capital structure and profitability while other studies confirm positive relationship between the variables.

## OVERVIEW OF AUTOMOTIVE INDUSTRY A STRATEGIC SECTOR OF INDIAN ECONOMY

With the gradual liberalization of the automotive sector in India since 1991, the number of manufacturing facilities has grown progressively. In the last ten years, the volumes, exports and turnover have increased by 3.8, 19.6 and 6 times respectively. With a CAGR of over of 15% during the last 5-7 years, the automotive sector is aptly described as the next sun rise sector of the Indian economy. The contribution of this sector to the National GDP, with liberalization, has risen from 2.77% in 1992-93 to about 6% now. It provides direct and indirect employment to over 13.1 million people. At present, there are 19 manufacturers of passenger cars & multi utility vehicles, 14 manufacturers of commercial vehicles, 16 of 2/3 wheelers and 12 of tractors besides 5 manufacturers of engines in India. At present, India has amongst the lowest vehicle densities globally at 11 cars per thousand persons and 32 two-wheelers per thousand persons. This is very low as compared to other comparable economies. Thus, there is a huge potential market for automobiles that is yet to be tapped.

(Source: Report of the working group on Automotive Sector for the 12<sup>th</sup> five year plan (2012-2017))

## OBJECTIVE OF THE STUDY

The main objective of this study is to investigate the impact of source of financing on the financial performance of the Automotive Companies listed in India.

## HYPOTHESIS

Hypothesis is a tentative solution of particular problem or proposed explanation for a phenomenon. For the present study following two hypothesis are framed:

- $H_0$ : There is no significant relationship between capital structure and financial performance.
- $H_a$ : The capital structure has significant impact on financial performance.

## RESEARCH METHODOLOGY

### SCOPE AND COVERAGE

The present study is restricted to the Automotive Companies listed in Indian Stock Exchanges (BSE/NSE). The time period taken into consideration for analysis is five year i.e. from financial year 2008-09 to 2012-13.

### DATA COLLECTION

Only secondary data is used to attain the objective of the study which is taken from the [www.indiabulls.com](http://www.indiabulls.com) and cross verified with published annual report of the respective companies which is hunted from official website.

### SAMPLE SIZE

For the study, data of nine Companies out of fifteen Companies listed in the CNX Auto Index that are listed on the National Stock Exchange and Bombay Stock Exchange. From automotive industry are taken as a sample and it is assumed that the findings of the sample will apply to the total automotive industry. The companies which are taken in the sample, are as follows: Ashok Leyland Ltd., Hero MotoCorp Ltd, TVS Motor Company Ltd., Bajaj Auto Ltd., Mahindra & Mahindra Ltd., Maruti Suzuki India Ltd., Tata Motors Ltd., Force Motors Ltd. and Eicher Motors Ltd.

### DETERMINANT OF VARIABLES

Variables are an identified piece of data that have different values. Variables can be divided into two types, dependent variables and independent variables. An independent variables are regarded as input and also known as a predictor variable. A dependent variables are changed according to change in independent variables and also known as a output variable.

The present study consist capital structure as independent variable and financial performance as dependent variables. Here capital structure is measured with the help of debt equity ratio and financial performance is measured with the help of operating margin ratio, gross profit ratio, net profit ratio, return on net worth ratio and return on long term funds.

TABLE – 1: VARIABLES AND ITS DEFINITION

Variable	Proxy variables	Formula	Proxy
Capital Structure	Debt Equity Ratio	Total Debts/Total Shareholder's fund	DER
Financial Performance	Operating Margin Ratio	Operating Profit / Net Sales	OMR
	Net Profit Ratio	Net Profit/Net Sales	NPR
	Gross Profit Ratio	Gross Profit/Net Sales	GPR
	Return on Net Worth	EBIT / Net worth	RONE
	Return on long term fund	EBIT / Long term funds	ROLTF

### TOOLS AND TECHNIQUES OF ANALYSIS

Different statistical measures are used to measure the relation between two variable i.e capital structure and financial performance.

### DESCRIPTIVE STATISTICS

To identify the central value and check whether it is represented to whole sample, mean and standard deviation has been calculated.

### CORRELATION METHOD

To study the relationship between capital structure and five measures of financial performance correlation method is used.

### REGRESSION METHOD

A linear regression model has been developed to estimate the effect of variation in capital structure i.e. independent variable to the variation in the financial performance i.e. dependent variables. Ordinary Least Square (OLS) method is used to estimate the regression line. OLS is used because it minimizes the error between the estimated points on the line and the actual observed points of the estimated regression line by giving the best fit.

### ANOVA TEST

To test the hypothesis two-way ANOVAs test is applied.



## RESULTS &amp; DISCUSSION

TABLE - 2: DESCRIPTIVE STATISTICS

	DE	OMR	GPR	NPR	RONW	ROLTF	PERFORM
Mean	0.4280	0.1020	0.0765	0.0856	0.2583	0.2466	0.7690
Standard Deviation	0.3934	0.0563	0.0636	0.0684	0.1919	0.1990	0.4904
Count	45	45	45	45	45	45	45

Sources: Author Compilation

In above table 2, mean values of variables with its standard deviation during the financial year 2008-09 to 2012-13 are depicted. The measure taken as financial performance in the evaluation are operating profit margin, gross profit, net profit, return on net worth and return on long term funds of the companies consists in sample, which are on mean 10.20% with a standard deviation of .056, which are on mean 7.65% with a standard deviation of .063, which are on mean 8.56% with a standard deviation of .068, which are on mean 25.83% with a standard deviation of .191 and which are on mean 24.66% with a standard deviation of .199 respectively. The average debt equity ratio came out is 42.8%. This indicated that in Indian automotive industry 42.8% of total assets are represented by debt and concluded that they are averaged geared.

**CORRELATION ANALYSIS**

Correlation is deal with strength of relationships among variables. The correlation coefficient is a measure of linear association between two variables. Values of the correlation coefficient are always between -1 and +1. A correlation coefficient of +1 indicates that two variables are perfectly related in a positive linear sense, a correlation coefficient of -1 indicates that two variables are perfectly related in a negative linear sense, and a correlation coefficient of 0 indicates that there is no linear relationship between the two variables.

In the present study analysis of correlation co-efficient is under taken to determine the relationship between debt equity ratio (capital structure) and financial performance.

TABLE – 3: SUMMARISED RESULT OF CORRELATION MATRIX (PEARSON)

Variables	DE	OMR	GPR	NPR	RONW	ROLTF	R Square
DE	1	-0.430	-0.410	-0.520	-0.344	-0.455	-
OMR	-0.430	1	0.991	0.337	0.439	0.875	0.184
GPR	-0.410	0.991	1	0.341	0.430	0.871	0.168
NPR	-0.520	0.337	0.341	1	0.754	0.331	0.270
RONW	-0.344	0.439	0.430	0.754	1	0.642	0.118
ROLTF	-0.455	0.875	0.871	0.331	0.642	1	0.207

Correlation is significant at level alpha=0.01

Sources: Author Compilation

**CAPITAL STRUCTURE AND OPERATING MARGIN**

Relationship between capital structure and operating margin is shown by the table 3 above. There is a weak negative relationship between two variables. The correlation is -0.430 at significant level 0.01. The co-efficient of determinant is 0.184 i.e only 18.4% of variance in the operating margin is affected by the pattern of capital structure. Therefore, there is a weak negative relationship between these two variables.

**CAPITAL STRUCTURE AND GROSS PROFIT**

Relationship between capital structure and gross profit is shown by the table 3 above. There is a weak negative relationship between two variables. The correlation is -0.410 at significant level 0.01. The co-efficient of determinant is 0.168 i.e only 16.8% of variance in the gross profit is affected by the pattern of capital structure. Therefore, there is a weak negative relationship between these two variables.

**CAPITAL STRUCTURE AND NET PROFIT**

Relationship between capital structure and net profit is shown by the table 3 above. There is a weak negative relationship between two variables. The correlation is -0.520 at significant level 0.01. The co-efficient of determinant is 0.270 i.e only 27 % of variance in the net profit is affected by the pattern of capital structure. Therefore, there is a weak negative relationship between these two variables.

**CAPITAL STRUCTURE AND RETURN ON NET WORTH**

Relationship between capital structure and RONW is shown by the table 3 above. There is a weak negative relationship between two variables. The correlation is -0.344 at significant level 0.01. The co-efficient of determinant is 0.118 i.e only 11.8% of variance in the RONW is affected by the pattern of capital structure. Therefore, there is a weak negative relationship between these two variables.

**CAPITAL STRUCTURE AND RETURN ON LONG TERM FUNDS**

Relationship between capital structure and ROLTF is shown by the table 3 above. There is a weak negative relationship between two variables. The correlation is -0.455 at significant level 0.01. The co-efficient of determinant is 0.207 i.e only 20.7% of variance in the ROLTF is affected by the pattern of capital structure. Therefore, there is a weak negative relationship between these two variables.

**REGRESSION ANALYSIS**

Regression analysis involves identifying the relationship between a dependent variable and one or more independent variables.

TABLE – 4: TABLE SHOWING THE MODEL SUMMARY OF DER AND OMR

Model Summary			
R	R Square	Adjusted R Square	Standard Error of the Estimates
-0.430	0.184	0.166	0.051
Predicator (Debt Equity Ratio)			

Sources: Author Compilation

The above table 4 reveals the weak negative correlation between the debt equity ratio (capital structure) and operating margin ratio of the Indian automotive companies taken into sample.

TABLE - 5: TEST OF SIGNIFICANCE OF CORRELATION COEFFICIENT BETWEEN DER AND OMR

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	Beta	Standard error	Beta		
Intercept	0.128	0.011		11.261	0.000
DE	-0.061	0.020	-0.430	-3.119	0.003

Dependent variable : Operating Margin

Sources: Author Compilation

The above table 5 indicates the coefficient of correlation between the debt equity ratio (capital structure) and operating margin. Coefficient of determinant  $R^2$  is 0.184. This shows that only 18.4% of variance of operating margin is influenced by the debt equity ratio (capital structure) and remaining 81.6 % of variance with operating margin is attributed to other factors.

In the above table the value of t is -3.119, which signifies that there is a negative correlation between the two variables.

GRAPH 1: FIGURE SHOWING CORRELATION BETWEEN DER AND OMR

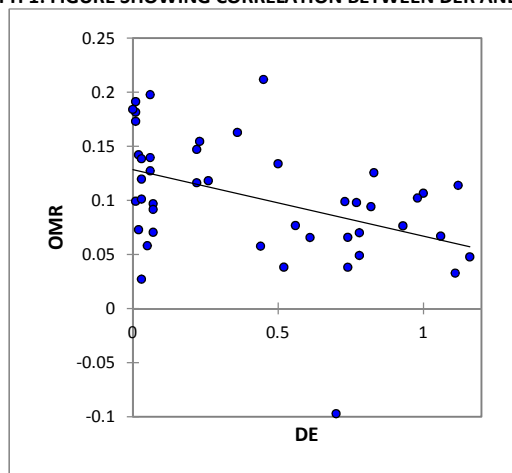


TABLE – 6: TABLE SHOWING THE MODEL SUMMARY OF DER AND GPR

Model Summary			
R	R Square	Adjusted R Square	Standard Error of the Estimates
-0.410	0.168	0.148	0.059

Predictor (Debt Equity Ratio)

Sources: Author Compilation

The above table 6 reveals the weak negative correlation between the debt equity ratio (capital structure) and gross profit of the Indian automotive companies taken into sample.

TABLE - 7: TEST OF SIGNIFICANCE OF CORRELATION COEFFICIENT BETWEEN DER AND GPR

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	Beta	Standard error	Beta		
Intercept	0.105	0.013		8.055	0.000
DE	-0.066	0.022	-0.410	-2.944	0.005

Dependent variable : Gross Profit

Sources: Author Compilation

The above table 7 indicates the coefficient of correlation between the debt equity ratio (capital structure) and gross profit. Coefficient of determinant  $R^2$  is 0.168. This shows that only 16.8% of variance of gross profit is influenced by the debt equity ratio (capital structure) and remaining 83.2 % of variance with gross profit is attributed to other factors.

In the above table the value of t is -2.944, which signifies that there is a negative correlation between the two variables.

GRAPH 2: FIGURE SHOWING CORRELATION BETWEEN DER AND GPR

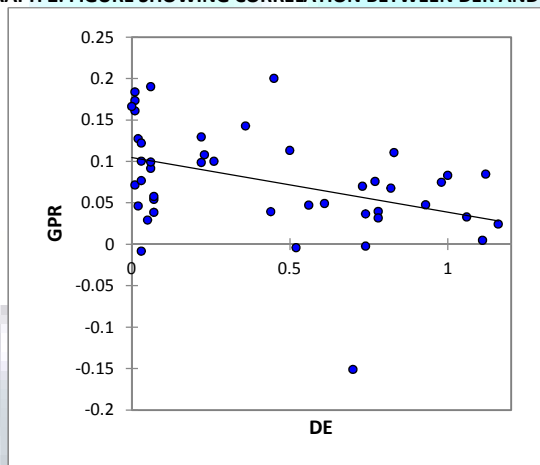


TABLE – 8: TABLE SHOWING THE MODEL SUMMARY OF DER AND NPR

Model Summary			
R	R Square	Adjusted R Square	Standard Error of the Estimates
-0.520	0.270	0.253	0.059

Predictor (Debt Equity Ratio)

Sources: Author Compilation

The above table 8 reveals the weak negative correlation between the debt equity ratio (capital structure) and net profit of the Indian automotive companies taken into sample.

TABLE - 9: TEST OF SIGNIFICANCE OF CORRELATION COEFFICIENT BETWEEN DER AND NPR

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	Beta	Standard error	Beta		
Intercept	0.124	0.013		9.486	0.000
DE	-0.090	0.023	-0.520	-3.992	0.000

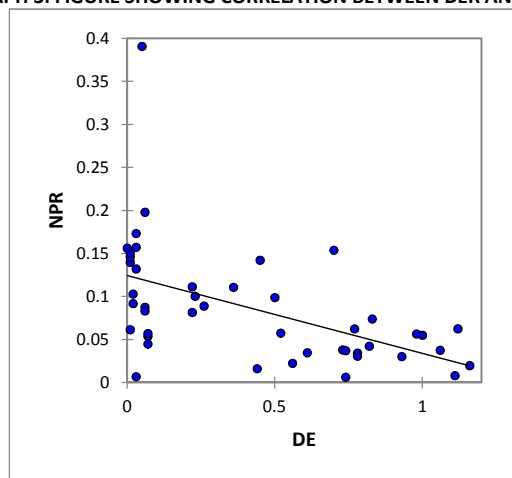
Dependent variable : Net Profit

Sources: Author Compilation

The above table 9 indicates the coefficient of correlation between the debt equity ratio (capital structure) and net profit. Coefficient of determinant  $R^2$  is 0.270. This shows that only 27% of variance of net profit is influenced by the capital structure and remaining 73 % of variance with net profit is attributed to other factors.

In the above table the value of t is -3.992, which signifies that there is a negative correlation between the two variables.

**GRAPH 3: FIGURE SHOWING CORRELATION BETWEEN DER AND NPR**



**TABLE – 10: TABLE SHOWING THE MODEL SUMMARY OF DER AND RONW**

Model Summary			
R	R Square	Adjusted R Square	Standard Error of the Estimates
-0.344	0.118	0.098	0.182

Predictor ( Debt Equity Ratio)

Sources: Author Compilation

The above table 10 reveals the weak negative correlation between the debt equity ratio (capital structure) and return on net worth of the Indian automotive companies taken into sample.

**TABLE - 11: TEST OF SIGNIFICANCE OF CORRELATION COEFFICIENT BETWEEN DER AND RONW**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	Beta	Standard error	Beta		
Intercept	0.330	0.040		8.168	0.000
DE	-0.168	0.070	-0.344	-2.399	0.021

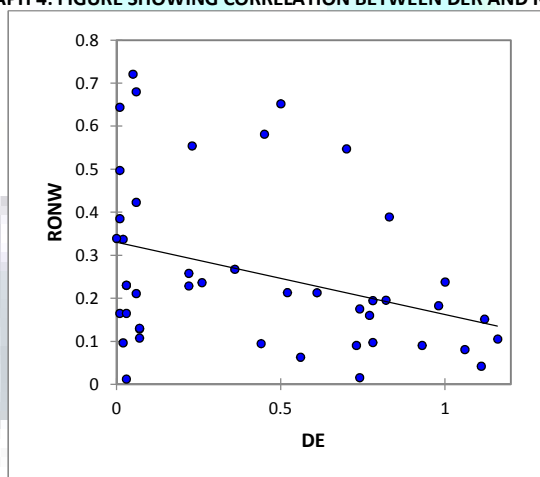
Dependent variable : Return on Net Worth

Sources: Author Compilation

The above table 11 indicates the coefficient of correlation between the debt equity ratio (capital structure) and RONW. Coefficient of determinant  $R^2$  is 0.118. This shows that only 11.8% of variance of net profit is influenced by the capital structure and remaining 88.2 % of variance with RONW is attributed to other factors.

In the above table the value of t is -2.399, which signifies that there is a negative correlation between the two variables.

**GRAPH 4: FIGURE SHOWING CORRELATION BETWEEN DER AND RONW**



**TABLE – 12: TABLE SHOWING THE MODEL SUMMARY OF DER AND ROLTF**

Model Summary			
R	R Square	Adjusted R Square	Standard Error of the Estimates
- 0.455	0.207	0.188	0.179

Predictor (Debt Equity Ratio)

Sources: Author Compilation

The above table 12 reveals the weak negative correlation between the debt equity ratio (capital structure) and return on long term fund of the Indian automotive companies taken into sample.

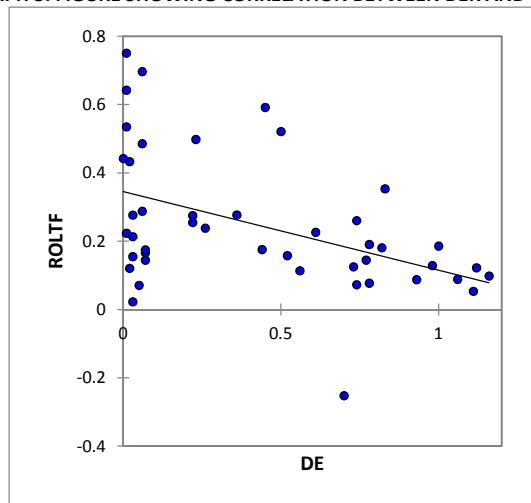
**TABLE - 13: TEST OF SIGNIFICANCE OF CORRELATION COEFFICIENT BETWEEN DER AND ROLTF**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	Beta	Standard error	Beta		
Intercept	0.345	0.040		8.683	0.000
DE	-0.230	0.069	-0.455	-3.346	0.002

Dependent variable : Return on Long Term Funds

Sources: Authors Compilation

The above table 13 indicates the coefficient of correlation between the debt equity ratio (capital structure) and ROLTF. Coefficient of determinant  $R^2$  is 0.207. This shows that only 20.7% of variance of ROLTF is influenced by the capital structure and remaining 79.3 % of variance with ROLTF is attributed to other factors. In the above table the value of t is -3.346, which signifies that there is a negative correlation between the two variables.

**GRAPH 5: FIGURE SHOWING CORRELATION BETWEEN DER AND ROLTF****TABLE – 14: TABLE SHOWING THE MODEL SUMMARY OF DER AND PERFORMANCE**

Model Summary			
R	R Square	Adjusted R Square	Standard Error of the Estimates
-0.494	0.244	0.226	0.431

Predicator (Debt Equity Ratio)

Sources: Author Compilation

The above table 14 reveals the weak negative correlation between the debt equity ratio (capital structure) and performance of the Indian automotive companies taken into sample.

**TABLE - 15: TEST OF SIGNIFICANCE OF CORRELATION COEFFICIENT BETWEEN DER AND PERFORMANCE**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	Beta	Standard error	Beta		
Intercept	1.032	0.096		10.800	0.000
DE	-0.616	0.165	-0.494	-3.724	0.001

Dependent variable : Performance

Sources: Author Compilation

The above table 15 indicates the coefficient of correlation between the capital structure and performance. Coefficient of determinant  $R^2$  is 0.244. This shows that only 24.4% of variance of performance is influenced by the capital structure and remaining 75.6 % of variance with performance is attributed to other factors.

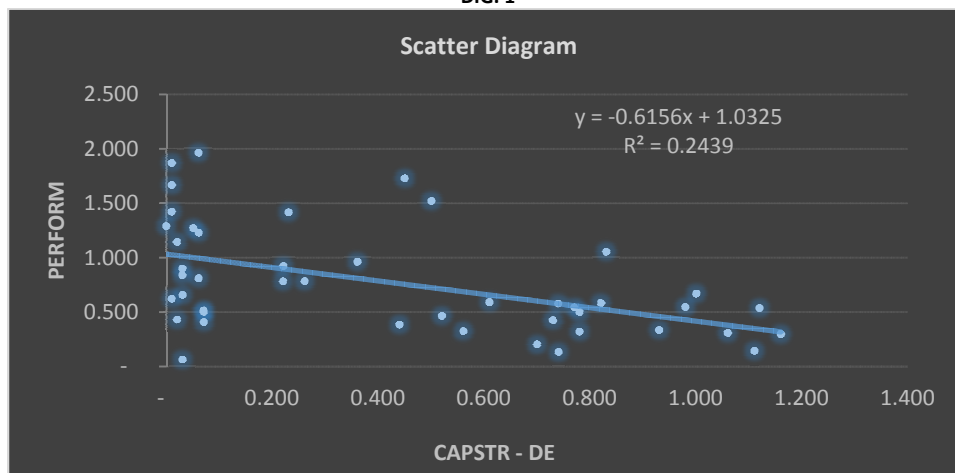
In the above table the value of t is -3.724, which signifies that there is a negative correlation between the two variables.

**TABLE - 16: ANOVA**

Source	DF	Sum of squares	Mean squares	F	Pr > F
Regression	1	2.580	2.580	13.870	0.001
Residual	43	8.000	0.186		
Total	44	10.580			

Source: Author Compilation

DIG. 1



The ANOVA table shows that  $F > \text{Sig.}$  which means that  $H_0$  is rejected. It means that the debt equity ratio (Capital Structure) has significant impact on financial performance of the Indian Automotive Companies under study.

In the scatter diagram, X axis indicates the capital structure and Y axis indicates the financial performance. It is observable from the above diagram that there is a weak linear negative relationship between these two variables. The plot are scattered loosely around the linear line which mean that pattern of capital structure have some impact over the financial performance and there are many other factors apart from debt equity mix that affect the financial performance of companies under study.

Linear equation is formulated by this diagram as follows:

$$y = -0.6156x + 1.0325$$

$$R^2 = 0.2439$$

The regression equation  $y = -0.6156x + 1.0325$  exhibits that the relationship between debt equity ratio (capital structure) and performance. If capital structure is  $X=0$ , performance is to be 1.0325. Further capital structure is increased by one; the performance will be decreased by - 0.615. Therefore, it can be said that there is a negative relationship between variables.

## FINDINGS AND CONCLUSION

The present study analyse the relationship of capital structure and financial performance of companies in automotive industry in India. Study depicts that there is a weak negative correlation between capital structure and measures of financial performance.

A linear regression model has been developed and it is observed that there is negative and low degree of relationship between the variables under study. This implies that there are many other elements and factors apart from debt equity ratio (capital structure) which determine and affect the financial performance of the companies under study.

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