

A STUDY ON IMPACT OF CAPITAL STRUCTURE ON FIRM VALUE OF SELECTED B2C COMPANIES IN INDIA

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ABSTRACT

The present study is conducted with the primary goal of to examine impact of capital structure on valuation of firm of selected B2C companies in India. In this study 10 B2C companies are selected as a sample of the study. To achieve the said objective, the researcher has taken Firm Value as a dependent variable and ROA, Growth Rate, Age, Current Ratio, Size, Debt Equity Ratio, Tangible Assets, GDP, Inflation, ROE and Financial Leverage are taken as independent variables. From the present study, it can be said that Size, Age, ROA, Inflation and Tangible Assets have impact on Firm Value. Also, ROE, GDP, Financial Leverage, Growth Rate, Debt Equity Ratio and Current Ratio have doesn't have any impact on Firm Value. The present study is very much helpful to the investors who want to invest their money in these sample companies and management of these companies. The present study is useful to the management of the company to decide which variable play significant role in the deciding the valuation of firm.

Keywords: Capital Structure, Firm Value, B2C Companies, Financial Leverage, Inflation.

Introduction

The combination of equity and debt i.e., including shares, bonds, debentures etc. is known as capital structure. The company's cost of capital is affected by the equity and debt. Capital structure decision is the most important decision for the chief financial officer of a company. The decision regarding capital structure is play important role in valuation of firm. The decision regarding capital structure is very difficult task for the manager where risk and cost is minimized and can increase profit of the company and wealth of shareholders. There are numbers of theories are suggested by the various author regarding capital structure like Agency Cost Theory, Pecking Order Theory, Modigliani and Miller Theory and Trade Off Theory.

Review of Literature

Luu HuuDuc(February, 2021) has conducted this study with the primary objective of to analyses impact of capital structure on the value of firm. This study is based on secondary data only. In this study the researcher has collected data of chemical companies, which are listed under Vietnam Stock Exchange. The sample of the study was 23 chemical companies. The period of the study was 08 years, from 2012 to 2019. In this study quantitative research method is used by the researcher. In this study the researcher has used firm value as a dependent variable and revenue growth rate, capital structure, assets turnover, solvency, firm size, firm age, return on assets and fixed tangible assets were

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used as an independent variable. The data was analyzed by using regression model. This study concluded that capital structure of a company has a major impact on value of firm and also these chemical companies have to take care about the firm size and assets turnover ratio.

Natsir Khairina and Yusbardini Yusbardini (2019) have determined this study with the objective of to check the effect of capital structure and firm size on valuation of firm. This has an analytical approach in nature. The period of the study is 05 years from 2013 to 2017. The sample of the study is 17 companies. For the selection of sample, purposive sampling method has been used by the researcher. The sample companies are registered under Indonesia Stock Exchange. The data is collected from the financial statements of sample companies. For the analysis of data various statistical tools has been applied like path analysis, sobel test and regression analysis. From the data analysis it can be concluded that firm size and profitability have a positive impact on firm value and capital structure has a negative impact on valuation of firm.

Fumami Malyam Alhani, Dr. Moghadem Abdolkarim (2015) have pioneered this study to check the impact of capital structure on EPS, Rate of ROE and firm value of companies listed under Tehran Stock Exchange. The study period was 05 years from 2010 to 2014. The sample of the study was total 55 companies. The data was collected through Rahavard software and library research. For the analysis of data both the variables are used. In this study ROE, EPS and Stock Market Value are taken as a dependent variables and financial leverage is undertaken as an independent variable. For the analysis of the data the researcher has applied Pearson Correlation and Multiple Regression using SPSS. The result of the study proofs that firm value and leverage has a negative relationship. The study has suggested that EPS and market value of a company has a positive impact on financial leverage.

Research Methodology

The researcher has conducted this study with the primary objective of to examine impact of capital structure on value of firm of selected B2C companies in India. The said research is analytical in nature. The present study is based on secondary data only. The study period is 10 years from 2012-13 to 2021-22. The data is collected from annual reports of B2C companies and prowess data base. The researcher has applied non probability sampling i.e., convenient sampling method for the selection of sample. In this study 10 B2C companies are selected as a sample of the study. The data is analyzed by regression analysis using SPSS (Demo Version 26).

Data Analysis

Regression Line of Firm Value = $a_1 (0.368) + \beta_1 (ROA) + \beta_2 (Growth Rate) + \beta_3 (Age) + \beta_4 (CR) + \beta_5 (Size) + \beta_6 (Debt Equity Ratio)$ is significantly fitted.

Variables Entered/Removed

Model	Variables Entered	Variables Removed	Method
1	ROA, Growth Rate, Age, CR, Size, Debt Equity Ratio	---	Enter

- **Dependent Variable: Firm Value**

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.881	0.776	0.761	0.55956

- **Predictors: ROA, Growth Rate, Age, CR, Size, Debt to Equity Ratio**

The above table shows the result of R, R Square and Adjusted R Square. This model describes the relationship between dependent variable and independent variable. The present model is explaining the percentage of control and independent variables. From the above table it can be said that, the coefficient of determination is equal to 0.776 i.e., 77.60 % of the dependent variable explained by the independent variables and control. Also, the value of R is 0.881 i.e., 88.10 %, mean the model is significantly fitted.

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	100.625	6	16.771	53.562	0.000
	Residual	29.119	93	0.313	---	---
	Total	129.744	99	---	---	---

- **Dependent Variable: Firm Value**

- **Predictors: (Constant), ROA, Growth Rate, Age, CR, Size, Debt to Equity Ratio**

The above table describes the result of ANOVA. Here, the p value is 0.000 i.e., less than 0.05 mean all independent variables are jointly contributing in explaining the dependent variables.

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.368	0.690	---	0.533	0.596
	Growth Rate	-0.002	0.005	-0.023	-0.450	0.654
	Debt Equity Ratio	-0.001	0.001	-0.082	-0.999	0.321
	Size	2.102	0.133	1.067	15.758	0.000
	CR	0.134	0.117	0.068	1.140	0.257
	Age	0.008	0.002	0.219	4.066	0.000
	ROA	0.063	0.009	0.555	6.747	0.000

- **Dependent Variable: Firm Value**

The above table displays result of Beta, t-statistics and significant value. From the above table it can be said that acceptance of entire variables of the model except Growth Rate and Debt Equity Ratio. As per the result of t-statistics and error, it can be said that, this model is precise and shows the fitness of variables in this model. The Beta value shows that, there is a positive relationship between firm value and Size, CR, Age and ROA, while there is adverse relationship between Firm Value and Growth Rate & Debt Equity Ratio. As per the result of P value, it can be said that, there is a significant correlation between Firm Value and Size, Age and ROA, while there is an insignificant correlation between Firm Value and Growth Rate, Debt Equity Ratio and CR.

Regression Line of Firm Value = a_1 (14.349) + β_1 (Financial Leverage) + β_2 (Tangible Assets) + β_3 (GDP) + β_4 (Inflation) + β_5 (ROE) is significantly fitted.

Variables Entered/Removed

Model	Variables Entered	Variables Removed	Method
1	Financial Leverage, Tangible Assets, GDP, Inflation, ROE	---	Enter

- **Dependent Variable: Firm Value**

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.418	0.175	0.131	1.06702

- **Predictors: (Constant), Financial Leverage, Tangible Assets, GDP, Inflation, ROE**

The above table describes the result of R, R Square and Adjusted R Square. This model explains the relationship between independent variable and dependent variable. The said model is explaining the percentage of control and independent variables. Here, the value of coefficient of determination is equal to 0.175 i.e., 17.50 % of the dependent variable explained by the independent variables and control. Also, the value of R is 0.418 i.e., 41.80 %, mean the model is significantly fitted.

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	22.722	5	4.544	3.991	0.003
	Residual	107.023	94	1.139	---	---
	Total	129.744	99	---	---	---

- **Dependent Variable: Firm Value**

- **Predictors: (Constant), Financial Leverage, Tangible Assets, GDP, Inflation, ROE**

The above table describes the result of ANOVA. Here, the p value is 0.003 i.e., less than 0.05 mean all independent variables are jointly contributing in explaining the dependent variables.

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	14.349	0.780	---	18.408	0.000
	ROE	-0.007	0.004	-0.160	-1.502	0.136
	Inflation	-0.205	0.069	-0.289	-2.974	0.004
	GDP	-0.043	0.026	-0.160	-1.672	0.098
	Tangible Assets	-3.200	0.989	-0.342	-3.236	0.002
	Financial Leverage	0.006	0.012	0.051	0.538	0.592

- **Dependent Variable: Firm Value**

The above table depicts the value of Beta, t-statistics, and significant value. From the value of Beta, it can be inferred that rejection of entire variables except Financial Leverage in this model. From the above table it can say that, there is positive relationship between Firm Value and Financial Leverage. Also, it can say that, there is a negative relationship between Firm Value and ROE, Inflation, GDP, and Tangible Assets. Here, it can p said that, as the P value of Inflation and Tangible Assets is less than 0.05 i.e., 0.004 and 0.002, there is a significant correlation between Firm Value and Inflation & Tangible Assets. As the P value of ROE, GDP & Financial Leverage is more than 0.05, mean there is an insignificant correlation between Firm Value and these variables.

Implications of the Study

From the above study it can be inferred that there is a significant correlation between Firm Value and Size, Age, ROA, Inflation and Tangible Assets, while there is a no significant correlation between Firm Value and ROE, GDP, Financial Leverage, Growth Rate, Debt Equity Ratio and Current Ratio. Here, it can be said that, Size, Age, ROA, Inflation and Tangible Assets are contributing to firm value significantly, mean these variable have more impact on Firm Value. Also, it can be concluded that ROE, GDP, Financial Leverage, Growth Rate, Debt Equity Ratio and Current Ratio have no major impact on Firm Value. This study recommended that for further research, researcher has to increase more B2C companies as sample of the study and also increase number of variable for examine impact of Firm Value on Capital Structure.

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