

Capital Structure Decision during Firm's Life Cycle: with Reference of Top Companies Listed in Bse 500 Operating in India in Terms of the Market Capitalization



Balkrishna Maharjan, Gangu Naidu Mandala, Nitin Gupta

Abstract: Researchers have always made laudable contribution in examining the factors that influence an individuals and business firms to adopt and maintain the capital structure decision during a firm's life cycle. The research methodology is carried out to examine the financing choices of top 100 firms in terms of the market capitalization through a close outlook with the business life cycle. The determinant of capital structure decision is based on profitability, liquidity, nature of industry, timing and timing of issue. Debt is taken as a fundamental source in an early stage where as in maturity stage, firm re-balance their capital structure gradually substituting debt for internal capital. This study aims to generate an idea of a dynamic evolution of the firm across the different stages, investment/disinvestment needs, profitability, cash flow generation and risk changes. Moreover, the study is carried out with a comprehensive analysis of the firm's capital structure and the main elements in the classical theories, i.e. Trade off Theory and Pecking Order Theory.

Keywords: Capital Structure, Financial Growth Cycle, Financing Decision, Small And Medium-Sized Firms, Sources of Finance.

I. INTRODUCTION

Capital Structure is an arrangement and procurement of the capital from different means to finance overall operations and growth of an organization as the term "structure" implies arrangement of the various sections. Thus, capital structure refers to the proportions or combinations of share capital either in the form of equity or preference, long term debts and retained earnings whereas financial structure consists of short-term debt, long term debt and shareholder's fund i.e. entire left-hand side of the company's balance sheet. According to I.M. Pandey "Capital structure refers to the mix of long-term sources of funds, such as, debentures, long-term debts, preference share capital and equity share capital including reserves and surplus." The capital structure decision is a significant financial decision as it affects the shareholders return and risk and consequently market value of shares.

The combination of both debt and equity is crucial for an organization as it leads to maximize the wealth of owners and value of firm along with minimizes the company overall cost of capital.

Research Methodology

Sampling Design and Technique: Sample selection consists of top 100 manufacturing companies listed in BSE 500 operating in India in terms of the market capitalization for the year 2018/19. We exclude those firms that have missing values in either dependent variable or independent variables throughout the period of the study. Apart from the missing dependent and independent values in the variables we have excluded all the banking, financial, insurances and investment companies. To analyze data, SPSS statistical software has been used for applying the required statistical analysis technique.

Sample size: A period of five years from 2013/14 to 2017/18 has been considered. The use of the large sample size is to ensure the reliability and to reduce the measurement error. The Study has been based on the secondary data only. The annual financial standalone data of sample companies have been taken from the BSE website, capital line, and from the money control for the empirical evaluation. After applying the filters and excluding the Banking & Financial Institutions, Insurance Companies and Investment Companies, with information availability constraint, a sample size of remaining 52 listed Indian manufacturing companies on BSE has been taken to apply the panel regression model for the data analysis and interpretation.

Proposed model: Firm value = $\beta_0 + \beta_1(\text{Share Performance}) + \beta_2(\text{Profitability}) + \beta_3(\text{growth opportunities}) + \beta_4(\text{asset utilization ratio}) + \beta_5(\text{liquidity}) + \beta_6(\text{dividend payout ratio}) + \beta_7(\text{age}) + \beta_8(\text{inflation}) + \beta_9(\text{GDP}) + \beta_{10}(\text{earning volatility}) + \beta_{11}(\text{debt service capacity}) + \beta_{12}(\text{equity}) + \beta_{13}(\text{Debt}) + \beta_{14}(\text{cash balance}) + \beta_{15}(\text{interest coverage ratio}) + \beta_{16}(\text{operating income}) + \beta_{17}(\text{net income}) + \beta_{18}(\text{Cash flow from operating activities}) + \beta_{19}(\text{business risk}) + \beta_{20}(\text{cash flow coverage ratio}) + \beta_{21}(\text{ownership})$.

Where, β_0 = Intercept, β_1 = coefficient for share performance, β_2 = coefficient of profitability, β_3 = coefficient of growth opportunities, β_4 = coefficient of asset utilization ratio, β_5 = coefficient of liquidity, β_6 = coefficient of dividend payout ratio, β_7 = coefficient of age, β_8 = coefficient of inflation, β_9 = coefficient of GDP, β_{10} = coefficient of earning volatility, β_{11} = coefficient of debt service capacity,

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β_{12} = coefficient of equity, β_{13} =coefficient of debt, β_{14} =coefficient of cash balance, β_{15} =coefficient of interest coverage ratio, β_{16} =coefficient of operating income, β_{17} =coefficient of net income, β_{18} =coefficient of cash flow from operating activities, β_{19} = coefficient of business risk, β_{20} = coefficient of cash flow coverage ratio, β_{21} = coefficient of ownership.

Measure:The paper evaluates empirically the Capital Structure Decision During a Firm's Life Cycle." of the Indian Business which are listed in the Bombay Stock Exchange (BSE) on the basis of top Market Capitalization.

Firm's value or Enterprise value has been used as a proxy for financial leverage with share price performance, profitability (net profit margin), growth opportunities (ROE), asset utilization ratio, liquidity, dividend payout ratio, age, inflation, GDP, earning volatility, debt service capacity, equity, debt, cash balance, interest coverage ratio, operating income, net income, cash flow from operating activities, business risk, cash flow coverage ratio and ownership as independent variables. The Firm's value is calculated on the basis of the market capitalization.

Growth Opportunities is calculated on the basis of the Return on Equity (ROE). The formulae for ROE= Profit after Tax (PAT)/Equity share holder fund.

D/C is a measure of firm's financial leverage and financial strength and tells whether a firm is more inclined toward debt or equity financing. D/A is a measure of firm's financial leverage and financial risk and indicate the percentage of assets that are financed by debt.

Dividend Payout Ratio is calculated as dividend divided by the net income. Profitability is calculated on the basis of Net Profit after Tax.

Size is calculated as the natural logarithm of total assets. It implies large firms with lower asset volatility and better performance.

Age is calculated as the number of years when the company was listed in the BSE. It implies better credibility and reputation in the market.

Tangibility is calculated as the ratio of net fixed assets divided by Total assets. It shows fixed asset investment and long-term resources held by the firm. Dividend Payout Ratio (DPO) is the ratio of dividend to profit after tax. Business risk (Risk) is measured by operating leverage which is the ratio of the percentage change in EBIT to percentage change in net sales. It shows the extent a firm has utilized its fixed operating cost for running its operations. It is calculated on the basis of financial leverage i.e. Operating Income divided by Net Income. Liquidity is calculated as the ratio of current assets to current liabilities. Higher ratio indicates more availability of funds to meet short-term obligations.

Interest coverage ratio (ICR) is calculated as the ratio of EBIT to Interest expense. Higher the ratio, higher

will be the interest expense coverage and low financial risk.CFCR is calculated as the ratio of net operating cash flow to Total debt. Higher the ratio, higher will be the debt absorption capacity and low financial risk. Ownership structure is represented as the percentage of shareholding held by the promoters of the firm. It is based on agency cost theory and reflects the expectations of the promoters. It is categorized in terms of family held firm, foreign companies, widely and Government owned companies.

Earning Volatility is calculated on the difference of closing price and opening price divided by the opening price. Inflation is reflected as a percentage change in wholesale price index (WPI) in India. Gross domestic product growth rate (GDP) is calculated as the percentage change in GDP on a year to year basis in India. It is a measure of a country's economic development

To determine which theory's implications are more validating in the Indian Business Organization, i.e. trade-off vs pecking order theory, following are the hypothesis provided by the above theories for some variables. As per trade-off theory, there is a positive relationship between profitability and financial leverage as the future cost of financial distress is low for profitable firms and tax shield is more valuable for these firms. On the contrary, pecking order suggest a negative relationship between profitability and financial leverage as profitable firms use more retained earnings to finance their current as well as future projects.

Objectives of Study

1. To examine the differences among the company groups for determinants of capital structure.

Hypothesis of Study:

H0a: There is no significant influence of capital structure determinants and the firm value.

Data Analysis and Interpretation

Descriptive statistics: It summarizes a given data set, which shows a representation of the entire or a sample of a population. Descriptive statistics are broken down into measures of central tendency and measures of variation (spread). Measures of central tendency include the mean, median, and mode, while measures of variation include the standard deviation, variance, the minimum and maximum variables, and the kurtosis and skewness.

The mean is a type of average. We have calculated the descriptive statistics of all the variable i.e. dependent and independent variable. The mean of these variables are calculated by finding the sum of the ratings and then dividing by the number of rating responses.

The standard deviation is used to develop a statistical measure of the mean variance. A quantitative expressing by how much the members of a group differs from the mean value for the group. The first step in finding the standard deviation is finding the difference between the mean and the rating for each rating.

Table: 01 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
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share price performance	252	-134.62	311.08	40.063	51.082
profitability (net profit margin)	252	-34.92	10024.16	106.852	766.996
growth opportunities (ROE)	252	-100.74	312.73	22.2111	28.303
asset utilization ratio {ROA=NI/TA}	252	-21.69	77.61	12.2587	11.543
liquidity (Current ratio)	252	.26	12.01	1.8792	1.537
dividend payout ratio	252	-1053.76	1261.74	30.549	109.141
firm size (Enterprise value) (Cr.)	252	.00	653357.80	102385.3425	109149.484
Age	252	.0	210.0	25.202	17.878
Inflation	252	2.2	9.1	5.478	2.3161
GDP {US\$ Billion}	252	1856.7	2597.5	2177.035	250.5792
Opening Price (OP)	252	17.4	25488.0	1418.569	2499.359
Closing Price (CP)	252	48.8	29793.0	1570.865	3150.838
Earning volatility=(CP-OP)/OP	252	-.8339	1.951	.090	.382
debt service capacity= NI/Debt	252	-1.322	16029	416.191	2116.370
total equity	252	4.83	9478.69	1053.885	1930.937
Debt	252	1.00	239843.00	20664.670	39962.401
cash balance	252	3.46	52389.53	4408.285	7895.825
interest coverage ratio	252	-134.75	90089.72	725.3316	6007.3468
operating Income (OI)	252	-14189.00	243226.66	19394.1677	34003.9537
Net Income (NI)	252	-17862.00	36080.00	4588.4341	6807.8838
Cash flow from operating activities (CFOA)	252	-10031.02	71459.00	7257.515	11424.205
business risk {Financial leverage ratio=OI/NI}	252	-121.075	352.382	9.299	30.939
cash flow coverage ratio=CFOA/Debt	252	-3.964	366.620	11.787	34.957
Ownership	252	1.0	4.0	2.357	1.125
Valid N (listwise)	252				

The above table shows the descriptive statistics of all the variables which are taken into consideration for the research work. The frequency distribution is stated by the N which is 252 in each and every variable. It refers to that there were not any missing values in the frequency distribution in any of the variable. We have taken firm size i.e. Enterprise Value as a dependent variable where-as other variables are taken as an independent variable. The minimum value of the Enterprise value is 0 where-as the maximum value is 653,357.8.

Moreover, mean current ratio is 1.879 with the minimum and maximum current ratio of 0.26 and 12.01 respectively. If we look after the mean value of the current ratio then the value 1.879 can be consider as an ideal current ratio which means that the firm is able to pay its current obligation from the current assets. The share price performance is taken on the basis of the current market value.

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The minimum and maximum share price performance of the sample data is -134.62 and 311.08 respectively with the mean value of 40.063 and standard deviation 51.082.

The Net profit Margin is calculated on the basis of net profit divided by sales. The minimum and maximum net profit margin of the company is -34.92 and 10024.16 respectively. If we look after the average value of the net profit margin of the sample then it is 106.852. Even though the companies are considered as top 100 companies then minimum net profit value of the company is still in negative. The deviation of the values from the mean value is exceeding the average value which is represented by the standard deviation.

India is taken as an emerging market which shows the average growth potentiality in terms of Return on Equity is 22.211. With minimum and maximum value of -100.74 and 312.73 respectively.

The asset utilization ratio was having the average ratio of 12.258 with minimum and maximum ratio of -21.69 and 77.61 respectively. It shows the ability to generate the net income from the total assets.

The dividend pay-out ratio having minimum and maximum value of -1053.76 and 1261.74 respectively with the average pay-out ratio of 30.549. The inflation and GDP of India is taken into consideration for our survey. The minimum and maximum GDP during the time period of 5 year was 1856.7 and 2597.5 respectively where-as the mean value of GDP for the time period of 5 year was 2177.035. Similarly, the minimum and maximum inflation rate for the 5-year time period was 2.2 and 9.1 respectively with the average rate of 5.478. the standard deviation of the GDP and inflation were 250.597 and 2.31 respectively.

Earning volatility is calculated with the difference of closing price and opening price divided by the opening price. The minimum and maximum value of earning volatility was -0.8339 and 1.951 respectively. The mean value of the earning volatility was 0.9 and standard deviation of 0.382. The figure states that in between the span of 5-year time period there was not much more drastic change in the market as the minimum and maximum value both are approach to be near.

Maximum total debt service capacity in the research sample is 16029 where-as the minimum value is -1.322 with the mean value of 416.191 along with the standard deviation of 2116.370. It may be due to the fact that accessing long-term debt sources like loans and bonds is not possible for firms or they may rarely use long-term sources in their financing decisions due to the risks associated with them.

The cash flow from operating activities having minimum and maximum value of -10031.02 and 71459 respectively with the mean value of 7257.515. the negative cash flow represents the cash outflow where-as the positive cash flow represents the cash inflow.

The ownership data is string in nature so we have converted the string data into the numeric form labelling from 1 to 4. 1 is represented by the family held, 2 is represented by the widely held, 3 is represented by foreign held, 4 is represented by the Govt. held and 5 is represented by the mix family owned companies.

Objective -1: To examine the differences among the company groups for determinants of capital structure.

To achieve this objective, the descriptive statistics is used and to find the differences among the age groups, one way ANOVA is used.

Table 2: FIRM CATEGORIZATION (OLD AGE, MIDDLE AGE AND YOUNG AGE FIRM)

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		
					Lower Bound	Upper Bound	
share price performance	1	100	39.6732	51.14724	5.11472	29.5245	49.8219
	2	115	42.8965	55.12995	5.14089	32.7124	53.0806
	3	30	36.3617	37.09484	6.77256	22.5102	50.2131
	Total	245	40.7807	51.47805	3.28881	34.3026	47.2588
profitability (net profit margin)	1	100	251.4791	1206.76544	120.67654	12.0307	490.9275
	2	115	13.0736	12.28486	1.14557	10.8042	15.3429
	3	30	8.1963	3.92075	.71583	6.7323	9.6604
	Total	245	109.7847	777.71889	49.68664	11.9153	207.6542
growth opportunities (ROE)	1	100	25.6467	24.55750	2.45575	20.7740	30.5194
	2	115	16.7964	19.45671	1.81435	13.2022	20.3906
	3	30	24.1880	13.98888	2.55401	18.9645	29.4115
	Total	245	21.3139	21.52079	1.37491	18.6057	24.0221
asset utilization ratio {ROA=NI/TA}	1	100	15.1566	14.29638	1.42964	12.3199	17.9933
	2	115	10.3217	9.37237	.87398	8.5903	12.0530

	3	30	11.3067	5.71669	1.04372	9.1720	13.4413
	Total	245	12.4157	11.53902	.73720	10.9636	13.8678
liquidity (Current ratio)	1	100	2.0591	1.78012	.17801	1.7059	2.4123
	2	115	1.8631	1.49432	.13935	1.5871	2.1392
	3	30	1.5930	.56392	.10296	1.3824	1.8036
	Total	245	1.9100	1.54573	.09875	1.7155	2.1046
dividend payout ratio	1	100	36.1206	35.25428	3.52543	29.1254	43.1158
	2	115	24.4123	157.91310	14.72547	-4.7587	53.5834
	3	30	37.1760	17.12504	3.12659	30.7814	43.5706
	Total	245	30.7541	110.56963	7.06403	16.8399	44.6684
firm size (Enterprise value) (Cr.)	1	100	135347.1266	139574.55012	13957.45501	107652.5078	163041.7454
	2	115	88387.8340	79485.97793	7412.10566	73704.5098	103071.1582
	3	30	56966.6820	65436.96699	11947.10097	32532.1170	81401.2470
	Total	245	103707.4042	110247.37513	7043.44643	89833.6883	117581.1201
Earning volatility=(CP-OP)/OP	1	100	.0770	.36089	.03609	.0054	.1486
	2	115	.0907	.40963	.03820	.0150	.1664
	3	30	.1270	.38433	.07017	-.0165	.2705
	Total	245	.0896	.38605	.02466	.0410	.1381
debt service capacity= NI/Debt	1	100	367.7235	1565.96820	156.59682	57.0014	678.4456
	2	115	589.5410	2765.09967	257.84687	78.7483	1100.3336
	3	30	10.2140	14.85723	2.71255	4.6662	15.7618
	Total	245	428.0652	2145.33322	137.06031	158.0929	698.0376
total equity	1	100	1261.9509	1883.47500	188.34750	888.2286	1635.6732
	2	115	842.2707	1929.80431	179.95518	485.7809	1198.7605
	3	30	799.7537	1956.78371	357.25819	69.0786	1530.4287
	Total	245	1008.3626	1918.10034	122.54294	766.9856	1249.7396
Debt	1	100	23449.1712	47196.14471	4719.61447	14084.4322	32813.9102
	2	115	19885.1052	36652.24542	3417.83951	13114.3915	26655.8190
	3	30	12399.9537	26585.14399	4853.76102	2472.8978	22327.0096
	Total	245	20423.2769	40338.86734	2577.15570	15346.9657	25499.5880
cash balance	1	100	6475.9106	10256.21129	1025.62113	4440.8558	8510.9654
	2	115	3670.5883	6119.74394	570.66907	2540.0973	4801.0794
	3	30	1218.8287	1525.80121	278.57191	649.0851	1788.5722
	Total	245	4515.4024	7981.33411	509.90873	3511.0178	5519.7869
interest coverage ratio	1	100	1170.8591	9050.87942	905.08794	-625.0317	2966.7499
	2	115	562.1017	2820.93633	263.05367	40.9944	1083.2090
	3	30	34.1440	74.35417	13.57515	6.3797	61.9083
	Total	245	745.9262	6091.65019	389.18125	-20.6573	1512.5098
operating Income (OI)	1	100	31082.1961	50536.53034	5053.65303	21054.6521	41109.7401
	2	115	11106.8973	8989.75877	838.29933	9446.2328	12767.5618
	3	30	10871.0367	10882.90429	1986.93739	6807.2934	14934.7799

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Total	245	19231.1996	34428.57367	2199.56089	14898.6497	23563.7494	
Net Income (NI)	1	100	7090.2500	8535.40870	853.54087	5396.6397	8783.8603
	2	115	3104.3686	4560.32653	425.25264	2261.9464	3946.7908
	3	30	2882.7313	5653.24773	1032.13710	771.7739	4993.6887
Total	245	4704.1197	6857.23497	438.09267	3841.1937	5567.0457	
Cash flow from operating activities (CFOA)	1	100	9010.6238	14669.26688	1466.92669	6099.9230	11921.3246
	2	115	6129.8073	7749.88975	722.68095	4698.1819	7561.4327
	3	30	6057.3090	11694.99505	2135.20420	1690.3261	10424.2919
Total	245	7296.7734	11561.19159	738.61744	5841.8936	8751.6533	
business risk {Financial leverage ratio=OI/NI}	1	100	4.9591	22.01793	2.20179	.5903	9.3279
	2	115	13.0417	40.00410	3.73040	5.6518	20.4315
	3	30	11.3103	10.57485	1.93069	7.3616	15.2590
Total	245	9.5307	31.18409	1.99228	5.6064	13.4549	
cash flow coverage ratio=CFOA/Debt	1	100	16.4155	48.25289	4.82529	6.8411	25.9899
	2	115	7.8325	22.44425	2.09294	3.6864	11.9786
	3	30	14.1070	21.83353	3.98624	5.9542	22.2598
Total	245	12.1041	35.40367	2.26186	7.6488	16.5593	

We are conducting the research of total 51 companies in terms of market capitalization from top 100 companies which are listed in BSE. As per our analysis we found that 21 companies are old aged companies which have 100 years of firm –year observations. Similarly, 23 companies are of middle-aged companies which are of 115 firm -year observation where-as 7 companies are of young age which are of 30-firm -year observation.

On the basis of share price performance, the mean value of middle-aged companies is higher in comparison to the mean values of the old age and young aged companies. The least mean value is of young aged companies which is 36.36. In terms of profitability the maximum and minimum mean value is of old age and young age i.e. 251.47 and 8.19 respectively. When we look after the mean value on the basis of growth opportunities then the old age possess the higher mean i.e. 25.6 where as middle age possess the least mean i.e. 16.7. The maximum mean value having the

variables on the basis of (asset utilization ratio, liquidity ratio, firm size) in respect to the old aged firm where as the minimum mean value having the variables on the basis of (asset utilization ratio, dividend payout ratio, firm size and debt service capacity) in respect to the middle-aged firm. Similarly, the Middle-aged firm have the maximum mean value and old aged firm have the minimum mean value on the basis of equity, debt, cash balance, interest coverage ratio, operating income, net income, and cash flow from operating activities, business risk and cash flow coverage ratio.

Hypothesis Testing

Hypothesis: There is no significant difference among the companies of different age groups and the capital structure determinants and firm value.

To test the hypothesis, one –way ANOVA is used to compare the groups.

Table 3: ANOVA
ANOVA

		Sum of Squares	df	Mean Square	F
share price performance	Between Groups	1223.312	2	611.656	.229
	Within Groups	645374.257	242	2666.836	
	Total	646597.569	244		
profitability (net profit margin)	Between Groups	3392936.199	2	1696468.100	2.847

	Within Groups	144189650.204	242	595825.001	
	Total	147582586.403	244		
growth opportunities (ROE)	Between Groups	4471.991	2	2235.995	4.986
	Within Groups	108535.231	242	448.493	
	Total	113007.221	244		
asset utilization ratio {ROA=NI/TA}	Between Groups	1292.431	2	646.216	5.013
	Within Groups	31195.905	242	128.909	
	Total	32488.336	244		
liquidity (Current ratio)	Between Groups	5.490	2	2.745	1.150
	Within Groups	577.496	242	2.386	
	Total	582.986	244		
dividend payout ratio	Between Groups	8742.206	2	4371.103	.356
	Within Groups	2974314.552	242	12290.556	
	Total	2983056.757	244		
firm size (Enterprise value) (Cr.)	Between Groups	192637318286.197	2	96318659143.09 9	8.406
	Within Groups	2773056710167.016	242	11458912025.48 4	
	Total	2965694028453.213	244		
Earning volatility=(CP-OP)/OP	Between Groups	.058	2	.029	.193
	Within Groups	36.306	242	.150	
	Total	36.364	244		
debt service capacity= NI/Debt	Between Groups	8600659.130	2	4300329.565	.934
	Within Groups	1114398271.665	242	4604951.536	
	Total	1122998930.795	244		
total equity	Between Groups	10908683.081	2	5454341.541	1.488
	Within Groups	886793895.599	242	3664437.585	
	Total	897702578.680	244		
Debt	Between Groups	2880122410.069	2	1440061205.035	.884
	Within Groups	394162586777.032	242	1628771019.740	
	Total	397042709187.101	244		

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cash balance	Between Groups	792457931.622	2	396228965.811	6.501
	Within Groups	14750755447.623	242	60953534.908	
	Total	15543213379.245	244		
interest coverage ratio	Between Groups	37141828.685	2	18570914.342	.498
	Within Groups	9017259466.187	242	37261402.753	
	Total	9054401294.872	244		
operating Income (OI)	Between Groups	23731874628.439	2	11865937314.219	10.816
	Within Groups	265487836478.121	242	1097057175.529	
	Total	289219711106.560	244		
Net Income (NI)	Between Groups	963193857.050	2	481596928.525	11.089
	Within Groups	10510093959.888	242	43430140.330	
	Total	11473287816.937	244		
Cash flow from operating activities (CFOA)	Between Groups	496424614.190	2	248212307.095	1.870
	Within Groups	32116896249.946	242	132714447.314	
	Total	32613320864.136	244		
business risk {Financial leverage ratio=OI/NI}	Between Groups	3602.546	2	1801.273	1.865
	Within Groups	233674.573	242	965.597	
	Total	237277.119	244		
cash flow coverage ratio=CFOA/Debt	Between Groups	4077.499	2	2038.750	1.635
	Within Groups	301757.016	242	1246.930	
	Total	305834.516	244		

From the table, there exist significant differences among the companies of different groups such as young, middle aged and old age with respect to the determinants of capital structure. This means the null hypothesis is rejected except for the explanatory variables such as net income, operating income, cash balance, enterprise value, asset utilization ratio, growth opportunities at $p < 0.05$ and net profit margins (at $p < 0.10$).

II. CONCLUSION

The research is carried out to identify the factors affecting the capital structure decision during the firm's life cycle. The pecking theory states an inverse relation of leverage with profitability, during growth and maturity and positive relation with growth opportunities during introduction, shake-out and decline. The start-up firm commonly rely on the debt capital if the firm is unable to finance from the family and friend capital. The determinant of capital structure decision is based on profitability, liquidity, nature of industry, timing and timing of issue. In contrary to conventional wisdom, debt is fundamental to the business

firms in the early stage and firm rebalance their capital structure by substituting internal capital with debt.

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