

Research on the Effects of Capital Structure on the Market Value of a Sample of Indian Businesses

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Abstract- The major objective of this study is to analyze the effect of capital structure on the company valuation of a subset of B2C enterprises in India. The sample for this study consists of ten business-to-consumer companies. Firm Value, Growth Rate, Age, Current Ratio, Size, Debt Equity Ratio, Tangible Assets, GDP, Inflation, ROE, and Financial Leverage are the independent variables that the researcher has chosen to accomplish this goal. The current research concludes that firm value is affected by age, size, return on assets (ROA), inflation, and tangible assets. Revenue per share, gross domestic product, financial leverage, growth rate, debt-equity ratio, and current ratio do not affect firm value. Anyone looking to put their money into these sample companies or their management will find this study to be an invaluable resource. In order to determine which variables significantly impact the valuation of the organization, the current study is helpful for the company's management.

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

I. INTRODUCTION

The term "capital structure" refers to the combination of equity and debt securities, which may include shares, bonds, debentures, and other similar instruments. The equity and debt of the company both have an impact on the cost of capital for the company. One of the most essential decisions that a chief financial officer of a firm must make is regarding the capital structure of the company. When it comes to the valuation of a company, the decision regarding the capital structure has a significant impact. It is a very difficult assignment for the manager to make a decision regarding the capital structure of the company with the goal of minimizing risk and costs while simultaneously increasing the wealth of shareholders and the profits of the company. A number of theories, including as the Agency Cost Theory, the Pecking Order Theory, the Modigliani and Miller Theory, and the Trade Off Theory, have been proposed by a variety of authors in relation to capital structure.

II. REVIEW OF LITERATURE

This study was carried out by Luu HuuDuc (February, 2021) with the primary purpose of

analyzing the impact that the firm's capital structure has on the value of the company. This study relies solely on secondary sources of information. For the purpose of this study, the researcher has gathered information from chemical businesses that are traded on the Vietnam Stock Exchange. A total of 23 chemical companies were included in the study's sample. This research was conducted over a period of eight years, from 2012 to 2019. The researcher for this study used the quantitative research method in their investigation. For the purpose of this investigation, the researcher has utilized firm value as a dependent variable, while revenue growth rate, capital structure, assets turnover, solvency, company size, firm age, return on assets, and fixed tangible assets have been utilized as independent variables. Regression analysis was performed on the data that was collected. Based on the findings of this study, it was determined that the capital structure of a company has a significant influence on the value of the company. Additionally, chemical companies need to be mindful of the size of their company and the assets turnover ratio.

The purpose of this study, which was decided by Natsir Khairina and Yusbardini Yusbardini (2019), is to investigate the impact that business size and capital structure have on the valuation of a company. The nature of this is that it takes an analytical approach. The research was conducted over a period of five years, from 2013 to 2017. Eighteen different businesses make up the study's sample. The researcher made use of the purposive sampling method in order to pick the samples for the study. The companies that are being used as examples are registered with the Indonesia Stock Exchange.

A pioneering study was conducted by Fumami Malyam Alhani and Dr. Moghadem Abdolkarim (2015) to investigate the influence of capital structure on earnings per share (EPS), rate of return on equity (ROE), and firm valuation of companies that are listed on the Tehran Stock Exchange. 5 years, from 2010 to 2014, comprised the time frame of the study. The survey included a total of 55 different businesses as its sample. Through the use of Rahavard software and research conducted in libraries, the data was gathered. During the process of data analysis, both of the variables are utilized. As dependent variables in this investigation, return on equity (ROE), earnings per share (EPS), and stock market value are considered, whereas financial leverage is considered to be an independent variable. In order to conduct the analysis of the data, the researcher utilized SPSS to apply Pearson Correlation and Multiple Regression statistical methods. The findings of the study provide evidence that there is an inverse link between leverage and the value of a company. The findings of the study indicate that earnings per share (EPS) and market value of a company have a favorable influence on financial leverage.

III. RESEARCH METHODOLOGY

In order to investigate the impact of capital structure on the value of chosen business-to-consumer (B2C) enterprises in India, the researcher has completed this study with the primary purpose of examining the impact. Analysis is the focus of the research that was mentioned. This particular study relies solely on secondary sources of information. From 2012–2013 to 2021–2022, the time frame for the study is ten years. The data was gathered from the annual reports of businesses that sell to consumers as well as the prowess database. For the purpose of selecting the sample, the researcher has utilized a method known as non-probability sampling, also known as the easy sampling method. The sample for this study is comprised of ten businesses that sell their products or services directly to consumers. A regression analysis is

performed on the data with SPSS (Demo Version 26) as statistical software.

IV. DATA ANALYSIS

Regression Line of Firm Value = α_1 (0.368) + β_1 (ROA) + β_2 (Growth Rate) + β_3 (Age) + β_4 (CR) + β_5 (Size) + β_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

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	--	---	---

The results of R, R Square, and Adjusted R Square are displayed in the table that can be found above. This paradigm provides an explanation of the connection that exists between the dependent variable and the independent object. This particular model is providing an explanation for the proportion of control variables and independent variables. According to the data presented in the table above, the coefficient of determination is equal to 0.776, which indicates that the independent variables and control account for 77.60% of the variance in the dependent variable. Moreover, the value of R is 0.881, which is equivalent to 88.10%, which indicates that the model is effectively fitted.

➤ Dependent Variable: Firm Value

Constant, Return on Assets, Growth Rate, Age, Credit Rating, Size, and Debt to Equity Ratio are the Predictors.

This table provides a description of the results of the ANOVA. In this case, the p value is 0.000, which equals less than 0.05, which indicates that all of the independent factors are contributing to the explanation of the dependent variables altogether.

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

The results of Beta, t-statistics, and significant value are displayed in the table that can be found above. From the table that was just presented, it is possible to deduce that the model accepts all of its variables, with the exception of the Growth Rate and the Debt Equity Ratio. According to the findings of the t-statistics and error, it is possible to assert that this model is accurate and demonstrates the appropriateness of the variables contained within this model. The Beta value demonstrates that there is a positive association between firm value and Size, CR, Age, and ROA, however there is an adverse relationship between firm value and Growth Rate and Debt Equity Ratio. This is all based on the fact that the Beta value is positive. The findings of the P value indicate that there is a substantial association between Firm Value and Size, Age, and ROA. On the other hand, there is an insignificant link between Firm Value and Growth Rate, Debt Equity Ratio, and CR. This is the conclusion that can be drawn from the outcome of the P value.

V. IMPLICATIONS OF THE STUDY

The preceding research leads one to the conclusion that there is a substantial correlation between Firm Value and Size, Age, Return on Assets, Inflation, and Tangible Assets. On the other hand, there is no significant association between Firm Value and Return on Equity, Gross Domestic Product, Financial Leverage, Growth Rate, Debt Equity Ratio, and Current Ratio according to the findings of the study. Size, age, return on assets, inflation, and tangible assets are all factors that greatly contribute to the value of a company, which indicates that these variables have a greater influence on the value of the company. Additionally, it is possible to draw the conclusion that the Return on Equity (ROE), Gross Domestic Product (GDP), Financial Leverage, Growth Rate, Debt Equity Ratio, and Current Ratio do not have a significant impact on the value of the company. The findings of this study suggested that, in

order to conduct additional research, researchers should expand the number of B2C companies that serve as samples for the study, as well as the number of variables that are used to investigate the impact of firm value on capital structure.

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