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THE STUDY ON REVIEW OF CAPITAL STRUCTURE

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ABSTRACT *The capital structure is major decision in every firm. If this decision is appropriate than its better to firm otherwise affects negatively on entire firms financial activities. In this papers researcher has covered secondary study thorough different secondary data. This paper mainly focuses on existing study which is related with capital structure decisions. This study is also help to know the different factors affecting on capital structure decisions and features of optimal capital structure*

KEYWORDS : capital structure, optimal capital structure

1. Introduction
The assets of a company can be funding either by raising the owners fund or the creditor's fund. The owners fund rises by issuing ordinary shares or by retaining the earnings, the creditors' fund increase by borrowing. The financial structure of an enterprise is shown under the liabilities plus equity of the balance sheet. Usually, short-term borrowings are expelled from the list of methods of financing the firm's capital payments, and therefore, the long term funds are said to form the capital structure of the enterprise. The capital structure is used to signify the proportionate association between debt and equity .Equity includes paid-up share capital, share premium and reserves and surplus.

The capital structure choice is an important managerial decision. It influences the shareholders returns and risk accordingly; the market value of share may be affected by the capital Structure decision. The company will have to plan its capital structure primarily at the time of its endorsement.

2. OBJECTIVES OF STUDY
·To study the capital structure management.
·To know the features of optimal equity capital structure.
·To identify affecting factors on capital structure decision.

3. CONCEPT OF CAPITAL STRUCTURE
Capital structure signifies association between dissimilar types of long term capital, i.e., long term debts, shareholders equity etc. The assortment of suitable capital structure is a extremely critical choice and depends on a amount of factors such as the nature of a business; the risk concerned necessities of the administration. The share capital is often supplemented by debentures capital and other long term borrowed capital. The combine of firm's enduring long term financing represents by debt, equity.
Definition of Capital Structure
"Capital Structure is the makeup of a firm's capitalization i.e. it represents the mix of different source of long term funds in the total capitalization of company"
- C.W.Gerstenberg.
Capital structure shows that percentage of the firm's capital is in equity and what percentage of firm's capital is in debt.

I. An optimal capital structure should have the following features
1. Profitability:
The most profitable capital structure is one that to reduce cost of earning per share.

2. Flexibility:
Capital structure should be like that can raise capital as when needed. Because requirement of capital is depends on company's expansion policy, future strategies etc. hence the capital structure should be flexible which can raise the capital according to company's need.

3. Conservation:
If company does not have proper management on acquired funds then it's arise the issue of more incurring cost on raised funds; there for company should have proper management of capital structure that is better to company's wealth increasing.

4. Solvency:
The appropriate portion of equity and debt in total capital it's better to solvency of company. If company incurred more cost on capital that would increase the company's liability and that is directly affect on company's solvency.

5. Control:
The capital structure should be in the control of company. If Combination of Equity and Debt by company then it's better to increase the wealth of company.

I. Factors affecting the capital structure:
1. Leverage:
This is the fundamental and vital factor, which influence the capital structure. It considers the fixed cost financing such as debt, equity and preference share capital. It is closely related to the overall cost of capital.

2. Cost of Capital
Cost of capital the major component for deciding the capital structure of a firm.usually long- term finance such as equity and debt considers of fixed cost while enrollment. If the cost of capital increases, value of the firm will also decrease. Therefore the firm has to take cautious steps to control the cost of capital.

3. Nature of the business
The Business nature is also affects the choices of long term capital. If business engages long term operations then such business needs equity than debt so it will reduce the cost of capital.

4. Size of the company:
It also affects the capital structure of a firm. If the firm is to large scale, such firm can raise funds from internal sources. But if the firm is small

size, they will prefer to raise funds from external source and it will arise more cost of capital amount.

5. Legal requirements:

Legal requirements are also affecting capital decision because if company does not able to complete legal obligation then it will affects on capital structure decision.

4. LITERATURE REVIEW

·Franco Modigliani and Merton Miller (hereafter called M -M) (1958,1963)

Franco Modigliani and Merton Miller (hereafter called M -M) presented the first formal model on valuation of capital structure. In their papers (1958,1963), they explained that under the hypothesis of perfect capital markets, equal risk class, no taxes,100 per cent dividend-payout ratio and stable cost of debt, the value of a firm is autonomous of its capital structure. When corporate taxes are considered, the value of a firm raises with debt-equity (D/E) ratio because of interest payments being tax exempted.

- Solomon (1963)

Solomon (1963) disagreed that the cost of debt does not always remain stable. If the leverage level beats the accepted level, the probability of default in interest payments increases thus raising the cost of debt.

- Kalish (III) and Gilbert (1973)

Kalish and Gilbert studied the impact of volume and organizational form of the commercial bank on its efficiency. Cost and output of the banks were composed for this purpose. They used 898 commercial banks that look part in that. Banks categorized in different forms like unit banks, branch banks and holding company subsidiaries on the basis of their organizational form and the amount of assets they hold. The minimum normal cost al which bank of the equal size and organizational form can operate is called as technical efficiency of the bank while the more normal cost of the bank over minimum normal cost indicates the operational inefficiency of the bank.

- Miller (1977)

The miller was challenged in trade-off theory. He challenged that insolvency and organization costs are too small to compensate the tax advantage of debt. But if personal taxes are considered, this advantage is totally compensate by the disadvantage of personal tax rate. Thus, in equilibrium, the value of a firm is self-determining of its capital structure, even when the market is imperfect.

- Venkatesan (1983)

In this paper researcher examined the determinants of financial leverage through analyzing the relationship between seven different variables and the financial structure of the firm's. The variables are considered industry categorization, size, operating leverage, debt coverage, cash flow coverage, business risk, and growth rate. In summation, only debt coverage ratio was found to be the significant variable extensively affecting the financial structure of the firms.

- Singal and Mittal (1993)

This paper concluded that asset composition, business risk, growth rate, earning rate, industry –class, debt services capacity and corporate size are decides of shareholders wealth maximization.

- Hutchinson Robert W (1995)

This paper suggested that the objective of an owner is control the firm, the different dependent variable are affecting decision of capital structure and it's ultimately affect of cost of capital.

- Raj S Dhankar and Ajit S Boora (1996)

The capital structure influenced the cost of capital, net profit, earning per share, and dividend payout ratio and liquidation position of the firm. The Indian company does not use any standard structure to determine cost of capital. Only the cost of capital does not decide the capital structure. Cost of debt in India is relatively high as judge against to that in the developed countries.

- La Porta, et al. (2000)

This paper studied that legal allegations gives sturdy shield to shareholders allows them to force companies to eject cash. The proposition is that efficient monitoring by shareholders in UK.

- Sanjay Rajagopal (2004)

The paper found that the fixed asset ratio, firm size, profitability, market-to-book ratio, non-debt tax shields, and earnings volatility significant role in financial leverage. This study suggested that independent variables are significant variation in leverage ratios in a developed economy such as the US and an emerging market such as India.

- Boodho (2009)

This paper takes a short evaluation of literature and facts on the association between capital structure and ownership structure. This study also covers significant determinants of capital structure of the listed companies.

5. CONCLUSION:

Capital is basic requirements of firm therefore firm should obtain proper capital source to long term finance. If company has better control on capital structure decision then it will reduce the cost of capital and ultimately that will affect company's wealth in the market.But the decision of capital structure is not that much is to firm because again there are different of factors which are affecting on capital structure decision such as Size of business, Leverage, Legal obligation etc.It's tough to firm to maintain optimal capital structure in the firm but once company controls capital structure decision in proper way then that will gives better out put to the firm by reducing cost of capital.

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