The capital structure decision is at the center of many other decisions in the area of corporate finance. One of the many objectives of a corporate financial manager is to ensure low cost of capital and maximize the wealth of shareholders. Hence, capital structure is one of the effective tools of management to manage the cost of capital. An optimal capital structure is reached at a point where the cost of the capital is minimal (Gitman 2009).

Capital structure is one of the most continuously explored subjects in finance. Numerous empirical works have been done after the MM works in 1958. The early studies were concentrated on MM Hypothesis. They supported the net operating income approach and rejected the traditional theory of capital structure. They contend in their first proposition that the market value of any firm is independent to its capital structure and is given by capitalizing its expected return at the rate appropriate to the risk class. This was theoretically very sound but was based on the assumptions of perfect capital market and no tax world. Which were not valid in reality? So this was corrected in 1963. In correction, they pronounced the effect of tax on value and cost of the capital of the MM and contend that in the presence of corporate tax, the value of the firm varies with the variation of the use of the debt due to tax benefit on interest bill. Two sets of capital structure theories were developed during the latter half of the 1970s and first half of the 1980s. Ross developed one set of capital structure theories based on the asymmetric information in 1977, and Myers and Majluf developed the next set in 1984. The first set pleads that the choice of firm’s capital structure signals to outside investors the information of insiders, and the second set contends that capital structure is designed to mitigate the inefficiency in the investment decision caused by the information asymmetry. In the course of the development of capital structure theory, Myers elaborated and brought out the pecking order theory in 1984 originally developed by Donaldson in 1961. According to this theory, management strongly favors internal generation as a source of new funds even to the exclusion of external sources except for occasional unavoidable bulge in the need for funds (Donaldson 1961). This theory explains, first, management prefers the internal equity financing, and then debt financing and finally external equity financing.

This study attempted to reduce the gap by analyzing a capital structure question in Indian Industries context specifically Computer Software Industry. If we look at the Indian private corporate sector, we can see that the relationship between a firm’s financial leverage and its profitability, size, tangibility, growth, risk, non-debt tax shield and liquidity in Indian Computer Software industry.

Objective of the Paper:
The main objective of the present paper is to investigate empirically the impact of profitability, size, tangibility, growth, risk, non-debt tax shield and liquidity on leverage of Computer Software industry in India and testing Pecking order theory on the observed relationship order in to analyze their consistency.

More specifically the following are the objectives of the study:
(i) To find out the determinants of the financial leverage in Indian Computer Software industry.
(ii) To study relationship between leverage and its determinants.

Hypotheses:
The objective of the researcher in present study is to test pecking order theory that provides positive as well as negative relationship between leverage and different factors, so the following hypotheses have been developed according to the above said theory:

H1: Profitability should have a negative impact on leverage.
H2: Size should have a negative impact on leverage.
H3: Tangibility should have a negative impact on leverage.
H4: Growth should have positive impact on leverage.
H5: Risk should have a negative impact on leverage.
H6: Non-debt tax shield should have a negative impact on leverage.
H7: Liquidity should have a negative impact on leverage.

Methodology of the Study:
Source of Data:
The present study is based on secondary data collected from the corporate database (PROWS) of the Centre for Monitoring Indian Economy (CMIE) and then various issues of magazines and journals, working papers and newspapers were also accessed for the relevant.

Period of study:
To draw valid conclusions, a period of minimum ten is required for this type of studies. Hence, this study covers a period of 14 years from 1997-98 to 2010-2011.
Statistical Tools:
An evaluation of factors determining capital structure of Indian Computer Software industry based on the following statistical tools was used: multiple regressions Analysis, “t” test, “F” test and Analysis of variance (ANOVA) and SSPS-20 software is used for the analysis.

Ordinary least square (OLS) Regression Model:
The following Regression model has been established:

$$LEV = \beta_0 + \beta_1 (PRO) + \beta_2 (SIZ) + \beta_3 (TANG) + \beta_4 (GRO) + \beta_5 (RISK) + \beta_6 (NDTS) + \beta_7 (LIQ) + \varepsilon$$

Where $$\beta_0 = Constant's$$ coefficient, $$\beta_1-\beta_7 = regression$$ coefficients for independents variables

$$LEV = \text{Leverage}, \ PRO = \text{Profitability}, \ SIZ = \text{Size}, \ TANG = \text{Tangibility}, \ GRO = \text{Growth}, \ RISK = \text{Risk}, \ NDTS = \text{Non-debt tax shield}, \ LIQ = \text{Liquidity}, \ \varepsilon = \text{Error Term}$$

Determinants of Variables' Explanation:
Debt-equity Ratio is used as dependent variable. The debt-equity ratio is computed as the ratio of long term debt and equity consist of share capital and reserves. It is calculated as: Leverage (LEV) = Long term debts / net worth.

Profitability is defined as earnings before interest, taxes and dividend and divided by book value of assets.

Firm size is measured by taking the natural logarithm of the total assets. The size of the firm can be calculated either by log of sale or by log of assets. The researcher in this study measured the firm’s size by log of total assets.

Data analysis and Interpretation:
Table – 1: Model Summary of Computer Software industry in India

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.587</td>
<td>0.345</td>
<td>-0.420</td>
<td>0.08659</td>
</tr>
</tbody>
</table>

Data Source: Compiled from the Centre for Monitoring India Economy (January 2005 and June 2012)

Table 2: ANOVA of Computer Software industry in India

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>0.024</td>
<td>7</td>
<td>0.07</td>
<td>0.451</td>
<td>0.839</td>
</tr>
<tr>
<td>Residual</td>
<td>0.045</td>
<td>6</td>
<td>0.007</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>0.069</td>
<td>13</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Compiled from the CMIE Prowess Database

Table 3: Regression Coefficients of Computer Software industry in India

<table>
<thead>
<tr>
<th>Model</th>
<th>Beta</th>
<th>Un-standardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Sig. Lower Bound</th>
<th>95.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>0.062</td>
<td>2.943</td>
<td>0.021</td>
<td>0.984</td>
</tr>
<tr>
<td>PRO</td>
<td>2.174</td>
<td>1.795</td>
<td>0.955</td>
<td>1.211</td>
<td>0.272</td>
</tr>
<tr>
<td>SIZ</td>
<td>0.002</td>
<td>0.422</td>
<td>0.011</td>
<td>0.004</td>
<td>0.997</td>
</tr>
<tr>
<td>TANG</td>
<td>-2.187</td>
<td>2.094</td>
<td>-1.099</td>
<td>-1.044</td>
<td>0.337</td>
</tr>
<tr>
<td>GRO</td>
<td>0.047</td>
<td>0.173</td>
<td>0.150</td>
<td>0.272</td>
<td>0.795</td>
</tr>
<tr>
<td>RISK</td>
<td>-0.757</td>
<td>1.382</td>
<td>-0.291</td>
<td>-0.548</td>
<td>0.604</td>
</tr>
<tr>
<td>NDTS</td>
<td>-1.474</td>
<td>16.161</td>
<td>-0.141</td>
<td>-0.091</td>
<td>0.930</td>
</tr>
<tr>
<td>LIQ</td>
<td>0.042</td>
<td>0.164</td>
<td>0.354</td>
<td>0.258</td>
<td>0.805</td>
</tr>
</tbody>
</table>

Source: Compiled from the CMIE Prowess Database

Estimated Ordinary least square (OLS) Regression Model:
LEV = 0.062 + 0.955(PRO) + 0.011(SIZ) - 1.099(TANG) + 0.150(GRO) - 0.291(RISK) - 0.141(NDTS) - 0.354(LIQ)

Analysis of regression results:
The overall regression analysis shown in table 1 and 2 indicates number of observation as 14 relating to the Computer Software industry in India. The overall statistical fitness of the regression model is indicated by Prob > F = 0.839 which means that the model is fit. The R² indicate that 34.5 percent variation in leverage is explained by profitability, size, tangibility, growth, risk, non-debt tax shield and liquidity, while the remaining 65.5 percent is explained by unobserved factors. The adjusted-R² is 142 percent lower than the R² and is indicated as -42 percent.

Profitability:
The table 3 shows a positive relationship between profitability and leverage with the coefficient value as 0.955 significant with P-value as 0.011. It shows that a one unit reduce in profitability will increase the leverage by 0.955. The positive relationship between profitability and leverage rejects the first hypothesis and also consistent with the Pecking order theory, but it supports Trade-off theory, which states that there is a positive relationship between profitability and leverage. This finding is also consistent with the same findings by Bhat, Ramesh (1980), Mohan Sahoo and Omkarnath (2005), Bhattacharjee (2010), And Mohan Raj (2011). Positive relationship between profitability and leverage indicates that more profitable firms in Computer Software industry in India uses higher amount of debt.

Size of the firm:
The table- 3 also shows another positive relationship between firm’s size and leverage with coefficient value as 0.011 insignificant with P-value as 0.997. It shows that a one unit decrease in firm’s size will increase the leverage by 0.011. This positive relationship between both variables rejects the 2nd hypothesis and not consistent with pecking order theory. It is also consistent with the similar finding of the following researchers; Marsh (1982), Titman and Wessels (1988), Rajan and Zingales (1995), Kakani (1999), Ravinder Vinayek and
Tangibility: Table 3 indicates a negative relationship between firm’s tangibility of fixed assets and leverage with coefficient value as -1.099 insignificant with P-value as 0.337. It shows that a one unit increase in tangibility of fixed assets will reduce the level of leverage by 1.099. This negative relationship between both variables accept the 5th hypothesis and also consistent with pecking order theory. It is consistent with the same findings by Harris and Raviv (1991), Rajeswarao and Sadanandam (1995), Booth et al (2001), Manos, Green and Murinde (2001), Bhaduri and Sumitra (2002), Mallikarjunappa and Carmelita Goveas (2007) and Ravinder Vinayek and Anju Gupta (2010). It indicates that firms with more tangibility of fixed assets uses more leverage because fixed assets are used for providing collateral for paying back the long term loan safely.

Liquidity: The table 3 shows a positive relationship between liquidity and leverage with coefficient value as 0.354 insignificant with P-value as 0.805. This shows that one unit decrease in liquidity can cause increase in the level of leverage by 0.354. This rejects the 7th hypothesis and also not consistent with pecking order theory which explains the same a positive relationship between both of these variables. This finding is also consistent with the following researchers; Manos, Green and Murinde (2001), and Narender and Abhinav Sharma (2006).

Risk (Volatility): Table 3 shows a negative relationship between risk and leverage with coefficient value as -0.291 insignificant with P-value as 0.604. This indicates that a one unit increase in risk will also decrease leverage by 0.291. This negative relationship between both variables accept the 6th hypothesis and also consistent with pecking order theory. The above relationship is consistent with the similar findings by Marsh (1982, Titman and Wessels (1988), Harris and Raviv (1991). Booth et al (2001), and Amsaveni and Gomathi (2012) and Palvannan and Sekhar (2013). The reason of this relationship might be that growing firms in Computer Software industry of India uses more amount of long-term debt than internal source of financing.

Growth of the firm: A positive relationship is observed between growth and leverage as indicated in table 3 with the coefficient value as 0.150 insignificant with P-value as 0.795. It accepts the 4th hypothesis as well as consistent with pecking order theory. This shows that a one unit decrease in growth will result in increase in leverage by 0.150. This relationship between both variable is consistent with the following researcher’s findings; Gupta (1969), Toy et al (1974), Bhole (1980, 2000), Bhaduri, Sumitra (2000, 2002a), Bhole and Mahakud (2004), Mohan Sahoo and Sahoo (2010), Mallikarjunappa and Abhinav Shrama (2006), Mohan Raj (2011), Ali (2011), Amsaveni and Gomathi (2012) and Palvannan and Sekhar (2013). The reason of this relationship might to be that growing firms in Computer Software industry of India should determine the other industry factors that may impact the similar findings of previous researchers. The researcher concluded that the Computer Software sector should follow pecking order theory and should preferably use internal funds for financing needs, while for making leverage decision should not consider all factor that determines the leverage in Computer Software industry sector of India and do not have significant impact on leverage in this sector.

Non-debt Tax shield: The table 3 shows a negative relationship between non-debt tax shield and leverage with coefficient value as -0.141 insignificant with P-value as 0.930. This shows that one unit decrease in non-debt tax shield can cause increase in the level of leverage by 0.141. This accept the 6th hypothesis and also consistent with pecking order theory which explains the same a negative relationship between both of these variables. This finding is also consistent with the following researchers; Titman and Wessels (1988), Harris and Rave (1991), Kakani (1999), Inder Sekhar Yadav et al (2010), and Palvannan and Sekhar (2013). This relationship indicates that firms in Computer Software industry sector with low level tax shield can be deducted from the taxable income tend to use low debt than use internal source of financing.

Liquidity: The table-3 shows a positive relationship between liquidity and leverage with coefficient value as 0.354 insignificant with P-value as 0.805. This shows that one unit decrease in liquidity can cause increase in the level of leverage by 0.354. This rejects the 7th hypothesis and also not consistent with pecking order theory which explains the same a positive relationship between both of these variables. This finding is also consistent with the following researchers; Manos, Green and Murinde (2001), and Narender and Abhinav Sharma (2006).

Risk (Volatility): Table 3 shows a negative relationship between risk and leverage with coefficient value as -0.291 insignificant with P-value as 0.604. This indicates that a one unit increase in risk will also decrease leverage by 0.291. This negative relationship between both variables accept the 6th hypothesis and also consistent with pecking order theory. The above relationship is consistent with the similar findings by Marsh (1982, Titman and Wessels (1988), Harris and Raviv (1991). Booth et al (2001), and Amsaveni and Gomathi (2012) and Palvannan and Sekhar (2013). The reason of this relationship might to be that growing firms in Computer Software industry of India should determine the other industry factors that may impact the similar findings of previous researchers. The researcher concluded that the Computer Software sector should follow pecking order theory and should preferably use internal funds for financing needs, while for making leverage decision should not consider all factor that determines the leverage in Computer Software industry sector of India and do not have significant impact on leverage in this sector.

Conclusions and Suggestions: The researchers conclude that the Computer Software industry sector of India use pecking order theory for their long term financing decision. In this sector all factors are insigificant and do not play any role in the determination of leverage in Computer Software industry sector of India.

The suggestion for the firm’s Computer Software industry sector of India is that they should preferably use internal source of financing to meet their long term investment decision. The authors also suggest that the future researcher should determine the other industry factors that may impact the leverage in capital structure.

REFERENCES