Evaluation of the Impact of Capital Structure Choice on the Firm's Performance: A Case of Retail Sector in India

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Abstract

Purpose

The prime purpose of the research project is to examine the impact of capital structure choices on the performance of retail sector organisations of India. In addition, the research seeks to determine the relationship between financial performance of firms and their capital structure choices to further assess the need to adopt optimal capital structure for reducing liquidity risk and foster long-term growth and sustainability of the retail sector.

Methods/Data Collection/Data Analysis

The researcher utilised quantitative methods to ensure hypothesis testing and meeting research objectives. The deductive approach is applied with the positivism philosophy as well as the descriptive design for finding the way capital structure decisions affect firm performance and profitability. The primary data is gathered through surveying 70 financial decisions makers working in the retail sector of India, and secondary data is acquired through reviewing financial reports of Aditya Birla, Future group and Reliance group and by exploring academic sources. Statistical analysis is used for examining secondary data while the graphical representation method is applied for presenting survey data.

Findings

It is inferred that capital structure choices have a significant impact on organisational performance, so it is essential to choose an optimal capital structure to foster business growth and sustainability within the Indian retail sector. It is found that high debt ratio adversely affects firm performance and aggravates the liquidity risk and bankruptcy risk, which implies that debt and profitability are negatively related to each other.

Implications

The study presents meaningful insights about capital structure choices of retail sector firms and their impact on overall firm performance. Hence, the findings can be taken into consideration for designing an optimal capital structure or while forming capital structure decisions.

Limitations

The research is primarily centred in the Indian retail sector and quantitative analysis, so final results and conclusions cannot be applied in a generalised context.

The study produces precise information about core determinants of the capital structure of Indian retail sector firms.

Keywords:

Capital structure choices, India, retail sector, firm performance and optimal capital structure.

Submission of Thesis and Dissertation

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Chapter 1: Introduction

1.1 Introduction

Capital structure choices or decisions are the key considering areas for business organisations in regard to tax shield, cash flow availability, financial flexibility and cash flow volatility. Capital structure not only signifies debt and equity of the company but it also gives insights about funding used by the firms for financing its several business activities, driving business growth and attaining business objectives (Baker and Martin, 2011). Various capital structure theories such as pecking order theory, the agency cost concept, the trade-off theory and irrelevance theory point out a unidirectional link amid firm performance and capital structure while overlooking the probability of bi-directional link. Capital structure is said to influence the interest of owners, value of the enterprise and leverage wherein financial leverage largely affects the interests of shareholders in terms of equity and debt capital. Businesses strive to attain an optimal capital structure for reducing the cost of financing and maximising the market value of the firm through adequate capital structure choices (Baker and Martin, 2011). High debt ratio is regarded to be inappropriate in a capital structure for business entities as it magnifies the risk of bankruptcy. Therefore, it is necessary to choose the capital structure in an efficient manner by properly focusing on the dimensions of profitability, shareholder's wealth and bankruptcy risk (Edim, Atseye and Eke, 2014).

In this regard, the study seeks to explore and evaluate determinants of capital structure in retail sector organisations of India and their impact on the performance of the organisations wherein trend of the debt ratio, profitability and past growth is taken into consideration.

Indian retail sector is amongst the most fast-paced and dynamic industries across the globe, and it is driven by macroeconomic factors. It is ranked as the fourth largest industry worldwide, which depicts a strong position and market potential (Naqvi and Soni, 2019). The retail sector of India provides a robust platform for ancillary sectors, distributors, consumers and manufacturers and this sector is consistently seeking to tap the potential by employing latest technologies and next-generation tools such as data analytics and customer relationship management solutions for shaping the modern retailing. Reliance, Godrej, Aditya Birla, Shoppers Stop, Pantaloons and Crosswords are some of the main players of the Indian retail sector. Growing middle-class income group and rising millennial population fuelled the growth of the sector wherein the

Indian retail sector is anticipated to grow to US$ 1400 billion by 2024 from US$ 790 billion in 2019 (Naqvi and Soni, 2019).

1.2 Background Context

Prior to liberalisation, corporate financial management and financing was a placid activity as the government used to control the interest rate and the price of equity, along with debt to equity ratio. However, the liberalisation process and the market reform brought major changes to the financing aspect and capital structure choices of Indian corporate. Capital structure witnessed major changes in India post-liberalisation due to various developments such as operational changes in credit delivery and evaluation, deregulation of interest rate, the emergence of debt as well as money markets and reformation of the credit and banking system's competitive structure (Edim, Atseye and Eke, 2014). Creditworthiness, choice, maturity profile and case management related aspects were changes as a result of market liberalisation. The concept of maximum permissible capital from the bank is abolished, which gave greater freedom to financial institutions but also increased the responsibility of banks to examine the creditworthiness and credit needs of the companies. Further, it is noted that short term borrowing intensified interest rate risk and roll-over risk for borrowers while the dissolution of the consortium system and different money market borrowing alternatives gave the opportunity to top corporate borrowers to change ways to finance their business activities (Panigrahi, 2010).

One of the prominent features of the Indian retail sector organisations in terms of their capital structure decisions is identified as a preference for long-term debt. In addition, it is observed that Indian retail sector consists of debt-dominated financing or capital structure which increases exposure to the high degree of risk concerning financial leverage and operating leverage, thereby causing financial distress and increasing an array of risk factors from liquidity shortage to bankruptcy (Margaritis and Psillaki, 2008). Moreover, it is mentioned that the foreign-controlled business entities in India are at a lower financial risk in comparison to Indian retail sector firms. Retained earnings are key financing source for Indian firms where highly profitable firms prefer internally generated capital for financing while low profitable business utilises a different type of debt funds. Thus, it is clear that capital structure decisions are dependent on several factors such as market size, performance, equity, liquidity and profitability and it is also evaluated that capital structure affects risk exposure and growth prospects of business entities (Panigrahi, 2010).

1.3 Research Question and Hypothesis

Main research question:

The study focuses on examining the link between capital structure choices and performance of business organisation within the Indian retail sector. The research question is as follows:

'How has the capital structure choice impacted the performance of Firm's in the retail sector of India?'

The question describes the capital structure as the crucial capitalisation decision and the way it influences the performance in association with capital structure theories.

Hypotheses:

H_0: "Capital structure decisions have a significant effect on Firm's performance."

H_1: "Capital structure decisions do not have a significant or insignificant effect on Firm's performance."

1.4 Research Aim and Objectives

Research Aim

The study is centred on analysing the impact of capital structure decisions on the performance of retail sector organisations of India. The objectives are developed in accordance with the research question and aim, and are mentioned below:

Research Objectives

- To determine the relationship between capital structure choice and the Firm's performance
- To explore the capital structure decision effect on capitalisation and performance of retail sector companies of India
- To identify measures to optimum capital structure choice to enhance overall Firm's performance

1.5. Research Significance

The research seeks to gain valuable insights about different capital structure choices and factors affecting capital structure decision of firms in the light of various capital structure theories such as cash flow, trade-off, pecking and optimal capital structure theory. A limited number of empirical research papers are available within capital structure literature that focus on finding the exact relationship between capital structure choices and their implications and interconnection with financial performance and profitability of firms. The findings present in existing literature sources are inconclusive and mixed which indicates the scope and need to conduct further investigation on capital structure choices and their impact on the performance of business entities. In addition, it is explored that very few studies are carried with a prime focus on developing nations and capital structure decisions of firms operating within the developing region. In this way, the research would enable in generating more conclusive data regarding the impact of capital structure on the performance of companies as this study includes the statistical assessment of annual reports of Indian retailers and survey analysis.

The study can add valuable information to the current database by producing specific information about capital structure decisions and finding their impact on retail sector firms and their performance in developing nations. A brief overview of academic sources reveals that there is a dearth of information on emerging economies and capital structure adopted by business enterprises in those economies as the majority of studies are carried out with respect to developed economies that clearly denotes significance and scope of the undertaken work. The research would help in highlighting key components and factors influencing capital structure choices in the Indian retail sector, which would further allow a better understanding of capital structure decisions made in developing economies. With the detailed review of the Indian retail sector and exploration of measures to improve capital structure choices and use an optimal capital structure in the study, the results would help retail firms and other businesses operating in developing economies to make wise choices in terms of financing of activities and selection of capital structure. Overall, the research would produce definite results through hypothesis testing.

1.6 Research Structure

The dissertation is categorised into chapters for presenting an organised account of the complete research. The structure followed in the study is given below:

Chapter 1: Introduction	The first chapter describes the focal area of the study and presents a background context of capital structure choices of Indian retail sector organisations. The

	chapter includes hypotheses, questions, research contribution and objectives of the work.
Chapter 2: Literature review	This chapter consists of a detailed review of capital structure theories and evaluation of various scholarly articles centred on capital structure decisions and their link with organisational performance. Overall, this chapter explores literary trends and finds the scope of further investigation.
Chapter 3: Research Methodology	Research methodology explains tools and methods applied in this research for meeting objectives, gathering data and testing hypothesis. The rationale for selecting survey and quantitative methods are given in the chapter.
Chapter 4: Data Analysis, Findings and Discussion	Survey analysis results and secondary data findings are illustrated in this chapter in detail.
Chapter 5: Conclusion and Recommendations	This chapter comprises of conclusive remarks which are produced in line with the research question and objectives. Additionally, suitable recommendations are given for ensuring optimal capital structure choices for Indian retail sector organisations to positively influence their performance.

Chapter 2: Literature Review

2. 1) What is Capital Structure?

According to Myers (2001), the word 'structure' means the arrangement of different components, while the capital structure is the allocation of capital from various sources to collect the long-term funds necessary for the company. The capital structure thus refers to the mixture of equity capital, debentures, retained earnings, long-term loans, and other long-term funds that a company can collect to operate its business (Myers, 2001). Capital forms an essential part to run an organization; as without adequate capital, it is impossible to survive in the global market. The capital structure is particularly the mixture of equity and debt that is used by an organization to finance the overall growth and operations. The sources of debt can be in the shape of loans or bond issue, while the source of equity can be in the shape of preferred stock, retained earnings or common stock. Working capital is also a segment of the capital structure in the form of short-term debt.

Cespedes, Gonzalez and Molina (2010) further added that debt is made up of borrowed money which is due back along with interest expenses to the lender and the equity is made up of ownership rights on the organization. The debt-equity ratio is helpful in deciding the risk involved in an organization’s borrowing practice. A high debt to equity ratio implies that an organisation may be unable to generate optimum cash to convince its debt liabilities. In contrast to a high debt to equity ratio, a low debt to equity ratio implies that an organisation is not considering the benefit of the rising profits that low financial leverage can bring along. The larger a debt-equity percentage would be, the more risk is associated with the equity shareholders or owners of an organisation. It is because at the time of losses and at a position of winding up of an organisation, the debt liabilities are the ones that are needed to be paid-off first from the organisation’s assets that increase the risk of return on shareholder’s investment. An organization’s assets that are shown in the balance sheet are acquired with this equity and debt. An organization’s borrowings proportion that is the equity and debt is also shown in the balance sheet for a year (Cespedes, Gonzalez and Molina, 2010).

In a similar context, Barclay and Smith (2005) stated that Modigliani and Miller support irrelevancy theory of capital structure which suggests that a company's valuation is irrelevant to a company's capital structure. Modigliani and Miller’s approach imply that whether a business is highly leveraged or has a lower portion of the debt does not affect its market value. Instead, a firm's market value is solely dependent on the company's operating profits. Operating profit measures the profit of an organization generated from its business activities, excluding taxes and interest. Operating profit is a key measurement tool for an organization’s success, no matter the organization has an optimum level of capital structure or not. If it is not generating adequate operating profit as per the industry standards, then it will be hard to survive in the global market for an organization (Barclay and Smith, 2005).

Deaconu (2011) examines the calculation of operating profit for an organisation. The required factors in computation of operating profit includes the total sale or revenue generated, the direct cost of the production of the goods, the indirect or operating expenses and normal wear and tear of fixed assets in terms of depreciation. The operating profit can be computed by deducting the cost of goods sold, depreciation and operating expenses from the total revenue or sales. If the resultant is negative, then it is considered as operating loss for the organisation which implies that the organisation should increase its sales or reduce its cost of production and operating expenses to compete in the market for a long-run(Deaconu, 2011).

Types of Equity:

As stated by Bruton, Filatotchev, Chahine, and Wright (2010), equity is the ownership of the assets which is measured by subtracting the assets from liabilities (Bruton, Filatotchev, Chahine and Wright, 2010). There are various types of equity which have been described as under:

Common Stock: This account represents the company's total amount of funds which the company acquires by selling the shares to its investors. Common stock is used to assemble the aggregate amount of money paid to an organization for the par value of the stock that is sold to the investors (Bruton, Filatotchev, Chahine, and Wright, 2010). The shareholders are entitled to a dividend that depends upon the performance of the organization, and the amount can vary every year (Barclay and Smith, 2005).

Additional Paid-up Capital: This account represents the additional amount charged to the buyers above par value for shares sold by a company (Myers 2001).Additional paid-up capital is the extra money that an investor pays for the shares purchased from an organization above their par value. As par value is ordinarily low, the fund in this account could be higher than the fund in a common stock account (Barclay and Smith, 2005).

Retained Earnings: This account includes a company's total profits after paying the dividend payments to the company's shareholders. Positive profits help in giving a lot of opportunities to the organization's management to use the extra money earned. Usually, this surplus is paid to the investors, but the surplus could also be invested back into the organization for growth and development purpose. The money that is not paid to the investors is considered as retained earnings (Barclay and Smith, 2005).

Treasury Stock: Many companies can opt to buy back shares from common stockholders. This accounts for paying the investors for buying back the shares, and in general, this kind of equity account is a negative balance (Bulan and Yan 2009). Treasury stock is represented as a deduction from the overall equity in the accounting books. These stocks are issued but are not considered outstanding and also not incorporated for dividends and computation of earnings per share (Myer, 2001).

Types of Debt

There are various types of debt, out of which few are as discussed below:

Venture Debt: According to Berger and Udell (1998), venture debt is a kind of debt financing raised by start-ups and newly existing businesses. Usually, this form of debt financing is used as a complementary approach to equity venture. All banks that are experienced in venture financing and non-bankers provide venture debt (Berger and Udell, 1998).

Figure 1 venture debt

(Source Berger and Udell, 1998),

In figure1, Venture Capital and its different perspectives have been reflected. It reflects that in comparison to other debt financing strategies, a primary benefit of venture debt is to avoid the further dilution of the equity stake of existing investors of a firm.

As per the Berger and Udell (1998), the above figure says that outlook of venture debt has been shown whereby, main benefit of venture debt in comparison to other debt financing strategies is that existing investors do not have to reduce further stake in the company (Berger et al., 1998).

Angel Investors: As per Berger and Udell (1998), an angel investor is a person who provides funding for a start-up business, usually in return for convertible debt or equity. Angel investors usually support start-ups at the early moments (where the chances of failing start-ups are relatively high) and when most investors are unwilling to support them (Myers 2001). Angel investors invest directly through equity crowdfunding or combine to pool investment capital through angel networks or angel groups, as well as advise their portfolio companies (Berger and Udell, 1998).

Bonds: Rauh and Sufi (2010) described bonds as an ordinary kind of debt instrument that is issued by organizations or government. Bondholder gives the issuer the present market worth of the bond in return of guaranteed loan compensation and a promise of fixed coupon payments. Bonds are supported by assets of the bond issuing organization, and in case if the organization that issued bonds becomes bankrupt, the bondholders are authorized to take the value of the bonds through the assets of the organization (Rauh and Sufi, 2010).

Debentures: A debenture is like a certificate or a bond that shows that the company is liable to pay a fixed interest on a specified amount. This type of debt is suitable for large companies who want to expand their business (Myers 2001). The basic difference between other kinds of bonds and debenture is that debenture is not backed up by the asset of an organization. Debentures are generally issued for raising medium and short-term capital for some specific projects, and the holders expect revenue from such projects that are to be repaid. Debentures are generally guaranteed by trustworthiness and credit of an organization (Barclay and Smith, 2005).

Loan: Santos (2011) stated that loan is an asset or money which is borrowed and is expected to be paid off with interest. Short term loans are acquired for meeting the short-term obligations while long term loans are obtained to meet the future needs of the business. Generally, the interest rate on loan is very high (Santos, 2011). Loans can be issued from monetary and financial institutions or from individuals that can be used for many purposes, such as purchasing machinery, financing a project, working capital requirements and other related business activities. The loans are repaired over a particular period of time with interest (Barclay and Smith, 2005).

2.2) Capital Structure Theories:

Pecking Order Theory: As per Bulan and Yan (2009), the theory of pecking order is based on asymmetric information, as managers know more about the opportunities, risks and profitability of their business rather than external investors. Asymmetric knowledge affects the option between internal and external financing and debt or equity problem. Therefore, a pecking order exists to finance new projects (Bulan and Yan 2009).

Barclay and Smith, (2005) has reflected that asymmetric information supports the issue of debt over equity as the issue of debt shows the trust of the board that investment is profitable and that the current stock price is undervalued (the stock price would be overvalued, and the issue of equity favoured). In the context of a company's lifecycle, we expect asymmetric knowledge issues to be more serious among young and rising firms as compared to mature firms (Barclay and Smith, 2005).In support of this, Bulan and Yan (2009) has suggested that the theory predicts that smaller, rapidly growing companies, which are more likely to face higher adverse selection costs due to information asymmetry, should be following the pecking order more closely (Bulan and Yan 2009).

The Tradeoff Theory: Myers (2001) stated that Capital Structure Tradeoff theory implies the principle that a business decides how much equity financing and how much debt financing needs to be used by comparing the costs and benefits. According to the tradeoff theory, firms seek debt levels which balance the tax advantages of extra debt against the cost of monetary distress. The Tradeoff theory advocates tax-paying businesses to borrow moderately (Myers, 2001).

According to Hackbarth, Hennessy and Leland (2007), the trade-off theory states that the firm always choose the capital structure, which is optimal by comparing the costs and benefits of both, debt and equity financing and decide the ideal mix of both. Moreover, a firm balances the tax advantages of debt with the cost of insolvency. The theory also supports argument that firms that pays taxes must borrow in limit (Hackbarth et al., 2007).

Signalling Theory: Bergh et al. (2014), stated that the signalling principle emanates from the asymmetries of knowledge between shareholders and company management. If the managers believe that their businesses are undervalued, they will first issue debt, and then equity. On the contrary, Bergh, Connelly, Ketchen Jr, and Shannon, (2014) has reflected that if management feels their business is overvalued, they will first issue equity (Bergh, Connelly, Ketchen Jr, and Shannon, 2014).

Life Cycle Theory: As per this theory, the four main stages for the progress of the company are start-up, growth, maturity and decline. La Rocca and Cariola (2011) noted that the interrelationship between flexibility and control is central to the concept of stages in the life cycle, while neither the revenue and assets nor the number of employees serve this theory (La Rocca and Cariola, 2011).

As per the views of Tian, Han and Zhang (2015), the four important phases of any company are start of business, growth, maturity peak and fall in the performance of company. There is relationship between the company's control and flexibility, which is important concept in life cycle theory and neither employees nor assets and revenue generation serve this theory (Tian et al., 2015).

Net Income Approach Theory: In context to the net income approach theory, Myers (2001) stated that a diversion in the financial leverage might lead to the change in the overall cost of the capital, which implies that if the percentage of the debt is increased in the capital structure of an organization, the weighted mean cost of capital reduces and leads to increase in the value of the company. However, in the case of a decrease in the percentage of debt portion in the capital structure of an organization, the weighted mean cost of capital rises that reduces the value of the organization (Myers, 2001).

In the views of Jouida (2018), the change in the debt level of a company changes the whole cost of capital, which shows that weighted mean cost of capital reduces if debt level of company increases and this increases the company's value. There is rise in weighted mean cost of capital if debt level of company goes down, which decreases the value of company (Jouida. 2018).

Net Operating Income Approach Theory: Myers (2001) explained this theory as the reverse of the net income approach when there is no presence of taxes. Net operating income approach theory suggests that a market analysis of an organization and its discount factors has no connection with the debt to equity ratio. This approach states that the weighted mean cost of capital is constant when there are no taxes, and if any information related to the taxes are given, then a rise in the debt financing reduces the weighted mean cost of capital and the value of an organization starts rising (Myers, 2001).

As per the insights of Ardalan (2017), this theory talks about capital structure of company in absence of taxes and it is opposite to net income theory. The value of the company is not dependent on its capital structure and its value will be same irrespective of its debt level. This is because benefits of increase in cheaper debt will be set off by return on equity, which will be higher. Thus, company's value and its weighted average cost of capital (WACC) will not change at any debt level and its value will be impacted by its operating income and WACC (Ardalan, 2017).

Modigliani and Miller Approach (M&M APPROACH) (1958):

As per this theory, the capital structure of an organization is not important to its value. The value of two similar organizations will be the same, and the value is not impacted by the option of finance taken by the organization to purchase the assets. The optimum value of the organization depends upon the estimated earnings in the future when taxes are not applicable. This theory also suggests that financial leverage enhances the value of an organization and decreases the weighted mean cost of capital when the taxes are available. The capital structure of an organization can have a higher debt component or higher equity, or an optimum mix of equity and debt till the time the structure is capable enough to fetch out an optimum operating profit. This theory assumes that there is no transaction cost of selling and buying securities, and there is no bankruptcy cost (MODIGLIANI AND MILLER, 1958).

According to Simmons-Süer (2018), the company's value does not depend on its capital structure as per this theory. Two companies of similar size will have same value and it will not change regardless of purchasing of assets by debt or equity. The ideal value of company will be impacted by the future earnings of the company when there are no taxes. The increase in the debt level of the company will increase its value and decrease its WACC when taxes are applicable. There can be higher equity component or higher debt component or ideal mix of debt and equity in capital structure of company till its capital structure helping company to earn ideal operating profit. There are various assumptions of this theory such as no insolvency cost and no transaction cost in case of buying and selling securities (Simmons-Süer, 2018).

Traditional Approach Theory: Ross (2005) explained the traditional approach theory that relies on optimum debt-to-equity ratio where the aggregate cost of capital is at the minimum point, and the value of the market is at maximum. A change in the optimum finance mix could bring substantial change in the value of the firm (Ross, 2005).

As per the views of Siqueira et al. (2018), traditional theory states that the company will have ideal debt-to-equity ratio when its combined cost of capital is at lowest and its value is highest and change in ideal debt-equity ratio will change its value substantially (Siqueira et al., 2018).The M&M approach is suitable in deciding about the capital structure as it suggests that the success and failure of an organisation depends upon its profit-generating capacity with any mixture of capital structure.

2.3 Capital Structure Impact on the Firm:

The impact of optimal capital structure will result in reduced capital cost, flexibility in purchasing more capital, adequate liquidity, cash flow efficiency, maximised capital employed returns and the market value. A balanced level of equity and debt is essential for the success of an organization, and an optimum level of capital structure helps in development and growth of an organization, but the vital part for an organization is to earn a feasible amount of operating profit for its growth considering the distribution of its capital structure. On the other side, an improper capital structure can inversely affect the profitability of the organisation, such as debt financing requires even small and medium-level businesses to make a continuous repayment of interest and capital that leads to a shortage of funds at the time of difficult situations.

2.3.1 Positive Impact of High Debt

According to Cecchetti, Mohanty and Zampolli (2011), the higher debt will result into increase in loan rates which increases the interest spending and lowering the GDP level of the country. The interest and principal payments to be paid on the debt financing are deducted from the organisation's financial profits that lower the actual gain of the organisation and leads to a low tax as the gain is less for the organisation due to debt financing. The interest and principal are due every month, and moreover, it is necessary to pay the debt financing first from the profits of an organisation rather than equity financing that saves profit being high-taxed. The profit after interest, principle and tax deduction is distributed among the equity shareholders of the company. On the other side, high debt will result in a higher amount of liquidity for the business, which means the business has enough funds or resources for the expansion and operation of business activities. Further high debt increases volatility and growth of the business. The higher debt will increase the credibility of the company (Cecchetti, Mohanty, and Zampolli, 2011).

Whittington (2015) mentions another positive impact that organizations get from debt financing, such as the tax advantage from debt in the form of interest payments that is tax-deductible for borrowed funds. Debt also allows an organization to retain its ownership on the decision making for the activities of the organization as it is beneficial for a company to have less decision-making people for the flexibility of the activities. Debt is usually readily available at the time of low-interest rates prevailing in the economy which implies a less interest payment on the borrowed funds that can enhance the profitability of a company since a less burden of interest rates decreases the operating expenses of the organization.

2.3.2 Negative Impact of High Debt

On the other side, Whittington, (2015) has reflected the negative perspectives of high debt. As per the authors, an organization is obligated to repay the principal, along with interest even at the time when the firm faces cash flow issues that lead to the imposition of penalties to the organization when it fails to repay the debt on time. Debt impacts the credit rating of a firm as a higher amount of debt is considered risk and organizations that pay high interest can face cash flow issues in the future (Myers, 2001). Organizations seeking a higher debt financing should meet the cash requirement by the lenders which mean that the organization should have sufficient cash in hand and even some organizations may have to give collateral security to qualify for debt financing that implies putting the organization’s assets at risk when the company fails to pay back the debt (Whittington, 2015).

In the view of Alzoubi (2018),there can be negative impact of high debt in situations such as, company has to pay interest on debt even when its cash flows decrease due to reasons like low economic growth rate, unfavourable government policies and highly competitive environment. The failure to pay interest will result in imposition of penalties by financial institutes on company. The investors generally do not prefer to invest in high debt companies as these companies are considered risky in nature and due to this, their credit rating may go down. Moreover, high interest payment by company may lead to cash flow problem in future. The company has to give the collateral security while taking various types of loan like term loan and loan against property thereby, risking its assets if it fails to repay the loan (Alzoubi, 2018).

2.3.3 Positive Impact of High Equity

Céspedes, González, and Molina (2010) have reflected that the high amount of equity in the fund raised by the organisation helps in saving money in regards to payment of interest ,as the equity funds raised by the company are not required to pay any interest on such funds. Also, outside sourced funds or debt financing are required to be repaid at the time of their maturity while equity shareholders are the owners of the company, and thus there is no need to repay these funds. Higher equity indicates low risk, which helps to foster the financial strength of the organization by saving the outflow of money in terms of interest payment (Céspedes, González, and Molina, 2010). On the other hand, Levinson (2010) states that high equity shows that the company is lacking in financing its assets by raising debt. This may lead to misguiding potential investors to invest in the company. Also, to acquire assets, a huge amount of investment is required, which can be met with the equity funds only (Levinson, 2010).

As per the insights of Alzoubi (2018), the high equity component in capital structure has positive impact on company's cost of capital as it will not have to pay fixed interest periodically even in case of low income. Moreover, the company is not liable to pay dividend to its shareholders even in case of windfall gains, which reduces its cost of capital as it can use its extraordinary gains for expansion that will be give higher returns to its shareholders (Alzoubi, 2018).

Amba (2014) explains that high equity has a positive impact on the gearing ratio that compares by measuring an organisation's debt to various financial metrics. The conclusion of gearing ratios is important to value an organisation's financial planning by comparing the resultant for various time periods. The financial gearing ratio indicates the equity investors whether the organisation has taken a higher debt or not. At the time, when an organisation requires further loan after having a large gearing ratio, there is a huge possibility that the organisation is not repaying the loan back to its lenders. Gearing ratio decreases when capital is raised by continuously offering more equity shares rather than further debt financing that increases the gearing ratio for an organisation (Amba, 2014).

2.3.4 Negative Impact of High Equity.

Karmazin and Bondar (2013) also suggest that equity is more costly than debt at the time when interest rates are less in the market. The operating profit of the organization is shared between the investors at the time of high equity in a capital structure that reduces the actual profit of a firm. If an organisation chooses only to have equity in the capital structure, then there would be no tax deduction for the interest and principal payment on debt financing. It will lead to higher taxable profit that enhances the tax liability of the organisation and reduces the net profit by having larger tax bills. The organization also loses control on the decision-making activities related to the organization's operation in case of high equity financing that leads to increase the number of potential conflicts as working with other people creates tensions and conflicts due to difference in the vision, methods of maintaining and running a business and management styles (Karmazin and Bondar, 2013).

Dang et al., (2019) states that there can be times when cost of equity will be higher than cost of debt especially in case when interest rates are lower in the market and in case of high profit, company has to share profit with its shareholders as dividends that reduces the retained earnings of company available for expansion. The availability of cheaper debt depends on the market conditions in which an organisation operates, and cheaper debt leads to a cheap source of finance. The earning generated from this source can be utilised for growth and expansion of an organisation rather than distributing the surplus profit to the equity shareholders at the time of high equity financing (Dang *et al*., 2019).

By looking at the literature review, this study addresses that both equity and debt financing have their own advantages and disadvantages, whereas an optimum capital structure depends on various industries. Organisations choose their structure considering the level of operations they carry as the M&M theory suggests that the success of an organisation depends on the level of profit it earns from its capital financing.

Chapter 3: Research Methodology

3.1 Introduction

Methodology refers to the approach, design, methods and philosophical assumptions integrated into a study for evaluating a research problem and gathering data for completing academic research projects. Methodology explains research methods used in the study, and it describes the rationale of selecting quantitative methods or mixed methods or qualitative method for pursuing the research inquiry (Bell, Bryman and Harley, 2018). This particular study intends to investigate the impact of capital structure on organisational performance or link of capital structure with the performance of business organisations. Thus, quantitative methods are incorporated. The following section demonstrates philosophy, design, data collection tools, sampling strategy and data analysis technique applied in this study for evaluating the implications of capital structure decision on performance and capitalisation of Indian retail sector organisations. The case of the retail sector of India is chosen for fulfilling the research objectives.

3.2 Research question

'How has capital structure choice impacted the performance of Firm's in the retail sector of India?'

Hypotheses:

H_0: "Capital structure decisions have a significant effect on Firm's performance."

H_1: "Capital structure decisions do not have a significant or insignificant effect on Firm's performance."

Research Objectives

- To determine the relationship between capital structure choice and the Firm's performance.
- To explore the capital structure decision effect on capitalisation and performance of retail sector companies of India.
- To identify measures to optimum capital structure choice to enhance overall Firm's performance.

3.3 Research Methods

Quantitative methods are applied in the study to find the relationship between capital structure choice and organisational performance in a particular context to the Indian retail sector. Quantitative methods emphasis on the accumulation of facts and this method stresses upon quantification of the research phenomenon wherein statistical data or meaningful numeric are produced by the researcher so that research problem can be understood in an objective or logical manner (Crowther and Lancaster, 2012). Alternatively, qualitative methods and mixed methods are also available for pursuing this research, but both these methods are not used in this dissertation as qualitative methods rely on subjective analysis and do not support the collection of statistical data or quantitative data (Crowther and Lancaster, 2012). Mixed methods are not applied as it combines both the methods which further create difficulties in synthesising a large amount of theoretical and numerical data and inferring main findings. Mixed methods are the combination of qualitative and quantitative methods and it allow the researcher to examine research problem from both the perspective (Sekaran and Bougie, 2016).

Quantitative methods facilitate the use of the survey method, examine the causal relationship between key variables and enables in gathering information quickly through the use of randomised samples (Sekaran and Bougie, 2016).In addition, quantitative methods enable the researcher to select a large sample for data collection and focus on objectivism which enhances the validity of results. On the contrary, it does not support the collection of opinions and experiences and does not take into account the subjective dimension of the problem. Qualitative methods are useful for studies that aim to discover subjective aspects of the problem under consideration and seek to derive inferences from multiple texts, and diverse opinions of scholars and participants involved in primary data collection (Sekaran and Bougie, 2016).It is clear from the research title and research question that there is a need to gather statistical data and base the investigation on objectivism. The casual relationship between capital structure choice and firm performance can be analysed through the use of quantitative methods. Overall, the adoption of quantitative methods is suitable for finding the effect of organisational capital structure on several business aspects, primarily firm performance.

3.4 Research Philosophy

The philosophical position of research signifies the belief system, ideologies or notions administering the selection of methods and investigation of a research inquiry. Researchers tend to focus on either "how" facet of the problem area or phenomenon or "what" and "why" facet wherein "what" stresses upon measurable facts and logical aspects of the problem. In contrast, "how" relates to subjective aspects wherein the researcher seeks to explore motives and causes behind a research phenomenon (Buchanan and Bryman, 2009). The philosophical position of research work reflects the qualitative or quantitative standpoint of the researcher. Hence, this particular study centred on quantitative investigation makes use of the positivism philosophy. Positivism philosophy is preferred for executing quantitative or scientific studies for further acquiring measurable data (Crowther and Lancaster, 2012). Alternatively, application of interpretivism philosophy is circumvented because interpretivism supports the subjective assessment of the research problem and it complies with qualitative studies where the researcher aims to understand chosen phenomenon through numerous interpretation and multiple opinions (Buchanan and Bryman, 2009). Interpretivism philosophy is suitable for studies with a primary focus on qualitative viewpoints and subjective facets of the focal area, but this research requires assessing the interconnection of capital structure choice and its relative impact on the firms operating in Indian retail sector. Therefore, interpretivism philosophy is not incorporated, and the integration of positivism deemed to be suitable for pursuing this research in a scientific and logical manner (Bryman, 2016).

3.5 Research Design

The research design refers to the model and set of processes applied for approaching and analysing the phenomenon. Integrity, reliability and validity are core features of research design, so it needs to be selected with careful consideration to the type of research problem and objectives of the study (Crowther and Lancaster, 2012). It is evident that the undertaken work is centred on examining the effect of capital structure on organisational performance and growth. Thus, the descriptive design is applied as it allows in executing studies focused on proving cause and effect relationship and as this research aims to examine the impact of capital structure on Firm's performance, this design is appropriate.

On the other hand, the exploratory design is integrated with a dissertation that seeks to uncover hidden trends in literature and find in-depth causes behind the existence of a phenomenon (Pajo, 2017). However, the exploratory design is not suitable for this work because it focuses on subjective dimensions of inquiry, and it does not provide any exact answers (Pajo, 2017). This research is based on validating the link between capital structure choice and performance of retail sector firms of India. Hence, the integration of descriptive design is deemed to be appropriate. The descriptive design advocates structured investigation and focuses on studying any situation or target population without affecting the subject (Denscombe, 2014).

The descriptive design is used for fulfilling the research purpose and draw conclusive answers about capital structure choices and their impact on the financial performance of retail sector firms of India. Additionally, the selected research design is also useful in analysing the role and impact of optimal capital structure on organisational profitability and financial performance.

3.6 Research Approach

The research approach is applied in accordance to methods, philosophy and design wherein the deductive approach starts with theories and key literary concepts which further aids in procuring data and perform analysis with the intention to test existing theories against real-time data gathered in the study (Bell, Bryman and Harley, 2018).Therefore, the deductive approach is used for testing capital structure theory against primary data gathered in the study. . The deductive approach supports the structured investigation, and it focuses on examining general aspects of the study and then drawing real-time data to test practical results against literature theories and prominent academic concepts (Sekaran and Bougie, 2016).

On the other side, the inductive approach focuses on generating novel data and drawing generalised information through which new concepts and models can be developed. The inductive approach seeks to examine central research questions and specific dimensions of the work and then gradually shift to commonalities and generalised elements of the topic (Bryman, 2016). However, this approach is not suitable for studies aiming to find a fixed relationship between the main variables and conduct a systematic investigation with a core focus on structuredness

Hence, the inductive approach is used in studies that focus on the main research question and collect empirical data for generating new frameworks or concepts in the domain of research. The deductive approach is appropriate for quantitative studies while the inductive approach is useful for qualitative investigation, which justifies the inclusion of the deductive approach for completing the present study (Balnaves and Caputi, 2001).

3.7 Data Collection: Process and Justification

Quantitative studies centred on primary data collection are commonly executed with the help of survey questionnaire method while library research method is preferred for pursuing secondary quantitative studies. Alternatively, observation, semi-structured interview and focus group are preferred for performing qualitative studies, including primary data collection. The present study has a quantitative standpoint, so the survey questionnaire method is used for gathering statistics and procuring numerical information from large scale audiences (Balnaves and Caputi, 2001). Additionally, secondary data is procured through examining books and scholarly articles centred on capital structure and financial performance of Indian retail sector organisations to further test literary evidence against realistic primary data. The survey is conducted with people involved in financial decision making in retail sector organisations of India. Additionally, annual reports of Aditya Birla, Future Retail and Reliance Retail are reviewed for examining the impact of their capital structure on financial growth and performance. Financial decision experts of the aforementioned retailers are contacted for collecting their views of capital structure choices.

Financial managers and retail companies' executives are included in the survey, and a total of 70 participants out of 100 gave their consent to take part in the data collection of selected retail companies in India.

The following data collection process is followed for approaching and gathering data from sample participants in a coherent manner:

- Identification of key variables from the literature and financial reports of Indian retail companies for understanding the inter-relationship for the main variables.
- Preparation of structured questionnaire with the help of Likert scale and inclusion of other specific questions based on objectives.
- The consent form is sent to the respondent for explaining the academic nature of the research and obtaining their voluntary consent.
- The online survey link is sent to retail executives and managers who agreed to take part in the survey.
- The participants are given one week to provide survey responses.
- Data analysis in Microsoft Excel through statistical analysis techniques (Patten and Newhart, 2017).

3.8 Sampling Strategy

The researcher used non-probability sampling for unbiased selection of respondents for the survey and avoided the application of probability sampling as this sampling strategy involves the possibility of personal interests and bias of the researcher (Pajo, 2017). It is difficult to approach financial managers and executives of selected Indian retail sector firms due to their tight schedule and confidential nature of capital structure decisions. Thus, the survey was mailed to them on their respective Emails and they are given complete one week to respond. Moreover, 70 participants are selected for survey conduction.

3.9 Data Analysis

The statistical analysis technique is used for examining numerical or quantifiable data procured from the application of quantitative methods, while the thematic analysis technique is preferred for pursuing a qualitative inquiry. Hence, the statistical analysis technique is used for finding the correlation between research variables such as capital structure and profits and leverage concerning firm performance (Martin and Bridgmon, 2012). The graphical analysis enables in presenting the quantitative data in an understandable manner to reveal perspectives of retail executives and financial managers of the Indian retail sector. The graphical analysis helps in presenting responses in the form of charts wherein data is processed in MS Excel. The use of thematic analysis is not appropriate for the current study as thematic analysis is generally used for subjective and theoretical data while the present study includes quantitative data (Martin and Bridgmon, 2012).

3.10 Ethics

The researcher was required to abide by ethical guidelines and university instructions to negate ethical complications and quality concerns. Thus, the consent form was used for obtaining participants permission, and they are assured about the confidentiality of their personal information and responses. In addition, no coercive ways were used during data collection, and utmost attention is given to comfort and autonomy of participants. Overall, the researcher adhered to all ethical instructions to maintain quality aspects and avoid a breach of research ethics. Additionally, proper attention is given to referencing while including information from annual reports and journal articles to evade plagiarism (Creswell and Clark, 2017). The participant's related data is stored in a password protected computer and information is stored in Excel sheet wherein their identity related data is completely deleted. As a whole, the code of conduct of primary and secondary research is adequately followed.

3.11 Limitations

The study is centred on the quantitative investigation, and it does not pay attention to participant's opinions, views, experiences and multiple interpretations available in the literature. Therefore, it is not possible to determine ways through which capital structure choices affect performance and productivity of Indian retail organisations and explore factors that influence capital structure choices. The study is based on the use of the survey, statistical analysis and collection of quantifiable information so subjective areas of topic remain unaddressed (Walliman,2017).In addition, the researcher encountered challenges in contacting participants and short-listing Indian retail firms according to their size and then convincing participants to take out time for responding to survey from their busy schedule. The other limitations include gender imbalance and no response in some of the close-ended questions.

3.12 Summary

The research methodology is designed, and the data collection tools are chosen as per title, research question and objectives of the study to generate meaningful outcomes. The choice of descriptive design, the deductive approach, the positivism philosophy and use of survey method is appropriate for fulfilling the research's purpose and examining the impact of capital structure on firm performance. It is concluded that the use of quantitative methods, inclusion of survey and secondary data analysis of annual reports of the Indian retail companies helped in drawing proper conclusion and collecting ample data. The deductive approach helped in testing hypotheses of the study.

Chapter 4: Findings, Analysis and Discussion

4.1 Introduction

Findings, analysis and discussion address the objectives and questions as mentioned earlier by presenting and interpreting facts or evidence collected through primary and secondary data. The following chapter mainly covers interpretation of quantitative data; including data from survey method, and data from financial reports of well-known retail companies' in India. The graphical method is used to present views of financial managers and retail companies' executives, while ratio analysis is used for the companies' financial assessment to identify the relationship between capital structure and Firm's performance.

Besides this, secondary data is also integrated in order to support quantitative findings; such as capital structure theories and arguments of different scholars for debt to equity ratio in the decision of capital structure. Different sections are covered to exhibit interpretable information to reveal a significant effect of capital structure choice on the Firm's performance; such as financial analysis of Indian retailing companies, views of the survey respondents and discussion based on the financial and survey data analysis.

4.2 Quantitative Data Analysis – Survey Results

General Questions

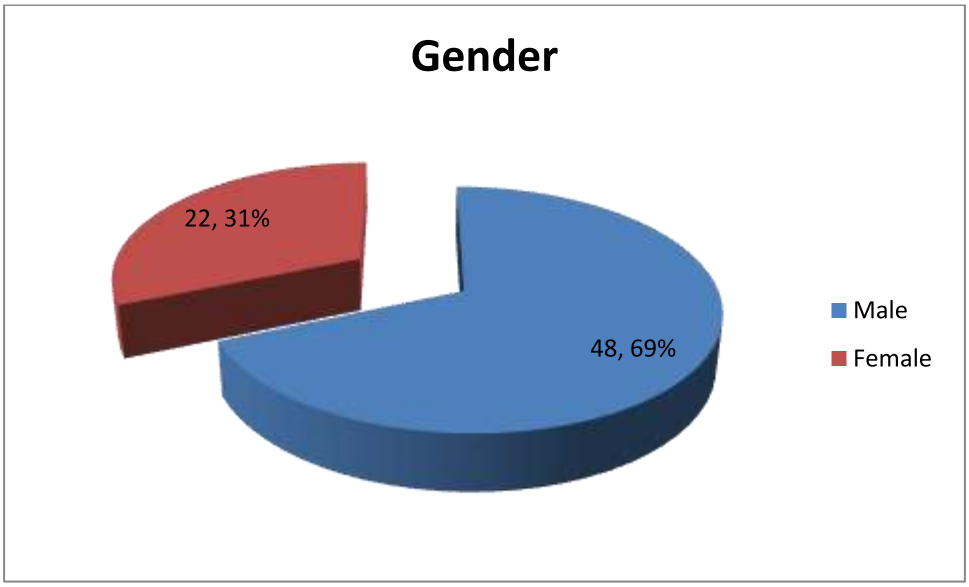

Figure 1

Out of the total complete questionnaire, a total number of male participants in the survey was 69% (48 out of 70) and remaining 31% of the participants were female

(22 out of 70). In this research study, male participants; including financial managers and retail companies' executives were more than female.

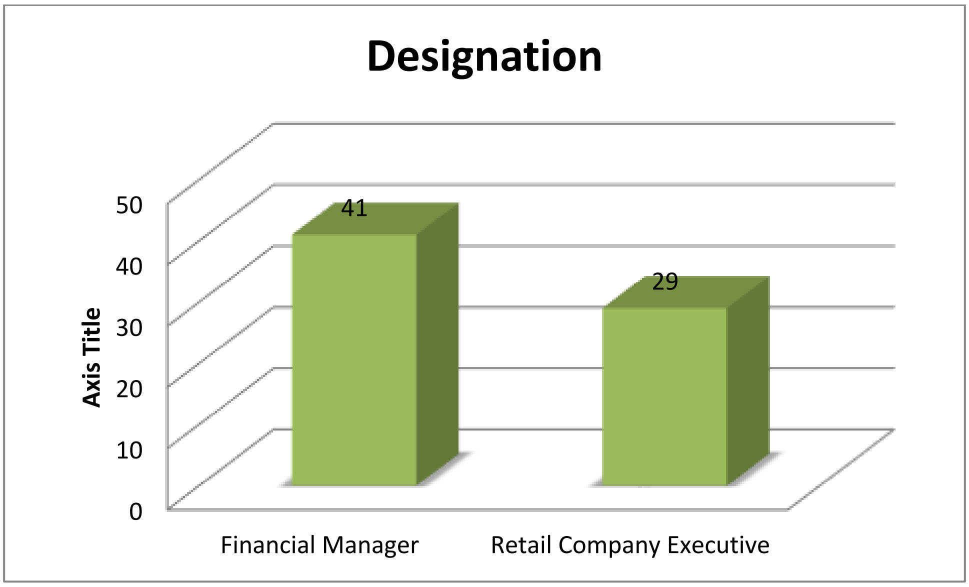

Figure 2

The above graph shows a number of financial managers and retail companies executives who participated in the survey method. Out of the total sample size of 70, financial managers who share their views in the survey were 41, while 29 were retail companies' executives.

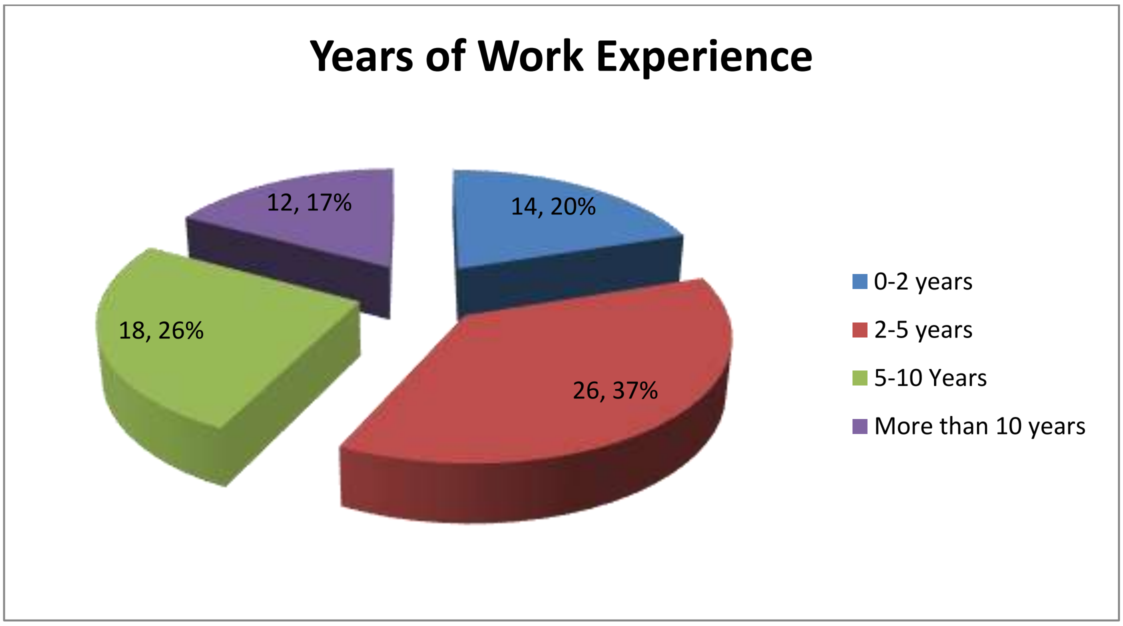

Figure 3

The next general question to the participants is about their years of work experience. Based on the data, it has been exhibited that 37% (26) participants have work experience of 2-5 years, while 26% (7) possesses work experience of 5-10 years.

Some respondents (20%), who took part in the survey, have work experience of 0-2 years, and remaining 17% (12) are working for more than 10 years in the retail sector.

Specific Questions

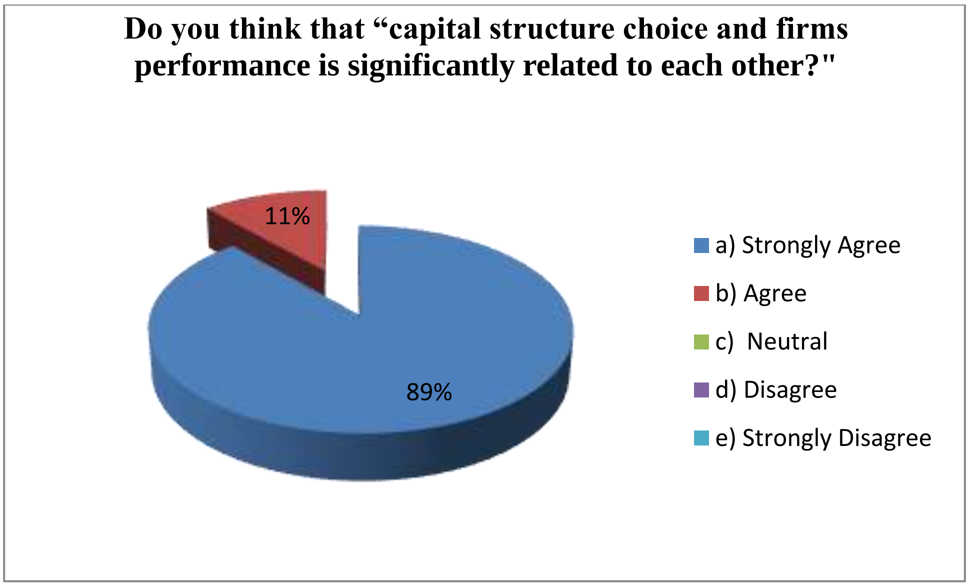

Figure 4

The first question in the survey is directly about the relationship between capital structure choice and firms performance. From the collected responses, it has been identified the majority of the respondents agree with it. 89% of the respondents answered strongly agree option and the remaining 11% had marked agree with option. It has been analysed that capital structure choice directly effects on the Firm's performance, and thus, the decision of debt to equity is taken in the alignment of this significant relationship. Literature findings by Jouida (2018) have supported that increment or decrement in cost or equity in the capital structure impacts the overall firm value, for instance; high debt is inversely related to the firm value. In argument to this, Simmons-Süer (2018) stated that future earnings or profitability is the main determinant in the Firm's value; not debt or equity. The extent to which, capital structure choice aids to earn an operating profit is indicated to the Firm's performance.

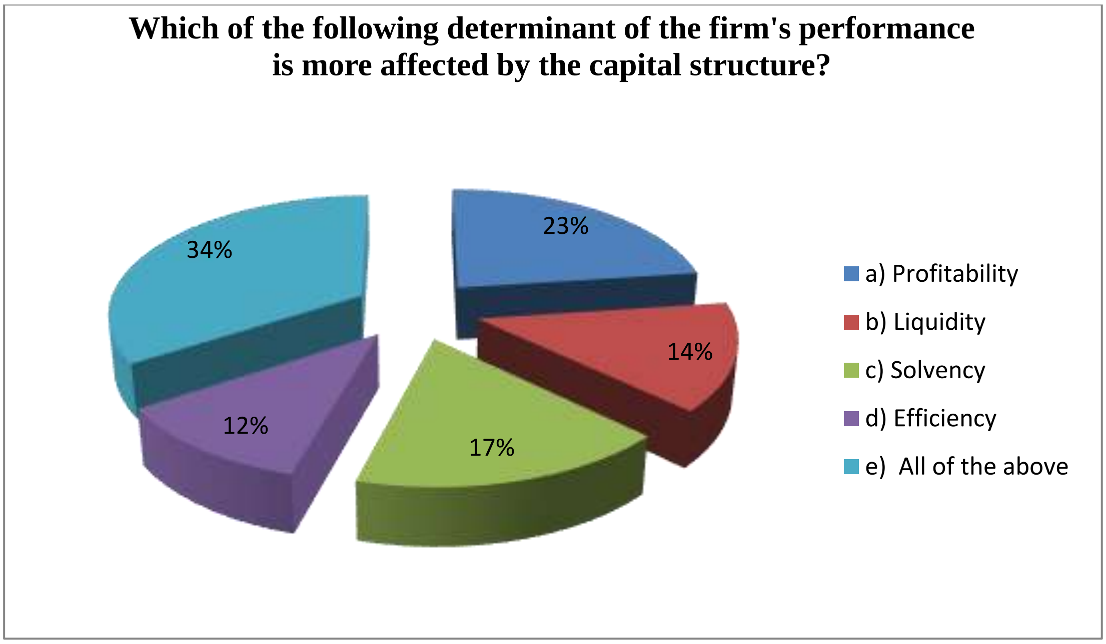

Figure 5

The next question is about "Which of the determinant of the Firm's performance is affected more by the capital structure?" The responses of this question shown in the above figure 5 indicated that the majority replied 'all of the above' option that is 34%. The next option that largely selected by the respondents in the survey is profitability that is affected by the capital structure (23%). However, out of the total sample, 17% marked solvency and the remaining 12% marked efficiency. It has been analysed that decision of the capital structure is the major decision that relates to a number of determinants. Positive and negative impacts of the capital structure choice (debt or equity) explored in the literature review indicated the significance of valuing these determinants in taking capital structure decision (Cecchetti, Mohanty, and Zampolli, 2011' Karmazin and Bondar, 2013; Hackbarth *et al*., 2007).

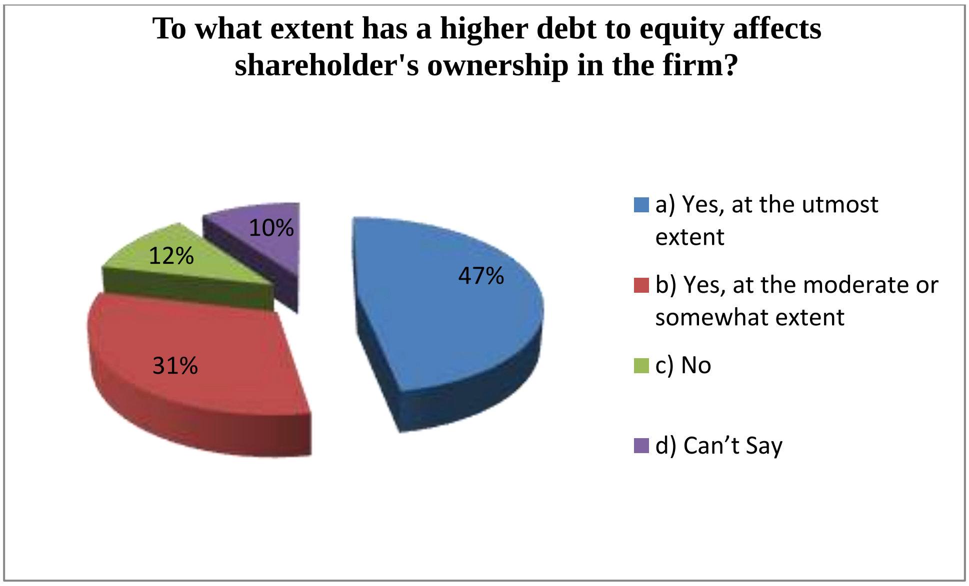

Figure 6

From the responses depicted in the above figure 6, it has been interpreted that majority of the respondents (47%) agreed that higher debt to equity affects shareholders ownership. Majority of the respondents answered yes, at the utmost extent. However, 31% of the respondents answered 'yes, at the moderate or somewhat extent'. However, some of the respondents (12%) were answered 'No' that higher debt or equity had not affected shareholder's ownership. The remaining 10% of the participants were marked option d (can't say) in answer to the question. Shareholders ownership in relative to the debt to equity ratio is affected as high debt portion increases external creditors' participation in decision- making. Literature has also presented that "equity is the ownership of the asset" (Bruton *et al*., 2010). However, Whittington (2015) argued that a higher portion of debt maintains ownership through decision-making flexibility because of fewer people intervention in the decision-making. It has been analysed that ownership from the perspective of shareholder's is negatively affected by the decision of the capital structure decision. However, in the context of the Firm's performance, ownership is not considerably affected because of debt capital.

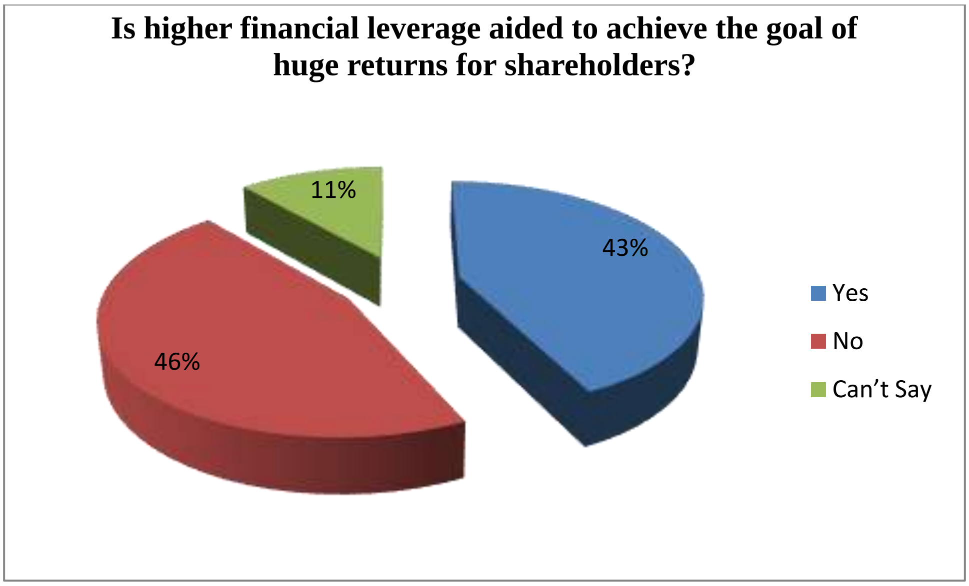

Figure 7

When the respondents were asked about their perception of higher leverage in relation to the returns to shareholders, 43% of the respondents answered 'Yes', and 46% of the respondents were answered 'No'. Out of the sample, 11% answered 'can't say' in answer to the question. Based on the responses, it has been interpreted that financial leverage could aid to attain the goal of huge return for shareholders, but it is completely assured. As per the literature findings, high returns from the usage of higher debt are also affected by the cash flows. Thus, it has been analysed that continuous and positive cash flows more than the cost of debt will lead to earn or yield higher returns to shareholders or vice versa. It has been exhibited that returns from the debt capital is the eventual factor that signifies a positive or negative effect on the Firm's performance. M&M theory also supports this fact that profit from the capital structure (debt or equity) is the vital determinant of success (Simmons-Süer, 2018).

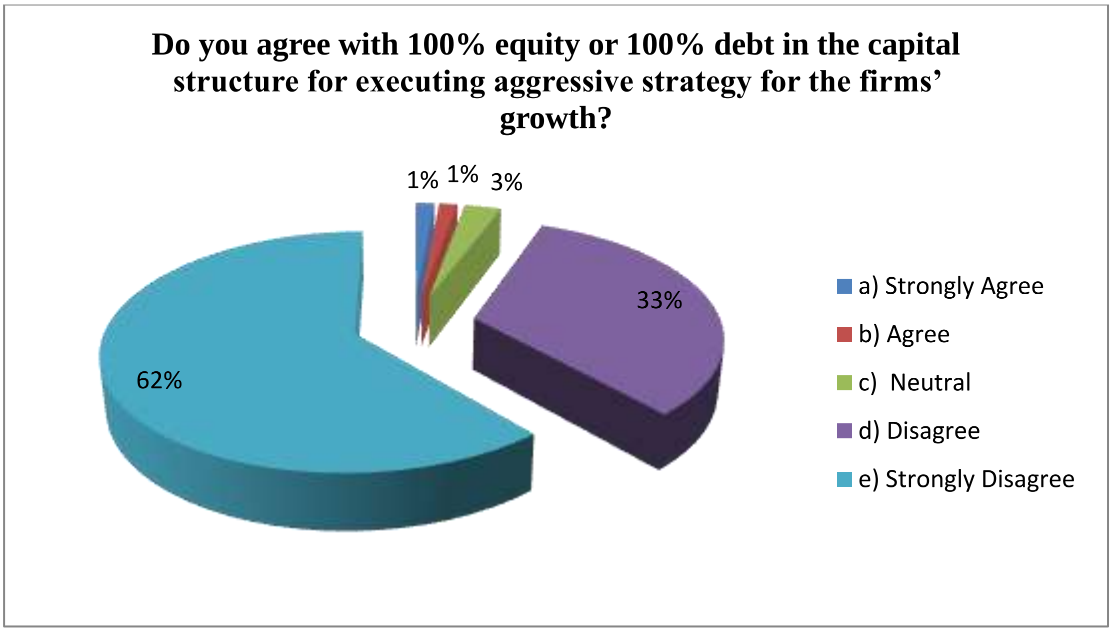

Figure 8

The next question in the survey is about 100% debt or 100% equity proportion in the capital structure choice. Responses from the financial managers and retail companies' executives in answer to this question have indicated that 62% (majority) of the respondents were answered strongly disagree, and 33% of the respondents disagreed. Out of the remaining (5%) were strongly agree, disagree and neutral in their response. It has been analysed complete reliance on debt or equity is not preferred by the companies. Literature also exhibited debt and equity both has advantages and disadvantages; thereby, a combination of the debt and equity is the good and likely solution in order to take advantage of maximum firm value. The use of debt financing because of cheaper source or use of equity financing to keep bankruptcy risk is not feasible choice to sustain a performance because firm's growth is considerably affected by the amount of capital injected to attain milestones.

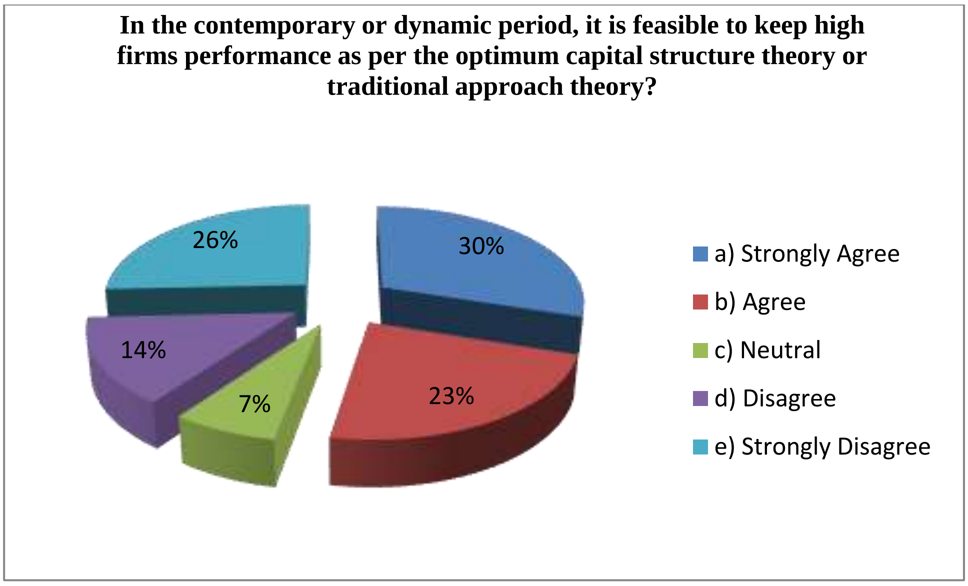

Figure 9

Majority of the responses, as shown in the above figure exhibited agreement of the participants more than disagreement about using optimum capital structure or traditional approach theory for the capital structure. Around 53% in total strongly agree and agree in responding to this question. 40% of the respondents in total, strongly disagree and disagree. Out of the sample, the rest respondents were marked neutral answer. Literature also underpins this results that the firms give optimal theory significant importance to chose idea capital structure, including debt and equity-based on costs and benefits (Hackbarth, Hennessy and Leland, 2007). However, in the contemporary or dynamic, capital structure as per the optimum theory is criticised in light of M&M approach because more debt capital is needed in the capital structure for implementing a growth strategy to stimulate firms performance through enhanced earnings.

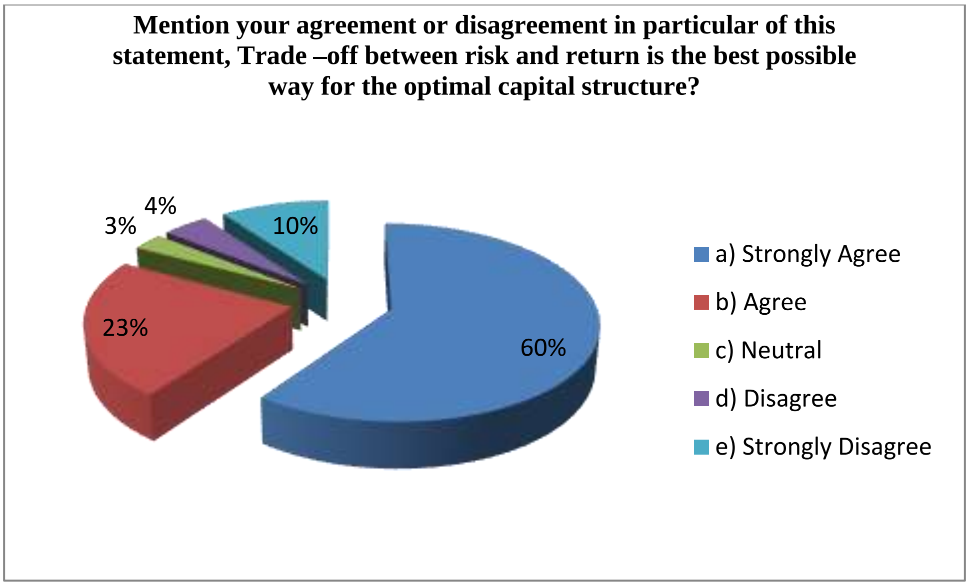

Figure 2

Figure 10 shown that majority of the participants agrees with the statement of the trade-off between risk and return that is 60% of the total sample. 23% of the respondents agreed with the same statement. Remaining 3% (neutral), 4% (disagree) and 10% (strongly disagree). It has been analysed that risks and return aids to manage cost relative to the value of the investment. Risk is higher to the firm in case of unfavourable cash flows and profits that cause an issue in paying debt amount and interest amount (Whittington, 2015). Optimal capital structure gives the advantage of lessening costs or risks in contrast to the benefits or returns to the firms.

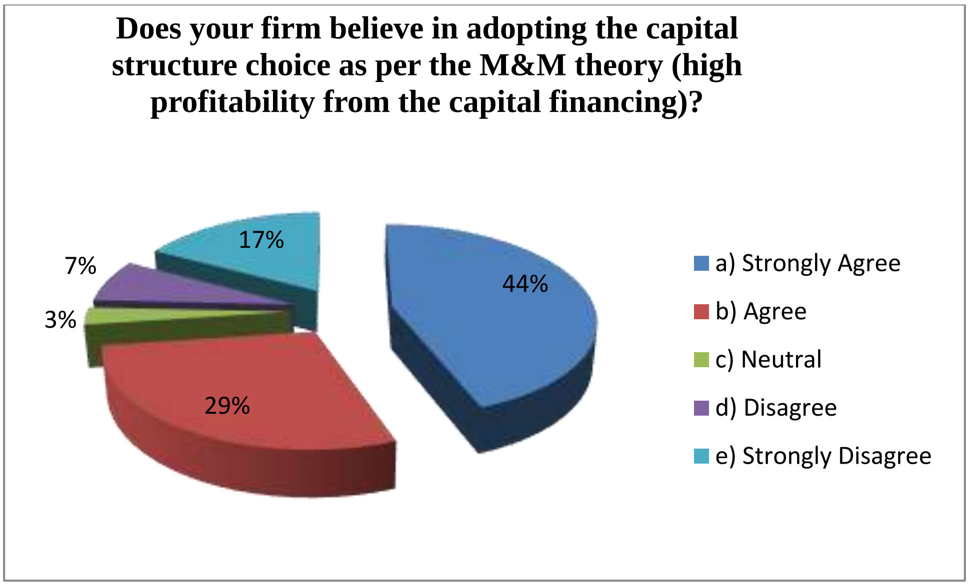

Figure 3

It has been interpreted from the responses in figure 11 that M&M theory is more preferred by the financial managers and retail executives for deciding capital structure choice. It is because this approach gives emphasis to the profitability in the choice of debt to equity or financial leverage (Siqueira *et al*., 2018).

In response to the open-ended question in the survey, majority views are in favour of optimal capital structure and decision-making as per the profitability or returns from the debt or equity capital financing.

4.3 Analysis of Capital Structure Choice on the Performance of the Retailers in India

4.3.1 Aditya Birla

The aim of the company while managing the capital structure is to ensure the sustainability of the business operations and also to ensure the effective capital structure for the purpose of minimising the capital cost, meet expectations and needs of the shareholders, and facilitate the business strategy. The company adopts the policy of borrowing through different channels, such as financial institutions and banks, depending on the funding requirements as anticipated by the company. The management of the company modifies the capital structure according to the needs and changes in the external environment. Further, the financial market requirements may also persuade the company to change the capital structure in order to manage the financial position and performance of the company. In addition, the company has no dispute in the repayment of loans and also never breached the loan requirements. Moreover, the company's management is adhering to all the covenants of the loan and thereby achieving the aim of optimum capital structure (Aditya Birla Fashion and Retail Limited Annual Report, 2019).

4.3.2 Future Retail

The goal of the company is to successfully manage its capital structure to maximise the shareholder's wealth and achieve growth. The company adopts the change in the outside world and restructures its capital to minimise the effect of such changes and continue with minimal impact. The company adheres to the financial covenants and thereby effectively utilises its capital structure for smooth running of operations and thereby achieves sustainability and growth in the future. For the purpose of maintaining the capital structure, the management of the company uses various strategies, such as the issue of shares, buyback of shares, and dividend payment to its shareholders. The company uses the gearing ratio for monitoring the capital structure. The company adheres to financial covenants and allows the business in case of failure of debt or interest payments. Further, the company has not made any breach in the contract with the financial institutions (Future Retail Limited Annual Report, 2019).

4.3.3 Reliance Retail

The company follows an adequate framework of capital structure by maintaining the diversity in its different sources of finance for the purpose of minimising the liquidity risk. Further, the management of the company manages the risk associated with the financial market that arises from several factors, including commodity prices, foreign exchange, and interest rates and reduces the effect of earnings on volatility in the market. The adequate capital structure framework allows the company to enhance the shareholder's value and maintain the balance sheet flexibility (Reliance Retail Limited Annual Report, 2019).

It is identified from the above that all the companies are following the similar strategy of modifying the capital structure according to the external needs and changing financial policies. The modification in the capital structure will allow the company to reduce the extra burden and thereby enhance the performance of the retailers. Further, it will also help the companies in following the financial requirements and thus, protects them from levying penalties.

4.4 Interpretation of the Capital Structure on Performance

Capital structure is a mixture of debt and equity of the firm. It is a very important aspect for every company to manage its capital structure in order to manage its related cost. The company generally prefers to consider equity and then debt. The reason behind this strategy is to reduce the finance cost and thereby, enhance the business revenue. This strategy will not only foster the profitability of the company, but it will also maximise the shareholder's value and expand the business activities of the company (Rauh and Sufi, 2010).

Future Retail Limited has 1.73 times debt as compared to equity, and thus, it can be interpreted that the company is maintaining the balance between debt and equity, which will allow the company to enhance the business and thereby increase the profitability of the company. The same case is with Reliance Retail Limited, which is also showing the debt level of 1.73 times and hence, it will also achieve the growth by properly managing the debt level. However, Aditya Birla Limited has 3.63 times of debt level, which shows that the company is majorly dependent on the debts and hence, it can create a problem for the company in meeting out the obligations and therefore, reduce the performance of the company.

Capital Structure Theory and Its Application

The pecking order theory states that the organisations have mainly two types of sources of funds that are external finance and internal finance sources. The theory firstly allows utilising the internal financing for the purpose of business activities and then, external financing since it saves a lot of costs. The company uses its internal funds for the purpose of investing in the new project and then move towards external financing for bearing the extra cost (Serrasqueiro and Caetano, 2015). The companies, such as Future Retail, Reliance Retail and Aditya Birla, also adopt the same strategy for the purpose of saving the external cost and thereby enhancing the performance of the company. The capital structure directly impacts the profitability of the company since it includes the payment of interest and dividends that decline the profit of the company. Hence, it is very important for the company to manage its capital structure in such a way so that it can increase the profitability of the company and thereby, enrich the business performance as per M&M approach.

Table 1: Financial Data

	Future Retail Limited		Reliance Retail Limited		Aditya Birla Fashion and Retail Limited	
Equity	**In Crore**	**In Crore**	**In Crore**	**In Crore**	**In Crore**	**In Crore**
Particulars	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Equity share capital	100.52	100.4	4989.54	4989.54	773.48	771.69
Other equity	3751.43	2995.87	7597.87	4076.92	655.4	321.42
Total equity	**3851.95**	**3096.27**	**12587.41**	**9066.46**	**1428.88**	**1093.11**
Non-current liabilities						
Borrowings	375.31	223.33	0	0	723.78	1187.91
Deferred tax liabilities	0	0	22.85	0	0	0
Deposits	0	0	0	0	81.22	73.45
Provisions	57.76	52.26	26.68	21.46	115.21	121.14
Other non-current liabilities	136.99	118.5	0	0	92.46	87.21
Total non-current liabilities	**570.06**	**394.09**	**49.53**	**21.46**	**1012.67**	**1469.71**
Current liabilities						
Borrowings	2178.67	1001.41	12800.56	3447.8	474.45	570.45
Trade payable SME	19.31	16.17	13.03	24.77	105.58	14.21
Trade payable others	2918.01	3408.06	4109.07	8207.1	2293.03	1995.11
Deposits	0	0	0	0	111.34	89.02
Other financial liabilities	121.4	83.27	4142.12	2811.94	1023.78	336.7
Provisions	7.71	3.97	1.99	1.43	87.04	70.87
Other current liabilities	860.57	191.24	673.84	503.45	84.3	94.66
Total current liabilities	**6105.67**	**4704.12**	**21740.61**	**14996.49**	**4179.52**	**3171.02**
Total equity and liabilities	**10527.68**	**8194.48**	**34377.55**	**24084.41**	**6621.07**	**5733.84**

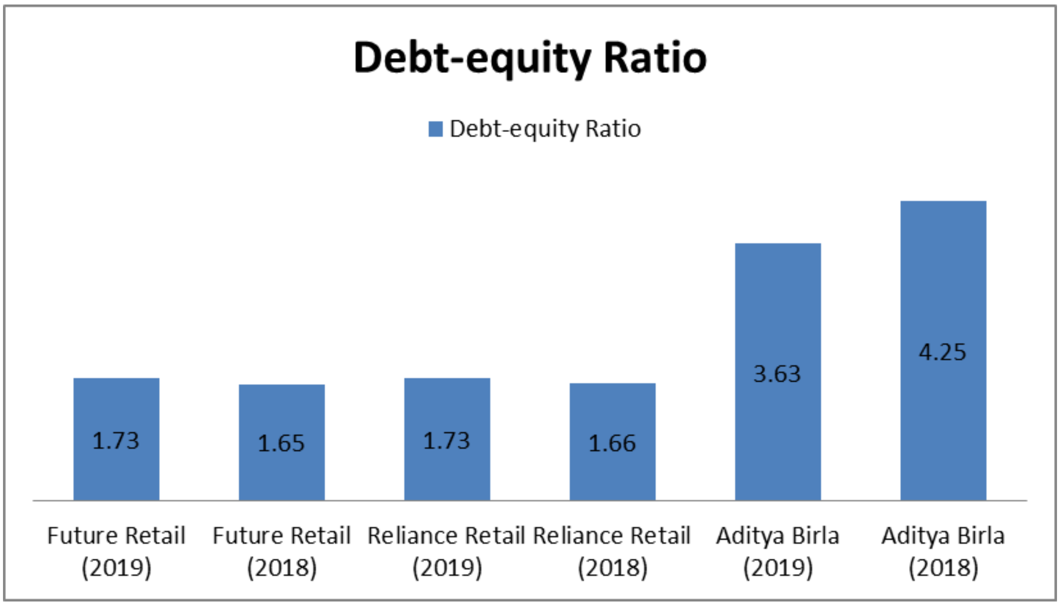

Figure 1: Debt-equity ratio

The debt to equity ratio depicts the ability of the management in meeting out all the outstanding obligations of the company (Satryo, Rokhmania and Diptyana, 2017). The debt to equity ratio of Future Retail Limited was 1.65 times in 2018 that increased to 1.73 in 2019. Further, Reliance Retail also increased the debt-equity ratio from 1.66 times in 2017 to 1.73 times by the end of 2019. Thus, it can be interpreted from the above chart that both the companies, namely Future Retail and Reliance Retail Limited are effectively managing their capital structure by maintaining the balance between equity and debt level that will help them in achieving the growth at a rapid rate. On the contrary, it is seen that Aditya Birla has decreased its debt to equity ratio from 4.25 times in 2017 to 3.63 times in 2019, which depicts that the company has 3.63 times debt as compared to equity, but the company is gradually decreasing the same for the purpose of maintaining the capital structure and moving towards the reduced usage of debt financing.

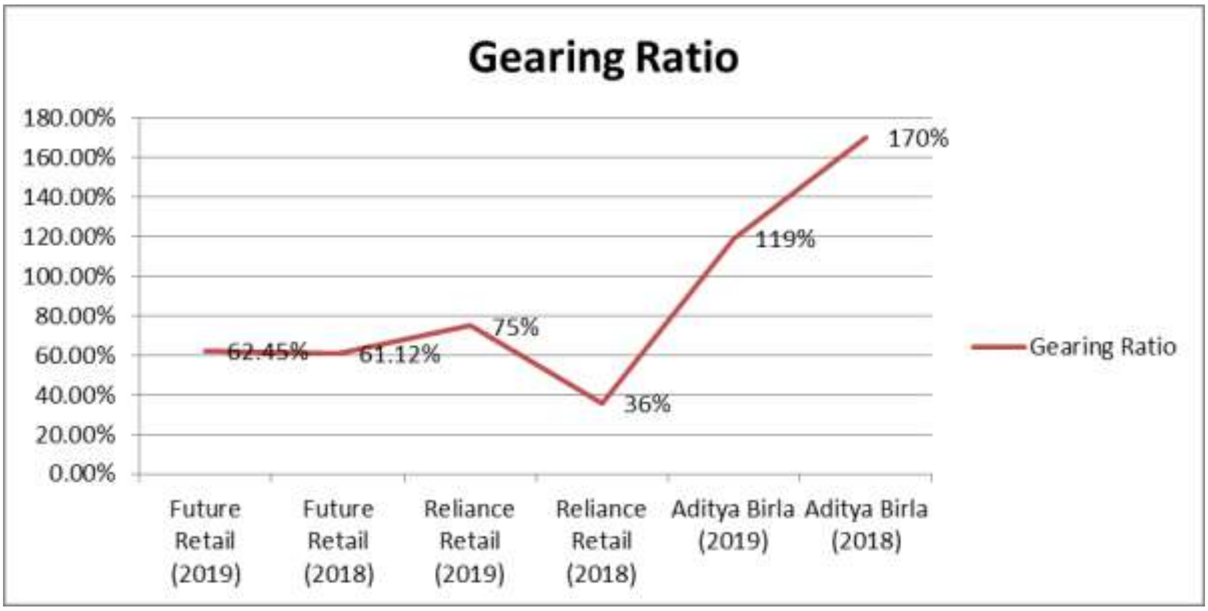

Figure 2: Gearing Ratio

The gearing ratio indicates the financial risk related to the company. It is useful for business analysts to identify the risk of the company so that the investors can compare it with the other companies and make the investment decision according to the level of risk. The gearing ratio of Future Retail was 61.12% in 2018 that slightly increased to 62.45%, which depicts that the company is in a huge financial risk. Reliance Retail reported a gearing ratio of 36% in 2018 that later increased rapidly to 75% by the end of the year 2019. Moreover, the same situation is with Aditya Birla that has a gearing ratio of 170% in 2018, which later decreased to 119% in 2019. All the companies have a gearing ratio of more than 50%, which indicates that all the companies are in a highly leveraged position and risky condition. This will not hamper the business operations currently; however, in case of low sales or lower profits, it may become difficult for the companies to pay out the interest obligations. The ignorance of the financial covenants would result in the breach of policy with the financial institutions and thereby attract a large penalty on these companies that will not be beneficial for them to survive in the long run and achieve the growth (Buigut, 2013).

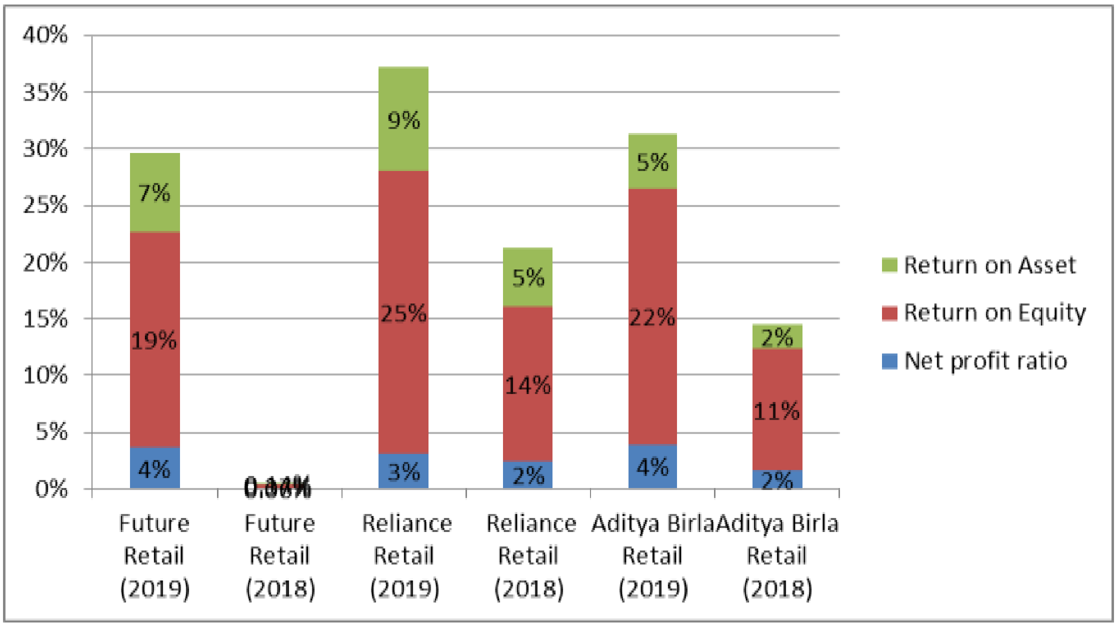

Figure 3: Profitability and Efficiency Ratios

The profitability ratio depicts the ability of the company to generate revenue from its business operations. The profitability ratios include the net profit ratio that depicts the percentage of the profit over the sales. Future Retail reported a net profit ratio of .06% in 2018, and this had increased to 4% in 2019. The main reason behind the low ratio in 2017 is due to its exceptional cost owing to the loss of the sale of an investment. Hence, it can be interpreted from the above chart that Future Retail enhanced its profitability by 4% in 2019. Reliance Retail had also increased its net profit ratio from 2% in 2018 to 3% in 2019. Further, Aditya Birla reported the net profit ratio of 2% in 2018, which had increased to 4% by the end of the year 2019. It depicts that both the companies are doing well and managing their operations in an effective manner, which helps the companies in fostering their profitability (Namalathasan, 2010).

The return on equity (ROE) reflects the effective utilisation of the capital of the shareholders in generating profitability (Anbar and Alper, 2011). The ROE of Future Retail was 0.37% in 2018, which increased to 19% in a single year. Again, Reliance Retail reported the ROE of 14% in 2018 that increased to 25% in 2019. Further, the same is with Aditya Birla Retail that reported the ROE of 11% in 2018 that increased to 22% in 2019. It is identified from the above chart that all the companies are generating positive ROE and increasing every year. This depicts that all the companies are utilising the shareholder’s funds in an efficient manner for the purpose of fostering the profitability of the company and thereby, enhancing the operational performance of the company. The increase in ROE will not only enhance the profit of the company but will also boost the confidence among the shareholders and thus, increase the interest of the investors to invest in the company. This, in turn, will strengthen the brand image of the company and allow the company to gain a competitive edge in the market (Anbar and Alper, 2011).

The return on asset shows the management's ability to utilise the assets effectively and efficiently for the purpose of generating higher profits for the company. The Return on Assets (ROA) of Future Retail was 0.14% in 2018 that increased to 7% in 2019, which depicts that the company is effectively utilising the assets for generating the business profits. The ROA of Reliance Retail was 5% in 2018, which increased to 9% in 2019 and further, Aditya Birla Retail Reported the ROA of 2% in 2018 that increased to 5% in 2019. The increase in the ROA of both companies shows that both are utilising their business assets in an optimum manner for the purpose of increasing business profitability. The effective utilisation of business assets allows the company to enrich its business operations, which in turn helps the company to expand its business and achieve growth. Further, the effective utilisation of business assets will also allow the company to achieve long term savings in capital expenditures and operating costs (Burja, 2011).

4.5 Discussion

It is discussed from the survey analysis, literature review and evaluation of Indian retailers' annual report that capital structure choices are closely associated with market regulations, market conditions and performance aspects of business organisations. It is assessed in regard to the first objective that the M&M theory is appropriate for devising capital structure choices as it advocates that failure or growth of business entities is dependent on their profit-generating abilities in relation to the decision of capital structure. Trade-off theory explains that the optimal capital structure can be identified via the trade-off among the impacts of agency costs, corporate taxes and bankruptcy costs (Twairesh, 2014).

More profitable organisations have more profits to shield in comparison to firms earning low profits due to which they take more debt for receiving tax benefits. In addition, debt benefits consist of tax-saving induced through the deductibility of interest expenditure and decline of agency cost via the risk of liquidation (Ghosh, 2017). As a whole, the theory reveals that organisational performance and debt level is positively associated. On the other side, pecking order theory mentions that managers prefer financing or allocating capital for new investments by retained earnings first and only if internal sources are not enough then managers look for external sources wherein they focus on debt and then equity. Thus, it is assessed with respect to pecking order theory that profitable firms retaining high earnings tend to prefer the utilisation of less debt while making capital structure decisions (Goyal, 2013). Overall, highly profitable firms use retained earnings for financing new investment opportunities, so it is inferred that debt level and organisational performance are negatively correlated to each other.

It is analysed that capital structure choices not only affect the profit margin of businesses but also influences the ability of organisations to operate in a fiercely competitive marketplace. It is pointed out that devising an optimal capital structure is necessary for fostering organisational performance as shortcomings of a capital structure affect market share growth, cash flow and liquidity. Overall, it is noted that capital structure decisions and diverse aspects of firm performance are related by multiple factors such as market share, growth, profit generation, competitiveness, liquidity and business functioning (Margaritis and Psillaki, 2008).

It is discussed concerning the second objective that Indian organisations give high preference to long-term debt and businesses with high profitability take loans for tax saving purposes which signify high debt in their capital structure. Moreover, it is found from the review of secondary sources that institutional factors such as capita market regulation have a substantial impact on capital structure choices of retailers and the utilisation of equity and debt. Apart from this, taxation policy also influences financing decisions of Indian organisations which further affects firm profitability and performance. It is investigated that capital market regulations have an adverse impact on debt which indicates that regulations negatively affect public debt due to high transaction cost in the public domain. As a whole, it is found that market regulations in India declined the use of long-term debt and it further implies that borrowing constraints exist within the Indian markets which in turn affect capital structure decisions of firms operating within the private and public domain. In contrast, it is explained that capital market regulation positively affects the utilisation of equity capital, thereby affecting capital structure choices (Al-Taani, 2013).

Positive link is observed between age, size of firms and debt of firms and it is also observed that profitability is positively associated with debt, but it is negatively associated with equity. It is analysed that profitable retail sector organisations exhibit low dependency on equity with the accumulation of reserves. Further, high profitability decreases information asymmetry amid borrowers and private lenders which further results in increasing debt. It is widely acknowledged that the taxation policy of India is affecting debt in financing decisions of firms and capital structure choices.

It is discussed in relation to the third objective that capital structure choices consisting of higher debt to equity ratio lessened intervention of shareholders as higher creditors are involved in the formulation of capital structure. Insufficient capital poses challenges in front of management in carrying out business operations wherein low risk in capitals structure facilitates adequate funding which further support growth objectives of the firm by allowing sufficient investment in potential investment areas. It is deduced from findings that debt and profitability are negatively correlated because of high financial leverage, so it is clear that both the ratios; low debt to equity and high debt to equity of the capital structure are vital to the financial performance of organisations (Ahmad, Abdullah and Roslan, 2012).

It is evaluated that optimal capital structure plays a significant role in boosting firm performance by offering clear insights to investors regarding capital structure decisions and financing decisions. Optimal capital structure helps Indian retail sector organisations to adequately manage their performance and capitalisation as found from the financial analysis of companies' annual report. It is pointed out that the financial performance of business organisations centred on rations exhibit financial stability as high debt risk and leverage risk adversely influence aggressive growth strategies of the organisation (Fosu, 2013).

It is suggested that retail sector firms of India must focus on decreasing their liquidity risks for maintaining and strengthening their position in the market and supporting the sustainable development of the firm. Capital structure decisions are also influenced by market regulations, size, taxation policy and overall market conditions other than firm performance and profitability, so it is necessary to take into account all the factors that affect capital structure choices to ensure that business grows and sustain in this competitive marketplace. Trade-off theory between return and risk must be aligned with the capital structure, and proper attention must be paid to the industry benchmark for avoiding risk factors (Fosu, 2013).

4.6 Summary

The section of analysis of capital structure choice of the leading retail companies has indicated Aditya Birla, Future Retail and Reliance Retail have been managing capital structure in abidance of the financial covenants. It has been summarised that efficient investment and capital structure planning follows by the Indian retailers to meet capital demands in particular of the maximum value and lower costs. Survey results with financial managers are also reflected that optimal capital structure leads to financial performance through evading risks as the decision of high debt capital to execute an aggressive strategy for increasing market share.

It has been summarised that higher or lower debt or equity in the capital structure is not an optimal decision from the outlook of the Firm’s growth and shareholder’s interests. It has been summarised that financial leverage leads to increase Firm’s performance in terms of a higher return on equity or enhanced earning, and taxes advantage. On the other hand, risks associated with financial leverage are also a significant concern in the perspective of financial performance; such as higher financial costs. Overall, it has been summarised that business approach for earning higher returns is to be given consideration to bankruptcy risk to manage financial performance even in case of slowing down or fluctuations in the cash flows.

The following chapter on the basis of the quantitative data findings is provided with a conclusion to answer the research question and recommendations to the retail and financial managers for the capital structure choice that is best suitable for the financial performance.

Chapter 5: Conclusion and Recommendations

5.1 Conclusion

The examining of the capital structure choice and firms choice was conducted in this study to identify the relationship and the decision's effect on the Firm's performance. Primary and secondary data collection that was performed through survey and financial reports analysis reflected the significant effect of the capital structure choice on the returns and stability. Based on the quantitative data, it can be concluded that choice of capital structure (proportion of debt to equity) is significantly impacted by the performance of the business in terms of profitability, cash flows, liquidity and the stock market.

It has been concluded that financing costs or costs of capital both are important determinants of the capital structure choice and thus, increases in the overall costs in proportion to the net capital has been affecting returns on capital. In the capital choice, preference to debt capital over equity directly increases financial leverage that could earn higher returns on equity or yield high income to shareholders, but the risk of higher debt payment and bankruptcy could also be higher due to market or cash flows fluctuations. Moreover, it has been identified in the context of the capital structure choice that this decision has been negatively affecting the earning per share and thus, favourable or unfavourable financial leverage is all depended on the way of utilising debt to earn more income than that of interest or financial costs. It can be concluded that the relationship between debts to equity in the capital structure choice is essential to be determined in the relation of the risk and return or costs and benefits. Managing of risks associated with higher debt is not easily possible for companies, and thus, the benefit of tax advantage and earnings are not only be given consideration while decision-making of capital structure choice. Risk and return trade-off is the significant determinant in the choice of capital structure as generalised from the quantitative results and theoretical underpinnings.

The optimal structure as per this determinant prevents risky investment that contributes to increasing higher or maximum firm value and minimum cost of debt or capital. The capital structure decision in consideration of the firm value and cost of capital has significant impacts on the Firm's performance. It has been generalised that firm value and financial outcomes in particular of the profitability is indicated a significant effect of capital structure on the performance. Lack of optimal capital structure has been eventually posing a financial burden on the firms. High debt to equity ratio exposed high risk in financing Firm’s operations for earning higher potential income; however, it is not a viable choice. Higher risk to business could generate high income, but it also raises the risk to stability and long term solvency. Financial leverage is higher in case of higher debt to equity ratio that is a risky investment from the perspective of avoiding bankruptcy or insolvency risk and also against shareholder's right of ownership. Debt provides tax benefits to the firms that add to profitability, but it also increases interest expenses or debt cost and bankruptcy risks that worsen a profitable position.

It has been inferred that the choice of capital, including higher debt to equity, has decreased shareholder’s intervention because of higher creditor’s involvement in the Firm’s decision-making. It has been concluded in the context of the higher debt to equity ratio that reflected the firms do not employ any aggressive growth strategy. In the competitive environment, product or service diversification and new avenues is required for potential capital structure, so that the business strategy is funded by adequate capital to accomplish goals. The insufficient capital is the critical risk or concern to the management to progress business operations. Higher or lower risk in the capital structure is substantially to be a trade-off to ensure the flow of adequate funding for the potential investment areas or growth strategy. It can be concluded that the relationship between debt and profitability is negative due to high financial leverage. Thus, it has been deduced high debt to equity or low debt to equity both ratios of the capital structure are significant to the financial performance.

As per the market or business requirement, optimal capital structure is the substantial decision to avoid misguiding the potential investors. In the context of the Indian retail sector, it can be concluded from the financial assessment of the companies that capitalisation and performance both are efficiently managed through efficient capital structure decision. In alignment of the capital structure theories, retail companies are not found more exposed to the high financial leverage risk and yield returns on shareholder’s investment. Financial performance of companies based on the ratios has revealed financial stability because higher debt risk is not a favourable financial strategy to support aggressive growth. The focus of the companies in the retail sector of India towards minimising the liquidity risks has been contributing to their sustainable position in the industry. Overall, it has been generalised that choice of optimal capital structure decision for enhancing overall Firm's performance is essentially being aligned with capital structure theory of trade-off between risk and return, and also industry benchmark is taken as a base for the capital structure decision, as well as financial leverage to avoid risks to the Firm's performance.

5.2 Recommendations

5.2.1 Recommendations to the Retail Companies

- The retail companies are suggested to consider the flow of revenues and profitability in decision of capital that would help in reducing the risks of debt or equity. This is the major issue prevailing among the companies working in the industry of retail sector as risk in paying high debt causes bankruptcy. A simple mistake in capital structure theory can cause huge losses to the companies in terms of insolvency. This theory of capital is generally linked with solvency of the company. The issue of high debt burden can cost retail companies quite a bit in margin. Therefore, it can be recommended to the retail companies that they should learn to identify their debt to equity decision and take measures to balance risk and return on the capital investment. Usually the main cause behind this optimal structure is to prevent the Firm's performance in the industry due to high financial costs than returns. Thus, the companies should adopt capital structure frameworks as per the value and profitability to keep off risk of higher debt and higher equity in the capital structure choice and decision that affects the firm performance (Sidebottom *et al*., 2017). This recommendation will be quite helpful for the companies to increase their profits in the market.
- In order to increase the profits and sustain the business activities in the market, it is recommended to the companies working in the retail sector to improve their firm value through positive cash flows. This is recommended in order to increase the creditors and shareholders satisfaction level. If the retail companies offer high returns on equity and timely payment to the creditors, then it will increase the market value. The increased level of satisfaction among shareholder will increase their ownership towards the brand of the retail companies. This will ultimately help the companies to retain their value and market share; thereby increasing the level of profitability. This is a way by which a business can be improved without putting much of the efforts. They can even develop those policies that are focused on managing risk and return in the capital, but should also be given consideration to

the earnings from capital structure or total capital investment in the market to ensure higher returns. Further, the companies can hire experts to take optimal capital structure decision, so that they can offer high returns along with sound liquidity, profitability and efficiency (Salam, Panahifar and Byrne, 2016).

- Another recommendation that can be made to the companies of retail sector is the selection of the profitable capital financing to deter risks due to capital structure to a good extent. The retail companies should be focusing on the efficient capital management in terms of debt capital employment in the profitable ventures to earn high returns than interests, so as to avoid risk of bankruptcy (Narmo, Wondimu and Lædre, 2018).

5.2.2 Recommendations for the Future Researchers

- Future researchers would be suggested to collect in-depth insight into capital structure decisions by performing qualitative research (Wilson, 2014). Although, results of the quantitative results are more reliable due to composition of the close-ended questionnaire, yet broad or detailed discussion with the participants would add value to collect multiple interpretations and personal experiences (Creswell and Creswell, 2018). In the implied research study, preference to the mixed methodology would be the preferred choice to integrate qualitative and quantitative research that helps to avoid the research limitations of an individual method.
- Future researchers can explore the extent to which capital structure choice impacted Firm's performance in the retail sector of India by selecting a company operating at a different size. This suggestion will help to conduct research in the new direction of determining the significant role of firm's size factor in alignment of the capital structure choice that has a significant effect on the Firm's performance analysed in this research study.

5.3 Future Implications

This research study will have practical significances for the retailers and other sectors to select an optimal capital structure to manage efficient financial performance to yield adequate returns on the capital employed, as well as ownership. This study has narrowly focused on the capital structure choice of the Indian retailers operating at the small, medium and large scale, but capital structure choice or selection is not extensively varied across the sectors. Thus, the findings of this research study would be generalised or use in the general context of the other sectors in future studies. Moreover, finding would be useful to determine capital structure decision taken by the firms in relative to the size. The implications of different capital structure theories in this study will help financial decision-makers in profitable decision-making from the perspective of Firm’s growth and stakeholders’ interest.

The case examples of the well-known retailers in this research would be preferred to evaluate the financial performance of the companies on the basis of their decision for debt to equity. Overall, this research was a good subject to learn the concept of the capital structure along with risks/costs and returns/benefits in the underpinning of the key capital structure theories; such as trade-off theory, pecking order theory, net income or net operating income approach and M &M model. The review of financial statements of the retailing companies in India was good exposure to make use of quantifiable data (financial figures) to understand significant interlink between capital structure decision and firm's performance.

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Appendices- Survey Questionnaire

General Questions

1. Gender

a) Male

b) Female

2. Designation

a) Financial Manager

b) Retail Company Executive

3. Years of Work Experience

a) 0-2 years

b) 2-5 years

c) 5-10 years

d) More than 10 years

Specific Questions

4. Do you think that “capital structure choice and firms performance is significantly related to each other?”

a) Strongly Agree

b) Agree

c) Neutral

d) Disagree

e) Strongly Disagree

5. Which of the following determinant of the Firm’s performance is more affected by the capital structure?

a) Profitability

b) Liquidity

c) Solvency

d) Efficiency

e) All of the above

6. To what extent has a higher debt to equity affected the shareholder’s ownership in the firm?

a) Yes, at the utmost extent

b) Yes, at the moderate extent

c) No

d) Can’t Say

7. Is higher financial leverage aided to achieve the goal of huge returns for shareholders?

a) Yes

b) Can’t Say

b) No

8. Do you agree with 100% equity or 100% debt in the capital structure for executing aggressive strategy for the Firm’s growth?

a) Strongly Agree

b) Agree

c) Neutral

d) Disagree

e) Strongly Disagree

9. In the contemporary or dynamic period, is it feasible to keep high firms performance as per the optimum capital structure theory or traditional approach theory?

a) Strongly Agree

b) Agree

c) Neutral

d) Disagree

e) Strongly Disagree

10. Mention your agreement or disagreement in particular of this statement, Trade – off between risk and return is the best possible way for the optimal capital structure?

a) Strongly Agree

b) Agree

c) Neutral

d) Disagree

e) Strongly Disagree

11. Does your firm believe in adopting the capital structure choice as per the M&M theory (high profitability from the capital financing)?

a) Strongly Agree

b) Agree

c) Neutral

d) Disagree

e) Strongly Disagree

12. Any suggestion from your side that will help the company in selecting the best capital structure choice for the tremendous Firm's performance?

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Thanking You