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**Title of the thesis: Capital Structure Practice of Private Sector in India(A Case Study of Private Sector Companies)**

# Abstract


The present study aims at studying the changes in the capital structure of private sector companies during the last 18 years. The period of nineties has gone through a dramatic change in terms of regulatory mechanism and globalization of entire business practices. This has made it incumbent upon any researcher to enquire into all ramifications of business including financing practices. Financing of private companies has implications for not only health of private business but also for the entire economy both in terms of economic growth and employment. The whole business sector has been divided into three sectors: viz Household Sector, Private Corporate Sector and Public Sector. Private corporate sector consists of Public limited companies and private limited companies. Private corporate sector consists of financial and non financial companies. Out of non financial public limited companies, manufacturing companies constitute larger chunk of the corporate sector. Manufacturing sector is very important in terms of growth and employment. Considering their importance in the Indian economy particularly in the changed globalised environment, the financing practices of such companies are endevoured to reflect the impact of economic reforms.

The aim of the study is to analyse broad trends in the financing patterns of such companies over the period of reforms which began in 1991. Under these reforms the financial system comprising of banks, financial institutions and other international sources of borrowings have been liberalized. It is supposed that these changes might have far reaching repercussions for the financing of Indian corporate sector especially Private corporate sector.

In view of this broad objective and to enquire as to what are the determinants affecting capital structure designing, a random sample of 509 companies in the first stage and 800 companies in the second stage for a period of 18 years beginning 1988 an d ending 2005 have been analysed on the basis of their financial data which reflect in their balance sheets and sources and Uses of Funds statements during the said period. Following ratios have been used to analyse the financing patterns of companies:

1. Long term debt to net worth ratio
2. Short term debt to total debt ratio
3. Long term debt to total debt ratio
4. Gross Interest coverage ratio
5. Debt repayment ratio

## Conclusion

The study has made a humble attempt to explore major changes in the capital structure of Private sector companies in the wake of globalization of private sector and liberalization of financial sector. During 1990s, Government has liberalized the capital issues and freed the financial system so that overburdened private sector could be freed from the shackles of overregulation of the Government and resource crunch. The liberalization of the capital markets has given a boost to resource raising by the Private corporate sector. This has resulted in the significant reduction in the debt levels resulting in reduced financial risk of companies. Apart from this, allowing the Foreign Investments both under the of Direct and Institutional categories has given the companies to raise low cost debt from foreign sources. It has been found that companies have rejigged their capital structure in such a manner that interest and other costs of capital are minimum. This has resulted in increased profitability and corporate savings manifold and majority of companies are running into profits. Borrowings of companies have also been restructured and high cost borrowings have been swapped by low cost ones. This is reflected in the increased proportion of bank borrowings foreign borrowings by the companies. Increased bank borrowings also portray increased intermediation which is desirable from the point of view of corporate governance practices as banks have the requisite capability and expertise to monitor the conduct of corporate affairs so as suit the investor interest in most efficient manner. Industry wise analysis also shows that almost all industries have reduced their debt in a significant manner. Domestic companies are also trying to adjust their capital structure in such a manner to follow their foreign counterparts. In a way, this could be viewed as a major success of reform programme of the government.