International Journal of Commerce and Management Research
www.managejournal.com
ISSN: 2455-1627
Received: 20-04-2026, Accepted: 21-05-2026, Published: 05-06-2026
Volume 12, Issue 2, 2026, Page No. 236-242

Capital structure determinants of Indian automobile companies: Evidence from selected firms

Dr. Poojan Parikh
Adhyapak Sahayak, H L College of Commerce, Gujarat University, Ahmedabad, Gujarat, India
DOI: https://doi.org/10.66856/ijcmr.2026.12.2.12156

Abstract
Capital structure is an important aspect of corporate finance as it influences firms' financing decisions, financial stability, and overall performance. The present study examines the determinants of capital structure of selected Indian automobile companies. The study is based on 100 firm-year observations collected from 10 leading automobile companies for the period 2015–16 to 2024–25. Debt-Equity Ratio was considered as the dependent variable, while Return on Equity, Firm Size, Tangible Asset Ratio, Current Ratio, Sales Growth, Depreciation-to-Total Asset Ratio, Asset Turnover Ratio, and Interest Coverage Ratio were used as explanatory variables. The study employed descriptive statistics, correlation analysis, and multiple regression analysis using SPSS software. The findings reveal that profitability, firm size, tangibility, and liquidity significantly influence capital structure decisions. The regression model was found statistically significant with satisfactory explanatory power. The study concludes that internal financial strength and asset structure are important determinants of leverage decisions in Indian automobile companies.

Keywords: Capital structure, debt-equity ratio, profitability, liquidity, tangibility, automobile industry, financial leverage, regression analysis

Introduction

Capital structure is an important area of corporate finance because financing decisions affect a firm's profitability, financial stability, and market value. The choice between debt and equity financing has attracted significant attention among researchers and practitioners due to its role in maximizing shareholder wealth and minimizing the cost of capital. The pioneering work of Modigliani and Miller (1958) [14] laid the foundation for capital structure theory, while later theories such as the Trade-Off Theory, Pecking Order Theory, and Agency Theory explained that financing decisions are influenced by taxes, information asymmetry, bankruptcy costs, and agency conflicts (Jensen & Meckling, 1976; Myers & Majluf, 1984) [12, 16].

Previous empirical studies have identified profitability, firm size, tangibility, liquidity, and growth opportunities as important determinants of capital structure (Titman & Wessels, 1988; Rajan & Zingales, 1995; Frank & Goyal, 2009) [9, 19, 23]. However, the findings remain inconclusive across industries and economies. For instance, profitable firms are often found to rely less on debt financing, whereas firms with higher tangible assets generally maintain greater leverage because tangible assets can be used as collateral. Similarly, the influence of liquidity and firm size on leverage varies across different studies.

Recent studies have further emphasized that firm-specific factors continue to play a significant role in financing decisions, particularly in emerging economies where firms face financing constraints and market imperfections (Vo & Ellis, 2017; Dang *et al*., 2020) [7, 25]. Therefore, examining the determinants of capital structure remains relevant in understanding firms' financing behavior and financial strategies.

Against this background, the present study examines the determinants of capital structure using Debt-Equity Ratio as the dependent variable. Specifically, the study investigates the impact of Return on Equity, Firm Size, Tangible Asset Ratio, Current Ratio, Sales Growth, Depreciation-to-Total Asset Ratio, Asset Turnover Ratio, and Interest Coverage Ratio on firms' leverage decisions.

Literature Review

Capital structure has been widely examined in corporate finance literature to identify the factors influencing firms' financing decisions. Earlier studies mainly focused on the relationship between leverage and firm-specific characteristics such as profitability, liquidity, tangibility, growth, and firm size.

Ross Westerfield (1977) [20] explained through signaling theory that firms may use debt financing as a signal of financial strength and future growth prospects. Similarly, Stewart Myers (2001) argued that firms' financing choices are influenced by information asymmetry and internal financing preferences.

Several empirical studies have reported profitability as a major determinant of capital structure. Wald (1999) [26] found a negative relationship between profitability and leverage among firms in developed economies, suggesting that profitable firms rely more on retained earnings than debt financing. Chen (2004) [6] also reported similar findings for Chinese firms, supporting the Pecking Order Theory.

Research has further shown that asset tangibility positively affects leverage because tangible assets can be used as collateral while obtaining external finance. Gaud *et al*. (2005) [10] observed a positive association between tangibility and debt financing among European firms. Likewise, Zeitun and Tian (2014) [27] concluded that firms with higher tangible assets generally maintain higher leverage ratios due to reduced lending risk for creditors.

Firm size has also been identified as an important determinant of capital structure. Antoniou, Guney, and Paudyal (2008) [3] reported that larger firms usually enjoy easier access to debt markets due to lower information asymmetry and higher credibility. However, some studies

found that larger firms may rely less on debt because of stronger internal financial resources.

Liquidity is another variable frequently examined in capital structure research. Ozkan (2001) [18] found that firms with strong liquidity positions tend to use lower levels of debt financing because internally available funds reduce the need for external borrowings. Similar evidence was reported by Alipour *et al*. (2015) [2], who observed a negative relationship between liquidity and leverage among manufacturing firms.

Recent studies continue to emphasize the importance of firm-specific determinants in explaining capital structure decisions. Vo (2021) highlighted that profitability, asset structure, and liquidity remain significant factors affecting leverage decisions in emerging economies. Likewise, Nguyen and Nguyen (2022) [17] concluded that financial flexibility and internal financing capacity significantly influence firms' debt policies under changing economic conditions.

Although extensive literature exists on capital structure determinants, empirical findings remain inconsistent across countries, industries, and periods. Therefore, further investigation is required to better understand the factors influencing firms' financing decisions in different economic and institutional settings.

Research methodology

Objectives of the Study

The primary objective of the study is to examine the determinants of capital structure of selected Indian automobile companies. The specific objectives of the study are:

- To analyse the impact of profitability, firm size, tangibility, liquidity, sales growth, depreciation, asset turnover, and interest coverage on capital structure.
- To examine the relationship between firm-specific variables and the Debt-Equity Ratio.
- To identify the significant determinants influencing financing decisions of selected automobile companies.

Sampling Technique and Sample Size

The study adopts a purposive sampling technique. The sample consists of 10 leading automobile companies selected on the basis of market presence, financial performance, and availability of financial data. These companies represent major participants in the Indian automobile industry and provide reliable financial information for analysis.

Table 1: Selected Automobile Companies

S. No.	Name of the Company
1	Maruti Suzuki India Ltd.
2	Mahindra & Mahindra Ltd.
3	Bajaj Auto Ltd.
4	Eicher Motors Ltd.
5	TVS Motor Company Ltd.
6	Hyundai Motor India Ltd.
7	Tata Motors Ltd.
8	Hero MotoCorp Ltd.
9	Samvardhana Motherson International Ltd.
10	Ashok Leyland Ltd.

Time Period of the Study

The study covers a period of ten financial years from 2015–16 to 2024–25. The selected period enables a detailed examination of firms' financing behaviour and capital structure decisions under different market and economic conditions.

Source of Data

The study is based entirely on secondary data. Financial data relating to the selected variables were collected from reliable sources such as annual reports of the companies, Moneycontrol, Screener, CMIE Prowess, and published financial statements.

Null Hypothesis of the Study

- **H_{01}:** Return on Equity has no significant impact on the Debt-Equity Ratio.
- **H_{02}:** Firm Size has no significant impact on the Debt-Equity Ratio.
- **H_{03}:** Tangible Asset Ratio has no significant impact on the Debt-Equity Ratio.
- **H_{04}:** Current Ratio has no significant impact on the Debt-Equity Ratio.
- **H_{05}:** Sales Growth has no significant impact on the Debt-Equity Ratio.
- **H_{06}:** Depreciation-to-Total Asset Ratio has no significant impact on the Debt-Equity Ratio.
- **H_{07}:** Asset Turnover Ratio has no significant impact on the Debt-Equity Ratio.
- **H_{08}:** Interest Coverage Ratio has no significant impact on the Debt-Equity Ratio.

Tools and Techniques

Descriptive statistics were used to analyse the basic characteristics of the data. Pearson correlation analysis was employed to examine the relationship among the variables. Multiple regression analysis was applied to identify the significant determinants of capital structure by considering the Debt-Equity Ratio as the dependent variable.

The study also used diagnostic tests such as Variance Inflation Factor (VIF) and Tolerance values to examine multicollinearity among variables. Durbin-Watson statistics were used to test autocorrelation in the regression model. The statistical analysis was carried out using SPSS software.

Regression Model

To examine the determinants of capital structure, the following regression model was used:

$$DE\ Ratio = \alpha + \beta_1 ROE + \beta_2 SIZE + \beta_3 TANG + \beta_4 CR + \beta_5 SG + \beta_6 DEP + \beta_7 ATR + \beta_8 ICR + \varepsilon$$

Where:

- DE Ratio = Debt-Equity Ratio
- ROE = Return on Equity
- SIZE = Firm Size
- TANG = Tangible Asset Ratio
- CR = Current Ratio
- SG = Sales Growth
- DEP = Depreciation-to-Total Asset Ratio
- ATR = Asset Turnover Ratio
- ICR = Interest Coverage Ratio
- α = Intercept term
- β_1 to β_8 = Regression coefficients
- ε = Error term

Table 2: Description of Variables Used in the Study

Variable Code	Variable Name	Nature of Variable	Scholarly Definition	Supporting Literature
DE_RATIO	Debt-Equity Ratio	Dependent	Ratio of total debt to shareholders' equity used to measure financial leverage and capital structure.	Harris & Raviv (1991); Rajan & Zingales (1995) [11, 19]
ROE	Return on Equity	Independent	Ratio of net profit after tax to shareholders' equity indicating profitability.	Wald (1999); Chen (2004) [6, 26]
SIZE	Firm Size	Independent	Natural logarithm of total assets representing operational scale of the firm.	Antoniou *et al*. (2008) [3]
TANG	Tangible Asset Ratio	Independent	Proportion of tangible assets to total assets reflecting collateral value.	Gaud *et al*. (2005) [10]
CR	Current Ratio	Independent	Ratio of current assets to current liabilities measuring liquidity position.	Ozkan (2001) [18]
SG	Sales Growth	Independent	Annual percentage increase in sales revenue indicating growth opportunities.	Frank & Goyal (2009) [9]
DEP	Depreciation-to-Total Asset Ratio	Independent	Ratio of depreciation expense to total assets representing non-debt tax shields.	DeAngelo & Masulis (1980) [8]
ATR	Asset Turnover Ratio	Independent	Ratio of sales revenue to total assets measuring operational efficiency.	Zeitun & Tian (2014) [27]
ICR	Interest Coverage Ratio	Independent	Ratio of earnings before interest and taxes to interest expenses indicating debt servicing capacity.	Ross *et al*. (2019) [21]

(**Source:** Compiled by Researcher)

Data analysis & interpretation

Table 3: Descriptive Statistics

	Mean	Std. Deviation	N
Debt EQ Ratio	.1794	.26827	100
ROE	18.0362	12.62166	100
SIZE	10.2020	.79480	100
Tangible asset ratio	20.5662	8.56055	100
Current ratio	1.3063	.62125	100
Sales growth	11.3968	19.16027	100
Depreciation/total asset ratio	3.5955	1.65428	100
Asset Turnover Ratio	53.9491	67.79815	100
Interest Coverage Ratio	193.4891	626.73209	100

Table 3 presents the descriptive statistics of the variables employed in the study to examine the determinants of capital structure. The analysis is based on 100 firm-year observations. The table reports the mean and standard deviation of the dependent and independent variables, providing an overview of the distribution and variability of the data.

The mean value of the Debt-Equity Ratio is 0.1794, with a standard deviation of 0.26827. The low average debt-equity ratio indicates that the sampled firms rely relatively less on debt financing and more on equity financing in their capital structure decisions. The moderate standard deviation suggests the existence of variation in leverage practices across firms.

Profitability, measured by Return on Equity (ROE), records a mean value of 18.0362 and a standard deviation of 12.62166. This indicates that the firms generate satisfactory returns for shareholders on average; however, the relatively high dispersion reflects considerable differences in profitability levels among the firms.

Firm Size exhibits a mean value of 10.2020 with a comparatively low standard deviation of 0.79480, implying that the sampled firms are relatively homogeneous in terms of size. The limited variation enhances the consistency of the dataset.

The mean value of the Tangible Asset Ratio is 20.5662, while the standard deviation is 8.56055. This suggests that tangible assets constitute a notable proportion of total assets within the firms. The variation in tangibility indicates differences in asset composition, which may influence firms' borrowing capacity and collateral value.

Liquidity, represented by the Current Ratio, has a mean value of 1.3063 and a standard deviation of 0.62125. The average current ratio above unity indicates that most firms possess adequate short-term liquidity to meet current obligations.

Sales Growth reports a mean of 11.3968 and a relatively high standard deviation of 19.16027, suggesting substantial variation in growth opportunities among firms. This reflects the presence of both high-growth and low-growth firms within the sample.

The Depreciation-to-Total Asset Ratio records an average value of 3.5955 with a standard deviation of 1.65428. The moderate dispersion indicates differences in the extent of fixed asset utilization and the availability of non-debt tax shields across firms.

The Asset Turnover Ratio shows a mean value of 53.9491 and a high standard deviation of 67.79815. This indicates considerable variation in operational efficiency among firms regarding the utilization of assets for revenue generation.

Finally, the Interest Coverage Ratio has a mean value of 193.4891 and a very high standard deviation of 626.73209. The substantial dispersion suggests significant differences in firms' ability to service interest obligations, indicating the presence of firms with exceptionally high earnings relative to interest expenses.

Overall, the descriptive statistics demonstrate adequate variability among the explanatory variables, which is appropriate for empirical analysis. The dataset appears suitable for further econometric investigation into the determinants of capital structure.

Table 4: Correlations

		Debt EQ ratio	Roe	Size	Tangible asset ratio	Current ratio	Sales growth	Depreciation /total asset ratio	Asset turnover ratio	Interest coverage ratio
Pearson Correlation	Debt EQ Ratio	1.000	-.616	.062	.325	-.506	-.043	.112	-.044	-.195
	ROE	-.616	1.000	-.394	-.030	.211	.198	.047	.157	.159
	SIZE	.062	-.394	1.000	-.213	-.197	.082	-.010	-.434	-.096
	Tangible asset ratio	.325	-.030	-.213	1.000	-.326	-.201	.688	.312	-.339
	Current ratio	-.506	.211	-.197	-.326	1.000	-.186	-.170	-.008	.345
	Sales growth	-.043	.198	.082	-.201	-.186	1.000	-.170	-.117	-.034
	Depreciation/Total Asset Ratio	.112	.047	-.010	.688	-.170	-.170	1.000	.086	-.316
	Asset Turnover Ratio	-.044	.157	-.434	.312	-.008	-.117	.086	1.000	.175
	Interest Coverage Ratio	-.195	.159	-.096	-.339	.345	-.034	-.316	.175	1.000
Sig. (1-tailed)	Debt EQ Ratio	.	.000	.271	.000	.000	.336	.134	.330	.026
	Roe	.000	.	.000	.383	.017	.024	.321	.059	.057
	Size	.271	.000	.	.017	.025	.208	.460	.000	.170
	Tangible Asset ratio	.000	.383	.017	.	.000	.023	.000	.001	.000
	Current Ratio	.000	.017	.025	.000	.	.032	.045	.469	.000
	Sales Growth	.336	.024	.208	.023	.032	.	.045	.124	.370
	Depreciation/Total asset ratio	.134	.321	.460	.000	.045	.045	.	.196	.001
	Asset Turnover ratio	.330	.059	.000	.001	.469	.124	.196	.	.041
	Interest Coverage Ratio	.026	.057	.170	.000	.000	.370	.001	.041	.

Table 4 presents the Pearson correlation matrix for the variables used in the study. The analysis explains the direction and strength of the relationship between the Debt-Equity Ratio and the independent variables. A p-value less than or equal to 0.05 indicates that the relationship is statistically significant.

The results show that the Debt-Equity Ratio has a significant negative relationship with Return on Equity ($r = -0.616$, $p \leq 0.05$). This means that firms with higher profitability generally use lower levels of debt in their capital structure. Profitable firms may prefer to finance their activities through retained earnings rather than external borrowing.

The Debt-Equity Ratio is positively and significantly related to the Tangible Asset Ratio ($r = 0.325$, $p \leq 0.05$). This suggests that firms with a larger proportion of tangible assets are more likely to use debt financing because tangible assets can be used as collateral while obtaining loans.

A significant negative relationship is found between the Current Ratio and the Debt-Equity Ratio ($r = -0.506$, $p \leq 0.05$). This indicates that firms with stronger liquidity positions tend to depend less on debt financing, as they have sufficient short-term resources available within the business.

Similarly, the Interest Coverage Ratio has a significant negative correlation with the Debt-Equity Ratio ($r = -0.195$, $p \leq 0.05$). This implies that firms with a better capacity to meet interest obligations generally maintain lower debt levels.

However, Firm Size, Sales Growth, Depreciation-to-Total Asset Ratio, and Asset Turnover Ratio do not show a statistically significant relationship with the Debt-Equity Ratio, as their p-values are greater than 0.05. This indicates that these variables do not have a strong direct association with leverage in the sample firms.

Among the independent variables, some significant relationships are also observed. Tangible Asset Ratio is strongly and positively associated with Depreciation-to-Total Asset Ratio ($r = 0.688$, $p \leq 0.05$), indicating that firms with higher tangible assets tend to record higher depreciation expenses. Firm Size has a significant negative relationship with Asset Turnover Ratio ($r = -0.434$, $p \leq 0.05$), suggesting that larger firms may generate lower sales relative to their asset base.

Overall, the correlation coefficients among the independent variables are within acceptable limits and do not indicate serious multicollinearity issues. Therefore, the variables are considered suitable for further regression analysis to identify the determinants of capital structure.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.792[a]	.628	.595	.17073	.628	19.178	8	91	.000	.726

a. Predictors: (Constant), Interest Coverage Ratio, Sales Growth, Size, Depreciation/Total Asset Ratio, Current Ratio, Asset Turnover Ratio, Roe, Tangible Asset Ratio

b. Dependent Variable: DEBT EQ Ratio

Table 5 presents the overall fitness of the regression model used to examine the determinants of capital structure, where the Debt-Equity Ratio is considered as the dependent variable.

The value of R is 0.792, which indicates a strong relationship between the dependent variable and the set of independent variables included in the model. This suggests that the explanatory variables collectively have a substantial association with the Debt-Equity Ratio.

The R Square value is 0.628, implying that approximately 62.8 percent of the variation in the Debt-Equity Ratio is explained by the independent variables, namely Return on Equity, Firm Size, Tangible Asset Ratio, Current Ratio, Sales Growth, Depreciation-to-Total Asset Ratio, Asset Turnover Ratio, and Interest Coverage Ratio. This reflects a good explanatory power of the model.

The Adjusted R Square value is 0.595, which means that after adjusting for the number of predictors in the model, around 59.5 percent of the variation in capital structure is explained by the selected variables. The small difference between R Square and Adjusted R Square indicates that the included variables contribute meaningfully to the model and that there is no excessive inclusion of irrelevant predictors.

The F-statistic value of 19.178 with a significance value of 0.000 shows that the regression model is statistically significant at the 5 percent level. This confirms that the independent variables, when considered together, significantly influence the Debt-Equity Ratio.

The standard error of the estimate is 0.17073, indicating that the prediction error in the model is relatively low, which supports the reliability of the regression estimates.

The Durbin-Watson statistic is 0.726, which suggests the possibility of positive autocorrelation in the residuals. Since the value is substantially lower than the ideal benchmark value of 2, the model may contain some degree of serial correlation. Therefore, the results should be interpreted with caution, and additional diagnostic tests may be considered if required.

Overall, the model demonstrates satisfactory explanatory power and statistical significance, indicating that the selected variables are useful in explaining the capital structure decisions of the sampled firms.

Table 6: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.458	.319		4.574	.000		
	ROE	-.014	.002	-.642	-8.528	.000	.721	1.387
	SIZE	-.093	.027	-.275	-3.388	.001	.623	1.605
	Tangible Asset Ratio	.008	.003	.245	2.304	.024	.361	2.772
	Current Ratio	-.163	.033	-.378	-4.917	.000	.693	1.442
	Sales Growth	.001	.001	.066	.933	.353	.810	1.235
	Depreciation/Total Asset Ratio	-.006	.015	-.034	-.362	.718	.463	2.158
	Asset Turnover Ratio	-.001	.000	-.151	-1.971	.052	.695	1.439
	Interest Coverage Ratio	4.789E-5	.000	.112	1.499	.137	.735	1.361

a. Dependent Variable: DEBT EQ RATIO

Table 6 presents the regression coefficients of the variables used to examine the determinants of capital structure. The Debt-Equity Ratio is considered as the dependent variable, while the significance of each explanatory variable is evaluated at the 5 percent level, where a p-value less than or equal to 0.05 is considered statistically significant.

The coefficient of Return on Equity (ROE) is negative and statistically significant ($\beta = -0.014$, $p = 0.000$). This indicates that profitability has a significant negative effect on the Debt-Equity Ratio. The result suggests that more profitable firms tend to use lower levels of debt financing, as they may rely more on internally generated funds.

Firm Size also shows a negative and significant relationship with the Debt-Equity Ratio ($\beta = -0.093$, $p = 0.001$). This implies that larger firms in the sample tend to maintain lower financial leverage. The finding may indicate that larger firms possess stronger internal financial resources and therefore depend less on external debt.

The Tangible Asset Ratio has a positive and statistically significant coefficient ($\beta = 0.008$, $p = 0.024$). This suggests that firms with a higher proportion of tangible assets are more likely to use debt financing because tangible assets can serve as collateral for borrowing.

The Current Ratio is negatively and significantly associated with the Debt-Equity Ratio ($\beta = -0.163$, $p = 0.000$). This indicates that firms with better liquidity positions tend to rely less on debt financing, as they are capable of meeting financial requirements through internally available short-term assets.

Sales Growth has a positive coefficient ($\beta = 0.001$), but the relationship is not statistically significant ($p = 0.353$). This means that sales growth does not have a meaningful influence on the capital structure decisions of the sampled firms.

Similarly, the Depreciation-to-Total Asset Ratio shows a negative but insignificant relationship with the Debt-Equity Ratio ($\beta = -0.006$, $p = 0.718$). Therefore, depreciation does not appear to significantly affect leverage decisions in the study.

The Asset Turnover Ratio has a negative coefficient ($\beta = -0.001$) with a p-value of 0.052, which is slightly above the 0.05 significance level. Hence, the variable does not have a statistically significant effect on the Debt-Equity Ratio, although it shows a weak negative association.

Interest Coverage Ratio shows a positive coefficient ($\beta = 4.789E-5$), but the relationship is statistically insignificant ($p = 0.137$). This indicates that the ability of firms to cover interest expenses does not significantly influence their leverage decisions in the present study.

The collinearity statistics further indicate that multicollinearity is not a serious concern in the model, as all

Variance Inflation Factor (VIF) values are below the commonly accepted threshold of 10 and tolerance values are above 0.10.

Overall, the regression results reveal that profitability, firm size, tangibility, and liquidity are significant determinants of capital structure, while sales growth, depreciation, asset turnover, and interest coverage ratio do not significantly influence the Debt-Equity Ratio of the sampled firms.

Table 7: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.472	8	.559	19.178	.000[b]
	Residual	2.653	91	.029		
	Total	7.125	99			

a. Dependent Variable: DEBT EQ RATIO

b. Predictors: (Constant), Interest Coverage Ratio, Sales Growth, Size, Depreciation/Total Asset Ratio, Current Ratio, Asset Turnover Ratio, Roe, Tangible Asset Ratio

Table 7 presents the ANOVA results of the regression model used to examine the determinants of capital structure. The F-value of 19.178 with a significance value of 0.000 is less than 0.05, indicating that the regression model is statistically significant.

This result shows that the independent variables — Return on Equity, Firm Size, Tangible Asset Ratio, Current Ratio, Sales Growth, Depreciation-to-Total Asset Ratio, Asset Turnover Ratio, and Interest Coverage Ratio — jointly have a significant effect on the Debt-Equity Ratio. Therefore, the model is considered appropriate for explaining the capital structure decisions of the sampled firms.

Findings of the study

1. The study found that firms in the sample relied more on equity financing than debt financing, as reflected by the low average Debt-Equity Ratio.
2. Return on Equity (ROE) showed a significant negative relationship with the Debt-Equity Ratio, indicating that more profitable firms tend to use lower levels of debt financing.
3. Firm Size was found to have a significant negative impact on the Debt-Equity Ratio, suggesting that larger firms rely less on external debt.
4. Tangible Asset Ratio had a significant positive relationship with the Debt-Equity Ratio, implying that firms with higher tangible assets are more likely to use debt financing due to greater collateral value.
5. Current Ratio showed a significant negative relationship with the Debt-Equity Ratio, indicating that firms with stronger liquidity positions tend to maintain lower financial leverage.
6. Sales Growth, Depreciation-to-Total Asset Ratio, Asset Turnover Ratio, and Interest Coverage Ratio were found to have no significant effect on the Debt-Equity Ratio.
7. The regression model was statistically significant and explained 62.8 percent of the variation in the Debt-Equity Ratio, indicating good explanatory power of the model.
8. The study concluded that profitability, firm size, tangibility, and liquidity are the major determinants of capital structure decisions among the sampled firms.

Conclusion

The present study examined the determinants of capital structure using the Debt-Equity Ratio as the dependent variable. The findings revealed that profitability, firm size, tangibility, and liquidity significantly influence the capital structure decisions of firms. Profitability and liquidity showed a negative relationship with leverage, indicating that firms with higher profits and stronger liquidity positions prefer internal sources of finance over external debt. Similarly, larger firms were found to rely less on debt financing. In contrast, tangible assets exhibited a positive relationship with the Debt-Equity Ratio, suggesting that firms with higher tangible assets are more capable of obtaining debt due to the availability of collateral. However, variables such as sales growth, depreciation-to-total asset ratio, asset turnover ratio, and interest coverage ratio did not show a significant impact on capital structure decisions.

The regression model demonstrated satisfactory explanatory power and statistical significance, confirming that the selected variables collectively explain a substantial portion of the variation in firms' leverage decisions. Overall, the study supports the view that internal financial strength and asset structure play an important role in determining the financing choices of firms.

Based on the findings, it is recommended that firms should maintain an appropriate balance between debt and equity to achieve financial stability and reduce financial risk. Companies should focus on improving profitability and liquidity, as stronger internal financial performance reduces excessive dependence on external borrowings. Firms with substantial tangible assets may utilize debt financing more effectively by leveraging collateral advantages, but they should ensure that debt levels remain within manageable limits.

The study also suggests that financial managers should carefully evaluate financing decisions by considering both internal financial conditions and long-term sustainability. Policymakers and financial institutions may encourage efficient financing practices by supporting firms with stable financial structures and prudent debt management strategies. Future research may include additional variables, larger sample sizes, or comparative sectoral analysis to provide deeper insights into the determinants of capital structure.

References

1. Ahmed N, Afza T. Capital structure, competitive intensity and firm performance: Evidence from Pakistan. Journal of Advances in Management Research,2019:16(5):796-813.
2. Alipour M, Mohammadi MFS, Derakhshan H. Determinants of capital structure: An empirical study of firms in Iran. International Journal of Law and Management,2015:57(1):53-83.
3. Antoniou A, Guney Y, Paudyal K. The determinants of capital structure: Capital market-oriented versus bank-oriented institutions. Journal of Financial and Quantitative Analysis,2008:43(1):59-92.

4. Baker M, Wurgler J. Market timing and capital structure. Journal of Finance,2002:57(1):1-32.
5. Booth L, Aivazian V, Demirgüç-Kunt A, Maksimovic V. Capital structures in developing countries. Journal of Finance,2001:56(1):87-130.
6. Chen JJ. Determinants of capital structure of Chinese-listed companies. Journal of Business Research,2004:57(12):1341-1351.
7. Dang VA, Kim M, Shin Y. Asymmetric adjustment toward optimal capital structure: Evidence from a crisis. International Review of Financial Analysis,2020:71:101510.
8. DeAngelo H, Masulis RW. Optimal capital structure under corporate and personal taxation. Journal of Financial Economics,1980:8(1):3-29.
9. Frank MZ, Goyal VK. Capital structure decisions: Which factors are reliably important? Financial Management,2009:38(1):1-37.
10. Gaud P, Jani E, Hoesli M, Bender A. The capital structure of Swiss companies: An empirical analysis using dynamic panel data. European Financial Management,2005:11(1):51-69.
11. Harris M, Raviv A. The theory of capital structure. Journal of Finance,1991:46(1):297-355.
12. Jensen MC, Meckling WH. Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of Financial Economics,1976:3(4):305-360.
13. Kraus A, Litzenberger RH. A state-preference model of optimal financial leverage. Journal of Finance,1973:28(4):911-922.
14. Modigliani F, Miller MH. The cost of capital, corporation finance and the theory of investment. American Economic Review,1958:48(3):261-297.
15. Myers SC. The capital structure puzzle. Journal of Finance,1984:39(3):575-592.
16. Myers SC, Majluf NS. Corporate financing and investment decisions when firms have information that investors do not have. Journal of Financial Economics,1984:13(2):187-221.
17. Nguyen TH, Nguyen AH. Financial flexibility and capital structure decisions: Evidence from emerging markets. Cogent Economics & Finance,2022:10(1):1-16.
18. Ozkan A. Determinants of capital structure and adjustment to long-run target: Evidence from UK company panel data. Journal of Business Finance & Accounting,2001:28(1-2):175-198.
19. Rajan RG, Zingales L. What do we know about capital structure? Some evidence from international data. Journal of Finance,1995:50(5):1421-1460.
20. Ross SA. The determination of financial structure: The incentive-signalling approach. Bell Journal of Economics,1977:8(1):23-40.
21. Ross SA, Westerfield R, Jordan B. Fundamentals of Corporate Finance. 12th ed. McGraw-Hill Education, 2019.
22. Shyam-Sunder L, Myers SC. Testing static tradeoff against pecking order models of capital structure. Journal of Financial Economics,1999:51(2):219-244.
23. Titman S, Wessels R. The determinants of capital structure choice. Journal of Finance,1988:43(1):1-19.
24. Vo XV. Determinants of capital structure in emerging markets: Evidence from Vietnam. Research in International Business and Finance,2021:56:101351.
25. Vo XV, Ellis C. An empirical investigation of capital structure and firm value in Vietnam. Finance Research Letters,2017:22:90-94.
26. Wald JK. How firm characteristics affect capital structure: An international comparison. Journal of Financial Research,1999:22(2):161-187.
27. Zeitun R, Tian GG. Capital structure and corporate performance: Evidence from Jordan. Australasian Accounting, Business and Finance Journal,2014:8(3):1-20.