PREFACE

Every finance manager has to take three important decisions which have the considerable impact on overall shareholder's wealth. These decisions are investment decisions, financing decisions and distribution of earning to shareholders. Out of this three important decision, capital structure decision has studied in this research work. After careful consideration finance manager take decision to accept or reject new investment decision and new investment generate earnings for investors. It is capital structure which decides the distribution of earning to the investors i.e. lenders, government and shareholders. Lenders receive return as interest on borrowing , government receive return as tax and shareholders receive two fold return as dividend and appreciation in share price. Every finance source has its pros and cons of fund raising. These sources of fund can be classified as temporary and permant, long term and short term, secured and unsecured, even on the basis of obligation on return, on the basis of risk. In this study particularly, financing decisions in Indian auto industry is studied in detail and study of period is last decade 2001-2010.

Government of India has adopted LPG policy in 1991 and later period has observed various economic reforms which has been attracting foreign direct and indirect investment in India. These investments have also generated fruitful return on investment. Auto industry growth is directly linked with economic growth of the country and the same has observed in last decade. Sluggishness in western economies and growing per capita income, GDP growth in Indian economy has attracted all western auto manufactures to establish manufacturing base in India. Today almost all auto manufactures in world have hope from Indian economy as other economies are struggling than ever before. The rigid competition in the domestic auto market may throw domestic manufactures from the market, but thanks to the Indian government effort for domestic auto industries in enhancing competitiveness since independence. Today domestic auto manufacture is strong enough to compete with western auto manufactures on the basis of market share, skill, technology, pricing of products.

Auto industry has witnessed strong growth in last decade since independence, so the study of financing pattern of these auto companies in boom period is important and will add knowledge to the existing one. This can help to understand how high-tech firms finance growing opportunities and address the challenge posed by western auto players. It was period when domestic auto companies found themselves in dilemma, in tapping the source of finance. As debt bears the less cost compare to equity, but generate more risk for the firm than equity. High use of debt by low business risk firms generates substantial return for investors, but the same is not true for high business risk firms. The volatility in earning of the firm affects the timely payment of firm's obligation and increases cost of financial distress or chances of firm failure. As earlier auto companies were protected under government infant industry policy and free from foreign competition. But after 1991, the emergence of foreign auto players increased steep competition in the domestic market and every decision for domestic auto players is strategic and capital structure decisions indicate whether the firm is risk averse or not. Today auto companies have various options in fund raising from hybrid securities, from domestic market to international market, from domestic currency to foreign currency. Under normal circumstances, risky fund raising decision does not affect operating performance of the firm but under adverse conditions firm loses its financial flexibility and operate under rigid conditions.

So study of capital structure and determinants of capital structure in Indian auto industry will add in the existing knowledge of researchers. The main objective of capital structure decision is to enhance the shareholders wealth by protecting long run stability of the firm. This research study is divided in five chapters. First chapter gives the introduction of the study and discuses research methodology adopted for the study and objectives of the study. Second chapter discusses review of capital structure theories in detail and earlier research on determinants of capital structure. The review of literature includes various capital structure theories by M&M, Stewart C. Myers, Myers and Majluf, Jensen C. Meckling. Third chapter discuses profile of auto industry and introduces to selected companies in the sample. Fourth chapter is data analysis and interpretation, also discusses the relationship between financial leverage and tangibility, size of firm, profitability, non debt tax shield, growth in asset. Fifth chapter is all about findings, suggestions and conclusions of the firm. The references and annexure followed by these chapters.

The findings of the study includes that selected auto companies have variation in their debt equity ratio. There is no particular pattern in debt equity ratio in auto industry and companies are more inclined towards less debt financing, zero debt financing. This debt equity ratio analysis implies that some companies are heavily relied on internally generated funds rather than external borrowing. The regression analysis findings imply that profitability of the firm is common determinant of financial leverage in selected auto companies and profitability have negative relationship. The negative relationship implies that auto companies follow particular hierarchy in their financing. This hierarchy of finance starts with internally generated funds, then debt and equity as last resort. So to increase the shareholders wealth finance manager must retain all earnings of the firm and earn rate of return more than opportunities available to shareholders. If firm fail to earn rate of return than opportunities available to shareholders, it will lead decline in market price of the share and value of firm ultimately. Even in future when firm issues securities investors will discount the issue and ultimately WACC of firm will increase. This is not complete research unless other firm specific variables and country specific variables are added to find out exclusive determinants of capital structure.