

Capital Structure and Earnings per Share: An Empirical Analysis of Indian Corporate Sector

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Abstract

This paper intends to measure the impact of capital structure on EPS (earnings per share) in Indian corporate sector. Fifteen control variables along with capital structure have been selected to know their impact on EPS. Panel data regression has been applied to establish the relationship among dependent and independent variables. It is found from the empirical analysis that the relation of capital structure with EPS has been statistically insignificant in Indian corporate sector among all specific industries except telecommunication industry. The results are consistent with Modigliani-Miller approach.

Keywords: Capital Structure, Earnings per Share, Panel Data

1. Introduction

A firm can choose a combination of debt and equity to finance its assets so that its overall value can be maximised and this is known as the capital structure of the firm. The seminal work of Miller & Modigliani (1958) showed that the market value of a firm is determined by its earning power and the risk of its underlying assets and is independent of the way it chooses to finance its investments or distribute dividends. One of the many objectives of a corporate financial manager is to ensure the lower cost of capital and thus maximize the wealth of shareholders.

Debt has been preferred over equity because normally the cost of debt is lower than the equity. Further, interest is paid out of before tax profits thus interest provides tax shield and helps in reducing the tax burden of firms consequently the profits available to equity shareholders increase. Though leverage cannot change the total expected earning of the company but it can maximise the earnings available to equity shareholders. On the other hand excessive use of debt increases the financial risk of

the firm and makes the debt financing more costly. The leveraging effect may also have inverse impact on profits available to equity shareholders. The mix of debt and equity where the benefit of the debt is higher than the cost of debt is called the optimal capital structure.

There are different views regarding the relationship of capital structure with earnings per share. Some researchers like, Durand (1959) and Solomon (1963) feel that capital structure decision can influence the earnings per share whereas others (Modigliani & Miller, 1958) feel that capital structure has no influence on earnings per share of the firm. Due to the conflicting opinions about the effect of capital structure on EPS, it was considered imperative to diagnose the relationship of capital structure with EPS. Therefore, this paper intends to resolve this puzzle that whether capital structure decision affects EPS in the Indian corporate sector.

This study is an empirical investigation to know the impact of capital structure on the earnings available to equity shareholders in Indian corporate sector. Conventional theories (like, net income, net operating income, traditional and Modiglaini and Miller approach) of capital structure based on the assumptions of the developed markets and economies that do not hold true in case of developing economies like India. Most of research studies reported profitability as the most significant determinant of leverage but some of the studies support that it is the financial structure which determines the earnings available to equity shareholders. The financing decisions are reflected in the operational efficiencies and resultantly affect firm's performance. This study will provide an insight into the impact of capital structure on the earnings available to equity shareholders. This research will provide ground for the Indian firms to finance their capital structure in such a way so to maximize the earnings available to equity shareholders.

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The remainder of this paper is divided into four main sections: the second section presents the theoretical basis for the analysis and reviews some recent empirical studies in this area. Third section details the methodology, explanation of the variables, the econometric model and the data employed in the study. The empirical results have been reported in the fourth section. And the final section provides conclusion and implications of the study.

2. Capital Structure and Earnings: A Review of the Literature

The improvement in the profitability is indispensable for the long-term survivability of the firm but equity shareholders are generally interested in the earnings available to them. Interest payment on debt is tax deductible whereas such deduction is not available in case of equity financing. The addition of debt in the capital structure will increase the earnings available to equity shareholders of the company. Therefore, it is important to test the relationship between capital structure and the earnings of the firm to make appropriate capital structure decisions.

Rao (1984) has studied the financial statement of twenty companies belonging to chemical industry of Indian corporate sector for the year 1980 to observe the impact of profitability on the debt equity ratio in sample firms. The study has observed the negative association between profitability and debt equity ratio for the entire sample from chemical companies under study.

Wald (1999) used the data from approximately forty countries. The total sample size was over 3,300 firms from the United States alone. By applying regression analysis, he found a negative correlation between leverage and profitability.

Chiang, Chan, & Hui (2002) collected data related to 18 developers and the other 17 contractors from Hong Kong by using DataStream. Their empirical results disclose that profitability and capital structure are closely related.

Abor (2005) took a sample of 22 firms listed on Ghana Stock Exchange over a five-year period (1998-2002). He found i) a positive relationship between the ratio of short-term debt to total assets and return on equity, ii) a negative relationship between the ratio of long-term debt to total assets and return on equity, and iii) a positive association between the ratio of total debt to total assets and return on equity. In addition, he found a positive relationship

between i) firm size and profitability, and ii) sales growth and profitability.

Chandrakumarmangalam & Govindasamy (2010) made an attempt to investigate the relationship between leverage (financial leverage, operating leverage and combined leverage) and earnings per share by using the data from seven public limited cement companies for a period of 11 years from 1997 to 2007. The study found that there is significant relationship between degree of financial leverage and EPS, degree of combined leverage and EPS and degree of operating leverage and EPS. The study reveals that leverage have significant impact on the profitability of the firm and the wealth of the shareholders can be maximized when the firm is able to employ more debt.

Gill *et al.* (2011) used a sample of 272 American firm listed on New York stock exchange for a period of three years from 2005 to 2007 to examine the effect of capital structure on profitability of the American service and manufacturing firms. The results of the study show a significant positive relationship between short term debt to total assets and profitability and total debt to total assets and profitability in the service and manufacturing industry whereas the relationship between long term debt to total assets and profitability is positive but insignificant in manufacturing industry and insignificant in service industry.

Rafique (2011) investigated the effect of the profitability of the firm and its financial leverage on the capital structure of the 11 listed firms in automobile sector in Pakistan. The study fails to establish any significant relation between profitability and financial leverage effect on the capital structure for the sample firms.

Saleem & Naseem (2011) analysed the leverage and profitability of selected oil and gas companies of Pakistan during 2004 to 2009 to understand the impact of leverage on profitability and EPS. The study failed to support the hypothesized positive relationship between financial leverage and both of the profit measures. The results also indicated that high levered firms were less risky in both market-based and accounting-based measured.

Shubita & Alsawalhah (2012) seek to extend the Abor's (2005) finding regarding the effect of capital structure on profitability by examining the effect of capital structure on profitability of the industrial companies of

Jordan. The study sample consists of 39 companies over a period of six years from 2004 to 2009. The result of study reveals significant negative relation between debt and profitability. The findings of the study suggested that profitable firm depend heavily on equity as their main source of financing.

Most of the research studies have been conducted for measuring the impact of capital structure on profitability whereas a few studies are available for measuring the effect of capital structure on the earnings available to equity shareholders. The equity shareholders are more interested in earnings available to him than total profitability of the firm. The present study provides an insight into the direct impact of capital structure on the earnings available to equity shareholders in Indian corporate sector.

3. Research Methodology

3.1. Objectives and Scope of the Study

The purpose of this study is to measure the impact of capital structure on earnings available to equity shareholders in Indian corporate sector. The proposed study is based on secondary data only. The necessary data has been procured from the 'Prowess' maintained by Centre for Monitoring Indian Economy (CMIE). The present study has been carried out for a period of ten years from 2001-02 to 2010-11 because sufficient data for modern firms (established after 1991) were not available prior to selected period. It has been observed from the review of literature that study period for most of the studies were 5 to 10 years, Data has been collected in year 2012, till then data were available up to 2010-11 only.

Eight industries have been selected for sample by selecting top four industries from traditional and modern sector, whereas the required number of companies (for applying panel regression test) were not available from other industries to include in sample. For comparison purposes, only four industries have been selected from each sector. The traditional sector includes Iron & Steel, Drug & Pharmaceutical, Fertilizer and Chemical industry (the majority of firms in these industries have been operating pre economic reforms of 1991) whereas modern sector includes Media & Entertainment, Computer & IT, Telecommunication and Transport Industry (the majority of firms in these industries have been established after economic reforms of 1991).

The sample has been selected from BSE-500 companies. The selection criteria for sample companies consist of two tests i.e., i) firm must have remained functional during study period, i.e., 2001-02 to 2010-11 and ii) firm has been using debt during complete study period and have comprehensive data for computation of required variables. A total of 167 firms have been selected from these eight industries and after critically examining for the consistency and availability of data on the basis of above criteria we were left with final sample of 133 firms.

3.2. Conceptual Framework and Measurement of Variables

The study is conducted over a period of ten years from 2001-02 to 2010-11 to measure the impact of capital structure on earnings available to equity shareholders in the Indian corporate sector. This section provides information about the measurement of the variables and discussion of different measures of the variables.

3.3. Dependent Variable

The dependent variable for this study is earnings available to equity shareholders (EPS). EPS has been calculated by dividing the total earnings available to equity shareholders divided by total number of equity shareholders at the end of year. Total earnings means profits after payment of preference dividend to preference shareholders, interest payments to bondholders and debenture-holders and other outside payments.

3.4. Independent Variables

In this study, capital structure has been taken as independent variables along with 15 other control variables, the measures used for those factors has been discussed in the following section:

3.5. Capital Structure

Empirical studies have defined capital structure in different ways. The definition of capital structure depends on the objective of the analysis (Rajan & Zingales, 1995). In this study, total debt to total assets has been used as the proxy for measuring capital structure. Total debt includes debt from banks (short term as well as long term) and financial institutions, inter-corporate loans, fixed deposits

from public and directors, foreign loans, loan from government, etc. Funds raised from the capital market through the issue of debt instruments such as debentures (both convertible and non-convertible) and commercial paper are also included here. Total assets include both current assets and fixed assets, but excluding fictitious assets. This study has used book value of debt and total assets.

Other control variables include size, growth, profitability, tangibility, age, earnings variability, debt service capacity, dividend payout ratio, non-debt tax shields, degree of operating leverage, price-earnings ratio, promoter shareholdings, liquidity, tax rate, and uniqueness. The measures used for these control variables have been derived from existing literature .

The growth has been measured by percentage change in total assets following Rafiq *et al.* (2008). The size has been measured by taking the natural log of total assets. Earnings before Interest and Taxes (EBIT) divided by total assets has been used as a measure of profitability in this study. Tangibility has been measured by the ratio of net fixed assets to total assets and age has been measured by number of years since incorporation. Earning variability has been measured by dividing the difference between net profit and average net profit by number of years of study. Following Bhatt (1980) and Kumar *et al.* (2012), the present study has used earnings before interest and taxes to fixed interest charges as proxy for measuring the debt service capacity. This study has used dividend per share to earnings per share to measure the dividend payout ratio as used by Rasoolpur (2012). This study has used the depreciation scaled down by total assets to measure non-debt tax shield. The percentage change in EBIT to percentage change in sales is being used for measuring operating leverage and liquidity has been measured by ratio of current assets to current liabilities. The ratio of market price per share to earning per share has been used as a proxy for price-earning multiplier and promoter shareholding has been measured as a percentage of shares held by the promoters to the total number of shares outstanding. In line with Rasoolpur (2012), this study has used selling and distribution expenses over sales as a proxy for uniqueness. The tax rate has been measured by the following formula:

$$\text{Tax Rate} = 1 - (\text{Earnings after tax} / \text{Earnings before tax})$$

Note that all variables have been calculated using book value.

3.6. Panel Data Model

The panel regression model has been adopted from Cuong & Canh (2012). This study has used panel data for the period 2001-02 to 2010-11 and an appropriate regression model to examine the impact of capital structure on earnings available to equity shareholders in the Indian corporate sector. Panel data have space as well as time dimension (Gujrati, 2004). If well-organised panel data are given, panel data models are definitely attractive and appealing since they provide ways of dealing with heterogeneity and examine fixed and/or random effects in the longitudinal data. Panel data gives more informative data, more variability, less collinearity among the variables, more degrees of freedom and more efficiency (Baltagi, 2005).

From a random sample, we perform panel data techniques of Fixed Effects model and Random Effects model. To check the suitability of these models, Hausman's specification test has been applied, if the results of this test rejects the null hypothesis, which is, "*difference in coefficients not systematic*", then we use Fixed Effects model otherwise we apply Random Effects model. Further, we test the validity of Random Effects model by applying Wald chi square and should use Random Effects model only by rejecting null hypothesis of "*no random effects*", otherwise we can use Pooled Ordinary Least Square (OLS) regression.

Variance Inflation Factor (VIF) has been used to check the multicollinearity among regressors. In the present study, analysis has been performed with the help of software package STATA.

4. Empirical Findings

This study intends to measure the impact of capital structure on EPS in Indian corporate sector. Empirical findings for explaining the impact of capital structure on EPS of firms have been presented in the following sections.

4.1. Variance Inflation Factor (VIF) Test

Variance Inflation Factor (VIF) test refers to actual disparity percentage to total disparity. VIF test has been applied to check the multicollinearity among the regressors

used in present study. Gaud *et al.* (2003) have quoted that the collinearity should not constitute a problem if VIF values are lower than 10. It has been observed from the VIF test analysis that three variables, i.e., growth and size measured by sales have high collinearity with growth and size measured by assets and cash flow coverage ratio have high collinearity with debt service capacity, so to get the reliable results we have to drop these three variables from further analysis. The results of VIF test after dropping the variables have disclosed that VIF values for all models have been found to be below 5, hence, collinearity can not be a problem for the present study.

4.2. Hausman’s Specification Test

Hausman’s specification test has compared the results from fixed effects and random effects model to check the appropriateness of model and on the basis of results from Hausman’s Specification test appropriate models

have been selected for interpretation. Therefore, results from Random-effects regression model or Fixed-effects regression model have been displayed in panel regression tables to examine the impact of capital structure on EPS in Indian corporate sector.

4.3. Panel Data Analysis

This section provides the answer regarding the impact of capital structure on EPS. For analyzing the impact of capital structure on EPS, panel regression model has been used. EPS has been taken as dependent variable and capital structure as independent variable along with fifteen other variables as control variables. The analysis has been made for the combined data. Thereafter, data from each industry have been analysed to check the impact of capital structure on EPS for specific industries. Fixed-effects regression results for combined data from all firms have been presented in Table 1.

Table 1: Panel Regression Results for Effect of Capital Structure on EPS for Combined Data

Variable	Regression Coefficients
Capital Structure (TD/TA)	8.639 (0.40)
Size (Assets)	103.458 (1.62)
Growth (Assets)	43.624 (1.83)***
Profitability	379.957 (1.96)***
Tangibility	0.055 (0.00)
Age	5.897 (0.71)
Earnings Variability	-0.038 (1.54)
Debt Service Capacity	-0.001 (0.08)
Dividend Payout Ratio	-0.244 (0.02)
Liquidity	5.878 (0.48)
Non-debt Tax Shield	-653.895 (0.57)
Degree of Operating Leverage	0.012 (0.15)
Price-earnings Ratio	0.163 (1.65)
Promoter Holdings	306.219 (1.70)***
Tax Rate	101.922 (0.99)
Uniqueness	74.196 (1.01)
Cons	-528.973 (2.25)
Durbin-Watson Test= 1.921	

*** indicates significance at 10 per cent level

Note: The figures given in parentheses indicate the t-values.

The value of Durbin-Watson test is 1.921 which is within the range of 1-3, therefore, autocorrelation might not be a problem for this model. F-statistics is 1.64 which is significant at .05 level, hence, the model has been statistically significant and can be used for interpreting the results. The value of R^2 (within) is 0.0217, which shows that 2.17 percent of variation in EPS is expected to be explained with this model over the period under study for every firm. The relation of leverage with the EPS has been found to be positive but p-value (0.692) shows that relation is not statistically significant. It shows that capital structure has no influence on EPS in Indian Corporate Sector. Thus, the findings are consistent with the Modigliani and Miller Proposition I and support the findings of Rani (1997) and Singh (2002). Growth, profitability, and promoter shareholdings have been

found to be positively related with EPS and this relation is statistically significant at .10 level. All other control variables considered for this model have been found to be statistically insignificant for determining the EPS.

Table 2 presents the appropriate panel regression models for chemical, drugs & pharmaceutical, fertilizer and iron & steel Industries on the basis of Hausman's Specification test for interpretation.

The Durbin-Watson value for all four industries have been falling within the range of 1-3 means there is no problem of auto correlation in these models. The value of Wald chi square for chemical industry is 201.89 and p-value being less than .05 validates the model. Around 40 percent of variation in EPS has been explained with the help of this model. The relationship of leverage with EPS has

Table 2: Panel Regression Results for Effect of Capital Structure on EPS in Traditional Industries

Industry	Chemical	Drugs & Pharma	Fertilizer	Iron & Steel
Panel Regression Model	Random-effects	Fixed-effects	Random-effects	Random-effects
R-sq	0.3983(overall)	0.2607(within)	0.5484 (overall)	0.0748 (overall)
Model Validation test	Wald chi ² (23) = (201.89)*	F-test = (5.80)*	Wald chi ² (16) = (88.65)*	Wald chi ² (16) = (49.14)*
Variable	Regression Coefficients	Regression Coefficients	Regression Coefficients	Regression Coefficients
Capital Structure (TD/TA)	-3.355 (0.49)	17.453 (1.44)	-11.794(0.45)	-1.747 (0.16)
Size (Assets)	7.844 (2.93)*	-39.881(3.37)*	-12.590 (1.75)***	8.696 (2.23)**
Growth (Assets)	-1.089 (0.69)	3.502 (0.72)	0.806 (0.11)	7.507 (1.37)
Profitability	158.971(8.28)*	84.161 (3.83)*	173.101(2.67)*	128.797(4.10)*
Tangibility	5.528 (0.66)	22.314(1.36)	3.364(0.10)	-30.263(1.17)
Age	0.013 (0.12)	4.131 (3.90)*	-0.009 (0.20)	-0.116 (0.32)
Earnings Variability	0.016(1.57)	-0.003 (1.22)	0.001(0.08)	-0.002(0.89)
Debt Service Capacity	0.011(0.63)	0.001(3.24)*	0.537(2.26)**	0.049(0.68)
Dividend Payout Ratio	0.277(0.30)	5.875(1.70)***	2.787 (0.35)	-20.679(1.36)
Liquidity	0.997(1.87)***	-1.941(1.12)	-10.585(1.57)	2.083 (0.70)
Non-debt Tax Shield	-130.640(1.27)	-94.472(0.61)	-205.503(0.63)	-216.814(0.88)
Degree of Operating Leverage	-0.001(0.08)	0.066(1.04)	-0.002 (0.64)	0.074 (0.74)
Price-earnings Ratio	-0.012(0.94)	-0.228(3.59)*	-0.131(1.01)	0.034(1.42)
Promoter Holdings	9.792(1.34)	23.160(1.17)	-34.032(2.60)*	-19.253(0.79)
Tax Rate	-6.701(0.84)	1.440(0.12)	24.380 (1.21)	15.888 (1.74)***
Uniqueness	-49.826(1.54)	-41.699(0.75)	61.096 (0.83)	367.925 (3.19)*
Cons	-32.348(2.49)	6.807 (0.25)	80.467 (2.04)	-20.164 (0.72)
Durbin-Watson Test	1.161	1.351	1.776	1.257

***indicates significance at 10 percent level

**indicates significance at 5 percent level

* indicates significance at 1 percent level

Note: The figures given in parentheses indicate the t-values/z-values.

been found negative but the relation is not statistically significant. Size, profitability, and liquidity have positive significant relationship with EPS whereas all other control variables have statistically insignificant relationship with EPS. It means that only size, profitability, and liquidity have been influencing EPS whereas the remaining variables have not been affecting EPS in chemical industry.

The value of F- statistics for drugs & pharmaceutical industry is 5.80 which is significant at 1 % level, hence, the model is statistically significant. The value of R^2 (within) is 0.2607 which shows that 26.07 percent variation in EPS has been explained with this model over the period under study for every firm. The relation of leverage with the EPS has been found to be positive but p-value (0.151) reveal that relation is not statistically significant which means that leverage has not been affecting EPS in drugs & pharmaceutical Industry during the study period. Profitability, age, debt service capacity, and dividend payout ratio have positive and statistically significant relationship with EPS whereas size and price-earnings ratio have negative and statistically significant relationship with EPS. All other control variables considered for this model have been found to be statistically insignificant for determining the EPS in drugs & pharmaceutical industry.

The R^2 for the fertilizer industry model is 0.5484, which means that 54.84 percent of variation in EPS has been explained by this model. The empirical results show that leverage has been found to be positively related to EPS but the relation is not statistically significant. From the control variables, profitability and debt service capacity have been found to be positively related to EPS and statistically significant at .01 and .05 level respectively whereas size and promoter shareholdings have been negatively related to EPS and relation is found statistically significant at .10 level and .01 level respectively. Other variables included in the model have been found to be statistically insignificant, therefore, these variables are not influencing EPS in fertilizer industry for the period covered under present study.

Wald chi square test has been used to check the significance of model for iron & steel industry. The value of Wald chi-square is 49.14 and p-value (0.0000) shows that model is highly significant and fit for interpretation. The model has explained 7.48 per cent of variation in EPS. The leverage has been found to be negatively related to the EPS but

the relation is not statistically significant. The control variables viz., size, profitability, tax rate, and uniqueness have positive relation with EPS and relations have been found statistically significant whereas other control variables have been found to be statistically insignificant for determining the EPS in iron & steel industry during the study period.

It is revealed from the analysis of above results that the relation of capital structure with EPS has not been found statistically significant in any of the industries; hence, the results for all industries are consistent with Miller and Modigliani approach.

Table 3 presents the appropriate panel regression results for computer & IT, media & entertainment, telecommunication, and transport industries on the basis of Hausman's Specification test. The value of Durbin-Watson test lies within the range of 1-3, which nullifies the presence of severe autocorrelation in these models.

The F-value for computer & IT industry is 2.94, which is statistically significant at .01 level, thus, the model is significant and good for interpretation. The R-square (within) discloses that around 20 percent of variation in EPS has been explained with the help of present model over time for a particular company in computer & IT industry. The relation of leverage with EPS has been found to be positive but relation has been found statistically insignificant. From the control variables, only dividend payout ratio has been found to be statistically significant at .10 level. All other control variables have been found to be statistically insignificant for determining EPS in computer & IT industry.

The value of Wald chi square for media & entertainment industry is 51.85 and p-value (0.0000) being less than .05 validates the model. The value of R^2 (overall) is 0.4153, which shows that 41.53 percent of variation in EPS has been explained with this model. The relationship of leverage with EPS has been found to be negative but relation is not statistically significant. Earning variability has negative relation with EPS and relation has been found statistically significant at .01 level whereas liquidity has positive and statistically significant relationship with EPS. All other control variables included in the model have been found to be statistically insignificant for influencing the EPS in media & entertainment industry for period covered under study.

Table 3: Panel Regression Results for Effect of Capital Structure on EPS in Modern Industries

Industry	Computer & IT	Media & Entmnt	Telecommunication	Transport
Panel Model	Fixed-effects	Random-effects	Fixed-effects	Random-effects
R-sq	0.1975 (within)	0.4153 (overall)	0.7094 (within)	0.3290 (overall)
Model Validation test	F(16,191) = (2.94)*	Wald chi ² (16) = (51.85)*	F (16,47) = (7.17)*	Wald chi ² (16) = (40.69)*
Variable	Regression Coefficients	Regression Coefficients	Regression Coefficients	Regression Coefficients
Capital Structure (TD/TA)	9.615 (0.38)	-113.409 (1.40)	31.243 (2.28)**	-8.080 (0.10)
Size (Assets)	92.889(0.72)	-26.821 (0.80)	38.710 (5.39)*	-37.401(2.07)**
Growth (Assets)	2.832 (1.03)	-0.004 (0.43)	-3.427 (0.92)	2.290 (0.31)
Profitability	-56.222 (0.18)	180.838(1.20)	17.899(0.54)	62.053 (0.39)
Tangibility	-154.281(0.36)	-79.255(0.80)	-0.863 (0.06)	-43.416 (0.65)
Age	-16.016(0.79)	0.515(0.26)	-3.199(3.59)*	-0.280 (0.11)
Earnings Variability	0.005 (0.09)	-0.497(3.80)*	0.001 (0.26)	-0.040(0.62)
Debt Service Capacity	-0.010(0.26)	0.128(1.62)	0.001 (0.67)	0.005 (0.38)
Dividend Payout Ratio	-34.348(1.72)***	0.037(0.29)	1.568 (0.48)	4.065(0.88)
Liquidity	1.226(0.07)	28.979(1.91)***	0.686 (0.60)	-3.228(0.35)
Non-debt Tax Shield	1813.798(0.95)	558.354(0.99)	-102.018(1.06)	3119.524(5.12)*
Degree of Operating Leverage	1.288 (5.75)*	0.023 (0.51)	-0.004 (0.71)	4.785 (3.03)*
Price-earnings Ratio	0.011 (0.09)	-0.160(0.77)	-0.111(1.33)	-0.114 (0.50)
Promoter Holdings	-265.368(0.73)	30.352(0.21)	-7.772(0.24)	-28.437(0.33)
Tax Rate	-198.044(0.52)	-61.575 (0.56)	-15.069 (0.93)	-17.873 (0.18)
Uniqueness	716.938(0.43)	64.525 (0.64)	0.610 (0.33)	-2.316 (0.26)
Cons	108.415 (0.23)	87.581(0.59)	-113.287(3.59)	147.213(1.64)
Durbin-Watson Test	1.891	2.515	1.427	1.386

***indicates significance at 10 percent level

**indicates significance at 5 percent level

* indicates significance at 1 percent level

Note: The figures given in parentheses indicate the t-values/z-values.

F-statistics for telecommunication industry is 7.17 with a p-value of 0.0000 reveal that model is statistically significant and can be used for interpretation. The value of R² (within) is 0.7094, which shows that 70.94 percent variation in EPS has been explained with this model over the period under study for firms selected as sample from telecommunication industry. The relation of leverage with the EPS has been found to be positive and statistically significant at .05 level. It means that use of debt in capital structure enhances the earnings per share in Telecommunication industry during study period. Size has been positively related with EPS whereas age has been negatively related to EPS and both these relations are statistically significant at .01 level. All other control variables considered for this model have been found to

be statistically insignificant for influencing the EPS in Telecommunication industry during the study period.

The R² for the Transport industry model reveals that 32.90 percent of variation in EPS has been explained by this model. The empirical results show that leverage has been found to be negatively related to EPS but the relation has not been statistically significant. From the control variables, size has been found to be negatively related to EPS and relation has been statistically significant at .05 level whereas non-debt tax shield and degree of operating leverage have also been found to be negatively related to EPS and relation has been statistically significant at .01 level. Other variables have turned out to be insignificant in affecting EPS in Transport industry during the study period.

It is revealed from the analysis that the relation of capital structure with EPS has been found positive and statistically significant in Telecommunication industry supporting the predictions of Net income approach whereas insignificant for remaining industries supporting the predictions of Net operating income and Modigliani and Miller approach. It is observed from the empirical analysis that capital structure is not a significant factor influencing EPS of firms in traditional and modern industries of Indian corporate sector.

5. Conclusion

This paper investigates the impact of capital structure on EPS in traditional and modern firms from Indian corporate sector. Regression results reveal the applicability of Modigliani and Miller approach in selected industries from both sectors of Indian corporate sector. From the specific analysis of different industries, it is revealed that the impact of capital structure on EPS has been found positive in drugs & pharmaceutical, computer & IT and telecommunication industries and negative in remaining industries included in study. However the relation has been statistically significant in Telecommunication industry only to support the predictions of Net Income Approach. The return on equity rises exactly in line with any increase in gearing to avail any benefits conferred by the use of cheap debt. The market value of the firm would increase with the decreased tax burden. Chandra, 2011 quoted that a rupee of debt enhances company value by 10 to 15 paise, thus, it makes sense to avail of the tax advantage of debt. Therefore, firms from both sectors of Indian corporate sector specially traditional firms should use higher level of debt to increase the earnings available to equity shareholders

5.1. Implications of the Study

This study contributes to the literature on the relationship between capital structure and earnings available for equity shareholders. Limited research has been conducted for comparison of traditional and modern sector, therefore this study is an attempt to compare the impact of capital structure on EPS in both sectors of Indian corporate sector. Further, this study validates the findings of Modigliani and Miller approach of capital structure by testing the impact of capital structure and control variables on earning per

share of the sample firms. This study provides insights for policy-makers that companies should use optimum capital structure for enhancing the earnings available for equity shareholders.

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