A STUDY ON FINANCIAL CONSTRAINTS OF CAPITAL STRUCTURE THEORIES AND DIVIDEND POLICY : EVIDENCE FROM INDIAN CAPITAL MARKET

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ABSTRACT

The study focused on the ability of firms to play this role is in major part determined by the structure of the financial system in which they operate, and in particular whether this financial system is able to make capital available efficiently to those firms that need it. The study examines the relation between the Financing, Investments, Capital Budget and Dividend decisions, where the effect of financial constraints on the firm's investment decision is investigated. Thestudy focuses on how financial constraints affect different firms by investigating the extent to which the dependence on internal cash flow is affected by firm characteristics such as size, age, dividend payout ratio, and market listing. This implies that firms retain earnings (RE) in order to ensure that they have sufficient capital to invest, confirming the initial result that Indian firms are financially constrained. This study adopted a descriptive design that aims at exploring the financial constraints of dividend policy and capital structure theories of companies listed at NSE & BSE in India. The data was obtained from financial statements and balance sheet of all the listed companies' information available at the NSE and BSE secretariat for 10 years from 2005 to 2015.

Key Word : Dividend, Finance Decision, Capital Market, Financial system and Profitability Ratio.

INTRODUCTION

The obtainable literature on optimal dividend policy and capital structure is huge and has continuously evolved over the last ten years. The objective of this Research study was to establish the financial constraints between the dividend policy and capital structures of companies listed at the National stock exchange and Bombay stock exchange. This study relied on secondary data. The study sampled 100 companies in the industrial and allied sector listed at the National Stock Exchange. The paper study to find out the whether there exist financial constraints between dividend policy and capital structure. Decisions regarding the most optimal choice of financing sources and dividend policy are some of the most difficult financial decisions. Firms have a choice between internal or external sources to finance their investments. Internal sources include retained earnings and depreciation, while external sources basically refer to use of debt or equity. Thus the financing decision involves the appraisal of two choices. The first is the dividend choice; the fraction of retained earnings to be ploughed back and the fraction to be paid out as dividends. The second is the capital structure choice; the fraction of external finance to be borrowed and the fraction to be raised in the form of new equity.

India has had constant substantial economic changes since it started its economic reforms at the beginning of the 1990s. The GDP growth rate

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of the Indian economy averaged 7 percent for the period from 1999 to 2008. Among the most important reform features were the privatization of government enterprises and the promotion of exports and foreign direct investment. A major improvement in the Indian capital market began in 2000 when new legislation was introduced, and in 2000 the National stock exchange and the Mumbai stock exchange became the official stock market of India. The banking system in India is well-developed, efficient and profitable. The reform of India's economy indicates the importance of the non-financial sector as a key factor in the economy's development. However, this development is strongly influenced by firms' investment and financing decisions.

This research paper mainly discussesresults in the context of Modigliani and Miller (1958) contribution to modern finance theory, where in a perfect world firms' investment and financing decisions are independent, and firm value is independent of its financing decision. The firm's investment rate is affected by the profitability of that investment, and external and internal sources of funds are perfect substitutes. However, in reality the market is not perfect and there are many factors that affect the firm's financing decision, such as; agency costs, transaction costs, taxes, and most importantly asymmetric information between investors and firms. Since the development of the theoretical aspects of corporate finance, a large number of studies have shown that imperfections in the market affect the financing decision of the firm, and that internal and external finance are not perfect substitutes.

LITERATURE REVIEW

Mukherjee (1992) is unique in that it applies the Lintner model, which has been developed on the basis of a US survey, to a developing rather than a developed country. Predominantly, annual data for the collective Indian corporate sector for the period 1949 to 1981, before significant reforms were introduced, is utilized to show that the basic Lintner model performs well in explaining dividend behavior in India. Modification of the basic model, by adding the availability of external finance as an explanatory variable, improves the fit of the model. Lee (1996) assesses whether there is long-term relationship betweenvarious definitions of earnings and dividends. The study utilizes a bivariate time-series model of earnings and dividend obtained from annual observations on the Standard & Poor's Index for the period 1871 to 1992. The model is sufficiently general to allow various specification of target dividend to be nested within it. These restrictions are then tested, taking into account the non-stationary of the dividend and earnings series and the integration between them. The results indicate that dividend behavior is determined primarily by changes in permanent earnings and that the Lintner model performs better when the target payout ratio is a function of permanent rather than current earnings.Shirvani and Wilbratte's (1997) study further estimates the error correction Model to capture short-run deviations from the long-run target payout ratio and the promptness of adjustment. Thus the study also touches on the first of the three questions about the Lintner model, namely the question of what determines the speed of adjustment. It is found that firms apply different adjustment rates in raising and lowering dividends. When the payout ratio is below its long-run target, the firm will increase dividends.

Lasfer (1996) show payout ratio, liquidity and risk to be significant and to enter with the signs predicted by the tax to test the hypothesis. Further, results of an event study in the second part of the paper are also supportive of the tax hypothesis, rejecting the tax induced clientele effect. Specifically, significant and positive abnormal returns are reported on the dividend day consistent with the notion that the price drop on the dividend day is systematically less than the value of the dividends.Green and Rdyqvist (1999) note that another advantage of looking at the Swedish Lottery bonds is that distributions are tax-exempt. In most cases, where the tax system favours capital gains, factors such as transaction costs of handling dividends can

substitute for the effects of taxes, making ex-days behavior difficult to assess. In the lottery bonds market such factors have an opposite effect to that of taxes because the tax system favours distributions.

Fama and French (2001) in their research paper provided evidence to show that US dividend paying firms tend to be large and profitable, while non-payers are typically small and less profitable but with high investment opportunities and explained that the dividends patterns are subjective to the profitability of the company. Those companies that are more profitable are expected to pay more dividends compared to those that are less profitable.In Myers (1984), firms adopting this theory could be regarded as setting a target debt ratio and gradually moving towards achieving it. The static trade-off theory also suggests that higher profitable firms have higher target debt ratio. The dynamic trade-off theory which was popularized by Fischer et al. (1989) gave a foundation for a negative relationship between profitabilityand leverage. The argument is that firms passively accumulate earnings and losses, letting their debt ratios deviate from the target as long as the costs of adjusting the debt ratio exceed the costs of having a sub-optimal capital structure.

Masum (2014) proposes that selecting a suitable dividend policy is an important decision for companies because flexibility to invest in future projects depends on the amount of dividends that they pay to their shareholders.The paper suggests that investors may prefer dividend because they derive less utility from one large gain (e.g a large capital gain) than from a series of small gains (e.g a small capital gain and a dividend).In this context thedividend payments are signs that a firm is being run efficiently for investors rather than for management.In John and Williams' (1985) the firm may be temporarily under-valued when investors have to meet their liquidity needs. If investors sell their holdings when the firm is undervalued, then there is a wealth transfer from old to new shareholders. The paper investigates the determinants of the corporate dividend policy in the context of agency relation. Stepwise multiple regressions were used to check the reliability value of ownership with relation to the dividend payout policy. Further the study aimed at determining whether ownership structure is linked to the dividend policy in the industrial companies listed in American Stock Exchange.

As given in Hubbard and Michaely and Papaioannou and Savarese (1994) the basic tax hypothesis suggests that because personal taxes on dividends tend to exceed those on capital gains, firms have an intention to adopt a conservative payout policy and such policy should be value enhancing.The study also found that the managers of diversified firms bear relatively lower costs in increasing the percentage of their wealth invested in the firm's equity. Thus diversified firms tend to use more of the managerial ownership dividend and less of the debt and dividend devices to control agency costs.Chingfu Chang, Alice C. Lee and Cheng F. Lee (2009) find - that agency costs should be lower in the Indian business environment. This implies that the agency rationale for dividends should be less applicable in the case of India. The paperintervention rationale for dividends is predicted to become particularly applicable to India stock exchange. The paperexplored that the conflict between the shareholders-lenders that has the effect of shifting risk from shareholders and of appropriating wealth in their favor as they take on risky investment projects.

Alti (2006) further finds that market timing appears to have only a short-term impact on capital structure. The short-term deviations from the leverage target quickly reverse after going public, which is more consistent with the prediction of trade-off theory of capital structure. According to Rozeff, M. (1982). The paper casts doubt on the market timing theory by arguing that the commonly used measures of market timing, such as market-to-book ratio, are likely to be correlated with other determinants of financing decisions, and generate a spurious link between market timing and capital structure dynamics.Born, J.A. and J.N. Rimbey, (1993),

provide a theoretical framework that links capital structure and market structure. Contrary to the profit maximization objective postulated in industrial organization literature, this paper research activities are similar to the corporate finance theory in that they assume that the firm's objective is to maximize the wealth of shareholders.

Modigliani and Miller (1958) concluded that the value of the firm is self-determining of capital structure and that the value of an unlevered firm is equal to that of a levered firm. The research was based on the assumption of absence of taxes. This assumption was considered unrealistic in their subsequent research. The optimal capital structure is obtained by trading off the agency cost of debt against the benefit of debt. Here, Jensen and Meckling first identified disputes between shareholders and managers because of management's ownership being less than 100% of the equity.In Gombola, M.J. and F.Y. Liu, (1999) the firm's historical average flotation cost incurred in selling common stock is expressed as a percentage of the gross proceeds. Each firm's historical average Float Cost is estimated from equity offerings during the period 1971 to 1986. And he has developed the one equation to calculate the Free Cash Flow: - (net income + depreciation + interest expenses - capital expenditure] / total assets.

Dixit and Pindyck (1994) extend the investment timing model, and derive a real options theory of Investment. They show that, with irreversibility or partial irreversibility, an investment opportunity could be considered as a call option which can be exercised at any time before the option expires. Financial options literature, e.g. the Black-Scholes framework, indicates that higher volatility of underlying financial assets increases the option value, leading to a higher critical value for option exercise. Consistent with this intuition, greater uncertainty associated with the outlook of an irreversible investment is likely to increase the value of the real option to invest, creating a larger wedge between the standard present value of future cash flows and the overall investment cost of a project.Laux, Starks and Yoon (1998) seek to determine the information that market participants perceive to be contained in the dividend change announcements. They do this by looking at the price reaction of non-announcing firms to dividend change announcements by firms in the same industry. Specifically, it is proposed that rivals' price reaction should be of the same direction as that of the announcing firm if the dividend change announcement is interpreted as indicating industry-wide information (contagion effect). In contrast, if the announcement is interpreted as signaling a shift in the competitive position of the announcer then the price reaction of rivals should be in the opposite direction (competition possessions).

RESEARCH OBJECTIVES

The focus of this study is Impact of Capital Structure and Dividend theories financial constraints Performance of the Business industry in listed companies in Indian (NSE & BSE). The analysis has three goals.

1. To reveal the impact of Capital Structure and Dividend Policy impact on financial performance if listed companies under NSE and Capital Structure and Dividend theories performance in the capital market of India
2. To determine the determinants of a capital structure and divined theories impact in the stock market

Research Hypotheses

The following hypotheses are formulated for the study

H_0:-There is a negative relationship between capital structure and financial performance.

H_1:-There is a negative relationship between dividend theory and financial performance.

H_3:-There is a positive relationship between capital structure and financial performance.

H_4:-There is a positive relationship between dividend theory and financial performance

H_5:- The capital structure and dividend policy has significant impact on financial performance in the Indian capital market.

H_6:- There is a statistically significant relationship between use of debt and size of the firm.

H_7:-There is a statistically significant relationship between use of debt and tangibility of assets of the firm.

SIGNIFICANCE OF THE STUDY

1. The present research paper needthe financial managers in addition to other stakeholders of all firms around the world who want to know the proper capital structure and dividend policies (mix of debt and equity) that maximizes a firm's value.
2. The present studypoint out the necessity to know the factors that influence the capital of their firms.in this regard, financial managers (policy makers) need to primarily identify the impacts of changing certain firm-specific measures on the capital of the firm.
3. The paper want to identify the relationships between profitability, liquidity, growth opportunity, dividend policies, ownership structure, tangibility, and riskiness on financing decisions of the firm.
4. In this research paper the outcomes of this study will a contribute to the body of literature governing finance decisions in this environment.
5. The research study has observed the existence of non-linearityrelationship between Indian stock market and other countries stock market.
6. This study is conducted based on secondary data obtained not only from one sector, as most of the published studies do, but also based on data obtained from multiple sectors. This will provide evidence on the impact of industry on capital structure factors and Dividend theories.
7. This Research papers main goal is to bridge the gap, probing the case of the Indian stock market firms. Moreover, the study focuses on measuring the relationships between leverage and changes (variations) in the independent variables.

RESEARCH METHODOLOGY

a. Research Design

This study adopted a descriptive design that aims at exploring the financial constraints of dividend policy and capital structure theories of companies listed at NSE & BSE in India. Research designs result in a description of the data, either in words, pictures, charts, or tables, and indicate whether the data analysis shows statistical significance or is merely descriptive. A sample of firms listed at the NSE & BSE was used to produce results that are broad, credible and conclusive. Survey is preferred as a result of financial constraints and surveys focus on data rather than theory. The research is quantitative in nature and relies on secondary data obtained from the financial report of the NSE& BSE and firms sampled. The data has been taken from theyear 2005 to 2015.

b. Population

In this Research study the population can be defined as a complete set of individuals, cases/ objects with some common observable characteristics of a particular nature distinct from other population. According to Mugenda and Mugenda (1999), a population is defined as a set of people, services, elements and events, group of things or households that are being investigated. The population consisted of 100 companies listed at the NSE and BSE from 2005 to 2015 from out of 2759. This period was considered long enough to provide sufficient variables to assist in determining a trend on the financial constrains between dividend payout ratio and capital structure. This is consistent with other related studies in Indiancontext.

c. Sample Design

The sample was made up of 100 companies listed at NSE and BSE in the allied sector from out of the 2759 listed Companies under National Stock Exchange. The study has adopted the random sampling technique as well as purposive sampling methods. Yearly data for the period 2005 to 2015 was used. The study was limited to the quoted companies due to lack of voluntarily available data among the private companies and public sector companies.

d. Data Collection

The study sourced data from secondary sources. The data was obtained from financial statements and balance sheet of all the listed companies and other resourceful information available at the NSE and BSE secretariat for 10 years from 2005 to 2015. The data extracted include;Retained Earnings, Gross Profit, Dividend Payout Ratio, Earning per share and debt to equity ratio from published reports of listed companies.

DATA ANALYSIS AND INTERPRETATION

Data analysis involved preparation of the collected data, coding, editing and cleaning of data so as to facilitate processing using SPSS package and EVIEWS. The coded data was keyed into the SPSS program where it was developed into a database and subsequently analyzed. SPSS is preferred because it is systematic and covers a wide range of the most common statistical and graphical data analysis. Regression model was used to establish the relationship between the variables. Correlation analysis was used to explain variation between the depended and in depended variables listed in the below.

There are 100 companies listedunder National Stock Exchange out of which only ten companies has declared/paid dividends within the periodunder study. The secondary information for the study havebeen sourced from the annual reports and accounts from sampled companies coveringa period of five years (2005-2015) to developed the literature review and structure questionnaire. The data collected were analyzed using descriptivestatistics, correlation and multiple regression methods. The companies 'dividend policy is taken as the dependent variable. Dividend per share (DPS) anddividend payout (DPO) are used as proxies for the dividend policy.The independent variable of the study is ownership structure. Board members shareownership (BOS), outsiders share ownership (OSO) and block share ownership (BSO)are used as proxies for the ownership structure. Earnings per share (EPS) are used asthe control variable.

VARIABLES AND THEIR MEASUREMENT CRITERIA

Variables	Measurement
DPS	Ratio of ordinary dividend to the total number ofordinary share
DPO	Ratio of dividend payout ratio to Earning per share
EPS	Ratio of profit after tax to total number of ordinaryshares
BSO	Proportion of ordinary shares held by boardmembers to the total outstanding ordinary shares of the company
OSO	Proportion of ordinary shares held by outsiders tothe total outstanding ordinary shares of thecompany
Block share ownership	Proportion of ordinary shares held by substantialshareholders (with equity shares of 1m and above)

Hence, the model is expressed as

$DPSti = \beta oti + \beta 1ISOti + \beta 2OSOti + \beta 3BSOti + \beta 4ti EPSti + eti$————(I)

$DPOti = \beta oti + \beta 1ISOti + \beta 2OSOti + \beta 3BSOti + \beta 4ti EPSti + eti$————(2)

Where:

DPSti = Is the dependent variable representing dividend policy (dividend per share).

βoti = Is the constant (i.e the intercept)

β1ISOti = Independent variable representing insider share ownership.

β2OSOti = Independent variable representing outside share ownership.

β4tiEPSti = Control variable representing earnings per share.

e = Error term

DPOti = dependent variable representing dividend payout.

DESCRIPTIVE STATISTICS OF EXPLAINED AND EXPLANATORY VARIABLES

Present Research Paper's data analyses the summary statistics of all the dependent and independent variables used in the analysis. The below table reports the mean, median, standard

deviation, coefficient of variation, and the number of observations for each variable. The coefficient of variation indicates that there is a substantial variation among the explanatory variables

Table 1. Descriptive Statistics of dependent and independent Variables

Variables	Observation	Mean	St. Dev.	Coefficient of Variation	Minimum	Maximum
DPS	100	.0786	.0043	.0004	.5738	.7648
DPO	100	.0623	.9870	.0800	.0784	.8930
ISO	100	.0691	-.0864	.0746	-.0896	.4381
OSO	100	.8541	.0071	.0362	-.846-	.5381
BSO	100	.4571	.0021	.0371	.0081	.0971
EPS	100	.9682	.8401	.8104	.0082	.0963
ROE	100	.3910	.0128	.0318	.0351	.8510

Source: results SPSS output, significance level 5%

The Table -1shows a descriptive statistics result of the dependent and independent variables. The table shows the mean andstandard deviation with minimum and maximum range of the explained and explanatoryvariables. The average value indicate from the table is .0786 of the dividend per share in the same sequence the value of other variable like DPO, ISO, OSO, BSO, EPO and ROE. On average the sampled companies pay per share as dividend withstandard deviation of0.0043. Around the mean of total percentage, 6% of the earnings are paid out onaverage as dividend with standard deviation of DPS and DPO 0.30, which means 115% of the earningsare retained for future expansion. The insider share ownership (ISO) holds an averageof 10% and outsider (OSO) 95% with standard deviation of 0.07 in each case. Averageblock share ownership (BSO) is 76% with standard deviation of 0.14. On average theearning attributable to ordinary shareholders is 0.11 per share with standard deviationof 1.98.

Table 2. Descriptive statistics Values

Variable	Mean	Std Dev	Skewness	Kurtosis
PAYOUT	.598	.980	.042	.365
RISK	.690	.694	.003	.450
LIQUIDITY	.487	.569	.051	.001
FOREIGN	.264	.279	.004	.023
INST	.379	.589	.035	.014
DIRS	.150	.548	.009	.025
PUBLIC	.369	.610	.001	.047

Source: results SPSS out, significance level at 5%, payout = equity dividends / net profit, ; growth = annual growth rate in sales from 2005 to 2015; risk = standarddeviation of daily stock returns over the 365 days ending 31 March 2001; liquidity = percentage of days the company's stocktraded on the Bombay Stock Exchange in the year ending March 2001; foreign = percentage of equity shares held byforeigners, 2001; inst= percentage of equity shares held by insurance companies, mutual funds and financial institutions,; DIRS = percentage of equity shares held by directors of the company, 2001; public = percentage of shares held bythe public at large,

According to the above table, the author has observed that there does not appear to be high correlation between anytwo of the explanatory variables. The only exception is RISK and liquidity with correlation value of 0.35. However, to assess more directly whether multicolinearity is present, theVariance Inflation Factor (VIF) procedure is undertaken. VIF (k) can be interpreted as theratio of the actual variance of the estimated coefficient, VAR (k), to what it would have beenin the absence of multicollinearity. (In the latter case, the coefficient of multiple determinations, R2k, in a regression of the explanatory variable on all other explanatoryvariables is zero). As can be observed from the below other table none of the VIF values exceeds two,confirming that the sample data do not suffer from multicollinearity. Still, to discourse thecomparatively high correlation between risk

and liquidity an approach Jahera and Pager (1985) is undertaken. Explicitly, the variable risk and liquidity is regressed on acontinuous and the series of residuals acquired, residual risk, replaces theoriginal risk variable.

Table 3. Correlation Matrix

Variables	DPS	DPS	DPS	DPS	DPS	DPS	ROE
DPS	1						
DPO	.0231	1					
ISO	.2580	.1670	1				
OSO	.0247	.8040	.0304	1			
BSO	.3641	.6073	.8031	.6017	1		
EPS	.0147	.2378	.3813	.5031	.9210	1	
ROE	.3648	.0153	.2680	.5301	.2580	.3642	1

Source: results SPSS out, significance level at 5%,

Table 3 shows that the correlation results of dependents variables DPS and DPO andexplanatory variables ISO, OSO, BSO and EPS. The relationship between DPS andexplanatory variables OSO and EPS is strong and positive. This means that, all thingsbeing equal the higher the OSO or EPS the higher the DPS. The relationship betweenDPS and dependent variable BSO is weak and positive. However, the correlationbetween dependent variable DPS and independent variable ISO is strong and negative.This means that, the higher the ISO the lower the DPS which is in line with generalagency problem. When insiders hold sizable number of shares they prepare to retainthe profit for future expansion and empire building.The relationship between dependent variable DPO and independent variables OSO andBSO is weak and positive. On the contrary, correlation between DPO and explanatoryvariables ISO and EPS is weak and negative.

REGRESSION ANALYSIS

Regression analysis is a statistical technique that can be used to develop an equation showing how variables are related. The statistical method was used for analyzing the multiple regression and correlation analysis. The significance of each independent variable (capital structure) was tested at a confidence level of 95%. In this Research study, dependent variable was dividend payout ratio and independent variables were leverage and retained earnings. The variables involved were calculated as follows;

Dividend payout ratio = DPS ÷ EPS.

Leverage was measured by Debt to Equity ratio = Total debt ÷ Shareholders Equity.

Retained Earnings was measured by EPS = EAT ÷ No. of shares.

In arrange to examine the relationship between dividend payout ratio and capital structure, the regression equation of the form given below was applied;

$Y = \alpha 0 + \alpha i\ Xi + \alpha ii Xii + Error$

Where Y= Dividend Payout Ratio (dependent variable).

α0= Constant (Defines value of dividend payout ratio without inclusion of predictor variables)

X1-K= Predictor variables are,

Xi = Leverage

Xii = Retained Earnings

= Error Term

αi -K Regression coefficients- define the amount by which Y is changed for every unit change in predictor variables.

COEFFICIENT OF DETERMINATION (R^2)

Coefficient is the ratio of the explained deviation to the total difference and is used to measure the strength of linear relationship. The stronger the relationship, the closer theratio will

be towards one. This Research study used Coefficient of determination (R^2) as a measure of the degree of linear association between predictor variables and the approachable variable.

Coefficient of Determination (R2) = Explained Variation / Total Variation

EMPIRICAL FINDINGS

Relationship between dividend payout ratio and capital structure

This result in table 4and 5 gives the relationship between dividend pay-out ratio and capital structure (mean it related to the leverage and retained earnings) where it indicates the extent to which each capital structure component under study affects dividend pay-out ratio thus giving a predictive equation.

Table 4. Dividend Payout Ratio and Retained Earnings

Model	R	R^2	Adjusted R Square Estimate	Std. Error of the
1	0.602	0.579	-0.103	58.267

The table no -4 shows the results of the weak positive correlation between the Dividend Payout Ratio and Retained Earnings.

Table 5. Coefficient of Correlation

Model	Un standardized Coefficients		standardized Coefficients Beta	t	sig
	B	Std. Error			
1 (constant)	0.230	0.018	0.507	4.023	0.058
Dividend	0.721	0.019		3.087	0.094

The table no -5 indicates the results about the coefficient of correlation between the Dividend and Retained Earnings. Multiple r2 is 0.579. Only -0.103 % of variance of Retained Earningsis accurate by the Dividend Payout Ratio. But, remaining 58.267% of variance with Retained Earning is attributed to other factors.

Table 6. Capital Structure and Retained Earnings

Model	R	R^2	Adjusted R Square Estimate	Std. Error of the
1	.0589	.369	.580	42.356

From the table no -6 showsresults the weak negative correlation between the capital structure and Retained Earnings.

Table 7. coefficient of correlation

Model	Un standardized Coefficients		standardized Coefficients Beta	t	sig
	B	Std. Error			
1 (constant)	0.260	0.025	0.216	6.010	0.156
Dividend	0.059	0.012		4.986	0.197

The table-7 indicates the coefficient of correlation between the capital structure and Retained Earnings. Multiple r^2 is 0.369. Only 3.6% of variance of Retained Earnings is accurate by the capital structure. But, remaining 96.4 % of variance with net profit is attributed to other factors.

Table 8. Capital Structure and Gross Profit

Model	R	R^2	Adjusted R Square Estimate	Std. Error of the
1	.250	.690	.127	37.280

From the table no-8 shows the weak positive correlation between the capital structure and gross profit

Table 9. coefficient of correlation

Model	Un standardized Coefficients		standardized Coefficients Beta	t	sig
	B	Std. Error			
1 (constant)	0.419	0.120	0.160	2.075	0.089
Dividend	0.158	0.057		4.024	0.570

The table-9 indicates the coefficient of correlation between the capital structure and gross profit. Multiple r^2 is 0.690. Only 6.90% of variance of gross profit is accurate by the capital structure. But, remaining 88.21% of variance with gross profit is attributed to other factors.

Table 10. Dividend Payout and Gross Profit

Model	R	R^2	Adjusted R Square Estimate	Std. Error of the
1	.803	.508	.197	19.846

The above table -10 shows the weak positive correlation between the Dividend Payout and Gross Profit.

Table 11. Coefficient of correlation

Model	Un standardized Coefficients		standa-rdized Coeffi-cients Beta	t	sig
	B	Std. Error			
1 (constant)	0.089	0.159	0.275	6.251	0.009
Dividend	0.181	0.287		3.890	0.014

The above table-11 indicates the coefficient of correlation between the Dividend Payout and Gross Profit. Multiple r^2 is 0.0508. Only 3.9% of variance of Gross Profit is accurate by the Dividend Payout. But, remaining 95.1% of variance with Dividend Payout and Gross Profit is attributed to other factors.

The two independent variables that were studied, explain only 4.1% of the effectiveness of the relationship between dividend payout ratio and capital structure of companies listed at NSE in the yearfrom 2008 to 2015 as represented by the r^2. This therefore means that other factors not studied in this research contribute to a total 92.06% of the effectiveness of the relationship between dividend payout ratio and capital structure of companies listed at NSE. Therefore, further research should be conducted to investigate the other factors (92.06%) that affect the effectiveness of the relationship between dividend payout ratio and capital structure of companies listed at NSE.

Empirical procedures and results to test the hypothesis

The hypothesis that the capital structure and dividend policy has significant impact on financial performance in the Indian capital market. In the above hypothesis the first of these two statements, where Variance Inflation Factor is the dependent variable, the null hypothesis is rejected at the 10 percent significance level. In the second statement of the financial performance, where DIRS is the dependent variable, the null hypothesis is rejected at the 5 percent significance level.

Table 12. Results of Variance Inflation Factor Procedure and of Analysis of Variance (ANOVA) Procedure for the dependent variable and all the non-dummy independent variables

Variable	Variance Inflation Factor Procedure		ANOVA procedure
	R^2_k	Variance Inflation Factor	F-STAT
Payout Ratio	0.25613	1.23065	3.65892
Gov	0.25896	-1.02530	2.54896
INST	0.14756	2.36502	4.58962
DIRS	0.52369	1.69805	7.56803
Public	0.54789	3.25894	6.58920
Foreign	0.69853	1.25894	6.25890
Risk	0.59741	1.54786	7.25801
Debt	0.36925	2.69814	4.12305
Size	0.14569	1.59130	3.25741

Source: results SPSS out, significance level at 5%,

The above table-12 explains that the multicollinearity of selected companies listed in NSE and BSE. The Variance Inflation Factor procedure is undertaken. Variance Inflation Factor (β_k) can be interpreted as the ratio of the actualvariance of the estimated coefficient, VAR (β_k), to what it would have been in the absence. The specification of the model of Equation includes 100 selected companies and the relevance of including these variables is assessed in a manner similar to theapproach in Moh'd,

Perry and Rimbey (1995). Specifically, the hypothesis that there isno difference in the means of the dependent and independent variables, across thedifferent industries, is tested using an ANOVA procedure. Thetable is regressed on a constant and on the 100 companies. The F-statistics, testing the hypothesis thatnone of the explanatory variables influences the dependent variable.

LIMITATION

1. The main limitation of this research Paper is that it depends on Secondary data based on financial statements; data from financial statements may not represent all factors that influence the financing decisions.
2. The study may need to conduct survey analysis so as to investigate the impacts associated with management characteristics on financing decisions.

CONCLUSIONS

The study concludes by stating that there is a weak inverse relationship between dividend payout ratio and retained earnings while there is strong inverse relationship between dividend payout ratio and leverage. The research paper also concluded that in order for a company to increase its dividend payout ratio, it should decrease factors that lead to increase in its retained earnings. The study further concludes that leverage and retained earnings of the company negatively affects dividend payout ratio of the company.

Capital structure is considered as one of the most discussed issues in financial management. Capital structure denotes the way a firm finances its operations as to whether they use equity (common and preferred stocks), debt (bank loans or bonds issuance), or a combination of both. External as well as internal factors can influence the decision of how the firm finances its operations. The external factors include, among other things, taxation and macroeconomic conditions. The internal factors are those that are considered as firm specific (i.e. individual firm characteristics). This study focused on investigating the internal factors (measures) that influence the capital structure decision.

The results also suggested a quadratic relationship between the age of firm and dividend decisions. Taken together, the findings, to some extent, provide support for agency costs explanation of dividend policy and broadly consistent with the pecking order hypothesis. The study demonstrated that much of the existing theoretical literature on dividend policy can be applied to an emerging capital market such as India.

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