



**T A PAI MANAGEMENT INSTITUTE**

**MANIPAL - 576104**

**Research Seminar**

**Growth Opportunity and Capital Structure  
Dynamics: Evidence from Indian  
Manufacturing Companies.**

**Speaker**

**Prof. Sulagna Mukherjee**

**TAPMI, Manipal**

**2:00 PM, March 2, 2011 (Wednesday)**

**F2 Class Room, TAPMI Campus**

**ALL ARE INVITED**

## **Abstract**

The objective of the paper is to investigate the role of historical market to book ratio as a proxy for growth opportunity in determining the optimal capital structure of the Indian manufacturing companies during the period of 1993-94 to 2007-08. This study specifies a partial adjustment model and uses the Generalized Method of Moments (GMM) technique to examine the role of historical market to book ratio, adjustment costs and other firm specific variable like size of the firm, profitability, non debt tax shield and tangibility for the determination of target capital structure. We find a robust relationship between the growth opportunity of the company and the capital structure dynamics. The adjustment speed towards the target has been varied between 12 to 39 percent across the various definitions of leverage. This study has the implications for the corporate managers in India to analyze the growth opportunity of the company and other firm specific variables like market to book ratio, size of the firm, profitability and tangibility while taking the appropriate financing decisions of the company.

**Keywords-** Leverage, partial adjustment model, generalized method of moments, external financing weighted average of market to book ratio, equity issue weighted average market-to-book ratio.

### **Contact:**

Research Promotion Committee (RPC),  
T A PAI Management Institute (TAPMI)

Email: [rpc@tapmi.edu.in](mailto:rpc@tapmi.edu.in)

Web: [www.tapmi.edu.in](http://www.tapmi.edu.in)