

# Determinants of The Capital Structure to Demonstrate Financing Pattern – An Empirical Study of NIFTY FMCG Companies in India Prior to COVID-19

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## Abstract

According to the 2019 World Bank report India is the World's 7<sup>th</sup> largest consumer market of the world. This constitutes the private consumption as well as investments and exports. India is the fast growing economy inviting external capital for firms financing and expansion. Thus decision related to capital structure can never be ignored. The Fast moving consumer goods industry (FMCG) of India is the 4<sup>th</sup> largest sector in the Indian economy. Considering it as the important sector the study tries to identify the factors which affect the determinants of the capital structure of the firm. Further, the study aims to empirically investigate the relationship between the determinants and financial leverage of select companies of FMCG sector from the duration 2000-2001 to 2017-18 prior to COVID-19. It is hypothesized that the asset structure, profitability, growth opportunity, size, risk, non-debt tax shields (NDTS) and liquidity are some important determinants of capital structure. It is also found that this industry facilitates the rapid consumption of goods as its main feature. Thus liquidity is expected to have a major role as a capital structure determinant. Hence the analysis is undertaken to understand the impact on the debt ratio of the firm on the basis of capital structure theories of the mentioned determinants in FMCG sector.

**Keywords:** Cost of capital; Capital structure; Indian FMCG sector; Determinants; Debt capacity