FINANCIAL MANAGEMENT

Capital Structure

MEANING OF CAPITAL STRUCTURE

- Capital Structure refers to the combination or mix of debt and equity which a company uses to finance its long term operations.
- Raising of capital from different sources and their use in different assets by a company is made on the basis of certain principles that provide a system of capital so that the maximum rate of return can be earned at a minimum cost.

This sort of system of capital is known as **capital structure**.

DEFINITION

"Capital structure of a company refers to the make-up of its capitalisation and it includes all long-term capital resources viz., loans, reserves, shares and bonds."— **Gerstenberg.**

"Capital structure is the combination of debt and equity securities that comprise a firm's financing of its assets."—**John J. Hampton.**

TOTAL REQUIRED CAPITAL

- From Shares
  - ✓ Equity Share capital
  - ✓ Preference Share Capital

- From Debentures

FACTORS INFLUENCING CAPITAL STRUCTURE

Internal Factors

External Factors

INTERNAL FACTORS

- Size of Business
- Nature of Business
- Regularity and Certainty of Income
- Assets Structure
- Age of the Firm
- Desire to Retain Control
- Future Plans
- Operating Ratio
- Trading on Equity
- Period and Purpose of Financing

EXTERNAL FACTORS

- Capital Market Conditions
- Nature of Investors
- Statutory Requirements
- Taxation Policy
- Policies of Financial Institutions
- Cost of Financing
- Seasonal Variations
- Economic Fluctuations
- Nature of Competition

Thank you