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Factors Affecting Financial Leverage of Automobile Industry in India

NAVLEEN KAUR*
JASMINDEEP KAUR**

Abstract

The study takes sample of all automobile firms listed on BSE covering various segments of automobile industry in India viz. commercial vehicles, three wheelers, two wheelers and passenger vehicles for a period from 2003-04 to 2013-14. Pooled regression model and least square dummy variable (LSDV) model are used. Explanatory variables comprises of firm specific factors viz. degree of operating leverage, return on assets, non debt tax shield, tangibility of assets, interest coverage ratio, size of firm, growth of firm, effective tax rate, current ratio and financial risk whereas financial leverage is the independent variable. The results of pooled OLS regression reveal that explanatory variables viz. non debt tax shield, tangibility of assets, size of firm, effective tax rate and liquidity of firm significantly affect the financial leverage of automobile industry in India during the study period and results of LSDV regression technique reveal that there are significant fixed effects. On comparing the results of both the models the study concluded that the LSDV model is better than pooled regression model.

I. Introduction

THE THEORY OF capital structure is one of the fundamental concept of corporate finance and various studies use theory of capital structure to highlight the importance of debt financing. Capital structure of a firm is defined by its leverage and the leverage which is associated with financing activities is known as financial leverage. The present study is an attempt to study the factors affecting financial leverage of automobile industry in India by taking a sample of all the automobile firms listed on Bombay Stock Exchange covering various segments of automobile industry in India viz. commercial vehicles, three wheelers, two wheelers and passenger vehicles for a period from 2003-04 to 2013-14. The paper is organized as follows: The next section following the introduction provides brief review of literature.

* Assistant Professor, S.A. Jain P.G. College, Chandigarh Road, Ambala City, Haryana 134003, INDIA
** Professor of Finance, The Punjabi University, The Department of Commerce, Rajpur Road, Patiala, Punjab 147002, INDIA

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VI. Conclusion

The results of pooled regression reveal that explanatory variables viz. non debt tax Shield, tangibility of assets, size of firm, effective tax rate and liquidity of firm significantly affect the financial leverage of automobile industry in India during the study period. Non debt tax shield, size of firm, and liquidity of firm have significant negative relationship with the dependent variable i.e. financial leverage while tangibility of assets and effective tax rate have significant positive relationship with the dependent variable. LSDV regression reveals that there are significant fixed effects and from the comparison of both the model we can conclude that LSDV model is better than pooled OLS regression model.

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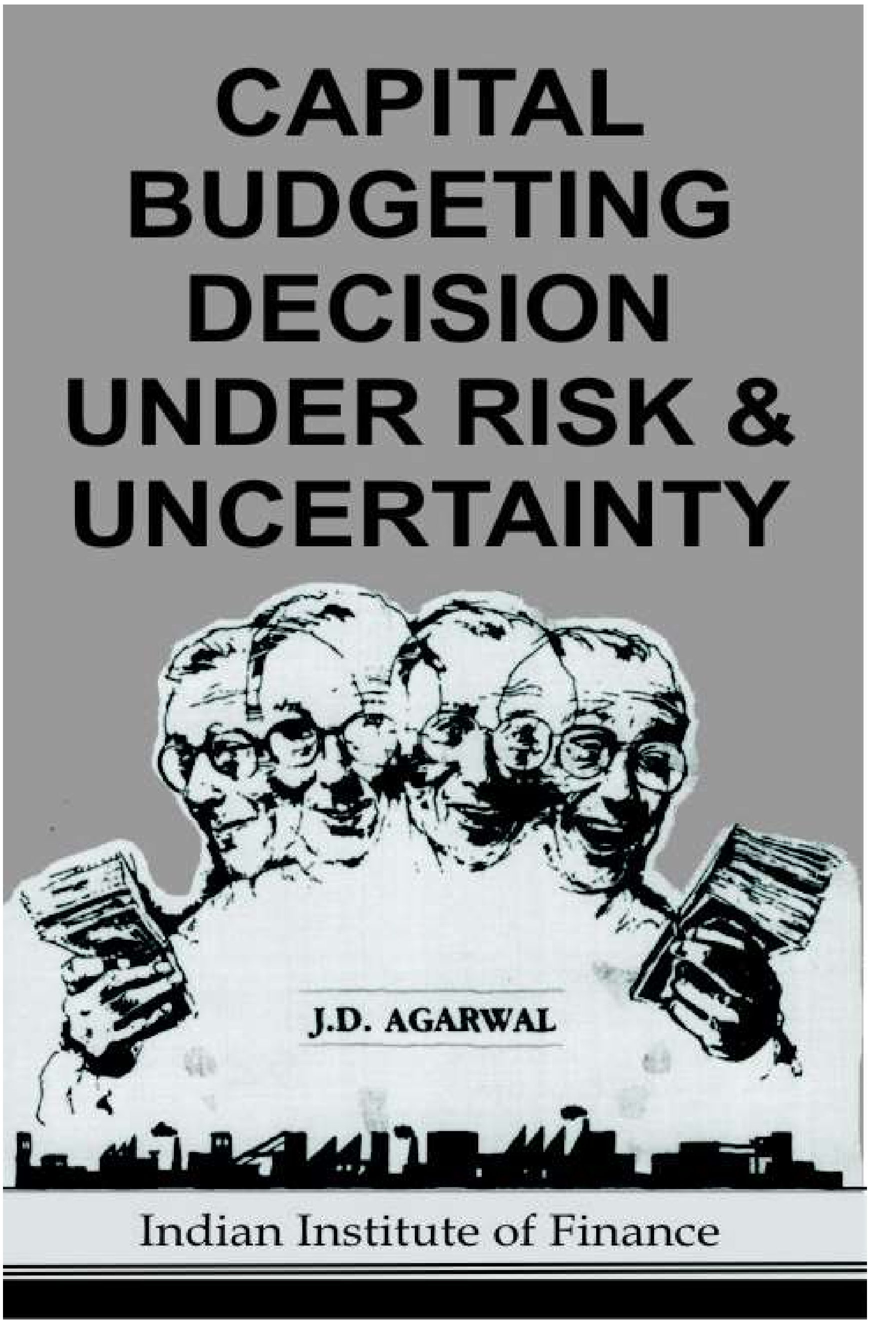
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