

CAPITAL STRUCTURE ANALYSIS IN INDIAN HEAVY INDUSTRY

THE PECKING ORDER DIMENSION

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ABSTRACT

Heavy industry sector is one of the core sectors of Indian economy. Therefore, its fund requirements are immense. Keeping in view the scale and size of the industrial units in the sector, the financial requirements are also huge. The heavy engineering sector is driven primarily by technology. This, coupled with the fact that the initial investment required for heavy engineering / capital goods manufacturing facilities is relatively high, creates a relatively high entry barrier. Any business enterprise viability eventually boils down to cost-return trade off. Cost of funds is undoubtedly, the most important determinant of the viability. This becomes more crucial in heavy engineering sector. Therefore, the present paper attempts to analyze the financing pattern of two leading business enterprises in the sector with diverse nature of funds, viz. BHEL and L&T with regard to pecking order approach in their capital structures. A deliberate attempt has been made in choosing the sample, i.e. BHEL has been taken from public sector and L&T has been taken from private sector. The reason being is to appreciate the diverse financing practices of two units in the same sector. It is found that BHEL is going for the pecking order dimension in its capital structure, whereas pecking order fails in case of L&T. Also, optimality of capital structure and the impact of financial leverage on shareholders' return have been analyzed in the present discussion using Beta analysis and other techniques. The article therefore, contributes to the theory of capital structure with optimality and related issues using Beta approach.

KEY WORDS: Heavy industry, Capital Structure, Debt, Equity, Beta.