

## Value and Risk: An Overview

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### ABSTRACT

*In this dynamic business environment, creation and preservation of investment value are gradually becoming one of the most challenging work to a financial manager or to an investor. Internal business factors play a vital role on this aspect besides the market factors as a whole. The past event of grate recession (2008) and the failure of some gigantic companies lead us to a common fact that sustainable value of a firm or investments not only depend on market as a whole but also its internal factors are more responsible for it. Some time unlimited grid makes us unscrupulous and we invest our money somewhere, where return is high but we don't consider the internal high risk attach with it. The huge risk taking may not be good for all time as sometime this risk bring good return in short run but ultimately destroy our investment value in long term. So, proper care must be taken on internal risk factors during any investment decision with firm. On this backdrop this conceptual work is designed to guide the managers and prosperous investors in their investment decision. This work explores a vast body of literatures describing the factor that affects the value of a firm or investment all-over the world.*

**Keywords:** business environment, value, risk, investor etc.

### INTRODUCTION:

Firm value is the investor's feeling toward the value of the success of a business related to its stock price (Sujoko and Soebiantoro, 2007). A high stock price makes the company value is also high, and it rise the market faith not only toward the work execution of the firm but also toward the expectation of the firm in the future. The stock price used commonly points out on the closing price, and is the price which occurs during the stock is traded in the market (Fakhruddin and Hadianto, 2001). The company's value can be estimated by price to book value (PBV), which is build upon the comparison between the book value per share and the stock price (Brigham and Gapenski, 2006). Other indicators relate to book value per share are common equity and shares outstanding (Fakhruddin and Hadianto, 2001). In this case, PBV can be interpreted as the result of the comparison between the price of stock market and PBV. The more the price to book value will raise, the market faith to the future of the firm and indicate the prosperity of the shareholder (Soliha and Taswan, 2002). PBV is also the ratio which shows whether the stock price traded is overvalued or undervalued of that price to book value or not (Fakhruddin and Hadianto, 2001). PE ratio also help to do so.

Exposure to the possibility of injury, loss, or other adverse or undesirable circumstance and that chance or situation involving such a possibility is called risk. According to Dabrowski(2014) risk means a state, we don't know what is going to happen in the future, but we do know what the distribution of possible outcomes looks like. Oxford English Dictionary(1621) define risk as the potential of gaining or losing something of value. On the other word risk means a state when the probabilities of occurrence of different future outcomes are adverse to us. When some future uncertain events are predicted by probability then such uncertainty is called risk. Risk is a dynamic concept which change time to time and business to business and we want to measure it for our right decision making purpose. The likelihood of the occurrence of any event is generally help to measure

degree of risk related with that event. The lower the probability of the actual outcome from the expected outcome, the higher is the risk associated to the event. In our business activity risks have been becoming a part and parcel, but primitively they had not given much more importance to it. In financial theory risk is broadly classified into two categories one is systematic risk that drive due to market fluctuation and the other is unsystematic risk that emanate from fluctuation of firm specific activity. **Systematic Risk:** The term 'systematic risk', mean variation in the returns of assets which arising due to macroeconomic factors of business environment such as social, political or economic factors. It influences a large number of business organization operating activity. For example a significant political event could affect several companies in our economy. It is actually impossible to prevent our self against this type of risk. Such fluctuation generates changes in the return of the business organization in entire market. Systematic risk is also caused by the changes in government rule and regulation, the act of nature such as natural calamity, changes in the nation's economy policy, international economic policy, etc. The value of investments may fall over a period due to this risk. Systematic risk is bifurcated into three categories, i.e. market risk, Interest risk and purchasing power risk. Unsystematic risk is sometimes called as "firm specific risk". This kind of risk affects only one enterprise earning or value of share price. For example, sudden strike by the worker of an organisation affects operating activity of a company and its profitability which ultimately affects stock price of that organisation.

Unsystematic risk, also known in different name such as "diversifiable risk", "non-systematic risk", "residual risk", or "specific risk", which can be reduced through diversification if the investor like to do so . By owning stocks in different organisation and in different industries, as well as by acquiring other types of securities such as govt. securities, investors will be less influenced by an adverse event or decision that has a strong impact on one firm, industry or investment type. Examples of non-systematic risk include a new competitor, regulatory changes for specific business (tax rate), a management configuration change and a new product lunch. For example, the risk that pharmaceuticals industry employees will go on strike, and pharmaceuticals stock prices will suffer as a result, is considered to be unsystematic risk. This risk primarily affects the pharmaceuticals industry, pharmaceuticals companies and the companies with whom the pharmaceuticals do business. It does not affect the entire market system, so it is a "non-systematic" or specific risk. A person who owned nothing but pharmaceuticals stocks would face a high level of residual risk. By diversifying his or her wealth with unrelated holdings, such as transporting industry stocks and retail stocks, the investor would face less residual risk. However, even a investments of well-diversified investment cannot minimise all risk. It will still be exposed to market risk, which is the uncertainty that faces companies as a whole. Even investor's risk will not be down to zero staying out of the market completely, because he or she would still face risks such as losing money from inflation and not having enough assets to their future. Investors may be aware of the possible sources of unsystematic risk, but it is impossible to be aware of all of them or to know when or whether they will occur. An investor in pesticides stocks may be acquainted that a major shift in government rule could affect the profitability of the organisation they are invested in, but they cannot perceive when new law will go into effect and how the new law might change over time or how firms will respond.

The focus of this study is to analysis different work to find out how the internal factor (basically risk) influences the value of quoted companies all over world. This is imperative as the corporate sector in India is characterized by a large number of firms operating in a largely deregulated and increasingly competitive environment. Since 1991, financial liberalization has changed the operating environment of firms, by giving more flexibility to the Indian financial managers in choosing the firm's capital structure (Salawu, 2007), assets structure and other internal matter of a firm.

In addition, there are only a limited number of studies that examine factors which influence the value of Indian firms. As Salawu and Agboola (2008) note that though the capital structure issue has received substantial attention in developed countries, it has remained neglected in the developing countries.

## **CAPITAL STRUCTURE AND FIRM VALUE:**

Beside MM capital structure theory there are a number of national and international works where association between leverage and value were found empirically. Among them some are statistically significant and globally accepted but the natures of relationship between the two; differ depending on the country economy characteristics and the nature of industry. I have reviewed some of the national and international works here to bring a clear idea about the relationship between risk and value. For this purpose I have done my study into three parts, one is based on the economy of developed country, second is on developing country (except India) and third part on Indian economy.

## **WORKS IN DEVELOPED COUNTRIES:**

The relationship between unsystematic risk and value can best be explained by a brief review of the different capital structure theories. The previous theories believe that configuration of capital structure is relevant in determining a company value. But the irrelevance theory of Modigliani and Miller (1958), said that there is no relationship between capital structure and firm's value. However, their thought changed when they considered the effect of tax shield and other imperfection in the capital market. They change their earlier statement and opine that configuration of capital structure is very much related to organisations value.

The association between risk and firm value is one of the basic questions in finance and has been studied extensively. Most researches on capital structure take as their basis point of starting the work of Modigliani and Miller (1958), who derived the risk Irrelevance Theorem, concluding that financial leverage does not impact firm value in an ideal environment. Their assumption of an ideal financial environment where no tax, inflation and transaction costs is present. This theory was criticised by many finance author as no firm actually operates in an environment without the impact of inflation, tax and transactional costs. This leads Modigliani and Miller (1963) to issue amendment. They still argued that a change in the debt to equity ratio does not impact on firm value, however when taxes and other transaction costs are considered two factors need to be acknowledged: First, a firm's weighted average cost of capital (WACC) diminishes as it raises its debt. Second, a company's cost of equity increases as it increases its gearing since shareholders face higher business risk due to the increased possibility of wipeout. Given the great debate on capital structure, and adding to the aforesaid Modigliani and Miller models (1958 & 1963), a number of theories have provided further contributions.

Jensen and Meckling (1976) added that an additional disadvantage is the agency costs for equity holders and debt holders. To further substantiate this argument DeAngelo and Masulis (1980) found an inverse relationship between leverage and investment tax shield, while the association between the corporate tax rate and the debt level is expected to be positive.

Miller (1977), came up with another argument and showed that capital structure is unrelated to firm's value because the tax benefit which is adduced for the relevance of capital structure in relation to firm's value is offset by the fact that shareholders pay more tax than bondholders.

Modigliani, F. (1980) points out that, the value of a firm is the sum of its debt and equity and this depends only on the income stream generated by its assets.

Myers, S. C. and N. S. Majluf (1984) proposed that the "pecking order" framework is based on asymmetric information since managers have inside information on the future prospect of the firm and act in the favor of existing shareholders. According to pecking order theory firms prefer internal finance (from retained earnings) to external finance, and when external finance is required, firms prefer debt before equity. In addition, the pecking order theory of Myers and Majluf (1984), state that there is a correlation between capital structure and firm's value. This is because a firm's value can increase if the right form of capital is used. This theory advocates that firm's value can be affected positively if a capital structure hierarchy is followed. That is, financing with internal fund when available, instead of financing with external fund. And when internal fund is completely depleted, debt is preferred to equity because of the low transaction cost, tax benefits and other advantages attached to it. The trade-off theory also states that there is a relationship between capital structure and firm's value. This is because a firm's value can increase if the proper debt equity mix is used in the firm.

Myers (1984) modified the strict pecking order hypothesis and suggests that firms with many investment opportunities may decide to issue equity before it is necessary. Myers (2001) hypothesized that debt offers firms a tax shield, and firms therefore, pursue higher levels of debt to gain the maximum tax benefit and ultimately enhance profitability, however, high levels of debt increase the possibility of bankruptcy. The advantages of this approach include the possibility of deducting interest payments from company tax (Modigliani and Miller, 1963). Building on Jensen's (1986) over-investment discussion and Myer's (1993) under-investment discussion, Stulz (1988) argues that debt can have both positive and negative effect on firm value therefore, the common message behind the arguments by Jensen (1986), Myers (1993) and Stulz (1988) is that debt can have positive or negative effect on the value of the firm depending on the firm's future investment opportunities.

Leland and Toft (1991) state that, the value of a firm is the value of its assets plus the value of tax benefits enjoyed as a result of debt minus the value of bankruptcy cost associated with debt.

Myers (1993) suggests that, a firm with outstanding debt may have the incentive to reject projects that have positive net present value if the benefits from accepting the project accrue to the bondholders without also increasing shareholders' wealth. This under – investment problem can harm the value of firms, especially for the firms with high levels of future investment opportunities.

Opler and Titman (1994) reported negative relationship between leverage and firm value. Sample consists of

firms from United States. Further Suggested that high leverage for firms inclined to drop off market share and lesser operating performance than their rivals.

McConnell *et.al* (1995) empirically investigated the relationship between corporate value, leverage and equity ownership where they found negative correlation between leverage, and value of high-growth firm and positively correlation with leverage for 'low-growth' firms. In addition, they point out that, the seeds of under-investment problem lie in the solution of over investment problem. They investigate the relationship between corporate values, leverage, and equity ownership of U.S. firms. They discover that for firms with high P/E ratios or for high-growth firms, value is negatively related to leverage and that in firms with low P/E ratio or low-growth firms, value is positively related to leverage. Their evidence supports the contention that for low-growth firms, leverage act as a monitoring mechanism to enhance firm value, whereas for high-growth firms, leverage causes under investment and destroys the value of a firm.

Fama and French (1998) argue that optimizing the firm value can be attained by financial management. Capital structure theory explains the effect capital structure on firm value. It may be interpreted as expectation of investment value of shareholder (equity market price) and or expectation of firm total value (equity market share added to debt market value or expectation of asset market value) (Sugihen, 2003).

Fama and French (1998) in their work "Taxes, Financing Decisions, and Firm Value" use cross-sectional regressions to study how a firm's value is related to dividends and debt. With a good control for profitability, the regressions can measure how the taxation of dividends and debt affects firm value. Simple tax hypothesis say that value is negatively related to dividends and positively related to debt. But they found the opposite. They found negative relations between debt and value even after controlling for earnings, dividends, investment, and R&D.

Pandey (2004) opines that the value of a firm is the sum of the values of all its securities. That is, the sum of its equity and debt if it's a leverage firm and the value of only its equity if it is an unleveraged firm. The value of the firm's equity is the discounted value of its shareholders earnings called net income. That is, the net income divided by the equity expected rate or capitalization rate of return on equity. The net income is the difference between net operating income and interest on debt. But, the value of the lone is the discounted value of interest on debt. Consistent with an agency costs model, previous literature indicate that leverage is value reducing for high growth firms and it is value increasing for low-growth firms McConnell *et al.* (1995).

Aggarwal and Kyaw (2008) also pointed out that, leverage can have both negative and positive effects on the value of the company so that the optimal capital structure is determined by balancing the agency costs and other costs of leverage as a means of the under and over-investment problems. Specifically, leverage will force managers to pay out money that might be invested in negative net present value business, when company have surplus cash flows. However, organisation with outstanding debt may have motivation to reject projects that have positive NPV if the benefit from accepting the project accrues to the debt holders without increasing shareholders' wealth.

Rayan (2008) conducted a study on financial leverage and firm value of healthcare sector where he found out a significant positive correlation between the debt-equity ratio and the price earnings ratio. He shows that 29.95% of the PE ratio was explained by the debt-equity ratio of healthcare sector.

Aggarwal *et al.* (2008) made a study on the relationship of firm value and leverage on a global perspective .They documented that leverage is value-decreasing among high growth firm globally, but the value impact of leverage among low-growth firm varies across national institution conditions. They pointed out that debt is value-decreasing among low growth us firm but value enhancing outside the US.

Mollik (2008) examined the impact of corporate capital structure (financial leverage) on the market value of a selection of company listed in the Australian Stock Exchang. Employing LSDV techniques to a cross-sectional and pooled time-series data set, the outcome showed that the value of a company rises significantly with financial leverage. This work also revealed a statistically significant positive impact of long-term financial leverage and total interest bearing capital on the market value of an enterprise in Australia.

The study of O'Connell and Cramer (2010) explored significant and positive relationship of financial risk and firm value. Findings indicated that high level of debt improves market performance of the firm.

Mseddi and Abid (2010) investigated the relationship between firm value and risk. They extended both the theoretical and empirical issues of Mandelker and Rhee (1984) and Chung (1989) model the impact of operating and financial leverages and intrinsic business risk on firm value. In, this work panel data was used to estimate operating and financial leverage degrees and 403 sample non-financial USA firms for the period from 1995 to 1999. Their observations suggest that the degree of operating leverage and intrinsic business risk explain a large portion of the variation of excess return in a dollar when firm's sales are negatively correlated with the market portfolio. In contrast, when firm's sales are positively correlated with market portfolio, the

degree of operating leverage is embedded in the intrinsic business risk and a significant portion of cross-sectional variation in the excess return in dollar can be explained by intrinsic business risk and the degree of financial leverage.

Altan and Arkan(2011) in their study investigate the impact of financial structures of firms on their values. In the study 127 firms' are used which are indexed in ISE stock exchange. The financial data were analyzed using the SPSS 15.0 software. According to the results of the analysis they found the value of a company was affected by financial leverage of firms. They found 1% change in equity cause 1.183% change in value of the firm, 1% change in the short-term debt cause 0.362% change in value of the firm and 1% change in long-term debt cause 0.163% change in the value of firm.

Draniceanu *et.al.*(2012) in his "capital structure and firm value an empirical study on Romanian listed company" aims to investigate the impact of capital structure on firm value for Romanian companies at the same time want to find out the determinants of leverage. In addition to this, the work tried to empirically test the influence of debt structure on firm value given different growth opportunities of Romanian companies. The sample included 48 companies listed on Bucharest Stock Exchange for the period 2003-2012. Five regression models were used: Pooled regression model, Fixed effects model, Time effects model, The two way fixed effects model and Simultaneous regressions model. The results show that capital structure had a positive impact on firm value, for both firms facing low growth opportunities and firms facing high growth opportunities. Profitability, liquidity and tangibility had been found as negative determinants of capital structure, while growth opportunities, firm size and firm financial quality had been found as positive determinants of capital structure.

#### **IN DEVELOPING COUNTRIES (EXCLUDING INDIA):**

Chen and Zhang (1998) found out a common set of structural risk characteristics that are related to "value stocks" in all the countries. They use the dividend cut to measure the degree of distress of a firm, financial leverage to measure the financial risk, and earning uncertainty to measure the riskiness of future cash flow. They found that indeed value stocks had rather distinct characteristics as measured by their intuitive risk factors. These factors can explain simultaneously across the six markets the relative return differences within each country. In this study, author found out that the higher returns for value stocks are compensation for higher risk. This study also shows that strong value stock effects persist in the United States; are somewhat less persistent in Japan, Hong Kong, and Malaysia; and are undetectable in Taiwan and Thailand. This is due to the relative riskiness of the value stocks in the respective markets. Overall, the evidence is consistent with a simple intuitive story. Value stocks have higher returns in the United States, Japan, Hong Kong, and Malaysia because these are likely to be from firms that are in distress, have high financial leverage, and face substantial earnings uncertainty in the future .

A study was done by Claessen and Djankov (2000) to compare the growth and financing patterns of East Asian companies for the before crisis with companies in other countries. 850 public listed companies in the four countries which were also affected by crisis, they are Malaysia, Indonesia, the Republic of Korea, and Thailand and two other country, and Singapore as well as Hong Kong (China) were treated as sample. The outcome show that organisation-specific weaknesses which prevalent before the crisis were important factors in the decreasing performance of the firms.

In the impact of economic crisis on the capital structure a study was conducted by Gunay (2002). The main finding of this study is Turkey's firms immunize themselves against economic crisis by having a low leverage. The development of capital markets is essential for high leverage firms because they are near to financial distress. This condition had lead to high cost of debt for high leverage firms in the post-crisis period compare to the cost of debt in the pre-crisis period. Apart from that, the result had indicated that profits significant of high leverage firms can be increase by either issue equity or decrease the debt. However, debt for high leverage firms cannot be decrease due to unable to generate profit through the ordinary operations in the post-crisis period.

Suto's (2003) work on capital structure for 1997 crisis revealed that the key factor which increases the economic distress was due to increase dependency on lone financing. The dependency had lead to over investment before the recession and also instability in the Malaysian economy.

Chen (2004) found out organization with prosperous growth opportunity tend to use their own capital to reduce under investment. In addition, the effect of capital structure may influence on organisation value subject to agency cost, tax advantages and financial difficulty arises due to the use of debt. Based on trade off model, optimal capital structure is a balance between tax savings and the debt fee, since the cost and the benefit of debt will cancel out. The optimal debt is achieves when the interest tax-shield benefit were more than the cost of financial distress and the company reach its optimum value on optimum debt condition. When the value of

financial distress cost exceeds the benefit of debt, the debt will negatively affect the organisation value. According to the capital structure theory when the capital structure exceeds its optimum level then, each additional debt will decrease the value of the company.

Hermuningsih (2013) examined the influence of profitability, growth opportunity, and capital structure on firm value. By applying the measurement of Structural Equation Model (SEM) on 150 firms listed in Bursa Efek Indonesia (BEI) during 2006-2010, his paper gives some empirical findings. The first, growth opportunity, profitability variable and leverage are influenced positively and significantly company value. It means that the higher the growth opportunity, bigger the profitability, the higher the liabilities proportion in the capital structure of firm and bigger the firm value. The second, capital structure variables were an intervening variable for growth opportunity and not intervening for profitability. The last condition occurs because profitability had a contrast influenced with capital structure. It means that capital structure would increase the positive effect of firm profitability toward the firm value.

Saeedi and Mahmoodi (2011) investigated relationship of capital structure and firm performance. Results explored that capital structure has significant and positive relation with Tobin's Q in Iranian companies.

Cheng and Tzeng (2011) have inventoried the Effect of Leverage on Firm Value and influence of this effect on Firm Financial Quality. For this purpose they used Generalized Method of Moment (GMM) to estimate the effect of debt equity on firm values using 645 firms listed in Taiwan Securities Exchange (TSE) from 2000 to 2009. Their findings were- (1) the values of leveraged firm are greater than that of an unleveraged firm if there have bankruptcy probability. (2) If the advantages and cost of debt simultaneously present, the leverage is significantly positively related to the organisation value before reaching firm's optimal capital structure. (3) The positive influence of leverage to the firm value tends to be stronger when the firm financial quality is better.

Chen & Chen (2011) found the influences of profitability and leverage on firm value. In their work they observe greater the profitability of a firm, the more assignable profit there is, and the higher is the value of the company. Profitability thus has a significantly positive influence on firm value. The pecking order theory said that highly profitable organisations are not over-dependent on external lone funds, and thus profitability has a significantly negative influence on leverage. However, when the gearing increases, both bankruptcy costs and agency cost increase rapidly as a result. Since gearing generally has a markedly negative influence on organisation value, gearing becomes the mediator variable in the influence of profitability on organisation value. In addition, two moderator variables was found in the research were, industry type and firm size. It was found that when industry type acts as a moderator variable, it affects the relationship between profitability and gearing. When firm size is the moderator variable, it also affects the relationship between profitability and financial risk.

Antwi *et.al.* (2012) This study seeks to provide evidence on the impact of capital structure on a firm's value. The analysis was done on the 34 firms listed on the Ghana Stock Exchange (GSE) for the year ended 31st December 2010. The ordinary least squares method of regression was employed in carrying out this analysis. The result of the work revealed that in Ghana, owner's capital as a component of capital structure is relevant to the company value and Long-term-debt was also found to be the major determinant of a company value.

Maxwell (2012) in his study found out impact of capital structure on an organisations value. The analysis was implemented on a sample of 124 companies listed on the Nigerian Stock Exchange (NSE) for the year ended 31st December 2007. The ordinary least squares method of regression was employed in carrying out this analysis. The result of the study reveals that in an emerging economy like Nigeria, equity capital as a part of capital structure is irrelevant to the firm value while Long-term-debt was found to be the major determinant of a firm's value. The result was akin with the Antwi *et.al.* (2012).

Eslamloo and Jaffari (2014) investigate the effect of financial leverage on organisation value with different growth opportunity firms in the Tehran stock exchange (TSE). According to the meaning of growth opportunities, hypothesis were studied in two groups including high growth opportunities firms and low growth opportunities firm involving 125 firms each group. The step by step multilateral regression analysis was applied to study the relation or effect of variables. The results of this study showed considerable relation between the two in two financial growth opportunities, but they have appositives relation and reject the stated hypothesis. Also in firms with low growth opportunity, the relation between dividend total asset ratio to properties and firm value is considerable and relation between financial leverage and firms with low growth opportunities that is in opposition with stated hypothesis.

Study of Abazari *et al.* (2014) found that the external risks such as the risk of the market and the economy have an impact on the firm's value and operating risk.

Hatem (2015) in his work test the interdependence between managerial ownership, debt and firm value. To this end, he examined a sample of 246 French firms over a period of 11 years. In addition, they used two estimation

methods: simultaneous equations and data panel's methods. The empirical results support the interaction between these three variables. He concluded a nonlinear relationship between insider ownership and shareholder wealth. An inverse U-shaped relationship was found between debt and managerial ownership. However, an increase in debt leads to an increase in managerial ownership. Moreover, the share capital held by managers is a significant factor in explaining debt ratio of French firms. Finally, they conclude that the disciplinary role of debt is valid only for the data panel's method.

## **IN INDIA:**

Ghosh (2007) in his work exhibited how leverage and managerial ownership relate to firm valuation. It was argued that both leverage (which serves as an external monitoring function) and managerial ownership (which serves as an internal monitoring function) affect firm value, while internal monitoring by managers and external monitoring through debt were viewed as substitutes or complements. After controlling the effect of exogenous variables, the results revealed the existence of a substitution monitoring effect between debt and the managerial group. Additionally, firm valuation is found to exert a significant influence on managerial ownership and vice versa. Robustness tests indicate a weak but growing role of bank debt as a disciplinary mechanism.

Gupta *et. al.* (2016) examined the association between degree of leverages and firm value of 231 manufacturing firms listed in National Stock Exchange (NSE) in India over a period from 2001-2002 to 2010-2011. The independent variables, degrees of operating and financial leverage, and a market price-based dependent variable, called price-earnings ratio as a proxy of firm value, are taken to examine this relationship by using standard ordinary least square regression models at the levels of individual firm and portfolio of firms. The findings of this study showed a statistically significant negative relationship between firm value and degree of operating leverage and a statistically insignificant relationship between firm value and degree of financial leverage both at the levels of individual firm and portfolio of firms. Using the data from a country like India, one of fastest growing emerging markets in the world, this study provided an important insight on the effect of leverages on the firm value, the association between independent accounting variables and stock price-based dependent variable, to the practitioners, the scholars and the finance managers.

Chadha and Sharma (2016) made a study on manufacturing companies of BSE for finding out relationship between leverage and value of firm where he found out there is no significant relationship between firm's value and leverage. They uses panel data fixed effect regression approach on four different models for finding out the above relation. Where from they found leverage has no impact on the firm's value in Indian manufacturing industry. However, variables such as size, age, profitability and growth of the firm are positively and significantly correlated with the firm value in Indian manufacturing industry. In addition, there is a significant relationship between firm value and industry practice of the firm. Business risk has no significant relationship with firm value. Thus, the findings of the study would enhance the literature on capital structure and is relevant for the Indian manufacturing industry in taking its capital structure decisions, as it is based on the most recent data and covers the period of both pre- and post-recession of 2008–2009.

Bhardwaj and Dhansoia (2011) in their work synthesizes the capital structure determinants theory and empirically examines both the determinants and suggested firm behaviour patterns in relation to financing decisions of 145 Manufacturing Sector Firms for the period from 2001-2009. Such analysis is carried out by using a relatively new and innovative factor-analytic structural equation modelling (SEM) methodology. The findings revealed that non-debt tax shield is considered as an important determinant of financial leverage and it is verified that Manufacturing Sector Firms with high non debt tax shield use more debt as compared to other Manufacturing Sector Firms. The return on capital employed is highest in FMCG Sector among all Manufacturing Sector Firms resulting into higher profitability maximizing the shareholders return and impacting the firm value. The study concluded that the Manufacturing Sector Firms Capital Structure is too rigid to offer any scope for adjustment.

Rastogi and Saxena (2016) investigated whether high financial leverage had significant and positive impact on firm's value. For this purpose, after multi stage filtration process, they selected eleven companies, listed on Indian stock exchanges, having more than fifty percent of debt ratio in their capital structure. The time frame for data analysis was from year 2001-2015. The data set was analysed using descriptive analysis (calculating financial ratios viz Return on Equity (ROE), Debt Ratio (DR) and Debt Equity-Ratio (DER)); descriptive statistics; correlation test and multiple regression analysis. Out of above variables explained in model, ROE was dependent variable representing the firm's value and DR and DER were independent variables representing financial leverage. They observed that (DR) has a low degree of positive correlation with (ROE) whereas (DER) has a negative relationship with (ROE). The R Square statistics indicates that most of independent

variable (83.6%) are other than independent variables under study (DR and DER) affecting (ROE) and confirms that (DR and DER) are not major factors determining (ROE) of the companies under study for selected period.

### CONCLUSION:

From the above literature survey we can conclude that beside Modigliani and Miller (1958) and (1963) risk Irrelevance theorem there have other study (pecking order theory/ trade-off theory) where correlation between capital structure and firm's value were found significantly. Not only that some study in advance country also found negative and positive correlation between the two, depending on the firm's future investment opportunities. If good investment opportunity then leverage has positive impact on value of firm and vice versa. Where as In USA some researcher discover that for firms with high P/E ratios or for high-growth firms, value is negatively related to leverage and that in firms with low P/E ratio or low-growth firms, value is positively related to leverage. But in Romanian some researcher found capital structure had a positive impact on firm value, for both firms facing low growth opportunities and firms facing high growth opportunities. In Emerging economy like Nigeria, research study shows, equity capital as a component of capital structure is irrelevant to the value of a firm, while Long-term-debt was found to be the major determinant of a firm's value. In India some of work showed a statistically significant negative relationship between firm value and degree of operating leverage and a statistically insignificant relationship between firm value and degree of financial leverage both at the levels of individual firm and portfolio of firms. Whereas some researcher in Indian manufacturing industry found leverage has no impact on the firm's value in Indian manufacturing firms. However, variables such as size, age, profitability and growth of the firm are positively and significantly correlated with the firm value in Indian manufacturing industry.

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