

ABSTRACT

The choice of capital structure for firms is by and large the most fundamental issue of the financial framework of a business entity. The main focus of the paper is on the financing decisions of the firms and to investigate whether these issuance decisions are consistent with market timing behavior or traditional theories notably trade-off and pecking order theories. The study also gives more importance to the effects of two major factors market performance and profitability of the firms in determining the type of finance that they issue. In order to increase the scope of drawing inference and differentiating between the theories of capital structure the dual issuers are included in the study as a separate issue type. Dual issuers are considered to be an important issue type since they can alter the capital structure at a much lesser cost. The Dual issuers in case of the Indian corporate sample considered in this study show that highly profitable firms, firms with high-market-to-book ratio, larger firms and firms that invest more in R&D are dual issuers. This shows that more healthy firms in the Indian context issue debt and equity simultaneously rather than go for a single issue type. The paper also concludes that the results are unequivocally consistent with the market timing theory. However, particular impact of pecking order and tradeoff on the financing decisions cannot be justified.