ABSTRACT

This paper examines the effect of capital structure, as measured by leverage, on the performance of a sample of Indian manufacturing firms listed on the BSE, over the time period 2006-2013. Firm performance is measured in terms of technical efficiency, as computed using stochastic frontier analysis. The Fama-Macbeth model is used for the regression analysis and the impact of leverage on efficiency is found to be consistent with the agency costs hypothesis. We also examine the reverse causal effect of efficiency on leverage and find a positive relationship, in line with the efficiency-risk hypothesis. The effects of firm characteristics like size, age, tangibility, profitability and promoter shareholdings on efficiency and leverage are also examined. Quantile regressions are used to check for the effects at different levels of efficiency.