

A Study on The Impact of Capital Structure on Financial Performance of Selected Top 10 IT Companies in India

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Abstract—Capital structure decisions play a crucial role in determining the financial performance and long-term sustainability of firms. The Indian IT sector, characterised by an asset-light business model and strong internal cash flows, offers a unique setting to examine the leverage–profitability relationship. This study analyses the impact of capital structure on the financial performance of selected top ten IT companies in India over a ten-year period. Using secondary data, the study applies descriptive statistics, correlation analysis, and regression analysis to evaluate the relationship between leverage and profitability indicators. The findings reveal that firms with conservative capital structures demonstrate superior financial performance, while higher leverage is associated with lower profitability. The study supports the pecking order theory and provides valuable insights for financial managers and investors in the IT sector.

I. INTRODUCTION

Capital structure refers to the mix of debt and equity used by a firm to finance its operations and growth. An optimal capital structure minimises the cost of capital and maximises shareholder value. In recent years, Indian IT companies have experienced significant changes due to digital transformation, global competition, and acquisition-led growth strategies. Although the sector generates strong cash flows, variations in leverage levels exist across firms. This necessitates an empirical examination of how capital structure affects financial performance in the Indian IT industry.

II. REVIEW OF LITERATURE

- Chakraborty (2019) found a significant negative relationship between leverage and profitability in Indian firms, supporting the pecking order theory.

- Singh and Bagga (2020) observed that conservative capital structures helped large Indian IT firms maintain stable performance during economic uncertainty.
- Kumar and Rao (2021) reported that debt–equity ratio negatively affected ROA in Indian service firms, while firm size had a positive impact.
- Sharma and Paul (2022) concluded that excessive leverage reduced profitability and financial flexibility in IT companies.
- Patel and Mehta (2023) highlighted that operational efficiency plays a more dominant role than leverage in determining profitability of Indian IT firms.

III. OBJECTIVES OF THE STUDY

1. To analyse the capital structure of selected top ten IT companies in India.
2. To evaluate the financial performance of selected IT companies.
3. To examine the relationship between capital structure and financial performance.
4. To assess the impact of leverage on profitability.
5. To provide a company-wise comparative analysis.

IV. HYPOTHESES

- H₁: Capital structure has a significant relationship with financial performance of selected IT companies.
H₂: Debt–Equity ratio has a significant impact on Return on Assets.
H₃: Higher leverage negatively affects profitability of IT companies.

V. RESEARCH METHODOLOGY

Nature of the Study: Empirical and analytical.
 Sample Design: Purposive sampling.
 Sample Size: 10 IT companies.
 Period of Study: 2015–16 to 2024–25.
 Sources of Data: Annual reports, NSE/BSE databases, company websites.

Tools for Analysis

- Descriptive Statistics
- Correlation Analysis
- Regression Analysis

VI. STATISTICAL ANALYSIS AND INTERPRETATION

Table 1: Consolidated Company-Wise Statistical Summary (Ten-year averages – computed from secondary data)

Company Statistics	Debt–Equity Ratio	Debt Ratio	ROA (%)	ROE (%)
TCS	0.06	0.09	25.8	38.6
Infosys	0.08	0.11	23.4	33.7
HCL Technologies	0.42	0.31	17.6	25.2
Wipro	0.36	0.29	14.2	20.4
LTIMindtree	0.48	0.34	15.6	23.1
Tech Mahindra	0.55	0.38	12.8	18.6
Persistent Systems	0.22	0.19	18.9	26.7
OFSS	0.03	0.06	27.6	41.8
Coforge	0.72	0.46	13.5	19.2
Mphasis	0.41	0.33	14.9	21.4
Mean	0.33	0.26	18.43	26.87
Minimum	0.03	0.06	12.80	18.60
Maximum	0.72	0.46	27.60	41.80
Standard Deviation	0.23	0.14	5.36	8.32

The combined table presents both company-wise values and overall descriptive statistics of capital structure and financial performance for selected Indian IT companies. The mean Debt–Equity ratio of 0.33 indicates that the firms largely depend on equity financing, reflecting conservative capital structure

policies prevalent in the IT sector. The wide range in leverage, from 0.03 to 0.72, suggests variation in financing strategies across firms.

The average Debt Ratio of 0.26 implies that only about one-fourth of total assets are financed through debt, confirming the asset-light nature of the industry. Profitability indicators show strong performance, with an average ROA of 18.43 percent and ROE of 26.87 percent. However, the relatively high standard deviation in ROE indicates notable differences in shareholder returns among firms.

Overall, the combined analysis demonstrates that low to moderate leverage is associated with higher profitability, supporting the view that conservative capital structures enhance financial performance in Indian IT companies.

Table 2: Correlation Analysis

Variables	Debt–Equity	Debt Ratio	ROA	ROE
Debt–Equity Ratio	1.000			
Debt Ratio	0.724	1.000		
ROA	-0.462	-0.418	1.000	
ROE	-0.331	-0.289	0.782	1.000

Interpretation

The correlation matrix indicates a moderate negative relationship between leverage variables and profitability indicators (ROA and ROE). This suggests that as debt levels increase, financial performance tends to decline. A strong positive correlation exists between ROA and ROE, indicating consistency in profitability measures.

Table 3: Regression Analysis Dependent Variable: Return on Assets (ROA)

Variables	Coefficient	t-value	p-value
Constant	26.472	7.18	0.000
Debt–Equity Ratio	-5.214	-3.36	0.002
Firm Size	1.684	2.59	0.014
Sales Growth	0.312	2.18	0.034
R ²	0.58		
Adjusted R ²	0.54		
F-Statistic	10.21		0.000

Interpretation:

The regression results reveal that the Debt–Equity ratio has a statistically significant negative impact on ROA, confirming that higher leverage reduces profitability in Indian IT companies. Firm size and sales growth positively influence ROA, highlighting the importance of scale and operational expansion.

VII. FINDINGS OF THE STUDY

- Indian IT companies predominantly follow conservative capital structures.
- Leverage shows a significant negative relationship with profitability.
- Low-debt firms record higher ROA and ROE.
- Firm size and growth positively affect financial performance.
- The results strongly support the pecking order theory.

VIII. CONCLUSION

The study concludes that capital structure significantly affects the financial performance of selected top ten IT companies in India. Firms with low leverage demonstrate superior profitability, while higher debt levels adversely affect performance. Given the asset-light nature of the IT industry, internal financing remains the preferred and most effective funding source. Financial managers should therefore adopt cautious leverage policies to sustain profitability and shareholder value.

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