

## **Capital Structure**

“Capital structure is the permanent financing of the firm represented by long-term debt, preferred stock and net worth”. Capital structure refers to the proportionate share of different securities and other long-term funds such as loan from financial institutions in total capitalization.

### **Optimum Capital Structure**

Optimum capital structure is that “Capital Structure or combination of debt and equity that leads to the maximum value of the firms”.

### **Patterns of Capital Structure**

1. Capital Structure with equity shares only.
2. Capital structure with both equity and preference shares
3. Capital structure with equity shares and debentures
4. Capital structure with equity shares, preference shares and Debentures.

### **Features of an Appropriate Capital Structure**

1. Profitability / Return
2. Solvency/Risk
3. Flexibility
4. Conservation/Capacity
5. Control

### **Factors to be considered in Determining Capital Structure**

1. Capacity of the company
2. Flexibility
3. Period of Finance
4. Nature of the firm
5. Tax Planning
6. Investors Requirement
7. Risk

8. Control
9. Government Policies
10. Purpose of financing

