

A STUDY ON IMPACT OF CAPITAL STRUCTURE ON PROFITABILITY OF SELECTED FOOD PROCESING COMPANIES IN INDIA

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Abstract

The food processing industry is one of the largest industries in India. It ranks fifth in terms of production, consumption, export and expected growth level. The Indian food market is valued at USD 1.3 billion with an increasing CAGR Of 20%. Capital Structure provides an overview about the company's risk level. Profitability is ability of a company to use its resources to generate revenues in excess of its expenses. The study aims to investigate the impact of capital structure on profitability of selected food processing companies in India. The study is based on secondary data. The data for the study has been collected from (CMIE) Centre for Monitoring Indian Economy PROWESS IO database. The study covers a period of five years (i.e.) from (2013-2014 to 2017-2018). The study uses various statistical and financial tools like Ratio analysis, Mean, SD, Min, Max, ANOVA and trend analysis. It is found out from the study that the higher debt will always have a more impact on profitability of the firms.

Keywords: *Food processing industry, CAGR, Capital Structure, Profitability.*

INDIAN FOOD PROCESSING INDUSTRY:

The food processing industry is one of the largest industries in India. It ranks fifth in terms of production, consumption, export and expected growth level. The country's total food market accounts for about 32%. The Indian food processing industry contributes to about 8.80% of Gross value Added and to about 8.39% in Manufacturing and agriculture respectively. Its contribution towards export is 13% while 6% is being contributed to total industrial investment. It is the sixth biggest market in the globe by contributing 70% to aggregate sales. The Indian food market is valued at USD 1.3 billion with an increasing CAGR Of 20%. The food processing involves value addition to agriculture as well as horticulture products and produces and which includes grading, processing and packaging of foods. The government of India aims to improve this sector by providing reforms like 100% FDI in marketing of food products and also to focus on supply chain infrastructure. As per DIPP, the food processing sector in India has received around US\$ 7.54 billion worth of Foreign Direct Investment (FDI) during the period April 2000-March 2017.

CAPITAL STRUCTURE:

The company's outstanding debt and equity is measured with the help of capital structure. It makes the firm to understand the kinds of funds used by the company for financing its overall activities and operations. It provides an overview about the company's risk level. The rule of thumb implies that, the higher the proportion of debt, the higher will be the risk level. It is commonly known as debt-to-equity ratio. The company's capital structure shows how its assets are financed. The company avoids risk when it finances its operation by increasing its capital to an investor (i.e.) preferred shares, common shares or retained earnings.

PROFITABILITY:

Profitability is ability of a company to use its resources to generate revenues in excess of its expenses. It is one of the four building blocks for analyzing financial statements and company performance as a whole. Revenues and expenses are the two key aspects of profitability. Profitability is used to find out the relationship between the revenues and expenses to see how well a company is performing and the future potential growth a company might have.

REVIEW OF LITERATURE:

Hang, Geyer-Klingeberg, Rathgeber, and Stöckl (2017) identify tangible assets (positive sign), market-to-book ratio (negative sign), and profitability (negative sign) as significant determinants of corporate debt level. Debt ratio is defined as total debt divided by total assets. It indicates about the debt portion used to finance total assets. They extensively study and obtain seven determinants of corporate capital structure by applying meta-regression analysis on a data set of 3,890 results that are collected from 100 studies.

S.Saravanan, V.Devakinandini, (2015) in their study has made an attempt to find the hypothetical relationship between capital structure and its impact on profitability of the 12 paper industries in India. They have used 10 years of data 2003-04 to 2012-2013. The result indicates that the capital structure variables has significant impact on profitability of selected companies.

Gomathi., S. and R. Amsaveni (2015) made a comparative study on the determinants of capital structure towards selected domestic and foreign equity mixed manufacturing industry in India. The results reveal that tangibility, growth, profitability, liquidity, firm size, non-debt tax shield and ownership have significant contribution to long-term debt-equity ratio of domestic equity owned manufacturing sector and the tangibility, non-debt tax shield, profitability, ownership and business risk have significant contribution to long-term debt-equity ratio of foreign equity mixed manufacturing industry.

Noah Yasin (2014) examined a large part of work on the capital structure which endured focused on firm level determinants across developed, emerging and developing economies during 2003- 2011. The results show that the relation of the tangibility and the debt is optimistic. The size and asset tangibility of these variables are highly significant with the relationship to the debt or leverage.

Thottekat and Vij (2013) examine how the tax hypothesis determines debt maturity in the Indian corporate sector using a panel data of 266 companies drawn from BSE 500 for the period 2000-2010. They have found that the tax rate, term structure and asset variance profoundly influence the debt maturity structure in the Indian corporate sector.

RESEARCH GAP

It is clear from the above review that many studies have been done on profitability, financial performance and liquidity analysis of various industries. But very few attempts have been made to analyze the capital structure and its impact on profitability particularly on selected food processing companies in India. So the present study is undertaken to fill the research gap in these areas.

OBJECTIVES OF THE STUDY:

- 1) The primary objective of the study is to know the effect of capital structure on profitability of selected companies, while the secondary objective is
- 2) To determine the variables that influence the Capital structure and Profitability.
- 3) To project the trend value (sales) of selected companies.

SCOPE OF THE STUDY:

The present study is undertaken to assess the capital structure and its impact on profitability of selected food processing companies in India. The study is confined to 8 companies only. It clearly explains the growth

of the company, its performance and its risk level during the study period. Further the study can be done by taking few more companies. The study period can also be extended.

METHODOLOGY:

Research Design:

A research design is the set of methods and procedures used in collecting and analyzing measures of the variables specified in the problem research.

The research design used in our study is Descriptive and Analytical research. The study aims to investigate the impact of capital structure on profitability of selected food processing companies in India.

Sources of Data: The study is based on secondary data. The data for the present study has been collected from (CMIE) Centre for Monitoring Indian Economy PROWESS IO database.

Sample size: The samples selected for the study consist of 8 companies listed in both NSE and BSE.

Period of Study: The study covers a period of five years (i.e.) from (2013-2014 to 2017-2018).

Tools used: The study uses various statistical and financial tools like Ratio analysis, Mean, SD, Min, Max, ANOVA and trend analysis.

ANALYSIS AND INTERPRETATION:

The profitability position of selected companies is analysed using profitability ratios(Net Profit ratio, Return on Capital Employed, Return on Equity, Return on Assets) and capital structure ratios like(short-term debt, long term debt, total debt ratio and debt-equity ratio).

H0: There is no significant difference in profitability position of selected companies.

H1: There is a significant difference in profitability position of selected companies.

Table showing Descriptive statistics of Short term debt

Companies	Mean	SD	Min	Max	CAGR
Britannia Industries	0.41	0.11	0.29	0.52	-0.11
Hatsun Agro Products	0.52	0.05	0.46	0.58	0.04
Heritage Foods	0.36	0.13	0.19	0.49	-0.17
Kohinoor Foods	0.77	0.10	0.69	0.89	0.05
KRBL	0.43	0.08	0.36	0.54	-0.08
Kwality	0.56	0.09	0.45	0.69	-0.06
LT Foods	0.69	0.11	0.49	0.75	-0.08
Prabhat Dairy	0.25	0.06	0.15	0.31	-0.05

Source: Secondary data

From the above table it can be seen that Kohinoor Foods has the highest mean value of 0.77, Heritage Foods has highest SD of 0.13, Prabhat Dairy has the minimum value of 0.15 and Kohinoor Foods has the maximum value of 0.89 and Kohinoor Foods has the highest CAGR value of 0.05.

Table showing ANOVA for short term debt:

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1.020	7	0.146	16.345	0.000	2.313
Within Groups	0.285	32	0.009			
Total	1.305	39				

The ANOVA table shows that there is significant difference among the mean value of selected companies. Since the calculated value (F is 16.345) which is greater than the table value 2.313. The calculated value is greater than the table value at 5% level of significant the null hypothesis is rejected. So the mean value of companies belonging to same industry varies from one company to another.

Table showing Descriptive statistics Long term debt ratio

Companies	Mean	SD	Min	Max	CAGR
Britannia Industries	0.01	0.00	0.01	0.02	-0.18
Hatsun Agro Products	0.27	0.04	0.22	0.32	-0.04
Heritage Foods	0.19	0.09	0.14	0.35	0.19
Kohinoor Foods	0.02	0.01	0.01	0.02	-0.03
KRBL	0.07	0.01	0.05	0.08	-0.10
Kwality	0.12	0.05	0.06	0.19	0.19
LT Foods	0.03	0.02	0.01	0.05	-0.14
Prabhat Dairy	0.10	0.06	0.05	0.19	-0.15

Source: Secondary data

From the above table it can be seen that Heritage Foods has the highest mean value of 0.27, Heritage Foods has highest SD of 0.09, Britannia, Kohinoor and LT foods has the lowest minimum value of 0.01 and Heritage Foods has the maximum value of 0.35 and Heritage Foods & Kwality has the highest CAGR value of 0.19.

Table showing ANOVA for Long term debt ratio

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	0.303	7	0.043	21.469	0.000	2.313
Within Groups	0.064	32	0.002			
Total	0.367	39				

The ANOVA table shows that there is significant difference among the mean value of selected companies. Since the calculated value (F is 21.46) which is greater than the table value 2.313. The calculated value is greater than the table value at 5% level of significant the null hypothesis is rejected. So the mean value of companies belonging to same industry varies from one company to another.

Table showing Descriptive statistics for Total debt ratio

Companies	Mean	SD	Min	Max	CAGR
Britannia Industries	0.42	0.11	0.30	0.53	-0.11
Hatsun Agro Products	0.80	0.02	0.78	0.83	0.01
Heritage Foods	0.56	0.10	0.39	0.64	-0.03
Kohinoor Foods	0.78	0.10	0.70	0.91	0.05
KRBL	0.50	0.09	0.41	0.62	-0.08
Kwality	0.67	0.04	0.64	0.75	-0.03
LT Foods	0.71	0.11	0.51	0.79	-0.08
Prabhat Dairy	0.35	0.11	0.22	0.50	-0.07

Source: Secondary data

From the above table it can be seen that Hatsun Agro Products has the highest mean value of 0.80, Britannia, LT and Prabhat Dairy has highest SD of 0.11, Prabhat Dairy has the lowest minimum value of 0.22 and Kohinoor foods has the maximum value of 0.91 and Kohinoor food has the highest CAGR value of 0.05.

Table showing ANOVA for Total debt ratio

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	0.992	7	0.142	16.741	0.000	2.313
Within Groups	0.271	32	0.008			
Total	1.262	39				

The ANOVA table shows that there is significant difference among the mean value of selected companies. Since the calculated value (F is 16.741) which is greater than the table value 2.313. The calculated value is greater than the table value at 5% level of significant the null hypothesis is rejected. So the mean value of companies belonging to same industry varies from one company to another.

Table showing Descriptive statistics for Debt equity ratio

Companies	Mean	SD	Min	Max	CAGR
Britannia Industries	0.76	0.33	0.43	1.16	-0.18
Hatsun Agro Products	2.27	0.29	1.98	2.76	0.05
Heritage Foods	0.49	0.23	0.23	0.74	-0.15
Kohinoor Foods	-535.03	1193.92	-2670.76	2.07	-2.43
KRBL	0.82	0.33	0.53	1.29	-0.16
Kwality	1.75	0.45	1.36	2.50	-0.11
LT Foods	2.35	0.87	0.86	3.05	-0.21
Prabhat Dairy	0.35	0.17	0.18	0.59	-0.14

Source: Secondary data

From the above table it can be seen LT Foods has the highest mean value of 2.35, LT Foods has highest SD of 0.87, Prabhat Dairy has the lowest minimum value of 0.18 and LT Foods has the maximum value of 3.05 and Hatsun Agro Products has the highest CAGR value of 0.05.

Table showing ANOVA for Debt equity ratio

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1258253.760	7	179750.5	1.009	0.444	2.313
Within Groups	5701812.107	32	178181.6			
Total	6960065.867	39				

The ANOVA table shows that there is significant difference among the mean value of selected companies. Since the calculated value (F is 1.009) which is greater than the table value 2.313. The calculated value is greater than the table value at 5% level of significant the null hypothesis is rejected. So the mean value of companies belonging to same industry varies from one company to another.

Table showing Descriptive statistics for Net profit ratio

Companies	Mean	SD	Min	Max	CAGR
Britannia Industries	8.83	1.76	5.86	10.18	0.12
Hatsun Agro Products	2.34	0.87	1.33	3.27	-0.08
Heritage Foods	4.72	5.60	1.36	14.70	0.00
Kohinoor Foods	-4.99	5.25	-11.28	0.51	-2.75
KRBL	11.31	2.19	9.02	14.22	0.08
Kwality	2.33	0.72	1.05	2.76	-0.18
LT Foods	1.77	0.26	1.45	2.13	-0.02
Prabhat Dairy	1.08	0.84	0.32	2.41	0.33

Source: Secondary data

From the above table it can be seen KRBL has the highest mean value of 11.31, Heritage Foods has highest SD of 5.60, Prabhat Dairy has the lowest minimum value of 0.32 and Heritage Foods has the maximum value of 14.70 and Prabhat Dairy has the highest CAGR value of 0.33.

Table showing ANOVA for Net profit ratio

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	872.263	7	124.609	14.455	0.000	2.313
Within Groups	275.850	32	8.620			
Total	1148.113	39				

The ANOVA table shows that there is significant difference among the mean value of selected companies. Since the calculated value (F is 14.455) which is greater than the table value 2.313. The calculated value is greater than the table value at 5% level of significant the null hypothesis is rejected. So the mean value of companies belonging to same industry varies from one company to another.

Table showing Descriptive statistics for Return on capital employed

Companies	Mean	SD	Min	Max	CAGR
Britannia Industries	39.20	8.34	29.06	49.41	-0.07
Hatsun Agro Products	18.44	9.58	7.36	32.41	0.04
Heritage Foods	18.96	16.02	4.41	45.94	-0.25
Kohinoor Foods	-11.68	26.24	-54.80	11.53	0.56
KRBL	19.69	1.21	18.59	21.36	-0.03
Kwality	17.88	9.11	4.45	26.70	-0.29
LT Foods	14.89	14.62	5.03	40.73	-0.15
Prabhat Dairy	2.85	2.70	0.90	7.45	0.28

Source: Secondary data

From the above table it can be seen Britannia Industries has the highest mean value of 39.20, Kohinoor Foods has highest SD of 26.24, Prabhat Dairy has the lowest minimum value of 0.90 and Britannia Industries has the maximum value of 49.41 and Kohinoor Foods has the highest CAGR value of 0.56.

Table showing ANOVA for Return on capital employed

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	7515.072	7	1073.582	6.083043	0.000145	2.312741
Within Groups	5647.603	32	176.4876			
Total	13162.68	39				

The ANOVA table shows that there is significant difference among the mean value of selected companies. Since the calculated value (F is 6.083) which is greater than the table value 2.313. The calculated value is greater than the table value at 5% level of significant the null hypothesis is rejected. So the mean value of companies belonging to same industry varies from one company to another.

Table showing Descriptive statistics for Return on equity

Companies	Mean	SD	Min	Max	CAGR
Britannia Industries	39.94	8.71	29.29	50.37	-0.08
Hatsun Agro Products	30.62	11.29	17.68	45.53	-0.11
Heritage Foods	23.43	14.60	7.76	46.36	-0.21
Kohinoor Foods	7543.74	16821.28	-17.62	37634.45	1.37
KRBL	0.82	0.33	0.53	1.29	-0.16
Kwality	19.30	9.31	6.37	31.80	-0.27
LT Foods	9.35	3.12	5.28	13.86	-0.18
Prabhat Dairy	0.35	0.17	0.18	0.59	-0.14

Source: Secondary data

From the above table it can be seen Kohinoor Foods has the highest mean value of 7543.74, Kohinoor Foods has highest SD of 16821.28, Prabhat Dairy has the lowest minimum value of 0.18 and Kohinoor Foods has the maximum value of 37634.45 and Kohinoor Foods has the highest CAGR value of 1.37.

Table showing ANOVA for Return on equity

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	2.48E+08	7	35401913	1.000916	0.448743	2.312741
Within Groups	1.13E+09	32	35369497			
Total	1.38E+09	39				

The ANOVA table shows that there is significant difference among the mean value of selected companies. Since the calculated value (F is 1.001) which is greater than the table value 2.313. The calculated value is greater than the table value at 5% level of significant the null hypothesis is rejected. So the mean value of companies belonging to same industry varies from one company to another.

Table showing Descriptive statistics for Return on asset

Companies	Mean	SD	Min	Max	CAGR
Britannia Industries	22.61	2.32	20.05	25.28	0.00
Hatsun Agro Products	6.29	2.66	3.70	9.69	-0.15
Heritage Foods	11.25	9.96	3.58	28.47	-0.17
Kohinoor Foods	-4.27	4.62	-10.14	0.39	-2.79
KRBL	11.11	1.39	9.36	12.42	0.04
Kwality	6.03	2.29	2.22	8.00	-0.23
LT Foods	2.44	0.38	2.15	3.05	-0.03
Prabhat Dairy	1.70	1.10	0.64	3.27	0.30

Source: Secondary data

From the above table it can be seen Britannia Industries has the highest mean value of 22.61, Heritage Foods has highest SD of 9.96, Prabhat Dairy has the lowest minimum value of 0.64 and Heritage Foods has the maximum value of 28.47 Prabhat Dairy has the highest CAGR value of 0.30.

Table showing ANOVA for Return on asset

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	2278.427	7	325.490	18.398	0.000	2.313
Within Groups	566.1437	32	17.692			
Total	2844.57	39				

The ANOVA table shows that there is significant difference among the mean value of selected companies. Since the calculated value (F is 18.398) which is greater than the table value 2.313. The calculated value is greater than the table value at 5% level of significant the null hypothesis is rejected. So the mean value of companies belonging to same industry varies from one company to another.

Table showing trend analysis of Britannia Industries

YEAR	Britannia Industries	
	ACTUAL	TREND
2014	6,307.39	6,481.68
2015	7,344.79	7,230.196
2016	8,176.82	7,978.712
2017	8,684.39	8,727.228
2018	9,380.17	9,475.744
	$y = 748.5x + 5733.$	
	$R^2 = 0.983$	

From the above table it is seen that the trend value of Britannia industries gradually increases from the base year 2014 (6,481.68) to the end year 2018 (9,475.744). The net sales of the company increases year by year ensuring the profitability of the company. The R^2 value of Britannia industries is 0.983.

Table showing trend analysis of Hatsun Agro Products

YEAR	Hatsun Agro Products	
	ACTUAL	TREND
2014	2,493.54	2,503.242
2015	2,937.67	2,989.268
2016	3,450.05	3,475.294
2017	4,205.41	3,961.32
2018	4,289.80	4,447.346
	$y = 486.0x + 2017$	
	$R^2 = 1$	

From the above table it is seen that the trend value of Hatsun Agro Products gradually increases from the base year 2014 (2,503.242) to the end year 2018 (4,447.346). The net sales of the company increases year by year ensuring the profitability of the company. The R^2 value of Hatsun Agro Products is 1.

Table showing trend analysis of Heritage Foods

YEAR	Heritage Foods	
	ACTUAL	TREND
2014	1,722.92	1,870.886
2015	2,074.03	1,974.845
2016	2,381.62	2,078.804
2017	1,871.44	2,182.763
2018	2,344.01	2,286.722
	$y = 103.9x + 1766$	
	$R^2 = 0.325$	

From the above table it is seen that the trend value of Heritage Foods gradually increases from the base year 2014 (1870.886) to the end year 2018 (2,286.722). The net sales of the company increases year by year ensuring the profitability of the company. The R^2 value of Heritage Foods is 0.325.

Table showing trend analysis of Kohinoor Foods

YEAR	Kohinoor Foods	
	ACTUAL	TREND
2014	1,263.38	1,275.966
2015	1,158.97	1,184.305
2016	1,130.90	1,092.644
2017	1,050.82	1,000.983
2018	859.15	909.322
	$y = -91.66x + 1367$	
	$R^2 = 0.920$	

From the above table it is seen that the trend value of Kohinoor Foods gradually decreases from the base year 2014 (1,275.966) to the end year 2018 (909.322). The net sales of the company decreases year by year resulting in the loss of the company. The company must try to increase their sales in order to ensure profitability. The R^2 value of Kohinoor Foods is 0.920.

Table showing trend analysis of KRBL

YEAR	KRBL	
	ACTUAL	TREND
2014	2,791.66	2,943.128
2015	3,113.69	3,037.363
2016	3,359.72	3,131.598
2017	3,146.48	3,225.833
2018	3,246.44	3,320.068
	$y = 94.23x + 2848$	
	$R^2 = 0.489$	

From the above table it is seen that the trend value of KRBL gradually increases from the base year 2014 (2,943.128) to the end year 2018 (3,320.068). The net sales of the company increases year by year resulting in profitability position of the company. The R^2 value of KRBL is 0.489.

Table showing trend analysis of Kquality

YEAR	Kquality	
	ACTUAL	TREND
2014	4,578.05	4,654.376
2015	5,269.19	5,169.95
2016	5,724.23	5,685.524
2017	6,131.27	6,201.098
2018	6,724.88	6,716.672
	$y = 515.5x + 4138$	
	$R^2 = 1$	

From the above table it is seen that the trend value of Kquality gradually increases from the base year 2014 (4,654.376) to the end year 2018 (6,716.672). The net sales of the company increases year by year resulting in profitability position of the company. The R^2 value of Kquality is 1.

Table showing trend analysis of LT Foods

YEAR	LT Foods	
	ACTUAL	TREND
2014	1,798.73	1,743.908
2015	1,821.64	1,835.38
2016	1,821.20	1,926.852
2017	2,051.56	2,018.324
2018	2,141.13	2,109.796
	$y = 91.47x + 1652$	
	$R^2 = 0.835$	

From the above table it is seen that the trend value of LT Foods gradually increases from the base year 2014 (1,743.908) to the end year 2018 (2,109.796). The net sales of the company increases year by year resulting in profitability position of the company. The R^2 value of LT Foods is 0.835.

Table showing trend analysis of Prabhat Dairy

YEAR	Prabhat Dairy	
	ACTUAL	TREND
2014	779.78	729.354
2015	874.63	887.433
2016	1,000.08	1,045.512
2017	1,131.16	1,203.591
2018	1,441.91	1,361.67
	$y = 158.0x + 571.2$	
	$R^2 = 0.938$	

From the above table it is seen that the trend value of Prabhat Dairy gradually increases from the base year 2014 (1,743.908) to the end year 2018 (2,109.796). The net sales of the company increases year by year resulting in profitability position of the company. The R^2 value of Prabhat Dairy is 0.938.

CONCLUSION:

The study provides suggestions regarding capital structure decision of food processing industry. It is noteworthy to discuss the importance of capital structure management, its various components and their impact on profitability to find the hypothetical relationship between capital structure and its impact on profitability of 8 selected food processing companies in India for the period of 5 years period i.e. from 2013-14 to 2017-18. It is found that the higher debt will always have a more impact on profitability of the firms. It is recommended that the short term liability, long term liability, debt and equity need to be efficiently managed which will lead to the profitability of the food processing industry.

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