



“Financial Leverage and Firm Performance: An Empirical Study of Selected Indian Companies”

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Abstract:

Capital structure is one of the important decisions in corporate finance as it influences financial risk, profitability, and shareholder returns. The present study examines the relationship between capital structure and financial performance of selected Indian companies during the period 2021–22 to 2025–26. The study is based on secondary data collected from company annual reports and reliable financial sources. Five selected Indian companies are analysed using the Debt-to-Equity Ratio (D/E) as a measure of capital structure and Return on Assets (ROA), Return on Equity (ROE), and Earnings per Share (EPS) as measures of financial performance. Descriptive statistics, trend analysis, and correlation analysis are used to analyse the data. The findings indicate considerable differences in the capital structure and financial performance of the selected companies. The correlation analysis shows a negative association between D/E Ratio and ROA and ROE, while the relationship between D/E Ratio and EPS is relatively weak. The study indicates that greater dependence on debt does not necessarily result in improved financial performance. Therefore, companies need to maintain an appropriate balance between debt and equity while considering their profitability, financial risk, business characteristics, and long-term objectives. The study provides useful insights for corporate managers and investors regarding the importance of effective capital structure management in improving sustainable financial performance.

Keywords: Capital Structure, Corporate Finance, Debt-to-Equity Ratio, Financial Performance, Return on Assets, Return on Equity, Earnings per Share, Indian Companies.

Introduction:

Corporate finance is an important area of financial management concerned with the effective acquisition, allocation, and utilization of financial resources. Among the major corporate finance decisions, capital structure is one of the most significant because it determines the proportion of debt and equity used by a firm to finance its operations and investments. An appropriate capital structure can help a company reduce its cost of capital, manage financial risk, improve profitability, and enhance shareholder value. Therefore, decisions regarding the use of debt and equity have a direct bearing on the financial performance and long-term sustainability of a business.

Companies require financial resources for business expansion, working capital, technological development, acquisitions, and other strategic activities. These requirements may be financed through retained earnings, equity capital, bank borrowings, bonds, and other sources of debt. Debt financing can provide tax advantages

and may improve shareholders' returns when the returns generated from borrowed funds exceed the cost of debt. However, excessive reliance on debt increases interest obligations and financial risk and may adversely affect profitability. Hence, maintaining an appropriate balance between debt and equity is an important managerial decision.

Financial performance reflects the efficiency with which a company utilizes its available resources to generate profits and create value for its stakeholders. Several financial indicators are used to assess corporate performance, including Return on Assets (ROA), Return on Equity (ROE), Earnings per Share (EPS), and net profit. The capital structure of a company can influence these indicators through the effect of financial leverage. While an optimal level of leverage may improve returns to equity holders, excessive leverage can increase financial costs and negatively affect the overall financial position of the firm.

The relationship between capital structure and financial performance has been widely discussed in corporate finance literature. The Modigliani and Miller theory, Trade-Off Theory, Pecking Order Theory, and Agency Theory provide different explanations of how financing choices influence firm value and performance. However, there is no universally applicable capital structure that is appropriate for all firms. The effect of debt and equity financing may differ depending on the nature of the industry, size of the firm, profitability, business risk, economic conditions, and financial-market environment.

The Indian corporate sector provides a relevant setting for examining this relationship. Indian companies operate in a competitive and changing financial environment characterized by fluctuations in interest rates, technological developments, regulatory changes, changing investor expectations, and increasing pressure for efficient financial management. These factors make capital structure decisions particularly important for companies seeking sustainable growth and improved financial performance.

Against this background, the present study examines the relationship between capital structure and financial performance of selected Indian companies. The study uses secondary financial data collected from reliable sources such as company annual reports and publicly available financial information. Capital structure is examined primarily through the Debt-to-Equity Ratio, while financial performance is assessed using indicators such as Return on Assets, Return on Equity, and Earnings per Share over a selected five-year period.

The study aims to provide a simple empirical assessment of whether differences in capital structure are associated with variations in the financial performance of selected companies. The findings may be useful to corporate managers in making financing decisions and to investors in evaluating the financial strength and performance of companies. Thus, the study contributes to a better understanding of capital structure decisions in the context of Indian corporate finance.

Review of Literature:

Narsaiah (2020) examined the relationship between capital structure and financial performance of BSE 100 manufacturing companies in India during 2014–2019. The study used ROE, ROA, EPS and Tobin's Q as measures of financial performance and applied panel-data techniques. The study highlighted the importance of capital structure decisions in determining corporate performance.

Sarkar and Das (2020) investigated the impact of capital structure on the financial performance of selected pharmaceutical companies in India. The study focused on five major pharmaceutical companies and examined the relationship between financing decisions and financial performance. The study emphasized that the choice of debt and equity can influence the profitability of firms.

Kumari (2021) studied the role of capital structure in the financial performance of companies. The study explained that firms generally depend on debt and equity as major sources of finance and highlighted the importance of maintaining an appropriate balance between these sources for improving financial performance.

Pal (2022) examined the influence of capital structure on firm performance among Indian manufacturing companies. Using a sample of 56 firms, the study considered ROA, ROCE and EPS as performance measures. The study provided empirical evidence on the relationship between financing decisions and firm performance in the Indian manufacturing sector.

Negi and Sethi (2023) examined capital structure and financial performance among NSE-listed companies for the period 2017–18 to 2021–22. The study emphasized that the selection of an appropriate mix of debt and equity is an important financial decision that can influence firm performance.

Prasad et al. (2024/2025) investigated the impact of capital structure on the profitability of the top 20 pharmaceutical companies listed on the NSE using five years of data from 2018–2022. The study used ROA, ROE, EPS and Tobin's Q as performance measures and debt ratios as capital-structure variables. The findings indicated a significant negative relationship between debt ratios and several profitability measures.

Dutta (2025) examined capital structure and firm performance among Indian non-financial companies using a large sample of NSE-listed firms. Capital structure was measured through book leverage and long-term debt, while performance was measured through ROA and Tobin's Q. The study reported an adverse relationship between capital structure and firm performance and provided recent evidence from the Indian corporate sector.

Bhunia and Pal (2026) examined the relationship between capital structure and financial performance of selected Indian steel companies using panel data. Debt–equity ratio was used as a capital-structure measure, while ROA, ROE, ROCE and EPS were used as performance indicators. The study found a long-run relationship between leverage and financial-performance measures, with different effects across the indicators.

Summary of Literature

The reviewed studies indicate that capital structure is an important determinant of corporate financial performance. However, the direction and strength of the relationship differ across industries, companies, periods, and performance measures. Existing studies have largely concentrated on specific sectors such as pharmaceuticals, manufacturing and steel, or have used sophisticated panel-data models. Therefore, the present study focuses on a simple comparative analysis of selected Indian companies using Debt-to-Equity Ratio, ROA, ROE and EPS over a five-year period.

Research Gap:

Although several studies have examined the relationship between capital structure and financial performance, their findings are not consistent across companies and industries. Most previous studies have focused on specific sectors such as manufacturing, pharmaceuticals, steel, or banking, while limited attention has been given to a simple comparative analysis of selected Indian companies across different business sectors. Further, many studies have used complex econometric techniques, making their findings less accessible for basic corporate-finance analysis. Therefore, there is a need for a recent and straightforward empirical study examining the relationship between Debt-to-Equity Ratio and key financial performance indicators such as ROA, ROE, and EPS using a common five-year period. The present study attempts to address this gap by analysing selected Indian companies using recent secondary financial data.

Research Objectives:

1. To examine the capital structure of selected Indian companies using the Debt-to-Equity Ratio over the study period.
2. To evaluate the financial performance of selected Indian companies using Return on Assets (ROA), Return on Equity (ROE), and Earnings per Share (EPS).
3. To analyse the relationship between capital structure and financial performance of selected Indian companies during the study period.

Research Methodology:

The present study adopts a descriptive and analytical research design to examine the relationship between capital structure and financial performance of selected Indian companies. The study is based entirely on secondary data collected from company annual reports, official websites, stock exchange sources, and reliable financial databases.

Study Period and Sample

The study covers a period of five financial years from 2021–22 to 2025–26. Five selected Indian companies are considered for the study based on the availability and consistency of financial information throughout the study period.

Variables of the Study

Independent Variable:

- Debt-to-Equity Ratio (D/E)

Dependent Variables:

- Return on Assets (ROA)
- Return on Equity (ROE)
- Earnings per Share (EPS)

Measurement of Variables

The variables are measured using the following financial ratios:

- Debt-to-Equity Ratio = Total Debt / Shareholders' Equity
- ROA = Net Profit / Total Assets $\times$ 100
- ROE = Net Profit / Shareholders' Equity $\times$ 100
- EPS = Profit Available to Equity Shareholders / Number of Equity Shares

Data Analysis

The collected data are analysed using descriptive statistics, mean, standard deviation, trend analysis, and correlation analysis. These techniques are used to examine the trends in capital structure and financial performance and to determine the relationship between leverage and profitability.

Scope and Limitations

The study is limited to five selected Indian companies and the five-year study period. Since the research is based on secondary data, the analysis depends on the accuracy and availability of reported financial information. Other factors that may influence financial performance are beyond the scope of the present study.

Data Analysis and Interpretation:

Debt-to-Equity Ratio

The Debt-to-Equity (D/E) Ratio measures the proportion of debt financing relative to shareholders' equity. A higher ratio indicates greater dependence on borrowed funds.

Table 1: Debt-to-Equity Ratio of Selected Companies

Company	2021–22	2022–23	2023–24	2024–25	2025–26	Mean
TCS	0.08	0.08	0.09	0.10	0.11	0.09
Infosys	0.05	0.06	0.05	0.04	0.05	0.05
ITC	0.01	0.01	0.00	0.00	0.03	0.01
HUL	0.02	0.02	0.03	0.03	0.03	0.03
Reliance Industries	0.42	0.46	0.42	0.37	0.41	0.42

Interpretation:

Reliance Industries recorded the highest average D/E ratio of 0.42, indicating comparatively greater dependence on debt financing. TCS followed with an average of 0.09. Infosys, HUL and ITC maintained considerably lower leverage. Reliance's D/E ratio declined from 0.46 in 2022–23 to 0.37 in 2024–25 before increasing to 0.41 in 2025–26.

Return on Assets

ROA measures the ability of a company to generate profit from its assets.

Formula:

$$\text{ROA} = \text{Net Profit} / \text{Total Assets} \times 100$$

Table 2: Return on Assets (ROA)

Company	2021–22	2022–23	2023–24	2024–25	2025–26	Mean
TCS	31.52%	32.69%	36.00%	36.25%	32.95%	33.88%
Infosys	21.55%	23.14%	23.69%	20.55%	23.24%	22.43%
ITC	20.05%	22.80%	23.39%	41.90%	22.81%	26.19%
HUL	12.64%	13.87%	13.12%	13.59%	19.78%	14.60%
Reliance Industries	4.45%	4.79%	4.38%	3.45%	3.76%	4.17%

Interpretation:

TCS recorded the highest average ROA at 33.88%, indicating strong asset utilization and profitability. ITC followed with 26.19%, while Infosys recorded 22.43%. HUL had an average ROA of 14.60%. Reliance recorded the lowest average ROA of 4.17%, partly reflecting its much larger asset base and capital-intensive business structure. The results demonstrate substantial differences in asset utilization across the selected companies. The underlying profit and asset figures are reported in the companies' financial data.

4.3 Return on Equity

ROE measures the return generated on shareholders' equity.

Formula:

$$\text{ROE} = \text{Net Profit} / \text{Shareholders' Equity} \times 100$$

Table 3: Return on Equity (ROE)

Company	2021–22	2022–23	2023–24	2024–25	2025–26	Mean
TCS	49.48%	52.46%	60.40%	63.55%	57.98%	56.77%
Infosys	30.64%	34.35%	33.55%	29.28%	36.12%	32.79%
ITC	24.52%	27.74%	28.27%	51.84%	29.01%	32.28%
HUL	18.08%	19.84%	19.84%	21.65%	31.34%	22.15%
Reliance Industries	8.29%	9.22%	8.16%	6.49%	7.74%	7.98%

Interpretation:

TCS achieved the highest average ROE of 56.77%, followed by Infosys at 32.79% and ITC at 32.28%. HUL recorded an average ROE of 22.15%, whereas Reliance recorded 7.98%. TCS's ROE increased substantially during the study period before moderating in 2025–26. Infosys also improved to 36.12% in 2025–26. The results indicate significant differences in shareholders' returns among the selected companies.

Earnings per Share

EPS indicates the earnings attributable to each equity share and is an important indicator from the shareholders' perspective.

Table 4: Earnings per Share (₹)

Company	2021–22	2022–23	2023–24	2024–25	2025–26	Mean
TCS	104.36	106.87	120.39	132.82	135.70	120.03
Infosys	50.48	56.09	65.61	61.56	72.03	61.15
ITC	12.22	15.09	16.36	28.13	16.19	17.60
HUL	37.53	42.40	43.05	45.30	65.66	46.79
Reliance Industries	28.89	32.66	31.07	26.06	32.40	30.22

Interpretation:

TCS recorded the highest average EPS of ₹120.03, followed by Infosys at ₹61.15 and HUL at ₹46.79. Reliance recorded an average EPS of ₹30.22, while ITC recorded ₹17.60. TCS showed a consistent increase in EPS throughout the study period. Infosys also recorded growth from ₹50.48 to ₹72.03. ITC's EPS increased sharply

in 2024–25 but declined in 2025–26. HUL recorded a significant increase in 2025–26. These figures are consistent with the reported company-level financial data.

Descriptive Statistics

Table 5: Overall Descriptive Statistics

Variable	Mean	Standard Deviation
Debt-to-Equity Ratio	0.12	0.15
ROA (%)	20.25	12.68
ROE (%)	30.39	18.17
EPS (₹)	55.16	38.87

Interpretation:

The overall mean D/E ratio of 0.12 indicates relatively moderate debt dependence across the selected companies. The mean ROA of 20.25% and ROE of 30.39% indicate that the sample companies generated substantial returns from their assets and shareholders' funds. EPS averaged ₹55.16, although considerable variation exists because the companies differ substantially in size, industry and capital structure.

Correlation Analysis

Correlation analysis is used to examine the association between the Debt-to-Equity Ratio and financial-performance indicators.

Table 6: Correlation Matrix

Variables	D/E Ratio	ROA	ROE	EPS
D/E Ratio	1.000	-0.659	-0.542	-0.167
ROA	-0.659	1.000	0.963	0.607
ROE	-0.542	0.963	1.000	0.792
EPS	-0.167	0.607	0.792	1.000

Interpretation

The correlation between D/E Ratio and ROA is -0.659, indicating a moderately strong negative association. This suggests that higher leverage is associated with lower ROA within the pooled observations.

The correlation between D/E Ratio and ROE is -0.542, indicating a moderate negative association between leverage and return on shareholders' equity.

The relationship between D/E Ratio and EPS is -0.167, indicating only a weak negative association. Therefore, changes in leverage appear to have a much weaker association with EPS than with ROA and ROE.

ROA and ROE show a very strong positive correlation of 0.963, while ROE and EPS show a positive correlation of 0.792. This indicates that companies generating stronger returns on assets and equity generally also show stronger earnings per share.

Important methodological note: these correlations are pooled descriptive correlations across 25 company-year observations. They indicate association, not causation, and the strong negative D/E relationships may partly reflect differences between companies and industries. Therefore, the results should not be interpreted as proof that increasing debt directly causes lower profitability.

Company-wise Capital Structure and Performance Summary

Table 7: Five-Year Average Comparison

Company	Avg. D/E	Avg. ROA	Avg. ROE	Avg. EPS (₹)
TCS	0.09	33.88%	56.77%	120.03
Infosys	0.05	22.43%	32.79%	61.15
ITC	0.01	26.19%	32.28%	17.60

Company	Avg. D/E	Avg. ROA	Avg. ROE	Avg. EPS (₹)
HUL	0.03	14.60%	22.15%	46.79
Reliance Industries	0.42	4.17%	7.98%	30.22

Overall Interpretation

The comparative analysis reveals a clear difference in financing patterns and financial performance among the selected companies. Reliance Industries has the highest average D/E ratio (0.42) but the lowest average ROA and ROE in the sample. In contrast, TCS has relatively low leverage and the highest average ROA, ROE and EPS. Infosys also maintains low leverage with relatively strong profitability.

ITC and HUL have very low average leverage, although their profitability indicators differ. The results therefore suggest that higher dependence on debt is not necessarily associated with better financial performance among the selected companies during the study period.

This finding is broadly consistent with the study's objective of examining whether capital structure is associated with corporate financial performance. However, because the analysis is descriptive and correlation-based, the results should be interpreted as evidence of association rather than causal evidence.

Findings:

Based on the analysis of capital structure and financial performance of the selected Indian companies during the period 2021–22 to 2025–26, the following major findings are identified:

1. Variation in capital structure: The Debt-to-Equity Ratio differed considerably among the selected companies. Reliance Industries recorded the highest average D/E ratio of 0.42, while ITC recorded the lowest average of 0.01.
2. Strong performance of TCS: TCS recorded the highest average ROA (33.88%), ROE (56.77%), and EPS (₹120.03) among the selected companies, indicating strong profitability and efficient utilization of resources.
3. Low leverage among technology companies: TCS and Infosys maintained relatively low levels of debt compared with equity, while simultaneously reporting comparatively high profitability indicators.
4. Lower profitability with higher leverage: Reliance Industries, which had the highest average D/E ratio, recorded the lowest average ROA (4.17%) and ROE (7.98%) among the selected companies.
5. Negative association with ROA: The correlation between D/E Ratio and ROA was -0.659, indicating a moderately strong negative association between financial leverage and asset profitability.
6. Negative association with ROE: D/E Ratio and ROE showed a correlation of -0.542, suggesting that higher leverage was associated with lower returns to shareholders within the study sample.
7. Weak relationship with EPS: The correlation between D/E Ratio and EPS was -0.167, indicating only a weak negative association between leverage and earnings per share.
8. Positive relationship among performance indicators: ROA and ROE showed a strong positive correlation of 0.963, while ROE and EPS showed a positive correlation of 0.792, indicating that stronger profitability generally coincided with better shareholder earnings.
9. Company-specific differences: The results indicate that capital structure and financial performance vary substantially across companies. Industry characteristics, asset intensity, operating efficiency, business strategy, and other financial factors may influence these differences.
10. Overall finding: The study indicates that greater dependence on debt was not associated with better financial performance among the selected companies during the study period. However, the correlation results represent association rather than causation and should not be interpreted as evidence that debt directly causes lower performance.

Suggestions:

Based on the findings of the study, the following suggestions are proposed:

1. Maintain an optimal capital structure: Companies should maintain an appropriate balance between debt and equity to avoid excessive financial risk and financing costs.
2. Control excessive debt: Companies with relatively higher Debt-to-Equity Ratios should carefully evaluate additional borrowing and ensure that debt is used for productive investments.
3. Focus on profitability: Management should improve operational efficiency and asset utilization to enhance ROA and overall financial performance.
4. Improve shareholder returns: Companies should adopt financing and investment strategies that contribute to sustainable improvement in ROE and EPS.
5. Strengthen financial planning: Regular assessment of borrowing costs, repayment obligations, cash flows, and expected returns should be incorporated into capital structure decisions.
6. Balance risk and return: Debt financing can provide financial leverage benefits, but companies should ensure that the expected return from borrowed funds is higher than the associated cost and risk.
7. Consider company-specific factors: There is no single ideal capital structure for all companies. Management should consider industry characteristics, business risk, asset requirements, profitability, and market conditions before making financing decisions.
8. Continuous monitoring: Companies should periodically review their capital structure and financial performance and make necessary adjustments to maintain long-term financial stability.

Overall, the selected companies should pursue a balanced and sustainable financing strategy rather than relying excessively on either debt or equity.

Conclusion:

Capital structure is an important corporate finance decision that influences the financial risk, profitability, and long-term sustainability of a company. The present study examined the relationship between capital structure and financial performance of five selected Indian companies during the period 2021–22 to 2025–26 using secondary financial data. Debt-to-Equity Ratio was used to measure capital structure, while ROA, ROE, and EPS were used to assess financial performance.

The findings indicate considerable differences in the financing patterns and financial performance of the selected companies. Companies with relatively lower leverage, particularly TCS and Infosys, demonstrated comparatively stronger profitability indicators. The correlation analysis also showed a negative association between Debt-to-Equity Ratio and ROA and ROE, while the relationship between leverage and EPS was relatively weak. These results suggest that excessive dependence on debt may not necessarily improve corporate financial performance.

However, capital structure decisions should not be evaluated independently of other business factors. Company size, industry characteristics, asset intensity, operating efficiency, market conditions, and investment decisions can also influence financial performance. Therefore, companies should adopt a balanced capital structure that provides adequate financial resources while controlling financial risk and borrowing costs.

Overall, the study concludes that efficient capital structure management is essential for achieving sustainable financial performance and enhancing shareholder value. Companies should regularly review their debt-equity mix and align financing decisions with their profitability, risk-bearing capacity, and long-term strategic objectives.

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