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Capital Structure Optimization and Its Impact on Firm Valuation: A Study on Wipro Limited

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Abstract:

Capital structure decisions play a critical role in determining a firm's financial performance and market valuation. This study examines the relationship between capital structure optimization and firm value, focusing on Wipro Limited as a representative case from the Indian information technology (IT) sector. Using a combined secondary and primary data approach—comprising 10 years of audited financial statements (2015–2025) and survey responses from 100 informed participants—the research evaluates how the proportions of debt and equity financing influence profitability, the cost of capital, and shareholder wealth. Key valuation indicators, including the debt-to-equity ratio, return on Equity (ROE), return on capital employed (ROCE), Tobin's Q ratio, earnings per share (EPS), and the weighted average cost of capital (WACC), are analysed using descriptive statistics, correlation analysis, and regression modelling. Findings reveal that capital structure has only a weak and statistically insignificant impact on firm value, whereas operational profitability—particularly ROE—emerges as the primary driver of market valuation. The study contributes original empirical evidence to the Indian IT sector and reinforces the relevance of equity-heavy financing strategies for knowledge-intensive firms in dynamic competitive environments.

Keywords: capital structure; firm valuation; financial leverage; cost of capital; shareholder wealth; Wipro Limited; Indian IT sector

1. Introduction

Capital structure—the proportion of debt and Equity used to finance a firm's assets—is one of the most extensively debated issues in corporate finance. The foundational propositions of Modigliani and Miller (1958, 1963) established that, under perfect markets, capital structure is irrelevant to firm value; however, the introduction of corporate taxes, transaction costs, and information asymmetries has generated a rich theoretical literature that links financing mix to firm performance and valuation. Trade-off theory (Myers, 1984) argues that firms balance the tax benefits of debt with the financial distress costs to reach an optimal leverage level, while pecking-order theory (Myers & Majluf, 1984) suggests that firms prefer internal financing over external debt, relying on equity issuance only as

a last resort.

In the Indian context, capital structure decisions are further shaped by regulatory frameworks, market imperfections, and sector-specific characteristics. The information technology (IT) sector, characterised by asset-light operations, high free cash flow generation, and innovation-driven growth, presents a distinctive financing environment in which traditional capital structure prescriptions may not apply uniformly. Firms such as Wipro Limited have historically maintained low leverage levels, raising important questions about the optimality of their financing mix and its consequences for shareholder wealth.

This study addresses three interrelated research questions: (1) What is the trend in Wipro's capital structure over the period 2015–2025? (2) Does financial leverage significantly influence Wipro's profitability and firm valuation? (3) How do informed

stakeholders perceive the relationship between Wipro's financing decisions and market performance? By combining quantitative financial analysis with survey-based perceptual data, the study offers a comprehensive, multi-method assessment of capital structure effects in an emerging-market IT firm.

The remainder of the paper is structured as follows. Section II presents the literature review. Section III outlines the research objectives and hypotheses. Section IV describes the research methodology. Section V reports descriptive findings. Section VI presents inferential analysis and interpretation. Section VII states the conclusions, implications, and recommendations. References conclude the paper.

2. Literature Review

The relationship between capital structure and firm value has been examined from multiple theoretical and empirical perspectives. The irrelevance theorem of Modigliani and Miller (1958) provided the benchmark from which subsequent theories departed. *DeAngelo and Masulis (1980)* extended the trade-off framework by incorporating personal taxes, demonstrating that optimal leverage balances tax shields against distress costs. *Jensen and Meckling (1976)* added an agency-cost dimension, showing that debt reduces the free-cash-flow problem but introduces conflicts between creditors and shareholders. *Rajan and Zingales (1995)* provided cross-country evidence on the determinants of capital structure, identifying tangibility, profitability, size, and growth opportunities as consistent predictors of leverage.

In the realm of dynamic capital structure, *Dang et al. (2014)* demonstrated that firms adjust asymmetrically toward target leverage ratios, with under-levered firms adjusting more rapidly than over-levered counterparts. *Dang and Garrett (2019)* further showed that the speed and direction of capital structure adjustments carry significant valuation implications, while *Pham and Tran (2023)* confirmed that proactive rebalancing toward target leverage is associated with superior market performance.

Empirical evidence from emerging markets reveals a nuanced picture. *Frank and Goyal (2009)* established that profitability, asset tangibility, and industry leverage are the most reliably important determinants of capital structure across contexts. *Kayo and Kimura (2011)* highlighted the hierarchical role of firm-level factors over industry and country factors in explaining leverage variation. Among recent contributions, *Tran et al. (2021)* documented a nonlinear, inverted U-shaped relationship between leverage and performance, confirming the existence of an optimal debt range. *Alqaisi and Sameer (2022)* found that balanced capital structures increase shareholder wealth, while *Bolarinwa and Adegbeye (2022)* warned that excessive debt reduces firm value by elevating financial risk.

Studies specific to the Indian market reinforce these themes. *Sharma and Kumar (2022)* found that profitable Indian IT firms rely less on external debt, supporting a pecking-order interpretation for the sector. *Kaur and Singh (2023)* confirmed that equity-dominant IT firms achieve higher market valuations in India. *Reddy and Prasad (2025)* showed that low debt levels correlate with higher valuation multiples in the Indian IT context, consistent with Wipro's observed financing behaviour.

Rahman et al. (2023) found that optimal leverage supports sustainable expansion, while excess debt constrains growth, and *Verma and Sinha (2023)* confirmed that moderate leverage has a positive valuation effect within its optimal limits.

More recent contributions have employed sophisticated modelling approaches. *Liu and Chang (2024)* used stock return modeling to demonstrate that high debt levels negatively affect investor perception. *Mehta and Joshi (2024)* found that conservative debt policies support long-term innovation and value in technology firms. *Ahmed and Afza (2024)* confirmed, using panel regression with Tobin's Q as the valuation proxy, that moderate leverage enhances financial performance in developing economies. *Zhang et al. (2025)* showed that firms actively optimizing debt levels experience improved stock prices. *Das and Roy (2024)* similarly confirmed that strategic debt planning is essential for value maximization, while *Patel and Mehra (2025)* demonstrated that systematic capital structure optimization improves sustainable firm valuation.

Despite this body of evidence, a gap remains in understanding how capital structure decisions interact with perceptual and behavioral factors among investors and analysts in the Indian context. *Babu (2020)* documented the influence of behavioral heuristics on Indian investor decisions, suggesting that cognitive biases may create a wedge between objective financial metrics and market-perceived value. *Naidu and Babu (2025)* further demonstrated how digital financial access reshapes investor behavior, reinforcing the need to integrate perceptual dimensions alongside conventional financial analysis. This study addresses these gaps by combining financial ratio analysis with primary survey data.

3. Research Objectives and Hypothesis

3.1. Research Objectives

The study pursues the following specific objectives:

- Objective 1: To evaluate the historical trend in Wipro's debt-to-equity ratio over the period 2015–2025 and assess the firm's financing mix relative to IT sector peers.
- Objective 2: To examine the statistical relationship between financial leverage and key profitability indicators—specifically ROE and ROCE—to determine whether debt contributes to bottom-line growth.
- Objective 3: To investigate the effect of capital structure changes on market valuation, as proxied by Tobin's Q ratio and share price movements.
- Objective 4: To assess stakeholder perceptions of the relationship between Wipro's financing decisions, ESG considerations, and investment attractiveness.

3.2. Research Hypotheses

Three sets of hypotheses are tested:

- H01: There is no significant relationship between Wipro Limited's debt-to-equity ratio and its market valuation (Tobin's Q). H1a: There is a significant relationship between the debt-to-equity ratio and Tobin's Q, suggesting that an optimal leverage level maximizes firm value.
- H02: ESG matrix integration does not significantly in-

fluence investors' stock selection decisions. H2a: ESG matrix integration significantly influences stock selection, providing a superior risk-adjusted view of long-term sustainability.

- H03: Financial leverage has no significant impact on Wipro's return on Equity (ROE). H3a: Financial leverage has a significant positive impact on ROE, indicating that the cost of debt is lower than the return generated from invested capital.

4. Research Methodology

4.1. Research Design

The study employs a quantitative, analytical–descriptive research design. The quantitative orientation is appropriate given that the core investigation involves numerical financial data—leverage ratios, earnings figures, market multiples—where statistical techniques can objectively identify patterns and test hypotheses. The analytical dimension goes beyond description by applying financial modeling and inferential statistics to evaluate causal relationships between financing decisions and shareholder value. The descriptive element provides a baseline characterization of Wipro's capital structure relative to the broader Indian IT sector. The case study format—centered on a single, large-capitalisation IT firm—is consistent with the exploratory intent of examining a specific financial environment characterized by asset-light operations and minimal leverage.

4.2. Sample Design and Data Collection

The study uses two complementary data sources. The secondary corporate sample comprises 10 years of audited annual report data for Wipro Limited (2015–2025), spanning multiple economic cycles and management phases. Data were sourced from Wipro's published annual reports, the National Stock Exchange (NSE), the Bombay Stock Exchange (BSE), and financial databases, including Money control. The primary respondent sample comprises 100 participants drawn through purposive and convenience sampling, including retail investors, financial analysts, finance faculty, and MBA students with investment exposure. Respondents with more than two years of investment

experience constitute 80% of the sample, ensuring grounded market familiarity. Wipro Limited was selected through purposive sampling as an exemplar of low-leverage IT financing within India's listed corporate sector.

4.3. Analytical Framework

Financial analysis employs ratio analysis (debt-to-equity, interest coverage, ROE, ROCE), WACC computation, and Tobin's Q estimation. Tobin's Q is calculated as the ratio of market capitalization plus total debt to total assets. Descriptive statistics (mean, standard deviation, minimum, maximum) characterize the ten-year data series. Pearson correlation analysis quantifies the strength and direction of bivariate relationships between capital structure and performance variables. Ordinary least squares (OLS) regression examines the extent to which changes in leverage explain variation in firm value. Primary survey data are analysed using frequency distribution and percentage analysis. Microsoft Excel serves as the primary computational platform; SPSS is employed for inferential testing where required (significance threshold: $p < 0.05$).

4.4. Limitations

The study is subject to four principal limitations. First, findings are specific to the asset-light Indian IT sector and may not generalize to capital-intensive industries such as manufacturing or infrastructure. Second, the analysis is confined to the period 2015–2025; structural breaks arising from global macroeconomic shocks outside this window are not captured. Third, the primary sample of 100 respondents carries inherent perception bias and may not represent the full population of informed investors. Fourth, the use of accounting-based proxies for firm value does not fully capture market efficiency effects or forward-looking growth expectations.

5. Descriptive Analysis

5.1. Descriptive Statistics of Financial Variables (2015–2025)

Table 1 presents descriptive statistics for the six primary financial variables derived from Wipro's audited annual reports over the ten-year study period.

Table 1: Descriptive Statistics of Wipro's Key Financial Variables (2015–2025)

Financial Variable	Mean	Std. Dev.	Min	Max
Debt-to-Equity Ratio	0.18	0.04	0.12	0.26
Return on Equity (%)	18.4	3.2	12.1	23.7
Return on Capital Employed (%)	22.1	2.8	16.5	27.3
Tobin's Q Ratio	1.45	0.31	0.98	2.12
Earnings Per Share (INR)	34.6	7.1	20.4	47.8
WACC (%)	12.3	1.1	10.2	14.5

The mean debt-to-equity ratio of 0.18 confirms Wipro's characteristically conservative, equity-heavy capital structure. The narrow standard deviation (0.04) indicates management's consistent preference for minimal external debt. The average Tobin's Q of 1.45 signals that the market values Wipro's assets above book value, consistent with intangible-capital-intensive IT operations. The range between minimum (0.98) and maximum (2.12) reflects stock price volatility across different market cycles. Mean ROE of 18.4% and ROCE of 22.1% indicate strong operational profitability, while average EPS of INR 34.6 reinforces consistent earnings generation.

5.2. Respondent Profile and Primary Survey Analysis

Table 2 summarizes the demographic and professional distribution of the 100 survey respondents.

Table 2: Stakeholder Perceptions of Wipro's Capital Structure

Category	Groups	Percentage
Occupation	Private Sector	41%
	Students	27%
	Self-Employed / Business	16%
	Others	16%
Investment Experience	Less than 2 years	20%
	2 to 5 years	40%
	More than 5 years	40%
ESG Awareness	Aware of ESG integration (Agree/Strongly Agree)	70%
	Fully aware of BRSR standards	35%

Private-sector employees constitute the largest occupational group (41%), ensuring that corporate finance perspectives dominate the dataset. Students (27%) contribute academic viewpoints, while self-employed individuals (16%) provide entrepreneurial perspectives. Investment experience is broadly distributed: 80% of respondents have more than two years of experience, lending credibility to perceptual assessments of market behaviour. On ESG awareness, over 70% of respondents agreed or strongly agreed that ESG matrices should be integrated into traditional fundamental analysis. However, only 35% were fully familiar with India-specific reporting standards such as the Business Responsibility and Sustainability Report (BRSR), revealing a knowledge gap that warrants policy attention.

5.3. Stakeholder Perceptions of Wipro's Capital Structure

Table 3 summarises respondent perceptions of Wipro's overall financing mix and relative debt positioning.

A majority (56%) perceive Wipro as moderately leveraged, while 25% consider the firm near debt-free. This perception broadly aligns with the secondary financial data, which shows an average D/E ratio of 0.18. Notably, 66% of respondents

believe Wipro's debt ratio is higher than its Indian IT sector peers—a counterintuitive finding given the firm's objectively low leverage—suggesting anchoring biases toward media-driven narratives of IT company indebtedness arising from acquisition financing.

Table 3: Respondent Profile — Occupation, Investment Experience, and ESG Awareness

Survey Item	Response Category	Percentage
Overall capital structure perception	Moderately leveraged	56%
	Very low debt / near debt-free	25%
	Highly leveraged	19%
D/E ratio vs IT sector peers	Slightly higher than peers	42%
	Significantly higher than peers	24%
	Similar to the industry average	26%
	Lower than peers	8%

6. Inferential Analysis and Interpretation

6.1. Correlation Analysis

Pearson correlation coefficients were computed to assess the bivariate relationships among capital structure, ROE, market valuation, and dividend policy. Results are presented in Table 4.

Table 4: Pearson Correlation Matrix of Key Financial Variables

Variables	Capital structure	ROE	Market Valuation	Dividend Policy
Capital Structure	1.00	0.20	0.25	0.30
ROE	0.20	1.00	0.35	0.28
Market Valuation	0.25	0.35	1.00	0.22
Dividend Policy	0.30	0.28	0.22	1.00

The correlation results indicate that the relationships among all four variables are weak to moderate and lack statistical significance at the $p < 0.05$ threshold, except for the ROE–market valuation pair. Capital structure exhibits only marginal associations with ROE ($r = 0.20$), market valuation ($r = 0.25$), and dividend policy ($r = 0.30$), suggesting that leverage is not a dominant determinant of these outcomes in Wipro's case. The strongest observed relationship—between ROE and market valuation ($r = 0.35$)—is moderately positive, suggesting that profitability is a more consequential signal for investors than financing mix. These findings are broadly consistent with the pecking-order interpretation offered by Sharma and Kumar (2022) for Indian IT firms and with the conservative leverage hypothesis of Kaur and Singh (2023).

6.2. Hypothesis Testing

Based on the correlation and regression results, the three null hypotheses are evaluated as follows. H01 (no significant relationship between D/E ratio and Tobin's Q) is accepted; the

observed correlation of 0.25 ($p > 0.05$) does not meet the threshold for rejection. H02 (ESG integration does not significantly influence stock selection) cannot be fully tested from correlation matrices alone; however, survey responses indicate strong normative support for ESG integration (70% agreement), suggesting stakeholder disposition toward ESG-aware analysis even in the absence of formal significance testing. H03 (financial leverage has no significant impact on ROE) is accepted; the correlation of 0.20 ($p > 0.05$) fails to establish a meaningful relationship between leverage and profitability. Collectively, the three null hypotheses are retained, indicating that capital struc-

ture variation does not exert a statistically significant influence on Wipro's valuation, profitability, or dividend decisions over the study period.

6.3. Regression Analysis

Ordinary least squares regression was performed with capital structure (D/E ratio) as the independent variable and ROE, market valuation, and dividend policy as separate dependent variables. The ROE–market valuation regression was additionally estimated to isolate the profitability effect. Results are presented in Table 5.

Table 5: Regression Analysis Results — Capital Structure and Firm Performance Variables

Independent Variable	Dependent Variable	Coefficient (β)	Significance Level	Interpretation
Capital Structure	ROE	0.20	Not Significant	Weak positive relationship
Capital Structure	Market Valuation	0.25	Not Significant	Slight positive influence
Capital Structure	Dividend Policy	0.30	Not Significant	Minor association
ROE	Market Valuation	0.35	Moderately Significant	Some influence exists
ROE	Dividend Policy	0.28	Not Significant	Weak relationship
Market Valuation	Dividend Policy	0.22	Not Significant	Minimal impact

Capital structure does not emerge as a statistically significant predictor of any firm performance variable. The coefficients for capital structure on ROE ($\beta = 0.20$), market valuation ($\beta = 0.25$), and dividend policy ($\beta = 0.30$) are uniformly non-significant, confirming the absence of a leverage-driven valuation premium in the sample. By contrast, ROE exerts a moderately significant positive influence on market valuation ($\beta = 0.35$), consistent with investor preference for profitability-based signals over financing signals in the IT sector. The regression model's explanatory power ($R^2 = 0.41$ for the full model) indicates that approximately 41% of the variance in firm valuation is explained by the included variables, with operational performance accounting for the bulk of this explanatory capacity.

6.4. Analytical Insights

The aggregate evidence challenges a straightforward application of trade-off theory to Wipro's context. While theory predicts that moderate leverage should enhance firm value through tax shields, the data show that Wipro's conservative financing strategy does not penalize its market valuation. This outcome is consistent with the sector-specific argument that IT firms—characterized by intellectual capital, innovation intensity, and high free-cash-flow yields—derive limited marginal benefit from tax-shield leverage relative to the reputational and operational costs of financial risk. The perception-data divergence (respondents perceiving Wipro as more leveraged than objective data suggests) additionally highlights the influence of cognitive biases in investment evaluation, consistent with Babu's (2020) documentation of heuristic-driven investor behavior in Indian markets.

7. Findings, Conclusions and Recommendations

7.1. Key Findings

The following principal findings emerge from the study:

- Wipro maintains a persistently low debt-to-equity ratio (mean: 0.18) over the period 2015–2025, confirming a conservative, equity-dominant capital structure that diverges substantially from the leverage levels typical of capital-intensive sectors.
- Capital structure has only a weak, statistically non-significant relationship with ROE ($r = 0.20$), market valuation ($r = 0.25$), and dividend policy ($r = 0.30$), indicating that leverage is not a primary determinant of financial performance in Wipro's case.
- Return on Equity emerges as the most influential factor affecting market valuation ($\beta = 0.35$, moderately significant), reinforcing that operational profitability—rather than financing structure—drives investor assessment of firm value.
- Survey respondents broadly perceive Wipro as moderately leveraged (56%), with a majority (66%) believing its D/E ratio exceeds IT sector peers—a perception that overestimates actual leverage levels and reflects informational asymmetries in retail investor communities.
- Over 70% of stakeholders support ESG matrix integration into fundamental analysis, yet only 35% demonstrate awareness of India-specific ESG reporting standards (BRSR), exposing a significant financial literacy gap.
- All three null hypotheses are accepted, consistent with

findings from Sharma and Kumar (2022), Kaur and Singh (2023), and Reddy and Prasad (2025) that equity-heavy IT firms achieve competitive valuations independent of leverage optimization.

7.2. Conclusion

The study concludes that capital structure is not a significant determinant of Wipro Limited's valuation or financial performance over the study period. Contrary to trade-off theory predictions, maintaining a low-leverage capital structure does not disadvantage Wipro in terms of market valuation or profitability. Instead, internal factors—particularly return on Equity and operational efficiency—exert a more decisive influence on investor perception and market value. This conclusion carries important implications for financial managers in the Indian IT sector, suggesting that resource allocation toward innovation, human capital, and operational excellence yields superior shareholder value compared to leverage-based financial engineering. The findings also highlight the need to bridge the perceptual gap between investor beliefs and objective financial metrics, underscoring the importance of transparent financial communication and enhanced ESG literacy.

7.3. Recommendations

- **For management practice:** Wipro and comparable IT firms should maintain their conservative debt policies, as the data confirm that minimal leverage does not impair valuation. Strategic emphasis should shift toward sustaining ROE growth through productivity improvement, margin expansion, and disciplined capital allocation.
- **For financial policy:** Regulators and industry associations should strengthen mechanisms for disseminating BRSR, given the substantial gap between ESG enthusiasm (70%) and BRSR awareness (35%) among investors.
- **For future research:** Subsequent studies should employ panel data across multiple listed Indian IT firms to enhance venerability, incorporate forward-looking market measures such as expected earnings growth, and apply advanced modeling techniques, including dynamic panel GMM, to address endogeneity in the capital structure–performance relationship.

7.4. Contribution and Novelty

This study contributes to the capital structure literature in three ways. First, it provides updated empirical evidence on leverage–valuation linkages in the Indian IT sector using a decade-long datasets (2015–2025). Second, it integrates perception-based primary data with objective financial analysis, revealing the behavioral dimensions of capital structure evaluation that conventional quantitative studies overlook. Third, it documents an ESG awareness gap among Indian retail investors, offering actionable policy insights for financial literacy programmes and corporate disclosure practices.

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