

## Financial Surplus and Capital Structure Dynamics: Evidence from Indian Firms

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### **Abstract:**

This study examines the capital structure adjustment process followed by Indian Firms. Our study focuses on investigating when a firm changes its capital structure. We discover a pattern of capital structure adjustments among Indian firms, where the financial surplus or deficit of Indian firms drives the decision to adjust the capital structure. The results show that the capital structure adjustment speed for Indian firms measured using book-value-based leverage is around 39% when firms have an above-target debt with a financial surplus and about 26% when firms have a below-target debt with a financial deficit. The adjustments occur when firms have above-target/below-target debt with a financial surplus/deficit. Our results show that Indian firms adjust their capital structure conditioned upon the firm's financial surplus/deficit.

### **Keywords:**

Capital structure, Debt, Financial surplus, External financing, Speed of adjustment.

**JEL Classification Codes:** G30, G32, G33.