***Abstract***

This thesis examines how the Indian corporate sector has been responding to the transition from a relatively constrained to a relatively unconstrained choice set of sources of finance, through capital restructuring over the period of 1990-1995.

We address two sets of issues:

I. Financial liberalization and the changing patterns of capital structure:

(a). How has financial liberalization affected the firm's choice of financial structure? (b) Do the impacts of liberalization differ significantly across firms?

2. Modeling capital structure choice:

One important objective of this thesis is to test some of the existing capital structure theories for the Indian corporate sector. There are two main strands of the capital structure models namely, the "Static trade-off models" and the "Pecking order models".

More precisely we address following questions:

(a) What are the determinants of capital structure using a static trade-off framework?
(b) Do Indian firms follow the *"Pecking Order Hypothesis"?*

The findings of this study:

I. Financial liberalization and the changing patterns of capital structure:

- The share of external sources of fund had increased in the post liberalized period. There had been significant changes in composition of external sources of funds. A significant increase in resource mobilization through the equity market sources had taken place in the liberalized regime. It is interesting to note that the firms were raising significant resources from equity market, but were doing it in a way that minimized dilution of control from existing shareholder's viewpoint, as fresh equity remains insignificant in the post reform period, and a major portion of resources comes in the form of share premium reserves. Though this phenomenon of increased dependence on the equity market funds was true across all types of firms, it was significantly more so for the large and matured firms.

- There has been a significant decline in borrowing sources of funds in the post liberalized period. However, there has been an increase in trade credit over the reform period.

2. Modeling capital structure choice:

- The Static trade-off model suggests that the Indian capital structure choice is strongly influenced by the factors like size, growth, cash flow, nature of product (uniqueness) and industry characteristics. The model also suggests a possibility of costly restructuring towards the optimal capital structure. The speed of adjustment towards the optimal capital structure is higher for the short term borrowing than the long term one.

- The study finds only a partial support in favour of the Pecking order hypothesis. Though firms prefer internal source of finance over external sources of finance and the decision regarding type of security does not follow a clean hierarchical preference pattern as predicted by pecking order.