

# Debt Structure of Indian Firms: Heterogeneity, Specialization and Evolution

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## **Abstract:**

Capital structure puzzle – how capital structure of a firm is determined, is one of the most hotly contested issues in corporate finance. Many studies have been carried out recently in Indian context too to study this issue - across various industries: Madan (2007) hotel industry, Narayan, Brahmabatt, and Singh (2012) infrastructure companies, Azhagaiah and Gavoury (2011) IT industry, and in general: Bhaduri and Majumdar (2005), and many more. However, all these studies has treated debt as uniform. The firms in the real world have debt heterogeneity – they employ various types of debt instruments both for long-term and short-term purposes in their debt structure. A large body of theoretical research too recognizes the debt heterogeneity –Diamond (1991), (1993); Faulkender and Peterson (2006); Park (2000), etc.

Based on empirical research on debt structure by Rauh and Sufi (2010), and Colla, Ippolito, and Li (2013), the goal of this paper is to study debt heterogeneity and specialization in Indian firms across all industries. The paper explores the types of debt instruments commonly employed by publicly listed non-financial firms in India and their debt specialization – why some firms employ relatively few debt types while others use a diversified debt structure. Based on Lemon, Robert, and Zender (2008) work, this paper extends the study by understanding the dynamic evolution of the debt structure and persistence of the debt specialization in firms over a period of time. Even though external debt comprises just 25 percent of the total financing of Indian firms (Gangully, Gangopadhay, Patnaik and Shah, 2011), the economic benefits of the debt specialization of the firms is empirically studied too.

To my knowledge, this paper is one of the first to study the debt heterogeneity of publicly-listed firms in India. The findings of the paper will contribute to the existing literature on capital structure of firms in emerging market where debt market is underdeveloped and the firms largely depends on internal financing and equity markets. This paper will also have important policy implications for development of the debt market and the design of optimal debt contracts.

**Keywords:** Debt Structure, Capital Structure, Debt Market, Emerging Market, India

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