

Debt and the Benchmarking Practices in HR: An Analysis in The Context of Capital Structure of Motor Companies in India

Sonia Viswam¹, Dr. Mohammad Zohair²

¹PhD Scholar in Financial Management, Department of Business Studies, Central University of Karnataka, Gulbarga
585 367

²Assistant Professor, Central University of Karnataka
soniaviswam11@gmail.com¹

Article Info

Volume 83

Page Number: 8270 - 8283

Publication Issue:

March - April 2020

Abstract

There is a high level of conflict among the stake holders in a high growth firm. The shareholders will try to pass the risk to the creditors whereas the creditors will not allow the risk beyond a certain limit. But the shareholders will be averse to issue equity as the source of financing or will resort to the long-term debt at higher percentage than required for the firm in the context of a surplus cash flow. Also, the other stake holders like employees and the managers may like to use the cash flow to increase their compensation which may affect the future investment prospects. So, in this context this may lead to the increase in the conflicts within the organisation and thereby the agency costs. This is more significant in the case of the high growth firms where the cash flow is positive and surplus is required for further growth. this conflict can be reduced by two methods, one by making the debt which is the long-term at the minimum and the debt which is the short-term at the maximum possible percentage and introduction of strict covenants for the firm. So, the good HR practices are determined by their capability to maintain long-term debt at the minimum and the enforcement of strict covenants to avoid the situations that will lead to the transfer of risks to the creditors. So, the paper tries to explore the capability of the management to enforce these two aspects and introduces 2 new methods for benchmarking the efficiency of the HR practices inside a firm. Also, it will be a new tool in the conflict reduction of the firm and will increase the value as well as the satisfaction of the employees of a firm..

Keywords; debt management, conflict reduction, bench marking, efficiency

Article History

Article Received: 24 July 2019

Revised: 12 September 2019

Accepted: 15 February 2020

Publication: 09 April 2020

I. INTRODUCTION

The financial practices are crucial in deciding the quality of the Human Resource Management inside a firm. The benchmarking practices in Human Resource Management should also consider the good Financial practices. In this the debt financing and the proportion of the long as well as the short term type of debt is important. The debt which is long term in nature should be at the minimum possible and the debt which is short period in nature should be at the maximum possible. This will in turn reduce the conflicts of the stake holders inside the

firm and will lead to good HR practices. So, the benchmarking practices in Human Resource Management should consider the Financing pattern also. This is more applicable to those companies which are growing in rapid pace. The motor companies are selected and the good financing practices are supported by the strict covenants inside the firm.

II. LITERATURE REVIEW

Modigliani & Miller (1963) states that the value of the company is enhanced by the introduction of more debt and this was studied in the context of the

introduction of the taxes but he could not study the effect of the costs related to the bankruptcy due to the debt which is exceeding the allowable limit.

Myers (1977) opines that in the context of the high growth firms the bargaining power can be higher among the different stakeholders including the creditors and shareholders. The employees want to resort to more Long-Term Debt whereas the Shareholders are averse to it. So, in this context to reduce the internal conflicts and the agency costs to be eliminated or reduced the debt which is short period in nature should be high and the debt which is long period in nature should be less compared to the other one.

Though there are several “capital structure theories” the way the organisations apply them are dubious. The researches find that there is no conscious choice of the variables which determine ‘capital structure’. In his research **Myers(1984)** tried to state the methods of different financing like equity and on the other side debt of different types or any other model of financing and the motives behind them are still unknown. Also, the researches of **Berens and Cuny (1995)** also found that the elements which define the financing inside the firm do not always follow the theory or as proved before in the past researches. The researches of **Barclay and Smith (2005)** corroborated this.

In the researches of (**Graham and Harvey, 2001; Bancel and Mittoo, 2004; Brounen et. al., 2004**) it was found that most of the companies have resolved to have a target debt to equity ratio they want to realise. But at the same time.

(**Fama and French, 2002**) has found that the speed of the readjustment is at the rate of 18 %. But at the same time he stated that it is not connected to the distribution of the dividends. Other researchers like **Flannery and Rangan (2006)** have found out that the speed of the readjustment is around three years in the case of the US firms. Other researches in the European context also reveals the same. (**Drobetz**

and Wanzenreid, 2006; Dechas and Peters, 2006). The researches of **Roberts (2005)** could not prove the adjustment towards a target level but he could prove that the capital structure of companies readjust themselves which assumed to be towards their target ratios. (**Leary and Roberts, 2005**)

The Agency Costs are arising due to information asymmetries between the stakeholders, between the public and the shareholders of the company, the shareholders and the creditors to the company etc. So the agency conflicts can be reduced by the information asymmetries related to the financing. The lending by the banks are having lower information asymmetries and are easier to be monitored. (**Ross, 1977; Fama, 1985; Jensen, 1986; Stulz,1990**) have made researches in this area and proved that the negative impact of the information asymmetries is reduced by bank lending and at the same time it increases the esteem and reliability of the firm in the public eye and plays a decisive role in the perception of the credibility of their listed shares in the stock market.

The reason for a firm for all equity is not only the agency costs. They are also influenced by the amount of the growth opportunities as well as the free cash flows. (**Caban, 2018**)

The Jensen and Meckling theory of Agency costs proposes that the managers of a firm may tend to act in their own interests. There is a conflict of the interests in the shareholders and the bond holders of a firm and they will not act in the best interest of the firm. The introduction of the debt in the firm will force the managers to act in lieu of the goals and the maximum benefit for the organisation (**Grossman and Hart, 1982; Jensen and Meckling,1976; Haris and Raviv, 1991**).

Simerly and Li (2000) proves that the imposition of the strict covenants in the firm limits the decision-making capacity of the firm. The presence of the debt also impacts negatively on the competitiveness and the efficiency of the firm.

Margaritis and Psillaki (2007) are of the opinion that the efficiency of the firms at middle leverage levels are positive whereas for the higher debt levels the efficiency of the firm is negative.

Sundaresan and Wang (2007) opines that the firms will resort to less debt in their firms in order to “decrease the bargaining power of the firm”. The higher the bargaining power the lesser the value of the firm. The conscious keeping of the lower level of the debt in the firm will decrease the bargaining power within the firm.

The legal system of country is having an impact on the agency costs. The corporations tend to take the capital structure which they perceive as optimal in their current situations. **Tirole (2006)** has proved this in his research. Also, there is a bargaining power between the employees, creditors and other stake holders of the company. In this context what is considered as optimum for the company cannot be decided then. Also, the researches of **Dronas and Deere (1991)** has stated the role of debt in the unionisation power of the employees. Also, **Matsa (2010)** corroborates this fact that the level of the debt will decide the level of unionisation in the firm and the they are correlated with each other.

So, in this behavioural decision-making context the legal system of a country and the protection given to the investors in the country also gain due concern. **La Porta et. al (1997;1998)** states in his paper whether a country is a common law or civil law country will decide the method of financing used by the corporations. Also, the investor protection will be higher in the case of the common law countries than civil law countries and accessibility to the financing opportunities will be higher in a more financially mature country which is the case of the common law country than a civil law country.

In the research of it was found that the legal and the political existence of the country defines the bargaining power of the shareholders and other stakeholders. The nature of the debt financing is

dependent on these bargaining powers. Also, there is a positive relationship between the rights of the employees and the use of the Long-Term Debt which is the ratio of the Long-Term Debt to Total Assets. If there is more cash flow and the bargaining power of the employees are high then it will lead to the situation of more use of the cash flows for their compensation and benefits. But in the case when the rights of the creditors or shareholders are high; in the context of an increased cash flow the shareholders will have more propensity to use the resources already available the positive cash flows may indicate a lower financing in the form of debt (**Yu, 2012**)

Research Questions

What is the role of the debt which is Short and Long in nature in the deciding the agency costs of a company?

What is the role of good financial practices in the good HR practices of a company?

III. OBJECTIVES

To find out the role of the debt which is short and long in nature in deciding the agency costs.

To find out the role of good financial practices in the good HR practices of a company.

IV. METHODOLOGY

Demigurc-kunt Maksimovic model is used to assess the external financing need of the firm. The following formula is used to find out the External Financing need. After that the External Financing possible with the present Assets and Earnings are compared with the difference in the actual external financing need of the firm. This will lead to the conclusion whether there is over using of the assets. This can be an indirect hint to the presence of the agency costs of the firm. After that the ratio analysis of the leverage ratios are done. Also, after that the dividend pay-out ratio charts are also prepared. If it's not proportional to the earnings we can assume that the bargaining power of the shareholders are

high. Also, the method of linearity and multiple regression to prove the relationship. The dependent variable includes the leveraging ratios and the independent variable is the agency costs. The sector chosen is the Automobile industry top 8 companies listed in BSE. And the data is obtained for 3 years which is the time series data, 2015, 2016 and 2017. The rationale for choosing the automobile sector because they are generally regarded as the high growth companies. The sampling is judgemental sampling and consists of the top 8 motor companies in India. The top 8 motor companies in India are chosen as per the sales as on June 2017.

The Demigurc-Kunt theory works on the following assumptions

- 1) The ratio is constant for The Assets Used for Production/Total Sales
- 2) The investment needed at every stage is proportional to the growth of the sales at every stage
- 3) The Profit remains constant for every unit of sale
- 4) The actual depreciation is the same as the depreciation used in the financial statements.

The External Financing need for the firm as calculated by the formula

External Financing Need of Maruti Suzuki

EFN at time $t = g_t * \text{Assets at } t - (1 + g_t) * \text{Earnings at } t + b_t$.

g = growth of the firm at time t .

b_t = proportion of the firms retained for investment at time t . (Demigurc-Kunt and Maksimovic, 1999)

MARUTI SUZUKI

EXTERNAL FINANCING NEED OF MARUTI SUZUKI			
	In Million Indian Rs.		
	External Financing	Predicted External Financing Need	Difference

	Actual		
2015	6578.2	5079.409657	1498.790343
2016	2284.4	4537.32851	-2252.92851
2017	1864.4	4357.241228	-2492.841228

Table 1(Source: Marutisuzuki.com)

	Million Indian Rs		
	Equity	Long Term Debt	Short term Debt
2015	1510.4	2318	4836
2016	1510.4	0	774
2017	1510.4	0	354

Table 2 (Source: Marutisuzuki.com)

	2015	2016	2017
LTD/Equity	0.15346928	0	0
Total Debt/Equity	3.355270127	0.512447034	0.234375
Short Term Debt/Equity	3.201800847	0.234375	0.234375
Long Term Debt/Short term Debt	0.047932175	0	0

Table 3 (Source: Marutisuzuki.com)

TATA MOTORS

EXTERNAL FINANCING NEED OF TATA MOTORS			
	In Millions Indian Rs.		
	External Financing g Actual	Predicted External Financing Need	Difference
2015	207247.5	14933.86	192313.64
2016	149338.6	107349.0142	41989.58579
2017	195238.3	35669.50745	159568.7925

Table 4(Source: Tatamotors.com)

	Equity	Long Term Debt	Short term Debt
	In million Indian Rs.		
2015	6437.8	123189.6	77620.1
2016	6791.8	105999.6	36547.2
2017	6792.2	136860.9	51585.2

Table 5(Source: Tatamotors.com)

	2015	2016	2017
LTD/Equity	19.13536	15.60699667	20.14971585
Total Debt/Equity	31.19229	20.98807385	27.74448632
Short Term Debt/Equity	12.05693	5.381077181	7.594770472
Debt(Long term)/Debt(Short Term)	1.587084	2.900348043	2.653103991

Table 6 (Source: Tatamotors.com)

MAHINDRA AND MAHINDRA

EXTERNAL FINANCING NEED OF MAHINDRA & MAHINDRA

	In Millions		
	External Financing Actual	Predicted External Financing Need	Difference
2015	2,18,646.80	-262096.9073	4,80,743.71
2016	242667.2	-271685.7617	5,14,352.96
2017	295584.9	-327820.9342	6,23,405.83

Table 7 (Source: Mahindra and Mahindra)

	By the Equity	Debt(Long)	Debt(Short)
	Million		
2015	1,92,443.00	0	26203.8
2016	2,24,231.70	0	18435.5
2017	2,67,856.20	0	27728.7

Table 8 (Source: Mahindra and Mahindra)

	2015	2016	2017
Debt(Long)/Equity	0	0	0.02254
Debt(Total)/Equity	0.136164	0.082216	0.103521
Debt(Short)/Equity	0.110753	0.084846	0.113422
Debt(Long)	0	0	0

Table 9 (Source: Mahindra and Mahindra)

HEROMOTOCORP.

EXTERNAL FINANCING NEED OF HEROMOTOCORP			
	In Million Indian Rs		
	External Financing Actual	Predicted External Financing Need	Difference
2015	2479.8	2300.4	1000
2016	2300.4	4537.32851	- 2236.92851
2017	2479.8	4357.241228	- 1877.441228

Table 10 (Source: Heromotocorp.com)

	Equity	Long Term Debt	Short term Debt
2015	399.4	1000	0
2016	399.4	840.6	1459.8
2017	399.4	1799.5	680.3

Table 11(Source: Heromotocorp.com)

	2015	2016	2017
Debt(Long Term)/Equity	2.503755633	2.104656985	4.505508262
Debt(Total)/Equity	2.503755633	5.759639459	6.20881322
Debt(Short)/Equity	0	3.654982474	1.703304957
Debt(Long)/Debt(Short)	non-defined	0.575832306	2.645156549

Table 12(Source: Heromptocorp.com)

BAJAJ AUTO LIMITED

EXTERNAL FINANCING NEED OF BAJAJ AUTO LIMITED

	In Million		
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	Indian Rs.		
	External Financing Actual	Predicted External Financing Need	Difference
2015	4011.4	-8606.04	12617.44
2016	2893.7	-7957.45	10851.15
2017	2893.7	-38666.9	41560.6

Table 13(Bajajautolimited.com)

BAJAJ AUTO LIMITED			
In Million Indian Rs.			
	Equity	Long Term Debt	Short term Debt
2015	2893.7	0	1117.7
2016	2893.7	0	0
2017	2893.7	0	0

Table 14(Bajajautolimited.com)

BAJAJ AUTO LIMITED			
	2015	2016	2017
Debt(Long)/Equity	0	0	0
Debt(Long)/Equity	1.386252894	1	1
Debt(Short)/Equity	0.386252894	0	0
Debt(Long)/Debt(Short)	0	0	0

Table 15(Bajajautolimited.com)

HINDUSTHAN MOTORS

EXTERNAL FINANCING NEED OF HINDUSTHAN MOTORS			
	IN Million Indian Rs.		
	External Financing	Predicted External Financing Need	Difference

	Actual		
2015	1068	-1164.6	2232.6
2016	1140.6	172.825	967.775
2017	1222.6	-214.11	1436.71

Table 15(Source: Hindusthanmotors.com)

In Million Indian Rs.				
	Equity	Long Term Debt	Short term Debt	Total
2015	1044.1	23.9	0	1068
2016	1044.1	28.1	68.4	1140.6
2017	1044.1	41.6	136.9	1222.6

Table 16(Hindusthanmotors.com)

	2015	2016	2017
Debt(Long)/Equity	0.022890528	0.026913131	0.039842927
Debt(Total)/Equity	0.022890528	0.092424097	0.170960636
Debt(Short)/Equity	0	0.065510966	0.131117709
Debt(Long)/Debt(Short)	0.022890528	0.026913131	0.039842927

Table 17(Hindusthanmotors.com)

MAJESTIC MOTORS LIMITED

MAJESTIC MOTORS LIMITED			
	In Million Indian Rs.		
	External Financing Actual	Predicted External Financing Need	Difference
2015	1119.9	-69.23592831	1189.135928
2016	1829.6	528.8695244	1300.730476
2017	1736	1608.570157	127.429843

Table 18(MajesticmotorsLimited.com)

In Million Indian Rs.				
	Equity	Long Term Debt	Short term Debt	Total

2015	104	949.9	66	1119.9
2016	104	1538	187.6	1829.6
2017	104	1463.4	168.6	1736

Table 19(Majesticmotorslimited.com)

	2015	2016	2017
Debt(Long)/Equity	9.133653846	14.78846154	14.0719385
Debt(Total)/Equity	9.768269231	16.59230769	15.69230769
Debt(Short)/Equity	0.634615385	1.803846154	1.621153846
Debt(Long)/Debt(Short)	14.39242424	8.198294243	8.679715302

Table 20 (Majesticmotorslimited.com)

KINETIC ENGINEERING

KINETIC ENGINEERING LIMITED			
In Million Indian Rs.			
	External Financing Actual	Predicted External Financing Need	Difference
2015	1135.4	-1980.400193	3115.800193
2016	1205.9	-1794.844252	3000.744252
2017	1061.3	-1851.068886	2912.368886

Table 21(KineticEngineering.com)

In Million Indian Rs.					
	Equity	Preference Share	Long Term Debt	Short term Debt	Total
2015	135.7	346.4	452.5	200.8	1135.4
2016	161.3	346.4	481	217.2	1205.9
2017	167.3	218.2	444.9	230.9	1061.3

Table 22(Kineticengineering.com)

	2015	2016	2017
Debt(Long)/Equity	0.93860195	0.947409888	1.154085603
Debt(Total)/Equity	1.355113047	1.375221588	1.75304799
Debt(Short)/Equity	0.416511097	0.4278117	0.598962387
Debt(Long)/Debt(Short)	2.253486056	2.214548803	1.926808142

Table 23 (Source: Kineticengineering.com)

The Agency Costs= Asset Utilisation Ratio= Total Sales/Total Assets

AU=

$$\alpha + \beta_1 \text{LTD/TA} + \beta_2 \text{STD/TA} + \beta_3 \text{saleslog} + \beta_4 \text{ROA}$$

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.719 ^a	.517	.462	3.29423837416	1.611

a. Predictors: (Constant), SALELOG, LTD, STD/TA, ROA

b. Dependent Variable: AU

ANOVA^a

Model	Sum of Squares	Df	Mean Square	F	Sig.
1	406.5	4	101.627	9.365	.000 ^b
	379.8	35	10.852		
	786.3	39			

Coefficients ^a									
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
Constant	-4.56	1.757		2.595	0.014	-8.128	-0.992		
LTDTA	4.235	1.511	0.358	2.803	0.008	1.168	7.302	0.847	1.18
STDTA	7.657	2.198	0.461	3.483	0.001	3.194	12.12	0.789	1.27
ROA	-0.066	0.036	-0.307	1.843	0.074	-0.138	0.007	0.497	2.01
SALESLOG	1.206	0.477	0.408	2.525	0.016	0.236	2.175	0.529	1.89

Collinearity Diagnostics ^a									
Mod el	Dimensio n	Eigenval ue	Condition Index	Variance Proportions					
				(Constan t)	LTD	STD T	ROA	SALEL OG	
1	1	2.640	1.000	.01	.05	.04	.00	.01	
	2	1.226	1.467	.00	.00	.13	.27	.00	
	3	.686	1.962	.02	.49	.04	.08	.02	
	4	.405	2.553	.01	.44	.79	.21	.00	
	5	.043	7.864	.96	.01	.01	.44	.97	

a. Dependent Variable: AU

Residuals Statistics ^a					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-5.7550892830	13.8125038147	1.5042117528	3.22851763642	40
Residual	-7.26718378067	12.95923233032	.00000000000	3.12073391394	40
Std. Predicted Value	-2.248	3.812	.000	1.000	40
Std. Residual	-2.206	3.934	.000	.947	40

a. Dependent Variable: AU

Correlations						
		AU	LTD	STD TA	ROA	SALELO G
AU	Pearson Correlation	1	.491**	.570**	-.118	.104
	Sig. (2-tailed)		.001	.000	.467	.523
	N	40	40	40	40	40
LTD	Pearson Correlation	.491**	1	.328*	.110	.037
	Sig. (2-tailed)	.001		.039	.501	.818
	N	40	40	40	40	40
STD TA	Pearson Correlation	.570**	.328*	1	-.282	-.232
	Sig. (2-tailed)	.000	.039		.078	.150
	N	40	40	40	40	40
ROA	Pearson Correlation	-.118	.110	-.282	1	.685**
	Sig. (2-tailed)	.467	.501	.078		.000
	N	40	40	40	40	40
SALELO G	Pearson Correlation	.104	.037	-.232	.685**	1
	Sig. (2-tailed)	.523	.818	.150	.000	
	N	40	40	40	40	40

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

The Regulatory Practices in the Motor Companies

Maruti Suzuki

Maruti Suzuki's Whistle Blower's policy makes it clear that the company strictly follows the whistle blower policy practices. This is according to "the Section 177 Rule 7 of the Whistle-blowers Policy Act". This is applicable to the directors and the employees. It has got a wide coverage and includes activities like financial misappropriations, other fraud activities related to the financial management, misuse or the illegal divulging of the strategically important information of the company, any manipulation of the records of the company, any misuse of the authority, other unethical practices recorded, proper observation of the Employee's Code of Conduct. Also, the company has strict policies to report the related party transactions and they are reviewed on a quarterly basis. (marutisuzuki.com).

Tata Motors

Tata Motors is working on the principle of the International Financial Reporting Standards. Also, it reports other non-IFRS measurements like Free Cash Flow, Earnings Before Interests and Taxes, Ratio of the Net Debt to Shareholder's Equity. They also publish Forward Looking statements in the format of 20 F which is the report of the future plans of the company. The company is also run on the strong foundation of good policies in the corporate governance and according to the stipulated laws. (tatamotors.com)

Mahindra and Mahindra

The ethical decisions and the code of conduct are dependent on the following criteria: its compliance with the rules and regulations, its suitability for the culture and the values of the organisation. The company works on the principle of the innovation and is ready to tackle the shorter product life cycles and tackle the disruptions due to the block chain

technology. The upliftment of the stake holders is considered as one of the values of the company. The stake holders rights are ensured by observing all the laws properly. They are very specific to ensure their corporate confidentiality. Also, they assist in all audit investigations. The Line Managers are given the freedom to report the violations of the code of conduct. The Whistle Blowers policy of the company includes all fraudster activities related to the financial transaction. It also includes the misrepresentations of the financial statements. It also includes the international, national and local guidelines. (mahindra.com)

Hero MotoCorp

The company publishes the quarterly report of its activities. A lot of committees like risk management committee are constituted for transparency. The company has got sound whistle blower's policy. They have extensive internal controls and there are strict mechanisms to curb insider trading. (heromotocorp.com)

Bajaj Auto Limited

The company also observes the Securities and Exchange Board Regulations strictly. (bajajauto.com)

Hindustan Motors Limited

The company has constituted the Stakeholders Relationships Committee, Remunerations Committee, Audit Committee etc. The various committees are constituted by the strict laws. Also, the audit committee is constituted according to the regulations. The disclosure requirements are properly followed (hindmotor.com).

Majestic Auto Limited

The company follows the following values: customer satisfaction, delegation of powers, flatter organisational structures. Also, the Code of Conduct according to the Rule 49 of the Securities and Exchange Board (SEBI) of India. The Conflicts of

Interest policies ensure that the position of the employees is not used for any personal gains, or gains detrimental to the company. No employee is allowed to accept any gifts or any other token of gratitude in the course of the business transactions. Also, the policies are continually modified according to the needs of the external circumstances(majesticauto.in)

Kinetic Engineering

The company adheres to the norms of sending the annual reports of the financial transactions to the registrar. Also, the report of the annual general meetings is also intimated to the registrar according to the laws. The company's Board of Directors has got a membership of eight. The particulars of the loan taken are reported "separate meeting of the independent directors". The frequency of the meetings of the Board of Directors is high reaching 9 in one year (kineticindia.com)

V. ANALYSIS AND INTERPRETATION

The External Financing need of Maruti Suzuki exceeded the possible external financing in the year of 2015 by 1499 million Indian rupees. But in the later years of 2016 and 2017, it fell behind the possible external financing. There is presence of the debt which is long term in nature in 201,2017 but in 2015 it is absent. There is predominance of the debt which is short term in nature. .So, in the case of Maruti Suzuki the Pecking Order Theory is followed; the order of financing first by Short Term Debt 'and then by 'Long-Term Debt'. The actual External Financing of Tata Motors exceeds in the years of 2015, 2016 and 2017. Also, though in the year of 2015 the pay-out ratio exceeds 1, the external financing was done. The debt which is short term in nature is more than the debt which is long term in nature. So, in this case they are not at all following the "Pecking Order Theory". In the case of Mahindra and Mahindra the classification of the debt is as secured loans and unsecured loans. The unsecured loans are considered as the 'short- term debt 'for the research. The External Financing of the

company is far exceeding the allowed limit the allowed external financing by the Demigurc-Kunt Maksimovic formula. There is considerable presence of the debt which is short term in nature and the debt which is long term in nature is absent in 2016 and 2017. It can be assumed that they are following the "Pecking Order theory" since there is considerable importance of the debt which is short term in nature. In the case of Hero MotoCorp, the External Financing is exceeding in the year of 2015 but it is falling behind in the year of 2016 and 2017. Also, the Pecking Order theory is not strictly followed in the case of Hero Moto Corp and in the year of 2015, there is significant presence of the debt which is short term in nature and at the same time the debt which is long term in nature is predominant. In the case of Bajaj Auto Limited the External Financing is exceeding the allowed limit. In the reported situations of growth and Earnings; the allowed External Financing by the Demigurc-Kunt formula is negative. In the above company the debt which is long term in nature is absent and the debt which is short term in nature is present. In the case of Hindustan Motors, the External Financing, Actual is exceeding the allowed limit. Also, in two years of 2015 and 2017 the allowed external financing was negative for Hindustan Motors. Hindustan Motors is not following "the Pecking Order Theory". The debt which is Long term in nature is exceeding the debt which is short term in nature. In the case of the Majestic Motors the External Financing is exceeding the allowed limit in all the 3 years of 2015, 2016 and 2017. Here it is showing the considerable presence of the debt which is long term in nature is exceeding than all other motor companies. So, the agency costs and the related conflicts inside the company can be assumed to be high. In the case of Kinetic Motors, the actual External Financing is exceeding the predicted possible external financing. The trend of the debt which is long term in nature is increasing as well as the debt which is short term in nature is also increasing. At the same time there is higher presence

of the debt which is long term in nature here. So, it is assumed that Kinetic Motors is not following "the Pecking Order Theory".

The Independent variables affecting the Asset utilisation ratio are the following: 'Long Term Debt/ Total Assets', 'Short Term Debt/ Total Assets', 'logarithm of sales and the Return on Assets'. The Agency Costs is the dependent variable found out by the Asset utilisation Ratio which is the Total Sales /Total Assets. The Regression Co-efficient is 0.719 and the R square value is 0.517. And this indicates that the independent variables predict 51.7 % of the dependent variable. There should not be correlation among the independent variables. Otherwise the multicollinearity will affect the results. In the case of the strong models a multi collinearity value of more than 10 is considered as problematic. The inverse of VIF value is called the tolerance value. If this value is less than 0.1 it is considered as problematic. So here the multi- collinearity value is 1.18 for the Long-Term Debt to Total Assets, 1.27 for the Short-Term Debt to Total Assets, 2.01 to the Return on Assets and 1.89 for the log of sales. The tolerance factor is 0.847 for the Long-Term Debt to Total Assets, 0.787 for the Short-Term Debt to Total Assets, 0.497 for the Return on Assets and 0.529 for the sales log. None of them are less than 0.1 So we can assume no multicollinearity is there. Also, the Durbin Watson value which show the independent errors are also having a value of 1.611 which has a value nearer to 2. Also, there is no heteroskedasticity is assumed to be there since the scatterplot does not reveal any pattern. Also, regarding the correlation values between Asset Utilisation Ratio and the other independent variables are the following

Asset Utilisation Ratio and the Long-Term Debt to Total Assets 0.491, Asset Utilisation Ratio and the Short-Term Debts to Total Assets is 0.570, Asset Utilisation and the Return on Assets is -0.118 and the Asset Utilisation and the Sales log is 0.104. So, the presence of Asset Utilisation and the Long-Term

Debt and the Short-Term Debt are positively correlated. Also, the Assets Utilisation and the Sales log is also positively correlated. At the same time the Assets Utilisation and the Return on Assets is negatively correlated. The correlation of Short-Term Debts is higher than the Long-Term Debts. The correlation between Return on Assets and the logarithm of sales have a weak correlation. The significance of the Regression co-efficient are the following Long-Term Debt to Total Assets is 0.008, Short Term Debt to Total Assets 0.001, Return on Assets 0.074, Sales log 0.016. So the significant independent variables with significance less than 0.05 are Long Term Debt to Total Assets, Short Term Debt to Total Assets and the log of Sales. The most significant independent variable is the Short-Term Debt. The Return on Assets is the least significant variable in influencing the Agency Costs.

So, in the context of the **Modigliani and Miller (1963)** theory Maruti Suzuki has less bankruptcy chances. Since the use of the short-term debt is prominent in the firm than the long-term debt, the firm will have less agency costs. In the context of the multiple regression analysis it is found that the Asset Utilisation Ratio and the debt which is short term in nature are related positively. So, in this context if the Asset Utilisation ratio which is the ratio of the Sales over the Total Assets is high the agency costs are less. So, a positive correlation between Short Term Debt and Asset Utilisation Ratio reveal that the agency costs are less when more Short-Term Debt is used. So, the role of the Short-Term Debt is more significant in reducing the agency costs than the Long-Term Debt. So, in the case of Maruti Suzuki the use of the Short-Term Debt is more than the Long-Term Debt. Also, the use of the External Financing is less than the allowed limits of growth and the retained earnings. So, there is more provision for more investments and more growth. According to **(Yu, 2012)** there is a positive correlation between employee rights and the use of the Long-Term Debt. So, the bargaining powers of the employees in Maruti Suzuki can be

assumed to be less. In the context of the strict regulatory practices and Whistle Blowers policy inside Maruti Suzuki the company can still go forward with more Long-Term Debt without having Agency Costs. This is analysed in accordance with the **Myers (1977)** theory on the investment opportunity set. In the context of the Tata Motors the External Financing is also exceeding and the use of Long-Term Debt is more than the Short-Term Debt. So, we can assume that the agency costs are also high. In the case of Tata Motors there is no such clear-cut policy like Maruti Suzuki's Whistle Blower's policy. Also, the External Financing is exceeding the allowed limits. This may be due to the agency costs and the bargaining power of the shareholders is considered lesser than the employees and the managers who prefer the Long-Term Debt. Mahindra and Mahindra Short Term Debt is having importance, so the agency costs can be assumed to be less. Still there is External Financing is exceeding the allowed limits. So, the excess External Financing may be due to the bargaining power of the shareholders which will favour the Short-Term Debts. In the context of Hero MotoCorp. Long Term is not much exceeding the Short-Term Debt. Also, the External Financing is below the allowed limits. So still there is more provision for Long Term Debt. In the context of slightly more Long-Term Debt the bargaining power of the managers may be high. It is also allowable in a regulated environment inside Hero MotoCorp. In the case of Bajaj Auto Limited the External Financing is exceeding the allowed limit. But there is no presence of Long-Term Debt and only Short-Term Debt is used. And Equity financing is existing in the years of 2016 and 2017. So in this case the bargaining power of the shareholders are considered higher. But the earnings are not supporting further External Financing. In the case of Hindustan Motors Long Term Debt is slightly higher than the Short-Term Debt. Also, in the context of excess External Financing the bargaining power of the employees can be considered as higher. In the case of Majestic Motors,

the Long-Term Debt is very high. So, it can lead to higher conflicts of interest and agency costs inside the firm. Also, though the rules and regulations are strict it may not be able to control the agency costs beyond a certain level. The Kinetic Engineering has got the ratio of the Long-Term Debt slightly higher than the Short-Term Debt. So, in the context of strict rules. It may not lead to higher agency costs. But the External Financing is exceeding the allowed limits.

VI. CONCLUSION

Maruti Suzuki is considered to have least Agency costs both in the context of strict rules and regulations and the presence of Short-Term Debt higher than Long Term Debt and following the Pecking Order Theory of financing.

The Majestic Motors is considered to have the highest agency costs among the eight motor companies

All firms are not following the Pecking Order Theory

Short Term Debt is negatively correlated to the Agency Costs or Asset Utilisation Ratio is positively correlated to the Agency Costs

The Return on Assets is the least important determinant of the Agency Costs.

The priority of the Determinants of the Agency Cost is; Short Term Debt, Long Term Debt, Log of sales, Return on Assets

The Presence of Short-Term Debt and strict regulations to reduce the Agency costs can be considered for benchmarking good HR practices.

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APPENDIX

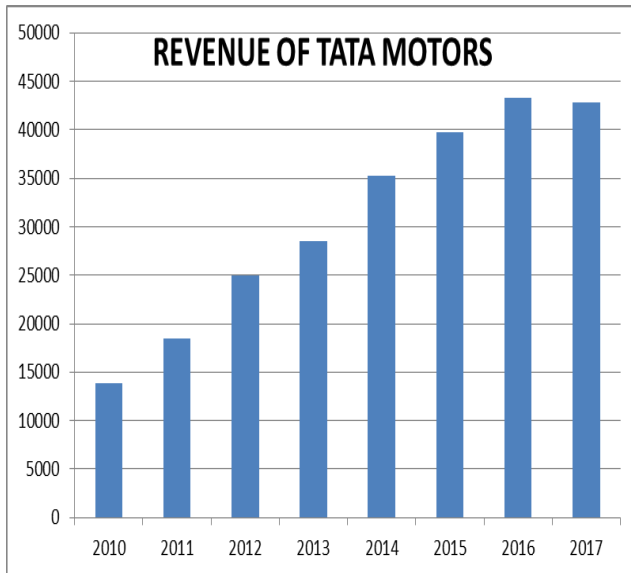


Figure 1(Source: Tatamotors.com)

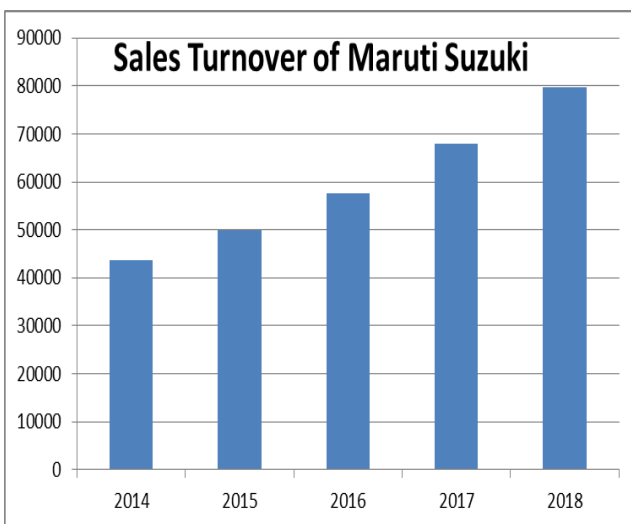


Figure 2(Source: Maruti Suzuki.com)

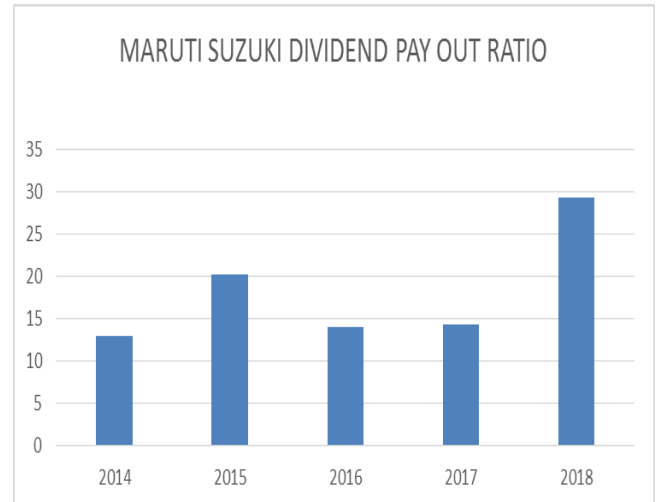


Figure 3(Source: Marutisuzuki.com)

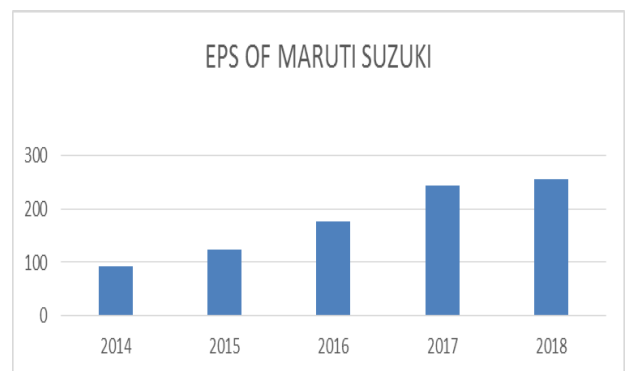


Figure 4(Source: Marutisuzuki.com)