LEVERAGE AND FIRM VALUE: EVIDENCE FROM NSE

Saeidferreidouni*; Dr. S. J. Manjunath**

*Ph.D Student, MBA (Finance), Department of Business Administration, University of Mysore, Mysore, India.

**Associate Professor, DOS in Business Administration, University of Mysore, Mysore-570006, India.

ABSTRACT

This study examines the relationship between leverage and firm value. As the leverage is one of the most important factors in financing which affect the cost of capital and finally change in firm value will be the result of how financing is done. As traditional trade off theory states an increase in leverage result in decreasing cost and therefore firm value will go up. Conversely decrease in leverage will raise the cost and lastly decreasing firm value. The mentioned increase and decrease in leverage, cost of capital and firm value is held till the optimum point. 79 firms are included in the sample of the study which has been selected from nine sectors of NSE. SPSS software has been applied for data analysis. Also, other statistical methods of hypothesis testing including regression and correlation analysis are included in analysis. The used proxy for calculating leverage is debt to equity ratio, in the same way Weighted Average Cost of Capital for cost of capital.

KEYWORDS: Leverage, Firm Value, Cost of capital, Weighted Average Cost of Capital, Traditional trade off theory, risk, Financial Crisis.

REFERENCES


