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Impact of Capital Structure on Market Price of Shares of Selected Listed Non-Financing SMEs: Empirical Evidence from India

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Abstract

Small and Medium Enterprises (SMEs) are the backbone of India's economic landscape, pivotal in employment generation, entrepreneurship promotion and economic development. The prime focus of the study is to empirically evaluate the effect of debt-equity composition (capital structure) on the Market Price of Share (MPS) of non- financing listed SMEs in India. It also examines the variation in this relationship across different sectors within the listed SME category. For this study, SMEs listed on National Stock Exchange Emerge Platform were considered for the years 2024 and 2025. Secondary financial data has been collected from CMIE Prowess. Panel regression using debt-equity ratio has been used for a comprehensive understanding of the relationships. The study indicates that leverage ratio (capital structure) has a significant influence on the MPS of listed SMEs in India during the time period under study. The results also reveal sectoral variations in the relationship between leverage and market price of SME shares. The findings can have significant implications for investors, promoters and corporate managers that are striving to foster sustainable SME growth in India. The study is significantly different from the existing studies as extensive research has been conducted on the association of capital structure on market value of large-cap firms, limited attention has been given to listed SMEs, especially in emerging markets like India. Moreover, studies on SMEs have focussed on financing choices, determinants of capital structure, their pattern and impact of firm and industry characteristics of SMEs. This creates an opportunity for the study which seeks to bridge this gap.

Keywords: SMEs, Capital Structure, Market Price of Share, Debt-Equity Ratio, Panel Regression, NSE Emerge

1. Introduction

In recent years, the importance of SMEs has been recognised in countries around the world for their significant contribution to the achievement of various socio-economic goals such as high economic growth, employment, output, entrepreneurship development, promotion and export support. A vigorous and dynamic SME sector of an economy helps in mobilisation and utilisation of resources, enhancing income and savings, channelising investments and thereby increasing the national income of a country. Through resilience, innovation and adaptability, SMEs have consistently driven the nation's growth, providing employment to millions and fostering inclusive development. As India strives to position itself as a global economic powerhouse, the SME sector undoubtedly plays a central role, fostering innovation, generating employment and enhancing export competitiveness (PIB, 2024). SMEs have a tremendous capability to change the economic scenario of any country (Verma et al., 2021). The potential of SMEs to bring about a transformational change, especially in developing countries, has attracted the interest of researchers and academicians in this field. Their development is critical to fulfil the national imperatives of economic inclusion (Kumar, 2014).

The Organisation for Economic Co-operation and Development (OECD, 2017) highlights that SMEs can provide substantial contributions to the United Nations Sustainable Development Goals through employment generation, sustainable industrialisation, innovation nurturing, income disparity reduction and crucial to such aspirations and endeavours are the financial performance and sustainability of SMEs. Many academicians have established a direct or indirect association between SMEs and SDGs (Singla, 2023).

The Union Budget 2025 revised the limits of investment and turnover for an enterprise to be registered under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, to:

- a small enterprise, where the investment in plant and machinery or equipment does not exceed ₹25 crore and turnover does not exceed ₹100 crore; and
- a medium enterprise, where the investment in plant and machinery or equipment does not exceed ₹125 crore and turnover does not exceed ₹500 crore.

The Securities and Exchange Board of India (SEBI) issued guidelines in 2010 on a separate exchange platform for SMEs to raise equity financing. NSE Emerge is an exclusive SME platform launched by the National Stock Exchange of India that brings together investors and evolving business houses registered in India. An efficient and well-regulated capital market helps in overall growth and development. Overdependence of SMEs on bank credit affects growth. With the launch of SME stock exchanges, SMEs have become publicly listed, enabling them to access equity capital and be subject to market valuation. By raising equity SMEs will reduce reliance on debt. Such restructuring of capital will be beneficial.

Capital structure is the outcome of the financing decisions taken by firms. Capital structure decisions like optimal leverage, equity dilution, debt maturity profiles and financing cost considerations are known to influence firm value. Financing decisions of SMEs principally differ from those of the large firms due to the fact that large firms have easy access to financial resources as compared to small firms, due to information transparency and high credibility in the market (Bas et al., 2009). Moreover, the empirical research on capital

structure is dominated by studies on large firms, and one cannot generalise their results to SMEs (Chakraborty, 2010; Handoo & Sharma, 2014). Moreover, SMEs rely heavily on short-term debt as compared to large firms, which makes the financing of SMEs different from that of large firms (Allen et al., 2012). There is a significant gap in the literature when it comes to how this financial decision affects the market price of non-financial listed SMEs. This creates an opportunity for this proposed study, which seeks to bridge this gap by empirically investigating the impact of capital structure on the MPS of selected non-financing listed SMEs in India. Hence, the present study aims to achieve the following objectives:

1. What is the effect of leverage on the MPS of selected listed non-financing SMEs?
2. Does this relationship vary across sectors within the listed non-financing SME category?

2. Literature Review

Modigliani and Miller's (1958) seminal 'Irrelevance Theory' posited that a firm's capital structure is irrelevant to its valuation. However, this conclusion was based on idealistic and unrealistic assumptions of a perfect market, prompting a revision in 1963. With the incorporation of taxes and the factor of interest deductibility, it was determined that the return on equity improved with the inclusion of debt financing. This finding paved the way for subsequent studies in the domain of capital structure, leading to the development of several theories that consider more realistic assumptions.

Trade-Off Theory (Kraus & Litzenberger, 1973) emphasises the concept of an optimal capital structure that balances the tax benefits of debt with the costs of debt financing. Agency Cost Theory (Jensen & Meckling, 1976) is based on the conflicts between managers and shareholders, as well as between shareholders and bondholders. Pecking Order Theory (Myers, 1984) rejects the notion of an optimal capital structure and suggests a financial hierarchy preferred by managers, with internal financing being the most favoured, followed by debt financing and equity financing being the least preferred. The recent Market Timing Theory by Baker & Wurgler (2002) supports the influence of market timing on the issuance of equity and debt.

Theories of capital structure form the foundation of empirical research on firms' financing decisions. The literature on empirical research concerning the financing decisions of SMEs is relatively sparse compared to that of larger firms.

Love and Peria (2005) examined the financing patterns of SMEs in India from 1994 to 2003 by comparing them with large firms. Dogra and Gupta (2009) demonstrated that factors such as age, level of competition and the quantum of capital investment significantly influence the financing choices of SMEs in India. They also concluded that Indian SMEs rely more on internal funds and less on borrowed capital. Srinivas (2013) conducted a study on SMEs from 2007 to 2011 and concluded that they utilise more owned funds than borrowed funds.

It is anticipated that the listing of SMEs will lessen information asymmetry and enhance their ability to secure capital for expansion and growth (Kulkarni and Chirputkar, 2014). According to Kumar and Rao (2016), the analysis of the financing patterns of SMEs from 2006 to 2013 concluded that trade credit and bank loans are

the most popular sources of short-term debt for SMEs. Rao et al. (2018) conducted an empirical analysis of the variables influencing SMEs' capital structure planning, including liquidity, profitability, tangibility, firm size and cash. According to Verma et al. (2021), SMEs rely more on short-term external liabilities than long-term ones, and that listing has not significantly enhanced their capacity to obtain debt financing. The financing decisions of SMEs differ markedly from those of larger firms, as smaller firms tend to prioritise short-term debt finance, with debt financing largely influenced by asset structure and growth.

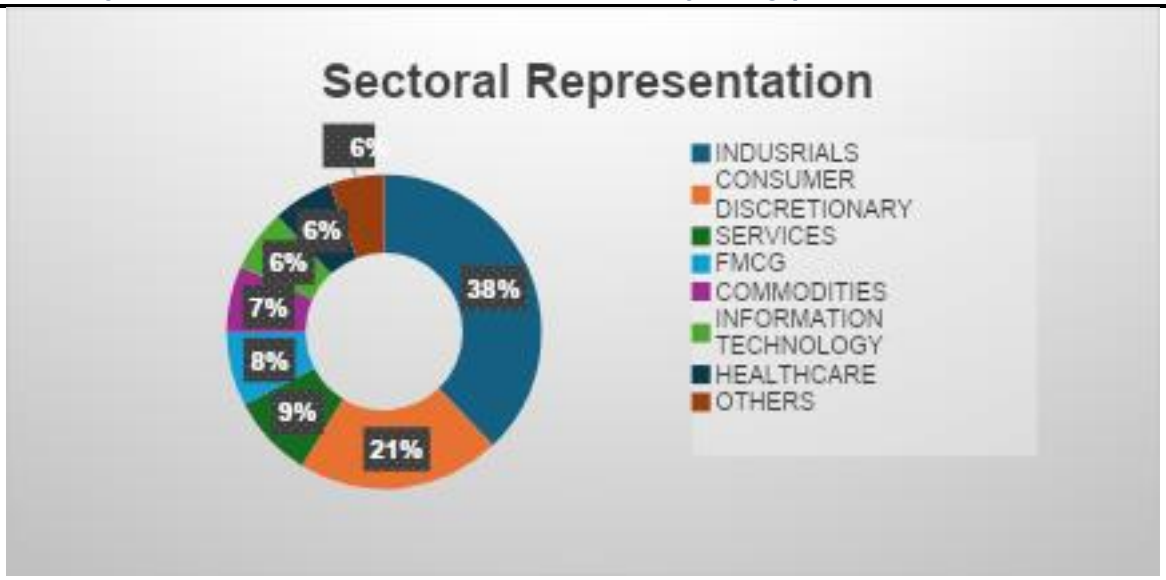
In the context of India, there is a burgeoning interest among researchers in SMEs, with numerous studies focusing on financing choices, determinants of capital structure, patterns and the impact of firm and industry characteristics. However, there is a lack of empirical evidence linking the capital structure choices of SMEs with firm valuation through stock price movements in India's stock markets. The literature is sparse regarding the impact of overall financing patterns of SMEs on their market value. Hence, the present study aims to contribute to the theoretical principles and the limited evidence available in India to examine the impact of debt-equity composition on market pricing in Indian SMEs. This research could be beneficial for SMEs considering listing, as it may inform them of the potential advantages of listing in terms of capital raising through various sources. The findings could have significant implications for investors, promoters and corporate managers striving to promote sustainable SME growth in India.

3. Research Methodology

3.1 Research Design and Data Collection

The study adopted a quantitative, empirical research design aiming at identifying causal relationship to analyse the impact of capital structure on MPS of selected non-financing listed SMEs in India.

The present study was conducted in the Indian context, taking SMEs listed on the NSE Emerge Platform. The study used secondary financial data collected for 2 years, i.e., 2024 and 2025, from CMIE Prowess. NSE Emerge Platform was used to gather sectoral representation of listed SMEs. From this, financial companies were excluded following the standard practice, as the calculation and interpretation of their ratios are different from those of the non-financial companies (Fama & French, 1992; Kumar & Rao, 2016). Only those non-financing listed SMEs have been selected whose data were available for the study period. The sample consisted of 50 companies. Stratified random sampling was used to allocate the sample proportionally to sector representation in the population to minimise sampling bias.



3.2 Variables and Proposed Model

Dependent variable is MPS. Independent variable is leverage as it is a major factor in judging financing pattern of the companies, which has been measured by Debt-Equity Ratio (Verma *et al.*, 2021).

D/E Ratio = Total Debt / Total Equity

The general model is specified as:

$$Y = \alpha + \beta X + \varepsilon$$

The study employs a panel regression model to examine the impact of D/E Ratio (X) on MPS (Y) with ε being the error term.

$$MPS = \alpha + \beta(D/E) + \varepsilon$$

4. Results and Discussion

Table I presents the panel regression results for the selected non-financing listed SMEs.

Table I: Panel Regression Results of selected non-financing listed SMEs

α	**β**	**R^2**
353.0667*	-81.2079**	
(0.0000)	(0.0277)	0.05388

Number in Parentheses indicates the p-value

** indicates significant at 1%*

*** indicates significant at 5%*

Source: Author's calculation

The intercept term (α = 353.0667) is positive and significant at the 1% level, suggesting that when the explanatory variable (D/E Ratio) is held constant at zero, the baseline level of the dependent variable (MPS) remains substantially positive. The negative and statistically significant slope coefficient (β = -81.2079) at the 5% level indicates a significant inverse relationship between the independent and the dependent variable. Specifically, one unit increase in the D/E Ratio results in a decline of ₹81.2079 in MPS, holding other factors

constant. The statistical significance of the coefficient indicates that the relationship is unlikely to have happened by accident and could have meaningful economic implications for SMEs. The R^2 value indicates that the model accounts for 5.388% of the variation in the MPS. This suggests that the D/E Ratio is statistically significant, it accounts for 5.388% of the overall variability.

Table II reports the panel regression results examining the relationship between D/E Ratio and MPS across sectors of listed non-financing SMEs.

Table II: Panel Regression Results of different sectors

Sectors	**α**	**β**	**R^2**
Industrials	377.3623* (0.0001)	-62.8935 (0.4605)	0.0211
Consumer Discretionary	212.4426* (0.0024)	-0.8409 (0.9912)	0.0499
Services	213.2556* (0.0049)	-86.0642 (0.3778)	0.1313
Information Technology (IT)	981.1004** (0.0111)	-1410.911 (0.2211)	0.3440
Healthcare	1432.346** (0.0500)	-29784.69 (0.1168)	0.4988
FMCG	217.1642** (0.0138)	-91.2922 (0.2286)	0.2305
Commodities	341.0000** (0.0231)	-63.4820 (0.3491)	0.2192
Others	391.0215* (0.0075)	-71.9257 (0.1208)	0.4916

Number in Parentheses indicates the p-value

** indicates significant at 1%*

*** indicates significant at 5%*

Source: Author's calculation

The intercept coefficient is positive and statistically significant across all sectors, at either the 1% (Industrials, Consumer Discretionary, Services and Others) or 5% (IT, Healthcare, FMCG and Commodities) levels, indicating that in the absence of leverage, firms maintain a positive baseline market valuation. The slope coefficient is negative for all sectors, implying an inverse relationship between leverage and MPS. However, none of these coefficients is statistically significant as all p-values exceed the conventional thresholds. The explanatory power of models varies considerably across sectors. Relatively higher R^2 values are observed in Healthcare (49.88%), Others (49.16%) and IT (34.40%), while FMCG (23.05%). Commodities (21.92%) and Services (13.13%) exhibit moderate explanatory power. The remaining sectors show low R^2 values.

5. Conclusion

The present study examined the impact of capital structure, measured by the D/E ratio, on MPS of selected non-financing SMEs listed on NSE Emerge from 2024 to 2025. The results of the panel regression analysis show that there is a statistically significant negative relationship between leverage and MPS at the aggregate level. An increase of one unit in the D/E ratio will lead to a decrease in the MPS by ₹81.2079, and the model explains 5.388% of the variation. This indicates that the higher the dependence on debt financing, the lower the market valuation of SMEs. This means that investors are sensitive to financial risk and may penalise firms with higher leverage. Furthermore, the explanatory power of the model reveals that although capital structure is an important determinant of MPS, there are other firm-specific or macroeconomic variables that are also important. The sectoral analysis shows that the relationship between leverage and MPS is negative across all the sectors, but it is not statistically significant.

These findings support Trade-off theory, Pecking Order theory and Agency Cost Theory and suggest that for SMEs in emerging markets, costs associated with debt outweigh tax shields.

The results have important implications for managers and promoters. By bridging the research gap on listed SMEs, unlike prior focus on large-cap firms, the results guide promoters to reduce over-reliance on debt to boost market valuation. SME managers need to be cautious with leverage, weighing the benefits of debt against the financial risks involved in order to protect investor confidence and market valuation.

6. Limitations and Future Research Directions

Although the study is able to make meaningful insights into the relationship between capital structure and MPS of non-financing listed SMEs, it suffers from certain limitations. First, the study is based on data from only two financial years. Future research may be incorporated for a longer period. Second, data was collected from the NSE Emerge platform, while BSE SME platform can also be used in future studies. Third, the sample consisted of only 50 companies. While efforts were made to ensure sectoral representation, a larger sample size can enhance the generalisation of findings. Fourth, only D/E Ratio was used to understand the composition of capital structure. Future studies may differentiate between short-term and long-term debt and also use other ratios for a better understanding of financing decisions.

Additional variables like firm size, growth, profitability, liquidity, etc., can be included to develop a more comprehensive model. Comparison of SMEs with large-cap firms can be done for deeper insights. Cross-country studies on emerging SME platforms can also be conducted.

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