

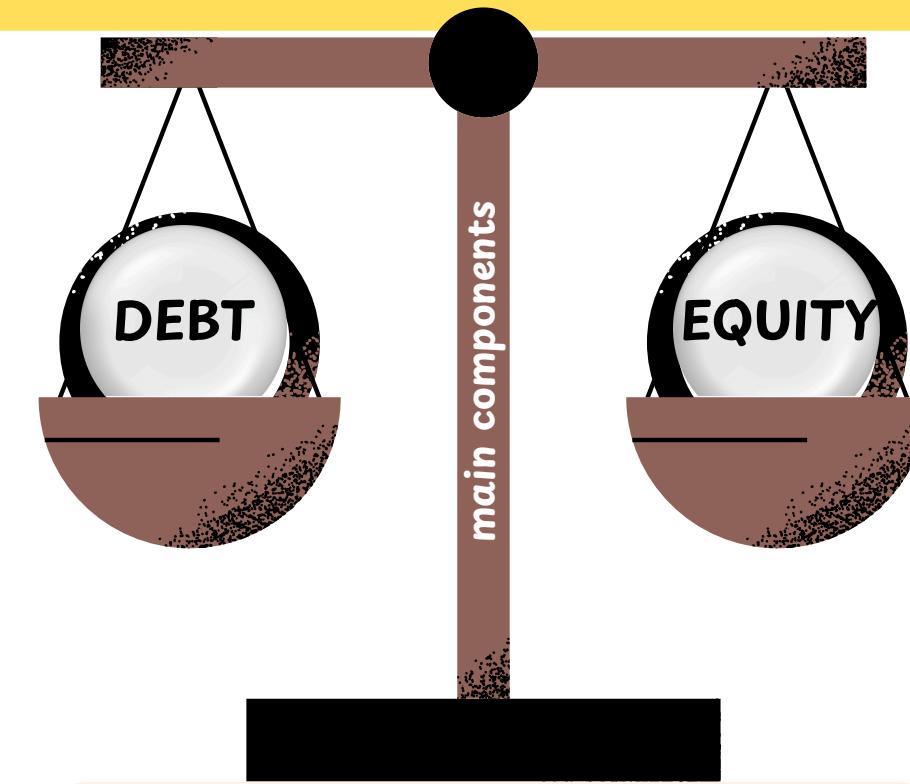
# Capital Structure

Capital structure is the combination of different sources of funding that a company utilizes to finance its assets and operations. It primarily comprises of debt and equity

Debt refers to borrowed money that has to be repaid with interest.

It includes:

- Loans (short-term & long-term)
- Debentures, Bonds etc.



Equity represents ownership in the company.

It includes:

- Equity Share Capital
- Preference Share Capital
- Retained Earnings (profits kept in the business)



depends on multiple factors like industry, growth stage, risk tolerance, etc.



## Types of Capital Structure

### Equity Financing

### Debt Financing

### Hybrid Capital Structure

## Optimal Capital Structure

### Pros

- No profit sharing
- Interest is tax-deductible

### Cons

- Mandatory interest payments
- High financial risk if debt is too much

### Pros

- No obligation to repay
- No regular interest payments

### Cons

- Dilution of ownership
- Profit sharing
- Dividends are not tax-deductible