An optimum capital structure has such a proportion of debt and equity which will maximise the wealth of the firm.

At this capital structure the market price per share is maximum and cost of capital is minimum.

E. F. Brigham defines—”the optimum capital structure strikes that balance between risk and return which maximises the price of the stock and simultaneously minimizes the firm’s overall cost of capital.”

**Generally speaking, a sound optimum capital structure is one which:**

(i) Maximises the worth or value of the firm

(ii) Minimizes the cost of capital

(iii) Maximises the benefit to the shareholders by giving best earning per share and maximum market price of the shares in the long-run

(iv) Is fair to employees, creditors and others.

**Features of an Optimum Capital Structure:**

**The features of an optimum capital structure:**

**1. Simplicity:**

All businessmen are not educated. A complicated capital structure may not be understood by all; on the contrary it may raise suspicions and create confusion. A capital structure must be as simple as possible.

**2. Profitability:**

An optimum capital structure is one which maximises earning per equity share and minimizes cost of financing.

**3. Solvency**

In a sound capital structure, content of debt will be a reasonable proportion of the total capital employed in the business. As a result, it has minimum risk of becoming insolvent.

**4. Flexibility:**

The capital structure of a firm should be such that it can raise funds as when required.

**5. Conservatism:**

The debt content in the capital structure of a firm should be within its borrowing limits. It should be free from the risk of insolvency.

**6. Control:**

The capital structure should be designed in a such a way that it involves minimum risk of loss of control of the firm.

**7. Optimal debt-equity mix:**

Optimal debt-equity mix in the capital structure of a company would be that point where the weighted average cost of capital is minimum. Optimum debt- equity proportion establishes balance between owned capital and debt capital. The firm should be cautious about the financial risk associated with the maximum utilisation of debt.

**8. Maximisation of the value of the firm:**