Emperor International Journal of Management

ISSN: 2583-1267	**Mayas Publication®**	**www.mayas.info**
Volume-VI	**Issue-IV**	**April 2026**

A Study on Capital Structure and Its Impact on Shareholder Value with Reference to Toyota Motors

R. Pravin
Student,
Department of Management studies
Vel Tech Rangarajan Dr. Sagunthala R&D Institute of Science and Technology
(Deemed to be University) Chennai, India

Dr. S. Arul Krishnan
Assistant Professor
Department of Management studies
Vel Tech Rangarajan Dr. Sagunthala R&D Institute of Science and Technology
(Deemed to be University) Chennai, India

Abstract

This paper discusses the effect of capital structure on shareholder value with reference to Toyota Motors. The capital structure, which is the ratio of debt to equity, is important in the determination of the cost of capital of the firm, the amount of risk, and the financial performance. The study will examine the effect of financing mix of Toyota on profitability, return on equity (ROE), and earnings per share (EPS) which will impact the shareholder wealth creation. The study utilizes ratio analysis with the use of secondary data that is represented by audited financial statements of Toyota during five financial years (20212025) to evaluate the key financial indicators, which are Debt -Equity Ratio, Proprietary Ratio, ROE, EPS, and Net Profit Margin. The results show that Toyota has a stable capital structure, and its weighted capital structure is 0.89- 0.99, which is an average leverage and high solvency. The ROE and high profit margins of the company have been very high, which is an indication that the shareholder funds and operational efficiency are well utilized. Moreover, stable and sustainable shareholder returns have been achieved through the conservative nature of its financing and the use of retained earnings by Toyota. The research concludes that a capital structure that is optimized strategically increases the profitability as well as

financial stability, which strengthens shareholders confidence and value creation in the long term. The findings of this analysis can be used by financial managers to keep the balance in terms of leverage and equity hence attaining an optimal balance that facilitates sustainable growth and shareholder wealth maximization.
Keywords: Capital Structure, shareholder value, Toyota motors, financial performance, debt-equity ratio.

1. INTRODUCTION

The Capital structure behavior and its implication on shareholder value are still a major topic of corporate finance and financial economics. Capital structure is defined as the ratio of debt and equity that is used in the operations and growth of a firm. The most preferred combination has an impact on the cost of capital, the risk exposure as well as the end value of a company to shareholders. Whereas Modigliani and Miller (1958, 1963) had argued that the capital structure does not matter in perfect markets, later studies had pointed out the imperfections that existed in the real world, including taxes, cost of bankruptcy, and agency costs, that ended up making a decision on financing very significant. The modern companies are under increased pressures to match the capital structure with the shareholder value because of global competition, changing investor expectations and integration of financial markets. The trade-off theory, the pecking order theory, and the agency theory are theories which provide complementary but opposite ideologies on how companies can strike debt and equity equilibrium to maximize value. This relation is highly influenced by industry characteristics, firm size, profitability, and macroeconomic conditions which have been empirically observed to shape this relationship. The actions of the 2008 financial crisis exemplified over-leverage, which highlights the pitfalls of over-debting, which support the importance of balanced and sustainable financing strategies. Both quantitative (e.g., regression, panel data analysis) and qualitative methods provide a methodological insight to the fact that optimal choices on capital structure differ across settings. To investors, these dynamics are important to portfolio and risk management and to policymakers, they guide market regulation and systemic stability. Altogether, the capital structure and shareholder value studies imply the importance of financing choices that determine not only the level of company performance but also economic resilience and sustainable development in general.

Objectives of the Study

Primary Objectives:

- To study Capital Structure and Its Impact on Shareholder Value.

Secondary Objectives:

- To analyze the composition of Toyota Motors' capital structure with respect to debt and equity financing.
- To evaluate the relationship between capital structure decisions and key financial performance indicators such as profitability, return on equity, and earnings per share.
- To examine the impact of Toyota Motors' capital structure on shareholder value creation and wealth maximization.
- To study the influence of external economic and industry-specific factors on Toyota's capital structure decisions.
- To provide suggestions and insights for optimizing capital structure in order to enhance shareholder wealth and financial stability.

Scope of the Study

The study focuses on examining Toyota Motors' capital structure and its implications for shareholder value. It primarily analyzes the composition of debt and equity financing, and how these financing choices affect financial performance indicators such as profitability, return on equity, and earnings per share. The research also considers the extent to which capital structure contributes to shareholder wealth maximization and financial stability. Since the study is company-specific, it emphasizes Toyota Motors as a case model, though insights may serve as a reference for broader industry understanding. The scope is limited to secondary data drawn from annual reports, financial statements, and published records within a defined time frame, and does not extend to qualitative perceptions of investors. The research is confined to Toyota Motors as a case reference; therefore, the findings are specific to its financial policies and may not be directly applicable to other automobile companies. This study is also focused on the quantitative aspects of capital structure and shareholder value, and does not deeply cover qualitative perspectives such as investor behaviour or market perception. Nonetheless, the analysis provides valuable insights into how an optimal capital structure can enhance shareholder wealth and guide financial decision-making within the automobile industry.

Review of Literature

Some studies, have investigated the capital structure profitability and shareholder value relationship on various theoretical and empirical perspectives. A study by Abor (2005) on listed firms in Ghana showed that the short term debt has positive influence on the profitability, but the long term debt has a negative influence, which shows that the maturity of the debt has different impact on the shareholder value. Chen (2004) examined the determinants of the capital structure by the Chinese- listed companies and determined that the most significant variables in identifying leverage include profitability, firm size and growth opportunities and concluded that determinants of capital structure differ by institutional settings. The predictions of the trade-off and pecking orders were tested statistically by Fama and French (2002) using panel data of the U.S. and obtained space-incomplete support to both trade-offs and pecking order indicating that neither of the two approaches is universal but financing decisions have a substantial impact on the shareholder value. Likewise, Frank and Goyal (2003) also tested the pecking order theory and concluded that equity issue was more frequent than anticipated, which demonstrated that theoretical hierarchies are conditioned by firm- specific factors. Capital structure puzzle Myers (1984) conceptualized, that shareholder value is influenced by firm-specific and contextual factors, and Myers and Majluf (1984) showed that through the use of theoretical modeling, information asymmetry causes firms to choose internal financing over debt and equity, and hence influence perceptions of investors and the valuation of firms. Rajan and Zingales (1995) also determined the existence of a positive relationship between leverage and tangibility and negative relationship between leverage and profitability, which underscores the fact that institutional environment influences financing patterns. With the help of Kraus and Litzenberger (1973) a trade-off model was made that indicates that although debt offers tax benefits, excessive leverage imposes a higher risk of bankruptcy. Jensen (1986) associated moderate leverage and managerial discipline and enhanced shareholder value through efficient resource utilization. Roden and Lewellen (1995) concluded that increased leverage generates returns but increases financial risk and hence the importance of balancing this. Eriotis et al. (2007) found that an increase in leverage reduces profitability, which supports conservative capital structure in volatile markets. The results presented by Abor (2005) and Eriotis et al. (2007) lead to a common conclusion that careful debt management does not harm the interests of shareholders. In an industry-specific research, in the Automotive Industry Study (2023), capital intensity and cyclicality determine the financing policies that are best implemented by balanced leverage strategies to safeguard the wealth of shareholders. According to the City University Thesis (2020) about Toyota Motors, it is observed that conservative financing method and use of retained earnings would lead to stable shareholder returns, which was also supported by the Toyota Corporate Governance Report (2024) which emphasized on the dedication of the company to keep capital efficiency and a cost of capital above its market level. Lastly, the initial theory was presented by Modigliani and Miller (1958) that the capital structure will not matter in the ideal markets, but later researches saw it as very significant in the real worlds due to the taxation, information asymmetry, and market imperfection. Together, these studies demonstrate that even though there is a theoretical framework, such as trade-off, pecking order and agency theories, which offers some structure, empirical evidence has always indicated that the optimal capital structure is dependent on the context; and that leverage, profitability and risk are balanced to maximize the shareholder value.

Research Methodology

Research methodology is a systematic strategy of management research that tries to reach the set goals. It acts as a guide to the researchers in the duration of study. Research methodology saves scholars time since it provides detailed guidelines regarding the rules, methods of investigation, and procedures that need to be followed to ensure that the investigation is completed based on the established objectives. In essence, the methodology embraces the procedures by which researchers define, clarify and foretell phenomena in a rational and logical flow.

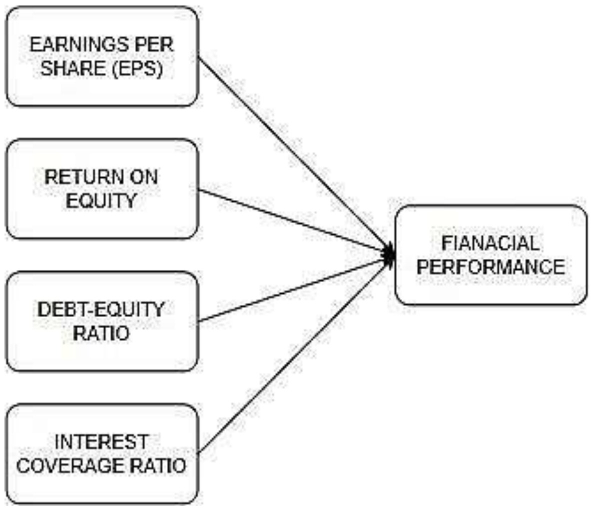
Research Design

The relevance of research design is that it helps solve the growing complexities of markets and the range of marketing strategies that are accessible to researcher. It gives a framework that logically stipulates the means and techniques to employ in a certain investigation.

Analytical Research

Analytical research is conducted through an analysis of the Profit and Loss statements and Balance Sheets of five years duration. This type of analysis also allows drawing conclusions about key financial ratios and assessing the impact they have on the cash flow, as well as liquidity and stability of revenues in general.

Research Model



Sampling Method

A non-probability sampling approach that will be applied in this study is judgmental sampling (purposive sampling). In purposive sampling the researcher uses scientific judgment and purpose of research during the selection of sample. Since this research is based on secondary financial data as the primary source, the years and the particular financial elements that will be analyzed were also chosen with a purpose to make it relevant and meaningful to the research goals. In this research, the sample period will be the audited financial statements of Toyota Motors in the five financial years 2021 to 2025. The five years in a row were selected due to the fact that they have enough data in order to analyze the capital structure composition, trace the changes in debt and equity financing, and assess their connection with the key performance indicators (profitability, ROE, EPS). The sampling technique that will be used in this case is judgmental sampling since the researcher will be able to select the most informative and purposeful data points necessary to draw valid conclusions about the decisions that Toyota has made concerning its capital structure and how these decisions have influenced the company to perform well in the financial markets.

Sample Size

The sample size used in the study will include five years of financial records of Toyota Motor Corporation, the years 2021 to 2025. This time period has been taken to give a clear and detailed picture of the financial structure, performance and shareholder value trend of Toyota in the recent economic environment. The five years span is optimum to establish stable financial trends, evaluate the important ratio changes, and the long term effects of the capital structure choices. The analysis of constantly available financial data in 2021 and 2025 helps to capture the post-pandemic recovery period, and then the stabilization of the market, which are essential to assess how Toyota handled its capital structure during its economic unpredictability and global disruptions of supply chains. The selected years also indicate how the company has started adopting sustainable growth, hybrid vehicle development, and the financial management in the company. The analysis will consider important measures of financial factors including but not limited to the Debt-Equity Ratio, Proprietary Ratio, Return on Equity (ROE), Earnings Per Share (EPS), and Net Profit Margin, which will be useful in gauging financial efficiency, leverage balance, and shareholder value creation of the company. Further research will be covering five years of study and this is so that the short term changes would be well represented as well as the long-term performance patterns. Thus, a five-year sample (20212025) gives a valid and representative basis to assess the decisions of capital structure of the Toyota motor corporation and how it affects the profitability, stability and maximizing the shareholder wealth.

Tools for Data Collection

In this report, secondary data is used mainly.

Secondary Data

Secondary data, however, is the name given to the data that has been collected, tabulated and preserved by some other party. To analyse this study, secondary data have been used based on the annual reports, Profit and Loss accounts, and Balance Sheets in five years (2019-2024)

The online resources and other pertinent textual sources were also used to get some supporting information.

Financial Tools for Analysis

- Common size balance sheet
- Earnings per share
- Return on equity
- Debt-equity ratio
- Interest coverage ratio

Data Analysis

The data analysis and interpretation section focuses on examining Toyota's financial performance over a five-year period from 2019 to 2024 using key financial ratios such as Debt-Equity Ratio, Proprietary Ratio, Return on

Equity (ROE), Earnings Per Share (EPS), and Net Profit Margin. The analysis provides insights into how Toyota's capital structure decisions have influenced its profitability, financial stability, and shareholder value. The Debt-Equity Ratio showed a slight decline from 0.99 in 2019–2020 to 0.89 in 2021– 2022, indicating a reduced dependence on debt financing and stronger reliance on equity. However, it slightly increased to 0.93 in recent years, reflecting a balanced and stable financial approach. The Proprietary Ratio remained relatively steady, averaging around 51–53%, which demonstrates a healthy equity base and long-term solvency. Toyota's Return on Equity (ROE) maintained a high level throughout the study period, ranging between 54% and 60%, suggesting efficient utilization of shareholder funds to generate profits. Earnings Per Share (EPS) also showed strong performance, peaking in 2020–2021 and remaining at a healthy level thereafter, indicating sustained profitability and consistent value creation for shareholders. Similarly, the Net Profit Margin stayed robust, averaging between 65% and 72%, which reflects Toyota's strong cost control measures and operational efficiency. Overall, the analysis highlights that Toyota Motors has maintained a sound and balanced capital structure, effectively leveraging its financial resources to achieve profitability, financial stability, and sustainable shareholder value over the five-year period.

Common Size Balance Sheet

A Common Size Balance Sheet is a useful financial analysis tool that presents each item on the balance sheet as a percentage of total assets. This method simplifies comparison between different years or companies by eliminating the effects of size and scale. In this study, the Common Size Balance Sheet of Toyota Motor Corporation has been prepared for the period 2021 to 2025 using data collected from the company's annual reports and financial statements. Each component such as current assets, fixed assets, current liabilities, long- term liabilities, and shareholders' equity has been expressed as a percentage of total assets to analyze changes in Toyota's financial structure over time.

This analysis helps to identify how Toyota allocates its resources and finances its operations. For instance, an increase in the proportion of fixed assets may indicate expansion or investment in new facilities, while variations in liabilities reflect changes in financial leverage. The common size approach also highlights shifts in equity composition, providing insights into the company's long-term solvency and financial stability. By comparing these percentages across years, the study evaluates Toyota's efficiency, capital structure balance, and risk exposure. Thus, the Common Size Balance Sheet offers a clear and comparable view of Toyota's financial health and performance trends.

Summary of Findings

- The financial ratio analysis of Toyota between 2019-20 and 2023-24 can be present an interesting piece of information about the financial stability of the organization, its profitability, and its efficiency in investing the shareholder funds. The Debt-Equity Ratio was maintained at a close 0.89 to 0.99 range which implied that they were using a balanced capital structure that was not overly dependent on debt but at the same time was not too conservative with its financing. This indicates a good financial status in which the company has a consistent grip on the outsourced borrowings.
- The Proprietary Ratio of the ratio of funds of shareholders to the total assets was always within
- 0.50 to 0.53 demonstrating that about half of the assets of the firm are financed by shareholder funds. This is an indication of long-term solvency and confidence of the investor that will reflect long-term sustainability in the operations of the company.
- Return on Equity (ROE) was also very strong, and it was 54-60, which means that the company has been very efficient in providing returns on the investment of shareholders. Despite the minor decline in the years following 2020-21, the ROE was high, indicating effective use of profits.
- Earnings per Share (EPS) was 11.84-15.49 with the current highest EPS in 2020-21. Although there was a slight downwards trend in EPS thereafter, it is still at a healthy level which shows that its shareholders have a sustained value.
- The Net profit margin showed good profitability, ranging between 65 and 72, which indicates the level of profitability in the company in
- relation to the inventory turnover and cost efficiency.

II. CONCLUSION

The financial performance analysis of Toyota over the five year period demonstrates the company to be financially healthy, operationally strong and able to produce good returns to its shareholders. The fact that the Debt-Equity Ratio does not show any significant fluctuations over time proves that the company uses a balanced strategy towards financing without relying on any external debt sources to an excessive extent and not fully using leverage. The Proprietary Ratio has been high, which means that shareholders are very confident and it reflects good solvency in the long term.

Profitability ratios, such as Return on Equity and Net Profit Margin reveal that the company has been effective in its ability to translate shareholder investments and operating activities into meaningful profits. Although the values of EPS were fluctuating slightly over the years, they are still high implying that the company still provides its shareholders with great value. These financial advantages are true signs of effective management procedures, prudent strategic planning as well as sound operational structures.

Nevertheless, although the financial position is good, it needs constant improvement to maintain growth in the competitive automobile industry. The focus on cost-effectiveness, the product and service diversification, the management of the customer relationships and the strategic reinvestment of profits will also become more powerful to support the company performance. Therefore, Toyota has a good financial health, good profitability, and good shareholder value creation, which puts it in good position to grow and gain competitiveness in the future.

III. REFERENCES

1. Abor, J. (2005). The effect of capital structure on profitability: An empirical analysis of listed firms in Ghana. The Journal of Risk Finance, 6(5), 438–445. https://doi.org/10.1108/15265940510633505
2. Automotive Industry Study. (2023). Capital structure determinants in the automobile sector. Global Automotive Finance Research Group.
3. Chen, J. J. (2004). Determinants of capital structure of Chinese-listed companies. Journal of Business Research, 57(12), 1341–1351. https://doi.org/10.1016/S0148-2963(03)00070-5
4. City University. (2020). Capital structure analysis of Toyota Motors [Master’s thesis, City University]. Institutional Repository.
5. Eriotis, N. P., Vasiliou, D., & Ventoura- Neokosmidi, Z. (2007). How firm characteristics affect capital structure: An empirical study. Managerial Finance, 33(5), 321–331. https://doi.org/10.1108/03074350710739605
6. Fama, E. F., & French, K. R. (2002). Testing trade-off and pecking order predictions about dividends and debt. The Review of Financial Studies, 15(1), 1–33. https://doi.org/10.1093/rfs/15.1.1

7. Frank, M. Z., & Goyal, V. K. (2003). Testing the pecking order theory of capital structure. Journal of Financial Economics, 67(2), 217–248. https://doi.org/10.1016/S0304-405X(02)00252-0
8. Jensen, M. C. (1986). Agency costs of free cash flow, corporate finance, and takeovers. American Economic Review, 76(2), 323–329.
9. Kraus, A., & Litzenberger, R. H. (1973). A state- preference model of optimal financial leverage. The Journal of Finance, 28(4), 911–922. https://doi.org/10.2307/2978343
10. Modigliani, F., & Miller, M. H. (1958). The cost of capital, corporation finance and the theory of investment. The American Economic Review, 48(3), 261–297.
11. Myers, S. C. (1984). The capital structure puzzle. The Journal of Finance, 39(3), 574–592. https://doi.org/10.2307/2327916
12. Myers, S. C., & Majluf, N. S. (1984). Corporate financing and investment decisions when firms have information that investors do not have. Journal of Financial Economics, 13(2), 187–221. https://doi.org/10.1016/0304-405X(84)90023-0
13. Rajan, R. G., & Zingales, L. (1995). What do we know about capital structure? Some evidence from international data. The Journal of Finance, 50(5), 1421–1460. https://doi.org/10.1111/j.1540- 6261.1995.tb05184.x
14. Roden, D. M., & Lewellen, W. G. (1995). Corporate capital structure decisions: Evidence from leveraged buyouts. Financial Management, 24(2), 76–87. https://doi.org/10.2307/3665536
15. Toyota Motor Corporation. (2024). Capital efficiency and shareholder value: Corporate governance report. Toyota Investor Relations.