

# Effect of Capital Structure on Shareholders Wealth: An Empirical Study of Industrial Goods Firms in Nigeria

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## ABSTRACT

This study determined the relationship between capital structure and shareholders wealth of industrial goods firms in Nigeria. Specifically, the study ascertained the effect of short-term and long term debts on shareholder's wealth. Ex-post facto research design was employed for the study. Based on the empirical evidence, short term debt ratio has a significant positive relationship with cash value added of quoted industrial goods firms in Nigeria at 5% level of significance, and long term debt ratio has a significant and positive relationship with industrial goods firms in Nigeria at 5% level of significance. The study recommended that since short term debt positively affects cash value added, industrial goods firms should use more of short term debt in their capital structure to avoid paying a high cost of capital. Since, firms with more current assets are less likely to be financially constrained.

**Key words:** Capital structure, Long term debt ratio, Cash value added and Shareholder's wealth

## I. INTRODUCTION

Financing decisions play a vital part in sustaining firm profitability in this era of globalization and the most competitive corporate world. The ultimate goal of any rational investor, whether institutional or individual, is to maximize projected returns on investments while maintaining a reasonable level of risk. As a result, people prefer to put their money into shares of companies with rising stock prices, which will eventually increase their stock market wealth. To obtain a higher return on their investments and maximize their wealth, most investors seek a consistent increase in the value of their stock market shares.

If accessible, leverage allows the investor to earn higher profits; nevertheless, it can also result in a higher risk of loss, especially if the investment loses value and the borrowed money

must be repaid with interest (Chakrabarti & Chakrabarti, 2019). As a result, there is a potential for financial risk, which could result in financial loss (Elgattani & Hussainey, 2020). The capital structure of the company determines the magnitude of this possible financial risk. Preferred stock, ordinary equity, and long and short-term liabilities make up the majority of a company's financial structure.

The existence of debt in a company's capital structure is known as financial leverage. Similarly, the presence of fixed-charge bearing capital, which may include preference shares, debentures, and term loans, can be referred to as fixed-charge bearing capital (Hayes, 2021). Leverage is an investing technique that involves the use of borrowed money, more specifically, the use of various financial instruments or borrowed capital to boost an investment's potential return. The amount of debt a company utilizes to finance assets is often referred to as leverage (Adam, 2021). The use of debt (borrowed capital) to finance a venture or undertaking is known as leverage. Taking too much debt increases risk for equity because debt holders have preference over equity holders. The increased equity risk increases the expected rate of return by the equity holders making the equity option more expensive. This also reduces the firm's valuation.

Every decision a firm makes is aimed at increasing shareholder value over time. The cash flows generated by the firm's assets and operations are the firm's basic financial resources, and when the firm employs only equity capital, the cash flows generated by the firm's assets and operations belong entirely to the equity-holders. When a company has a combination of debt and equity, the cash flows created by its assets and operations are split into two streams: one that is more safe for the

loan holders and another that is more hazardous for the equity holders.

Prior research has suggested a link between financial leverage and financial performance, but the findings have been mixed. Financial leverage and financial performance have been demonstrated to have a significant positive, significant negative, and no significant relationship. (Tran, 2020; Rafiuddin and Rafiqul, 2020; Rahman, Meero, Zayed, Anwarul Islam, Rabbani & Bunagan, 2021, and others) The importance of this study to evaluate the relationship between capital structure and shareholders wealth of industrial products firms in Nigeria arose from the inconclusive results and lack of consensus in the studied literatures.

## II. REVIEW OF RELATED LITERATURE

### Conceptual Review

Financial leverage simply means the presence of debt in the capital structure of a firm. The capital structure decision is a significant managerial decision that affects shareholder risk and return. Companies also employ borrowed money to expand their businesses in addition to equity capital. Financial leverage is the process of increasing debt to a company's capital in order to acquire more assets. In general, a small amount of debt is considered beneficial to a business, as relying solely on equity can be costly. Firms can lower their cost of capital significantly by including debt in their capital structure. Financial leverage, on the other hand, comes with it various issues that must be carefully managed by the firm's management. Debt can be a stumbling block for many companies. As a company increases financial leverage, its capital structure changes. The result is to multiply the potential returns from a project. At the same time, leverage will also multiply the potential downside risk in case the investment does not pan out. When one refers to a company, property, or investment as highly leveraged, it means that item has more debt than equity (Will, 2021).

Both investors and businesses employ the idea of leverage. Investors utilize leverage to boost the amount of money they can make on a given investment. They use a variety of products to leverage their investments, including options, futures, and margin accounts. Instead of issuing shares to raise capital, corporations can use debt financing to invest in business operations in order to increase shareholder value (Kenton, 2021).

### Short Term Debt Ratio

Short Term Debt can be useful to a company to leverage its operations a little further, however companies relying too much on this can quickly get overwhelmed with debt, crippling its operations as it has to spend its earnings on debt and interest repayment instead of improving the company (Mardones & Cuneo, 2020). Short Term debt often carries the highest interest rates of all a company's debt. Bank loans, notes commercial paper, and short term lines of credit are all examples of short term debt (Chakrabarti & Chakrabarti, 2019). Companies which are reliant on short term funding are more vulnerable to liquidity shocks than those with longer-term debt finance as debt facilities can be withdrawn immediately. While companies with short term financing are likely to have a lower cost of debt than those with longer-term financing, should interest rates rise, those with short term financing will see rates rise faster (Bajaj, Kashiramka & Singh, 2019). Froko (2017) suggested that the higher the level of short term financial leverage, the more the wealth of shareholders is maximized. Salim and Yadav (2012) indicated that capital structure measured by short term debts have negative impacts shareholders wealth measured by ROE. Yinusa, Adelopo, Rodionova and Olawale (2019) suggested that shareholders-managers have been able to use short term debt to enhance the performance of firms in a way that equity investments of outside equity investors are protected and enhanced.

Short-term debt, known as current liabilities, is a firm's financial obligations that are expected to be paid off within a year. It is listed under the current liabilities portion of the total liabilities section of a company's financial position statement (Gant, 2021). Short-term debt is defined as debt obligations that are due to be paid either within the next 12-month period or the current fiscal year of a business. Short-term debts are also referred to as current liabilities. They can be seen in the liabilities portion of a company's statement of financial position (Estevez, 2021).

The formula is stated thus; Short Term Debt =

$$\frac{\text{Short Term Debt}}{\text{Total Assets}}$$

### Long Term Debt Ratio

Long-term debt is the term given to those obligations the firm does not have to pay for at least a year. They are also called funded debt or fixed liabilities. Items that may be classed as long-term debt are bonds, debentures, term loans, or, in small firms, mortgages on buildings (Tuovila, 2021). Long Term Debt (LTD) is any amount of

outstanding debt a company holds that has a maturity of 12 months or longer. It is classified as a non-current liability on the company's statement of financial position (Khartit, 2021). Long-term debt is debt that matures in more than one year. Entities choose to issue long-term debt with various considerations, primarily focusing on the timeframe for repayment and interest to be paid. Investors invest in long-term debt for the benefits of interest payments and consider the time to maturity a liquidity risk. Overall, the lifetime obligations and valuations of long-term debt will be heavily dependent on market rate changes and whether or not a long-term debt issuance has fixed or floating rate interest terms (Berry-Johnson, 2021).

Long term debt ratio is the ratio that represents the financial position of the company and the company's ability to meet all its financial requirements. It shows the percentage of a company's assets that are financed with loans and other financial obligations that last over a year. The higher the level of long term debt, the more important it is for a company to have positive revenue and steady cash flow (Dinh & Pham, 2020). Long term debt ratio is very helpful for management to check its debt structure and determine its debt capacity. It also shows how many assets of your company are financed with the help of debts (Farhan, Alhomidi, Almaqtari & Tabash, 2019).

$$\text{Long Term Debt Ratio} = \frac{\text{Long Term Debt}}{\text{Total Assets}}$$

### Shareholders Wealth

Companies can determine shareholder wealth by looking at overall company value in terms of the current value per share and number of stocks issued (Scott, 2021). Shareholder wealth is defined as the present value of the expected future returns to the owners (that is, shareholders) of the firm. Shareholder value is the value delivered to the equity owners of a corporation due to management's ability to increase sales, earnings, and free cash flow, which leads to an increase in dividends and capital gains for the shareholders (Adam, 2021).

A company's shareholder value depends on strategic decisions made by its board of directors and senior management, including the ability to make wise investments and generate a healthy return on invested capital. If this value is created, particularly over the long term, the share price increases and the company can pay larger cash dividends to shareholders. Mergers, in

particular, tend to cause a heavy increase in shareholder value (Scott, 2021).

### III. EMPIRICAL REVIEW

Arowoshegbe and Emeni (2014) investigated the relationship between shareholder wealth and the debt-equity mix of Nigerian public companies. The research was based on a panel data set of sixty non-financial enterprises from 1997 to 2011. Two panel regression models were used in the investigation. The dependent variables were Return on Equity (ROE) and Earnings per Share (EPS), both of which are measures of shareholder wealth. According to the findings, there is a significant negative association between shareholders' wealth and the debt-equity mix of Nigerian public companies. Yazdanfar and Hman (2015) investigated the link between debt and performance in small and medium-sized businesses (SMEs). The researchers employed three-stage least squares (3SLS) to confirm that debt ratios, including trade credit, short-term debt, and long-term debt, have a negative impact on business profitability. The influence of financial leverage on the financial performance of food production enterprises in Nigeria was investigated by John-Akamelu, Iyidiobi, and Ezejiofor (2017). The study used an ex post facto research design, with data gathered from annual reports and accounts of Nigerian food producing enterprises from 2009 to 2014. With the use of Statistical Package for Social Sciences (SPSS) version 2.0, a paired sample t-test analysis was used to examine the three hypotheses. Financial leverage has no significant effect on Earnings Per Share of food production enterprises in Nigeria, according to the findings, but it does have an effect on Return on Equity of manufacturing firms in Nigeria. The relationship between capitalization and performance of Nigerian commercial banks was studied by Ezejiofor, Olise, and John-Akamelu (2017). Time series data and ex post facto design were used. The study's data came from six years of annual reports and accounts from Nigerian commercial banks. With the help of SPSS Version 20.0, hypotheses were tested using Pearson Correlation. As a result, the study discovered that return on equity had a negative significant association. There is also a strong link between earnings per share and the bank's net income. Nyeadi, Banyen and Mbawuni (2017) investigated the factors influencing the capital structure decisions of listed firms in Ghana from 2007-2014. The study employed a dynamic panel system of General Methods of Moments (GMM) in testing the hypotheses. The results from the empirical estimation revealed that listed firms

in Ghana use less debt than equity and they prefer using short-term debt rather than long-term debt in financing their operations. During the period 2005-2016, Abubakar (2017) examined the impact of financial leverage on the financial performance of eleven (11) publicly traded industrial goods enterprises in Nigeria. For this investigation, the panel data approach was used. The key findings revealed that the total debt equity ratio (TDER) has a considerable negative impact on financial performance as measured by return on equity (ROE). For the period 2008-2016, Lasisi (2017) investigated the drivers of business organization profitability of four (4) listed agricultural enterprises in Nigeria. Multiple regression approaches were used to examine the panel data, and the study's findings demonstrated that leverage had a negative and significant impact on profitability (ROE). Merugu, Bhanu and Ravindar (2018) analyzed the capital structure impact on shareholder value in 77 Indian pharmaceutical firms listed in BSE, India over a period of 9 years from 2007 to 2015. Using the balanced panel data and regression models, the study found that determinants such as debt-equity ratio, long-term debt ratio and short-term debt ratios have positive correlation with shareholder value and negatively related to total debt ratio in the absence of tax. From 2007 to 2016, Elshaday (2018) looked at the factors that influenced the financial performance of eight private commercial banks in Ethiopia. Panel data was used in the study, which included correlation and multiple linear regressions. The leverage ratio has a negative and statistically significant impact on the financial performance of banks, according to the findings (ROE). Fali (2019) looked studied the impact of leverage on Islamic banking's financial performance in Nigeria from 2012 to 2017. It was decided to use an ex post research design. Debt to equity has a positive and insignificant effect on ROE, according to the results of the multivariate regression study. Abubakar and Garba (2019) investigated the impact of financial leverage on the financial performance of seven companies listed on the Nigerian Stock Exchange in the Services Sector between 2005 and 2016. The study's findings were presented using a Fixed Effects Model, which demonstrated that the overall debt equity ratio has a significant negative impact on financial performance as assessed by return on equity. According to the findings, lowering the total debt equity ratio will increase financial performance. Yinusa, Adelopo, Rodionova, Olawale (2019) examined the impact of capital structure on firm performance in Nigeria. The study covered a period

from 1998-2015 and used dynamic panel model on panel data of 115 listed non-financial firms in Nigeria. The study employed the two step generalized method of moments (GMM) estimation method. The findings indicated a statistical significant relationship exist between capital structure and firm performance. Efuntade (2019) investigated the impact of gearing on the wealth of Nigerian quoted industrial businesses' shareholders. The stakeholder theory and agency theory were used to guide the research. Secondary data was gathered from selected manufacturing companies in Nigeria's annual reports from 2012 to 2018. (6 years). The Panel Least Square Regression model was used to test the data. The results demonstrated that the endogenous variables (board size, firm size, and leverage) were all strongly related to the dependent variable (return on equity). Ezejiofor, Nwakoby, and Okoye (2019) looked at the shareholders fund of publicly traded food and beverage companies in Nigeria during a ten-year period (2009-2018). Ex-post facto research was used in this study. At a 5% level of significance, descriptive statistics and inferential statistics regression analysis were utilized to test the hypotheses. The empirical findings showed that the debt-to-equity ratio had a negative but substantial impact on earnings per share and return on equity of listed foods and beverage firms in Nigeria at a 5% level of significance. Rafiuddin and Rafiqul (2020) examined firm level characteristics and firm performance (or profitability) of service sector firms listed in the Australian Stock Exchange (ASX). Using a panel regression approach on data collected over an eleven-year period (2009–2019), the effect of capital structure and leverage was examined. Four measures of firm performance were used: return on assets, return on equity, operating margin ratio and return on capital employed. The analysis of data revealed a significant association between return on equity and leverage levels. The relationship between financing decisions and shareholder wealth maximization was investigated by Akintomide, Nwaobia, and Ogundajo (2021). The study used an ex-post facto research design. For a period of ten (10) years (2008 to 2017), data were taken from a sample of thirty-five (35) non-financial firms registered on the Nigeria Stock Exchange, yielding 350 firm-year observations. The data revealed that financing decisions had a considerable impact on market value added; self-financing had a positive and significant impact, equity-financing had a negative and significant impact on market value added, and debt-financing (DFD) had a non-significant negative impact. The drivers of financial

performance, company liquidity, and leverage ratio of Indian listed firms on the Bombay Stock Exchange were researched by Senan, Ahmad, Anagreh, Tabash, and Al-Homaidi (2021). From 2007 to 2018, balanced panel data for 1,333 Indian enterprises was collected during a 12-year period. Both static models (pooled, fixed, and random effects) and the Generalized Moment Method were employed in this study (GMM). The current ratio and the quick ratio are found to have a substantial impact on the financial leverage of Indian listed companies. Jim, Xiaochen and Chien (2021) investigated the relationship between long-term debt financing and financing deficit of Chinese-listed firms from 2003 to 2015. The study also assessed how ownership concentration, market timing, and state ownership affect the adoption of long-term debt financing when there is a financing deficit. The regression analysis documented a positive relationship between financing deficit and changes in the long-term debt ratio. The effect of leverage on the cash ratio of Nigerian conglomerates was investigated by Okeke, Ezejiofor, and Okoye (2021). The study used an Ex-Post facto research design, with data taken from the sampled firms' annual reports and accounts and evaluated with Pearson correlation and Ordinary Least Square (OLS) regression analysis using E-Views 9.0 statistical software. At a 5% level of significance, the study discovered that leverage has a considerable negative influence on the cash ratio of Nigerian corporations. According to the findings of the study, corporations should opt to fund themselves using resources generated internally rather than relying on the market.

This study attempted to address a vacuum in the literature by assessing shareholders' wealth creation with cash value added, as opposed to previous studies that primarily examined shareholders' wealth creation with return on equity, return on assets, and earnings per share. More specifically, previous studies looked at the relationship between financial leverage and financial performance, whereas this study looked at the relationship between financial leverage and shareholder wealth creation, which prior studies haven't looked at (to the best of the researcher's knowledge), thus closing the variable gap. Prior studies' financial periods concluded in 2019 as well.

#### IV. METHODOLOGY

##### Research Design

Because the study intended to show a cause-and-effect link yet the researcher had no control over the variables under study, an ex-post

facto research design was used. Secondary data was used in this research. The Nigeria Stock Exchange fact books, annual reports and accounts, and other relevant publications and bulletins were used to compile the data.

##### Population and Sample Size

The sample size for this investigation was determined using a purposeful sampling strategy. The sample size for this study is thirteen (13) quoted industrial goods firms out of sixteen (16) firms that have been continuously listed on the Nigerian stock exchange from January 1, 2008 to December 31, 2020, and whose financial statements and reports are available and have been consistently submitted to the Nigerian stock exchange during the study period. Dangote Cement Plc, CAP Plc, Ashaka Cement Plc, Berger Paints, Cutix Plc, First Aluminum Nigeria Plc, DN Meyer Plc, Premium Paints Plc, Austin Laz & Company Plc, Avon Crowncaps & Containers Nigeria Plc, Portland Paints Plc, Greif Nigeria Plc, and Wapco Nigeria Plc.

##### Method of Data Analysis

Both the dependent and independent variables were computed from the data gotten from the Nigerian Stock Exchange from 2008 to 31<sup>st</sup> December 2020. Coefficient of correlation and Panel Least Square (PLS) regression analysis with the aid of E-Views 9.0 using:

##### Model Specification

The following models were used to test the hypotheses of the study:

$$CVA_{it} = \beta_0 + \beta_1STDR_{it} + \mu_{it} \quad \text{--- i}$$

$$CVA_{it} = \beta_0 + \beta_1LTDR_{it} + \mu_{it} \quad \text{--- ii}$$

Where:

$\beta_0$  = Intercept coefficient

$\beta_1 - \beta_3$  = Coefficients of independent variables

$CVA_{i,t}$  = Cash value added of firm i at time t

$STD_{i,t}$  = Short term debt of firm i at time t

$LTD_{i,t}$  = Long term debt of firm i at time t

$\mu_{i,t}$  = The error term which account for other possible factors that could influence  $Y_{it}$  that are not captured in the model.

i stands for the ith firm ((13 banks)

t stands for year t ( 2008-2020) (Thirteen Years)

##### Decision Rule

Accept the alternative hypothesis, if the Probability value (P-value) of the test is less than 0.05 (5%). Otherwise reject.

### Analysis of Data

**Table 1: Pearson Correlation Matrix**

	CVA	STDR	LTDR
CVA	1.0000		
STDR	0.6732	1.0000	
LTDR	0.5665	0.8716	1.0000

Source: E-Views 9.0 Correlation Output, 2021

The Pearson Correlation Matrix in table 4.2 shows the existence of a positive relationship between STDR, LTDR and CVA at a coefficient value of, 0.6732 and 0.5665.

### Test of Hypotheses

#### Hypothesis One

**Ho<sub>1</sub>:** There is no significant relationship between short term debt ratio and cash value added of quoted industrial goods firms in Nigeria.

**Table 2 Panel Least Square Regression analysis between STDR and CVA**

Dependent Variable: CVA  
Method: Panel Least Squares  
Date: 09/18/21 Time: 13:36  
Sample: 2008 2020  
Periods included: 13  
Cross-sections included: 13  
Total panel (balanced) observations: 169

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.942954	0.595850	-3.260811	0.0013
STDR	2.514098	0.638374	3.938282	0.0001
R-squared	0.312892	Mean dependent var		0.356469
Adjusted R-squared	0.306762	S.D. dependent var		0.262984
S.E. of regression	0.249937	Akaike info criterion		0.088167
Sum squared resid	10.30729	Schwarz criterion		0.162247
Log likelihood	-3.450109	Hannan-Quinn criter.		0.118230
F-statistic	6.999187	Durbin-Watson stat		1.749765
Prob(F-statistic)	0.000185			

Source: E-Views 9.0 Regression Output, 2021

### Interpretation of Regression Result

The modified R<sup>2</sup> value is 0.306762 in Table 2. The modified R<sup>2</sup>, which is the coefficient of multiple determinations, indicates that the explanatory factors jointly explain 30.68 percent of the total variation in the dependent variable (CVA) of quoted industrial products firms in Nigeria (STDR). Because the F- statistics value of 6.999187 with an associated Prob.>F = 0.000185 indicates that the model is fit to explain the relationship expressed in the study model and further suggests that the explanatory variables are properly selected, combined, and used, the adjusted R<sup>2</sup> of 30.68 percent did not pose a problem for the study. The findings showed that short-term debt

has a positive and substantial link with CVA, as indicated by a beta coefficient of 2.514098, a t-value of 3.938282, and a p-value of 0.0001, all of which are statistically significant at 5%. According to the beta coefficient, a unit increase in STDR raises CVA by 2.51 units. In addition, the Durbin-Watson test is used to determine if the study variables are auto correlated. The Durbin-Watson value of 1.749765, which is less than 2, indicates that the variables have no auto-correlation.

### Decision

The alternative hypothesis of the study is accepted (t statistic = 3.938282; p-value = 0.00010.05) based on empirical evidence that

suggests that short term debt ratio has a significant positive relationship with cash value added of quoted industrial goods firms in Nigeria at a 5% level of significance.

### Hypothesis Two

**Ho<sub>2</sub>:** There is no significant relationship between long term debt ratio and cash value added quoted industrial goods firms in Nigeria.

**Table 3: Panel Least Square Regression analysis between LTDR and CVA**

Dependent Variable: CVA  
Method: Panel Least Squares  
Date: 09/18/21 Time: 13:40  
Sample: 2008 2020  
Periods included: 13  
Cross-sections included: 13  
Total panel (balanced) observations: 169

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-4.509859	0.680328	-6.628944	0.0000
LTDR	5.128259	0.709719	7.225761	0.0000
R-squared	0.262783	Mean dependent var	0.356469	
Adjusted R-squared	0.249380	S.D. dependent var	0.262984	
S.E. of regression	0.227845	Akaike info criterion	-0.096919	
Sum squared resid	8.565699	Schwarz criterion	-0.022838	
Log likelihood	12.18962	Hannan-Quinn criter.	-0.066855	
F-statistic	19.60495	Durbin-Watson stat	1.773259	
Prob(F-statistic)	0.000000			

Source: E-Views 9.0 Regression Output.

### Interpretation of Regression Result

LTDR and CVA have a positive connection, according to the regression model. The value of 1 (LTDR) is 5.128259, implying that a 1% increase in LTDR causes CVA to increase by approximately 513 percent; the value of the t-statistic and p-value for 1 = 7.225761, 0.00000.05; 2 = 0.017146, 0.9863 > 0.05; and 3 = -1.313490, 0.1908 > 0.05, implying that there is a positive and significant relationship between LTDR and CVA at a Durbin Watson's value is 1.773259, indicating that there is no auto-correlation problem. The F-statistic value of 19.60495 with a P-value of 0.000000 indicates that the entire model is well-fit.

### Decision

In light of the empirical evidence, which shows that the F-statistic is 19.60495 with an associated probability value of 0.00000, which is less than the conventional P-value of 5%, Ho is rejected and H1 is accepted, implying that the long-term debt ratio has a significant and positive relationship with Nigerian industrial goods firms at a 5% level of significance.

## V. CONCLUSION AND RECOMMENDATIONS

The panel regression result for hypothesis I demonstrates that DER and CVA of quoted industrial items listed in Nigeria have a substantial positive association. The regression also reveals that LTDR and CVA have a favorable connection. The value of 1 (LTDR) indicates that a one-percentage-point rise in LTDR causes a five-percentage-point increase in CVA, showing that LTDR and CVA industrial items listed on the Nigeria Stock Exchange have a positive and substantial association.

As a result, this study adds to the expanding body of evidence indicating financial leverage has a strong positive link with and has a significant effect on shareholder wealth creation in Nigeria at a 5% significant level. As a result, this study adds to the expanding body of evidence indicating financial leverage has a strong positive link with and has a significant effect on shareholder wealth creation in Nigeria at a 5% significant level.

The following recommendations were made in line with the findings and conclusion of this study:

- i. Because short-term debt boosts cash value added, industrial products companies should

employ more of it in their capital structure to avoid incurring a high cost of capital. Since firms with higher current assets are less likely to be financially confined, they are less likely to be financially constrained.

ii. Banks should reduce interest rates on corporate lending, which can be done by waiving or cutting transfer costs, to allow industrial goods manufacturers to invest in capital equipment and machinery, as it is difficult to repay short-term debt financing that was utilized for long-term expenditures.

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