Optimum capital structure vs Appropriate Capital Structure

An optimum capital structure is that mix of equity and debt where the price of stock of the company is maximum and it maintains a balance between risk and return. However, the stage where the price of stock of the company will be highest is difficult to ascertain and further more such stage is highly flexible. Therefore optimum capital structure is merely a theoretical concept. In practice, we should rely on the appropriate capital structure, which is considering the business condition, market scenario, etc. is the best mix of debt and equity for a particular firm.

Features of Appropriate capital structure and Optimum capital structure

Feature	Appropriate capital structure	Optimum capital structure
High price of stock	The price of stock (shares and debentures) of the company shall be high.	The price of stock (shares and debentures) of the company shall be highest.
Low cost of capital	The WACC (weighted average cost of capital) of the company shall be low.	The WACC (weighted average cost of capital) of the company shall be lowest.
Profitability	EPS of the company shall be high.	EPS of the company shall be highest.
Flexibility	The company shall have the sufficient flexibility to further raise or redeem fund.	The company shall have the full flexibility to further raise or redeem fund.
Risk of insolvency	The company shall have least risk of insolvency.	The company shall have no risk of insolvency.
Risk of control	The company shall have least risk of losing control or takeover.	The company shall have no risk of losing control or takeover.
The above discussion clarifies that optimum capital structure is merely a theory and in practice only appropriate capital structure is feasible.		