

A STUDY ON CAPITAL STRUCTURE

REBACCAL.A¹,

DR.M.CHANDRASEKARAN,²

BHUVANESHWARI.A³,

Department of Business Administration,

Dhanalakshmi Srinivasan College of arts and science for women (Autonomous),

Perambalur

ABSTRACT

The raising of more debt may help to improve the return to shareholders. But it will increase the risk and the fixed interest charges. On the other hand, raising of funds through equity capital will bring in more permanent funds. The study done on capital structure in the company has mainly highlighted the fact that the company is an unlevered firm which has no debt content. This in turn affects the returns to shareholders, the value of the firm and the financial leverage. Hence a review of the capital structure has been made essential to minimise the financial risk of the concern. The company basically has a good performance which could be made much better through an efficient and revised capital structure.

Keywords: capital structure, valuation, book values, market values, target capital

INTRODUCTION

Planning the capital structure is an important area of financial decision making. The finance manager has to select long – term sources of funds in such a way that capital structure is optimum. The raising of more debt may help to improve the return to shareholders. But it will increase the risk and the fixed interest charges. On the other hand, raising of funds through equity capital will bring in more permanent funds. The risk to the firm is also less, but the shareholders expect higher returns. Therefore, the finance manager has to strike a balance between various long – term sources with a view to minimize the overall cost of capital.

REVIEW OF LITERATURE

Title: Capital Structure

Author: ShanmugaSundaram

Year: 2012

Capital structure of pharmaceutical companies to see whether there was any shift in the capital structure in the same period. The results were broadly consistent with the capital structure theories. The most important explanatory variable for the capital structure pattern was the asset type measured by the proportion of fixed asset to total assets. This showed a positive significant relationship with debt equity ratio in domestic pharmaceutical companies, an insignificant relation in case of multinational companies.

Title: Capital Structure

Author: Parameswaran, Annamalai and Vijayakumar A.

Year: 2013

The capital structure of companies with a view to identify the factors determining the capital structure. They found that proper and efficient management of capital structure yields two advantages: (i) maximization of profit and wealth of shareholders and (ii) minimization of the cost of capital. Therefore, it was concluded that the financial manager is confronted with the task of determining the determinants of capital structure of the firm, which on the one hand maximizes the wealth of the owners and on the other hand minimizes the cost of funds.

Title: Capital Structure

Author: Laurence Booth et al

Year: 2013

The study conducted assessed whether capital structure theory is portable across countries with different institutional structures. Their findings suggest that although some of the insights from modern finance theory are portable across countries, much remain to be done to understand the impact of different institutional features in capital structure choices.

Title: Capital Structure

Author: Weston and Brigham

Year: 2014

“Capital structure is permanent financing of the firm represented by long-term debt, preferred stock and net worth”. Capital structure refers to the proportionate share of different securities and other long term funds such as loan from financial institutional in total capitalization.

SCOPE OF THE CAPITAL STRUCTURE

- ❖ The study covered the proportion of debt-equity ratio maintained by the company and capitalization ratio adapted of the company.
- ❖ The study enable to understand the expenses related to the capital structure in terms of interest & dividends which world financial leverage of the company.
- ❖ The value of debt and value of equity is identified and measure of earnings per share is found.

OBJECTIVES OF THE CAPITAL STRUCTURE

- ❖ Explain why capital structure policy involves a trade-off between risk and return and list the four primary factors that influence capital structure decisions.
- ❖ Distinguish between a firm's business risk and its financial risk.
- ❖ Explain how operating leverage contributes to a firms business risk and conduct a breakeven analysis, complete with a breakeven chart.

RESEARCH METHODOLOGY

Research methodology is the systematic design, collection, analysis and reporting of data and findings relevant to a specific marketing situation facing a company. It may be understood as a science of study how research is done scientifically. In it we study the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them. Researchers not only need to know how to develop various tests, but also to apply particular research techniques that are relevant. Research methodology can be undertaken by many creative and affordable ways such as:

DATA ANALYSIS AND INTERPRETATION

CURRENT RATIO

Current ratio may be defined as the relationship between current assets and current liabilities. This ratio also know as working capital ratio current assets include cash and these assets which can be converted in to cash within one year such as cash & bank, marketable securities, debtors, inventories, prepaid expenses include the represent the payments that will be made in future obligation like creditors, bills payable etc.

$$\text{CURRENT RATIO} = \text{CURRENT ASSET} / \text{CURRENT LIABILITIES}$$

TABLE NO: 4.1
TABLE SHOWING CURRENT RATIO

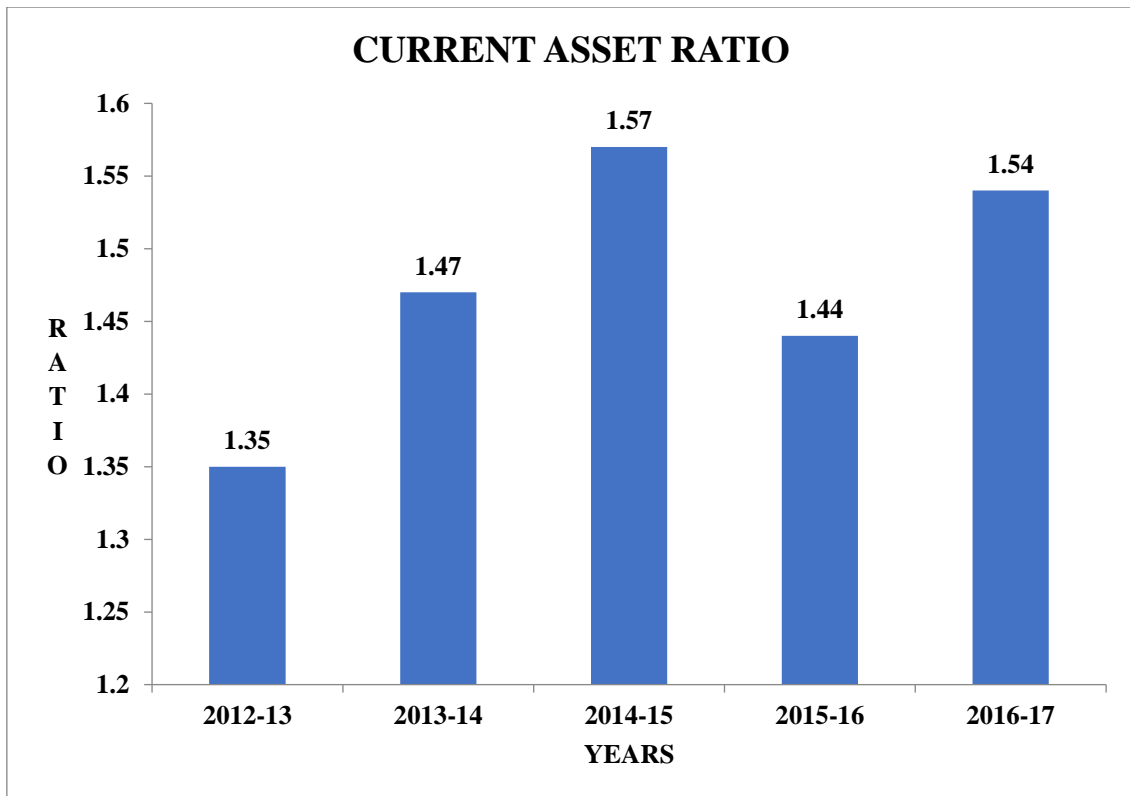
Year	Current assets (Rs in crs)	Current liabilities (Rs in crs)	Ratio
2012-2013	1567.08	1158.84	1.35
2013-2014	2170.53	1481.29	1.47
2014-2015	2708.52	1724.51	1.57
2015-2016	2926.59	2034.73	1.44
2016-2017	3642.57	2368.83	1.54

Source: secondary data

INTERPRETATION

From the table, it is inferred that the current ratio has increased as 1.35 during the year 2012-2013. The current ratio has increased 1.47 during the year 2013-2014. The current ratio has increased 1.57 during the year 2014-2015. The current ratio has decreased 1.44 during the year 2015-2016. The current ratio has increased 1.54 During the year 2016-2017.

CURRENTASSET RATIO



4.2 PROFITABILITY RATIO

The profitability of a firm can be measured by its profitability ratios. The profit is the difference between revenues and expenses over a period of time and it is the ultimate output of the company must be earning profit to survive in the business.

$$\text{PROFITABILITY RATIO} = \text{PROFIT AFTER TAX} / \text{SALES} * 100$$

TABLE NO: 4.2

TABLE SHOWING PROFITABILITY RATIO

Year	Profit after tax (Rs in crs)	Sales (Rs in crs)	Ratio
2012-2013	174.33	11417.26	1.53
2013-2014	248.94	11742.82	2.12
2014-2015	327.15	12356.56	2.65
2015-2016	225.83	12111.64	1.86
2016-2017	236.4	12131.49	1.95

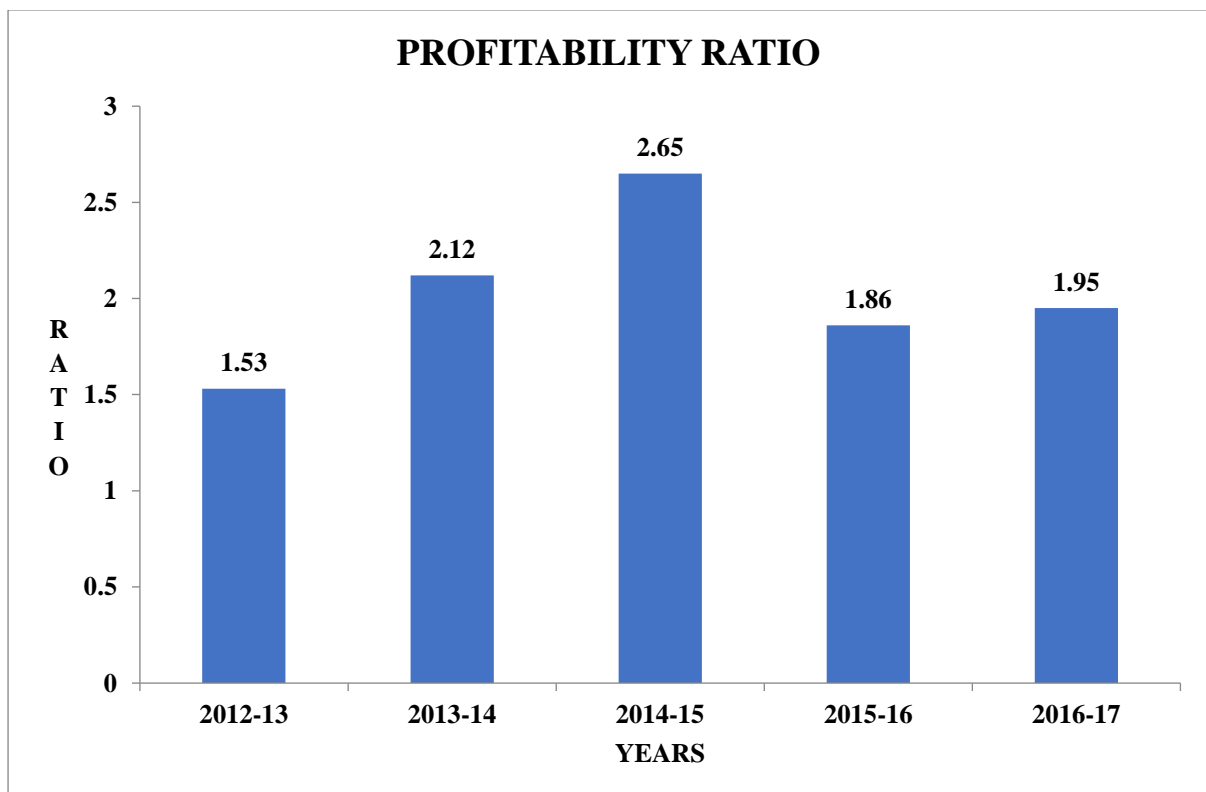
Source: secondary data

INTERPRETATION

From the table, it is inferred that the profitability ratio has increased as 1.53 during the year 2012-2013. The profitability ratio has increased 2.12 during the year 2013-2014. The profitability ratio has increased 2.65 during the year 2014-2015. The profitability ratio has decreased 1.86 during the year 2015-2016. The profitability ratio has increased 1.95 during the year 2016-2017.

CHART-4.2

PROFITABILITY RATIO



4.3 CASH POSITION RATIO

Cash is the most liquid asset; a financial analysis may examine cash ratio and its equivalent to current liabilities. The investment or marketable securities are equivalent of cash. Therefore they may be included in the composition of cash ratio.

$$\text{CASH POSITION} = \text{CASH AND BANK BALANCE} / \text{CURRENT LIABILITIES}$$

TABLE NO: 4.3

TABLE SHOWING CASH POSITION RATIO

Year	Cash-bank (Rs in crs)	Current liabilities (Rs in crs)	Ratio
2012-2013	224.92	1158.84	0.19
2013-2014	197.65	1481.29	0.13
2014-2015	323.2	1724.51	0.19
2015-2016	216.07	2034.73	0.11
2016-2017	307.19	2368.83	0.13

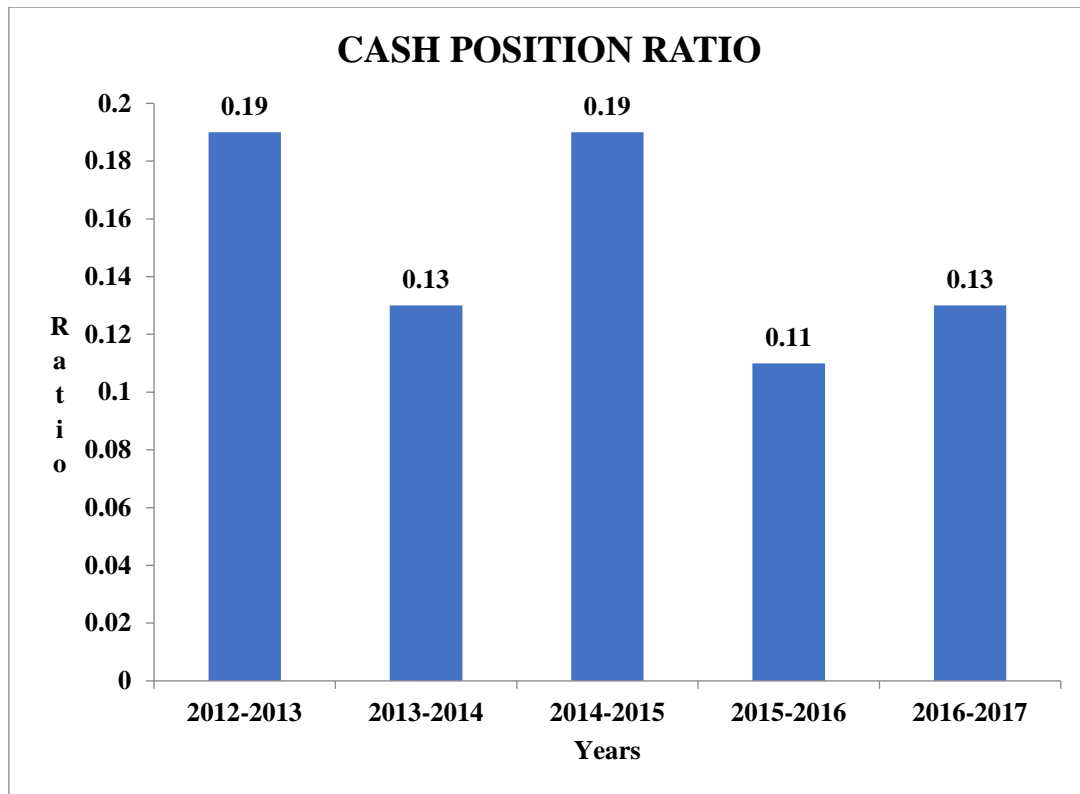
Source: secondary data

INTERPRETATION

From the table, it is inferred that the cash position ratio has increased as 0.19 during the year 2012-2013. The cash position ratio has decreased 0.13 during the year 2013-2014. The cash position ratio has increased 0.19 during the year 2014-2015. The cash position ratio has decreased 0.11 during the year 2015-2016. The cash position ratio has increased 0.13 during the year 2016-2017.

CHART-4.3

CASH POSITION RATIO



FINDINGS:

- ❖ The current ratio the highest value of 1.57 in the year 2014-2015 and lowest being was 1.35 in the year 2012-2013.
- ❖ The profitability ratio the decrease value being was 1.53 in the year 2012-2013 and increase value of 2.65 in the year 2014-2015.
- ❖ Cash position ratio the highest value of 0.19 in the year 2012-2013 and 2014 – 2015 and lowest value being was 0.11 in the year 2015-2016.
- ❖ Working capital turnover ratio the highest value of 27.97 in the year 2012-2013 and lowest value being was 9.52 in the year 2016-2017.

SUGGESTION:

- ✓ Introduce an optional capital structure so that it helps to avoid undue financial business risk with the increase of ratio.
- ✓ The company should minimize the cost of financing and maximize earning per share.
- ✓ The capital structure should be flexible so that it can be easily altered.
- ✓ The use of debt should be within the capacity of a firm.

CONCLUSION

The study done on capital structure in the company has mainly highlighted the fact that the company is an unlevered firm which has no debt content. This in turn affects the returns to shareholders, the value of the firm and the financial leverage. Hence a review of the capital structure has been made essential to minimise the financial risk of the concern. The company basically has a good performance which could be made much better through an efficient and revised capital structure.

BIBLIOGRAPHY

- T.S. Reddy, Y. Hari Prasad Reddy. Management Accounting, Margham Publications.
- Kothari C.R- Research Methodology: Methods and Techniques – New Age Publication.
- A. Murthy & S. Gurusamy, Management Accounting, Vijay Nicole Publication.

E-RESOURCE:

- ✓ www.lotte.com
- ✓ www.wikipedia.com
- ✓ www.nseindia.com
- ✓ www.bseindia.com