

A STUDY ON COST OF CAPITAL

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ABSTRACT

The project entitled "A STUDY ON COST OF CAPITAL IN PARLE AGRO PVT LTD, CHENNAI. The details regarding the literature of the company and financial details of the company were collected from parle agro pvt ltd records. Data analysis was carried out and findings were listed. Suitable suggestions were provided. The tools used in this study were, gross profit ratio, net profit ratio, return on capital employed, return on assets ratio, capital employed turnover ratio, debtors turnover ratio, fixed assets turnover ratio, current asset ratio, working capital turnover ratio, capital employed turnover ratio, sales to fixed assets ratio, operating ratio, weighted average of cost of capital working also the balance sheet of the company for the past five years were compared and analysis based on that were brought out. The financial analysis of this report will show the strength and weakness of the PARLE AGRO PVT LTD (CHENNAI). Financial analysis will help the company to take decision. This study also gives overall parle agro for the past five years. It was also found that the cost of capital of the company reliable suggestions was also rendered to enhance the financial efficiency of the financial performance of the company.

KEYWORDS:

INTRODUCTION

The Cost of Capital is the minimum rate of return, that a company requires from its investments in order to ensure that the market value of its shares either increase or remain at the same level. The cost of capital is the cost of a company's funds (both debt and equity), or, from an investor's point of view "the required rate of return on a portfolio company's existing securities". It is used to evaluate new projects of a company. It is the minimum return that investors expect for providing capital to the company, thus setting a benchmark that a new project has to meet. The cost of capital is an integral part of investment decision as it is used to measure the worth of investment proposal provided by the business concern.

REVIEW OF LITERATURE

SHANMUGASUNDARAM (2008) The effect of capital structure on profitability an empirical analysis of listed firms in Ghana analysed the impact of leverage on profitability correlation technique was applied and the findings of the study evidenced that there was a positive correlation between leverage and profitability during the study period.

MARTIN HOVEY (2007)A study on internationalization, capital structure and cost of capital of French corporations found that internationally diversified firms supported higher levels of debt because of its effect on reducing the overall cost of capital.

VENI AND NARAYANA(2002)Cost of capital refers to the weighted average cost of various capital components, i.e. sources of finance, employed by the firm such as equity, preference or debt. In finer terms, it is the rate of return, that must be received by the firm on its investment projects, to attract investors for investing capital in the firm and to maintain its market value.

OBJECTIVES OF THE STUDY:

- To study pattern of cost of capital structure
- To study the relationship between capital structure and cost of capital
- To estimate the value of the firm both debt and equity

DATA ANALYSIS

Working capital turnover ratio:

Working capital turnover ratio is computed by dividing the net sales by average working capital. It shows company's efficiency in generating sales revenue using total working capital available in the business during a particular period of time.

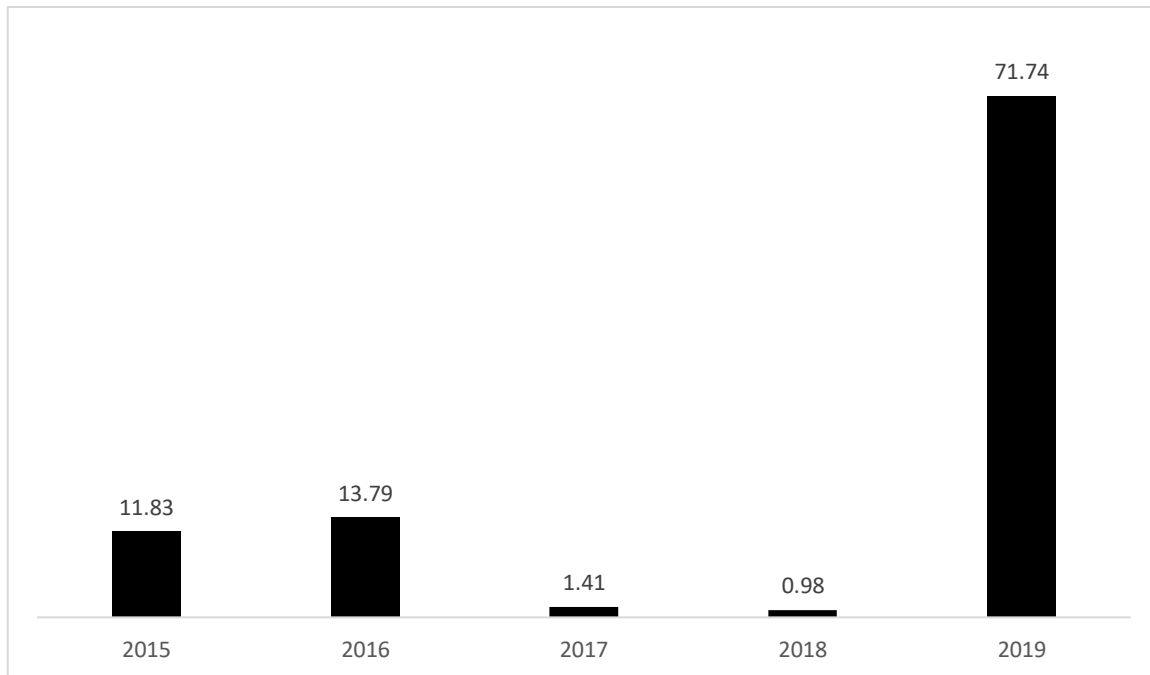
TABLE NO:1

YEAR	NET SALES	NET WORKING CAPITAL	RATIO
2015	0.20	1.69	11.83
2016	0.24	1.74	13.79
2017	0.27	19.04	1.41
2018	0.17	17.2	0.98
2019	11.35	15.82	71.74

Interpretation:

From the working capital denoted the efficiency of employment of fund. working capital turnover ratio is well efficiency managed, the ratio varies between 0.98 throughout the period of study from 2015 to 2019.

**CHART NO:1
WORKING CAPITAL TURNOVER RATIO**



**WEIGHTED AVERAGE OF COST OF CAPITAL
TABLE NO 2**

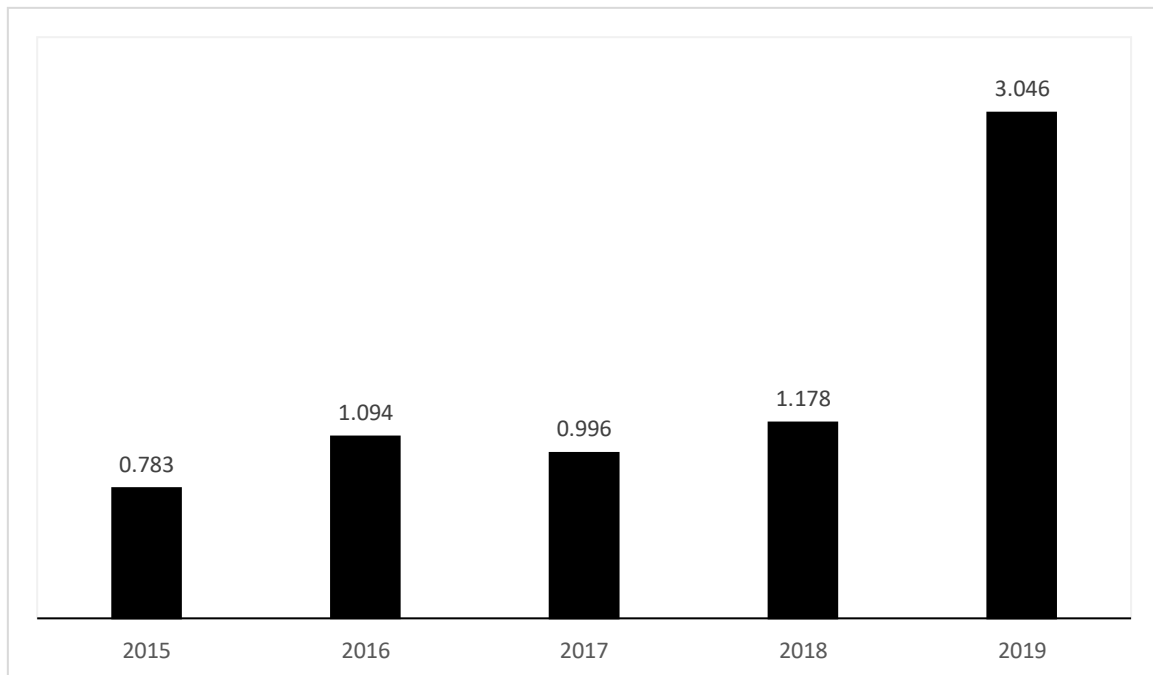
YEAR	E/V*RE	D/V*RD* (1-TC)	E/V*RE+D/V*RD* (1-TC)
2015	0.70	0.083	0.783
2016	0.84	0.256	1.094
2017	0.70	0.296	0.996
2018	0.98	0.198	1.178
2019	3.14	0.906	3.046

INTERPRETATION:

This above table shows that during the period of year was from 1.178 in the year of 2018 to 3.046 in the year of 2019 and it was on increasing trend, it was favourable weighted average of a cost of capital.

CHART NO 2

WEIGHTED AVERAGE OF COST OF CAPITAL



FINDINGS

- Working capital turnover ratio is well efficiency managed, the ratio various between 11.83 to 71.74.
- Weighted average of cost of capital was incurring an increasing and decreasing trend throughout the period of study.

SUGGESTION

The above finding leads to make the following suggestion:

- The liquid position of the concern is satisfactory. So, the firm can maintain the same to meet its current obligation as and when they become due.
- From the analyses of fixed assets turnover, it was found that it's inconsistent over the past years. so Parle Agro must utilize its fixed assets more efficiently to improve and increase its sales.

CONCLUSION

Financial analysis is a major tool of management in all type of organization but its particularly relevant decision making. As a result of analysis, it was found that the financial position is satisfactory level. by adopting the aforesaid suggestion; the company will have prosperous future.

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