

A STUDY ON CAPITAL STRUCTURE - WITH SPECIAL REFERENCE TO LISTED TEXTILE COMPANIES FROM PUNE, MAHARASHTRA

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Abstract: -

This paper takes light on capital structure of Indian textile companies. The main objective of this research is to study the effect of debt on equity return from year to year on various heads. The study is basically empirical research in nature. This study is based on Bombay Stock Market (BSE) listed companies from Pune Maharashtra. In the present four textile companies were listed under Bombay Stock Market. These four textile companies constitute the universe of this research study. This study is based on two textile companies from Pune, Maharashtra.

To study capital structure of textile company ratio analysis study is conducted to check profitability of selected textile company. The ratios were used to explore the relationship between different variables. It is found that both companies belong to the textile sector. Both companies' equity shares capital approximate same. But both companies' capital structure is totally different which affects profitability and growth of company.

Key word: - Capital Structure, Equity share, Profit after tax, Interest etc.

1. INTRODUCTION TO CAPITAL STRUCTURE

Every company's main objective is to maximize the value of owners i.e. equity shareholders. To achieve this objective company adopted different financing resources like short term and long term financing with the help of different options available in market. This kind of formation of financial mix is termed as capital structure. The word 'structure' means the prearrangement of the various sources of finance. Capital structure means the combinations of equity share capital, preference share capital, debentures, long-term loans, retained earnings and other long-term sources of funds in the total amount of capital which a company should raise to run its business.

To take decision about capital structure of any company ownership, interest cost, finance raising cost, tax benefit etc. parameters are considered. Capital structure will vary as per company requirement of fixed assets, liquidity requirement, size of company etc

2. OBJECTIVES OF THE STUDY

1. To study the effect of debt on equity return from year to year on various heads (items) under financial Statements of a Selected Textile Company.
2. To conduct ratio analysis study to check profitability of selected textile company.
3. To study and propose capital structure for selected textile company.

3. SCOPE OF THE STUDY

Scope of present study is restricted to two BSE listed textile companies working form last 10 years from Pune, Maharashtra, India.

The selected companies names are Century Enka Ltd. And Garware-Wall Ropes Ltd. The time period is confined to ten years ranging from year 2008-09 to 2017-18.

4. RESEARCH METHODOLOGY

This research is empirical type of research.

Population: - Four BSE listed textile companies from Pune district, Maharashtra. (By considering plant location and registered office.)

Sample size: - Two BSE listed companies namely Century Enka Ltd. And Garware-Wall Ropes Ltd

Sampling Technique: - Convenient sampling.

Primary data: - For this study no primary data required.

Secondary data: - For this research balance sheet and profit and loss account are taken from authorized website of company as well as from Bombay Stock Exchange (BSE), Money Control website.

PROFILE OF COMPANY

Table no. 1 Details of company

| Parameter | Century Enka Ltd (CE) | Garware-Wall Ropes Ltd (GWR) |
|-----------------------|-----------------------|------------------------------|
| BSE code | 500280 | 509557 |
| Year of Establishment | 1967 | 1981 |
| Equity Share in Cr. | Rs. 21.85 | Rs. 21.88 |

| | | |
|-------------------------------------|--------------|-----------|
| Number of equity shares | 21850589 | 21882060 |
| Face value of share | Rs. 10 | Rs. 10 |
| Last Year turn over (2017-18) in Cr | Rs. 1,416.48 | Rs. 884.6 |
| Long term Debt (2017-18) in Cr | Rs. 30.61 | Rs. 0.06 |

Different ratios are used as financial tool for this study to capital structure.

5. DATA ANALYSIS

5.1 Earnings per Share

$$(\text{EPS}) \text{ Earnings per Share} = \frac{\text{Net Profit}}{\text{no. of equity shares}}$$

Table no. 2 EPS both of company

| Company | Ratio | 03-18 | 03-17 | 03-16 | 03-15 | 03-14 | 03-13 | 03-12 | 03-11 | 03-10 | 03-09 | Average | min | Max |
|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---------|-----|------|
| CE | EPS | 32.1 | 41.6 | 27.1 | 16.7 | 28.8 | 10.0 | 4.0 | 36.4 | 48.0 | 8.3 | 25.3 | 4.0 | 48.0 |
| GWR | | 48.0 | 38.1 | 28.3 | 19.7 | 11.4 | 10.4 | 10.1 | 10.3 | 8.2 | 6.8 | 19.1 | 6.8 | 48.0 |

Interpretation

The above table represented the ten years EPS of both company. Century Enka Ltd shows fluctuating trend as compare to that Garware-Wall Ropes Ltd shows increasing trend after 2012-13. The average of EPS represent that Century Enka Ltd is better than Garware-Wall Ropes Ltd. But in contrast to this minimum EPS represents good EPS of Garware-Wall Ropes Ltd ie 6.8, in case of maximum EPS both companies have same EPS but Garware-Wall Ropes Ltd achieve this EPS in 2017-18 years, this is good sign from equity shareholder.

5.2 Return on Investment (ROI)

ROI represents relationship between Net profit (PAT) and shareholders' funds.

$$\text{Return on Investment (ROI)} = \frac{\text{Net Profit}}{\text{Sales}} * \frac{\text{Sales}}{\text{Investment}}$$

Table no.3 ROI both of company

| Company | Ratio | 03-18 | 03-17 | 03-16 | 03-15 | 03-14 | 03-13 | 03-12 | 03-11 | 03-10 | 03-09 | Average | min | Max |
|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---------|-------|-------|
| CE | ROI | 601.3 | 812.1 | 581.0 | 348.6 | 588.1 | 197.2 | 71.4 | 625.5 | 931.8 | 169.1 | 492.6 | 71.4 | 931.8 |
| GWR | | 1068 | 864.8 | 754.4 | 559.8 | 435.6 | 469.9 | 430.9 | 493.4 | 406.3 | 346.2 | 582.9 | 346.2 | 1068 |

Interpretation

The above table represented the ten years ROI of both company. Garware-Wall Ropes Ltd shows increasing trend after 2013-14 but Century Enka Ltd shows fluctuating trend. The average of ROI represent that Garware-Wall Ropes Ltd is better than Century Enka Ltd. But in contrast to this minimum ROI represents good ROI of Garware-Wall Ropes Ltd ie346.2, in case of maximum ROI both companies had drastic difference in ROI. Garware-Wall Ropes Ltd achieve this ROI in 2017-18 years, this is representing that operational efficiency or growth of company is good.

5.3 Return on Equity (ROE)

| | |
|--------------------------|-----------------------|
| Return on Equity (ROE) = | Net Profit (PAT) |
| | Shareholder's equity. |

Table no. 3 ROE both of company

| Company | Ratio | 03-18 | 03-17 | 03-16 | 03-15 | 03-14 | 03-13 | 03-12 | 03-11 | 03-10 | 03-09 | Average | min | Max |
|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---------|-----|-----|
| CE | ROE | 3.2 | 4.2 | 2.7 | 1.7 | 2.9 | 1.0 | 0.4 | 3.6 | 4.8 | 0.8 | 2.5 | 0.4 | 4.8 |
| GWR | | 4.8 | 3.85 | 2.83 | 1.96 | 1.17 | 1.04 | 1.01 | 1.03 | 0.82 | 0.71 | 1.9 | 0.7 | 4.8 |

Interpretation

The above table represented the ten years ROE of both company. Garware-Wall Ropes Ltd shows increasing trend after 2014-15 but Century Enka Ltd shows fluctuating trend. The average of ROE represent that Century Enka Ltd. is better than Garware-Wall Ropes Ltd. But in contrast to this minimum ROE of Garware-Wall Ropes Ltd ie 0.7, in case of maximum ROE both companies have same ROE ie, 4.8 but Garware-Wall Ropes Ltd achieve this EPS in 2017-18 years, it means that profit belong to equity shareholder is increasing year by year.

5.4 Financial Charges Coverage Ratio (Interest Coverage Ratio)

This ratio indicates whether the earning of a company is sufficient to pay interest charges or cost or not.

$$\text{Financial Charges Coverage Ratio} = \frac{\text{PBIT}}{\text{Interest}}$$

Table no. 4 FCCR both of company

| Company | 03-18 | 03-17 | 03-16 | 03-15 | 03-14 | 03-13 | 03-12 | 03-11 | 03-10 | 03-09 |
|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| CE | 33 | 25.8 | 10.2 | 4.62 | 4.91 | 2.07 | 1.01 | 7.56 | 15.1 | 1.88 |
| GWR | 16.3 | 19.8 | 11 | 6.9 | 4.04 | 3.31 | 3.43 | 4.5 | 3.43 | 2.46 |

Interpretation

The above table represented the ten years financial charges coverage ratio of both company. Garware-Wall Ropes Ltd as well as Century Enka Ltd shows that earning of a company is sufficient to pay interest charges. But financial charges of Century Enka Ltd are fluctuating as compare to that Garware-Wall Ropes Ltd financial charges are slowly increasing day by day.

5.5 Percentage of Capital finance by Debt

Table no. 5 Percentage of Capital finance by Debt of both company

| Company | 03-18 | 03-17 | 03-16 | 03-15 | 03-14 | 03-13 | 03-12 | 03-11 | 03-10 | 03-09 |
|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| CE | 58% | 63% | 70% | 75% | 69% | 75% | 87% | 87% | 81% | 90% |
| GWR | 0.3% | 14% | 22% | 20% | 41% | 54% | 65% | 31% | 44% | 54% |

Above table shows both companies capital structure percentage of finance by Debt fund. In above table Century Enka Ltd. started decreasing debt fund share in capital from year 2014-15. But in Garware-Wall Ropes Ltd. debt funds percentage is decreasing year by year.

6. FINDING

After comparing different ratios of Garware-Wall Ropes Ltd. with Century Enka Ltd. It was found Garware-Wall Ropes Ltd. had good capital structure and profitability. Overall growth of in Garware-Wall Ropes Ltd. was good as compare to Century Enka Ltd. Equity per share, return on equity, return on Investment of Garware-Wall Ropes Ltd is increasing year by year. It indicates that company's growth with good profitability. As well as capital structure of Garware-Wall Ropes Ltd. is having less debt fund in capital formation, this is also reason behind company's profitability. In case of Century Enka Ltd. equity per share, return on equity, return on investment shows fluctuating trend in past years. In 2017-18 Century Enka Ltd. company's equity per share, return on equity, return on investment was decreased as compare to previous year. As well as capital structure of Century Enka Ltd. is having very high debt fund in capital formation it effects on overall profitability of company. Interest coverage ratio of both company in past ten years it was good it represents that company is having sufficient fund to pay liabilities.

7. CONCLUSION

Century Enka Ltd and Garware-Wall Ropes Ltd. both companies belong to textile sector. Both company's equity shares capital approximate same. But both companies' capital structure is totally different which effect on profitability and growth of company. EPS of Garware-Wall Ropes Ltd is showing increasing trend and opposite of it percentage of debt fund for capital formation is decreasing.

After comparing overall profitability and capital structure Garware-Wall Ropes Ltd. is best performer in last decade as compare to Century Enka Ltd

8. REFERENCES

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