PREFERRED STOCK PUZZLING IN INDIA: A CASE STUDY

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Abstract: *In this study, an empirical attempt has been made to examine the preferred stock puzzling by comparing the rate of return on total networth (RON_{at}) with cost of preference share capital (Kp_{at}) on after tax basis through a case of Raasi Cement Ltd. which is lying among the top ten companies of cement industry of the Indian corporate sector on the basis of sales for the year 1991-92 which covers a time period of ten years (effective nine years) extending from the year 1982-83 to 1991-92 for the purpose of our study. The study reveals that leverage ratio$_2$ has a rising trend during the period under study excepting for the year 1983-84 when it is 40.84 percent whereas aggregate leverage* ratio$_2$ *of the company is worked out 74.17 percent during the period under study. It is found that preference share capital to equity networth* ratio$_2$ *is declining and below 1.62 percent over the period under study which shows that amount of preference share capital in the equity networth is very small during the period under study. However, on aggregate basis, aggregate preference share capital to equity networth* ratio$_2$ *of the company is worked out 1.07 percent during the period under study. It is also found that rate of return on total networth (RON_{at}) and rate of return on equity networth ($ROEN_{at}$) on after tax basis have a declining trend over the period under study and witnessed a deep decline in the years 1987-88 and 1989-90. For two out of nine years under study, the company incurred losses leading to negative rate of return on total networth (RON_{at}) and rate of return on equity networth ($ROEN_{at}$) on after tax basis during the period under study. This happened for the years 1987-88 and 1989-90. On aggregate basis, aggregate rate of return on total networth (RON_{at}) and rate of return on equity networth ($ROEN_{at}$) on after tax basis have been worked out 6.55 percent and 6.51 percent respectively during the period under study. In nut shell, it is concluded that the company is experiencing favourable leverage with regard to use of preference share capital during five out of nine years under study. Consequently, rate of return on equity networth ($ROEN_{at}$) is more than cost of preference share capital (Kp_{at}) as well as rate of return on total networth (RON_{at}) in the above said five years over the period under study. It means that use of cost of preference share capital in the capital structure of the company has positive impact on the profitability of the company during five out of nine years under study which consequently is contributing to the equity networth of the company which ultimately is benefitting to the equity shareholders of the company. However, on aggregate basis, the company is experiencing unfavourable leverage with regard to use of preference share capital during the period under study. It means that use of preference share capital in the capital structure of the company has negative impact on the equity networth and profitability of the company during the period under study. It is also found that preference share capital to equity networth ratio$_2$ is declining and below 1.62 percent during the period under study which shows that amount of preference*

share capital in the equity networth is very small during the period under study. However, on aggregate basis, aggregate preference share capital to equity networth ratio$_2$ of the company is worked out 1.07 percent during the period under study.

Key Words:-Return on Total Networth, Return on Equity Networth, Cost of Pref. Share Capital.

Section I – Introduction:

There are different sources of finance for a business world. Every source of finance has its own importance. So a business firm has to make its financial decision carefully. A firm will have to plan its financial decisions initially at the time of its promotion. Subsequently, whenever funds have to be raised to finance investments, financial decisions are involved. The main purpose of a firm for using financial leverage is to magnify the shareholders' return under favourable economic conditions with the ultimate aim of increasing the value of each share. "The use of the fixed charges funds, such as debt and preference capital along with the owner's equity in the capital structure is described as financial leverage or trading on equity. The financial leverage employed by a company is intended to earn more on the fixed charges funds than their costs. The surplus will increase the return on the owners' equity i.e. the rate of return on the owner's equity is levered above the rate of return on total assets."(Pandey, I. M., 2010, p 317-18). Cost of preference share capital is lower than the cost of equity share capital because preference share holders are having two preferences (i.e. payment of dividend and repayment of principal amount at the time of liquidation) over the equity share holders. However, cost of debt is lower than cost of preference share capital as well as equity share capital because the debt holders are the first claimants on the firm's assets at time of its liquidation. Similarly, they are the first to be paid their interest before any dividend is paid to preference and equity shareholders. Interest paid to the debt holders is an item chargeable to profits of a firm. But, the interest and principal repayment on debt are definite obligations that are payable irrespective of the financial situation of a firm. So debt is riskier. It enhances the financial risk. Also, if interest and principal payments on debt are not promptly met when due, bankruptcy, loss of control for the owners may occur. It will turn out that use of some debt by the firm is desirable and a strong case can be made for the existence of an optimal capital structure, or debt/equity mix. A firm should make a judicious mix of both debt and equity to achieve a capital structure, which may be the optimal capital structure. Modigiliani and Miller (1959) gave logically consistent behavioural justification for this relationship and denied the existence of an optimum capital structure. Barges (1963) tested the M-M hypothesis and found that the cost of capital comes down with leverage. Singh (1998) observed that cost of capital is a significant factor in case of large-size companies, while it is not a significant factor affecting capital structure of companies in case of medium and small-size companies. The primary aim of corporate management is to maximize shareholders' value and the value of a firm in a legal and ethical manner. So, a financial manager should consider a number of factors to set an optimal capital structure for a firm giving considerable weight to earning rate, collateral value of assets, age, cash flow coverage ratio, cost of borrowing, size (net sales), dividend payout ratio, debt service ratio, cost of borrowing, corporate tax rate, current

ratio, growth rate, operating leverage and uniqueness (selling cost/sales) etc. The choice between debt and equity to finance a firm's assets involves a trade-off between risk and return (Pandey, Chotigeat & Ranjit, 2000). The excessive use of debt may endanger the survival of a firm, while a conservative use of debt may deprive the firm in leveraging return to equity owners. Therefore, for taking more benefits of debt capital also by keeping away firms from risks, a desirable debt equity combination must be used in the total capital structure. Thus, the decision regarding debt equity mix in the capital structure of a firm is of critical one and has to be approached with a great care. The paper is organized into six sections. Section I provides the introduction about preference share capital, equity share capital and debt capital. Section II shows the objectives of the present study. Section III deals with data source and sample size. Section IV deals with research methodology. Section V presents reports and analyses the empirical results of the study. Section VI summarizes and concludes the study.

Section II - Objectives of the Study:

The present study has been undertaken with the following objectives for achieving main objective.

(i) To measure the extent of leverage through preferred stock of Raasi Cement Ltd. from the cement industry of the Indian corporate sector.

(ii) To examine the impact of use and cost of preference share capital on the equity networth of Raasi Cement Ltd. of cement industry from the Indian corporate sector.

Section III - Data Source & Sample Size:

For examining the preferred stock puzzling by comparing the rate of return on total networth (RON_{at}) with cost of preference share capital (Kp_{at}) on after tax basis through a case study of Raasi Cement Ltd. from the cement industry of the Indian corporate sector is selected. The study covers a time period of ten years (effective nine years) extending from the year 1982-83 to 1991-92 for the purpose of our research study. The company is lying among the top ten companies of cement industry of the Indian corporate sector on the basis of sales for the year 1991-92 for the purpose of this study. For the purpose of conducting the present study, data has been compiled from the different volumes of the Bombay Stock Exchange Official Directory.

Section IV - Research Methodology:

In the present study, an adequate attempt has been made to make an in-depth analysis of the preferred stock puzzling by comparing the rate of return on total networth (RON_{at}) with cost of preference share capital (Kp_{at}) on after tax basis through a case of Raasi Cement Ltd. from the cement industry of the Indian corporate. To analyse the data, the following ratios along with simple statistical tools like tables, percentages, etc. have been used for achieving the objectives of present study.

Preference Share Capital to Equity Networth Ratio: It can be calculated in the following manner

$$\text{Pref Share Capital to Equity Networth Ratio1} = \frac{\text{Preference Share Capital}}{\text{Equity Networth}}$$

$$\text{Pref Sh Cap to Equity NetworthRatio2} = \frac{\text{Pref. Share Capital}}{Pref.\ Share\ Capital + Equity\ Networth} \times 100$$

Leverage Ratio: It can be calculated in the following manner

$$\text{Leverage Ratio1} = \frac{\text{Term Debt} + \text{Short Term Loans and } Advances + \text{Pref. Share Capital}}{\text{Equity Networth}}$$

$$\text{Leverage Ratio2} = \frac{\text{Term Debt} + \text{Short Term Loans and } Advances + \text{Pref. Share Capital}}{\text{Term Debt} + \text{ Short Term Loans and } Advances + Pref.\ Share\ Capital + Equity\ Networth} \times 100$$

Return on Total Networth on Before Tax Basis (RON_{bt}): It can be calculated in the following manner

$$\text{Return on Total Networth (RONbt)} = \frac{\text{Pre Tax Profits}}{\text{Total Networth}} \text{x}100$$

Return on Total Networth on After Tax Basis (RON_{at}): It can be calculated in the following manner

$$\text{Return on Total Networth (RONat)} = \frac{\text{Profits after Intt. \& } Taxes}{\text{Total Networth}} \text{x}100$$

Return on Equity Networth ($ROEN_{at}$): It is calculated in the following manner

$$\text{Return on Equity Networth } (ROEN_{at}) = \frac{\text{Profits after Intt \& Taxes} - \text{Pref Dividend}}{\text{Total Networth} - \text{Pref Share Capital}} \text{x}100$$

Cost of Preference Share Capital (Kp_{at}): The following formula is used to calculate the cost of preference share capital

$$\text{Cost of Preference Share Capital } (Kp_{at}) = \frac{\text{Preference Dividend}}{\text{Preference Share Capital}} \text{x}100$$

Net Gain: The following is the formula for calculating the Net Gain

Net Gain = Return on Equity Networth ($ROEN_{at}$) - Return on Total Networth (RON_{at})

Spread: The following is the formula for calculating the Spread

Spread = Return on Total Networth (RON_{at}) - Cost of Preference Share Capital (Kp_{at})

Effective Tax Rate (t): It is calculated in the following manner

$$\text{Effective Tax Rate (t)} = \frac{\text{Provision for Taxes}}{\text{Pre-Tax Profits}} \text{x} 100$$

Here Term Debt plus Short Term Loans & Advances comprise of debentures, long term loans and short term loans & advances. Total Networth includes equity share capital, preference share capital, capital reserves including share premium and other reserves & surplus less intangible assets. Intangible Assets include preliminary expenses, expenses on issue of shares and debentures, goodwill, technical know-how charges, drawings & designs, patents, trade-marks and copyright. While computing total networth usually accumulated losses are deducted from the aggregate of paid up share capital plus reserves & surplus. But in the present study in addition to accumulated losses, goodwill, trade-mark, patents, & copyright have also been deducted. It is so because separate amount of accumulated losses is not available in the Bombay Stock Exchange Official Directory. Total networth has been also adjusted for the accounting year 1988-89 due to the change in the length of accounting year from 1st of April to 31st of March in the**.** next year. Depreciation, interest charges and profits and/or losses have been changed proportionately.

Section V– Empirical Results:

Preference Share Capital to Equity Networth Ratio

Table 1 shows that preference share capital to equity networth $ratio_2$ is varying from .65 percent in the year 1986-87 to 1.62 percent in the year 1989-90 during the period under study. It is below 1.62 percent during the period under study which shows that amount of preference share capital in the equity networth is very small during the period under study. Beginning from the year 1982-83, preference share capital to equity networth $ratio_2$ is declining upto the year 1987-88 from 1.55 percent to .78 percent during the period under study. Subsequently, this ratio starts rising and touches the level of 1.48 percent in the year 1991-92 during the period under study. Overall, it has a declining trend during the period under study. It is highest, i.e. 1.62 percent, in the year 1989-90 and lowest, i.e. .65 percent in the year 1986-87 over the period under study. On aggregate basis, aggregate preference share capital to equity networth $ratio_2$ of the company is worked out 1.07 percent during the period under study.

Leverage Ratio

Table 2 shows that leverage ratio$_2$ is varying from 40.84 percent in the year 1983-84 to 88.39 percent in the year 1990-91 during the period under study. For five out of nine years under study, it is below 62 percent during the period under study. Overall, it has a rising trend during the period under study excepting for the year 1983-84 when it is 40.84 percent. It is highest, i.e. 88.39 percent, in the year 1990-91 due to the interest bearing debt raised by the company. It is lowest, i.e. 40.84 percent, in the year 1991-92 on account of higher profits earned by the company. On aggregate basis, aggregate leverage ratio$_2$ of the company is worked out 53.68 percent during the period under study.

Cost of Preference Share Capital (Kp$_{at}$)

Table 3 shows that cost of preference share capital (Kp$_{at}$) is not varying during the period under study. Overall, it has a constant trend during the period under study. It is 11 percent over the period under study. On aggregate basis, aggregate cost of preference share capital (Kp$_{at}$) of the company is worked out 11 percent during the period under study.

Return on Total Networth on After Tax Basis (RON$_{at}$)

Table 3 shows that rate of return on total networth (RON$_{at}$) on after tax basis is varying from 54.02 percent in the year 1982-83 to -94.15 percent in the year 1989-90 during the period under

TABLE 1

PREF. SHARE CAPITAL TO EQUITY NETWORTH RATIO OF RAASI CEMENT LTD.

Year	Pref. Share Capital to Equity Networth Ratio$_1$ = $\frac{\text{Pref. Share Capital}}{\text{Equity Networth}}$ (In Times)	Pref. Share Capital to Equity Networth Ratio$_2$ = $\frac{\text{Pref. Share Capital}}{\textit{Pref. Share Capital+Equity Networth}} \times 100$ (Percentage)
1982-83	.0158	1.55
1983-84	.0119	1.17
1984-85	.0101	.99
1985-86	.0085	.85
1986-87	.0065	.65
1987-88	.0079	.78
1989-90	.0165	1.62
1990-91	.0160	1.57
1991-92	.0151	1.48
Raasi Cement Ltd.	**.0108 (Aggregate Basis)**	**1.07 (Aggregate Basis)**

Source: Compiled from the Bombay Stock Exchange Official Directory, Vol. 19 (ii), p 76200.

TABLE 2

LEVERAGE RATIO OF RAASI CEMENT LTD.

Year	Leverage Ratio1 = $\frac{\text{Term Debt + Short Term Loans and Advances + Pref. Share Capital}}{\text{Equity Networth}}$ (In Times)	Leverage Ratio2 = $\frac{\text{Term Debt+ Short Term Loans and Advances+ Pref. Share Capital}}{\text{Term Debt+ Short Term Loans and Advances+ Pref. Share Capital+Equity Networth}} \times 100$ (Percentage)
1982-83	1.0693	51.67
1983-84	.6904	40.84
1984-85	1.5559	60.87
1985-86	1.5766	61.19
1986-87	1.6137	61.74
1987-88	2.8082	73.74
1989-90	6.2516	86.21
1990-91	7.6153	88.39
1991-92	7.0858	87.63
Raasi Cement Ltd	**2.8723 (Aggregate Basis)**	**74.17 (Aggregate Basis)**

Source: Compiled from the Bombay Stock Exchange Official Directory, Vol. 19 (ii), p 76200.

study. For two out of nine years under study, the company incurred losses leading to negative rate of return on total networth (RON_{at}). This happened for the years 1987-88 and 1989-90 when it is -23.60 percent and –94.15 percent respectively. For five out of nine years under study, rate of return on total networth (RON_{at}) has been below 14 percent. Overall, it has a declining trend over the period under study and witnessed a deep decline in the years 1987-88 and 1989-90 when it is -23.60 percent and -94.15 percent respectively. It is highest, i.e. 54.02 percent, in the year 1982-83 due to the highest rate of return on net total assets (ROI_{at1}) as well as net assets (ROI_{at2}) on after tax basis and highest excess gap of rate of return on net assets (ROI_{at2}) over cost of debt (Kd_{at}) on after tax basis. It is lowest, i.e. -94.15 percent, in the year 1989-90 due to the losses suffered by the company on account of under utilization of plant capacity, persisted power cuts and increase in general expenses . On aggregate basis, rate of return on total networth (RON_{at}) on after tax basis of the company is worked out 6.55 percent during the period under study.

Return on Equity Networth ($ROEN_{at}$)

Table 3 showls that rate of return on equity networth ($ROEN_{at}$) is varying from 54.70 percent in the year 1982-83 to -95.88 percent in the year 1989-90 during the period under study. For five out of nine years under study, rate of return on equity networth ($ROEN_{at}$) is below 14 percent. For two out of nine years under study, the company

incurred losses leading to negative rate of return on equity networth ($ROEN_{at}$). This happened for the years 1987-88 and 1989-90 when it is -23.87 percent and -95.88 percent respectively. Overall, it has a declining trend over the period under study and witnessed a deep decline in the years 1987-88 and 1989-90 when it is -.23.87 percent and -95.88 percent respectively. It is highest, i.e. 54.70 percent, in the year 1982-83 due to the highest rate of return on net total assets (ROI_{at1}) as well as net assets (ROI_{at2}) on after tax basis and highest excess gap of rate of return on total networth (RON_{at2}) over cost of preference share capital (Kp_{at}). It is lowest, i.e. -95.88 percent, in the year 1989-90 due to the losses suffered by the company on account of under utilization of plant capacity, persisted power cuts and increase in general expenses. On aggregate basis, rate of return on equity networth ($ROEN_{at}$) of the company is worked out 6.51percent during the period under study.

Impact of Preference Share Capital on Return on Equity Networth

Table 3 also shows the effects of use and cost of preference share capital (Kp_{at}) on rate of return on equity networth ($ROEN_{at}$) for a period of nine years from the year 1983 to 1991-92 over the

TABLE NO. 3

IMPACT OF PREF SHARE CAPITAL ON RETURN ON EQUITY NETWORT H IN RAASI CEMENT LTD.

Year	Return on Total Networth $RON_{at}=\frac{\text{Profit after Intt \& Taxes}}{\text{Total Networth}}x100$ (Percentage)	Cost of Pref Share Capital $Kp_{at}=\frac{\text{Pre. Dividend}}{\text{Pref Share Capital}}x100$ (Percentage)	Return on Equity Networth $ROEN_{at}=\frac{\text{Profits after Intt \& Taxes} - \text{Pref Dividend}}{\text{Total Networth} - \text{Pref Share Capital}}x100$ (Percentage)
1982-83	54.02	11	54.70
1983-84	29.22	11	29.44
1984-85	10.44	11	10.44
1985-86	18.71	11	18.78
1986-87	25.31	11	25.41
1987-88	-23.60	11	-23.87
1989-90	-94.15	11	-95.88
1990-91	13.30	11	13.33
1991-92	5.62	11	5.54
Raasi Cement Ltd	**6.55 (Aggregate Basis)**	**11 (Aggregate Basis)**	**6.51 (Aggregate Basis)**

Source: Compiled from the Bombay Stock Exchange Official Directory, Vol. 19 (ii), p. 76200.

TABLE NO. 4

ANALYSIS OF SPREAD AND NET GAIN IN RAASI CEMENT LTD.

Year	Spread between RON_{at} & Kp_{at} (RON_{at} - Kp_{at}) (Percentage)	Leverage Impact	Net Gain $ROEN_{at}$-RON_{at} (Percentage)	Leverage Ratio[2] (Percentage)
1982-83	43.02	Favourable	.68	51.67
1983-84	18.22	Favourable	.22	40.84
1984-85	-.56	Unfavourable	0	60.87
1985-86	7.71	Favourable	.07	61.19
1986-87	14.31	Favourable	.10	61.74
1987-88	-34.60	Unfavourable	-.27	73.74
1989-90	-109.15	Unfavourable	-1.73	86.21
1990-91	2.30	Favourable	.03	88.39
1991-92	-5.38	Unfavourable	-.08	87.63
Raasi Cement Ltd	**-4.45 (Aggregate Basis)**	**Unfavourable (Aggregate Basis)**	**-.04 (Aggregate Basis)**	**74.17 (Aggregate Basis)**

Source: Compiled from the Bombay Stock Exchange Official Directory, Vol.19 (ii), p. 76200.

period under study. Comparison of cost of preference share capital (Kp_{at}) with rate of return on total networth (RON_{at}) shows that rate of return on total networth (RON_{at}) is higher than cost of preference share capital (Kp_{at}) for all the years excepting for the years 1984-85, 1987-88, 1989-90 and 1991-92 over the period under study. This leads to conclude that company is enjoying favourable leverage with regard to use of preference share capital during five out of nine years under study. Consequently, rate of return on equity networth ($ROEN_{at}$) is more than cost of preference share capital (Kp_{at}) as well as rate of return on total networth (RON_{at}) on after tax basis in the above said five years over the period under study. It means that use of preference share capital in the capital structure of the company has positive impact on the equity networth and profitability of the company during five out of nine years under study. Spread between rate of return on total networth (RON_{at}) and cost of preference share capital (Kp_{at}) as well as net gain calculated by deducting rate of return on total networth (RON_{at}) from rate of return on equity networth ($ROEN_{at}$) are positive in the above said five years under study. As revealed by tables 3 & 4, on aggregate basis, the company is experiencing

unfavourable leverage with regard to use of preference share capital during the period under study. It means that use of preference share capital in the capital structure of the company has negative impact on the equity networth and profitability of the company during the period under study which consequently is not contributing to the equity networth of the company which ultimately is not benefitting to the equity share holders of the company. Concequently, spread between rate of return on total networth (RON_{at}) and cost of preference share capital (Kp_{at}) as well as net gain calculated by deducting rate of return on total networth (RON_{at}) from rate of return on equity networth ($ROEN_{at}$) are negative on aggregate basis under the period of study. On aggregate basis, spread and net gain of the company are worked out -4.45 percent and -.04 percent respectively during the period under study.

Section VI – Summary and Conclusions:

In this study, an empirical attempt has been made to examine the preferred stock puzzling by comparing the rate of return on total networth (RON_{at}) with cost of preference share capital (Kp_{at}) on after tax basis through a case of Raasi Cement Ltd. which is lying among the top ten companies of cement industry of the Indian corporate sector on the basis of sales for the year 1991-92 which covers a time period of ten years (effective nine years) extending from the year 1982-83 to 1991-92 for the purpose of our study. The following are the conclusion and findings of the present study.

1 It is observed that leverage $ratio_2$ has a rising trend during the period under study excepting for the year 1983-84 when it is 40.84 percent whereas aggregate leverage $ratio_2$ of the company is worked out 74.17 percent during the period under study.

2 It is found that beginning from the year 1982-83, preference share capital to equity networth $ratio_2$ is declining upto the year 1987-88 from 1.55 percent to .78 percent during the period under study. Subsequently, this ratio starts rising and touches the level of 1.48 percent in the year 1991-92 during the period under study. Overall, it has a declining trend during the period under study. However, on aggregate basis, aggregate preference share capital to equity networth $ratio_2$ of the company is worked out 1.07 percent during the period under study. It is also found that preference share capital to equity networth $ratio_2$ is declining and below 1.62 percent during the period under study which shows that amount of preference share capital in the equity networth is very small during the period under study.

3 It is observed that cost of preference share capital (Kp_{at}) remains constant during the period under study. It is not varying during the period under study. Aggregate cost of preference share capital (Kp_{at}) of the company is worked out 11 percent during the period under study.

4 It is also found that rate of return total networth (RON_{at}) on after tax basis is varying from 54.02 percent in the year 1982-83 to -94.15 percent in the year 1989-90 during the period under study. For two out of nine years under study, the company incurred losses leading to negative rate of return on total networth (RON_{at}). This happened for the years 1987-88 and 1989-90 when it is -23.60 percent and –94.15 percent respectively. Overall, it has a declining trend over the period under study and witnessed a deep decline in the years 1987-88 and 1989-90 when it is -23.60 percent and -94.15 percent respectively. On aggregate

basis, aggregate rate of return on total networth (RON_{at}) on after tax basis has been worked out 6.55 percent during the period under study.

5 It is also found that rate of return on equity networth ($ROEN_{at}$) on after tax basis has a declining trend over the period under study and witnessed a deep decline in the years 1987-88 and 1989-90 when it is -23.87 percent and -95.88 percent respectively. For two out of nine years under study, the company incurred losses leading to negative rate of return on equity networth ($ROEN_{at}$). This happened for the years 1987-88 and 1989-90 when it is -23.87 percent and -95.88 percent respectively. On aggregate basis, aggregate rate of return on equity networth on after tax basis ($ROEN_{at}$) has been worked out 6.51 percent during the period under study.

6 It is also observed that that company is experiencing favourable leverage with regard to use of preference share capital during five out of nine years under study. Consequently, rate of return on equity networth ($ROEN_{at}$) is more than cost of preference share capital (Kp_{at}) as well as rate of return on total networth (RON_{at}) in the above said five years during the period under study. However, on aggregate basis, the company is also experiencing unfavourable leverage with regard to use of preference share capital over the period under study.

7 It is found that, in this company, spread and net gain are negative when leverage generated through preference share capital has negative impact and vice versa during the period under study. On aggregate basis, spread and net gain of the company is -4.45 percent and -0.04 percent respectively during the period under study.

In nut shell, it is concluded that the company is experiencing favourable leverage with regard to use of preference share capital during five out of nine years under study. Consequently, rate of return on equity networth ($ROEN_{at}$) is more than cost of preference share capital (Kp_{at}) as well as rate of return on total networth (RON_{at}) in the above said five years over the period under study. It means that use of cost of preference in the capital structure of the company has positive impact on the profitability of the company during five out of nine years under study which consequently is contributing to the equity networth of the company which ultimately is benefitting to the equity shareholders of the company. However, on aggregate basis, the company is experiencing unfavourable leverage with regard to use of preference share capital during the period under study. It means that use of preference share capital in the capital structure of the company has negative impact on the equity networth and profitability of the company during the period under study. It is also found that preference share capital to equity networth $ratio_2$ is declining and below 1.62 percent during the period under study which shows that amount of preference share capital in the equity networth is very small during the period under study. However, on aggregate basis, aggregate preference share capital to equity networth $ratio_2$ of the company is worked out 1.07 percent during the period under study.

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