



ANALYSIS OF CAPITAL STRUCTURE OF SELECTED CEMENT COMPANIES OF INDIA

Ghatliya Vaishali Ishwarbhai

Ph.D. Research Scholar, Gujarat University, Ahmedabad.

ABSTRACT

Capital structure (or financial leverage) refers to the combination of debt and equity capital used by a firm to finance its long-term operations. The strategic financing decision involving the choice of the most appropriate mix of equity and debt finance in the firm's capital structure is known as capital structure decision. This study examines the capital structure policy and pattern of India Cement Ltd and JK Cements Ltd, study also throw light on the the capital structure of India Cement Ltd and JK Cements Ltd. Financial performance of these two companies has also been analysed in this study. Last five years of secondary data has been analysed in this study. Secondary data for the year 2015-16 to 2019-20 have been collected and analysed in this study.

KEYWORDS: Capital Structure, Financial Performance, Cement, Leverage.

1. CAPITAL STRUCTURE:

A Capital structure refers to the way a corporation finances its assets through some combination of equity and debt. A firm's capital structure is the composition of structure of its liabilities. According to Modigliani-Miller theorem, in a perfect capital market (no transaction or bankruptcy costs; perfect information); firms and individuals can borrow at the same interest rate; no taxes; and investment decisions aren't affected by financing decisions. Modigliani and Miller made two findings under these conditions. Their first 'proposition' was that the value of a company is independent of its capital structure. Their second 'proposition' stated that the cost of equity for a leveraged firm is equal to the cost of equity for an unleveraged firm, plus an added premium for financial risk. That is, as leverage increases, while the burden of individual risks is shifted between different investor classes, total risk is conserved and hence no extra value created. Under a classical tax system, the tax deductibility of interest makes debt financing valuable; that is, the cost of capital decreases as the proportion of debt in the capital structure increases. The optimal structure then would be to have virtually no equity at all. However, there is no such perfect market in real world. Under this situation, capital structure is necessary when scrutinize a company's performance from finance perspective. And our project will examine the capital structure of Coca Cola Company from the aspects of Trade-off theory (bankruptcy cost and debt issue), Pecking order theory (financing priority), and Agency cost (debt-to-equity ratio and cash flow), because all of these theories are related to capital structure.

2. Literature Review:

Some of the studies published in the relevant literature on capital structure decisions concerning the developed and developing economies have been included. D Rakeshkumar Rasiklal Jani (2015). This paper tells about the determinants of capital structure in Automobile segment from 2009 to 2013 involving 3 organizations. The impact of Debt-Equity ratios on other ratio has been investigated in this review. The determinants of short term and long-term debt ratios and determinants of aggregate debt ratios has been considered.

Md. Suresh Babu.N, Prof. Chalam.G.V (2016) Capital structure and its determinants of Automobile organizations has been analysed in this paper. 58 Indian Automobile organizations listed on the Bombay stock exchange from the period 1997-98 to 2010-14 of around 17 years has been analysed. The Results demonstrates that the factors of profitability, size, substantial quality, development, and non-debt impose shield are contrarily related with leverage and risk and liquidity are emphatically related with leverage.

Md. Ashraf Cheshi, Md. Khursheed Ali, Mr. Mouhidin Sangmi (2013). Attempt is made in order to learn the effect of capital structure on the profitability of a firm. Automobile industry is concentrated in this review. Around ten organizations for a period of five years are chosen for this study. The scientists have calculated different ratios to accomplish the destinations of the review. The discoveries have revealed that capital structure have measurably critical effect on the organizations profitability. Debt to Equity ratio is related contrarily to the profitability ratios.

Mohan Kumar M.S, Dr. Aswata Narayana T & Rashmi B.H. (2016). In this study the data collected from secondary source of the organization's annual reports. Top five automobile companies are selected which are listed in Bombay Stock Exchange on the basis of sales turnover. The study concludes that there is a positive correlation between DCL, DOL, & EPS and correlation is negative between DFL, EPS, DER is there & among majority of the companies selected for the

study during study period. This study found that there is positive correlation between DCL, DOL & EPS which shows that there is a major relationship between, degree of combined leverage, degree of operating leverage & EPS. There is a high financial risk for the Eicher Motor and high earning capacity for Force Motor among the companies selected for the study.

3. RESEARCH OBJECTIVE:

1. To examine the capital structure policy and pattern of India Cement Ltd and JK Cements Ltd.
2. To understand the capital structure of India Cement Ltd and JK Cements Ltd.
3. To identify the share capital and debt of the company.

4. DATA ANALYSIS:

1. Current Ratio:

Company	Mar '20	Mar '19	Mar '18	Mar '17	Mar '16
India Cement	1.02	1.08	1.00	0.95	1.27
J K Cement	0.83	0.89	0.88	1.03	1.00

Interpretation:

From the above current ratio table, it can be concluded that India Cement has higher current ratio than J K Cement, which indicates that India Cements has higher ability to meet its current obligation with its current assets than J K Cement.

2. Debt Equity Ratio:

Company	Mar '20	Mar '19	Mar '18	Mar '17	Mar '16
India Cement	0.81	0.76	0.75	0.63	0.52
J K Cement	1.47	1.42	0.78	0.84	0.98

Interpretation:

From the above Debt equity ratio table, it can be seen that JK Cement has higher ratio value than India Cements. Higher ratio values indicates that J K Cements has higher risky financial position compare to India Cements.

3. Earning per share:

Company	Mar '20	Mar '19	Mar '18	Mar '17	Mar '16
India Cement	0.96	-5.29	5.32	9.54	2.22
J K Cement	22.44	13.88	33.40	25.36	9.16

Interpretation:

From the above Earning per share ratio table it can be seen that, J K Cements has much higher ratio value than India Cements. During year 2014 negative EPS ratio value can be observed in India Cement.

4. Profit before tax:

Company	Mar '20	Mar '19	Mar '18	Mar '17	Mar '16
India Cement	29.46	-162.40	252.35	381.00	89.88
J K Cement	159.16	136.27	340.62	285.78	83.69

Interpretation:

From the above Profit Before tax table it can be concluded that on an average J K Cement has higher PBT value than India Cement. Negative PBT value can be observed during year 2014 for India Cement.

5. Quick Ratio:

COMPANY	Mar '20	Mar '19	Mar '18	Mar '17	Mar '16
India Cement	1.20	1.34	1.46	1.36	1.57
J K Cement	0.78	0.73	0.75	0.83	0.77

Interpretation:

From the above Quick ratio table, it can be seen that India Cement has higher quick ratio value than J K cement., which indicates that India Cements has higher ability to meet its short-term obligations with its most liquid assets than J K cements

6. Secured Loan:

Company	Mar '20	Mar '19	Mar '18	Mar '17	Mar '16
India Cement	2204.97	1983.73	1879.35	1514.11	931.88
J K Cement	2380.75	2146.35	1088.89	1024.77	1057.05

Interpretation:

From the above Secured Loan table it can be seen that secured loan proportion is higher for India Cement compare to J K Cement. In J K Cement, significant jump can be seen in year 2014 compare to previous year 2013.

Secured loan have the largest positive impact on company's credit when they are repaid. If company have never taken a secured loan, company's credit may be low despite your good record of repayment.

7. Total Share Capital:

COMPANY	Mar '20	Mar '19	Mar '18	Mar '17	Mar '16
India Cement	307.18	307.18	307.18	307.18	307.18
J K Cement	69.93	69.93	69.93	69.93	69.93

Interpretation:

From the above Total share capital table, it can be seen that India Cement has much higher share capital than J K Cements.

8. Unsecured Loans:

COMPANY	Mar '20	Mar '19	Mar '18	Mar '17	Mar '16
INDIA CEMENT	473.37	682.91	874.65	754.48	904.79
J K CEMENT	41.40	38.71	52.90	54.58	61.21

Interpretation:

From the above Unsecured loan table it can be concluded that India Cement has higher unsecured loan than J K Cement.

Unsecured loan is better than secured loan, because secured loan will be affect the assets of the company in future period of time so the company has increasing the unsecured loan for reducing the risk of the company. Most of the company preferred the unsecured debt which will not affect any assets of the company.

5. CONCLUSION:

- 1) From the above current ratio table, it can be concluded that India Cement has higher current ratio than J K Cement, which indicates that India Cements has higher ability to meet its current obligation with its current assets than J K Cement.
- 2) From the above Debt equity ratio table, it can be seen that JK Cement has higher ratio value than India Cements. Higher ratio values indicates that J K Cements has higher risky financial position compare to India Cements.
- 3) From the above Earning per share ratio table it can be seen that, J K Cements has much higher ratio value than India Cements. During year 2014 negative EPS ratio value can be observed in India Cement.
- 4) From the above Profit Before tax table it can be concluded that on an average J K Cement has higher PBT value than India Cement. Negative PBT value can be observed during year 2014 for India Cement.
- 5) From the above Quick ratio table, it can be seen that India Cement has higher quick ratio value than J K cement., which indicates that India Cements has higher ability to meet its short-term obligations with its most liquid assets

than J K cements.

- 6) From the above Secured Loan table it can be seen that secured loan proportion is higher for India Cement compare to J K Cement. In J K Cement, significant jump can be seen in year 2014 compare to previous year 2013. Secured loan have the largest positive impact on company's credit when they are repaid. If company have never taken a secured loan, company's credit may be low despite your good record of repayment.
- 7) From the above Total share capital table, it can be seen that India Cement has much higher share capital than J K Cements.
- 8) From the above Unsecured loan table it can be concluded that India Cement has higher unsecured loan than J K Cement. Unsecured loan is better than secured loan, because secured loan will be affect the assets of the company in future period of time so the company has increasing the unsecured loan for reducing the risk of the company. Most of the company preferred the unsecured debt which will not affect any assets of the company.

The study undertaken has brought in to the light of the following conclusions. According to this project I came to know that from the analysis of capital structure it is clear that India cements have been doing a satisfactory job. But the firm has certain area to ponder upon like capital employment. So the firm should focus on getting of profits in the coming years by taking care internal as well as external factors. And with regard to resources, the firm is take utilization of the borrowed funds in a right place.

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