

A STUDY ON THE CAPTIAL STRUCTURE WITH REFERENCE TO ACMEGRADE

Submitted in partial fulfillment of the requirements for the award of
MASTER OF BUSINESS ADMINISTRATION

by

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SCHOOL OF MANAGEMENT STUDIES

SATHYABAMA

**INSTITUTE OF SCIENCE AND TECHNOLOGY
(DEEMED TO BE UNIVERSITY)**

**Accredited with Grade “A ++” by NAAC | 12B Status by UGC | Approved by AICTE
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SATHYABAMA

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BONAFIDE CERTIFICATE

This is to certify that this Project Report is the Bonafide work of **R. SUKRIYA 42410267** who carried out the project entitled “**A Study on Capital Structure with Reference to Acme grade**” under my supervision from AUGUST 2023 to NOVEMBER 2023.

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A STUDY ON CAPITAL STRUCTURE WITH REFERENCE TO ACMEGRADE

ABSTRACT

This project deals with analysis of capital structure for ACME Grade. Capital structure should be examined from the view point of its impact on the value of the firm. The firm should select the capital mix in such a way that it maximizes the shareholder's wealth. It should be combination of debt and equity mix.

The main objective of this project is to analyze the capital structure of the company and secondary objectives are to determine the optimal debt-equity mix for the company, to determine the firm's combined leverages, by applying various capital structure theories, to apply the related ratios to analyze the capital structure of the company and to suggest suitable suggestions for framing effective capital structure to meet future requirement of the company.

For analyzing the capital structure of secondary data such as balance sheet, the financial statements of the company are collected and the tools have been applied. Finally, from the analysis and significance of the study, it has been concluded about the company performance as it is improving by increasing its debts. Capital structure decisions are dynamic for every year. The study suggests that the company needs to improve its capital structure decisions to maximize its earnings for the fourth coming years.

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CHAPTER – 1

INTRODUCTION

1. INTRODUCTION TO THE STUDY

The importance of a firm's Capital Structure decision on its value, growth, and survival. The Capital Structure decision remains one of the most controversial subjects in the world of finance. Capital Structure refers to the mix of debt and equity which a company uses to finance its long-term operations

It indicates how the company operation of a business is financed. A firm with significantly more debt than equity is regarded as highly leveraged. Vice versa, a firm with significantly more equity than debt is low leveraged.

Contrary to debt financing, equity financing is capital provided by the shareholders. It does not have to pay fixed interest to the shareholders but only pay dividends to shareholders when the company makes profit from the business. In the event of liquidation, the shareholders will only be paid after settlement to all debt holders have been made.

A firm's capital structure is the composition or 'structure' of its liabilities. For example, a firm that has \$20 billion in equity and \$80 billion in debt is said to be 20% equity-financed and 80% debt-financed. The firm's ratio of debt to total financing, 80% in this example is referred to as the firm's leverage. Capital structure may be highly complex.

Leverage (or gearing) ratios represent the proportion of a firm's capital that is obtained through debt which may be either bank loans or bonds.

In the event of bankruptcy, the seniority of the capital structure comes into play. A typical company has the following seniority structure listed from most senior to least:

- ✓ Subordinated (or junior) debt
- ✓ Preferred stock
- ✓ Common stock

The Modigliani–Miller theorem, proposed by Franco Modigliani and Merton Miller in 1958, forms the basis for modern thinking on capital structure, though it is generally viewed as a purely theoretical result since it disregards many important factors in the capital structure process factors like fluctuations and uncertain situations that may occur while financing a firm.

Consider 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 returns are not affected by financial uncertainty. 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, risk is shifted between different investor classes, while total firm risk is constant, and hence no extra value created.

Their analysis was extended to include the effect of taxes and risky debt. 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 would be to have virtually no equity at all, i.e., a capital structure consisting of 99.99% debt.

The theorem states that, in a perfect market, how a firm is financed is irrelevant to its value. This result provides the base with which to examine real world reasons why capital structure is relevant, that is, a company's value is affected by the capital structure it employs. Some other reasons include bankruptcy costs, agency costs, taxes, and information asymmetry. This analysis can then be extended to look at whether there is in fact an optimal capital structure: the one which maximizes the value of the firm.

“Capital structure is essentially concerned with how the firm decides to divide its cashflows into two broad components, a fixed component that is earmarked to meet the obligations toward debt capital and a residual component that belongs to equity shareholders”- P. Chandra.

Concept of Capital Structure:

The relative proportion of various sources of funds used in a business is termed as financial structure. Capital structure is a part of the financial structure and refers to the proportion of the various long-term sources of financing. It is concerned with making the array of the sources of the funds in a proper manner, which is in relative magnitude and proportion.

Again, each component of capital structure has a different cost to the firm. In case of companies, it is financed from various sources. In proprietary concerns, usually, the capital employed, is wholly contributed by its owners. In this context, capital refers to the total of funds supplied by both—owners and long-term creditors.

The question arises: What should be the appropriate proportion between owned and debt capital? It depends on the financial policy of individual firms. In one company debt capital may be nil while in another such capital may even be greater than the owned capital.

Definition of Capital Structure:

Capital structure is the mix of the long-term sources of funds used by a firm. It is made up of debt and equity securities and refers to permanent financing of a firm. It is composed of long-term debt, preference share capital and shareholders' funds. Various authors have defined capital structure in different ways.

Some of the important definitions are presented below:

According to Gere Stenberg, 'capital structure of a company refers to the composition or make up of its capitalization and it includes all long-term capital resources viz., loans, reserves, shares, and bonds.' Keown et al. defined capital structure as, 'balancing the array of funds sources in a proper manner, i.e., in relative magnitude or in proportions.'

In the words of P. Chandra, 'capital structure is essentially concerned with how the firm decides to divide its cash flows into two broad components, a fixed component that is earmarked to meet the obligations toward debt capital and a residual component that belongs to equity shareholders.'

Hence capital structure implies the composition of funds raised from various sources broadly classified as debt and equity. It may be defined as the proportion of debt and equity in the total capital that will remain invested in a business over a long period of time. Capital structure is concerned with the quantitative aspect. A decision about the proportion among these types of securities refers to the capital structure decision of an enterprise.

Importance of Capital Structure:

Decisions relating to financing the assets of a firm are very crucial in every business and the finance manager is often caught in the dilemma of what the optimum proportion of debt and equity should be. Generally, there should be a proper mix of debt and equity capital in financing the firm's assets. Capital structure is usually designed to serve the interest of the equity shareholders.

Therefore, instead of collecting the entire fund from shareholders a portion of long-term fund may be raised as loan in the form of debenture or bond by paying a fixed annual charge. Though these payments are considered as expenses to an entity, such method of financing is adopted to serve the interest of the ordinary shareholders in a better way.

The importance of designing a proper capital structure is explained below:

Capital structure maximizes the market value of a firm, i.e., in a firm having a properly designed capital structure the aggregate value of the claims and ownership interests of the shareholders are maximized.

Cost Minimization:

Capital structure minimizes the firm's cost of capital or cost of financing. By determining a proper mix of fund sources, a firm can keep the overall cost of capital to the lowest.

Increase in Share Price:

Capital structure maximizes the company's market price of share by increasing earnings per share of the ordinary shareholders. It also increases dividend receipt of the shareholders.

1.2 INDUSTRY PROFILE

Education of a nation is one of the foremost requirements for its development. India's of having a large population of youth presents a huge opportunity to the players in the education sector as well as scope to the government for development of this sector and consequently, the country.

1.2 INDUSTRY PROFILE

Education of a nation is one of the foremost requirements for its development. India's of having a large population of youth presents a huge opportunity to the players in the education sector as well as scope to the government for development of this sector and consequently, the country.

Several factors such as growing income levels and favorable foreign policies have attracted many foreign players into the Indian education market. The Government of India has also taken several initiatives to provide quality education to the youth in the country.

A Deloitte study has recognized the Indian education sector as a 'sunrise sector' for investments. This is because this sector offers huge potential to investors in the regulated. Several factors such as growing income levels and favorable foreign policies have attracted many foreign players into the Indian education market.

The Government of India has also taken several initiatives to provide quality education to the youth in the country. The Government of India has launched the first Skill Development Training programs of Maulana Azad National Academy for Skills (MANAS) on pilot basis. In this regard two memoranda of understanding (MOUs) were signed by MANAS, one with the representatives of Health Sector Council and the other with Security Sector Council.

Market Size

The education market in India, which is presently worth around Rs 5.9 trillion (US\$ 92.98 billion), is poised for some major growth in the years to come, as by 2020, India will have the world's largest tertiary-age population, and second largest graduate talent pipeline globally. Presently, higher education contributes 59.7 per cent of the market size, school education 38.1 per cent, pre-school segment 1.6 per cent, and technology and multi-media the remaining 0.6 per cent. The higher education sector in India is poised for an average growth of 18 per cent per year till 2020.

The education sector in India has earned global recognition from several quarters. For instance, the Mumbai University has featured in the world top 10 list for institutes with billionaire alumni and is ranked ninth, according to a report by Wealth-X and UBS.

Due to the growth advantages, this sector has also received number of investments from several foreign organizations. In the period from April 2000—September, 2014, the education sector in India has attracted FDI equity to the tune of US\$ 964.03 million, according to the Department of Industrial Policies and Promotion (DIPP).

Investments

The education and training sector in India has witnessed some major investments and developments in the recent past. Some of them are:

- ✓ Safran, a global aerospace and defense company has announced the research and development (R&D) collaborations with Foundation for Innovation and Technology Transfer (IIT, Delhi), and Society for Innovation and Development (IISc, Bangalore) to initiate research and development in the field of advanced avionics systems for the development of next generation aerospace technologies.
- ✓ Vietnam is looking forward to Indian investment in several of its sectors where India has advantages such as infrastructure, power, IT, education, and pharmaceutical research sectors.
- ✓ Asada Investment Co has invested around US\$ 1.8 million in PI Policy Innovations Pvt Ltd, which is a school test design and assessment company. The company provides assessments, test design and feedback solutions for primary and secondary education schools in India.
- ✓ In line with its strategy to deepen partnerships with global academic institutes, Infosys has set up a US \$2 million fund along with Princeton University, which will enable up to two scholars to pursue research at the University's Institute of Advanced Study.

- Infosys Ltd has entered a strategic partnership with Stanford University's Institute for Computational and Mathematical Engineering (ICME) to research on industry issues with the use of data science and analytics. Under this arrangement, Infosys will work with ICME to develop curriculum in data science and analytics, focused on real-world problem areas, in addition to the research on solving industry issues
- The University of Cambridge through the department of Cambridge English Language Assessment has signed memorandums of understandings (MoU) with some Indian institutes. The Cambridge English department works with 200 technical institutions in India in addition to companies which conduct assessments for employees.
- The Government of Victoria has planned to sign an agreement with the Government of India to deliver retail training in India. This will enable the ARA Retail Institute to partner with India's peak organization for retailers, the Retail Association of India, to deliver retail training in Maharashtra over the next three years.

Government Initiatives

The Government of India is all set to roll out a new educational policy by year 2015, according to MS Smriti Irani, Union Minister of Human resource Development (HRD), Government of India.

Some of the other major initiatives taken by the Indian government in the recent past are:

- To make learning more holistic, the Government of India has decided to introduce a credit transfer scheme in the education system. The HRD Ministry is also working towards setting up placement cells at all central varsities in the country.
- The Government of India has launched the first Skill Development Training programs of Maulana Azad National Academy for Skills (MANAS) on pilot basis. In this regard two memoranda of understanding (MOUs) were signed by MANAS, one with the representatives of Health Sector Council and the other with Security Sector Council.
- Funded by the National Mission on Education through ICT (NMICT), the Indian

Institute of Technology-Bombay (IIT-B) has developed a prototype of a 10.1-inch netbook that costs less than US \$100. The device is aimed primarily at programmers, students and teachers in government-run colleges and institutions.

The Government of India has given its approval to sign a joint declaration with the United States of America to initiate a programme called Global Initiative of Academic Networks (GIAN) in the field of higher education.

Road Ahead

Higher education in India is undergoing a huge change since last decade. There are over 600 million people in India, under 25 years' old, potential candidates who would continue education, given the right kind of opportunity and convenience. The Government of India has taken several steps including opening of IIT's and IIMs in new locations as well as allocating educational grants for research scholars in most government institutions. Furthermore, with online modes of education being used by several educational organizations, the higher education sector in India is set for some major changes and developments in the years to come.

India expects the Indian education sector's [market size](#) to increase to Rs 602,410 crore (\$109.84 billion) by [FY15](#) due to the expected strong demand for quality education. Indian education sector's market size in FY12 is estimated to be Rs.341,180 crore.

The sector grew at a compounded annual growth rate of 16.5% during FY05-FY12. The higher education (HE) segment was at 34.04% (\$17.02 billion) of the total size in FY10 and grew by a [CAGR](#) of 18.13% during FY04-FY10. India Ratings, a Fitch Group Company, said that it has a stable outlook on the Indian education sector which includes both school and higher education.

Despite a high demand for education within India, India Ratings has concerns of the sector. In 2012, the sector faced liquidity issues due to a fall in enrolment growth and

delays in HE students' fee reimbursements by a few state governments.

“Some segments in the education sector face enrolment slowdown due to macro-economic factors, lack of industry appeal and employability issues. Management institutes with less or no industry association witness low enrolment and revenues leading to loan defaults or closures. India Ratings does not expect enrolments for these entities to rebound in the short term,” said the report.

In the recent past several education institutes have discontinued programmed due to fewer demand. A case in point is Mumbai-based Narsi Minjee Institute of Management Studies (NMIMS) which has decided to discontinue the MBA programmed in actuarial science.

This fall in enrolment growth and delays in HE students' fee reimbursements by a few state governments has created liquidity issues for many. “Fee ceilings in HE institutes (both for the government and management quota) and schools curb the financial prowess of the entities. Even though the fee reimbursements scheme (applicable only to HE) propelled enrolments and made education affordable to certain educationally disadvantaged sections of the society, delays in reimbursements by a few states tightened the liquidity for education institutes,” said the report.

Irrespective of an institutes' size, loan repayments depend on its relationship with lenders. Due to tightly-regulated operations such as restrictions on student intake, fees and infrastructure, an institution's autonomy is restricted, leading to weak finances and credit indiscipline. In India Ratings' opinion, the upcoming regulatory changes could possibly provide autonomy and enhance the credit quality of the issuers.

The stipulation to keep education as a not-for-profit structure is seeing evolution of new structures. “Although the institutes were formed as ‘not-for-profit, they plough back profits through associates. Associate companies provide facilities management and charges management fees, lease rentals and other fees.

Although, foreign investment is allowed under automatic route in education, there are regulatory issues. Nevertheless, twining programs with foreign institutions are recognized by the regulators.

The other key positive for the sector is the federal government's 12th Five Year Plan to propel the gross enrolment rate across levels, establish new entities, liberalizing the sector (allow private universities and foreign players) and take other measures including access enhancement, might revive the demand for the sector. These measures, combined with adherence to contractual provisions, would result in a positive outlook.

CHAPTER – 2

2.1 NEED, OBJECTIVES AND SCOPE OF THE STUDY NEED FOR STUDY

The study is needed to analysis of the capital structure of the company in a better manner. It can also be needed for the management to apply the related ratios to analyze its structure in a better manner. Through this study the company can use various capital structure theories to identify the value of the firm.

It can also be helpful for the management to apply financial leverages. This analysis is important for the company in making an investment decision in which implications should employ in equity or debt or both. Thus, this study is needed for identifying optimal debt-equity mix.

OBJECTIVES OF THE STUDY

2.11 PRIMARY OBJECTIVE

To study about the capital structure with reference on ACME Grade

2.1.1 SECONDARY OBJECTIVE

- To determine the optimal debt-equity mix for the company.
- To determine the firm's combined effect of the leverages.
- To analyze the ratios to identify the capital structure of the company.
- To suggest suitable suggestions for framing effective capital structure to meet the requirements of the company. To identify the value of the firm by applying various capital structure theories.
- To forecast the future performance of the company
- To identify the value of the firm by applying various capital structure theories.

2.22 SCOPE OF THE STUDY

The study throws the need for analyzing the capital of the company. It also reveals the efficiency and effectiveness of the assessment of the factors. The study can be help for the management for the further studies in the related areas.

It helps the company to take appropriate decisions in future. The study can be served as a base for applying the theories of capital structure and other financial tools. It can also be useful for other organization to carry the analysis in the similar areas.

2.2 LIMITATIONS OF THE STUDY

- The study mainly depends on the secondary data taken from annual report and internal records of the company.
- The figures taken from the financial statement for analysis were historical in nature.
- The study is confined to a short period of 5 years. This would not picture the exact position of company
- The results made using the statistical technique are expected outcomes and not the fact.
- Every company will be having their own factors and situation. The findings of the study could be taken only as guidelines and cannot be applied directly to other companies in the same industry.
- In depth analysis of data is not possible due to time constraint.

CHAPTER – 3

REVIEW OF LITERATURE

Lindbergh (2010) has conducted a study on logistic capital structure, financial position and prior appropriations do impact on manager's decision in investment. Financial statement information from small firms in Sweden results the firm was effectively needing investment in assets.

Reddy and Kameshwari (2011) have conducted a study on capital structure analysis in copal limited in the year 2005. They state that the capital structure analysis was to be effectively utilized for generating funds from the sales.

Robert and Van Brandenburg (2012) has told in research that the study showed that significant increase among newly private firms in profitability, output per employee, capital spending and employment. It is also found that financial policies of these firms start to resemble those typically associated with private entrepreneurial companies with lower leverage and higher dividend payout ratios.

Peter Pille and Joseph Paradi (2013) the equity/asset ratio is shown to provide as good a prediction of failure as any of the other models, and is not improved upon by the much more complex Z-score model.

Abraham (2013) have conducted a study about Measurement of capital structure by ratio analysis helps identify organizational strengths and weaknesses by detecting financial anomalies and focusing attention on issues of organizational importance. Given that the mission of a nonprofit organization is the reason its existence, it is an appropriate to focus on financial resources in their relationship to mission.

Lars Lindbergh (2014) has told in his research that possibility for firms to smooth income over several years. The results capital structure, financial position, and financial statement information from small firms in Sweden. The results of the multivariate canonical correlation analysis provide some support to the hypothesis that the firms develop patterns, in their use of assets and their financing.

William I. Megginson (2014) has told in research that the study showed that significant increase newly private firms in profitability, output per employee capital spending, and employment. It is also found that financial policies of these firms start to resemble those typically associated with private entrepreneurial companies with lower leverage and higher dividend ratios.

Parkar (2015) studied the size of the capital structure analysis is and its components and management in factoring companies. They also studied the correlation between and profitability of factoring companies.

Risk evaluation of capital structure in manufacturing industry the present study reveals that the liquidity position of this comparative god as its approaches the standard norms thought the period of study. It can be concluded that the company's risk evaluation process is not at desired level and author has made a realize recommendation for their improvement of operational and managerial efficiency of the company.

Marc Goergen (2016) the author uses detailed company micro data to examine the ownership and performance of each firm from the time of its flotation to six years later. He finds that the evolution of ownership depends on certain corporate characteristic and that difference in the concentration of ownership.

Mahalakshmi and Manickam (2021) have explained that "The study has undertaken to examine and understand the management of finance laying a crucial role in the growth. It is concerned with examining the structure of profitability position, liquidity position, and leverage position of the selected companies in India quoted at BSE for the five years. The study reveals that the liquidity position and working capital were favorable during the period of study regarding turnover ratios, the efficiency in management of fixed and total assets must be increased.

3.1 CONCEPTUAL AND THEORETICAL REVIEW

3.1.1 OPTIMUM CAPITAL STRUCTURE

Optimum capital structure is defined as that relationship of debt and equity shares which maximize the value of the company's share in the market. In case it borrows, which helps in increasing the value of the company's shares in the market, it can be said that borrowing has helped the company in moving towards its optimum capital structure. In case borrowing results in fall in the market value of equity shares, it can be said that the borrowing has moved the company away from its capital structure.

DEFINITION

“Optimum leverage is that mix of debt and equity which will minimize the market value of a company, i.e., the aggregate value of the claims and ownership interests represented on credit of the balance sheet.

The following considerations will help the concern in achieving its goal of optimum capital structure.

The finance manager should choose a source of finance having a fixed cost for enhancing the return on equity shareholders in case the ROI is more than the fixed cost of funds. Thus, he can take the advantage of favorable financial leverage.

A high corporate tax provides some form of leverage with respect to the capital structure management. The high cost of equity financing can, therefore, be avoided by using debt which in effect provides a form of income tax leverage to the equity shareholders. Thus, the finance manager should take advantage of the leverage offered by the corporate taxes.

3.1.2 CAPITAL STRUCTURE THEORIES

- Net income approach (Relevant theory)
- Net operating approach (Irrelevant theory)
- Modigliani and Miller approach (Irrelevant theory)
- Traditional approach (Neutral)

ASSUMPTIONS OF CAPITAL STRUCTURE THEORIES

- Firms uses only two sources of funds: perpetual riskless debt and equity;
- There are no corporate or income or personal tax;
- The dividend payout ratio is 100% (there are no retained earnings);
- The firm's total assets are given and do not change (Investment decision is assumed to be constant);
- The firms' total financing remains constant. (Total capital is the same, but proportion of debt and equity may be changed);
- The firm's operation profits (EBIT) are not expected to grow;
- The business risk remains constant and is independent of capital structure and financial risk.
- All investors have the same subjective probability distribution of the expected EBIT for a given firm;
- The firm has perpetual life.

3.1.5 NET INCOME APPROACH

This approach has been developed by Durand. It is a relevant theory. According to the approach, capital structure decision is relevant to the valuations of the firm. In other words, a change in debt proportion in capital structure will lead to a corresponding change in cost of capital (k_0) as well as total value of the firm.

ASSUMPTIONS

Net income approach is based on the following assumptions:

- There are no taxes;
- Cost of debt is less than the cost of equity;
- Use of debt in capital structure does not change the risk perception of investors;
- Cost of debt and cost of equity remains constant.

NI approach argument is based on the above three assumptions. Increase of debt (cheapest source of long-term finance) in capital structure reduces cost of capital (K_0), due to, which there is no change in the cost of equity (Risk perception of investors) leading to an increase in the total value of the firm.

When cost of debt (K_i) and cost of equity (K_e) are constant, with the increased use of debt in the capital structure it will magnify the equity shareholder's earnings and thereby market value of the firm and equity shares. Value of the firm based on NI approach is as follows:

$$E = NI / K_e$$

3.1.6 NET OPERATING INCOME APPROACH

This is another approach, which has been suggested by Durand. It is just- opposite to the net income approach. According to this approach, the capital structure (leverage) will not lead to any change in the value of the capital (K_0). They (V , K_0 and share price) are independent of financial leverage.

ASSUMPTIONS

- Overall cost of capital (K_0) remains unchanged for all degrees of leverage
- The market capitalizes the total value of the firm as a whole and no importance is given for split of value of firm between debt and equity
- The market value of equity is residue (i.e., Total value of the firm minus market value of debt)
- The use of debt funds increases the revised risk of equity investors, thereby K_e increases
- The debt advantage is set off exactly by an increase in cost of equity
- Cost of debt (K_i) remains constant
- There are no corporate taxes.

The total value of firm according to NOI approach is calculated as follows: $V = EBIT / K_0$

3.1.7 MODIGLIANI-MILLER APPROACH

This approach was developed by professors, Franco Modigliani, and Miller. MM approach is identical to the NOI approach. In other words, the total value of the firm is independent of its capital structure. However, there is a basic difference between NOI and MM approach. The NOI approach is purely definitional, which does not provide operational justification for irrelevance of the capital structure in the valuation of the firm. MM approach that, in the absence of debt capital proportion in capital structure. This has been proved by operational justification.

PROPOSITIONS

- The cost of capital and the total market value of the firm are independent of its capital structure. The cost of capital is equal to the capitalization rate of equity stream of operating earnings for its class. But the total market value of the firm is determined by capitalizing the expected NOI by the rate appropriate for the risk class.
- The expected cost of equity (k_e) is equal to the appropriate capitalization rate of a pure equity stream with a premium for financial risk. The difference between the pure-equity capitalization rate (k_e) and cost on debt (k_d) is equal to premium for financial risk.
- The cut-off for investment is always independent of the way in which an investment is financed.

ASSUMPTIONS

- Information is available free of cost;
- The same information is available for all investors;
- Securities are infinitely divisible; Investors are free to buy or sell securities;
- There is no transaction cost;
- There are no bankrupt costs;
- Investors are free to buy or sell securities;

3.1.78 TRADITIONAL APPROACH

This traditional approach was given by Solomon. Traditional approach is the mid-way between the NI and NOI approaches. It is a compromise between the two approaches. It is also known as “Intermediate Approach”. Traditional approach partly takes some features of NI approach and NOI approach.

According to the NI approach, use of debt in capital structure affects both cost of capital (K_o) and total value of firm, on the other hand, NOI approach suggests that the use of debt in capital structure is irrelevant to the value of the firm and cost of capital. Another approach given by MM supports the NOI approach, but validity of MM approach is doubtful due to the imperfect assumptions.

Traditional approach views that judicious use of debt-equity mix helps to increase the total value and reduce the overall cost of capital. In other words, the overall cost of capital (K_o) will decrease with the use of debt.

PREPOSITIONS

The cost of capital, k_d , remains constant up to a certain degree of leverage and thereafter rises.

The cost of equity capital, K_e , remains constant or rises gradually up to a certain degree of leverage and thereafter increases rapidly.

The average cost of capital, k_w , reduces up to a certain point, and remains unchanged for moderate increase in leverage and thereafter rises after attaining a certain point.

3.2 JOURNALS ON CAPITAL STRUCTURE:

Capital Structure and Ownership Structure: A Review of Literature

There have always been controversies among finance scholars when it comes to the subject of capital structure. So far, researchers have not yet reached a consensus on the optimal capital structure of firms by simultaneously dealing with the agency problem. This paper provides a brief review of literature and evidence on the relationship between capital structure and ownership structure. The paper also provides theoretical support to the factors (determinants) which affects the capital structure.

This paper is a review of the literatures on capital structure and provides empirical evidence that there exists a relationship between the capital structure and ownership structure of the firm. Economists have not yet reached a consensus on how to determine the optimal capital structure (debt to equity ratio) that will enable firms to maximize performance by simultaneously dealing with the principal-agent problem. Taking into consideration the shortcomings of both equity and debt financing, it can be argued that debt financing is better as it allows tax deductibility on interest payments and provides a mechanism to control the activities of managers. We have observed that there are many factors which can be used to determine the capital structure of a firm. The estimated model below is similar as the model used in Damodaran (2003). The estimated model is very limited since it only includes variables which have been discussed in the brief literature review of this paper. It is much more complex to determine the optimal capital structure of a firm. However, the estimated model provides empirical evidence regarding the relationship between capital and ownership structure.

1. CAPITAL STRUCTURE AND FINANCIAL PERFORMANCE: EVIDENCE FROM SELECTED BUSINESS COMPANIES IN COLOMBO STOCK EXCHANGE SRI LANKA

Capital structure is most significant discipline of company's operations. This researcher constitutes an attempt to identify the impact between Capital Structure and Companies Performance, taking into consideration the level of Companies Financial Performance. The analyze has been made the capital structure and its impact on Financial Performance capacity during 2009 to 2013 (05 years) financial year of Business companies in Sri Lanka. The results shown the relationship between the capital structure and financial performance is negative association at -0.114. Co-efficient of determination is 0.013. F and t values are 0.366, -0.605 respectively. It is reflecting the insignificant level of the Business Companies in Sri Lanka. Hence Business companies mostly depend on the debt capital. Therefore, they must pay interest expenses much.

Modigliani and Miller (M & M) (2002) wrote a paper on the irrelevance of capital structure that inspired researchers to debate on this subject. This debate is continuing. However, with the passage of time, new dimensions have been added to the question of relevance or irrelevance of capital structure. M&M declared that in a world of frictionless capital markets, there would be no optimal financial structure (Schwartz & Aronson, 2009). This theory later became known as the "Theory of Irrelevance". In M & M's over-simplified world, no capital

structure mix is better than another. M & M's Proposition-II attempted to answer the question of why there was an increased rate of return when the debt ratio was increased. It stated that the increased expected rate of return generated by debt financing is exactly offset by the risk incurred, regardless of the financing mix chosen.

Mohammed Omran (2008) evaluates the financial and operating performance of newly privatized Egyptian state-owned enterprises and determines whether such performance differs across firms according to their new ownership structure. The Egyptian privatization program provides unique post-privatization data on different ownership structures. Since most studies do not distinguish between the types of ownership, this paper provides new insight into the impact that post privatization ownership structure has on firm performance. The study covers 69 firms, which were privatized between 1994 and 1998. For these newly privatized firms, these study documents significant increases in profitability, operating efficiency, capital expenditures, and dividends. Conversely, significant decreases in employment, leverage, and risk are found, although output shows an insignificant decrease following privatization. The empirical results also show that Egyptian state-owned enterprises, which were sold to anchor-investors and employee shareholder associations, seem to outperform other types of privatizations, such as minority and majority initial public offerings.

2.A REVIEW OF THE CAPITAL STRUCTURE THEORIES

Popescu Luigi: Universitatea Pitești, Facultatea de Științe Economice, Str. Republicii, Nr.71, Pitești

Vishinski Sorin: Academia de Științe Economice, Facultatea de Finance, Asiguri, Banca Burselor de Valori, P-ta Romana, nr 6, Cam 1104, Sector 1, București.

In this paper the authors survey capital structure theories, from the start-up point, which is considered Modigliani and Miller's capital structure irrelevance theorem, to recent theories, such as the pecking order and the market timing theory. For each type of model, a brief overview of the papers surveyed and their relation to each other is provided. Since the publication of the Modigliani and Miller's (2000) "irrelevance

theory of capital structure,” the theory of corporate capital structure has been a study of interest to finance economists.

Over the years three major theories of capital structure emerged which diverge from the assumption of perfect capital markets under which the “irrelevance model” is working. The first is the trade-off theory which assumes that firms trade off the benefits and costs of debt and equity financing and find an “optimal” capital structure after accounting for market imperfections such as taxes, bankruptcy costs and agency costs. The second is the pecking order theory (Myers, 2003, Myers and Majluf, 2003) that argues that firms follow a financing hierarchy to minimize the problem of information asymmetry between the firm’s managers-insiders and the outsiders’ shareholders.

Recently, **Baker and Wurgler (2002)** have suggested a new theory of capital structure: the “market timing theory of capital structure”. This theory states that the current capital structure is the cumulative outcome of past attempts to time the equity market. Market timing implies that firms issue new shares when they perceive they are overvalued and that firms repurchase own shares when they consider these to be undervalued. Market timing issuing behavior has been well established empirically by others already, but Baker and Wurgler show that the influence of market timing on capital structure is highly persistent.

CHAPTER – 4

RESEARCH METHODOLOGY

Research methodology is a way of systematically solve the research problem. It maybe understood as science of studying how research is done scientifically. So, the research methodology not only talks about the research methods but also considers the logic behind the method used in the context of the research study.

4.1.1 RESEARCH DESIGN

The research design has been considered as a "blueprint" for research, dealing with at least four problems: what questions to study, what data are relevant, what data to collect, and how to analyze the results.

4.1.2 RESEARCH DESIGN USED IN THE STUDY

Descriptive research is used in this study because it will ensure the minimization of bias and maximization of reliability of data collection. The researcher had to use fact and information already available through financial statements of earlier years and analysis these to make critical evaluation of the available material.

4.1 METHOD OF DATA COLLECTION

The data required for the study are basically secondary data and that are collected from the annual reports of the company.

SECONDARY DATA

The secondary data are those which one already collected and stored. The researcher gets those secondary data from records, journals, annual reports of the company, etc. It saves the time, money, and efforts to collect the data. It is also made through magazines, balance sheets, book, etc.

Internal Sources - These are within the organization

External Sources - These are outside the organization

INTERNAL SOURCES OF DATA

If available, internal secondary data may be obtained with less time, effort, and money than the external secondary data. In addition, they may also be more pertinent to the situation at hand since they are from within the organization.

EXTERNAL SOURCES OF DATA

External Sources are sources which are outside the company in a larger environment. Collection of external data is more difficult because the data have much greater variety and the sources are much more numerous.

NATURE OF DATA

Secondary data refer to information gathered from sources already existing.

DURATION OF STUDY

The period covered for the study is past five years from 2018-2022.

4.2 TOOLS OF ANALYSIS

To analyze capital structure, the structure of the company the following tools are used.

LEVERAGE ANALYSIS

Leverage refers to the employment of assets or funds for which the firm pays a fixed cost or fixed return. The quantum of fixed costs or returns have considerable impact over the number of profits available for the shareholders as these are required to be paid or incurred irrespective of the volume of output or sales.

RATIO ANALYSIS

A ratio is a measure providing a relationship between two variables- in terms of percentages as well as quotient. It is the technique of analyzing and interpreting financial statements with the help of accounting ratios. Ratio analysis is highly useful to the internal management, prospective investors, creditors, and outsiders. It is used as a device to analyze and interpret the financial health of a concern.

THEORIES OF CAPITAL STRUCTURE

The composition of long-term sources of funds such as debentures, long term debt, preference share capital and ordinary share capital including reserves and surplus. It differs from financial structure, which includes both long term as well as short term sources of funds. The Modigliani-Miller theorem, proposed by Franco Modigliani and Merton Miller, forms the basis for modern thinking on capital structure, though it is generally viewed as a purely theoretical result since it assumes away many important factors in the capital structure decision. The theorem states that, in a perfect market, the value of a firm is unaffected by how that firm is financed.

REGRESSION

“Regression is the measure of the average relationship between two or more variables in terms of the original units of data.”

Regression analysis is a branch of statistical theory that is widely used in almost all the scientific disciplines. Regression analysis is widely used for prediction and forecasting, where its use has substantial overlap with the field of machine learning. Regression analysis is also used to understand which among the independent variables are related to the dependent variable, and to explore the forms of these relationships. In restricted circumstances, regression analysis can be used to infer causal relationship between the independent and dependent variables.

CHAPTER - 5 DATA ANALYSIS AND SIGNIFICANCE

5.1 RATIO ANALYSIS

5.1.1 DEBT-EQUITY RATIO

Debt equity ratio is determined to measure the soundness of the long-term financial policies of the concern. Debt-equity ratio measures the relationship between borrowed capitals to own capital. The ideal ratio is 1:1.

$$\text{Debt-Equity Ratio} = \frac{\text{Long-Term Debts}}{\text{Shareholders' Funds}}$$

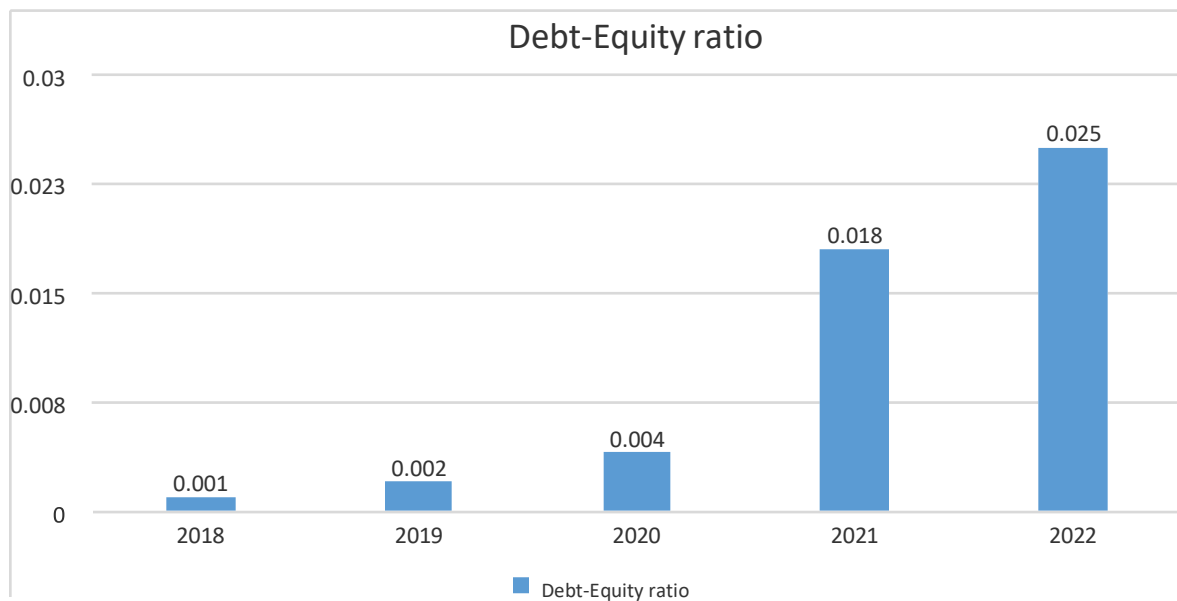
TABLE: 5.1.1- DEBT-EQUITY RATIO

Year	Debt	Shareholder funds	Ratios (Times)
2018	0.16	169.52	0.001
2019	0.37	150.54	0.002

2020	0.59	143.56	0.004
2021	2.56	136.75	0.018
2022	3.36	132.80	0.025

SOURCE: SECONDARY DATA

CHART:5.1.1 DEBT-EQUITY RATIO



INFERENCE

From the above table it is inferred that the company is having a high ratio in the current year with 0.025 when compared to the previous year. A high debt-to-equity ratio indicates that a company may not be able to generate enough cash to satisfy its debt obligations. The debt-equity ratio for the year 2022 is found to be 0.025.

PROPRIETARY RATIO

Proprietary Ratio shows the relationship between shareholders' funds to total assets of the concern. The shareholders' funds are equity share capital, preference share capital, undistributed profits, reserves, and surpluses.

$$\text{Proprietary Ratio} = \frac{\text{Shareholders' Funds}}{\text{Total Assets}}$$

TABLE: 5.1.2 PROPRIETARY RATIO

Year	Shareholder fund	Total Asset	Ratio (Times)
2018	169.52	169.67	0.958
2019	150.54	150.89	0.998
2020	143.56	144.15	0.996
2021	136.75	139.30	0.982
2022	132.80	136.16	0.975

SOURCE: SECONDARY DATA

SIGNIFICANCE It shows that proprietary ratio was high in the year 2019 with 0.998 and low in the year 2022 with 0.975. Thus, it can be said that the company is maintaining the long-term solvency.

5.1.1 CAPITAL GEARING RATIO

Capital gearing is the relationship between ownership capital and creditorship capital. It may be either 'low gear' (ownership capital is more) or 'high gear' (creditorship capital is more).

Capital gearing ratio = Equity Share Capital fund / Fixed Interest-bearing funds

FIXED ASSET TO NET WORTH

Fixed asset to net worth ratio measures the relationship between fixed assets and share holders' funds. Measure of the solvency of a firm, this ratio indicates the extent to which the owners' cash is frozen in the form of brick and mortar and machinery, and the extent to which funds are available for the firm's operations. Fixed assets to net worth ratio 0.75 or higher is usually undesirable, as it indicates that the firm is vulnerable to unexpected events and changes in the business climate.

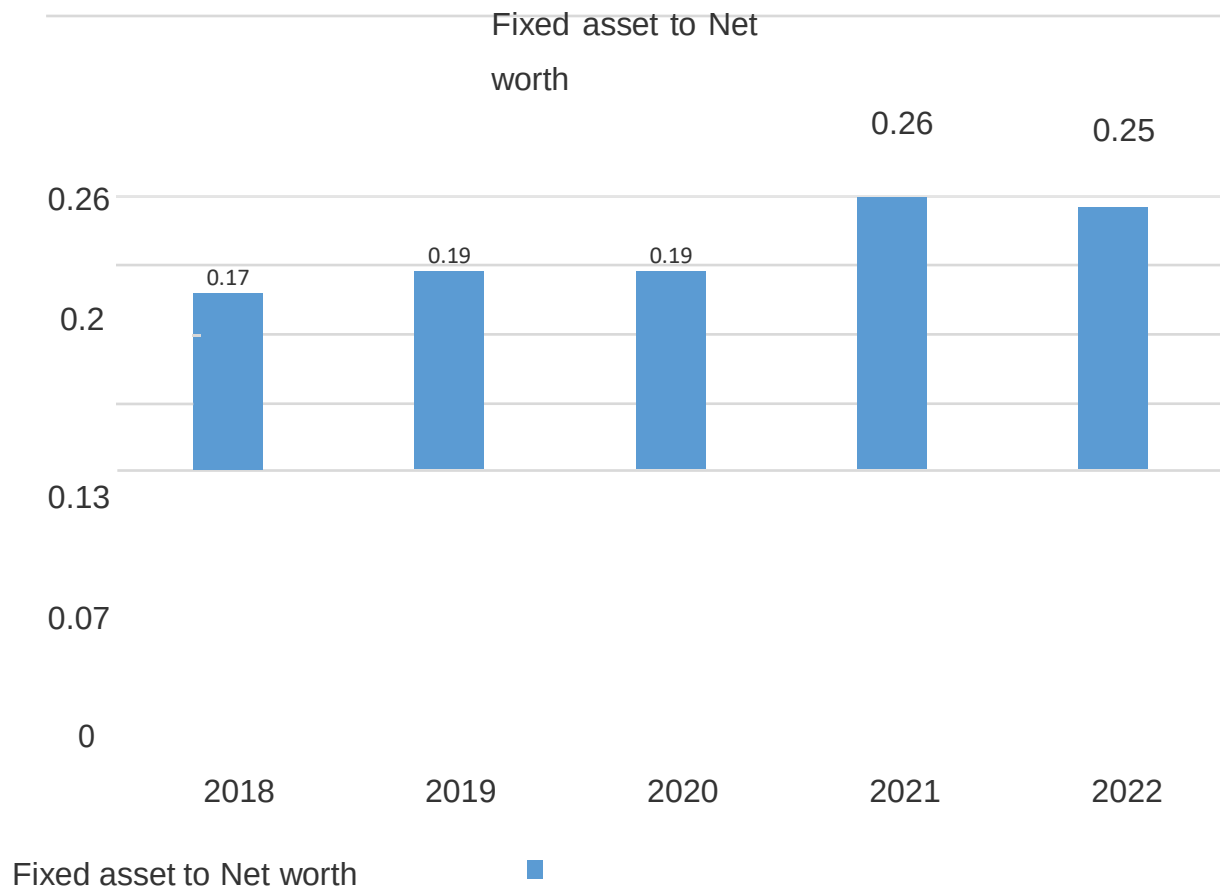
$$\text{Fixed Asset to Net worth} = \frac{\text{Fixed Asset}}{\text{Net worth}}$$

TABLE: 5.1.4 FIXED ASSET TO NETWORTH

Year	Fixed Asset	Net worth	Ratio (Times)
2018	28.67	169.52	0.17
2019	29.13	150.54	0.19
2020	26.66	143.56	0.19
2021	35.61	136.75	0.26
2022	32.93	132.80	0.25

SOURCE: SECONDARY DATA

CHART: 5.1.4-FIXED ASSET TO NETWORTH



INFERENCE

In this fixed asset to net worth ratio the asset increases in the year 2021 with 0.26 as compared to the year 2022. The current year has been decreased to 0.25. It represents that the owner's finance improves.

5.1.2 INTEREST COVERAGE RATIO

Interest coverage ratio measures the number of times interest is covered by the profits available to pay the charges. This ratio is used to test the debt-servicing capacity of a concern.

$$\text{Interest Coverage Ratio} = \frac{\text{Net Profit (Before Interest \& Taxes)}}{\text{Fixed Interest Charges}}$$

TABLE: 5.1.5 INTEREST COVERAGE RATIO

Year	EBIT	Interest	Ratio (Times)
2022	6.86	0.47	14.59
2021	2.58	0.37	6.97
2020	1.71	0.38	4.5
2019	(2.57)	0.26	(9.88)
2018	36.41	0.39	93.36

SOURCE: SECONDARY DATA

INFERENCE

In this interest coverage ratio, it shows that the interest is high in the year 2018 with 93.36 and 2019 shows a negative EBIT and from 2019-2022 it shows an increasing rate. The current year interest coverage ratio is found to be 14.59. This shows that the company has increased its EBIT. It reveals the fixed interest increases on loan-term loan.

5.1.3 CURRENT RATIO Current ratio is an index of the concern's financial stability. If a higher current ratio is an indication of in adequate employment of funds, a poor current ratio is a danger signal to the management.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liability}}$$

TABLE: 5.1.6 CURRENT RATIO

Year	Current Asset	Current Liability	Ratio (Times)
2022	46.97	23.57	1.99
2021	43.12	19.09	2.26
2020	41.66	17.78	2.34
2019	38.06	13.35	2.85
2018	50.77	21.94	2.31

SOURCE: SECONDARY DATA

INFERENCE

It reveals that the current ratio was not in a proper position in the year 2022 than comparing to the current year with 1.99 because the current liability of the company has been increased. This shows that the company should try to decrease the liabilities to avoid bad debts.

5.1.7 FIXED ASSET TURN OVER RATIO

The fixed-asset turnover ratio measures a company's ability to generate net sales from fixed-asset investments - specifically property, plant, and equipment. A higher fixed-asset turnover ratio shows that the company has been more effective in using the investment in fixed assets to generate revenues.

$$\text{Fixed Asset Turn Over Ratio} = \frac{\text{Net Sales}}{\text{Fixed Assets}}$$

TABLE: 5.1.7 FIXED ASSET TURNOVER RATIO

Year	Net sales	Fixed Asset	Ratio (Times)
2022	141.54	32.93	4.30
2021	122.08	35.61	6.43
2020	96.49	26.66	3.62
2019	99.02	29.13	3.40
2018	113.28	28.67	3.95

SOURCE: SECONDARY DATA 5.1.7

EARNING PER SHARE

Earnings per share are a small variation of return on equity capital. It provides a view of the comparative earnings when it compares with that of similar other companies. Thus, the earnings per share are a good measure of profitability

TABLE: 5.1.8 EARNING PER SHARE

$\text{Earnings Per Share} = \frac{\text{Net Profit After Preference Dividend}}{\text{No. of Equity Shares}}$

Years	Net Profit After Preference	No. of equity shares	Ratio (Times)
2022	(3.95)	152.38	(2.59)
2021	(6.81)	152.38	(4.47)
2020	(7.01)	152.38	(4.74)
2019	(1106)	152.38	(7.26)
2018	28.08	152.38	18.43

SOURCE: SECONDARY DATA

INFERENCE

The earning per share shows that it was in negative values but it was better in the year 2022 that the ratio is decreased to 2.55. The net profit has been decreased in the current year when compared to the previous year.

5.2LEVERAGES

OPERATING LEVERAGE

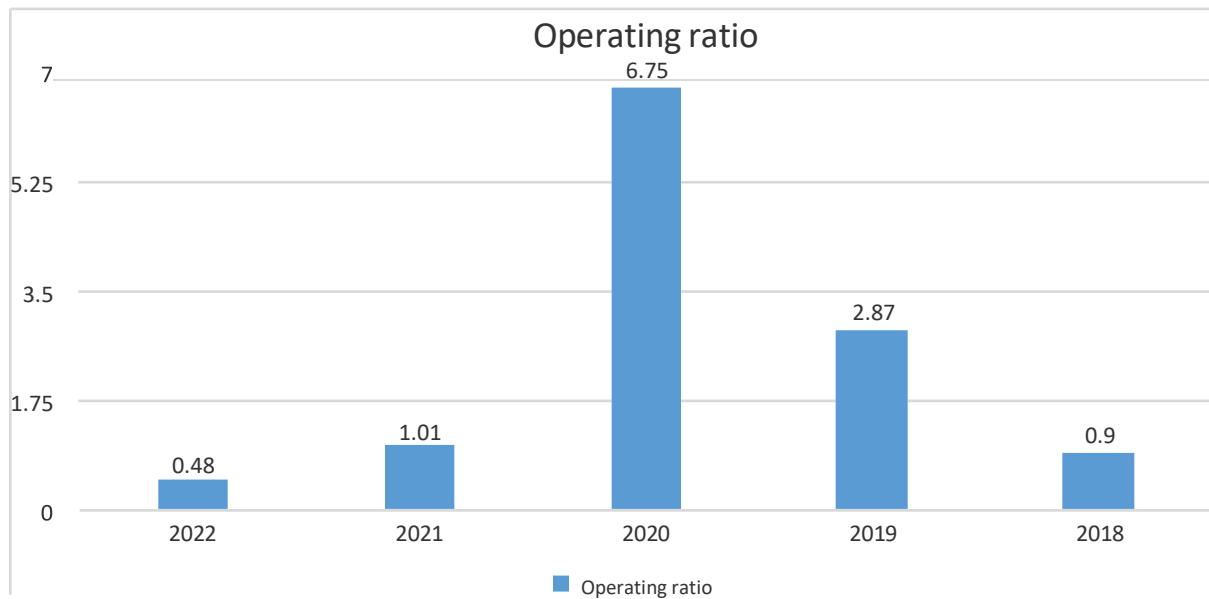
Operating leverage refers to the relationship between firm's sales revenue and its earnings before interest and tax. The firm will employ assets in such a way thattheir revenues are sufficient to cover all fixed and variable cost.

Operating Leverage = $\frac{\text{Contribution}}{\text{Earnings Before Interest \& Tax}}$

TABLE 5.2.1-OPERATING LEVERAGE

Year	Contribution	EBIT	C/EBIT
2022	3.28	6.86	0.48
2021	(2.61)	2.58	1.01
2020	(11.54)	1.71	6.75
2019	(7.37)	(2.57)	2.87
2018	32.63	36.41	0.90

CHART: 5.2.1-OPERATING LEVERAGE



INFERENCE

It shows that the operating leverage was decreased in the year 2022 with 0.48 when comparing to the previous year 2021 with 1.01. In Operating leverage, the higher the degree of operating leverage, the greater the potential danger from forecasting risk. Here the company has a lower ratio in the current year which shows a good position to the company.

5.2.1 FINANCIAL LEVERAGE

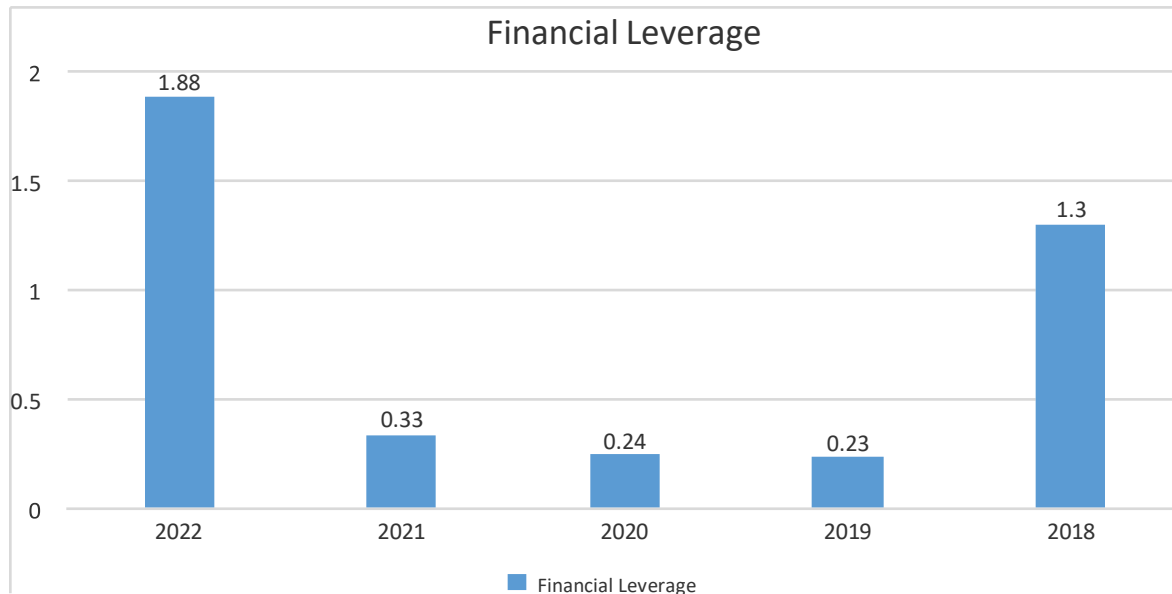
Financial leverage is the use of fixed financing costs by the firm. Thus, the use of fixed interest / dividend bearing securities such as debt and preference capital along with owner's equity in the total capital structure of the company is described as financial leverage. Here the owner's equity is used as the base to raise debt and the supplier has limited in company's profits.

$$\text{Financial Leverage} = \frac{\text{Earnings Before Interest \& Tax}}{\text{Earnings Before Tax}}$$

TABLE: 5.2.2 FINANCIAL LEVERAGE

Year	EBIT	EBT	EBIT/EBT
2022	6.86	(3.95)	1.88
2021	2.58	(7.93)	0.33
2020	1.71	(7.12)	0.24
2019	(2.57)	(11.22)	0.23
2018	36.41	28.08	1.30

CHART:5.2.2-FINANCIAL LEVERAGE



INFERENCE

It shows that the financial leverage was high in the year 2022 with 1.88 times and low in the year 2019 with 0.23 times. The current year financial leverage has been increased when compared to the previous year because of increase in EBIT. If the company is leveraged highly, it is near bankruptcy. Also, it might not be able to secure new capital if it is incapable of meeting its current obligations. Thus, from the above it is shown that the company is trying to decrease its bankruptcy.

COMBINED LEVERAGE

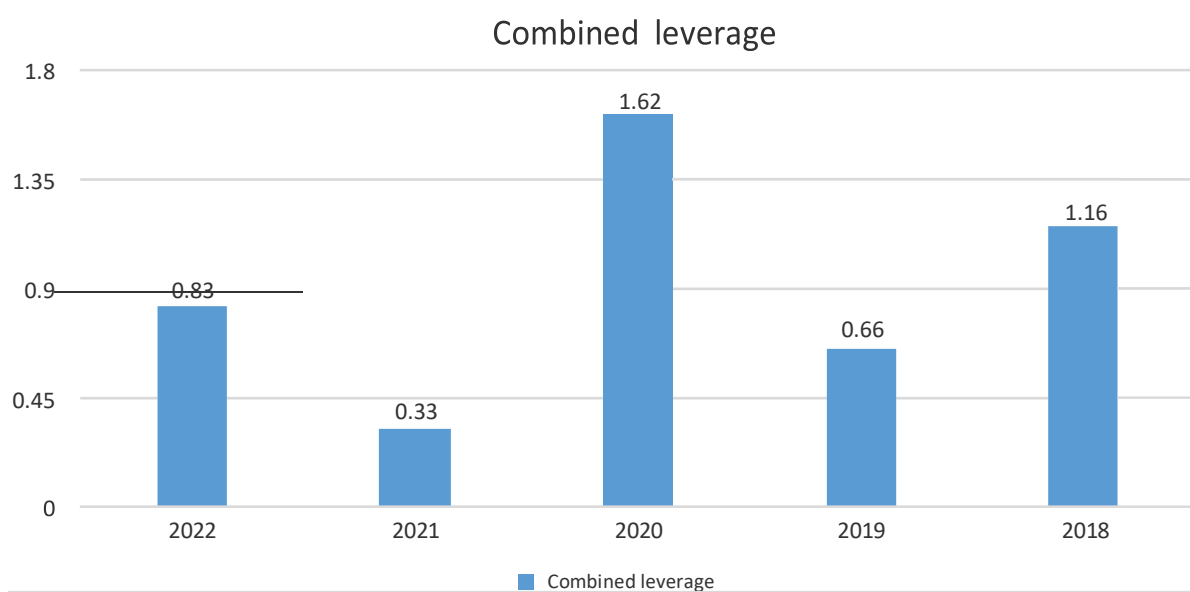
The operating leverage and financial leverage constitute combined leverage. Thus, both these leverages are closely related to the firm's capacity to meet its fixed costs. The effect of combining financial and operating leverages is a two-step magnification of any change in sales into a larger relative change in earnings per share.

$$\text{Combined Leverage} = \frac{\text{Contribution}}{\text{Earnings Before Tax}}$$

TABLE: 5.2.3 COMBINED LEVERAGE

Year	Contribution	EBT	C/EBT
2022	3.28	(3.95)	0.83
2021	(2.61)	(7.93)	0.33
2020	(11.54)	(7.12)	1.62
2019	(7.37)	(11.22)	0.66
2018	32.63	28.08	1.16

CHART:5.2.3 COMBINED LEVERAGE



INFERENCE

It shows that the combined leverage of contribution was high in the year 2020 with 1.62 comparing to 2022 with 1.16. If the company is leveraged highly, it is near bankruptcy. Also, it might not be able to secure new capital if it is incapable of meeting its current obligations.

TREND ANALYSIS

Years	Total income (Y)	X	XY	X ²	y=a+b(x)
2018	113.28	-2	-226.56	4	97.84
2019	99.02	-1	-99.02	1	106.53
2020	96.49	0	0	0	115.22
2021	122.08	1	122.08	1	123.91
2022	145.21	2	290.42	4	132.60
Total	576.08		86.92	10	

$$a = \frac{\sum y}{N} = \frac{576.08}{5} = 115.22$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{86.92}{10} = 8.69$$

$$X = 3,$$

$$Y = 115.22 + 4.57(3)$$

$$= 128.94$$

Estimation of sales for 2022

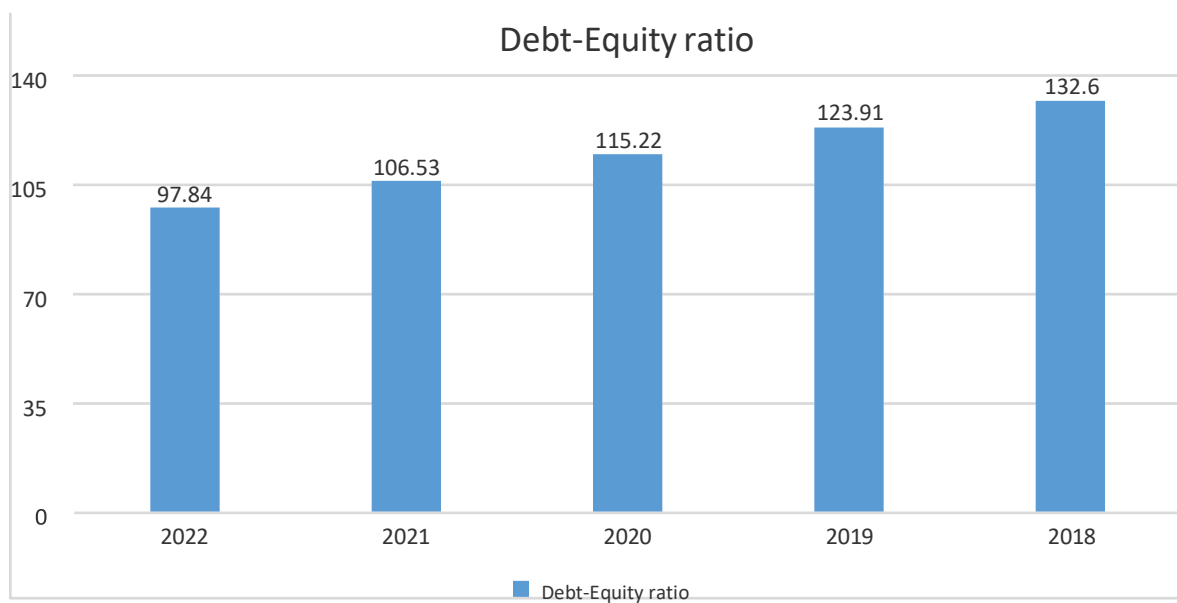
$$Y = a + bx$$

$$Y = 115.22 + 8.6x$$

For 2021, when $X = 4$,

$$Y = 115.22 + 0.028(4)$$

$$\Rightarrow 115.33$$



5.3.1 CAPITAL STRUCTURE CALCULATION UNDER NET INCOME APPROACH

(Amount in Crs)

EBIT	6.86
Interest	0.47
Cost of Equity (Ke)	11.2%
Debt	3.36

EBIT	6.89
-Interest	0.47
NI	6.39

Value of the Firm(V) = E+D

Market value of Equity(E) (330,00,000
)

NI/Ke (6.39)/11.2%

Add Market value of Debt(D) 3.36

5.2 THEORIES OF CAPITAL STRUCTURE

5.3.2 CAPITAL STRUCTURE CALCULATION UNDER NET INCOME APPROACH

(Amount in Crs)

EBIT	6.86
Interest	0.47
Cost of Equity (Ke)	11.2%
Debt	3.36

EBIT	6.89
-Interest	0.47
NI	6.39

Value of the Firm(V) = E+D

Market value of Equity(E) (330,00,000)

NI/Ke (6.39)/11.2%

Add Market value of Debt(D) 3.36

Value of the Firm(V)	4.07
----------------------	------

$$\begin{aligned}\text{Cost of Capital (k}_0\text{)} &= \text{EBIT} / V \\ &= 6.86 / 4.07 \\ &= 1.6855\end{aligned}$$

INFERENCE

From the capital structure calculation under net income approach the capital decision is relevant to the valuation of firm increase debt. Increases the value of the firm 4.07 and decreases overall cost of capital (1.685).

5.3.3 NET OPERATING INCOME APPROACH (NOI)

EBIT	6.86
Cost of capital (K ₀)	1.68%
Debt	3.3637
Value of the firm	= EBIT / K ₀
	= 6.86 / 1.68
	= 4.08
Market value of equity	= 4.08 – 3.3637
	= 0.72

$$\text{Cost of Equity/Equity Capitalization (K}_e\text{)} = \text{EBIT} - I / V - D$$

$$= 6.86 - 0.4712 / 4.08 - 3.3637$$

$$= -1.79$$

$$\text{Assume Debt} = 4.3637$$

$$\text{Value of the firm} = \text{EBIT} / K_0$$

$$= 6.86 / 1.68$$

$$= 4.08$$

$$\text{Market value of equity} = 0.72 - 4.3637$$

$$= (2.64)$$

$$\text{Cost of Equity/Equity Capitalization (K}_e\text{)} = \text{EBIT} - I / V - D$$

$$= 6.86 - 0.4712 / (2.64) - 4.3637$$

$$= -1.94$$

$$K_0 = K_e(E/V) + K_d (D/V)$$

$$= 1.79 ((6.86) / 4.08) + 1.94 (4.3637 / 4.08)$$

$$= 5.08$$

INFERENCE

Increase debt, increases the cost of equity as a result the changes in the capital structure do not affect the value of the firm.

5.4 STANDARD DEVIATION CALCULATION OF EBIT

TABLE 5.5.1- STANDARD DEVIATION CALCULATION OF EBIT

Year	EBIT(X)	$\bar{X} = \sum X/5$	$X = X - \bar{X}$	X^2
2022	6.86	8.998	-2.138	47.0596
2021	2.58	8.998	-6.418	6.6564
2020	1.71	8.998	-7.288	2.9241
2019	(2.57)	8.998	-18.856	6.6049
2018	36.41	8.998	27.412	1325.688
$\sum X$	44.99		$\sum X^2$	1388.933
			$\sum X^2 / N$	277.7866
			S.D =	16.67

INFERENCE:

From the above calculation of Standard deviation, the EBIT is fluctuating throughout all the 5 years. In the year 2022 the EBIT has been increased to 1164.56.86 from 2.58 (2021). This shows that the company earnings have been increased. The Standard deviation for EBIT is 16.67

5.5 CORRELATION CALCULATION

TABLE 5.6.1- CORRELATION CALCULATION OF REVENUE AND EBIT

Year	EPS(X)	X ²	EBIT(Y)	Y ²	XY
2022	(2.59)	6.7081	6.86	47.0596	(17.7674)
2021	(4.47)	19.9809	2.58	6.6564	(11.5326)
2020	(4.47)	19.9809	1.71	2.9241	(7.6437)
2019	(8.89)	79.0321	(2.57)	6.6049	22.8473
2018	18.46	340.77	36.41	1325.688	672.1286
Σ =	-1.96	466.4736	44.99	1388.933	658.0322
				CORRELATIO	0.998057

INFERENCE:

There is a high degree of correlation between EPS and EBIT because the correlation value (0.998057) is more than 0.05. It measures the closeness of relationship between Revenue and EBIT and they both have a positive correlation.

FINDINGS AND SUGGESTIONS

5.6 FINDINGS OF THE STUDY

- Proprietary ratio was high in the year 2019 with 0.998 and low in the year 2022 with 0.975.
- The capital gearing ratio for the year 2022 the ratio is in an increasing position. High geared means lower proportion of equity.

- The current year has been decreased to 0.25. It represents that the owners finance improves
- A high debt-to-equity ratio indicates that a company may not be able to generate enough cash to satisfy its debt obligations. The debt-equity ratio for the year 2022 is found to be 0.025
- The current year interest coverage ratio is found to be 14.59. This shows that the company has increased its EBIT. It reveals the fixed interest increases on loan-term loan.
- The current ratio was not in a proper position in the year 2022 than comparing to the current year with 1.99 because the current liability of the company has been increased.0
- The current year fixed asset turnover ratio has been decreased to 4.30 when compared to the previous year. This is due to the low investment in fixed assets by the company.
- The earning per share shows that it was in negative values but it was better in the year 2022 that the ratio is decreased to 2.55.
- The operating leverage was decreased in the year 2022 with 0.48 when comparing to the previous year 2021 with 1.01.
- The company has a lower ratio in the current year which shows a good position.
- The current year financial leverage has been increased when compared to the previous year because of increase in EBIT. If the company is leveraged highly, it is near bankruptcy.
- The company's income will be 128.94 in the year 2022 as it gets decreases from the past comparative years.

- From the capital structure calculation under net income approach the capital decision is relevant to the valuation of firm increase debt. Increases the value of the firm 4.07 and decreases overall cost of capital (1.685).
- From the calculation of standard deviation, the EBIT is fluctuating throughout all the 5 years. In the year 2022 the EBIT has been increased to 1164.56.86 from 2.58 (2021). This shows that the company earnings have been increased.
- There is a high degree of correlation between EPS and EBIT because the correlation value (0.998057) is more than 0.05. It measures the closeness of relationship between Revenue and EBIT and they both have a positive correlation.

5.7 SUGGESTIONS

- ❖ From this study, it is suggested that the company must increase its debt position as it needs to collect the debtor's amount as early as possible so that the company will earn more funds.
- ❖ Company should implement new policies to collect cash from debtors. By this the company can increase the profit.
- ❖ The company needs to improve its operating cost. So that the level of usage in future will help the company in increasing its operating efficiency and better growth.

- ❖ company in increasing its operating efficiency and better growth.

- ❖ The forecasting of sales shows that the company in future there will be increase in the sales. So, it recommends that the company can expand its growth in a wide manner.

- ❖ In future the company can use equity capital for long-term obligations and debt capital for the short-term obligations as equity capital is best suited for long run and debt capital is the best suited for day-today activities.

- ❖ A low leverage company can meet its debt obligations and there is an opportunity for it to find new lenders in the future.

- ❖ It is riskier for a company to have a high ratio of financial leverage. Companies that are highly leveraged may be at risk of bankruptcy if they are unable to make payments on their debt; they may also be unable to find new lenders in the future.

- ❖ Any time companies use debt financing, they are running the risk of bankruptcy. The more debt financing it uses, the higher the risk of bankruptcy. If you do not make loan payments on time, you can ruin your credit rating and make borrowing in the difficult or impossible

- ❖ Company can do both debt and equity financing but the proportion of debt should be lower than proportion of equity so that the leverage ratio would be lower and it is beneficial for the company to pay off its debts.

CONCLUSION

In the estimation of capital structure in ACME Grade. Leverage analysis of the company states that the company risk is decreasing year by year. The performance of the company shows that there is improving in its position.

Capital structure decisions are dynamic for every year. The study suggests that the company needs to improve the capital structure decisions to maximize its earnings for the forth coming years.

The ratios are all seems to be in improving stage of position. This report concluded that the position of the company is not satisfied as the company needs to increase current asset in future. According to NOI approach, change in capital structure does not affect the value of firm.

It is therefore that the level of financial leverage must have a good understanding of financial or business management. To determine the return rate upon return of leverage simply calculate the difference among the rate of interest on assets and debts, then multiply the difference to the relative amount of liability or debt to the equity and add up the anticipated.

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APPENDICES
BALANCE SHEET

Profit & Loss account of ACMEGRADE		----- in Rs. Cr. -----				
	2022	2021	2020	2019	2018	
	12 mths	12 mths	12 mths	12 mths	12	
Income						
Sales Turnover	141.54	122.08	96.49	99.02	113.2	
Excise Duty	0.00	0.00	0.00	0.00	0.00	
Net Sales	141.54	122.08	96.49	99.02	113.2	
Other Income	3.58	5.19	13.25	4.80	3.78	
Stock Adjustments	0.00	0.00	0.00	0.00	0.00	
Total Income	145.12	127.27	109.74	103.82	117.0	
Expenditure						
Raw Materials	0.00	0.00	0.00	0.00	0.00	
Power & Fuel Cost	0.00	0.00	0.00	0.00	0.00	
Employee Cost	95.05	86.94	68.32	68.51	47.57	
Other Manufacturing Expenses	9.78	11.01	12.39	13.14	15.77	
Selling and Admin Expenses	0.00	18.29	21.50	17.22	12.66	

Miscellaneous Expenses	33.43	8.45	5.82	7.52	4.65				
Preoperative Exp Capitalized	0.00	0.00	0.00	0.00	0.00				
Total Expenses	138.26	124.69	108.03	106.39	80.65				
	2022	2021	2020	2019	2018				

	12 mths	12 mths	12 mths	12 mths	12				
Operating Profit	3.28	-2.61	-11.54	-7.37	32.63				
PBDIT	6.86	2.58	1.71	-2.57	36.41				
Interest	0.47	0.37	0.38	0.26	0.39				
PBDT	6.39	2.21	1.33	-2.83	36.02				
Depreciation	10.34	10.14	8.45	8.39	7.94				
Other Written Off	0.00	0.00	0.00	0.00	0.00				
Profit Before Tax	-3.95	-7.93	-7.12	-11.22	28.08				
Extra-ordinary items	0.00	1.12	0.11	0.16	0.00				
PBT (Post Extra-Ord Items)	-3.95	-6.81	-7.01	-11.06	28.08				
Tax	0.00	0.00	0.21	2.49	-0.06				
Reported Net Profit	-3.95	-6.81	-7.23	-13.55	28.13				
Total Value Addition	138.26	124.68	108.04	106.38	80.66				
Preference Dividend	0.00	0.00	0.00	0.00	0.00				
Equity Dividend	0.00	0.00	0.00	0.00	7.62				
Corporate Dividend Tax	0.00	0.00	0.00	0.00	1.29				
Per share data (annualized)									
Shares in issue (lakhs)	152.38	152.38	152.38	152.38	152.3				

Earnings Per Share (Rs)	-2.59	-4.47	-4.74	-8.89	18.46				
Equity Dividend (%)	0.00	0.00	0.00	0.00	50.00				
Book Value (Rs)	86.49	89.74	94.21	98.79	109.6				

