Journal of Engineering Sciences
Vol 10, Issue 9, Sept /2019
ISSN NO:0377-9254

A STUDY ON CAPITAL STRUCTURE AT ULTRA TECH CEMENT

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Abstract:-Capital structure choice is an important decision for a firm. It is important not only from a return maximization point of view, but also this decision has a great impact on a firm's ability to successfully operate in a competitive environment. The ability of companies to carry out their stakeholders' needs is tightly related to capital structure. Therefore, this derivation is an important fact that we cannot omit. Capital structure in financial term means the way a firm finances their assets through the combination of equity, debt, or hybrid securities (Saad, 2010). This study investigates the relationship of capital structure and financial performance of trading companies which are listed in CSE (Colombo Stock Exchange) from 2007 to 2011. The results show that debt ratio is negatively correlated with all financial performance measures [Gross Profit (GP); Net Profit (NP); Return on Equity (ROE) and Earnings Per Share (EPS)] similarly debt-equity ratio (D/E) is negatively correlated with all financial performance measures except GP and only (D/E) ratio shows significant relationship with NP. R2 (Regression) value of financial performance ratios indicate that 36.6%; 91.6%; 36% and11.2% to the observed variability in financial perform

Keywords: Capital Structure; Financial Performance; Trading companies

1. INTRODUCTION

Financing choices refer to major corporate decisions because an optimal capital structure, representing the corporate financing mix, can maximize the market share price and the value of the company. Modigliani and Miller (1958) demonstrated the irrelevance of capital structure in firm value, although the assumption is valuable only in perfect market conditions, where all investors have free access to market information, there are zero transaction costs and no tax difference between dividends and capital gains. However, real economies are far from perfect and thus many financing decisions theories were developed over time in order to demonstrate the purpose of capital mix and its role in company value. A few years after the irrelevance theory, Modigliani and Miller (1963) revised the conditions and explained that interest expenses are tax deductible, and therefore the value of the firm should increase with higher debt ratios. Over time the capital structure literature developed and researchers found many variables that influence both financing decisions and financial performance. This research tries to identify how debt-equity mix influences firm performance in manufacturing companies listed on the Bucharest Stock Exchange. Previous empirical studies discovered that fixed assets, liquidity, taxation, business risk and annual inflation rate are some of the most influential factors for financing decisions in manufacturing firms. Therefore these factors will be used as control variables, along with debt and equity ratios, in order to study their relationships with firm performance.

OBJECTIVES OF THE STUDY:-

The mandatory objective is to study working capital structure and also to measure the social performance of the selected corporate concept. The objective of the study is to analyze of the working capital structure of cement industries.

The main objectives of this study are as under:

To understand the concept of working capital structure.

To understand the trend analysis of financial statement.

To document the capital structure in cement industries.

To analyze of working capital structure in cement industries.

To analyze the disclosure of financial information.

To evaluate the performance of the cement industries in terms of Ratio.

To study comparison of last 10 years performance and social responsibility of selected ten corporate units

II.LITERATURE REVIEW

There are many variables in a capital structure choice and structure of debt maturity which will affect a company‟s performance. Debt maturity will influence a company‟s option in investing.
Furthermore, tax rate will also affect company‟s performance. In the case of this, examine the impact of capital structure's variables base on company‟s performance will present prove for a company‟s performance due to the effect of capital structure (Tian & Zeitun, 2007). A study had
been done by Abor (2005) on the influence of capital structure on profitability of listed companies on the Ghana Stock Exchange during a five-year period. He found out that there is significant positively interrelated between SDA and ROE and shows that firms which earn a lot use more short-term debt to finance their business. In other words, short-term debt is an essential source of financing in favour of Ghanaian companies, by representing 85 percent of total debt
financing. Yet, the results showed the adverse relation between LDA and ROE. The regression output showed that there is positive relationship between DA and ROE which measure the relationship between total debt and profitability. This indicates that firms which earn a lot are depending on debt as their key financing option. In the early study on relationship between capital structure and a firm‟s reaction to short term financial distress had shown the result that high-leverage firms are more possible than their less-leverages counterparts to react operationally to short-term distress. The high-leverage firms are also more possible to take personal actions such as restructuring assets and lying off employees when performance deteriorates. Apart from that, a firm with high leverage will react quickly in financial through cutting down dividend, restructuring debt and bankruptcy (Ofek, 1993).
A study (Akintoye, 2008) had been done on sensitivity of performance to capital structure on selected food and Beverage Company in Nigeria. The result shows that performance indicators to turnover (Earnings before Interest and Taxes, Earnings Per Share and Dividend Per Share) and
the measures of leverage (Degree of Operating Leverage, Degree of Financial Leverage and Dividend Per Share) are significantly sensitive. There are many approaches in examining firm performance. Berger and Bonaccorsi (2006) had used profit efficiency as the performance measure. Manager's performance were evaluate by using profit efficiency because profit efficiency counter for the effectiveness of manager to raise revenue and control cost and is close to the concept of value maximization. By measuring the profit efficiency, shareholder losses from agency costs are relatively close to the losses of potential accounting profits. The result shows that neither higher leverage nor lower equity capital ratio are connected with higher profit efficiency for all range of data. A research (King & Santor, 2008) had been done to examine the linkage between family ownership, firm performance and capital structure on Canadian firms.

III. RESEARCH METHODOLOGY

In finance, capital structure refers to the way a corporation finances its assets through some combination of equity, debt, or hybrid securities. A firm's capital structure is then the composition or 'structure' of its liabilities. In reality, capital structure may be highly complex and include dozens of sources. Gearing Ratio is the proportion of the capital employed of the firm which come from outside of the business finance, e.g. by taking a short term loan etc. The total capital of a company comprises of fixed

capital and working capital. The emphasis has ever been on the growth and efficiency of fixed capital. The management of working has often been neglected, resulting in sub-optimal utilization of not only working capital but also fixed capital. Management of working capital in a given enterprise has profitability and liquidity implication. Working capital represent by current assets, constitutes a dominant and controllable segment of investment, particularly in manufacturing enterprises, and efforts to prune it or optimize its size must promptly enhance the profitability. These efforts would simultaneously activate the flow of funds through the enterprise by focusing on dormant inventories and overdue outstanding and by curbing the long established tendency of fund to stagnate at different stage in the enterprise operations. Thus working offers a common front for profitability and liquidity management

WHAT IS MEANING OF WORKING CAPITAL STRUCTURE:-

Defined as the difference between current assets and current liabilities. There are some variations in how working capital is calculated. Variations include the treatment of short-term debt. In addition, current assets may or may not include cash and cash equivalents, depending on the company. Current assets minus current liabilities. Working capital measures how much in liquid assets a company has available to build its business. The number can be positive or negative, depending on how much debt the company is carrying. In general, companies that have a lot of working capital will be more successful since they can expand and improve their operations. Companies with negative working capital may lack the funds necessary for growth. Also called net current assets or current capital. 1

A measure of both a company's efficiency and its short-term financial health. The working capital ratio is calculated as:.

Working capital = Current assets – Current liabilities

Positive working capital means that the company is able to pay off its short-term liabilities. Negative working capital means that a company currently is unable to meet its short-term liabilities with its current assets (cash, accounts receivable and inventory).

The amount of money a company has on hand, or will have, in a given year. Working capital is calculated by subtracting current liabilities from current assets. That is, one takes the value of all debts and obligations for the current year and subtracts that from the value of all cash and assets that might reasonably be converted into cash in the current year. This is a good measure of the short and medium-term financial health of a company, and may indicate by how much it can expand its operations without resorting to borrowing or another capital raising tactic. Working capital is also called operating assets or net current assets.2 Working capital is a financial metric which represents operating liquidity available to a business, organization, or other entity, including governmental entity. Along with fixed assets such as plant and equipment, working capital is considered a part of operating capital. Net working capital is calculated as current assets minus current liabilities. It is a derivation of working capital that is commonly used in valuation techniques such as DCFs (Discounted cash flows). If current assets are less than current liabilities, an entity has a working capital deficiency, also called a working capital deficit.

Net working capital = Current assets – Current liabilities

Net operating working capital = Current assets – Non interest-bearing current liabilities

Equity working capital = Current assets – Current liabilities – Long-term debt

A company can be endowed with assets and profitability but short of liquidity if its assets cannot readily be converted into cash. Positive working capital is required to ensure that a firm is able to continue its operations and that it has sufficient funds to satisfy both maturing shortterm debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable, and cash.

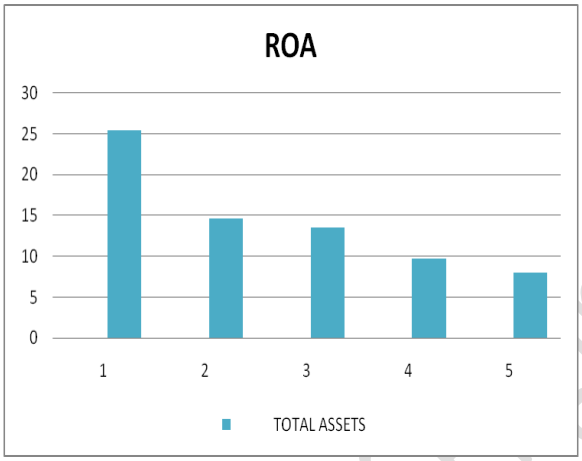
IV.DATA ANALYSIS

a. Return on Assets

In this case profits are related to assets as follows

Return on assets = Net profit after tax / Total assets Rs. Crors

Particulars	2015	2016	2017	2018	2019
ROA= PAT / TOTAL ASSETS	4133.60	2446.19	2655.43	2144.47	2014.73
	1626427	16667.95	19697.50	21970.29	25369.51
	25.41522	14.6758	13.4810	9.7607	7.9415



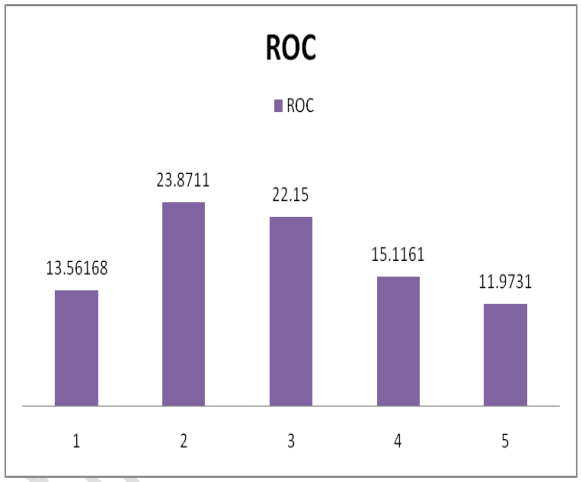
b. Return on Capital Employed

Here return is compared to the total capital employed. A comparison of this ratio with that of other units in the industry will indicate how efficiently the funds of the business have been employed. The higher the ratio the more efficient is the use of capital employed.

Return on capital employed = Net profit after taxes & Interest / Total capital employed

(Total capital employed = Fixed assets + Current assets–Current liabilities)

particulars	2015	2016	2017	2018	2019
PAT	4133.60	2446.19	2655.63	2144.47	2014.73
Total Capital Emp	304.80	10247.47	11986.24	14186.57	16827.08
ROC	13.56168	23.8711	22.15	15.1161	11.9731



Year 2014-2015

Performance of company (Amount in Rs.Cr's)

Gross Revenue	13558.42	Total Expenditure	11782.74
Profit (Loss) before tax	1786.19	Profit after tax	1404.23
Earnings per share Rs.	51.24	Dividend ratio	15%

PERFORMANCE ANALYSIS OF 2014-2015

Company is operating in 3 segments, out of which cement contributes about 55% of turnover while the Boards and prefab segments contribute about 45%. Huge investment in the industrial sector over the next 3 years is expected to lead to higher cement off –take on the back of strong GDP growth across the country. It is expected that the domestic cement consumption would grow at a CAGR of 8% for the next 5 ears. By FY 2011 the domestic consumption is expected to

grow to 199 million Tons from 136 million Tons consumption FY2010. During the year 2014-15 your company's Gross sales increased.

Net sales increased by about 39% to Rs.1404.23 crs from Rs.1093.24 crs in FY 2014-15. Improved sales from all the tree divisions particularly from prefab division contributed for increased turnover.

V.CONCLUSION

This study examined capital structure and financial performance: a study of listed trading companies in Sri Lanka. The analysis of listed trading companies show that debt ratio is negatively correlated with all financial performance measures [Gross Profit (GP); Net Profit (NP); Return on Equity (ROE) and Earnings Per Share (EPS)] similarly debt-equity ratio (D/E) is negatively correlated with all financial performance measures except GP and only (D/E) ratio shows significant relationship with NP.

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