



An Analysis of Capital Structure and Financial Performance of Selected Listed Companies in India

POONAMBEN ASHOKKUMAR GOHIL

Assistant Professor

Department of Commerce

Shri B. P. Brahmhatt Arts & M. H. Guru Commerce College, Unjha

Abstract:

This study conducts an analysis of the financial performance of selected listed companies in India over a ten-year period. To find important relationship and pattern of dataset, the analysis uses both correlation and descriptive statistics. The results show that the debt equity ratio significantly negatively correlated with several performance metrics, including NPM, ROTA, ROSF and EPS. This shows that businesses with large debt-equity ratio have less profitability and shareholders return. The importance of effective assets utilisation in creating increased profitability and returns for shareholders, on the other hand, is shown by significant positive correlations between net profit margin and return on total assets as well as return on shareholders' funds. The debt-equity ratio, which is another indicator of moderate leverage in descriptive statistics. However significant variation is seen across important performance indicators especially in EPS, indicating a variety of financial characteristics in the sample.

Keywords: Capital Structure, Financial Performance, DER, NPM, ROTA, ROSF, EPS

1. Introduction

The exact ratio of debt to equity utilised to fund a company's assets and activities is referred to as its capital structure. It is the process through which a business uses a combination of equity and liabilities to fund its assets. Equity capital comes from claims to a company's future cash flows and earnings as well as ownership stakes in the latter. Bonds issuances and loans are examples of debt, whereas ordinary stock, preferred stock, and retained earning are examples of equity. Additionally regarded as components of the capital structure is short term debt.

The level to which a company is or has achieved its financial goals is referred to as financial performance. It serves as gauge of a company's overall financial health over a certain time period and may be used to compare enterprises in same industry or to compare whole industries or sectors. Based on a company's assets, liabilities, equity, costs, revenue and overall profitability, financial performance is assessed. A formal record of a company's financial activity and condition is provided through financial statement such the balance sheet, income statement, and statement of cash flows.

In order to fully identify the profitability and financial soundness of the business, financial performance analysis also includes the analysis and interpretation of financial statements. Indicators of financial performance are quantifiable metrics used to gauge a company's performance. Internal and external consumers both value financial performance. External users assess financial performance to discover prospective investment possibilities and whether a firm is worthwhile, while internal users do so to access the health and position of their individual organization.

India is the second largest producer of crude steel in the world, and its steel sector has seen substantial growth over the past ten years. The Indian steel market is divided into three categories: liquid steel, crude steel, and finished steel. For end- user industries, the market is divided into automotive and

transportation, building and construction, tools and machinery, energy, consumer goods, and other. About 2.5 million people directly or indirectly employs through steel sector. There is a player consolidation in the market, which has drawn in investors from other industries.

2. Literature Review

Chadha, S., & Sharma, A. K. (2015) investigated how capital structure or financial leverage affected the financial performance of companies. To examine the connection between leverage and business performance, 422 listed Indian manufacturing enterprises on the BSE. We're used as sample. The assess the leverage effect, a ten -year period from 2003-2004 to 2012-13 and yearly financial standalone data were taken into account. The empirical investigation was carried out using a panel data technique and ratio analysis. Tobin's Q, return on assets, and return Im equity are used as proxies to gauge the firm's financial performance. It was found that the firm's financial performance metrics of return on asset and Tobin's Q unaffected by financial leverage. However, have a negative and strong correlation with return on equity. In the Indian manufacturing sector, other independent variables including size age, Tangibility, sales growth, asset turnover and ownership structure play a key role in determining firm's financial success.

Singh, N. P., & Bagga, M. (2019) tried to analysis of the impact of capital structure on the profitability of the nifty 50 firms listed on the NSE of India from 2008 to 2017. Descriptive status, correlation and multiple panel data regression models have all been used to examine the data. The association between capital structure and profitability has been investigated using four distinct regression models. They looked at the specific impact of total debt and total equity ratios on profitability, or ROA and ROE, in these models. Fixed effects, random effects and pooled OLS have all been tried on all four models. They came to the conclusion that the capital structure has a considerable favourable influence on the firm's profitability.

Abdullah, H., & Tursoy, T. (2021), attempted to empirically examine the connection between capital structure and corporate performance. The non financial companies listed in Germany from 1993 to 2016 were used as sample of research. The adoption of IFRS by the European stock market in 2005 is another turning event that thought to have affected hoe strong association was. They noticed that, in contrast to other comparable nations, more than 60% of the total assets of German non-financial enterprises were funded by debt. The outcome supported the hypothesis that capital structure and company performance are positively correlated. Additionally, they found that the adoption of IFRS has improved the performance of sample firm's while weakening the link between capital structure and performance. The advantages of the tax shield and the reduced cost of issuing debt relatively to equity were two potential explanations for the positive relationship between capital structure and performance.

3. Research Objective

The main objective of this study is to find the relationship between Capital Structures and financial performance of selected iron and steel companies in India.

4. Research Methodology

The research methodology comprises the following.

Research design: In this study, a descriptive research design is performed. This research is completely related to quantitative data.

Sample type: It is only related to the Iron and Steel Industry of India.

Sampling technique: In this research deliberate sampling method was used. The selection is based on the non-probability sampling method.

The following samples were selected

1. JSW STEEL
2. TATA STEEL
3. HIDALCO

- 4. JINDAL STEEL & POWER
- 5. SAIL

Sources of data: This research depends on secondary data only. The websites, annual reports, financial statements, and other relevant information were used in this research.

Time period: The data was collected over a 10-year data period from 2012-13 to 2021-22. Those companies having consistent data were selected as samples.

Research tools: The data collected has been classified into tabular form.

Accounting tools: Ratio analysis was used to evaluate both capital structure and financial performance. The capital structure indicated by Debt-equity Ratio and the financial performance indicated by Net profit margin, return on shareholders funds, return on total assets, and earning per shares.

Statistical tools: Descriptive statistics and correlation are used in this study.

5. Data Analysis and Interpretation

Table 1: Descriptive Statistics

	Mean	Std. Deviation	N
Debt-Equity Ratio	.8454	.49930	50
Net Profit Margin	5.4257	8.44203	50
Return on Total Assets	3.6864	5.32169	50
Return on Shareholders' Funds	5.9042	8.53572	50
Earning Per Shares	29.5522	46.2793	50

Sources: From Author's computation

Interpretation

The above tables shows descriptive statistics of financial measures. A modest amount of leverage is indicating by average of debt equity ratio, which is at 0.85, while net profit margin varies significantly amongst companies, it typically around 5.4257, indicating varying levels of profitability. Return on total assets and return on shareholders' funds have average values of roughly 3.6864 and 5.9042, respectively, and both have a substantial amount of variability, indicating differing levels of efficiency in asset usage and returns to shareholders. The standard deviation of earning per share is a significant 46.2793, showing a broad range of values, although the average is about 29.55. with the help of these data, it is possible to make well informed financial decisions by getting a complete picture of the financial performance, leverage, and profitability of selected companies.

Table 2: Correlations

		Debt-Equity Ratio	Net Profit Margin	Return on Total Assets	Return on Shareholders' Funds	Earning Per Shares
Debt-Equity Ratio	Pearson Correlation	1	-.413**	-.473**	-.376**	-.250
	Sig. (2-tailed)		.003	.001	.007	.080
	N	50	50	50	50	50
Net Profit Margin	Pearson Correlation		1	.929**	.954**	.696**
	Sig. (2-tailed)			.000	.000	.000
	N		50	50	50	50
Return on Total Assets	Pearson Correlation			1	.976**	.716**
	Sig. (2-tailed)				.000	.000
	N			50	50	50

Return on Shareholders' Funds	Pearson Correlation				1	.653**
	Sig. (2-tailed)					.000
	N				50	50
Earning Per Shares	Pearson Correlation					1
	Sig. (2-tailed)					
	N					50
**. Correlation is significant at the 0.01 level (2-tailed).						

Debt-Equity Ratio and Net Profit Margin:
 Sources: From author's computation

Interpretation

•Debt-Equity Ratio and Net Profit Margin:

Correlation: -0.413 (negative correlation)

The negative association shows that when the debt-to-equity ratio rises, the net profit margin has a propensity to decline. This suggests that reduced profitability may result from debt levels that are higher than equity levels.

•Debt-Equity Ratio and Return on Total Assets:

Correlation: -0.473 (negative correlation)

This suggests that greater Debt-Equity Ratios are related to lower Return on Total Assets in a manner similar to the first association. This implies that the efficiency of asset usage may be impacted by greater debt levels compared to equity.

•Debt-Equity Ratio and Return on Shareholders' Funds:

Correlation: -0.376 (negative correlation)

Once more, this inverse relationship shows that a poorer Return on Shareholders' Funds is linked to a larger Debt-Equity Ratio. This suggests that larger debt levels in comparison to equity may have an impact on shareholders' returns.

•Debt-Equity Ratio and Earnings Per Share:

Correlation: -0.250 (negative correlation)

This relationship suggests that earnings per share are likely to decline when the debt-to-equity ratio rises. This shows that lower earnings per share may result from debt levels that are greater compared to equity.

•Net Profit Margin and Return on Total Assets:

Correlation: 0.929 (strong positive correlation)

According to this significant positive link, organisations with larger net profit margins also typically have better returns on total assets. This shows that better asset use and higher profitability are related.

•Net Profit Margin and Return on Shareholders' Funds:

Correlation: 0.954 (very strong positive correlation)

This extremely strong positive association shows that companies with larger net profit margins typically have higher return on shareholders' funds. This implies that better returns for shareholders are linked to improved profitability.

•Net Profit Margin and Earnings Per Share:

Correlation: 0.696 (positive correlation)

As per this positive correlation, companies with higher net profit margins are likely to have higher EPS. This suggests that higher earnings per share are linked to increased profitability.

•Return on Total Assets and Return on Shareholders' Funds:

Correlation: 0.976 (very strong positive correlation)

As per this extremely strong positive link, companies that have greater Return on Total Assets also typically have higher Return on Shareholders' Funds. This shows that improved shareholder returns are related to asset use efficiency.

•Return on Total Assets and Earnings Per Share:

Correlation: 0.716 (positive correlation)

A greater Return on Total Assets may lead to better Earnings Per Share, according to this positive association. This suggests that better earnings per share are linked to effective asset usage.

•Return on Shareholders' Funds and Earnings Per Share:

Correlation: 0.653 (positive correlation)

A higher Return on Shareholders' Funds may be associated with better Earnings Per Share, according to this positive association. This suggests that higher earnings per share are related to better returns for shareholders.

6. Findings and conclusion

This study tries to examine relationship between capital structure and financial performance. For this purpose 10 years data of 5 listed iron and steel companies of India are analysed. Some significant conclusion can be drawn from the correlation and descriptive tables. Firstly, there is a definite inverse relationship between the debt to equity ratio and number of financial performance measures, such as net profit margin, return on total assets, return on shareholders funds, and earnings per shares. This shows that the companies with a less debt to equity ratio typically have a worst profitability and shareholders returns. On the other hand there is a significant positive correlation between net profit margin and return on total assets as well as return on shareholders funds showing that higher profitability is linked to better returns for shareholders and more effective assets management. As per descriptive data, the companies generally retain a moderate amount of leverage. The key performance indicators play strong exhibit significant fluctuations, notably in earning per share, where value can worry greatly. Together this data highlight how crucial it is for organization to manage leverage while also maximising assets used, profitability, and return to shareholders.

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