

REVIEWING CAPITAL STRUCTURE PATTERNS AMONG SELECTED COMPANIES LISTED ON THE NATIONAL STOCK EXCHANGE

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Abstract

The capital structure of a firm is often regarded as the most influential factor in predicting its long-term performance. A capital structure that incorporates many asset classes may generate increased returns for the company and its stockholders. As a result, this research looks at how capital structure affects business profits. This study's goal was accomplished by the use of correlation and regression analysis on the companies that were investigated. Books and periodicals, as well as the official NSE website, provided the essential secondary data. Given the significance of financial leverage's advantages to a business's bottom line, this article's primary objective is to shed light on the impact that leverage has on the stock market performance of publicly traded corporations. The data as a whole points to a favourable correlation between financial leverage and the outcomes for the sample enterprises. To rephrase, businesses that take on more debt tend to earn more money.

Keywords: financial leverage's, capital structure, stock proceeds, selected companies, national stock exchange.

Introduction

The financing structure that a business chooses is crucial. The ideal capital structure of a company is a key consideration throughout the capital structure decision-making process. When a business is forming or when it has an imminent need for money to satisfy its capital expenditure plans, the decision on the capital structure should be made in advance. The optimal capital mix is the combination of capital sources that results in the lowest total cost of capital, and it is this mix that financial managers must consider when making funding decisions. So, anytime a company needs money for developments, it must make a choice about its capital structure. The best capital structure is the one that maximises the company's market value. A corporation's capital structure consists primarily of debt, common stock, and preferred stock. Common stock and preferred stock are two forms of equity financing, whereas loans due, notes payable, bonds, debentures, and other forms of debt financing are also ways in which a company might obtain capital. Investors who hold equity in a company do so with the expectation that it will increase in value in the not-too-distant future. Debt holders, on the other hand, are the firm's creditors and are primarily concerned with getting their interest and principal back on time, rather than in the long run. When deciding how to allocate corporate funds, financial managers may find themselves at odds with company shareholders. Therefore, the status of the company's financial management is critical when making choices about capital structure.

How much of a company's funding originates from external investors as opposed to internal resources is measured by the debt-to-equity ratio. Organizational and sectoral differences

exist. 'Unlevered businesses' are those that use exclusively equity financing, whereas 'levered firms' use both debt and equity. The financial management of a company is responsible for determining the most advantageous capital structure since it influences shareholder wealth and because an unwelcome increase in the amount of debt in the capital structure could raise the firm's probability of going bankrupt. For this reason, it is crucial to a company's success.

Objectives

1. To chart out literature review in Capital Structure to get more insights.
2. To figure out how the amount of debt affects performance.
3. To identify the impact of capital structure on ROA, ROE and EPS.

Research Methodology

The current study investigates the effect that various capital structures have on the profitability of companies that are listed on certain Indian stock exchanges. In order to accomplish the aforementioned objective, the research project used correlation and regression analysis on the companies that were the focus of the study. The essential secondary data have been obtained from the official website of the NSE, as well as from books and publications. The research covered a time span of the previous ten years, beginning in March 2013 and ending in March 2022. The remaining 15 companies from the other 50 index were deemed to have less operational history, hence the total number of companies being examined for further data analysis has been increased to 35. The debt-equity ratio, the long-term debt to total assets ratio, and the short-term debt to total assets ratio are the three ratios that are used to analyse a company's capital structure. Return on capital employed, return on assets, and return on equity are some of the additional measures of profitability that have been taken. Companies, market researchers, educators, and investors can all benefit from the study's findings because it reveals the influence that capital structure has on the profitability of a company.

Literature Review

Habibniya, et.al. (2022) There is always the chance of increased financial risk when considering debt financing as a source of capital, but in a typical business setting, debt financing is also considered as a way to increase earnings. It has always been tricky to determine what proportion of loan and equity should be used. A high ratio of total liabilities to total assets was found in the sample of US telecom companies under scrutiny. Capital structure (CapSt) is a crucial factor that can make or break a company, hence it's important that scholars look at it. Using pooled panel regression, univariate analysis, correlation, and descriptive statistics methods, we examined annual data from the US telecom sector from 2012-2020. There were 421 observations representing 72 different firms and their respective years of operation in this data set. We hypothesised that the profitability (ROA and ROE) of enterprises in the United States' telecommunications industry would be significantly impacted by the ratios of total liabilities to total assets (TLsTAs) and total equity to total assets (TETAs). Based on the findings, it is clear that both TLsTAs and TETAs have major effects on ROA. Nonetheless, neither TLsTAs nor TETAs affect return on equity.

Rizal Ahmad Fauzi, Noer Azam Achsani, Trias Andati, & Lukytawati Anggraeni (2022) Profitability in the telecom industry is studied to learn how capital structures affect bottom lines. When evaluating a company's success, the return on assets is preferred over the debt-to-assets ratio. Using a dynamic data panel regression model and the extended approach of moment's methodology, we examine the data of 62 telecoms companies from around the

world from 2010 to 2020. In both established and developing nations, as well as among integrated and wireless telecommunications enterprises, there was a robust correlation between a company's financial structure and its performance. Other than age and industry, business size and expansion also affect performance. The originality of this research resides in the fact that it analyses the telecommunications sector on a global scale with respect to both demographics (developed vs. emerging nations) and industries (integrated and wireless telecommunication).

Priti Mehta (2021) The capital structure of a company is a key determinant of its financial health. Capitalization that includes a variety of asset classes may provide for greater returns to the company and its stockholders. Hence, the goal of this research is to examine how capital structure affects profits for the companies that comprise India's Nifty 50 stock index. The information gathered from the businesses was analysed using a combination of regression and correlation. Researcher have collected all the supplementary information needed from canonical secondary sources including the official NSE website, books, and journals. This analysis takes into account the last decade, from March 2011 through March 2020. Since the other 15 Nifty 50 firms are deemed to have insufficient data, researcher are only considering a total of 35 companies for this research. The debt-equity ratio, the long-term debt to total assets ratio, and the short-term debt to total assets ratio are the three ratios used to evaluate a company's capital structure. Many metrics, such as return on investment, return on assets, and return on equity, have been used historically to assess financial success. Business owners, analysts, scholars, and investors would all benefit from learning how changes in capital structure affect a company's bottom line.

Butalal Ajmera (2019) This article aims to analyse the impact of capital structure on the financial status of a representative group of leading paper manufacturers in India. A reliance on secondary sources of information has been acknowledged. The research period spanned five full years, from 2014–2015 to 2018–2019. Descriptive statistics, a correlation matrix, and a forensic data analysis are only some of the accounting ratio and statistical techniques employed. The financial indicators of ROA, ROCE, EPS, and value are all positive, as shown by the descriptive statistics. The capital structure is more heavily weighted toward debt than equity, as seen by the debt-equity ratio. Financial performance was evaluated using four metrics: return on assets (ROA), return on capital employed (ROCE), earnings per share (EPS), and value. The firm's size, interest coverage ratio, and debt-equity ratio were considered, as were the firm's debt level and log of debt. The interest coverage ratio has a considerable impact on the ROI of Model 1, and it also has an impact on the ROA of Model 2. (both in the fixed-effect model). Model 2 demonstrates how the debt-equity ratio, the long-term debt-equity ratio, and the interest coverage ratio all have a substantial impact on ROCE (RCOE). In the fixed-effect model, the only two factors that significantly affect ROCE are firm size and interest coverage. The debt-equity ratio, the long-term debt-equity ratio, the firm size, the log of debt, and the interest coverage ratio are all shown in Model 3 to have no influence on earnings per share. When calculating earnings per share (EPS), the firm's size can be considered when using the fixed effect approach. None of the debt-equity ratio, long-term debt-equity ratio, log of debt, or interest coverage ratio metrics have any bearing on EPS. Based on the results of Hypothesis 4, the size of the company is a major factor in establishing its value. All of the independent variables are shown to be negligible in the fixed effect model of valuation.

Singh and Bagga (2019) Learning how capital structure impacts a company's bottom line is one of the most challenging problems encountered by finance professionals. Despite several analyses examining the relationship between capital structure and corporate performance, few

have concentrated on India. This research project's stated goal was to examine how capital structure affected the bottom lines of the Nifty 50 companies trading on India's National Stock Exchange from 2008 to 2017. Researchers have used multiple panel data regression models and correlation analysis to look at the data. The correlation between capital structure and profits was analysed using four distinct regression models. These models separate out the contributions of debt and equity to earnings (ROA and ROE, respectively). Pooled ordinary least squares, fixed effects, and random effects analyses have been performed on all four models. Evidence suggests that a company's bottom line can be significantly improved by changing its capital structure.

Das & Swain, (2018) To this end, they conducted interviews and surveys to learn how different types of financial structures affected company performance. The sample size consists of 50 manufacturing firms. By way of illustration, they selected 20 businesses according to market capitalization, 20 businesses according to total assets employed, and 10 businesses according to revenue and growth. Data from the past decade have been considered. The analysis in this study was done using a regression model. Debt equity ratios, current ratios, earnings per share, return on assets, return on equity, return on capital employed, and the total debt to total assets ratios are all used in conjunction with other metrics like return on equity, return on capital employed, earnings per share, and the current ratio. The research shows that capital structure significantly affects a company's profitability and efficacy.

Elena Alexandra Nenu, et.al (2018) This article tracks how conventional wisdom on the triangle of capital structure, risk, and corporate success has changed over time. The capital structure of a corporation is fluid, changing over time in response to industry trends, government policies, and internal factors. Adjustments to profit projections can lead investors' risk/reward choices to shift in exchange for continued access to a company's resources, which can in turn create a shift in the company's capital structure. This research makes an important contribution to the literature by examining the factors that form the basis of the financial framework of Romanian firms. A group of companies trading on the Bucharest Stock Exchange were used in an econometric study. Multivariate fixed-effects regressions and dynamic panel data estimations were among the methods used (two-step system generalised method of moments, GMM). The era of analysis, 2000–2016, encompasses a time of profound transformation in the Romanian economy. Our findings indicate a favourable relationship between leverage and both firm size and stock price volatility. However, the debt structure has a unique effect on business success, which may be observed in either the accounting metrics or the movement of the stock price.

Basit & Irwan (2017) Finding that the sample businesses rely largely on equity funding runs counter to the study's goal of determining whether capital structure influences company performance. Earnings per share are also significantly impacted negatively by debt equity, while overall debt has a little effect. Furthermore, it was established that excessive reliance on borrowed capital, as opposed to the most efficient type of financing, might have a deleterious effect on a company's profitability. Fifty manufacturing firms were selected using a convenience sample method for this research. He looked at information from the last five years. Some indicators used in the study include the debt-to-equity ratio, the total-debt-to-equity ratio, the return-on-assets ratio, the return-on-equity ratio, and the earnings Analysis of the study included both descriptive statistics and multiple regression.

Research Gap

All the literatures documented here are for one or few specific industries. This review is targeting for effective Capital Structure of firms to keep the interest of shareholders, Return on Assets (ROA), Return on Equity (ROE), Earning Per Share (EPS) majority of the industries in India, like manufacturing, consumer goods etc. Doing further research is the critical contribution to this study.

Conclusion

This demonstrates that capital structure becomes significant when better assumptions are made. The paper contends that the assertion regarding the scientific character of the mainstream academic finance is problematic because the findings of intricate mathematical models change when their assumptions are revised. The paper challenges the mainstream of academic finance's claim of scientific rigour by arguing that results from complicated mathematical models alter as soon as their underlying assumptions are modified. Knowledge of finance, like knowledge of any other phenomena, results from the researcher's paradigmatic approach to the topic. From this perspective, learning about finance is as much a moral, ideological, and political endeavour as it is a technical one. Financial phenomena are only one example of the many that may be studied and understood from four distinct paradigms. This method can be applied to the study of other phenomena to learn more about the topic at hand, and it can also be applied to the research of financial phenomena.

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