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HYPOTHESIS (ES)
RESEARCH METHODOLOGY
RESULTS & DISCUSSION
FINDINGS
RECOMMENDATIONS/SUGGESTIONS
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COMPARATIVE STUDY OF CAPITAL STRUCTURE: A CASE STUDY OF TATA POWER & ADANI POWER

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ABSTRACT

The choice of appropriate source of fund for capital structure is one of the major policy decisions taken by a firm .The combination of debt & equity is known as capital structure of the firm. Capital Structure is the Ratio of long-term sources of finance in the total capital of includes 'Proprietor's Funds' and 'Borrowed Funds'(Proprietors Funds include equity capital, preference capital, reserves and surpluses retained earnings and Borrowed Funds include long-term debts such as loans from financial institutions, debentures etc. Capital structure can influence not only the return of a company earnings for its stakeholders, but also helps in determining the financial position of the company whether or not a firm survives will survives in recession or depression. There are two most popular source of fund which a company can get finance owned capital (equity) and borrowings (Debt). An optimal debt equity mix gives a healthy result of the financial wealth for the company. This was the main threshold of the capital structure forecasting and planning. Because of this many industries recognized and reorganized their capital structure. The main aim of present study is to comparatively analyze the capital structure of the power industry with special reference Tata power and Adani power. The research study is descriptive and analytical which is conducted on the basis of secondary data. The present study is based on the analysis of five years annual reports of Tata power and Adani power from 2011 to 2015.

KEYWORDS

'Proprietor's Funds', 'Borrowed Funds', Capital Structure, Debt-equity ratio, Debt equity mix.

1. INTRODUCTION

The term "capital structure" represents the total long term investment in a business firm. It includes funds raised through ordinary and preference shares, bonds, debentures, terms loans from financial institutions, etc. Any earned revenue and capital surpluses are included. The capital structure is made up of debt and equity securities which comprise a firm's finance of its assets. It is the permanent financing of a firm represented by long-term debt, plus preferred stocks and net worth. The determination of the degree of liquidity of a firm is no simple task. In the long run, liquidity may depend on the profitability of a firm; but whether it survives to achieve long-run profitability depends to some extent on its capital structure. This includes only-term debt and total stakeholders' investment. It may be defined as one including both short-term and long-term funds. The term capital structure is used to represent the proportionate relationship between debt and equity. Equity includes paid-up capital, share premium and reserves and surplus (retained earnings). The various means of financing represent the financial structure of an enterprise. Capital structure decision is one of the strategic decisions taken by the financial management. Considerable attention is required to decide the mix up of various sources of finance. A judicious and right capital structure decision reduces the cost of capital and increase the value of a firm while a wrong decision can adversely affect the value of the firm. As discussed earlier, various sources of finance differ in terms of risk and cost. Hence, there is utmost need of designing an appropriate capital structure. Company's short and long term debt is considered when analyzing capital structure. A method of analyzing the impact of alternative possible capital structure choices on a firms credit statistics and reported financial results, especially to determine whether the firm will be able to use projected tax shield benefits fully. There are different method of analyzing capital structure of the power company are ratios, trend analysis, common size statements, comparative statements. In this study the analysis of capital structure of Tata power and Adani Power is done through ratios.

2. LITERATURE REVIEW

Roshan Budhoo (1996) propounded that 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.

Booth,Aivazian,Kunt &Maksimovic(2001) in their study analyzed the capital structure choices of firms in 10 developing countries. It was found that variables which are relevant for explaining capital structure in United States & European Countries are also relevant in developing countries.

Sterken (2002) Firms having high risk exposure, rely more on the cash flow than the others. Financial distress is main reason for this proposal. Facing high risk signals the financial weakness of the firms. Once they are financially weak today it is very probable that they are weak in the future. These firms need more external funds to survive. They need these funds to sustain their obligations. But it is not very easy for these firms to find the needed funds because of having financing premium. Firms should carry the burden of higher costs of external funding than before. These firms are also in the risk of losing chances of profitable investments. As a consequence, these firms are more cash-flow dependent.

Bhole and Mahakud (2004), in their study analysed the trends in corporate capital structure in India in respect of public limited companies and private limited companies during the period of 1966 – 67 to 2000 – 01. The determinants of capital structure have also been studied by using panel data pertaining to 330 private limited companies. It was found that leverage ratios of public limited & private limited companies have increased significantly during 1966 – 2000. The dependence on debt is more in case public limited companies as compared to private limited companies.

Sahoo & Omkar Nath (2005), analyzed the capital structure of Indian corporate sector to examine whether any shift has taken place in the financing pattern of Indian corporate sector after the implementation of Financial Liberalization in profitability and service diversification are main critical factors influencing the capital structure of Indian banking firms.

Kaur, Jatinder (2007), discussed in her study about the preferred hierarchy among debt and equity by the corporate firms and differences in capital structure practices followed by private sector companies, magnitude of short term debt, long term debt and major changes in capital structure practices of private corporate sector companies in view of economic liberalization and globalization in India using data of top 25 companies chosen from BT 500. It was found from the study that since the early 1990s significant structural changes in Indian capital markets, particularly in equity market have enhanced Indian firms‟ flexibility in choosing their capital structure optimally.

Mishra (2011) in his study observed a changing pattern in financing of PSUs with reforms in Indian economy. He found that PSUs have challenge to access the market for both equity & debt finance.

Kumar,Anjum & Nayyar (2012) in their paper analyzed the change in capital structure pattern of three reputed pharmaceutical companies for the period of 2007-2011.It was found that in the initial period, companies were raising maximum debt fund to reduce the cost of capital but which resulted in increase of financial risk. So, later on they shifted to equity financing..

Kalyani & Reddy (2012) in their study found that Amara Raja Batteries Ltd mostly depended on equity financing. It was suggested that ARBL should raise the debt funds to bring the optimum capital structure for improving financial performance of the companies.

1. NEEDS AND SIGNIFICANCE OF THE STUDY

Capital structure decision is one of the strategic decisions taken by the financial management. Considerable attention is required to decide the mix up of various sources of finance. A judicious and right capital structure decision reduces the cost of capital and increase the value of a firm while a wrong decision can adversely affect the value of the firm. As discussed earlier, various sources of finance differ in terms of risk and cost. Hence, there is utmost need of designing an appropriate capital structure. Capital structure decisions are of great significance due to the following reasons:

- Capital structure determines the risk assumed by the firm.
- Capital structure determines the cost of capital of the firm.

This study will be helpful for the society in view of various schemes as acceptance of deposits, provide facility of insurance mutual fund management, long-term pension fund and provide consumer loan for various purposes as housing loan, car loan, educational loan etc.

It will also help the professionals, academicians who have a better understanding of the relevance of capital structure of the power companies.

4. OBJECTIVE OF THE STUDY

1. comparatively analyze the capital structure position of Tata power and Adani Power
2. The effect of capital structure on the profitability of the companies in relation of various ratios.

5. RESEARCH METHODOLOGY

In the present research the data is taken from the secondary sources. Research methodology explains and chooses the best (in terms of quality and economy) way of doing it. The information and data for the research can be collected through primary as well as secondary sources i.e. published articles, journals, news papers, reports, books and websites. The profit & loss account and balance sheet of the of Tata power and Adani power limited for the last five years i.e. from 31st March 2011 to 31st March 20015 were studied to get the clear picture of the capital structure. The available data between these periods has been carefully analyzed, interpreted and presented by studying the capital structure of Tata power and Adani power limited. Commensurate with the objective of the study, various tools of analysis have been employed in order to arrive at certain conclusions regarding "Comparative analysis of capital structure of Tata power and Adani power limited. Tabular analysis, percentage and graphs have been used for analysis of the data.

5. I.TATA POWER PROFILE

Tata Power is an Indian electric utility company based in Mumbai, Maharashtra, India and is part of the Tata Group The core business of the company is to generate, transmit and distribute electricity With an installed electricity generation capacity of about 8,747 MW, it is India's second largest private power producer. At the end of August 2013, its market capitalization was $2.74 billion (INR 182 billion. Tata Power has operations in India, Singapore, Indonesia, South Africa and Bhutan. Tata Power Group has its operations based in 35 locations in India.

The thermalpowerstations ofthecompanyarelocatedat Trombay in Mumbai, Mundra in Gujarat, Jojoberaand Maithon inJharkhand, Haldia in West Bengal and Belgaum in Karnataka. The hydro stations are located in the Western Ghats of Maharashtra and the wind farms in Ahmednagar, Supa, Khanke, Brahmanwel, Gadag, Samana and Visapur. The company installed India's first 500 MW unit at Trombay, the first 150 MW pumped storage unit at Bhira, and a flue gas desulphurization plant for pollution control at Trombay. It has generation capacities in the States of Jharkhand and Karnataka, and a distribution company in Delhi, servicing over one million consumers spread over 510 square km in the North Delhi. The peak load in this area is about 1,150 MW. Tata Power announced on 24 July 2012, commissioning of the second unit of 525 MW capacity of the Maithon mega thermal project in Dhanbad. The first unit of identical capacity was commissioned in September 2011. Tata Power has a 51:49 joint venture with PowerGrid Corporation of India for the 1,200 km Tala transmission project, India's first transmission project executed with public-private partnership financing.Tata Power has plans to expand generation capacity of 4,000 MW Mundra plant, the country's first operational ultra mega power project, to 5,600 MW.The company has also a 74:26 joint venture with Damodar Valley Corporation for 1050 MW coal-based thermal power plant at Maithon in Dhanbad district of Jharkhand, named as Maithon Power Limited. The both units are commissioned on 24.07.2012. It has another a 74:26 joint venture with Tata Steel Limited for thermal power plants to meet the captive requirements of Tata Steel, under name Industrial Energy Limited.Tata Power has announced its partnership with Sunengy an Australian firm to build India's firs

5. II.ADANI POWER PROFILE

Adani Power Limited is the power business subsidiary of Indian conglomerate Adani Group with head office at Ahmedabad, Gujarat. The company is India's largest private power producer, with capacity of 10,440 MW and also it is the largest solar power producer of India with a capacity of 40 MW. Adani Power Limited is ranked 334th in the top companies in India in Fortune India 500list of 2011. The company operates five supercritical boilers of 660 MW each (as per March 2012) at Mundra Gujarat & Five 660 MW units(as per May 2015) at Tiroda, Maharashtra. It also operates a mega solar plant of 40 MW at Naliya, Bitta, Kutch, Gujrat. It is India's first company to achieve the supercritical technology. The plant is the only thermal power plant in India to be certified by UN under CDM. The company is implementing 16500 MW at different stages of construction. Its mission is to achieve 20000 MW by 2020. The company produces electricity using only coal. 100 MW of solar power station is also under advanced stage of implementation at Surendranagar in Gujarat out of which 40 MW is already commissioned. The company has gone to long term PPAs of about 7200 MW of its 9280 MW with government of Gujarat, Maharashtra, Haryana and Rajasthan.As of January 2011, the company has 16500 MW under implementation and planning stage. A few of them are 3300 MW coal based TPP at Bhadreswar in Gujarat, 2640 MW TPP at Dahej in Gujarat, 1320 MW TPP at Chhindwara in Madhya Pradesh, 2000 MW TPP at Anugul in Orissa and 2000 MW gas-based power project at Mundra in Gujarat. The company is also bidding for 1000 MW of lignite coal-based power plant at Kosovo showing its international projects. In the second week of August 2014, Adani power has acquired Lanco Infratech's Udipi thermal power plant in a Rs 6000 crore deal. This would add another 1200 MW installed capacity, taking the group capacity to 10480 MW .

6. DATA ANLYSIS AND FINDINGS

The objectives of the study have been achieved after analyzing the following ratios of Tata power and Adani power for five years.

1. Debt equity ratio for five years of Tata power and Adani power
2. Long-term Solvency ratio for five years of Tata power and Adani power
3. Capital Gearing ratio for five years of Tata power and Adani power
4. Interest coverage ratio for five years of Tata power and Adani power
5. Earnings Per Share for five years of Tata power and Adani power

6. I ANALYSIS OF DEBT EQUITY RATIO

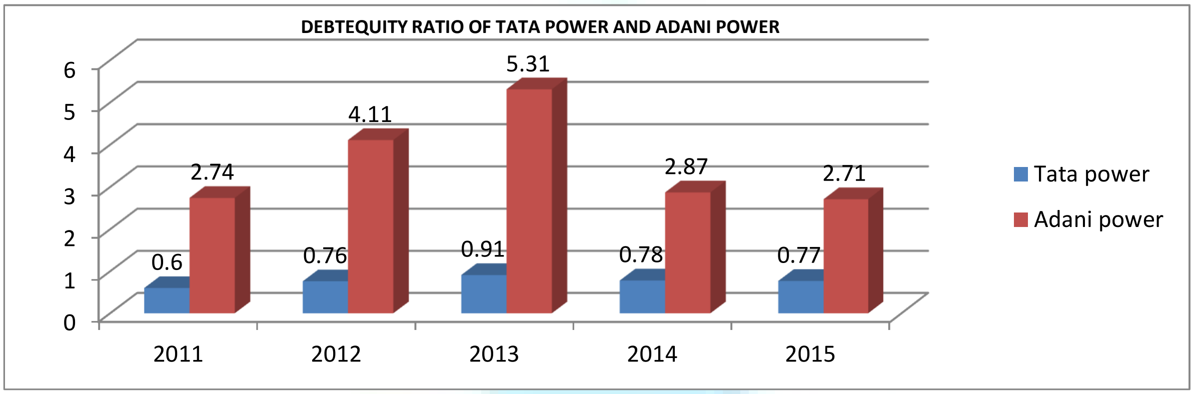
Debt to equity ratio is a long term solvency ratio that indicates the soundness of long-term financial policies of the company. It shows the relation between the portion of assets provided by the stockholders and the portion of assets provided by creditors. It is calculated by dividing total debt by stockholder's equity. A debt equity ratio of 2:1 is norm accepted. The higher the gearing, is the more volatile the return to the shareholders. The objective is to provide a security to outsiders on liquidation of the firm. An appropriate mix of the debt and equity improves the value of the firm.

Debt-equity ratio=*Total debt/Shareholders fund or Net worth*

TABLE 1: DEBT EQUITY RATIO OF TATAPOWER AND ADANI POWER

YEAR	Tata power			Adanipower		
	Debt Rs. Crores	Equity Rs. Crores	Ratio	Debt Rs. Crores	Equity Rs. Crores	Ratio
2011	6764.31	11239.99	0.60	16577.74	6322.71	2.74
2012	9133.11	11957.42	0.76	24803.48	6028.79	4.11
2013	11124.72	12260.85	0.91	24694.06	4649.77	5.31
2014	10255.52	13127.36	0.78	22317.20	7787.16	2.87
2015	12060.41	15727.99	0.77	20937.64	7716.15	2.71
Average			**0.76**			**3.55**

FIG. 1



Source : Dion Global Solutions Limited

FINDINGS:-Analysis shows that the debt equity ratio of Tata power at 0.60 in2011, 0.76 in 2012,0.91 in2013,0.78 in 2014 and 0.77 in 2015,with the average of 0.76. The debt equity ratio of Adani power was 2.74 in 2011, 4.11 in 2012, 5.31 in 2013, 2.87 in 2014 and 2.71 in 2015, with the average of 3.55. From the comparative bar chart it is clear that the debt equity ratio of Tata power is almost stable. But in case of Adani power the ratio is more volatile.

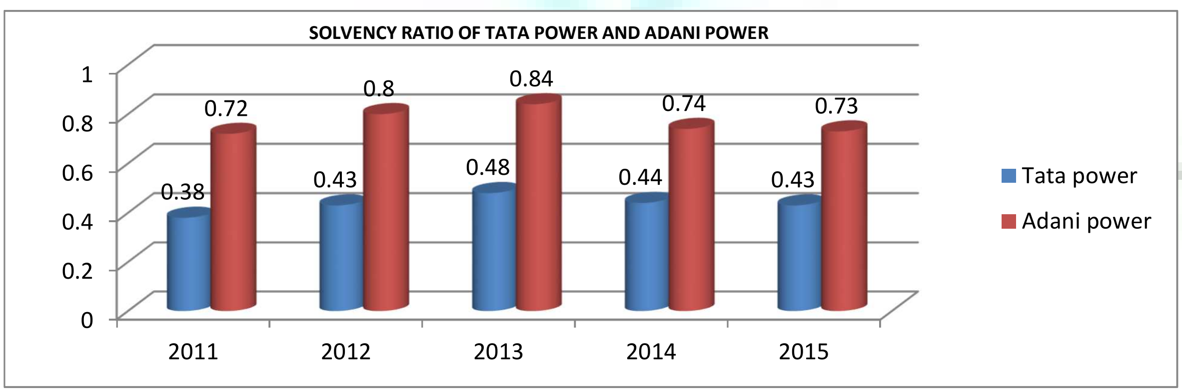
6. II ANALYSIS OF SOLVECY RATIO

Solvency ratio is a variant of proprietary ratio. It shows the relationship between total liabilities to outsiders to total assets. It provides a measurement of how likely a company will be continue meeting its debt obligations. Acceptable solvency ratios will vary from industry to industry. Generally it is observed that the lower ratio i.e. outsiders liabilities in the total capital of company the better is the long term solvency of the company. **Solvency ratio**=Total liabilities to outsiders/total assets.

TABLE 2: SOLVENCY RATIO OF TATA POWER AND ADANI POWER

Year	Tata power			Adani power		
	External Liabilities Rs. Crores	Total Assets Rs. Crores	Ratio	External Liabilities Rs. Crores	Total Assets Rs. Crores	Ratio
2011	6764.31	18004.30	0.375705	16577.74	22900.45	0.7239046
2012	9133.11	21090.53	0.433043	24803.48	30832.27	0.8044649
2013	11124.72	23385.57	0.475709	24694.06	29343.83	0.8415418
2014	10255.52	23382.88	0.438591	22317.20	30104.36	0.7413278
2015	12060.41	27788.40	0.434009	20937064	28653.79	0.730711
Average			**0.43**			**0.77**

FIG. 2



Source : Dion Global Solutions Limited

FINDINGS: The table and graph shows that the solvency ratio of Tata power was 0.38 in2011,0.43 in2012, 0.48 in2013,0.44 in 2014 and0.43 in 2015, with the average of 0.43.On the other hand the solvency ratio of Adani power was 0.72 in 2011,0.80 in2012,0.84 in 2013, 0.74 in 2014 and 0.73 in2015, with the average of 0.77. The Adani power has greater dependence on external sources of finance.

6. III ANALYSIS OF CAPITAL GEARING RATIO

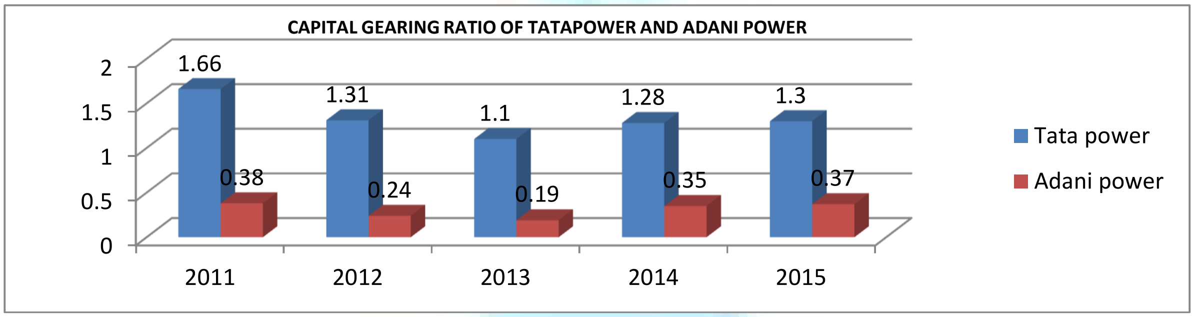
Capital gearing ratio is a useful tool to analyze the capital structure of a company and is computed by dividing the common stockholders' equity by fixed interest or dividend bearing funds. Analyzing capital structure means measuring the relationship between the funds provided by common stockholders and the funds provided by those who receive a periodic interest or dividend at a fixed rate. A company is said to be low geared if the larger portion of the capital is composed of common stockholders' equity. On the other hand, the company is said to be highly geared if the larger portion of the capital is composed of fixed interest/dividend bearing funds.

Capital Gearing ratio= common stockholders' equity/ Fixed interest bearing Fund.

TABLE 3: CAPITAL GEARING RATIO OF TATA POWER AND ADANI POWER

Year	Tata power			Adani power		
	Common stockholders' EquityRs.crores	Fixed interest bearing Funds (in crores)	Ratio	Common stockholders' Equity Rs. (in crores)	Fixed interest bearing Fund Rs. (In crores)	Ratio
2011	11239.99	6764.31	1.661661	6322.74	16577.74	0.381398
2012	11957.42	9133.11	1.309239	6028.79	24803.48	0.243062
2013	12260.85	11124.72	1.102127	4649.77	24694.06	0.188295
2014	13127.36	10255.52	1.280029	7787.16	22317.20	0.348931
2015	15727.99	12060.41	1.304101	7716.15	20937.64	0.36853
Average			**1.33**			**0.31**

FIG. 3



Source: Dion Global Solutions Limited.

FINDINGS:-The analysis shows that the Capital gearing ratio of the Tata power was 1.66 in 20011,1.31 in 2012,1.1 in2013, 1.28 in 2013,and in 2015 it was stood at 1.3 and the average ratio was1.33.Higher value means low geared capital structure. On the other hand the capital gearing ratio of Adani power was 0.38 in 2011, 0.24 in 2012,0.19 in 2013, 0.35 in 2014 and 0.37 in 2015. And average ratio was0.31. It means Adani power has high capital gearing ratio.

6. IV ANALYSIS OF INTEREST COVERAGE RATIO

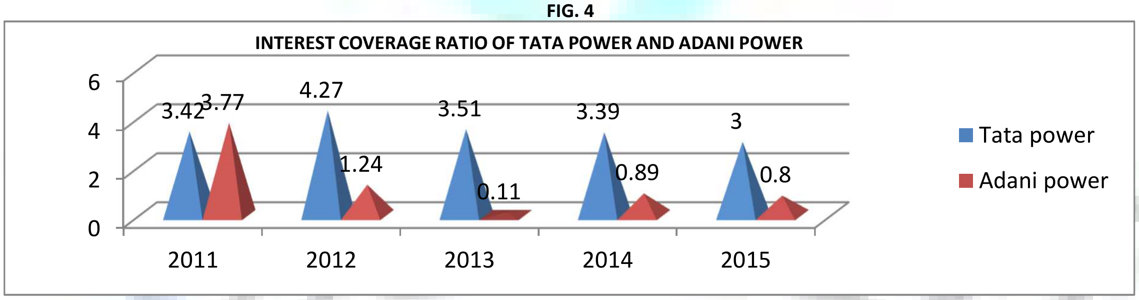
The **interest coverage ratios** establish the relationship between fixed claims and the firm's profitability out of which these claims are to be paid. So, this measure tries to relate profitability to the level of debt payments to assess the degree of comfort with which the firm can meet these payments. The interest coverage ratio help to analyze the firm's ability to service the fixed interest claims.

Interest Coverage Ratio= EBIT/Interest

TABLE 4: INTEREST COVERAGE RATIO OF TATA POWER AND ADANI POWER

Year	Tatapower			Adani power		
	EBIT Rs. Crores	Fixed Interest Charges Rs. Crores	Ratio	EBIT Rs. Crores	Fixed Interest Charges Rs. Crores	Ratio
2011	2081.76	459.80	3.42	1320.96	316.82	3.77
2012	2768.09	514.87	4.27	1335.51	787.68	1.24
2013	2745.73	678.25	3.51	1383.92	1739.18	0.11
2014	2946.51	868.21	3.39	3746.07	3023.61	0.89
2015	3138.40	1047.46	3.00	3310.36	2497.62	0.80
Average			3.52			1.36

FIG. 4



Source : Dion Global Solutions Limited

FINDINGS:- Interest coverage ratio of Tata power is 3.42 in 2011, 4.27 in 2012,3.51 in2013,3.39 in 2014 and it stood at 3.00 in2015, with the average of3.52.While interest coverage ratio of Adani power is 3.77 in 2011which reduces to 0.80 in 2015.In 2013 it stood at only 0.11 In 2013, with the average of 1.36, Which shows bad sign for the company.

6.V ANALYSIS OF EARNING PER SHARE

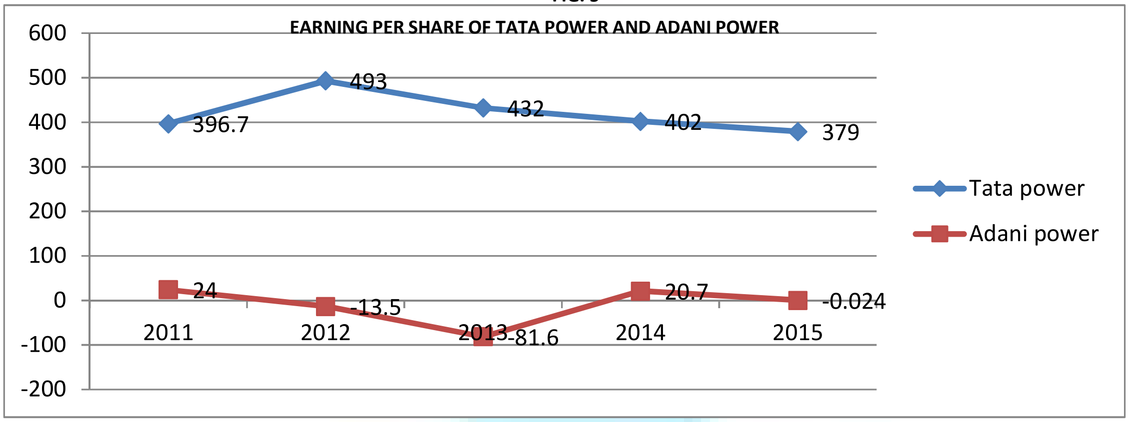
Earnings per share are the same as any profitability or market prospect ratio. Higher earnings per share are always better than a lower ratio because this means the company is more profitable and the Company has more profits to its shareholders. EPS simply shows the profitability of the firm on a per share basis. It is measured by dividing the net profit available to equity shareholders by number of Equity shares.

Earnings Per share= $\frac{\text{Net income after tax-Preferred stock dividend}}{\text{Average number of common Shares outstanding}}$

TABLE 5: EARNING PER SHAREOF TATA POWER AND ADANI POWER

Year	Tata power		Adani power	
	Earnings Per Share	Percentage on Face value	Earnings Per Share	Percentage on Face value
2011	39.67 (Face Value Rs. 10)	396.7	2.40(Face Value Rs. 10)	24
2012	4.93(Face Value Rs. 1)	493	-1.35 (Face Value Rs. 10)	-13.5
2013	4.32(Face Value Rs. 1)	432	-8.16 (Face Value Rs. 10)	-81.6
2014	4.02 (Face Value Rs. 1)	402	2.07 (Face Value Rs. 10)	20.7
2015	3.79 (Face Value Rs. 1)	379	-0.24 (Face Value Rs. 10)	-0.024
Average		**420.54**		**-10.08**

FIG. 5



Source: Dion Global Solutions Limited

FINDINGS: The earning per share of Tata power was 396.7% in 2011,493% in 2012,4%32 in 2013,402% in 2014 and 375% in 2015 on its nominal value of shares, with the average of 420.54%. On other hand the EPS of Adani power was 24% in 2011,-13.5% in 2012,-81.6% in 2013, 20.7in2014 and in 2015 it stood at -0.024%, with the average of -10.08%. It shows bad sign for the company.

7. CONCLUSION AND RECOMMENDATION

7.I CONCLUSION

1. After analyzing the various capital structure ratios of Tata power and Adani power,it is clear that the dependence of Tata power on its common share holders fund more or less stable but the dependence of Adani power on loan fund is increasing from 2011 to 2013 after that it was slowly decreased.
2. Generally it is observed that the lower ratio i.e. outsiders liabilities in the total capital of company the better is the long term solvency of the company. From the comparative study it is clear that the Tata power has better long term solvency position then the Adani power limited.
3. The larger portion of the capital of Tata power is composed of common stockholders' equity. Except 2011the dependence of common share holder is more or less stable over the study period. But in case of Adani power its dependence on outsiders fund is more. Its larger portion of the capital is composed of fixed interest bearing funds.
4. Interest coverage ratio of Tata power is slowly decreased over the study period. But in case of Adani power, interest payment ability of the company decreased to 0.11 in2013, after that it is slowly increased, but not satisfactory.
5. Earnings per share of Tata power are satisfactory with the average of 420.54% on the nominal value of share. The Investment opportunity in Tata power is better than Adani power. In case of Adani Power, it has to pay more interest on loan funds and faces problems in maintaining a good level of dividend (average -10.08 %on nominal value of shares) for common stockholders during the period of low profits. Borrowing is a cheap source of funds for many companies but a highly geared company like Adani power, is considered a risky investment by the potential investors.

7. II RECOMENDATION

- Timely review the combination of debt and equity mix and selecting the optimum capital structure of both the company.
- Interest payable ability of both the company has to be increased.
- Miscellaneous expenses of both the company has to be controlled, spatially Adani power limited.
- Timely review their overall cost of capital (debt, equity) of both the company.

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