INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, IT & MANAGEMENT

IJRCM

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OBJECTIVES
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RESEARCH METHODOLOGY
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A STUDY ON CAPITAL STRUCTURE AND FINANCIAL PERFORMANCE OF SELECTED CEMENT COMPANIES IN INDIA

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ABSTRACT

The capital structure refers to the relationship between the various long term in the forms of financials such as debenture, preference share capital and equity in financing the firm's assets are in every business proper mix of debt and equity capital in financing the firm's asset. The long term fixed interest bearing debt and preference share capital along with equity share is called financial leverage or trading equity. The financial performance is the analysis of process of financial strength and weakness of the firm. It can be establishing the relationship between the items of balance sheet and profit and loss account. It helps in short and long term forecasting and growth can be identified with the help of financial performance analysis. The study is made to attempt to analyze the capital structure and financial performance of selected cement companies in India.

KEYWORDS

cement companies, capital structure, financial performance, conception frame work.

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1. INTRODUCTION

The company's assets can be financed by increasing the owners claim or the creditors claim. The owners, claims increase when the firm raises funds by using ordinary shares or by retaining the earnings, the creditors' claims increase by borrowing. The various means of financing represents the financial structure of an enterprise. The capital structure is used to represent the proportionate relationship between debt and equity. Equity includes paid up share capital share premium and reserves and surplus. The capital structure decision is a significant managerial decision, it influences on the shareholders returns and risk. Financial performance is the act or performing financial activity and it refers to the degree of the financial objectives has been accomplished. It is the process of measuring the results of a company's policies and operations and it measures companies overall financial health over a period of time. The performance of any organization can be measured by using financial results of earnings; riskiness and profitability are two major factors determine the value of a business.

Capital Structure: 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. The variables used to study the capital structure of a firm are,

- Debt to equity and
- Debt to total funds.

Debt To Equity: A measure of a company's financial leverage calculated by dividing its total liabilities by stockholders equity. It indicates what proportion of equity and debt the company is using to finance its assets.

$$\text{Debt To Equity} = \frac{\text{Total Liabilities}}{\text{Share holders Equity}}$$

Debt To Total Funds: A measurement of a company's financial leverage, calculated as the company's debt divided by its total capital Debt includes all short-term and long-term obligations. Total capital includes the company's debt and shareholders 'equity, which includes common stock, preferred stock, minority interest and net debt.

Calculated as:

$$\text{Debt To Capital Ratio} = \frac{\text{Debt}}{\text{Shareholders' equity} + \text{Debt}}$$

Profitability: The state or condition of yielding a financial profit or gain. It is often measured by different profitability ratios which are a class of financial metrics that are used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time.for most of these ratios, having a higher value relative to a competitor's ratio from a period is indicative that the company is doing well. The variables or profitability ratio's used in this study are

- Return on capital employed (ROCE)
- Return on equity (ROE)

Return On Capital Employed: A financial ratio that measures a company's profitability and the efficiency with which its capital is employed. Return on Capital Employed (ROCE) is calculated as:

$$\text{ROCE} = \frac{\text{Earnings before Interest and Tax (EBIT)}}{\text{Capital Employed}}$$

"Capital Employed "as shown in the denominator is the sum of shareholders' equity and debt liabilities; it can be simplified as (Total Assets-Current Liabilities). Instead of using capital employed at an arbitrary point in time, analysis and investors often calculate ROCE based on" Average Capital Employed," which takes the average of opening and closing capital employed for the time period. A higher ROCE should be higher than the company's capital cost, otherwise it indicates that the company is not employing it effectively and is not generating shareholder value.

Return On Equity: The amount of net income returned as a percentage of shares holders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. ROE is expressed as a percentage and calculated as:

$$\text{Return On Equity} = \frac{\text{Net Income}}{\text{Shareholder's Equity}}$$

Gross Profit Ratio

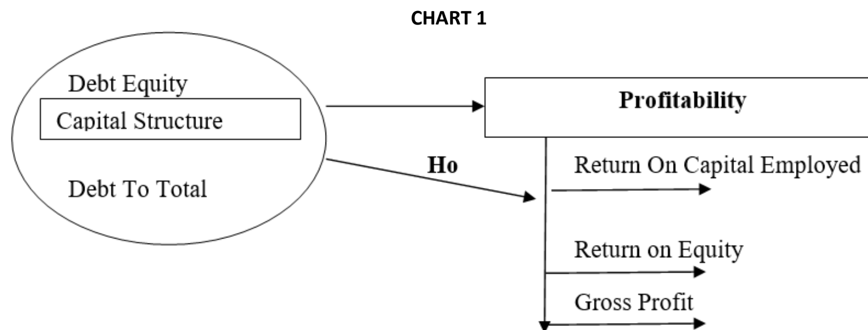
Gross Profit ratio is the ratio of gross profit to net sales that is sales less sales returns. The ratio reflects the margin of profit that concern is able to earn on its trading and manufacturing activity. It is the most commonly calculated ratio.

Gross Profit
Gross Profit Ratio = --------------------- x 1 00
Net sales

Gross profit ratio is the ratio of gross profit to net sales i.e. sales less sales returns. The ratio thus reflects the margin of profit that a concern is able to earn on its trading and manufacturing activity. It is the most commonly calculated ratio. It is employed for inter-firm and inter-firm comparison of trading results.

CONCEPTION MODEL

CHART 1



2. OBJECTIVES OF THE STUDY

1. To analyze the components of capital structure of selected Cement companies
2. To study the relationship of capital structure among the selected Cement companies.
3. To analyze the variability of capital structure of selected Cement companies.

3. RESEARCH METHODOLOGY

The research study is based on secondary data. To analyze the capital structure and financial performance of the cement industry the data is collected from the company's annual reports and websites.

3.1 PERIOD OF THE STUDY

The present study covers a period of five years 2015 to 2019

3.2 SAMPLE SIZE

To carry out the study sample 6 companies' selected form cement industry. The lists of companies are Ultratech cement Limited, Shree Cement Limited, India Cement Limited, ACC Ltd, Ramco Cements, and J K Cement. All the five companies are listed in BSE.

3.3 TOOLS AND TECHNIQUES

To analyze the data simple percentage analysis, correlation and Analysis of variance is used.

4. REVIEW OF LITERATURE

Abor (2005) investigates the relationship between capital structure and profitability of listed firms on the Ghana Stock Exchange and find a significantly positive relation between the ratio of short-term debt to total assets and ROE and negative relationship between the ratio of long-term debt to total assets and ROE.

Chiang et al., (2002) the study shows the interrelationship between profitability, cost of capital and structure among property developers and contractors in HongKong.

Gill, et al., (2011) seeks to extend Abor's (2005) findings regarding the effect of capital structure on profitability by examining the effect of capital structure on profitability of the American service and manufacturing firms. The Empirical results of the study show a positive relationship between short-term debt to total assets and profitability and between total debt to total assets and profitability in the service industry. The findings of this paper also show a positive relationship between short-term debt to total assets and profitability, long-term debt to total assets and profitability, and between total debt to total assets and profitability in the manufacturing industry.

Pandey, (2009) Capital Structure is referred to as the way in which the firm finances itself through debts, equity and securities. It is the composition of debt and equity that is required for a firm to finance its assets.

Mendell, 2006) investigated financing practices across firms in the forest products industry by studying the relationship between debt and taxes hypothesized in finance theory. In testing the theoretical relationship between taxes and capital structure for 20 publicly traded forest industry firms for the years 1994-2003, the study finds a negative relationship between profitability and debt, a positive relationship between non-debt tax shields and debt, and a negative relationship between firm size and debt.

Modigliani and miller (1958) have a theory of "capital structure irrelevance" where argued that financial leverage does not affect the firm's market value with assumptions related to homogenous expectations, perfect capital markets and no taxes.

Sarkar and Zapatero (2003) find a positive relationship between leverage and profitability. Myers and Majluf (1984) find firms that are profitability and generate high earnings are expected to use less debt capital comparing with equity than those that do not generate high earnings.

5. ANALYSIS AND INTERPRETATION

TABLE 1: DEBT TO EQUITY

Company/Year	2015	2016	2017	2018	2019	Mean	SD	CV
Ultratech Cement	0.63	0.64	0.22	0.23	0.35	0.41	0.21	0.50
Shree Cements	0.29	0.38	0.17	0.11	0.12	0.21	0.12	0.55
India Cements	0.57	0.57	0.52	0.71	0.81	0.64	0.12	0.19
ACC Ltd	0.00	0.01	0.01	0.00	0.00	0.00	0.01	1.37
Ramco Cements	0.32	0.25	0.30	0.57	0.86	0.46	0.26	0.56
J K Cements	0.73	1.02	1.31	1.46	1.47	1.20	0.32	0.27

Source: Computed form Annual Reports of the Companies from 2015 to 2019 using MS Excel Software

The above table 1 describes that among all the cement companies Ultratech, Shree Cement, India Cement, ACC Ltd, Ramco Cements and J K Cements are levered companies having debt to equity ratio is 0.41, 0.21, 0.64, 0.00, 0.46 and 1.20 respectively. The standard deviation indicates that 0.21, 0.12, 0.12, 0.01, 0.26 and 0.32. The J K Cement is highly levered and ACC Ltd with lowest debt to equity ratio with mean score of 1.20 and 0.00. it is clear that the J.K. Cements have highest standard deviation of 0.32 and ACC Ltd with lowest standard deviation of 0.01. This indicates that these companies have made very few changes in their capital structure.

TABLE 2: DEBT TO TOTAL FUNDS

Company/Year	2015	2016	2017	2018	2019	Mean	SD	CV
Ultratech Cement	0.69	0.68	0.72	0.78	0.68	0.71	0.04	5.98%
Shree Cements	0.57	0.57	0.52	0.71	0.81	0.64	0.12	18.92%
India Cements	0.65	0.66	0.60	0.69	0.73	0.67	0.05	7.25%
ACC Ltd	0.00	0.00	0.01	0.00	0.00	0.00	0.00	100.00%
Ramco Cements	0.45	0.34	0.50	0.68	0.89	0.57	0.22	37.77%
J K Cements	0.74	1.43	1.65	1.55	1.33	1.34	0.36	26.61%

Source: Computed form Annual Reports of the Companies from 2015 to 2019 using MS Excel Software

The above table 2 describes that among all the cement companies Ultratech, Shree Cement, India Cement, ACC Ltd, Ramco Cements and J K Cements are levered companies having debt to total funds ratio is 0.71,0.64,0.64,0.67,0.00,0.57 and 1.34 respectively. The standard deviation indicates that 0.04, 0.12, 0.05, 0.00, 0.22 and 0.36. The J K Cement is highly levered and ACC Ltd with lowest debt to total funds ratio with mean score of 1.34 and 0.00. it is clear that the J.K Cements have highest standard deviation of 0.36 and ACC Ltd with lowest standard deviation of 0.00. This indicates that these companies have made very few changes in their capital structure.

TABLE 3: RETURN ON CAPITAL EMPLOYED

Company/Year	2015	2016	2017	2018	2019	Mean	SD	CV
Ultratech Cement	10.69	10.88	13.96	8.78	7.62	10.39	2.42	23.26%
Shree Cements	11.4	11.36	14.59	13.77	6.5	11.52	3.15	27.35%
India Cements	5.08	5.58	7.96	9.9	7.63	7.23	1.95	26.93%
ACC Ltd	13.97	13.93	6.44	6.54	13.1	10.80	3.95	36.58%
Ramco Cements	12.47	10.60	19.11	10.07	4.30	11.31	5.32	47.07%
J K Cements	12.59	14.60	13.11	2.25	3.71	9.25	5.80	62.64%

Source: Computed form Annual Reports of the Companies from 2015 to 2019 using MS Excel Software

The above table 3 describes that among all the cement companies Ultratech, Shree Cement, India Cement, ACC Ltd, Ramco Cements and J K Cements are levered companies having Return on Capital Employed ratio is 10.39, 11.52,7.23,10.80,11.31 and 9.25 respectively. The standard deviation indicates 2.4, 2, 3.15, 1.95, 3.95, 5.32 and 5.80. The Shree cement is highly levered and India Cement with lowest Return on Capital Employed with mean score of 11.52 and 7.23. it is clear that the J.K Cements have highest standard deviation of 5.80 and India Cements with lowest standard deviation of 1.95. This indicates that these companies have made very few changes in their returns on capital structure.

TABLE 4: RETURN ON EQUITY

Company/Year	2015	2016	2017	2018	2019	Mean	SD	CV
Ultratech Cement	8.78	8.6	10.97	10.95	10.7	10.00	1.20	12.00%
Shree Cements	9.9	15.55	17.39	16.69	8.07	13.52	4.24	31.37%
India Cements	1.32	1.93	3.39	4.06	0.89	2.32	1.36	58.56%
ACC Ltd	14.31	9.77	6.95	7	14.2	10.44	3.65	35.00%
Ramco Cements	11.34	13.74	17.35	18.05	9.16	13.93	3.81	27.38%
J K Cements	11.23	15.92	11.26	5.92	9.53	10.77	3.61	33.48%

Source: Computed form Annual Reports of the Companies from 2015 to 2019 using MS Excel Software

The above table -4 describes that among all the cement companies Ultratech, Shree Cement, India Cement, ACC Ltd, Ramco Cements and J K Cements are levered companies having Return on Equity ratio is 10.0, 13.52,2.32,10.44,13.93 and 10.7 respectively. The standard deviation indicates 2.4, 2, 3.15, 1.95, 3.95, 5.32 and 5.80. The Shree cement is highly levered and India Cement with lowest Return on Capital Employed with mean score of 11.52 and 7.23. it is clear that the J.K Cements have highest standard deviation of 5.80 and India Cements with lowest standard deviation of 1.95. This indicates that these companies have made very few changes in their returns on capital structure.

TABLE 5: GROSS PROFIT RATIO

Company/Year	2015	2016	2017	2018	2019	Mean	SD	CV
Ultratech Cement	15.13	16.5	14.71	13.35	18.5	15.64	1.96	12.52%
Shree Cements	12.85	19.95	19.31	22.7	8.62	16.69	5.78	34.62%
India Cements	6.86	8.18	10.45	13.05	9.59	9.63	2.35	24.44%
ACC Ltd	14.31	9.77	6.95	7.00	14.2	10.44	3.65	35.00%
Ramco Cements	11.34	13.74	17.35	18.05	9.16	13.93	3.81	27.38%
J K Cements	11.23	15.92	11.26	5.92	9.53	10.77	3.61	33.48%

Source: Computed form Annual Reports of the Companies from 2015 to 2019 using MS Excel Software

The above table 4 describes that among all the cement companies Ultratech, Shree Cement, India Cement, ACC Ltd, Ramco Cements and J K Cements are levered companies having Gross Profit ratio is 15.64,16.69,9.63,10.44,13.93 and 10.77 respectively. The standard deviation 1.96,5.78,2.35,3.65,3.81 and 3.61. The Shree cement is highly levered and India Cement with lowest Return on Capital Employed with mean score of 16.69 and 9.63. It is clear that the Shree Cements have highest standard deviation of 5.78 and Ultra Tech Cements with lowest standard deviation of 1.96. This indicates that these companies have made very few changes in their returns on capital structure.

TABLE 6: CAPITAL STRUCTURE AND RETURN OF SELECTED COMPANIES IN RATIOS

Company/Variables	Debt equity	Debit to Total Funds	Return on Capital Employed	Return on Equity	Gross Profit Ratio
Ultratech Cement	0.41	0.71	10.39	10	15.64
Shree Cements	0.21	0.64	11.52	13.52	16.69
India Cements	0.64	0.67	7.23	2.32	9.63
ACC Ltd	0.00	0	10.8	10.44	10.44
Ramco Cements	0.46	0.57	11.31	13.93	13.93
J K Cements	1.20	1.34	9.25	10.77	10.77

Source: Computed form Annual Reports of the Companies from 2015 to 2019 using MS Excel Software

Ho: There no significant difference between selected Companies Capital Structure and Returns on Capital Structure.

H_1: There is significant difference between selected Companies Capital Structure and Returns on Capital Structure.

TABLE 7: ANOVA RESULTS FOR THE AVERAGE CAPITAL STRUCTURE AND RETURN OF COMPANIES

Source of Variation	SS	df	MS	F	P-value	F crit
Rows	61.9979	5	12.3996	2.93763	0.03794	2.71089
Columns	817.816	4	204.454	48.438	0.00000	2.86608
Error	84.4189	20	4.22094			
Total	964.233	29				

Source: ANOVA is performed by using MS Excel Software

From the above table-7 it is known that the selected companies calculated F value is 2.93763, when degrees of freedom are 5, p value is 0.03794 is less than the 5% level significance hence the null hypothesis rejected. There is a significant deference among selected cement companies. The selected variables Debt equity, Debt to Total Equity, Return on Capital Employed, Return on Equity, and Gross Profit, calculated F value is 48.438, when degrees of freedom is 4, p value is 0.000 is less than the 5% level significance hence the null hypothesis rejected. There is a significant deference among selected variables.

TABLE 8: CORRELATION ANALYSIS OF CAPITAL STRUCTURE AND RETURN OF SELECTED COMPANIES

	Debt equity	Debit to Total Funds	Return on Capital Employed	Return on Equity	Gross Profit Ratio
Debt equity	1				
Debit to Total Funds	0.92242	1			
Return on Capital Employed	-0.5508	-0.3466	1		
Return on Equity	-0.2225	-0.0295	0.9328	1	
Gross Profit Ratio	-0.3437	0.01728	0.70433	0.64066	1

Source: Computed form Annual Reports of the Companies from 2015 to 2019 using MS Excel Software

The above table–8 indicates that relationship between selected capital structure and profitability is significant negative. The negative association unsuitable debt equity mix in the capital structure of the concerned companies there by having a negative impact on the select profitability variables. The following table shows the results of relationship between the selected variables.

TABLE 9: RESULTS OF RELATIONSHIP BETWEEN CAPITAL STRUCTURE AND RETURNS OF SELECTED COMPANIES

Testing of Hypothesis	Person Correlation
There is relationship between Debt Equity and Debit to Total Funds	0.92242
There is relationship between Debt Equity and Return on Capital Employed	-0.5508
There is relationship between Debt Equity and Return on Equity	-0.2225
There is relationship between Debt Equity and Gross Profit Ratio	-0.3437
There is relationship between Debit to Total Funds and Return on Capital Employed	-0.3466
There is relationship between Debit to Total Funds and Return on Equity	-0.0295
There is relationship between Debit to Total Funds and Gross Profit Ratio	0.01728

6. FINDINGS

- ✓ There is a positive correlation between Debt Equity and Debit to Total Funds.
- ✓ There is a negative correlation between Debt Equity and Return on Capital Employed.
- ✓ There is a negative correlation between Debt Equity and Return on Equity.
- ✓ There is a negative correlation between Debt Equity and Gross Profit Ratio.
- ✓ There is a negative correlation between Debit to Total Funds and Return on Capital Employed.
- ✓ There is a negative correlation between Debit to Total Funds and Return on Equity.
- ✓ There is a positive correlation between Debit to Total Funds and Gross Profit Ratio.
- ✓ There is a significant deference among selected variables and companies.

7. CONCLUSION

The present study highlighted the capital structure and financial performance of cement industries. The financial performance plays a significant role in the successful functioning of industries. Poor financial performance threats very survival and leads to business failure. The cement companies could improve the performance of identifying and concentrating the relevant areas measured and the attention must be taken to improve thereby.

The optimum capital structure is on among the pre requisites of company for staying fit and maintains profitability in this complex business. To analyze capital structure and profitability of 6 companies in India five years period from 2015 to 2019 the study covers not have a sound debt equity composition of their capital structure and failed to the benefits of leverage properly. The companies should be given on the following areas that to improve the existing situation in order to have positive impact on profitability of the cement industry.

Cement companies have scope to increase debt level in their existing capital structure so that the companies can enjoy the benefits of leverage.

Management should focus on internal factors like production policy and marketing policy so that the fluctuation in profitability can reduced.

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