A STUYD ON IMPACT ON CAPITAL STRUCTURE OF ASIA STEELS AT TRICHY

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ABSTRACT

This study examines the influence of capital structure on the performance of the company. It is measured using EBIT-EPS analysis. In this paper an attempt is made to analyse the capital structure of Asia steels during the period 2017-2018 to 2021- 2022, so as to understand the factors that influenced the capital structure decisions of the company and to know the impact of capital structure decisions on profitability and performance of the company. The company’s performance is measured through EBIT-EPS analysis. Increase in the level of debt and net worth increases the debt equity ratio. Capital structure is the crucial decision to be taken by every business, the positives and negatives of these decisions plays a important role in determining the future of every business.

Keywords: Capital structure; Leverage; EPS; Level of debt; Net worth; Debt equity

INTRODUCTION

The profit strategy was allude to that the extent of Company organizations benefit conveyed to its investor and remaining part will be held in the firm for additional speculation and this is called held income. In the monetary administration the Company organization is appropriated higher profit and lower support of held procuring and the organization convey lower separated and higher upkeep of held income. These are the connection between profit strategy and holding procuring. Profit choice is one of the significant choices to the extent the monetary choice of a worry. The Company organization needs to settle on dissemination of pay and maintenance of pay for future developments. The last decision of choice ought to be taken cautiously in light of the fact that it is affecting the abundance of the investor and eventually on the generosity of the organization.

DEFINITION

The following definitions clearly initiate the meaning and objective of the capital structures. According to the definitionof **Gerestenbeg,** "Capital Structure of a company refers to the composition or make up of its capitalization and it includes all long-term capital resources".

"Capital structure is essentially concerned with how the firm decides to divide its cash flows into two broad components, a fixed component that is earmarked to meet the obligations toward debt capital and a residual component that belongs to equity shareholders"

Capital structure is the mix of the long-term sources of funds used by a firm. It is made up of debt and equity securities and refers to permanent financing of a firm. It is composed of long-term debt, preference share capital and shareholders' funds.

Importance of Capital Structure:

Decisions relating to financing the assets of a firm are very crucial in every business and the finance manager is often caught in the dilemma of what the optimum proportion of debt and equity should be. As a general rule there should be a proper mix of debt and equity capital in financing the firm's assets. Capital structure is usually designed to serve the interest of the equity shareholders.

Therefore instead of collecting the entire fund from shareholders a portion of long term fund may be raised as loan in the form of debenture or bond by paying a fixed annual charge. Though these payments are considered as expenses to an entity, such method of financing is adopted to serve the interest of the ordinary share-holders in a better way.

STATEMENT OF THE PROBLEM

The main problem associated with debt financing is that its availability is often limited to established businesses. Since lenders primarily seek security for their funds, it can be difficult for unproven businesses to obtain loans. Financial break-even point is more dependent on certain assumptions, such as the price of goods remaining unchanged, whereas the fluctuation in cost is only considered. This is main reason where many businesses do not understand the importance of break-even point and how it can be calculated.

OBJECTIVES OF THE STUDY

PRIMARY OBJECTIVES

- The main objective of the study is to analyse the capital structure of Asia Steels by using solvency and activity ratios

SECONDARY OBJECTIVES

- To find out the Financial break-even point of Asia Steels
- To analyse the composition and capital structure of Asia Steels.
- To study the effect operating and financial leverage.
- To understand the capital mix of the company.
- To analyse the current ratio, liquidity ratio and quick ratio.
- To study working capital turnover of the company.

SCOPE OF THE STUDY

- Capital structure provides flexibility in raising funds. Companies like to issue debt because of the tax advantages. Interest payments are tax deductible.
- Debt also allows a company or business to retain ownership.
- In equity financing, the entrepreneurs are able to make key strategic decisions and also to keep and reinvest more company profits.
- The break-even analysis is a useful tool to study the relationship between fixed costs and variable costs and revenue.
- The break-even analysis calculates the size of production at a certain price that is necessary to cover all the costs that have been incurred.

LIMITATIONS OF THE STUDY

- If promoters miscalculate in working out financial requirement of a company, then company may land in a situation where it has a large surplus of capital.
- This study is limited to a period of 5 years (2018-22) as it is a secondary data collected from previous information.
- Time is one of the main limitations of this study and within this time all aspects cannot be studied in detail

REVIEW OF LITERATURE

Brian L. Betker, (2017) This paper is an attempt to study the capital structure of Indian Steel industry and its determinants. The 66 sample steel companies are bearing an average debt portion of 68% in their capital structure means highly debt driven. Hence we tried to figure out which are the factors significantly explaining the capital structure. For which we have considered eight independent variables from early studies and employed correlation analysis, multiple regression and step wise regression techniques in this study to test the dependency of the debt ratio on independent variables. We found only three variables such as profitability, growth and risk having significant impact on the debt ratio of these steel companies and following the trend of trade off theory.

Mohamad H. (2018) This paper attempts to examine the determinants of firms' capital structure in Malaysia covering the period. A discussion on the capital structure behaviour in the Malaysian financial market implies that there are similarities between developed and less developed financial markets, involving the influences of firms' capital structure. Specifically, a firm's size and steel industry class play a significant role in determining a firm's capital structure.

Wenlian Gao (2020) This paper examines the relation between information asymmetry, capital structure and the cost of capital across countries, particularly focusing on how the relation is influenced by the various aspects of the institutional environment. Results show that firms with high levels of information asymmetry tend to use more debt capital but less long-term debt, possibly because of the differential impact of information asymmetry on the cost of different types of capital. Furthermore, the positive association between information asymmetry and market leverage is more pronounced in countries with developed steel sectors or with explicit bankruptcy codes, and less prominent in common-law countries and countries with sound law enforcement or with extensive disclosure practices

Sorana Vatavu (2022) This research aims to establish the relationship between capital structure and financial performance in 196 Romanian steel companies listed on the Bucharest Stock Exchange and operating in the sector, over a period. The analysis is based on cross sectional regressions. The capital structure indicators refer to long-term debt, short-term debt; total debt and total equity, while return on assets and return on equity are the performance proxies. As long as these factors have an important impact on financing decisions, they will be included in the analysis as they are expected to also influence performance. Results indicate that performance in Romanian companies is higher when they avoid debt and operate based on equity. During times of increased taxes and inflation profitable companies divest part of their assets reducing their costs. This show a preference for debt when they are in financial difficulties and they face high business risks, or when they cannot settle their debts due to a lack of cash.

RESEARCH METHODOLOGY

"A research design is the arrangement of conditions for collection and analysis data in a manner that aims to combine relevance to the researcher purpose with economy in procedure". It constitutes the blueprint for the collection, measurement and analysis of data. As such the design includes an outline of what the researcher will do form writing the hypothesis and its operational implication to the final analysis of data.

RESEARCH DESIGN

In view of the objectives of the study, an exploratory research design was adopted. Explorative research is one which largely interprets the already available information. It lays particular emphasis on analysis and interpretation of the existing and available information and it makes use of Secondary Data.

TOOLS FOR DATA COLLECTION

Sources of data:

The study is based on Secondary Data.

Secondary Data:

Secondary Data is the data that have been already collected by and readily available from other sources. Such data are cheaper and more quickly obtainable than the primary data and also may be available when primary data cannot be obtained at all.

An incorrect capital structure can mean ruin of an otherwise healthy firm. This is because, if the firm is funded by too much debt, it has a lot of interest bills to pay. Therefore in a lean period, the firm is likely to default on its interest obligations. The worst part is that if the firm defaults a few times, debt holders have the right to seek legal counsel and start liquidating the firm. In such a scenario, an otherwise healthy firm may have to sell its assets at throw away prices.

Thus an ideal capital structure is one that provides enough cushions to shareholders so that they can leverage the debt-holders funds but it should also provide surety to debt holders of the return of their principal and interest. Since capital structure ratios reveal these facts, analyst pay careful attention to them.

Since the study is aimed at the financial aspects of the, the whole data has been gathered from,

- Annual report of the company
- Broachers of the company
- Library books.

The Secondary Data, on the other hand, are those which have already been collected by someone else and which have already been passed through the statistical process. Usually published data are available in:

- Various publications of the central, state or local governments,
- Various publications of foreign governments or of international bodies and their subsidiary organizations;
- Technical and trade journals;
- Books, Magazines and Newspapers;
- Reports and publications of various associations connected with business

and industry, banks, stock exchange etc.,

- Reports prepared by research scholars, universities, economists, etc, in different fields and
- Public records and statistics, historical documents, and other sources of published information.

STATISTICAL TOOLS USED

- Ratio analysis
- Trend analysis
- Comparative balance sheet
- Growth opportunities

1. RATIO ANALYSIS

Ratio is a relationship between two figures expressed mathematically. Financial ratio provides numerical relation between two relevant financial data. Financial ratios are calculated from the Balance sheet and Profit & Loss A/c. The relationship can be either expressed as a Ratio on as a quotient. Ratios summarize the data for easy understanding, comparison and interpretation.

The Ratio Analysis is the financial statement. It provides a yardstick to measure the relationships between the variable of figures. In work the Financial Analysis is necessary to know different angles.

2. TREND ANALYSIS

Time series or trend analysis of ratios indicates the direction of change this kind of analysis is particularly applicable to the items of profits and loss account. It is advisable that trends of sales and net income may be studied in the light of two factors: the rate of fixed expansion or secular trend in the growth of the business and the general price level.

3. COMPARATIVE BALANCE SHEET

A comparative balance sheet usually has two columns of amounts that appear to the right of the account titles or other descriptions such as Cash and Cash Equivalents, Accounts Receivable, Accounts Payable, etc. The first column of amounts contains the amounts as of a recent moment or point in time. Providing the amounts from an earlier date gives the reader of the balance sheet a point of reference—something to which the recent amounts can be compared.

4. GROWTH OPPORTUNITIES

According to Trade-off theory, growth opportunity is having a negative relationship with debt ratio. This theory (Myers 1977) argued that firms, those were having high growth tendencies were also having tendency towards higher level of risk. So growth oriented firms find it difficult and costlier to rely on debt financing. While Pecking Order Theory suggests that firms are having growth opportunities require more debt, so debt is having a positive relationship with the growth opportunity. Here compound average growth rate of annual total sales is used to understand the growth of the sector.

Growth Opportunities = Compound average growth of annual sales.

$$CAGR = \left(\frac{\text{Ending Value}}{\text{Beginning Value}}\right)^{\left(\frac{1}{\text{\# of years}}\right)} - 1$$

SUGGESTIONS

- It is suggested the company may reduce further its dept capital to increase the earnings per share of the shareholder.
- It is recommended the combined leverage is very high by increased operating as well as financial leverage indicating increased total risk to the firm to it may be suggested to reduce financial leverage.
- It is suggested the net sales are decreased, so, measures need taken to improve the sales turnover.
- It is recommended that the company may use more unsecured loans rather than secured loans so as to reduce the interest burdens and thus the overall cost of capital.

CONCLUSION

The Company are present study has been conducted to analyze the financial status of the limited through capital structure management.

By observing the study we conclude that the study has been taken from 2018-2022 the performance sugar is observed through the capitalization leverage financial structure capital structure .The is in a position which can satisfy the current obligations. Compare to the previous year we can suggest The Company to increase the current liabilities for make refresh of profitability as old years.

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