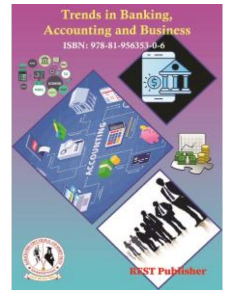
Trends in Banking, Accounting and Business

Vol: 3(1), 2024

REST Publisher; ISBN: 978-81-956353-0-6

Website: https://restpublisher.com/book-series/tbab/



A Study on Capital and Financial Structure of Tata Motors Private Ltd at Salem

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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 analyses the capital structure of automobile industry during the period 2019- 2023, 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 an important role in determining the future of every business. Financing decision is one of the important areas in financial management to increase shareholders' wealth. Firms can use either debt or equity capital to finance their assets. The purpose of the study is to find out the determinants of capital structure and its impact on financial performance. We have used secondary data and taken automobile companies for our study. The study concludes that there is a significant relationship between capital structure and profitability and capital structure has significant impact on financial performance of sample companies.*

Keywords: *Capital structure; Leverage; EPS; Level of debt; Net worth; Debt equity, Financial Management, Shareholder's Wealth, Equity Capital, Debt, Capital Structure, Financial Performance*

1. INTRODUCTION

The profit strategy was alluded to that the extent of 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 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 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. The following definitions clearly initiate the meaning and objective of the capital structures. According to the definition of Gerestenbeg, "Capital Structure of a company refers to the composition or make up of its capitalization and it includes all long-term capital resources". According to the definition of James C. Van Horne, "The mix of a firm's permanent long-term financing represented by debt, preferred stock, and common stock equity". According to the definition of Prasana Chandra, "The composition of a firm's financing consists of equity, preference, and debt".

2. IMPORTANCE OF CAPITAL STRUCTURE

Capital structure is vital for a firm as it determines the overall stability of a firm. Here are some of the other factors that highlight the importance of capital structure. A firm having a sound capital structure has a higher chance of increasing the market price of the shares and securities that it possesses. It will lead to a higher valuation in the market. A good capital structure ensures that the available funds are used effectively. It prevents over or under capitalisation. It helps the company in increasing its profits in the form of higher returns to stakeholders. A proper capital structure helps in maximising shareholder's capital while minimising the overall cost of the capital. A good capital structure provides firms with the flexibility of increasing or decreasing the debt capital as per the situation

3. OBJECTIVES OF THE STUDY

Primary Objective: The main objective of the research is to analyse the capital structure of Tata Motors Limited in Salem using solvency ratios and assets

4. SECONDARY OBJECTIVES

To determine the break-even company points
Analysis of the company composition and capital structure.
Analysis of operational and financial leverage.
Analysis and inference of the long-term profitability of selected company
Assessing the relationship between capital structure and corporate profitability

5. 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.

6. REVIEW OF LITERATURE

Shanmugasundaram (2017) Conducted a study on industry variations in the capital structure for the Indian companies and found that intra industry variations can be explained by the existing theories of capital structure. The higher the proportion of fixed assets to total assets and the higher the growth rate of assets, higher is the industry debt equity ratio. The lower the ratio of operating income to total assets and operating income to net sales, higher is the debt equity ratio. This shows that the Indian companies are shifting from high debt to high equity over the period clearly indicating consistency with the Static Trade off theory.

Brian L. Betker, (2017) This paper is an attempt to study the capital structure of Indian Industry and its determinants. The sample 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 companies and following the trend of trade off theory.

Yupana Wiwattanakantang (2017) This study presents empirical evidence on the determinants of the capital structure of non-financial firms in 1996. Empirical results imply that the tax effect, the signalling effect, and the agency costs play a role in financing decisions. Ownership structure also effects financial policy. The industry has significantly higher debt level. Only in industry owned firms does managerial shareholdings have consistently positive influence on industry leverage. Finally large shareholders affect the debt ratio negatively, implying that they may monitor the management.

Michael J. Alderson, (2018) We investigate the relation between liquidation costs of assets and composition of capital structure for firms that reorganized under Chapter 11 of the Bankruptcy Code. Firms with high liquidation costs emerge from Chapter 11 with relatively low debt ratios. The debt of these firms is more likely to be public and unsecured, and to have less restrictive covenant terms; these firms are also more likely to raise new equity capital. Assets with high liquidation costs thus lead firms to choose capital structures that make financial distress less likely.

Dr. Shrabanti Pal (2018) This paper studies the determinants of capital structure choice of Indian companies. The main objective of the firm is to explore the most important factors which influence most the choice of capital structure of the companies in India. The study is basically empirical in nature. In the present paper 37 Indian companies listed under Market constitute the sample of study. Correlation and regression analysis are used to explore the relationship between dependent variable leverage and other independent variables like tangibility, size, non-debt tax shield, growth opportunity, profitability and business risk.

Kashan Pirzada (2019) The paper aims to examine the significant relationship amongst institutional stockholdings and firms' performance as measured by ROA, ROE, PE, EPS and capital structure as measured by long term debt to capital ratio of companies listed on the Main Board of Bursa Malaysia. The results show that there is a significant relationship between the institutional stockholdings on the firms' performance measured by EPS and PE ratio of firms listed on the Main Board of BURSA. Moreover, it is revealed that there is no significant relationship between the institutional stockholdings on firms' capital structure.

Wenlian Gao (2019) 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.

Lee-Hsien Pan, Kung-Cheng Ho (2020) We examine the impact of information asymmetry on a firm's capital structure decisions with a unique information rating scheme that draws from 114 measures over five dimensions of information disclosures on each firm. We find that a firm with high (low) information rating is related to low (high) debt financing and leverage. In particular, a firm that moves from the lowest to the highest information rating experiences a 7.8% reduction in firm leverage on average. This relationship is robust to firm characteristics, incentive conflicts, and the agreement theory.

Dayong Zhang, (2020) The new century has witnessed worldwide growth in investments. This paper aims to contribute to the literature and to the debate in two ways. First, it tests the over-investment hypothesis based on the main stream finance methodology; second, it analyzes the role of capital structure in the performance of China's renewable energy firms. Empirical results show that overinvestment in the renewable energy sector exists. The problem is more significant in the sector. Capital structure is found to be more important to downstream firms, indicating that policy makers may provide support that enables these firms to finance their investments through corporate bonds, commercial credit, or long-terms debts.

Zhaojun Yang (2021) We examine the interaction between investment and financing policies in a dynamic model for a firm with existing assets-in-place and a growth option, of which investment cost is financed with equity and contingent convertible bonds (CoCos). We attempt to clarify how CoCos impact on investment timing, capital structure and inefficiencies arising from debt overhang and asset substitution. We show that there is a conversion ratio (the fraction of equity allocated to CoCo holders upon conversion) to eliminate the inefficiencies. Our conclusions predict that debt leverage decreases with investment option payoff factor and the average appreciation rate of the cash flow.

Sorana Vătavu (2021) This research aims to establish the relationship between capital structure and financial performance in 196 Romanian companies listed on the Bucharest Stock Exchange and operating in the manufacturing sector, over a period of eight-years. 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. Previous studies indicate asset tangibility, tax, risk, liquidity and inflation as capital structure determinants in Romanian manufacturing companies.

Mohamad H. (2022) This paper attempts to examine the determinants of firms' capital structure in Malaysia covering the period between 1986 to 1990. 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 industry class play a significant role in determining a firm's capital structure.

Peter W. Schuhmann (2022) This study uses cultural dimensions to investigate the impact of market reception on capital structure. We examine the interaction of these dimensions with stock returns, our proxy for market timing. Based on our market leverage results, we find evidence that firms do engage in market timing by reducing their leverage ratios when their share prices increase. Furthermore, we find that firms in countries with high uncertainty avoidance and high power distance have lower market leverage ratios and that these cultural dimensions serve to reduce the impact of market timing. These results are consistent for developed markets but mixed for emerging markets.

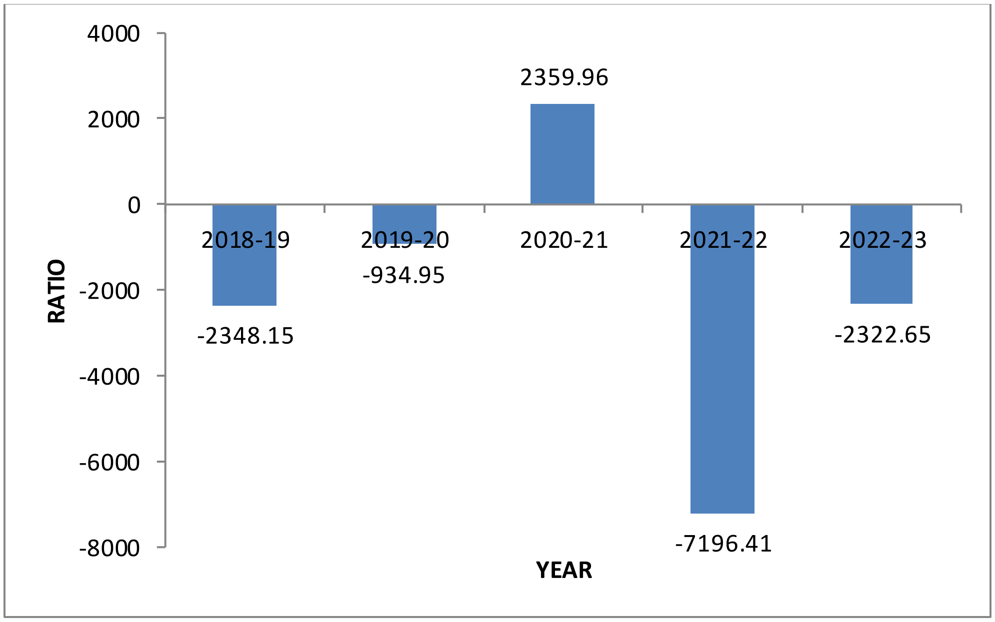
7. RESEARCH METHODOLOGY

"A research methodology 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

8. DATA ANALYSIS

Financial Leverage

Year	EBIT	EBIT – Interest	Financial leverage
2018-19	-779.14	-2348.15	0.33
2019-20	809.48	-934.95	-0.86
2020-21	4153.53	2359.96	1.76
2021-22	-5223.41	-7196.41	0.72
2022-23	35.89	-2322.65	-0.02



9. FINDINGS

1. The capitalization of the company, during the past 5 years. The capitalization in 2018-19 has been 18844.61 which fluctuating continuously. The last year of 2022-23 capitalization was 18869.27. So the capital was fluctuated to year by year
2. The financial leverage for the capital structure in the company. In the year of 2018-19 leverage is 0.33 and the next year is decreased to -0.86. And it was increased to 1.76 in the year of 2020-21. The next two years was decreased the financial leverage of the company 0.72 in the year of 2021-22
3. The operating leverage for capital structure. In the year of 2018-19 is -0.02 less than 1 and the financial year 2020-21 were 0.06. It was continually decreased to year by year.
4. The EPS ratio in the company. In the year of 2018-19 EPS ratio is 0.95 and it was increased 2019-20 is 0.89. The net income level is high in the year of 2020-21. The last year of 2022-23 EPS was 3.00

10. 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.

11. CONCLUSION

The company is present study has been conducted to analyse the financial status of the limited through capital structure management. By observing the study we conclude that the study has been taken from 2019-2023 the performance of company is observed through the capitalization leverage financial structure capital structure. The company 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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