

## CAPITAL STRUCTURE ANALYSIS-WITH REFERENCE TO RAMCO CEMENT

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### ABSTRACT

The property of a agency may be financed either through growing the proprietors declare or the lenders declare. The proprietors claims boom while the form increases funds by means of issuing everyday shares or by way of retaining the profits, the lenders' claims increase by borrowing. The various way of financing represents the "monetary shape" of an enterprise. The monetary structure of an employer is proven by using the left hand aspect (liabilities plus equity) of the stability sheet. Traditionally, short-term borrowings are excluded from the listing of methods of financing the firm's capital expenditure, and consequently, the long term claims are stated to form the capital structure of the business enterprise. The capital shape is used to symbolize the proportionate dating among debt and fairness. Equity includes paid-up percentage capital, percentage top class and reserves and surplus.

**Keywords:** Capital structure analysis, Ratio Analysis,

### 1. INTRODUCTION

"Capital shape is basically concerned with how the company comes to a decision to divide its coins flows into two broad components, a hard and fast component this is earmarked to fulfill the responsibilities in the direction of debt capital and a residual thing that belongs to fairness shareholders"-P. Chandra.

Meaning of Capital Structure:

Capital Structure is referred to as the ratio of various sorts of securities raised with the aid of a company as lengthy-time period finance. The capital structure involves two decisions-

- Type of securities to be issued is fairness shares, preference shares and long time borrowings (Debentures).
- Relative ratio of securities can be decided by means of technique of capital gearing. On this basis, the companies are divided into two-

I. Highly geared agencies - Those corporations whose proportion of fairness capitalization is small.

Yalow geared corporations - Those businesses whose fairness capital dominates total capitalization.

Trading on Equity- The phrase "fairness" denotes the ownership of the organisation. Trading on equity means taking benefit of fairness proportion capital to borrowed price range on affordable foundation. It refers to additional income that equity shareholders earn because of issuance of debentures and desire stocks. It is based at the notion that if the rate of dividend on preference capital and the charge of interest on borrowed capital is lower than the general charge of company's earnings, equity shareholders are at advantage which means a agency should move for a sensible mixture of choice shares, equity shares as well as debentures. Trading on fairness will become greater crucial whilst expectancies of shareholders are excessive.

Degree of control- In Organisation, it's far the directors who're so referred to as elected representatives of fairness shareholders. These individuals have got most vote casting rights in a subject compared to the desire shareholders and debenture holders. Preference shareholders have fairly much less balloting rights while debenture holders don't have any balloting rights. If the agency's control guidelines are such that they need to keep their vote casting rights of their fingers, the capital shape includes debenture holders and loans instead of equity stocks.

Flexibility of economic plan- In an business enterprise, the capital structure need to be such that there may be each contractions in addition to rest in plans. Debentures and loans can be refunded returned because the time requires. While equity capital can't be refunded at any point which affords pressure to plans. Therefore, so that you can make the capital structure feasible, the agency have to cross for problem of debentures and other loans.

Choice of buyers- The employer's coverage normally is to have unique classes of buyers for securities. Therefore, a capital shape have to provide enough desire to all sort of investors to invest. Bold and adventurous traders generally pass for equity shares and loans and debentures are normally raised retaining into thoughts aware traders.

Capital market condition- In the lifetime of the organization, the market price of the stocks has got an important have an impact on. During the melancholy duration, the organisation's capital shape commonly consists of debentures and loans. While in duration of boons and inflation, the business enterprise's capital need to consist of share capital normally fairness shares.

Period of financing- When corporation wants to improve finance for quick period, it goes for loans from banks and other establishments; even as for lengthy duration it is going for problem of stocks and debentures.

Cost of financing- In a capital shape, the organization has to look to the aspect of cost while securities are raised. It is visible that debentures at the time of earnings earning of organisation show to be a less expensive supply of finance as compared to fairness stocks where equity shareholders call for an additional share in earnings.

Stability of sales- An installed business which has a developing marketplace and high sales turnover, the organisation is in position to satisfy constant commitments. Interest on debentures has to be paid regardless of income. Therefore, whilst sales are excessive, thereby the profits are high and enterprise is in higher role to satisfy such fixed commitments like hobby on debentures and dividends on preference stocks. If business enterprise is having risky sales, then the organisation isn't in function to fulfil constant responsibilities. So, fairness capital proves to be secure in such instances.

## 2. REVIEW OF LITERATURE

**Author: Ziwei Wang; Source: Proceedings of the 2021 3rd International Conference on Economic Management and Cultural Industry (ICEMCI 2021):** A corporate's financing of its real investments has recently attracted considerable attention from academics who have proposed various theories. This paper firstly studies the Gordon growth model and the weighted average cost of capital formula with the empirical tests and the sensitivity analysis. Then, we exam changes in a company's market value concerning different combinations of capital structures and identify an arbitrage opportunity based on the Modigliani-Miller propositions. Finally, we investigate the relationship between a firm's funding sources and its profit using panel data regression to figure out the optimal way to financing. These studies enable us to realize the fundamental relationship between a corporate's price and its capital structure. In light of those studies, we could have some insightful ideas regarding funding decision-making in reality.

**Source: JES Journal of Engineering Sciences**

Taub (1975) tried to ascertain the factors influencing a firm's choice of a debt equity ratio. For this study a total of 89 firms from Unites States were chosen randomly over a period of ten year from 1960 to 1969 and the likelihood-ratio statistics and t-test were used to test the hypothesis described therein. The empirical results of the study in terms of the expected sign of the co-efficient were mixed. The return to the firm, long term rate of interest, Bhat (1980) made an attempt to analyze the determinants of financial leverage and to investigate the relationship between the leverage ratio and institutional characteristics viz. firm size, variation in income, growth, profitability, debt service and dividend payout through correlation and regression analysis.

The cross-section data for this study were collected for six years from 1973 to 1978 from only one industry i.e., Engineering Industry, so as to alleviate the effect of industry type on the financial leverage ratio. The study reveals that firm size, growth rate and the degree of operating leverage does not have any significant relationship with financial leverage whereas earnings rate, business risk, dividend payout ratio and debt service ratio have been found to be negatively related. Only the relation of operating leverage with leverage has been found positive but insignificant relationship. The study observed that the institutional characteristics are important determinants of financial leverage ratio.

**Author: P. Balasathiya; Source: ISSN (PRINT): 2393-8374, (ONLINE): 2394-0697, VOLUME-5, ISSUE-4, 2018:** Venkatesan (1983) tried to explore the relationship of certain exogenous variables with the financial leverage. He used the data of 66 firms from four different industries for a time span of four year from 1977 to 1980. He attempted to analyze the impact of seven different variables on financial structure of firms by using the multiple regression model, correlation and t-test.

The study reveals that null hypothesis proposed in the study that size does not have any relationship with financial leverage could not be rejected for any of the industries. Coverage ratios revealed the significant relationship to the financial structure in all the industries except for steel industry in interindustry model during study period. Business risk and growth was not found significantly related to financial structure in any of the industries examined. In the inter-industry model, low-levered firms revealed significant relationship between selected variables except growth ratio and financial leverage. But medium and high levered firms were not having any significant common determinant of their financial structure.

### 3. RESEARCH GAP

Only the relation of operating leverage with leverage has been found positive but insignificant relationship. The study observed that the institutional characteristics are important determinants of financial leverage ratio.

#### OBJECTIVES:

- ❖ To Study the capital structure of Ramco Cements through EBIT-EPS evaluation
- ❖ Study effectiveness of financing decision on EPS and EBIT of the company.
- ❖ Examining leverage analysis of Ramco Cements.
- ❖ Examining the financing tendencies inside the Ramco Cements in the course of 2015- sixteen.
- ❖ Study debt/equity ratio of Ramco Cements for 2018-2023.

### 4. RESEARCH METHODOLOGY

#### Need For the Study

The price of the firm depends upon its anticipated profits stream and the fee used to discount this flow. The rate used to bargain earnings flow it's the firm's required fee of return or the price of capital. Thus, the capital structure selection can have an effect on the price of the firm either with the aid of changing the predicted income of the firm, but it is able to affect the are living earnings of the shareholders.

#### Scope of the Study:

A look at of the capital structure involves an examination of long time in addition to brief time period assets that a corporation taps a good way to meet its necessities of finance. The scope of the study is restricted to the sources that Ramco Cements Limited tapped over time below have a look at i.E. 2018-2023.

#### Primary Data:

Primary data is basically the live data which I collected on field while doing cold calls with the Distributor and shopkeeper, customers, I shown them list of Question for which I had required their responses. In some cases I got no response from their side and then on the basis of my previous experiences I filled those fields.

Source: Main source for the primary data for the project was questionnaires which I got filled by the customers or sometimes filled me on the basis of discussion with the customers.

#### Secondary Data:

- 1 Internet,
- 2 Books
- 3 Journals,
- 4 Newspaper,
- 5 Annual reports,
- 6 Database available in the library,
- 7 Catalogues and presentations.

#### Statistical Tools

- Ratio evaluation
- Graphical evaluation
- Trend evaluation.

### 5. DATA ANALYSIS & INTERPRETATION:

#### EBIT Levels

Particulars	2019	2020	2021	2022	2023
Earnings Before Interest & Tax	1166.19	1507.01	1361.46	1588.16	1786.19
Change	126.54	477.39	294.2	234.99	374.53
% Change	9.215979	3.156769	4.627668	6.758415	4.769151

#### Performance EPS Analysis

Particulars	2019	2020	2021	2022	2023
Profit After Tax	962.85	1782.77	2575.14	3531.64	4133.60
Less: Preference Dividend	-	-	-	-	-

Amount of Equity share holder	1763.78	2696.99	3602.10	4608.65	10666.04
No. OF equity share of Rs.10/- each	16234825	16234825	16234825	16234825	16234825
<b>EPS</b>	<b>1.69</b>	<b>0.64</b>	<b>0.79</b>	<b>1.55</b>	<b>2.1</b>

#### **Interpretation:**

The PAT is in an increasing trend from 2020-2021 because of increase in sale prices and also decreases in the cost of manufacturing. In 2022 and 2023 even the cost of manufacturing has increased by 5% because of higher sales volume PAT has increased considerably, which leads to higher EPS, which is at 9.36 in 2023

#### **EBIT – EPS CHART**

One convenient and useful way showing the relationship between EBIT and EPS for the alternative financial plans is to prepare the EBIT-EPS chart. The chart is easy to prepare since for any given level of financial leverage, EPS is linearly related to EBIT. As noted earlier, the formula for calculating EPS is

$$EPS = \frac{(EBIT - INT)(1 - T)}{N} = \frac{(EBIT - INT)(1 - T)}{N}$$

We assume that the level of debt, the cost of debt and the tax rate are constant. Therefore in equation, the terms  $(1 - T)/N$  and  $INT(=iD)$  are constant: EPS will increase if EBIT increases and fall if EBIT declines. Can also be written as follows

$$EPS = \frac{(1 - T)}{N} EBIT - \frac{(1 - T)}{N} INT = - \frac{(1 - T)}{N} INT + \frac{(1 - T)}{N} EBIT$$

Under the assumption made, the first part of is a constant and can be represented by an EBIT is a random variable since it can assume a value more or less than expected. The term  $(1 - T)/N$  are also a constant and can be shown as b. Thus, the EPS, formula can be written as:

$$EPS = a + bEBIT$$

Clearly indicates that EPS is a linear function of EBIT.

### **6. CONCLUSION OF THE STUDY**

Sales in 2020-2021 is at 7267.74 and in 2022-2023 12752.43 crs those in a decreasing trend to the extent of 20% every year. On the other hand manufacturing expenses are at 8725.11 from 2021-2022. There has been significant increase in cost of production during 2020-2021 because of increase in Royalty. The interest charges were 492.21 in 2021 and 357.07 in 2022 and 522.56 respectively shows that the company redeemed fixed interest bearing funds from time to time out of profit from 2020-2021. Debentures were partly redeemed with the help of debenture redemption reserve and other references. The PAT (Profit After Tax) in 2022-2023 is at 340.78. The PAT has increased in prices in whole Cement industry during the above period. The profit has increased almost 15% during the period 2021-2022. Debentures were redeemed by transfers to D.R.R. in 2021-2022.

For the development of the cement industry 'Working Group on cement Industry' was constituted by the planning commission for the formulation of Five Year Plan. The working Group has projected a growth rate of 10% for the cement industry during the plan period and has projected creation of additional capacity of 40-62 million tones mainly through expansion of existing plants. The working Group has identified following thrust areas for improving demand for cement;

Further, in order to improve global competitiveness of the Indian Cement Industry, the Department of Industrial policy & promotion commissioned a study on the global competitiveness of the Indian industry through an organization of international repute, viz.. The report submitted by the organization has made several recommendations for making the Indian Cement Industry more competitive in the international market. The recommendations are under consideration.

### **7. REFERENCES**

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