

ANALYTICAL STUDY OF CAPITAL STRUCTURE AND PROFITABILITY: (WITH REFERENCE TO ENERGY SECTOR)

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ABSTRACT

In this paper an attempt has been made to analyze the capital structure (debt/equity ratio) and profitability of energy generation firm listed in both stock exchange in India and to identify the effect of capital structure on profitability during study period which 2011-2012 to 2015-2016. This study is focused on power sector industry. Total six companies are taking for study. The reference period of the study is five year and completely based on secondary data which has been collected through various sources. In order to achieve the objective of the study descriptive statistics, Ratio analysis technique and some statistics tools has been employed like Regression and ANOVA. The findings of the study have put forth that debt to equity ratio is negatively correlated to net profit ratios and return of capital employed and earnings per share of energy firm during the study period which depicts that if the debt part is increased aggressively it will adversely affect the net profit, return on capital employed as well as earning per share.

KEYWORDS: Capital Structure, Profitability, Debt-Equity Ratio, Return on Capital Employed, EPS, ANOVA.

Introduction

Right decision making is playing a crucial role for the success and growth of any company in the present intense completion, it should not only be on the intuition basis but it should have some reasoning and logical grounds. Therefore, managers are supposed to do intense study about the current market trend for taking any kind of decisions. The managers of present corporate world have to follow a systemic approach to take their decision because their decision may create a positive and negative impact on the success and growth of the corporate. All the aspect of financial decision, capital structure decision is the important one because it has direct relationship with profitability of an enterprise. Thus managers should take proper care and attention should be given while taking the capital structure decision. Various sources is available for fulfilling the financial need of the organization, but which option is the best one in firms' interest in a particular scenario need to have deep insight in the field of finance. Combination of these sources in the best interest of firm called optimal capital structure. Thus a balance should be used and maintain in the life span of the firm.

Review of Literature

In order to find the comparison of capital structure and the profitability of a firm, a lot of research has been done so far by various researchers all over the world. The review of some of the major studies has been taken so as to develop a clear understanding about difference in capital structure in different companies and to find out the relationship between capital structure and profitability. The review of such major studies is as follows:

- **Chiang et al., (2002)** As per his study and the findings of the study, profitability and capital structure are interrelated; the study includes 35 companies as sample listed in Hong Kong Stock Exchange.

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