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STUDY ON CAPITAL STRUCTURE ANALYSIS ON HISAR METAL INDUSTRIES LIMITED

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ABSTRACT

The main objective of the firms is to maximize its profits and in the same time minimize its costs, when companies search about resources to finance its investments they take this objective in consideration. The main sources that firms could use to provide the necessary finance are the internal finance which is equity, and the external finance which is debt. Most of companies use a mix between equity and debt which form the capital structure. Capital structure was defined firstly by Modigliani and Miller as the mix between debt and equity that the company uses in its operation. The paper that published by Modigliani and Miller refers to the impact of capital structure on firm v assumptions that have been modified by them five years later in (1963). After Modigliani and Miller, Jensen and Meckling discussed the agency cost theory which refers to the potential conflict between managers and shareholders I shareholders and debtors in another side. Since Jensen and Meckling's argument the relationship between capital structure and firm performance, many researchers have begun to study the relationship between capital Structure and firm performance.

Keywords: *Capital Structure, Finance, Debt and Equity, Firm Performance.*

Introduction

The Random House Dictionary of the English defined the Word "structure" as: Mode of building, Mode of construction organization or arrangement of parts, elements or constituents, a pyramidal structure. Anything composed of parts arranged together in some way: and organization the system of relations between the constituent groups of a society. To give a structure, organization or arrangement to construct a systematic framework for, essentially the Word "Structure" is a term used in the science of engineering in case of construction of a building there are some standard proportion in which various elements are integrated together. It is expected that business enterprises while raising the resources should also think of proportions in which they can mix the sources of capital. This is the basis for the concept of capital structure.

Capital structure is defined is two Ways. According to some authors capital structure refers to the relationship between the long-term debt and equity. In other worlds, it takes in to consideration only the long-term sources of capital it excludes short term capital from its purview. The RBI and the All India Financial Institutions also use the term in this sense. As a matter of fact, the controller of capital issues fixed a guideline for the capital structure of companies basing on the relation between long term debt and equity.

On other hard, some believe that capital structure refers to the relationship among all sources all sources of capital. They do not want to distinguish between long term and short-term sources. In the opinion of "Walker and Baughn" capital structure is synonymous with total capital: this term refers to the makeup of the credit side of the balance sheet or the division of claims among trade creditors, bank creditors bond holders stock holders, stock holders etc. The latter expression has wide connotation and is known as financial structure. "Landsay and Sametz" feel that in view of the great importance of bank credit and trade

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credit it, seems artificial to short term or informal debt from capital structure problems especially for small firms where current liabilities compromise a large part of the sources of funds. Thus, the concept of capital structure is interpreted in two Ways. This problem is tackled cleverly in finance by interpreting the second situation as that of financial structure. Above these, there are different definition given by different authors viz Gesternberge. Bhandari & Kulshreshta, J.K. Sarkar M.C. Shukla, James C. Vanukne, I.M.pandey, Ravi Kishor etc. considering the various expressions capital structure, only long term sources also. In this study, the Word capital structure is used to the to the firm's concept, which includes the composition of different sources also in this study Word capital structure is used to the firm's concept, Which includes the composition of different sources of long funds only, i.e. long term debt and equity.

Objectives of Study

The main objectives of the study are as under:

- To study various theoretical aspects of capital structure.
- To study pattern of capital structure
- To study the interrelationship between several pertinent aspects relating to capital structure
- To estimate the specific caused and weighted average cost of capital of different sources of capital
- To study the relationship between capital structure and cost of capital
- To estimate the value of the firms both debt and equity
- To study the operating profitability and earning per share in relation to market price
- To study the impact of different degrees of financial leverage on earning available to the shareholders.
- To examine the relative role of capital structure, cost of capital, value of the firm, profitability, operational efficiency, earning power of market, prices of steel industries for drawing meaningful conclusion and if possible, for generalization and to the test the popular theories in these regards.

Nature of Study

It is empirical research. As the number of units in steel industries of manufacturing sector are quite more and as the study has been undertaken by an individual researcher, it may be beyond the capacity of an individual researcher to pursue the study hundred percentage or enumerative basis. So the study has been carried out on the basis of an adequate size of sample units in India viz. steel industries.

Scope of the Study

The scope of the study is very wide and the study is based on manufacturing sector in India with reference to steel industries. In the present study an attempt has been made to examine the recent trends in financial pattern in steel industries sector in India.

Overview of the Company

The Steel industry in India is one of the fastest growing sectors. The demand drivers for the Indian steel industry are increase in the activities of the automobile industries, real estate industries, transportation systems, aircraft industries, ship building industries. India ranks 5 terms of production of steel. Hisar Metal Industries Limited was established at Hisar, Haryana in 1991. They manufacture variety of Stainless Steel products of various grades and sizes for usage of small scale, medium and heavy industries. The company is popular for production of high precision, ultra-thin stainless steel strips and so Hisar is called as "Stainless steel city of India". It has attained ISO 9001 certification for the Quality standard of stainless steel products.

Identification of Problem of the Study

The value of the firm, operational efficiency & profitability of every corporate and industrial unit is being affected by its financial pattern i.e. capital structure. Even if the earning power may be the same for two or more comparable units, still the profit on net worth may be different just because of differences in the financial pattern of the unit. In fact, capital structure has its impact on the cost of capital, hence, influences earnings of the firm, investment decisions, value of a firm, operational efficiency, operating income, earning available to shareholders etc.

But too much of controversy is found in various theories formulated in this regard, as well as optimal structure. Even the empirical researchers are found controversial and debate began long ago and yet not reach a consensus. This background has motivated me to take a fresh view on pertinent aspects of the problem in global scenario by taking study on analysis of capital structure. Moreover, past few studies on capital structure and its impact on profitability by different researchers on banking, cement, power industries, but very few recent studies have been taken on analysis of capital structure of steel industry of India. So, I have made an attempt to undertake an in-depth study of the capital structure practices in Indian context with special emphasis on steel industries in India.

Period of the Study

In order to make the study meaningful, the present study is made for the period of last 5 years i.e from 2016 to 2020

Data Collection

The study is based mainly on secondary data which is extracted from the annual reports of the selected companies. The supplementary data have been collected from various reliable database software like capital line, ace equity and other published data of SEBI, BSE and others.

Limitations of the Study

- The present study based on the published secondary data, the reliability of the study depends of the accuracy of data collected.
- There are many approaches to the measure of financial efficiency and financial strength. There is no uniformity among experts.
- The financial performance covering a large period say 20 years or 30 years can give a much clear picture of management practices of financial performance. Our study covering a period of 5 years can touch only a part of the problem

Source of the Data

The study uses only the secondary sources of are collected from the published and unpublished financial statements of Hisar Metal Indstries and relative websites like moneycontrol.com and other supportive data's from books, journals, annual reports and various newspapers.

Tools and Techniques for Analysis

There are many accounting and statistical techniques used for the critical analysis of the collected data. Below given are list of the tools and techniques used for analysis:

Ratio Analysis

Financial ratios are mathematical comparisons of financial statement accounts or categories. These relationships between the financial statement accounts help investors, creditors, and internal company management understand how well a business is performing and areas of needing improvement. Ratios allow us to compare companies across industries, big and small, to identify their strengths and weaknesses. Financial ratios are often divided up into six main categories: liquidity, solvency, efficiency, profitability, market prospect, investment leverage, and coverage. Financial ratio analysis is a useful tool for users of financial statement. It has following advantages:

Advantages

- It simplifies the financial statements
- It helps in comparing companies of different size with each other.
- It helps in trend analysis which involves comparing a single company over a period.
- It highlights important information in simple form quickly. A user can judge a company by just looking at few numbers instead of reading the whole financial statements.

Limitations

- Despite usefulness, financial ratio analysis has some disadvantages. Some key demerits of financial ratio analysis are:
- Different companies operate in different industries each having different environmental conditions such as regulation, market structure, etc. Such factors are so significant that a comparison of two companies from different industries might be misleading.
- Financial accounting information is affected by estimates and assumptions. Accounting standards allow different accounting policies, which impairs comparability and hence ratio analysis is less useful in such situations.
- Ratio analysis explains relationships between past information while users are more concerned about current and future information.

Financial Performance Ratios

Financial Performance Ratios are profitability ratios are used in assess a business's ability to generate earnings compared to its expenses and other relevant cost incurred during a specific period of time.

Operating Profit Margin (%)

This ratio is calculated by dividing operating profit by sales

$$\textbf{Operating Profit Margin} = \frac{\text{Operating profit}}{\text{Net Sales}} \times 100$$

(Rs. In crore)

Year	Operating Profit	Sales	Operating Profit Margin
2015-16	8.47	197.2	4.29
2016-17	9.74	180.23	5.40
2017-18	15.63	236.46	6.61
2018-19	12.79	207.55	6.16
2019-20	12.24	177.84	6.88

Gross Profit Margin (%)

Gross profit ratio measures the relationship of gross profit to net sales and is usually represented as a percentage.

$$\textbf{\textit{Gross Profit}} = \frac{\text{Gross profit}}{\text{Net Sales}} \times 100$$

Year	Gross profit	Sales	Gross Profit Margin
2015-16	45	197.2	25.30
2016-17	47.85	180.23	23.05
2017-18	44.89	236.46	18.98
2018-19	36.3	207.55	20.14
2019-20	36.94	177.84	18.73

Cash Profit Margin (%)

The net profit of a phone are affected by the amount/ method of depreciation charged. Further, depreciation being a non cash expense, it is better to calculate cash profit ratio. This ratio measures the relationship between Cash generated from operations and net sales.

$$\textbf{Cash Profit} = \frac{\text{Cash Profit}}{\text{Net Sales}} \times 100$$

Year	Cash profit	Sales	Cash Profit Margin
2015-16	8.65	197.2	4.37
2016-17	10.24	180.23	5.68
2017-18	15.91	236.46	6.73
2018-19	14.01	207.55	6.75
2019-20	12.5	177.84	7.03

Net Profit Margin (%)

Net profit ratio establishes relationship between net profit (after taxes) and sales, and indicates the efficiency of the management in manufacturing, selling. Administrative and other activities of the firm. This ratio is the over all of firms profitability.

$$\textbf{Net Profit} = \frac{\text{Net Operating Profit}}{\text{Net Sales}} \times 100$$

Year	Net profit	Sales	Net Profit Margin
2015-16	.39	197.2	.20
2016-17	2.64	180.23	1.5
2017-18	4.96	236.46	2.10
2018-19	5.33	207.55	2.57
2019-20	3.91	177.84	2.20

Conclusion

An optimum capital structure is that which maximizes the shareholder's wealth with best combination of debt and equity mix by minimizing the firm's cost of capital. Firm's capital structure trends have a great impact on firm's financial performance. The analysis of the study concludes that companies are using both debt & equity financing as a part of their capital structure pattern. But they are advised to maintain a right balance between debt financing and equity financing. The relation of impact between return on equity and debt equity ratio of Hisar Metal Industries are satisfactory. Thus, it implies that Hisar Metal Industries has been influenced by debt equity ratios. From this project we conclude that from the analysis of capital structure analysis it is clear that Hisar metal industries limited have been doing a satisfactory job. The firm should focus on getting of profits in the coming years by taking care internal as well as external factors. The entire capital structure is super sufficient in the first four years of study but, diminishes in the last year. Thus, the company is strong in its long-term structure, in the same way has to concentrate in its short term capital planning.

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