Capital Structure Analysis

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Abstract: This paper analyzes the relationship between a firm's capital structure and its information acquisition prior to capital budgeting decisions. It is found that low-growth industries can sustain a large number of levered firms. In these industries, leverage is negatively related to a firm's incentive to acquire information during the capital budgeting process. In contrast, high-growth industries only sustain a small number of levered firms. In these industries, levered firms acquire more information than all-equity financed firms. The model yields empirical predictions regarding the effects of leverage on the expected amount and the volatility of corporate investment. While leverage does not affect firm value, highly levered firms generate a more volatile cash flow than firms with low debt levels. JEL classification codes: G31, G32.

I. INTRODUCTION

Every organization requires funds to run and maintained its business the required funds may be raised from short term sources or long term sources or a combination both the sources of funds, so as to equip itself with an appropriate combination of fixed assets and current assets. Current assets to a considerable extent are financed with the help of short term sources. Normally, firms are expected to follow a prudent financial policy, as revealed in the maintenance of net current assets. These net positive current assets must be financed by long term sources. Hence long term sources of funds are required to finance for both.

1. Long term assets (fixed assets)

2. Net working capital (Positive Current assets).

A firm can easily estimate the required funds by a detailed study of the investment decision. In other words, anticipation of the require funds may be estimated analyzing the investments decision. Once anticipation of require funds is completed then the next step is financial for the manager to make decisions related to the finance or the selected investment decisions. Generally capital is raised from the prime source are

1. Equity

2. Debt

Then the questions are what should be the proportion of equity and debt in the capital structure of a company. As the objective of a firm should be directed towards the maximization of the valve of the firm, the capital structure decision should be examined from the point of its impact on the firm. If the valve of the firm can be affected by capital structure, a firm would like to have a capital structure, which maximizes the market valve of the firm. There exist conflicting theories on the relationship between capital structure and the valve of the firm.

II. NEED OF THE STUDY

1. The corporate and personal income taxes do not exist.

2. The business risk is constant over time and is assumed to be independent of its capital structure.

3. The given the assumptions of perfect information and rationality.

4. The business risk is equal among all firms with in similar operating environment.

5. Capital structure decision are significant finance of the corporate firm in that they.

Influence the return as the risk of equity shareholders.

Then the questions are what should be the proportion of equity and debt in the capital structure of a company.

III. SCOPE OF THE STUDY

1. Firms employ only two types of capital, debt and equity.

2. The firm has a policy of paying 100% dividends.

3. The corporate and personal income taxes do not exist.

4. The operating profit (EBIT) is not accepted to grow.

5. The total assets are given and do not change.

6. Business risk is constant over time and is assumed to be independent of its capital structure.

IV. RESEARCH METHODOLOGY

Research methodology is the procedure of collecting analyzing and interpreting the data to diagnosis the problem and react to the opportunity in such a way where the costs can be minimized and the desired level of accuracy can be achieved to arrive at a particular conclusion

DATA COLLECTION

Methodology is a systematic procedure of collecting information in order to analyze and verify a phenomenon. The collection of data through two principle sources viz.

1. Primary data

2. Secondary data

PRIMARY DATA

It is the information collected directly without any reference. In the study it was mainly interviews with concerned officers and staffs either individually or collectively. Some of the information had verified or supplemented with personal observation, the data collected through conducting the personal interview with the officers of KESORAM INDUSTRIES LIMITED.

SECONDARY DATA

The secondary data was collected from already published sources such as pamphlets annual reports, reports and internal records the data includes. Collection of required data from annual reports of KESORAM INDUSTRIES LIMITED. Reference from text books and relating to financial management. Articles published in business details like the economic times, business time etc.

V. LIMITATIONS OF THE STUDY

1. The data of study of project collected of investor or capital structure may not applicable in the situations.

2. The study of capital structure analysis of company financial position may be affected or not.

3. The calculations and methods adopted in my study may be carried an appropriately.

4. Due to time constant of 45 days, the data of the study may on way net present overall view of the capital structure.

5. It is dipped to judge the results-valve due to the change market valves of the firm.

VI. FINDINGS

Total debt valve of KESORAM INDUSTRIES LIMITED was 44090.21 Lakhs.

1. Equity Capital of the KESORAM INDUSTRIES LIMITED was 4592.66 Lakhs.

2. Debt Equity Ratio was recorded as 1.12 in the financial year 2005-06.

3. Net Worth of the company was 8.03% in the year 2005-06.

4. Earnings per share of the company was Rs.6.04 Lakhs

VII. SUGGESTIONS

The KESORAM INDUSTRIES LIMITED is one of the private sector cement Company in India. It is profitable Company. Now-a-days the cement industry playing a major and important role in the construction field, these are for construct Homes, Flyovers, Industries etc.

1. Regional requirements

2. Regional cement demands

3. Lack of resources

With all the above problems cement industry has to produce the cement with profits.

I want to express my views with few points, they are

1. KESORAM INDUSTRIES LIMITED has been maintaining constant Equity Share Capital Since 2004, this has to improve.

2. Offer additional shares to investors from profits instead of giving Dividend. With this, there is a chance to increase reserves and surplus.

3. Debt/Equity Ratio in KESORAM INDUSTRIES LIMITED is 0.98% this is more than the idle ratio of debt. But if the proportion of Debt! Equity (0.5 and not less than 0.5) will decrease from 0.98 to 0.5. It would decrease the responsibility.

Investments through Equity from rural people i.e. rural investments are important

VIII. CONCLUSION

After analyzing the financial position of KESORAM INDUSTRIES LIMITED and evaluating its Capital Structure Analysis in respect of Ratio Analysis and source and utilization of founds. The following conclusions are drawn from the project preparation. The progress of KESORAM INDUSTRIES LIMITED shows that Equity Capital to Rs.41605.00 Lakhs from during the year 2010-11 and the Net worth of the Company 39.04%.Regarding Capital Structure Analysis Equity Capital was decreased from 2005-06 to 2010-11 and t0otal Debt Valve increased from 87289.00 to 121481.00 Lakhs during the year.

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