

## CAPITAL STRUCTURE ANALYSIS

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### Abstract

One way to assess a business's debt-to-equity ratio is via a capital structure analysis. Discovering the sweet spot for financing that both increases value for shareholders and decreases WACC is the main objective of this study.

### INTRODUCTION:

A company's owners and creditors are two of the many possible sources of capital for an enterprise's assets. Claims from owners increase as a result of the firm's efforts to maintain profits via continuous stock sales, while claims from lenders increase as a result of borrowing. By analysing its funding practices, one may ascertain a company's "monetary shape" in several ways. If you look at a company's commitments plus equity on the left side of their balance sheet, you can determine how healthy their finances are. To fund capital expenditures, businesses often rely on long-term claims rather than short-term borrowings. The assumption is based on the fact that the former affects the capital structure of the latter. It is possible to see the relationship between equity and debt in the capital structure. Equities include capital, paid-up percentage, top rate of shares, reserves, and surplus.

Managers have a lot of say in matters of funding and capital structure. By affecting the market value of a section, the capital structure choice affects shareholder earnings and possibilities. Advertising could have to wait until the firm finalises its financing plan. Maintaining day-to-day operations requires a budget for any firm. You may discover these funds in a combination of long-term savings and short-term investments. A company's chances of success increase if it keeps its fixed asset ratio low and invests in technology. Funding current assets is a typical technique that often involves short-term finance sources. It is clear that firms are often compelled to follow a cautious economic approach when it comes to maintaining internet-based current property. All of these fantastically advanced contemporary things will want funding over a long time. Consequently, they will be unable to access cash for the foreseeable future. Fixed assets or long-term assets Current asset value, or net operating capital. By carefully analysing the financing option, the necessary funds may be easily determined. To restate, a comprehensive evaluation of the investments might reveal potential expenditure triggers. Following the completion of the budget for anticipated needs, the supervisor will be tasked with making a financing decision. One typical use of prime supply is to raise financing. Inclusion a financial influx finding out what the ideal equity to debt ratio is for a government agency's capital structure is the next thing to do.

### NEED FOR THE STUDY

- The value of a corporation is determined by discounting its expected profits stream.
- The necessary rate of return, also known as the cost of capital, is the rate at which a company's profits are reinvested. The stock price could be influenced by various capital structures because these structures influence the expected or actual profitability of the business or the shareholders.
- It is not apparent how leverage impacts the cost of capital. A number of theoretical traditions have different views on this matter.
- Among the most active subfields of financial theory, this one has probably attracted more attention from both academics and industry professionals than any other.

### SCOPE OF THE STUDY

In order to pay its bills, a company looks at its capital structure, which includes both present and future assets. For the years 2021–2023, this study will only utilise data collected from Ramco Cements Limited.

### **OBJECTIVES OF THE STUDY**

- The purpose of this task is to provide you with a better understanding of the factors that impact the capital structure and financial decisions made by the organisation. This endeavour aims to accomplish the following.
- Examining Ramco Cements's capital structure via the prism of an EBIT-EPS study
- Investigate the potential effects on earnings per share and earnings before interest and taxes (EBIT) of the company's proposed financing strategy.
- Observing the leverage test performed by Ramco Cements.
- Analysing Ramco Cements's financial performance from 2018 to 2016.
- From 2021 through 2023, look at Ramco Cements' debt-to-equity ratio.

### **METHODOLOGY OF THE STUDY**

#### **The findings:**

Research, in its widest sense, is any activity that involves the deliberate collection of information with the goal of shedding light on a particular subject. The information might be categorised into two groups: primary facts and secondary facts.

#### **Broad Information:**

The primary data for this freshly developed study comes from interviews, experiments, questionnaires, surveys, consciousness organisations, and measurements. In order to collect data for this strategy, we will be interacting directly with authorised Ultra tech cement participants.

#### **Other information:**

The term "secondary data" describes studies that have already been published and may be accessed by the general public. Books, journals, and newspapers are the best sources for secondary data. Publications and papers provided by Ultra Tech Cement. This research relies heavily on secondary sources for its data.

#### **Citations for Further Reading:**

Detailed information is given in the organization's yearly reports from 2023 to 2016. As supplementary material, we have private conversations with the president. Consulting with the team's leader and other members in charge of financial operations.

#### **Resources Utilised:**

Analysing ratios, Assessing visually, Observing trends.

### **LIMITATIONS OF THE STUDY**

- Profits per share (EPS) are a common metric for evaluating a company's performance.
- Earnings per share (EPS) often overemphasised when evaluating debt and equity financing options, despite its limitations as a metric.

- Earnings per share (EPS) is a useful metric to have when deciding where to put your money, but it ignores the reality that the price of EPS predictions may be very unpredictable.
- Investors care about more than just earnings per share estimates.
- The projected cost and the variance are both considered by shareholders when valuing the business.

## **INDUSTRY PROFILE**

India is the global leader in cement production. Cement manufacturing capacity is 347 million metric tonnes over the 2019-2020 fiscal year. It impacts a significant chunk of India's GDP. In terms of cement use, the construction sector accounts for over 67%. This quarter, cement sales brought in more money for Rajasthan, suggesting that this industry might become a major moneymaker in the state. The cement industry had a compound growth rate of 8% due to the increase in housing area during the last decade. The general slowdown in economic development over the last decade has meant that recent booms haven't always been as spectacular. There is a lot of room for growth in the cement industry since the product has a low per capita consumption due to its bulkiness. Recent developments in high capacitive bloom technology have been used by Lafarge, Ultratech, and Wonder Cement in an effort to further enhance cement output in India.

India is such a massive nation that its cement industry is divided into five distinct regions. Because of the area's central position, cement dealers and consumers may take benefit of quicker logging and delivery. Research conducted in the southern region has shown that cement from various locations has superior setting ability. The southern area is responsible for one-third of the total capacity. Cement manufacturers like Lafarge have recently released new, very capacitive plant life to the Indian market. Today, Holcim controls one third of the world's cement output after buying two big cement enterprises. Cement companies should be prepared for a slow economy for the time being, even if cement consumption and production will both grow in line with GDP. Both the housing market and the price of cement for home usage are affected by the overall growth of the Indian economy. By the end of the fiscal year 2023, India is expected to have increased its annual production from 350 million metric tonnes to 550 million metric tonnes. Cement consumption would rise sharply as a result of infrastructure development in India's urban and rural areas; the country is ripe with opportunity.

## **COMPANY PROFILE**

In 1957, the prestigious South Indian business organisation known as the Ramco organisation established Ramco Cements, which was formerly known as Madras Cements (MCL). Chennai is home to its main office. This company is among the top five cement manufacturers in the US. In southern India, Ramco Supergrade cement is the most well-known brand. Chennai is the site of its premiere. With a total current general production capacity of 15.5 MTPA, the company's eight state-of-the-art plants manufacture Portland cement, its trademark product. Additionally, each plant has its own cement blooms and grinding equipment. Located at Ramasamy Raja Nagar, near Virudhunagar in Tamil Nadu, the first MCL factory began wet-process manufacturing in 1962 with a capacity of 200 tonnes. More verdant desert plants began to replace the old ones in the 1970s. Total capacity increased to 12 lakh tonnes per annum with the construction of a 2d kiln. The Jayanthipuram facility, which MCL established in 1987 and is located near Vijayawada in Andhra Pradesh, is another obstacle. With a yearly capacity of 16 lakh tonnes, the factory employs state-of-the-art nation manufacturing technology.

The cutting-edge Ready Mix Concrete Plant, situated in Medavakkam, South Chennai, was inaugurated in 1999 by MCL. Modern dry mortar, cement-based putty, and tile repair compound manufacture started in 2002 at a site close to Sriperumpudur in Tamil Nadu. In 2000, MCL acquired Gokul Cements, a cement plant in Method, Karnataka, with a 600 TPD capacity. Ramco Winfarm was established in Muppandal, TN in 1993 by MCL as an environmentally conscious enterprise. Both the 2005-built Oothumalai and the 1995-built Poolavadi, both near Coimbatore, had a hand in this finding. With all of those parts working together, they can produce 45 MW of power. The 0.33 project in Alathiyur, TN, built by MCL in 1997 and then enlarged in 2001 with the addition of another line, began construction in 1997. This plant is the newest production facility in the United States, with an annual capacity of 30 lakh metric tonnes. At the moment, it ranks as India's sixth-largest cement manufacturer. It is among the leading US wind power producers with a capacity of 185 MW. With 59 megawatts of power.

## **REVIEW OF LITERATURE**

Organisational assets may be strengthened in two ways: by increasing the claims of owners or lenders, or by establishing a solid foundation. Raising capital via the sale of common shares or retained earnings increases owner claims, whereas borrowing money increases lender claims. The many ways in which a business raises capital reveal its "monetary shape" The balance sheet displays an organization's financials, including its obligations and equity, on the left side. In most cases, long-term claims are used to finance capital expenditures instead of short-term loans. Consequently, these assertions define the capital structures of companies. Make use of the capital shape to illustrate the temporal structure of equity and debt. A company's equity is comprised of its paid-in capital, top class, reserves, and surplus.

One common managerial decision is the choice of funding or capital structure. The capital form decision affects the return and risk to shareholders, which in turn affects the share price. A company should probably figure out its finances before it starts advertising. A company's capital structure is based on the decision it makes about the two primary types of cash flows. Debt capital obligations get a certain amount, while equity owners receive the remaining share (P. Chandra).

**DATA ANALYSIS AND INTERPRETATION**

**a. RETURN ON ASSETS**

In this case profits are related to assets as follows

$$\text{Return on assets} = \frac{\text{Net profit after tax}}{\text{Total assets}}$$

Rs: Crores

Particulars	2019	2020	2021	2022	2023
ROA = $\frac{\text{PAT}}{\text{TOTAL ASSETS}}$	962.85	1782.77	2575.14	3531.64	4133.60
TOTAL ASSETS	4174.40	6087.50	6674.58	6673.44	16264.27
	23.06559	29.28575	38.5813	52.92083	25.41522

**B). RETURN ON CAPITAL EMPLOYED**

As a proportion of total capital utilised, return is defined here. By comparing this ratio to others in the business, one may see how efficiently the company has used its cash. Better use of deployed capital is the result of increases in this proportion.

$$\text{Return on capital employed} = \frac{\text{Net profit after taxes \& Interest}}{\text{Total capital employed}}$$

(Total capital employed = Fixed assets + Current assets–Current liabilities)

Particulars	2019	2020	2021	2022	2023
PAT	962.85	1782.77	2575.14	3531.64	4133.60
Total Capital Emp	204.99	25.33	118.89	173.30	304.80
ROC	4.697058	70.38176	21.65985	20.37877	13.56168

**2018-2019 :YEAR**

**PERFORMANCE OF COMPANY (AMOUNT IN RS. CR'S)**

<b>Gross Revenue</b>	4939.44	<b>Total Expenditure</b>	3773.25
<b>Profit (Loss) before tax</b>	1166.19	<b>Profit after tax</b>	782.28
<b>Earnings per share Rs.</b>	1.69	<b>Dividend ratio</b>	10%

**PERFORMANCE ANALYSIS OF 2018-2019**

Due to an almost 20% year-over-year growth in sales, the gross profit jumped from Rs.3697.54 Crs to Rs.4939.44 Crs. A rise in net profit has resulted from a decrease in non-operating expenditures. The reductions in expenses and repayment of debt have reduced its current worth compared to previous year's end value. Last year, a dividend of 10% on stock, amounting to Rs.162 lakhs, was announced.

**YEAR 2019-2020**

**PERFORMANCE OF COMPANY (AMOUNT IN RS.'CR'S )**

<b>Gross Revenue</b>	5636.12	<b>Total Expenditure</b>	4142.48
<b>Profit (Loss) before tax</b>	1507.01	<b>Profit after tax</b>	1007.61
<b>Earnings per share Rs.</b>	0.64	<b>Dividend ratio</b>	5%

**PERFORMANCE ANALYSIS OF 2019-2020**

A 23% uptick is seen in both sales and output. Last year, cement turnover was up by 6%, while sales realisation went down by 15%. The Cement Boards Division's contribution to the PBDIT is up 18% compared to last year. Even though the turnover has reduced from 1189 lakhs to 845 lakhs, the realisation of the Perform Division has improved by 4%. The net profit for this year dropped from 1007.61 crs to 782.28 crs due to the slump in the cement business.

**YEAR 2020-2021**

**PERFORMANCE OF COMPANY (AMOUNT IN RS.' CR'S S)**

<b>Gross Revenue</b>	6575.40	<b>Total Expenditure</b>	5213.94
<b>Profit (Loss) before tax</b>	1361.46	<b>Profit after tax</b>	977.02
<b>Earnings per share Rs.</b>	0.64	<b>Dividend ratio</b>	5%

#### PERFORMANCE ANALYSIS OF 2020-2021

Cement companies enjoy a good year because of government programmes that aid with things like rural housing and infrastructure construction. Despite a little decline in gross sales, EBIT increased as a result of the prefab sector's performance in closing the gross profit gap. A considerable improvement over last year's 6575.40 crs, this year's gross profit is 5636.12 crs. Profit before taxes drops to 1361.46 crs from 1507.01 crs, even though interest payment is 423 crs more than last year. The 977.02 net profit for this year was likewise more than last year's total. The director has recommended a 7.5% distribution, which is an increase over last year's 5% dividend.

#### YEAR 2021-2022

##### PERFORMANCE OF COMPANY (AMOUNT IN RS. CR'S)

<b>Gross Revenue</b>	7169.43	<b>Total Expenditure</b>	5585.29
<b>Profit (Loss) before tax</b>	1588.16	<b>Profit after tax</b>	1093.24
<b>Earnings per share Rs.</b>	1.55	<b>Dividend ratio</b>	10%

#### PERFORMANCE ANALYSIS OF 2021-2022

From 2021 through 2015, the business made the right decisions thanks to strong demand and realisations. Because the business has taken out loans from the bank at lower interest rates and repaid loans at higher rates, the interest payments have gone up by about 7169.43 dollars. The announcement of a 10% dividend on equity, up from 7.5% the previous year, was made in response to factors such as a cash credit of Rs.5585.29 crs provided by UCO bank and the loss of loan funds borrowed from Vijaya Bank and Canara Bank. Profit before taxes for the business increased by Rs.1588.16 crs. In addition, next quarter the company's earnings per share will be much higher. In an attempt to boost output and fulfil customer demand, the firm initiated a plan to expand its facilities this year.

#### YEAR 2022-2023

##### PERFORMANCE OF COMPANY (AMOUNT IN RS.CR'S)

<b>Gross Revenue</b>	13558.42	<b>Total Expenditure</b>	11782.74
<b>Profit (Loss) before tax</b>	1786.19	<b>Profit after tax</b>	1404.23
<b>Earnings per share Rs.</b>	2.10	<b>Dividend ratio</b>	15%

#### PERFORMANCE ANALYSIS OF 2022-2023

The cement division accounts for over 55% of the company's income, while the prefab and boards divisions provide roughly 45%. In the next three years, cement demand is predicted to soar as a result of robust GDP growth nationwide, which is anticipated to inspire significant investment in the manufacturing sector. Over the next five

years, the demand for cement in the home is expected to increase at a CAGR of eight percent. According to projections, domestic revenue would increase from \$136 million in FY2022 to \$199 million in FY 2023. Your company's gross sales went up from 2022 to 2022-11. Going up from Rs.1093.24 crs in FY 2022-16 to Rs.1404.23 crs in FY 2023-24, a 39% bump. Turnover increased as a result of higher sales everywhere, but especially in the prefab division.

#### **CONCLUSION**

- The years 2020–2021, with sales of 7267.74 crs, and 2022–2023, with sales of 12752.43 crs, will have annual sales reductions of 20%. However, from 2021 and 2022, production expenses reach 8725.11. The manufacturing expenses skyrocketed in 2020 and 2021 due to a rise in royalties.
- For 2020, the interest payment was \$492.21; for 2021 and 2022, it was \$357.07 and \$522.56, respectively. At regular periods during 2020 and 2021, the business withdrew funds carrying set interest from its earnings. Funds from several sources, including the debenture redemption reserve, were used to partially redeem the debentures.
- In 2022 and 2023, the profit after tax (PAT) amounts to \$340.78. All cement prices rose throughout the stated time frame due to PAT. A substantial increase of over 15% occurred in the earnings between 2021 and 2022.
- The debenture redemption was handled by D.R.R. in 2021 and 2022. In 2020 and 2021, the P&L appropriation will continue to provide dividends to shareholders, even if there is insufficient money in 2020.
- Due to the lack of public offerings made by the corporation over that three-year period, its share capital remained under control. After a brief uptick in 2022, secured loans resumed their declining trend in 2023.

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