



A Study on Capital Structure Analysis in Sakshi Automation Solutions Private Limited, Chennai

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ABSTRACT

Capital structure refers to the specific mix of debt and equity used to finance a company's assets and operations. From a corporate perspective, equity represents a more expensive, permanent source of capital with greater financial flexibility. The objective of the study is to analyse the capital structure analysis in Sakshi Automation Solutions Private Limited, Chennai. The data used are of last five years from 2017-18 to 2021-22. Analytical research design has been used in this study. Secondary data has been used to collect the data. Ratio analysis, comparative balance sheet and common size balance sheet have been used as tools to reach the finding of the study. It is found that return on investment ratio was decreased to 0.36 in the year of 2021. It has further decreased to -0.04 in the year of 2022. It is suggested that the net profit ratio has ups and down in the five years. The company should take all the efforts to increase the net profit ratio. It is concluded that the equity and reserves of the firm should be sufficient to meet out the fixed bearing expenses and it has to lower the degree of financial leverage in order to overcome the financial risk in future.

Key Words: Capital Structure, Debt and Equity, Common size balance sheet and Comparative balance sheet.

I. INTRODUCTION OF THE STUDY

Capital structure is the particular combination of debt and equity used by a company to finance its overall operations and growth. Equity capital arises from ownership shares in a company and claims to its future cash flows and profits. Debt comes in the form of bond issues or loans, while equity may come in the form of common stock, preferred stock, or retained earnings. Short-term debt is also considered to be part of the capital structure.

Capital structure refers to the make upon firm's capitalism in other words Capital structure refers to the composition of long-term funds such as denture, long borrowings, preference share, equity share in the capitalization of a company. The essence of capital structure decision is to determine the relative proposition of equity and debt. Equity here in broader sense means owner's funds which can be raised by issue of equity shares and preference share and by retained earnings. Debts can be raised by issuing debenture or bonds by taking long term borrowings. The capital structure decisions a significant financial decision because it affects the shareholder's return and risk and consequently the market value of share.

INDUSTRY PROFILE

INDIAN ED-TECH INDUSTRY

India holds an important place in the global education industry. The country has one of the largest networks of higher education institutions in the world, with ~260 million students enrolled in >1.5 million schools and ~39,000 colleges, primarily dominated by the private sector. In India, the education market stood at US\$ 100 billion in 2016 and is expected to reach US\$ 180 billion by 2020, presenting itself as a lucrative opportunity for monetization.

Introduction of technology has led to increasing acceptance of alternative learning modes such as online learning in India. As of 2016, India witnessed a growth in users with 40% of the total population using the Internet. The internet user base is expected to reach 735 million by 2021, highlighting a positive outlook for online education in India. With the highest adoption rate of technology among the youth and an exponential rise in the number of smartphone users, the country will witness an incredible pace of internet growth.

The online education market stood at US\$ 247 million in 2016 with ~1.57 million paid users; is expected to expand at a 52% CAGR to reach US\$



1.96 billion in 2021 driven by increased consumer adoption, improvements in offerings and changes in business models. The paid user base is expected to increase from 1.57 million users in 2016 to ~9.6 million in 2021. Out of 1400 edtech companies in the world, India has the second-highest number with 327 companies (10%). The Indian EdTech industry was valued at US\$ 750 million in 2020 and is expected to reach US\$ 4 billion by 2025 at a CAGR of 39.77%.

This growth is driven by rising demand for non-academic courses from tier II & III cities and the need for personalization in the EdTech space. Out of the projected market value of US\$ 4 billion, US\$ 1.5 billion will focus on K-12 (Kindergarten to Class 12), after school foundational and pre-preparational courses.

COMPANY PROFILE

SAKSHI AUTOMATION SOLUTIONS PRIVATE LIMITED

Sakshi Automation Solutions Private Limited is the E-Learning Providers. It is an e-learning solutions company, which strives towards removal of digital divide by providing exciting and innovating e-learning products and currently focusing on government projects

Sakshi Automation Solutions (P) Ltd. a member of Data Info works Group. It was incorporated with a vision of a global automation solution providing company which will create and manage IT enabled services. projects. products. Product management and support. worldwide. Sakshi is a part of Data Infoworks Group. popularly known as DIG The group's business activity encompasses all aspects of information technology. The company, with high and significant industry expertise blamelessly continues to develop and refine its software development tools and proprietary methodologies. The company has developed its core competency in providing IT enabled solutions for GE Capital in its operations in India. The company had grown tremendously into being a strategic service provider for GE.

Sakshi Automation Solutions Private Limited is a Private incorporated on 27 October 1999. It is classified as non-govt company and is registered at Registrar of Companies, Chennai. Its authorized share capital is Rs. 500,000 and its paid-up capital is Rs. 500,000. Sakshi Automation Solutions Private Limited's Corporate Identification Number is (CIN) U72300TN1999PTC043422 and its registration number is 43422.

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pedagogy model, which helps the students to learn the concept in their native tongue apart from English. This approach also intends to remove digital divide between rich and poor. This is highly interactive and question bank provided in the respective section would be greatly valuable from the examination point of view. While other portals just graduate, we educate the students.

CAPITAL STRUCTURE ANALYSIS

Capital structure analysis is a periodic evaluation of all components of the debt financing and equity financing used by a business. The intent of the analysis is the evaluate what combination of debt and equity the business should have. The mix various over time based on the costs of debt and equity and the risk to which a business is subjected. Capital structure analysis is usually confined to short term debt, leases, long term debt, preferred stock and common stock.

RATIO ANALYSIS

A ratio is the quotient of two mathematical expressions and the relationship between two or more numbers. In financial analysis, a ratio is used as an index or yardstick for evaluating the financial position and performance of a firm. The absolute accounting figures are reported in the financial statement which do not provide a meaningful understanding of the performance and financial position of a firm. The relationship between the two accounting figures expressed mathematically is known as a financial ratio.

COMMON SIZE BALANCE SHEET

A common size balance sheet is a balance sheet that displays both the numeric value and relative percentage for total assets, total liabilities, and equity accounts. Common size balance sheets are used by internal and external analysts and are not a reporting requirement of generally accepted accounting principles (GAAP).

COMPARATIVE BALANCE SHEET

A comparative balance sheet presents side-by-side information about an entity's assets, liabilities, and shareholders' equity as of multiple points in time. For example, a comparative balance sheet could present the balance sheet as of the end of each year for the past three years. Another variation is to present the balance sheet as of the end of each month for the past 12 months on a rolling basis. There is no standard format for a comparative balance sheet. It is somewhat more common to report the balance sheet as of the least recent period furthest to the right,



though the reverse is the case when you are reporting balance sheets in a trailing twelvemonth format.

II. REVIEW OF LITRATURE

(Tripathy et al., 2021) Capital management has become an integral part of the management of any large enterprise. The capital structure fundamentally determines the overall prosperity and sound development of corporate finances.

(Mujkic, 2021) The correct setting of the capital structure is an essential element for the future financial freedom and riskiness. On the other hand, it can affect not only the interest rate for discounting future financial flows, but also the maximization of the firm value.

Kruk (2021) The capital structure can be defined by the fundamental issue of financial management, while its basic tasks can include determining the required amount of capital. When expressing the right side of the balance sheet, it is possible to encounter two concepts in the literature: financial structure and capital structure. Some authors define capital and financial structure as synonyms, while others differ significantly between the two key terms. The authors, who point out the differences between these concepts, define financial structure as the share of individual sources of financing in the total financial resources of the enterprise.

(Karas & Reznakova, 2021) The term capital structure is used primarily in connection with long-term financing sources. The capital structure is, therefore, part of the financial structure.

Gregova et al. (2021) It is associated with the issue of capital structure and the factors that affect it, the so-called determinants.

(Gashi Ahmeti & Fetai, 2021) There are several ways for an enterprise to obtain the necessary long-term funding to finance its business or further development. In addition to the ability of the enterprise to finance its needs from internal sources, it has several options or forms of financing from external sources.

Bigio and d'Avernas (2021) many enterprises currently do not have sufficient equity, which lacks additional funds for their business development. One of the possible solutions and the most frequently used is additional foreign resources. Today, enterprises already have a wide range of options from which they can obtain foreign resources to finance their activities. Different forms of long-term financial resources accessible suggest that optimizing the capital structure is a complex problem today.

(Kucera et al., 2021) most of theories dealing with the composition of the capital structure are mainly

focused on determining the optimal ratio between fixed-rate foreign capital and equity.

(Wang et al., 2021) In the past, many studies on corporate finance have summarized the concepts of individual capital structures, and answer questions about the impact of equity and debt combination on a financial performance of the enterprise.

Gregory (2020) The decision to finance a business using equity, debt, or a combination of these depends on a number of factors.

OBJECTIVES OF THE STUDY

PRIMARY OBJECTIVE

- To analysis capital structure in Sakshi Automation Solutions Private Limited, Chennai

SECONDARY OBJECTIVES

- To study the various long-term sources of funds raised and utilized in the capital
- To analyse the debt equity, proprietary and pay out position in the concern
- To study the return on investments, shareholders' funds and equity in the company
- To measure the capital gearing position and capital structure analysis
- To assess the retained earning level and proportion of fixed assets to net worth in the company

STATEMENT OF THE PROBLEM

- The success of a company is in the hands of how effectively the company has raised its long-term capital and utilizes in the business.
- The use of long-term capital as part of the capital of a business could either help or worsen the circumstances of a firm depending on how well the capital was utilized.
- The study analysis how the long-term capital is raised and effectively utilized. To evaluate its efficiency of capital market analysis, there is several ratios to measure.
- Hence the study analysis the various mix in the capital structure and also it uses ratio and tools to measure its efficiency of long-term capital utilization.

III. RESEARCH METHODOLOGY

A research methodology is an outline of how a given piece of research is carried out. It defines the techniques or procedures that are used to identify and analyse information regarding a specific research topic.

RESEARCH DESIGN

The research design adopted for the studies is **descriptive design**. The researcher has to describe the financial performance of the company. Hence



descriptive research study is used. Descriptive research can only report what has happened and what is happening. Research Methodology is a systematic way to solve a research problem; It includes various steps that are generally adopted by a researcher in studying the problem along with the logic behind them.

IV. DATA COLLECTION METHOD

PRIMARY DATA

Primary data refers to the information obtained firsthand by the researcher on the variables of interest for the specific purpose of study. In case of descriptive research primary data can be obtained through observation or through direct communication with respondents in one form or another or through personal interviews or through questionnaires. Questionnaires were employed to collect data.

SECONDARY DATA

Secondary data refers to information gathered from sources already existing. Some sources of secondary

data are data available from previous research, information available from any published or unpublished sources available either within or outside the organization, library records, online data, websites and the internet. The secondary data of information of this study were obtained through web sites, books, annual report, and internet

SAMPLING METHOD:

The approach where only a few units of population under study a concluded for analysis is called sampling method. **Here five years are taken to study.** Sample is the subset of the population. The process of selecting a sample is known as sampling. Number of elements in the sample is the sample size.

PERIOD OF STUDY

The duration taken by the researcher for the data collection and analysis regarding the financial performance analysis of Sakshi Automation Solutions Private Limited, Chennai for three months. The data used are of last five years from **2017-18 to 2021-22.**

V. DATA ANALYSIS AND INTERPERTATION

DEBT EQUITY RATIO

From the total debt ratio which clears the % of lenders contribution to owner's Contribution or the relationship describing the lender's contribution for each rupee of the owner's contribution is called debt equity ratio.

$$\text{Debt equity ratio} = \frac{\text{Total debt}}{\text{Net worth}}$$

Year	Total Debt	Net Worth	Ratio
2018	78.99	38.24	2.07
2019	62.03	45.05	1.38
2020	41.39	68.36	0.61
2021	35.54	89.04	0.40
2022	43.18	89.05	0.48

Source: Annual Report

INTERPRETATION

From the above table conveys that debt quick ratio was 2.07 in the year of 2018. It has decreased to 1.38 and 0.61 in the year of 2019 and 2020 respectively. It has further decreased to 0.40 in the year of 2021. It has increased to 0.48 in the year of 2022.

CAPITAL STRUCTURE ANALYSIS

INTERPRETATION

S.No	Particulars	2018	2019	2020	2021	2022
1	Equity Share Capital	26.33	26.33	26.33	26.33	26.33
2	Reserves	11.91	18.72	42.03	62.71	62.72
3	Secured Loans	63.65	46.69	36.39	35.54	43.18
4	Unsecured Loans	15.34	15.34	5	0	0

Source: Annual report



From the above table conveys that capital structure ratio was 0.33 in the year of 2018. It has increased to 0.42 and 0.62 in the year of 2019 and 2020 respectively. It has further increased to 0.72 in the year of 2021. It has decreased to 0.69 in the year of 2022.

COMMON SIZE BALANCE SHEET

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COMPARATIVE BALANCE SHEET

A comparative analysis is one of the widely used tools to analyse financial statements. It is an act of comparing the report for 2 or more financial years or any given period. A comparative balance sheet is one of the most sought financial statements by the business. The biggest advantage of comparing financial statements over time is discovering trends, analysing the findings and taking suitable decisions. To define comparative financial statements, it's a financial statement which represents the financial position over different periods of time. The financial position is represented in a comparative form to give an idea of financial position at two or more periods. Generally, two financial statements are prepared in comparative form for financial analysis purpose.

VI. FINDINGS

- Debt quick ratio was 2.07 in the year of 2018. It has decreased to 1.38 and 0.61 in the year of 2019 and 2020 respectively.
- Debt ratio was increased to 0.66 in the year of 2021. It has further increased to 0.72 in the year of 2022.
- Equity ratio was 3.07 in the year of 2018. It has decreased to 2.38 and 1.61 in the year of 2019 and 2020 respectively.
- Return on investment ratio was decreased to 0.36 in the year of 2021. It has further decreased to -0.04 in the year of 2022.
- Return on shareholders' funds ratio was 2.69 in the year of 2018. It has increased to 15.12 and 36.85 in the year of 2019 and 2020 respectively.
- Proprietary ratio was further increased to 0.64 in the year of 2021. It has decreased to 0.62 in the year of 2022.
- Return on equity ratio was 0.04 in the year of 2018. It has increased to 0.26 and 0.96 in the year of 2019 and 2020 respectively.

- It has further increased to 0.72 in the year of 2021. It has decreased to 0.69 in the year of 2022.
- Payout ratio was 0.00 in the year of 2018 and 2019. It has increased to 39.70 and 44.15 in the year of 2020 and 2021.
- Interest coverage ratio was decreased to 3.77 in the year of 2022.
- Capital gearing ratio was 3.00 in the year of 2018. It has decreased to 2.36 and 1.57 in the year of 2019 and 2020 respectively.
- Capital structure ratio was further increased to 0.72 in the year of 2021. It has decreased to 0.69 in the year of 2022.
- Retained earnings ratio was 1156.31 in the year of 2018. It has decreased to 274.89 in the year of 2019.
- Capital structure ratio was increased to 0.76 in the year of 2020. It has decreased to 0.70 in the year of 2021.

VII. SUGGESTIONS

- From the above study it can be suggested that the company need to necessarily concentrate on the debt-equity ratio to maximize its earnings per share.
- It is theoretically mentioned that the debt-equity ratio of 2:1 is the ideal one. In the above study it was observed that the company had a ratio of 2:1 in all the years normally. It should not be left it to reduce below that.
- The company has to concentrate to provide the maximum earnings per share among all the years. So it can be recommended that in order to maximize the earnings there are factors other than debt-equity ratio which should be considered.
- It was also believed that firms with no leverage at all were said to be too conservative in their approach. Leverage is supposed to be beneficial to a firm since it gives the benefit of trading on equity to a firm and in addition to that debt being a cheap source of fund compared to all other sources it helps in magnifying the shareholders' wealth.
- The company should keep up the same proportion of the debt ratio.
- The net profit ratio has ups and down in the five years. The company should take all the efforts to increase the net profit ratio.
- The return on investment shows improvement in each year. The company should focus to increase the return on investment in the following year also.
- The solvency ratio is satisfactory. Hence the



company should effectively utilise its funds and should not be left idle.

- The payout ratio shows ups and downs. The company should increase its net profit further to improve the payout ratio.
- The capital structure of the company has effectively mixed in the appropriate ratio. If the company utilise its raised capital in ideal, it can provide maximum return to its shareholders and maintain its value of the firm in upcoming years.
- In future the company requires more capital. It should utilize equity capital for long term obligations and should decrease the debt capital for the short term obligations.

VIII. CONCLUSION

Every concern has the aim to frame the optimum capital structure to its business as maximising the value of the firm and minimising the cost of capital. The study is aimed to analyse the long term funds of the company Sakshi Automation Solutions Private Limited, Chennai for the period of 2017-18 to 2021-22. The study has given the knowledge about the application of financial tools, its importance and its usefulness in determining the long-term capital of the company. The study has concluded that the optimum capital structure of the company could be ascertained by using various ratios. The overall results of the study have shown that the equity and reserves of the firm should be sufficient to meet out the fixed bearing expenses and it has to lower the degree of financial leverage in order to overcome the financial risk in future. Thus, the long-term capital of the company Sakshi Automation Solutions Private Limited, Chennai shows a satisfactory position.

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