



A Study on Capital Structure Analysis towards Seshasayee Paper and Boards Limited, Erode

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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 study on capital structure analysis towards Seshasayee Paper and Boards Limited, Erode. 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 the payout ratio has increased to 14.45 and 25.16 in the year of 2020 and 2021. It has decreased to 15.29 in the year of 2022 and the retained earnings ratio was 5.61 in the year of 2018. It has decreased to 4.50 in the year of 2019. It is suggested that the capital employed in the company must be sufficient one. It should not be undervalued or overvalued. It is 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.

I. INTRODUCTION TO THE STUDY:

Company management is responsible for establishing a capital structure for the corporation that makes optimal use of financial leverage and holds the cost of capital as low as possible. Capital structure relates to how much money or capital is supporting a business, financing its assets, and funding its operations. The significant determinants of optimum capital structure are risk, cost of capital, flexibility, conservatism, sales and growth, inflation, and cash flow. The optimal capital structure exists

only when the debt and equity combine to reduce the cost of capital and enhance the firms' profitability. Proper capital structure analysis prevents over or under capitalisation for the company. It helps the company in increasing its profits in the form of higher returns to stakeholders. A proper capital structure helps in maximising shareholder's capital while minimising the overall cost of the capital. The management of the firm itself has to set their capital structure in a way to maximize their firm value, and this decision is really important. Hence the study idea is carried out to analyse the capital structure analysis towards Seshasayee Paper and Boards Limited, Erode

OBJECTIVE OF THE STUDY:

- To understand the stability of the concern to raise additional capital
- To evaluate the profitability position of the concern
- To identify the credit worthiness of the concern
- To ascertain the efficiency of the concern in its operation

II. LITERATURE REVIEW

Tekin BILGEHAN (2014), each decision-making process is an important cognitive and emotional process which is open to the emotional effect. Individuals decide to make a decision about a future uncertainty that makes them feel good, or maximally good by minimizing the loss to gain ratio. Recent researches in finance have argued that the capital structure decisions and firms' funding and strategic choices deviate from the traditional neoclassical paradigm. However there is a nascent empirical literature that has exposed interesting evidence of the effects of managerial behavioral biases. In this context, managers' decisions, that to create the capital structure, have a vital importance for the company. The behavioral finance (BF) approach may be revealed useful results in the process of solving decision-makers' behaviors and thoughts. In this



context the purpose of this study is to reveal if the managers are affected by their behavioral characteristics in the process of the financing decision-making, based on the findings of studies in the literature. From this point of view behavioral finance literature, which is about the financing and capital structure decisions, is investigated. As a result, theoretical and empirical analyses, in the literature, show that managers' biases play an important role to explain the capital structure choice. **Abhijit Sinha (2017)**, this empirical study is an effort to the existing field of effect of capital structure decisions on firm value. The investigation is made on eleven power companies selected from the 'BSE Power' from Capitaline database for the period 2007-2015. The firm value is proxied by Tobin's Q and the Enterprise value to profit before interest, depreciation and taxes ratio. The leverage is measured using debt-equity ratio. Panel data regression model is employed for analysis which supports the view that there is a negative influence of financial leverage on firm value (measured using Tobin's Q). However, the other measure is not significantly impacted by the extent of debt in the capital structure

III. RESEARCH METHODOLOGY

RESEARCH DESIGN:

Analytical research is a type of research that utilises thinking to find out facts about a given topic and from the answers obtained to develop new and useful ways of doing things. Critical thinking is a method of thinking that puts assumptions into question to decide whether a given claim is true or false. The major purpose of this study is to analyse and interprets the data items and its relationships. Hence analytical research method has been used in the study.

3.3 SAMPLE AND SAMPLING TECHNIQUE

The approach where only a few unit of population under study a concluded for analysis is called sampling method. Here five years profit & loss account and balance sheet has been taken as sample. 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.

3.4 TOOLS USED FOR DATA COLLECTION

- Ratio Analysis
- Trend Analysis
- Common size balance sheet
- Comparative balance sheet

Ratio analysis

A ratio analysis is a quantitative analysis of information contained in a company's financial statements. Ratio analysis is used to evaluate various aspects of a company's operating and financial performance such as its efficiency, liquidity, profitability and solvency.

It involves comparison for an useful interpretation of the financial statements and it should be compared with some standards. Standards of comparison may consist of ratios calculated from the evidence of past financial statements of the firm or ratios developed by using the financial statements of the firm or ratios of some selected firms or atleast ratios of the industry to which the firm belongs.

- Current ratio
- Liquidity ratio
- Debt equity ratio
- Debt ratio
- Equity ratio
- Return on investment
- Return on shareholders' funds
- Proprietary ratio
- Return on equity
- Proprietary ratio
- Payout ratio
- Interest coverage ratio
- Capital gearing ratio
- Capital structure analysis
- Retained earnings ratio
- Fixed assets to net worth ratio

Trend Analysis

Trend analysis is a technique used in technical analysis that attempts to predict future stock price movements based on recently observed trend data. Trend analysis uses historical data, such as price movements and trade volume, to forecast the long-term direction of market sentiment.

➤ Common size balance sheet

A common size balance sheet includes in a separate column the relative percentages of total assets, total liabilities, and shareholders' equity. This format is useful for comparing the proportions of assets, liabilities, and equity between different companies, particularly as part of an industry analysis or an acquisition analysis. It is extremely useful to construct a common size balance sheet that itemizes the results as of the end of multiple time periods, in order to construct trend lines to ascertain changes over longer time periods.



➤ **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. In both cases, the intent is to provide the reader with a series of snapshots of a company's financial condition over time, which is useful for developing trend line analyses (though this works better when the reader has the entire set of financial statements to work with and not just the balance sheet.

DATA ANALYSIS AND INTERPRETATION

CURRENT RATIO

The current ratio describes the relationship between a company's assets and liabilities. So, a higher ratio means the company has more assets than liabilities.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

**TABLE NO: 4.1
CURRENT RATIO**

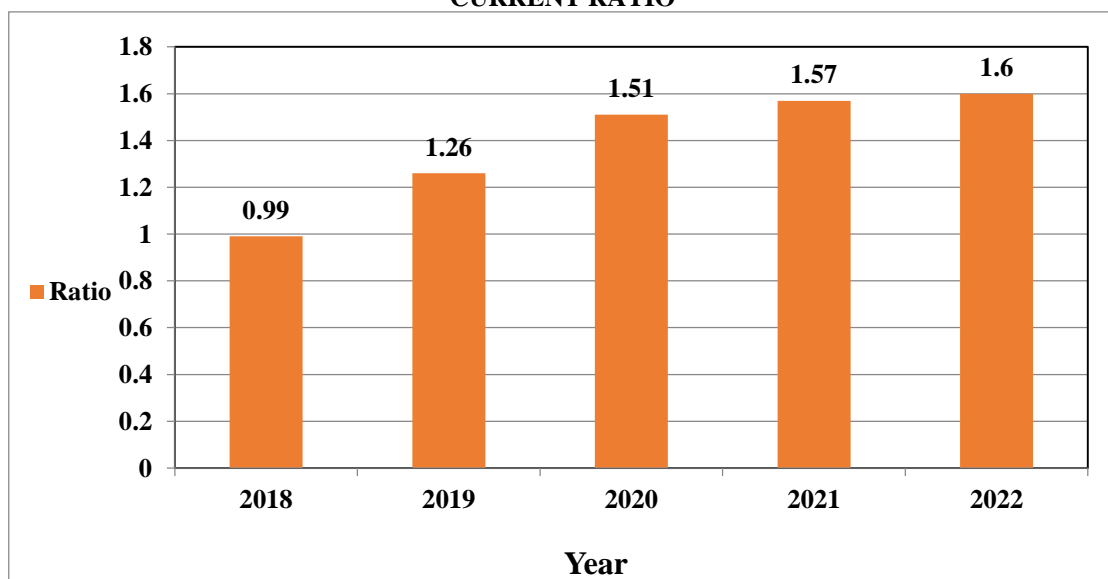
Year	Current Assets	Current Liabilities	Ratio
2018	458.79	463.49	0.99
2019	620.03	491.26	1.26
2020	637.16	421.96	1.51
2021	583.7	370.68	1.57
2022	638.35	400.09	1.60

Source : Annual report

Interpretation

From the above table conveys that current ratio was 0.99 in the year of 2018. It has increased to 1.26 and 1.51 in the year of 2019 and 2020 respectively. It has increased to 1.57 and 1.60 in the year of 2021 and 2022 respectively.

**CHART NO: 4.1
CURRENT RATIO**





LIQUIDITY RATIO

Liquidity ratios measure the liquidity of a company. They provide insight into a company's ability to repay its debts and other liabilities out of its liquid assets.

$$\text{Liquidity ratio} = \frac{\text{Liquidity Assets}}{\text{Current Liabilities}}$$

Liquidity Assets = Total CA, Loans & Advances – Inventories

Current Liabilities = Total CL & Provisions

TABLE NO: 4.2
LIQUIDITY RATIO

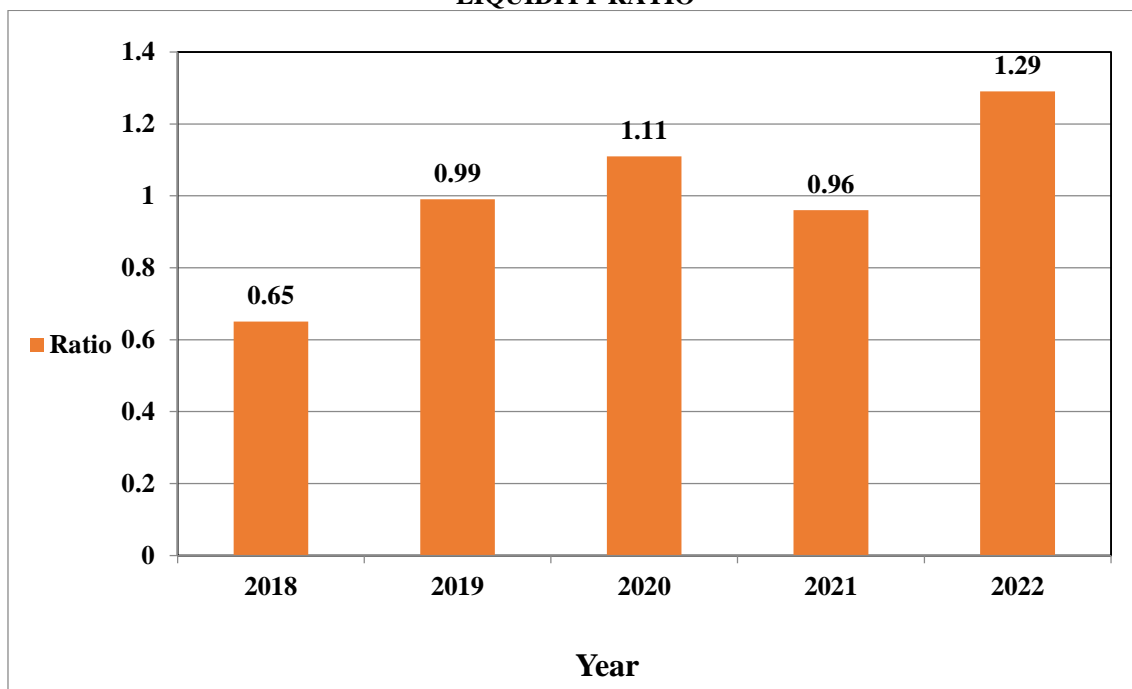
Year	Liquidity Assets	Current Liabilities	Ratio
2018	301.01	463.49	0.65
2019	485.46	491.26	0.99
2020	467.72	421.96	1.11
2021	356.45	370.68	0.96
2022	514.23	400.09	1.29

Source : Annual report

Interpretation

From the above table conveys that liquidity ratio was 0.65 in the year of 2018. It has increased to 0.99 and 1.11 in the year of 2019 and 2020 respectively. It has decreased to 0.96 in the year of 2021. It increased to 1.29 in the year of 2022.

CHART NO: 4.2
LIQUIDITY RATIO





IV. FINDINGS:

- The current ratio was 0.99 in the year of 2018. It has increased to 1.26 and 1.51 in the year of 2019 and 2020 respectively.
- Liquidity ratio has decreased to 0.96 in the year of 2021. It increased to 1.29 in the year of 2022.
- The debt quick ratio was 0.13 in the year of 2018. It has decreased to 0.06 and 0.01 in the year of 2019 and 2020 respectively.
- The debt ratio has maintained in same level to 0.01 in the year of 2021 and 2022.
- The equity ratio was 0.47 in the year of 2018. It has gradually increased to 0.49 and 0.58 in the year of 2019 and 2020 respectively.
- The return on investment ratio has decreased to 0.46 and 0.15 in the year of 2020 and 2021. It has increased to 0.20 in the year of 2022.
- The return on share holders' funds ratio was 17.52 in the year of 2018. It has increased to 21.90 in the year of 2019. It has decreased to 17.49 and 9.10 in the year of 2020 and 2021.
- Return on share holders' funds ratio has little bit decreased to 1.15 in the year of 2021. It has increased to 1.28 in the year of 2022.
- Return on equity ratio was 0.18 in the year of 2018. It has increased to 0.22 in the year of 2019. It has decreased to 0.17 in the year of 2020.
- The payout ratio has increased to 14.45 and 25.16 in the year of 2020 and 2021. It has decreased to 15.29 in the year of 2022.
- Interest coverage ratio was 13.06 in the year of 2018. It has increased to 20.65 and 37.00 in the year of 2019 and 2020 respectively.
- The capital gearing ratio was 0.13 in the year of 2018. It has decreased to 0.06 and 0.01 in the year of 2019 and 2020 respectively.
- Equity Share Capital was 12.61 in the year of 2018 to 2020. Reserves were 688.95 in the year of 2018. It has increased to 855.15 in the year of 2019. Secured loans have further decreased to 3.49 in the year of 2021. It has increased to 4.1 in the year of 2022. The unsecured loans were 10.63 in the year of 2018.
- The retained earnings ratio was 5.61 in the year of 2018. It has decreased to 4.50 in the year of 2019.
- The fixed asset to net worth ratio has decreased to 0.79 in the year of 2020. It has increased to 0.81 in the year of 2021 and 2022.
- Trend percentage of net profit was 100 in the year of 2018. It has increased to 154.61 in the year of 2019. It has decreased to 142.08 and 81.59 in the year of 2020 and 2021. It has again decreased to 83.90 in the year of 2022.

V. SUGGESTIONS

- The current ratio must be increased every year. It should not be below 2:1. The current assets must be in proportion to the current liabilities.
- The liquid ratio must be steady. There should not be as ups and downs every year. It must be ideal to meet its current liabilities.
- The debt equity ratio should be in decreasing trend. The company must maintain the total debt in the proportion of the net worth of the organisation.
- The total debt such as secured loans and unsecured loans must be favourable one to the company. It must be aligned with net worth of the company.
- The capital employed in the company must be sufficient one. It should not be undervalued or overvalued.
- The return on investment of the company must be maximised one. The company must monitor the operating profit and it should not leave any space to decrease every year.
- The company must take all the efforts to increase the shareholders funds to protect the shareholders wealth.

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VII. 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 Seshasayee Paper and Boards Ltd., Erode 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 Seshasayee Paper and Boards Ltd., Erode shows a satisfactory position.

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