



ACTUAL AND TREND PROJECTION OF FINANCIAL DETERMINANTS MEASURING CAPITAL STRUCTURES AND PROFITABILITY OF SELECT STEEL COMPANIES IN INDIA

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ABSTRACT

Capital structure refers to the financing decision of a firm which involves the choice of the right mix of different sources of financing namely owner's funds and lenders funds. The word profitability involves 'Profit' and 'Ability'. In profitability point of view profit means return from the investment. The word ability means capacity of a concern to earn or perform well. The main objective of every concern is to get a satisfactory return from the invested funds in order to maintain a sound financial position. External borrowing to improve or expand the business increases the debt situation of companies that can adversely affect the capital structure of the firms also influence the profitability positions. This play a strong emphasis in identifying the present situation to understand how far the capital structures and profitability performed during actual and projected periods of the select steel companies in India. Therefore, the objective is to *analyze the capital structures based leverage and profitability based on actual and projected period*. A total of 10 companies were identified during the initial period in which 5 companies were randomly selected considering the volume of business (sales and total asset). Impact of Capital Structures on profitability of select steel companies in India during 2009-10 to 2018-2019 are considered for analysis. Trend projection is used as statistical tool for Analysis. Except Tata Steel the companies have raised their long term debts by borrowing money which carries interest on its capital whereas, Tata steel have reduced its borrowings which is a good sign of managing debt on of its own finances. Net profit of most of the steel companies namely, Jindal Steel, SAIL and Steel Exchange recorded negative during actual and projected periods. JSW and Tata Steel are the two companies making profit during the actual and projected periods policy makers in the select steel manufacturing companies shall direct improved management tactics that can be identified from the results of the study as well as from the actual financial statements and forecasted result shall definitely support to increase companies returns leading towards future growth.

Key Notes: Steel, Companies, Capital Structure, Leverage, Profitability, etc...

1. INTRODUCTION

The capital structure decision plays vital role in the corporate financial management due to their influence on return and risk to the shareholders. Capital structure refers to the financing decision of a firm which involves the choice of the right mix of different sources of financing namely owner's funds and lenders funds. Many theories have been developed in the literature and they generally focus upon the factors that are likely to impact the leverage decisions of a firm. It can be legitimately expected that if the capital structure decisions affect the total value of a firm, a firm should select such a financing mix that could maximize the shareholder's wealth. Such a capital structure is referred to as optimum capital structure. Several studies have been carried out to examine the financing pattern of companies across the globe.

The word profitability involves 'Profit' and 'Ability'. In accounting point of view, profit means difference of total revenue and total expenses for a given period. In profitability point of view profit means return from the investment. The word ability means capacity of a concern to earn or perform well. Concern's performance can be measured by using profitability as a tool. The overall aim of a concern is to get sufficient return from the amount invested, whereas maintaining a good financial position, profitability deals with financial soundness and efficient management. The main objective of every concern is to get

a satisfactory return from the invested funds in order to maintain a sound financial position.

2. LITERATURE REVIEW

Igbinosa Osaretin and ChijukaIfy Michael (2014), analyzed made on the factors that decides the Nigeria companies of capital structure during 2013. The influence about self-determining alterable ratios such as company size, profitability on debt is observed by applying regression. It was found that profitability is not an important factor and it has an unfavorable impact on leverage and its effect on size of the company was not established in the model.

Gomathi., S. and R. Amsaveni (2015), examined the variables that ascertain the construction principal over selected manufacturing industry in India both domestic and foreign equity mix. The outcome shows that the variables such as perceptibility, development, turnover, fluidity, fixed dimension, credit based tariff armor, possession rights, etc, made an important part for enduring share responsibility impartially. The manufacturing sector possessed by impartially owned national corporations along with concrete, credit based tariff armor, turnover, possession rights, corpora ional peril or danger and many other factors , all combine as an important factor or reason to extend money owing liability manufacturing industry to jumble with overseas evenhandedness.

Maruthu Pandian and Hema Prasanna (2015), reviewed that the decision regarding capital structure of a company is more essential because it create more risk to the equity shareholders and it will affect the return of the shareholders. In this study, the researcher tries to find out the issues which ascertain that cement industries optimum investment configuration. Ten cement corporations were selected as sample on stratified random sampling method. For analyzing the statistics like Correlation, Regression and Stepwise Regression were administered. The results about research found that, three variables within the 14, namely Solvency ratio, Return on Equity and Bank Rate are considered as significant points to decide Indian Cement Industries optimum capital structure.

3. STATEMENT OF THE PROBLEM

Inflation rate in India is quite high during the recent past due to the major impact of interest rates and foreign currencies affecting the cost of finance very high as like the situation faced in other parts of the world. Therefore, external borrowing to improve or expand the business increases the debt situation of companies that can adversely affect the capital structure of the firms also influence the profitability positions. This play a strong emphasis in identifying the present situation to understand how far the capital structures and profitability performed during actual and projected periods of the select steel companies in India.

4. METHODOLOGY

Methodology is a way of systematically solving a research problem. The research applied in the study is Analytical Research Design. A total of 10 companies were identified during the initial period in which 5 companies were randomly selected considering the volume of business (sales and total asset). Impact of Capital Structures on profitability of select steel companies in India during 2009- 10 to 2018-2019 are considered for analysis. Trend projection is used as statistical tool for Analysis.

5. ANALYSIS AND RESULTS

Capital structure refers to the mix of long-term sources of funds, such as debentures, long-term debt, preference share capital and equity share capital including reserves and surpluses (i.e., retained earnings). Profitability is the relationship between profits and capital, i.e., the static resources set aside to earn those profits. Therefore, *the objective is to analyze the capital structures based leverage and profitability based on actual and projected periods* long term debt (leverages) and net profit (profitability) of the select steel companies are considered for analysis.

5a. LONG TERM DEBT

Trend projection for the select steel companies computed with the actual performance of the companies during the periods from 2009-10 to 2018-19 considering the leverages based on Long Term Debt the companies with the actual figures (Rs. in Crores) forecasted for the next five years from 2020- 20 to 2024-24.

Table 1: Trend Projection on Long Term Debt

Years	JSW Steel	Jindal Steel and Saw	SAIL	Steel Exchange Ltd.	Tata Steel Ltd.
2009-10	5,497.08	1,783.39	925.31	79.29	4,400.55
2010-11	8,214.61	2,105.49	1,473.60	114.55	4,507.64
2011-12	8,987.51	4,235.16	7,755.90	202.45	4,613.91
2012-13	7,331.34	5,085.01	11,645.71	298.58	4,710.03
2013-14	9,366.98	6,848.09	7,481.91	353.49	3,913.05
2014-15	10,991.55	11,577.42	8,746.16	326.58	2,259.32
2015-16	16,685.63	12,707.31	11,560.89	286.45	3,509.18
2016-17	15,893.87	17,705.89	16,909.55	594.56	4,190.47
2017-18	14,991.49	23,915.04	16,134.04	555.03	4,311.02
2018-19	18,667.00	24,163.34	18,416.09	254.36	3,520.58

TREND PROJECTION

Years	JSW Steel	Jindal Steel and Saw	SAIL	Steel Exchange Ltd.	Tata Steel Ltd.
2020-21	19335.6	25980.49	20332.19	525.07	3437.92
2021-22	20730.67	28701.92	22191.69	564.81	3336.89
2022-23	22125.74	31423.35	24051.2	604.54	3235.86
2023-24	23520.81	34144.79	25910.7	644.27	3134.84
2024-25	24915.88	36866.22	27770.2	684.01	3033.81

JSW steel in its actual period recorded LTD of Rs.5497.08 crores during 2009-10 to reach Rs.18667 crores during 2019-20 which had forecasted positive significant growth during projected period i.e. from Rs.19335.60 crores during 2019-20 to Rs.24915.88 during 2024-25.

Jindal steel recorded LTD of Rs.1783.39 crores during 2009-10 to reach Rs.24163.34 crores during 2019-20 in its actual period, which had forecasted positive significant growth during projected period i.e. from Rs.25980.49 crores during 2018-19 to Rs.36866.22 crores during 2024-25.

SAIL recorded LTD of Rs.925.31 crores during 2009-10 to reach Rs.18416.09 crores during 2019-20 in its actual period, which had forecasted positive significant growth during projected period i.e. from Rs.20332.19 crores during 2018-19 to Rs.27770.20 crores during 2024-25.

Steel Exchange recorded LTD of Rs.79.29 crores during 2009-10 to reach Rs.254.36 crores during 2019-20 in its actual period, which had forecasted positive significant growth during projected period i.e. from Rs.525.07 crores during 2018-19 to Rs.684.01 crores during 2024-25.

Tata Steel recorded LTD of Rs.4400.55 crores during 2009-10 to reach Rs.3520.58 crores during 2019-20 in its actual period, which had forecasted positive declining growth during projected period i.e. from Rs.3437.92 crores during 2018-19 to Rs.3033.81 crores during 2024-25.

5b. NET PROFIT

The quantum of profitability earned by the select steel manufacturing companies during the ten years period (2009-10 to 2018-19) had steadily declined and touched negative for almost all companies except Tata Steel during its closing periods.

Table 2: Trend Projection on Net Profit

Years	JSW Steel	Jindal Steel and Saw	SAIL	Steel Exchange Ltd.	Tata Steel Ltd.
2009-10	1,728.19	1,236.96	7,536.78	15.24	4,687.03
2010-11	458.50	1,536.48	6,174.81	4.79	5,201.74
2011-12	2,022.74	1,479.68	6,754.37	4.96	5,046.80
2012-13	2,010.67	2,064.12	4,904.74	17.00	6,865.69
2013-14	1,625.86	2,110.65	3,681.89	26.87	6,696.42
2014-15	1,801.22	1,592.55	2,170.35	53.29	5,062.97
2015-16	1,334.51	1,291.95	2,616.48	35.82	6,412.19
2016-17	2,166.48	-310.68	2,092.68	28.46	6,439.12
2017-18	-3,529.67	-1,418.53	-4,021.44	7.39	4,900.95
2018-19	3,577.00	-986.45	-2,833.24	-157.16	3,444.55

TREND PROJECTION

Years	JSW Steel	Jindal Steel and Saw	SAIL	Steel Exchange Ltd.	Tata Steel Ltd.
2020-21	905.81	-889.73	-3638.55	-40.77	5165.07
2021-22	830.58	-1207.81	-4828.78	-48.85	5108.59
2022-23	755.35	-1525.88	-6019.02	-56.93	5052.10
2023-24	680.13	-1843.95	-7209.25	-65.00	4995.61
2024-25	604.90	-2162.03	-8399.49	-73.08	4939.13

Net profit of JSW steel registered positive growth upto 2014-15 and declined sharply during 2017-18 however registered positive in the ending period (2018-19). Net profit ranged during the actual periods from Rs.1728.19 crores during 2009-10 to reach Rs.3577 crores during 2016-17 which forecasted positive trend ranging from Rs.905.81 crores during 2020-21 declined to Rs.604.90 crores during 2024-25. Net profit of Jindal steel registered positive growth upto 2013-14 and declined sharply during 2014-15 to 2016-17. Net profit of Jindal Steel ranged during the actual periods from Rs.1236.96 crores during 2007-08 to reach Rs.-986.45 crores during 2016-17 which forecasted negative trend ranging from Rs.-889.73 crores during 2018-19 declined to Rs.-2162.03 crores during 2022-23.

Net profit of SAIL registered positive growth upto 2016-17 and declined sharply during 2017- 18 to 2018-19. Net profit of SAIL ranged during the actual periods from Rs.7536.78 crores during 2009-10 to reach Rs.-2833.24 crores during 2018-19 which forecasted negative trend ranging from Rs.- 3638.55 crores during 2020-21 declined to Rs.-8399.49 crores during 2024-25.

Net profit of Steel Exchange registered positive growth upto 2016-17 and declined sharply during 2018-19. Net profit of Steel exchange ranged during the actual periods from Rs.15.24 crores during 2007-08 to reach Rs.-157.16 crores during 2018-19 which forecasted negative trend ranging from Rs.-40.77 crores during 2020-21 declined to Rs.-73.08 crores during 2024-25.

Net profit of Tata Steel registered positive declining trend. Net profit of Tata Steel ranged during the actual periods from Rs.4687.03 crores during 2009-10 to reach Rs.3444.55 crores during 2018-19 which forecasted positive trend ranging from Rs.5165.07 crores during 2020-21 declined to Rs.4939.13 crores during 2024-25.

6. SUMMARY OF RESULTS 6a. FINDINGS

➤ Long term debt is the money generated by the company to manage its cash flow and debt structure signifies higher long term debt greater the ability in maintaining the cash flow and debt capacity. It is found that out of all companies, except Tata Steel the companies have raised their long term debts by borrowing money which carries interest on its capital whereas, Tata steel have reduced its borrowings which is a good sign of managing debt on of its own finances. Therefore, further analysis taking networth (outsiders / shareholders funds) of the companies into consideration during actual and forecasted period performances are computed.

➤ Net profit of most of the steel companies namely, Jindal Steel, SAIL and Steel Exchange recorded negative during actual and projected periods. JSW and Tata Steel are the two companies making profit during the actual and projected periods.

6b. SUGGESTIONS

It is recommended that companies shall maintain adequate reserves before distributing profits and also to control the borrowings of the firms to restrict its debt enhancement position and maintain balanced system of capital structures. Impact of capital structures on profitability increases with respect to operating profit, net profit and return on equity which confirms that better management of a company shall always increase its return on assets and improve the company's profitability positions. Hence, researcher recommends that policy makers in the select steel manufacturing companies shall direct improved management tactics that can be identified from the results of the study as well as from the actual financial statements and forecasted result shall definitely support to increase companies returns leading towards future growth.

6c. CONCLUSION

Finally, it is found that the financial strength of all selected steel manufacturing companies was in a satisfactory position during the study period. Hence, the study can be used by the investors, corporate bodies, government, economists etc., for implementing the financial and investment policies.

7. REFERENCES

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