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A STUDY ON CAPITAL STRUCTURE COMPONENTS OF SELECTED CEMENT COMPANIES IN INDIA

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Abstract

In this study an attempt is made to analyse the component of capital structure of UltraTech Cement Limited and Shree Cement Limited in India. The study consists of secondary data related to equity shares, and retention of earnings in the form of reserves and surplus or borrowed from creditors of Ultratech Cement Limited and Shree Cement Limited published in statistical reports. The study covers the period of 10 years from 2011-2012 to 2020-2021. The study has concluded that the reserves and surpluses have all increased year after year, according to the research, while total debts have also increased gradually during this period. However, the total capital employed is also constantly increased in Ultratech Cement Limited. Capital at Shree Cement Limited is steadily rising year after year. Simultaneously, reserves and surplus, and total debt are progressively growing, which ultimately reflects in total capital employed.

Keywords: Capital Structure; Equity Capital; Debt, Net Worth; Total Capital Employed.

1. INTRODUCTION

One of the most important decisions made by the company's financial management is the formation of the capital structure. Because the capital structure selection affects the overall cost of capital and, as a result of the firm's market value. It is important to determine when the firm will begin operations or when extra cash will be required to support new initiatives. The determinants of capital structure are an essential factor to examine before deciding on a capital structure. By choosing on their capital structure, each firm's financial viewpoint is to maximize its market value while lowering its cost of capital. The capital structure is mostly made up of debt, ordinary shares, and preferred shares that are issued to fund the company's numerous long-term initiatives. To put it another way, capital structure is essentially a mix of debt and equity. While shareholders have a long-term commitment to the firm, debt holders are creditors who are more concerned with prompt repayment of principal and interest. Dividends should be paid on a regular basis, and the company should have more retained earnings to fund future cash flows. As a result, a solid choice on capital structure has a major influence on the company's financial structure. Financial leverage is calculated as a debt-to-capital ratio, which describes the connection between borrowed and owned money. Firms with loans and capital are referred to as leveraged enterprises, whereas firms with honest property are referred to as undistributed firms. Debt financing entails deducting interest on interest connected to financial issues, which inhibit the company's capacity to build equity, as well as its ability to develop, and puts pressure on prompt principle and interest payments.

2. REVIEW OF LITERATURE

Banerjee et al. (2014) have investigated the drivers of capital structure in Indian cement businesses throughout the pre- and post-recession periods. Multiple Regression Analysis was used to investigate the impact of various independent variables on the capital structure, with the "ratio of average total debt to average total assets" as the dependent variable and seven variables that could have an impact on the capital structure as independent variables. These facts suggest that "Earning Rate," "Size of the Firm," and "Debt Service Capacity Ratio" all play a major role in influencing capital structure decisions in the Indian cement industry prior to the recession, and that "Earning Rate," "Size of the Firm," and "Business Risk" play a major role in influencing capital structure decisions in the post-recession period. It must be properly and appropriately monitored by the appropriate authorities, and available resources must be effectively utilised to optimise the profitability of the Indian cement industry.

Bader (2015) examines the capital structure of firms when taxes are abolished by looking at enterprises in a growing market in Kuwait where personal and corporation taxes are not levied. Given this finding and the beneficial influence of debt on a company's worth, measurees promoting bank loans and more efficient access to credit for businesses should be implemented. The same leverage considerations that effect firms in taxed markets also affect companies in non-taxed countries. Non-tax advantages are economically substantial, accounting for about 16 percent of the value of a typical credit firm. The goal of this article is to help to have better comprehend debt's non-tax benefits. The paper shows a rough estimate of non-cash debt reduction.

Fazio (2016) looked at ownership and management characteristics to see why family companies utilize leverage more or less. As a consequence, the inconsistent results of earlier research that did not discriminate between these two management elements are reconciled in this study. When creating a financial plan, professionals should examine the elements that influence ownership and family management. Small company administration, like other public institutions, should be guided by comparable political concerns. Use a stratified random sample of 200 state-owned businesses in the United States. This study has utilised regression effect groups to examine the influence of family ownership on the link between the market value and the book value of debt and securities in the S & P Small-Cap 600 index from 1999 to 2007. After controlling for strong industrial and macroeconomic factors, moderate control results and fair results are obtained. The goal of this document is to show how the family company and its management impact the corporate capital structure strategy while keeping other critical variables in check. Although family ownership has a beneficial influence on a company's leverage, the authors suggest that family control through the general manager role and the efficacy of social capital offset this benefit.

Venkatacham & Kasthuri (2016) have considered the financial performance of Indian cement industry and revealed that correct management, effectual control and cost reduction tactics are the most significant methods for that requirement to be assumed to develop the profitability. According to the report, industry may decrease interest burdens by providing high-quality products and establishing a strong brand image, which will assist to boost profits and maximise production capacity. They have control over the cost of items sold as well as operating costs. Project costs grow as a result of poor planning and delays in implementation. As a result, appropriate planning is required. Industry attempts to boost output and sales in order to maximise profit and improve financial position. The management should make use of all available manufacturing capacity.

According to Singh and Singh (2016), the company in question does not have a good debt-equity mix in its capital structure, and hence does not reap the benefits of leverage effectively. Cement businesses have the potential to increase debt levels in their existing capital structures, allowing them to get profit from the advantages of leverage. To decrease profit fluctuations, management should concentrate on internal variables such as production policy, human resource policy, and marketing policy. According to the findings, there is a substantial negative link between debt and profitability, suggesting that firms with a greater debt ratio have lower profitability.

The capital structure and financial performance of cement industry were emphasised by Navitha Rani (2020). In order to proper function of industries, their financial performance is important. Poor financial performance puts the company's survival in jeopardy and can lead to collapse. The performance of cement businesses might be improved by identifying and focusing the important areas measured, and care must be made to do so. In this complicated business, a company's optimal capital structure is one of the pre-requisites for staying fit and profitable. The research covers not having a healthy debt equity composition of their capital structure and failing to effectively leverage the benefits of leverage for six firms in India during a five-year period from 2015 to 2019. The following areas should be offered to the firms in order to improve the current condition and have a beneficial influence on the cement industry's profitability. Cement businesses have the ability to expand debt levels in their existing capital structures, allowing them to take advantage of leverage's benefits. To prevent profit fluctuations, management should concentrate on internal variables such as production and marketing policies.

3. OBJECTIVES

The study made an attempt to analyse the components of capital structure of UltraTech Cement Limited and Shree Cement Limited in India.

4. DATA SOURCE AND METHODOLOGY

The analysis is based on secondary data from Ultratech Cement and Shree Cements disclosed in statistics reports on equity shares and profits retained in the form of reserves and surplus or borrowed from creditors. The research spans ten years, from 2011-2012 to 2020-2021. The time period was chosen based on the availability of data. To create statistical analysis tools, such as the obtained data will be evaluated using simple statistical techniques like as Along with the graphical display, statistical techniques such as Sum and Mean value are employed. Analytical research design has been used so as to formulate the present study.

5. ANALYSIS AND INTERPRETATION

5.1. Analysis of Components of Capital Structure of UltraTech Cement Limited

The capital structure of UltraTech Cement Limited has been analyzed and the results are provided in table-1.

Table-1: Components of Capital Structure of UltraTech Cement Limited (Rs. In crores)

Year	Equity Share Capital (A)	Reserves and Surplus (B)	Net Worth (C) = (A+B)	Long Term Borrowings	Short Term Borrowings	Debts (D)	Total Capital Employed (C+D)
2011-12	274.07	12,585.75	12,859.82	3,648.19	159.94	3,808.13	16,667.95
	(1.64)	(75.51)	(77.15)	(21.89)	(0.96)	(22.85)	(100.00)
2012-13	274.18	14,960.64	15,234.82	3,893.92	568.76	4,462.68	19,697.50
	(1.39)	(75.95)	(77.34)	(19.77)	(2.89)	(22.66)	(100.00)
2013-14	274.24	16,823.27	17,097.51	4,493.58	379.2	4,872.78	21,970.29
	(1.25)	(76.57)	(77.82)	(20.45)	(1.73)	(22.18)	(100.00)
2014-15	274.4	18,583.28	18,857.68	4,613.75	1,898.08	6,511.83	25,369.51
	(1.08)	(73.25)	(74.33)	(18.19)	(7.48)	(25.67)	(100.00)
2015-16	274.43	21,357.40	21,631.83	2,667.89	2,338.75	5,006.64	26,638.47
	(1.03)	(80.18)	(81.21)	(10.02)	(8.78)	(18.79)	(100.00)
2016-17	274.51	23,666.50	23,941.01	4,200.12	1,015.84	5,215.96	29,156.97
	(0.94)	(81.17)	(82.11)	(14.41)	(3.48)	(17.89)	(100.00)
2017-18	274.61	25,648.41	25,923.02	13,878.36	2,687.83	16,566.19	42,489.21
	(0.65)	(60.36)	(61.01)	(32.66)	(6.33)	(38.99)	(100.00)
2018-19	274.64	27,611.36	27,909.00	16,038.50	3,586.82	19,625.32	47,534.32
	(0.58)	(58.09)	(58.71)	(33.74)	(7.55)	(41.29)	(100.00)
2019-20	288.63	37,971.86	38,296.32	14,147.63	3,953.21	18,100.84	56,397.16
	(0.51)	(67.33)	(67.90)	(25.09)	(7.01)	(32.10)	(100.00)
2020-21	332.27	43,020.37	43,352.64	10,684.56	4,230.15	14,914.71	58,267.35
	(0.57)	(73.83)	(74.40)	(18.34)	(7.26)	(25.60)	(100.00)

Source: Annual Reports of UCL

Note: Figures in bracket shows the percentage

Table-1 shows that the company's equity share capital is Rs.274.07crores (1.64 percent) in 2011-12, which has been increased to Rs.332.27crores (0.57 percent) in 2020-21. The relative share of equity for capital employed is steadily declining. The company increased its share capital in 2019-20 and 2020-21. The ratio of reserves and surplus to used capital gradually increases during the period in 2011-12. Its value is Rs.12,585.75crores (75.51 percent), it is increased to Rs.43,020.37crores (73.83 percent) in 2020-21. Net worth is also steadily increasing; its value is Rs.15,859.82 crores (77.15 percent) in 2011-12, which has been increased to Rs.43,352.64 crores (74.40 percent) in 2020-21. The ratio of net worth is gradually increasing from 77.15 percent in 2011–12 to 74.40 percent in 2020–21. The total of both long-term debt and short-term debt is also steadily growing, its value is Rs.3,808.13 crores (22.85 percent) in 2011-12 and Rs.14,914.71 crore (25.60 percent) in 2020-21. The growth of net capital and long-term debt is reflected in the total capital, during this period there is also a tendency to increase, its value is Rs.16,667.95 crores in 2011-12 and it has been increased to Rs.58,267.35 crores in 2020-21.

5.2. Analysis of Components of Capital Structure of Shree Cement Limited

The capital structure of Shree Cement Limited has been analyzed and the results are provided in table-2.

Table-2: Components of Capital Structure of Shree Cements Limited (Rs. in crores)

Year	Equity Share Capital	Reserves and Surplus	Net Worth (C) = (A+B)	Long Term Borrowings	Short Term Borrowings	Debts (D)	Total Capital Employed (C+D)
2011-12	34.84	2,699.09	2,733.93	817.74	143.33	961.07	3,695.00
	(0.94)	(73.05)	(73.99)	(22.13)	(3.88)	(26.01)	(100.00)
2012-13	34.84	3,808.81	3,843.65	443.08	534.3	977.38	4,821.03
	(0.72)	(79.00)	(79.73)	(9.19)	(11.08)	(20.27)	(100.00)
2013-14	34.84	4,676.03	4,710.87	446.68	631.59	1078.27	5,789.14
	(0.60)	(80.77)	(81.37)	(7.72)	(10.91)	(18.63)	(100.00)
2014-15	34.84	5,241.56	5,276.40	401.41	214.95	616.36	5,892.76
	(0.59)	(88.95)	(89.54)	(6.81)	(3.65)	(10.46)	(100.00)
2015-16	34.84	6,810.69	6,845.53	530.74	195.75	726.49	7,572.02
	(0.46)	(89.95)	(90.41)	(7.01)	(2.59)	(9.59)	(100.00)
2016-17	34.84	7,663.30	7,698.14	518.74	773.74	1292.48	8,990.62
	(0.39)	(85.24)	(85.62)	(5.77)	(8.61)	(14.38)	(100.00)
2017-18	34.84	8,861.99	8,896.83	2,208.13	1,185.86	3393.99	12,290.82
	(0.28)	(72.10)	(72.39)	(17.97)	(9.65)	(27.61)	(100.00)
2018-19	34.84	9,562.55	9,597.39	2,309.04	467.95	2776.99	12,374.38
	(0.28)	(77.28)	(77.56)	(18.66)	(3.78)	(22.44)	(100.00)
2019-20	36.08	12,900.34	12,936.42	1,638.70	708.74	2347.44	15,283.86
	(0.24)	(84.40)	(84.64)	(10.72)	(4.64)	(15.36)	(100.00)
2020-21	36.08	15,213.99	15,250.07	1,331.55	508.08	1839.63	17,089.70
	(0.21)	(89.02)	(89.24)	(7.79)	(2.97)	(10.76)	(100.00)

Source: Annual Reports of Shree Cements Limited

Note: Figures in bracket shows the percentage

Table-2 shows that the company's equity share capital is Rs. 34.84 crores (0.94 percent) in 2011-12, which has been increased to Rs.36.08 crores (0.21 percent) in 2020-21. The relative share of equity for capital employed is steadily declining. The company increased its share capital in 2019-20. The ratio of reserves and surplus to capital gradually increases during the period in 2011-12. Its value is Rs.2699.09 crores (73.05 percent), it has been increased to Rs.15,213.99 crores (89.02 percent) in 2020-21. Net worth is also steadily increasing; its value is Rs.2,733.93 crores (73.99 percent) in 2011-12, which has been increased to Rs.15,250.07 crores (89.24 percent) in 2020-21. The ratio of net worth is gradually increasing from 73.99 percent in 2011–12 to 89.24 percent in 2020–21. The total of both long-term debt and short-term debt is also steadily growing, its value is Rs.961.07 crores (26.01 percent) in 2011-12 and Rs.1839.63 crore (10.76 percent) in 2020-21. The growth of net capital and long-term debt is reflected in the total capital, during this period there is also a tendency to increase, its value is Rs.3695.00 crores in 2011-12 and it is increased to Rs.17,089.70 crores in 2020-21.

6. FINDINGS AND CONCLUSION

Capital structure decision is concerned with the strategic financing decision which is to decide the most appropriate combination of capital and long-term debt for a company. As a strategic decision, capital structure aims to achieve the fundamental objective of firm, which is a maximizing wealth. The patter of a firms' capital structure must be planned in a way that maximizes the wealth of its shareholders. Therefore, a business firm may plan balanced capital structure to meet both economic prosperity and deficiency. Capital structure of cement firms consists of equity share capital, reserves and surplus and long-term debt. Cement firms are adequately financed and have sufficient earlier year of profit in the form of reserves and surpluses. Moreover, they have employed long-term debt to provide effectual leverage. It was found that the reserves and surpluses have all increased year after year, according to the research, while total debts have also increased gradually during this period. However, the total capital employed is also constantly increased in UltraTech Cement Limited. Capital at Shree Cement Limited is steadily rising year after year. Simultaneously, reserves and surplus, and total debt are progressively growing, which ultimately reflects in total capital employed.

7. SUGGESTIONS

The important suggestions of the study are:

1. This study suggested that cement companies should enhance its production level in order to increase its rate of return on capital employed.
2. To enhance the firm's profitability, it is advised that the cost of products sold and other operational expenditures be reduced.
3. For better utilisation of the assets and money employed, the amount of sales generated should be considerably raised.
4. This study suggests that cement companies are mostly capital intensive, therefore, it should organize proper fund utilization techniques to generate more profit.
5. Use of excessive long-term debts are harmful, furthermore higher interest burden will reduces profitability position. Therefore, cement companies should try to reduce interest load by utilizing retained earnings or issuing further equity shares.

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