

**CAPITAL STRUCTURE & LEVERAGE AT GRAPHITE INDIA LTD.SATPUR,
NASHIK.**

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Abstract

The topic allotted to me by the company is "RESEARCH OF CAPITAL STRUCTURE AND LEVERAGES". The research emphasizes on the financing mix of the company. Preparation of research requires perseverance, initiatives, proper guidance and direction. So it's mandatory to take the aid of various departments. Actually, a research is the customized of seven activities. They are:-Planning, Resource Collection, Organizing, Joint Efforts, Efficiency, Communication, and Transparency.

Keywords: Liberalization, globalization, leverage, funds, EBIT-EPS, objectives, Management, DFL, EPS , DPS.



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Introduction

Liberalization, globalization and privatization are the important issues to the entrepreneur and corporate threatening the existence of a firm. In such a complex corporate environment, it is the challenge to the finance manager to survive the firm in long run perspective with the objective of maximizing the owner's wealth. With a view to achieve this objective finance manager is required to pay his due attention on investment decision, financing decision and dividend decision. Assuming that sound investment policy and opportunity are there, it is the intention of this dissertation to optimize the financing decision and dividend decision in the context of achieving the stated objective. Financing decision refers to the selection of appropriate financing mix and so it relates to the capital structure or leverage.

Capital structure refers to proportion of long-term debt capital and equity capital required to finance investment proposal. There should be an optimum capital structure. Which can be attained by the judicious exercise of financial leverage? In order to run and manage a

company funds are needed. Right from the promotional stage, finance plays all important role in a company's life. If funds are inadequate and not properly manage the entire organization suffers, it is therefore necessary that correct estimation of the current and future need of capital be made to have an optimal capital structure which shall help the organization to run smoothly. The capital structure is made up of debt and equity securities and refers to permanent financing of a firm. On the other hand a general dictionary meaning of the term Leverage refers to an increase of accomplishing some purpose. In Financial Management the term leverage is used to describe the firm's ability to use fixed cost assets or funds to increase the returns to its owners. The financial decisions have two components. First, to decide to how much funds are needed, and second decide the source or their combination to raise such funds. The process that leads to the final choice of the capital structure is referred as the capital structure planning'. A firm may use several techniques that allow it to quantify the risk return characteristics of the alternative capital structure. Two of such techniques which are widely used are the leverage analysis and the EBIT-EPS analysis.

This dissertation mainly concentrates on the exercise of impact of leverage and capital structure on company profitability.

Concept of capital structure:-

“Capital structure is the maker of firm’s capitalization i.e. it represents of mix of different sources of long term funds in the total capitalization of the company”

-C.W.Gerstenberg

It can also define as a mix of a company's long-term debt. Specific short-term debt, common equity and preferred equity. The structure is how a firm finances its overall operation by using source of funds. The assets of a company can be financed either by increasing the owners' claims or the creditors' claims. The owners claim increase when the firm raises funds by issuing ordinary shares or by retaining earnings; the creditors’ claims increase by borrowing. The various means of financing represent the financial structure of an enterprise.

The term capital structure is used to represent the proportionate relationship between debt and equity. Equity includes paid-up share capital, share premium and reserve and surplus (retained earnings). The company will have to plan its capital structure initially at the time of its promotion. Subsequently, whenever funds have to be raised finance investment, a capital structure decision is involved. Capital structure refers to the mix of sources from where the long-term funds required in the business may be raised. A demand for raising funds generates a new capital structure a decision has to be made to the quantity and forms of financing. This decision will involve an analysis of the existing capital structure and the factors, which will

govern the decision at present. The company's policies to retain or distribute earnings affect the owner's claim. Shareholder's equity position is strengthened by retention of earning. The debt equity mix has implications for the shareholder's earnings and risk, which in turn will affect the cost of capital and the market value of the firm.

Capital Structure of the firm is the combination of different permanent long-term financing like debt, preference capital etc. theoretically capital structure of the company can be of the following four patterns.

- 1) Capital Structure with equity share only.
- 2) Capital Structure with both equity and preference shares.
- 3) Capital Structure with equity shares and debentures.
- 4) Capital Structure with equity shares, preference shares and debentures.

The Impact of Globalization on the Indian Capital Structure:-

Globalization is a process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology. This process has effects on the environment, on culture, on political systems, on economic development and prosperity, and on human physical well-being in societies around the world. Globalization is deeply controversial, however. Proponents of globalization argue that it allows poor countries and their citizens to develop economically and raise their standards of living, while opponents of globalization claim that the creation of an unfettered international free market has benefited multinational corporations in the Western world at the expense of local enterprises, local cultures, and common people. Resistance to globalization has therefore taken shape both at a popular and at a governmental level as people and governments try to manage the flow of capital, labor, goods, and ideas that constitute the current wave of globalization. The term Globalization means free trade policies are there, it means there are no barriers on the trader do carry on the business. The person can carry on the business in any country without any restrictions. The Globalization hits very badly to the Indian capital structure as it converts lot many companies in the private sector from public sector. The ratio of shares of the Indian people in than company had declined to a certain extent. Because of globalization more Indian companies are taken over by the foreign companies and hence the Indian capital structure is badly hit. The more examples of that can be given as follows. Glaxo India ltd had changed to Glaxo smith cline ltd. Hindustan lever had changed to Hindguts an Uni lever.

The share of Indian people from those companies is getting lesser and lesser that means more people from outside are controlling the company which was firstly belonged to the Indian

peoples. That means the important decisions of the company are being taken by the outsider peoples thought the company was formed and sustained in India itself. Hence the globalization is one of the terms which hits or affects very badly on the Indian capital Structure.

Objective in capital structure decision:-

Whenever the management of a concern develops capital structure of newly promoted organization or revises on existing capital structure of a company, their main aims are to balance it. The main objectives of management are devising a sound and balance capital structure which are as follows.

Economic objectives:

1. Minimizing of capital cost.
2. Minimizing of risks.
3. Maximization of return.
4. Preservation of control.

Other objectives:

1. Simplicity
2. Flexibility.

Significance of capital structure:-

The Capital Structure decisions are very significant in financial management, as they influence debt equity mix which ultimately affects shareholders return & risk.

The rate of dividend per share depends upon the capital structure of the Company.

- Capital structure is important from the view point of Company's financial liquidity and for raising capital for future.
- If capital structure is not framed properly, the situation of under or over capitalization may be created.
- The larger portion of debt in company's capital structure will increase financial risk in company whereas larger portion of equity in Company s capital structure will decrease EPS (Earning per Share).

Research methodology

Objective of Research:-

To Research the capital structure and the degree of leverages of graphite india ltd.

Type of Research:- Quantitative Research.

Methods of data collection

Data includes facts and figures, which are required to be collected to achieve the objectives of the research. In order to determine the capital structure and leverage analysis of Graphite India Ltd.

1. Interview:- This method is mostly used to collect the primary data; it is a method of data collection in which a formal conversation takes place between the interviewer and the respondent. For the interview, the questionnaires and guidelines were prepared.

Interviews were conducted to staff of the organization including top managers.

2. Observation:- A more direct way of gathering information is to observe events, activities and operations as they occur with regards to cause and effect. It has the advantage of putting research into firsthand contact with reality.

3. Informal discussions:- Informal discussions were done with the concerned persons to obtain information that may be relevant and valuable for the research. Similarly, Q&A sessions were conducted with the top-level executives to gather in depth knowledge about the research related matters.

Secondary data are that type of data, which are already assembled and need not to be collected from outside. These types of data were

The annual report of the company.

- i) From the Web site of company.
- ii) From the research Books material.

The data collected from this source have been used and complied with due care as per requirement of the research.

Period of research:-

The present research covers a period of three years

Techniques of analysis:- For analyzing the degree of association between DFL, EPS and DPS. The research has been made by converting the collected data into relative measure such as ratios. Percentage rather than absolute one.

Limitations of the research:-

1. The research is limited up to THREE years data only.
2. The time period for the research was very limited i.e. 2 month so, in depth research could not be made.
3. For the sake of maintaining company's secrecy it is not possible for concern to give fake accessibility to data.

Observation and findings

It has been observed in Graphite India Ltd. that the company has an appropriate capital structure. The overall performance of the company is satisfactory and it will further improve when the facilities at the disposal of the company are fully utilized. Though the market performance of the company is good at the recent time, but it can be better than the current situation. The company raises more fund by way of equity shares it means their expenses of paying the interest every year to the debenture holders is less and it helps the company to increase the reserves and surpluses of its by which the fast growth of the company can take place and the profitability will also get increase.

The company's capital structure consists of Equity Shares & Debt.

- The proportion of Debt-Equity is appropriate and the debt equity ratio of the company is good as compared to the standard ratio.
- The capital gearing ratio of the company is low which will bring high returns to the Equity Share Holders at all the levels there is no need for a boom situation to give the high returns to the Equity Share Holders.
- The DPS and EPS has increased year by year it shows that the company is earning a continuous profit.
- The part of reserves and surplus is very huge in the capital structure of Graphite India Ltd.,
- The Net worth of the company is very consistent no major fluctuation is taking place in the percentage of the net worth of the company.
- The rate of return on investment of the company is showing a continuous increase it means the profitability of the company is good.
- The profit of the company is continuously increasing year by year that allows the company to pay more dividend to the shareholders and to increase the reserves and surplus of it.
- The DFL of the company is very much constant throughout the Three years no major fluctuation is seen in that.

Conclusion

After researching the capital structure, I have come to the conclusion that it is a very important aspect of every business organization. It reveals the financial information of the organization which is very useful from the point of view of the various peoples i.e. investors, creditors and the suppliers of the company.

The capital structure of GRAPHITE INDIA LTD. is divided into two parts i.e. Equity shares and borrowed funds, though it uses the reserves and surplus in its capital structure.

The part of equity shares is more in the capital structure of the company than the borrowed funds, it means that the company can increase its reserves and surplus and can use that as a part of capital in the business. On the whole it can be said that the company possess a sound financial position from the point of view of all concerned parties i.e. - The corporate Management and The Lending Institutions.

Suggestions

As per my research in the organization the following are the suggestions I can give to the Company:

1. The company can use the borrowed fund more efficiently to earn more profit; it will initially increase the reserves and surplus of the organization.
2. The company have to be more consistent in paying the dividends to the shareholders it will definitely improve the relations between the company and its shareholders.
3. The company can raise more capital by way of equity shares because the company" s reputation in the market is good.

Reference

I had taken the reference of the following book while researching the capital structure of Graphite India ltd, - Financial Management (Nirali Publications) by- Dr. N.M. Vechalekar.

Financial management (5th Edition) by- khan and Jain

Annual reports of graphite India ltd, of three years I.E. 2007-08, 2008-09, 2009-10.

I had used the following websites too for the purpose of collecting the data:-

www.graphiteindialet.com.

www.wikipedia.com.