RELATION BETWEEN THE CAPITAL STRUCTURE AND THE PERFORMANCE OF THE SELECTED MANUFACTURING COMPANY

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ABSTRACT

The meaning of Capital structure can be described as the arrangement of capital by using different sources of long term funds which consists of two broad types, equity and debt. The different types of funds that are raised by a firm include preference shares, equity shares, retained earnings, long-term loans etc. The ratio of debt to equity is referred to as the capital structure. The total amount invested that was funded by debt and equity. In this case, the total profit of the company will be impacted by the repayment of the loan or the interest paid on the increased amount of debt. These two elements will have an impact on the company's profitability.

KEYWORDS:

INTRODUCTION: The different types of funds that are raised by a firm include preference shares, equity shares, retained earnings, long-term loans etc. It will be measured by the ratio of the capital structure that the collection of funds through the equity and debentures. This proportion of the funds helps us to know the total value of any organisation, it primarily depends on how expenses related to raising capital through stock and debentures were incurred by the organisation. A company's value is greatly influenced by its capital structure, specifically the proportion of stock to debt funding. The ratio of equity to debt affects risk and cash flow, which affects how much an investor is ready to pay for the company or a share in it. In contrast, the quantity of returns you provide to share holders and the dividend that is paid are important considerations in equity. These two elements will have an impact on the company's profitability. Additionally, these studies typically do not establish a distinct baseline for the performance of each firm that would be attained if agency expenses were reduced.

OBJECTIVES:

1. To find out the relation between the capital structure and firms performance.
2. To examine the increase and decrease of the profit with proportion of capital structure.
3. To what extent does the capital structure has the impact on the firm’s performance.
4. To check whether there is optimum capital structure or not.
5. To determine the relation between the choices of long term debt, short term debt, full debt, and debt equity.

Literature Review:

SL NO	AUTHOR'S NAME	JOURNAL NAME	BRIEF
1	Habibniya, H.	European journal of accounting, auditing and finance research	Finding the ideal debt equity combination has always been difficult. An abnormally high total liability-to-total assets ratio was found in the telecom industry sample studied in the USA. Therefore, it is motivated to research how the capital structure (CapSt) affects a firm's profitability.
2	Harry Patuan Panjaitan	International journal of business and social science	This study looks at how an organization's size, growth, tangibility, liquidity, volatility, uniqueness, assetutility, and non-debt tax impact its profitability and capital structure. Profitability is evident from the result. Furthermore, the showed that size, liquidity, asset utility, and non-debt tax shield all had a positive effect on capital structure.
3	Lukman Anthony	Journal of industrial engineering & management research	This study employs several linear regression analytic techniques and a quantitative methodology. Additionally, it is anticipated that this research will assist shareholders and potential shareholders in identifying possibilities to raise the value of their shares of manufacturing firms in the food and beverage industry sector listed on the IDX.
4	Inda Martati	Amer scientific publishers, 25650 north lewis way, stevenson ranch, usa	The writer employed secondary data from manufacturing whose financial statements were used to analyse and demonstrate the effect of DR and DER simultaneously and partially towards ROA and ROE as the major goal of this study. Making money off of a business's operations is the main reason for starting one. Public manufacturing enterprises are not an exception to this rule. Nearly a quarter of Indonesia's GDP is generated by the industrial sector. Additionally, the manufacturing industry continues to be the main driver of economic growth.
5	Chandrika Prasad Das	kiit journal of management	The relationship between capital structure and profitability and its effects have been studied using regression analysis. The study finds a significant correlation between capital structure and profitability as well as a significant impact of capital structure on the financial performance of sample companies.

DATA AND METHODOLOGY:

DESCRIPTIVE ANALYSIS: The research design which is used for this study is descriptive research because it is based on secondary data. The period of study is 2021 by taking various companies financial information.

Hypothesis of the study:

Ho:- There is no significance relationship between the capital structure and the performance of the organisation.

Ha:- There is significance relationship between the capital structure and the performance of the organisation.

DATA ANALYSIS AND FINDINGS:

Regression Statistics	
Multiple R	0.30
R Square	0.09
Adjusted R Square	0.03
Standard Error	341.57
Observations	18.00

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*	
Regression	1.00	188214.31	188214.31	1.61	0.22	
Residual	16.00	1866711.01	116669.44			
Total	17.00	2054925.32				
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	404.06	139.34	2.90	0.01	108.67	699.46
X Variable 1	0.02	0.01	1.27	0.22	-0.01	0.05

INTERPRETATION: As we can see, the two variables, profit after tax and shareholder equity, have p values of 0.01 and 0.222, respectively. Since the p value of profit after tax is 0.01, it has little effect on the ROA, while the p value of shareholder equity is 0.13, it greatly affects the ROE.

CONCLUSION: With the reference of all above calculations we can conclude that the capital; structure has no impact on the performance of the company it is just the decision which the firm has to take that at what extent or at what ratio should be the debt and equity and what should be the dividend paid to the shareholders . It is all about the cost that a firm incur while raising the fund it may be through the debt or may be through the equity.

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