

**IMPACT OF CAPITAL STRUCTURE ON FIRM'S PERFORMANCE AT ADITYA BIRLA  
ULTRATECH CEMENT LTD**

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**ABSTRACT:**

Impact of capital structure on firm's performance at Aditya Birla Ultratech cement ltd. The main objective of this study is to find out the impact of the capital structure on the firm's performance as well as to examine the increase or decrease of the profit with the proportion of the capital structure. The methodology adopted in this study is descriptive in nature where the financial report of the company for a period of 10 years were gathered. To analyse the impact, the different profitability ratios like ROE, ROA, PE (Price Earnings) and TOQ were used. Finally, it is up to the individual company to decide how much it can afford to spend on fund-raising through equity and debt and to what extent it can absorb the costs involved.

Key Words: Capital structure, return on Equity, Return on Assets, TOQ, PE ratio, Debt Equity Ratio

**I. INTRODUCTION:**

Capital structure is defined as the structuring of capital using various long-term funding sources, which are divided into two basic categories: equity and debt. Preference shares, equity shares, retained earnings, long-term loans, and other types of funds are raised by a corporation. A company's capital structure describes how it uses various funding sources to finance its overall operations and expansion. It stands for the blend of debt and equity utilized to fund a company's assets and operations. In other terms, it refers to the balance sheet's breakdown of a company's obligations and equity.

This study looks after the capital structure which is the proportion of the debt and equity of the Birla white Ultratech cement company, and it also provides a conclusion that the proportion of the capital structure in which the company has formed is impacting the firm's performance or not. Using the regression model with the several variables which are responsible for the profitability of the company, we can conclude that the proportion of capital structure in which the company has been formed is impacting the firm's performance or not if yes, we will also be able to know that at what extent it is impacting the firm's performance.

The capital structure is determined by the debt-to-equity ratio. The overall investment amount that was financed by debt and equity. The repayment of the loan or the payment of interest on the increased amount of debt will in this situation have an influence on the company's overall earnings. In contrast, key factors in equity include the dividend paid and the number of returns provided to shareholders. The profitability of the business will be impacted by these two factors.

The financial structure of a company can affect how the market perceives its risk profile. A rise in debt may result in a higher perceived risk, which may result in a higher cost of equity capital. This can have an impact on the firm's valuation and the willingness of investors to give additional capital. A well-structured capital mix that matches with market expectations can improve the firm's reputation and access to finance.

**STATEMENT OF PROBLEM:**

The proportion of debt and equity in a company is referred to as its capital structure. Whereas this study covers the costs involved with raising money through debt and equity, we will be able to determine what option the company should make regarding raising funds through debt and equity.

### **Objectives of the Study:**

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 to capital structure.
3. To analyse the impact of capital structure on firm's performance.

### **II. REVIEW OF LITERATURE:**

(Akintoye, 2008) We investigated the impact of capital structure on company performance in this article. Is the effect of performance on leverage consistent across different capital structure distributions, we find that an evenly distributed capital structure has a positive effect on firm performance, while the effect of performance on leverage varies across the distribution of different capital structures, as seen in the companies studied. In terms of returns on equity and assets, most of the enterprises in this study that were equity-financed outperformed those that were debt-financed. Although we cannot generalise this fact because few other firms with debt financing performed as efficiently as Nestle Nigeria Plc and Northern Nigeria Flour Mills Plc, the effect of leverage on efficiency varies across the distribution of different capital structures, lending credence to Jensen and Meckling's (1976) agency cost theory. As a result, we urge that investors prioritise the hiring of an efficient management team, motivation, and other developmental programmes to achieve long-term objective congruence.

(Margaritis & Psillaki, 2010) Using a sample of French manufacturing enterprises, this research explores the relationship between capital structure, ownership structure, and firm performance. We use non-parametric data envelopment analysis (DEA) methods to empirically create the industry's 'best practise' frontier and calculate business efficiency as a function of distance from that frontier. We explore whether more efficient organisations chose debt in their capital structure using these performance criteria. The opposing effects of efficiency on capital structure are summarised in terms of two competing hypotheses: the efficiency-risk and franchise value theories. Using quantile regressions, we examine the effect of efficiency on leverage and, as a result, the empirical validity of the two opposing hypotheses across various capital structure choices.

(Fazlzadeh, Hendi, & Mahboubi, 2011) The purpose of this research is to determine the impact of ownership structure on company performance. Using a panel data regression analysis method, the influence of ownership structure factors such as ownership concentration, institutional ownership, and institutional ownership concentration were investigated for 137 Tehran stock exchange listed enterprises from 2001 to 2006. It is concluded that ownership concentration has no significant effect on firm performance, but two other variables do: institutional ownership has a positive significant effect on firm performance, but concentrated institutional ownership has a negative effect. The influence of ownership structure on firm performance based on industry type has been researched in the following section of this research. The industry component, it is found, moderates this effectiveness relationship. The findings of this study shed light on the impact of ownership structure on company performance, providing policymakers with insights into how to improve corporate governance systems.

(Salim & Yadav, 2012) The article investigates the connection between capital structure and firm performance. During the period 1995-2011, the investigation was carried out using a panel data procedure on a sample of 237 Malaysian listed companies on the Bursa Malaysia Stock Exchange. As a dependent variable, the study employs four performance indicators (return on equity, return on asset, Tobin's Q, and earnings per share). As an independent variable, the five capital structure measures (long term debt, short term debt, total debt ratios, and growth) are included. Size is a variable that can be changed. The information is separated into six categories: construction, consumer product, industrial product, plantation, property, trading, and service. The findings show that company performance, as evaluated by return on asset (ROA), return on equity (ROE), and earnings per share (EPS), has a negative association with short term debt (STD), long term debt (LTD), and total debt (TD) as independent variables. Furthermore, there is a positive relationship between growth and performance across all sectors. According to Tobin's Q, there is a significant positive association between short term debt (STD) and long-term debt (LTD). It also reports that total debt (TD) has a substantial negative association with company performance, which is consistent with the previous analysis.

(Pouraghajan & Malekian, 2012) The primary goal of this study is to investigate the impact of capital structure on the financial performance of companies listed on the Tehran Stock Exchange. To this end, we studied and tested a sample of 400 firm-years among Companies Listed on the Tehran Stock Exchange in the form of 12 industrial groups from 2006 to 2010. Variables such as return on assets (ROA) and return on equity (ROE) were utilised in this study to assess a company's financial performance. The findings indicate a substantial inverse association between debt ratio and company financial performance, and a significant positive relationship between asset turnover, firm size, asset tangibility ratio, and growth opportunities and financial performance metrics. However, the relationship between ROA and ROE measures and firm age is not significant. Additionally, some of the research industries have an impact on business performance. Also, research findings indicate that management can raise shareholder wealth by increasing the company's profitability and, consequently, the amount of the company's financial performance measures, by lowering the debt ratio.

### III. DATA AND METHODOLOGY

#### RESEARCH DESIGN:

The research design which is used for this study is descriptive research because it is based secondary data.

#### HYPOTHESIS:

**HO:** There is no significant impact of capital structure on firm's performance.

**HA:** There is significance impact of capital structure on firm's performance.

**STUDY TYPE:** - The research design which is used for this study is descriptive research Because it is based on secondary data.

#### TOOLS AND TECHNIQUES: -

The variables used for this study are ROE (return on equity), ROA (return on assets), PE (price earnings ratio), TOQ(tobins q), DE (Debt to Equity) (debt to equity ratio), FST (firm size), SHIP (share price value). Along with the statistical tool used is "Regression."

#### MODEL SPECIFICATION: -

Linear regression is a statistical method that helps to establish a relationship between two variables by fitting a linear equation to the observed data. The formula for linear regression equation is given by:

$$y = a + bx$$

#### Where,

□ Y is the independent variable. Here capital structure is independent variable i.e., debt Equity ratio.

□ X is the dependent variable. Here ROE, ROA, PE, and TOQ are dependent variables

In this study, Dependent variable is Firm's performance and independent variable is Capital Structure.

### DATA ANALYSIS AND FINDINGS

**Table 1: Regression for Return on Equity**

Multiple R	0.3459
R Square	0.1197
Adjusted R Square	0.0218
Standard Error	2.2600
Observations	11

**ANOVA (analysis of variance)**

	df	SS	MS	F	Significance F
<b>Regression</b>	1	6.25	6.25	1.22	0.30
<b>Residual</b>	9	45.97	5.11		
<b>Total</b>	10	52.22			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
<b>Intercept</b>	1.791	1.671	1.071	0.312	-1.990	5.571
<b>x variable</b>	0.041	0.037	1.106	0.297	-0.043	0.125

**Interpretation:**

In the above table, the researcher has used the regression analysis on two variables namely Return on Equity and Debt to Equity ratio, where return on equity talks about the profitability of the organisation. Variations in ROE can indicate changes in the organization's profitability and efficiency in earning returns on its shareholders' equity. In this analysis return on equity is the dependent variable and the debt to equity is the independent variable. Where in this analysis which has been done between the return on equity and debt to equity ratio the significance level which was supposed to be less than 0.05 is 0.30, by which it is clearly known that we must reject the alternative hypothesis and accept the null hypothesis. As a result, we may conclude that the return on equity has minimal dependence level on the capital structure i.e., debt to equity ratio from which it is finally concluded that the capital structure has no significant impact on the performance of the organisation.

**Table 2: Regression for Return on Asset**

<b>Regression Statistics</b>	
Multiple R	0.427
R Square	0.182
Adjusted R Square	0.091
Standard Error	0.015
Observations	11

**ANOVA**

	df	SS	MS	F	Significance F
<b>Regression</b>	1	0.000	0.000	2.005	0.190
<b>Residual</b>	9	0.002	0.000		
<b>Total</b>	10	0.003			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
<b>Intercept</b>	0.045	0.011	4.015	0.003	0.020	0.070
<b>X Variable</b>	0.000	0.000	-1.416	0.190	-0.001	0.000

### **Interpretation:**

In the above table researcher has used the regression analysis to find out at what extent the return on asset has been depended on the capital structure i.e., debt to equity ratio where the return on asset is the dependent variable and the debt-to-equity ratio is the independent variable. In this analysis we must see the significance level of the analysis that whether the significance is less than 0.05 or not. Where in this analysis we have the significance level as 0.190 which tells that we must accept the Null hypothesis and reject the alternate hypothesis. Accordingly, we can draw the conclusion that the ROA has no appreciable dependence level on the debt-to-equity ratio which can be conclude that the capital structure has no impact on the performance of the organisation with respect to the Return on Asset.

### **FINDINGS:**

- According to the estimates in the table, the other factors investigated in the analysis, such as return on equity (ROE), return on assets (ROA), and price-to-earnings ratio (P/E ratio), did not have a significant impact on the performance of the company. This implies that changes in these variables do not significantly affect how well the organization is performing.
- The variable Tobin's Q had a positive impact on the company's performance throughout a ten-year period from 2013 to 2023. This shows that better performance was linked to greater Tobin's Q values, which imply a higher market value relative to book value of the company's assets.
- According to the data, there is a positive association between a company's share price and its debt and equity. This might imply that if the company's stock price rises, so will its debt and equity levels.

### **CONCLUSION:**

We can conclude from the estimates that the capital structure has no effect on the company's performance. The debt-to-equity ratio demonstrates that the corporation has depended more on debt financing than on equity financing over time. According to return on equity, the company's profitability in relation to shareholders' equity may have shifted over time. Return on assets measures a company's ability to generate a profit from its whole portfolio of assets. This shows that changes in share price and market sentiment have influenced the P/E ratio.

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