Impact of Capital Structure Choice on Performance of Andhra Pradesh Mineral Development Corporation Ltd (APMDC)

[1]Dr.J. Sivaji, [2]P. Venkata Subbaiah

[1]*Assistant Professor in Annamacharya Institute of Technology (Autonomous) Rajampet.*

[2]*Assistant Professor in AITS (Rajampet) & Research scholar in VIT University Vellore.*

Abstracts:Even after decades of active theoretical and empirical research, the question of what determines a company's capital structure remains a key research area in corporate finance. In recent years, the focus of capital structure research has increasingly shifted from examining the determinants of leverage levels to studying the drivers of adjustments in capital structure. Capitalstructure is one of the furthermostcomposite areas of financial decision making due to its interrelationship with other financial decisions variables. Capital structure is the composition of debt and equity capital that comprise a firm's financing its assets and can be rewritten as the sum of net worth plus preferred stock plus long-term debts.his paper investigates the effect of capital structure on firm performance. More specifically, we test the direct effect of leverage on firm performance.The purpose of this paper is to empirically investigate the impact of capital structure choice on firm performance. Using three of accounting-based measures of financial performance (i.e. return on equity (ROE), return on assets (ROA), and gross profit margin), and based on a sample of non-financial. In India firms from 2011 to 2017 the results reveal that capital structure choice decision, in general terms, has an impact on firm's performance.

I. INTRODUCTION

The term capital structure represents the total long term investment in a business firm. It includes funds raised through ordinary and preference shares, bonds, debentures, term loans from financial institutions etc., any earned and capital surpluses are included. Decision regarding type of capital structure of a company should play a critical role since capital impacts on profitability and solvency. The capital structure allowed to develop without any formal planning. The capital structure in such a way it derives maximum advantage out of it and should easily adjust changing conditions.

The capital structure of a business is the mix of the types of debt&equity the company has on its balance sheet. The company's debt might be including both short term & long term and equity, including common stock, preferred shares and retained earnings. According to the definition of James c. van Horne, "the mix of a firm's permanent long term financing represented by debt, preferred stock and common stock equity"

The primary motive of a company in using financial leverage is to magnify the shareholder's earnings under favorable economic conditions. The role of financial leverage in magnifying the earnings of shareholders is based on the assumption that the fixed financial charges can be obtained at a cost lower than the company rate of return on its asses. Financialleverage may be favorable to unfavorable. Favorable financial occurs sheen the earnings per share increases due to the use of debt in capital structure. On the other hand,unfavorable leverage occurs when a firm does not earn as much as the funds cost. Financial leverage not only tends to magnify shareholder's return under favorable conditions, but also exposes them to financial risk. The financial leverage magnifies the shareholder'searnings. The variability of EBIT to fluctuate within wider rage with dent in the capital structure, i.e., with more debt, EPS raise and fall in EBIT.

II. LITERATURE REVIEW

Abor (2005) examines the relationship between capital structure and profitability of listed firms inGhana showing that STD and TTD are positively related with firm's profitability (i.e. ROE), whereas LTD is negatively related with firm's profitability (i.e. ROE). Kyereboah-Coleman (2007) examines the relationship between capital structure and performance of microfinance institutions in sub-Saharan Africa showing that high leverage is positively related with performance (i.e. ROA and ROE). Zeitun and Tian (2007) observe the relationship between capital structure and performance of Jordan firms showing that debt level is negatively related with enactment (both the accounting and market measures). Finally, Abor (2007) examines the relationship between debt policy (capital structure) and performance of small and medium-sized enterprises in Ghana and South Africa showing that capital structure, especially long-term and total debt level, is negatively related with performance (both the accounting and market measures).

In summary, regarding the relationship between capital structure and firm's performance in developed countries provided mixed and inconsistent evidence, on the other hand there is a few studies empirically examine this relationship in emerging economies. The present study encompasses the literature on the impact of capital structure on firm's performance by empirically examining the relationship between capital structure and firm's performance in Egypt. In fact, Egypt is a unique case for two reasons, first, although Egypt has transformed its economic system into capitalism and open market, the managerial decision making may still constrained by old school of government support to economic entities which could explain the high level of financial leverage of firms, especially, those firms that belonged to public sector before the mid-1990s and gone to private (fully or partially) through the privatization policy adopted by Egyptian government by the mid-1990s, Second, capital market is less efficient and incomplete and suffers from higher level of information asymmetry than capital markets in developed countries.

III. OBJECTIVES OF THE STUDY:

1. To measure of financial performance (i.e. return on equity (ROE), return on assets (ROA), and gross profit margin), of the APMDC
2. To investigate the impact of capital structure choice on performance (APMDC).

IV. RESEARCH METHODOLOGY

Based on the objectives of the study, descriptive research has adopted. Descriptive research is one which largely used to draw inferences about the possible relationships between variables. It in is designed to gather descriptive information and provides information for formulating more sophisticated studies. It involves formulation of more specific hypothesis and testing them through statistical inference. This research is generally useful when we collect the information from the resources.

V. NEED OF THE STUDY:

Capital structure analysis is a process of identifying the strengths and weaknesses of the companies by establishing relationship between the item of balance sheet and the profit and loss account. Should take suitable corrective action. Capital structure is the starting point for making plants, before using any sophisticated forecasting procedure. So in order to get the better insight about financial strengths and weakness of the firm, the financial data can be used to analyze the financial health of the company.

VI. RESEARCH DESIGN:

Regression analysis is used in the study in estimating the relationship between the leverage level and firm's performance.

Sources of data:

Secondary data: Thepresent study used secondary data for the analysis. The data utilized in this study is extracted from the income statement and balance sheet of the sample manufacturing firm's Attained from the APMDC database. In the additional to this, scholar Articles from academic journals relevant text books also used.

VII. TOOLS OF ANALYSIS:

The following are the tool used for analysis of data:

1.Debt equity ratio

2. Return on assets

3. Return on equity

4. Return on sales

Frequency Analysis:

YEAR	ROA	ROE	ROS	GM	DE	LTD	STD	TTD
2011	0.1199	0.0903	0.453	0.9500	0.7240	0.4475	0.4475	0.4475
2012	0.4421	0.3671	0.3944	0.5086	0.8876	0.4626	0.4626	0.4626
2013	0.4984	0.4393	0.7331	0.9870	0.3292	0.2126	0.2126	0.2441
2014	0.2002	0.2824	0.8458	0.9506	0.3982	0.0316	0.2506	0.2823
2015	0.0621	0.0833	0.7047	0.9456	0.3314	0.0724	0.1743	0.2468
2016	0.2095	0.2509	0.8249	0.9289	0.1978	0.0322	0.1651	0.1651
2017	0.2139	0.2562	0.8330	0.9395	0.2017	0.0325	0.1700	0.2017

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Return on Assets	7	.06	.50	.2494	.16138
Return on Equity	7	.08	.44	.2528	.13158
Return on Sales	7	.39	.85	.6841	.18632

Debt Equity Ratio	7	.51	.99	.8872	.16790
Gross Margin Ratio	7	.20	.89	.4386	.26528
Short Term Debts	7	.03	.46	.1845	.19559
Long term Debts	7	.17	.46	.2690	.13066
Total term Debts	7	.17	.46	.2929	.11688
Valid N (list wise)	7				

Correlations

		ROA	ROE	ROS	DBE	GMR	STD	LTD	TTD
Return on Assets	Pearson Correlation	1	.940**	-.202	-.454	.243	.351	.209	.159
	Sig. (2-tailed)		.002	.664	.306	.600	.440	.653	.733
	N	7	7	7	7	7	7	7	7
Return on Equity	Pearson Correlation	.940**	1	.103	-.323	.006	.055	-.020	-.080
	Sig. (2-tailed)	.002		.826	.480	.991	.906	.967	.864
	N	7	7	7	7	7	7	7	7
Return on Sales	Pearson Correlation	-.202	.103	1	.667	-.942**	-.965**	-.920**	-.930**
	Sig. (2-tailed)	.664	.826		.102	.002	.000	.003	.002
	N	7	7	7	7	7	7	7	7
Debt Equity Ratio	Pearson Correlation	-.454	-.323	.667	1	-.727	-.591	-.638	-.619
	Sig. (2-tailed)	.306	.480	.102		.064	.162	.123	.138
	N	7	7	7	7	7	7	7	7
Gross Margin Ratio	Pearson Correlation	.243	.006	-.942**	-.727	1	.924**	.978**	.986**
	Sig. (2-tailed)	.600	.991	.002	.064		.003	.000	.000
	N	7	7	7	7	7	7	7	7
Short Term Debts	Pearson Correlation	.351	.055	-.965**	-.591	.924**	1	.936**	.923**
	Sig. (2-tailed)	.440	.906	.000	.162	.003		.002	.003
	N	7	7	7	7	7	7	7	7
Long term Debts	Pearson Correlation	.209	-.020	-.920**	-.638	.978**	.936**	1	.983**
	Sig. (2-tailed)	.653	.967	.003	.123	.000	.002		.000
	N	7	7	7	7	7	7	7	7
Total term Debts	Pearson Correlation	.159	-.080	-.930**	-.619	.986**	.923**	.983**	1
	Sig. (2-tailed)	.733	.864	.002	.138	.000	.003	.000	
	N	7	7	7	7	7	7	7	7

**. Correlation is significant at the 0.01 level (2-tailed).

The correlation analysis is revealed that the total capital is highly correlated positively with the number of beneficiary households at the 0.05 level withand from the above table it shows that the correlation between select variables, there is strong positive correlation of ROE value is 0.991 of GMR. GMR value is 0.991 and ROS value is 0.826 and DER is 0.667 of Correlation.

Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.651[a]	.423	-.153	.14131

a. Predictors: (Constant), Total term Debts, Short Term Debts, Long term Debts

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.044	3	.015	.734	.597[b]
	Residual	.060	3	.020		
	Total	.104	6			

a. Dependent Variable: Return on Equity

b. Predictors: (Constant), Total term Debts, Short Term Debts, Long term Debts

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.717	.340		2.106	.126
	Short Term Debts	-1.537	1.216	-1.874	-1.264	.295
	Long term Debts	2.176	1.478	3.232	1.473	.237
	Total term Debts	-1.715	1.408	-1.524	-1.218	.310

a. Dependent Variable: Return on Equity

VIII. SUMMARY OF THE FINDINGS:

The company is maintained good share capital and net assets as the ratio increasing year by year. During the study period 2011-17. The debt equity ratio is increased in the year 2012, and after the debt equity ratio was decreased year by year. Return on assets of APMDC ltd, is decreased from 2013-15 years, and after increased with same rate the years of 2016-17 of return on assets to the values is fluctuated by year to year. The return on equity is inefficiency to operate equities. The highest ROE is 0.43 in the year 2013 and the least is 0.08in the year 2015.The gross margin is fluctuated during the study period. The highest gross margin is 0.98 in the year 2013 and the least is 0.50 in the year 2012.Long term debt to total assets is fluctuated during the study period. The highest long term debt to total assets is 0.46 in the year 2012 and the least is 0.21 in the year 2013.

IX. CONCLUSION

Capital structure refers to the mix of debt and equity used by a firm in financing its assets. The capital structure decision is made by the financial management. The capital structure decision is at the center of other decision in area of corporate finance. The management should rely more on internal funds than external funds which makes the company strong financial solvency The ROA performance of the company is good. Because of the ROA should be increased year by year. And the total debt performance of the company is good. If the total assets are more utilizing, then the company has to contribute financial growth of the company Because of the total debt is decreased year to year. So it indicating that the overall financial position of the APMDC Ltd company is satisfactory.

BIBLIOGRAPHY

[1]. Abor, J. (2005), "The effect of capital structure on profitability: an empirical analysis of listed firms in Ghana", Journal of Risk Finance, Vol. 6, pp. 438-47.

[2]. Abor, J. (2007), "Debt policy and performance of SMEs: evidence from Ghanaian and South Africa firms", Journal of Risk Finance, Vol. 8, pp. 364-79.

[3]. Balakrishnan, S. and Fox, I. (1993), "Asset specificity, firm heterogeneity, and financial leverage", Strategic Management, Vol. 14, pp. 3-16.

[4]. Berger, A. and Bonaccorsi di Patti, E. (2006), "Capital structure and firm performance: a new approach to testing agency theory and an application to the banking industry", Journal of Banking and Finance, Vol. 30, pp. 1065-102.

[5]. Booth, L., Aivazian, V., Hunt, A. and Maksimovic, D. (2001), "Capital structure in developing countries", Journal of Finance, Vol. 56, pp. 87-130.

[6]. Brav, A., Graham, J., Harvey, C. and Michaely, R. (2005), "Payout policy in the 21st century", Journal of Financial Economics, Vol. 77, pp. 483-527.

[7]. Champion, D. (1999), "Finance: the joy of leverage", Harvard Business Review, Vol. 77, pp. 19-22. Chiang, Y., Chang, P. and Hui, C. (2002), "Capital structure and profitability of the property and construction sectors in Hong Kong", Journal of Property Investment and Finance, Vol. 20, pp. 434-53.

[8]. Eldomiaty, T. (2007), "Determinants of corporate capital structure: evidence from an emerging economy", International Journal of Commerce and Management, Vol. 17, pp. 25-43