AN ANALYSIS OF CAPITAL STRUCTURE - RELIANCE INDUSTRIES LIMITED

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ABSTRACT

Capital structure is generally known as capital mix , is very important to control the overall cost of capital in order to improve the earnings per share of shareholders. After globalization and liberalization ,various financial sector reforms were started by government , such as reducing rates of interest etc. which directly affected the capital structure planning of firms. Due to this situation, the information technology industry also reorganized their capital structure .the financing of capital structure decisions is a significant managerial decision. Initially, the company will have to plan its capital structure at the time of promotion subsequently, whenever funds have raised for finance and investment , a capital structure decision is involved . in this research article, researchers try to evaluate the concept of capital structure, capital structure planning and patterns of capital structure in Leo labs . we found that both companies are using the maximum possible long-term debt in their capital structure planning. During the study period, both the companies raised more and more long termfundsto , meet their development and expansion needs because debt is cheaper source offinance , especially from 1994 onwards when rates of interest decreased regularly in Indian capital market. Organization theorists suggest that the capital within organizations. In addition , organizational structure may strengthen or weaken the effects of social capital , by furnishing greater or fewer opportunities for growth. This article explores the independent and combined effects of organizational social capital structure on the performance of over organization between them, using panel data.

INTRODUCTION

The capital structure is how a firm finances its overall operations and growth by using different sources of funds. Debt comes in the form of bond issues or long-term notes payable, while classified as commonstock, preferredstock or retainedearnings. Short-termdebt such as working capital requirements is also considered to be part of the capital structure. A company's proportion of short and long–term debt is considered when analyzing capital structure. When people refer to capital structure they are most likely referring to a firm's debt-to-equity ratio, which provides insight into how risky a company is.

OBJECTIVES OF THE STUDY:

The project is an attempt to seek an insight into the aspects that are involved in the capital structuring and financial decisions of the company. This project endeavors to achieve the following objectives.

1. To study the capital structure of RELIANCE INDUSTRIES LIMITED through EBIT-EPSanalysis
2. To study effectiveness of financing decision on EPS and EBIT of the firm.
3. To examine leverage analysis of RELIANCE INDUSTRIES LIMITED.
4. To examine the financing trends in RELIANCE INDUSTRIES LIMITED for the periodof2017-2021.

5. To study debt/equity ratio of RELIANCE INDUSTRIES LIMITED for 2017-2021.

SCOPE OF THE STUDY:

A study of the capital structure involves an examination of long term as well as short term sources that a company taps in order to meet its requirements of finance. The scope of the study is confined to the sources that RELIANCE INDUSTRIES LIMITED tapped over the years under study i.e. 2017-2021.

IMPORTANCE OF THE STUDY:

1. The value of the firm depends upon its expected earnings stream and the rate used to discount this stream.

2. The rate used to discount earnings stream it's the firm's required rate of return or the cost of capital.

3. Thus, the capital structure decision can affect the value of the firm either by changing the expected earnings of the firm, but it can affect the reside earnings of the shareholders.
4. The effect of leverage on the cost of capital is not very clear. Conflicting opinions have been expressed on this issue.
5. In fact, this issue is one of the most continuous areas in the theory of finance, and perhaps more theoretical and empirical work has been done on this subject than any other.
6. If leverage affects the cost of capital and the value of the firm, an optimum capital structure would be obtained at that combination of debt and equity that maximizes the total value of the firm or minimizes the weighted average cost of capital.

RESEARCH

DATA COLLECTION:

Data relating to RELIANCE INDUSTRIES LIMITED. Has been collected throughsecondary sources.

SECONDARY SOURCES:

A major portion of the data in this study has been collected through secondary sources of datai.e., Journals, websites, Books, and all other relevant information or literary are taken as secondary source of data.

RESEARCH DESIGN

The collected data has been processed using the tools of

- Ratio analysis
- Graphical analysis
- Year-year analysis

These tools access in the interpretation and understanding of the Existing scenario of theCapital Structure

LIMITATION

1. EPS is one of the mostly widely used measures of the company's performance

in practice.

2. As a result of this, in choosing between debt and equity in practice, sometimes too much attention is paid on EPS, which however, has serious limitations as a financing-decision criterion.
3. 3.The major short coming of the EPS as a financing-decision criterion is that it does not consider risk; it ignores variability about the expected value of EPS.
4. The belief that investors would be just concerned with the expected EPS is not well founded.
5. Investors in valuing the shares of the company consider both expected value and variability**.**

CHAPTER IV DATA ANALYSIS & INTERPRETATION

DATA ANALYSIS-RETURN ON ASSETS

In this case profits are related to assets as follows

$$\text{Return on assets} = \frac{\text{Net profit after tax}}{\text{Total assets}}$$

Particulars		**2013**	**2014**	**2015**	**2016**	**2017**
ROA=	PAT	128.57	252.19	340.78	290.77	274.5
	TOTAL ASSETS	8985.5	9283.86	1017.32	9044.41	8916.51
		1.43	2.72	3.34	3.21	3.08

b) RETURN ON CAPITAL EMPLOYED

Here return is compared to the total capital employed. A comparison of this ratio with that of other units in the industry will indicate how efficiently the funds of the business have been employed. The higher the ratio the more efficient is the use of capital employed.

$$\text{Return on capital employed} = \frac{\text{Net profit after taxes \& Interest}}{\text{Total capital employed}}$$

(Total capital employed = Fixed assets + Current assets–Current liabilities)

Particulars		**2013**	**2014**	**2015**	**2016**	**2017**
ROCE=	PAT	128.57	252.19	340.78	290.77	274.5
	Total Capital Emp	6993.9	7079.20	9994.02	7111.40	7112.91
		1.83	3.56	3.4	4.08	3.85

YEAR 2013-2014 *PERFORMANCE OF COMPANY (AMOUNT IN RS. '000S)*

Gross Revenue	924313	Total Expenditure	872511
Profit (Loss) before tax	51802	Profit after tax	25219
Earnings per share Rs.	1.55	Dividend ratio	10%

YEAR 2014-2015 *PERFORMANCE OF COMPANY (AMOUNT IN RS.'000S)*

Gross Revenue	1275243	Total Expenditure	1203680
Profit (Loss) before tax	71313	Profit after tax	34078
Earnings per share Rs.	2.10	Dividend ratio	15%

YEAR 2015-2016 PERFORMANCE OF COMPANY (AMOUNT IN RS.'000S)

Gross Revenue	742200	Total Expenditure	711921
Profit (Loss) before tax	30279	Profit after tax	27450
Earnings per share Rs.	1.69	Dividend ratio	10%

YEAR 2016-2017 PERFORMANCE OF COMPANY (AMOUNT IN RS.'000S)

Gross Revenue	726774	Total Expenditure	715556
Profit (Loss) before tax	11218	Profit after tax	10412
Earnings per share Rs.	0.64	Dividend ratio	5%

PERFORMANCE ANALYSIS

There has been an increase of over 25% sales, where compared to previous year there by contributing to increase in Gross Profit which increases over 45% because of increase in sales and decrease in cost of sales which in due to reduction in royalty for mining and other overheads reduction. In this year the company's operating profit is around 165 lacs as compared to a heavy loss of over 365 lacs in previous year cost reduction also contributed to the alone. A dividend of Rs.178 lacs was declared for the year including Tax.

PERFORMANCE ANALYSIS OF 2013-2014

In 2013-14 the company has performed well in all decisions because of high demand and realizations. The Gross Profit Increased considerably and the interest payments have decreased at about 140 lacs because of loans taken from the bank at a lesser rate of interest and payment of loan funds for which the company is paying higher rate of interest. In the previous year, the cash credit granted by UCO bank to the tune of Rs.594 lacs and losing of loan funds borrowed from Vijaya Bank and Canara Bank factors, which can tribute to increase in the Profit before Tax to the tune of Rs.190 lacs the company declared a dividend of 10% on its equity to its shareholders when compared to 7.5% in the previous year. The EPS of the company also increased considerably which investors in coming period. The company has taken up a plant expansion program during the year to increase the production activity and to meet the increase in the demand

PERFORMANCE ANALYSIS OF 2014-2015

Company is operating in 3 segments, out of which bank contributes about 55% of turnover while the Boards and prefab segments contribute about 45%. Huge investment in the industrial sector over the next 3 years is expected to lead to higher bank off –take on the back of strong GDP growth across the country. It is expected that the domestic bank consumption would grow at a CAGR of 8% for the next 5 ears. Net sales increased by about 39% to Rs.10337 Lacks from Rs.7448 Lacks in FY 2016-17. Improved sales from all the tree divisions particularly from prefab division contributed for increased turnover.

PERFORMANCE ANALYSIS OF 2015-2016

There has been an increase of over 20% sales when compared to cost year, which resulted in Gross Profit of Rs.1375 lacs as against around 1300 lacs in last year. Because of decrease in Non-Operating expenses to the time of 130 lacs the Net profit has increased. It stood at 293 lacs in current year against 165 lacs in previous year because of redemption of debenture and cost reduction. A dividend of Rs.162 lacs was declared during the year at 10% on equity.

PERFORMANCE ANALYSIS OF 2016-2017

1. The production and Sales has increased by 23%
2. Bank turnover has increased by 6% as against fall in Sales realization by 15% last year.
3. Bank Boards Division has contributed 18% more than the previous year to the PBDIT.
4. Perform Division realization has increased by 4% even the Turnover have came down to 845 lacs from 1189lacs in last year.
5. The profit After Tax has came down from 302 lacs to 112lacs in Current year because of slope in Bank Industry.
6. The Interest cost has come down by 24% due to reduction in Interest rates by Commercial Banks & Public Deposits.

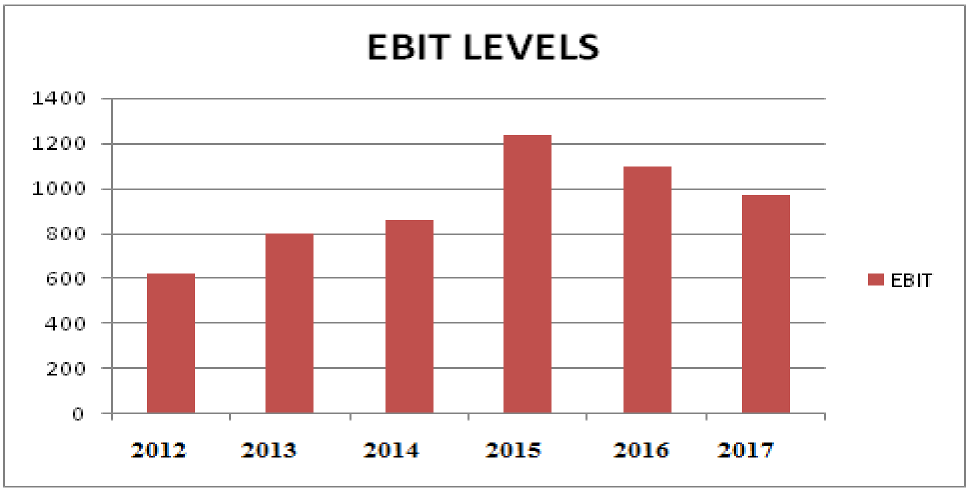
EBIT LEVELS

Particulars	2013	2014	2015	2016	2017
Earnings Before Interest & Tax	803	861.16	1235.69	1096.15	969.61
Change	294.2	477.39	374.53	-	126.54
% Change	26.83%	21.44%	30.30%	-	11.50%

DEGREE OF FINANCIAL LEVERAGE:

$$DFL = \frac{\%\ \text{Change in EPS}}{\%\ \text{Change in EBIT}}$$

The higher the quotient of DEL, the greater the leverage. In NCL Industries case it is increasing because of decrease in EBIT levels from 2013-2014, to 2016-2017. The EBIT level is in a decreasing trend because of drastic decline in prices in Bank industry during above period. In the year 2013 the EBIT level has increased substantially because of Raise inn Bank prices because of demand and the policies of Govt. such as rural housing and irrigation project taken up.



INTERPRETATION

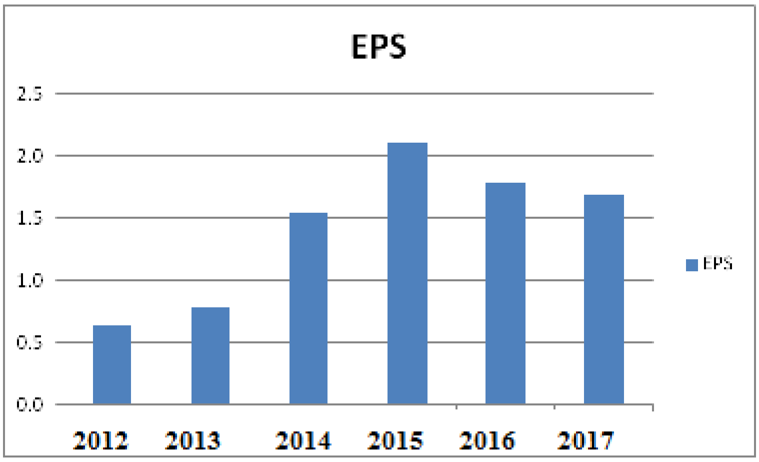
The EBIT level in 2013 is at 618.76 lacs and is increasing every year till 2017. Because of ascent in the Bank industry. The EBIT levels in 2014 again started decreasing and reached to 1096.15 in 2016 were at 969.6 in 2017, because of the sale price increase per bag and decrease in demand.

PERFORMANCE

EPS ANALYSIS

Particulars	**2013**	**2014**	**2015**	**2016**	**2017**
Profit After Tax	30569000	32806000	34078000	29077000	2745000
Less: Preference Dividend	-	-	-	-	-
Amount of Equity share holder	12857000	25219000	34093133	29077000	27450000
No. OF equity share of Rs.10/- each	16234825	16234825	16234825	16234825	16234825
EPS	**0.79**	**1.55**	**2.1**	**1.79**	**1.69**

EPS LEVELS



INTERPRETATION

The PAT is in an increasing trend from 2012-2013 because of increase in sale prices and also decreases in the cost of manufacturing. In 2014 and 2015 even the cost of manufacturing has increased by 5% because of higher sales volume PAT has increased considerably, which leads to higher EPS, which is at 9.36 in 2013

EBIT – EPS CHART

One convenient and useful way showing the relationship between EBIT and EPS for the alternative financial plans is to prepare the EBIT-EPS chart. The chart is easy to prepare since for any given level of financial leverage, EPS is linearly related to EBIT. As noted earlier, the formula for calculating EPS is

$$EPS = \frac{(EBIT - INT)(1 - T)}{N} = \frac{(EBIT - INT)(1 - T)}{N}$$

We assume that the level of debt, the cost of debt and the tax rate are constant. Therefore in equation, the terms (1-T)/N and INT (=iD) are constant: EPS will increase if EBIT increases and fall if EBIT declines. Can also be written as follows

$$EPS = \frac{(1 - T)}{N} EBIT - \frac{(1 - T)}{N} INT = -\frac{(1 - T)}{N} INT = +\frac{(1 - T)}{N} EBIT$$

Under the assumption made, the first part of is a constant and can be represented by an EBIT is a random variable since it can assume a value more or less than expected. The term (1 – T)/N are also a constant and can be shown as b. Thus, the EPS, formula can be written as: EPS = a + bEBIT Clearly indicates that EPS is a linear function of EBIT.

FINANCING DECISION

Financing strategy forms a key element for the smooth running of any organization where flow, as a rare commodity, has to be obtained at the optimum cost and put into the wheels of business at the right time and if not, it would lead intensely to the shut down of the business. Financing strategies basically consists of the following components:

- Mobilization
- Costing
- Timing/Availability
- Business interests

Therefore, the strategy is to always keep sufficient availability of finance at the optimum cost at the right time to protect the business interest of the company.

STRATEGIES IN FINANCE MOBILIZATION

There are many options for the fund raising program of any company and it is quite pertinent to note that these options will have to be evaluated by the finance manager mainly in terms of:

- Cost of funds
- Mode of repayment
- Timing and time lag involved in mobilization
- Assets security
- Stock options
- Cournand's in terms of participative management and
- Other terms and conditions.

Strategies of finance mobilization can be through two sectors, that is, owner's resources and the debt resources. Each of the above category can also be split into: Securitized resources; and non-securities resources. Securitized resources are those who instrument of title can be traded in the money market and non-securities resources and those, which cannot be traded in the market.

AUROBINDO PHARMA LIMITED BANK FUNDING MIX

Years	2013	2014	2015	2016	2017
Source of funds					
Share holders funds					
a) Share capital	1622.93	1622.93	1622.93	1622.93	2179.97
b) Reserves and surplus	796.f48	890.21	881.46	948.59	937.65
c)Deferred tax	778.62	787.99	-	-	-
TOTAL (A)	**3198.03**	**3301.13**	**2504.39**	**2571.52**	**3117.62**
Loan Funds					
a) Secured Loans	1372.53	1413.17	1167.82	1783.66	4015.28
b) Unsecured Loans	2588.22	2161.95	2404.33	1711.95	1954.07
TOTAL (B)	**3960.75**	**3575.12**	**3572.15**	**3495.61**	**5969.35**
TOTAL (A+B)	**7158.78**	**6876.24**	**6075.92**	**6067.13**	**9086.97**
% of S H in total C.E	44.67	48	41.22	42.38	34.3
% of Loan Fund in total C.E	55.33	52	58.78	57.62	65.69

INTERPRETATION

The shareholder fund is at 3125.8 constitutes 43.72% in total C.E and loan funds constitute 56.28% in 2013. The Funding Mix on an average for 6 years will be 45% of shareholders Fund and 55% of Loan Funds there by the company is trying to maintain a good Funding Mix. The leverage or trading on equity is also good because the company affectively utilizing the Loan Funds in the Capital Structure. So that it leads to higher profit increase of EPS at 0.79 to 2013 1.55

Term Loans for the Year 2013-2014

Particulars		Rs. (in Lakhs)
TERM LOANS		
Indian Renewable Energy development agency ltd.		779.17
Non convertible debentures		0.00

HIRE PURCHASE LOANS		
TVS Lakshmi Credit Ltd	0.00	0.00
Haritha Finance Ltd	0.00	0.00
Funded interest	0.00	0.00
CASH CREDIT		
Oriental Bank of Commerce	410.15	
UCO Bank	594.34	
Canara Bank Factors	0.00	1004.49
		1167.20
UNSECURED LOANS		
Deposits from public		399.69
Deposits from stockiest & others		1053.83
Lease/Hire purchase		57.39
Others		201.04
TOTAL		**3495.64**

Term Loans for the Year 2014-2015

Particulars		Rs. (in Lakhs)
TERM LOANS		
Indian Renewable Energy development agency ltd.		2532.14
Non convertible debentures		0.00
HIRE PURCHASE LOANS		
TVS Lakshmi Credit Ltd	0.00	0.00
Haritha Finance Ltd	0.00	0.00
Funded interest	0.00	0.00
CASH CREDIT		
Oriental Bank of Commerce	561.32	
UCO Bank	306.54	

Canara Bank Factors	403.46	
UTI Bank Ltd	211.82	1483.14
		4015.28
UNSECURED LOANS		
Interest free from sales tax deferment loan		162.40
Deposits from public		616.87
Deposits from stockiest & others		919.26
Lease/Hire purchase		54.25
Others		201.29
TOTAL		**5969.35**

Term Loans for the Year 2015-2016

Particulars		Rs. (in Lakhs)
TERM LOANS		
IDBI	0.00	
IFCI	0.00	
		0.00
HIRE PURCHASE LOANS		
TVS Lakshmi Credit Ltd	0.00	0.00
Haritha Finance Ltd	0.00	0.00
Funded interest	0.00	0.00
Non Convertible Debentures		677.75
CASH CREDIT		
Global Trust Bank	638.21	
Vijaya Bank	56.57	
		694.78
		1,372.53
UNSECURED LOANS		
Deposits from public		602.15
Lease /Hire purchases		4.64
IFST Loan from Govt. of AP		0.00
Deferred sales tax loan		0.00
Deposits from stockiest & others		1730.39
Inter corporate deposits		50.00
Others		201.04
TOTAL		**2588.22**

Term Loans for the Year 2016-2017

Particulars		Rs. (in Lakhs)
TERM LOANS		
Indian Renewable Energy development agency ltd.		255.00
Non convertible debentures		509.61
HIRE PURCHASE LOANS		
TVS Lakshmi Credit Ltd	0.00	0.00
Haritha Finance Ltd	0.00	0.00
Funded interest	0.00	0.00
CASH CREDIT		
Global Trust Bank	583.41	
Vijaya Bank	65.15	
		648.56
		1,413.17
UNSECURED LOANS		
Deposits from public		600.54
Lease /Hire purchases		21.25
Canara Bank factors ltd.		100.09
Deferred sales tax loan		0.00
Deposits from stockiest & others		1,239.02
Inter corporate deposits		0.00
Others		201.04
TOTAL		**2161.94**

INTERPRETATION

The Non-convertible debentures are being redeemed and were completely repaid. The cash credit assistance was provided by Global Trust Bank and Vijaya Bank to the tune of Rs.696 lacs and Canara bank factors to the tune Rs.158 lacs was completely repaid by taking cash credit facility from Oriental Bank of Commerce and UCO Bank to the tune of Rs.1000 lacs. The company is paying of deposits from public every year.

Deposits from public were stood at 1608.87 lacs in 2012-2013 and in 2016-2017 it came down to 1202.69 lacs. The IRIDA has granted Rs.255 lacs term loan for installation of energy saving equipment and the loan was again increased to 779.17 lacs in 2012-2013.

Position of mobilization and development of funds
(Amount in Rs.000s)

Total liabilities	714986	Total assets	714986
Sources of funds			
Paid u capital	162293	Reserves & surplus	150287
Secured Loans	172496	Unsecured loans	229916
Application of funds			
Net fixed assets	522854	Investments	6278
Net current assets	182012	Misc. Expenditure	3846
Accumulated losses	NIl		

YEAR 2013- 2014 Position of Mobilization and Development of funds (Amount in RS. 000s)

Total liabilities	928386	Total assets	928386
Sources of funds			
Paid u capital	1622.93	Reserves & surplus	94859
		Deferred tax	1041.93
Secured Loans	178366	Unsecured loans	171195
Application of funds			
Net fixed assets	481100	Investments	13000
Net current assets	213820	Misc. Expenditure	2986
Accumulated losses	Nil		

YEAR 2014 – 2015 -Position of Mobilization and Development of funds
(Amount in RS. 000s)

Total liabilities	1017320	Total assets	1017320
Sources of funds			
Paid u capital	1623.48	Reserves & surplus	93765
		Deferred tax	1086.23
Secured Loans	4015.28	Unsecured loans	195407
Application of funds			
Net fixed assets	7055.88	Investments	13000
Net current assets	2938.22	Misc. Expenditure	4910
Accumulated losses	Nil		

Year 2015 - 2016 Position of Mobilization and Development of funds
(Amount in RS. 000s)

Total liabilities	715878	Total assets	715878
Sources of funds			
Paid u capital	162293	Reserves & surplus	79648
Secured Loans	137253	Unsecured loans	258822
Application of funds			
Net fixed assets	554677	Investments	5723
Net current assets	150891	Misc. Expenditure	4587
Accumulated losses	Nil		

Year 2016 – 2017 Position of Mobilization and Development of funds (Amount in RS. 000s)

Total liabilities	687624	Total assets	687624
Sources of funds			
Paid u capital	162293	Reserves & surplus	89021
		Deferred tax	78799
Secured Loans	141317	Unsecured loans	216194
Application of funds			
Net fixed assets	517233	Investments	5019
Net current assets	160545	Misc. Expenditure	4827
Accumulated losses	Nil		

CHAPTER V FINDINGS, SUGGESTIONS AND CONCLUSION

5.1 FINDINGS

1. The Non-convertible debentures are being redeemed and were completely repaid. The cash credit assistance was provided by Global Trust Bank and Vijaya Bank to the tune of Rs.696 lacs and Canara bank factors to the tune Rs.158 lacs was completely repaid by taking cash credit facility from Oriental Bank of Commerce and UCO Bank to the tune of Rs.1000 lacs. The company is paying of deposits from public every year.
2. The shareholder fund is at 3125.8 constitutes 43.72% in total C.E and loan funds constitute 56.28% in 2010. The Funding Mix on an average for 6 years will be 45% of shareholders Fund and 55% of Loan Funds there by the company is trying to maintain a good Funding Mix. The leverage or trading on equity is also good because the company affectively utilizing the Loan Funds in the Capital Structure. So that it leads to higher profit increase of EPS in 2007 at 0.79 to 2015 at 1.55
3. Deposits from public were stood at 1608.87 lacs in 2012-2013 and in 2014-2015 it came down to 1202.69 lacs. The IRIDA has granted Rs.255 lacs term loan for installation of energy saving equipment and the loan was again increased to 779.17 lacs in 2012-2013.

SUGGESTIONS

1. The company has to maintain the optimal capital structure and leverage so that in coming years it can contribute to the wealth of the shareholders.
2. The mining loyalty contracts should be revised so that it will decrease the direct in the production
3. The company has to exercise control over its outside purchases and overheads which have effect on the profitability of the company.
4. As the interest rates in pubic Financial institutions are in a decreasing trend after globalization the company going on searching for loan funds at a less rate of interest as in the case of UCO Bank.

CONCLUSION

For the development of the bank industry 'Working Group on bank Industry' was constituted by the planning commission for the formulation of X Five Year Plan. The working Group has projected a growth rate of 10% for the bank industryduring the plan period and has projected creation of additional capacity of 40-62 million tones mainly through expansion of existing plants. The working Group has identified following thrust areas for improving demand for bank;

- Further push to housing development programmes;
- Promotion of concrete Highways and roads; and
- Use of ready-mix concrete in large infrastructure project.

Further, in order to improve global competitiveness of the Indian Bank Industry, the Department of Industrial policy & promotion commissioned a study on the global competitiveness of the Indian industry through an organization of international repute, viz. Videocon industries limited bank. The report submitted by the organization has made several recommendations for making the Indian Bank industry more competitive in the international market. The recommendations are under consideration. Efficiency and competency in managing the affairs of the company should be maintained.

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