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Analysis on Capital Structure of Godrej Properties Ltd. for Financial Year 2019-2022

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ABSTRACT:

The analysis also considers the prospective influence of changes in interest rates, tax rates, and other economic factors on the company's capital structure. A company's optimal capital structure may change over time, and it is critical to monitor and adapt the capital structure as needed to preserve financial stability and maximize shareholder value. Overall, capital structure analysis is a valuable tool for investors and managers to use in assessing a company's financial health and making educated decisions about financing and investment strategies. Godrej Properties' financial performance has been strong in recent years, with consistent revenue growth and profitability. The company has a robust balance sheet with low debt and high liquidity. Its diversified portfolio and focus on affordable housing have helped it weather the COVID-19 pandemic and the slowdown in the Indian real estate market. Overall, the company has shown some signs of improvement in its financial position and profitability over time. The findings suggest that to optimize its cost of capital and minimize financial risk, Godrej Properties should balance its debt and equity financing. To diversify its funding sources, the company should also examine different financing options such as mezzanine finance or convertible debt. Godrej Properties should examine and assess the capital structures of its peers in the real estate market. This will assist the company in determining whether its capital structure is competitive.

Keywords: Capital Structure, Equity Share, Preference Share, Debentures, Investment strategies

Introduction:

Capital structure refers to the mix of different types of capital used by a company to finance its operations and investments. It represents the proportionate combination of debt and equity that a company employs to fund its assets and support its ongoing business activities. The components of capital structure can vary from one company to another, but the major components typically include debt, equity, and sometimes preferred stock.

a) Debt: Debt represents borrowed funds that a company must repay over a specified period, usually with interest. When a company takes on debt, it incurs an obligation to make regular interest payments and eventually repay the principal amount. Debt holders have a priority claim on the company's assets in case of bankruptcy, which means they must be repaid before equity holders.

b) Equity: Equity represents the ownership interest in a company. It is derived from the value of the company's assets after deducting liabilities (including debt). Equity holders, often shareholders, have a residual claim on the company's earnings and assets. They can benefit from capital appreciation and receive dividends if the company distributes profits

These components interact to determine a company's overall capital structure. The choice between debt and equity financing depends on factors such as the company's risk tolerance, cost of capital, profitability, and market conditions. Companies may adjust their capital structure over time to optimize their financing mix and balance the benefits and risks associated with different sources of capital. It's important for companies to strike an appropriate balance in their capital structure to meet their financial needs and maintain a healthy financial position.

Company Profile:

Godrej Properties Limited is an Indian real estate firm headquartered in Mumbai. The company, a subsidiary of Godrej Industries Ltd., was founded in 1990 under the leadership of Adi Godrej. The company is now working on projects totaling more than 89.7 million square feet. Godrej Properties provides to the real estate market the Godrej Group concept of innovation, sustainability, and quality. Each Godrej Properties project blends a 125-year tradition of excellence and trust with a dedication to innovative design and technology. since become one of the most trusted companies in the Indian real estate market, famous for its dedication to quality, innovation, and sustainability.

The company continues to influence the Indian real estate market while upholding the Godrej Group's principles through a varied portfolio, a customer-centric approach, and a dedication to social responsibility. Godrej Properties has had a great financial performance in recent years, with sustained revenue growth and profitability. The company's balance sheet is strong, with low debt levels and significant liquidity. Its diverse portfolio and emphasis on affordable housing have enabled it to weather the COVID-19 pandemic and the current downturn in the property market.

Literature Review:

The research on ***"Capital Structure Analysis with Reference to Indian Oil Corporation by Mrs. Mokkarala Rama And MS N S L Praveena"*** financial management is primarily concerned with the optimal use of finance - the most notable scarce resource in modern societies. The research on ***"EU Bank Capital Structure and Capital Requirements by Carin Rehncrona"*** the conclusion drawn from this is that lenders have not imposed a sufficient restriction on the borrower. The research on ***"A Comparative Study of Capital Structure of Automobile & Cement Industries in India By A. B. Savjani"*** Also the study provides that the no impact of financial leverage on cost of capital was found within the concern industries,

The research on *"**Capital Structure at Maruti Suzuki Lahoti Motors Hajee Mastan By Dr Bhadrappa Haralayya"*** the maruti suzuki lahoti motors is the no.1 company in India which produces huge range of merchandise with one of a kind models, aesthetics etc., by way of which it has captured a massive market share in two-wheeler market. The research on ***"Capital Structure Determinants: A Sectorial Analysis for The Romanian Listed Companies by Ingrid Mihaela Dragota, Laura Obreja Brasoveanu And Victor Dragota"*** To identify the determinants for capital structure of the Romanian companies, in the second part of the study, the profitability was considered as explanatory variable, searching the most accurate influence between them.

Research Methodology:

In this research design used in the study is the **Descriptive Research Technique** will be applied. This means that the data collected and calculated will not be manipulated as it is the case for other research methods, like experiments. The results will be interpreted without further manipulation of subjects in the study.

In the data collection, **Secondary Method** of data is collection is used. The financial reports of godrej properties ltd. And other related resources from different websites and books.

- **Time period of study**

For the research study time duration is for three years from 2019-2022.

- **Tools used in study**

Balance sheet and profit & loss statement is primarily used statement in across study. some of the tools used in study are as follows: -

1. *RETURN ON EQUITY*
2. *RETURN ON ASSETS*
3. *RETURN ON CAPITAL EMPLOYED*
4. *DEBT TO EQUITY*
5. *DEBT TO ASSEST*
6. *INTEREST COVERAGE RATIO*
7. *SHARE CAPITAL*

Objectives of the study:

1. To study the capital structure of godrej properties ltd.
2. To assess the financial strength of the godrej properties ltd.
3. To identify the changes in capital structure of godrej properties ltd.
4. To examine the effect on their financial positions due to changes of capital structure of godrej properties ltd.

Data Analysis & Interpretation:

- Share Capital

Period	**Instrument**	**Authorized Capital**	**Issued Capital**	**- P A I D U P -**		
From -To		**(Rs. cr)**	**(Rs. cr)**	**Shares (nos)**	**Face Value**	**Capital**
2021-2022	Equity Share	669	138.99	277,988,067	5	138.99
2020-2021	Equity Share	669	138.97	277,943,051	5	138.97
2019-2020	Equity Share	669	126.01	252,023,911	5	126.01

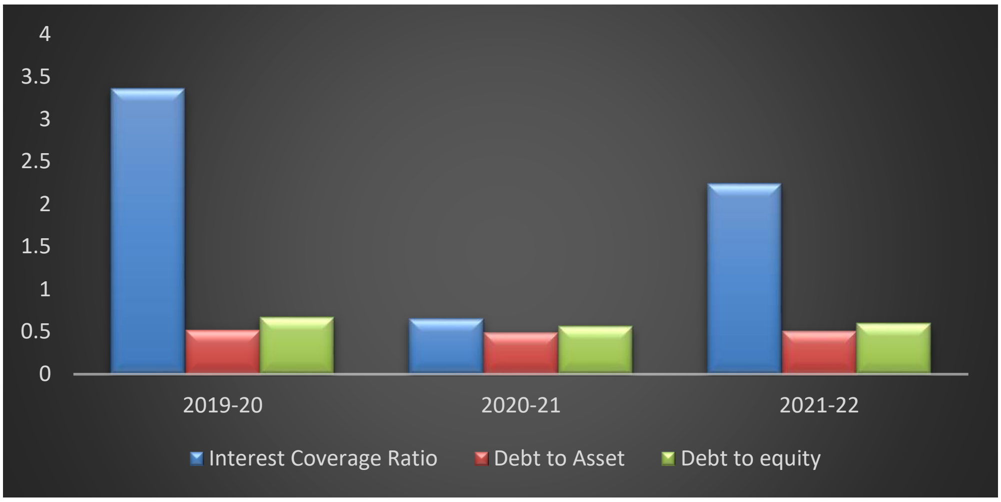
- Throughout the time period, the company's authorised capital remained at Rs. 669 crores. From Rs. 126.01 crore in 2019–2020 to Rs. 138.99 crore in 2021–2022, more capital was released.
- With a face value of Rs. 5, the total number of equity shares issued increased throughout the course of the period, rising from 252,023,911 shares in 2019–2020 to 277,988,067 shares in 2021–2022.
- Indicating that the company has been successful in raising more capital from the shareholders, the paid-up capital, which represents the amount of capital actually raised from the shareholders, increased from Rs. 126.01 crore in 2019–2020 to Rs. 138.99 crore in 2021–22.

➢ **The comparison of same metrics ratio**

Particulars	2019-20	2020-21	2021-22
Return on equity	5.63%	-2.27%	4.06%
Return on assets	2.67%	-1.16%	1.98%
Return on capital employed	16.55%	2.27%	8.91%

- The company's return on equity (ROE) was 5.63% in 2019-20, decreased to -2.27% in 2020-21, and then increased to 4.06% in 2021-22. ROE measures the company's profitability relative to the amount of shareholder equity.
- Similarly, the company's return on assets (ROA) was 2.67% in 2019-20, decreased to -1.16% in 2020-21, and then increased to 1.98% in 2021-22. ROA measures the company's profitability relative to the total assets it has.
- Finally, the company's return on capital employed (ROCE) was 16.55% in 2019-20, decreased to 2.27% in 2020-21, and then increased to 8.91% in 2021-22. ROCE measures the return on the company's total capital employed, which includes both equity and debt.

Particulars	2019-20	2020-21	2021-22
Interest Coverage Ratio	3.36	0.65	2.24
Debt to Asset	0.52	0.49	0.51
Debt to equity	0.67	0.56	0.60



- The company had an interest coverage ratio of 3.36 in 2019-20, which dropped significantly to 0.65 in 2020-21 before increasing to 2.24 in 2021-22. The drop in 2020-21 may suggest that the company had difficulty meeting its interest obligations during that year, but the increase in 2021-22 suggests that the company was able to improve its financial position.
- The company had a debt to asset ratio of 0.52 in 2019-20, which decreased slightly to 0.49 in 2020-21 before increasing to 0.51 in 2021-22. This suggests that the company has been using a similar level of debt financing in the most recent year, relative to its asset base.
- The company had a debt to equity ratio of 0.67 in 2019-20, which decreased to 0.56 in 2020-21 before increasing slightly to 0.60 in 2021-22.

Conclusion:

- The Interest Coverage Ratio has fluctuated significantly. This indicates that the company may have had difficulty in meeting its interest obligations in the previous year, but has improved its ability to do so in the most recent year.
- The Debt to Asset ratio has remained relatively stable over the past three years, hovering around 0.5. This indicates that the company has been able to maintain a fairly consistent level of debt relative to its total assets.
- Finally, the Debt to Equity ratio has also remained relatively stable, with a slight increase. This indicates that the company has maintained a moderate level of leverage, with its level of debt relative to equity remaining fairly consistent.
- The Return on Equity (ROE) has fluctuated significantly. This indicates that the company may have struggled to generate profits for its shareholders in the previous year, but has been able to improve its performance in the most recent year.
- The Return on Assets (ROA) has the company may have had difficulty in generating profits from its assets in the previous year, but has been able to improve its performance in the most recent year.
- Finally, the Return on Capital Employed (ROCE) has also fluctuated, indicates that the company may have struggled to generate profits from its capital investments in the previous year, but has been able to improve its performance in the most recent year.
- Overall, the company has shown some signs of improvement in its financial position and profitability over time.

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