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Assessing the Capital Structure Strategies of Sakthi Masala Pvt. Ltd., Erode

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ABSTRACT

Capital structure refers to the specific mix of debt and equity used to finance a company's assets and operations. From a corporate perspective, equity represents a more expensive, permanent source of capital with greater financial flexibility. The study's objective is to assess the capital structure strategies of Sakthi Masala (P) Ltd, Erode. The data used are from the last five years, from 2019-20 to 2023-24. This study used an analytical research design, and secondary data were used to collect the data. Ratio analysis, comparative balance sheet and common size balance sheet have been used as tools to reach the finding of the study.

Key words: Capital structure, profitability position, credit worthiness, operational efficiency.

INTRODUCTION

Capital structure is the particular combination of debt and equity used by a company to finance its overall operations and growth. Equity capital arises from ownership shares in a company and claims to its future cash flows and profits. Debt comes in the form of bond issues or loans, while equity may come in the form of common stock, preferred stock, or retained earnings. Short-term debt is also considered to be part of the capital structure. Debts can be raised by issuing debenture or bonds by taking long term borrowings. The capital structure decisions a significant financial decision because it affects the shareholder's return and risk and consequently the market value of share.

REVIEW OF LITERATURE

Burhan, A. H., & Bagana, B. D. (2024) .This study aims to analyze and examine the factors that influence firm value. The variables used in this study are capital structure, company size, profitability and dividend policy. The analytical method used in this study is the quantitative analysis method. The population of this study are manufacturing companies in the various industrial sectors listed on the Indonesia Stock Exchange in 2019-2022. The method used in data collection is purposive sampling method. The number of samples used were 35 companies and the amount of data used was 140 data.

Putri, D. A., & Rafli, R. (2024). The purpose of this study was to determine the effect of capital structure on firm value with good corporate governance as a moderating variable. This study uses a population of manufacturing companies listed on the Indonesia Stock Exchange (IDX). Sampling was based on the purposive sampling method, namely sampling with certain considerations and based on the interests and objectives of the study. This study uses multiple regression analysis techniques. The results of this study found that capital structure has a positive effect on firm value and good corporate governance is able to strengthen the positive effect of capital structure on firm value.

Jay Desai (2023), one of the most critical decisions in corporate finance is to decide about the source of fund to be employed. The mix of debt - equity used to generate funds is termed as Capital Structure (CS). Research on Capital Structure and its impact on financial performance has gained momentum from the pioneering article of Modigliani and Miller (1958). Since then it has been one of the most debated and controversial aspects of corporate finance. Researchers have contributed in form of theories as well as empirical findings to study the relation between capital structure and financial performance.

SCOPE OF THE STUDY

This study aims to assessing the capital structure strategies of **Sakthi Masala (P) Ltd., Erode**, focusing on its financial stability, profitability, creditworthiness, and operational efficiency. The study will evaluate key financial variables, including profitability position of the concern, credit worthiness of the concern and efficiency of the concern in its operation to assess the company's financial health. The findings are expected to provide insights into Sakthi Masala's ability to raise additional capital, optimize its financial structure, and enhance its overall efficiency.

STATEMENT OF THE PROBLEM

Today, capital structure decision is one of the most important decisions made by financial managers in this modern era. In addition, how an organization financed is a paramount importance to the managers of the firm because, if inappropriate mix of finance is employed, the performance of the business enterprise may be seriously affected. Poor capital structure decisions may lead to a possible reduction/loss in the value of the firm. The company is in need to maintain a proper balance between profitability and liquidity and these allow smooth operation of the firm as well as perfect the interest of the creditors and investors.

LIMITATIONS OF THE STUDY

- This study pertains only to one company and it cannot be generalized.
- The availability of the information and data are limited by time factor.
- Some of the information is confidential to the organization and its non-availability also limited the scope of the project work.
- There is chance of occurring minor error in calculation.
- The study is limited only for a period of five year from 2019-2020 to 2023-2024.

RESEARCH OBJECTIVES

- To understand the stability of the concern to raise additional capital
- To evaluate the profitability position of the concern
- To identify the credit worthiness of the concern
- To ascertain the efficiency of the concern in its operation
- To assessing the capital structure strategies of Sakthi Masala Pvt. Ltd., Erode

II. RESEARCH METHODOLOGY

Research methodology is a structured plan that explains the steps, techniques, and approaches used to find answers to research questions or to test certain assumptions. It combines theoretical knowledge with practical tools to carry out proper research.

The research was carried out at Sakthi Masala (P) Ltd., located in Erode. It mainly relies on secondary data, especially the company's annual reports for five years. Additional information was gathered from textbooks, journals, newspapers, magazines, and various internet sources.

IV. ANALYSIS AND INTERPRETATION

CURRENT RATIO

TABLE NO: 4.1.1

Year	Current Assets	Current Liabilities	Ratio
2020	458.79	463.49	0.99
2021	620.03	491.26	1.26
2022	637.16	421.96	1.51
2023	583.7	370.68	1.57
2024	638.35	400.09	1.60

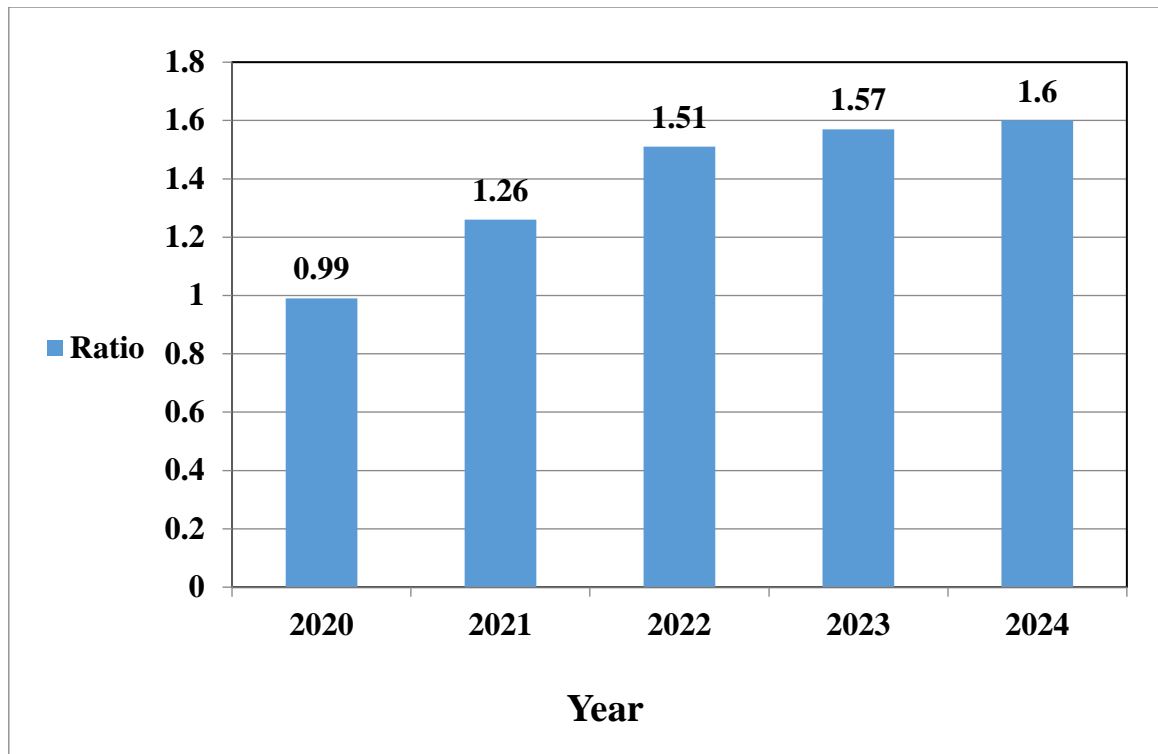
(Source : Annual report)

Interpretation

From the above table conveys that current ratio was 0.99 in the year of 2020. It has increased to 1.26 and 1.51 in the year of 2021 and 2022 respectively. It has increased to 1.57 and 1.60 in the year of 2023 and 2024 respectively.

CHART NO: 4.1.1

CURRENT RATIO



DEBT EQUITY RATIO

From the total debt ratio which clears the % of lenders contribution to owner's Contribution or the relationship describing the lender's contribution for each rupee of the owner's contribution is called debt equity ratio.

It can be calculated as,

$$\text{Dept Equity Ratio} = \frac{\text{Total Debt}}{\text{Net Worth}}$$

TABLE NO: 4.2.1

DEBT EQUITY RATIO

Year	Total debt	Net worth	Ratio
2020	91.8	701.56	0.13
2021	51.48	867.76	0.06
2022	6.63	998.46	0.01
2023	3.49	1101.60	0.01
2024	4.1	1,205.60	0.01

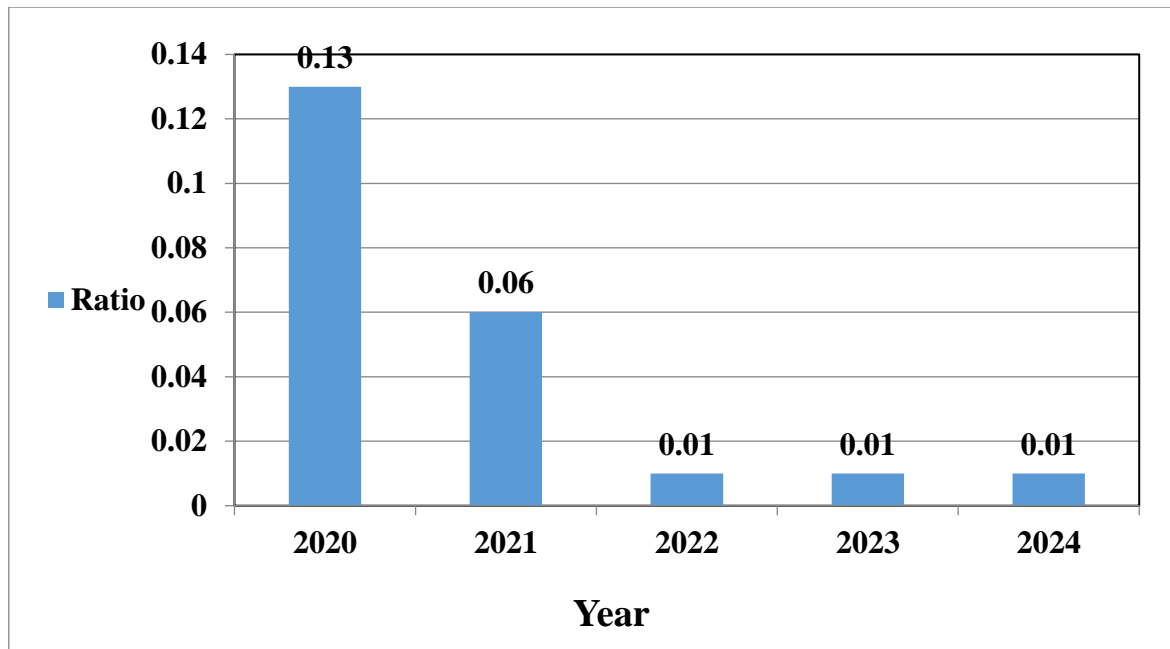
(Source : Annual report)

Interpretation

From the above table conveys that debt quick ratio was 0.13 in the year of 2020. It has decreased to 0.06 and 0.01 in the year of 2021 and 2022 respectively. It has maintained same level to 0.01 in the year of 2023 and 2024.

CHART NO: 4.2.1

DEBT EQUITY RATIO



V.FINDINGS

CURRENT RATIO

- The current ratio was 0.99 in the year of 2020. It has increased to 1.26 and 1.51 in the year of 2021 and 2022 respectively.
- Continued Growth in 2022: The positive trend continued into 2022, with the current ratio rising further to 1.51. This suggests a strengthening financial position and enhanced capacity to manage short-term liabilities using current assets.

DEBT EQUITY RATIO

- In 2020, the equity ratio was 0.47, showing a lower proportion of equity in the company's capital structure.
- Over the next two years, the equity ratio gradually increased to 0.49 in 2021 and then to 0.58 in 2022, indicating improved financial stability.

VI.SUGGESTIONS

- The current ratio must be increased every year. It should not be below 2:1. The current assets must be in proportion to the current liabilities.
- The debt equity ratio should be in decreasing trend. The company must maintain the total debt in the proportion of the net worth of the organisation.
- The total debt such as secured loans and unsecured loans must be favourable one to the company. It must be aligned with net worth of the company.
- The capital structure must be reframed to reduce the capital interest and maximise the operating profit for the company.

VII.CONCULSION

Every concern has the aim to frame the optimum capital structure to its business as maximising the value of the firm and minimising the cost of capital. The study is aimed to analyse the long term funds of the company Sakthi Masala (P) Ltd., Erode for the period of 2019-20 to 2023-24. The study has given the knowledge about the application of financial tools, its importance and its usefulness in determining the long term capital of the company. The study has concluded that the optimum capital structure of the company could be ascertained by using various ratios. The overall results of the study have shown that the equity and reserves of the firm should be sufficient to meet out the fixed bearing expenses and it has to lower the degree of financial leverage in order to overcome the financial risk in future. Thus, the long term capital of the company Sakthi Masala (P) Ltd., Erode shows a satisfactory position.

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