



COMPARATIVE EVALUATION OF CAPITAL STRUCTURE PATTERN OF SELECTED FIRMS IN IT INDUSTRY WITH SPECIAL REFERENCE TO TCS, INFOSYS AND WIPRO

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ABSTRACT

Capital structure refers to the kinds of securities and the proportionate amounts that make up capitalization. It is the mix of different sources of long-term sources such as equity shares, preference shares, debentures, long-term loans and retained earnings. The term capital structure refers to the relationship between the various long-term sources financing such as equity capital, preference share capital and debt capital. Deciding the suitable capital structure is the important decision of the financial management because it is closely related to the value of the firm. Capital structure is the permanent financing of the company represented primarily by long-term debt and equity. Optimum capital structure is the capital structure at which the weighted average cost of capital is minimum and thereby the value of the firm is maximum. Optimum capital structure may be defined as the capital structure or combination of debt and equity that leads to the maximum value of the firm.

KEY WORDS: Debt, Equity, Shareholder's Funds, Capital, Equity Shares, Debentures, Shareholders.

1. INTRODUCTION

Capital is the major part of all kinds of business activities, which are decided by the size and nature of the business concern. Capital may be raised with the help of various sources. If the company maintains proper and adequate level of capital, it will earn high profit and they can provide more dividends to its Shareholders. Capital structure refers to the kinds of securities and the proportionate amounts that make up capitalization. It is the mix of different sources of long-term sources such as equity shares, preference shares, debentures, long-term loans and retained earnings. The term capital structure refers to the relationship between the various long-term sources financing such as equity capital, preference share capital and debt capital. Deciding the suitable capital structure is the important decision of the financial management because it is closely related to the value of the firm. Capital structure is the permanent financing of the company

represented primarily by long-term debt and equity. Optimum capital structure is the capital structure at which the weighted average cost of capital is minimum and thereby the value of the firm is maximum. Optimum capital structure may be defined as the capital structure or combination of debt and equity that leads to the maximum value of the firm.

Capital structure pattern varies from company to company and the availability of finance. Normally the following forms of capital structure are popular in practice.

- ✧ Equity shares only.
- ✧ Equity and preference shares only.
- ✧ Equity and Debentures only.
- ✧ Equity shares, preference shares and debentures.



2. OBJECTIVES

1. To illustrate the debt and equity proportion in the capital structure at TCS, Infosys and Wipro.
2. To determine how easily a company can pay interest on outstanding Debt at TCS, Infosys and Wipro.
3. To measure the level of profit on shareholders investments at TCS, Infosys and Wipro.

3. METHODOLOGY

To produce the above mentioned research objective, the data for this study was gathered from the financial statements as published by Business Companies. In addition, another source of data was through reference to the review of different articles, papers, and relevant previous studies. All firms are taken for the study representing the period of 2010-2014.

4. RESULTS

Debt and Equity are the two major forms of capital. From table 1 it is found that Infosys has no debt capital in its capital structure the entire capital is of equity which means the capital produced from equity shares, preference shares and general reserve and surplus. Whereas the remaining two companies are maintaining both debt and equity in their capital structure where the shareholders funds (Net Worth) is in an increasing trend for TCS and Infosys.

From table 2 it is observed from the study that the interest paid is very high for 2012 and 2013 as the percentage of debt capital is high for those years for TCS. Whereas, the same debt capital is high and interest paid is in an inclining trend during 2011 and 2012 for Wipro.

The study from table 3 identifies that the Profit after Tax (PAT) which is used to compute Return on Equity (ROE) is at a minimum level only during 2013 for TCS, ROE is negative during 2013 and 2014 for Infosys and for Wipro the ROE is also negative

during 2011 and 2012 which shows a lesser level of profit gained in comparison with equity capital. Whereas the ROE is positive during the remaining selected period for all the three selected companies.

5. SUGGESTIONS

The researcher has experiencing the ability to provide suggestion and recommendation for further researcher to gain more worthy if any research will be conducted by them in this field. Some of the suggestion and recommendations are given below,

- Here the company's capital structure is computed based on debt equity, debt asset, long term debt but too many factors or measures have impact on financial performance of companies. So the result will be further valuable when researcher considers varies kinds of measures.
- There are many MNC's in India but this study has taken only three companies for the study. To generalize the analysis the sample size would be increased.
- Further the researcher can add much variety of techniques to generalize their findings such as statistical methods, descriptive statistics and etc.
- Only secondary data are collected to analysis to do this research. Further researchers may use secondary data by visiting to every company.

6. CONCLUSION

This paper has been completed with the important objectives of to what extend capital structure patterns are the important elements for a company's financial performance. Finally to conclude there is a positive relationship between capital structure and financial performance. And also capital structure has a significant impact on financial performance of the firm. So every firm should make good capital structure decision to earn profit and carry on their business successfully after computing the EBIT and EPS analysis.

7. FIGURE, TABLES AND REFERENCES

Table - 1 Shows the proportion of Debt and Equity in Capital Structure

Particulars	TCS				INFOSYS				WIPRO				
	FY 2014	FY 2013	FY 2012	FY 2011	FY 2014	FY 2013	FY 2012	FY 2011	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010
Total Debt (TD)	89.69	163.12	96.23	36.33	35.74	0.00	0.00	0.00	4.51030	4.046.00	5.243.20	4.710.80	5.530.20
Net Worth (NW)	44.051.88	32.562.25	24.856.63	19.579.49	15.116.62	42.092.00	36.059.00	29.757.00	24.501.00	22.036.00	24.229.50	21.320.20	17.692.20
TD / NW	0.002	0.005	0.004	0.002	--	--	--	--	0.15	0.17	0.22	0.22	0.31
Variation	-0.003	0.001	0.002	--	--	--	--	--	-0.02	-0.05	--	--	-0.09
Variation Rate	-60.00%	25.00%	100.00%	--	--	--	--	--	-11.76%	-22.72%	--	--	-29.03%

Fig.1: Debt Equity Ratio of TCS, INFOSYS, WIPRO

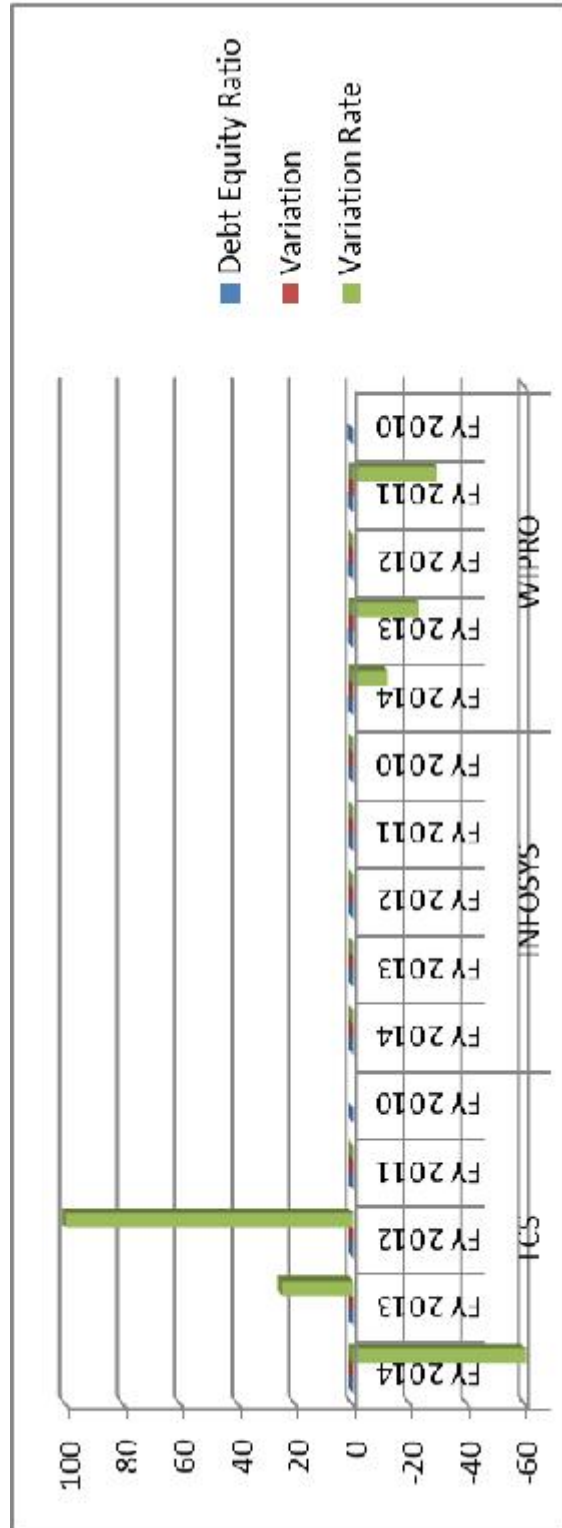


Table.2. Shows the amount of Interest paid on Debt Capital

Particulars	TCS				INFOSYS				WIPRO					
	FY 2014	FY 2013	FY 2012	FY 2011	FY 2014	FY 2013	FY 2012	FY 2011	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010	
EBIT (A)	21,533.72	14,306.27	11,385.72	8,763.53	6,667.17	12,527.00	11,015.00	10,061.00	8,414.00	7,362.00	9,108.40	6,933.50	6,043.00	5,760.90
Interest (B)	2341	30.62	16.40	20.01	9.54	0.00	0.00	0.00	0.00	2.00	374.70	352.40	605.70	136.00
A / B	919.85	467.21	694.25	918.61	698.86	--	--	--	--	3681.00	24.31	19.67	9.98	42.36
Variation	452.64	-227.04	-224.36	219.75	--	--	--	--	--	4.64	9.69	-32.38	-12.77	-23.16%
Variation Rate	96.88%	-32.70%	-24.42%	31.44%	--	--	--	--	--	23.59%	97.09%	-76.44%	-23.16%	

Fig.2: Interest Coverage Ratio of TCS, INFOSYS, WIPRO

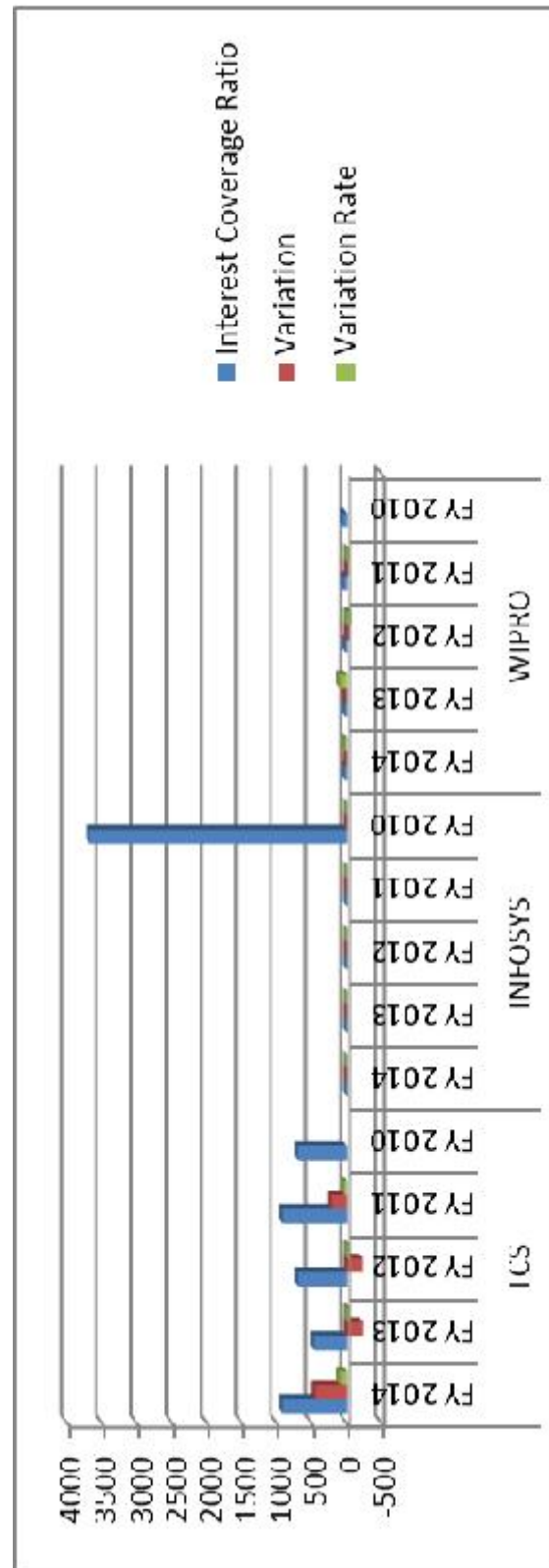
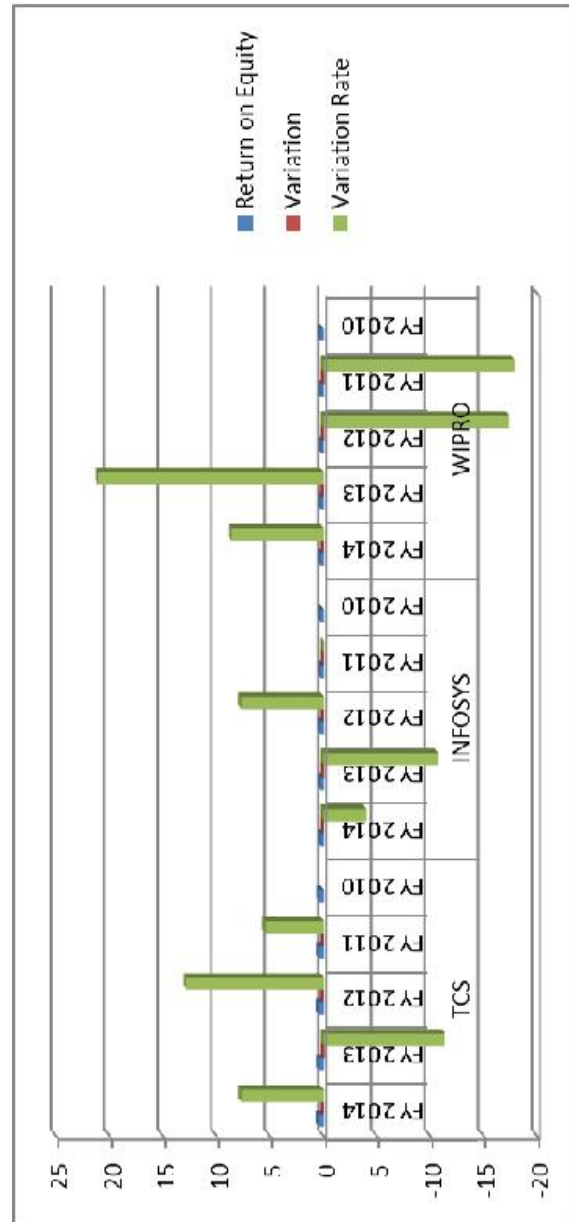


Table.3. Shows the Return gained on Equity Capital

Particulars	TCS				INFOSYS				WIPRO					
	FY 2014	FY 2013	FY 2012	FY 2011	FY 2014	FY 2013	FY 2012	FY 2011	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010	
PAT (A)	18,47,482	12,786,34	10,975,98	7,569,99	5,618,51	10,134,00	9,116,00	8,470,00	6,443,00	5,803,00	7,387,40	5,650,20	4,685,10	4,843,70
Net Worth (B)	44,051,988	32,562,25	24,856,63	19,573,49	15,116,62	42,092,00	36,089,00	29,577,00	24,501,00	22,036,00	29,555,90	24,229,50	24,352,50	21,202,00
A/B	0.42	0.39	0.44	0.37	0.24	0.25	0.28	0.26	0.26	0.26	0.23	0.23	0.19	0.23
Variation Rate	0.03	-0.05	0.05	0.02	-0.01	-0.03	0.02	0	0.02	0.02	0.04	-0.04	-0.05	
Variation Rate	7.69%	-11.36%	12.82%	5.41%	-4.00%	-10.71%	7.69%	0	8.6%	21.05%	-17.39%	-17.86%		

Fig.3: Return on Equity of TCS, INFOSYS, WIPRO



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