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STUDY ON CAPITAL STRUCTURE OF RAMCO CEMENT LIMITED IN TAMIL NADU

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Abstract:

This study on examines the study on Capital structure of Ramco Cement Limited in Tamil Nadu on a data for the period of 2009-2023. Correlation and multiple regressions are used to analysis the relationship between Dependent variable (DER) and Independent variables (Profitability, Return on Equity, Return on Asset and solvency Ratio). This concluded that Solvency Ratio, Return on Equity, Return on Assets and Profitability have not significant with DER. It is concluded that Return on Equity positively associated with DER. It is a policy holder maker should any decision recorded the Capital Structure.

Key Words: Capital Structure, ROA, ROE, DER, Solvency

Introduction:

The most crucial component of starting a business is capital. It acts as the foundation of the company. Debt and equity are two primary types of capital sources for a business. Capital structure is defined as the combination of equity and debt that is put into use by a company in order to finance the overall operations of the company and for its growth. The best mix of debt and equity financing that maximizes a company's market value while minimizing its cost of capital. Capital structure refers to a company's mix of capital-its debt and equity. Equity is a company's common and preferred stock plus retained earnings. Debt typically includes short-term borrowing, long-term debt, and a portion of the principal amount of operating leases and redeemable preferred stock.

Objectives:

- To identity the capital structure of Ramco Cements Limited.
- To identify the positive or negative relationship between the factors affecting the capital structure and the debt ratio.
- To find out the important variable that affect the debt ratio of the Ramco Cement Limited by using Multiple Regression

Review of Literature:

Venkatacham & Kasthuri, (2016) they have found from their study done to find out the effect of capital structure on the profitability of the firms that there is significant relationship between the capital structure and the profitability of the firm and the capital structure has positive impact on the firm's profitability. The study was conducted on nifty 50 companies listed on NSE. The data of 10 years was considered. The performance indicators used in study are ROA, ROE, ratio of total liabilities to total assets, EBIT, TANG [asset tangibility]. Tax, Liquidity, business risk. The technique used in study in descriptive statistics, correlation and multiple panel data regression model. Four different regression models are used to study the relationship between the capital structure and the profitability.

Fazio, (2016) made a study entitled "Impact of capital structure on performance of listed public sector banks in India" with the purpose to measure the impact of capital structure on banking performance. He has taken 19 PSU banks listed on NSE as the sample for the study. It is concluded that the profitability measured by return on equity reveals an average of 17.98 percent with median of 18.19 percent. This picture may suggest a good performance during the period under the study. The average value of TDC variable is 18.66 with median of 17. This position reveals that the banks are financially leveraged with a large percentage of total debt being short-term. The average growth is 21.29 and the average firm size is measured by logarithm of assets.

Bader, (2015) they have found from their study done to find out the effect of capital structure on the profitability of the firms that there is significant relationship between the capital structure and the profitability of the firm and the capital structure has positive impact on the firm's profitability. The study was conducted on nifty 50 companies listed on NSE. The data of 10 years was considered. The performance indicators used in study are ROA, ROE, ratio of total liabilities to total assets, EBIT, TANG [asset tangibility]. Tax, Liquidity, business risk. The technique used in study in descriptive statistics, correlation and multiple panel data regression model. Four different regression models are used to study the relationship between the capital structure and the profitability.

Banerjee, (2014) in their study they had tried to find out the capital structure of the firms and their impact on firm's performance. They have considered 50 manufacturing companies in their sample size. They have selected companies on different criteria like 20 companies on the basis of market capitalization, 20 companies on the basis of total assets employed and 10 companies on the basis of revenue and growth. They have considered the data of 10 years. In this research regression model is used for the analysis purpose. The various variables used in the study are ROA, ROE, ROCE, EPS, Current ratio, long term debt to total assets, total debt to total assets, debt equity ratio. The result of the study shows that there is significant relationship and the impact of capital structure on profitability and performance of the firm.

Methodology:

This study is based on secondary data. The study has been undertaken in a private cement company of Ramco Cement Limited, the above data was collected on the basis of their consistency of performance, data availability and favourable accounting figures of this company.

Regression Model:

The multiple Regression Model have been followed to test the empirical relationship between the Debt Equity Ratio characteristics of the firm.

$$Y=a+b_1x_1+b_2x_2+b_3x_3+b_4x_4 \ldots\ldots\ldots\ldots (1)$$

Table of Variable

Table 1

S.No	Ratio	Variable	Formula
1	Debt Equity Ratio	Dependent Variable	Total Current Liabilities/ Total Shareholder's Funds
2	Solvency Ratio	Independent Variable	Profit and Loss After Tax/ Total Shareholder's Fund×100
3	Profitability Ratio	Independent Variable	Total Assets/ Total Shareholder's Funds ×100
4	Return On Equity	Independent Variable	Current Assets- Current Liabilities
5	Return On Assets	Independent Variable	Profit and Loss After Tax/ Total Assets ×100

Result of the Study:

Result of the Correlation:

Table 2

Variable	R	R^2
Solvency Ratio	0.271	0.073
Return on Assets	0.286	0.081
Return on Equity	0.191	0.036
Profitability	0.48	0.230

** Correlation on is significant at 1% level (2 tailed).
* Correlation is significant at 5% level (2 tailed).

The table 2 above represents the relationship between the various independent and dependent variables used in this study. From this table that the variables Solvency Ratio, Return on Assets, Return on Equity and Profitability have not significant with DER.

Results of the Regression:

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	0.891[a]	0.793	0.679	0.63028

a. Predictors: (Constant), Profitability, Return On Equity, Return On Assets, Solvency Ratio

The Model Summary table illustrates the magnitude of the variable in the dependent variables as described by the independent variables. The value of the R-Square is 0.793, which is approximately the dependent variable 79.3% variable of the "Debt Equity Ratio" are explained by independent variables of Capital Structure Ratios.

ANOVA:

Table 4

Model	Sum of Squares	DF	Mean Square	F	Sig
Regression Residual Total	13.724 3.575 17.299	5 9 14	2.745 0.397	6.909	0.007[b]

a. Dependent Variable: Debt-Equity Ratio
b. Predictors; (Constant), Profitability, Return On Equity, Return On Assets, Solvency Ratio

ANOVA Test to find out whether the regression model is valid or not. F-Statistics is 6.909 which are very high and have a significant value of less than 5% which indicates that the testing of ANOVA is highly significant and that the model is valid from given predictors.

Regression of Co-Efficient of Ramco Cement Limited:

Table 5

Variables	**Model**
(Constant)	
Un-Standardized Co-efficient	2.044
Standard Error	88.653
T-value	3.037
P-value	0.014
(Solvency Ratio)	
Un-Standardized Co-efficient	-0.036
Standard Error	0.036
T-value	-0.990
P-value	0.048
(Return On Assets)	
Un-Standardized Co-efficient	-0.065
Standard Error	0.57
T-value	-1.138
P-value	0.028
(Return On Equity)	
Un-Standardized Co-efficient	-0.025
Standard Error	0.005
T-value	-5.296
P-value	0.004
(Profitability)	
Un-Standardized Co-efficient	-0.482
Standard Error	0.651
T-value	-0.740
P-value	4.78

The parameter of the regression model above the table is related. The Table No 4.4 of shows the significance of the individual Independent Variable interpreting the Dependent Variable. The un-standardized co-efficient (B) value shows the magnitude and relationship between Dependent Variable DER and independent Variable of Capital Structure Ratio. The regression co-efficient Return on Equity positively associated with DER. The regression of co-efficient other variables like Solvency Ratio, Return on Assets, Profitability have negatively associated with DER. It means Ramco Cement Limited Company should have considerate on firm equity, before raising the funds.

Conclusion:

The purpose of this Research study is to investigate the Capital Structure of Ramco Cement Limited for this purpose Ramco Cement Limited has been selected from Tamil Nadu as study sample and data is collected (2009-2023) and processed by using statistical tools. The study found that the R value is highly and positively significant. Solvency Ratio (0.073, Return on Assets (0.081), Return on Equity (0.036) and Profitability (0.230) have not significant with DER.

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