

## A STUDY ON CAPITAL STRUCTURE OF TATA MOTORS LIMITED AT SALEM

**N.Chandra Shaker Reddy\* Dr.S.Bharathi\***

*\* School of Management , Dhanalakshmi Srinivasan University, Tiruchirappalli.*

### **Abstract**

*This study looks at how a company's capital structure affects its performance. EBIT-EPS analysis is used for the evaluation. This study will examine the capital structure of the automotive industry from 2020 to 2024 in order to identify the factors that drove the company's capital structure decisions and the consequences of those decisions on performance and profitability. EBIT-EPS analysis is used to evaluate the performance of the business. Every firm must make important choices about its capital structure, and the outcomes of these choices have a big impact on the company's future, both positively and negatively. To finance their assets, businesses might choose to use debt or equity capital. Finding the variables that influence capital structure and how they effect financial performance is the aim of this research. For our investigation, we chose automakers and used secondary data.*

**Keywords:** *Financial Management, Shareholder Wealth, Debt, Capital Structure, Leverage, EPS, Debt Level, Net Worth, Debt Equity, Financial Performance, And Equity Capital.*

### **Introduction**

The profit strategy states that the majority of an organization's profits are given to its investors, while the remaining portion known as held income is kept for future speculation. The organization communicates reduced separation and increased maintenance of retained earnings, while distributing a higher profit and providing less support for retained acquisition in financial management. These are the ways that holding procurement and profit strategy are related. The choice of profit is among the most crucial financial decisions that a concern may make. Compensation distribution and maintenance for future developments must be decided by the organization.

### **Objectives of The Study**

**Primary Objective:** The primary aim of the study is to analyze the financial framework of Tata Motors Limited located in Salem, utilizing solvency ratios and assets.

### **Secondary Objectives**

1. The capital structure and composition of the firm will be reviewed, and the company's break-even points will be determined.
2. A review of operational and financial leverage will be conducted.
3. The long-term profitability of the selected company will be analyzed and deducted.
4. We'll look at the connection between capital structure and company profitability.

### **Need of The Study**

The primary issue with debt funding is that it is frequently only available to well-established companies. It might be challenging for startups to get financing because lenders are mostly looking for security for their money. While cost variation is merely taken into account, the financial break-even point is more reliant on specific assumptions, such as the price of goods staying the same. This is the primary cause of many businesses' ignorance of the significance of the break-even point and its calculation.

### Scope of The Study

1. Flexibility in raising capital is provided by capital structure. Because of the tax benefits, businesses prefer to issue debt. Tax deductions are available for interest payments.
2. Additionally, debt enables a business to maintain ownership.
3. With equity financing, business owners can retain and reinvest more of their company's income while also making important strategic choices.

### Review of Literature

**Peter W. Schuhmann (2023)** This study examines the impact of market acceptance on capital structure while taking cultural factors into account. We look at the relationship between these variables and stock returns, which are a gauge of market timing. Furthermore, we report reduced market leverage ratios for enterprises in countries with high power distance and high uncertainty avoidance, indicating that these cultural traits lessen the effect of market timing.

**Md. AbdurRouf, (2023)** This study looks at the capital structure performance of non-financial enterprises listed on the Dhaka Stock Exchange (DSE) from 2018 to 2023 using a judgment sampling technique. The effect of capital structure on company performance was assessed using multiple regression models. The results of the regression analysis indicate a significant inverse link between return on assets (ROA) and return on sales (ROS) and the ratios of debt, loan equity, and proprietary equity. In addition to the control variable, there is a strong and positive association between total assets and return on assets (ROA).

### Research Methodology

"A research methodology is the setup of conditions for data collecting and analysis that seeks to balance economy of procedure with relevance to the researcher's purpose." It acts as a manual for collecting, computing, and interpreting data. As a result, the design encompasses a detailed outline of the steps the researcher will undertake, starting from the formulation of the hypothesis, through to determining its practical implications, and concluding with the final data analysis.

### Research Design

An analytical research design was chosen in light of the study's goals. Research that primarily interprets the material that is already available is known as analytical research. It uses secondary data and places special emphasis on analyzing and interpreting the information that is currently available.

**Period of The Study:** Tata Motors Limited's five-year financial data was examined for the study.

### Tools For Data Collection

**Secondary Data:** Secondary data pertains to information that has previously been collected and is readily available from multiple other sources. These kinds of data may be available in circumstances where original data is totally unavailable, and they are also faster and less costly than primary data. An inappropriate funding structure can ruin a well-run corporation. This is because a business with excessive debt will have to pay a lot of interest.

### Limitations of The Study

1. A firm may find itself in a position where it has a big excess of money if promoters make a mistake while assessing the company's financial needs.

- This research is limited to the years 2020–24 because it makes use of secondary data collected from earlier sources.

### Trend Analysis

Current Assets			Current Liabilities		Working Capital	
Year	Amount	Trend%	Amount	Trend%	Amount	Trend%
2019-20	13538.55	<b>100</b>	18871.06	<b>100</b>	-5332.51	<b>100</b>
2020-21	15648.38	<b>115.58</b>	22785.54	<b>120.74</b>	-7137.16	<b>133.84</b>
2021-22	15468.84	<b>114.25</b>	21214.65	<b>112.41</b>	-5745.81	<b>107.75</b>
2022-23	16270.92	<b>120.17</b>	23304.35	<b>123.48</b>	-7033.43	<b>131.90</b>
2023-24	17936.93	<b>132.47</b>	27134.42	<b>143.77</b>	-9197.49	<b>172.48</b>

### Interpretation

Working capital, current liabilities, and current assets all had percentages above 100% in 2019–20. The working capital trend percentage in 2023–2024 was normal at 172.48, while the current assets and current liabilities were normal at 132.47 and 143.77, respectively.

### Growth Opportunities

Years	Net Worth
2019-20	21162.61
2020-21	20170.98
2021-22	22162.52
2022-23	18387.65
2023-24	19055.97

$$= \left( \frac{19055.97}{21162.61} \right)^{\left( \frac{1}{5} \right)} - 1 = -0.82$$

### Interpretation

The researcher concluded from the aforementioned analysis that the compound annual growth rate from 2020 to 2024 is -0.82.

### Suggestions

It is recommended that the business further lower its debt capital in order to boost shareholder earnings per share. Since increased operating and financial leverage indicate a higher overall risk to the company, it is advised that the combined leverage be very high. Reducing financial leverage may be one way to achieve this. Since a drop in net sales is advised, action must be done to boost sales turnover. In order to decrease interest payments and consequently lower the total cost of capital, it is advisable for the company to secure a greater number of unsecured loans compared to secured loans.

### Conclusion

Through capital structure management, the company's current study aims to analyze the limited's financial situation. By looking at the study, we can see that it was conducted between 2020 and 2024 and that the capitalization leverage financial structure is used to observe the company's success. The business is in a position to meet its current commitments. We can advise the business to raise current liabilities in comparison to the prior year in order to restore profitability to former levels.



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