Findings, Suggestions and Conclusion
CHAPTER V

SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION

The findings from the study are presented in a proper sequence appropriately presenting various determinants of capital structure. Keeping in mind the scope of the study suggestions are made. The conclusion derived after analyzing the data are presented at the end of the chapter. The following findings are extracted from analysis of the present study:

FINDINGS OF THE STUDY

SUMMARY STATISTICS

❖ The mean total borrowing ranges in small companies between Rs.2.42 to 968.08 crores with a mean of Rs.132.821 crores and a coefficient of variation 226.96 %. The companies on an average annually had a negative growth at 5.17 %.
❖ The mean total borrowing ranges in medium companies between Rs. 14.14 to 249.81 crores with a mean of Rs. 92.10818 crores and a coefficient of variation 69.654 %. The companies on an average annually had a negative growth at 1.70 %.
❖ The mean total borrowing ranges in large companies between Rs. 37.44 to 1821.72 crores with a mean of Rs. 446.3691 crores and a coefficient of variation 135.95 % during the period. The companies on an average annually had a growth at 13.37 %,
❖ The mean net fixed assets range in small companies between Rs. 2.24 to 463.15 crores with a mean of Rs. 56.635 crores and a coefficient of variation 252.58 %. The companies on an average annually had a growth at 2.10 %.
❖ The mean net fixed assets range in medium companies between Rs. 21.29 to 109.76 crores with a mean of Rs. 58.00727 crores and a coefficient of variation 50.761 %. The companies on an average annually had a negative growth at 4.83 %.
❖ The mean net fixed assets range in large companies between Rs. 19.62 to 1334.58 crores with a mean of Rs. 409.7036 crores and a coefficient of variation 112.37% during the period of study. The companies on an average annually had a growth at 1.96%.
❖ The mean liquidity ranges in small companies between Rs. 0.28 to 4.18 crores with a mean of Rs. 1.894 crores and a coefficient of variation 83.09%. The companies on an average annually had a negative growth 2.73%.

❖ The mean liquidity ranges in medium companies between Rs. 0.46 to 2.75 crores with a mean of Rs. 1.626364 crores and a coefficient of variation 47.551%. The companies on an average annually had a negative growth 7.22%.

❖ The mean liquidity ranges in large companies between Rs. 0.59 to 11.93 crores with a mean of Rs. 3.674545 crores and a coefficient of variation 110.68% during the period of study. The production on an average annually had a growth at 13.04%.

❖ The mean liquid asset ranges in small companies between Rs. 1.56 to 182.16 crores with a mean of Rs. 26.744 crores and a coefficient of variation 207.8%. The companies on an average annually had a negative growth of 3.11%.

❖ The mean liquid asset ranges in medium companies between Rs. 11.5 to 40.97 crores with a mean of Rs. 27.97273 crores and a coefficient of variation 40.457%. The companies on an average annually had a negative growth of 6.76%.

❖ The mean liquid asset ranges in large companies between Rs. 41.19 to 858.07 crores with a mean of Rs. 198.9345 crores and a coefficient of variation 114.54% during the period of study. The companies on an average annually had a negative growth of 2.27%.

❖ The mean capital employed ranges in small companies between Rs. -165.1 to 17.14 crores with a mean of Rs. -24.453 crores and a coefficient of variation -284%.

❖ The mean capital employed ranges in medium companies between Rs. 21.13 to 110.56 crores with a mean of Rs. 45.84455 crores and a coefficient of variation 52.749%. The companies on an average annually had a growth of 2.01%.

❖ The mean capital employed ranges in large companies between Rs. 115.57 to 1417.85 crores with a mean of Rs. -417.7818 crores and a coefficient of variation 90.639% during the period of study. The companies on an average annually had a negative growth of -6.93%.
The mean investments range in small companies between Rs. 0 to 4.85 crores with a mean of Rs. 1.311 crores and a coefficient of variation 124.53%.

The mean investments range in medium companies between Rs. 0 to 15.6 crores with a mean of Rs. 3.939091 crores and a coefficient of variation 148.95%.

The mean investments range in large companies between Rs. 2.53 to 195.52 crores with a mean of Rs. 61.45818 crores and a coefficient of variation 98.244% during the study. The companies on an average annually had a growth at 3.33%.

The mean inventory ranges in small companies between Rs. 0.74 to 47.87 crores with a mean of Rs. 10.004 crores and a coefficient of variation 137.33%. The companies on an average annually had a negative growth of 14.54%.

The mean inventory ranges in medium companies between Rs. 7.15 to 47.87 crores with a mean of Rs. 25.326 crores and a coefficient of variation 54.706%. The companies on an average annually had a negative growth of 10.73%.

The mean inventory ranges in large companies between Rs. 19.75 to 275.13 crores with a mean of Rs. 106.845 crores and a coefficient of variation 85.568% during the period of study. The companies on an average annually had a growth of 7.22%.

The mean current asset ranges in small companies between Rs. 2.33 to 261.5 crores with a mean of Rs. 39.893 crores and a coefficient of variation 197.44%. The companies on an average annually had a negative growth of 5.37%.

The mean current asset ranges in medium companies between Rs. 18.65 to 88.84 crores with a mean of Rs. 53.301 crores and a coefficient of variation 42.08%. The companies on an average annually had a negative growth of 9.08%.

The mean current asset ranges in large companies between Rs. 80.97 to 1117.82 crores with a mean of Rs. 302.22 crores and a coefficient of variation 97.77% during the period of study. The companies on an average annually had a growth of 1.56%.
❖ The mean equity ranges in small companies between Rs. 0.78 to 79.91 crores with a mean of Rs. 11.568 crores and a coefficient of variation 209.61%. The companies on an average annually had a negative growth at 1.64%.

❖ The mean equity ranges in medium companies between Rs. 1.61 to 58.22 crores with a mean of Rs. 19.81636 crores and a coefficient of variation 110.08%. The companies on an average annually had a growth at 2.05%.

❖ The mean equity ranges in large companies between Rs. 7.59 to 182.17 crores with a mean of Rs. 54.03 crores and a coefficient of variation 108.79% during the period of study. The companies on an average annually had a growth at 6.64%.

❖ The mean debt ranges in small companies between Rs. 1.93 to 769 crores with a mean of Rs. 103.581 crores and a coefficient of variation 233.42%. The companies on an average annually had a growth at 3.66%.

❖ The mean debt ranges in medium companies between Rs. 5.73 to 152.98 crores with a mean of Rs. 67.30818 crores and a coefficient of variation 59.318%. The companies on an average annually had a growth at -7.31%.

❖ The mean debt ranges in large companies between Rs. 4.47 to 1539.51 crores with a mean of Rs. 345.6509 crores and a coefficient of variation 142.48% during the period of study. The companies on an average annually had a growth at 6.00%.

❖ The mean trading on equity ranges small companies between Rs.-6.18 to 31.42 crores with a mean of Rs.4.667 crores and a coefficient of variation 216.67%.

❖ The mean trading on equity ranges medium companies between Rs-1.5 to 11.55 crores with a mean of Rs. 2.475455 crores and a coefficient of variation 142.8%.

❖ The mean trading on equity ranges large companies between Rs-30.14 to 9.21 crores with a mean of Rs. -0.43818 crores and a coefficient of variation -2612% during the period of study.

❖ The mean interest coverage ranges in small companies between Rs. -8.23 to 5.05 crores with a mean of Rs. 0.39 crores and a coefficient of variation 901.72%.
❖ The mean interest coverage ranges in medium companies between Rs. 0.29 to 113.04 crores with a mean of Rs. 11.81182 crores and a coefficient of variation 284.48%. The companies on an average annually had a growth at 36.21%.

❖ The mean interest coverage ranges in large companies between Rs. 0.57 to 525.08 crores with a mean of Rs. 50.16818 crores and a coefficient of variation 313.99% during the period of study. The companies on an average annually had a negative growth at 5.93%.

❖ The mean in expenditure on interest ranges in small companies between Rs. -40.76 to 0.2 crores with a mean of Rs. -4.02 crores and a coefficient of variation -321.1%.

❖ The mean in expenditure on interest ranges in medium companies between Rs. 0.01 to 0.21 crores with a mean of Rs. -0.079091 crores and a coefficient of variation 70.727%. The companies on an average annually had a negative growth at 5.16%.

❖ The mean in expenditure on interest ranges in large companies between Rs. 0.01 to 27.78 crores with a mean of Rs. 4.624545 crores and a coefficient of variation -220.91% during the period of study. The companies on an average annually had a negative growth at 17.93%.

❖ The mean pbit ranges in small companies between Rs. -34.414 to 4.381 crores with a mean of Rs. -3.8024 crores and a coefficient of variation -304.5%.

❖ The mean pbit ranges in medium companies between Rs. -1.712 to 19.935 crores with a mean of Rs. 7.299545 crores and a coefficient of variation 88.097%.

❖ The mean PBIT ranges in large companies between Rs. -8.682 to 161.8 crores with a mean of Rs. 58.13 crores and a coefficient of variation 97.842% during the period of study. The companies on an average annually had a growth at 3.24%.

❖ The mean sales range in small companies between Rs. -0.01 to 625.59 crores with a mean of Rs. 85.341 crores and a coefficient of variation 224.5%. The companies on an average annually had a negative growth at 5.22%.
The mean sales range in medium companies between Rs. 49.04 to 153.52 crores with a mean of Rs. 112.6018 crores and a coefficient of variation 30.964%. The companies on an average annually had a negative growth at 7.76%.

The mean sales range in large companies between Rs. 171.53 to 1212.61 crores with a mean of Rs.477.32 crores and a coefficient of variation 75.65% during the period of study. The companies on an average annually had a negative growth at 9.30%.

The mean PAT ranges in small companies between Rs. -59.23 to 2.164 crores with a mean of Rs.-9.76884 crores and a coefficient of variation -209.1%.

The mean PAT ranges in medium companies between Rs. -21.069 to 7.879 crores with a mean of Rs.-1.47136 crores and a coefficient of variation -649.2%.

The mean PAT ranges in large companies between Rs. -3.179 to 37.94 crores with a mean of Rs.13.57609 crores and a coefficient of variation 94.82% during the period of study.

The mean in operating profit ranges in small companies between Rs. -0.798 to 30.455 crores with a mean of Rs. 4.6496 crores and a coefficient of variation 200.38%.

The mean in operating profit ranges in medium companies between Rs. 4.305 to 27.097 crores with a mean of Rs. 12.68588 crores and a coefficient of variation 55.108%. The companies on an average annually had a negative growth at 13.4%.

The mean in operating profit ranges in large companies between Rs. 15.053 to 268.5223 crores with a mean of Rs. 89.06164 crores and a coefficient of variation 102.19% during the period of study. The companies on an average annually had a growth at 6.05%.

The mean dividend ranges in small companies between Rs.0 to 0.25 crores with a mean of Rs. 0.068 crores and a coefficient of variation 135.1%.

The mean dividend ranges in medium companies between Rs.0 to 0.85 crores with a mean of Rs. 0.424545 crores and a coefficient of variation 71.183%.
The mean dividend ranges in large companies between Rs. 0.48 to 15.49 crores with a mean of Rs. 5.896364 crores and a coefficient of variation 93.255% during the period of study. The companies on an average annually had a negative growth at 2.01%.

TREND ANALYSIS

- The cubic trend equation in total borrowings of small companies indicate negative trend, the medium companies indicate negative trend and the large companies indicates positive trend in the future.

- The cubic trend equation in fixed assets of small companies indicate positive trend, the medium companies indicates negative trend and the large companies indicates positive trend in the future.

- The cubic trend equation in liquidity of small companies, As well as medium companies indicate negative trend and large companies indicate positive trend.

- The cubic trend equation in liquid assets of small companies as well as medium companies indicates negative trend and also the large companies indicate negative trend in the future.

- The cubic trend equation in capital employed of small companies as well as medium companies indicate positive trend and the large companies indicate negative trend in the future.

- The cubic trend equation in investments of small companies as well as medium companies indicate positive trend and the large companies indicates positive trend in the future.

- The cubic trend equation in inventory of small companies as well as medium companies indicate negative trend and the large companies indicate positive trend in the future.

- The cubic trend equation in current assets of small companies as well as medium companies indicate negative trend and the large companies indicates positive trend in the future.
The cubic trend equation in equity of small companies indicate negative trend, the medium companies indicate positive trend and the large companies indicates positive trend in the future.

The cubic trend equation in debts of small companies indicate positive trend, medium companies indicate negative trend and the large companies indicate positive trend in the future.

The cubic trend equation in trading on equity of small companies as well as medium and the large companies indicate positive trend in the future.

The cubic trend equation in interest coverage of small companies as well as medium companies indicate positive trend, and the large companies indicate negative trend in the future.

The cubic trend equation in expenditure on interest of small companies indicate positive trend, medium and the large companies indicate negative trend in the future.

The cubic trend equation in PBIT of small companies indicate positive trend, the medium and the large companies indicates positive trend in the future.

The cubic trend equation in sales of small companies indicate negative trend, the medium companies indicate negative trend and the large companies indicate positive trend in the future.

The cubic trend equation in PAT of small companies indicate positive trend, the medium and the large companies indicates positive trend in the future.

The cubic trend equation in operative profit of small companies indicate positive trend, the medium companies indicate negative trend and the large companies indicate positive trend in the future.

The cubic trend equation in dividend of small companies as well as medium companies indicate positive trend and the large companies indicate negative trend in the future.
REGRESSION ANALYSIS

❖ The multiple regression models for small companies indicated that out of the 14 (R11-R27) explanatory variables, 3 variables namely, (V13, V5 and V18) Expenditure on interest, Dividend, Capital employed have significantly contributing to PBIT(Y). The analysis of variance of multiple regression models for Y indicates the over all significance of the model fitted. The coefficient of determination $R^2$ value showed that these variables put together explained the variations of Y to the extent of 99.6 %.

❖ The multiple regression models for medium companies indicated that out of the 14 (R11-R27) explanatory variables, 2 variables namely, (V17 and V13) Operating profit, Expenditure on interest have significantly contributing to PBIT(Y). The analysis of variance of multiple regression models for Y indicates the over all significance of the model fitted. The coefficient of determination $R^2$ value showed that these variables put together explained the variations of Y to the extent of 93.7 %.

❖ The multiple regression models for large companies indicated that out of the 14 (R11-R27) explanatory variables, 3 variables namely, (V17, V1 and V18) Operating profit, Total borrowings and Dividend have significantly contributing to PBIT(Y). The analysis of variance of multiple regression models for Y indicates the over all significance of the model fitted. The coefficient of determination $R^2$ value showed that these variables put together explained the variations of Y to the extent of 99.9 %.

FACTOR ANALYSIS

❖ The factor analysis of small companies condensed and simplified the 18 variables and grouped into 3 factors explaining 90.242 % of the variability of all the 18 variables.

❖ The factor analysis of medium companies condensed and simplified the 18 variables and grouped into 3 factors explaining 89.333 % of the variability of all the 18 variables.
The factor analysis of large companies condensed and simplified the 18 variables and grouped into 3 factors explaining 89.583% of the variability of all the 18 variables.

**DISCRIMINENT FUNCTION ANALYSIS**

- The variable X8-Current assets is substantially important variable in differentiating between the two groups namely small companies with lower and small companies with higher PAT.
- The variable X11-profitability is substantially important variable in differentiating between the two groups namely medium companies with lower and medium companies with higher PAT.
- The two variable X4-liquid assets and X5-Capital employed are substantially important variable in differentiating between the two groups namely large companies with lower and large companies with higher PAT.
- There is significant difference in the mean values of all financial parameters except LIQUIDIT, DEBTS, TRADING, INTCOVER and EXPONINT among different groups of the companies.

**ANOVA**

There is a significant difference at 1% level in the mean values except in liquidity, debts, trading on equity, interest coverage and expenditure on interest. So null hypothesis is accepted for the above variables.

**FRIEDMAN'S NON-PARAMETRIC TEST**

Friedman’s Non-parametric test indicated that there is no significant difference in mean rank of debt equity ratio during the study period among the small, medium and large companies. There existed an inverse relationship between the debt equity ratio and capital employed due to greater extent of debt in the capital and vice versa.
CORRELATION AND PATH ANALYSIS

It is seen that the correlation between all the explanatory variables for small companies are highly significant and positive. Further it is also seen that all these explanatory variables are significantly and positively correlated with the dependent variable X16(PAT).

It is seen that among the four explanatory variables, three explanatory variables namely (X8, X9 and x15) Current Assets, Total Debts and Sales had higher positive direct effect on the dependent variable (X16)PAT. (X8) Current Assets had higher positive indirect effect on PAT through Total Debts and Sales. Similarly Total Debts had higher positive effect on Current Assets through Sales. Similarly Sales had higher positive effect on PAT through Current Assets and Total Debts. Hence the three explanatory variables Current Assets, Total Debts and Sales (X8, X9 and X15) are substantially important contributing variable to PAT(X16).

It is seen that the correlation between all the explanatory variables for medium companies, except (X5) Capital employed with (X1 and X2) Total borrowings and Net Fixed Assets are highly significant and positive. Further it is also seen that all these explanatory variables are significantly and positively correlated with the dependent variable PAT(X16).

It is seen that among the four explanatory variables, two explanatory variables namely (X5 and x10) Capital Employed and Trading on equity, had higher positive direct effect on the dependent variable PAT(X16). X5- Capital Employed had higher positive indirect effect on X16-PAT through X10-Trading on equity. Similarly X10- Trading on equity had higher positive indirect effect on X16- PAT through X5-Capital Employed. Hence the two explanatory variables X5-Capital Employed, and X10 -Trading on equity are substantially important contributing variable to X16-PAT.

It is seen that the correlation between all the explanatory variables are highly significant and positive. Further it is also seen that all these explanatory variables are significantly and positively correlated with the dependent variable X16-PAT.
It is seen that among the four explanatory variables, three explanatory variables namely $(X_2, X_5$ and $x_{15})$ Net fixed assets, Capital employed and Sales, had higher positive direct effect on the dependent variable $X_{16}$. $X_2$-Net fixed assets had higher positive indirect effect on $X_{16}$ through $X_5$-Capital employed. Similarly $X_5$-Capital employed had higher positive effect on $X_{16}$ through $X_2$ and $X_{15}$. Hence the two explanatory variables $X_2$, and $X_5$- Net fixed assets and Capital employed are substantially important contributing variable to $X_{16}$.

**SUGGESTIONS:**

From the findings derived from the above study with the help of various tools applied, such that summary statistics, trend, anova, regression, correlation and path analysis, factor analysis, discriminent function analysis,

1. It is suggested that the companies before fixing the criteria for capital structure, should examine critically the assumptions underlying the firm's financial policies.
2. Persuade finance officers to ensure that financial policies subserve corporate strategy.
3. Invoice operating managers in financial policy discussions.
4. Present financial policies from becoming corporate goals.
5. To mitigate potential agency costs
6. Resort to timing judiciously
   - Avoid being dominated by other’s advice
   - Relay on long term market relationship.
   - Emphasize timing when inside information suggests that the stock is mispriced.
   - Finance proactively rather than reactively.
   - Issue innovative securities.
   - Wide the range of financing sources.

Firms which have articulated their capital structure policy seem to follow one of the following five policies.

Policy A : No debt should be used in any circumstances.

Policy B : Debt should be employed to a very limited extent.
Policy C: The ratio of debt to equity should be maintained around 1:1

Policy D: The ratio of debt to equity should be kept within 2:1

Policy E: Debt to be tapped to the extent it is available.

SEBI Guidelines:

Where there is no restriction on the kind of financial instruments the issue of capital shall make adequate disclosure about the characteristics of the instrument.

A new setup by entrepreneurs without a track record is permitted to issue capital to public only as par.

Fully convertible debentures having a conversion period of more than 36 months must have put and call options.

To equity capital to be subscribed in any issue to the public, by promoters should not be less than 25% of the total issue of equity capital for amounts up to Rs.100 crores and 20% of the issue for the amounts above Rs.100 crores.

Norms of the Financial Institution

Two Norms are:

1. The general debt – equity norm for medium and large scale projects is 1:5:1

2. The promoters are required to contribute a minimum of 20 – 25% of the cost of project and is to be found with the help of following formula.

Find the relationship between EBIT & EPS is

\[
EPS = \frac{(EBIT - I)(1-t)}{n}
\]

EBIT indifference point between alternative financing plans can be obtained by solving the following equation for EBIT

\[
\frac{(EBIT* - I_1)(1-t)}{n_1} = \frac{(EBIT* - I_2)(1-t)}{n_2}
\]
The influence of ROI and financial leverage on ROE is as follows

\[ \text{ROE} = (\text{ROI} + (\text{ROI} - r \times D/E)) (1 - t) \]

From the above analysis it is found and suggested that the company’s safety level is kept according to the below suggestions:

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| Rights issue of equity stock | 1. No dilution of control.  
2. No financial risk | 1. Severe limits on the financing ability of firm.  
2. Higher cost. |
| Debt finance            | 1. No dilution of control.  
2. Lower cost. | Financial risk |
2. Higher cost. |

Practically it is found that the Determination of capital structure are

- Concern for dilution of control
- Desire to maintain operating flexibility.
- Case of marketing capital inexpensively.
- Capacity for economics of scale.
- Agency costs.

**CONCLUSION**

From the above analysis, it is concluded that size, borrowings, liquidity, debt, trading on equity, interest coverage, expenses on interest do not matter in the determination of Capital Structure of Indian textile Industries. Where as, time, tangibility, net fixed assets, Capital employed, Investment, Inventory, current Assets, equity, PBIT, Sales’ PAT, Operating profit, dividend, control and flexibility are significantly contributing in determining capital structure so as to raise capital of Indian textile Industries. However the advantage of debt is that it saves taxes since interest is a deductible expenses on the other hand, its disadvantage is that it can cause financial distress. Therefore capital structure decision of the firm in practice should be governed by trade off between tax advantages and cost of financial distress.