Chapter III
3.1 Introduction

No area of financial management has commended as much attention as capital structure management as it plays a significant role in the success of a firm. The term financial structure refers to 'total liabilities' appearing on the left hand side of the Balance Sheet. It consists of i) Equity ii) Long-term Debt and iii) Current liabilities. That part of the financial structure which represents long-term sources is known as Capital Structure. Capital Structure is the mix of long-term sources of funds such as debentures, long-term debt, preference share capital and equity capital including reserves and surplus (i.e., retained earnings). It is the permanent financing of a firm, represented primarily by long-term debt and net worth. It excludes all short-term credit or current capital. Some of the authoritative definitions are as follows:

"A firm's capital structure is the relation between the debt and equity securities that make up the firm's financing of its assets."\(^{12}\)

"Capital structure includes all long-term obligations and equity, that is only items of permanent capital."\(^{13}\)


"Capital structure represents the mix of securities that it has sold in order to finance its asset acquisitions."\textsuperscript{14}

"Capital structure can be properly defined as that combination of debt and equity that attains the stated managerial goals, in our case, the maximization of the firm's market value."\textsuperscript{15}

Capital structure, therefore, is composed of owned funds and borrowed funds. Owned funds include Share capital and free reserves and surplus and borrowed funds represent debenture loan and long-term loan provided by term-financing institution. In this chapter, the term Capital structure has been used to interpret as long-term sources of funds.

\subsection*{3.2 Optimum Capital Structure}

Capital structure plays an important role in the management of funds which is very essential for the success of a firm. Firms with unplanned Capital structure can prosper in the short run but face difficulties in raising additional funds and increasing the value of the business in the long run.

As such, the finance manager should plan an optimal capital structure for his company. Optimal capital structure is obtained when the market value per share is maximum or average cost of capital is minimum. The value will be minimized when the marginal real cost of each source of funds is the same. The


\textsuperscript{15} Ibid., P. 866
optimum capital structure strikes a balance between risks and returns and therefore maximises the value of the firm. Some of the authoritative definitions are as follows:

"In the optimum capital structure the marginal real cost of each available method of financing is the same."  

"An optimal capital structure, by properly accounting for the effects of risk, leverage income, control and other relevant factors will minimize the over-all cost of capital to the firm and provide a correct cut off value for investment decisions."  

"The optimal capital structure is also defined as that combination of debt and equity that minimizes the firm's cost of capital."

Optimum capital structure thus is that capital structure or combination of debt and equity which leads to the maximum value of the enterprises. The optimum capital structure and its implications have been expressed by Ezra Solomon in the following words:

"Optimum leverage can be defined as that mix of debt and equity which will maximise the market value of company, i.e., the

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aggregate value of the claims and ownership interests represented on the credit side of the Balance Sheet. Further, the advantages of having an optimum financial structure, if such an optimum does exist, is two fold: it maximises the value of the company and hence, the wealth of its owners: it minimises the company's cost of capital which in turn increases its ability to find new wealth-creating investment opportunities. Also by increasing the firm's opportunities to engage in future wealth-creating investment, it increases the economy's rate of investment and growth.\textsuperscript{19}

According to Wilson, "the proper balance of share capital and debt capital will tend to be determined by:

the company's growth rate;

the stability of sales

the competitive structure of the industry

the company's asset structure

lenders' attitude towards the company and its industry

the control position of the owners and management and attitudes towards risk."\textsuperscript{20}
3.3 Basic Tools of Capital Structure Management

One of the major policy decisions in the capital structure Planning is the determination of appropriate level of debt. It involves how much long-term Debt and Equity can be used in the case of firms having access to Capital markets and how much debt can be used in the case of firms having no access to capital markets. In order to arrive at a reasonably satisfactory capital structure, the following tools will be helpful.

3.3.1. EBIT- EPS Analysis

This analysis is helpful to inter alia understand the relationship between Earnings per share (EPS) and Earnings Before Interest and Taxes (EBIT) so as to select an appropriate capital structure. In other words it explains us how sensitive is EPS to changes in EBIT under different financial alternatives.

Management generally wants to maximize EPS to achieve the objectives of financial management of owners' wealth as represented by the value of business if the level of EBIT increases, EPS will also increases. If EBIT is low, from the point of EPS, then Equity financing is more favorable than Debt financing. On the other hand, when the level of EBIT is high, from the point of EPS, then Debt financing is more favorable than equity financing.
Break Even EBIT-EPS Chart

With the help of Graphic analysis, the Break-Even EBIT for alternative financial plans under the same EPs can be found out. If the EBIT is below the Break Even EBIT, the Equity financing is preferable to debt financing. If the EBIT is more than the Break-Even EBIT, Debt financing is preferable to Equity financing.

3.3.2. Assessment of Debt Capacity

Employment of debt capital involves obligations on the part of the firm to, pay interest regularly and repay the principal amount on the due date. It becomes necessary to assess the firms’ ability to meet these commitments while planning its capital structure. If a firm borrows more than its debt capacity, there is the risk of bankruptcy. This assessment can be done with the help of coverage ratios and inventory of resources.

3.3.3 Explaining Financing Choices

Two theories namely trade-off theory and pecking order Theory explain real-world corporate financing behavior which can be useful to the finance manager in arriving at an appropriate financing decision.

• Trade Off Theory

According to the trade off theory, profitable firms with stable, tangible assets would have higher- debt -equity ratios. On the other
hand, unprofitable firms with risky, intangible assets tend to have lower-debt-equity ratio.

This theory, however, does not explain why some profitable companies depend so little on debt. They pay large amounts by way of income tax which they can possibly save by issuing debt without causing any concern about their solvency.

- Pecking Order Theory

This theory explains why profitable firms use little debt. According to this theory there is a pecking order of financing which goes as follows:

- Internal finance (retained earnings)
- Debt finance
- External Equity finance

A firm first uses retained earnings. Its primary attraction is that it comes out of profit and not much effort is required to get it.

Profitable firms generally have more retained earnings than less profitable firms. So when the financing need of profitable firms exceeds the level of retained earnings, it will use a little debt. On the other hand, less profitable firms use more debt because their financing needs exceed the level of retained earnings (as they have less retained earnings) and debt finance comes next in the pecking order.
3.4 Factors Determining Capital Structure

Capital Structure decision is a complex decision so that several factors will have to be considered before taking such a decision.

- **Minimisation of Risk:** Capital Structure must be planned keeping in view the risk since it has a direct relation with value. Risk may be considered for two reasons: a) the capital structure must be consistent with the business risk and b) the capital structure results in a certain load of financial risk.

  Business risk refers to the variability of earnings before interest and taxes. Firms with high business risk, therefore, tend toward less leverage capital structure and vice-a-versa. Financial risk refers to the risk arising from the use of financial leverage. The excessive use of debt financing should be avoided in the case of the firm with high financial risk and vice-a-versa. A capital structure may be called an efficient capital structure if it keeps the total risk of the firm to the minimum level.

- **Control:** The ultimate decision-making process of the firm lies in the hands of equity shareholders. The desire of the management regarding the control over the firm must be considered before raising additional capital for the firm. A management concerned about control may prefer the issue of debt rather than equity.
share to raise funds. If the management is prepared for the dilution of control, it may go for the equity capital. A capital structure of a firm, therefore, should be reflected in the management's philosophy of control over the firm.

- **Flexibility:** The flexibility of a capital structure refers to the ability of the firm to raise additional capital funds to meet the requirements of the changing situations. More precisely, flexibility means that a capital structure should always have an untapped borrowing powers which can be used in conditions which may arise any time in future due to uncertainty of capital market, Government policies etc.

- **Timing of Security Issue:** The finance manager will have to consider the timing of security issue to finance investments by issuing debentures, preference shares or ordinary shares. If the company's share price is currently at a low level, the finance manager may consider it an appropriate time to make a new issue of shares. In addition, if the company is currently unable to sell an issue of debentures, because of the borrowings restrictions, it may be forced to enter into a lease agreement even though this may not be the lowest cost method of financing.
3.5 Capital Structure Management of NRB Bearings Company Limited

The capital structure and the total financing of NRB Bearings company Limited can be analysed from the point of view of (a) Duration of time and (b) Trading on Equity or Leverage position.

3.5.1. Duration of Time: It refers to here the length of period for which the funds are needed. As a matter of fact an enterprise needs funds for financing long-term, medium-term and short-term requirements.

- Long-term sources of finance is defined as that category of finance which is not due for repayment within one year. The period will vary from one industry to another. It is generally raised for a minimum period of ten years. Such type of finance is used for investment in fixed assets such as land, buildings, plants, machinery, furniture, fixtures etc. The major forms of long-term finance are:
  - Equity Shares
  - Preference Shares
  - Loans
  - Debentures
  - Lease
• Medium-Term/Intermediate-term finance is that category of finance which is due for repayment for a period more than one year but less than ten years. Such type of finance is required for investment in permanent working capital and for repayment of assets.

• Short-term source of finance is one, which is due for repayment within a period of one year. Such type of finance is for investment in current assets. The major forms of short-term are public deposits, trade credit and commercial banks and so represented by current liabilities and provisions.

A business firm can raise these funds from two main sources:
  • Owned funds
  • Borrowed funds.

Owned funds refer to the funds provided by the owners. NRB Bearings Company Limited has the owned funds consisting of Equity Share Capital and Reserves and surplus. It has not issued preference shares. Borrowed funds refers to the borrowings of a company. It consists of long-term as well as short-term funds. The long-term funds of NRB consists of secured loan and unsecured loan. It has not issued debentures. The short-term funds of NRB Bearings Company Limited consist of current liabilities (Trade) and provisions. An analysis of capital structure and total financial position of NRB Bearings Company Limited is as follows:
<table>
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<tr>
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<td>Rs. In l</td>
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<td>Share Holder’s Fu</td>
<td>842.03</td>
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<td>969.23</td>
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<td>Reserves and Surp</td>
<td>1092.66</td>
<td>1619.93</td>
<td>3939.66</td>
<td>5374.07</td>
<td>6123.60</td>
<td>6460.10</td>
<td>7217.94</td>
<td>7622.04</td>
<td>7240.93</td>
<td>7887.76</td>
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<td>lus</td>
<td>(17.71)</td>
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<td>(47.70)</td>
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<td></td>
<td>1934.69</td>
<td>2461.96</td>
<td>4908.89</td>
<td>6343.3</td>
<td>7092.83</td>
<td>7429.33</td>
<td>8187.17</td>
<td>8591.27</td>
<td>8210.16</td>
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<td>(31.36)</td>
<td>(28.22)</td>
<td>(52.73)</td>
<td>(53.44)</td>
<td>(52.83)</td>
<td>(56.13)</td>
<td>(55.03)</td>
<td>(52.49)</td>
<td>(54.08)</td>
<td>(56.03)</td>
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<td>Long-Term Loan (B)</td>
<td>2486.45</td>
<td>2781.96</td>
<td>2222.90</td>
<td>2182.69</td>
<td>2844.65</td>
<td>2001.80</td>
<td>1352.54</td>
<td>2775.28</td>
<td>2142.52</td>
<td>550.00</td>
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<td>Un Secured</td>
<td>652.37</td>
<td>725.04</td>
<td>398.84</td>
<td>918.15</td>
<td>1180.86</td>
<td>1478.98</td>
<td>2584.33</td>
<td>2466.52</td>
<td>1832.48</td>
<td>2722.99</td>
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<tr>
<td></td>
<td>(10.57)</td>
<td>(8.30)</td>
<td>(4.28)</td>
<td>(7.71)</td>
<td>(8.79)</td>
<td>(11.17)</td>
<td>(17.37)</td>
<td>(15.07)</td>
<td>(12.07)</td>
<td>(17.31)</td>
</tr>
<tr>
<td>Total Long-Term</td>
<td>3138.82</td>
<td>3507.00</td>
<td>2621.74</td>
<td>3100.84</td>
<td>4025.51</td>
<td>3480.78</td>
<td>3936.87</td>
<td>5241.80</td>
<td>3975.00</td>
<td>3272.99</td>
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</tr>
<tr>
<td>Total Long-Term: C Funds (A + B)</td>
<td>5073.51 (82.23)</td>
<td>5968.96 (68.43)</td>
<td>7530.63 (80.89)</td>
<td>9444.14 (79.56)</td>
<td>11183.34 (82.81)</td>
<td>10910.11 (82.43)</td>
<td>12124.04 (81.49)</td>
<td>13833.07 (84.52)</td>
<td>12185.16 (80.27)</td>
<td>12129.98 (77.10)</td>
</tr>
<tr>
<td>Short-Term Loan (D): Current Liabilities</td>
<td>961.02 (15.58)</td>
<td>2656.64 (30.46)</td>
<td>1479.24 (15.86)</td>
<td>1940.31 (16.35)</td>
<td>1819.67 (13.55)</td>
<td>1839.63 (13.90)</td>
<td>2683.09 (18.03)</td>
<td>2021.91 (12.35)</td>
<td>2349.66 (15.48)</td>
<td>2718.04 (7.28)</td>
</tr>
<tr>
<td>Provisions</td>
<td>135.53 (2.20)</td>
<td>97.12 (1.11)</td>
<td>300.47 (3.23)</td>
<td>486.41 (4.10)</td>
<td>488.63 (3.64)</td>
<td>486.83 (3.68)</td>
<td>70.10 (0.47)</td>
<td>511.94 (3.13)</td>
<td>645.34 (4.25)</td>
<td>883.50 (5.62)</td>
</tr>
<tr>
<td>Total Short-Term Loan</td>
<td>1096.55 (17.78)</td>
<td>2753.76 (31.57)</td>
<td>1779.71 (19.11)</td>
<td>2426.72 (20.44)</td>
<td>2308.30 (17.19)</td>
<td>2326.46 (17.57)</td>
<td>2753.19 (18.51)</td>
<td>2533.85 (15.48)</td>
<td>2995.00 (19.73)</td>
<td>3601.54 (22.90)</td>
</tr>
<tr>
<td>Total Capital and Liabilities</td>
<td>6170.06 (100)</td>
<td>8722.72 (100)</td>
<td>9310.34 (100)</td>
<td>11870.86 (100)</td>
<td>13426.64 (100)</td>
<td>13236.57 (100)</td>
<td>14877.23 (100)</td>
<td>16366.92 (100)</td>
<td>15180.16 (100)</td>
<td>15731.52 (100)</td>
</tr>
</tbody>
</table>

**Source:** Compiled and computed from Annual Reports of NRB Bearings Company Limited.
Table 3.1 highlights the composition of capital structure and total financing of NRB Bearings Company Limited (common size statement) for the period 1993-1994 to 2002-2003.

The amount of Equity Share capital has increased from Rs.842.03 lakhs in 1993-94 to Rs.969-23 lakhs in 1995-96. Afterwards it remains constant during the period 1996-97 to 2002-2003, at Rs.969.23 lakhs under study. But its share in the total financial structure is showing a different position. It has been decreasing from 13.65 per cent in 1993-94 to 6.16 per cent in the year 2002-2003 except in the year 1995-96. In that year it was 10.41 per cent. This is due to an increase in the amount of other components like reserves and surplus and provision charged.

Reserves and surplus have been increasing at a great rate. They have increased from a figure of Rs.1092.66 lakhs in 1993-94 to Rs.7887.76 lakhs (6.22 times) in 2002-2003. The share of Reserves and Surplus in the total financial structure has been increasing from 17.71 per cent in 1993-94 to 50.14 per cent in 2002-2003.

The amount of Secured loan has declined significantly from Rs.2486.45 lakhs in 1993-94 to Rs.550.00 lakhs in 2002-2003. Its share in the total capital structure has also been decreased from 40.30 per cent in 1993-94 to 3.50 per cent in 2002-2003. The
secured loan has been substantially reduced by the company by paying them off.

The amount of unsecured loan has been increasing from a figure of Rs.652.37 lakhs in 1993-94 to Rs.2722.99 in 2002-2003 except in the year 1995-96 (Rs.398.84 lakhs). But its share in the total financing structure has been showing a fluctuating trend. It decreased from 10.57 per cent in 1993-94 to 4.28 per cent in 1995-96. Then it increased from 4.28 per cent in 1995-96 to 17.37 per cent in 1999-2000. It again decreased from 17.37 per cent in 1999-2000 to 12.07 per cent in 2001-2002. It now increased to 17.31 per cent in 2002-2003. This is a wise decision by the company to use debt proportionately to the equity so as to avail the advantage of trading on equity.

The amount of current liabilities and provisions have been increasing form Rs.1096.55 lakhs in 1993-94 to Rs.3601.54 lakhs in 2002-2003 except in the year 1995-96. In that year it was Rs.1779.71 lakhs. But its share in the total financing has been showing a fluctuating-trend-increasing, decreasing and then increasing. All over these years the current liabilities and provisions have increased from 17.73 per cent in 1993-94 to 22.90 per cent in 2002-2003.

As between the two components of long-term funds (Net worth and long-term debt), owners funds (Net worth), has
registered an increasing trend. It has increased from Rs.1934.69 lakhs in 1993-94 to Rs.8856.99 lakhs in 2002-2003. Its share in the total financial structure has also been increasing from 31.36 per cent in 1993-94 to 56.03 per cent in 2002-2003. The amount of long-term debt has been fluctuating, increasing from Rs.3138.82 lakhs in 1993-94 to Rs.3507.00 lakhs in 1994-95. Then it decreased to Rs.2621.74 lakhs in 1995-96. It again increased to Rs.3100.84 lakhs in 1996-97. It again increased to Rs.4025.51 lakhs in 1997-1998. It again decreased to Rs.3936.87 lakhs in 1999-2000. It again increased to Rs.5241.80 in 2000-2001. Then it again decreased to Rs.3272.99 in 2002-2003. Its share in the financial structure has been decreasing form 50.87 per cent in 1993-94 to 40.29 per cent in 1994-95 and afterwards, fluctuates slightly from 28.16 per cent in 1995-96 to 20.80 per cent in 2002-2003.

It is clear from the above analysis that the owned capital has dominated the long-term debt all over these years i.e., the NRB Bearings Company Limited depends more on internal equity than external equity. This is not only a positive signal to the capital structure of the company but also more importantly to the financial solvency of the concern.

The data presented in Table 3.1 have also been represented diagrammatically in Figure 3.1 and graphically in figure 3.2.
FIGURE 3.2
GRAPH SHOWING CAPITAL STRUCTURE AND TOTAL FINANCING

YEAR

SHAREHOLDER'S FUNDS
LONG-TERM LOAN
SHORT-TERM LOAN

CAPITAL STRUCTURE AND TOTAL FINANCING

(RS. IN LAKHS)
10000 9000 8000 7000 6000 5000 4000 3000 2000 1000

83(b)
3.5.2. Trading on Equity or Financial Leverage

Financial leverage refers to "the use of debt finance". It is also defined as "the ability of a company to use fixed financial charges to magnify the effects of changes in EBIT on the company's Earnings per share". Long-term debt permits the equity owner in a company to secure additional funds without taking in additional 'partners'.

Financial leverage is also known as Trading on Equity. Trading on Equity is defined as, "the process of magnifying the shareholders' return through the use of debt". If the borrowed funds yield greater returns to the company than their costs, the increment will fully accrue to the equity holders. In other words, if the ROI (Return on Investment) exceeds the rate of interest, a firm has favourable financial leverage and is in a position to pass some of this advantage to its equity shareholders by resorting to borrowings while, negative leverage occurs when the company does not earn as much as borrowed funds cost.

Now in order to have a deep insight and to judge the real position of capital structure of NRB Bearings Company Limited, Ratio Analysis has become a powerful tool. Capital

structure/leverage ratios have been used to analyse the financial leverage for the present study:

- Debt-Equity Ratio.
- Debt-Assets Ratio.

**Debt-Equity Ratio**

This ratio express the relationship between Debt and Equity. Here Debt for our analysis refers to long-term debt since, this measure tells us the relative importance of long-term debt in the capital structure. Debt includes long-term loan and Debentures. Equity includes (i) Equity share capital ii) Reserves and surplus but excludes fictitious assets. This ratio is ascertained as follows:

\[
\text{Debt-Equity Ratio} = \frac{\text{Debt}}{\text{Equity}}
\]

A high debt-equity ratio (using long-term debt in the numerator) implies that a high proportion of long-term financing from Debt sources that is, the firm is using a great deal of financial leverage. Higher the ratio greater is the risk to the creditors and on the other hand a low ratio represents the high margin of safety or greater protection to the creditors. A ratio of 2:1 is generally accepted as an ideal one in a country like India, though there is no rigid rule to a Debt-Equity ratio and it depends upon the nature of the industry.

Table 3.2 exhibits the Debt-Assets Ratio of NRB Bearings Company Limited.
### TABLE 3.2

DEBT-EQUITY RATIO OF NRB BEARINGS COMPANY LIMITED

1993-94 TO 2002-2003

<table>
<thead>
<tr>
<th>Year</th>
<th>Debt (Long-Term) Rs. In Lakhs</th>
<th>Equity Rs. In Lakhs</th>
<th>Debt-Equity Ratio (in number of times)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-1994</td>
<td>3138.82</td>
<td>1934.69</td>
<td>1.62</td>
</tr>
<tr>
<td>1994-1995</td>
<td>3507.00</td>
<td>2461.96</td>
<td>1.42</td>
</tr>
<tr>
<td>1995-1996</td>
<td>2621.74</td>
<td>4908.89</td>
<td>0.53</td>
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<td>1996-1997</td>
<td>3100.84</td>
<td>6343.30</td>
<td>0.49</td>
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<tr>
<td>1997-1998</td>
<td>4025.51</td>
<td>7092.83</td>
<td>0.57</td>
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<tr>
<td>1998-1999</td>
<td>3480.78</td>
<td>7429.33</td>
<td>0.47</td>
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<tr>
<td>1999-2000</td>
<td>3936.87</td>
<td>8187.17</td>
<td>0.48</td>
</tr>
<tr>
<td>2000-2001</td>
<td>5241.80</td>
<td>8591.27</td>
<td>0.61</td>
</tr>
<tr>
<td>2001-2002</td>
<td>3975.00</td>
<td>8210.16</td>
<td>0.48</td>
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<tr>
<td>2002-2003</td>
<td>3272.99</td>
<td>8856.99</td>
<td>0.37</td>
</tr>
<tr>
<td>( \bar{x} )</td>
<td>-</td>
<td>-</td>
<td>0.70</td>
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</tbody>
</table>

Source: Compiled and Computed from Annual Reports of NRB Bearings Company Limited.

\( \bar{x} \) - stands for Arithmetic Mean.
From the above Table 3.2, it is clear that the Debt-Equity ratio of NRB Bearings Company Limited has been decreasing from 1.62 in 1993-1994 to 0.37 in 2002-2003 except in the year 1997-98, 2000-2001 with a mean figure of 0.70. In these years, it was 0.57, 0.61 respectively. The ratio has been much below 1 over all these years except in 1993-94 and in 1994-95. In these years it was above 1 but below 2. It reveals that there is a low debt-equity ratio as against the standard norm of 2:1 or 1:1. The main implications of this analysis are:

- There is high margin of safety or greater protection to the long-term creditors since the long-term solvency position of the company is very sound.

- But there is low financial leverage which may lead to decrease in the shareholders' return due to under utilization of debt as against the standard proportion.

The data regarding Debt-Equity ratio presented in Table 3.2 have also been represented diagrammatically in figure 3.3 and graphically in figure 3.4.
FIGURE 3.4
GRAPH SHOWING DEBT-EQUITY RATIO OF
NRB BEARINGS COMPANY LIMITED.
• **Debt to Total Capital Ratio:** This is another leverage ratio which establishes the relationship between total debts and total capital. This ratio is equivalent to the total debt to total Assets Ratio. This ratio measures the proportions of the firm's assets financed by creditors. This ratio is calculated as follows:

\[
\text{Debt to total Capital Ratio} = \frac{\text{Total Debt}}{\text{* Permanent Capital + Current Liabilities}}
\]

* Permanent Capital = Shareholders' Equity + Long-Term Debt.

The higher the debt to total capital ratio, the greater will be the risk to the total creditors and vice versa. However from the point of view of shareholders, a high Debt to total capital ratio implies that the firm is having a high degree of financial leverage. A ratio of 2:1 or 66.67 per cent : 33.33 per cent is generally accepted as an ideal ratio.

Table 3.3 exhibits the Debt-Total Capital ratio of NRB Bearings Company Limited.
TABLE 3.3

DEBT TO TOTAL CAPITAL RATIO OF NRB BEARINGS COMPANY LIMITED


<table>
<thead>
<tr>
<th>Year</th>
<th>Total Debt (Rs. In lakhs)</th>
<th>Total Capital (Rs. In lakhs)</th>
<th>Debt to Total Capital Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-94</td>
<td>4235.37</td>
<td>6170.06</td>
<td>68.64</td>
</tr>
<tr>
<td>1994-95</td>
<td>6260.76</td>
<td>8722.72</td>
<td>71.78</td>
</tr>
<tr>
<td>1995-96</td>
<td>4401.45</td>
<td>9310.34</td>
<td>47.27</td>
</tr>
<tr>
<td>1996-97</td>
<td>5527.56</td>
<td>11870.86</td>
<td>46.56</td>
</tr>
<tr>
<td>1997-98</td>
<td>6333.81</td>
<td>13426.64</td>
<td>47.17</td>
</tr>
<tr>
<td>1998-99</td>
<td>5807.24</td>
<td>13236.57</td>
<td>43.87</td>
</tr>
<tr>
<td>1999-2000</td>
<td>6690.06</td>
<td>14877.23</td>
<td>44.97</td>
</tr>
<tr>
<td>2000-2001</td>
<td>7775.65</td>
<td>16316.92</td>
<td>47.65</td>
</tr>
<tr>
<td>2001-2002</td>
<td>6970.00</td>
<td>15180.16</td>
<td>45.92</td>
</tr>
<tr>
<td>2002-2003</td>
<td>6874.53</td>
<td>15731.52</td>
<td>43.70</td>
</tr>
<tr>
<td>(\bar{x})</td>
<td>–</td>
<td>–</td>
<td>50.75</td>
</tr>
</tbody>
</table>

Source: Compiled and computed from the Annual Reports of NRB Bearings Company Limited.

\(\bar{x}\) - stands for Arithmetic Mean.
From the Table 3.3 It is clear that the Debt to total Capital ratio of NRB Bearings Company Limited fluctuates between 71.78 per cent in 1994-95 and 43.70 per cent in 2002-2003 with an average ration of 50.75 per cent. In the year 1993-94, it was 68.64 per cent. The ratio has been much below 66.67 per cent over all these years except in 1993-94 and 1994-95. In these years it was 68.64 per cent and 71.76 per cent respectively. It indicates that there is a low-Debt to Total capital ratio as against the standard norm of 66.67 per cent : 33.33 per cent in most of the years. The average ratio is also below the standard. The main implications of this analysis are:

- There is sufficient margin of safety or greater protection available to creditors.

- But its implications for the shareholders are that debt is not being exploited to the extent of optimum level so as to make available to them the benefit of trading on equity.

The data regarding Debt to Total Capital ratio presented in Table 3.3 have been represented, diagrammatically in Figure 3.5 and graphically in Figure 3.6.
FIGURE 3.5
MULTIPLE PERCENTAGE BAR DIAGRAM SHOWING DEBT TO TOTAL CAPITAL
FIGURE 3.6
GRAPH SHOWING DEBT TO TOTAL CAPITAL RATIO