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A Study on Capital Structure of Sambandam Spinning Mills Limited, Salem

KEYWORDS

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INTRODUCTION:
Capital structure is the mix of debt and equity or any other long-term sources of funds used to finance a firm's investment and operating activities. Its overall target debt equity ratio, interest coverage ratio, capital structure ratio, PAT/ EBIT ratio, EPS ratio, comparative statement and also the modes of financing. The overall cost of capital of the firm's optimized, thereby maximizing the value of the firm and its shareholders. In other words, capital structure decisions firm's aim at minimizing their cost of capital. The capital structure the overall cost of capital of the firm is minimum is known as optimal capital structure.

Capital structure decisions influence the risk and return of the investors. Hence optimal capital structure not only minimizes the cost of capital for the firm but also maximizes the market prices of its share.

Thus firms take lot of precaution while designing their capital structure in a dynamic environment and while raising additional funds for taking up new projects and new activities. Capital structure patterns are different in different countries. For instance, American, German and Canadian firms have lower book debt ratios than the counter parts in other industrialised nations such as Japan, France and Italy.

Capital structure = The mix of (Debt + Equity + Preference)

OBJECTIVES OF THE STUDY
- To know the value of the firm based on the relevance of capital structure.
- To know the cost of capital, cost of equity and cost of debt in sambandam spinning mills limited, salem.
- To study the operating, financial and combined leverage of sambandam spinning mills limited.
- To analyse the capital structure of sambandam spinning mills, salem.

RESEARCH METHODOLOGY
The research design is primarily descriptive and it follows analytical approach in bringing out the solution for the problem and is purely the framework or plan for a study that guides the collection and the analysis of the data.

ANALYTICAL RESEARCH
Analytical research the researcher has to use fact of information already available. The research has to analyze facts to make a critical evaluation of the material.

COLLECTION OF DATA: Secondary data

The study being analytical in nature uses secondary data. The data has been sourced from five annual reports of the company which is compiled every year using data from various sources.

FINANCIALTOOLS FOR ANALYSIS
The following tools are used to analyse the following profitability and liquidity position of sambandam spinning mills limited.

1. Leverage analysis
2. Ratio analysis
3. Comparative study

REVIEW OF LITERATURE
Dogra and Gupta (2009)15. The review of the past literature regarding this area will give us a detailed knowledge of different aspects of research that has been carried out and how important will this study be in this concern. A firm can be very profitable, but if this is not translated into cash from operations within the same operating cycle, the firm would need to borrow to support it's While the performance levels of small businesses have traditionally been attributed to general managerial factors such as manufacturing, marketing and operations, working capital management may have a consequent impact on small business survival and growth.

Howorth andWesthead (2003), suggest that small the Companies tend to focus on some areas of working capital management where they can expect to improve marginal returns.

FINDINGS
- The year 2011-12 had the highest debt-equity ratio at 43.96%.
- The company net worth and long-term borrowings are increasing year by year. The last year 2011-12 the company networth at Rs.73,94,51,000.
- The highest return was in the year of 2007-08 at 38.35%.
- The highest PAT/EBIT ratio at 29.05% in the year of 2011-12.
- The shareholders highest earning per share was Rs.29.45 in the year of 2011-12.
- To comparing the five years EBIT/EPS statement in the year of 2011-12 the shareholders get high earnings. EBIT at Rs.32,71,00.000 and EPS at Rs.29.45.

SUGGESTIONS
- Capital of the company has more debt in the five years. In the year of 2008-09 have more debt comparing with other four years. The company debt is higher than the equity so therefore efforts need to be made to reduce the debts.
- In this study we have found out that the net worth of

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the company is increasing year by year and the debt of the company is also increasing.

- The equity of the company is same for every year at Rs.4,27,55,000 and the cost of equity at Rs.10 per share.

CONCLUSION

From the study, it has observed that the company has to use tools to enhance its operating profit. The injection of the debt capital is justifiable, if they are properly utilised. Every company aims at increasing the wealth of the share-holders. This company has been increasing the wealth of the shareholders for the long time.it is evidenced by the net worth of the company. The company has abundant retained earnings. The price earnings is also greater in the year 2007-08 bit in last year it has decreased which is higher than the previous year2010-11. The shareholders get handsome dividend and also capital appreciation. It is reflected in the market price per the shares. In the forthcoming years the company shall get more savings in electricity cost by the use of windmill converters. Hence the company can able to meet the interest cost very easily by getting the major savings in electricity cost. The future prospects of the company will mainly contributed by the savings in cost.

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