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"A Study on Capital Structure Analysis at MYMUL, Mysore"

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ABSTRACT

The purpose of this project is to understand the "Capital Structure Analysis at MYMUL, Mysore" the finance managers of most firms invest maximum time and effort on capital structure analysis strategy aimed to maintaining a balance between leverages and profitability has for reaching results on growth and survival of the firm. Therefore, in order to bring out the relationship between capital structure analysis and debt equity, return on equity of the firm this topic has been choosen.

Researcher have adopted descriptive research methodology and primary data collected from personal interaction with finance manager and other staff of the Mysore Milk Union Ltd., Mysore. Secondary Data 3 years financial statement of the Mysore Milk Union Ltd., Mysore. Journals and Books of capital structure analysis and websites.

The debt equity ratio states that the firm has not taking proper use of capital structure effectively from last 3 years. The MYMUL, has enjoyed good financial position with profit margin debt equity ratio reached to standard ratio 1:2 and its shows positive direction to the firm so it is favorable to the company for profitability.

By the capital structure analysis, it concludes that, overall financial performance of the MYMUL, is satisfactory. The company should take some measures to increase profit i.e. proper utilization of available resources to increase profit i.e. proper utilization of available resources and sale promotion to attract new customers.

KEY WORDS: Capital structure, Profitability, Debt equity, Return on equity

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INTRODUCTION

In today's competition world, no business is spread from the competition even the basic need industries like milk industry are facing the same problem, so the companies should look at theconsumer's attitude towards their products and if any things goes wrong they should suddenly rectify it.

The main objective of the companies is to be in the field of business and recap profits by providing the necessary products at reasonable cost with good quality.

INDUSTRY PROFILE

Thehighest milk producer in the entire globe is India. It is well known as globally it might be dream for any nation in the world to capitalize on the largest and fastest rising milk and milk products market. Indian dairy industry has been observing rapid growth with liberalization as the economy provides good chances for MNCs and foreign investors to releaseusing innovative technologiesthe main objective of the Indian. Dairy Industry is to manage the national resources in manner to enhance milk production and upgrade milk processing.

The Indian dairy is regarded as an instrument for social and economic development. A million of small manufacturerswho are dispersed throughout the rural areas supply the country's milk. An agriculturalistmaintains one or two milking animals in an average. A small farmer with a land base and an ample labour areencouraged to practice dairying as an occupation subsidiary to seasonal and the dairying provides a stable which is a year round income and also an important economic incentive for a small farmer.

COMPANY PROFILE

With the capacity of 10 TLPD Mysore Dairy was started in the year 1965 under the control of the Department of Animal Husbandry and Veterinary Services of Karnataka State, which was transferred to Karnataka Dairy Development Corporation in the year 1974. Later the capacity was expanded to 60 TLPD in 1980 under the scheme operation flood and transferred to the Karnataka milk Federation in 1984. The dairy and its chilling centers were handed over to Mysore milk union on 01.06.1987 as per the Government policy. Again, the capacity was expanded to 100 TLPD under the operation flood II and further expanded to 180 TLPD under perspective plan I programme.

Karnataka dairy development projects, under the World Bank aided, the activities on dairy development were taken up in year 1975. on 23.11.1976, the Mysore District co-operative milk producers' societies union Ltd was registered, having the jurisdiction extended to the entire Mysore District and five Taluks of Mandya District. The work of organization of milk co-operatives in 'AMUL pattern' with the main objective of socio-economic reformation of the farmers rural areas through dairying as main subsidiary occupation came under the Mysore District co-operative milk producers' societies union Ltd.,

LITERATURE REVIEW

1. ***Prof. (Dr). T. Velnampy& J. AloyNiresh (2012):***The objectives are to find out an optimal capital structure that would be associated with the best performance, and to suggest the banks to increase profitability through adapting a better strategic framework on capital structure. The company is an appropriate mix of capital structure to increase the profitability of banks. The banks must set competitive lending that would not deter customers from accessing loans in a company to achieve these.
2. ***Dr. M Sekar (2014):***The study is to value the company, the influence of capital structure and the return on equity. The value of the company is increased over years because of the investment decisions of the company that are reflected from the EBIT as well as the low cost of capital due to balanced capital structure. As it has an optimal capital structure it will have positive effect in its future business.
3. ***Alicia M. Robb (2010):***This study contrary to many accounts of startup activity, the firms in our data rely heavily on external debt sources such as bank financing, and less extensively on friends and familybased funding sources.The company motivated in part by widely held view that frictions in capital markets prevent startups from achieving their optimal size, or indeed, from starting up at all.
4. ***Ms. M. Gowri (2014):***This Study examines the influence of capital structure on the performance of the company so as to understand the factors that influence the capital structure decisions of the company and know the impact of capital structure decisions on profitability and performance of the company. The study concludes that the capital structure is the crucial decision to be taken by every businessthe positives and negatives of these decisions play an important role in determining the future of every business.
5. ***S. Sathyanarayana (2017):***A study on "The determinants of capital structure evidence from Indian stock market with special reference to capital goods, infrastructure and IT sector" aims to examine the relationship between various identified determinants (profitability, tangibility, growth rate, business risk, size and non-debt tax shield) and impact on financial leverage decisions ofcapital goods, FMCG, Infrastructure and IT sector in Indian stock market. The study reveals that the value of firm can be determined by taking its expected stream.

STATEMENT OF THE PROBLEM

The MYMUL is a one the oldest firm. The firm is facing the problem of lack in advance technology and its being very tough to compete in the market all these happen because of the improper of utilization available of capital. That is a reason the study is taken on capital structure analysis.

OBJECTIVES OF THE STUDY

1. To study and understand the fundamental concepts of capital structure analysis.
2. To know about the source of capital structure in the company.
3. To understand how firm can create value though its financing decision.
4. To show how to take account of a firm financing mix in evaluating investment decision.
5. To suggest the strategies to enhance better optimal capital structure for the company.

TOOLS AND TECHNIQUE

- Diagrammatic presentation of capital structure.
- Ratio analysis.

SCOPE OF THE STUDY

- The study is limited to capital structure analysis of MYMUL.
- The study is limited to published financial data received from MYMUL.
- It covers (2015-18) financial statement only.

RESEARCH METHODOLOGY

- ***Primary data:*** The information collected from personal interaction with finance manager and other staff of Mysore Milk Union Ltd., Mysore.
- ***Secondary data:***It was collected from
- Journals and Books.
- Websites (www.mymul.coop)
- Annual report (2015-2018) and Records of the Company.

LIMITATIONS OF THE STUDY

- The time constraint for carrying out detailed analysis.
- Study is limited to the use of only few selected techniques.
- The data may not adequately represent the issues entirely.

DATA ANALYSIS & INTERPRETATION

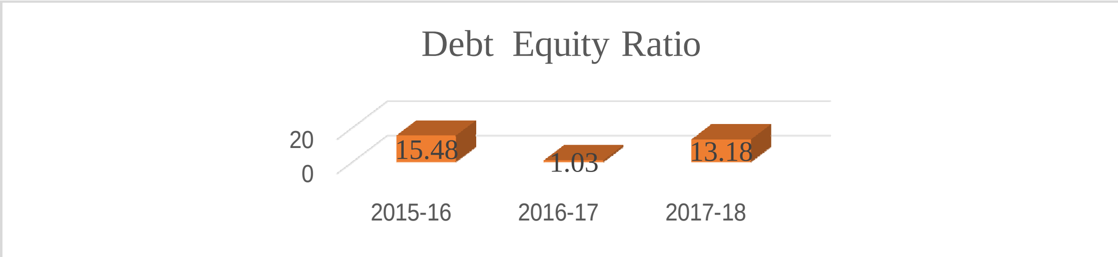
1. RATIO ANALYSIS:

(Table No: 1) Table Showing Debt Equity Ratio

Year	Total debt	Equity	Ratio
2015-16	999,457,915.23	64,542,353.73	15.48
2016-17	74,575,854.42	72,299,851.54	1.03
2017-18	1,053,833,693.70	79,943,625.24	13.18

(Source: Annual Report of MYMUL)

Graph No: 1



Graph ShowingDebt Equity Ratio

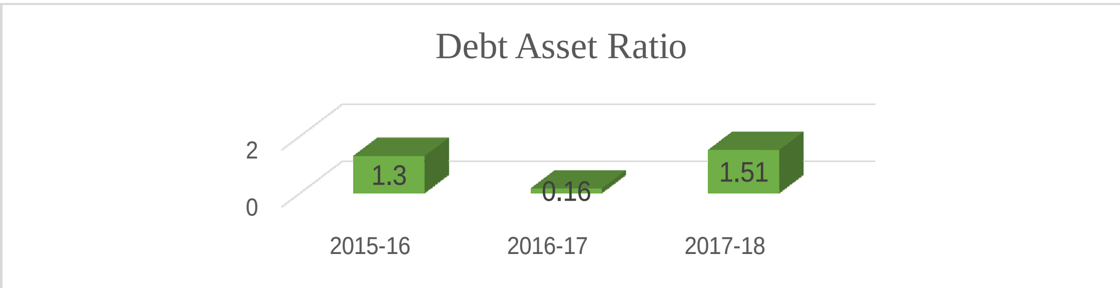
Analysis& Interpretation: The above table shows the debt equity ratio, in the year 2015-16 the ratio is 10.45, in 2016-17 the ratio is decreased 0.73 and 2017-18 the debt equity ratio is increased to 2.50.It is clear that the debt equity ratio is 1:2; in this case the company is having more debt than its equity. If the company is more depend on its debt, the company has to pay more interest, it leads to downsize in profit level of the company. The company not able to meet day today operation of business & expand with the new fixed assets, company need to minimize its debt.

(Table No: 2) **Table Showing Debt Asset Ratio**

Year	Total Debt	Total Asset	Ratio
2015-16	999,457,915.23	768,693,707.88	1.30
2016-17	74,575,854.42	477,910,688.11	0.16
2017-18	1,053,833,693.76	695,353,084.78	1.51

(Source: Annual Report of MYMUL)

Graph No: 2



Graph ShowingDebt Asset Ratio

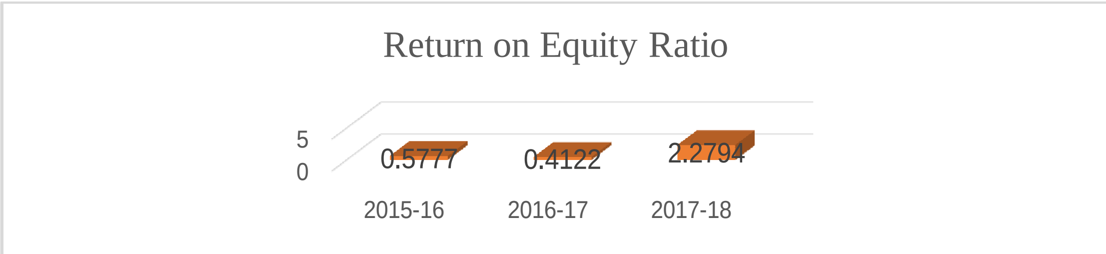
Analysis&Interpretation: The above table shows the debt asset ratio it shows how the asset is financial with debt. In this ratio in the year 2015-16 ratio0.87, in 2016-17 ratio is decreased to 0.11 and 2017-18 ratio is increased 0.28**.** The above chart clears that business shared minimize it debt asset ratio year by year. Because company faces a problem of non-payment of debt company not utilize its assets property.

(Table No: 3) **Table Showing Return on Equity Ratio**

Year	Net Income	Shareholder's Equity	Ratio
2015-16	37,288,325.24	64,542,353.73	0.5777
2016-17	29,800,196.66	72,299,851.54	0.4122
2017-18	1,822,247,842.91	79,943,625.24	2.2794

(Source: Annual Report of MYMUL)

Graph No:3



Graph ShowingReturn on Equity Ratio

Analysis&Interpretation:

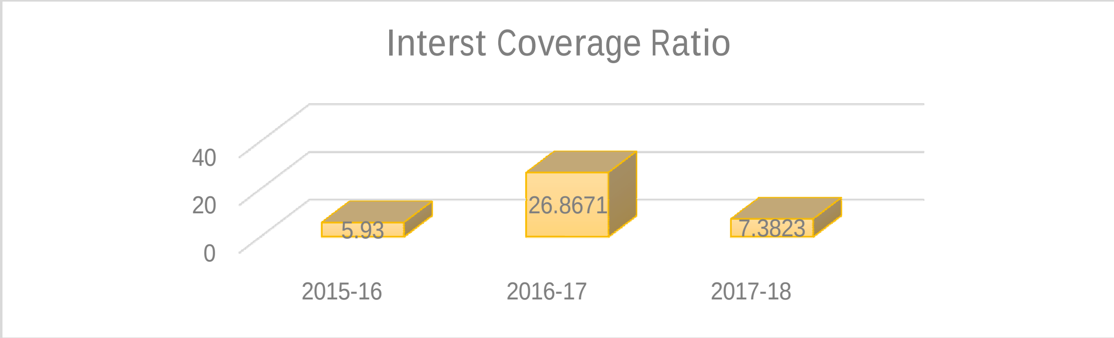
The above table shows the return on equity ratio with the help of this ratio reveals how much profit a company generates with shareholder investment. In the year 2015-16 the ratio is 0.57, in 2016-17 the ratio is decreased to 0.41 and 2017-18 the ratio is increased to 2.27.The above the graph reveals that it is quite improve in last year. It is the sign for the company that return to the shareholder is more in the previous year. It will create trust in the mind of the investors.

(Table No: 4) **Table Showing Interest Coverage Ratio**

Year	EBIT	Interest	Ratio
2015-16	118,417,143.07	19,968,872.63	5.9300
2016-17	131,865,094.10	4,908,035.53	26.8671
2017-18	79,122,918.55	10,717,922.30	7.3823

(Source: Annual Report of MYMUL)

Graph No:4



Graph ShowingInterest Coverage Ratio

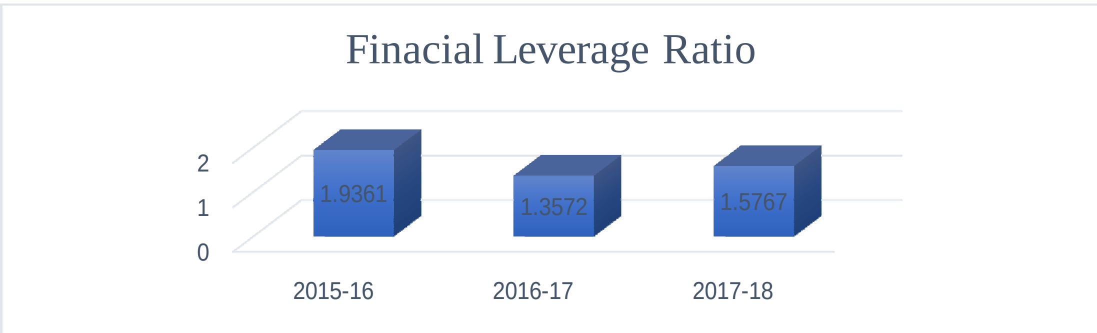
Analysis&Interpretation: The above table shows the interest coverage ratio the ratios give the ratio of EBIT and interest. In 2015-16 ratio is 5.93, in 2016-17 ratio is increased to 26.86 and 2017-18 ratio is decreased to 7.38.The interest coverage ratio shows the capacity of the company to pay the interest on debt from its operating profits the above chart interprets the ratio was downsize in the last year. it indicates the company is not generalizing the sufficient profits to meet interest expenses.

(Table No: 5) **Table Showing Financial Leverage Ratio**

Year	EBIT	EBT	Ratio
2015-16	118,417,143.07	61,159,945.20	1.9361
2016-17	131,865,094.10	97,156,861.91	1.3572
2017-18	79,122,918.55	50,180,213.34	1.5767

(Source: Annual Report of MYMUL)

Graph No:5



Graph ShowingFinancial Leverage Ratio

Analysis&Interpretation: The above table shows the financial leverages ratio in 2015-16 ratio is 1.93, in 2013-14 ratio is decreased to1.35 and 2017-18 the ratio is increased to 1.57. From the above graph it clears that the financial leverage ratio of the firm is in decreasing trend. It clears that firm is not properly utilizing its fixed assets and value for the equity is also downsized.

(Table No: 6) **Table Showing Capital Structure Ratios**

RATIOS	2015-16	2016-17	2017-18
Debt Equity Ratio	15.48	1.03	13.18
Debt Asset Ratio	1.30	0.16	1.51
Return on Equity Ratio	0.57	0.41	2.28
Interest Coverage Ratio	5.93	26.86	7.38
Financial leverage Ratio	1.93	1.35	1.57

(Source: Annual Report of MYMUL)

Analysis:

From the above table it interrupted that Debt Equity Ratio in the year 2015-16 15.48%, 2016-17 is 1.03 & 2017-18 is 13.18. Debt Asset Ratio in the year 2015-16 1.30, 2016-17 is 0.16 and in the year 2017-18 is 1.51. Debt Capital Ratio in the year 2015-16 15.79, 2016-17 is 10.39 and in the year 2017-18 is 13.27. Return on Equity Ratio 2015-16 0.57, 2016-17 is 0.41 and in the year 2017-18 is 2.28. Interest Coverage Ratio 2015-16 5.93, 2016-17 is 26.86 and in the year 2017-18 is 7.38. Financial leverage Ratio 2015-16 1.93, 2016-17 is 1.35 and in the year 2017-18 is 1.57.

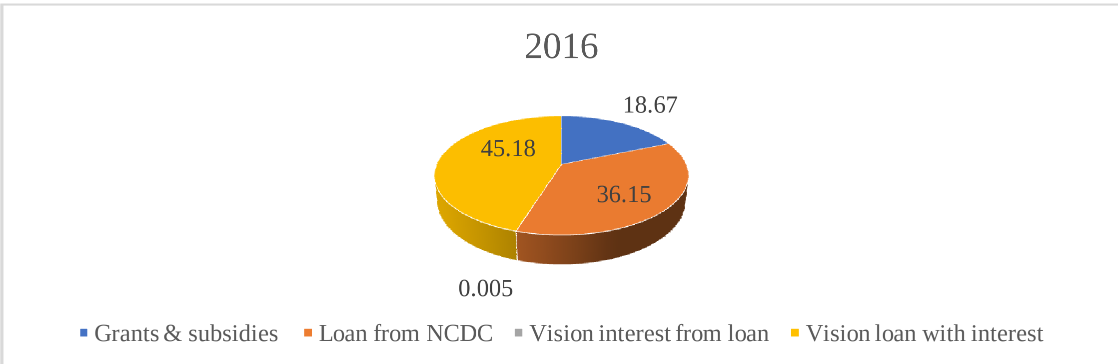
2. ANALYSIS AND INTERPRETATION OF THE DATA COLLECTED WITH RELEVANT TABLES AND GRAPHS:

(Table No:7) Table Showing the Diagrammatic presentation of Capital Structure of the year 2016.

Particulars	2016	Shares (%)
Grants & subsidies	229,440,106.59	**18.67**
Loan from other sources		
Loan from NCDC	444,160,946.55	**36.15**
Vision interest from loan	63,857.00	**0.005**
Vision loan with interest	555,233,111.68	**45.18**
Total	**1,228,898,021.82**	**100**

(Source: Annual Report of MYMUL)

Graph No:7



Graph showing Diagrammatic Presentation of Capital Structure 2016

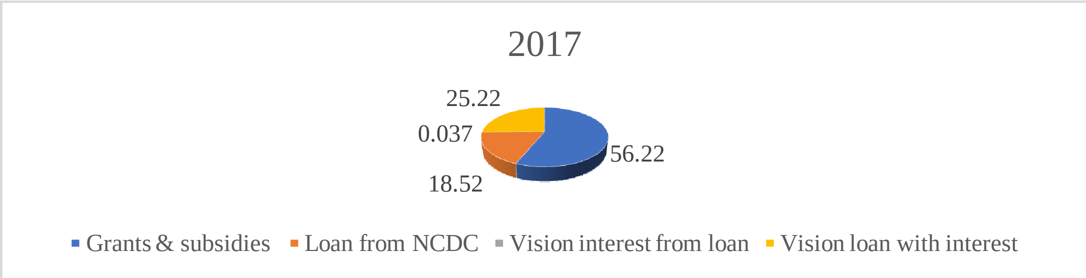
Analysis & Interpretation: The above table shows the total percentage of Grants & subsidies and loans from other sources. The grants & subsidies of the company percentage was 18.67% and the total loan from other sources percentage is 81.33%. The above graph ratio shows that company is depending more on loan 81.33% of barrowings and 18.67% is grants and subsides.

(Table No:8) Table Showing the Diagrammatic Presentation of Capital Structure of the year 2017.

Particulars	**2017**	**Shares (%)**
Grants & subsidies	95,747,205.34	**56.22**
Loan from other sources		
Loan from NCDC	31,550,936.29	**18.52**
Vision interest from loan	63,857.00	**0.037**
Vision loan with interest	42,961,061.13	**25.22**
Total	**170,323,059.76**	**100**

(Source: Annual Report of MYMUL)

Graph No: 8



Graph Showing Diagrammatic presentation of Capital Structure 2017

Analysis & Interpretation:

The above table shows the total percentage of Grants & subsidies and loans from other sources. The grants & subsidies of the company percentage was 56.22% and the total loan from anothersource's percentage is 43.78%. The above graph ratio shows that company is depending less on loan 43.78% of barrowings and 56.22% is grants and subsides.

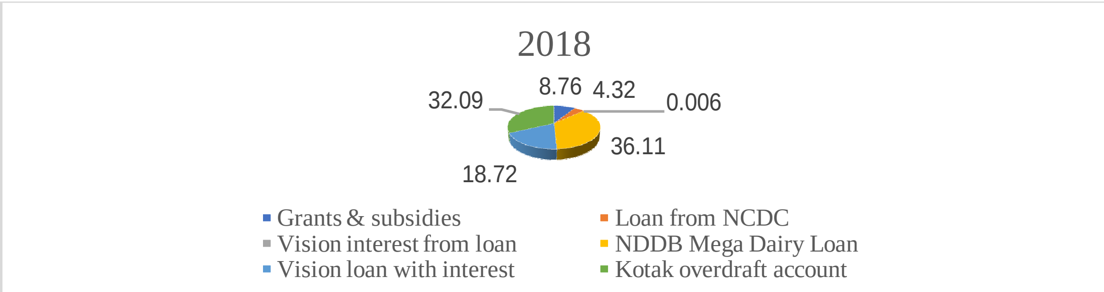
Particulars	**2018**	**Shares (%)**
Grants & subsidies	101154938.21	**8.76**
Loan from other sources		
Loan from NCDC	49857024.06	**4.32**
Vision interest from loan	63857.00	**0.006**

NDDB Mega Dairy Loan	417068000.00	**36.11**
Vision loan with interest	216193373.02	**18.72**
Kotak overdraft account	370651439.62	**32.09**
Total		**100**

(Table No: 9) Table Showing the Diagrammatic Presentation of Capital Structure of the year 2018.

(Source: Annual Report of MYMUL)

Graph No: 9



Graph Showing Diagrammatic Presentation of Capital Structure 2018

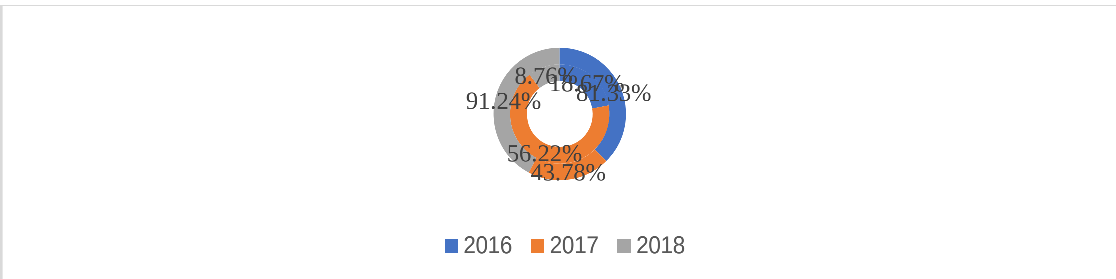
Analysis& Interpretation: The above table shows the total percentage of Grants & subsidies and loans from other sources. The grants & subsidies of the company percentage was 8.76% and the total loan from other sources percentage is 91.24%. The above graph ratio shows that company is depending more on loan 91.24% of barrowings and 8.76% is grants and subsides.

(Table No: 10) Table Showing the Consolidate Diagrammatic Dresentation of Capital Structure year in 2016, 2017, and 2018.

Particulars	**2016**	**2017**	**2018**
Grants & Subsidies	18.67%	56.22%	8.76%
Loans	81.33%	43.78%	91.24%
Total	100%	100%	100%

(Source: Annual Report of MYMUL)

Graph No:10



Graph Showing Diagrammatic Presentation of Capital Structure 2016, 2017 & 2018

Interpretation: From the above graph it is clears that company depend more borrowed funds rather the grants & subsides. It is not good sign for the company because they need to pay more interest even though company having enough profit.

FINDINGS

1. Debt equity ratioIf the company is more depend on its debt, the company has to pay more interest, it leads to downsize in profit level of the company. The company not able to meet day today operation of business & expand with the new fixed assets, company need to minimize its debt.
2. Debt asset ratio that business shared minimize it debt asset ratio year by year. Because company faces a problem of non-payment of debt company not utilize its assets property.
3. Return on equity ratio It is the sign for the company that return to the shareholder is more in the previous year. It will create trust in the mind of the investors.
4. Interest coverage ratio the capacity of the company to pay the interes on debt from its operating profits the above chart interprets the ratio was downsize in the last year. it indicates the company is not generalizing the sufficient profits to meet interest expenses.
5. Financial leverage ratiothe financial leverage ratio of the firm is in decreasing trend. It clears that firm is not properly utilizing its fixed assets and value for the equity is also downsized.

SUGGESTIONS

- The company should reduce its debt factor in the capital structure, and then firm can make best use of the profit & return on investment by reducing payment of interest.
- The firm is not having sufficient equity capital but they depend more on borrowed capital. It is dangerous for investors to get return on their investment. So company need to focus on generating more equity to avoid payment of interest.
- The Debt is more in the firm & therefore the interest is also more, and equity is more than the firm interest is decrease. The firm current situation is to increase its earning ability and get a high net profit.
- The firm shows that significantly a huge part of EBIT is utilize to pay the interest. This is adverse situation for the firm and it also reduces the EPS for the investors. The firm should reduce the debt to get a high EBT and to increase EPS for the investor.
- The firm total assets & total liabilities, it indicates the financial capacity of a firm to meet up its total liabilities out of total assets. It shows the firm is financially sound.
- The financial leverage ratio of the company shows how much of the company assets belong to the shareholders rather than creditor. It is highly leveraged. All of these measurement are important for investors to understand how risky the capital structure of a company and if it is worth investing in.

CONCLUSION

The study on capital structure analysis is a critical thing which helps to recognize the situation of the firm in capital mix. The firm is now performing well in its process; the firm has good manufacture services. Any how the firm wants to decrease its debt through raising funds from further sources.

This study helped to find out many things and analysis of capital structure helped to advise the firm to get better its situation. About capital structure of the firm is not having a good situation as it may leads to emergency in the business. The firm's return on equity is good, but the firm is face high cost if interest. So, the firm has to reduce its operating cost and retain current assets in good position.

Overall company need not to depends much on the barrowed funds and save the probability of the firm by reducing its payment towards interest.

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