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ANALYSIS OF CAPITAL STRUCTURE OF POWER FINANCE CORPORATION LIMITED

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Abstract: *Capital structure is the particular combination of debt and equity used by a company to finance its overall operations and growth. Capital structure is the mix of the long-term sources of funds used by a firm. It is made up of debt and equity securities and refers to permanent financing of a firm. Corporations often need to raise external funding or capital in order to expand their business into new markets or locations. It also allows them to invest in research and development (R&D) or to fend off the competition. And, while companies do aim to use the profits from ongoing business operations to fund such projects, it is often more favorable to seek external lenders or investors to do so. Despite all the difference among the thousands of companies in the world across various industry sectors, there are only a few sources of funds available to all firms. Some of the best places to look for finding are retained earnings, Debt capital, and equity capital. In the article, we examine each of these sources of capital and what they mean for corporations.*

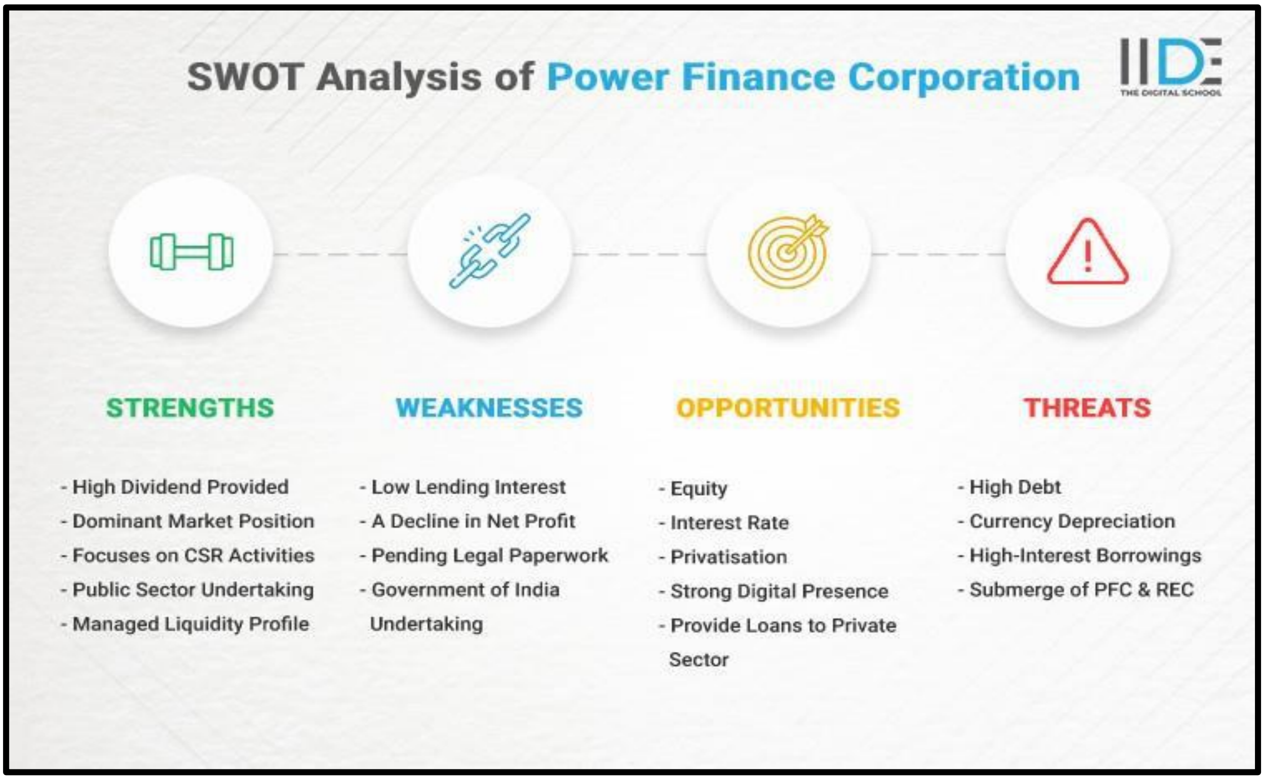
Key Words: *Capital, Power, Finance, Debt, Equity.*

1. INTRODUCTION :

The Power Finance Corporation Ltd. (P. F. C.) is an Indian central public sector undertaking under the ownership of the Ministry of Power, Government of India. Established in 1986, it is the financial backbone of Indian power sector. PFC's net worth as on 30 September 2018 is INR 383 billion. PFC is the 8th highest profit making Central Public Sector Undertaking (CPSU) as per the Department of Public Enterprises Survey for FY 2017–18. PFC is India's largest NBFC and also India's largest infrastructure finance psu. Government has raised status of PFC from ' Navratna' to 'Maharatna' psu on 12 October 2021.

The company offers fund based financial policies/products, including guidelines for solar and wind power generation projects, as well as for funding private sector independent transmission projects; debt refinancing and prepayment policy for solar wind projects; and takeout financing, asset acquisition, bridge and corporate loan, buyer's line of credit, credit facility for purchase of power through power exchange, energy saving project, and project and short-term loan services. Its fund based financial policies/products also include financing of fuel supply projects and equipment manufacturers; grants/interest free loans for studies/consultancies; lease financing for the purchase of equipment and wind power projects; line of credit for import of coal; policy for underwriting of debt; and financial assistance to distribution franchisee. In addition, the company provides non-fund-based policies/products comprising guarantees, letter of comfort, and policy for guarantee for credit enhancement; and non-fund-based consultancy services. Power Finance Corporation Limited was incorporated in 1986 and is headquartered in New Delhi, India.

CAPITAL STRUCTURE OF A COMPANY.



A company's capital structure refers to the type of money that funds the business and the source of those funds. Capital structure can have an impact on the return a company earns for its shareholders. It can also determine whether a firm survives a recession or depression.

Capital Structure of Power Finance Corporation Ltd. from 2014 to 2022

Period	Instrument	Authorized Capital	Issued Capital	- P A I D U P -		
From To		(Rs. cr)	(Rs. cr)	Shares (nos)	Face Value	Capital
2021-2022	Equity Share	11000	2,640.08	2,640,081,408	10	2,640.08
2020-2021	Equity Share	11000	2,640.08	2,640,081,408	10	2,640.08
2019-2020	Equity Share	11000	2,640.08	2,640,081,408	10	2,640.08
2018-2019	Equity Share	11000	2,640.08	2,640,081,408	10	2,640.08
2017-2018	Equity Share	10000	2,640.08	2,640,081,408	10	2,640.08
2016-2017	Equity Share	10000	2,640.08	2,640,081,408	10	2,640.08
2015-2016	Equity Share	2000	1,320.04	1,320,040,704	10	1,320.04
2014-2015	Equity Share	2000	1,320.04	1,320,040,704	10	1,320.04

2. OBJECTIVE OF THE STUDY.

- To analyse the concept of capital structure.
- To analyse the various types of ratio.
- To examine the capital structure positioning of Power Finance Corporation limited.
- To analyse the earnings of equity shareholders.
- To analyse the financial position of the company.

2.1 HYPOTHESIS OF STUDY.

The following hypothesis is framed for this research to investigate the relationship amongst capital structure and company’s financial performace.

H1: Hypothesis 1 (H1).
Uncertainty negatively affects financial performance of a company.
H2: Hypothesis 2 (H2).
Shareholder interest positively affects financial performance of a company.
H3: Hypothesis 3 (H3).
Capital structure positively affects financial performance of a company.
H4: Hypothesis 4 (H4).
Uncertainty negatively affects capital structure of a company.
H5: Hypothesis 5 (H5).
Uncertainty and financial performance are mediated by capital structure of a company.

2.2 Research Design

The study is mainly based on the secondary source of data. The study covers a period of five years from 2018-2022.

Information's are sought from annual reports, balance sheet and manuals of Power Finance Corporation limited, and also from books periodicals, magazines and websites.

3. Data interpretation and Analysis :

Ratio analysis serves three main uses. First, ratio analysis can be performed to track changes to a company over time to better understand the trajectory of operations. Second, ratio analysis can be performed to compare results with other similar companies to see how the company is doing compared to competitors. Third, ratio analysis can be performed to strive for specific internally-set or externally-set benchmarks.

Analysis Of Ratios And Interpretation
Capital Gearing Ratio.
Debt Ratio.
Equity Ratio.
Debt Equity Ratio.
Proprietary Ratio.
Solvency Ratio.
Total Investment To Long Term Liabilities.
Ratio Of Fixed Assets To Funded Debt.
Financial Leverage Ratio.
Ratio Of Reserve To Equity Capital.

$$\text{Capital Gearing Ratio} = \frac{\text{Common Shareholders' Equity}}{\text{Fixed Interest-Bearing Funds}}$$

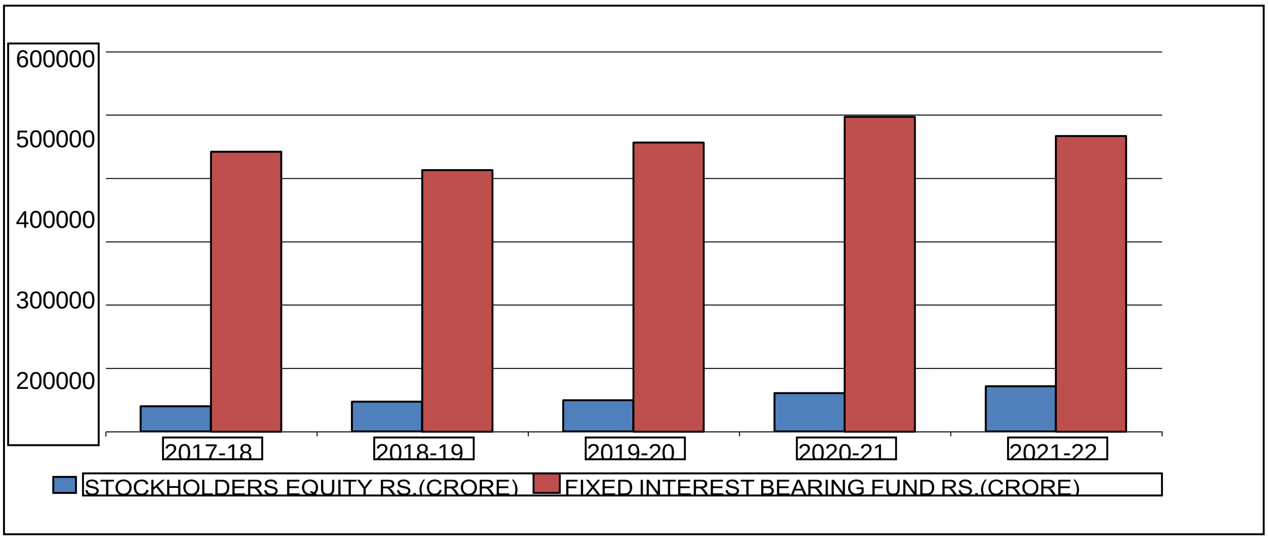
STATEMENT OF CAPITAL GEARING RATIO.

(Rs. In Crore)

Years	Stockholder's Equity Rs.	Fixed Interest Bearing Fund Rs.	Ratio
2017-18	39,834.53	4,42,029.19	0.090
2018-19	47,121.25	4,13,062.96	0.114
2019-20	49,399.81	4,56,532.07	0.108
2020-21	60,767.48	4,97,086.95	0.122
2021-22	71,676.24	4,66,803.10	0.153

SOURCE: ANNUAL REPORT OF POWER FINANCE CORPORATION LIMITED FROM 2017-2022.

GRAPHICAL PRESENTATION OF CAPITAL GEARING RATIO OF POWER FINANCE CORPORATION LIMITED.



CAPITAL GEARING RATIO.

INTERPRETATION: Capital gearing ratio is a good thing for a firm that needs to expand its reach. But at the same time, it's equally useful for a firm to generate enough income to pay off the interest for the loans they have borrowed and pay off the debt. That's why high geared companies are at great risk when any economic downturn happens. During the economic crash, these companies filed for bankruptcy. Thus, depending too much on debt to pay for the continuing operation of the firm is always not a good idea. there is one concept that companies pay heed to when designing their capital gearing, and that is "equity trading." As capital gearing should be planned well in advance, companies must value this concept of "trading on equity". It means as long as the business's net income is more than the cost of interest payment, the common stock shareholders would keep gaining their share, which can be called "wealth maximization of shareholders."

DEBT RATIO.

A debt ratio helps determine how financially stable a company is with respect to the number of assets-backed debt it has.The debt ratio plays a vital role in helping assess the financial stability of a firm, given the number of asset-backed debts it possesses. It compares the total debt with respect to the company's total assets and is represented as a decimal value.

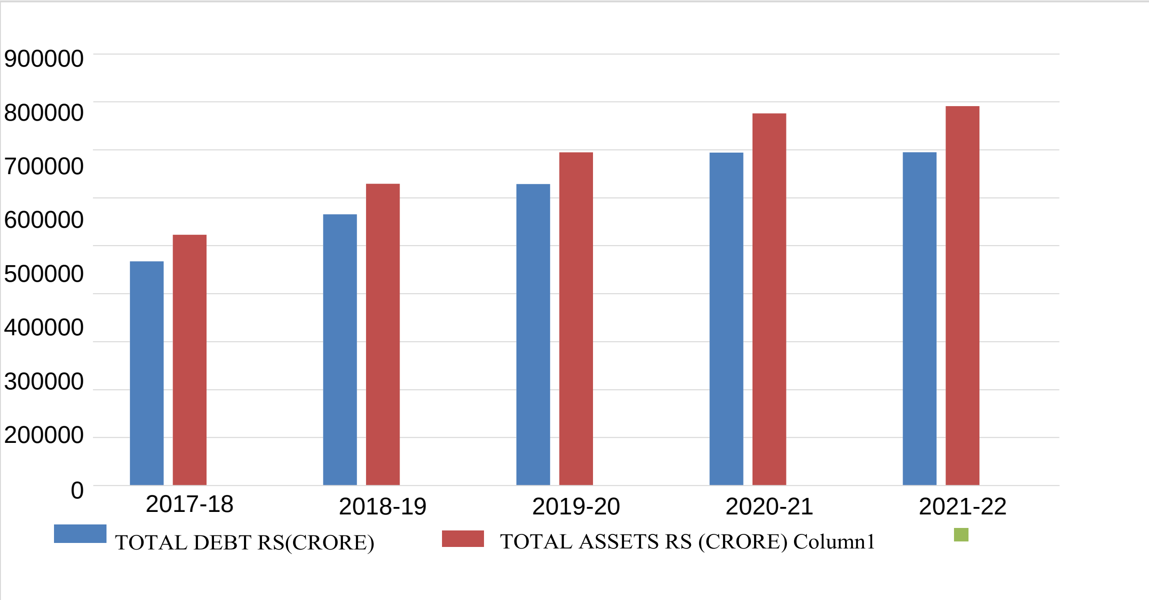
$$\text{DEBT RATIO} = \frac{\text{TOTAL DEBT}}{\text{TOTAL ASSETS}}$$

(Rs. In Crore)

Years	Total Debt Rs.	Total Assets Rs.	Ratio
2017-18	4,67,261.73	5,22,531.48	0.894
2018-19	5,65,384.45	6,28,868.72	0.899
2019-20	6,28,355.27	6,94,520.65	0.904
2020-21	6,93,916.83	7,75,707.08	0.894
2021-22	6,94,725.12	7,91,000.27	0.878

SOURCE: ANNUAL REPORT OF POWER FINANCE CORPORATION LIMITED FROM 2017-2022.

Graphical Presentation Of Debt ratio Of Power finance Corporation Limited.



INTERPRETATION: - When the total debt is more than the total number of assets, it depicts that the company has more liabilities than assets. Thus, this debt-to- asset ratio is expected to be less than 1 for investors to take an interest in investing in it and for creditors to rely on the entity for time repayments and default-free deals. On the other hand, if the value is 1 or more, the investors know that the total amount of debt is too much for the companies to pay back, so they decide not to invest in it.

There are instances where total liabilities are considered the numerator in the formula above. However, liability and debt being two different terms might lead to discrepancies in the values obtained. Whether debt and liabilities could be treated similarly would completely depend on the elements used to calculate the sum of the debts. Liabilities, on the contrary, are better when treated as a numerator for debt ratio with equity as a denominator.

EQUITY RATIO.

The equity ratio is the solvency ratio that helps measure the value of the assets financed using the owner's equity. It is calculated by dividing the company's total equity by its total assets. It is a financial ratio used to measure the proportion of an owner's investment used to finance the company's assets. It indicates the proportion of the owner's fund to the total fund invested in the business.

$$\text{EQUITY RATIO} = \frac{\text{SHAREHOLDER'S EQUITY}}{\text{TOTAL ASSETS}}$$

STATEMENT OF EQUITY RATIO.
(Rs. In Crore)

Years	Shareholder's Equity Rs.	Total Assets Rs.	Ratio
2017-18	39,834.53	5,22,531.48	0.076
2018-19	47,121.25	6,28,868.72	0.074
2019-20	49,399.81	6,94,520.65	0.071
2020-21	60,767.48	7,75,707.08	0.078
2021-22	71,676.24	7,91,000.27	0.090

SOURCE: ANNUAL REPORT OF POWER FINANCE CORPORATION LIMITED FROM 2017-2022.

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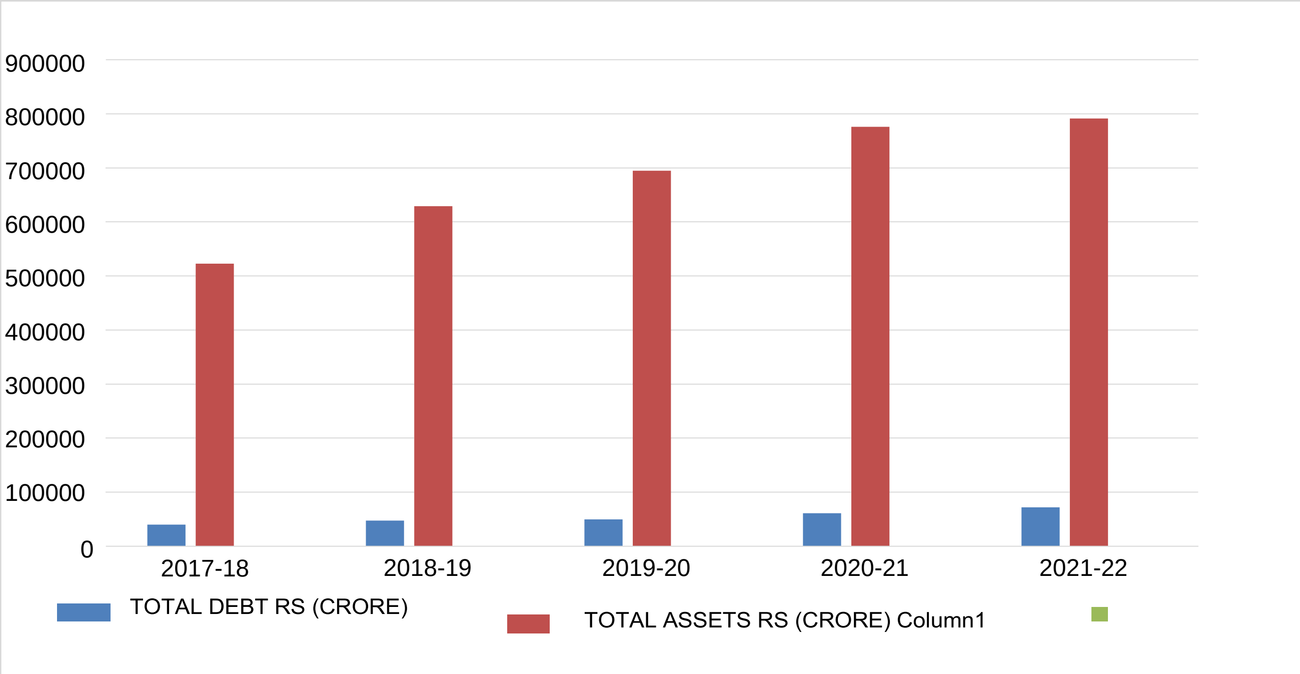
Graphical Presentation Of Equity Ratio Of Powerfinance Corporation Limited..



INTERPRETATION: Since this ratio calculates the proportion of owners' investment in the company's total assets, a higher ratio is considered favorable for the companies. A higher level of investment by the shareholders attracts more investment by the potential shareholders as they think that the company is safe for investing as already, the level of investment by the investor is higher. Also, a higher investment level provides security to the creditors as it shows that the company is not that risky to deal with. They can lend funds thinking that the company will be able to pay off its debt easily. Companies having a higher equity ratio also suggest that the company has less financing and debt service cost as a higher proportion of assets are owned by equity shareholders. It is mandatory to pay off such debts whether the business is in a good state.

DEBT EQUITY RATIO.

Debt-to-equity (D/E) ratio is used to evaluate a company's financial leverage and is calculated by dividing a company's total liabilities by its shareholder equity. D/E ratio is an important metric in corporate finance. It is a measure of the degree to which a company is financing its operations with debt rather than its own resources. Debt-to-equity ratio is a particular type of gearing ratio.

$$\text{DEBT EQUITY RATIO} = \frac{\text{TOTAL LIABILITIES}}{\text{SHAREHOLDER'S EQUITY}}$$

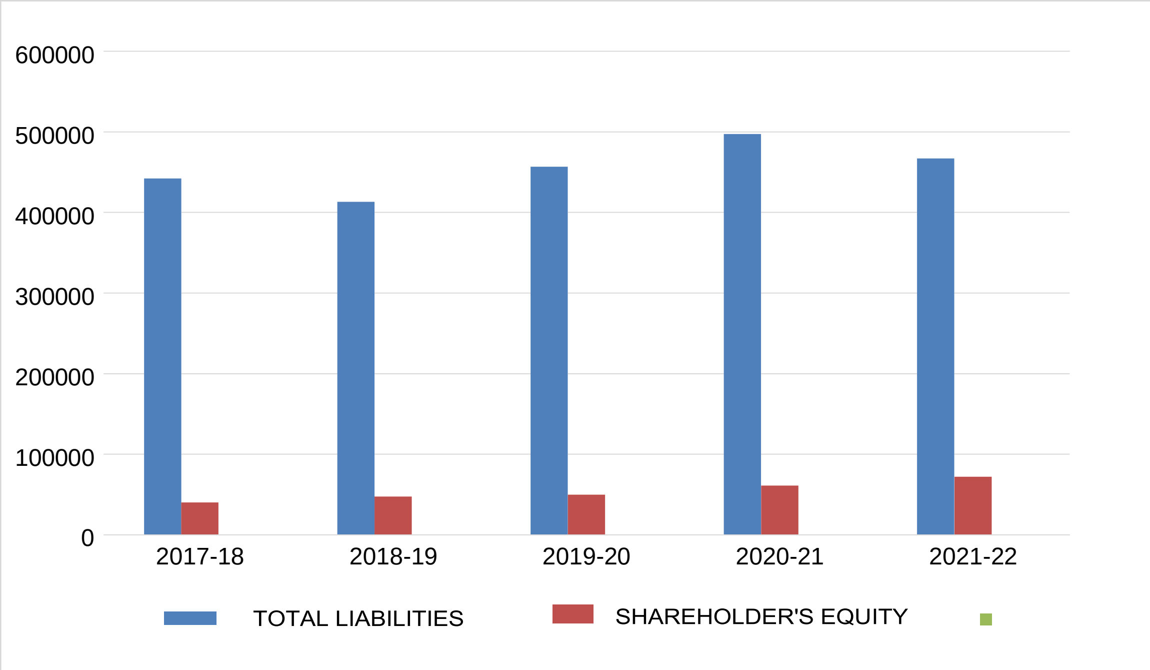
STATEMENT OF DEBT EQUITY RATIO.
(Rs. In Crore)

Years	Total Liabilities Rs.	Shareholder's Equity Rs.	Ratio
2017-18	4,42,029.19	39,834.53	11.096
2018-19	4,13,062.96	47,121.25	8.765
2019-20	4,56,532.07	49,399.81	9.241
2020-21	4,97,086.95	60,767.48	8.180
2021-22	4,66,803.10	71,676.24	6.512

SOURCE: ANNUAL REPORT OF POWER FINANCE CORPORATION LIMITED FROM 2017-2022.

Graphical Presentation Of Deb tEquity Ratio Of Power finance Corporation Limited.

DEBT EQUITY RATIO.



INTERPRETATION: The debt equity ratio is calculated to measure the extent to which debt financing has been used in a business. The ratio indicates the proportionate claims of owners and the outsiders against the company's assets. A high debt-to-equity ratio indicates that a company is borrowing more capital from the market to fund its operations, while a low debt-to-equity ratio means that the company is utilizing its assets and borrowing less money from the market.

PROPRIETARY RATIO.

The proprietary ratio is a measure of a company's financial leverage , which indicates the extent to which it is shareholder's equity to finance its operations. As a business is typically funded by two sources of capital – internal and external, with external funding coming from sources such as loans and other borrowings from creditors like banks, the proprietary ratio can help determine the extent to which a company is relying on equity financing which is an example of internal funding to support its operations and growth.

$$\text{PROPRIETARY RATIO} = \frac{\text{PROPRIETARY'S FUNDS}}{\text{TOTAL ASSETS}}$$

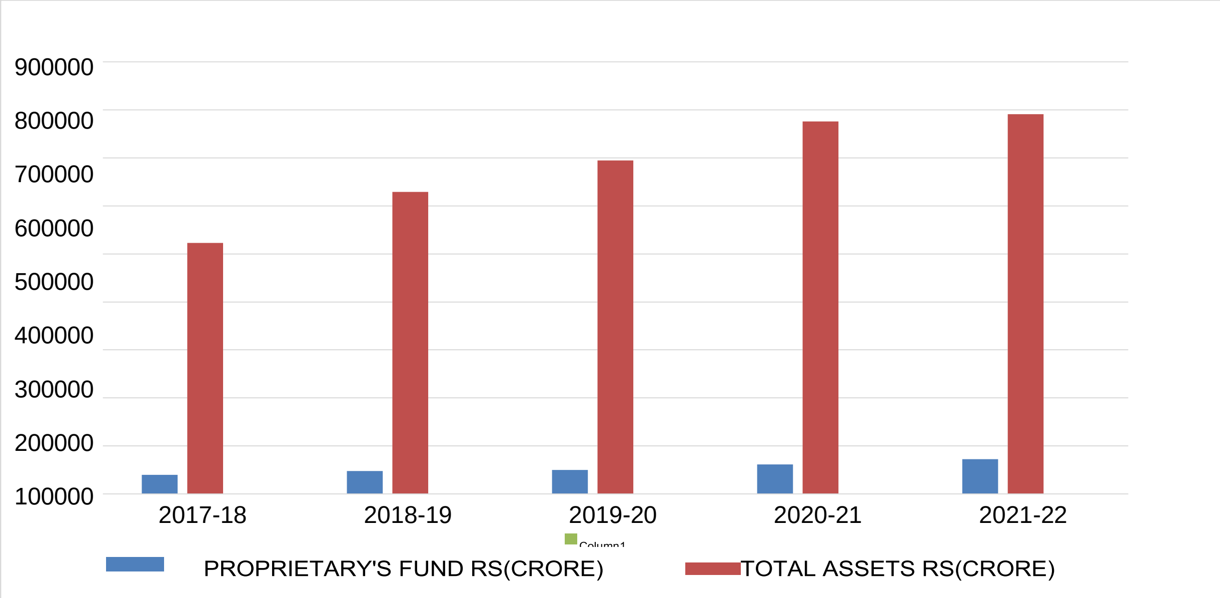
STATEMENT OF PROPRIETARY RATIO.

(Rs. In Crore)

Years	Proprietary's Funds(Shareholder's) Rs.	Total Assets Rs.	Ratio
2017-18	39,834.53	5,22,531.48	0.076
2018-19	47,121.25	6,28,868.72	0.074
2019-20	49,399.81	6,94,520.65	0.071
2020-21	60,767.48	7,75,707.08	0.078
2021-22	71,676.24	7,91,000.27	0.090

SOURCE: ANNUAL REPORT OF POWER FINANCE CORPORATION LIMITED FROM 2017-2022.

Graphical Presentation Of Proprietary Ratio Of Power finance Corporation Limited.



INTERPRETATION: The proprietary ratio as a solvency ratio provides a sense of the percentage of assets shareholders would receive if the firm were to liquidate.A high proprietary ratio signifies the company's strong financial position, as a larger portion of its assets is financed by equity. This suggests that the company is relying less on the debt financing method and has a healthier balance sheet, which can help ensure financial stability in the long run. On the other hand, a low proprietary ratio may indicate that the company is relying heavily on debt financing, which can be a cause for concern as it may lead to financial instability in the long term. A high ratio indicates that the company's capital structure is strengthening, and the business is increasing its shareholders' capital while decreasing its debt obligations. This also helps the firm to secure the credibility of the creditors, financiers, and investors. Additionally, the risk of insolvency or bankruptcy reduces considerably, which means the availability of loans at a lower interest rate.

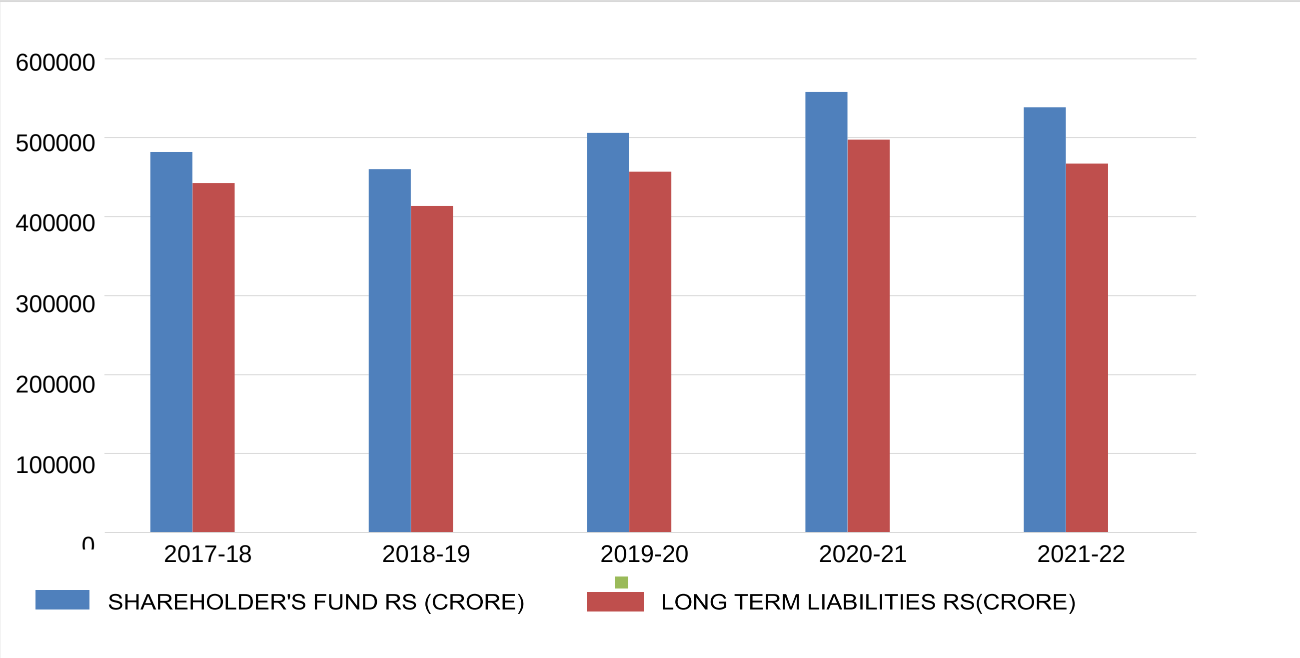
TOTAL INVESTMENT TO LONG TERM LIABILITIES.

Long-term liabilities are a company's financial obligations that are due more than one year in the future. The current portion of long-term debt is listed separately on the balance sheet to provide a more accurate view of a company's current liquidity and the company's ability to pay current liabilities as they become due. Long-term liabilities are also called long-term debt or non current liabilities. Long- term liabilities are listed in the balance sheet after more current liabilities, in a section that may include debentures, loans, deferred tax liabilities, and pension obligations. Long-term liabilities are obligations not due within the next 12 months or within the company's operating cycle if it is longer than one year. A company's operating cycle is the time it takes to turn its inventory into cash.

Years	Shareholder's Fund Rs.	Long Term Liabilities Rs.	Ratio
2017-18	4,81,863.72	4,42,029.19	1.090
2018-19	4,60,184.21	4,13,062.96	1.114
2019-20	5,05,931.88	4,56,532.07	1.108
2020-21	5,57,854.43	4,97,086.95	1.122
2021-22	5,38,479.34	4,66,803.10	1.153

SOURCE: ANNUAL REPORT OF POWER FINANCE CORPORATION LIMITED FROM 2017-2022.

Graphical Presentation Of Total Investment To Long-Term Liabilities Of Power finance Corporation Limited.



TOTAL INVESTMENT TO LONG-TERM LIABILITIES.

INTERPRETATION: The statement of total investment to long term liabilities ratio in the table there is relation between investment and long-term liabilities are shown and given the ratio. 1.090 in year 2017-18, ratio 1.114 in year 2018-19, ratio 1.108 in year 2019-20, ratio 1.122 in year 2020-21, and ratio 1.153 in year 2021- 22. It has been decrees in 2018-19 then after increases up to 2020-21 and then in 2021-22 it will again decrees, it has been fluctuating during the study period.

RATIO OF FIXED ASSETS TO FUNDED DEBT.

Total-debt-to-total-assets is a leverage ratio that defines how much debt a company owns compared to its assets. Using this metric, analysts can compare one company's leverage with that of other companies in the same industry. This information can reflect how financially stable a company is. The higher the ratio, the higher the degree of leverage (DoL) and, consequently, the higher the risk of investing in that company.

$$\text{RATIO OF FIXED ASSETS TO FUNDED DEBT} = \frac{\text{FIXED ASSETS}}{\text{FOUNDED DEBT}}$$

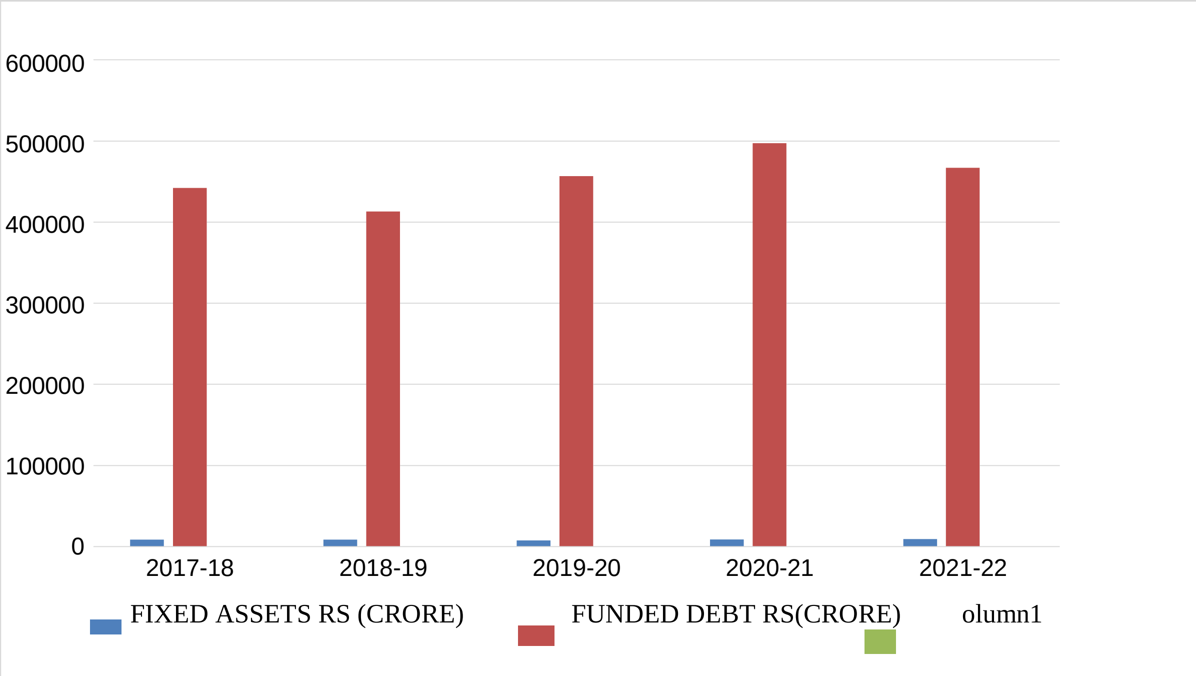
STATEMENT OF RATIO OF FIXED ASSETS AND FUNDED DEBT.
(Rs. In Crore)

Years	Fixed Assets Rs.	Funds Debt Rs.	Ratio
2017-18	8564.54	4,42,029.19	0.019
2018-19	8439.70	4,13,062.96	0.020
2019-20	7483.97	4,56,532.07	0.016
2020-21	8623.89	4,97,086.95	0.017
2021-22	9135.34	4,66,803.10	0.019

SOURCE: ANNUAL REPORT OF POWER FINANCE CORPORATION LIMITED FROM 2017-2022.

Graphical Presentation Of Fixed Assets To Funded Debt Of Power finance Corporation Limited.

FIXED ASSETS TO FUNDED DEBT.



INTERPRETATION: Statement ratio in this table there is relation between fixed assets and funded debt are shown and given the ratio 0.019in the year 2017-18, ratio 0.020in the 2018-19,0.016 in the 2019-20, ratio 0.017 in the year 2020-21, ratio 0.019 in the 2021-22. It has been fluctuating during the study period.

FINANCIAL LEVERAGE RATIO.

Financial leverage ratio sometimes called equity or debt ratios, measure the value of equity in a company by analyzing its overall debt picture. These ratios either compare debt or equity to assets as well as shares outstanding to measure that true value of the equity in a business.

$$\text{INANCIAL LEVERAGE RATIO} = \frac{\text{EBIT}}{\text{EBT}}$$

STATEMENT OF FINANCIAL LEVERAGE RATIO .

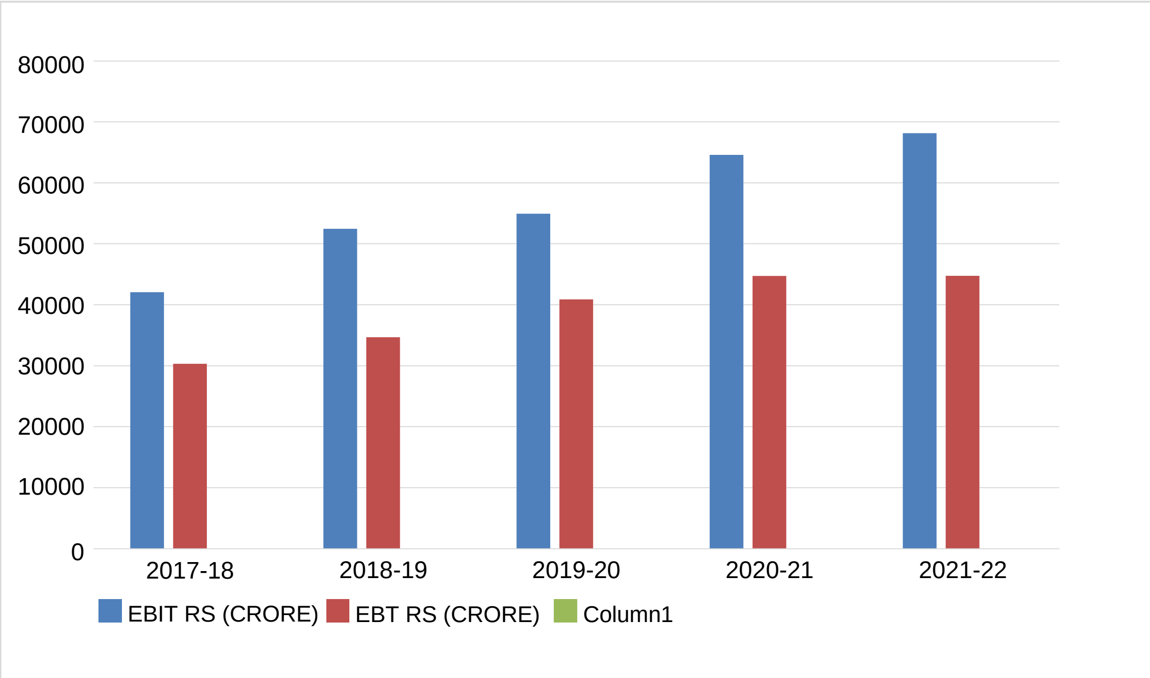
(Rs. In Crore)

Years	**EBIT Rs.**	**EBT Rs.**	**Ratio**
2017-18	42,046.92	30,288.83	1.388
2018-19	52,444.58	34,628.80	1.514
2019-20	54,915.89	40,844.65	1.344
2020-21	64,568.01	44,683.52	1.445
2021-22	68,113.40	44,708.78	1.523

SOURCE: ANNUAL REPORT OF POWER FINANCE CORPORATION LIMITED FROM 2017-2022.

Graphical Presentation Of Financial Leverage Ratio Of Power finance Corporation Limited.

FINANCIAL LEVERAGE RATIO.



INTERPRETATION: Statement ratio in this table there is relation between EBIT and EBT are shown and this ratio indicates that the higher the degree of financial leverage, the more volatile earnings will be. Since interest is usually a fixed expense, leverage magnifies returns and EPS. This is good when operating income is rising, but it can be a problem when operating income is under pressure.

RATIO OF RESERVE TO EQUITY CAPITAL.

The ratio establishes relationship between Reserves and Equity Share Capital. The ratio indicates that how much profits are generally retained by the firm for future growth. Higher the ratio, generally, better is the position of firm.

$$\text{RATIO OF RESERVE TO EQUITY CAPITAL} = \frac{\text{RESERVE}}{\text{EQUITY SHARE CAPITAL}}$$

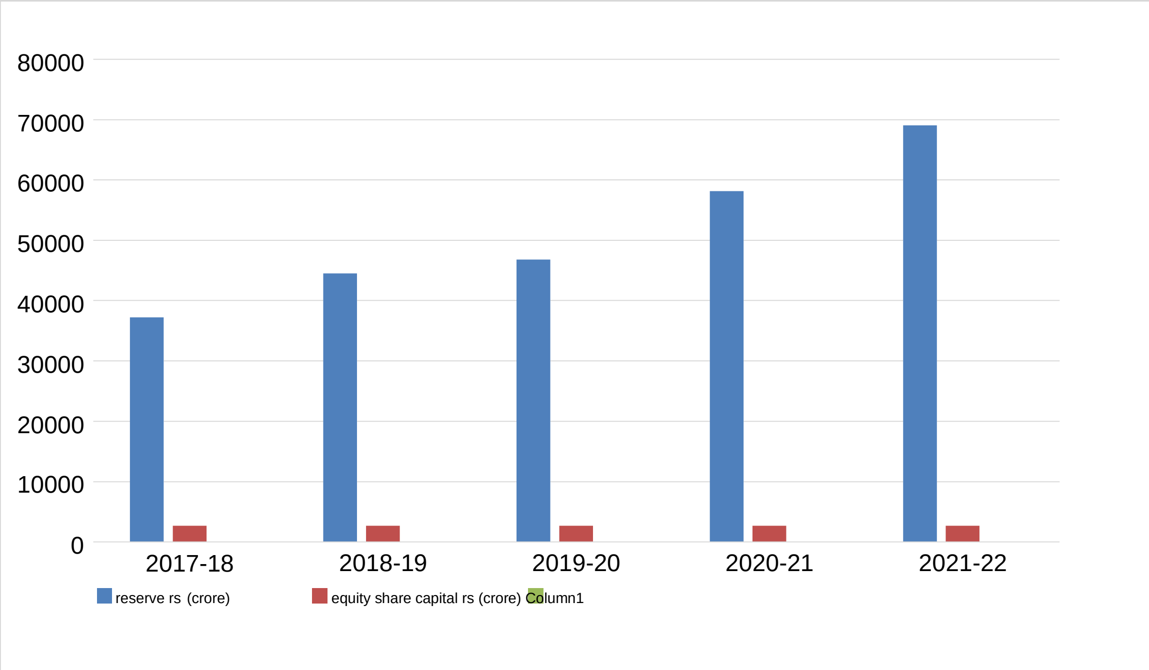
STATEMENT OF RESERVE AND EQUITY SHARE CAPITAL.

(Rs. In Crore)

Years	Reserve Rs.	Equity Share Capital Rs.	Ratio
2017-18	37,194.45	2,640.08	14.088
2018-19	44,481.17	2,640.08	16.848
2019-20	46,759.73	2,640.08	17.711
2020-21	58,127.40	2,640.08	22.017
2021-22	69,036.16	2,640.08	26.149

SOURCE: ANNUAL REPORT OF POWER FINANCE CORPORATION LIMITED FROM 2017-2022.

Graphical Presentation Of Ratio Of Reserve To Equity Share Capital Of Power finance Corporation Limited.
RATIO OF EQUITY SHARE CAPITAL.



INTERPRETATION: Statement ratio in this table there is relation between Reserve and Equity share capital are shown and the ratio indicates that how much profits are generally retained by the firm for future growth. Higher the ratio, generally, better is the position of firm.

4. FINDINGS :

The most critical decision of any company is involved in the formulation of its appropriate capital structure. The best design of capital structure of the company obviously helps the management to achieve its ultimate goal of minimizing the overall cost of capital, maximizing the value of the firm. These will in turn help to maximize the earning per share. It is apparent that the design of the capital structure of a company may have some bearing on the profitability of that company.

The present study is aimed at analysing the capital structure of Power Finance Corporation Limited. The main objective is to analyse the capital structure of the company.

- The company is highly geared companies are at great risk when any economic downturn happens.
- During the economic crash, these companies filed for bankruptcy.
- A company’s capital consist of equity share capital and long term loans.
- Second major player in the industry.
- Debt equity ratio shows that the company has a strong financial background to carry on in business.
- The last five years the company issued equity share capital to raise the fund.

5. SUGGESTIONS :

The Analysis of Capital Structure identifies the financial strengths and weakness of the company by properly establishing relationship between the items of the balance sheet and profit and loss accounts. This first task is to select the information relevant to the decision under consideration fron the total information contained in the financial statements. In short, “Analysis of Capital Structure is the process of selection relation and evaluation.”

- The company should always maintain current assets to meet the current liabilities.
- It will be better for the company, if they could keep the solvency in standard form.
- Instead of issuing equity shares it will be better borrowing low interest rate funds for financing their assets.
- It will be better to follow the current trend of proprietary ratio.
- Liabilities, on the contrary, are better when treated as a numerator for debt ratio with equity as a denominator.
- The company has less financing and debt service cost as a higher proportion of assets are owned by equity

shareholders.

- The company is relying less on the debt financing method and has a healthier balance sheet, which can help ensure financial stability in the long run.

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