

A Study on Capital Structure Analysis of Selected Pharmaceutical Companies of Gujarat

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Abstract

Capital structure is combination of various source of capital use by the company, normally it includes two types of funds (i) own funds and (ii) loan funds. Own funds includes equity capital, preference capital, and reserves and surplus while loan fund includes long term loans secured and unsecured like debenture, loan from financial institutions, loan from banks and public deposits etc. From the analysis of capital structure of selected pharmaceutical companies of Gujarat the researcher can be concluded that capital structures of the all selected companies are levered. Proportions of owner's funds are more as compare to debt fund. Overall ratio of own funds and loan fund funds were found 72 percent and 28 percent respectively. Capital structure of all selected companies are not identical in all manners these are significantly different.

Keywords: Capital Structure, Levered and Unlevered, Own funds, Loan funds.

I. INTRODUCTION

Capital structure is combination of various source of capital use by the company, normally it includes two types of funds (i) own funds and (ii) loan funds. Own funds includes equity capital, preference capital, and reserves and surplus while loan fund includes long term loans secured and unsecured like debenture, loan from financial institutions, loan from banks and public deposits etc.

A capital structure should be ideal. An Ideal capital structure is those capital structure which gives maximum benefit to the owner of the business. There are two kinds of capital structure exists levered and unlevered. The capital structure use debt funds are known as levered and the capital structure use only owner's funds are known as unlevered. Levered

capital structure is risky but it gives more benefit to the owner while unlevered capital structure is riskless but it gives less benefit to the owners.

The present study is focus on capital structure analysis of selected pharmaceutical companies of Gujarat state. The following are the objectives of the study.

II. OBJECTIVES OF THE STUDY

1. To know the various components of capital structure used by the pharmaceutical companies in Gujarat.
2. To know the overall proportion of own fund and loan fund of capital structure of pharmaceutical companies in Gujarat.

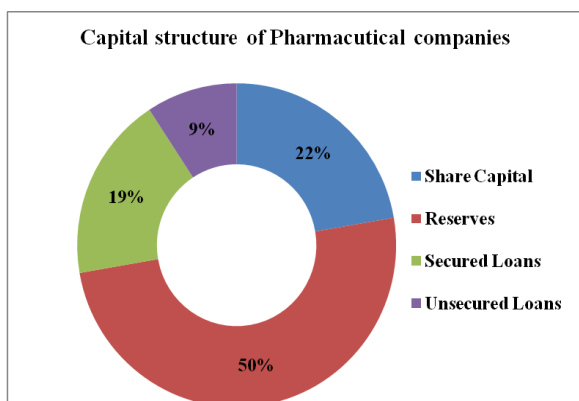
III. RESEARCH METHODOLOGY

The researcher has collected data of capital structure of ten selected pharmaceutical companies situated in Gujarat state from its financial reports of last five years from 2010-11 to 2014-15. Percentage of each component of capital structure of each company calculated with total capital invested in the company. Average of five years of such percentage was calculated for each components use in capital structure for each company. Than average of ten selected companies calculated for each component and after that a pie chart created for overall capital structure of selected pharmaceutical companies. The selected companies are (i) Alembic Ltd.(AL), (ii) Cadila Healthcare Ltd.(CHL), (iii) Claries life science Ltd.(CLSL), (iv) Gujrat Terce Ltd. (GTL), (v) Ishita drugs & Industries Ltd.(IDIL), (vi) Intas Pharmaceutical Ltd. (IPL), (vii) Lincoln pharmaceutical Ltd.(LPL), (viii) Relish Pharmaceutical Ltd. (RPL), (ix) Roselab Ltd.(RL), and (x) Torrent Pharmaceutical Ltd.(TPL).

IV. DATA ANALYSIS

Table: 1 Average Percentage of each components of capital structure

SOURCE	AL	CHL	CLSL	GTLL	IDIL	IPL	LPL	RPL	RL	TPL	Avg.
Share Capital	14.29	2.48	5.20	41.37	58.92	4.47	11.46	27.13	55.42	2.14	22.3
Reserves	70.05	68.05	69.74	18.17	38.81	60.72	51.81	54.63	5.08	62.67	50.0
Secured Loans	11.47	20.54	25.06	14.55	0.00	23.26	31.21	1.85	31.69	25.56	18.5
Unsecured Loans	4.19	8.93	0.00	25.92	2.26	11.56	5.52	16.39	7.80	9.63	9.2
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.0



From the above table and chart the researcher can observed that in all the selected ten pharmaceuticals companies have four major components consists in capital structure. Share capital, Reserves, secured loan and unsecured loan. By the analysis it can be concluded that Average proportion of each components found 22 percent, 50 percent, 19 percent and 9 percent respectively. Moreover it was found that overall 72 percent capital structure funded by owner’s capital and average 28 percent by debt capital. All the capital structures of selected companies are levered because all the companies used debt fund in its capital structure. That means of the companies got benefit of trading on equity.

V. TESTING OF HYPOTHESIS

H₀: There is no significance difference between capital structures of selected pharmaceutical companies

H₁: There is no significance difference between capital structures of selected pharmaceutical companies

Source of Variation	SS	df	MS	F	P value	F crit
Between Groups	1.5649	9	1.74	2.63	1	2.211
Within Groups	19860.59	30	662.01			
Total	19860.59	39				

During the current study the researcher assume that there is no any significance difference in capital structure of the selected companies. There for the null hypothesis mentioned above tested with the help of ANOVA at 5 percent level of significance and considering one factor. The null hypothesis is rejected here by the test it indicates that all the capital structure of selected companies are not identical. There are significant differences in capital structure of all selected pharmaceutical companies of Gujarat.

VI. CONCLUSION

From the above analysis of capital structure of selected pharmaceutical companies of Gujarat the researcher can be concluded that:

- 1) Capital structures of the all selected companies are levered means all the selected companies used debt in capital structure.
- 2) Proportions of owner’s funds are more as compare to debt funds and in owner’s fund proportions of reserves found more as compare to equity capital.
- 3) Overall ratio of own funds and loan fund funds were found 72 percent and 28 percent respectively.
- 4) Capital structure of all selected companies are not identical in all manners these are significantly different.

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