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Evaluating the Impact of Capital Structure on Firms Performance

Bhuvanashree[1], Ravichandra Reddy[2]

[1]4th sem MBA, AIMS IBS Business School, Bangalore
[2]Professor, Department of MBA, AIMS IBS Business School, Bangalore

Abstract:
The capital structure of a firm is a mix of debt and equity financing plays a pivotal role in determining its overall financial performance. This study aims to evaluate the impact of capital structure decisions on the performance of firms across selected key sectors. With an increasing focus on maximizing shareholder value and maintaining financial stability, understanding the relationship between leverage and performance indicators such as Return on Equity, Return on Assets, and Earnings Per Share has become essential. Using secondary data and statistical tools like comparative analysis, this research examines how different levels of debt influence firm profitability, efficiency, and market valuation. The study is grounded in financial performance ratios and profitability ratios which provide deeper insights into financing behavior. The results reveal that a balanced capital structure can positively affect firm performance, while excessive reliance on debt may lead to financial risk and decreased profitability. This paper offers valuable recommendations for financial managers and policymakers to optimize capital structure decisions in alignment with long-term strategic goals. Ultimately, the findings contribute to a better understanding of how financial structuring impacts business success in today's dynamic economic environment.

Keywords: Financial Performance, Capital Structure, ROE, ROA, EPS, EBIT, Interest Coverage Ratio, Sectoral Analysis, Indian Companies.

I. INTRODUCTION:

Capital structure refers to the mix of debt and equity that a company uses to finance its overall operations and growth. It plays a pivotal role in determining a firm's financial stability, risk exposure, cost of capital, and ultimately its value in the long run. An optimal capital structure helps balance the trade-off between risk and return by minimizing the cost of capital while maximizing shareholder value. The choice between debt and equity financing is influenced by several factors including the nature of the industry, company size, profitability, market conditions, and management's risk tolerance.

This study aims to analyze and compare the capital structure strategies of selected Indian companies across five key sectors: Tata Motors and Maruti from the Automobile sector; SBI and Bank of Baroda from the Banking sector; ITC and Dabur from the FMCG sector; Ultratech Cement and Adani Cement from the Cement sector; and Tata Steel and JSW Steel from the Steel sector. By focusing on the Debt-to-Equity Ratio (DER) as a key indicator, the study explores how these companies have structured their financing over the five-year period from 2020 to 2024.

The companies selected represent both public and private entities, and each operates in sectors with distinct capital intensity and financial strategies. For instance, capital-intensive industries such as Steel and

Cement may rely more heavily on debt financing to fund their infrastructure and expansion activities. In contrast, FMCG companies, which generate steady cash flows, typically prefer conservative capital structures with minimal leverage. Banks, due to the nature of their operations, inherently operate with higher levels of debt in the form of deposits and borrowings.

The study also examines how these companies responded to economic challenges, particularly during the COVID-19 pandemic and the subsequent recovery years. Special attention is given to how capital structure decisions impacted their financial health, profitability, and risk exposure. Furthermore, the analysis provides insights into the strategic use of leverage, highlighting whether firms reduced debt to strengthen balance sheets or increased borrowings to capitalize on growth opportunities.

Understanding the capital structure of these companies provides valuable insights for investors, financial analysts, and corporate stakeholders in evaluating the risk profile, investment potential, and financial sustainability of firms operating in different sectors of the Indian economy.

II. RESEARCH METHODOLOGY:

Research Design:

This study follows a **descriptive and analytical research design**, aiming to evaluate and compare the financial performance and capital structure of selected Indian companies across different sectors. The descriptive part helps in summarizing the financial data, while the analytical approach enables the interpretation of financial ratios to draw meaningful insights.

Data Type and Source:

- The study is based on **secondary data**, collected from reliable and authentic sources such as:
  - Company Annual Reports
  - Financial Databases (e.g., Moneycontrol, Screener.in)
  - BSE/NSE Filings
  - Industry Reports
- The data spans **five financial years: 2020 to 2024**.

Problem Statement of this study:

In today's dynamic business environment, determining an optimal capital structure is crucial for a firm's financial health and long-term sustainability. Companies across different sectors face distinct financial requirements and risks, leading to variations in their use of debt and equity. While some sectors, like manufacturing and steel that are high in capital-intensive may depend more on debt, others like FMCG prefer low-leverage strategies. However, there is no one-size-fits-all model, and poor capital structure decisions can increase financial risk and reduce shareholder value. Hence, a sector-wise comparative analysis is essential to understand how companies strategically manage their capital structure and how it impacts their financial performance, especially during uncertain economic periods like the COVID-19 pandemic.

Objectives of the Study:

1. **To analyze the capital structure** (debt-to-equity ratio) of selected companies from automobile, banking, FMCG, cement, and steel sectors between 2020 and 2024.
2. **To evaluate the relationship between capital structure and financial performance** using ratios such as ROE, ROA, EPS, EBIT, and ICR.
3. **To identify sector-specific capital structure trends** and how different industries manage debt and equity financing.

4. **To assess the impact of capital structure decisions** on profitability, solvency, and shareholder returns.
5. **To provide strategic suggestions** for optimizing capital structure based on sectoral insights and financial performance.

Scope of this Study:

- The study covers **ten major Indian companies** from five sectors:
  - **Automobile:** Tata Motors and Maruti
  - **Banking:** SBI and Bank of Baroda
  - **FMCG:** ITC and Dabur
  - **Cement:** Ultratech Cement and Adani Cement
  - **Steel:** Tata Steel and JSW Steel
- The analysis is based on **secondary data from 2020 to 2024**, sourced from annual reports and financial databases.
- The study focuses on **key financial ratios**: Debt-to-Equity Ratio (DER), Return on Equity (ROE), Return on Assets (ROA), Earnings Per Share (EPS), Earnings Before Interest and Tax (EBIT), and Interest Coverage Ratio (ICR).
- It includes a **comparative evaluation** between companies within the same sector and across different sectors.
- The study is limited to quantitative financial performance indicators and does not cover qualitative factors such as leadership, ESG practices, or market sentiment.

Need for the Study:

- To understand how **capital structure decisions impact financial performance** across different sectors.
- To evaluate how companies **manage debt and equity** during economic uncertainties such as the COVID-19 pandemic.
- To provide a **comparative view** of financial health among top-performing companies in automobile, banking, FMCG, cement, and steel sectors.
- To help investors, analysts, and stakeholders **identify sector-specific financial trends** and risk factors.
- To assist companies in making **informed strategic decisions** on capital restructuring and financing.
- To analyze how **leverage affects profitability, solvency, and operational efficiency**.
- To bridge the gap between academic theory and real-world financial performance of leading Indian firms.
- To highlight the **importance of optimal capital structure** in achieving long-term growth and shareholder value.

III. Literature review:

The study by **Manikandan, S., and Athishwaran, P. (2023)** examines the impact of capital structure on the profitability of selected steel companies in India, acknowledging the inconsistent relationship observed in previous research between leverage and firm performance. The core problem addressed is the uncertainty in determining whether increased debt financing enhances profitability, especially in capital intensive industries like steel. The objective of the research is to analyze the correlation between various capital structure components specifically debt-equity ratios and profitability measures such as Net Profit Ratio, Return on Equity (ROE), and Return on Capital Employed (ROCE). Using secondary data from company annual reports over a five-year period, the study employs statistical tools such as correlation and regression analysis to derive insights. The findings indicate that there is a weak and mostly negative relationship between capital structure and profitability in the selected firms, suggesting that higher debt levels do not significantly contribute to improved profitability. As a solution, the study recommends that steel companies adopt a balanced capital structure strategy that avoids excessive reliance on debt and aligns financial planning with long-term profitability goals.

The study by **Takeh Ata and Jubiliy Navaprabha (2015)** investigates the impact of capital structure on the financial performance of selected steel companies in India, focusing on the challenges faced by capital-intensive industries in managing debt effectively. The problem identified is the uncertainty and inconsistency in understanding how various components of capital structure influence profitability, especially in sectors like steel where financing decisions are crucial due to heavy infrastructure and operational costs. The objective of the study is to examine the relationship between capital structure indicators such as debt-to-equity ratio, total assets to debt ratio, and interest coverage ratio with profitability measures like operating profit margin, return on assets, return on equity, and return on capital employed. By employing regression analysis and statistical tools, the study concludes that higher debt levels generally have a negative impact on financial performance. As a solution, the authors suggest that companies in the steel sector should avoid excessive reliance on debt and strive to maintain a balanced capital structure to sustain profitability and reduce financial risk.

The Article by **Dutta, S., & Roy, S. (2021)** explores the impact of capital structure on the financial performance of Indian firms, particularly within the manufacturing sector. The problem identified in their research is the ongoing ambiguity and mixed empirical evidence regarding the influence of capital structure decisions specifically the mix of debt and equity on a firm's profitability and performance. The authors note that this issue is especially relevant in emerging markets like India, where capital markets and corporate governance mechanisms differ significantly from those in developed countries. The main objective of the study is to empirically analyze how different leverage ratios, such as the Debt-to-Equity Ratio and Total Debt Ratio, affect firm performance indicators like Return on Assets (ROA) and Return on Equity (ROE). To achieve this, the authors use regression analysis based on data from selected Indian manufacturing firms. The results suggest that higher financial leverage negatively impacts firm performance, indicating that excessive reliance on debt can reduce profitability. As a solution, the study recommends that firms maintain an optimal capital structure to enhance financial health and long-term sustainability.

The Research by **Umed Singh (2023)** investigates the impact of capital structure on the financial performance of selected Indian cement companies, addressing the challenge that financing decisions are critical in capital-intensive industries where debt levels can significantly alter profitability. The problem identified is the unclear and often negative association between debt–equity mix and firm performance especially in the cement sector making it difficult for managers to determine an optimal leverage level. The study's objective is to empirically assess how capital structure (measured via debt–equity ratio) relates to key financial performance metrics such as net profit, operating profit, return on assets, return on capital employed, return on equity, and earnings per share. Using secondary data from annual reports of five BSE-listed cement companies across a ten-year span, the study applies descriptive statistics, correlation analysis, and regression models. The findings indicate a consistently **negative relationship** between debt–equity ratios and profitability measures, implying that increased reliance on debt harms financial performance. As a solution, the author recommends that cement companies pursue a **balanced capital**

structure, managing debt proportion carefully to avoid profitability erosion and improve financial stability.

IV. Data Analysis:

TATA Motors:

Particulars	2020	2021	2022	2023	2024
DER	1.197	1.141	1.165	0.839	0.456
ROA	-11.64	-3.68	-2.17	4.41	11.95
ROE	-39.64	-12.57	-6.97	12.14	26.21
EPS	-21.06	-6.59	-3.63	7.11	20.61
EBIT	-5154.3	143.66	398.27	3585.13	6748.15
ICR	2.612	0.068	0.187	1.75	3.956

Interpretation:

- The DER consistently decreased from **1.197 in 2020 to 0.456 in 2024**, indicating that the company has **significantly reduced its financial leverage**. This shows a strategic effort to repay debts and strengthen the capital structure, reducing financial risk over time.
- ROA improved dramatically from a **negative -11.64% in 2020 to a positive 11.95% in 2024**, reflecting a **complete turnaround in asset efficiency**. The company is now generating better returns from its total assets, showcasing improved operational management.
- ROE shifted from **deep losses -39.64% to strong positive returns 26.21%**, proving the company's ability to generate **significant value for its shareholders** in recent years. This turnaround highlights better utilization of equity and strong financial discipline.
- The EPS recovery from **negative to highly positive** over five years shows that **profitability per share has improved impressively**, turning shareholder losses into solid earnings. This builds investor confidence and indicates growth in shareholder wealth.
- EBIT went from a major loss in 2020 to a **robust operational profit of ₹6748.15 million in 2024**. This is a sign of **exceptional operational recovery**, likely driven by increased sales, better cost control.
- ICR dropped dangerously low in 2021 and 2022, indicating the company could barely cover its interest obligations. However, the recovery to **3.956 by 2024** suggests **restored financial health**, with enough EBIT to comfortably meet interest payments.
- "In a nutshell, the changes in the capital structure of the company particularly the significant reduction in debt have played a major role in improving financial health. With continuous improvements in profitability, operational efficiency, and shareholder returns, the company has successfully transitioned from a loss-making entity to a financially sound and growing business. However, attention must still be given to maintaining strong interest coverage, even during volatile periods."

Maruti Suzuki:

Particulars	2020	2021	2022	2023	2024
DER	0.002	0.009	0.007	0.02	0.0003
ROA	9.03	6.03	5.13	9.67	11.97
ROE	11.66	8.23	6.96	13.33	15.72

EPS	187.06	140.02	124.68	266.46	431.08
EBIT	7197.7	5260.2	4708.2	10346	17233.6
ICR	54.15	52.18	37.39	55.44	89.2

Interpretation:

- Maruti has maintained an **extremely low DER throughout the years**, suggesting the company is **virtually debt-free** and relies heavily on equity financing. This points to **strong internal capital structure and minimal financial risk**.
- ROE saw a temporary dip in 2022 at 6.96% but steadily improved to **15.72% by 2024**. This demonstrates **enhanced value creation for shareholders**, driven by rising net income and strong financial management.
- ROA saw slight decrease in 2022 by then it has been increased to **11.97 which demonstrate** effective utilization of assets of that company.
- EPS dropped in 2021-2022 but **more than tripled by 2024**. This surge indicates **strong profitability and wealth creation for shareholders**, reflecting Maruti's successful strategic and operational execution.
- EBIT showed a sharp rise from **₹4708.2 million in 2022** to **₹17233.6 million in 2024**, reflecting a **massive boost in operational performance**, likely due to increased sales volume, better margins, or cost optimization.
- ICR remained strong throughout, rising to **89.2 in 2024**, which confirms that the company is in an **excellent position to service its interest obligations**, even if they were to increase.
- "In a nutshell, Maruti's financial structure is exceptionally strong due to minimal debt, and its profitability and operational efficiency have shown significant improvement over the years. The consistent rise in earnings and returns reflects robust financial planning, while the high interest coverage ratio confirms the company's sound solvency position. Maruti is well-positioned for continued growth and shareholder value creation."
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SBI Bank:

Particulars	**2020**	**2021**	**2022**	**2023**	**2024**
DER	1.356	1.64	1.521	1.505	1.584
ROA	0.36	0.45	0.63	0.91	0.98
ROE	6.95	8.86	12.33	16.75	17.46
EPS	16.23	22.87	35.49	56.29	68.44
EBIT	75173.7	82652.22	93397.5	97743.1	124861
ICR	0.472	0.535	0.603	0.522	0.489

Interpretation:

- The DER has **slightly increased** over the five-year period, from **1.356 to 1.584**, indicating a **moderate rise in reliance on debt financing**. Although a higher DER is typical in banking, this shows SBI has continued to fund its operations with a balanced mix of debt and equity.
- ROA has **steadily improved** from 0.36% in 2020 to 0.98% in 2024. This suggests that SBI has become **more efficient in utilizing its total assets to generate profit**, a positive trend for overall operational health.

- ROE has more than doubled over the five years i.e. from 6.95%-17.46%, reflecting **enhanced profitability and better utilization of shareholders' equity**. This is a strong indicator of value creation and improved financial management.
- EPS has shown a **steady and strong growth**, more than quadrupling in five years. This indicates **consistent increase in profitability**, which is beneficial to shareholders and demonstrates strong earning potential.
- SBI's EBIT has grown significantly, showcasing **improved core banking operations**, possibly driven by higher interest income, fee income, and better cost control.
- ICR remains **very low throughout the period**, staying below 1.0. This indicates that the **bank's EBIT is not sufficient to cover interest expenses**, which can be a concern in terms of financial flexibility. However, in the banking sector, ICR is not as straightforward to interpret as in other industries due to the nature of interest income/expenses being part of core business operations.
- "In a nutshell, SBI Bank has shown a consistent upward trend in profitability, efficiency, and shareholder returns over the past five years. The steady increase in ROA, ROE, and EPS demonstrates strong financial performance. Though the Interest Coverage Ratio remains low, which is typical in the banking sector, the bank's operational strength and growing earnings indicate sound financial management and growth potential."

Bank of Baroda:

Particulars	2020	2021	2022	2023	2024
DER	1.29	0.86	1.21	1.04	0.84
ROA	0.04	0.07	0.56	0.96	1.12
ROE	0.76	1.07	8.46	14.36	15.85
EPS	1.36	1.78	14.06	27.28	34.4
EBIT	18077.2	20543.66	21716.4	24518.3	28251.7
ICR	0.37	0.492	0.582	0.508	0.416

Interpretation:

- The DER initially declined in 2021 to 0.86, rose slightly again in 2022 to 1.21, and finally fell to 0.84 in 2024. This reflects a fluctuating but overall declining reliance on debt financing, indicating better financial discipline and a move toward a healthier capital structure.
- ROA showed consistent improvement, growing from **a negligible 0.04% to 1.12%**, which indicates that the bank has **become significantly more efficient in using its assets to generate profits** over the years.
- ROE witnessed a remarkable rise, particularly from 2022 onward. This shift highlights a **strong improvement in the bank's ability to generate returns for its equity holders**, signaling a successful turnaround and improved profitability.
- EPS increased exponentially, showing **strong earnings growth per share**, especially from 2022 onward. This surge indicates **high profitability, increased operational efficiency, and growing shareholder value**.
- EBIT increased steadily over the five years, with a **growth of over ₹10,000 million**, which shows **strong operational performance and improved income generation from core banking activities**.

- ICR remained **consistently below 1**, indicating that **EBIT was not sufficient to fully cover interest obligations**. Although there was a brief improvement in 2022 (0.582), it declined again in 2024. This remains a **potential concern for financial risk**.
- "In summary, Bank of Baroda has shown a strong turnaround in profitability, efficiency, and shareholder value from 2020 to 2024. With a healthier capital structure and rising returns, the bank is clearly strengthening its financial footing. However, the consistently low interest coverage ratio highlights the need to carefully manage debt servicing capacity to ensure long-term stability."

		ITC company:			
Particulars	**2020**	**2021**	**2022**	**2023**	**2024**
DER	0.004	0.005	0.004	0.004	0.003
ROA	20.11	18.2	20.05	22.79	23.38
ROE	23.63	22.08	24.52	27.74	28.27
EPS	12.33	10.59	12.22	15.15	16.39
EBIT	19222.5	26363.24	24719.5	19871.3	17209.9
ICR	344.98	555.36	589.26	475.27	376.33

Interpretation:

- ITC has maintained an **extremely low DER throughout the 5 years**, reflecting **minimal dependence on debt**. This consistent trend suggests a **strong equity-based capital structure** and low financial risk.
- ROA remained consistently high, indicating **excellent asset utilization**. The increase in ROA over time shows that the company has improved its **operational efficiency** and is generating higher profits from its assets.
- ROE is **consistently above 20%**, a sign of **strong shareholder value creation**. The rising trend highlights effective management, profitability, and efficient use of shareholders' funds.
- EPS fluctuated slightly in 2021 but showed an **overall upward trend**, rising to ₹16.39 in 2024. This indicates **steady earnings growth**, enhancing investor confidence and signaling robust financial performance.
- While EBIT peaked in 2021–2022, it saw a **gradual decline afterward**. Despite the drop, the company still maintains strong profitability levels, although this may warrant a closer look at operational costs or revenue streams.
- ICR is **exceptionally high throughout** the five-year period. Even with a minor decline post-2022, it remains very strong, indicating **excellent capacity to service interest obligations**. ITC is highly solvent and faces **no risk of default**.
- "In summary, ITC Company exhibits a highly stable financial profile, characterized by strong returns, high profitability, and virtually no debt. With consistently improving ROA and ROE, the company is efficiently using its assets and equity to generate profits. Although EBIT has slightly declined in recent years, its exceptionally high interest coverage ratio reflects robust financial strength. ITC's fundamentals position it as a reliable and growth-driven organization with minimal financial risk."

		Dabur company:			
Particulars	**2020**	**2021**	**2022**	**2023**	**2024**
DER	0.025	0.032	0.087	0.087	0.101

ROA	19.18	18.41	16.67	14.68	14.32
ROE	25.58	25.63	24.43	21.84	21.82
EPS	6.62	7.82	8.11	7.75	8.52
EBIT	1427.74	1692.45	1914.98	1875.04	2047.84
ICR	74.09	185.17	102.56	40.44	25.24

Interpretation:

- The DER has increased fourfold, rising from **0.025 to 0.101**, indicating a **gradual rise in the company's dependence on debt financing**. Though still relatively low, this trend should be monitored for financial leverage implications.
- ROA has shown a **continuous decline**, falling by nearly 5%. This suggests that **Dabur's efficiency in using its assets to generate profits has weakened**, potentially due to increased costs or reduced asset productivity.
- A decline in ROE, although moderate, implies a **dip in the company's ability to generate profits from shareholder funds**. This could be influenced by rising debt, stagnating earnings, or declining margins.
- EPS has grown over the five-year period, despite a slight dip in 2023. This reflects **overall earnings growth** and **shareholder value enhancement**, although the pace is slower compared to peers.
- EBIT has **steadily increased**, showing **operational growth and improved business performance**, despite the declining efficiency ratios. This suggests **top-line strength** and better cost management.
- ICR has fallen sharply from **185.17 in 2021** to just **25.24 in 2024**. While still safe, this **consistent drop signals rising interest costs** or **lower EBIT relative to financing charges**, which may affect future financial flexibility.
- "To sum up, Dabur has seen stable growth in EBIT and EPS, reflecting underlying operational strength. However, a decline in ROA and ROE signals weakening efficiency and returns, while the increase in DER and declining ICR indicate a gradual shift towards debt reliance and growing financial risk. The company remains fundamentally strong, but strategic financial discipline will be critical moving forward."

TATA Steel:

Particulars	**2020**	**2021**	**2022**	**2023**	**2024**
DER	0.526	0.344	0.257	0.283	0.294
ROA	4.48	9.46	14.87	6.62	1.95
ROE	9.04	18.08	26.31	11.49	3.49
EPS	57.11	145	270.33	12.68	3.85
EBIT	9641.99	13713.17	23814	47882.8	22786.5
ICR	3.181	3.019	8.529	12.62	5.45

Interpretation:

- DER shows a **steady decline** from 2020 to 2022 (0.526 to 0.257), reflecting **reduced reliance on debt financing**, which is financially healthy. However, a slight rise again in 2023 and 2024 suggests **moderate new borrowings**, yet the ratio remains conservative.
- ROA peaked in 2022 at **14.87%** but declined drastically by 2024. This shows that **asset efficiency weakened sharply**, possibly due to rising costs, underutilized capacity, or margin pressures in the later years.

- ROE followed a similar pattern jumping impressively in 2022 (**26.31%**) and then dropping sharply by 2024. This implies that **shareholder returns fell**, possibly due to declining net profits and underperformance in recent years.
- EPS rose to a **record ₹270.33 in 2022**, then drastically dropped. This shows a **volatile earnings pattern**, with significant profits in 2021–2022 followed by a sharp downturn, possibly reflecting industry cycles or global demand fluctuations.
- EBIT rose steadily till 2022, peaked at **₹47,882.79 million in 2023**, then fell in 2024. Despite the fall, the value in 2024 is still **well above 2020 levels**, suggesting that **core operations remain relatively strong**, though recently impacted.
- ICR increased significantly in 2022 (8.52) and peaked in 2023 (12.62), reflecting **greater ability to cover interest expenses** during the high-profit phase. Although ICR dropped to **5.45** in 2024, it still indicates a **comfortable interest coverage**.
- "TATA Steel experienced its strongest financial performance in 2022, marked by peak profitability and high returns to shareholders. However, the following years saw a significant decline in returns and asset efficiency. While the company has maintained a healthy capital structure and interest coverage, the recent fall in EPS, ROA, and ROE suggests the impact of industry headwinds and operational pressures. Caution is advised going forward, with a focus on improving profitability and sustaining operational momentum."

JSW Steel:

Particulars	**2020**	**2021**	**2022**	**2023**	**2024**
DER	1.2	0.869	0.794	0.866	0.781
ROA	4.33	6.29	10.25	2.85	4.33
ROE	13.79	17.86	26.3	7.75	10.68
EPS	23.94	34.92	69.48	20.56	33.16
EBIT	8314	15667	10871	29738	18304
ICR	2.067	4.39	2.81	5.92	2.99

- JSW Steel has **gradually reduced its financial leverage** over the five years, with DER falling from 1.20 to 0.781. This indicates a **more balanced capital structure** and lower dependence on external borrowings.
- ROA improved to a **peak of 10.25% in 2022**, but then declined, returning to the **same level as in 2020**. This reflects **fluctuating operational efficiency**, likely impacted by market cycles and input cost volatility.
- ROE rose to **26.3% in 2022**, reflecting strong profitability that year, but declined afterward. The drop to 10.68% by 2024 indicates a **decrease in shareholder returns**, likely due to narrowing profit margins or lower net income.
- EPS rose significantly in 2022 to ₹69.48, highlighting a **strong earnings year**, then dipped in 2023 before partially recovering in 2024. This suggests **earnings volatility**, possibly tied to steel price fluctuations and global demand.
- EBIT saw **substantial growth**, especially in 2023 (₹29,738 million), before falling again. Despite the dip, EBIT in 2024 remains more than double the 2020 level, reflecting **underlying strength in core operations**.

- ICR was highest in 2023 at 5.92, indicating good interest-paying ability during peak profitability. However, the ratio **dropped to 2.99 in 2024**, suggesting **increased interest obligations or decreased earnings**, which could affect future debt servicing comfort.
- "JSW Steel demonstrated robust performance in 2022, backed by high returns, rising earnings, and stronger operational results. However, recent years have shown a decline in profitability ratios and interest coverage. Despite a more favorable debt structure, the company's financial strength now depends on how well it manages cyclicality in the steel sector and maintains cost efficiency. Continuous improvement in profitability and maintaining a balanced capital mix will be critical for long-term stability."

Ultratech cement:

Particulars	**2020**	**2021**	**2022**	**2023**	**2024**
DER	0.473	0.344	0.201	0.615	0.317
ROA	7.59	6.64	8.76	5.65	7.14
ROE	14.24	12.32	14.34	9.28	11.68
EPS	189.1	185.2	245	170.53	239.58
EBIT	6923.98	9155.15	9091.46	8001.37	10182.8
ICR	4.062	7.277	11.387	10.597	11.747

Interpretation:

- The DER declined significantly till 2022, indicating **less reliance on borrowed funds**, but spiked to **0.615 in 2023** before dropping again. This suggests some **intermittent borrowing**, possibly for capital expansion or acquisitions.
- ROA showed **volatility**, peaking at **8.76% in 2022** and falling in 2023 due to weakened asset utilization. The mild recovery in 2024 reflects **resumption of operational efficiency**.
- ROE also peaked in 2022 (**14.34%**) and declined afterwards, suggesting a **decline in returns for shareholders** due to margin pressure or increased equity base. Still, the ratio remains reasonably healthy.
- EPS followed a similar trend, peaking at **₹245 in 2022**, dipping in 2023, and improving again in 2024. This indicates **profit volatility**, yet solid overall performance across five years.
- EBIT has **grown consistently** except in 2023. The strong EBIT in 2024 signals **sound core operations**, backed by strategic cost control and volume growth.
- ICR has improved significantly, showing **enhanced ability to meet interest obligations**. The increase reflects **better earnings and/or lower interest burden**, strengthening the company's financial position.
- "Ultratech Cement has exhibited a robust and stable financial performance over the years. The company's reduced debt dependency, rising earnings, and strong interest coverage ratio reflect a solid financial foundation. Although profitability experienced minor dips, the recovery in 2024 highlights its operational efficiency and strategic resilience. The company appears well-positioned for long-term sustainability and value creation for its shareholders."

		Adani cement:			
Particulars	**2020**	**2021**	**2022**	**2023**	**2024**
DER	0.725	0.67	0.89	0.21	0.34

ROA	5.03	2.83	3.32	4.04	6.74
ROE	18.58	8.93	15.23	11.64	17.09
EPS	6.35	3.35	6.55	14.29	24.95
EBIT	1350.56	1061.19	1684.58	2878.95	4433.6
ICR	3.545	2.097	2.95	4.327	6.95

Interpretation:

- DER has reduced significantly, especially in 2023 (0.21), showing the company **strategically lowered its financial leverage**. This implies a **shift towards internal financing** or equity-based funding and an overall reduction in risk.
- After declining until 2021, ROA gradually rose again, indicating **improved asset utilization** and **better operational efficiency** in recent years.
- Although ROE dipped in 2021, it recovered by 2024, highlighting that the company managed to **deliver strong shareholder returns**, even during periods of low leverage.
- EPS **nearly quadrupled**, especially after 2022. This reflects **strong profitability and shareholder value creation**, possibly from improved cost management and higher revenue generation.
- EBIT showed **strong, consistent growth**, particularly from 2022 onward. This signal **enhanced operating performance**, with effective control over operating expenses and increased production or sales.
- ICR dropped in 2021 but has since **more than doubled**, showing a **stronger ability to service interest expenses**, which supports the reduced DER and improving financial health.
- "Adani Cement has demonstrated a solid turnaround from 2021 onwards. The company significantly improved its profitability (ROA and ROE), boosted shareholder earnings (EPS), and enhanced operational performance (EBIT). The drop in DER reflects reduced dependence on debt, while the ICR shows the company's improved capacity to handle interest obligations. Overall, the company is on a strong upward trajectory in terms of efficiency, profitability, and financial stability."

V. FINDINGS:

- Tata Motors made a **dramatic recovery in EBIT**, from a loss of ₹5,154.3 million in 2020 to a profit of ₹6,748.15 million in 2024.
- Maruti's **EPS surged from ₹124.68 in 2022 to ₹431.08 in 2024**, showing **exceptional shareholder value creation** in the post-COVID recovery phase.
- SBI's **Return on Equity (ROE)** rose from **6.95% in 2020 to 17.46% in 2024**, showing **efficient capital utilization and profitability growth**.
- BOB's ROE surged from **0.76% in 2020** to **15.85% in 2024**, indicating a **massive recovery in profitability and return to healthy financial performance**.
- ITC maintained a **consistently high ROE**, improving from 23.63% in 2020 to 28.27% in 2024.
- Dabur maintained a **very low DER**, ranging from **0.025 to 0.101**, indicating a **strong, debt-light capital structure**, ideal for long-term stability in the FMCG sector.
- Ultratech reported a **high and rising ICR**, from 4.06 in 2020 to 11.75 in 2024. This means it has **ample earnings to cover interest costs**, reflecting **financial strength and operational efficiency**.
- Adani Cement's **EPS jumped from ₹6.35 in 2020 to ₹24.95 in 2024**, marking a **nearly 4x growth in shareholder earnings**. A strong sign of **profitability growth and strategic expansion**.

- Tata Steel posted **record-high EPS of ₹270.33 in 2022**, signaling **peak profitability** due to industry-wide commodity surge and internal efficiency.
- JSW Steel saw **consistent profitability with strong ROE**, peaking at **26.3% in 2022**. Shows strong **shareholder return and resilience in a competitive market**.

VI. Constraints of the Study:

1. **Limited Time Frame,** the study focuses only on a five-year period, which may not fully capture long-term trends, structural shifts, or economic cycles affecting the companies.
2. **Secondary Data Dependence** all analysis is based on published secondary data, which may involve reporting delays, reclassifications, or omissions.
3. **External Economic Factors** the study doesn't isolate the impact of macroeconomic variables (e.g., inflation, interest rate changes, or global commodity prices) which may have influenced company performance.
4. **Non-Financial Indicators Ignored** Qualitative factors like leadership decisions, CSR activities, innovation, brand perception, or ESG performance are not considered, although they impact company health.
5. **Industry Diversity Challenge** the companies studied span multiple sectors (automobile, banking, FMCG, cement, steel), making direct comparisons complex due to sector-specific capital structures and business models.
6. **COVID-19 Impact** the 2020 to 2021 period was heavily influenced by the pandemic, which could distort financial ratios and may not reflect normal business operations.
7. **Inflation and Currency Effects Not Adjusted** all figures are taken at nominal value; no adjustments were made for inflation or currency changes that could influence purchasing power and cost structures.
8. **Exclusion of Market-Based Metrics** ratios like P/E, market capitalization, or stock returns are not analyzed, which could have added market sentiment perspectives to the financial view.

VII. Suggestion for this study:

- **Tata Motors:**
  - Should continue focusing on **cost control and operational efficiency** to sustain its EBIT recovery.
  - Further **reduction in DER** would improve financial stability.
- **Maruti:**
  - Can leverage its **strong EPS and EBIT growth** to explore **expansion into EV or hybrid segments**.
  - Continue improving **return metrics** while maintaining low leverage.
- **SBI & BOB (Banking Sector):**
  - Banks should focus on **enhancing ROA**, which is still relatively low compared to ROE, by improving asset utilization.
  - Maintain low NPA levels and use growing profits to **strengthen capital reserves**.
- **ITC:**
  - Continue its **high ROE strategy** and consider diversifying further into **non-tobacco FMCG segments** to ensure sustainable growth.
  - Can explore **international markets** for further expansion.
- **Dabur:**

- Maintain its **low debt structure** while boosting profitability through **innovation and rural market penetration**.
- Strengthen core product categories through **brand reinforcement**.

- **Ultratech Cement:**
  - With a strong ICR and EBIT performance, it should **invest in capacity expansion** and **green cement technologies**.
  - Leverage financial strength to **explore export markets**.
- **Adani Cement:**
  - Utilize improved EPS and EBIT to **reduce DER further** and reinvest in **supply chain optimization**.
  - Focus on building **brand trust and market footprint** post-acquisition phase.
- **TATA Steel & JSW Steel:**
  - Should focus on **mitigating cyclicality** in earnings by diversifying product offerings and markets.
  - Maintain strong ROE levels by controlling costs and exploring **green steel initiatives**.
  - Strengthen **global partnerships** to stabilize revenue during commodity fluctuations.

VIII. CONCLUSION:

This study provides an in-depth analysis of the capital structure and financial performance of ten prominent Indian companies from five key sectors: automobile, banking, FMCG, cement, and steel, covering the period from 2020 to 2024. Using a comprehensive set of financial ratios—Debt-to-Equity Ratio (DER), Return on Assets (ROA), Return on Equity (ROE), Earnings Per Share (EPS), Earnings Before Interest and Taxes (EBIT), and Interest Coverage Ratio (ICR)—the research aimed to understand how these companies structure their finances and how such decisions influence their overall performance.

A key insight from the study is that companies with an optimal mix of debt and equity were more resilient during the pandemic and more capable of seizing growth opportunities in the recovery phase. The post-COVID financial environment pushed many companies to reassess their capital structures, control costs, and focus on shareholder returns. The strategic use of debt helped some companies scale up, while others took a cautious approach to minimize financial risk.

From a broader perspective, the study highlights the importance of aligning capital structure with business models, industry characteristics, and macroeconomic conditions. It also emphasizes the role of efficient financial management in navigating economic volatility, maintaining solvency, and ensuring sustainable growth.

Thus, this study not only adds value to academic literature but also provides practical insights for corporate finance managers, policy-makers, and investors. Future research could expand this analysis by including qualitative factors like ESG initiatives, leadership strategies, and market valuation metrics to offer a more holistic view.

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