

# Capital Structure: A Comparative Study of Cooperative Society

(With Special Reference to Gujarat State in taluka Dharampur and Kaprada taluka)

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## **Abstract:**

*The purpose of this research was to understand the Capital Structure of Pindaval in Dharampur Taluka and Karchond in Kaprada Taluka Cooperative society in Gujarat. The capital structure is the mix of equity and debt fund. Capital structure can influence not only the return of a Cooperative societies earnings for its stakeholders, but also helps in determining the financial position. There are two most Successful in Valsad District source of fund which a Cooperative society can get finance owned capital (equity) and borrowings (Debt). An optimal debt equity mix gives a healthy result of the financial wealth for the Cooperative societies. This was the main threshold of the capital structure forecasting and planning. The main aim of present study is to comparatively analyze the capital structure of the Cooperative Society with*

*special reference to Pindaval Cooperative society and Karchond Cooperative society.*

*The research study is descriptive and analytical research which is conducted on the basis of secondary data. The present study is based on the analysis of Six years annual reports of Cooperative Societies from 2008-09 to 2013-14. The study was conducted for some Cooperative Society which has the policy of using trading on equity.*

**Keywords:** Capital, Gearing, Total Debt , Proprietary ratio, Fixed Assets, Equity; Debts; Cost of Capital; Cost of Debts

## INTRODUCTION to CAPITAL STRUCTURE

Capital structure refers to the way a corporation finances its assets through some combination of equity, debt, or hybrid securities. A firm's capital structure is the composition or 'structure' of its liabilities. In reality, capital structure may be highly complex and include dozens of sources. Gearing Ratio is the proportion of the capital employed by the firm which comes from outside of the business, such as by taking a short term loan.

Capital Structure shows how a company's assets are built out of debt and equity.

Modigliani and Miller created a theory of Capital Structure in a perfect market. There are several qualifications for a "perfect market":

- no transaction or bankruptcy cost
- perfect information
- firms and individuals can borrow at the same interest rate
- no taxes
- investment decisions are not affected by financing decisions

Modigliani and Miller made two findings under these conditions:

- The value of a company is independent of its capital structure
- The cost of equity for a leveraged firm is equal to the cost of equity for an unleveraged firm, plus an added premium for financial risk

This means, as leverage increases, while the burden of individual risks is shifted between different investor classes, total risk is conserved and hence no extra value created.

Their analysis was extended to include the effect of taxes and risky debt. Under a classical tax system, the tax deductibility of interest makes debt financing valuable; the cost of capital decreases as the proportion of debt in the capital structure increases. The optimal structure, then would be to have virtually no equity at all.

If capital structure is irrelevant in a perfect market, then imperfections which exist in the real world must be the cause of its relevance. The theories below try to address some of these imperfections, by relaxing assumptions made in the M&M model.

### Information of Cooperative Society in Dharampur taluka And Kaprada Taluka:

Different education level of five talukas of dist Valsad of Gujarat can be seen .Base on the education level of the people, a variety

can be seen in their languages, culture, living standard etc has undergone a huge changes in last two decades to go. One cannot ignore the opportunity in term of trade, religion, heritage, and industry in these areas under study. Even today one can see the presence of traditional as well as modernization touch in the business of these local areas. The areas are surrounded by lush green natural beauty covering the areas by hill. Even till date, many areas are under developed. Due to bad economic condition, many people are still living below poverty line.

### Review of Literature:

**Minaxi Phor Assistant Professor Hindu College Sonept (2014) in the article “Comparative study of sbi and Icici** “Today business organizations use a range of alternatives for collecting the funds. Small and Big organizations used the way of collecting funds according to their paying capacity, degree of risk, size of capital, working system of the business etc. so, here in this paper the research paper, the researcher analyze the capital structure of two banks according to its convenience. Capital Structure is the Ratio of long-term sources of finance in the total capital of the firm includes 'Proprietor's Funds' and 'Borrowed Funds'(Proprietors Funds include equity capital, preference capital, reserves and surpluses retained earnings and

Borrowed Funds include long-term debts such as loans from financial institutions, debentures etc. In this paper, the researcher has taken two banks viz. ICICI and SBI for making comparison of their debt and equity. By using, the technique of average and percentage the researcher have made the conclusion about the collection of funds of these banks. Lastly, some suggestions have given by the researcher which the banks can follow. **DR. ANURAG B. SINGH (2012) in article “ Comparative Analysis of Capital Structure of Banking Companies With Special Reference to SBI and ICICI bank** “The purpose of this research was to understand the capital adequacy of SBI and ICICI bank. The capital structure is the mix of equity and debt fund. Capital structure can influence not only the return of a company earnings for its stakeholders, but also helps in determining the financial position of the company whether or not a firm survives will survive in recession or depression. There are two most popular source of fund which a company can get finance owned capital (equity) and borrowings (Debt). An optimal debt equity mix gives a healthy result of the financial wealth for the company. This was the main threshold of the capital structure forecasting and planning. Because of this many industries recognized and reorganized their capital structure. The main aim of present study is to comparatively analyze the capital structure of the banking industry with special reference to SBI and ICICI bank. During the Liberalization, privatization and globalization various banking reforms in India have been taken. After the implementation of Narshimhan committee reports and Basell II norms banks have kept

their capital according to the capital adequacy. The research study is descriptive and analytical research which is conducted on the basis of secondary data. The present study is based on the analysis of five years annual reports of SBI and ICICI bank from 2005-06 to 2009-10. The study revealed that both company has the policy using trading on equity. So ICICI bank has more dependence on owned fund and SBI on debt fund. Adopting this policy may be the reason behind its great success in the present situation.

## RESEARCH PROBLEM

The study is to find the different Problem's finding of capital structure in the Selected Cooperative societies as it affects the whole form of the organization. So it is very important to have a clear idea about these factors and cost of different sources in the Cooperative Societies. So the problem in the study is to find out effective determinant of capital structure.

## OBJECTIVES OF THE STUDY:

This Research Paper achieve the following objectives.

- ✎ To conduct comparative study regarding to capital structure of Selected Pindaval And Karchond Cooperative society

- ✎ To find out the Cost of Different Financial Sources of Cooperative society.
- ✎ To know the portion of debt and equity in capital structure of Cooperative Society
- ✎ To find out the overall cost of capital of Pindaval And karchond Cooperative society.
- ✎ To examine the Capital Structure position Compare to the selected Cooperative societies
- ✎ To offer suggestions to improve the Capital Structure select co operative societies.

## SCOPE OF THE STUDY:

Today's world had become very competitive. In each field thousand's of competitors has entered the market. In the changing market scenario equipped with science and technology, they re-struggling to survive in the market, whether it is a field of knowledge, business or any other Profession. Even the Indian economy is not free from the air of liberalization, privatization and globalization. With this objectives in mind the research on "Shree Pindaval Vibhag Bagayati Co-operative Society Ltd is undertaken. Where the financial performance of the same will be conducted keeping the current situation on the top. A study on the problem faced and its relevant solution, so that the people of these areas get good service from this co-operative society. This co-operative society can act as a role model to be followed by other society of the Valsad District in Gujarat. the co-operative society can

follow the management system for improving the financial position of the society.

3. The study is limited to One Selected Cooperative society only.

4. The study is based on consolidated financial statement, which may lead to some errors and assumptions.

## RESEARCH METHODOLOGY AND DATA ANALYSIS

### SECONDARY SOURCES:

Published annual reports of the Cooperative Society 2008-09 To 2013-14.

### PRIMARY SOURCES:

□

- ☞ Detailed discussions with President of Cooperative Society.
- ☞ Discussions with the Accountant and other Cooperative society members And District Level Information Department Officer.

### DATA ANALYSIS

The collected data has been processed using the tools of

**Ratio analysis , Graphical analysis , Year-year analysis**

#### ❖ LIMITATION OF THE STUDY

1. The study has been conducted over a limited period of Six years only.
2. The study is mainly based on secondary data.

### CAPITAL STRUCTURE DATA ANALYSIS

The term ' Capital Structure' generally refers to the capacity of the business to meet its short-term and long-term obligations. Short-term obligations include creditors, bank loans and bills payable etc. Long-term obligations consists of debenture, long-term loans and long-term creditors etc. Solvency Ratio indicates the sound financial position of a concern to carryon its business smoothly and meet its all obligations.

#### ( 1) Debt Equity Ratio :

The **debt-to-equity ratio (debt/equity ratio, D/E)** is a financial ratio indicating the relative proportion of entity's equity and debt used to finance an entity's assets. This ratio is also known as **financial leverage**.

Debt-to-equity ratio is the key financial ratio and is used as a standard for judging a company's financial standing. It is also a measure of a company's ability to repay its obligations. When examining the health of a company, it is critical to pay attention to the debt/equity ratio. If the ratio is increasing, the company is being financed by creditors rather than from its own financial sources which may be a dangerous trend. Lenders and investors usually prefer low debt-to-

equity ratios because their interests are better protected in the event of a business decline. Thus, companies with high debt-to-equity ratios may not be able to attract additional lending capital.

### Calculation Ratios:

A debt-to-equity ratio is calculated by taking the total liabilities and dividing it by the shareholders' equity:

$$\text{Debt-to-equity ratio} = \text{Liabilities} / \text{Networth}$$

Table : 1 Following Table showing PindaVal and Karchond Cooperative Society's Debt equity Ratio

YEAR	PINDAVAL COOPERATIVE SOCIETY			KARCHOND COOPERATIVE SOCIETY		
	TOTAL DEBT	NET WORTH	PINDAVAL -RATIO	TOTAL DEBT	NET WORTH	KARCHOND-RATIO
2008-09	245077	999820	0.25	849999	1387123	0.61
2009-10	307780	1304811	0.24	607972	1521929	0.40
2010-11	334206	1836816	0.18	680965	2489726	0.27
2011-12	42060	2261811	0.02	814517	3877053	0.21
2012-13	417164	2465714	0.17	819000	4092607	0.20
2013-14	537601	2260410	0.24	827670	4130855	0.20

Source: Compiled Calculated Data , Annual Reports

### INTERPRETATION

As per the table 1 debt-equity ratio of PindaVal Cooperative Society is 0.25 in the year 2008 -09 in subsequent years it is 0.24

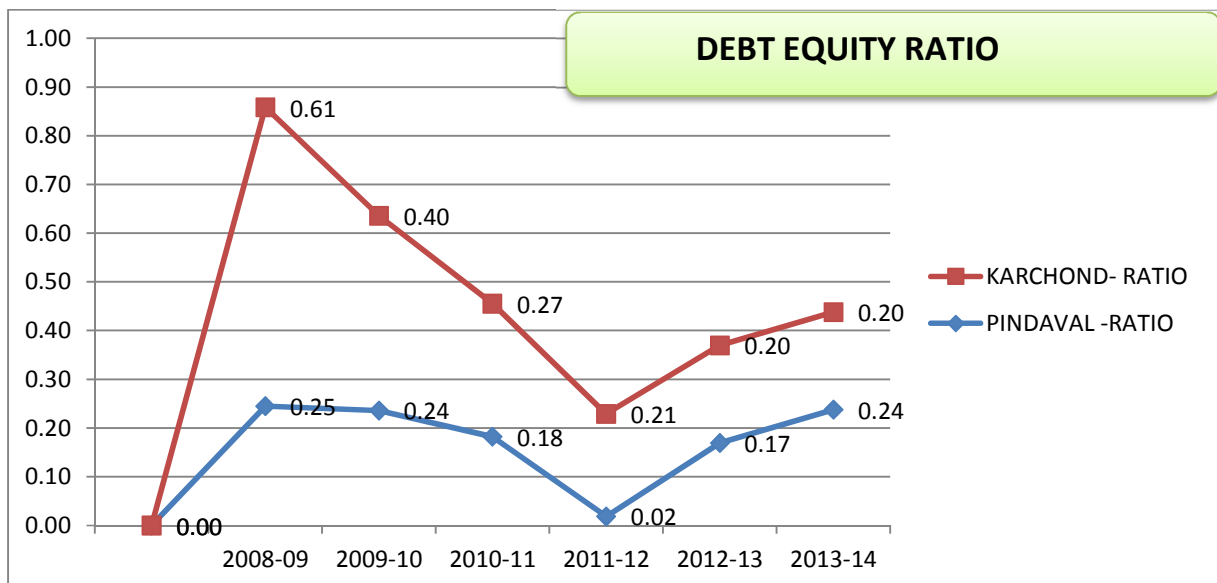
in 2009-10, 0.18 in 2010-11, ,0.02 in 2011-12, 0.17 in 2012-13 and 0.24 in 2013-14. The analysis clearly show that the ratio is increasing in 2008-09 but it decreases in 2009-10 to 2012-13 and increases in 2013-

14. On the basis of this trend, it reflects that Pindaval does not have the stability in their Debt and have the positive relationship between Equity and debt as not Satisfied.

Whereas debt-equity ratio of Karchond Cooperative Society is 0.61 in the year 2008 -09 in subsequent years it is 0.40 in 2009-10, 0.27 in 2010-11, 0.21 in 2011-12 , 0.20 in 2012-13 and 0.20 in 2013-14. The analysis clearly shows that the ratio is Highest in 0.61 in 2008-09 and Lowest ratio in 2012-13-14 . ratio increasing in 2008-09 but decreases in subsequent years. On the basis of this trend, it reflects that Karchond

Cooperative society does not have the stability in their Debt and have the positive relationship between Equity and debt as well.

From the above it can be concluded that Cooperative Society does not have the stability in their Debt and have the positive relationship between Equity and debt as low in both societies. The Financial position of Debt positions against to net worth better situation in karchond. So, we can say that the Debt Equity ratio of and long term solvency is well on Karchond Better than To Pindaval cooperative society.



**(2) Capital Gearing Ratio:**

The gearing ratio is the proportion of a company's debt to its equity. A high gearing

ratio represents a high proportion of debt to equity, and a low gearing ratio represents a low proportion of debt to equity. This ratio is similar to the debt to equity ratio, except that there are a number of variations on the gearing ratio formula that can yield slightly different results.

The most comprehensive form of gearing ratio is one where all forms of debt - long term, short term, and even overdrafts - are divided by shareholders' equity. The calculation is:

$$\frac{\text{Long-term debt} + \text{Short-term debt} + \text{Bank overdrafts}}{\text{Shareholders' equity}}$$

Table : 2 Following Table showing Pindaval And Karchond Cooperative Society's Capital Gearing Ratio :

YEAR	PINDAVAL COOPERATIVE SOCIETY			KARCHOND COOPRATIVE SOCIETY		
	Short + Long te. Debt	Share Equity	PINDAVAL - RATIO	Short + Long te. Debt	Share Equity	KARCHOND - RATIO
2008-09	245077	433400	0.57	1365547	228200	5.98
2009-10	312469	433400	0.72	607972	228200	2.66
2010-11	372457	433400	0.86	680965	228200	2.98
2011-12	397743	433400	0.92	814517	228200	3.57
2012-13	460970	433400	1.06	819000	228200	3.59
2013-14	837601	433400	1.93	827670	228200	3.63

**Source: Compiled Calculated Data: Annual Report**

**INTERPRETATION**

As per the table 2 Capital Gearing ratio of Pindaval Cooperative Society is 0.57 in the year 2008 -09 in subsequent years it is 0.72 in 2009-10, 0.86 in 2010-11, 0.92 in

2011-12, 1.06 in 2012-13, 1.93 in 2013-14 .

The analysis clearly show that the ratio is Highest in 2013-14 and lowest ratio in 2008-09. It is increasing in every year.

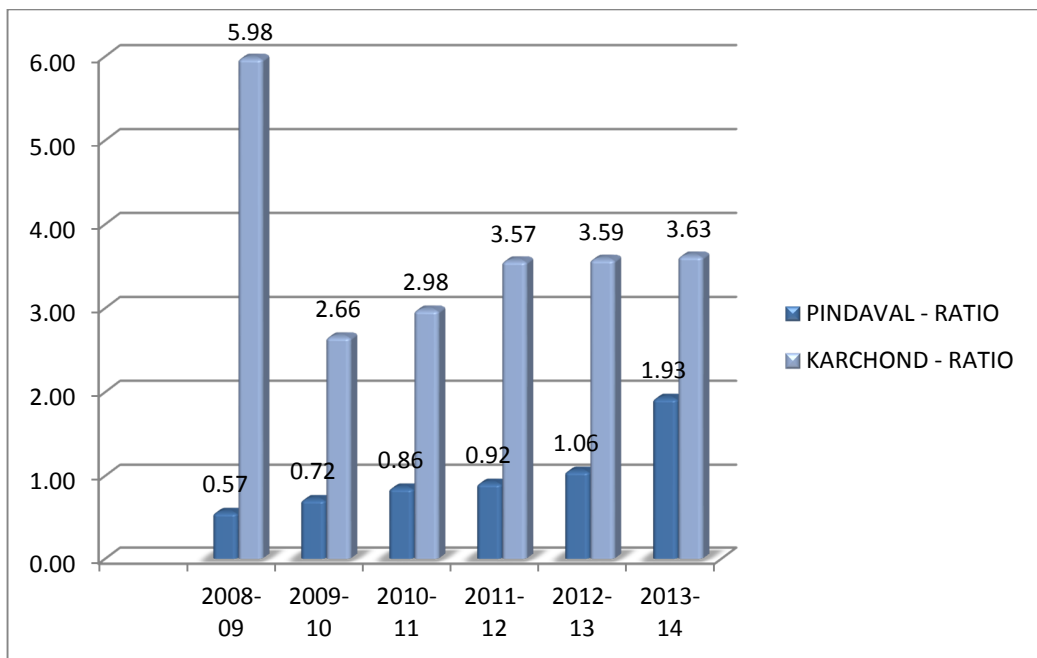
Whereas debt-equity ratio of Karchond Cooperative Society is 5.98 in the



year 2008 -09 in subsequent years it is 2.66 in 2009-10, 2.98 in 2010-11, 3.57 in 2011-12 , 3.59 in 2012-13 and 3.63 in 2013-14. The analysis clearly shows that the ratio is Highest in 2008-09 and lowest ratio in 2009-10. Ratio high increasing in 2008-09 but decreases in next two years and again increases next all years.

From the above it can be concluded that Pindaval Cooperative Society is Good

working in study period the ratio maintain on ratio in management on Pindaval Cooperative society , and other society is Karchond cooperative society no maintain ratio so, we can say, Pindaval cooperative society Good and Well position better in Karchond Cooperative society.



### (3) Proprietary Ratio:

The proprietary ratio is the inverse of debt ratio. It is a part to whole comparison. The proprietary ratio measures the amount of funds that investors have contributed

towards the capital of a firm in relation to the total capital that is required by the firm to conduct operations.

$$\text{Proprietary Ratio} = \frac{\text{Total Equity}}{\text{Debt} + \text{Equity}}$$



Table : 3 Following Table showing Pindaval And Karchond Cooperative Society's Proprietary Ratio

YEAR	PINDAVAL COOPERATIVE SOCIETY			KARCHOND COOPRATIVE SOCIETY		
	NET WORTH	TOTAL RESPONSIBILITY	RATIO - PINDAVAL	NET WORTH	TOTAL RESPONSIBILITY	RATIO - KARCHOND
2008-09	999820	245077	408.0	1387123	1365547	101.6
2009-10	307780	312469	98.5	1521929	607972	250.3
2010-11	1836816	372457	493.2	2489726	680965	365.6
2011-12	2261811	397743	568.7	3877053	814517	476.0
2012-13	2465714	460970	534.9	4092607	819000	499.7
2013-14	2260410	837601	269.9	4130855	827670	499.1

**Source: Compiled Calculated Data**

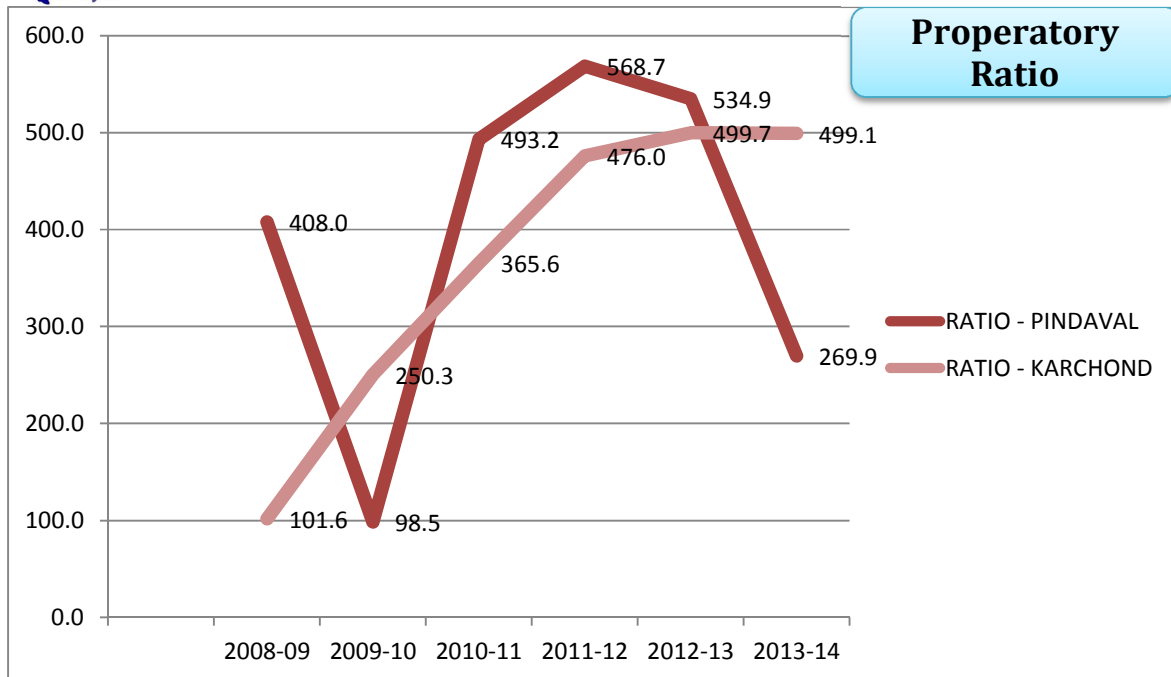
### INTERPRETATION

As per the table 3 Propertory ratio of Pindaval Cooperative Society is 408.0 in the year 2008 -09 in subsequent years it is 98.5 in 2009-10, 493.2 in 2010-11, 568.7 in 2011-12, 534.9 in 2012-13, 269.9 in 2013-14. The analysis clearly show that the ratio is Highest in 2011-12 and lowest ratio in 2009-10. it is increasing in every year.

Whereas debt-equity ratio of Karchond Cooperative Society is 101.6 in the year 2008 -09 in subsequent years it is 250.3 in 2009-10, 365.6 in 2010-11, 476.0 in 2011-12 , 499.7 in 2012-13 and 499.1 in

2013-14. The analysis clearly shows that the ratio is Highest in 2012-13 and lowest ratio in 2008-09. Ratio is decreasing in 2008-09 – 2009-10 and increases in Next All years.

From the above it can be concluded that Karchond Cooperative Society is Good working in study period the ratio maintain on ratio in management on Karchond Cooperative society , and other society is Pindaval cooperative society no maintain Good ratio. so,we can say, Karchond cooperative society Good and Well position better in Pindaval Cooperative society.



#### (4.) FIXED CAPITAL –ASSETS RATIO:

**Fixed assets to equity ratio** measures the contribution of stockholders and the contribution of debt sources in the fixed assets of the company. It is computed by dividing the fixed assets by the stockholders' equity.

Other names of this ratio are fixed assets to net worth ratio and *fixed assets to proprietors fund ratio*.

#### Formula:

Fixed Assets to stockholders Equity ratio:  

$$\frac{\text{Fixed assets}}{\text{Stock Holders Equity}}$$

#### Stock Holders Equity



Table : 4 Following Table showing Pindaval Cooperative Society's Fixed Assets stockholder's Ratio

YEAR	PINDAVAL COOPERATIVE SOCIETY			KARCHOND COOPRATIVE SOCIETY		
	FIXED CAPITAL	FIXED ASSETS	RATIO - PINDAVAL	FIXED CAPITAL	FIXED ASSETS	RATIO - KARCHOND
2008-09	999820	101334	9.87	2237122	123466	18.12
2009-10	307780	111416	2.76	1521929	310594	4.90
2010-11	1836816	145881	12.59	2489726	971081	2.56
2011-12	2261811	1463513	1.55	3877053	1531653	2.53
2012-13	2465714	1557989	1.58	4092607	1225227	3.34
2013-14	2260410	1530012	1.48	4130855	1785590	2.31

**Source: Compiled Calculated Data**

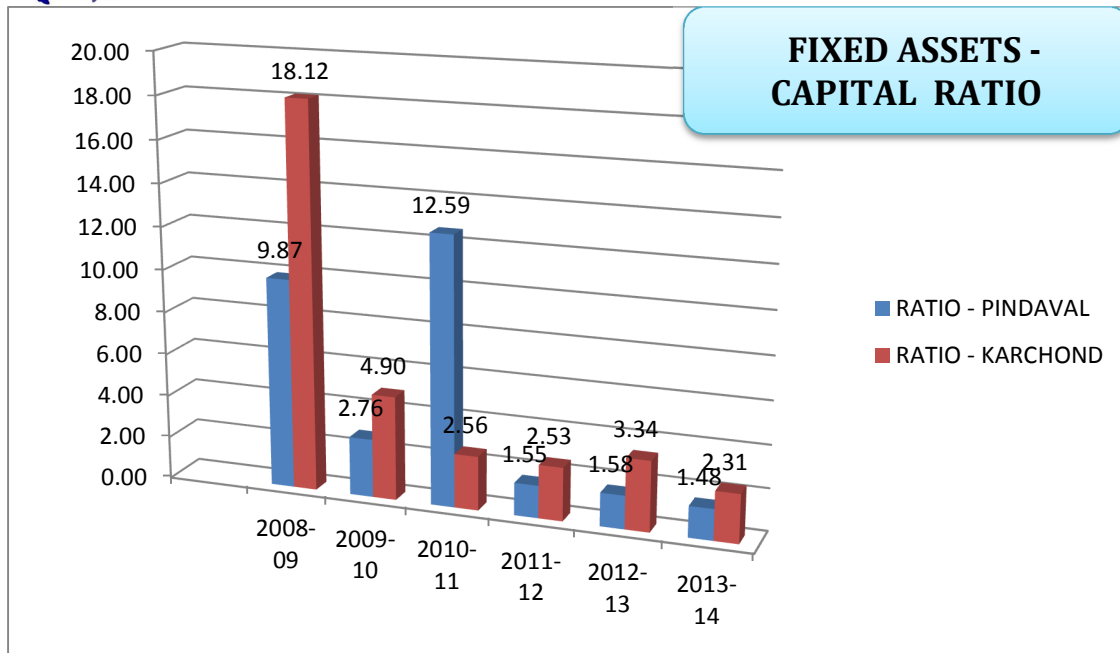
### INTERPRETATION

As per the table 4 Fixed Assets Capital ratio of Pindaval Cooperative Society is 9.87 in the year 2008 -09 in subsequent years it is 2.76 in 2009-10, 12.59 in 2010-11, 1.55 in 2011-12, 1.58 in 2012-13, 1.48 in 2013-14 . The analysis clearly show that the ratio is Highest in 2010-11 and lowest ratio in 2011-12. It increasing ratio in 2008-9 and decreases in 2009-10 again high increase 2010-11 and again decrease in all years.

Whereas debt-equity ratio of Karchond Cooperative Society is 18.12 in

the year 2008 -09 in subsequent years it is 4.90 in 2009-10, 2.56 in 2010-11, 2.53 in 2011-12 , 3.34 in 2012-13 and 2.31 in 2013-14. The analysis clearly shows that the ratio is Highest in 2008-09 and lowest ratio in 2013-14. Ratio is changing position.

From the above it can be concluded that Karchond Cooperative Society is Good working in study period the ratio maintain on ratio in management on Karchond Cooperative society , and other society is Pindaval cooperative society no maintain Good ratio. so,we can say, Karchond cooperative society Good and Well position better in Pindaval Cooperative society.



### Conclusion:

It can be concluded from the study of 6 financial periods of Cooperative society, Pindaval in Dharampur taluka and Karchond in Kaprada taluka of Gujarat state that the maximum Financial Indicators of cooperative society are not at a very good position but Medium average. From the analysis of main Financial Indicators it is clear that Debt-Equity Ratio, Capital Gearing Ratio, Propertory Ratio and Fixed asset-capital Ratio etc are at a Good capital structure.

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