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CAPITAL STRUCTURE AND FINANCIAL ANALYSIS OF IFCI

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ABSTRACT

A company's capital structure determination constitutes a difficult decision that involves several antagonistic factors. Financial performance is the structure main factor for consideration at the time of designing the capital structure of a firm. The purpose of this paper is to examine the extent to which growth determines the capital structure of IFCI Ltd. This is done by examining some component of capital structure in relation to IFCI Ltd and then testing the resulting ideas empirically

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INTRODUCTION

The need for and the necessity of financial institutions capable promoting new industries and catering to the medium and long-term capital needs of the existing industries for their expansion and modernization gave birth to the concept of development banking. Development banks have been conceived and adapted to fill in the institutional void by many underdeveloped and developing countries of the world to promote and accelerate their economic growth in post-world war era. They are advised not to compete with other agencies of industrial finance and are required to satisfy themselves before sanctioning loan that the funds are not available to the borrowing party from any other source on reasonable terms.

The idea of establishing specialized institutions for the provision of finance for industry was given by different commission and committees long before independence and finally took concrete shape with the establishment of the Industrial Finance Corporation of India (IFCI) in July 1948. Capital structure is the composition of long-term liabilities, specific short-term liabilities like bank notes, common equity, and preferred equity which makes up the funds with which a business firm finances its operations and its growth. The capital structure of a business firm is essentially the right side of its balance sheet. Capital structure, broadly, is composed of the firm's debt and equity. There are considerations by management and the stakeholders over what mix of debt and equity to use.

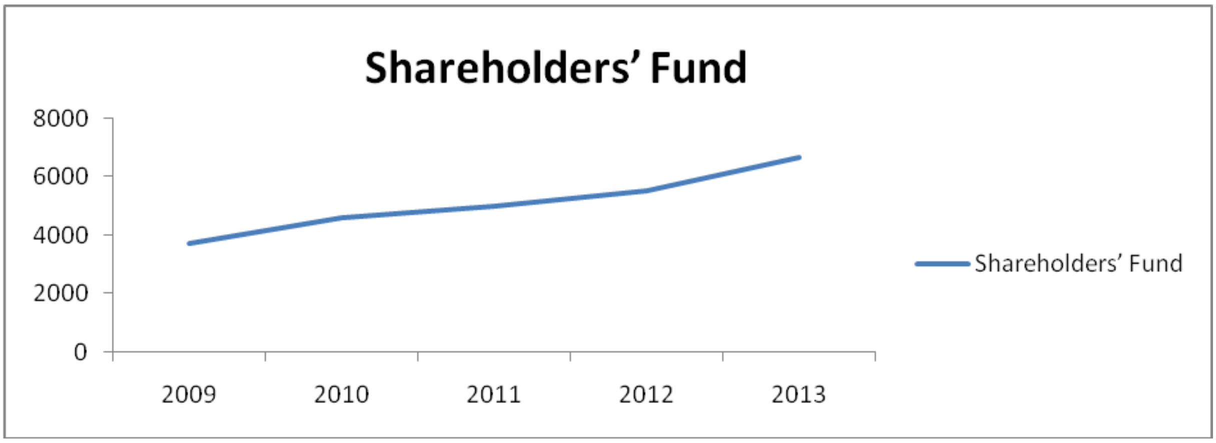
Research Methodology: collection of data and its analysis methods: The present study based on the secondary data extracted from the annual reports of IFCI Ltd. From2008-2009 to 2012-2013, from which financial structure of the company has been taken.

Capital Structure of IFCI LTD Capital structure consists of share capital i.e. Equity shares, preference shares, Reserves and Surplus and Loan Funds. The trend of capital structure is analyzed in three parts i.e. share holders' funds, Loan funds and Capital Employed.

Table1: Shareholders' Fund of IFCI Ltd (Rs Crore)

Year	Share Capital	Reserves and Surplus	Shareholders' Fund	Changes (in times)
2009	1108.29	2632.47	3740.76	---------
2010	1001.68	3608.12	4609.80	0.23
2011	1001.68	4001.72	5003.40	0.09
2012	1001.68	4534.07	5535.75	0.11
2013	1925.88	4757.31	6683.19	0.21
Average	**1207.84**	**3724.12**	**5114.58**	0.16

Source: Computed from Annual Reports of IFCI Ltd. -2009 to 2013



Source: Computed from Annual Reports of IFCI Ltd. -2009 to 2013

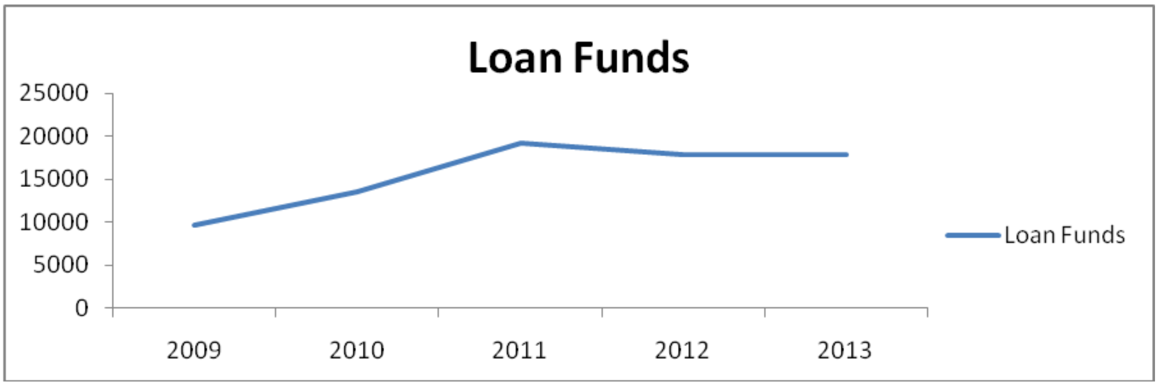
The table1 depicts that the share capital of IFCI Ltd. Increased during 2012 to 2013due to by issue of new equity share, but in the 2009 onwards the equity share capital value remained the same up to 2012. In the year 2010 –11, the redaction in the share capital is noticed again, but it was caused due to the re-conversion of equity share into loans. Increasing reserves and surplus in the year 2009-10 was primarily contributed through the securities Premium Account, which increased 975.65 crore during the year, which was also a major cause of change in Shareholders' Fund by 0.23 times i.e. higher than the average change of 0.16 times during study period. From the analysis, it clear that the Shareholders' Fund has shown an increasing trend during the entire period of study.

Table 2 shows that the Loan Funds of IFCI Ltd. Consists of Rupee Loans and Foreign Currency Loans, in which Rupee Loans had a major share. On. Total loan funds showed an increasing trend from 2010 to 2013. Table 3 shown the it is clear that salvation the position of was not good as the proportion of Shareholders' Fund was quite low than the loan funds is 1:4 (Approx), which shows that a bigger part of the capital was financed by loan funds. The changes in the capital employed are mainly affected by the changes in the loan funds.

Table 2:Loan Funds of IFCI Ltd (Rs Crore)

Year	Loans	Foreign Currency loans	Loan Funds	Changes (in times)
2009	9042.49	631.29	9673.78	-------
2010	13028.27	534.19	13562.46	0.40
2011	18737.72	526.85	19264.57	0.42
2012	17257.72	620.26	17877.66	0.93
2013	17276.69	638.56	17915.25	0.002
Average	**15068.54**	**590.23**	**15658.74**	0.44

Source: Computed from Annual Reports of IFCI Ltd. -2009 to 2013

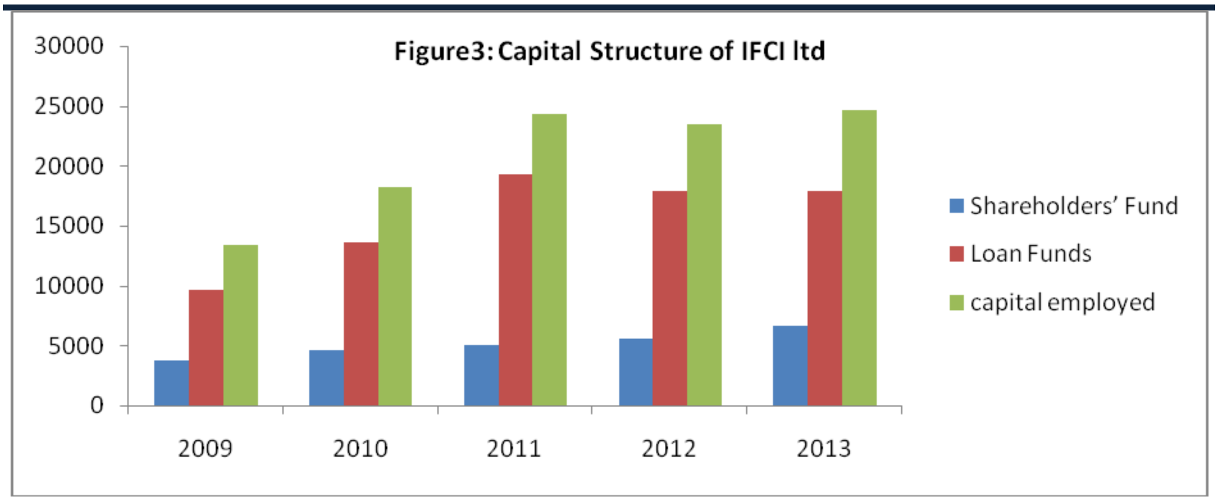


Source: Computed from Annual Reports of IFCI Ltd. -2009 to 2013

Table3: Loan Funds of IFCI Ltd (Rs Crore)

Year	Share holders' Funds	Loan Funds	Capital Employed	Changes (in times)
2009	3740.76	9673.78	13414.54	---------
2010	4609.80	13562.46	18172.26	0.32
2011	5003.40	19264.57	24267.97	0.34
2012	5535.75	17877.66	23413.41	0.96
2013	6683.19	17915.25	24598.44	0.05
Average	**5114.58**	**15658.74**	**18773.32**	0.25

Source: Computed from Annual Reports of IFCI Ltd. -2009 to 2013



Source: Computed from Annual Reports of IFCI Ltd. -2009 to 2013

Table 4: Financial Ratios of IFCI. Ltd. (Times)

Year	Debt Ratio	Proprietary Ratio	Debt Equity Ratio	Current Ratio	Current Assets to Total Assets	Return on Assets	Earnings per Share
2009	0.65	0.25	3.43	6.92	0.55	0.04	8.55
2010	0.69	0.24	4.21	7.87	0.55	0.03	9.08
2011	0.74	0.19	4.05	8.64	0.60	0.03	9.57
2012	0.76	0.18	4.15	2.53	0.49	0.03	8.99
2013	0.73	0.19	2.83	5.95	0.60	0.02	2.71
Average	0.71	0.21	3.73	6.38	0.56	0.03	7.78

Source: Computed from Annual Reports of IFCI Ltd. -2009 to 2013

Financial Analysis:

The table 4 shows the different financial ratios, which help in determining the financial position of IFCI Ltd. Debt Ratio shows the participation of Loan Funds in total assets. On an average, Debt Ratio is 0.71 times, which is higher than the standard. Highest Debt Ratio was 0.76 times in the year 2012, and the lowest was 0.65 in 2009, which in not an ideal situation. As Proprietary Ratio is also calculated on the basis of total assets, it does not depict the ideal position. Highest and Lowest proprietary Ratios were 0.25 times in 2009, and 0.19 times in 2012 respectively. Debt Equity Ratio of the company was on an average 3.73 times, which is an adverse situation, as it should be 0.50 times (1:1). The above analysis does not show good solvency position of Shareholders' Fund is comparatively less. Average Current Ratio was 6.38 in IFCI Ltd., which is higher than the ideal Current Ratio, i.e. 2 times (2:1). Current Assets took a bigger portion in Total Assets in the study period more than 50 percent.The company does not depict a sound profitable position as its Return on Assets had been between 0.02 times to 0.04 times during the study period and average Earning per Share were 7.78.

Conclusion

The study of IFCI Ltd, it is found that more than 70 percent of the total assets are financed by Loan Funds, which is not a good sign of profitability since the liabilities of the corporation on fixed assets. The aforesaid fact is supported by the figures of Company Debt Equity Mix, which also shown an adverse figure, as it is 4 times on an average. On the basis of the results, some suggestions may be given to overcome the problems engulfing the company. IFCI Ltd. should reduce its Loan Funds gradually so as to remove the burden of non-operating expenses. The company should reach an optimum level of capital mix. For this purpose, IFCI Ltd. should redesign its capital structure, such that it can gain maximum profit at minimum risk.

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