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A STUDY ON RELATIONSHIP BETWEEN CAPITAL STRUCTURE AND PERFORMANCE OF SOBHA LTD BENGALURU

Prof. Prathap B N[1], Geetha N P[2]

[1]Shridevi Institute of Engineering &Technology Department of MBA, Tumkuru, India

[2]2nd year MBA, Shridevi Institute of Engineering &Technology Department of MBA, Tumkuru, India

ABSTRACT

This study examines the relationship between capital structure and financial performance of Sobha Ltd.,Bengaluru between the years 2012-2021. Emphasis has been laid to show the relationship between capital structure on the financial performance of Sobha Ltd. It operates as a real estate improvement andconstruction business enterprise in India.

For the purpose of the study the data has been collected from the secondary sources i.e. from the annualreports of the companies. The research design that was adopted for this study was a descriptive researchdesign. This type of design involves an extensive well focused literature review and identification of theexisting knowledge gap. The investigation is tied in with examining the capital construction with the assistance off ratios and correlation and regression analysis gained from most recent 10 years financial information of Sobha Limited. Capital structure implies an organization's value and obligation commitment.

Keywords: Capital structure, financial performance, ROA, Correlation, Regression.

1. INTRODUCTION

Capital structure is made up of a certain amount of debt and equity. Investors in a business have a stakein the company's future cash flow and earnings, which adds to the company's equity capital. Equity cancome in the form of common stock, preferred stock, or even kept earnings. Debt, on the other hand, cancome in the form of loans or bonds. There are both long-term and short-term debts in the capital structure.The relationship between debt and equity can be shown as a proportional relationship. This is what the term "capital structure" means. Because each organization's capital structure is made up of different ways to get money. Long-term debt, short-term debt, common stock, preferred stock, and retained earnings are all parts of a company's capital structure. This framework is what makes it possible for thecompany to run and grow normally. The amount of risk and return a company is exposed to depends directly on how its capital structure is set up.

The capital structure of a company has a big impact on how successful it is as a whole. It is a term for the financial help a business gets, which is usually a mix of debt and equity capital. Capital structure is important for managers because it affects how much money shareholders can make, which in turn makesthe business more effective. Because of this, shareholders, investors, and managers are all very interestedin how a company's capital structure affects how well it does overall. Real estate companies are no different, since performance is a long-term goal for all businesses. To measure a company's overall performance, only its book value and market value are used to calculate its profitability ratios.

2. LITERATURE REVIEW

1. **Allan Kiptoo Yabs:**

   Capital structure and overall financial performance of Kenyan real estate business. When looking at the financial performance of real estate businesses in Kenya, this research found that capital structure had a relatively good influence. Therefore, this research proposes that Kenyan real estatebusinesses minimize the debt phases in their capital structure in order to improve their performance.

2. **Abdelrhman Ahmad Meero:**

   According to this study, capital structure and overall performance in Gulfnations banks have a significant association. According to the findings, conventional and Islamic banksin the Gulf have a similar capital base. Negative financial leverage and positive equity-to-assets ratios are both linked to an increase in return on assets (ROA). ROA correlates positively with ROIC. Islamicbanks, conventional banks, and the rest of the sample know about this relationship. In both Islamic andconventional banks, ROA and ROE, which are used to assess overall performance, are positively correlated with thesize of the institution.

3. OBJECTIVES

1. To know the effectiveness and efficiency of capital structure of Sobha Ltd.
2. To study the relationship between capital structure and overall financial performance of SobhaLtd.

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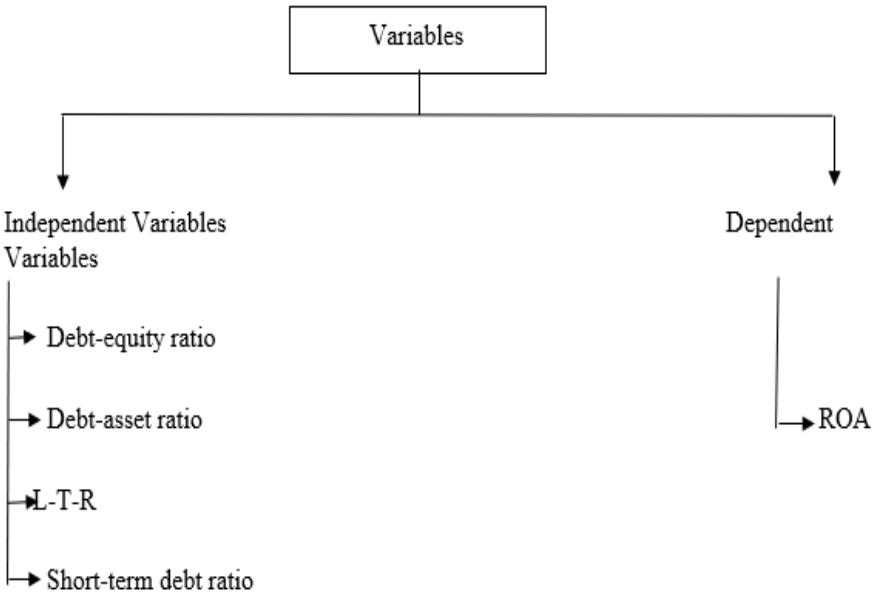
4. RESEARCH MODEL

A research model was developed to understand the relationship between capital structure andperformance of Sobha Ltd., in figure 1



Data collection and analysis: Secondary data were collected to know the relationship between capital structure and financial performance of Sobha Ltd., The information gathered was derived from other sources. The company's financial reports are used to obtain information, organization website and other websites. Data is also gathered from books, journals and annual reports. It has used research type as descriptive statistics. Correlation and regression analysis were used to establish the association.

Table 1: Descriptive Statistics

	Return onAssets	Debt-equityratio	Debt-assetratio	Short-termdebt ratio	Long-termdebt ratio
Mean	2.8380	.810	.24014	.21580	.023980
Median	2.7250	.8500	.24850	.22700	.020300
Mode	.60[a]	.85	.054[a]	.048[a]	.0004[a]
Standard Deviation	1.3005	.37179	.074134	.063489	.0231685
Minimum	.60	.11	.054	.048	.0004
Maximum	4.93	1.31	.324	.271	.0758

Analysis: Profitability was measured by return on assets (ROA) where it was found to have a mean of 2.8380, median of 2.7250, mode as 0.60[a], standard deviation of 1.3005, where the value fluctuated between a maximum of 4.93 and minimum of .60 where it is considered as total return for the year 2012-2021. Using the data above, the debt-equity ratio for the year 2012-2021 was determined to have a mean of.810; the median was 0.85; the mode was 0.85; the standard deviation was.37179; nevertheless, the lowest and maximum values ranged between 0.11 and 1.31. The above table shows the debt-asset ratio was having a mean of .24014, median of 0.24850, mode of .054[a], and standard deviation was .074134 and there was a fluctuation in minimum and maximum i.e., .324 & .054 which is considered to be the debt-asset ratio for the year 2012-2021. The shown above table indicates the short-term debt ratio was found to be have a mean of .21580, medianof .22700, mode was .048[a], and standard deviation was .063489, and the fluctuation in minimum and maximum i.e., .048 & .271 which is showing the short-term debt ratio for the year 2012-2021. The table shows that the long-term debt ratio was having the mean of 023980, median of .020300, modeof .0004[a], and having a standard deviation of .0231685. There was a fluctuation in the minimum and maximum i.e., .0004 & .0758 which is to be considered as the long-term debt ratio for the year 2012- 2021.

Model Summary

Model	R	R Square	Adjusted R Square	Standard Error of theEstimate
1	.900[a]	.810	.715	.69459

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a. Predictors: (Constant), Long-term debt ratio, Debt-equity ratio, Short-term debt ratio

When the multiple R value is considered, there is a correlation between the two variables that is positiveto the extent of 90%. To put it another way, the ROA, the long-term debt ratio, the debt-to-equity ratio,and the short-term debt ratio all show a significant positive correlation with the multiple R values of 0.900 A coefficient of determination (R square) measures how much of a factor there is in a given situation. The R Squared value is 0.810, or 81%, as seen in the data. The model's adjusted R Square is 0.715, which is a positive number. The standard error of the estimate is 0.69459 which is good for this model.

Coefficient Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	CollinearityStatistics	
	B	StandardError	Beta			Tolerance	VIF
(Constant)	4.763	.824		5.778	.001		
Debt- equityratio	-3.212	.922	-.918	- 3.482	.013	.456	2.194
Short- term debtratio	6.005	5.592	.293	1.074	.324	.425	2.351
Long- term debtratio	-25.130	10.571	-.448	- 2.377	.055	.894	1.119

a. Dependent Variable: Return on Assets

Using coefficient analysis, one may assess how much ROA variation can be accounted for by the dependent variable. The result reveals that several variables, such as the debt-to-equity ratio, the short- term debt ratio, and the long-term debt ratio, are statistically at the 5 percent threshold or above. The p-value for ROA, which represents its degree of significance, is 0.001. This study found a strong correlation between the variable's debt-to-equity ratio (P=0.013) and long-term debt ratio (P<0.05), indicating that the two variables are related. The significance value for short-term debt ratio was 0.324 which is more than 5% (P>0.05) so there is no significant relationship among the variables.

5. CONCLUSION

A firm's capital structure plays a significant influence in determining its worth. Individuals' perspectives are broadened as a result of studying capital structure. By the accurate understanding aboutthe capital structure, the policy makers, managers can take better decision to maximize the firm value and also the wealth of the shareholders. A good capital mix can also enhance profitability. The organization should be concerned with focusing on the infrastructure of the company's capital structure. Every company need capital structure to take better decision. The company should spend on research and development of the products. The company has to take certain measures to overcome fromthe competition, which helps them for gaining better profits. They can adopt various techniques on capital structure, which helps to increase the profits. Over the year Sobha Ltd company is rapidly growing in the real estate sector. A company's financing structure has a significant impact on its success. The balance sheet determines a company's minimal costof capital, which has a direct impact on its capacity to produce shareholder value. It continues to be thebackbone and financial foundation for every organization.

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