CHAPTER V  UNIT LEVEL FINANCIAL PLANNING.  
(A CASE STUDY OF TWENTY INDIAN COMPANIES)

5.1 Capitalisation Ratio.
5.2 Capital Structure or Leverage Ratio.
UNIT LEVEL FINANCIAL PLANNING

(A CASE STUDY OF TWENTY INDIAN COMPANIES)

Financial planning is a process of identifying a firm’s investment and financial needs given its growth objectives. It encompasses both the business plans as well as the flow of funds needed to carry out the plans. For a proper financial planning the financial manager has to consider and analyse the capitalisation, capital structure and the management of capital. To understand all these aspects fully, the analysis of twenty selected companies from four different sectors i.e. Iron and Steel, Cotton Textile, Cement and Automobile have been taken up here. The whole analysis and interpretations are based on the calculated ratios of the selected companies for a period of five years starting from 1993 to 1997.

5.1 Capitalisation Ratio :

Capitalisation refers to the total amount of capital employed in an enterprise. Three important ratios are taken up for the analysis and interpretation of total capitalisation of the selected companies for the purpose of financial planning. They are explained as follows :-

i) Funded Debt to Total Capitalisation Ratio :- This ratio is calculated as -

\[
\text{Funded Debt to Total Capitalisation Ratio} = \frac{\text{Funded Debt}}{\text{Total Capitalisation}} \times 100
\]

Higher the ratio, higher is the degree of risk of insolvency. Table No. 5.1 shows the ratio of funded debt to total capitalisation of five companies under Iron and Steel Sector. The table disclosed that Esser Steel Ltd. has higher funded debt to total capitalisation ratio ranging from 56.93 percent to 64.03 percent. This
Trend of ratios is beyond the satisfactory level of 50 percent to 55 percent. In this five years period of study, the maximum funded debt to total capitalisation ratio was in 1997. The Mahindra Ugine Steel Ltd. had a high funded debt to total capitalisation ratio in 1993 but it decreases gradually. Even though, it fluctuates in between 29.78 percent to 75.65 percent, the level of funded debt is only 33.16 percent in 1997 which is very much satisfactory.

Again, from the table no. 5.1, it is seen that Marmagao Steel Ltd. has been taking the risk of high degree of outsiders long term funds. The ratio of was 66.55 percent in 1993 but for the remaining years upto 1997 the ratios are above 90 percent. There is high degree of risk of insolvency. But, in the case of Panchmahal Steel Ltd. the ratios have been satisfactory till 1995, thereafter it starts increasing and in 1997, the ratio is at 76.71 percent which is beyond the satisfactory level. Just like the same, the Shah Alloys Ltd. had 25.07 percent of funded debt to total capitalisation. Finally, it rose to 70.90 percent in 1997. The recorded change is not satisfactory.

Here, out of five companies taken up for study under the Iron & Steel Sector, the Mahindra Ugine Steel Ltd. has been maintaining its funded debt to total capitalisation ratio in a satisfactory manner.

Table no. 5.2 shows the data relating to funded debt to total capitalisation of five companies in the Cement sector.

From the table no. 5.2, it is learnt that Andhra Cement Company has been suffering from a high level of funded debt in its total capital requirement.
In 1995, this ratio is above 4000 percent. There is hardly little amount of capital contributed by its shareholders. If the company does not go for a proper strategy to overcome all its problem, it may lead to the liquidation of the company. During the period of the study, Birla Corporations Ltd., has 56.07 percent of funded debt to total capitalisation ratio and it reduces to the level of 52.23 percent in 1997. The proportion of funded debt to total capitalisation is comparatively satisfactory. The Chettinad Cement Corporation, had the ratio of funded debt to total capitalisation ranging from 65.71 percent in 1993 to 63.16 percent in 1997. But in 1995, it come down to the level of 47.24 percent. The overall performance was little higher than the satisfactory level.

But, in the case of Dalmia Cement, the ratio was highly satisfactory till 1996 but suddenly in 1997 it rose from 44.86 percent to 68.95 percent. The Deccan Cement also recorded a decreasing trend of funded debt to total capitalisation ratio from 69.01 percent in 1993 to 35 percent in 1997 with fluctuations in break. The overall performance of these two companies are satisfactoryly good.

Again, table no. 5.3 shows the funded debt to total capitalisation ratios of five companies under Cotton Textile sector.

The Amarjothi Spinning Mills has an overall satisfactory level of outsiders long term funds to its total capital requirement. Except 60 percent in 1997, for the remaining periods, the ratio was in a standard level.

The Bhilwara Spinners Ltd., has a high level of funded debt to its
total cumulative capital requirement. In 1993 it was 88.18 percent but reduced to 58.57 percent in 1994 and finally in 1997, it became 78.45 percent. The company is highly dependent on the external borrowing which may face adverse consequences.

The Dawn Mills Company Ltd. has a better level of funded debt to its total capital requirements. During this five years period, the ratio fluctuates in between 30.05 percent to 49.33 percent which is highly satisfactory. Similarly, the Eastern Silk Industries also maintain the ratio of funded debt to total capitalisation in between 34.26 percent to 41.66 percent. Again G.I.S. Limited has a highly satisfactory level of long term funds to its capitalisation. The maximum ratio disclosed in the table is 54.87 percent and the minimum is 43.81 percent.

Thus, in the Cotton Textile sector except in one company i.e. Bhilwara Spinners Ltd. the overall proportion of funded debt to the total capitalisation was satisfactory.

Table no. 5.4 includes the calculated ratios of Funded Debt to Total Capitalisation of five Companies under Automobile sector.

The calculated ratios of funded debt to total capitalisation of Bajaj Auto Ltd., Bombay Cycles and Motors Ltd. are shown in a systematic order. During this five years period the Bajaj Auto Ltd. shows a decreasing trend of funded debt to its total capital. It continuously declines from 30.56 percent in 1993 to reach 10.83 percent in 1997. The company is enjoying a safer position.
The overall performance of Bombay Cycle & Motors Ltd is also satisfactory with the highest debt funds of 57.3 percent in 1993 during its five years period. The Eicher Ltd. had the funded debt as high as 99.85 percent in 1993. Then, it gradually declines up to a level of 34.75 percent in 1997. No doubt, the level is satisfactory.

Escorts Ltd. had a funded debt ratio of 63.36 percent in 1993 and finally reduces to 44.99 percent in 1997. Starting from 1996, the position has become satisfactory. Hero Honda Motors Ltd. also has been recording a satisfactory level of funded debt to total capitalisation ratio. In a period of five years, it is fluctuating in between 33.95 percent to 53.64 percent.

Now, it is seen that out of the case analysis of twenty companies two companies i.e. Andhra Cement Company and Marmagoa Steel Ltd are badly affected by heavy dependence on external borrowings.
<table>
<thead>
<tr>
<th>Year</th>
<th>Particulars of the</th>
<th>Essar Steel Limited</th>
<th>Mahindra Ugine Steel Company</th>
<th>Marmagoa Steel Ltd.</th>
<th>Panchmahal Steel Ltd.</th>
<th>Shah Allyos Limited</th>
</tr>
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<tr>
<td></td>
<td>Ratios</td>
<td>1114.8</td>
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<td>22.90</td>
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<td>94.47</td>
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<td>25.06</td>
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<td>Total Capitalisation Ratio</td>
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<td>98.63</td>
<td>61.34</td>
<td>65.38</td>
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<td>Total Capitalisation Ratio</td>
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Source: Compiled personally from the Companies Financial Statement
<table>
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<tr>
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<th>Birla Corp. Ltd.</th>
<th>Chettinad Cement Corp.</th>
<th>Dalmia Cement Deccan Cement Limited</th>
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<td>65.71</td>
<td>32.58</td>
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<tr>
<td>1994</td>
<td>Funded Debt</td>
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<td>63.03</td>
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<td>74.91</td>
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<td>52.65</td>
<td>50.79</td>
<td>41.69</td>
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*Source: Compiled personally from the Companies Financial Statement*
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Source: Compiled personally from the Companies Financial Statement
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<th>Bombay Cycle &amp; Motors Ltd.</th>
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<th>Escorts Limited</th>
<th>Hero Honda Motors Ltd.</th>
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<td>54.94</td>
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<td>Ratio</td>
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<td>50.00</td>
<td>34.75</td>
<td>44.99</td>
<td>40.53</td>
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</table>

Source: Compiled personally from the Companies Financial Statement


ii) **Debt Ratio:**

The contribution of creditors and outsiders to the total assets of the firm is measured by this ratio. The compositions of this ratio are total debts and total assets. Thus,

\[
\text{Debt Ratio} = \frac{\text{Total Debts}}{\text{Total Assets}} \times 100
\]

The higher the debt ratio the more risky is the situation because all liabilities are to be paid off sooner or later.

Table no. 5.5 shows the debt ratios of five companies in the Iron and Steel sector. In the Essar Steel Ltd. this ratio is fluctuating in between 61.03 percent to 71.30 percent during the period of study. The analysis of these trends of ratios shows that there is an increase in debt ratio from 61.03 percent in 1993 to 71.30 percent in 1997 which means the increase of outsiders share in financing the total assets of the firms. The rising trend is not a symbol of improvement.

The Mahindra Ugine Steel Co. had a very high debt ratio touching 80.20 percent in 1993 but it declines continuously and in 1997 it becomes only 48.76 percent. The burden for paying off the creditor has declined significantly. This is a very significant change and the change is highly satisfactory.

Contrary to the above, the Marmagoa Steel Ltd. is facing a high level of debt. More than 90 percent if its assets are purchased by financing from the creditors. In 1993 it was only 71.85 percent but raises steadily to reach
99.22 percent in 1997. The trend shows a warning to management to introduce a proper financial planning. The Panchmahal Steel Ltd which was running in 1993 with a debt ratio of 68.66 percent started declining the ratio till 1995 and thereafter increased to 82.05 percent in 1997. In the case of Shah Alloys Ltd. too, the debt ratio shows a rising trend from 1995 at a fast pace. The increasing ratio will lead to dissatisfaction to the creditors.

In the table no. 5.6 the data relating to debt ratios of five companies in the Cement sector have been shown.

The debt ratios of Andhra Cement are too high ranging from 496.73 percent in 1993 to 297.87 percent in 1997. The trend of ratios show that almost all activities of the company are financial from the creditors and outsider's funds. The Birla Corporation maintains the level of its debt ratio in an almost constant trend except some minor fluctuations. Around 62 percent of debt ratios is maintained throughout the five years period. The debt ratios in the Chettinad Cement, Dalmia Cement and Deccan Cement are having a fluctuating trend.

Table no. 5.7 represents the debt ratios in the Cotton Textile sector.

It can be drawn from the table that Amarjothi Spinning Mills has an overall satisfactory level of debt. The Bhilwara Spinners Ltd has a higher debt ratio of above 70 percent in 1993. But in all the remaining years of the study period, the ratio lies below 70 percent. Dawn Mills, Eastern Silk Industries and G.I.S Ltd. have a standard level of debt ratio which lies below 70 percent in any case. Of out the five companies, the Dawn Mills has comparatively better position than others.
The data relating to ‘Debt Ratios’ of five companies in the Automobile sector has been depicted in table no. 5.8.

It is understood from the table no. 5.8 that Bajaj Auto has a debt ratio trend ranging from 56.21 percent in 1993 to 40.57 percent in 1997. The dependence on the creditors for financing its assets are 56.21 percent in the beginning and declines upto 40.57 percent in 1997. Bajaj Auto Ltd. has been maintaining its Debt ratio in a satisfactory level. The Bombay Cycle and Motors Ltd. has high debt ratio in 1993 but it gradually declines to 90.36 percent in 1996 then it rises to 95.71 percent in 1997. The total external financing in its total resources are too high.

The Eicher Ltd. has a significant decline in its external dependence. It was as high as 99.98 percent in 1993 however, in 1997 only 56.23 percent is shown. The company has a very satisfactory change in its debt ratio during the five years period.

Escorts Ltd's debt ratio in the first three years were little higher but in 1997, it becomes only 60.59 percent. The Hero Honda Motors Ltd. has been maintaining this ratio in between 60 percent to 69 percent. The overall performance is satisfactory. Out of five companies in Automobile sector, Bajaj Auto has a better position.
<table>
<thead>
<tr>
<th>Year</th>
<th>Particulars of the Ratios</th>
<th>Essar Steel Limited</th>
<th>Mahindra Ugine Steel Company</th>
<th>Marmagao Steel Ltd.</th>
<th>Panchmahal Steel Ltd.</th>
<th>Shah Allyos Limited</th>
</tr>
</thead>
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<tr>
<td>1993</td>
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<td>13.20</td>
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<td>80.20</td>
<td>71.85</td>
<td>68.66</td>
<td>45.38</td>
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<td>6.07</td>
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<td>92.59</td>
<td>14.20</td>
</tr>
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<td>Ratio</td>
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<td>62.10</td>
<td>96.03</td>
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<td>38.21</td>
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<td>Ratio</td>
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<td>97.53</td>
<td>64.26</td>
<td>69.77</td>
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<td>70.07</td>
<td>147.46</td>
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<td>99.72</td>
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<td>87.07</td>
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<td>74.72</td>
<td>192.09</td>
<td>106.49</td>
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<tr>
<td></td>
<td>Ratio</td>
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<td>48.76</td>
<td>99.22</td>
<td>82.05</td>
<td>81.76</td>
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Source: Compiled personally from the Companies Financial Statement
TABLE NO. 5.6  
CEMENT INDUSTRY  
DEBT RATIO  

<table>
<thead>
<tr>
<th>Year</th>
<th>Particulars of the Ratios</th>
<th>Andhra Cement Co.</th>
<th>Birla Corp. Ltd.</th>
<th>Chettinad Cement Corp.</th>
<th>Dalmia Cement Deccan Limited</th>
<th>(in percentage)</th>
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<td>537.95</td>
<td>97.31</td>
<td>169.21</td>
<td>35.59</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
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<td>62.94</td>
<td>71.20</td>
<td>54.80</td>
<td>74.06</td>
</tr>
<tr>
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<td>Total Debt</td>
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<td>21.99</td>
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<td>89.26</td>
<td>204.37</td>
<td>36.06</td>
</tr>
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<td>62.49</td>
<td>58.70</td>
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<td>60.98</td>
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<td>68.07</td>
<td>73.02</td>
<td>41.94</td>
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Source: Compiled personally from the Companies Financial Statement
### TABLE NO. 5.7
COTTON TEXTILE INDUSTRY
DEBT RATIO

<table>
<thead>
<tr>
<th>Year</th>
<th>Particulars of the Ratios</th>
<th>NAME OF THE COMPANIES</th>
<th>(in percentage)</th>
</tr>
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<tr>
<td>1993</td>
<td>Total Debt</td>
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<td>Total Assets</td>
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<td>Ratio</td>
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<td>Total Debt</td>
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<td>21.55</td>
</tr>
<tr>
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<td>Total Assets</td>
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<td>40.81</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
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<tr>
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<td>Total Debt</td>
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<td>39.50</td>
</tr>
<tr>
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<td>Total Assets</td>
<td>21.97</td>
<td>61.87</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>52.57</td>
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<tr>
<td>1996</td>
<td>Total Debt</td>
<td>15.73</td>
<td>51.69</td>
</tr>
<tr>
<td></td>
<td>Total Assets</td>
<td>28.97</td>
<td>75.59</td>
</tr>
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<td></td>
<td>Ratio</td>
<td>54.29</td>
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<td>Total Assets</td>
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</tr>
<tr>
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<td>Ratio</td>
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<td>69.31</td>
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</table>

Source: Compiled personally from the Companies Financial Statement
<table>
<thead>
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<th>Year</th>
<th>Particulars of the Ratios</th>
<th>Bajaj Auto Limited</th>
<th>Bombay Cycle &amp; Motors Ltd.</th>
<th>Eicher Limited</th>
<th>Escorts Limited</th>
<th>Hero Honda Motors Ltd.</th>
</tr>
</thead>
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<tr>
<td>1993</td>
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<td>69.39</td>
<td>679.13</td>
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</tr>
<tr>
<td></td>
<td>Ratio</td>
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<td>95.52</td>
<td>99.88</td>
<td>77.78</td>
<td>68.94</td>
</tr>
<tr>
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<td>5.92</td>
<td>30.99</td>
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<td>93.37</td>
<td>71.72</td>
<td>79.07</td>
<td>67.70</td>
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<td>Ratio</td>
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<td>90.36</td>
<td>57.91</td>
<td>63.00</td>
<td>63.43</td>
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<tr>
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<td>95.71</td>
<td>56.23</td>
<td>60.59</td>
<td>66.32</td>
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</tbody>
</table>

Source: Compiled personally from the Companies Financial Statement
iii) *Equity/Proprietary Ratio* :-

This ratio establishes the relationship between the proprietor's funds or equity funds and the total assets of the firm. Thus,

\[
\text{Equity/Proprietary Ratio} = \frac{\text{Shareholders' Funds}}{\text{Total Assets}} \times 100.
\]

Higher the ratio, higher is its stability and solvency level. A ratio below 50 percent may be alarming to the business.

Table No. 5.9 above shows the Equity Ratios of five companies in the Iron & Steel sector.

Essar Steel Ltd. has little lower proportion of equity ratio throughout the its five years period. In all the ratio lies in between 30 percent to 40 percent. The ratios show almost a declining trend which is a bad sign to company.

The Mahindra Ugine Steel Company Ltd. has a fluctuating trend of the proprietary ratio. In 1993, it was very low i.e. 20.13 percent but in 1995, there was a modest rise in this ratio touching 68.52 percent which is satisfactory. It again reduced to 53.34 percent in 1997, however, the level is satisfactory.

Out of the five companies in the iron and steel sector the Marmagao Steel Ltd. has a poor level of equity ratio. The highest level is 29 percent in 1993 thereafter all ratios are below 5 percent.

For the Panchmahal Steel Ltd. the ratio was 31.34 percent in 1993 and it became rising upto 37.30 percent and then started declining in 1996. The
overall trend of equity ratio is not satisfactory and it is required to improve so as to increase the level of solvency.

In the beginning Shah Alloys Ltd. has a comparatively better level with a ratio of 59.78 percent in 1994 but in 1997, it has declined considerably.

Table no. 5.10 shows the data relating to Equity/Proprietary Ratio of some companies under Cement sector.

In the Andhra Cement Company, the proportion of equity capital or shareholders' funds in financing its assets are too low. In other words, the shareholders' contribution in financing its total assets requirements goes below the positive figure. The company is seen hopeless.

From the analysis it is found that Birla Corporation has been keeping its equity ratio in between 37 percent to 39 percent throughout period of study. The overall performance needs to improve so that the creditor feel safer to invest.

In the case of Chettinad Cement too, the level of equity/proprietary ratio is not attractive as it was only 44.05 percent in 1995 and remains below it in the remaining four years. The Dalmia Cement had 45.20 percent in 1993, it rose to the level of 46.33 percent in 1996 but started declining in 1997.

The Deccan Cement has a better equity ratio. With a start of 26.83 percent in 1993, it rises upto 58.67 percent in 1995 and in 1997 it stops at 58.38 percent. The overall performance level is satisfactory, out of five companies under cement sector, taken up for study, the Deccan Cement has been in a better position in terms of its proprietary ratio.
Table no. 5.11 again shows the data of calculated equity/proprietary ratio of the Cotton Textiles sector. out of five companies under study Amarjothi Spinning Mills Ltd. and Eastern Silk Industries have a near to the satisfactory level of performance. However, in the case of Bhilwara Spinners Ltd., Dawn Mills Co. Ltd., and G.I.S. Ltd., the equity ratio level is very low. In no year, it touches the level of 50percent contribution from shareholders funds to its total assets financing.

Table no. 5.12 shows the equity/proprietary ratios of five companies under Automobile Sector.

The shareholder’s funds in financing the total assets of the Bajaj Auto Ltd was 43.79percent in 1993, then in 1997 it rose to 59.43percent. During a five years time the company has come up to a comparatively satisfactory level. However, the Bombay Cycles and Motors Ltd has a lower profile of these ratios throughout. In no year in between 1993 to 1997, the ratio is above 10percent.

Again, it is also drawn from the table that the performance of Eicher Ltd., Escorts Ltd and the Hero Honda Motors Ltd. are less than the standard ratio of 50percent. However, the Eicher Ltd and Escorts Ltd. are improving their equity ratios. In all the Bajaj Auto Ltd. has better financial solvency than the other four companies.

The study of capitalisation requires the three above ratios for measuring and analysing the components of its total capitalisation. Out of twenty companies selected for study, some companies require to take up a proper financial planning activities.
<table>
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<th>Year</th>
<th>Particulars of the Ratios</th>
<th>Essar Steel Limited</th>
<th>Mahindra Ugine Steel Company</th>
<th>Marmaga Steel Ltd.</th>
<th>Panchmahal Steel Ltd.</th>
<th>Shah Allyos Limited</th>
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<td>11.51</td>
<td>19.97</td>
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<tr>
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<td>39.69</td>
<td>63.72</td>
<td>13.20</td>
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<td>20.13</td>
<td>29.00</td>
<td>31.34</td>
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<td>92.59</td>
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<td>106.49</td>
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<tr>
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<td>53.34</td>
<td>0.77</td>
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<td>18.45</td>
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Source: Compiled personally from the Companies Financial Statement
<table>
<thead>
<tr>
<th>Year</th>
<th>Particulars of the Ratios</th>
<th>Andhra Cement Co.</th>
<th>Birla Corp. Ltd.</th>
<th>Chettinad Cement Corp.</th>
<th>Dalmia Cement Limited</th>
<th>Deccan Cement Limited</th>
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<td>97.31</td>
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<td>35.59</td>
</tr>
<tr>
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<td>42.64</td>
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Source: Compiled personally from the Companies Financial Statement
5.2 Capital Structure or Leverage Ratio :-

The proper use of all long term sources of funds for financing the firm's assets is a very complicated task. When the firm tries to achieve its long term goals and objectives like maximisation of wealth, it requires the identification of a judicious mixture of various long term financial resources. These resources are grouped under two heads that is debt capital and equity capital. Capital structure or leverage ratios of twenty selected companies from four sectors are calculated for measuring the judicious mixture of debt capital and equity capital.

i) Debt-Equity Ratio :-

There are many variants of debt equity ratio. One of the ratios which is taken up here to calculate debt equity is :-

\[
\text{Debt-Equity Ratio} = \frac{\text{Long Term Debts}}{\text{Shareholders Funds}}
\]

Table No. 5.13 shows the debt to equity ratios of five selected companies under Iron and Steel sector.

It is seen from the table no. 5.13 that Essar Steel Ltd. has debt-equity ratio ranging from 1.32 to 1.78 during the five years period. According to the Controller of Capital Issues in India, the ratio is satisfactory and may even be increased up to three.

The Mahindra Ugine Steel Co. has a high debt-equity ratio in 1993 but later it declines and reached 0.49 only in 1997. The too much fluctuation in
the ratio shows an unstable position in its financial planning.

The Marmagoa Steel Ltd maintained its debt equity proportion at 1.99:1 in 1993. After that, it started to rise beyond the acceptable limit, in 1996 it was highest i.e. 72.5:1 and in 1997 it became 62.24:1. The participation of shareholders funds become almost meaningless. The company may not be able to control its solvency position.

The Panchmahal steel Ltd. has a lower debt equity ratio in the beginning but from 1996 it starts rising. Just like that Shah Alloys Ltd. has also a rising trend of this ratio. The highest is 2.44 times in 1997.

The Table No. 5.14 shows the data relating to Debt Equity Ratios of five selected companies in the Cement sector.

Andhra Cement has been facing the problem of financing its total assets by long-term debts only. Besides, the dues and losses of equity shareholder are also met by the long term debts. The situation is highly unsatisfactory. The Birla Corporation has in an average a debt-equity ratio of 1.07:1. The proportion of debt in its total capital requirement can be increased so that the wealth of the shareholders be raised. But at this present stage, the company has sound solvency position. The Chettinad Cement has a little higher level of debt equity ratio than the Birla Corporations. The proportion of debt and equity are satisfactory.

The Dalmia Cement had a low level of this ratio till 1996 as the contribution of shareholders fund, are much higher than the level of long term debt. But in 1997, it has become 1.56 times. The proportion in this year is
satisfactory. The Deccan Cement had 2.23:1 and 1.23:1 debt equity ratios in 1993 and 1994 respectively but in 1997 it declines to 0.54:1.

The Debt-Equity Ratios of five companies in the Cotton Textile Sector are listed in the table no. 5.15.

The Amarjothi Spinning Mills has 0.84:1 in 1993, 1.22:1 in 1994 and then 1.50:1 in 1997. The leverage in 1994 and 1997 are satisfactory but in the remaining years of the study, the level of shareholders’ funds are high.

The Bhilwara Spinners Ltd. has been maintaining its ratio in the range of 1.09times to 3.27times. The overall proportion of the two capitals an satisfactory. The Dawn Mills Ltd., has a low level of debt-equity ratio throughout this five years. But G.I.S. Ltd. has a fluctuating trend in between 0.78time to 1.22times during this five years period but the overall proportion is satisfactory.

Table no. 5.16 shows the data relating to the debt equity ratios in Automobile sector.

In the Bajaj Auto Ltd., the proportion of long term debt to the total capital is two low. The ratio fluctuates in between 0.12times to 0.44times during 1993 to 1997. The available trend is much lower than the acceptable standard. But in the case of Bombay Cycles & Motors Ltd., out of five years of study, in three years the ratios are satisfactory but in two years, it is below 1. The too low debt-equity ratio means that the company is mostly financed by costly funds.

The Escorts Ltd. has a debt-equity ratio of 2.13times in 1993. It started declining after that. In 1997 this ratio is 0.82times. Just like that, the
Hero Honda Motors Ltd., has 1.16 times of this ratio in 1993 thereafter till 1997 all ratios an below 1. It shows that the solvency position of these companies are high but these companies are not fully enjoying the benefit of leverage. The creditors are highly secured in all the five companies during the period of the study.
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<th>Marmagao Steel Ltd.</th>
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<tr>
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<td>Ratio</td>
<td>0.44</td>
<td>1.34</td>
<td>644.75</td>
<td>2.13</td>
<td>1.16</td>
</tr>
<tr>
<td>1994</td>
<td>Total Long-term Debt Shareholders' funds</td>
<td>204.31</td>
<td>0.47</td>
<td>14.91</td>
<td>252.97</td>
<td>48.29</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>0.42</td>
<td>1.15</td>
<td>1.22</td>
<td>1.56</td>
<td>0.78</td>
</tr>
<tr>
<td>1995</td>
<td>Total Long-term Debt Shareholders' funds</td>
<td>200.68</td>
<td>0.49</td>
<td>13.68</td>
<td>323.59</td>
<td>39.56</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>0.19</td>
<td>0.84</td>
<td>0.92</td>
<td>1.64</td>
<td>0.52</td>
</tr>
<tr>
<td>1996</td>
<td>Total Long-term Debt Shareholders' funds</td>
<td>205.08</td>
<td>0.51</td>
<td>81.88</td>
<td>444.79</td>
<td>49.45</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>0.15</td>
<td>0.78</td>
<td>0.68</td>
<td>0.89</td>
<td>0.51</td>
</tr>
<tr>
<td>1997</td>
<td>Total Long-term Debt Shareholders' funds</td>
<td>213.87</td>
<td>0.44</td>
<td>77.60</td>
<td>494.96</td>
<td>94.83</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>0.12</td>
<td>1.02</td>
<td>0.53</td>
<td>0.82</td>
<td>0.68</td>
</tr>
</tbody>
</table>

Source: Compiled personally from the Companies Financial Statement
ii) **Capital Gearing Ratio :-**

The ratio is calculated as :-

\[
\text{Capital Gearing Ratio} = \frac{\text{Equity Share Capital + Reserves & Surplus}}{\text{Pref. Cap. + Long Term Debts Bearing Fixed Interest}} \quad \text{or} \quad \frac{\text{Funds Bearing Fixed Interest and Dividend}}{}
\]

This ratio is a very important leverage ratio. The gearing should be maintained at the level that the company is able to maintain a steady rate of dividend. High gearing ratio is not good for a new company or a company in which future earnings are uncertain.

Table no. 5.17 shows the data relating to the capital gearing ratios of some companies in the Iron and Steel Sector.

From the table no 5.17, it is observed that Essar Steel Ltd., has a high gearing ratio throughout the study period. In 1993, out of the total long term funds requirements, equity shareholder's funds constituted only 0.75 times of the total long term funds bearing fixed interest and dividend (FBFID). In 1997 it has reduced to 0.56 times. As Essar Steel Ltd has the capacity to pay off the fixed financial charges without fail on that ground, the company can increase the gearing ratio.

In the case of Mahindra Ugine Steel Co., high gearing ratio is found only in 1993 and 1994 during the period this study. After that FBFID has lowered and equity share capital started dominating. As the company's debt service capacity is increased in the later years, the company can take the risk of high
gearing upto a certain level.

The Marmagoa Steel Ltd., has shown a high gearing ratio in 1993 and it remains increasing till 1997. Since the company, is not in a position to earn profit to pay off the fixed charges, it will be risky to gear more.

The table shows that the Panchmahal Steel Ltd. has low gearing ratio upto 1995 and then started increasing its FBFID beyond the equity funds. In 1997, equity funds became only 30 percent of FBFID. As the company cannot pay the fixed obligations, it will be better to maintain the low gearing ratio.

Shah Alloys Ltd. also has a very low gearing ratio till 1994, during period of the study. However, it became increasing from 1995 and the highest gearing during the period of study is 0.41 times in 1997 which means that the company’s equity funds constitutes only 41 percent of the FBFID.

Table no. 5.18 shows the capital gearing ratio of five companies in Cement sector.

The analysis of the above table shows that the Andhra Cement has been fully financed by FBFID. The role and contribution of the equity shareholders funds are almost nil. The company has not been able to pay off any fixed charges obligations as has been disclosed in table no. 5.27 too. The high gearing ratio is worthless in this company.

The Birla Corporation has the proportion of equity capital higher than the FBFID in 1996. Again in 1997 the level of gearing is increased. The company cannot go for high gearing as it’s earnings are not satisfactorily high. Again, the
Chettinad Cement has also been following the same pattern. In 1997, the equity shareholders’ fund constituted only 0.58 times of FBFID.

The analysis of the table also shows that the Dalmia Cement has very low gearing ratio of 2.06 times of equity fund to the FBFID. It became declining till 1997. In 1997, the company has increased the gearing ratio to 0.63 times.

On the basis of the solvency of the company, the low gearing ratio is preferred but it adversely affects profitability as equity funds are costlier than the FBFID.

The capital gearing ratios of five companies in the Cotton Textile sector have been shown in the table no. 5.19.

The Amarjothi Spinning Mills has been recording a fluctuating capital gearing ratio with lowest in 1995 and highest in 1994 during this five years period of study. The Bhilwara Spinners Mills Ltd., has been maintaining a comparatively higher gearing ratio throughout the period of study, with the lowest in 1993.

From the analysis it is confirmed that the Dawn Mills Ltd., has low gearing ratio. The proportion of equity funds to FBFID has been increasing from 1994 to 1997 continuously in 1993 it was 1.30 times, in 1994, it was 1.02 times and reached 2.32 times in 1997.

For, the Eastern Mills Ltd. it was first 1.69 times in 1993 and in 1997, it became 1.96 times. Thoughout the period of study the company's equity funds exceeds its FBFID.
From the study, it is also revealed that G.I.S. Ltd. has a fluctuating capital gearing ratios. In 1993 it was 1.26 times, in 1994 it became 0.87 times then in 1997, 0.97 times.

Table no. 5.20 shows to the data relating to capital gearing ratio of five companies under automobile sector.

The analysis of the above table reveals that the Bajaj Auto has been keeping the low level of FBFID throughout the period of study. The level of equity funds participation has been increasing continuously during the period of study from 2.27 times to 8.23 times. The highest proportion of equity to FBFID is recorded in 1997. As it is disclosed to table no. 5.28 later, the company has the capability to pay off in time all fixed obligations, on the basis of it, it will be better to use the FBFID and increase the gearing.

The Bombay Cycle and Motors Ltd has been keeping a fluctuating trends of capital gearing ratios, in 1993 it was 0.74 times, and started reducing to reach 1.27 times in 1996 and then the gearing started rising to 0.97 times in 1997.

The Eicher Ltd. had almost 100percent gearing in 1993 but declines to 1.83 times in 1997. Again, the Escorts Ltd has also been maintaining a decreasing trends of capital gearing ratio from 1993 to 1997 with a break in 1994.

In 1993, according to the information revealed is table no. 5.20, the Hero Honda Motors Ltd. has a comparatively high gearing ratio. It has been continuously reducing till 1996 touching 1.94 times. But in 1997 it became
1.46 times only which is slightly increasing the degree of gearing.

By increasing the gearing ratio, the Hero Honda Motors Ltd. may increase its profitability because, the fixed obligations are paying off without fail as is disclosed in table no. 5.28 later.
<table>
<thead>
<tr>
<th>Year</th>
<th>Particulars of the Ratios</th>
<th>Essar Steel Limited</th>
<th>Mahindra Ugine Steel Company</th>
<th>Marmagao Steel Ltd.</th>
<th>Panchmahal Steel Ltd.</th>
<th>Shah Allyos Limited</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>E.S.F.</td>
<td>843.33</td>
<td>41.67</td>
<td>11.51</td>
<td>19.97</td>
<td>7.62</td>
</tr>
<tr>
<td></td>
<td>F.B.F.I.D.</td>
<td>1114.80</td>
<td>129.59</td>
<td>22.90</td>
<td>9.92</td>
<td>2.55</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>0.75</td>
<td>0.32</td>
<td>0.50</td>
<td>2.01</td>
<td>2.98</td>
</tr>
<tr>
<td>1994</td>
<td>E.S.F.</td>
<td>1264.42</td>
<td>73.13</td>
<td>1.77</td>
<td>31.88</td>
<td>8.49</td>
</tr>
<tr>
<td></td>
<td>F.B.F.I.D.</td>
<td>2204.79</td>
<td>81.80</td>
<td>30.29</td>
<td>24.56</td>
<td>2.84</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>0.57</td>
<td>0.89</td>
<td>0.05</td>
<td>1.29</td>
<td>2.98</td>
</tr>
<tr>
<td>1995</td>
<td>E.S.F.</td>
<td>2306.15</td>
<td>74.60</td>
<td>2.05</td>
<td>50.15</td>
<td>11.86</td>
</tr>
<tr>
<td></td>
<td>F.B.F.I.D.</td>
<td>3327.92</td>
<td>52.28</td>
<td>34.26</td>
<td>43.96</td>
<td>15.29</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>0.69</td>
<td>1.42</td>
<td>0.05</td>
<td>1.14</td>
<td>0.77</td>
</tr>
<tr>
<td>1996</td>
<td>E.S.F.</td>
<td>2415.79</td>
<td>130.53</td>
<td>0.46</td>
<td>52.22</td>
<td>18.12</td>
</tr>
<tr>
<td></td>
<td>F.B.F.I.D.</td>
<td>4026.19</td>
<td>55.36</td>
<td>33.35</td>
<td>82.88</td>
<td>34.23</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>0.60</td>
<td>2.35</td>
<td>0.01</td>
<td>0.63</td>
<td>0.52</td>
</tr>
<tr>
<td>1997</td>
<td>E.S.F.</td>
<td>2389.40</td>
<td>134.64</td>
<td>0.58</td>
<td>36.02</td>
<td>19.65</td>
</tr>
<tr>
<td></td>
<td>F.B.F.I.D.</td>
<td>4253.65</td>
<td>66.81</td>
<td>36.10</td>
<td>118.64</td>
<td>47.89</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>0.56</td>
<td>2.01</td>
<td>0.01</td>
<td>0.30</td>
<td>0.41</td>
</tr>
</tbody>
</table>

**E.S.F.** - Equity Shareholders Funds  
**F.B.F.I.D.** - Funds Bearing Fixed Interest and Dividend  
*Source: Compiled personally from the Companies Financial Statement*
<table>
<thead>
<tr>
<th>Year</th>
<th>Particulars of the Ratios</th>
<th>Andhra Cement Co.</th>
<th>Birla Corp. Ltd.</th>
<th>Chettinad Cement Corp.</th>
<th>Dalmia Cement Deccan Cement Limited</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>E.S.F.</td>
<td>-212.61</td>
<td>199.98</td>
<td>27.80</td>
<td>76.49</td>
</tr>
<tr>
<td></td>
<td>F.B.F.I.D.</td>
<td>221.03</td>
<td>234.44</td>
<td>54.02</td>
<td>36.97</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>-0.96</td>
<td>0.85</td>
<td>0.51</td>
<td>2.06</td>
</tr>
<tr>
<td>1994</td>
<td>E.S.F.</td>
<td>-269.47</td>
<td>207.78</td>
<td>36.59</td>
<td>87.15</td>
</tr>
<tr>
<td></td>
<td>F.B.F.I.D.</td>
<td>337.38</td>
<td>231.13</td>
<td>38.32</td>
<td>63.03</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>-0.79</td>
<td>0.89</td>
<td>0.95</td>
<td>1.38</td>
</tr>
<tr>
<td>1995</td>
<td>E.S.F.</td>
<td>-220.73</td>
<td>225.92</td>
<td>54.37</td>
<td>112.87</td>
</tr>
<tr>
<td></td>
<td>F.B.F.I.D.</td>
<td>300.39</td>
<td>247.84</td>
<td>48.68</td>
<td>102.80</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>-0.73</td>
<td>0.91</td>
<td>1.11</td>
<td>1.09</td>
</tr>
<tr>
<td>1996</td>
<td>E.S.F.</td>
<td>-225.19</td>
<td>259.00</td>
<td>81.25</td>
<td>147.14</td>
</tr>
<tr>
<td></td>
<td>F.B.F.I.D.</td>
<td>327.73</td>
<td>231.71</td>
<td>114.25</td>
<td>119.73</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>0.68</td>
<td>1.11</td>
<td>0.71</td>
<td>1.22</td>
</tr>
<tr>
<td>1997</td>
<td>E.S.F.</td>
<td>-217.66</td>
<td>260.25</td>
<td>99.30</td>
<td>169.96</td>
</tr>
<tr>
<td></td>
<td>F.B.F.I.D.</td>
<td>330.05</td>
<td>285.34</td>
<td>170.22</td>
<td>266.12</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>-0.65</td>
<td>0.91</td>
<td>0.58</td>
<td>0.63</td>
</tr>
</tbody>
</table>

E.S.F. - Equity Shareholders Funds  
F.B.F.I.D. - Funds Bearing Fixed Interest and Dividend  
Source: Compiled personally from the Companies Financial Statement
<table>
<thead>
<tr>
<th>Year</th>
<th>Particulars of the Ratios</th>
<th>NAME OF THE COMPANIES</th>
<th>(No. of times)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>E.S.F</td>
<td>5.50</td>
<td>8.09</td>
</tr>
<tr>
<td></td>
<td>F.B.F.I.D</td>
<td>4.62</td>
<td>26.43</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>1.19</td>
<td>0.30</td>
</tr>
<tr>
<td>1994</td>
<td>E.S.F</td>
<td>6.08</td>
<td>19.80</td>
</tr>
<tr>
<td></td>
<td>F.B.F.I.D</td>
<td>7.44</td>
<td>21.55</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>0.81</td>
<td>0.91</td>
</tr>
<tr>
<td>1995</td>
<td>E.S.F</td>
<td>10.80</td>
<td>22.88</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>1.24</td>
<td>0.57</td>
</tr>
<tr>
<td>1996</td>
<td>E.S.F</td>
<td>13.59</td>
<td>24.52</td>
</tr>
<tr>
<td></td>
<td>F.B.F.I.D</td>
<td>11.28</td>
<td>51.69</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>1.20</td>
<td>0.47</td>
</tr>
<tr>
<td>1997</td>
<td>E.S.F</td>
<td>14.68</td>
<td>25.09</td>
</tr>
<tr>
<td></td>
<td>F.B.F.I.D</td>
<td>22.04</td>
<td>55.76</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>0.66</td>
<td>0.44</td>
</tr>
</tbody>
</table>

_E.S.F._ - Equity Shareholders Funds  
_F.B.F.I.D._ - Funds Bearing Fixed Interest and Dividend  
_Source_: Compiled personally from the Companies Financial Statement
### TABLE NO. 5.20
**AUTOMOBILE INDUSTRY CAPITAL GEARING RATIO**

<table>
<thead>
<tr>
<th>Year</th>
<th>Particulars of the Ratios</th>
<th>NAME OF THE COMPANIES</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Bajaj Auto Limited</td>
<td>Bombay Cycle &amp; Motors Ltd.</td>
<td>Eicher Limited</td>
<td>Escorts Limited</td>
<td>Hero Honda Motors Ltd.</td>
</tr>
<tr>
<td>1993</td>
<td>E.S.F.</td>
<td>373.67</td>
<td>0.35</td>
<td>-0.92</td>
<td>160.80</td>
<td>50.63</td>
</tr>
<tr>
<td></td>
<td>F.B.F.I.D.</td>
<td>164.43</td>
<td>0.47</td>
<td>52.58</td>
<td>278.10</td>
<td>58.57</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>2.27</td>
<td>0.74</td>
<td>-0.01</td>
<td>0.57</td>
<td>0.86</td>
</tr>
<tr>
<td>1994</td>
<td>E.S.F.</td>
<td>489.74</td>
<td>0.41</td>
<td>11.22</td>
<td>162.34</td>
<td>61.76</td>
</tr>
<tr>
<td></td>
<td>F.B.F.I.D.</td>
<td>204.31</td>
<td>0.47</td>
<td>1591</td>
<td>252.97</td>
<td>48.29</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>2.39</td>
<td>0.87</td>
<td>0.70</td>
<td>0.64</td>
<td>1.27</td>
</tr>
<tr>
<td>1995</td>
<td>E.S.F.</td>
<td>1071.05</td>
<td>0.58</td>
<td>13.53</td>
<td>198.61</td>
<td>76.23</td>
</tr>
<tr>
<td></td>
<td>F.B.F.I.D.</td>
<td>200.68</td>
<td>0.49</td>
<td>14.96</td>
<td>323.59</td>
<td>39.56</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>5.33</td>
<td>1.18</td>
<td>0.90</td>
<td>0.61</td>
<td>1.92</td>
</tr>
<tr>
<td>1996</td>
<td>E.S.F.</td>
<td>1408.29</td>
<td>0.65</td>
<td>118.86</td>
<td>496.67</td>
<td>96.19</td>
</tr>
<tr>
<td></td>
<td>F.B.F.I.D.</td>
<td>205.08</td>
<td>0.51</td>
<td>83.16</td>
<td>444.79</td>
<td>49.45</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>6.86</td>
<td>1.27</td>
<td>1.42</td>
<td>1.11</td>
<td>1.94</td>
</tr>
<tr>
<td>1997</td>
<td>E.S.F.</td>
<td>1760.70</td>
<td>0.43</td>
<td>144.42</td>
<td>605.24</td>
<td>139.17</td>
</tr>
<tr>
<td></td>
<td>F.B.F.I.D.</td>
<td>213.87</td>
<td>0.44</td>
<td>78.88</td>
<td>494.96</td>
<td>94.83</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>8.23</td>
<td>0.97</td>
<td>1.83</td>
<td>1.22</td>
<td>1.46</td>
</tr>
</tbody>
</table>

**E.S.F.** - Equity Shareholders Funds  
**F.B.F.I.D.** - Funds Bearing Fixed Interest and Dividend  
*Source: Compiled personally from the Companies Financial Statement*
iii) **Financial Leverage Ratio:**

The use of long term fixed interest bearing debt and preference share capital along with equity capital is known as financial leverage. The financial leverage can be calculated as:

\[
\text{Financial Leverage} = \frac{\text{Earnings Before Interest & Tax (EBIT)}}{\text{EBIT - Interest & Preference Dividend}}
\]

The Financial Leverage of five companies in the Iron and Steel sector are shown in the table no. 5.21.

The financial leverage of Essar Steel Ltd has been good as shown in the table. The EBIT of the company has always been more than the EBIT-Interest and Preference Dividend during the period of the study. It was highest in 1997 with 2.61 times and lowest in 1994 with 1.30 times.

In the Mahindra Ugine Steel Ltd. the ratios of the first two years of the study i.e. 1993, and 1994 are very much below the acceptable level. It rose to 3.61 times in 1995 but declines to 1.64 times in 1997. Even though the company is not facing lose in this year.

The Marmagao Steel Ltd. is badly affected by financial leverage. In some years the company is not in a position to earn the return sufficient for paying off the interest and preference dividend. Only in 1997, it suddenly rose to 3.34 times. But in the case of Panchmahal Steel Ltd. the company was earning more than its interest and preference dividend to be paid off except in 1997. The overall performance of the company is satisfactory.
Again, in the case of Shah Alloys Ltd., throughout the period of its study, the company was earning more than the level of earning sufficient to pay off the interest and preference dividend. The ratio has been fluctuating in between 1.31 to 1.94 times. The overall performance of financial leverage is satisfactory.

Table no. 5.22 shows the data relating to the financial leverage ratio of five companies in the cement sector.

From the table it is seen that the financial leverage ratio of Andhra Cement Company is not necessary to calculate as the level of EBIT for the first-four years of the study are given in negative figure. Only in 1997, the company’s earnings are improved and could comfortably pay off interest and dividend. The ratio is as high as 10.7 times which is highly satisfactory.

The Birla Corporation has overall satisfactory level of financial leverage ratio during the period of study. The ratio was fluctuating in between 1.44 times to 2.89 times. The maximum ratio is in 1997.

For the other companies viz. Chettinad Cement Corporation, Dalmia Cement and Deccan Cement have also recorded a satisfactory level of financial leverage ratios. Out of five companies under study in the cement sector, only Andhra Cement has been facing the major problem and for the other companies, the overall performance is comparatively satisfactory.

The financial leverage ratios of five corporations under study in the Cotton Textile sector are listed in the table no. 5.23. All companies have an overall satisfactory ratios that means all earnings are higher than all payments.
of interest and dividends. But Bhilwara Spinners Ltd. has a superiority over others with a ratio of 3.43 times in 1997.

The financial leverage ratios of Automobile sector in India are shown in table no. 5.24.

The Bajaj Auto Ltd., has an average 1.052 times of ratio with no loss in any year of the period of study. The record for this period is satisfactory. The Bombay Cycles and Motors Ltd has a negative financial leverage ratio in 1993 and 1997. But in the remaining three years, the company is able to pay off the fixed charges.

In the year 1993, Eicher Ltd faces a loss, however, from 1994 to 1997, the company is performing well. During this period of study Escorts Ltd. has a very high financial leverage ratio in 1993 and in the remaining years, it is also running smoothly. In the case of Hero Honda Motors Ltd too, this overall performance was satisfactory.
### Table No. 5.21
IRON AND STEEL INDUSTRY
FINANCIAL LEVERAGE RATIO

<table>
<thead>
<tr>
<th>Year</th>
<th>Particulars of the Ratios</th>
<th>Essar Steel Limited</th>
<th>Mahindra Ugine Steel Company</th>
<th>Marmagao Steel Ltd.</th>
<th>Panchmahal Steel Ltd.</th>
<th>Shah Allyos Limited</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>E.B.I.T.</td>
<td>134.20</td>
<td>9.62</td>
<td>-0.56</td>
<td>12.20</td>
<td>1.41</td>
</tr>
<tr>
<td></td>
<td>E.B.I.T.-I.D.</td>
<td>83.53</td>
<td>-9.76</td>
<td>-1.19</td>
<td>9.56</td>
<td>0.94</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>1.60</td>
<td>-98.00</td>
<td>0.47</td>
<td>1.27</td>
<td>1.50</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>1.30</td>
<td>0.37</td>
<td>0.34</td>
<td>1.39</td>
<td>1.34</td>
</tr>
<tr>
<td>1995</td>
<td>E.B.I.T.</td>
<td>258.18</td>
<td>15.88</td>
<td>3.40</td>
<td>16.33</td>
<td>5.31</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>1.33</td>
<td>3.61</td>
<td>-0.85</td>
<td>1.29</td>
<td>1.31</td>
</tr>
<tr>
<td>1996</td>
<td>E.B.I.T.</td>
<td>256.25</td>
<td>30.38</td>
<td>2.87</td>
<td>13.52</td>
<td>9.95</td>
</tr>
<tr>
<td></td>
<td>E.B.I.T.-I.D.</td>
<td>181.67</td>
<td>17.33</td>
<td>-1.22</td>
<td>7.24</td>
<td>6.17</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>1.41</td>
<td>1.75</td>
<td>-2.35</td>
<td>1.86</td>
<td>1.61</td>
</tr>
<tr>
<td>1997</td>
<td>E.B.I.T.</td>
<td>753.43</td>
<td>47.44</td>
<td>8.57</td>
<td>-2.24</td>
<td>12.23</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>2.61</td>
<td>1.64</td>
<td>3.34</td>
<td>0.19</td>
<td>1.94</td>
</tr>
</tbody>
</table>

*E.B.I.T. = Earning before Interest and Tax*

*E.B.I.T. - I.D. = Earning before Interest and Tax - Interest and Dividend*

*Source: Compiled personally from the Companies Financial Statement*
### TABLE NO. 5.22
CEMENT INDUSTRY
FINANCIAL LEVERAGE RATIO

(No. of times)

<table>
<thead>
<tr>
<th>Year</th>
<th>Particulars of the Ratios</th>
<th>Andhra Cement Co.</th>
<th>Birla Corp. Ltd.</th>
<th>Chettinad Cement Corp.</th>
<th>Dalmia Cement Deccan Cement Limited</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>E.B.I.T</td>
<td>-7.50</td>
<td>74.02</td>
<td>33.00</td>
<td>40.99</td>
</tr>
<tr>
<td></td>
<td>E.B.I.T .-I.D.</td>
<td>-44.28</td>
<td>39.99</td>
<td>22.49</td>
<td>35.01</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>-</td>
<td>1.85</td>
<td>1.47</td>
<td>1.17</td>
</tr>
<tr>
<td>1994</td>
<td>E.B.I.T</td>
<td>-10.19</td>
<td>77.00</td>
<td>28.55</td>
<td>28.29</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>-</td>
<td>2.14</td>
<td>1.43</td>
<td>1.27</td>
</tr>
<tr>
<td>1995</td>
<td>E.B.I.T</td>
<td>-11.16</td>
<td>95.22</td>
<td>39.69</td>
<td>52.95</td>
</tr>
<tr>
<td></td>
<td>E.B.I.T .-I.D.</td>
<td>-26.84</td>
<td>54.81</td>
<td>28.92</td>
<td>40.05</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>-</td>
<td>1.74</td>
<td>1.37</td>
<td>1.32</td>
</tr>
<tr>
<td>1996</td>
<td>E.B.I.T</td>
<td>10.11</td>
<td>132.48</td>
<td>63.82</td>
<td>74.17</td>
</tr>
<tr>
<td></td>
<td>E.B.I.T .-I.D.</td>
<td>-0.89</td>
<td>92.08</td>
<td>48.51</td>
<td>56.59</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>-11.36</td>
<td>1.44</td>
<td>1.32</td>
<td>1.31</td>
</tr>
<tr>
<td>1997</td>
<td>E.B.I.T</td>
<td>13.38</td>
<td>74.08</td>
<td>70.76</td>
<td>75.36</td>
</tr>
<tr>
<td></td>
<td>E.B.I.T .-I.D.</td>
<td>1.25</td>
<td>25.61</td>
<td>46.41</td>
<td>51.27</td>
</tr>
<tr>
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<td>Ratio</td>
<td>10.70</td>
<td>2.89</td>
<td>1.52</td>
<td>1.47</td>
</tr>
</tbody>
</table>

\[E.B.I.T. = \text{Earning before Interest and Tax}\]
\[E.B.I.T. \text{-.I.D.} = \text{Earning before Interest and Tax - Interest and Dividend}\]

Source: Compiled personally from the Companies Financial Statement
<table>
<thead>
<tr>
<th>Year</th>
<th>Particulars of the Ratios</th>
<th>NAME OF THE COMPANIES</th>
<th>(No. of times)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>E.B.I.T</td>
<td>1.60</td>
<td>7.02</td>
</tr>
<tr>
<td></td>
<td>E.B.I.T. -I.D.</td>
<td>0.82</td>
<td>3.05</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>1.95</td>
<td>2.30</td>
</tr>
<tr>
<td>1994</td>
<td>E.B.I.T</td>
<td>2.19</td>
<td>8.49</td>
</tr>
<tr>
<td></td>
<td>E.B.I.T. -I.D.</td>
<td>1.30</td>
<td>5.12</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>1.68</td>
<td>1.66</td>
</tr>
<tr>
<td>1995</td>
<td>E.B.I.T</td>
<td>5.38</td>
<td>8.39</td>
</tr>
<tr>
<td></td>
<td>E.B.I.T. -I.D.</td>
<td>3.65</td>
<td>5.14</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>1.47</td>
<td>1.63</td>
</tr>
<tr>
<td>1996</td>
<td>E.B.I.T</td>
<td>6.23</td>
<td>10.31</td>
</tr>
<tr>
<td></td>
<td>E.B.I.T. -I.D.</td>
<td>4.48</td>
<td>4.99</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>1.41</td>
<td>2.07</td>
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<td>1997</td>
<td>E.B.I.T</td>
<td>6.75</td>
<td>13.43</td>
</tr>
<tr>
<td></td>
<td>E.B.I.T. -I.D.</td>
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<td>3.91</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>1.52</td>
<td>3.43</td>
</tr>
</tbody>
</table>

*E.B.I.T. = Earning before Interest and Tax*

*E.B.I.T. -I.D. = Earning before Interest and Tax - Interest and Dividend*

*Source: Compiled personally from the Companies Financial Statement*
<table>
<thead>
<tr>
<th>Year</th>
<th>Particulars of the Ratios</th>
<th>Bajaj Auto Limited</th>
<th>Bombay Cycle &amp; Motors Ltd.</th>
<th>Eicher Limited</th>
<th>Escorts Limited</th>
<th>Hero Honda Motors Ltd.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>E.B.I.T</td>
<td>186.87</td>
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<td>2.97</td>
<td>72.20</td>
<td>30.13</td>
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<tr>
<td></td>
<td>E.B.I.T. -I.D.</td>
<td>160.51</td>
<td>-0.21</td>
<td>-0.55</td>
<td>14.42</td>
<td>22.20</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>1.16</td>
<td>0.33</td>
<td>-5.40</td>
<td>5.01</td>
<td>1.36</td>
</tr>
<tr>
<td>1994</td>
<td>E.B.I.T</td>
<td>339.90</td>
<td>0.34</td>
<td>6.18</td>
<td>70.60</td>
<td>34.67</td>
</tr>
<tr>
<td></td>
<td>E.B.I.T. -I.D.</td>
<td>324.65</td>
<td>0.16</td>
<td>4.76</td>
<td>17.86</td>
<td>26.53</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>1.05</td>
<td>2.13</td>
<td>1.30</td>
<td>3.95</td>
<td>1.31</td>
</tr>
<tr>
<td>1995</td>
<td>E.B.I.T</td>
<td>497.38</td>
<td>0.48</td>
<td>5.42</td>
<td>105.21</td>
<td>46.67</td>
</tr>
<tr>
<td></td>
<td>E.B.I.T. -I.D.</td>
<td>485.20</td>
<td>0.32</td>
<td>5.08</td>
<td>62.03</td>
<td>39.83</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>1.03</td>
<td>1.50</td>
<td>1.07</td>
<td>1.69</td>
<td>1.17</td>
</tr>
<tr>
<td>1996</td>
<td>E.B.I.T</td>
<td>664.96</td>
<td>0.55</td>
<td>41.70</td>
<td>155.94</td>
<td>57.46</td>
</tr>
<tr>
<td></td>
<td>E.B.I.T. -I.D.</td>
<td>654.94</td>
<td>0.23</td>
<td>29.55</td>
<td>106.49</td>
<td>50.49</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>1.01</td>
<td>2.39</td>
<td>1.41</td>
<td>1.46</td>
<td>1.14</td>
</tr>
<tr>
<td>1997</td>
<td>E.B.I.T</td>
<td>775.77</td>
<td>0.10</td>
<td>55.17</td>
<td>170.23</td>
<td>91.69</td>
</tr>
<tr>
<td></td>
<td>E.B.I.T. -I.D.</td>
<td>768.36</td>
<td>-0.11</td>
<td>41.69</td>
<td>113.54</td>
<td>75.02</td>
</tr>
<tr>
<td></td>
<td>Ratio</td>
<td>1.01</td>
<td>-0.90</td>
<td>1.32</td>
<td>1.50</td>
<td>1.22</td>
</tr>
</tbody>
</table>

_E.B.I.T. = Earning before Interest and Tax_  
_E.B.I.T. -I.D. = Earning before Interest and Tax - Interest and Dividend_  
_Source: Compiled personally from the Companies Financial Statement_
iv) **Debt-Service Coverage Ratio** :-

This ratio refers to the number of times interest is covered by the profits available to pay the interest charges. The long-term creditors are interested to know the firm's capacity to pay the interest on their long-term lendings.

\[
\text{Debt Service Coverage Ratio} = \frac{\text{EBIT}}{\text{Fixed Interest Charges}}
\]

Generally, higher ratio is preferred as it gives a safer position to the creditors. Even if the profit level falls, the firm shall be able to manage its obligation of fixed charges.

Table no. 5.25 shows the figures of five companies in Iron and Steel sector relating to the Debt-Service Coverage ratios.

In the Essar Steel Ltd. the debt service ratio showed a fluctuating trend. It was higher in 1994, and 1995. Again, it was lower in 1993, 1996 and 1997. The ratio needs to be imporved as it is not a good sign for the company.

This is also disclosed in the tables that, the Mahindra Ugine Steel has a very low debt-service coverage ratio specially in 1993 and 1994, after that it started improving very slowly and in 1997, it reached to 2.54. There is still needs for improvement. The Marmagoa Steel Ltd, has a very low level of debt service coverage ratio. The overall trend is not at all satisfactory.

In the case of Panchmahal Steel Ltd., the debt service coverage ratio showed a fluctuating trend. The maximum ratio, during the period of study was 4.62times in 1993, thereafter it declines continuously with a break in 1995 then reaching (-) 0.23time in 1997. The present change is leading towards adversity.
The Shah Alloys Ltd has the debt service coverage ratio ranging from 2.06 times in 1997 to 4.14 times in 1995. The performance of this company is little better than others in this sector. But, it does not mean that the performance is satisfactory for all times.

The debt service coverage ratio of cement sector is shown in table no. 5.26.

From the analysis, it is revealed that Andhra Cement has been facing a high degree of financial trouble. Upto 1996, it had no capacity to pay off the fixed interest charges from its EBIT. Only in 1997, the ratio becomes 1.10 times, which is also very low.

Again from the table no. 5.26 it is seen that Birla Corporation has been able to pay the fixed interest charges so far but the level of EBIT is still very low. Hence, it requires to improve.

In the case of Chettinad Cement Corporation, the maximum of the ratio during this five years period of study is 5.11 times in 1995 and the minimum is 2.9 times in 1997. The trend is fluctuating. The Dalmia Cement has also 6.85 times in 1993 then declines. The lowest is in 1997 i.e. 3.13 times. It is required to minimise the gap in between the minimum and maximum debt service coverage ratios.

The Deccan Cement has an average debt service ratio of 3.33 during this period of study. If the company improves this ratio, it will be better to the long term creditors.
Table no. 5.27 is again the data relating to the debt service coverage ratio of five companies in the Cotton Textile sector.

The analysis of the table shows that the Amarjothi Spinning Mills Ltd., has the capacity to cover the fixed charges from its EBIT. But the level of EBIT is fluctuating in between 2.05 times to 3.56 times. The company needs to improve its level of debt service coverage ratio so that the company can easily pay off the fixed charges even if the level of EBIT falls slightly.

The same condition of the above is prevailing in the Bhilwara Spinners as well as in the Dawn Mills Ltd. The Eastern Silk Industries has the higher ratios in 1994 and 1995 but it declines in 1993, 1996 and 1997. The lowest was 1996 i.e. 2.63 times.

The G.I.S Ltd. has the debt service ratio of 7.23 times in 1993 and 1.49 times in 1994. But in 1996 it becomes lower with only 1.83 times. And in 1997 it is recorded at 2.35. The decreasing trends required to check and improve.

Table no. 5.28 shows the data relating to debt-service coverage ratio of two selected companies in the Automobile sector.

In the Bajaj Auto Ltd. the debt service coverage ratio is increasing at a fast pace. It was only 7.09 times in 1993 but rises speedily to reach 104.82 times in 1997. This ratio shows that the creditors interest will be fully secured. The overall performance is satisfactory.

On the contrary to Bajaj Auto Ltd., the Bomaby Cycle and Motors
Ltd has a very poor debt service coverage ratio. In all, the data available during this period of study is very much below the standard.

The Eicher Ltd. has a very fluctuating ratio. The highest ratio during this five years period was 15.94 times in 1995. But in the case of Escorts Ltd. the general trend is little poor. The company needs to improve its debt service ratio. Again the Hero Honda Motors Ltd. has also a comparatively normal debt service coverage ratio ranging in between 3.8 to 8.24 times. A little more improvement in this ratio will be beneficial to the creditors as well as to the management.

Among the companies under study, the Bajaj Auto Ltd. has better position then all others.

Thus, the analysis of the Capitalisation and the capital structure of the selected companies is a very important task to the financial planners. The whole study is emphasized on the management of short term finances or working capital analysis in this chapter excludes the part of the management of fixed capital which is related to the decisions involving acquisition of fixed assets. The management of working capital (i.e. short-term funds) is also not taken up in this chapter as it has already discussed with a different case analysis of selected companies in chapter four.
<table>
<thead>
<tr>
<th>Year</th>
<th>Particulars of the Ratios</th>
<th>Essar Steel Limited</th>
<th>Mahindra Ugine Steel Company</th>
<th>Marmagoda Steel Ltd.</th>
<th>Panchmahal Steel Ltd.</th>
<th>Shah Allyos Limited</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>E.B.I.T.</td>
<td>134.20</td>
<td>9.62</td>
<td>-0.56</td>
<td>12.20</td>
<td>1.41</td>
</tr>
<tr>
<td></td>
<td>Fixed Interest Charges Ratio</td>
<td>50.67</td>
<td>19.38</td>
<td>0.63</td>
<td>2.64</td>
<td>0.47</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2.64</td>
<td>0.49</td>
<td>-0.89</td>
<td>4.62</td>
<td>3.00</td>
</tr>
<tr>
<td></td>
<td>Fixed Interest Charges Ratio</td>
<td>67.91</td>
<td>20.05</td>
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<td>0.39</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4.22</td>
<td>-0.59</td>
<td>-0.53</td>
<td>3.50</td>
<td>3.92</td>
</tr>
<tr>
<td>1995</td>
<td>E.B.I.T.</td>
<td>258.18</td>
<td>15.88</td>
<td>3.40</td>
<td>16.33</td>
<td>5.31</td>
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<tr>
<td></td>
<td>Fixed Interest Charges Ratio</td>
<td>64.46</td>
<td>11.48</td>
<td>7.39</td>
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<td>1.28</td>
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<tr>
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<td>4.01</td>
<td>1.38</td>
<td>0.46</td>
<td>4.39</td>
<td>4.14</td>
</tr>
<tr>
<td>1996</td>
<td>E.B.I.T.</td>
<td>256.25</td>
<td>30.38</td>
<td>2.87</td>
<td>13.52</td>
<td>9.95</td>
</tr>
<tr>
<td></td>
<td>Fixed Interest Charges Ratio</td>
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<td>13.05</td>
<td>4.09</td>
<td>6.28</td>
<td>3.78</td>
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<tr>
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<td></td>
<td>3.43</td>
<td>2.32</td>
<td>0.70</td>
<td>2.15</td>
<td>2.63</td>
</tr>
<tr>
<td>1997</td>
<td>E.B.I.T.</td>
<td>753.43</td>
<td>47.44</td>
<td>8.57</td>
<td>-2.24</td>
<td>12.23</td>
</tr>
<tr>
<td></td>
<td>Fixed Interest Charges Ratio</td>
<td>465.29</td>
<td>18.63</td>
<td>6.01</td>
<td>9.44</td>
<td>5.93</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1.62</td>
<td>2.54</td>
<td>1.42</td>
<td>-0.23</td>
<td>2.06</td>
</tr>
</tbody>
</table>

**E.B.I.T.** = *Earning before Interest and Tax*

*Source:* *Compiled personally from the Companies Financial Statement*
<table>
<thead>
<tr>
<th>Year</th>
<th>Particulars of the Ratios</th>
<th>Andhra Cement Co.</th>
<th>Birla Corp. Ltd.</th>
<th>Chettinad Cement Corp.</th>
<th>Dalmia Cement Deccan Limited</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>E.B.I.T</td>
<td>-7.50</td>
<td>74.02</td>
<td>33.00</td>
<td>40.99</td>
</tr>
<tr>
<td></td>
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<td>10.51</td>
<td>5.98</td>
</tr>
<tr>
<td>1994</td>
<td>E.B.I.T</td>
<td>-10.19</td>
<td>77.00</td>
<td>28.55</td>
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E.B.I.T. = Earning before Interest and Tax

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_E.B.I.T._ = Earning before Interest and Tax

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**E.B.I.T. = Earning before Interest and Tax**

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