

A COMPARATIVE STUDY OF TRENDS IN CORPORATE CAPITAL STRUCTURE PATTERN OF REFINERY AND METAL INDUSTRY

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ABSTRACT

The corporate finance pattern is of vital important financial decision for financial well being of companies'. The choice of appropriate source of fund for capital structure is one of the major policy decisions taken by a firm. The combination of debt & equity is known as capital structure of the firm. In this paper an attempt has been made to study the emerging trends/practices in financing pattern of capital structure pattern of metal and refinery industry in India to understand the importance of financing pattern in capital structure decisions. To achieve the objective of analyzing the trend in financing pattern of selected industries, the trend analysis of debt-equity mix as well as debt- equity ratio of 13 refinery companies and 11 metal companies has been chosen as sample size from top 100 manufacturing companies for 10 years. The data of these companies have been collected from financial statements of the companies published in their annual reports as well as from capita line database also. It has been observed from the study that metal industry is more using debt financing in its capital structure pattern as compared to refinery industry.

KEYWORD: Capital Structure, financial Risk, Financial Decisions, Leverage.

INTRODUCTION

The corporate finance pattern is of vital importance for financial well being of companies (mishra, 2011). The finance manager of a company is concerned with solution of three major decisions of financial operations of a firm relating to investment, financing and dividend decisions. The choice of appropriate source of fund for capital structure is one of the major policy decisions taken by a firm.(Kumar, Anjum & Nayyar,2012) The major concern for finance personnel is to determine the proportion of debt and equity with the effects of financial risk factors. The combination of debt & equity is known as capital structure of the firm.The term 'capital structure' is generally used to refer to proportion of debt and equity deployed by a company to finance its assets (Srivastava,2012).

OVERVIEW OF CAPITAL STRUCTURE:

Capital structure is that part of financial structure which represents long-term sources. Capital structure includes only long-term debt and total stockholder's investment. It is the mix of long-term sources of funds, such as equity shares, reserves and surpluses, debentures, long- term debt

from outside sources and preference share capital .The firm's mixture of debt and equity is known as capital structure (Ehrhardt, Brigham, 2008). Capital structure refers to composition of capitalization i.e. to the proportion between debt and equity which makes up capitalization. The term 'structure' has been associated with the term 'capital'. The term 'capital' may be defined as the long-term funds of the firm. Capital is the aggregation of items appearing on the left hand side of the balance sheet minus current liabilities.

Capital=Total Assets-Current Liabilities.

Capital of a company can be broadly categorized into 'equity' and 'debt '(Kishore,2003).

Equity=Equity Share Capital+ preference share capital + share premium +free reserves +surplus profits +provision for contingency +development rebate reserve.

Debt= All borrowings from government, semi-government ,statutory financial corporations and other agencies +term loans from banks ,financial institutions etc +Debentures + All deferred payment liabilities

PATTERNS OF CAPITAL STRUCTURE

- Capital Structure with equity shares only.
- Capital Structure with equity and preference.
- Capital Structure with equity and debentures.
- Capital Structure with equity, preference shares and debentures

The capital structure of financing pattern decision is a significant managerial decision. This decision is a continuous process. The pattern of this decision changes from what it was at the inception as compared to expanding the business. This decision is normally concerned about :

- The proportion of debt and equity to finance the operations of a company
- How does the debt to equity mix look like?
- The extent to which internal as well as external funds can be used to finance the company's various activities.

In India, capital structure patterns are peculiar to specific industries. They differ from industry to industry but exhibit homogenous pattern in similar industry. Such patterns are similar throughout the world. Utilities, transportation companies and capital- intensive manufacturing firms have high debt- equity ratios as compared to service firms, mining companies and technology – based manufacturing firms which employ very little long-term debt. (Kapil,2011). In case of large capital intensive industries such as fertilizers, aluminium, paper and cement plants in private sector, the debt –equity ratio has been permitted to be around 3:1, for the shipping industry the same ratio has been approximately 6:1 or even higher(Banerjee, 2008)

A study has been conducted by B.K.Madan, Chairman, Management Development Institute (MDI) on the norms of debt- equity ratio and report has been submitted in February 1977. It was disclosed in study that the debt- equity ratio of 2:1 is a broad indicator or general guideline for assessing the capital structure of companies applying for issues or increasing capital.(Banerjee, 2008).The results of the RBI Bulletin, Nov. 2007 highlighted that average ratio of proportion of debt and equity of 2730 non-government , non-financial public limited companies for three years was .82:1.This was also observed from the study that public limited companies

were not using as much debt as expected from them. As per the Public Enterprises Survey, 2003-04 and 2005-06, the average debt- equity ratio of Central Government Companies was .76:1. It was observed from the study that central public enterprises were also not using as much debt as was expected from them. (Banerjee, 2008). This necessitates the study of emerging trends/ practices in debt- equity ratio in corporate sector in India.

REVIEW OF LITERATURE

Capital structure has become one of the most significant subjects in modern finance. It has received lot of recognition from researchers during recent years. How a firm determines its capital structure continues to be a puzzle for researchers? Rajan & Zingales (1995) investigated the determinants of capital structure choice by analyzing the financial decisions of public firms in major industrialized countries. The firm leverage was fairly similar across the G-7 countries. Booth, Aivazian, Kunt & Maksimovic (2001) in their study analyzed the capital structure choices of firms in 10 developing countries. It was found that variables which are relevant for explaining capital structure in United States & European Countries are also relevant in developing countries. Bhole and Mahakud (2004), in their study analysed the trends in corporate capital structure in India in respect of public limited companies and private limited companies during the period of 1966 – 67 to 2000 – 01. The determinants of capital structure have also been studied by using panel data pertaining to 330 private limited companies. It was found that leverage ratios of public limited & private limited companies have increased significantly during 1966 – 2000. The dependence on debt is more in case public limited companies as compared to private limited companies.

Sahoo & Omkar Nath (2005), analyzed the capital structure of Indian corporate sector to examine whether any shift has taken place in the financing pattern of Indian corporate sector after the implementation of Financial Liberalization in profitability and service diversification are main critical factors influencing the capital structure of Indian banking firms. Kaur, Jatinder (2007), discussed in her study about the preferred hierarchy among debt and equity by the corporate firms and differences in capital structure practices followed by private sector companies, magnitude of short term debt, long term debt and major changes in capital structure practices of private corporate sector companies in view of economic liberalization and globalization in India using data of top 25 companies chosen from BT 500. It was found from the study that since the early 1990s significant structural changes in Indian capital markets, particularly in equity market have enhanced Indian firms' flexibility in choosing their capital structure optimally.

Mishra (2011) in his study observed a changing pattern in financing of PSUs with reforms in Indian economy. He found that PSUs have challenge to access the market for both equity & debt finance. Kumar, Anjum & Nayyar (2012) in their paper analysed the change in capital structure pattern of three reputed pharmaceutical companies for the period of 2007-2011. It was found that in the initial period, companies were raising maximum debt fund to reduce the cost of capital but which resulted in increase of financial risk. So, later on they shifted to equity financing. Kalyani & Reddy (2012) in their study found that Amara Raja Batteries Ltd mostly depended on equity financing. It was suggested that ARBL should raise the debt funds to bring the optimum capital structure for improving financial performance of the companies.

OBJECTIVES OF STUDY

- To analyze the trend in financing pattern as well as composition of capital structure of selected companies
- To comparatively analyze the trend of corporate debt financing and equity financing industry wise.
- To study the importance of financing pattern in capital structure decisions.

RESEARCH METHODOLOGY

The study has been based on the secondary data i.e. financial information from company's annual reports. Two main manufacturing industries i.e. refinery and metal industry comprising of 13 refinery companies and 11 metal companies has been chosen as sample size from top 100 manufacturing companies comprising of ten manufacturing industries listed in Capital line data base on account of having highest sales turnover as on 1.2.2011.. The data of these companies have been collected from financial statements of the companies published in their annual reports as well as from capita line database also. It covers a period of 10years from 2002-2003to 2011-12.To achieve the objective of analyzing the trend in financing pattern of selected industries, the trend analysis of debt-equity mix as well as debt- equity ratio for 10 years has been used for study.

ANALYSIS OF STUDY

(i) Trends in Financing Pattern of refinery Industry:

To study the trend in financing pattern of refinery industry, the composition of capital structure of 13 refinery companies i.e. Indian Oil Co Ltd.,Reliance Industry,Bharat Petroleum, Hindustan Petroleum,ONGC, Gail, India Petronet, LNG, Ruchi Soya,KS Oils,Mangalore Refineries,Essar Oils, Oil India, has been analysed from 2002-03 to 2011-12. The table given below shows the trend in debt and equity calculated from the tables of composition of capital structure of these companies.

Table1.

TRENDS IN FINANCING PATTERN OF REFINERY INDUSTRY																				
COMPANIES	2002-03		2003-04		2004-05		2005-06		2006-07		2007-08		2008-09		2009-10		2010-11		2011-12	
	TREND IN DEBT	TREND IN EQUITY	TREND IN DEBT	TREND IN EQUITY	TREND IN DEBT	TREND IN EQUITY	TREND IN DEBT	TREND IN EQUITY	TREND IN DEBT	TREND IN EQUITY	TREND IN DEBT	TREND IN EQUITY	TREND IN DEBT	TREND IN EQUITY	TREND IN DEBT	TREND IN EQUITY	TREND IN DEBT	TREND IN EQUITY	TREND IN DEBT	TREND IN EQUITY
Indian Oil Co Limited	100	100	84	121.7	119	137	182	154.8	187	184.2	245	217	310	232.4	307	267	363.8	292	485	306
Reliance Industries	100	100	106	113.4	95.1	133	111	163.9	141	210.6	185	268.1	374	416.1	316	451.6	341.1	499	297	547
Bharat petroleum	100	100	81.8	123.2	118	134	254	192.5	330	216.3	457	246	645	255.4	676	275.6	577.6	296	952	314
Hindustan petroleum	100	100	124	115.9	160	126	488	130.8	770	143	1228	158	1665	160.2	1559	173.7	1832	188	2012	196
Oil and Natural gas	100	100	142.6	113.4	1245	131	1589	151	188.8	173.5	1560	197.5	2005	220.5	2050	244.3	2195	273	562	316
GAIL India	100	100	104	117.5	97.6	136	93.6	157.3	65.3	179.7	61.8	205.2	58.6	233	72.3	265	112.8	304	261	341
Petronet LNG	100	100	124	685.8	124	664	124	811.9	136	966.2	155	1226	224	1502	245	1692	315.5	2030	298	2666
Ruchi soya	100	100	446	124.9	483	147	676	330.1	923	366.4	980	456.6	1081	489.1	1474	794.3	2177	890	2881	911
KS OILS	100	100	100	111.2	110	127	111	163.5	131	291.3	151	1179	428	4325	1400	5652	2220	9050	3663	7107
Mangalore refineries	100	100	89.8	145.2	64.3	212	61.3	234.4	43.8	269.7	38.1	370.1	36.7	462.7	31.4	547.4	28.8	639	107	707
ESSAR oils	100	100	110	101.2	92.6	147	110	153.7	155	182.6	181	219.6	182	218.4	188	285.1	263.4	399	290	215
OIL India	100	100	76.7	117.7	82.7	137	86.8	169.2	212	198.2	45.4	229.5	14.6	269.9	9.7	398.2	266.8	456	2.6	513
Sterlete Industries	100	100	140	114.8	141	286	118	328.7	163	355	189	1050	338	1120	308	1776	333.4	1852	309	1972
TOTAL	1300	1300	3013	2106	2933	2517	4005	3142	5144	3737	5475	6022	7360	9905	8637	12822	11026	17167	12118	16110
AVERAGE	100	100	232	162	226	194	308	241.7	396	287.4	421	463.3	566	761.9	664	986	848	1320	932	1239

The table 1. Shows the trend in financing pattern of debt and equity of refinery industry. There is a rising trend in pattern of debt in Indian Oil, Reliance Industry ,Bharat Petroleum ,Hindustan oils, ONGC ,Petronet, Ruchi Soya ,KS Oils, Essar oils etc. The trend in pattern of debt is fluctuating in case of Oil India.,The trend is falling in case of GAIL ,Mangalore refineries.The trend in equity is rising in all the companies from 2002-2012. The overall average of trend of debt and equity is rising in all the companies of the refinery industry from 2002-2012.

(ii) Trends in Financing Pattern of Metal Industry:

To study the trend in financing pattern of metal industry, the composition of capital structure of 11 metal companies i.e. Essar steel, Hindalco, Tata steel, Bhushan Steel, Sail, JSL Stainless, Jindal Saw, etc. has been analysed from 2002-03 to 2011-12. The table given below shows the trend in debt and equity calculated from the tables of composition of capital structure of these companies.

Table 2.

COMPANIES	2002-03		2003-04		2004-05		2005-06		2006-07		2007-08		2008-09		2009-10		2010-11		2011-12	
	TREND IN DEBT	TREND IN EQUITY	TREND IN DEBT	TREND IN EQUITY	TREND IN DEBT	TREND IN EQUITY	TREND IN DEBT	TREND IN EQUITY	TREND IN DEBT	TREND IN EQUITY	TREND IN DEBT	TREND IN EQUITY	TREND IN DEBT	TREND IN EQUITY	TREND IN DEBT	TREND IN EQUITY	TREND IN DEBT	TREND IN EQUITY	TREND IN DEBT	TREND IN EQUITY
Tata steel	100	100	79.8	141.7	64.8	221.5	59.5	306.2	228.2	442.2	426.4	856.8	638	932.3	597	1167	669.7	1521	560.7	1639
SAIL	100	100	66.9	199.4	44.4	408.1	33.1	499	32.2	685.7	23.4	913.3	58.1	1108	127	1319	158.9	1468	124.1	1577
ESSAR steels	100	100	89.1	272.1	91.6	403.6	152.5	443.4	132.2	1046	116.5	1084	139	1109	347	2137	-	-	-	-
Jindal saw	100	100	267	111.6	472	236.5	653.4	288	549	554.1	774.9	656	-	-	349	1016	763.1	1123	1177	991.8
Jindal Steel and Power	100	100	116	146.6	169	225.9	310.1	315.9	396.2	427.6	436.4	643.4	561	927.5	947	1156	1369	1489	1624	1858
Bhushan steel	100	100	120	117	169	149.3	261.7	117.6	416.8	241.5	735.1	323.2	1037	482.8	1466	793.6	2133	1172	2548	1547
Jsw steel	100	100	80.5	196.1	64.5	412	68.9	569.8	70.2	731.7	127	1004	190	1041	195	1270	201.2	2253	207.1	2420
Welspun India	100	100	112	112.9	303	179.5	427.3	267.2	709.7	263.3	784.8	271.1	844	271.1	844	299.7	875.9	321.3	737.3	451.7
Uttamgalwa Steel	100	100	108	115.2	136	198.3	230.8	258	264.8	412.2	282.3	534.3	380	623.5	551	674.6	574	711.6	543.2	770
JSL Stainless	100	100	97.1	130.9	171	186.2	278.5	237.1	337.2	332.8	544.6	432.4	716	303.1	956	449.5	1078	529.7	1174	512.6
Hindal co Industries	100	100	107	110.8	159	123.8	204.8	155.2	307.7	200.6	347.7	281.6	348	383.7	265	450.8	303.6	479.7	608.4	517.4
TOTAL	1100	1100	1243	1654	1845	2745	2681	3456	3444	5337	4599	7000	4910	7182	6644	10732	8126	11067	9302	12283
AVERAGE	100	100	113	150.5	168	249.5	243.6	314.3	313.1	485.2	418.1	636.4	491	718.2	604	975.7	812.6	1107	930.2	1228

The table 2. Shows the trend in financing pattern of debt and equity of metal industry. There is a rising trend in pattern of debt in Jindal Saw, Jindal Steel and Power, Bhushan Steel, Welspun India, Uttam Galva, JSL stainless and Hindalco. The trend in pattern of debt is fluctuating in case of Sail, Essar Oils, Tata Steel and JSW. The trend in equity is almost rising in all the years in all the companies. The overall average of trend of debt and equity is rising in all the companies of the metal industry from 2002-2012.

(iii) **DEBT EQUITY RATIO OF REFINERY INDUSTRY:**

Table3.

DEBT EQUITY RATIO FOR REFINERY INDUSTRY										
COMPANIES	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Indian oil co limited	0.77	0.53	0.67	0.9	0.78	0.86	1.02	0.88	0.95	1.22
Relience	0.77	0.66	0.5	0.48	0.45	0.46	0.65	0.49	0.46	0.36
Bharat petroleum	0.69	0.46	0.61	0.92	1.06	1.29	1.75	1.7	1.35	1.42
Hindustan petroleum co limited	2.99	1.99	1.84	2.13	1.59	1.1	0.75	0.26	0.22	0.2
Oil and natural gas co	0.02	0.28	0.21	0.24	0.24	0.18	0.2	0.19	0.18	0.04
Gail India	0.32	0.29	0.23	0.19	0.12	0.1	0.08	0.09	0.12	0.25
Patronet LNG	1.24	1.39	1.44	1.18	1.08	0.97	1.15	1.12	1.2	0.86
Ruchi soya	0.66	2.72	2.63	1.5	1.9	1.54	1.58	1.24	1.62	2.08
KS oils	4.15	3.74	3.6	3.08	1.87	0.61	0.44	1.03	1.07	2.14
Mangalore refineries	5.34	3.29	1.61	1.39	0.87	0.61	0.44	1.03	1.07	2.14
ESSAR oils	3.37	3.67	2.13	2.41	2.86	2.9	2.87	2.96	2.23	4.55
OIL India	-	-	-	-	-	-	-	-	0.07	-
Sterlete Industries	1.38	1.72	0.69	0.5	0.63	0.25	0.27	0.24	0.25	0.22
TOTAL	21.7	20.74	16.16	14.92	13.45	10.18	11.2	11.23	10.79	15.48
AVERAGE	1.8	1.72	1.34	1.24	1.12	0.9	0.93	0.93	0.83	1.29

- (i) The table shows that in 2002-03, the debt equity ratio is highest in Manglore refineries in i.e. 5.34 and lowest in ONGC i.e. .02. In 2003-04, it is highest in KS Oils i.e. 3.74 and lowest in ONGC i.e. .28. In 2004-05 it is highest in KS Oils i.e. 3.6 and lowest in ONGC i.e. .21. In 2005-06, it is highest in KS Oils i.e. 3.08 and lowest in GAIL i.e. .19. In 2006-07, it is highest in Essar Oils i.e. 2.86 and lowest in GAIL i.e. .12. In 2007-08, it is highest in Ruchi Soya i.e. 1.54 and lowest in GAIL i.e. .1. In 2008-09, it is highest in Essar Oils i.e. 2.87 and lowest in ONGC i.e. 2. In 2009-10, it is highest in Essar Oils i.e. 2.96 and lowest in GAIL i.e. .09. In 2010-11, it is highest in Essar Oils i.e. 2.23 and lowest in Oil India i.e. .07. In 2011-12, it is more in Essar oil i.e. 4.55 and less in ONGC i.e. .04. The average of debt equity ratio is highest in 2003-04 i.e. 1.72 in refinery Industry.

(iv) **DEBT EQUITY RATIO OF METAL INDUSTRY:**

Table4.

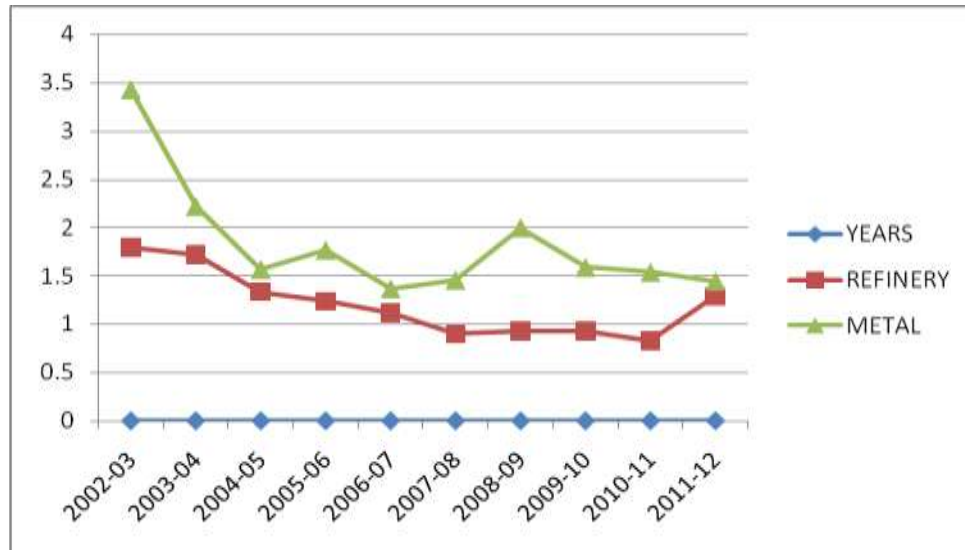
DEBT EQUITY RATIO FOR METAL INDUSTRY										
COMPANIES	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Tata steel	1.33	0.74	0.39	0.26	0.69	1.08	1.34	0.68	0.59	0.45
SAIL	5.14	1.72	0.56	0.34	0.24	0.13	0.27	0.5	0.54	0.4
ESSAR steels	12.28	7.99	4.47	5.59	1.7	1.34	1.57	-	-	-
Jindal saw	0.64	1.51	1.51	1.64	0.67	0.78	-	0.24	0.4	0.7
Jindal Steel and Power	1.56	1.2	1.14	1.49	1.4	1.03	1.92	1.24	1.39	1.33
Bhushan steel	1.55	1.58	1.8	2.29	2.67	3.52	3.98	2.89	2.86	2.72
Jsw steel	8.59	4.15	1.43	1.07	0.84	1.06	1.51	1.26	0.74	0.69
Welspun India	1.16	1.09	1.86	1.67	2.62	2.79	3	2.71	2.63	1.57
Uttamgalwa Steel	3.1	2.74	1.98	2.54	1.8	1.48	1.71	2.28	2.25	1.97
JSL Stainless	2.01	1.37	1.7	2.17	1.89	2.4	4.37	3.93	3.77	4.24
Hindal co Industries	0.39	0.37	0.5	0.51	0.59	0.48	0.35	0.24	0.24	0.46
TOTAL	37.75	24.46	17.34	19.57	15.11	16.09	20.02	15.97	15.41	14.53
AVERAGE	3.43	2.22	1.57	1.77	1.37	1.46	2	1.59	1.54	1.45

The table 4. Shows that in 2002-03, the debt equity ratio is highest in Essar Steel i.e. 12.28 and lowest in Hindalco i.e. .39. In 2003-04, it is highest in Essar steel i.e. 7.99 and lowest in Hindalco i.e. .37. In 2004-05 it is highest in Essar Steel i.e. 4.47 and lowest in Tata Steel i.e. .26. In 2005-06, it is highest in Essar Steel i.e. 5.59 and lowest in Tata i.e. .26. In 2006-07, it is highest in Bhushan Steels i.e. 2.67 and lowest in SAIL i.e. .24. In 2007-08, it is highest in Bhushan Steels i.e. 3.52 and lowest in SAIL i.e. .13. In 2008-09, it is highest in JSL stainless i.e. 4.37 and lowest in SAIL i.e. 27. In 2009-10, it is highest in JSL stainless i.e. 3.93 and lowest in Jindal saw and Hindalco i.e. .24. In 2010-11, it is highest in JSL i.e. 3.77 and lowest in Hindalco i.e. .24. In 2011-12, it is more in JSL i.e. 4.24 and less in SAIL i.e. .4. The average of debt equity ratio is highest in 2002-03 i.e. 3.43 in metal Industry.

(V) **DEBT EQUITY FOR DIFFERENT INDUSTRIES (ANNUAL AVARAGES)**

Table5.

DEBT EQUITY FOR DIFFERENT INDUSTRIES (ANNUAL AVARAGES)										
YEARS	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
INDUSTRIES										
REFINERY	1.8	1.72	1.34	1.24	1.12	0.9	0.93	0.93	0.83	1.29
METAL	3.43	2.22	1.57	1.77	1.37	1.46	2	1.59	1.54	1.45
TOTAL	5.23	3.94	2.91	3.01	2.49	2.36	2.93	2.53	2.37	2.74
AVERAGE	2.615	1.97	1.45	1.5	1.24	1.18	1.46	1.26	1.18	1.37

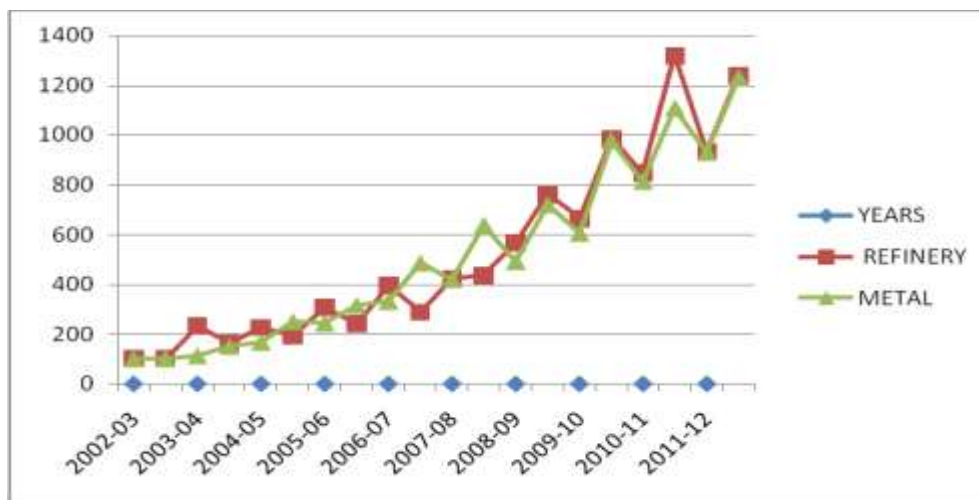


The above chart shows that the Annual averages of debt equity for different companies is lower in the year 2007-08 and 2010-2011 in case of refinery industry and higher in the year 2002-03. In case of metal industry it was higher in the year 2002-03 and lower in the year 2006-07.

(VI) TREND IN FINANCING PATTERN FOR DIFFERENT INDUSTRIES (ANNUAL AVERAGES)

Table 6.

TREND IN FINANCING PATTERN FOR DIFFERENT INDUSTRIES (ANNUAL AVERAGES)																				
YEARS	2002-03		2003-04		2004-05		2005-06		2006-07		2007-08		2008-09		2009-10		2010-11		2011-12	
INDUSTRIES	Trend in debt	Trend in equity	Trend in debt	Trend in equity	Trend in debt	Trend in equity	Trend in debt	Trend in equity	Trend in debt	Trend in equity	Trend in debt	Trend in equity	Trend in debt	Trend in equity	Trend in debt	Trend in equity	Trend in debt	Trend in equity	Trend in debt	Trend in equity
REFINERY	100	100	231.7	162	225.6	193.6	308	241.67	396	287.4	421	436.3	566	761.6	664	986	848	1320	932	1239
METAL	100	100	113	150.5	167.7	249.5	243.6	314.31	331.1	485.2	418	636.4	491	718.2	604	975.7	813	1107	930.2	1228
TOTAL AVERAGE	200	200	344.7	312.4	398.3	443.1	551.5	556	727	772	840	1072	1057	1479	1268	1961	1661	2427	1862	2467



The above chart and table shows that there is a continuous rise in the Annual averages of financing pattern of two different industries whereas Refinery and metal industry shows lowest average in the year 2002-03 and highest in the year 2011-12.

FINDINGS

- The rising overall average of trend of debt and equity in case of refinery and metal industry implies that these industries have access to market for both equity and debt financing. Initially, companies were raising maximum debt fund to reduce the cost of capital but which resulted in increase in financial risk. So they shifted to equity financing also. They are maintaining a trade-off between debt and equity.
- The average ratio of debt and equity is better in metal industry as compared to refinery industry. It shows that metal industry is more using debt financing in its capital structure pattern as compared to refinery industry. It implies that company is adopting NOI approach of capital structure. The more use of debt financing in this industry is increasing the value of the firm and minimising the cost of capital resulting in overall wealth maximisation of shareholders.
- It has been found from the study that average of debt equity ratio of metal and refinery industry in 2002-03 i.e. 2.61 is only as per the standard norm of 2:1 of debt equity ratio for all the industries.

SUGGESTIONS

- The metal and refinery industry should improve their debt equity ratio as it is not as per the standard norm. These industries are not using as much debt as expected from them.
- The average ratio of debt and equity is not better in refinery industry as compared to metal industry. The refinery industry should pay more attention towards their reserves and surpluses, because due to this they are not getting higher profits. They should more focus towards debt financing to maximise the wealth of shareholders
- The refinery and metal industries are advised to maintain a trade –off between debt and equity in future also so as to achieve the objective of optimum capital structure.

CONCLUSION:

An optimal capital structure is that which maximises the shareholder's wealth with best combination of debt and equity mix by minimising the firm's cost of capital. Firm's capital structure trends have a great impact on firm's financial performance. The analysis of the study concludes that companies are using both debt and equity financing as a part of their capital structure pattern. Although the trend in debt and equity financing is increasing in both the industries which implies that due to fear of financial risk, the companies are using debt financing also to the maximum possible extent. But they are advised to maintain a right balance between debt financing and equity financing.

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