

A COMPARATIVE ANALYSIS OF CAPITAL STRUCTURES OF TWO SMES USING SELECTED FINANCIAL RATIOS

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Abstract

This study explores how two Small and Medium Enterprises (SMEs), Bondada Engineering Ltd. and Arrowhead Separation Engineering Ltd., manage their finances through different capital structures. A company's capital structure—its mix of debt and equity—plays a crucial role in shaping its financial health and risk levels. By analysing key financial ratios like the Debt Ratio, Debt-to-Equity Ratio, Interest Coverage Ratio, and Financial Leverage Ratio, this research examines whether these companies take a cautious or riskier approach to financing. The findings reveal that Bondada Engineering Ltd. leans heavily on debt, which boosts short-term profitability but could create financial challenges in the long run. On the other hand, Arrowhead Separation Engineering Ltd. has steadily reduced its debt, moving towards a more stable and balanced financial structure. This study highlights the importance of striking the right balance between debt and equity, ensuring not just short-term gains but also long-term financial sustainability.

Keywords: Capital Structure, financial health, debt, equity, financial stability.

INTRODUCTION

Any company need to make four important decisions to run its business strategically. They are:

Investment Decisions

Financing Decisions

Capital Structure Decisions

Dividend policy

The above decisions could be explained as following.

Investment Decisions- These are choices about where the company should put its money to grow, like expanding operations, buying new equipment, or launching new projects. The goal is to invest in areas that will give the best returns in the future.

Financing Decisions- These decisions focus on how the company will get the money it needs—whether by borrowing (debt) or selling shares (equity). It's about finding the right balance to fund operations while keeping costs low.

Capital Structure Decisions- This is about deciding the mix of debt and equity to fund the company. The aim is to create a balance that supports growth while keeping financial risks under control.

Dividend Policy- This determines how much profit the company gives back to shareholders as dividends versus reinvesting in the business. It's about keeping shareholders happy while ensuring enough funds for future growth.

From the above decisions, capital structure decisions are said to be more important as compared to others as these decisions would cost a lot for the company and are recallable or unchangeable. Capital structure decisions are really important because they decide how a company gets the money it needs—whether by borrowing (debt) or selling shares (equity). Finding the right balance helps the company keep costs down and raise money more easily. A good mix of debt and equity also helps reduce risk; too much debt can lead to financial stress if things don't go well, while relying too much on equity can make things more expensive and hurt profits. These choices affect how the company grows, stays financially strong, and can meet its obligations. Investors also pay attention to these decisions because they affect potential profits and risk. In the end, making the right capital structure decisions helps a company stay healthy and succeed over time. The term capital structure is used to describe the combination of various sources of finance employed to raise funds. It implies, in other words, that when a firm chooses to use a group of sources in certain proportions the resulting pattern is referred to as capital structure of the firm. The sources of finance could be divided in terms of ownership of funds and duration of funds. The former comprises owned and borrowed funds while the latter includes long medium and short term funds. Of the two, the duration-based classification is useful for preparing a plan to meet long term as well as short term capital requirements while ownership-based classification is useful for selection of specified sources, determining debt-equity ratio and analysing impact of capital structure decisions on the earnings on equity. As the ownership based classification suggests that there are two types of sources of finance, namely owned and borrowed funds, the capital structure represents the component relationship

between owned and borrowed funds. The owned funds which are also described as equity fund may be defined as funds provided by or belonging to the shareholders.

A company's capital structure is the mix of debt and equity it uses to fund its operations and growth. The capital structure of a company is crucial in understanding its financial health and risk profile. Debt is money borrowed from lenders, while equity is money from investors. It shows how well a company manages its capital, which can influence its bottom line. Capital Structure is the outcome of market conditions, financial decisions taken by the firm. Some companies slowly decrease equity share capital and increase loans excessively which may be very risky because these companies must pay fixed cost of interest and must manage repayment of loan after some time. Some mistake in it may be risky for its solvency. So, decisions relating to capital structure are very important for any company.

As mentioned above, the key components of capital structure are:

Debt Capital, which includes the funds borrowed such as bank loans, notes payable, and bonds. These debt obligations are to be repaid at maturity and have regular payments of interest. It is beneficial for any firm to have debt obligations up to a certain point as there could be tax benefits. Even though it is considered as cost-effective financing option, excessive debt leads to increase in financial risk and the potential for insolvency of the firm.

Equity Capital, which consists of the funds raised through the issue of common and preferred stocks. It does not require regular repayment. It is considered as an expensive option than debt because of the higher expected return of the investors and it would also dilute the ownership.

A Balanced capital structure would minimize the cost of capital of the company and helps in improving profitability. Over reliance on debt can reduce the financial flexibility of the firm because of the regular interest payments, and also increases the financial risks of the company. Whereas, over reliance on equity may result in the dilution of earnings per share.

A company's capital structure is an important part of its financial strategy, which affects the ability of the firm to fund its operations, manage its risks, and achieve its long-term objectives. Maintaining balanced capital structure is important to maintain good financial health and maximizing shareholder's value.

Some of the senior management executives' insights on capital structure are as follows:

Doug Chambers, CFO of US cellular, emphasizes aligning capital allocation with financial targets. He focuses on managing costs while investing in innovations like 5G, ensuring that capital structure decisions support both current operations and future growth.

Patrick Pichette, former CFO of Google, emphasized the importance of maintaining a capital structure that supports continuous growth and innovation. He advocated for financial strategies that provide flexibility to invest in new opportunities while managing risks effectively.

Mr. Gautam R. Morarka observes that the capital structure implies a degree of permanency and normally omits short term borrowings of less than one year but would include other intermediate and long term borrowings. The financial institutions consider only long term sources of finance for computing the debt-equity ratio of corporate firm.

Estimation of capital requirements for current and future needs is important for a firm. Equally important is the determining of capital mix. Equity and debt are the two principle sources of finance of a business. But what should be the proportion between debt and equity in the capital structure of a firm? How much financial leverage should a firm employ? This is a very difficult question. To answer this question, the relationship between the financial leverage and the value of the firm or cost of capital has to be studied. Capital structure planning, which aims at the maximization of profits and the wealth of the shareholders, ensures the maximum value of a firm or the minimum cost of capital. It is very important for the financial manager to determine the proper mix of debt and equity for his firm. In principle, every firm aims at achieving the optimal capital structure but in practice it is very difficult to design the optimal capital structure. The management of a firm should try to reach as near as possible of the optimum point of debt and equity mix.

A company's capital structure would be in any of the following ways:

- Capital structure with equity shares only
- Capital structure with equity as well as preference shares
- Capital structure with equity shares and debt capital
- Capital structure with equity shares, preference shares and debt capital.

The FRICT Analysis- A framework of capital structure

FRICT Analysis is a way to check if a company's capital structure is effective and sustainable. Each letter in FRICT highlights an important factor:

- **Flexibility:** The company should be able to adjust its finances as needed, whether it's raising more funds or paying off debts.
- **Risk:** A good balance between debt and equity is important to avoid too much financial risk, especially in tough times.
- **Income:** The structure should help the company save on costs and earn better profits.

- Control: It should ensure that existing owners keep control and avoid too much dilution of ownership.
- Timing: Decisions should consider the right moment, like when interest rates are low or market conditions are favourable for raising funds.

In simple terms, FRICT helps a company build a financial structure that supports growth, minimizes risks, and keeps ownership intact, all while being cost-effective.

Some important theories regarding the capital structure

The following are some of the important theories of capital structure where each of them give a unique perspective on capital structure.

Net Income (NI) Theory

Net Operating Income (NOI) Theory

Traditional Theory

Modigliani- Miller Theory

Pecking order Theory

Trade-off Theory

Net Income Theory: The author of the theory was David Durand. This theory suggests that a company can lower its overall cost of capital and increase its value by using more debt, as debt is cheaper than equity.

- This theory suggests that a company's value increases as it uses more debt in its capital structure.
- Debt is cheaper than equity because the interest on debt is tax-deductible, while equity dividends are not.
- According to this theory, the overall cost of capital decreases as the proportion of debt increases, which leads to an increase in the total value of the firm.
- It assumes no risk of bankruptcy, making it more of an idealistic theory.

Net Operating Income Theory: The author of the theory was also David Durand. This theory assumes the following points.

- This theory argues that capital structure doesn't impact the value of a firm or its overall cost of capital.
- It assumes that the benefits of using cheaper debt are offset by an increase in equity holders' required return due to higher financial risk.

Traditional Theory: This theory was proposed by Ezra Solomon.

- The traditional theory takes a more balanced approach and suggests that there is an optimal capital structure for a company.
- By combining debt and equity in the right proportions, a company can minimize its overall cost of capital and maximize its value.
- At low levels of debt, the cost of capital decreases because debt is cheaper than equity. However, as debt increases, the risk of financial distress rises, causing the overall cost of capital to increase.
- The theory emphasizes finding the optimal structure where the benefits of using debt are maximized without excessive risk.

Modigliani- Miller (M&M) Theory: This theory was proposed by Franco Modigliani and Merton Miller in 1958. The following are the assumptions of the theory.

Proposition 1 (Irrelevance Theory): In an ideal world with no taxes, bankruptcy costs, or market inefficiencies, the capital structure of a company doesn't affect its value.

Proposition 2 (Tax Shield): When taxes are introduced, using debt can add value to the firm because interest payments are tax-deductible. This creates a "tax shield," making debt more attractive than equity.

Pecking Order Theory: This theory was authored by Stewart C. Myers and Nicholas Majluf in 1984.

- This theory explains how companies prioritize their financing choices.
- Companies first use internal funds (profits) because they are the cheapest and easiest to access.
- If more funds are needed, they prefer debt over equity because debt is generally less costly and avoids diluting ownership.
- Equity is seen as a last resort because it is expensive and signals to the market that the company may be overvalued, which can lower share prices.

Trade-off Theory: This theory was authored by Stewart C. Myers.

- This theory balances the benefits of debt (tax shield) against the costs of financial distress.

- Using debt can save money on taxes because interest payments are tax-deductible. However, too much debt increases the risk of default and can raise borrowing costs or harm the company's reputation.
- Companies should aim for an optimal level of debt, where the tax benefits outweigh the risks without pushing the company toward financial distress.

The firms my research revolves under are SMEs. In SMEs too the capital structure plays a pivotal role. SMEs often faces challenges in acquiring or raising capital because of their credit history and all. But if the SMEs maintain optimal capital structure, where the debt and equity are balanced, the profitability would be raised leading to exploring or diving into new opportunities and expanding their business.

The two SMEs that I have chosen for the research are
Bondada Engineering Ltd.
Arrowhead Separation Ltd.

Bondada Engineering Ltd.

The Company was established in 2012 by a team of experienced professionals with an objective of providing comprehensive services to the infrastructure industry. Bondada Engineering Limited (BEL) is formed by a team of qualified professionals with the motto of serving the infrastructure sector by providing end-to-end solutions. The company is headquartered in Hyderabad and has made its presence felt across India. BEL's specialisation ranges from core services to operations and maintenance services in the infrastructure space. It is into the businesses like

Telecom-4G&5G Networks

- Design and Engineering Services
- OFC Construction
- Tower Construction
- BSNL-4G Saturation
- Tower & Fiber Services

Renewable Energy

- Solar

Green Construction Products

- Smart Brix
- Smart Windows and Doors
- Tru VU uPVC Windows & Doors
- Alu Rise Aluminum Windows & Doors
- Tower Poles / Supplies
- LED Lights

Arrowhead Separation Engineering Ltd.

It was established in the year of 1991, We "Arrowhead Separation Engineering Limited" are Manufacturer, Trader and Exporter of an Vacuum Double Drum Dryer, Rotary Dryers, Single Drum Dryer, Double Drum Dryer, Paddle Dryer, Flaker Systems, Totally Enclosed Single Drum Dryer, Continuous Particulate Dryer etc.

Products

- Drying Systems
- Flaking/Cooling System
- Calcium Chloride Recovery System
- Zero Discharge System for Effluent Stream
- Feed Conditioning Systems
- Dust/Fume Containment/Extraction Systems
- Product/Feed Conveying Systems

LITERATURE REVIEW

Determinants of the capital structure of small and medium enterprises: Empirical evidence in the public works and hydraulics sector from Algeria. *Ishaq Hacini, Khadra Mohammedi, Khadra Dahou*

The research article "Determinants of the Capital Structure of Small and Medium Enterprises: Empirical Evidence in the Public Works and Hydraulics Sector from Algeria" investigates factors influencing capital

structure decisions for SMEs in Algeria from 2010 to 2018. A sample of 20 SMEs in the Public Works and Hydraulics sector was analyzed.

The study supports the Pecking Order Theory, suggesting firms prefer internal financing over external debt. It also recommends policy changes to improve SME access to formal credit markets.

The impact of capital structure on Firms performance in Morocco. *Amraoui Mouna, Ye Jianmu, Shinta Amalina Hazrati Havidz and Hapzi Ali.*

The study "The Impact of Capital Structure on Firms' Performance in Morocco" investigates how a company's financial structure (the mix of debt and equity) affects its profitability. It analyzed data from 53 Moroccan companies (2014–2016) using return on assets (ROA) and return on equity (ROE) as measures of performance. The study rejects the Trade-Off Theory, which suggests a positive relationship between debt and performance and supports the Pecking Order Theory, showing that companies prefer internal funds over external borrowing to improve performance.

Capital Structure Choice in SMEs: Evidence from Kazakhstan. *Samal Kokeyeva, Ainagul Adambekova.*

The article "Capital Structure Choice in SMEs: Evidence from Kazakhstan" explores the factors that influence how small and medium-sized enterprises (SMEs) in Kazakhstan decide their mix of debt and equity for financing. It analyzed data from 594 SMEs across 16 industries between 2015 and 2018.

The study highlights that SME capital structure in Kazakhstan is strongly influenced by profitability, asset tangibility, and industry, supporting the Pecking Order Theory over the Trade-Off Theory.

Application of Trade-off Theory in Real-Life Corporate Capital Structure Adjustments.

Jing ran Qin.

The research article titled "Application of Trade-off Theory in Real-Life Corporate Capital Structure Adjustments" by Jing ran Qin examines the practical applicability of the trade-off theory in corporate finance, particularly in the context of commercial banks in Bangladesh and U.S. manufacturing firms.

While the trade-off theory is useful for understanding capital structure decisions, it doesn't fully capture the complexities involved, particularly for different types of firms.

A study on factors driving the Capital Structure Decisions of Small and Medium Enterprises (SMEs) in India (Factors Driving SMEs Financing Decisions in India) *Purnima rao, Satish Kumar, Vinodh Madhavan.*

The study focuses on the factors that influence capital structure decisions for Small and Medium Enterprises (SMEs) in India. It highlights how SMEs face unique challenges in financing compared to large firms, such as limited access to external funds, reliance on short-term debt, and the importance of tangible assets for loans. The paper compares manufacturing and service SMEs, showing differences in their financing patterns and the determinants of their capital structure. It concludes that capital structure decisions are shaped by firm-specific factors like profitability, size, age, liquidity, and growth, and that SMEs often prefer internal funds over external financing due to cost and control concerns.

Measuring the Effectiveness of Capital Structure on Firm Performance: A Comparative Analysis *Sunil M Rashinkar et. al*

The research serves as a striking example of how capital structure affects firm performance. In the research, a comparison of the capital structures of small, medium, and large-sized organisations is made. A brief backdrop for the research issue that highlights the impact of capital investment on small, medium, and large-sized businesses is highlighted in addition to this context. Archival articles are used in the research to gather a vast amount of pertinent data. This article also provides a thematic analysis of the informational data that was gathered. In order to fully understand the research topic, this article also discusses the Pecking Order Theory of Finance.

Small and medium-size enterprises: Access to finance as a growth constraint:

This paper presents recent research on access to finance by small and medium-size enterprises (SMEs). SMEs form a large part of private sector in many developed and developing countries. While cross-country research sheds doubt on a causal link between SMEs and economic development, there is substantial evidence that small firms face larger growth constraints and have less access to formal sources of external finance, potentially explaining the lack of SMEs' contribution to growth. Financial and institutional development helps alleviate SMEs' growth constraints and increase their access to external finance and thus levels the playing field between firms of different sizes. Specific financing tools such as leasing and factoring can be useful in facilitating greater access to finance even in the absence of well-developed institutions, as can systems of credit information sharing and a more competitive banking structure.

Determinants of Capital Structure and Testing of Theories: A Study on the Listed Manufacturing Companies in Bangladesh *Md. Imran Hossain, Md. Akram Hossain*

The article examines the factors that influence the capital structure of manufacturing companies listed in Bangladesh. It analyses data from 74 companies over a ten-year period, identifying key determinants such as managerial ownership, profitability, and growth rates. The study finds that certain theories, particularly the Pecking-order theory and Static Trade-off theory, are most relevant in this context. The authors suggest that

financial managers should consider these factors to optimize their capital structure and enhance shareholder value.

RESEARCH METHODOLOGY

Aim of the research

This research aims to study, various aspects and theories of capital structure and also the analytical analysis of capital structures of the SMEs Bondada Engineering Ltd., and Arrowhead Separation Engineering Ltd. through various financial ratios related to capital structure to know whether they are into conservative capital structure or aggressive capital structure.

Research Design:

Objectives

- To get a good understanding about capital structure, its theories and how it is useful for a firm.
- To understand how different financial ratios related to capital structure explains about a firm's financial position, and the risks associated.
- To assess of long-term solvency of the selected companies.

Nature of data:

The data used for this research is secondary data from various secondary sources. The financial statements of SMEs: Bondada Engineering Ltd., and Arrowhead separation Engineering Ltd. were taken from BSE website. And other data required was referred from Chittorgarh website.

Methodology:

Two Small and Medium Enterprises (SMEs) were selected, namely- Bondada Engineering Ltd., and Arrowhead Separation Engineering Ltd.

The financial statements of the above mentioned SMEs were collected from BSE website.

Calculated various ratios related to capital structure like Debt ratio, Debt to equity ratio, Financial Leverage ratio, Solvency ratio... etc.

Used excel for visual representation using bar graphs to understand it better.

The following are the ratios calculated:

- Debt Ratio
- Equity Ratio
- Debt-to-Equity Ratio
- Interest Coverage Ratio
- Debt-to-Capital Ratio
- Solvency Ratio
- Financial Leverage Ratio
- Degree of Operating Leverage
- Degree of Financial Leverage
- Degree of Combined Leverage

Tools Used: Excel for calculation of ratios and visual representation of data.

Type of study:

It is an exploratory and analytical study where various financial ratios were calculated, which would give a picture in to the company's capital structure. The ratios were calculated from the financial statements collected from BSE website. This research also gives a view in to the important theories of capital structure.

DATA ANALYSIS

Introduction

In this chapter, the calculated values of various financial ratios and what does that ratio signify or what that ratio explains about company's financial position, risk, and the approach towards capital structure were interpreted in a detailed manner. The implications of choosing an approach were also explained in the interpretations.

Debt Ratio

Ratio Calculation: Table.1

Debt Ratio	2022	2023	2024
BEL	0.4146	0.525	0.4463
ASEL	0.5382	0.5741	0.1832

Graph

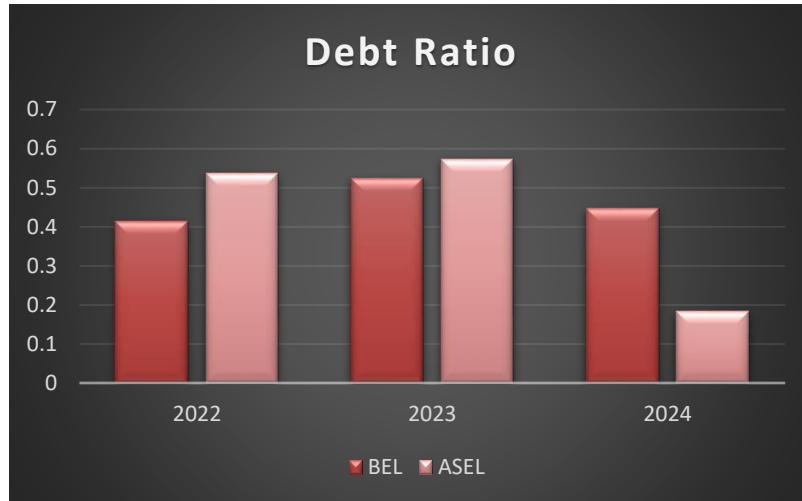


Fig.1

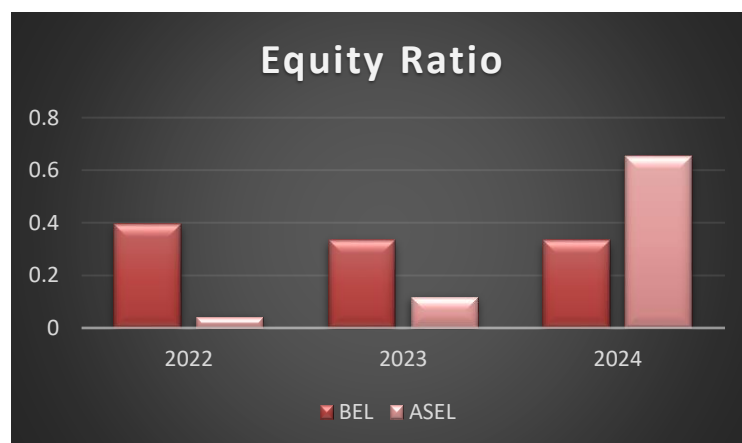
Interpretation

While both companies have seen fluctuations in their debt ratios, ASEL's 2024 decrease in debt ratio suggests a move towards a more balanced capital structure compared to BEL. Which also suggests that ASEL is trying to reduce its debt to balance it with the assets it holds to create an optimal capital structure. It can be evidently seen in the balance sheet of ASEL that even though its short term borrowings, trade payables, and other borrowings increased from 2022 to 2023, all these obligations have again seen a huge decrease. But its long term borrowings over these three years were on decreasing trend. Which is a positive thing for ASEL because it is trying to balance its capital structure which could lead to increase profitability of the firm. But BEL's debt has been raising ever since. Even though BEL has also seen decrease in its total debt from 2023 to 2024, the debt is still considered to be high.

Equity Ratio

Ratio Calculation: Table.2

Equity Ratio	2022	2023	2024
BEL	0.3933	0.3347	0.3312
ASEL	0.042	0.1187	0.6525



Graph
Fig.2

Interpretation

While both companies have experienced changes in their equity ratios, ASEL's significant increase in 2024 indicates a positive shift towards a more conservative capital structure. This can have positive implications for the company's long-term financial health. Coming to BEL, it is trying to maintain stable equity ratio which suggests that it doesn't completely trying to move towards conservative approach nor aggressive approach. An increasing shift in the equity ratio could be viewed as a positive sign by the investors. But there could be another view on an increasing equity ratio, which is, the companies that rely on equity too much would have a higher cost of capital, which would result in the decrease of profitability. And the increase in this ratio might also suggest that the company instead of paying dividends, it is reinvesting in various avenues. From the profit and loss a/c of ASEL, we can see that the company is not paying any dividends as of now.

Debt-to-Equity Ratio

Ratio calculation: Table.3

D/E Ratio	2022	2023	2024
BEL	1.054	1.5683	1.3475
ASEL	12.8051	4.8333	0.2807

Graph

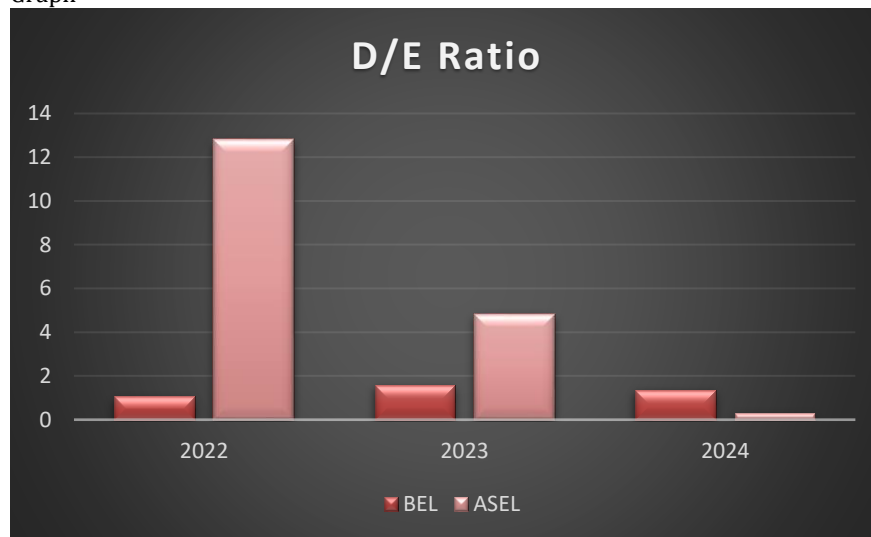


Fig.3

Interpretation

While both companies have experienced changes in their D/E ratios, ASEL's significant decrease in the ratio over the years indicates a positive shift towards a more conservative capital structure. A decrease in D/E ratio suggests that the company is reducing its debt. Which would reduce the financial obligations of the company. We can also see from the financial statements of ASEL that its payables have reduced from last year to this year which could possibly suggest that the company is trying to repay its debt. Whereas BEL financial statements suggest a somewhat different case.

Interest Coverage Ratio

Ratio calculation: Table.4

IC Ratio	2022	2023	2024
BEL	6.6866	4.675	7.4477
ASEL	1.2043	1.7806	4.4625



Graph

Fig.4

Interpretation

Both BEL and ASEL have shown improvements in their IC ratios, particularly in 2024. This suggests that both companies are better equipped to meet their interest expense obligations. It means both the companies are able to generate more earnings as compared to its interest obligations.

Debt-to-Capital Ratio

Ratio calculation: Table.5

D/C Ratio	2022	2023	2024
BEL	0.5131	0.6106	0.574
ASEL	0.9275	0.8285	0.2192

Graph

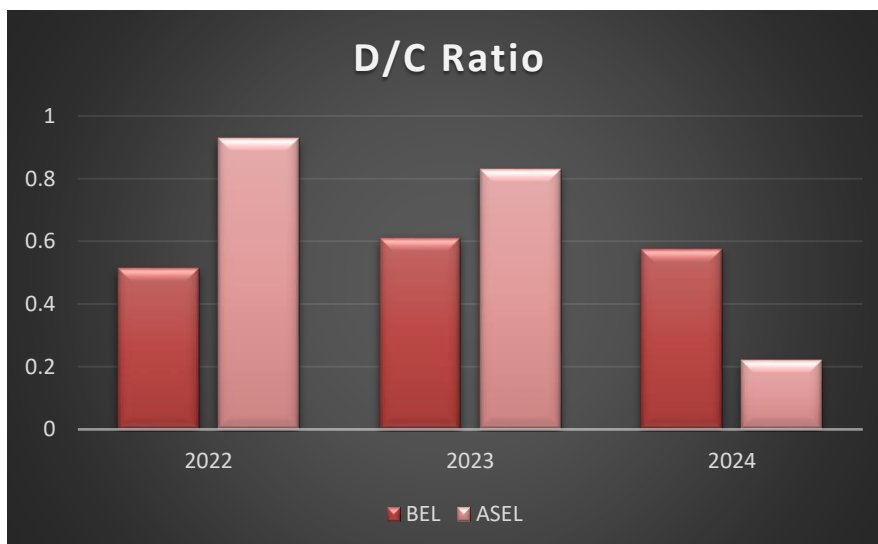


Fig.5

Interpretation

While both companies have experienced changes in their D/C ratios, ASEL's significant decrease in the ratio over the years indicates a positive shift towards a more conservative capital structure. This can have positive implications for the company's long-term financial health. The investors may find the decrease in D/C ratio as favourable and provide better terms future borrowings and at lower costs.

Solvency Ratio

Ratio calculation: Table.6

Solvency Ratio	2022	2023	2024

BEL	0.0838	0.0715	0.0856
ASEL	0.0616	0.125	0.1396

Graph

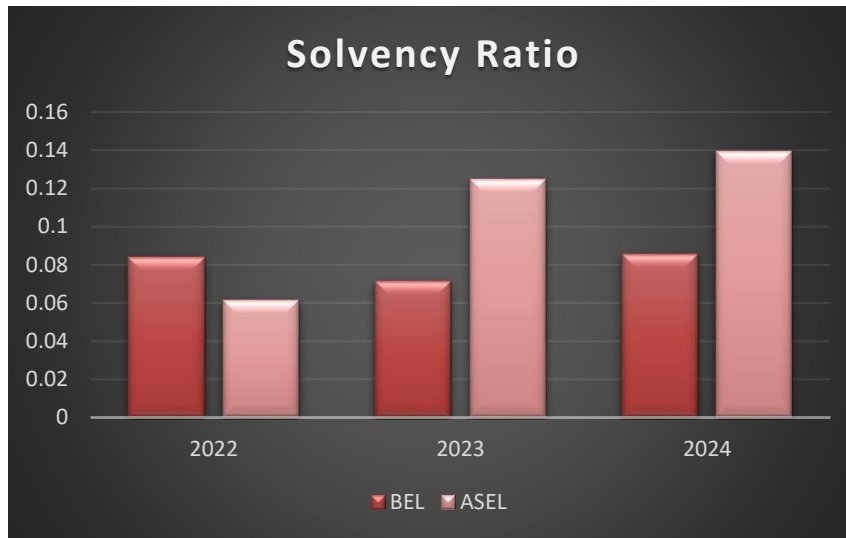


Fig.6

Interpretation

Both BEL and ASEL have shown improvements in their solvency ratios, particularly ASEL in 2023 and 2024. This suggests that both companies are better equipped to meet their long-term debt obligations.

Financial Leverage Ratio

Ratio calculation: Table.7

FLR	2022	2023	2024
BEL	2.5423	2.987	3.0191
ASEL	23.7922	8.4186	1.5324

Graph

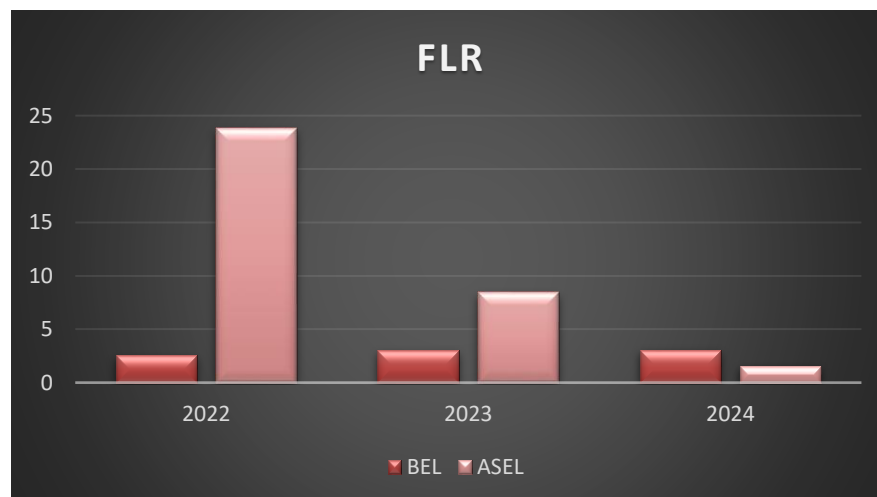


Fig.7

Interpretation

While both companies have experienced changes in their FLRs, ASEL's significant decrease in the ratio over the years indicates a positive shift towards a more conservative capital structure. Whereas there is an increase in

the Financial Leverage Ratio of BEL, which could suggest that the company's major part of assets are funded by the borrowed funds, increasing its financial obligations.

Degree of Operating Leverage

Ratio calculation: Table.8

DOL	2022	2023	2024
BEL	-0.4633	2.9379	1.1385
ASEL	-21.888	1.5015	1.9269

Graph



Fig.8

Interpretation

While DOL is not directly related to capital structure, it can indirectly impact a company's financial risk. Both BEL and ASEL have experienced fluctuations in their DOL over the years. While a higher DOL can amplify both positive and negative effects on operating income.

Degree of Financial Leverage

Ratio Calculation: Table.9

DFL	2022	2023	2024
BEL	1.1758	1.2977	1.1665
ASEL	7.6428	2.55	1.303

Graph

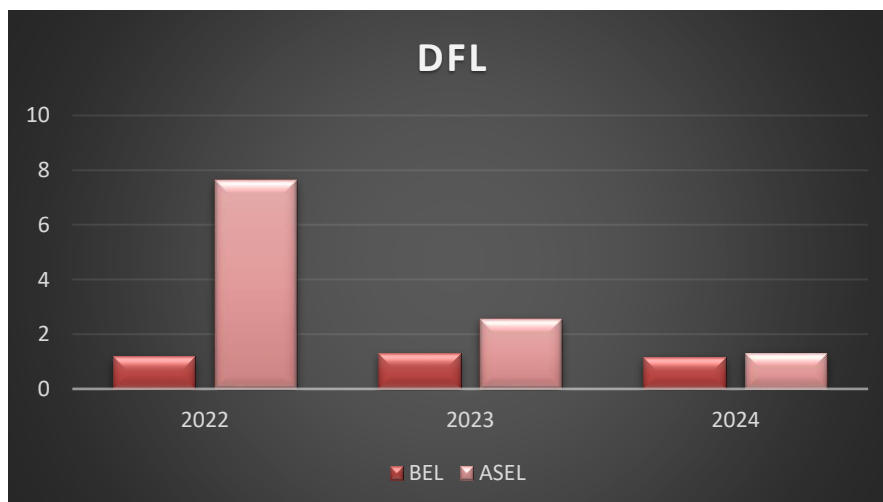


Fig.9

Interpretation

If the DFL is high, it means that the company depends greatly on debt. This can amplify the impact of changes in operating performance on earnings per share. Lower Degree of Financial Leverage refers to lower reliability on debt financing.

Degree of Combined Leverage

Ratio calculation: Table.10

	2022	2023	2024
DCL			
BEL	-0.5447	3.8127	1.3282
ASEL	-168.287	3.829	2.5108

Graph



Fig.10

Interpretation

While both companies have experienced changes in their DCLs, ASEL's high and increasing DCL suggests a higher level of risk compared to BEL. Even though ASEL's DCL decreased from 2023 to 2024, it is still higher or more than that of BEL.

FINDINGS

The following are the findings drawn from the above Calculations and ratio analysis:

- From the analysis, we can conclude that ASEL has a more aggressive capital structure, relying heavily on debt financing in the past.
- However, in recent years, ASEL has been reducing its debt and moving towards a more conservative capital structure.
- BEL, on the other hand, has maintained a more balanced capital structure, though it has increased its reliance on debt in recent years.
- Both companies need to carefully monitor their capital structure and risk profile. ASEL's reduction in debt is a positive step, while BEL should be cautious about further increasing its debt levels.
- ASEL has reduced its debt and also is trying to depend more on equity and also improved its ability to cover its interest payments. So, it could be an ideal choice for investors who are risk averse that is, who wants safe options to invest in.
- Whereas BEL is increasing its debt which can be seen by us in its debt to equity ratio and other debt related ratios. Even though it would reduce costs for the company and improve its profitability in short period.

- But it is risky for the company in long term or when there are any downturns in the economy. So, there would be a lot of risk involved. So, this would be a better option for the investors who would like to invest in risky options.

CONCLUSION

Both the companies are financially doing good. But ASELS step towards safe and conservative approach helps the company in reducing costs by raising funds required through the equity. It is taking small steps towards improving or growing profits over a period of time. It is more stable, and investors would be feeling more safe investing in this company and the company is trying to work on long-term financial stability.

On contrary to this, BEL is relying more on debt financing. While in the short term the company can earn and enjoy more returns, there would be some implications in the long run. The company is somewhat showing the instances of aggressive approach focusing mostly on short term gains. This company would be suitable for investors who are ready to take risks, while they can also enjoy higher returns.

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