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Analyzing the Impact of Alterations in Capital Structure on Firm Value: A Study with Emphasis on Selected Information Technology Companies

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Abstract

Finance plays an indispensable role at every juncture of an enterprise's journey, from its inception to its culmination. Scarce financial resources hinder business operations, while mismanagement thereof spells impending failure. To instate an optimal financial framework conducive to seamless operations, meticulous evaluation of both current and future capital requirements is imperative. Crafting a capital structure of utmost efficiency is paramount, for it directly influences the cost of capital and the ramifications of equity trading or leverage on the company's valuation. Consequently, the most advantageous capital structure entails a harmonious amalgamation of debt and equity, aimed at maximizing the company's value and enriching its stakeholders, all while minimizing the cost of capital.

Keywords: Capital Structure, Cost of Capital, Value of the Firm and Leverage

Introduction

Finance serves as the backbone of every enterprise, dictating its journey from inception to culmination. Scant financial resources impede operational efficacy, while mishandling precipitates inevitable downfall. Thus, it becomes imperative to meticulously analyze both present and future capital requisites to establish an ideal financial framework.

The evaluation of capital needs and the delineation of an optimal capital structure are cardinal tasks for any corporation. This structure, comprising a judicious blend of debt and equity, secures enduring funding and encompasses shareholder funds, long-term debt, and preferred share capital.

The strategic formulation of the capital structure holds paramount importance, given its profound impact on the company's valuation vis-à-vis the cost of capital and the dynamics of equity trading or leverage. An adept fusion of debt and equity not only amplifies the company's valuation and enriches owner wealth but also minimizes the cost of capital, thereby augmenting overall value.

While the capital structure may not directly influence total earnings, its ramifications on equity shareholders' earnings significantly mold company valuation. Practical hurdles loom large in determining the optimal capital structure, owing to the variegated nature of businesses and industries, underscored by a medley of quantitative and qualitative factors. Such intricacies defy a singular theoretical framework.

Statement of the Problem

Given their dependence on markets in the United States and other Western nations, which are notably sensitive to financial conditions, the market valuation of Indian information technology firms is profoundly shaped by their capital structure. As a result, the researcher embarked on an exploration of the capital structures of handpicked Indian IT companies, probing the repercussions of adjustments on both the market worth of equity shares and the holistic company valuation. Additionally, the inquiry scrutinized the hurdles encountered in service industries stemming from shifts in capital structure.

Review of Literature

A meticulous review of prior studies is imperative to enhance the credibility and consistency of the current research endeavor, injecting it with vitality and relevance. Several seminal works closely related to the present topic have contributed substantial insights to the field.

In their paper "The Theory and Practice of Corporate Finance," Graham and Compbell R. Harvey underscore the significance of credit ratings as the second most pressing concern for chief financial officers when formulating their capital structure. A notable 57.3 percent of CFOs regard credit ratings as pivotal in determining the optimal debt levels for their companies.

Malcom Baker and Jeffry Wargler, in their study "Market Timing and Capital Structure," posit that prior attempts to time stock issuance during periods of favorable market valuations exert a lasting influence on corporate capital structures. This suggests that capital structures are shaped by a culmination of past market timing endeavors rather than a dynamically optimized strategy.

Eugene F. Fama and Kenneth R. French, in their research titled "Testing Trade-Off and Pecking Order Predictions about Dividends and Debt," observe that firms' debt ratios gravitate towards their target levels over time. This implies that corporations exhibit a gradual adjustment process towards their long-run or optimal leverage levels.

Welch, in the study "Stock Returns and Capital Structure," highlights the enduring impact of equity price movements on corporate capital structures. He contends that stock returns exert the most significant influence on capital structure changes, eclipsing company-specific rationales for net issuance activities.

Scope of the Study

The objective of this study is to examine how alterations in a company's overall worth stemming from shifts in its capital structure impact its total valuation within the realm of information technology services.

Objectives of the Study

The primary aim of the study is to assess the influence of capital structure modifications on the overall value of the firm. The specific objectives of this research are as follows:

- To examine the capital structure methodologies employed by chosen Information Technology enterprises;
- To analyse the trajectory of leverage ratios concerning capital structure determinations, and subsequently evaluate the firm's value utilizing the Net Income Approach Method.
- To offer recommendations based on the insights derived from the study.

Methodology of the Study

Collection of Data

The research is entirely based on secondary data. As a result, data for the current study was gathered from the company, numerous websites, books, and journals. The research examines the ideas and works of a variety of authors from the fields of industry, academia, and research. The bibliography lists the journals and books that were used in this investigation.

Period of the Study

The present study covers a period of five years from 2018 – 19 to 2022 - 23.

Operational Definitions of the Concepts

Capital Structure: The composition of a company's financial foundation encompasses the blend of debt and equity instruments utilized to underwrite its assets.

- **Financial Risk:** This denotes the heightened risk assumed by ordinary shareholders when a company opts for debt financing, resulting in a greater proportion of debt within the capital structure.
- **Cost of Capital:** It represents the minimum rate of return necessary to uphold the market value of equity shares.
- **Weighted Average Cost of Capital:** This quantifies the enduring expense of funds by dividing the cost of each capital type by its respective portion in the company's financial framework.
- **Earnings Per Share:** It signifies the portion of profit accessible to equity holders based on their ownership stake in the company.
- **Diluted Earnings Per Share:** Following adjustments for factors such as preference shares, convertible debentures, equity share buybacks, or issuance of new shares or bonus shares, the company's diluted earnings per share are computed.

Tools for Analysis

The gathered secondary data underwent meticulous tabulation and analysis, employing insightful tools such as Ratio Analysis, Capital Structure Analysis, and EBIT-EPS Analysis.

Capital Gearing Ratio

Year	WIPRO		HCL		TCS	
	CGR	Trend %	CGR	Trend %	CGR	Trend %
2019	0.0315	100	0.0014	100	0.0014	100
2020	0.0287	91.11	0.0013	93.34	0.0009	59.68
2021	0.0251	79.78	0.0012	85.75	0.0006	39.58
2022	0.0023	7.43	0.0012	85.36	0.0005	36.08
2023	0.0010	3.12	0.0011	74.95	0.0004	29.36

Source: Published Annual reports 2019 – 2023

Proprietary Ratio

Year	WIPRO		HCL		TCS	
	Proprietary Ratio	Trend %	Proprietary Ratio	Trend %	Proprietary Ratio	Trend %
2019	0.650	100.00	0.780	100.00	0.720	100.00

2020	0.690	106.62	0.810	103.82	0.760	105.25
2021	0.740	114.06	0.800	103.01	0.870	120.70
2022	0.720	111.11	0.840	107.83	0.830	115.70
2023	0.740	113.70	0.810	104.34	0.790	110.11

Source: Published Annual Reports 2017 – 2021

Return on Equity

Year	WIPRO		HCL		TCS	
	ROE	Trend %	ROE	Trend %	ROE	Trend %
2019	23.66	100.00	32.70	100.00	42.40	100.00
2020	19.80	83.67	22.01	67.30	38.87	91.68
2021	17.47	73.84	28.02	85.69	30.70	72.41
2022	18.27	77.22	25.89	79.17	32.44	76.51
2023	15.42	65.14	26.97	82.47	38.66	91.17

Source: Published Annual reports 2019 – 2023

Earnings Per Share

Year	WIPRO		HCL		TCS	
	EPS	Trend %	EPS	Trend %	EPS	Trend %
2019	₹ 33.28	100	₹ 45.14	100	₹ 98.31	100
2020	₹ 32.91	98.87	₹ 33.56	74.36	₹ 116.13	118.12
2021	₹ 33.61	100.98	₹ 51.01	113.02	₹ 121.58	123.66
2022	₹ 16.26	48.85	₹ 51.26	113.56	₹ 127.88	130.08
2023	₹ 12.67	38.08	₹ 60.53	134.1	₹ 80.48	81.86

Source: Published Annual reports 2019 – 2023

Price Earnings Ratio

Year	WIPRO		HCL		TCS	
	P/E Ratio	Trend %	P/E Ratio	Trend %	P/E Ratio	Trend %
2019	18.9	100	20.38	100	25.91	100
2020	17.15	90.75	24.26	119.03	21.67	83.63
2021	15.34	81.21	16.91	82.99	21.08	81.35
2022	17.29	91.52	18.39	90.25	24.56	94.78
2023	20.1	106.4	17.97	88.17	25.35	97.85

Source: Published Annual reports 2019 – 2023

Return on Capital Employed

Year	WIPRO		HCL		TCS	
	ROCE	Trend %	ROCE	Trend %	ROCE	Trend %
2019	37.48	100	52.63	100	71.1	100
2020	33.9	90.46	35.04	66.59	62.08	87.31
2021	28.16	75.15	55.52	105.48	44.29	62.28

2022	31.55	84.17	62.19	118.17	48.33	67.97
2023	27.67	73.82	62.21	118.19	67.76	95.29

Source: Published Annual reports 2019 – 2023

Debt Coverage Ratio

Year	WIPRO		HCL		TCS	
	Debt Coverage Ratio	Trend %	Debt Coverage Ratio	Trend %	Debt Coverage Ratio	Trend %
2019	14.44	100	0.16	100	0.4	100
2020	11.32	78.33	0.16	96.22	0.21	52.89
2021	9.76	67.58	0.14	85	0.27	68.5
2022	8.04	55.69	0.1	61.66	0.24	60.88
2023	7.57	52.43	0.09	52.39	0.03	8.36

Source: Published Annual reports 2019 – 2023

Debt – Equity Ratio

Year	WIPRO		HCL		TCS	
	Debt-Equity Ratio	Trend %	Debt-Equity Ratio	Trend %	Debt-Equity Ratio	Trend %
2019	0.34	100	0.03	100	0.15	100
2020	0.31	91.31	0.02	87.73	0.09	60.83
2021	0.21	62.97	0.02	77.73	0.07	42.45
2022	0.21	61.96	0.02	81.94	0.07	42.61
2023	0.2	58.64	0.08	308.48	0.1	63.37

Source: Published Annual reports 2019 – 2023

Fixed Assets to Long-Term Funds Ratio

Year	WIPRO		HCL		TCS	
	Fixed Assets To Long-Term Funds Ratio	Trend %	Fixed Assets To Long-Term Funds Ratio	Trend %	Fixed Assets To Long-Term Funds Ratio	Trend %
2019	0.15	100	0.18	100	0.23	100
2020	0.1	64.09	0.17	91.08	0.19	81.96
2021	0.09	61.86	0.14	74.06	0.14	58.36
2022	0.12	80.03	0.13	70.85	0.14	59.9
2023	0.12	80.6	0.12	66.46	0.01	4.5

Source: Published Annual reports 2019 – 2023

Interest Coverage Ratio

Year	WIPRO		HCL		TCS	
	Interest Coverage Ratio	Trend %	Interest Coverage Ratio	Trend %	Interest Coverage Ratio	Trend %
2019	30.09	100	127.95	100	309.53	100

2020	20.86	69.32	126.88	99.16	2145.08	693.01
2021	28.26	93.9	155.95	121.88	1899.06	613.53
2022	27.11	90.1	387.91	303.16	1044.4	337.41
2023	19.8	65.82	623.19	487.04	243.01	78.51

Source: Published Annual reports 2019 – 2023

Shareholders' Equity Ratio

Year	WIPRO		HCL		TCS	
	Shareholders' Equity Ratio	Trend %	Shareholders' Equity Ratio	Trend %	Shareholders' Equity Ratio	Trend %
2019	0.64	100	0.78	100	0.72	100
2020	0.68	106.84	0.81	103.74	0.76	105.25
2021	0.73	114.64	0.79	100.83	0.87	120.7
2022	0.71	111.57	0.82	105.69	0.83	115.7
2023	0.73	114.33	0.8	102.46	0.79	110.11

Sales to Capital Employed Ratio

Year	WIPRO		HCL		TCS	
	Sales to Capital Employed	Trend %	Sales to Capital Employed	Trend %	Sales to Capital Employed	Trend %
2019	1.41	100	1.16	100	2.12	100
2020	1.38	97.29	0.81	69.6	1.83	86.15
2021	1.16	82.03	1.23	105.49	1.35	63.6
2022	1.35	95.72	1.54	132.24	1.5	70.69
2023	1.28	90.38	1.62	139.48	2.02	95.1

Source: Published Annual reports 2019 – 2023

Equity Dividend Cover Ratio

Year	WIPRO		HCL		TCS	
	Equity Dividend Cover	Trend %	Equity Dividend Cover	Trend %	Equity Dividend Cover	Trend %
2019	2.8	100	2.66	100	1.13	100
2020	2.27	81.02	2.1	79.03	2.41	213.36
2021	9.3	331.89	2.15	80.81	2.19	193.42
2022	14.19	506.26	4.22	158.61	2.29	202.81
2023	13.96	498.21	7.47	280.74	2.67	235.98

Source: Published Annual reports 2019 – 2023

Net Asset Value Per Share Ratio

Year	WIPRO		HCL		TCS	
	Net Asset Value Per Share	Trend %	Net Asset Value Per Share	Trend %	Net Asset Value Per Share	Trend %
2019	₹ 140.64	100	₹ 138.02	100	₹ 231.87	100

2020	₹ 166.20	118.18	₹ 152.50	110.49	₹ 298.75	128.85
2021	₹ 192.32	136.75	₹ 182.04	131.89	₹ 395.96	170.77
2022	₹ 88.97	63.26	₹ 197.98	143.44	₹ 394.19	170.01
2023	₹ 82.22	58.46	₹ 224.43	162.6	₹ 208.19	89.79

Source: Published Annual reports 2019 – 2023

Market Price to Net Asset Value Ratio

Year	WIPRO		HCL		TCS	
	Market Price to Net Asset Value Ratio	Trend %	Market Price to Net Asset Value Ratio	Trend %	Market Price to Net Asset Value Ratio	Trend %
2019	₹ 140.64	100	₹ 138.02	100	₹ 231.87	100
2020	₹ 166.20	118.18	₹ 152.50	110.49	₹ 298.75	128.85
2021	₹ 192.32	136.75	₹ 182.04	131.89	₹ 395.96	170.77
2022	₹ 88.97	63.26	₹ 197.98	143.44	₹ 394.19	170.01
2023	₹ 82.22	58.46	₹ 224.43	162.6	₹ 208.19	89.79

Source: Published Annual reports 2019 – 2023

Dividend Pay-Out Ratio

Year	WIPRO		HCL		TCS	
	Dividend Pay-Out Ratio	Trend %	Dividend Pay-Out Ratio	Trend %	Dividend Pay-Out Ratio	Trend %
2019	36.06	100	66.47	100	80.36	100
2020	18.23	50.57	47.67	71.72	37.46	46.62
2021	5.95	16.5	47.05	70.78	38.66	48.11
2022	6.15	17.06	23.41	35.22	39.1	48.66
2023	7.89	21.88	13.22	19.89	37.28	46.39

Source: Published Annual reports 2019 – 2023

Dividend Yield Ratio

Year	WIPRO		HCL		TCS	
	Dividend Yield Ratio	Trend %	Dividend Yield Ratio	Trend %	Dividend Yield Ratio	Trend %
2019	0.019	100	0.033	100	0.031	100
2020	0.011	55.72	0.02	60.25	0.017	55.74
2021	0.004	20.32	0.028	85.3	0.018	59.14
2022	0.004	18.64	0.013	39.03	0.016	51.33
2023	0.004	20.57	0.007	22.55	0.015	47.41

Source: Published Annual reports 2019 – 2023

Analysis of Financial Leverage

Year	WIPRO		HCL		TCS	
	Financial Leverage	Trend %	Financial Leverage	Trend %	Financial Leverage	Trend %
2019	0.019	100	0.033	100	0.031	100

2020	0.011	55.72	0.02	60.25	0.017	55.74
2021	0.004	20.32	0.028	85.3	0.018	59.14
2022	0.004	18.64	0.013	39.03	0.016	51.33
2023	0.004	20.57	0.007	22.55	0.015	47.41

Source: Published Annual reports 2019 – 2023

Calculation of Value of the Company

Tables 2.1, 2.2 and 2.3 show the analysis of capital structure of selected companies on the basis of Net Income Approach Method.

Value of Wipro Ltd

Computation of Value of the Company – Wipro					
Computation of Value of the Company – Wipro					
	Rs	Rs	Rs	Rs	Rs
Particulars/Year	2019	2020	2021	2022	2023
Earnings Per Share	₹ 33.28	₹ 32.91	₹ 33.61	₹ 16.26	₹ 12.67
Market Price Per Share	₹ 628.85	₹ 564.25	₹ 515.70	₹ 281.15	₹ 254.80
Cost Of Equity (Ke)	5.29%	5.83%	6.52%	5.78%	4.97%
Market Value of Debt					
	Rs in Crores	Rs in Crores	Rs in Crores	Rs in Crores	Rs in Crores
Particulars/Year	2019	2020	2021	2022	2023
Secured Loans	₹ 703.40	₹ 120.10	₹ 116.10	₹ 53.90	₹ 15.20
Unsecured Loans	₹ 7,011.40	₹ 6,575.90	₹ 6,048.80	₹ 4,666.20	₹ 5,059.00
Total Debt	₹ 7,714.80	₹ 6,696.00	₹ 6,164.90	₹ 4,720.10	₹ 5,074.20
Value of the Company – Wipro					
	Rs in Crores	Rs in Crores	Rs in Crores	Rs in Crores	Rs in Crores
Particulars/Year	2019	2020	2021	2022	2023
1. EBIT	₹ 10,919.90	₹ 11,009.90	₹ 11,079.20	₹ 10,418.60	₹ 10,395.40
2. Interest	₹ 362.90	₹ 527.80	₹ 392.10	₹ 384.30	₹ 524.90
3. Net Income (Earnings to Equity Shareholders) (1-2)	₹ 10,557.00	₹ 10,482.10	₹ 10,687.10	₹ 10,034.30	₹ 9,870.50
4. Equity Capitalisation Rate (Ke in Percent)	5.29%	5.83%	6.52%	5.78%	4.97%
5. Market Value of Equity (3/4*100)	₹ 1,99,475.9	₹ 1,79,737.9	₹ 1,63,991.6	₹ 1,73,519.4	₹ 1,98,431.5
6. Market Value of Debt	₹ 7,714.80	₹ 6,696.00	₹ 6,164.90	₹ 4,720.10	₹ 5,074.20
7. Total Value of the Company (5+6)	₹ 2,07,190.7	₹ 1,86,433.9	₹ 1,70,156.5	₹ 1,78,239.5	₹ 2,03,505.7
8. Overall Cost of Capital rate in percentage (1/7*100)	5.270	5.906	6.511	5.845	5.108

Table 2.1 illustrates the overall cost of capital and the valuation of WIPRO. In 2019, the overall cost of capital stood at 5.27, but it surged to 5.90 in 2020. Concurrently, loans decreased from 7714.80 crores to 6696.00 crores, leading to a decline in the company's worth from 207190.74 crores to 186433.95 crores. By 2021, the company's valuation further reduced to 170156.55 crores,

while stock capitalization increased from 5.83 to 6.52. Subsequently, in 2022, the company's valuation rose to 178239.47 crores, accompanied by a decrease in the overall cost of capital to 5.845. This was attributed to a decrease in the equity capitalization rate to 5.78 and an increase in debt capitalization to 173519.37 crores. By 2023, the company's value surged to 203505.68 crores, while the overall cost of capital declined to 5.108, alongside a decrease in the equity capitalization rate to 4.97.

Value of HCL Ltd

Computation of Value of the Company – HCL					
Calculation of Cost of Equity by Earning Price Approach					
	Rs	Rs	Rs	Rs	Rs
Particulars/Year	2019	2020	2021	2022	2023
Earnings Per Share	₹ 33.28	₹ 32.91	₹ 33.61	₹ 16.26	₹ 12.67
Market Price Per Share	₹ 628.85	₹ 564.25	₹ 515.70	₹ 281.15	₹ 254.80
Cost Of Equity (Ke)	5.29%	5.83%	6.52%	5.78%	4.97%
Market Value of Debt					
	Rs in Crores	Rs in Crores	Rs in Crores	Rs in Crores	Rs in Crores
Particulars/Year	2019	2020	2021	2022	2023
Secured Loans	₹ 33.28	₹ 32.91	₹ 33.61	₹ 16.26	₹ 12.67
Unsecured Loans	₹ 628.85	₹ 564.25	₹ 515.70	₹ 281.15	₹ 254.80
Total Debt	5.29%	5.83%	6.52%	5.78%	4.97%
Value of the Company – HCL					
	Rs in Crores	Rs in Crores	Rs in Crores	Rs in Crores	Rs in Crores
Particulars/Year	2019	2020	2021	2022	2023
1. EBIT	₹ 10,919.90	₹ 11,009.90	₹ 11,079.20	₹ 10,418.60	₹ 10,395.40
2. Interest	₹ 362.90	₹ 527.80	₹ 392.10	₹ 384.30	₹ 524.90
3. Net Income (Earnings to Equity Shareholders) (1-2)	₹ 10,557.00	₹ 10,482.10	₹ 10,687.10	₹ 10,034.30	₹ 9,870.50
4. Equity Capitalisation Rate (Ke in Percent)	5.29%	5.83%	6.52%	5.78%	4.97%
5. Market Value of Equity (3/4*100)	₹ 1,99,475.9	₹ 1,79,737.9	₹ 1,63,991.6	₹ 1,73,519.4	₹ 1,98,431.5
6. Market Value of Debt	₹ 7,714.80	₹ 6,696.00	₹ 6,164.90	₹ 4,720.10	₹ 5,074.20
7. Total Value of the Company (5+6)	₹ 2,07,190.7	₹ 1,86,433.9	₹ 1,70,156.5	₹ 1,78,239.5	₹ 2,03,505.7
8. Overall Cost of Capital rate in percentage (1/7*100)	5.270	5.906	6.511	5.845	5.108

Table 2.2 displays the entire cost of capital and the valuation of HCL Technologies. In 2019, the company's overall cost of capital stood at 4.945, with a valuation of 156917.96 crores. By 2020, the valuation decreased to 139939.67 crores, coinciding with a reduction in the overall cost of capital to 4.154. Notably, the overall debt increased from 40.63 crores to 41.74 crores during the year.

In 2021, the overall cost of capital surged to 5.950, while the company's valuation rose to 146856.91 crores. Simultaneously, the overall debt increased to 44.87 crores. The equity

capitalization rate saw a significant increase from 4.12 to 5.91, primarily due to a decline in the market value of equities. By 2022, the overall cost of capital decreased to 5.451, with the company's valuation rising to 163683.89 crores. Notably, the debt content witnessed a dramatic decline from 44.87 crores to 33.00 crores during the year.

In 2023, the overall cost of capital increased to 5.574, while the company's valuation surged to 178892.03 crores. The equity capitalization rate rose from 5.44 to 5.57 over the year, driven by a substantial increase in the market price of stock from 163650.80 to 178860.03. In the information technology industry, characterized by volatile markets and high business risk, mitigating financial risk often necessitates a significant proportion of stock ownership. Corporations prioritize high liquidity to facilitate prompt decision-making, leading them to opt for equity financing over borrowing.

Value of TCS Ltd

Computation of Value of the Company – TCS					
Calculation of Cost of Equity by Earning Price Approach					
	Rs	Rs	Rs	Rs	Rs
Particulars/Year	2019	2020	2021	2022	2023
Earnings Per Share	₹ 98.31	₹ 116.13	₹ 121.58	₹ 127.88	₹ 80.48
Market Price Per Share	₹ 2,547.05	₹ 2,516.05	₹ 2,562.35	₹ 3,140.30	₹ 2,040.20
Cost Of Equity (Ke)	3.86%	4.62%	4.74%	4.07%	3.94%
Market Value of Debt					
	Rs in Crores	Rs in Crores	Rs in Crores	Rs in Crores	Rs in Crores
Particulars/Year	2019	2020	2021	2022	2023
Secured Loans	₹ 64.13	₹ 161.57	₹ 44.00	₹ 39.00	₹ 33.00
Unsecured Loans	₹ 186.14	₹ 1.45	₹ 200.00	₹ 181.00	₹ 0.00
Total Debt	₹ 250.27	₹ 163.02	₹ 244.00	₹ 220.00	₹ 33.00
Value of the Company – Tcs					
	Rs in Crores	Rs in Crores	Rs in Crores	Rs in Crores	Rs in Crores
Particulars/Year	2019	2020	2021	2022	2023
1. EBIT	₹ 24,629.54	₹ 29,130.22	₹ 30,385.00	₹ 31,332.00	₹ 41,311.00
2. Interest	₹ 79.57	₹ 13.58	₹ 16.00	₹ 30.00	₹ 170.00
3. Net Income (Earnings to Equity Shareholders) (1-2)	₹ 24,549.97	₹ 29,116.64	₹ 30,369.00	₹ 31,302.00	₹ 41,141.00
4. Equity Capitalisation Rate (Ke in Percent)	3.86%	4.62%	4.74%	4.07%	3.94%
5. Market Value of Equity (3/4*100)	₹ 6,36,025.9	₹ 6,30,832.1	₹ 6,40,051.9	₹ 7,68,661.6	₹ 10,42,903.2
6. Market Value of Debt	₹ 250.27	₹ 163.02	₹ 244.00	₹ 220.00	₹ 33.00
7. Total Value of the Company (5+6)	₹ 6,36,276.2	₹ 6,30,995.2	₹ 6,40,295.9	₹ 7,68,881.6	₹ 10,42,936.2
8. Overall Cost of Capital rate in percentage (1/7*100)	3.871	4.617	4.745	4.075	3.961

Table 2.3 showcases the overall cost of capital and the valuation of TCS. In 2019, the overall cost of capital was 3.87, which increased to 4.62 in 2020 due to the repayment of certain secured loans. Consequently, the company's valuation rose as net income accrued to equity shareholders.

However, in 2020, despite an increase in debt in the capital structure, the overall cost of capital did not decrease. This was attributed to a significant rise in the equity capitalization rate resulting from a decline in the market value of equity from 2547.05 to 2516.05.

By 2022, the overall cost of capital decreased from 4.74 to 4.07, accompanied by an increase in the company's valuation. This reduction was attributed to a decline in the equity capitalization rate. In 2023, the company's overall cost of capital further decreased from 4.07 to 3.94, while its valuation climbed from 768881.59 crores to 1042936.19 crores.

Findings of the Study

- The analysis revealed that the selected companies exhibit low gearing ratios, indicating a preference for equity trading. This suggests that equity owners' funds surpass those of fixed-interest-bearing securities like preference shares, debentures, and loans.
- The proprietary ratio of the selected organizations demonstrates a favourable trend, consistently exceeding 50% throughout the year. This signifies a secure position for the company's creditors.
- TCS showcased a superior return on equity ratio throughout the study period, consistently surpassing 35%, peaking at 42.40% in 2017. WIPRO and HCL Technologies also demonstrated robust growth, with returns exceeding 20% and 25%, respectively, implying satisfactory returns for stock investors.
- TCS consistently maintained a strong track record of profitability, with EPS consistently exceeding Rs. 80 and peaking at Rs. 127.88 during the study period. WIPRO and HCL Technologies exhibited varying EPS figures, with highs and lows ranging from Rs. 33.28 to Rs. 12.67 and Rs. 60.53 to Rs. 33.56, respectively.
- The year 2021 saw a low P/E ratio for the selected companies, indicating decreased income due to prevailing economic crises.
- TCS outperformed WIPRO and HCL Technologies in terms of Return on Capital Employed, demonstrating efficient utilization of long-term funds. WIPRO and HCL Technologies lagged behind in this aspect, suggesting suboptimal asset utilization compared to TCS.
- The debt-coverage ratio of HCL, TCS, and WIPRO reflects commendable debt-paying capabilities, with none exceeding 20% during the study period. TCS exhibited a relatively higher capacity for debt repayment compared to WIPRO and HCL Technologies.
- HCL and TCS' debt-to-equity ratios were favourable indicators for creditors, while WIPRO's ratio favoured owners over creditors, indicating a precarious situation for creditors.
- Fixed assets to long-term funds ratio analysis revealed a lower-than-ideal ratio, suggesting the purchase of fixed assets with short-term finances, an unfavourable strategy.
- TCS and HCL demonstrated high capacity to meet interest commitments, with interest coverage ratios consistently exceeding 300%. WIPRO also exhibited satisfactory performance in this regard.
- HCL Technologies and TCS maintained a shareholder's equity ratio of over 70% throughout the study period, indicating a robust financial position.
- TCS displayed efficiency in capital employed utilization compared to WIPRO and HCL.
- WIPRO's equity dividend coverage ratio showed promise, while TCS and HCL Technologies' ratios indicated stable businesses with conservative dividend distribution policies.
- TCS consistently maintained a high net asset value per share compared to WIPRO and HCL Technologies, suggesting substantial reserves and potential.
- WIPRO and HCL Technologies' market price to net asset value per share remained low compared to TCS, indicating superior returns for WIPRO and HCL investors.

- TCS exhibited a liberal distribution policy with a consistently high dividend pay-out ratio exceeding 35%, while HCL Technologies' ratio also surpassed 10%, albeit less generously than TCS. WIPRO followed a more conservative approach in dividend distribution.
- The dividend yield ratio of all selected companies exhibited a positive trend, reflecting a high dividend per share.
- Financial leverage analysis indicated low leverage for the sample companies, with diluted EPS resulting from increased equity.

Suggestions

- Indian IT firms are urged to explore international markets to diversify their operations, addressing the vulnerabilities arising from their heavy reliance on the US IT sector.
- Emphasizing the untapped potential within the domestic market, it is proposed that Indian IT companies redirect their focus to capitalize on local opportunities.
- To stay competitive amidst rising global and domestic competition, Indian IT enterprises are advised to enhance productivity through the reinforcement and upskilling of their workforce.
- Tailoring the capital structure's debt-to-equity proportions to industry dynamics and market conditions is essential. Failure to anticipate these factors may hinder the company's ability to secure favorable financing terms in the long run, impacted by evolving government policies.
- Opting for fixed-cost financing instruments such as debentures, loans, and preference shares is recommended when the return on investment surpasses fixed funding costs.
- Timely debt repayment is crucial to uphold the company's creditworthiness and avoid future obstacles in accessing additional financing.
- Long-term projects should be financed through equity and other long-term sources, while short-term initiatives are best suited for financing through debt instruments like bank loans and financial institution credit lines.

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