

Capital Structure and Financial Stability of Kerala Sidco

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Abstract

The present study aims to analyze the capital structure and financial stability of Kerala Small Industries Development Corporation (SIDCO) from the year 2020-24. The study has employed ratio analysis, trend analysis, comparative balance sheet analysis, Karl Pearson's correlation coefficient and Altman Z-score analysis to analyze liquidity, solvency, debt position and financial stability. The result indicates that the level of dependence on borrowed money increased and shareholders' funds decreased continuously throughout the study period. The state of weak liquidity, negative interest coverage, and increasing in the liabilities are a rise in the financial pressures of the organization. The Z score analysis also indicates that the company continued to stay in the financial distress zone during the period. The study suggests that, better financial planning, proper borrowing practice, and better utilization of the resources are essential in enhancing the long term financial stability of Kerala SIDCO.

Keywords: Capital Structure, Financial Stability, Liquidity, Ratio Analysis, SIDCO and Solvency

Introduction

Financial structure and financial stability are among the financial management characteristics which affect the financial performance and sustainability of organisations. Financial aspects like liquidity, solvency, debt position and shareholders' funds provide an organization with a view of its financial health and the regions to enhance. Public sector institutions like Kerala Small Industries Development Corporation (SIDCO) cannot do without such analysis as it has a significant contribution in the field of small scale industries and regional industrial development. Analyzing historical financial information and trends can help assess the success of financial decisions and offer valuable insights for maximizing long-term financial stability and effective resource utilization.

Review of Literature

T. Gowri Shankar, S. Shobana & P. Gomathi (2025) explored the conservative capital structure strategies and how these strategies contribute to the financial stability of an organization, where it was concluded that a conservative capital structure strategy was found to have less financial risk and more sustainability. Using ratio analysis and trend analysis, the researchers Tharipi Arun & S. Narender (2025) analysed Tata Motors Ltd and found that the company's profitability and liquidity position is improving and also highlighted the significance of having a balanced ratio of debt to equity. Siqi Liu (2024) analyzed the correlation between capital structure and financial performance in the e-commerce industry and Alibaba, finding that a mix of financing helps to increase the profitability of the business while decreasing financial risk. In their systematic review, Swati Negi & Saurabh Singh (2023) concluded that higher debt can lower profitability, while an optimum mix of debt and equity can improve generally the financial stability of the company. Vinay D. Nayak, Ravi Kumar & S. Ranjith Kumar (2020) conducted research on Bajaj Auto limited and found that the optimal combination of debt and equity capital enhances the organization's stability and facilitates future development.

Research Gap

Most of the current research relates to big private firms with a primary focus on profitability and leverage, and government operations are scarcely addressed. Previous studies tend to examine one or two facets of performance rather than an overall financial stability. In addition, very few studies employ all three of the ratio analysis, trend analysis and comparative balance sheet analysis. This study aims to address this by examining a public sector organization and providing a more comprehensive picture of the capital structure and financial stability.

Objectives

1. The capital structure of Kerala SIDCO would be analyzed.
2. Assess the financial stability and solvency of SIDCO.
3. To study the change and pattern of equity, debt and reserves over the study period (3).

Research Methodology

This study is analytical in nature in order to analyse the capital structure and financial stability of Kerala SIDCO. The analysis is mainly based on secondary data collected from the annual reports and financial statements of the organization for the period from 2020 to 2024. The study of the company's financial position is done through the use of various financial tools like ratio analysis, trend analysis and comparative balance sheet analysis etc. Furthermore, statistical analysis such as Karl Pearson's Correlation Coefficient and Altman Z-Score analysis is used to determine the relationship between capital structure and financial stability. A systematic study is done in order to evaluate the financial stability and overall performance of the organization over the study period.

Data Analysis

Ratio Analysis

A ratio analysis is a method of analysis that looks at the relationship between various financial data to determine an organisation's financial position and stability. It assists in the comprehension of the capital structure, solvency position and liquidity condition of the company by relying on data from financial statements.

(A) Leverage Ratios

Table 1 Debt-Equity Ratio

Year	Ratio
2019-20	-1.32
2020-21	-1.04
2021-22	-0.94
2022-23	-0.79
2023-24	-0.72

Source: Secondary Data

The debt-equity ratio is improving over the study period (from -1.32 to -0.72). The negative ratio is maintained even though the shareholders' funds have been decreased, which shows that the position of the capital structure has slightly improved.

Table 2 Debt Ratio

Year	Ratio
2019-20	1.76
2020-21	1.96
2021-22	2.06
2022-23	2.26
2023-24	2.38

Source: Secondary Data

Throughout the study period, the debt ratio has been growing steadily. This means that the organization is relying more on borrowed funds and financial risk is also increasing within the organization.

(B) Solvency Ratios

Table 3 Proprietary Ratio

Year	Ratio
2019-20	-0.76
2020-21	-0.96
2021-22	-1.06
2022-23	-1.26
2023-24	-1.38

Source: Secondary Data

Proprietary ratio continues to be negative for all years and is in a declining trend. This indicates a decrease in shareholders' funds and increasing dependence on external liabilities.

Table 4 Interest Coverage Ratio

Year	Ratio
2019-20	-1.26
2020-21	-1.21
2021-22	-0.71
2022-23	-0.72
2023-24	-0.25

Source: Secondary Data

The interest coverage ratio is positive but stays negative throughout the study period, indicating that earnings are not enough to pay interest. Although it has slightly improved over the years, the ratio still indicates poor solvency and financial distress. .

(C) Liquidity ratios

Table 5 Current Ratio

Year	Ratio
2019-20	0.44
2020-21	0.33
2021-22	0.34
2022-23	0.33
2023-24	0.29

Source: Secondary Data

The current ratio is below normal throughout the study period. A negative trend means that it is harder to pay off short-term debt obligations from the short-term assets.

Trend Analysis

Financial data can be analyzed over a variety of years and this is known as trend analysis. It assists with the recognition of debt changes, fund of shareholders, liabilities and assets to comprehend the monetary journey of the association.

Table 6 Trend Analysis for Total Assets

Year	Trend indices
2019-20	100
2020-21	93
2021-22	97
2022-23	95
2023-24	97

Source: Secondary Data

The total assets trend analysis indicates that the total assets fluctuated a little during the period under study. This means the organisation had nearly the same amount of assets, but not seen much growth.

Table 7 Trend Analysis for Current Liabilities

Year	Trend indices
2019-20	100
2020-21	104
2021-22	105
2022-23	116
2023-24	127

Source: Secondary Data

The amount of current liabilities is steadily increasing over the years. The trend is upward representing the growing short-term financial stress on the organization

Table 8 Trend Analysis for Shareholders' Funds

Year	Trend indices
2019-20	100
2020-21	118
2021-22	137
2022-23	159
2023-24	178

Source: Secondary Data

The values of the shareholders' funds are negative and growing during the study period. This indicates on-going deterioration in the capital base and lack of financial stability of the organization.

Altman Z-Score

Altman Z-Score is composed of five important financial ratios that are combined into a single score to estimate the likelihood of financial distress.

Table 9 Altman Z-Score Analysis

Year	Altman Z-Score	Zone Classification
2019-20	-0.71	Distress Zone
2020-21	-1.09	Distress Zone
2021-22	-1.01	Distress Zone
2022-23	-1.33	Distress Zone
2023-24	-1.71	Distress Zone

Source: Secondary Data

The Altman Z-Score reveals that Kerala SIDCO is in financial distress throughout the study period with all the scores being less than the safe level. The overall score is lower in 2023–24 (-1.71) than in 2019–20 (-0.71), representing a worsening financial position. There are slight fluctuations between, but it is always downward. This indicates continued financial stress and the need to strengthen financial stability indicators.

The Study's Results

Debt-Equity Ratio was improved gradually throughout the study period but the ratio was negative because of weak shareholders' funds.

The Debt Ratio had risen steadily since 2020, indicating a growing reliance on external sources for financing and a greater risk of debt.

Shareholders' contribution and financial strength decreased continuously with the Proprietary Ratio remaining negative throughout the study period.

Interest coverage ratio remained negative in each of the years, suggesting that the company's profit was not adequate to meet its interest payments.

The Current Ratio was less than the standard level and has been declining indicating poor short-term liquidity position.

The study of the trend of current liabilities showed that the current liabilities have increased steadily over the years and this has placed extra financial stress on the organisation.

The shareholder funds were negative throughout the study period that represents the deterioration of the financial stability and capital structure of the company.

The Altman Z-Score analysis further reveals that Kerala SIDCO is in financial distress zone throughout the study period which reveals high financial risk.

The overall findings from both ratio and Z-Score analysis are reflective of a weak capital structure and a high debt burden.

The study's suggestions are as follows:

The company should minimize the reliance on borrowings and work to increase the company's shareholders' funds.

To manage the growing financial risk due to the increasing liabilities, appropriate debt management practices can be adopted.

Improvement of profitability should be taken so that the negative shareholders' funds can be recovered little by little.

The organization should enhance its liquidity through keeping enough current assets to pay its short-term obligations.

Sufficient operating and financial control could improve the capacity to make interest payments.

It is important that current liabilities are carefully managed by appropriate financial planning and effective cash management.

It is necessary to monitor and review finances continuously in order to optimize the financial structure and ensure long-term financial stability.

The organization should make urgent efforts to enhance overall financial stability to exit distress.

In order to attain consistent improvement in the Z-Score, strong measures to enhance the profitability are required.

Conclusion

The study findings shows that Kerala SIDCO has still been playing a crucial role as a public sector organization to promote small scale industries but the financial status of Kerala SIDCO is not satisfactory in the stipulated period. The analysis reveals that the organization is increasingly dependent on borrowed funds, has negative shareholders' funds, and is in a poor liquidity position which in turn impacts on the financial stability of the organization. There is a slight improvement in some of the financial indicators, however, the overall capital structure shows financial pressure. The organization should aim to enhance its equity base, manage its liabilities, and at the same time, have better financial management practices to enhance its long-term stability.

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