

An Analysis of Capital Structure and Financial Sustainability of Kerala Automobiles Private Ltd.

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Abstract

This study examines the capital structure and sustainability of Kerala Automobiles Limited.. The research focuses on analyzing the company's debt-equity composition and its impact on financial stability and long-term sustainability. Secondary data collected from annual reports and financial statements were used for the analysis. The study evaluates important financial indicators such as debt ratio, equity ratio, profitability, and liquidity position. It also examines how the company managed its financial resources during changing economic conditions. The findings indicate that an effective capital structure plays a significant role in maintaining organizational sustainability. The study highlights the relationship between financial performance and sustainable growth of the company. The research provides insights into the challenges faced by Kerala Automobiles Limited in balancing debt and equity financing. Overall, the study concludes that a well-planned capital structure contributes positively to the long-term sustainability and operational efficiency of the company.

Keywords: Capital Structure, Sustainability, Debt-Equity Ratio, Financial Stability, Profitability, Liquidity

Introduction

Capital structure is one of the most critical financial decisions a firm must make, as it directly influences the firm's risk, return, and value. It refers to the mix of debt and equity used by a company to finance its operations and growth. Among the key factors influencing capital structure is leverage, which refers to the use of fixed-cost financing sources, particularly debt, to enhance the potential return to shareholders.

While leverage can magnify returns when managed well, it also increases financial risk, especially when the firm faces declining revenues or volatile market conditions. This study explores the impact of leverage on capital structure, aiming to understand how various forms of leverage — operating, financial, and combined — affect a company's financial strategy, performance, and long-term stability. Financial sustainability is essential because it ensures continuity and

stability in the face of challenges such as inflation, market fluctuations, or unexpected crises. For individuals, it provides financial security and independence; for businesses, it supports long-term profitability and competitiveness; and for governments, it helps maintain economic stability and public trust. Ultimately, financial sustainability is about making responsible financial choices today that secure a stable and prosperous future.

Review of the Literature

- Authors: Rana El Bahsh, Ali Alattar & Aziz N. Yusuf Year: 2018 This study examines the capital structure decisions of firms at firm, industry, and country levels. Using panel data from Jordanian listed firms, the research investigates how leverage decisions are shaped by profitability, tangibility, size, growth, and macroeconomic variables.
- Authors: Narinder Pal Singh & Mahima Bagga Year: 2019 The study has been undertaken to evaluate the effect of capital structure on the profitability of Nifty 50 companies listed on National Stock Exchange of India from 2008– 2017.
- Authors: Jelena Minović, Bojan Dimitrijević & Miloš Pjanić Year: 2022 The results of our work provide an innovative model for arriving at a company’s optimal capital structure based on the estimation of the effective cost of capital and the determination of the shares of new equity and long-term debt that will both minimize the overall cost of capital and maximize its value.
- Authors: Shobha Panchal & Subhash Chand Mehta Year: 2023 The study concludes that Indian manufacturing firms need to carefully balance their debt-equity mix to optimize financial performance, with industry- specific capital structure strategies being more appropriate than a uniform approach.

Research Gap

Most previous studies have concentrated more on profitability and financial performance, while insufficient emphasis has been placed on the impact of capital structure on sustainability, liquidity, and operational efficiency during changing economic conditions. Therefore, there is a need for a company-specific study analyzing the debt-equity composition and its role in ensuring the financial stability and sustainable growth of Kerala Automobiles Limited during the period 2019–2023.

Research Methodology

Research methodology is a way to systematically solve the research problems. It may be understood as a science of studying how research problem is. It may be understood as a science of studying how research is done scientifically. A detailed discussion is carried over with the methodology as part of the study. The quality of the project work will depend upon the methodology. The main strength of the report comes from the process earlier mentioned that of collecting, synthesizing and analyzing information which must have a bearing on the defined problem.

Objectives

- To understand the capital structure of Kerala Automobiles Limited
- To examine the proportion of debt and equity used by the company

Equity Ratio

The equity ratio is a financial metric that shows the proportion of a company’s assets financed by shareholders’ equity. A higher equity ratio indicates greater financial stability and lower dependence on debt, while a lower ratio suggests higher financial risk due to increased borrowing.

Table 1.1 Equity Ratio

Limitations

- The research is covered only to the past business financial performance of KAL
- Some of the data has not given by the organization due to maintenance of business financial secrecy.

Dataanalysis and Interpretation

- Ratio analysis
- Trend analysis

Formulas

Equity ratio=Total equity/total asset Debt Ratio = Total Asset/Total Liability

Debt – Equity Ratio = Long Term Debt/Shareholder’s fund

Trend analysis=current year/base year

Chart 1.1



Source: Annual Reports

The equity ratio values are negative throughout the period, indicating that the company has negative shareholders’ equity. This suggests that total liabilities exceed total assets, reflecting a serious financial imbalance. Although there is slight improvement in some years, the ratio remains highly unfavorable.

Debt Ratio

Debt refers to money borrowed by a company or individual that must be repaid over time, usually with interest. It is used to finance business operations, investments, or personal expenses. Debt can be short-term or long-term depending on the repayment period.

Debt Ratio Table 1.2

Year	Debt Ratio
2018-2019	5.69
2019-2020	6.00
2020-2021	5.22
2021-2022	5.45
2022-2023	5.40

Source: Annual Reports

Chart 1.2



The debt ratio remains fairly stable between 0.166 and 0.191 over the period. This indicates that around 16% to 19% of the company’s assets are financed by debt, showing low reliance on borrowing.

Debt Equity Ratio

This ratio makes an effort to quantify how long-term loans and shareholder funds are related. In other words, this ratio calculates the relative claims that long-term creditors and owners have against the company’s assets.

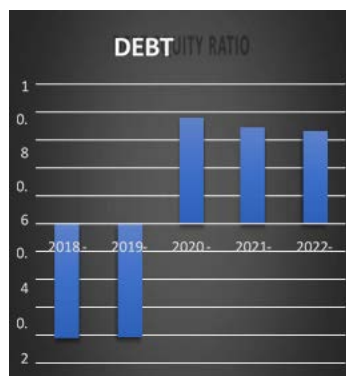
Debt-Equity Ratio

Table 1.3

Year	Debt Ratio
2018-2019	5.69
2019-2020	6.00
2020-2021	5.22
2021-2022	5.45
2022-2023	5.40

Source: Annual Reports

Chart 1.3



Trend Analysis

Trend analysis is a financial analysis technique used to study the movement and direction of financial data over a period of time. It helps identify whether a particular item such as sales, profit, debt, or assets is increasing, decreasing, or remaining stable. Trend analysis compares financial information of different years by taking one year as the base year and expressing other years as percentages of the base year.

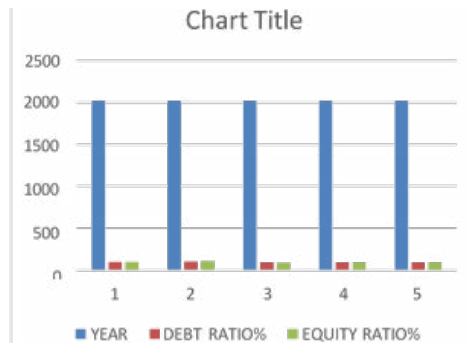
Trend Analysis Table 1.4

Year	Debt Ratio %	Equity Ratio %
2019	100.00	100.00
2020	105.44	106.60
2021	91.70	89.93
2022	95.74	94.83
2022	94.89	93.81

Source: Annual Reports

The debt–equity ratio remains mostly negative throughout the period due to consistently negative shareholders’ funds, indicating accumulated losses. This shows that the company’s liabilities exceed its equity, reflecting poor financial health and high risk.

Chart 1.4
Chart Title



The trend analysis reveals that the company depended more on debt financing than equity financing during the study period. The consistently high debt ratio and negative equity ratio indicate an unstable capital structure and increased financial risk.

Findings

- The company shows negative equity throughout 2019–2023, indicating accumulated losses. Debt-Equity ratio is negative, which reflects a weak financial structure.
- The firm depends more on debt financing due to lack of equity funds, situation indicates high financial risk and poor solvency position.
- The company has negative equity across all years, accumulated losses and weak net worth. The equity position is unstable, as it remains negative and continues to weaken across all years.
- Debt proportion is extremely high and unstable, showing heavy dependence on external borrowing. The capital structure is highly imbalanced, with debt far exceeding equity in all periods

Suggestions

- The company should try to improve equity base by issuing shares or retaining profits. Reduce dependency on debt to minimize financial risk.
- Maintain a balanced capital structure between debt and equity. Improve financial planning for long-term sustainability.
- The company should focus on improving equity position by reducing accumulated losses and increasing retained earnings
- Steps should be taken to control and gradually reduce excessive debt levels to avoid financial risk
- Improve profitability and operational efficiency to rebuild a stable capital base

Conclusion

The study on the capital structure and sustainability of Kerala Automobiles Limited highlights the importance of maintaining a balanced mix of equity and debt for achieving financial stability and long-term growth. The company largely depends on equity capital and government support, which provides financial security and reduces financial risk.

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