

Capital Structure Dynamics: Theoretical Insights and Financial Implications in the Indian Financial Services Sector

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Abstract—The capital structure of a business, or the proportion of borrowing to stock used for funding its activities and expansion, is crucial to determining its level of financial security and profitability. The research explores core concepts related to capital structure, including leverage and financial risk. Additionally, it reviews literature on how capital structure decisions affect financial performance, with a focus on firms within the financial services industry and the Indian market. The study employs a mixed-methods approach, incorporating both qualitative and quantitative analyses. Data collection includes Profits per Share (EPS), Return on Equity (ROE), Return on Assets (ROA), and the cost-to-income ratio are among the important financial indicators that are looked at in connection with the business performance. The study identifies both achievements and areas for improvement, providing actionable recommendations to fortify the company's financial position and facilitate its growth.

Index Terms—Capital Structure, Leverage, financial risk, Profits per Share (EPS), Return on Equity (ROE), Return on Assets (ROA).

I. INTRODUCTION

Capital structure refers to how a company funds its activities and growth by mixing borrowed money, like loans or bonds, with money from investors, like typical the way an organization and preferred stocks. In simpler words, it's the way a company balances the money it borrows with the money it raises from its shareholders.

This mix is important because it affects the company's risk level, the price of raising money and the total worth of its business.

Companies must carefully choose the right blend of obligation and value. This includes gauging the benefits of obligation, similar to burden reserve funds

from interest installments, against the dangers, like possible monetary hardships in the event that the organization faces difficulties in reimbursing what it owes.

II. LITERATURE REVIEW

1. Patel, A., & Mehta, R. (2024). India's Financial Sector in Corporate Governance and Capital Structure. The article investigates the role of corporate governance in shaping capital structure decisions in India's financial sector.
2. Chatterjee, D., and Ghosh, S (2024). A Panel Data Analysis: Capital Structure Dynamics in Indian Financial Services. The paper uses panel data to explore the dynamics of capital structure in the banking sector in the country.
2. Shah, N., & Joshi, H (2024). Indian Financial Services Decisions in Fin Tech Innovations and Capital Structure. This paper explores the effects may Fin Tech innovations regarding choices for the capital layout within the Indian financial sector.
3. Roy, P., & Chakraborty, M (2024). Cost of Capital and Capital Structure in Indian Financial Services Industry. This article investigates the relationship between capital structure and the cost of capital in the Indian financial services industry.
4. Banerjee, P., & Gupta, N (2024). Leverage, Liquidity, and Capital Structure: A Study of Indian NBFCs. This study examines the relationship between leverage, liquidity, and capital structure in Indian NBFCs.

III. NEED FOR THE STUDY:

1. Strategic Financial Insights: Examining capital structure is essential for understanding how its mix development and reliability of operations are impacted by the proportion of borrowing to ownership. This examination will clarify how strategic financial decisions impact the company's overall performance.

2. Addressing Research Gaps:

Currently, there is an absence of detailed research focused specifically on capital structure. This study aims to fill that gap by providing fresh insights and a comprehensive look at how the company's financial strategies influence its performance.

3. Supporting Investors and Stakeholders:

Investors, analysts, and management need clear information on how capital structure impacts financial health and risk. This research will provide useful data that can guide informed decision-making and strategic planning.

4. Navigating Market Changes:

The financial services industry is constantly evolving. Understanding how capital structure affects its competitive position will help the company adapt its strategies to stay relevant amid changing market dynamics and regulatory shifts.

5. Contributing to Academic Knowledge:

By delving into capital structure, this research will support the broader academic understanding of financial strategies in the financial services sector, providing a helpful contextual investigation for future research.

IV. OBJECTIVES

1. To analyze the capital structure of Financial Service sector.
2. To calculate ratios and performance trend analysis of Financial Service Sector
3. To evaluate the effectiveness of operations of Financial Service Sector.

V. SOURCES OF DATA:

Secondary data will be utilized to assess the obligation proportion and the variables influencing capital construction. For this review, capital construction is characterized as the proportion of all out obligation to add up to resources at book esteem, which will act as the reliant variable. We'll quantify this utilizing the all obligation to-add up to resources proportion since it

offers understanding into how the firm oversees both present moment and long-haul obligation. Notwithstanding the bank's records, we'll gather information from sources, for example, banking bulletins, websites, newspapers, annual reports, Money control, and various journals.

A. Sampling Data:

Secondary sources,

- Company records
- Annual reports
- Internet

B. Data analysis:

- Trend Percentage Analysis
- Ratio Analysis

VI. LIMITATIONS OF THE STUDY:

1. Data Availability:

This study relies on secondary data, which might be outdated or incomplete, possibly affecting the accuracy of the results.

2. Accuracy of Reporting:

The financial reports and external sources used may vary in accuracy and may not always reflect service sectors most recent might overlook several crucial facets related to performance and financial wellness, like financial situation or capital structure.

3. Scope Limitations:

By focusing primarily on capital structure, the study operational efficiency or market conditions.

4. Challenges in Comparison:

Comparing service sector's capital structure with industry peers can be challenging due to differences in reporting practices and financial standards.

5. Subjectivity in Analysis:

The interpretation of financial ratios and trends may be subjective and influenced by the chosen methodologies and analytical approaches.

6. External Influences:

The study might not fully consider external factors, like economic shifts or regulatory changes that could impact service sector's capital structure and financial performance.

VII. DATA ANALYSIS AND INTERPRETATION

A. Ratio Analysis:

Proportion examination is a method for understanding how an organization is doing monetarily by checking out and looking at changed numbers from its monetary reports. It includes computing and deciphering monetary proportions, which are basic examinations between two related figures in the fiscal reports. This assists with giving a clearer picture of the company’s overall health and performance.

1. EPS (Earning per share):

Earnings Per Share (EPS) indicates the earnings a business makes on each share of its common stock. It's a key figure that helps investors understand how profitable a company is and how well it's performing overall.

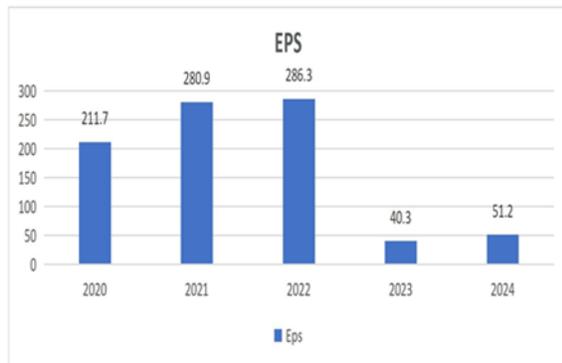
Formula:

$$EPS = \text{Net Income} / \text{Number of Outstanding Shares}$$

Table: 1.1 EPS

Years	EPS (Rs Cr)
2020	211.7
2021	280.9
2022	286.3
2023	40.3
2024	51.2

Chart: 1.1 EPS



B. Interpretation:

Between 2020 and 2022, the company's EPS increased consistently, reaching a high of ₹286.3 crore. However, in 2023, EPS fell sharply to ₹40.3 crore, and while it did rise to ₹51.2 crore in 2024, it remains below the earlier peak.

1. Net Profit Ratio:

Using the total income proportion, you can see how much company’s revenue actually turns into profit after covering all its expenses, including operating costs, interest, and taxes, It tells us how well an organization is managing its costs and how efficiently it’s running its business.

Formula:

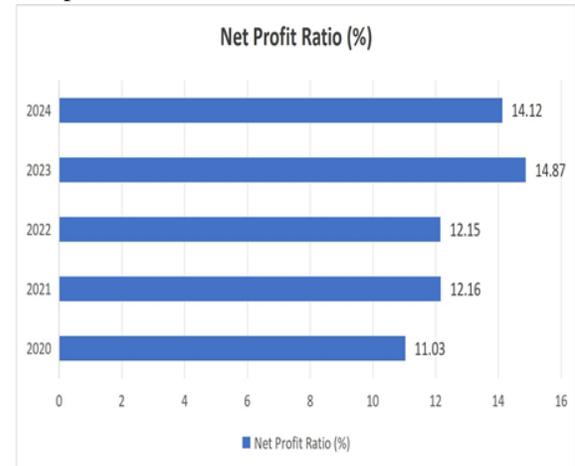
$$\text{Net Profit Ratio} = \text{Net Profit} / \text{Total Revenue} * 100$$

Table: 1.2. Net Profit Ratio

Year	Net Profit	Revenue	Net Profit Ratio (%)
2020	5992	54346	11.03
2021	7367	60591	12.16
2022	8313	68406	12.15
2023	12208	82071	14.87
2024	15587	110381	14.12

Chart: 1. NPR

Interpretation:



The net profit percentage of the business remained stable from 2020 to 2022, fluctuating between 11.03% and 12.16%. It saw a notable rise to 14.87% in 2023, signaling improved profitability. However, it slightly declined to 14.12% in 2024, indicating strong profitability but a minor reduction.

2. Return on Equity:

Return on value (ROE) is a metric that uncovers how really an organization is using the assets contributed by its shareholders to create benefit. As such, it demonstrates how much profit generated for each rupees of equity invested by shareholders.

Formula:

$$ROE = \text{Net Income} / \text{Shareholder's Equity} * 100$$

Table: 3. Return on Equity

Years	ROE (Rs Cr)
2020	10.76
2021	12.47
2022	11.32
2023	11.82
2024	13.5

Chart: 3. Return on Equity



Interpretation:

The company's return on equity (ROE) rose from ₹10.76 crore in 2020 to ₹12.47 crore in 2021, then experienced a slight drop to ₹11.32 crore in 2022. However, ROE surged to ₹13.82 crore in 2023 and held steady at ₹13.5 crore in 2024, indicating robust and stable performance.

C. Cost to Income Ratio:

The cost to pay proportion is a monetary measurement utilized for the most part in banking and monetary businesses to assess how effectively organization works. It estimates the extent of a company's pay that goes towards working costs, giving knowledge into how much costs to generate each rupee of income.

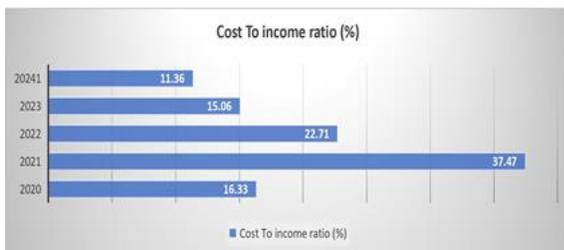
Formula:

Cost to income ratio: $\text{Operating expenses} / \text{Operating Income} * 100$

Table 4: Cost to income ratio

Year	Operating Expenses (Rs.CR)	Operating Income (Rs.CR)	Cost to Income Ratio (%)
2020	133.28	815.16	16.33
2021	146.93	392.03	37.47
2022	165.78	729.00	22.71
2023	172.99	1147.61	15.06
2024	196.99	1733.91	11.36

Chart: 4.1.4: Cost to income ratio



Interpretation:

The company's cost-to-income ratio jumped from 16.33% in 2020 to 37.47% in 2021, indicating higher

costs in connection to earnings. Still, the business was able to deliver this ratio down to 22.71% in 2022, then improved it further to 15.06% in 2023, and finally achieved a strong 11.36% in 2024. This progression highlights a notable improvement in how efficiently the company is managing its costs.

1. Return on Assets (ROA) Ratio:

The Return on Assets (ROA) ratio shows how well an organization is utilizing its assets to make a profit.

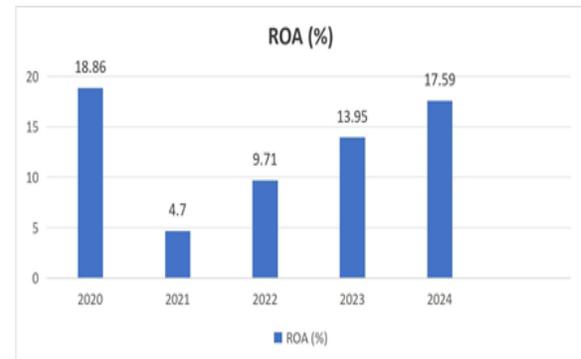
Formula:

$\text{ROA} = \text{Net Income} / \text{Total asset} * 100$

Table: 5.ROA

Years	ROA (Rs Cr)
2020	18.86
2021	4.7
2022	9.71
2023	13.95
2024	17.59

Chart: 5: ROA



Interpretation:

The company's return on assets (ROA) took a significant hit, dropping from 18.86% in 2020 to 4.70% in 2021, which suggested a decline in how well assets were being used. Since then, there's been a noticeable turnaround, with ROA rising to 9.71% in 2022, climbing to 13.95% in 2023, and reaching a strong 17.59% in 2024. This improvement shows a successful recovery and better efficiency in making the most of its assets.

2. The present ratio:

This measure assesses how well a business can fulfill its immediate obligations. Liabilities using its short-term assets. It provides insight into the company's overall liquidity and its ability to cover immediate financial obligations.

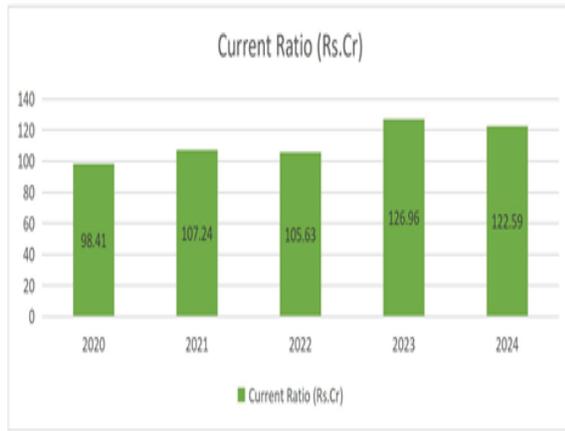
Formula:

$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$

Table: 6. Current Ratio

Year	Current Assets Rs. Cr	Current Liability Rs. Cr	Current Ratio
2020	3406.92	34.62	98.41
2021	3658.01	34.11	107.24
2022	4272.64	40.45	105.63
2023	5146.88	40.54	126.96
2024	6475.17	52.82	122.59

Chart: 6. Current Ratio



Interpretation:

The company's current ratio improved from 98.41 in 2020 to 107.24 in 2021, reflecting better liquidity. It remained stable at 105.63 in 2022, rose to 126.96 in 2023, and then eased to 122.59 in 2024. Overall, this shows a solid ability to cover short-term debts with short-term assets.

1. A percentage representing the profit

The return on capital employed (ROCE) is a financial measure that helps us understand how well company is using its capital to generate profits. It essentially tells us how much return the company is getting from the money it has invested, including both what it owns (equity) and what it has borrowed (Debt).

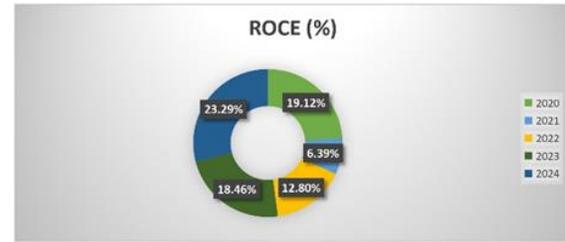
Formula:

$$ROCE = EBIT / \text{Capital Employed} * 100$$

Table: 7. ROCE

Years	ROCE (%)
2020	19.12
2021	6.39
2022	12.80
2023	18.46
2024	23.29

Chart: 7. ROCE



Interpretation:

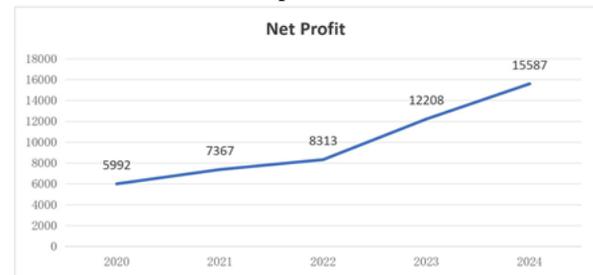
The company's return on capital employed (ROCE) fell from 19.12% in 2020 to 6.39% in 2021, showing a decline in capital efficiency. However, it rebounded to 12.80% in 2022, rose to 18.46% in 2023, and reached 23.29% in 2024. This positive trend indicates a significant recovery and improved capital utilization.

2. Trend Analysis:

Table: 2.1. Showing trend for net profit from 2020-2024

Year	X	Y (Net Profit)	XY	X ²
2020	1	5992	5992	1
2021	2	7367	14734	4
2022	3	8313	24939	9
2023	4	12208	48832	16
2024	5	15587	77935	25
Total	15	49467	172432	55

Chart: 2.2. Trend for net profit from 2020-2024



Sales over the following five years:

1. 2025

$$Y = a + bx$$

$$= 2684.1 + 2403.1(6)$$

$$= 17102.7$$

2. 2026

$$Y = a + bx$$

$$= 2684.1 + 2403.1(7)$$

$$= 19505.8$$

3. 2027

$$Y = a + bx$$

$$= 2684.1 + 2403.1(8)$$

$$= 21908.9$$

4. 2028

$$Y = a + bx$$

$$= 2684.1 + 2403.1(9)$$

$$= 24312$$

5. 2029

$$Y = a + bx$$

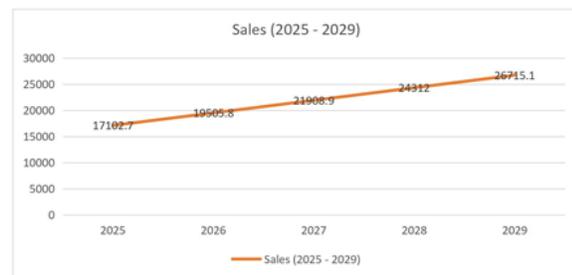
$$= 2684.1 + 2403.1(10)$$

$$= 26715.1$$

Table: 2.2. Showing estimated sales for 2025-2029:

Year	Estimated Sales
2025	171012.7
2026	19505.8
2027	21908.9
2028	24312
2029	26715.1

Chart: 2.2. Estimated Sales 2025-2029



Interpretation:

Sales are forecasted to grow steadily over the next five years. Beginning at ₹171,012.7 crore in 2025, sales are anticipated to climb to ₹19,505.8 crore in 2026, ₹21,908.9 crore in 2027, ₹24,312 crore in 2028, and ₹26,715.1 crore by 2029. This pattern indicates a consistent upward trend in revenue.

VIII. FINDINGS

1. The company’s EPS grew impressively from 2020 to 2022, peaking at ₹286.3 crore. However, it faced a dramatic drop to ₹40.3 crore in 2023, signaling significant issues. Although EPS bounced back to ₹51.2 crore in 2024, it has yet to reach the highs seen earlier.
2. From 2020 to 2022, the net profit ratio remained reasonably constant, spanning between 11.03% to 12.16%. It jumped to 14.87% in 2023, showing

improved profitability. Despite a slight dip to 14.12% in 2024, the ratio still indicates strong overall profitability.

3. ROE grew from ₹10.76 crore in 2020 to ₹12.47 crore in 2021, but then dipped to ₹11.32 crore in 2022. It saw a strong rebound to ₹13.82 crore in 2023 and remained solid at ₹13.5 crore in 2024, reflecting a steady and effective use of shareholders' equity.
4. The cost-to-income ratio rose sharply from 16.33% in 2020 to 37.47% in 2021, indicating rising costs. However, it improved significantly to 22.71% in 2022, then to 15.06% in 2023, and reached a strong 11.36% in 2024, showing better cost control and efficiency.
5. ROA dropped markedly from 18.86% in 2020 to 4.70% in 2021, highlighting a decline in asset efficiency. Since then, it has seen a significant turnaround, rising to 9.71% in 2022, 13.95% in 2023, and 17.59% in 2024, demonstrating a successful recovery in asset utilization.
6. The current ratio improved from 98.41 in 2020 to 107.24 in 2021, indicating better liquidity. It remained relatively stable at 105.63 in 2022, rose to 126.96 in 2023, and slightly decreased to 122.59 in 2024, showing a strong capacity to cover short-term liabilities.
7. ROCE fell from 19.12% in 2020 to 6.39% in 2021, suggesting reduced efficiency in using capital. It then recovered to 12.80% in 2022, climbed to 18.46% in 2023, and reached 23.29% in 2024, indicating a strong recovery and improved capital use.
8. Sales are projected to grow consistently over the next five years, starting at ₹171,012.7 crore in 2025 and rising to ₹26,715.1 crore by 2029. This steady increase suggests a positive outlook for revenue growth.

CONCLUSION

The study of Service Sector's capital structure reveals a complex financial landscape characterized by significant volatility and recovery. The company experienced notable fluctuations in earnings per share (EPS) and return on assets (ROA), reflecting periods of challenge and adjustment. However, improvements in key financial metrics, such as cost management, return on capital employed (ROCE), and sales growth, underscore a positive shift in performance. Service Sector has demonstrated effective management of its capital structure, with strategic

enhancements in liquidity and capital utilization contributing to a stronger financial position. The substantial recovery in ROCE and significant reduction in the cost-to-income ratio highlight the company's successful efforts to optimize operational efficiency and financial stability.

Overall, while the company faced initial setbacks, its proactive measures and improved financial metrics indicate a strong basis for upcoming expansion. The upward trajectory in sales projections further supports the optimism for sustained positive performance and strategic development in the years ahead.

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