Does Capital Structure Influence Profitability of the Company?

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Abstract—**Capital structure is a combination of equity and debt. The primary objective of the study was to find the association between capital structure and profitability. 6 fintech companies were taken for the study. The period of the study was 2019 to 2023. Descriptive statistics and Correlation analysis were used to measure the association between capital structure and profitability. The result of the study was there is no significant relationship between capital structure and profitability.**

Index Terms—**Capital Structure, Profitability, Debt to Capital Return on Capital Employed.**

I. INTRODUCTION

[Font: Times New Roman, Size:10] Fintech is the mashup of technology and finance. It describes how technology is used to provide customers with financial services and goods. In 2022, India's second-most-funded startup sector was the fintech industry. In terms of funds and strength, the Indian fintech sector is one of the fastest growing in the world and ranks third in size. Capital is fund used in business for their operation, it can either equity or debt. Capital structure is a combination equity and debt. Debts are cheaper instruments compared to equity instruments. Capital structure decisions is a important for business, this decisions decides the optimal capital structure.Company prioritises internal funding over external funding (Pecking order theory). A high level of debt results in significant interest payments, which reduces the firm's profit. On the plus side, debt provides a tax benefit. Debt holders receive the interest and equity holders receive the dividend or capital gain as a benefit. Profitability measures the ability of the firms in generating profit. The primary objective of the capital structure decision was to minimize the cost of capital and maximize the shareholders values.

II. REVIEW OF LITERATURE

Velnampy, T. D., & Niresh, J. A. (2012), studied about the relationship between capital structure and profitability. The result of the study was negative relationship between capital structure and profitability except relationship between debt- equity and return on equity. Monga, R., & Kahndelwal, V. (2018), analysed the impact of capital structure on profitability with special reference to telecom sector in india. The results of the analysis was negative relation between capital structure and profitability except the relation between capital structure and gross profit. Mazumder, D. B. (2017), analysed the impact of capital structure on profitability of listed indian infrastructure companies. The conclusion of the study was mixed results on association between capital structure and profitability. Prabhakara T & DR. B Bakkappa. (2018), was studied about the impact of capital structure on profitability of selected cement industry in india. The results of the study firms should reduce their debt ratio so that they can increase the profitability.

Riaz, S. (2015), studied the impact of capital structure on firm financial performance analysis of chemical sector Pakistan. The results were total debt ratio and short-term debt to total asset has significant negative influence on financial performance and relationship between return on asset and time interest earned ratio has significantly positive. Debt-equity and long-term debt to total asset was negative but insignificant influence on return on asset.

III. OBJECTIVES FOR THE STUDY

The primary objectives of the study were to find the relationship between capital structure and profitability of select fintech companies.

1. To know the Debt to Total capital of select Fintech companies.
2. To measure profitability of Fintech companies.
3. To measure the impact of Debt to Capital ratio on profitability of select Fintech companies.

IV. RESEARCH METHODOLOGY

Sample data was collected form screener and annual report of the companies. The study uses secondary data for research. The period of study was 2020 to 2024. Descriptive statistics and Correlation analysis were used to analyze the data. Samples were selected based on the market capitalization and revenue of the companies. Out of 10 companies 6 companies were taken for the study and 4 companies are excluded due to non-availability of data. List of the companies are: OnMobile global limited, Kotak Mahindra Bank Limited, Intellect design arena limited, Bajaj finance limited, Tanla platforms limited and Central Depository service (india) limited.

V. HYPOTHESIS

H_1: There is a no relationship between Debt to Capital and Net profit ratio.
H_2: There is a no relationship between Debt to Capital and Return on Asset.
H_3: There is a no relationship between Debt to Capital and Return on Capital Employed.
H_4: There is no relationship between Debt to Capital and Return on Equity.

VI. ANALYSIS & INTERPRETATION

Company Name	Mean	S.D	Max	Min	C.V
BFL	80.20%	2.10%	83.80%	78.10%	2.70%
KMBL	80.80%	2.30%	83.40%	78.90%	2.80%
CDSL	0.05%	0.08%	0.19%	0.00%	161.80%
TAN	3.60%	3.00%	7.70%	0.50%	84.80%
OGL	1.60%	1.30%	3.50%	0.00%	83.80%
IDA	8.40%	8.90%	22.30%	1.10%	105.90%

Table No.1: Debt to Total Capital

Table No.1 shows that amount of debt held by the companies compared to total capital. The means value of Bajaj finance and Kotak Mahindra Bank limited was 80.2% and 80.8%. Standard deviation of intellect design arena limited was high, it shows that often company changes their capital structure. Coefficient of variation of Bajaj finance was 2.7%, since it was lesser than other companies. It concluded that Bajaj finance was more consistent.

Table No: 2 depicts that profit earned by companies compared with sales. The mean value of the CDSL was high (54.4%) and Onmobile global limited was low (4.8%). Standard deviation of Tanla platforms was 11.6%. Coefficient of variation of CDSL was 8.1%, it indicates that CDSL was more consistently earned the profit.

Company Name	Mean	S.D	Max	Min	C.V
BFL	21.6%	4.1%	27.8%	16.6%	18.9%
KMBL	30.3%	5.4%	35.8%	24.1%	17.8%
CDSL	54.4%	4.4%	58.3%	49.5%	8.1%
TAN	7.5%	11.6%	16.8%	-10.9%	154.8%
OGL	4.8%	2.7%	8.3%	1.3%	56.9%
IDA	11.7%	7.1%	18.6%	1.2%	60.5%

Table No.2: Net profit ratio

Company Name	Mean	S.D	Max	Min	C.V
BFL	10.0%	0.7%	10.5%	9.2%	6.6%
KMBL	1.5%	1.0%	2.5%	0.6%	63.2%
CDSL	18.6%	6.8%	27.6%	10.3%	36.2%
TAN	21.0%	8.7%	29.5%	8.7%	41.2%
OGL	4.4%	2.1%	7.3%	1.5%	48.3%

| IDA | 12.7% | 6.3% | 18.3% | 4.0% | 49.7% |

Table No.3: Return on Asset

Table No: 3 shows that how much of amount of return they generate by using their asset effectively. The mean value of Tanla platforms and CDSL was 21% and 18.6%. Standard deviation of Tanla platforms and CDSL was 8.7% and 6.8%. Coefficient of variation of Bajaj finance was 6.6%, it concluded that Bajaj finance was more consistently using their asset effectively.

Company Name	Mean	S.D	Max	Min	C.V
BFL	10.0%	0.7%	10.5%	9.2%	6.6%
KMBL	1.5%	1.0%	2.5%	0.6%	63.2%
CDSL	18.6%	6.8%	27.6%	10.3%	36.2%
TAN	21.0%	8.7%	29.5%	8.7%	41.2%
OGL	4.4%	2.1%	7.3%	1.5%	48.3%
IDA	12.7%	6.3%	18.3%	4.0%	49.7%

Table No.4: Return on Capital Employed

Table No: 4 shows that how much amount of return generated on total capital, i.e., equity and debt. The mean value of Tanla platforms and CDSL was 34.8% and 22.5% Standard deviation of Tanla platforms was high (15.7%) compared to other companies. Coefficient of variation of Bajaj finance was 6.6%, it indicates that Bajaj finance was more consistently generate return from the total capital.

Company Name	Mean	S.D	Max	Min	C.V
BFL	10.0%	0.7%	10.5%	9.2%	6.6%
KMBL	1.5%	1.0%	2.5%	0.6%	63.2%
CDSL	18.6%	6.8%	27.6%	10.3%	36.2%
TAN	21.0%	8.7%	29.5%	8.7%	41.2%
OGL	4.4%	2.1%	7.3%	1.5%	48.3%
IDA	12.7%	6.3%	18.3%	4.0%	49.7%

Table No.5: Return on Equity

		Net Profit Ratio	Return on Asset	Return on Capital Employed	Return on Equity	Debt to Capital
Net Profit Ratio	Pearson Correlation	1	.255	.094	.515**	.124
	Sig. (2-tailed)		.174	.621	.004	.514
	N	30	30	30	30	30
Return on Asset	Pearson Correlation	.255	1	.966**	.579**	-.502**
	Sig. (2-tailed)	.174		.000	.001	.005
	N	30	30	30	30	30
Return on Capital Employed	Pearson Correlation	.094	.966**	1	.556**	-.525**
	Sig. (2-tailed)	.621	.000		.001	.003
	N	30	30	30	30	30
Return on Equity	Pearson Correlation	.515**	.579**	.556**	1	.020
	Sig. (2-tailed)	.004	.001	.001		.916
	N	30	30	30	30	30
Debt to Capital	Pearson Correlation	.124	-.502**	-.525**	.020	1
	Sig. (2-tailed)	.514	.005	.003	.916	
	N	30	30	30	30	30
**. Correlation is significant at the 0.01 level (2-tailed).						

Table No: 5 shows that how amount return generated from amount of equity invested. The mean value of CDSL and Bajaj finance was 21.1% and 17.2%. Standard deviation of Tanla platforms was 30%, it indicates that high fluctuations in return. Coefficient of variation of Kotak Mahindra bank limited was 4.4%, since it was lesser than other companies, then it concluded that Kotak Mahindra bank was more consistent in creating return on equity.

Correlation measures the association between the two variables. Debt to Capital which shows moderate degree of negative correlation with return on asset (-0.502) and return on capital employed (-0.525). Debt to Capital low positive correlation with net profit ratio (0.124) and return on equity (0.20). There is no significant association between Debt to Capital and Net profit ratio, Return on Asset, Return on Capital Employed and Return on Equity.

VII. CONCLUSION

The study concluded that there is no significant relationship between the Debt to Capital and Net profit ratio, Return on Asset, Return on Capital Employed and Return on Equity. There is no impact of capital structure on profitability.

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