

CHAPTER III

ANALYSIS OF THE COMPONENTS OF CAPITAL STRUCTURE OF SELECTED SERVICES SECTOR INDUSTRIES IN INDIA

Introduction

This chapter has been devoted to analyse the components of capital structure and the contribution of each component towards the total funds of the industry. The industry wise analysis of the components of capital structure for all the selected industries is done and the results of the same have been discussed in this chapter.

The two principal sources of long-term finance for a business firm are equity capital and debt capital. The term capital structure is used to represent the proportionate relationship between debt and equity. As a general rule, there should be an appropriate mix of debt and owners' equity in financing the firms' assets. The short-term creditors are more concerned with the firm's current debt-paying ability. On the other hand, long-term creditors are more concerned with the firm's long-term financial position. The owners' equity is treated as a margin of safety by creditors; if the equity base is thin, the creditors risk will be high. The relationship describing the lenders' contribution for each rupee of the owners' contribution is called debt-equity ratio (I.M.Pandey, 1999)¹²³.

The equity component of capital structure includes, paid up equity shares, paid up preference shares and reserves and surplus. The debt component of the capital structure includes, all the secured and non secured long term as well as short term borrowings of the firm for this study. The short term borrowings are included in the debt component on the ground that they are also important determinants of the firm's financial risk since they represent obligations and exert pressure on the firm and restrict its activities.

The total values of all the elements of debt and equity components of selected companies have been taken as total funds for the respective industry in this study. The contribution of each element of debt and equity components to the total funds has

¹²³ Pandey, I M, (1999), "*Financial Management*", 8th Edition, Vikas Publications, New Delhi.

been studied. All the components were analysed industry wise during the period of 1995-96 to 2009-10 using the descriptive statistics including mean, standard deviation and coefficient of variation. In addition to that to understand the growth rate of each source of debt and equity component, the Compound Annual Growth Rate (CAGR) has been calculated and depicted in the same table for discussion.

A. Analysis of Equity Share Capital of Selected Services Sector Industries in India

The contribution of equity share capital of each industry of services sector in India towards their total funds has been analysed and displayed in the table 3.

Table 3 explains the contribution of paid up equity capital of each industry towards their total fund requirements. All the companies of all the selected industries for the study represent the services sector. The contribution by the equity share capital towards total funds of the services sector is only 3.09 percent, which is very less. The percentage of contribution by the equity share capital towards the total funds is varying widely from industry to industry. A low percentage of 1.24 is there in the asset financing services industry, followed by banking services with 2.25 percent. A high percentage of 36.89 is found in fee based financial services industry, followed by health services with 12.08 percent. Except fee based financial services, all other services sectors industries in India have less contribution by equity shares towards their total funds. The CV and CAGR of equity share capital of fee based financial services industry are comparatively less. It suggests that this industry follows a stable policy on the equity share capital.

The variation in the equity share capital of industries is measured by coefficient of variation (CV). It is found from the analysis that the variations of CV among the industries are high. A highest variation of 78.10% is recorded in the Recreational Services industry and a low variation of 15.00 is found in Wholesale & Retail Trading. High variations of equity share capital have been recorded in services sector in India. Similarly, in the industries, namely, asset financing services, banking services, information and technology, and recreational services the variations of equity capital is high.

Table -3**Analysis of Equity Share Capital of Selected Services Sector Industries in India**

Nature of Industry	Number of Companies	Total Funds (Rs. In Crores)	Equity Share Capital (Rs. In Crores)	% age of Equity Share Capital to Total Funds	Mean - Equity Share Capital (Rs. In Crores)	S.D	C.V%	CAGR (%)
Services Sector (All Industries)	260	160438.2	4963.4	3.09	19.09	7.84	41.05	9.39
Asset Financing Services	34	47472.5	589.9	1.24	17.35	7.16	41.27	9.34
Banking Services	13	64564.76	1449.89	2.25	111.53	71.84	64.41	15.50
Fee Based Financial Services	17	204.17	75.31	36.89	4.43	0.91	20.52	4.59
Health Services	09	615.33	74.34	12.08	8.26	2.50	30.22	6.79
Hotels & Tourism	23	6196.2	325.22	5.25	14.14	2.63	18.60	4.13
Information and Technology	45	12754.35	670.05	5.25	14.89	9.82	65.93	16.17
Investment Services	31	11510.61	515.53	4.48	16.63	2.54	15.30	2.93
Recreational Services	08	2449.44	168.64	6.88	21.08	16.46	78.10	16.36
Transport Services	14	8852.76	691.46	7.81	49.39	11.17	22.62	4.41
Wholesale & Retail Trading	66	5817.24	403.26	6.93	6.11	0.92	15.00	3.15

Source: Computed. Period: 1995-96 -2009-10.

The growth rate of equity share capital of selected service sector industries in India have been calculated by using Compounded Annual Growth Rate (CAGR). The analysis of CAGR of the selected service sector industries reveals that there are 7 industries with less than 10% CAGR and 3 industries with more than 10% CAGR. A highest CAGR of 16.36% is found in Recreational Services and a lowest CAGR of 3.15 is recorded in Wholesale and Retail Trading sector. The industries with high CVs also have high CAGR. It reveals that the variations in equity capital are due to the increase in the equity share capital over the study period.

From the analysis of equity share capital of selected service sector industries in India, it is learnt that a very less percentage of contribution is there towards the total funds by this particular source of fund. The variations are high in some industries where the growth rate of equity capital of these industries is also comparatively high. It suggests that these industries are increasing their equity share capital during the period of the study. There is no execution of stable policy of equity share capital in

the services sector industries in India. However, it can be inferred that the service sector industries in India are not using equity share capital as their main source of fund.

B. Analysis of Preference Share Capital of Selected Services Sector Industries in India

The contribution of preference share capital of each industry of services sector in India towards their total funds has been analysed and displayed in the table 4.

Table 4 explains the contribution of preference share capital of each industry towards their total fund requirements. All the companies of all the selected industries for the study represent the services sector. The contribution by the preference share capital towards total funds of the services sector is only 0.27 percent, which is a meager percentage. The percentage of contribution by the preference share capital towards the total funds is not at all varying widely from industry to industry, because of very less contribution by preference share capital in all the industries. A low percentage of 0.02 is observed in the recreational services industry, followed by health services and investment services with 0.06 percent. A high percentage of 1.83 is found in fee based financial services industry, followed by hotel & tourism services with 1.16 percent. In all the services industries in India, the contribution by preference shares towards their total funds is minuscule.

The variation in the preference share capital of industries is measured by coefficient of variation (CV). It is found from the analysis that the variations of CV among the industries are low, but the CV of preference shares of all the industries is very high. A highest variation of 281.27% is recorded in the health services industry and a low variation of 68.01 is found in wholesale & retail trading. At the same time, the CV of services sector is less than the individual industries. The growth rate of preference share capital of selected service sector industries could not be computed as the series contains non-positive values.

Table -4
Analysis of Preference Share Capital of Selected Services Sector Industries
in India

Nature of Industry	Number of Companies	Total Funds (Rs. In Crores)	Preference Share Capital (Rs. In Crores)	% age of Preference Share Capital to Total Funds	Mean - Preference Share Capital (Rs. In Crores)	S.D	C.V%
Services Sector (All Industries)	260	160438.2	436.8	0.27	1.68	0.88	52.34
Asset Financing Services	34	47472.5	64.94	0.14	1.91	2.14	112.13
Banking Services	13	64564.76	163.28	0.25	12.56	13.90	110.66
Fee Based Financial Services	17	204.17	3.74	1.83	0.22	0.37	168.33
Health Services	09	615.33	0.36	0.06	0.04	0.13	281.27
Hotels & Tourism	23	6196.2	71.99	1.16	3.13	2.86	91.52
Information and Technology	45	12754.35	28.35	0.22	0.63	0.91	144.33
Investment Services	31	11510.61	7.44	0.06	0.24	0.36	152.89
Recreational Services	08	2449.44	0.48	0.02	0.06	0.16	266.72
Transport Services	14	8852.76	67.06	0.76	4.79	3.96	82.70
Wholesale & Retail Trading	66	5817.24	30.36	0.52	0.46	0.31	68.01

Source: Computed. Period: 1995-96 -2009-10.

From the analysis of preference share capital of selected service sector industries in India, it is inferred that a meager percentage of contribution is there towards the total funds by this particular source of fund. Moreover, very high variations are observed through CV, which suggests that an instable policy on preference share capital has been followed in the services sector in India during the period of study.

C. Analysis of Reserves and Surplus of Selected Services Sector Industries in India

The contribution by the reserve fund of each industry of services sector in India towards their total funds has been analysed and displayed in the table 5.

Table -5

Analysis of Reserves and Surplus of Selected Services Sector Industries in India

Nature of Industry	Number of Companies	Total Funds (Rs. In Crores)	Reserves and Surplus (Rs. In Crores)	% age of Reserves and Surplus to Total Funds	Mean - Reserves and Surplus (Rs. In Crores)	S.D	C.V%	CAGR (%)
Services Sector (All Industries)	260	160438.2	56690.4	35.33	218.04	210.24	96.42	23.67
Asset Financing Services	34	47472.5	5765.72	12.15	169.58	162.66	95.92	18.64
Banking Services	13	64564.76	20849.01	32.29	1603.77	2135.51	133.16	41.43
Fee Based Financial Services	17	204.17	101.15	49.54	5.95	9.61	161.35	38.67
Health Services	09	615.33	364.05	59.16	40.45	46.23	114.31	29.93
Hotels & Tourism	23	6196.2	3317.06	53.53	144.22	85.27	59.13	11.56
Information and Technology	45	12754.35	10688.4	83.80	237.52	267.19	112.49	42.38
Investment Services	31	11510.61	6836.74	59.40	220.54	111.20	50.42	10.92
Recreational Services	08	2449.44	1992.8	81.36	249.10	199.24	79.98	30.77
Transport Services	14	8852.76	3990.84	45.08	285.06	252.41	88.55	14.48
Wholesale & Retail Trading	66	5817.24	2783.22	47.84	42.17	29.21	69.27	12.95

Source: Computed. Period: 1995-96 -2009-10.

Table 5 explains the contribution of reserves and surplus of each industry towards their total fund requirements. All the companies of all the selected industry for the study represent the services sector. The contribution by the reserves and surpluses towards total funds of the services sector is 35.33 percent, which is a high percentage compared to the other sources. The percentage of contribution by the reserves fund towards the total funds is varying widely from industry to industry. A low percentage of 12.15 is there in the asset financing services industry, followed by banking services with 32.29 percent. A high percentage of 83.80 are found in the information and technology sector, followed by recreational services with 81.36

percent. Except asset financing services, all other services sector industries in India have high contribution by reserve funds towards their total funds.

The variation in the reserve funds of services sector industries is measured by coefficient of variation (CV). It is found from the analysis that there are variations of CV among the industries. A highest variation of 161.35% is recorded in the fee based financial services industry and a low variation of 50.42% is found in investment services. The variations observed through CV are very high in the reserves and surplus of services sector industries. These variations are because of the growth of reserve funds during the period of study. High variations are observed in the industries where the growth rates of reserve funds are high.

The growth rates of reserves of selected service sector industries in India have been calculated by using Compounded Annual Growth Rate (CAGR). The analysis of CAGR of the reserve funds of selected service sector industries reveals that there is not much variations of growth rate of reserve funds among the industries. A highest CAGR of 42.38% is found in information technology and a lowest CAGR of 10.92% is recorded in investment services.

From the analysis of reserve funds, it is inferred that a high percentage of contribution is quite evident towards the total funds by this particular source of fund. The analysis of the growth rate of reserve funds reveals that majority of the service sector industries in India have high growth in their reserves. Therefore, it is inferred that the service sector industries in India are using reserves as one of their main sources of fund.

D. Analysis of Long Term Borrowings of Selected Services Sector Industries in India

The contribution by the long term borrowings of each industry of services sector in India towards their total funds has been analysed and displayed in the table 6.

Table -6
Analysis of Long Term Borrowings of Selected Services Sector Industries
in India

Nature of Industry	Number of Companies	Total Funds (Rs. In Crores)	Long Term Debt (Rs. In Crores)	% of Long Term Debt to Total Funds	Mean- Long Term Debt (Rs. In Crores)	S.D	C.V%	CAGR (%)
Services Sector (All Industries)	260	160438.2	85579	53.34	329.15	302.65	91.95	27.22
Asset Financing Services	34	47472.5	36364.36	76.60	1069.54	1005.43	94.01	23.65
Banking Services	13	64564.76	38320.88	59.35	2947.76	3176.80	107.77	46.63
Fee Based Financial Services	17	204.17	9.35	4.58	0.55	0.61	111.21	1.60
Health Services	09	615.33	160.47	26.08	17.83	15.11	84.75	15.26
Hotels & Tourism	23	6196.2	2298.16	37.09	99.92	73.07	73.12	20.39
Information and Technology	45	12754.35	677.7	5.31	15.06	22.16	147.14	16.72
Investment Services	31	11510.61	2265.79	19.68	73.09	29.26	40.03	2.44
Recreational Services	08	2449.44	185.68	7.58	23.21	19.51	84.05	17.00
Transport Services	14	8852.76	3782.1	42.72	270.15	190.03	70.34	13.80
Wholesale & Retail Trading	66	5817.24	1515.36	26.05	22.96	23.41	101.97	21.07

Source: Computed. Period: 1995-96 -2009-10.

Table 6 explains the contribution of long term borrowings of each industry towards their total fund requirements. All the companies of all the selected industries for the study represent the services sector. The contribution by the long term borrowings towards total funds of the services sector is 53.34 percent, which is the highest percentage compared to the other sources. The percentage of contribution by the long term borrowings towards the total funds is varying widely from industry to industry. A low percentage of 4.58 is found in the fee based financial services

industry, followed by information technology sector 5.31 percent. A high percentage of 76.60 is found in asset financing services sector, followed by banking services with 59.35 percent.

The variation in the long term borrowings of industries is measured by coefficient of variation (CV). It is found from the analysis that the variations of CV among the industries are medium. A highest variation of 147.14% is recorded in the informational technology services industry and a low variation of 40.03% is found in investment services. The variations observed through CV are very high in the long term funds of services sector industries. These variations are because of the growth of the long term funds during the study period.

The growth rate of long term borrowings of selected service sector industries in India have been calculated by using Compounded Annual Growth Rate (CAGR). The analysis of CAGR of the selected services sector industries reveals that there are minor variations of growth of long term borrowings among the selected service sector industries. A highest CAGR of 46.63% is found in banking services and a lowest CAGR of 1.60% is recorded in fee based financial services. It shows that the company's policies on long term borrowings are not stable and vacillating from time to time during the period of study.

From the analysis of long term borrowings of selected service sector industries in India, it is observed that a high percentage of contribution is there towards the total funds by this particular source of fund. The analysis of the growth rate of long term debt reveals that most of the service sector industries in India have high growth in their long term borrowings. Therefore, it is inferred that the service sector industries in India are using long term borrowings as one of their main sources of fund.

E. Analysis of Short Term Borrowings of Selected Services Sector Industries in India

The contribution by the short term borrowings of each industry of services sector in India towards their total funds has been analysed and displayed in the table 7.

Table -7
Analysis of Short Term Borrowings of Selected Services Sector Industries in India

Nature of Industry	Number of Companies	Total Funds (Rs. In Crores)	Short Term Debt (Rs. In Crores)	% of Short Term Debt to Total Funds	Mean - Short Term Debt (Rs. In Crores)	S.D	C.V%	CAGR (%)
Services Sector (All Industries)	260	160438.2	12768.6	7.96	49.11	43.71	89.01	22.74
Asset Financing Services	34	47472.5	4687.58	9.87	137.87	151.74	110.06	29.28
Banking Services	13	64564.76	3781.7	5.86	290.90	244.42	84.02	24.13
Fee Based Financial Services	17	204.17	14.62	7.16	0.86	1.62	187.72	17.30
Health Services	09	615.33	16.11	2.62	1.79	0.98	54.81	9.80
Hotels & Tourism	23	6196.2	183.77	2.97	7.99	4.54	56.90	9.55
Information and Technology	45	12754.35	689.85	5.41	15.33	27.47	179.20	16.14
Investment Services	31	11510.61	1885.11	16.38	60.81	103.51	170.22	15.26
Recreational Services	08	2449.44	101.84	4.16	12.73	9.42	73.97	5.28
Transport Services	14	8852.76	321.3	3.63	22.95	11.44	49.85	4.13
Wholesale & Retail Trading	66	5817.24	1085.04	18.65	16.44	13.55	82.39	13.59

Source: Computed. Period: 1995-96 -2009-10.

Table 7 explains the contribution of short term borrowings of each industry towards their total fund requirements. All the companies of all the selected industries for the study represent the services sector. The contribution by the short term borrowings towards total funds of the services sector is 7.96 percent, which is a low percentage compared to reserve funds and long term debts. At the same time, it is higher than the equity shares and preference shares contribution. The percentage of contribution by the short term borrowings towards the total funds is not varying widely from industry to industry. A low percentage of 2.62 is there in the health

services, followed by hotels and tourism services with 2.97 percent. A high percentage of 18.65 is found in wholesale and retail trading sector, followed by investment services with 16.38 percent.

The variation in the short term borrowings of industries is measured by coefficient of variation (CV). It is found from the analysis that the variations of CV among the industries are high. A highest variation of 187.72% is recorded in the fee based financial services industry and a low variation of 49.85% is found in transport services. The variation is high in the industries where the growth rate of short term borrowings is high. It suggests that the companies are increasing their short term borrowings during the period of study.

The growth rate of short term borrowings of selected service sector industries in India have been calculated by using Compounded Annual Growth Rate (CAGR). The analysis of CAGR of the selected service sector industries reveals that the CAGR is varying among the services sector industries. A highest CAGR of 29.28% is found in asset financing services and a lowest CAGR of 4.13% is recorded in transport services. There is positive growth in the short term borrowings of all the industries, which suggests an increased use of short term borrowings during the period of study.

From the analysis of short term borrowings of selected service sector industries in India, it is observed that a less percentage of contribution is there towards the total funds by this particular source of fund. At the same time, it is above the contribution of equity share capital. The analysis of the growth rate of short term borrowings reveals that majority of the service sector industries in India have higher growth in their short term borrowings. However, it can be inferred from the analysis that the service sector industries in India are not significantly using short term borrowings as their source of funds.

Conclusion

Table 8 shows that the various sources of funds are not equally contributing to the requirement of funds in all the selected service sector industries.

Table -8
Analysis of Percentage of Each Component towards Total Funds of Selected Service Sector Industries in India

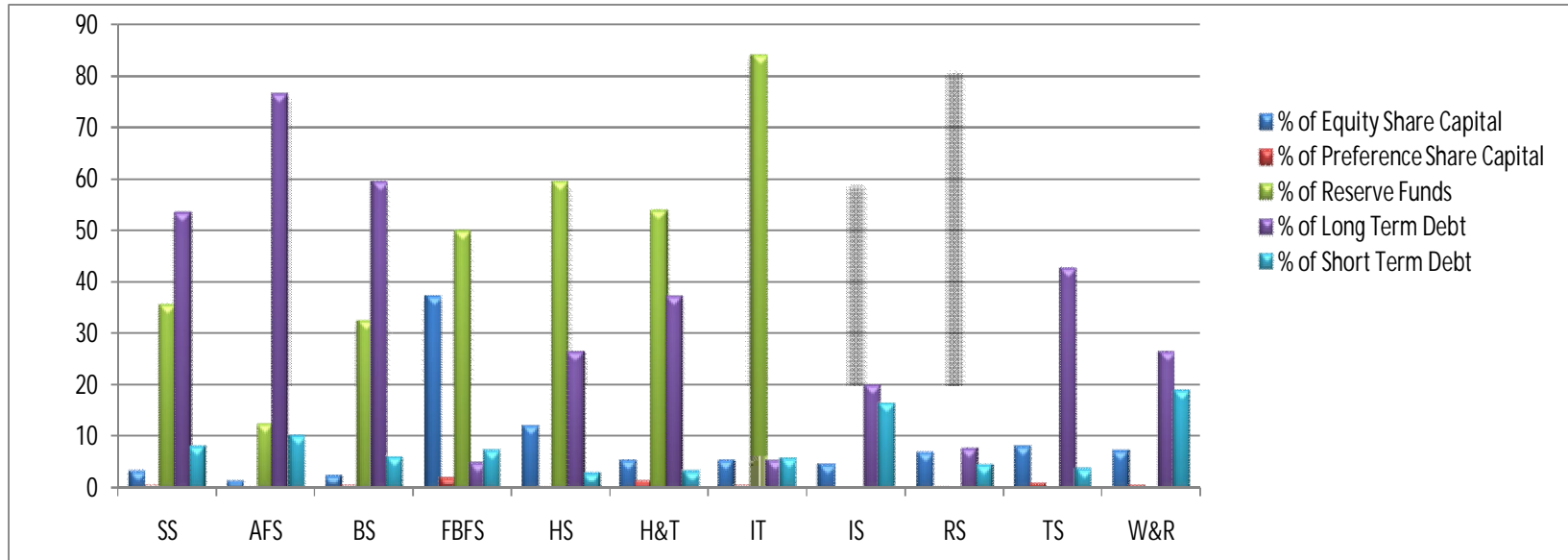
Nature of Industry	No. of Companies	Total Funds (Rs. In Crores)	Percentage of Each Component towards Total Funds				
			% of Equity Share Capital	% of Preference Share Capital	% of Reserve Funds	% of Long Term Debt	% of Short Term Debt
Services Sector (All Industries)	260	160438.2	3.09	0.27	35.33	53.34	7.96
Asset Financing Services	34	47472.5	1.24	0.14	12.15	76.6	9.87
Banking Services	13	64564.76	2.25	0.25	32.29	59.35	5.86
Fee Based Financial Services	17	204.17	36.89	1.83	49.54	4.58	7.16
Health Services	09	615.33	12.08	0.06	59.16	26.08	2.62
Hotels & Tourism	23	6196.2	5.25	1.16	53.53	37.09	2.97
Information and Technology	45	12754.35	5.25	0.22	83.8	5.31	5.41
Investment Services	31	11510.61	4.48	0.06	59.4	19.68	16.38
Recreational Services	08	2449.44	6.88	0.02	81.36	7.58	4.16
Transport Services	14	8852.76	7.81	0.76	45.08	42.72	3.63
Wholesale & Retail Trading	66	5817.24	6.93	0.52	47.84	26.05	18.65

Source: Computed. Period: 1995-96 -2009-10.

For the services sector in India about 3% of the total funds have been utilized through the equity share capital. Though the equity share capital reflects the ownership of the firm, it is very less in percentage. This may be due to the interest of the equity shareholders in controlling the business and at the same time, there is more contribution by the owners through reserve funds. Highest contribution of equity funds among the selected industries is seen in fee based financial services to the tune of 36.89%. A low percentage of equity capital of 1.24% is seen in asset financing services industry.

Chart - 2

Percentages of Each Component to Total Funds of Selected Service Sector Industries in India



Source: Computed. Period: 1995-96 -2009-10.

SS- Services Sector, AFS - Asset Financing Services, BS – Banking Services, FBFS – Fee Based Financial Services, HS – Health Services, H & T – Hotels & Tourism, IT – Information Technology, IS – Investment Services, RS – Recreational Services, TS – Transport Services, W & R – Whole sale & Retail Trading,

A very negligible amount of contribution i.e. 0.27% is mobilized for the total funds of services sector in India through the preference share capital. This may not likely to affect or influence the debt-equity ratios of any of the industry chosen for the study.

For the services sector in India about 35% of the total funds have been utilized through the reserves and surplus. Except asset financing services and banking services, in all the service industries the reserve funds are dominating and used as their main source of funds. Information technology and recreational services are the industries using reserve funds the most as their significant source of funds. More than 80% of their fund requirements are met through their reserve funds.

The long term debts have been used as a major source by majority of the firms. For the services sector in India about 53% of the total funds have been utilized through long term debt. Fee based financing services, information technology, and recreational services are the industries using very low long term debt. Asset financing services is the industry which is using long term debt as its important source of funds. 76.6% of the total funds of this industry has been financed by its long term debts. Banking services has also used long term debt as its main source of fund to the tune of 59.35%.

The short term source of fund used by the service sector industries in India is 7.96%. In wholesale and retail trading 18.65% is observed, followed by investment services with 16.38%, whereas in other industries the contribution of short term borrowings towards the total funds is less than 10%.

From the analysis of various components of capital structure of each selected service sector industry, it can be inferred that reserve funds and the long term debt are the two key sources of funds used to mobilize the essential funds of the business in the services sector in India. About 88% of their funds have been gained through these two sources. Preference share capital is in a very negligible quantity. Equity share capital and short term capital are contributing to the tune of 3% and 8% respectively, which is not an outsized contribution. It is also noted from the analysis that the contribution of short term debt is more than the equity share capital in majority of the services sector industries in India.