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A Study on Capital Structure of Selective Banks in India

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Abstract: *The project report combines key information for the study from secondary data focused on the effect of capital structure on the profitability of specific companies. The study, which is organized into five chapters, employs a descriptive research technique and mostly gathers secondary data of five distinct automakers: Axis Bank, HDFC Bank, ICICI Bank, State Bank of India, and Kotak Mahindra Bank. The study mostly employed ratio analysis and EPS analysis as analytical techniques.*

Keywords: Banks

I. INTRODUCTION

The financial system in India is well-established and has been satisfying the nation's banking and credit needs demands for many years. It developed over several decades. In addition to meeting the unique and varied financial requirements of various clients and borrowers, the banking ecosystem is boosting the nation's economic expansion and development. Banks' primary responsibility is to function as a middleman between depositors and lenders, transferring resources for both parties' advantage and distributing them in an efficient manner. It improving resource consumption efficiency, banks can promote economic growth. In India, As of the now, 137 scheduled commercial banks exist. offering banking services. Additionally, local area banks and cooperative banks offer financial services in a range of markets around the nation. About 9,516 Financial Companies That Are Not Banks and 5 Every financial institution in India are also meeting the requirements of the borrowers To be able to lend to particular sectors/segments.

II. OBJECTIVES

- To gain deeper insights into the Financial approaches adopted by specific Banks over the last five years.
- To compute the debt-to-equity and earnings-per-share (EPS) metrics for the Banking institutions we have selected.
- To evaluate the Financial performance of the chosen Banks operating in the Financial sector.
- To pinpoint the optimal capital structure by taking into account the earnings per share(EPS).

III. LITERATURE REVIEW

Wafa Ghardallou (2022) studied the influence of Financial leverage on the profitability and scale of Saudi-listed enterprises. Using quantile regression, the study discovered varied effects, with larger enterprises suffering negative effects compared to smaller ones and more substantial affects on higher-profit firms. The GMM results showed that leverage had a detrimental effect on both Return on equity and Return on assets.

Hasmiana, Madris, and Shine Pintor's (2021) analysis, the effects of profitability and operational performance were compared between state-owned and private commercial banks.

Rosenberg and Valdes (2021)

Article: "Comparative Analysis of Bank Capital Structures: US vs. European Banks" (International Review of Financial Analysis)

This paper compares capital structures of banks in the US and Europe, highlighting significant differences due to varying regulatory environments and market conditions. European banks tend to have lower leverage compared to their US counterparts.

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IV. RESEARCH METHODOLOGY

Sample: Five selective financial institutions are taken as below

1. HDFC Ltd.
2. ICICI Banks Ltd.
3. State Bank of India
4. Kotak Mahindra Ltd.
5. Axis Banks Ltd.—were especially chosen for this investigation.

Sources of Data:

- Primary Data: Conversations with the study supervisor and subject matter experts are regarded as primary data sources.
- Secondary Data: The most of the data comes from secondary sources, such as websites run by business platform tailored to a certain industry, and websites like Money control & etc.

V. METHODOLOGY

Data Collection: Information was acquired till March throughout a five-year period, from 2019 to 2023;Methods for Analysing the Data.

Analysis method : The data analysis used **column charts**.

The following five banks' ratios and earnings per share were assessed using these techniques: Axis Banks, HDFC Banks, ICICI Banks, State Banks of India, and Kotak Mahindra Banks.

Tools of study: Using financial and statistical tools, I collected information for each of the five companies on debt and equity, price-to-earnings **(PE)** ratios, return on equity **(ROE)**, return on capital employed **(ROCE),** return on assets **(ROA),** and net profit margin.

EPS ANALYSIS:

Analysis Among all the banks:

The table displays the greatest earnings per share (EPS) and capital structure percentage of all the chosen organizations. Capital structure percentage of all the chosen organizations.

Companies	Highest EPS	Equity Share Capital (%)	Debt (%)
HDFC BANK LTD	82.64	44.24	55.76
ICICI BANK LTD	48.86	53.16	46.84
STATE BANK OF INDIA	62.35	41.66	58.34
KOTAK MAHINDRA BANK LTD	75.13	66.31	33.69
AXIS BANK LTD	46.04	38.61	61.39

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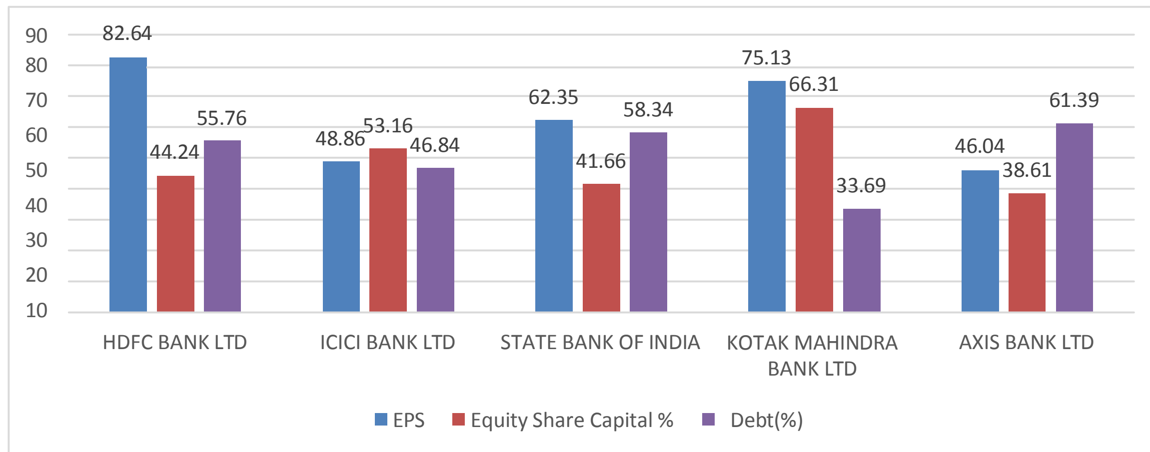

VI. DISCUSSION AND RESULTS

Among the Bank's mentioned earlier, HDFC Bank Ltd stands out with the highest EPS in 2022–2023 of Rs 82.64. This specific capital structure is a blend of stock and debt share capital, distributed as follows: 44.24% and 55.76%, respectively. The optimal debt-to-equity ratio can differ greatly depending on the sector and stage of a business's growth. Consequently, this particular arrangement has shown to be the ideal capital arrangement for EPS maximisation. The ideal ratio of debt to equity in a company's capital structure ultimately depends on its particular circumstances, which include things like risk tolerance, potential for growth, industry dynamics, and the state of the economy. Reaching this balance is essential to guaranteeing financial security and achieving long-term success.

VII. RECOMMENDATIONS

Maintaining of standard EPS: It's clear from examining the debt-to-equity ratios of my five selected companies that they routinely fall significantly short of the desirable "2:1" guideline. This suggests that these banks have plenty of space in their capital structures to investigate other possibilities for debt financing.

Improves performence: Financial analysts and managers should concentrate on choosing the ideal capital structure while effectively allocating and using resources To be able to improve a bank's financial performance as a result of its capital configuration.

Benifit to shareholders: In order to attain a favourable balance between tax benefits and capital costs, firms might think about modifying their debt-to-equity ratios. For shareholders, an attractive debt-to-equity ratio can also be beneficial.

Increases the EPS: This research indicates that the combination of 44.24% equity and 55.76% debt will provide investors with the maximum returns and earnings per share. This model can function as a standard for additional companies, especially those engaged in similar competitive environment.

Reduce operating cost: the chosen institutions to take action to reduce operating costs. This could entail reorganising loans and interest payments, making the best use of available assets, and putting strategic initiatives into place to increase profitability. These businesses should also give cost-cutting measures a priority in order to possibly increase.

VIII. CONCLUSION

In summary, our project carried out a thorough examination of the ways wherein the capital structure affects the profitability of particular financial institutions. By means of an extensive analysis of financial ratios and earnings per share (EPS), we have refined our comprehension of The intricate relationship that occurs between capital structure and profitability. Because equity returns were far more than bank interest rates, the five corporations that were the subject of the investigation tended to favour risk aversion. These businesses reinvested their income in reserves and kept a modest amount of debt

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IX. LIMITATIONS

1. Regulatory Changes: Frequent policy shifts may affect capital structure data. & Data Availability: Limited access to recent, comprehensive financial data
2. Sector-Specific Factors: Unique characteristics of the banking sector may not generalize to other industries.
3. Comparability Issues: Differences in size and business models among banks may complicate comparisons.
4. Sample Size: Small sample size of listed banks can limit the scope of analysis &Non- Performing Assets (NPAs): High NPAs may distort the evaluation of capital adequacy.

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