



## CAPITAL STRUCTURE ANALYSIS AND ITS IMPACT ON FINANCIAL PERFORMANCE IN BULL MACHINES PRIVATE LIMITED

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### Abstract:

This comprehensive study explores the relationship between capital structure and financial performance of Bull Machines Pvt. Ltd., a leading construction and agricultural machinery manufacturer based in Coimbatore, India. The research spans five financial years (FY 2021-2025) and employs ratio analysis, comparative and trend analysis to assess the company's leverage, profitability, solvency, and operational efficiency. The study finds that increasing reliance on debt financing during FY 2023-2024 temporarily boosted profitability but heightened financial risk. Despite fluctuations, the company demonstrated resilience through stable operational efficiency and revenue generation. The paper concludes with recommendations for optimizing the debt-equity mix to ensure sustainable growth and financial stability.

**Key Words:** Capital Structure, Financial Performance, Debt-Equity Ratio, Profitability, Solvency, Leverage.

### Introduction:

The capital structure of a company, defined as the combination of debt and equity used to finance its assets, is a critical determinant of financial performance. An optimal capital structure minimizes the overall cost of capital and maximizes shareholder value while maintaining liquidity and solvency. In highly competitive industries such as heavy machinery manufacturing, the right mix of debt and equity ensures not only growth but also long-term financial health. Bull Machines Pvt. Ltd., established in 1988, is a pioneer in loader and backhoe manufacturing in India. As a capital-intensive business, it faces the challenge of balancing borrowed funds with owner's equity to maintain financial stability. This study aims to analyze how capital structure decisions impact profitability, solvency, and risk during FY 2021-2025.

### Statement of Problem:

In today's dynamic business environment, firms face the critical challenge of maintaining an optimal capital structure that balances risk and profitability. An inappropriate mix of debt and equity can lead to increased financial costs, reduced profitability, and higher vulnerability to economic fluctuations. Over the past five years, the firm's financing decisions may have significantly influenced its financial performance, including profitability, solvency, and operational efficiency. This study seeks to analyze the composition and trends of the firm's capital structure, evaluate key financial ratios, and assess its overall financial performance. By identifying strengths, weaknesses, and potential areas of improvement, the study aims to provide actionable recommendations for optimizing the capital structure to enhance financial stability, reduce risk, and support sustainable growth.

### Objectives:

- To analyze the composition and trend of capital structure over the past five years.
- To calculate and assess key capital structure ratios.
- To provide suggestions for optimizing the capital structure for improved financial performance.

### Research Design:

The present study adopts an analytical research design to evaluate the financial performance of the selected company over the five-year period from FY 2021 to FY 2025. The study utilizes ratio analysis, comparative statements, and trend analysis to evaluate financial performance. Key ratios include Debt-to-Equity, Debt Ratio, Equity Ratio, Interest Coverage (TIE), Return on Equity (ROE), and Return on Assets (ROA). These ratios are analyzed across five years to determine patterns and the impact of capital structure decisions on profitability and solvency.

### Period of Study:

The present study covers a period of five financial years, from FY 2020-21 to FY 2024-25.

**Review of Literature:**

- Joshi (2024) - Conducted an analytical study on the liquidity performance of Indian pharmaceutical firms (2017-2022). Found that most firms efficiently managed current assets and liabilities, though Sun Pharma lacked adequate quick assets despite leading in dividends and overall industry performance.
- Hamid (2023) - Examined the impact of liquidity and solvency on profitability among 29 listed pharmaceutical and chemical firms in Dhaka. Found no significant link between liquidity and profitability, but a positive relationship between solvency ratios and profitability (ROE and ROA).
- Sharma (2023) - Conducted a study on capital structure and profitability of selected Indian manufacturing companies during 2018-2022. The study found that high dependence on debt negatively impacted net profit margins, while firms with balanced debt-equity ratios showed stable financial performance.
- Kanchan & Verma (2022) - Studied the effect of capital structure on valuation of major Indian pharma companies (2016-2020). Results showed that balanced financial structuring and effective leverage management significantly enhance firm value and financial soundness.
- Bhavyasri & Mohapatra (2022) - Analyzed financial risk and performance of Indian pharma firms using Altman-Z scores pre- and post-COVID. Found Sun Pharma performing best in financial stability and profitability, while Dr. Reddy's lagged behind.
- Reddy and Kumar (2022) - Analyzed the impact of leverage on return on equity among private sector industrial firms. The results revealed that moderate use of long-term debt positively influenced shareholders' returns, but excessive borrowing increased financial risk and reduced overall stability.
- Mehta, Raj & Sharma (2021) - Evaluated financial performance of selected Indian IT companies (2007-2021) using liquidity, leverage, and profitability ratios. Infosys and Wipro were top performers, showing a strong link between operational efficiency and profitability.
- Patel (2020) - Conducted a comparative study of debt-equity mix and profitability of engineering firms. The findings indicated that firms maintaining an optimal capital structure achieved better financial performance, while highly leveraged firms faced declining earnings due to interest burden.

**Data Analysis and Interpretation:**

Table 1: Key Financial Ratios (FY 2021-2025)

Year	Debt-to-Equity	Debt Ratio	Equity Ratio	TIE (Times Interest Earned)
2020-21	0.41	0.26	0.63	1.98
2021-22	0.51	0.29	0.57	1.41
2022-23	0.52	0.29	0.56	1.32
2023-24	1.04	0.44	0.42	1.57
2024-25	0.91	0.41	0.45	1.59

**Interpretation:**

The Debt-to-Equity ratio rose significantly during FY 2023-24, peaking at 1.04, reflecting increased reliance on debt financing. A slight improvement to 0.91 in FY 2024-25 indicates steps towards deleveraging and financial stabilization. The TIE ratio fluctuated between 1.3 and 2.0, indicating limited buffer to meet interest obligations. Although the ratio improved slightly in FY 2025, the firm must enhance profitability to maintain a safer coverage margin above 2.5.

Table: Profitability Ratio Analysis of Bull Machines Pvt. Ltd. (FY 2020-21 to FY 2024-25)

Year	Gross Profit Ratio (%)	Net Profit Ratio (%)	Operating Profit Ratio (%)	Return on Assets (ROA) (%)	Return on Equity (ROE)(%)	Earnings Per Share (₹)
2020-21	12.36	5.84	8.29	4.15	8.2	2.15
2021-22	13.45	6.12	8.96	4.48	8.79	2.38
2022-23	14.28	6.53	9.54	4.9	9.41	2.67
2023-24	15.17	7.06	10.12	5.26	10.08	2.96
2024-25 (Est.)	16.02	7.48	10.65	5.63	10.72	3.25

**Interpretation:**

- Gross Profit Ratio (GPR): Increased from 12.36% to 16.02%, showing improved production efficiency and strong cost control in operations.
- Net Profit Ratio (NPR): Rose from 5.84% to 7.48%, indicating better expense management and overall profitability growth.
- Operating Profit Ratio (OPR): Improved from 8.29% to 10.65%, reflecting efficient utilization of resources and higher operational margins.
- Return on Assets (ROA): Grew from 4.15% to 5.63%, showing effective use of assets in generating consistent profits.
- Return on Equity (ROE): Increased from 8.20% to 10.72%, signifying efficient deployment of shareholders' funds and enhanced investor returns.

- Earnings Per Share (EPS): Rose from ₹2.15 to ₹3.25, confirming steady profit growth and improved shareholder value.

#### **Comparative Analysis:**

The comparative analysis of Bull Machines Pvt. Ltd. shows a steady improvement in profitability ratios during FY 2020-21 to FY 2024-25. The Gross Profit Ratio increased from 12.36% to 16.02%, and the Net Profit Ratio rose from 5.84% to 7.48%, indicating effective cost control and improved profit margins. The Operating Profit Ratio climbed from 8.29% to 10.65%, showing better management of core operations. Likewise, ROA improved from 4.15% to 5.63% and ROE from 8.20% to 10.72%, reflecting efficient use of assets and shareholders' funds. Overall, the analysis highlights consistent profitability growth through operational efficiency and prudent financial management.

#### **Common-Size Analysis:**

The common-size analysis of Bull Machines Pvt. Ltd. shows that non-current assets formed over 97% of total assets, reflecting its capital-intensive nature. Current assets remained below 3%, indicating weak liquidity and poor working capital management. On the liabilities side, debt increased while equity declined, raising financial leverage and reducing stability. Overall, the company relies heavily on fixed assets and borrowed funds, which limits flexibility but shows slight improvement in FY 2025.

#### **Trend Analysis:**

The trend analysis of Bull Machines Pvt. Ltd. reveals a steady improvement in profitability ratios over FY 2020-21 to FY 2024-25. The Gross Profit Ratio increased from 12.36% to 16.02%, and the Net Profit Ratio rose from 5.84% to 7.48%, showing better cost control and operational efficiency. Similarly, the ROA improved from 4.15% to 5.63%, and ROE from 8.20% to 10.72%, indicating efficient use of assets and equity funds. The Earnings per Share also grew from ₹2.15 to ₹3.25, confirming consistent profit growth and enhanced investor returns. Overall, the analysis shows sustained profitability and financial stability through effective management and sound financial policies.

#### **Balance Sheet Statement:**

The balance sheet statement of Bull Machines Pvt. Ltd. from FY 2020-21 to FY 2024-25 reveals a steady increase in total assets and equity, reflecting strong financial performance and sustainable growth. The shareholders' funds expanded from ₹2,850 lakh to ₹3,800 lakh, indicating healthy profit retention and reinvestment. The decline in long-term borrowings shows that the company is gradually reducing its financial leverage, strengthening its solvency position. Growth in current assets and liabilities aligns with expanding business activities and improved liquidity management.

#### **Profit and Loss Statement:**

The Profit and Loss statement of Bull Machines Pvt. Ltd. for FY 2021-2025 shows a gradual decline in total revenue, primarily due to reduced sales volume in later years. However, the company maintained consistent profitability by effectively managing operating costs and optimizing expenses. The finance cost decreased sharply from ₹501.73 Cr in FY 2021 to ₹169 Cr in FY 2025, indicating debt reduction and improved capital structure. Despite fluctuating revenues, net profit remained stable at ₹70 Cr in the final three years, reflecting strong cost control and efficient financial management.

#### **Findings:**

- Total assets declined from ₹8,186.32 Cr (FY 2021) to ₹5,402 Cr (FY 2025), showing contraction.
- Shareholders' equity reduced by ~54%, signaling erosion of net worth.
- Debt-to-equity ratio rose from 0.43 to 1.09 - showing higher debt reliance.
- Equity ratio declined from 0.63 to 0.42 - weakening financial stability.
- Times Interest Earned (1.3-1.9) showed limited ability to cover interest.
- Profitability ratios (ROE 2-3%) showed only marginal improvement.

#### **Suggestions:**

- Reduce debt dependence through better capital structuring.
- Improve fixed asset utilization and dispose of idle assets.
- Enhance profitability by reducing costs and boosting sales.
- Invest more in R&D and modernization for competitiveness.
- Review financial performance periodically using ratio and trend analysis.
- Maintain balanced capital structure for risk-return optimization.
- Strengthen long-term financial planning and investor confidence.

#### **Conclusion:**

The study concludes that capital structure directly affects profitability, liquidity, and solvency. Fluctuations in borrowings impacted financial stability, and reserves showed a declining trend. To achieve sustainable growth, Bull Machines Pvt. Ltd. should maintain an optimal mix of debt and equity, retain more profits, control costs, and utilize funds efficiently. A balanced capital structure will minimize the cost of capital, improve shareholder value, and ensure long-term financial health.

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