

THE RELATIONSHIP BETWEEN CAPITALS STRUCTURE AND PROFITABILITY OF PUBLIC SECTOR BANKS IN INDIA

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ABSTRACT

Capital structure is an important decision of the companies for growth and expansion of the business. It plays a major role in estimating the profitability of the firm. This study investigated the relationship between capital structure and profitability of top five public sector banks from the year 2012-2016. This study based on secondary data. The data has been analysed by using correlation analysis to study the relationship between capital structure and profitability of public sector banks. From the study it is found that there is positive correlated and significant relationship between capital structure and profitability of public sector banks.

Keywords: Capital Structure, Profitability, Public Sector Banks.

INTRODUCTION:

Capital is an important and critical resource for all companies. The capital resources can be divided into two main categories, namely equity and debt. Equity arises when companies sell some of its ownership rights to gain funds for operation and investing activities. Debt is a contractual agreement, whereby companies borrow an amount of money and repay it with interest within a stipulated time frame. Capital structure is an important decision of the companies for growth and expansion of the business. To decide the portfolio of debt and equity capital in the capital structure is crucial and complex decision so every company has to take this decision by seeing past data about profitability and debt – equity capital of the companies. The capital structure at which the overall cost of capital of the firm in minimum is known as optimum capital structure. Capital Structure Planning means selecting optimum debt equity combination that every firm chooses for long term growth. It also plays an important role in deciding a profitability of a firm depends upon the quantum of capital structure that the firm is using. Like all businesses, banks profit by earning more money than what they pay expenses.

REVIEW OF LITERATURE:

Monika Gupta & Swati Vishnoi (2015) examined the relationship between capital structure and profitability of ten listed pharmaceutical firms listed in stock exchange over the past 5 years' period from 2009 – 2014. The data has been analysed by using descriptive statistics and regression analysis to find out the relation between the variables which shows that there is a significant relationship between capital structure and profitability of the firm. It shows that firm's profitability is affected by the variables used in research but there are certain other variables which also affect the profitability of the firm.

Patrick Baah – Acquah & Ebenzer Perry Ellis (2017) investigated the relationship connecting capital structure and profitability of two listed firms on the Ghana Stock Exchange from the year 2010 to 2014. The study was analysed using multiple regression. The researcher recommends that managers of oil marketing companies should not spend too much to control cost in their capital structure, but rather they must try to provide financial support for their projects with obtain earnings and profit. This study is highly recommended that managers work to achieve the optimal capital structure level to maximize the firm's performance and try to maintain it as much as possible.

Velnampy & Aloy Niresh. J(2012) focused relationship between capital structure and profitability of listed srilankan banks during the period of 2002 -2009. From this study was found to be negative association between capital structure and profitability between debt to equity and return on equity. The mean values of debt /equity ratio and debt to total funds were 825.15% and 88.66% level respectively. It is suggested that 89% of total assets used by debt.

Nilesh. P. Movolia (2015) stated that the study is on capital structure analysis and profitability of Tyres industry in India. The researcher has taken 14 tyre companies listed under BSE. This study was undertaken by using 5 years' data from 2009 – 2014. From this study it is found that there was a significant relation between capital structure and profitability of tyre companies. It is based on descriptive and analytical research design, by using secondary sources of data and Durbin Watson Statistics for testing hypothesis.

SCOPE OF THE STUDY:

This research will be conducted in the selected banks in public sector banks. There are 21 public sector banks in India. This study will be conducted only top five public sector banks ranking based on market capitalisation. And five years' data were collected to analyse the relationship between capital structure and profitability of public sector banks.

STATEMENT OF THE PROBLEM:

Among all the public sector banks there are many issues faced by the customers. The problem which Indian public sector banks are confronting is capital adequacy and pressure on

profitability. The capital adequacy ratio measures how much capital the bank has. When this falls, the bank has to borrow money or use depositor's money to lend. This money however is riskier and costlier than the Banks' own capital. With continuous expansion in number of branches and manpower, thrust in social and rural banking, directed sector lending, maintenance of highly reserve ratios, waiver of loans under concessions, repayment default of large industrial corporate and other borrowers etc. has impact of profitability of the banks.

OBJECTIVES OF THE STUDY:

To study the relationship between capital structure and profitability of public sector banks.

RESEARCH METHODOLOGY:

The present study used secondary data for the analysis. These data were obtained from the "Performance Highlights of Public Sector Banks" and the annual reports of respective banks. Further, scholarly articles from academic journals, relevant text books on the subject and the internet search engines were also used. The following five selected public sector banks to carry out the research:

1. State Bank of India
2. Bank of Baroda
3. Punjab National Bank
4. Central Bank of India
5. Canara Bank

PERIOD OF STUDY:

The data for a period of 5 years ranging from 2011-12 to 2015-16 have been collected and considered for analysis.

DATA ANALYSIS AND INTERPRETATION:

Correlation Analysis:

H0: There is no significant relationship between capital structure and profitability of public sector banks.

H1: There is significant relationship between capital structure and profitability of public sector banks.

Relationship between Capital Structure and Profitability of Public Sector Banks

BANKS	R value	P value	Significant/ Non – Significant
State Bank of India	.497**	.001	Significant
Bank of Baroda	.409**	.005	Significant
Punjab National Bank	.511**	.000	Significant
Central Bank of India	.532**	.000	Significant
Canara Bank	.493**	.001	Significant

** . Correlation is significant at the 0.01 level (2-tailed).

INTERPRETATION:

The above table mentioned the relationship between capital structure and profitability of public sector banks. From this table it is clear that the relationship was found to be positive correlated and also significant 0.01 level for the capital structure and profitability of all the above 5 public sector banks. And there is significant relationship between capital structure and profitability of public sector banks. The null hypotheses were rejected and the alternative hypotheses were accepted.

FINDINGS:

From the correlation is clear that the relationship was found to be positive for the capital structure and profitability. The relationship between capital structure and profitability of State Bank of India (.497**), Bank of Baroda (.409**), Punjab National Bank (.511**), Central Bank of India (.532**) and Canara Bank (.493**) are positively correlated and found to be significant at 0.01 level. So it is concluded that there is significant relationship between capital structure and profitability of top 5 public sector banks.

SUGGESTION:

The above public sector banks have been used appropriate mix of capital structure so it significantly related to its profitability of public sector banks. So it is suggested to increase the profitability they have to maintain ideal level of debt equity ratio.

CONCLUSION:

This study aims to analyse the relationship between capital structure and profitability of public sector banks. The study covered top 5 public sector banks over the period of 2012-2016. From this study it would be concluded that there is significant relationship between capital structure and profitability of top five public sector banks. If banks maintain ideal capital structure it helps to increase more profitability.

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