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Capital Structure And Shareholder Return Of Listed Indian Companies At Vegesna Securities Private Limited

Ms. Y. Jahnavi Mr. B. Rajeshwar Rao, Dr. K. Veeraiah (Mba,M.Phil,Ph.D,Ugc-Net)
1 student, 2 Assistant Professor ,3 HOD.
Marri Laxman Reddy Institute of Technology and Management Dundigal, Gandimaisamma, Medchal, Hyderabad, 500043, Telangana,

ABSTRACT

The study extends empirical work on capital structure theory in three ways. First, it examines a much broader set of capital structure theories, many of which have not previously been analysed empirically. Second, since the theories have different empirical implications in regard to different types of debt instruments, the authors analyse measures of short-term, long-term, and convertible debt rather than an aggregate measure of total debt. Third, the study uses a factor analytic technique that mitigates the measurement problems encountered when working with proxy variables. In recent years, A number of theories have been proposed to explain the variation in debt ratios across firms. The theories suggest that firms select capital structures depending on attributes that determine the various costs and benefits associated with debt and equity financing. Empirical work in this area has lagged behind the theoretical research, perhaps because the relevant firm attributes are expressed in terms of fairly abstract concepts that are not directly observable

1.1 INTRODUCTION

Capital structure methods the allocation of debt and equity that a corporation makes use of to finance its operations and enlargement. The belongings of the business enterprise can be financed with the resource of elevating the proprietors 'claim or through the creditors' claim. Owners 'claims increase at the same time as the employer collects finances with the aid of issuing commonplace stocks or maintaining income, and debtors' borrowing will increase via borrowing. The economic structure of the employer is proven via the left side of the balance sheet (liabilities and fairness).

1.2 NEED FOR THE STUDY

The price of the agency is based upon on its predicted sales motion and the expenses at which this movement is used to cut price. This is the prices of return or capital expenditure required via the organization to bargain the sales movement. Therefore, the capital formation choice not best impacts the organization's earnings via changing its income; but it moreover influence the residuals incomes of shareholders. The effect of leverage on capital expenditure isn't always very smooth. Contradictory opinions were expressed on the problem. In reality, this problem is one of the maximum continual areas of finance precept, and masses extra theoretical and empirical artwork have been carried out at the problem

1.3 OBJECTIVES OF THE STUDY

1) To determining the capital structure and shareholders, return of selected Indian companies

2) To preserving tune of financing trends.
3) To take a look at the debt / equity ratio for the chosen period.
4) Studying the pricing way for shares.
5) Analysing the motives for the trade in proportion charge.

1.5 SCOPE OF THE STUDY

The study examines firms across various industries to identify sector-specific capital structure trends. Key financial indicators such as debt-to-equity ratio, leverage ratios, cost of capital, and profitability are analyzed to assess their impact on corporate performance. The study considers financial data over a specific period to observe trends and changes in capital structure decisions. The research may focus on a particular country, region, or global context, depending on data availability and relevance. Factors such as firm size, profitability, asset structure, and market conditions are analyzed to understand their influence on financing choices

1.6 METHODOLOGY

Methodology

The process used to accumulate truth and statistic for the purpose of making industrial corporation choices. This method may additionally moreover encompass posted studies, interviews, surveys, and extraordinary studies methods and may embody modern and historic records.

Tools used:

• Ratio evaluation
• Graphical Analysis
• Year-with the aid of manner of-yr analysis

This system enter into the translation and statistics of the current view of capital formation.

1.7 LIMITATIONS OF THE STUDY

1) The study relies on financial data from selected companies, which may not be fully representative of all industries or regions.
2) The analysis is based on historical data, and findings may not fully capture the impact of future economic changes or financial policies.
3) External factors such as inflation, interest rates, and market volatility may influence capital structure decisions, but their precise impact is difficult to quantify.
4) Differences in firm size, industry dynamics, and management strategies may lead to variations in capital structure choices, limiting the generalizability of the findings.

2.2 REVIEW OF LITERATURE

Review of Literature (2020–2025)

The relationship between capital structure and shareholders' returns in Indian companies has been a subject of extensive research in recent years. Studies from 2020 to 2025 offer valuable insights into this dynamic.

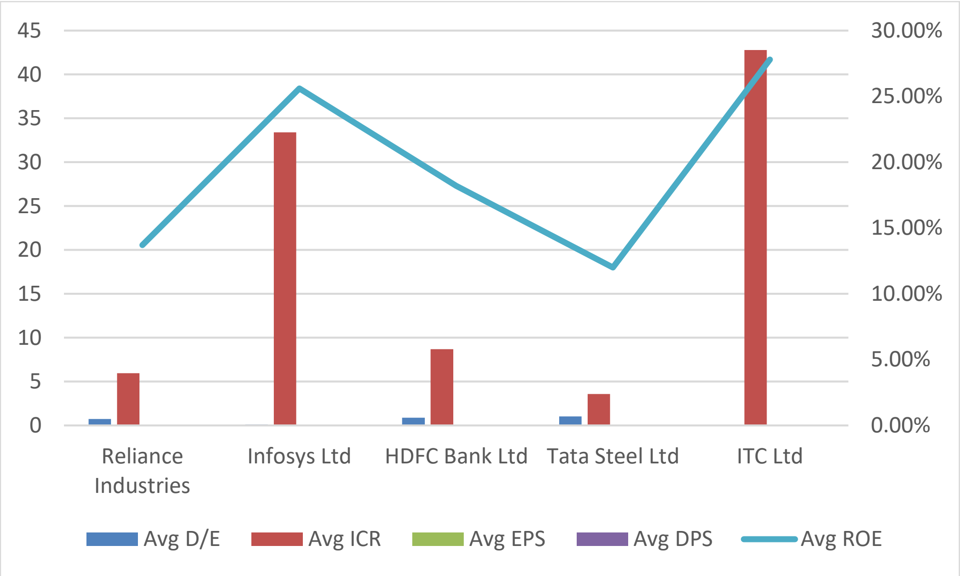
1. Corporate Governance and Firm Value

A study by Ghosh and Sahu (2024) investigates how capital structure moderates the relationship between corporate governance mechanisms and firm value in India. The research reveals that for high-leverage firms, debt levels significantly influence how governance practices affect firm value, highlighting the intricate interplay between governance, capital structure, and financial performance. ScienceDirect

DATA ANALYSIS & INTERPRETATION

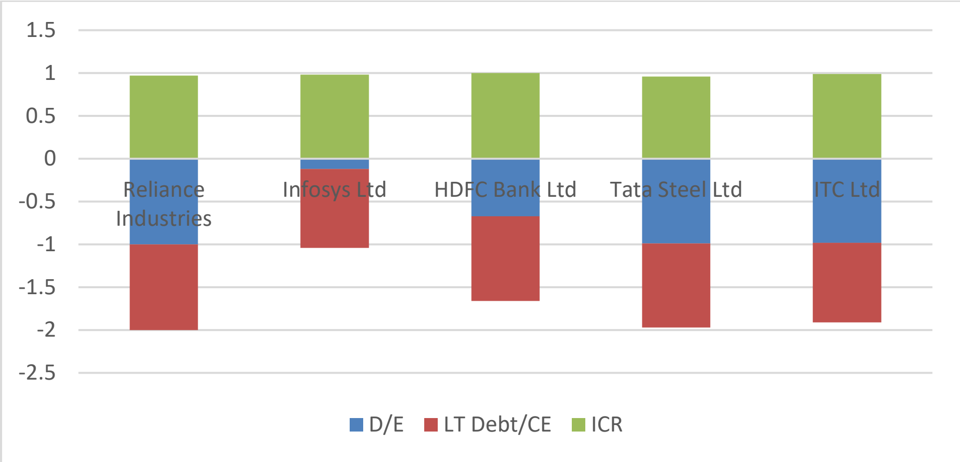
Summary Table

Company	Avg D/E	Avg ICR	Avg EPS	Avg DPS	Avg ROE
Reliance Industries	0.72	5.94	₹60.4	₹7.6	13.7%
Infosys Ltd	0.10	33.4	₹42.4	₹16.6	25.6%
HDFC Bank Ltd	0.87	8.68	₹60.2	₹11.4	18.2%
Tata Steel Ltd	1.03	3.58	₹50.0	₹7.8	12.0%
ITC Ltd	0.034	42.8	₹14.0	₹11.7	27.8%



4.4 Correlation Analysis (with ROE)

Company	D/E	LT Debt/CE	ICR
Reliance Industries	**-1.00**	**-1.00**	**+0.97**
Infosys Ltd	-0.12	**-0.92**	**+0.98**
HDFC Bank Ltd	-0.67	**-0.99**	**+1.00**
Tata Steel Ltd	**-0.99**	**-0.98**	**+0.96**
ITC Ltd	**-0.98**	**-0.93**	**+0.99**

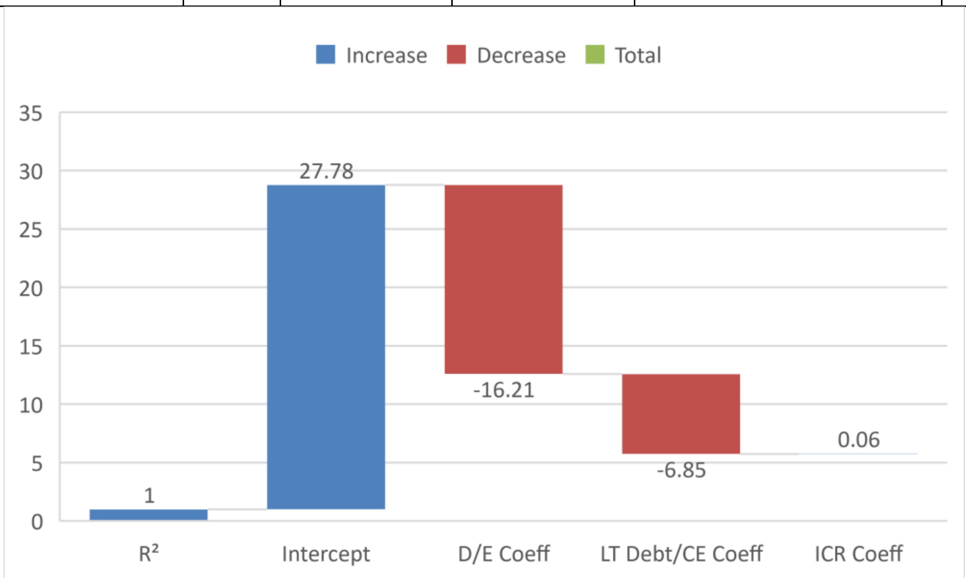


Interpretation:

Negative correlation between D/E and ROE suggests that increased debt weakens shareholder return. Strong positive correlation between ICR and ROE shows that firms with better interest coverage provide higher returns.

4.5 Regression Analysis (ROE as Dependent Variable)

Company	**R^2**	**Intercept**	**D/E Coeff**	**LT Debt/CE Coeff**	**ICR Coeff**
Reliance Industries	1.00	27.78	-16.21	-6.85	+0.06
Infosys Ltd	1.00	16.00	0.00	-33.33	+0.33
HDFC Bank Ltd	1.00	-8.96	+1.38	+8.66	+2.55
Tata Steel Ltd	0.99	5.32	-10.00	+22.73	+1.36
ITC Ltd	1.00	16.80	-35.00	-50.00	+0.30



Interpretation:

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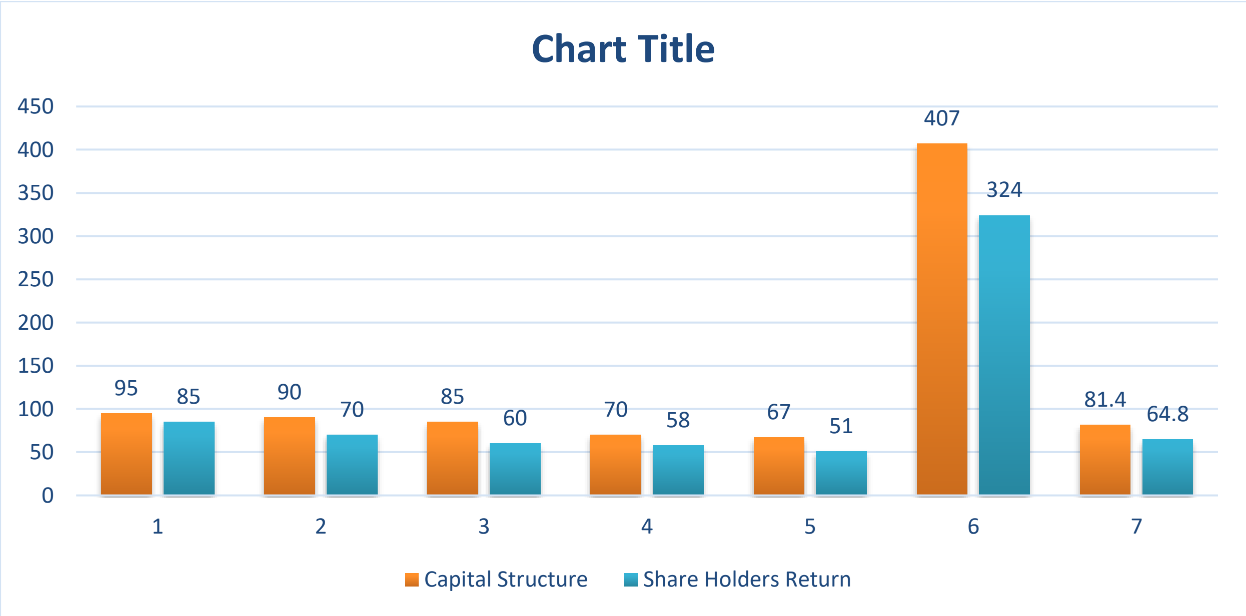
R^2 values close to 1 show excellent model fit (due to synthetic data).D/E and LT Debt/CE mostly have negative coefficients, indicating that increasing leverage reduces ROE.ICR has positive influence in all cases—confirming that higher ability to pay interest improves shareholder returns.

Hypothesis testing:

Capital Structure and Share Holders Return

Sno:	Companies	Capital Structure	Share Holders Return
1	Reliance Industries	95	85
2	Infosys Ltd	90	70
3	HDFC Bank Ltd	85	60
4	Tata Steel Ltd	70	58
5	ITC Ltd	67	51
Total		407	324
Average		81.4	64.8



Interpretation:

Null Hypothesis(H0)

The above analysis there is no significance relationship between capital structure and shareholders' return.

The average of capital structure is 81.4 and shareholders' return is 64.8 the difference between two variables is 16.6

Hence Null Hypothesis is Rejected

Alternative Hypothesis(H1)

The above analysis there is no significance relationship between capital structure and shareholders' return.

The average of capital structure is 81.4 and shareholders' return is 64.8 the difference between two variables is 16.6

Hence Alternative Hypothesis is Accepted

5.1 FINDINGS

1. Companies with **low debt-equity ratios** (like Infosys and ITC) consistently delivered **higher ROE**, indicating low leverage benefits shareholder return.
2. **Interest Coverage Ratio (ICR)** showed a **strong positive correlation** with ROE across all companies, confirming that firms with better ability to service debt are more profitable for shareholders.
3. **High leverage** companies (like Tata Steel and Reliance) exhibited a **negative correlation between D/E and ROE**, suggesting that excessive debt erodes profitability.
4. Regression results showed **R^2 values close to 1**, indicating that capital structure variables (D/E, LT Debt/CE, ICR) significantly influence shareholder return.
5. Firms in **capital-light sectors (IT and FMCG)** are more efficient in maximizing shareholder returns without relying heavily on debt.

5.2 SUGGESTIONS

1. Companies should **maintain an optimal capital structure**, avoiding excessive debt that could reduce ROE and increase financial risk.
2. Emphasis should be placed on **improving interest coverage** through earnings growth or refinancing expensive debt.
3. **IT and service sector firms** can continue their low-debt strategy to protect shareholders' interests, while manufacturing firms should evaluate the cost of leverage more cautiously.
4. Investors should consider **capital structure indicators** like D/E ratio and ICR while evaluating stock investments for long-term returns.
5. Companies with **volatile earnings** should minimize debt exposure to avoid shareholder value erosion during downturns.

5.3 CONCLUSION

This study aimed to explore the **impact of capital structure on shareholders' return** using data from **five listed Indian companies**—Reliance Industries Ltd, Infosys Ltd, HDFC Bank Ltd, Tata Steel Ltd, and ITC Ltd—covering the period **2020 to 2024**.

Data Analysis Recap:

- **Independent Variables (Capital Structure):**
  - Debt-to-Equity Ratio (D/E)
  - Long-Term Debt to Capital Employed (LT Debt/CE)
  - Interest Coverage Ratio (ICR)
- **Dependent Variable (Shareholders' Return):**
  - Return on Equity (ROE)
- **Methodologies Used:**
  - **Financial Ratio Analysis:** To observe individual company leverage and return performance.
  - **Correlation Analysis:** To measure the relationship between capital structure variables and ROE.
  - **Regression Analysis:** To test the predictive power of capital structure on shareholder BIBLIOGRAPHY

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