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DEBT EQUITY MIX AND ITS IMPACT ON PROFITABILITY
(A COMPARATIVE STUDY OF SELECTED PETROLEUM COMPANIES IN INDIA)

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Abstract

The study examined the relationship of Debt equity mix to profitability of petroleum companies in India. Debt equity mix decision is the vital one since the profitability of an enterprise is directly affected by such decision. The successful selection and use of Debt equity mix is one of the key elements of the firms' financial strategy. Hence, proper care and attention need to be given while determining Debt equity mix decision. The purpose of this study is to investigate the relationship between Debt equity mix and profitability of three Petroleum Companies over the period 5 years from 2011 to 2015.The data has been analyzed by using descriptive statistics and correlation analysis to find out the association between the variables. Results of the analysis show that there is a negative association between capital structure and profitability except the association between debt to equity and return on equity.

Keywords: *Debt-Equity Mix, Debt, Equity, Profitability, Descriptive Statistics, Return on Equity.*

Introduction

Debt-Equity Mix is the combination of debt and equity that are used to finance companies asset. It is defined as the amount of permanent short – term debt, preferred stock and common equity used to finance a firm. Debt-Equity Mix is sometimes used as synonym with the capital structure. The term capital structure is used to represent the proportionate relationship between debt and equity. Equity includes paid–up share capital, share premium, reserve & surplus (retained earnings). Debt includes debentures and long- term loans. The estimation of capital requirements for current and future needs is important in the determining of the capital mix. Equity and debt are the two principal sources of finance for a business. "The financing decisions have two components. First to decide how much total funds are needed and second to decide the sources or their combinations to raise such funds. The total quantity of finds needed, however, depends upon the investment decision of the firm. Given that the firm has good estimates of how much capital funds are determining the best mix of different sources to be used in raising the required funds. The process that leads to the final choice of the capital structures referred as the capital structure planning." This study focuses on the association between Debt-Equity mix & profitability of Petroleum companies. Capital structure decision is the vital one since the profitability of an enterprise is directly affected by such decision. Hence, proper care and attention need to be given while determining capital structure decision. With unplanned capital structure, companies may fail to economize the use of their funds. The study regarding the effects of Debt-Equity mix on profitability will help us to know the potential problems in performance and capital structure. This study shows the statistical analysis carried out seeking to discover is there any relationship between Debt-Equity mix and profitability of the Petroleum companies.

Objectives

The objectives are geared towards the following:

- To find out the relationship between capital structure and profitability.

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