

A COMPARATIVE STUDY ON IMPACT OF CAPITAL STRUCTURE ON FIRM PERFORMANCE WITH REFERENCE TO STOVE KRAFT LIMITED: PRE AND POST COVID

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ABSTRACT

The current study on impact of capital structure on firm performance with reference to Stove Kraft Limited: pre and post covid basically examines, how companies' capital structure will affect the entire firm performance during pre and post covid situation. The study determining how much debt and equity financing a company will employ to finance its operations and investments is part of choosing its capital structure. The study concludes that there is no significant impact on capital structure on firm performance with reference of financial key metrics of Return on Equity (ROE), Return on Asset (ROA), Share Price, and P/E Ratio against to the Debt to Equity and Firm size. In other side there is a significant impact on capital structure on firm performance with reference to P/E Ratio against to the Debt to Equity and Firm Size. The study mainly depends on financial data of Stove Kraft Ltd during from 2018 to 2022.

Key words: Capital Structure, firm Performance, ROA, ROE, FS, DE, P/E Ratio, SHP.

I. INTRODUCTION

This study is to know about the capital structure of the company how effects its firm performance during its financial year. The study talks about company's capital structure in pre covid duration and post covid duration. The need of the study is how one capital structure variable will change the entire financial and operational efficiency of the organization like Return on Equity, Return on Asset, Share Price, P/E Ratio. One of the financial key metrics will change to the greater extent to the company. The capital structure and the firm performance will effect on organization profitability, market share, share holders' interest and variation in the share price. The capital Structure It describes a certain mix or combination of both debt and equity that is used to fund a company's assets and activities. From a business standpoint, equity financing is more expensive than debt financing. Equity finance is a more flexible, long-term form of funding for an organization. Based on stakeholder expectations, a company's performance is evaluated as profitability, growth, market value, total return on shareholders, economic value produced, and customer satisfaction.

II. REVIEW OF LITERATURE

The variables of the financial are impacting the overall performance of the company / business Muhammad Riaz & Shu Jinghong and Muhammad Nadeem Akhtar ; Kerongo Maatwa Meshack, Nyamute Winnie, Kennedy Okir, & Duncan Elly Ochieng (2022), on the other hand the consistency of the impact of the various financial variable were not found before the pandemic but it shows the effect post pandemic. Asen Ayange, Nwude Chuke Emmanuel, Idamoyibo Hwerien Rosemary, Ufodiama Clifford Ndudi, & Udo Emmanuel Samuel (2021) Effect of Capital Structure on Firms Performance there are several contradictory findings about the impact of capital structure mix on corporate performance. Empirical research on the variables that significantly affect company performance has been rare, according to developing nation studies. This study investigates the effects of capital structure factors on firm performance. Ngatno, Endang P. Apriatni, & Arief Youlianto (2021) Moderating effects between capital structure and firm performance. Examining how affects the link between capital structure and business performance is the goal of this study. Results show that decisions on capital structure financing affect financial performance favorably. This only applies to recent debt, though. Otherwise, both return on assets and return on equity are negatively and negligibly impacted by long-term debt.

Nguyen Minh Ngoc, Nguyen Hoang Tien, & To Huynh Thu (2021) The Impact of Capital Structure on Financial Performance This article's study goal as measured ROA and ROE indicators. The study findings have demonstrated that capital structure has a detrimental effect on a firm's profitability as measured by ROA after applying the quantitative approach (with models of Pool OLS, FEM, REM, and FGLS). The study did not find any statistical support for the influence of the capital structure of logistics firms over this time period in the case of profitability as indicated by ROE.

Hieu Thanh Nguyen & Anh Huu Nguyen (2020) The Impact of Capital Structure on Firm Performance. The study examines how capital structure affects company performance differently to solve econometric problems and increase the precision of the regression coefficients, the Generalized Least Square (GLS) method is used. In this study, return on equity (ROE), return on assets (ROA), and earnings per share (EPS) are used to gauge a company's success. Hundal, Shab, Eskola, Anne, & Lyulyu, Sofiya (2020) The impact of capital structure on firm performance. One of the most significant, ongoing, and simultaneously difficult company decisions is the choice regarding the capital structure. The best possible capital structure is a crucial component of funding businesses. It can be difficult for businesses to strike the ideal balance between their debt and equity. The goal of the current study is to determine if the capital structure influences the financial and non-financial performance as well as the financial risks. The research's conclusions show that leverage has a negative impact on most of the accounting, market, and hybrid performance metrics. Gabby Markus Angkasajaya & Putu Anom Mahadwartha (2020) The Impact of Capital Structure towards Firm Performance The purpose of this study is to examine how capital structure, affects business financial performance. Past studies have produced a variety of outcomes, and some recent advancement have made use of moderating variables in their studies. Multiple linear regressions is a quantitative method used in this study. According to this study, short-term debt as a percentage of total assets has a negative impact on financial performance (ROA, ROE, and Tobin's Q). The ratio of long-term debt to total assets has no effect on ROA, but it has a favorable impact on ROE. There no effect on how ROA and ROE are impacted by the ratio of short-term debt to total assets. Shab Hundal & Anne Eskola (2020) Capital Structure, Investment Decisions and Firm-Performance. The financing of firms, the investments, and business performance (financial and non-financial) all play a significant role in the literature on corporate finance. The current study investigates if there is a pattern in the causal relationships between the four separates, yet connected. Multivariate linear regression and principal component analysis have been used to analyses the data influence on capital structure than on investments or financial performance. The article's main contribution is the establishment of a series of causal relationships between funding, investments, and business performance. Manal Sulieman Abughniem, Mohammad Adnan Hilal Al Aishat, Allam Hamdan, & Sulieman Raji Weshah (2020) Capital Structure, Firm Growth and Firm Performance. The purpose of this study is to examine how capital structure and business expansion affect firm performance. Four variables were used to determine the capital structure (debt ratio, debt to equity, equity to assets, and asset turnover rate), while sales growth was used to determine the firm's growth. Four indicators were used to gauge a company's success: one was operational, or return on assets; the other three were financial or return on investment and return on sales; and the fourth was market performance, or price to book value. The conclusions from these empirical findings demonstrate how the impact of company expansion and capital structure on various aspects of firm performance.

III. DATA AND METHODOLOGY

The capital structure and firm performance is based on empirical research; Quantitative information is used to acquire this empirical evidence. Secondary data which is collected from the company financial Reports like Profit and Loss accounts And Balance Sheet of Stove kraft ltd. 5 years of period of study between pre-covid April 2018 to post-covid March 2022. April 2018 to March 2022 five years of data which is collected through the company's website. The important variables are the ROE, ROA, PE, DE, FST, and SHIP variables from companies Financials. The tools and techniques are used in this research is Linear Regression (Multiple regression analysis).

The model for this relationship is presented as shown below:

$$ROE_{i,t} = \beta_0 + \beta_1 DE_{i,t} + \beta_2 FS_{i,t} + \mu_{i,t}$$

$$ROA_{i,t} = \beta_0 + \beta_1 DE_{i,t} + \beta_2 FS_{i,t} + \mu_{i,t}$$

$$PE_{i,t} = \beta_0 + \beta_1 DE_{i,t} + \beta_2 FS_{i,t} + \mu_{i,t}$$

$$SHP_{i,t} = \beta_0 + \beta_1 DE_{i,t} + \beta_2 FS_{i,t} + \mu_{i,t}$$

Where:

$ROE_{i,t}$ = Profit after taxes / Shareholders' equity for firm I from time t equals Return on Equity;

$ROA_{i,t}$ = Return on Assets for Company I from Time T = Profit after Tax / Total Assets;

$PE_{i,t}$ = Price per Share to Earnings per Share for Firm I to Time t (Market value Price per Share / Earning per Share);

$SHP_{i,t}$ = towards the conclusion of the year, the company's share price

β_0 = Where is the intercept (constant),

β_1 & β_2 = the Ith company's independent variable's coefficient at time t,

$DE_{i,t}$ = According to the company's total debt to equity ratios as of time t,

$FS_{i,t}$ = the market value for firm i at time t and the firm size

$\mu_{i,t}$ = Untrue term.

Hypothesis:

In order to investigation the effect of capital structure on firm performance, designed the following hypothesis,

H0: There is no significant impact of Capital structure on firm performance of Stove Kraft Ltd.

H1: There is a significant impact of Capital structure on firm performance of Stove Kraft Ltd.

IV. DATA ANALYSIS AND FINDINGS

Stove Kraft ltd Data, Data Analysis, Result, and Interpretation:

Table 4.1 Financial Data Set:

YEAR	ROE	ROA	P/E Ratio	SHARE PRICE	DEBT to EQUITY	FIRM SIZE
2018	6.99	0.89	0		2.5	2.516165
2019	-3.12	0.44	0		-5.1	2.631413
2020	-4.84	0.6	0	458.25	-5.58	2.67396
2021	26.82	14.21	17.22	613.95	0.17	2.756613
2022	15.44	7.71	35.67	375	0.22	2.862406

Source: Company Financials

Data Analysis:

In data set table 4.1 Stove Kraft Ltd financial information regarding ROE, DE, FS. The Income from Equity has decreases from 2018 (6.99) to 2020 (-4.84), again it has increased up to 26.82 in the year of 2021, then it has reached 15.44 in the year 2022. The Income from Assets has decreases from 2018 (0.89) to 2019 (0.44), again it has increased up to 0.6 in 2020, then it has increase 14.21 in the year 2021, it reached 7.71 in the year 2022. The P/E Ratio has from 2018 to 2020 is Zero, again it has increased up to 17.22 in the year of 2021, then it has reached 35.67 in the year 2022. There is none Share Price from the year 2018 to 2019 because of Stove Kraft ltd has been registered its share in Stock Exchange in the year 2020-2021. Then the Share Price of Stove Kraft Ltd in the year 2020 is 458.25. The share price has increased in the year 2021 is 613.95 and again it has decreased to 375. The variable DE is 2.5 in the year 2018 as well as gone down in 2019 (-5.1), 2020 (-5.58), in the year 2021 it has gone up 0.17 and 2022 is 0.22. The Company Size is constantly increasing from 2.516165 to 2.862406.

Interpretation:

$$\text{ROE } i, t = -129.99 + 2.60 \text{DE } i, t + 52.94 \text{FS } i, t + \mu i, t$$

When information is acquired over 5 years period (2018-2022), the findings of the regression analysis. Debt to Equity and Firm Size, two independent variables, have a high level of correlation. Dependent variable ROE. The R^2 0.764% (76.4%). The P value of DE is 0.177 is more than 0.05 significance level hence accept H_0 and Reject H_1 hypothesis. Additionally, the firm size P value is 0.268 is more than 0.05 significance level hence accept H_0 and reject H_1 hypothesis. The F-Static value of DE is 4.189 and the F-Static FS is valued at 2.31. Even though the DE and FS Coefficients are positive, none of the variables significantly affect ROE. Stove Kraft Ltd.'s capital structure has no effect on the company's performance.

$$\text{ROA } i, t = -78.581 + 0.746 \text{DE } i, t + 31.439 \text{FS } i, t + \mu i, t$$

Data collected throughout time 5 years period (2018-2022), the regression analysis's conclusion shows in independent variable DE and Firm Size are closely connected. Dependent variable ROA. The R^2 0.639% (63.9%). The P value of Loan to equity is 0.411 is more than 0.05 significance level hence accept H_0 and Reject H_1 hypothesis. Likewise, the firm size P value is 0.254 is more than 0.05 significance level hence accept H_0 and reject H_1 hypothesis. The F-Static value of DE is 1.06 and the F-Static firm size is worth 2.51. None of the variables significantly affect the ROA, even though the DE and FS covariances are positive. Consequently, the CS of Stove Kraft Ltd. has no effect on the company's performance.

$$\text{P/E Ratio } i, t = -279.59 + 1.84 \text{DE } i, t + 109.01 \text{FS } i, t + \mu i, t$$

The collection of data 5 years period (2018-2022), the regression analysis result shows in independent variable Debt to Equity and Firm Size is significantly related to dependent variable P/E Ratio. The R^2 0.969% (96.9%). The P value of Debt to equity is 0.080 is more than 0.05 significance level hence accept H_0 and Reject H_1 hypothesis. The P value of Firm size is 0.019 is lower than 0.05 significance level hence accept H_1 and reject H_0 hypothesis. The F-Static value of Debt to Equity is 11.0 and the F-Static value of Firm Size is 51.1. Though the Coefficient of DE and FS is positive, none of the element is significantly related to the P/E Ratio. Hence Not at all significant impact of Capital structure on firm performance of Stove Kraft Ltd on dependent variable P/E Ratio and Independent variable Debt to Equity ($p = 0.080$). And Hence There is a significant impact of Capital structure on firm performance of Stove Kraft Ltd on dependent variable P/E Ratio and Independent variable Firm Size ($P = 0.019$).

$$\text{SHP } i, t = -3699.58 - 1.91 \text{DE } i, t + 1482.84 \text{FS } i, t + \mu i, t$$

Data collection throughout time 5 years period (2018-2022), the regression analysis result shows in independent variable Debt to Equity and Firm Size is significantly related to dependent variable Share Price. The R^2 0.486% (48.6%). The P value of Debt to equity is 0.966 is more than 0.05 significance level hence accept H_0 and Reject H_1 hypothesis. And the P value of Firm size is 0.303 is more than 0.05 significance level hence accept H_0 and reject H_1 hypothesis. The F-Static value of Debt to Equity is 0.00236 and the F-Static value of Firm Size is 1.88461. Though the Coefficient of DE is negative and FS is positive, none of the element is significantly related to the Share Price. Hence there is no significant impact of Capital structure on firm performance of Stove Kraft Ltd.

V. CONCLUSION

In the study done, accounting for considering the fact of Return on Equity (ROE), Return on Asset (ROA), Debt to equity (DE), Share Price (SHP), Firm Size (FS) in pre and post covid of Stove Kraft ltd from 2018 to till 2022. In contrasting Return on Equity with Debt to equity and Firm Size, The ROE is not very related to DE and FS (-129.99) and other factors have a huge influence. ROE during 2018 to 2022 in stove kraft ltd. When comparing Return on Asset with Debt to equity and Firm Size, the ROA is not significantly related to DE and FS (-78.581) and other Several factors have a big influence on ROA during 2018 to 2022 in stove kraft ltd. When comparing P/E Ratio with Debt to equity and Firm Size, the P/E Ratio is not significantly impact to DE and the P/E Ratio is significantly impact to FS (-279.59) and other factors have a strong relationship with ROE.

Share price is not substantially associated to DE and FS (-3699.58) when comparing Share price with Debt to Equity and Firm Size.

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