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AN ANALYSIS OF COST OF CAPITAL IN VIJAYALAKSHMI PACKAGING INDUSTRIES AT NAMAKKAL

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Abstract—*Cost of capital which is used as a financial standard plays a crucial role in capital budgeting decisions. It is the discount rate applied for evaluating the desirability of investment projects. An investment project can be accepted if it has a positive net present value. Besides, financial decisions taken by the management of a firm are appropriately evaluated using the weighted average cost of capital. The cost of capital influences debt policy of a firm. While designing the proportion of debt and equity in the capital structure, a firm aims at minimizing the overall cost of capital. The cost of capital is widely used in deciding about the method of financing at any particular point of time. It plays an important role in dividend decision. Cost of capital is one of the important metrics which decides the amount to finvestment in current assets. Keeping the importance of cost of capital incorporate finance, the present study has been undertaken covering ten manufacturing companies listed in Bombay Stock Exchange, India. Financial data are collected for 5 years from 2018-23. The results of regression analysis indicate the factors significantly influencing various components of cost of capital.*

Key-words: *Appropriately, financial decisions, debt and equity, Cost of capital*

1. INTRODUCTION

Cost of capital is a calculation of the minimum return that would be necessary in order to justify undertaking a capital budgeting project, such as building a new factory. It is an evaluation of whether a projected decision can be justified by its cost.

2. NEED FOR THE STUDY

Every company runs with the aim of achieving two concepts namely wealth maximization and profit maximization. Thus, company should keep an eye on all the factors that will affect its profitability. One such factor is the cost of capital. The concept of the cost of capital is key information used to determine a project's hurdle rate. A company embarking on a major project must know how much money the project will have to generate in order to offset the cost of undertaking it and then continue to generate profits for the company.

3. STATEMENT OF THE PROBLEM

In the financial year 2019-23 the profit before depreciation and tax but after interest reduced and there was a vast increase in interest expense. This gives a view that the profitability of the company is adversely affected due to the cost of capital. The determination of the cost of equity capital is another problem. In theory, the cost of equity capital may be defined as the minimum rate of return that accompany must earn on that portion of its capital employed, which is financed by equity capital so that the market price of the shares of the company remains unchanged.

4. OBJECTIVES OF THE STUDY

- To study the effect of cost of capital on a company's profit.
- The cost of capital measures the cost that a business in cursto finance its operations.
- It measures the cost of borrowing money from creditors, or raising it from investors through equity financing, compared to the expected returns on an investment.
- To identify the problems in accomplishment of optimal cost if capital in the industries
- It provides the information related to the ratio of the sources of the finance.
- To analyse the working capital position of the firm for last 5 years.

5. SCOPE OF THE STUDY

- The research was carried out in entire Vijayalakshmi Packaging Industries from Namakkal district.
- The scope of research study covered industrial units from Namakkal.
- It helps to give the information of the all sources of finance and provide the information related to this the source of finance.
- The cost of capital is an indication of the cost a business incurs to finance itself, and it's an important metric for a business.

6. LIMITATIONS OF THE STUDY

- The correlation will only show the direction and degree of relationship between two variables.
- It does not show the exact magnitude of change in a variable due to the change in another related variable.

7. REVIEW OF LITERATURE

Asha Sharma (2019)1 did cost of capital and profitability analysis of the industry. The objective of the author is to analyse the relationship between the cost of capital and a company's profitability. The author discovered that the high cost of capital adversely affects the profitable position of the companies.

BabasahebR.Jadhav(2020)2Themainprincipleofresearchwastoexploretherelationship between capital structure and cost of capital by examining the industries in Ahmed nagger district, India. The statistical tools used in the hypothesis testing were Ratios and Proportions, Percentages and Weighted averages.

A. Vijayakumar and Ms. A. Karunaiathal (2021)3 made a study to analyse the relationship between cost of capital and capital structure for the period. They conducted the study on large scale companies in Indian Industry. Their objective of the study is to construct a capital structure by maximizing the value of the firm and minimizing the cost of capital.

Bhargav Pandya (2022)4 aims to analyse the effect of financial leverage on the cost of capital. He conducted a study on companies listed in the stock exchange for a period of three years. He calculated debt-equity ratio and interest coverage ratio to analyse the relationship of financial leverage on cost of capital.

Reverte (2023)5 some research also supports the notion that company culture can impact the strength of the relationship between sustainable performance and cost of capital. He examine the relationship between corporate governance, ethical commitment and cost of equity capital in the market, finding that a statistically significant negative relationship exists between corporate governance and cost of equity capital, and that this relationship is more pronounced for companies with weak corporate ethical commitment.

8. RESEARCH METHODOLOGY

A methodology details a researcher's approach to the research to ensure reliable, valid results that address their aims and objectives. It encompasses what data they're going to collect and where from, as well as how it's being collected and analysed.

RESEARCH DESIGN: The methodology used in this study is analysis in nature where the researcher has to use facts (or) information already available and study the characteristics of a particular group respectively and there by analyse to make a critical evaluation of the study.

PERIOD OF THE STUDY: The financial data for a period five years of Vijayalakshmi packaging industry from 2019-2023

SOURCE OF DATA: The secondary data is used for the study and are collected from the annual reports of the company.

TOOLS USED FOR ANALYSIS DATA: The collection data were tabulated and presented in appropriate places of various chapters. The performance of the business was evaluated by analysing and interpreting the financial statements of the Vijayalakshmi Packaging Industries., with the help of Ratio Analysis.

TOOLS FOR ANALYSIS

- Ratio analysis
- Trend analysis
- ARR analysis

9. SUGGESTIONS

There is a positive effect between Firm Size and Return on Assets if there is any change occurs in Independent Variables except one variable i.e. WACC. WACC gives negative impact on Firm Value and Return on Assets. Any change in WACC can affect the return on assets of the firm. Evidence found that there is no effect of Total Debt Ratio on Return on Asset. Company must increase its exports as it has become more effective.

- Company should make their profitability investment policies which gave more profits.
- Company should give prefer to low rate loans such as bank loan. Not be issued high rate of debentures.
- Company should be issued preference shares.
- Company should not be distributed all amount along share holders some part of profit ade reserve or keep for contingency.
- As far as cost of equity share capital is concerned I had found it's satisfactory, but company should try to keep low rate of debentures.

10. CONCLUSION

If the rate of return is not higher than the cost of capital, then a firm cannot survive and Shareholders will switch to another firm where they can get maximum benefit. Therefore, a firm should make a strategy in the sense where their profit margins can be maximized and they can give benefits to their Shareholders in the shape of cash dividend or stock dividend so they can be associated with the same organization and cannot move ahead.

- After "Cost of Capital" with "VPI" the conclusion that the firm is going successfully running
- The earnings per share of "VPI" increase. In 2018-19 EPS was 18.87. And in 2022-23 EPS is 16.12
- The cost of debentures is less than cost of equity capital. In 2018-19 cost of different types debt
- Last five years equity share capital same

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