



# A COMPARATIVE CAPITAL STRUCTURE APPRAISAL OF OIL AND GAS SECTOR IN INDIA

## (CASE STUDY OF BHARAT PETROLEUM CORPORATION LIMITED AND NAYARA ENERGY)

**Dr. Rana Shahwal**

Assistant Professor Commerce

The Bhopal School of Social Sciences

DRM office Bhopal, Hoshangabad Road, Nearby,

Habib Ganj Naka, Opposite, Bhopal, Madhya Pradesh India 462024

### ABSTRACT

*Capital Structure is the makeup of long-term securities including owners fund and borrower's funds. A company must acquire funds to invest in the business. Capital Structure refers to proportionate number of securities that make up capitalization. Optimum Capital Structure means mix of debt and equity that conduce to the uttermost value of the firm and its owner's worthiness. The objectives of the study are to find out the to analyze the capital structure of public and private ltd companies in India to examine the differences of capital structure of, BPCL and NAYARA ENERGY(EOL) This study is based on the secondary data which is collected from the Annual Reports of Bharat Petroleum Corporation Limited and Essar Oil Limited (Nayara Energy). Ratio analysis as a tool is used for data analysis. Under analysis Capital Structure Ratios, like Debt Equity Ratio, Solvency Ratio, Capital Gearing Ratio, Funded Debt to Capitalization Ratio, Proprietor Ratio are calculated to justify the said objectives. At last t-test used for Hypothesis testing. The study would be beneficial for public and private ltd companies in terms of financing Capital structure Decision.*

**Index Terms** - Capital Structure, Owner's fund, Borrower's Fund, Public ltd

### INTRODUCTION

Capital Structure is the makeup of long-term securities including owners fund (Equity and Preference Shares) and borrower's funds (Debentures, and long-term loans). A company must arrange funds to invest in the business. Inadequate and improperly manage funds create problems for the business; it may suffer from the shortage of funds, as result operations may affected. To have an optimum capital structure the firm acquired funds on the basis cost of capital. In other words we can say Capital Structure refers to proportionate amount of securities that make up capitalization. Optimum Capital Structure means mix of debt and equity that conduce to the uttermost value of the firm and its owner's worthiness. Rationally, the financial manager determines the proper mix of debt and equity for the firm. It is must for every firm to have aims at achieving the optimal capital structure but in practice it is very difficult to design the optimal structure. Every firm always tries to reach as near as possible of the optimum point of Debt Equity Mix.

### Factors Determining the Capital Structure:

- Capital Structure influence by the sizing and nature of the firm.
- To increase the earning per share manager design capital structure by long term fixed Interest-bearing debt and preference share capital along with equity.
- To raise a higher level of debt, a firm must maintain the growth and stability of sales.
- Managing with business and financial risk.
- Careful Composition of assets and their liquidity.

- Productive purpose of Financing.
- To meet the requirements of institutional and private investors.
- Firm able to generate larger and stable cash inflows to employ more debt.
- Legal Restriction

Capital structure ratios are computed to check the long-term financial position of the firm. Capital structure ratios are most important ratios to analyze the financial statements of any company due to variations in profits in consecutive years although businesses are functioning in the same manner, combination of debt equity mix and nature of capital employed. It may be specified as those financial ratios which express the long-term constancy and structure of the company. The ratios suggest the mix of funds provided by the owners and lenders.

#### Features of Capital Structure Ratio:

- Centering of Capital Structure Ratios is getting long term solvency position of any business.
- It provides perceptivity into the Financing Techniques.
- It includes structural and coverage ratios.
- It measures the long-term stability and structure of the firm.
- These ratios suggest the composition of capital structure.
- Capital structure ratios directly help investors to analyze the position of their investment in the best possible way.

#### NEED OF THE STUDY

Capital Structure refers to proportionate number of securities that make up capitalization. Optimum Capital Structure means mix of debt and equity that conduce to the uttermost value of the firm and its owner's worthiness. Therefore, studies on capital Structure appraisal are must for corporate sectors. The study would be helpful for companies to analyze the cost and decision about the proportion of long-term securities while designing capital structure. This study is very beneficial for the companies those who want to take decision for expansion and growth. As we all know that there is tough competition in the market so for cope up with challenges and surviving in the market, studies, and research which help in financing decisions and capital structure designing and decision are the need of the hour. As a case study we can compare the capital structure of one public limited company (BPCL) and another Private Limited Company (NAYARA ENERGY) Formerly known as Essar Oil Limited.

#### STATEMENT OF THE PROBLEM

Financing Decision in Business enterprise is depended upon the available options of long-term sources. Capital Structure refers to proportionate number of securities that make up capitalization. Companies weather they are from public sector or private sector they must take this crucial decision of designing the capital structure. The major factors which affect the capital structure decision are estimation of capital requirements and cost of capital. In this Study the statement of the Problem is to analyze the capital structure two identical firms having different ownership pattern in a developing country, during the ten years of study. Through this study, corporate can understand the actual challenges and factors which is to be resolved by them by taking correct capital structure decision. The study suggested management to concentrate on designing optimum capital structure and best possible utilization of financial resources to maximize the return on Investment.

#### OBJECTIVE OF THE STUDY:

- To analyze the capital structure of public and private ltd companies in India
- To examine the differences of capital structure of, BPCL and NAYARA ENERGY(EOL)

#### HYPOTHESIS:

- There is no significant difference in Capital structure of, BPCL and EOL

#### RESEARCH METHODOLOGY

The proposed study would be descriptive in nature and it is purely based on secondary data. The data has been mainly collected by financial statements of both the companies that is position statement and income Statement and their schedules along with the information of some data has also been collected through personnel observations of emporium offices, management, administration etc. The data pertaining to consecutive tenure of 10 years (2006-07 to 2015-16) would be analyzed to attain the said objectives. Analysis techniques like Capital structure Ratios have been used, to reach appropriate conclusion regarding the analysis of capital structure and overall financial dependency of the company and t-test has been applied for Hypothesis Testing.

#### RESULTS AND DISCUSSIONS-

##### Following ratios are calculated for the Capital structure Appraisal of BPCL and Nayara Energy (EOL)

##### Debt Equity Ratio

Debt Equity ratio is most important long-term solvency ratio that shows soundness of firm's policies. This is also known as ratio of external and internal equity. It is evaluated to calculate the proportional claims of outsiders and the shareholders against their investment in the business. In other words, we state as the ratio compares the total debt to total equity of firm. The ratio expresses the proportionate claims of owners and the outsiders against the firm's assets.

##### Formula:

**Outsiders Funds**

$$\text{Debt Equity Ratio} = \frac{\text{Outsiders Funds}}{\text{Shareholders' funds}}$$

**Components of Debt Equity Ratio**

Shareholders fund = equity share capital, preference share capital, reserves, sinking funds etc.

Outsiders fund = long term and short-term debts in the form of debentures bonds, mortgages or bills and current liabilities.

**Significance of Debt Equity Ratio:**

The Debt Equity ratio is computed to evaluate the composition of debt and equity. The company operates the business with highest amount of outsider's funds in order to take lesser risk of shareholders' investment and to increase their earning per share by paying a minimum fixed rate of interest to outsiders. The outsiders want that shareholders should invest and risk their share of proportionate investments. Higher ratio shows that the claims of outsiders and creditors are more than those of owners and shareholders, which may not be considered by the creditors due to lesser margin of safety for them. A very high ratio may be unfavorable for the firm also. Similarly, very low ratio is not considered satisfactory for the shareholders' because it indicates that the firm has not been able to use low-cost outsiders' funds to magnify their earnings. The lower ratio predicts more financially stable company and higher ratios are considered riskier. In the study external and internal equities of two identical nature companies BPCL and EOL are calculated for comparative analysis with the data of ten consecutive years.

The given table, stated the computed figures of debt equity ratio of BPCL and EOL, presented in comparative table along with mean of the ratio, standard deviation, Coefficient of variation, and annual growth rate.

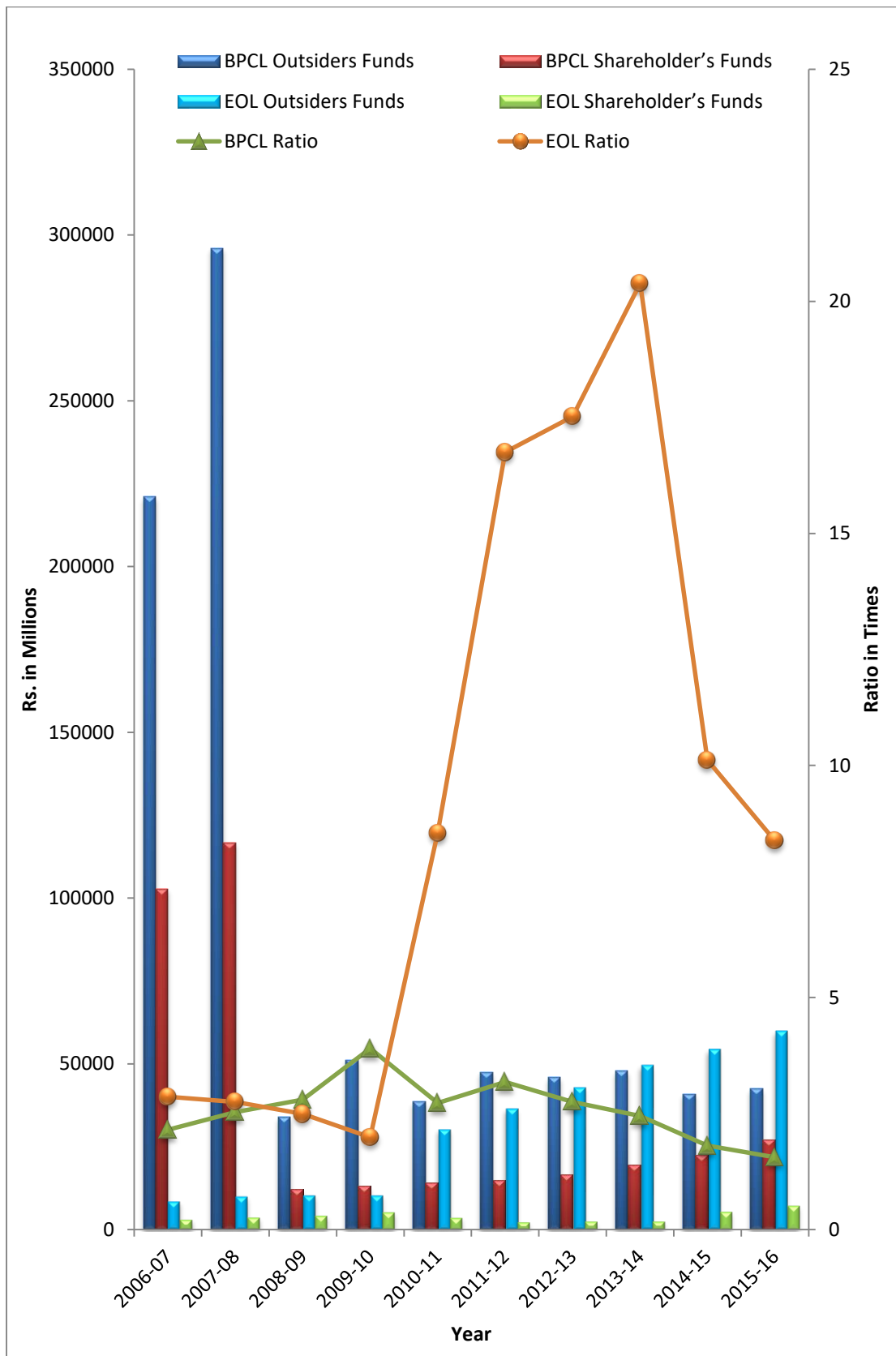
**Comparative Appraisal of Debt Equity Ratio of BPCL and NAYARA ENERGY(EOL)**

(Rupees in Millions)

Year	BPCL			EOL (NAYARA ENERGY)		
	Outsiders Funds	Shareholder's Funds	Ratio	Outsiders Funds	Shareholder's Funds	Ratio
2006-07	221059.15	102735.41	2.15	8571.44	2995.13	2.86
2007-08	296026.38	116768.40	2.53	10015.59	3629.92	2.75
2008-09	34002.72	12128.11	2.80	10313.85	4135.83	2.49
2009-10	51133.87	13086.71	3.90	10353.73	5178.45	1.99
2010-11	38477.76	14057.62	2.73	30227.06	3531.73	8.55
2011-12	47534.90	14913.86	3.18	36537.26	2180.74	16.75
2012-13	45883.52	16634.02	2.75	42857.75	2446.83	17.52
2013-14	47781.85	19458.76	2.45	49584.51	2430.63	20.39
2014-15	40868.91	22467.48	1.81	54387.65	5369.62	10.12
2015-16	42418.54	27158.69	1.56	59852.13	7138.93	8.38
<b>Mean</b>	<b>86518.76</b>	<b>35940.91</b>	<b>2.59</b>	<b>31270.10</b>	<b>3903.78</b>	<b>9.18</b>
<b>AGR</b>	<b>-8.08</b>	<b>-7.36</b>	<b>-2.74</b>	<b>59.83</b>	<b>13.84</b>	<b>19.30</b>
<b>SD</b>	<b>92503.92</b>	<b>39310.79</b>	<b>0.67</b>	<b>20258.11</b>	<b>1584.45</b>	<b>6.93</b>
<b>CV</b>	<b>106.92</b>	<b>109.38</b>	<b>25.91</b>	<b>64.78</b>	<b>40.59</b>	<b>75.49</b>
<b>Correlation</b>	<b>0.986205422</b>			<b>0.237901519</b>		

(Source: Annual Report of BPCL &amp; NAYARA ENERGY)

**Comparative Appraisal of Debt Equity Ratio of BPCL and NAYARA ENERGY (EOL)**



**Interpretation:**

According to table Debt Equity ratio of BPCL is fluctuating throughout the span of study. As standard norms low ratio (debt being low in comparison to shareholders fund) is reflect on as favorable from the long-term creditor's beliefs. In the year 2006-07 it is 2.15, 2.53 in 2007-08, 2.80 in 2008-09. In the year 2009-10, it is 3.90 which is the highest ratio in the time of work, In 2010-11, ratio is 2.73, 3.18 in the year 2011-12. In the year 2012-13 and 2013-14, the ratio is 2.75 and 2.45 but it is decreases in 2014-15 and 15-16 i.e. 1.81 and 1.56. The average debt-equity ratio worked out to be 2.59 with a standard deviation of 0.67 with 25.91 CV indicates a relatively high variation. We Interpret that company have control on Debt equity ratio during the study. It indicates that claim of outsiders is greater than those of owners and company used maximum outsiders fund in order to take less risk of their investments and to increase their earning per share by paying a lower fixed rate of interest to outsiders. In the company EOL, Debt equity ratio is fluctuating with major differences during the study. In the year 2006.07, it is 2.86, 2.75 in 2007-08 2.49 in 2008-09. It is decreases to 1.99 in 2009-10. In the year 2010-11 it is increases to 8.55 and 16.75 and 17.52 in the

year 2011-12 and 2012-13. It is further increasing to 20.39 in 2013-14 but decreases to 10.12 in 2014-15 and 8.38 in 15-16. The average debt-equity ratio worked out to be 9.18 with a standard deviation of 6.93 with 25.91 CV indicates a relatively high variation. We interpret that company has used optimum outsiders fund in order to take lesser risk of their investment and to increase earnings per share. We come to an end, that both the companies are using more outsiders fund in their capital structure but BPCL have control and balanced combination of debt and equity. EOL should minimize the use of outsider's fund because it may increase the interest liability. BPCL has better position than EOL.

### Total Investment to Long Term Liabilities

The ratio Total Investment to long term liabilities is also recognized as long term Debt to Capitalization Ratio. The ratio shows the limit of long-term debts like Debentures, Bonds and mortgages are financed by the firm in its capital structure. It provides help to investors to figure out the risk of investing in a business. The ratio shows the financial ability of firm to take financial risk in the business. It comes under the roof of leverage ratio due to indicating about financial leverage. Total capitalization means total amount of capital employed in business therefore it is also calculated as total assets fewer total liabilities.

#### Formula:

$$\text{Ratio of Total Investment To long term liabilities} = \frac{\text{Shareholders' fund + Long term Liabilities}}{\text{Long term Liabilities}}$$

#### Components of Total Investment to long term liabilities ratio:

Long term Liabilities = long term debts of the business.

Shareholders fund = equity and preference share capital along with reserves and surplus.

#### Significance of Total Investment to long term liabilities ratio:

The ratio identified as an important ratio of analysis, which gives the percentage of long-term debt in total capitalization. Excess Debenture in the capital structure is riskier due to more credit liability. In the standard norms the proportion of long-term liabilities should not be very high. If this ratio is more than 1.0 means firm has more debt than equity and it is serious warning sign indicating financial burden or weakness on the business. On the other hand, if ratio less than 1.0 shows the healthy sign without any financial difficulties. Investors used the ratio to comparison of total financial risk between the companies. In the study with the data of ten consecutive years, the Total Investment to long term liabilities ratio is calculated to compare the financial stability of BPCL and EOL.

The given table 4.2, posit the work out figures of Total Investment to long term Liabilities ratio of BPCL and EOL, conferred in comparative table along with mean of the ratio, standard deviation, Coefficient of variation, and annual growth rat

#### Comparative Appraisal of Total Investment to long term Liabilities of BPCL and EOL

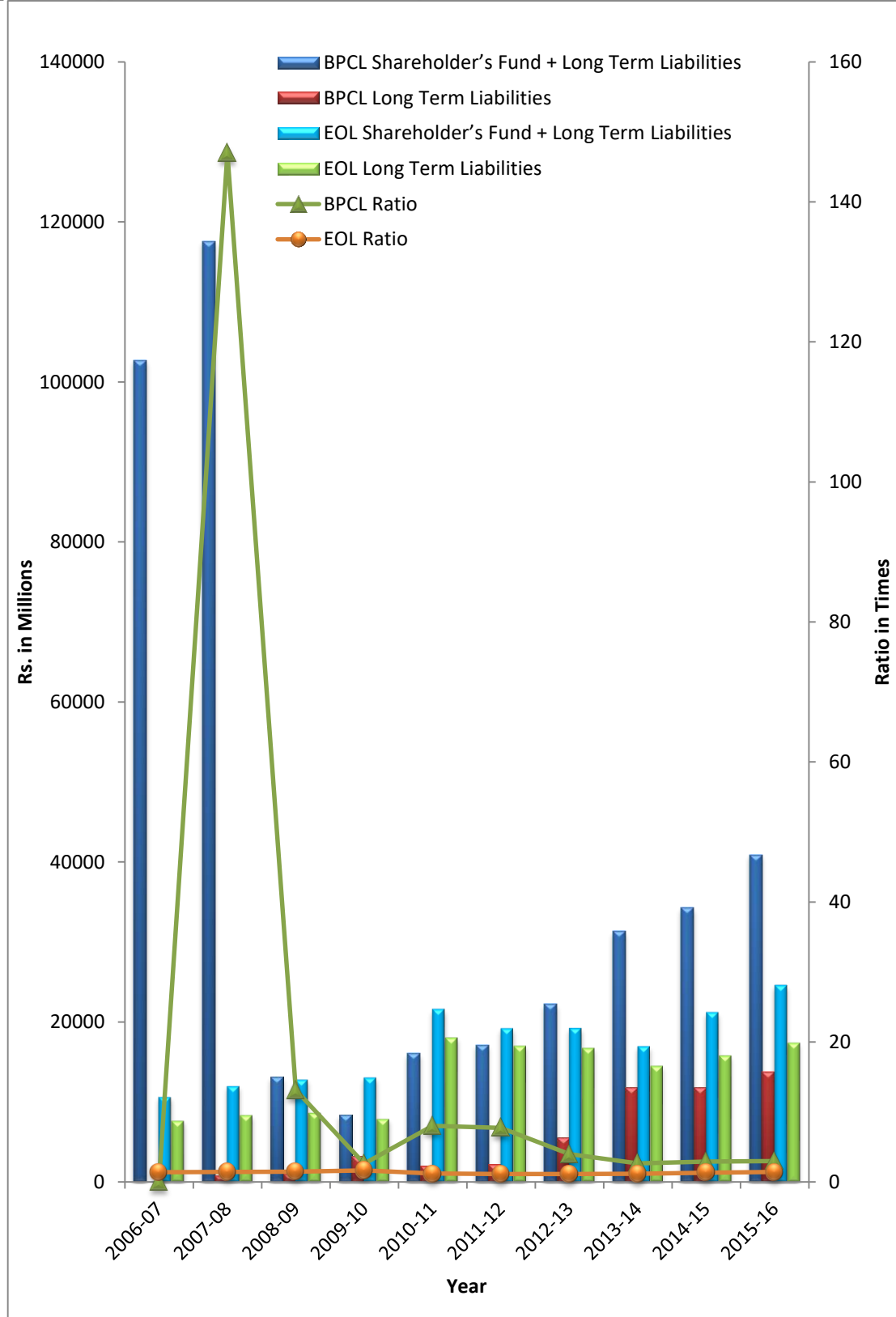
(Rupees in Millions)

Year	BPCL			NAYARA(EOL)		
	Shareholder's Fund + Long Term Liabilities	Long Term Liabilities	Ratio	Shareholder's Fund + Long Term Liabilities	Long Term Liabilities	Ratio
2006-07	102735.41	0	0	10639.52	7644.39	1.39
2007-08	117568.40	800.00	146.96	11994.64	8364.72	1.43
2008-09	13128.11	1000.00	13.12	12780.86	8645.03	1.47
2009-10	8378.45	3200.00	2.61	13043.58	7865.13	1.65
2010-11	16057.62	2000.00	8.02	21577.05	18045.32	1.19
2011-12	17128.91	2215.05	7.73	19179.09	16998.35	1.12
2012-13	22203.21	5569.19	3.98	19201.63	16754.80	1.14
2013-14	31327.86	11869.10	2.63	16954.05	14523.42	1.16
2014-15	34275.32	11807.31	2.90	21188.26	15818.64	1.33
2015-16	40905.11	13746.42	2.97	24540.26	17401.33	1.41
<b>Mean</b>	<b>40370.84</b>	<b>5220.71</b>	<b>19.09</b>	<b>17109.89</b>	<b>13206.11</b>	<b>1.33</b>
<b>AGR</b>	<b>-6.02</b>	<b>-</b>	<b>-</b>	<b>13.07</b>	<b>12.76</b>	<b>0.14</b>

<b>SD</b>	<b>38289.95</b>	<b>5254.59</b>	<b>45.09</b>	<b>4758.47</b>	<b>4475.29</b>	<b>0.17</b>
<b>CV</b>	<b>94.85</b>	<b>100.65</b>	<b>236.15</b>	<b>27.81</b>	<b>33.89</b>	<b>13.05</b>
<b>Correlation</b>	<b>-0.243600312</b>			<b>0.942938932</b>		

(Source: Annual Report of BPCL & NAYARA ENERGY)

**Comparative Appraisal of Total Investment to long term Liabilities of BPCL and NAYARA ENERGY(EOL)**



**Interpretation:**

According to table, long term debenture to total capitalization ratio discloses that in BPCL, it is fluctuating throughout the span of study. In 2006-07 company has not raise funds from long term liabilities. In 2007-08 company has very less mix of long-term liabilities, so the ratio is 146.96. In 2008-09, it is 8.02 and in 2011-12, it is 7.73. Ratio is decreases from 2012-13, it is

3.98, 2.63 in 2013-14, 2.90 in 2014-15 and 2.97 in 2015-16. The average of the ratio worked out to be 19.09 with a standard deviation of 45.09 with 236.15 CV indicates a relatively high variation. Generally, ratio less than 1.0 indicates the healthy financial position but in case of BPCL ratio is more than standard norms during the study, so we interpret that firm has more debt than equity and it is serious warning sign indicating financial burden or weakness on the business. In case of EOL we found that ratio is quiet stable during the study, although it is more than 1.0 means, firm has more debt than, it is increasing in 2007-08 i.e. 1.43 and 1.47 in 2008-09. It is 1.65 in 2009-10 and decreases to 1.19 in 2010-11, 1.12 in 2011-12, 1.14 in 2012-13, Further it is 1.16 in 2013-14 and 1.33 and 1.41 in 2014-15 and 2015-16. . The average ratio worked out to be 1.33 with a standard deviation of 0.17 with 13.05 CV indicates a relatively high variation. We conclude that comparatively EOL has better position than BPCL.

#### Ratio of Fixed Assets to Funded Debt

The quantitative relation between fixed assets and funded Debt is a very important long-term solvency ratio. It is a way of measuring the solvency of business. In a company fixed assets are secured against the long-term debt, therefore analyst and creditors are interested in this ratio. In other words, we can say, fixed assets are used to estimate its collateral value, which covers the company's long-term debts. The Debt coverage capabilities of the companies are assessed by fixed assets to funded Debt Ratio.

#### Formula:

$$\text{Ratio of Fixed Asset to Funded Debt} = \frac{\text{Fixed assets}}{\text{Funded Debt}}$$

#### Components of Fixed Assets to Funded Debt ratio:

- Fixed Assets = Tangible long-term assets
- Funded Debt = Long term borrowings, (bonds, loan, any other debt with a maturity of longer than a year)

#### Significance of Fixed Assets to Funded Debt ratio:

The ratio indicates about the percentage of the assets is financed by funded Debt. It indicates the amount of fixed assets being financed by each unit of long-term debt. It helps to evaluate the comprehension of a company to release its indebtedness towards long-term borrowers. The Ratio depicts the financial strength and ensuring the firm 's long-term survival. A higher ratio shows the capability to wrap up the long-term liability and providing the chances for attains new long-run borrowings in future. Generally, the fixed assets should be equal to funded debt means the ratio must be 100% but when fixed assets are more than the long-term funds means a part of assets arranged by capital of working which is not sound policy, when fixed assets are few as compare with funded debts are it indicates that a portion of working capital is met out, of the long run funds of the concern. Hither, in the discussion we can use this ratio to comparability of fixed assets to wrap up the debt of long run-in case BPCL and EOL by taking the data of ten consecutive years.

The given table situates the calculated figures of fixed assets to funded debt ratio of BPCL and EOL, visualized in comparative table along with mean of the ratio, standard deviation, Coefficient of variation, and annual growth rate.

#### Comparative Appraisal of Ratio between fixed assets to funded debt of BPCL and NAYARA ENERGY(EOL)

(Rupees in Millions)

Year	BPCL			NAYARA (EOL)		
	Fixed Assets	Funded Debt	Ratio	Fixed Assets	Funded Debt	Ratio
2006-07	118333.87	0	0	8652.04	7644.39	1.13
2007-08	127353.77	800	159.19	11505	8364.72	1.37
2008-09	14003.27	1000	14	16050.15	8645.03	1.85
2009-10	16187.1	3200	5.05	16628.1	7865.13	2.11
2010-11	16984.85	2000	8.49	19920.76	18045.32	1.1
2011-12	17718.31	2215.05	7.99	23080.39	16998.35	1.35
2012-13	19110.15	5569.19	3.43	23884.53	16754.8	1.42

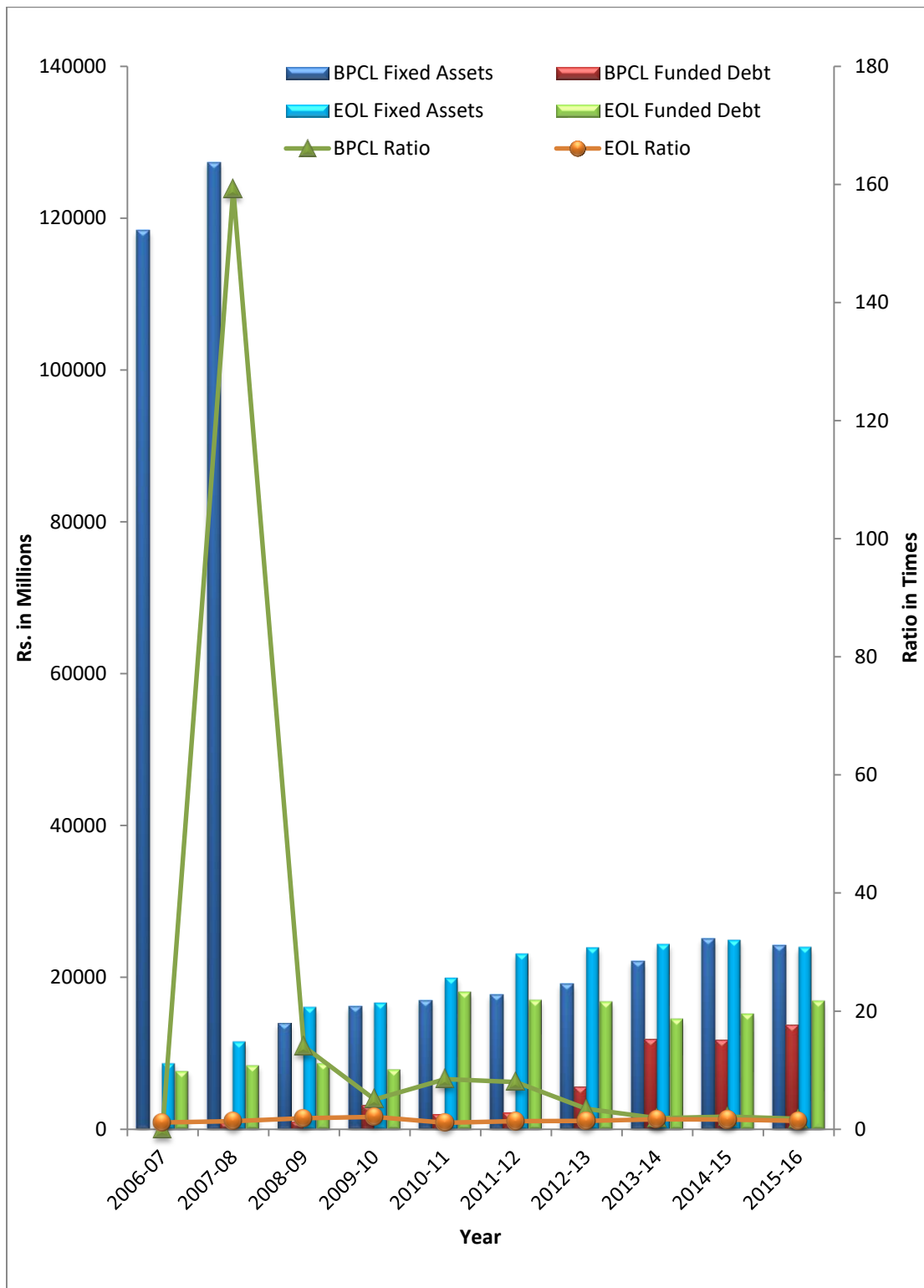
2013-14	22104.61	11869.1	1.86	24371.58	14523.42	1.67
2014-15	25090.04	11807.31	2.12	24870.84	15189.35	1.63
2015-16	24198.29	13746.42	1.76	23969.54	16878.17	1.42
<b>Mean</b>	<b>40108.43</b>	<b>5220.71</b>	<b>20.39</b>	<b>19293.29</b>	<b>13090.87</b>	<b>1.51</b>
<b>AGR</b>	<b>-7.96</b>	<b>-</b>	<b>-</b>	<b>17.70</b>	<b>12.08</b>	<b>2.57</b>
<b>SD</b>	<b>43798.08</b>	<b>5254.59</b>	<b>48.95</b>	<b>5831.86</b>	<b>4385.75</b>	<b>0.31</b>
<b>CV</b>	<b>109.20</b>	<b>100.65</b>	<b>240.08</b>	<b>30.23</b>	<b>33.50</b>	<b>20.89</b>
<b>Correlation</b>	<b>-0.41296709</b>			<b>0.845072285</b>		

(Source: Annual Report of BPCL & NAYARA ENERGY)

### Comparative Appraisal of Ratio between fixed assets to funded debt of BPCL and NAYARA ENERGY (EOL)







## Research Through Innovation

### Interpretation:

According to the table we found that in BPCL ratio is vacillate throughout the span of the study. The standard norm is 100% of ratio. In 2006-07 company has financed whole fixed assets with working capital because there are no funded debts. In 2007-08 ratio is very high i.e.159.19, it is, 14.00 in 2008-09 and it is 5.05 in 2009-10 which is increase to 8.49 in 2010-11, 7.99 in 2011-12. It is decreases in 2012-13 i.e. 3.43 and 1.86 in 2013-14. In 2014-15 it is 2.12 and 1.76 in 2015-16. The average of the ratio worked out to be 20.39 with a standard deviation of 48.95 with 240.08 CV indicates a relatively high variation We interpret that fixed assets are excess in amount than funded debts throughout the whole period of ten years means company has acquired a portion of fixed assets, from working capital which is not good financial policy. In EOL, the average of the ratio worked out to be 1.51 with a standard deviation of 0.31 with 20.89 CV indicates a relatively high variation we found that ratio is fluctuating during the study. In 2006-07, it is 1.13, 1.37 is in 2007-08 It is increases to 1.85 in 2008-09 and again increases to 2.11 in 2009-10. In 2010-11 it is decreases to 1.10 and 1.35 in 2011-12. In coming years, 12-13, 13-14, 14-15 and 15-16 it is 1.42, 1.67, 1.63 and 1.42. We interpret that company has average ratio of 1.5 during the study, although ratio have not touched the standard norms of equality. Fixed assets are more than long term funds show that, part of fixed assets financed by working capital. Comparatively we can say that according to this ratio, EOL has better financial position than BPCL.

### Solvency Ratio

The ratio discloses the quantitative relationship between entire Liabilities to entire assets. The ratio provides us the information regarding the portion of total assets that are being acquired from the Total Liabilities. It helps in determining the financial risk of a company. The ratio shows the leverage. This ratio shares the advancement of the company and competency of acquiring the assets over time. Stakeholders use the ratio to not only find out the potency of company to release a return on their investment but also the capability to have adequacy of funds to cope with its current debt responsibility.

#### Formula:

$$\text{Solvency Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}} \times 100$$

#### Components of Solvency ratio:

- Total Liabilities = Long term and short-term liabilities
- Total Assets = Tangible and Intangible Assets.

#### Significance of Solvency ratio:

It is placed as very crucial ratio of the series. To know the trends of the total debt in connection to total assets, it is computed by firms. The ratio has assessed the company's assets that are financed by debt, instead of equity. Analyst and Creditors use the ratio to know how much debt the company already has and additional loans will be extended to the firm or not. Usually, lower ratio considered as more satisfactory and stable for the long run solvency standing of a firm. By using data of ten consecutive years of BPCL and EOL, solvency ratio calculated to know the portion of total assets that are being financed with Total Liabilities for comparative analysis.

The given table, submit the computed figures of solvency ratio of BPCL and EOL, externalized in comparative table along with mean of the ratio, standard deviation, Coefficient of variation, and annual growth rate.

#### Comparative Appraisal of Solvency Ratio of BPCL and NAYARA ENERGY(EOL)

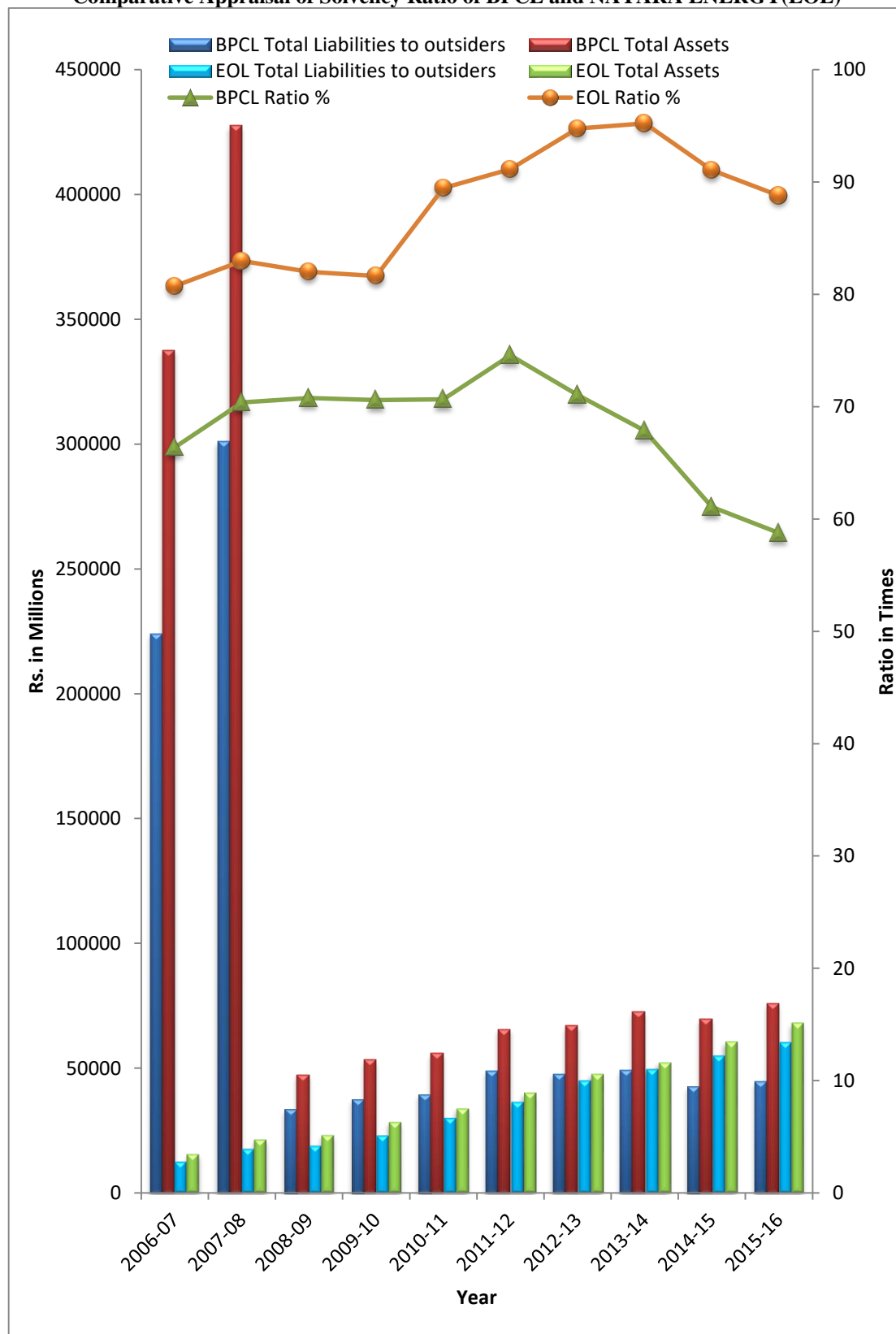
(Rupees in Millions)

Year	BPCL			NAYARA(EOL)		
	Total Liabilities to outsiders	Total Assets	Ratio %	Total Liabilities to outsiders	Total Assets	Ratio %
2006-07	224124.43	337620.5	66.38	12574.02	15576.17	80.72
2007-08	300978.55	427608.43	70.38	17762.39	21405.26	82.98
2008-09	33529.52	47370.07	70.78	18981.15	23142.67	82.01
2009-10	37605.06	53272.36	70.59	23143.3	28344.56	81.64
2010-11	39485.3	55875.95	70.66	30228.06	33789.37	89.46
2011-12	48935.46	65606.98	74.58	36538.26	40089.63	91.14
2012-13	47600.06	66987.39	71.05	45078.96	47565.85	94.77
2013-14	49142.75	72427.41	67.85	49584.51	52064.26	95.23
2014-15	42577.19	69728.88	61.06	55016.94	60422.01	91.05
2015-16	44648.04	75989.41	58.75	60375.29	67991.39	88.79
<b>Mean</b>	<b>86862.64</b>	<b>127248.74</b>	<b>68.21</b>	<b>34928.29</b>	<b>39039.12</b>	<b>87.78</b>

<b>AGR</b>	<b>-8.01</b>	<b>-7.75</b>	<b>-1.15</b>	<b>38.02</b>	<b>33.65</b>	<b>1.00</b>
<b>SD</b>	<b>94485.65</b>	<b>136541.39</b>	<b>4.90</b>	<b>16935.20</b>	<b>17622.64</b>	<b>5.52</b>
<b>CV</b>	<b>108.78</b>	<b>107.30</b>	<b>7.18</b>	<b>48.49</b>	<b>45.14</b>	<b>6.29</b>
<b>Correlation</b>	<b>0.998668933</b>			<b>0.996600686</b>		

(Source: Annual Report of BPCL & NAYARA ENERGY)

**Comparative Appraisal of Solvency Ratio of BPCL and NAYARA ENERGY(EOL)**



### Interpretation:

According to table, Solvency ratio of BPCL reveals that solvency position of the business is satisfactory due to lower ratio of total liabilities to total assets throughout the span of study, In 2006-07 ratio is 66.38%, which increases to 70.38% in 2007-08 and has been stable till 2010-11. It is 70.78% in 2008-09, 70.59 in 2009-10 and 70.66% in 2010-11. From 2011-12 it decreases to 74.58%, 71.05% in 2012-13, 67.85% in 2013-14, 61.06% in 2014-15 and 58.75% in 2015-16. The average of the ratio worked out to be 68.21 with a standard deviation of 4.90 with 7.18 CV indicates a relatively favorable variation. In the EOL total liabilities have lower ratio than total assets during the study. In 2006-07 it is 80.72% which is almost stable during the five years i.e., 82.98% in 2007-08, 82.01 in 2008-09, 81.64% in 2009-10, 89.46 in 2010-11. In 2011-12 it increases to 91.14%, 94.77% in 2012-13, 95.23% in 2013-14, 91.05% in 2014-15 and 88.79% in 2015-16. The average of the ratio worked out to be 87.78 with a standard deviation of 5.52 with 6.29 CV indicates a relatively favorable high variation. We conclude that both the companies have lower ratio, which projects about the satisfactory positions or stable long run solvency standing of companies.

### Capital Gearing Ratio

Capital gearing is as important as gears in an automobile, in a business. The Capital Gearing resort to the kinship between Equity share capital, Preference share capital, Reserves and long-term debt. In different way, we can discuss the Capital Gearing is the quantitative relationship between compositions of securities in the capital structure. It is most important tool for investors to understand how geared the capital of the firm is. Capital gearing ratio indicates the exact proportion of capital structure hence also recognized as the ratio of Equity to Total Debt. A firm is known as low geared if the uttermost portion of the capital is compiled of common stockholders like equity and in the other way the company is reputed to be highly geared, if the uttermost portion of the capital is compiled of debentures bearing fixed interest.

### Formula:

$$\text{Capital Gearing Ratio} = \frac{\text{Equity share capital + Reserve and surplus}}{\text{Preference Share capital + Long term debt (Bearing Fixed Interest)}}$$

### Components of Capital gearing ratio:

- Equity share capital + reserves and surpluses
- Preference share capital + Long term debt bearing fixed interest

### Significance of Capital gearing ratio:

This is very important ratio for the analyst and investors. Capital gearing influences the earning capability of the concern. To bring the smooth running of the enterprise a proper capital gearing is very important. An undertaking is called as high geared when fixed cost funds are more than the shareholders' fund and called as low geared when fixed cost funds are less than shareholders' fund. The Financial manager must take decision about the optimum proportion of securities in the capital structure, so the decisions related to this ratio is very important for the concern. The ratio facilitates the company's success and all stakeholders affected by it. Financial Institutions reluctant to provide loans highly geared companies. In the study, we can comparatively analyze the capital gearing of BPCL and EOL with the data of ten consecutive years.

The given table, states the computed figures of Capital Gearing Ratio of BPCL and EOL, Designed in comparative table along with mean of the ratio, standard deviation, Coefficient of variation, and annual growth rate.

### Comparative Appraisal of Capital Gearing Ratio of BPCL and NAYARA ENERGY(EOL)

(Rupees in Millions)

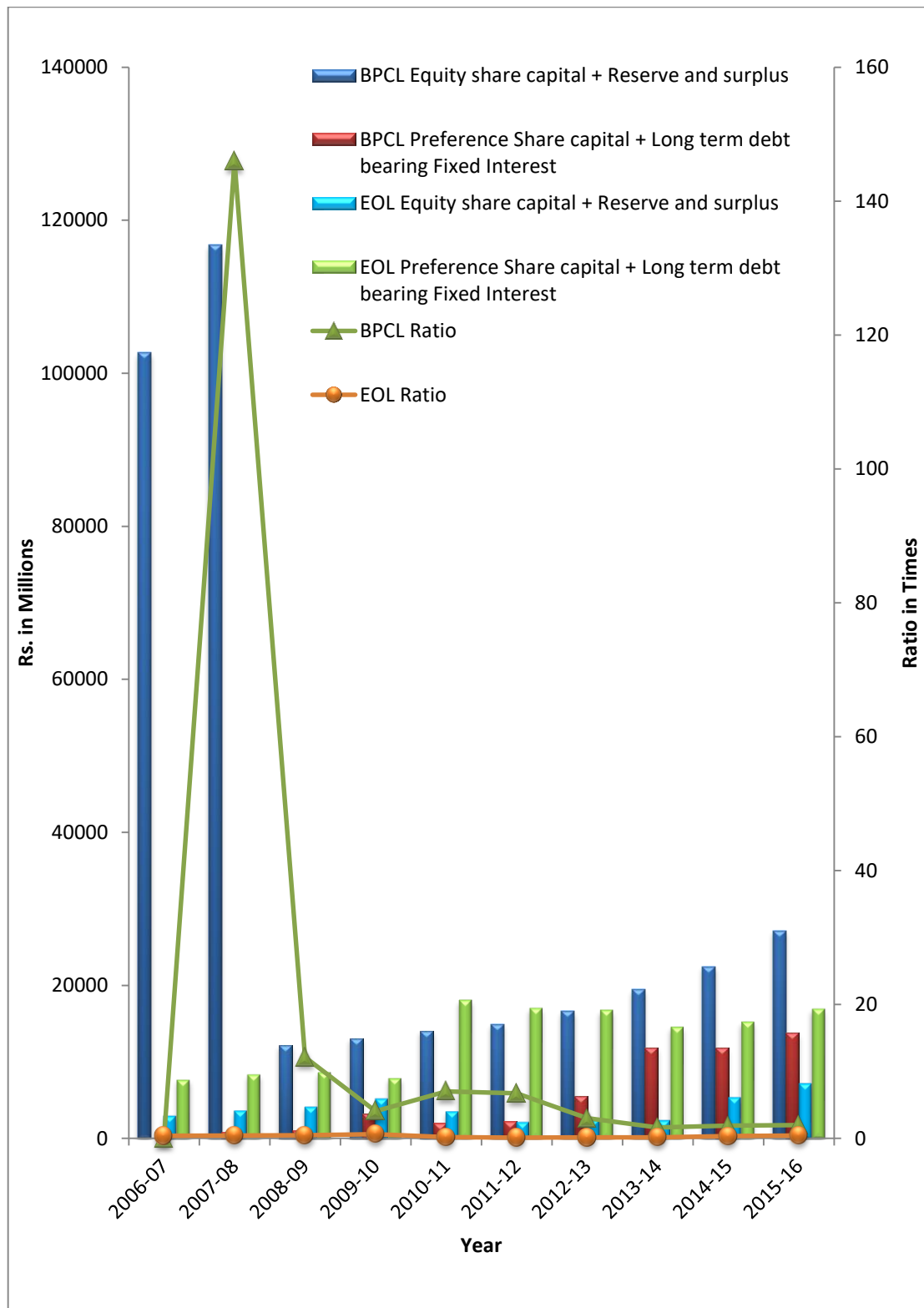
Year	BPCL			NAYARA(EOL)		
	Equity share capital + Reserve and surplus	Preference Share capital + Long term debt bearing Fixed Interest	Ratio	Equity share capital + Reserve and surplus	Preference Share capital + Long term debt bearing Fixed Interest	Ratio
2006-07	102735.41	0	0	2995.13	7644.39	0.39
2007-08	116768.4	800	145.96	3629.92	8364.72	0.43
2008-09	12128.11	1000	12.12	4135.83	8645.03	0.47
2009-10	13086.71	3200	4.08	5178.45	7865.13	0.65

2010-11	14057.62	2000	7.02	3531.73	18045.32	0.19
2011-12	14913.86	2215.05	6.73	2180.74	16998.35	0.12
2012-13	16634.02	5508.37	3.01	2446.83	16754.8	0.14
2013-14	19458.76	11869.1	1.63	2430.63	14523.42	0.16
2014-15	22467.48	11807.31	1.9	5369.62	15189.35	0.35
2015-16	27158.69	13746.42	1.97	7138.93	16878.17	0.42
<b>Mean</b>	<b>35940.91</b>	<b>5214.63</b>	<b>18.44</b>	<b>3903.78</b>	<b>13090.87</b>	<b>0.33</b>
<b>AGR</b>	<b>-7.36</b>	<b>-</b>	<b>-</b>	<b>13.84</b>	<b>12.08</b>	<b>0.77</b>
<b>SD</b>	<b>39310.79</b>	<b>5254.18</b>	<b>44.95</b>	<b>1584.45</b>	<b>4385.75</b>	<b>0.17</b>
<b>CV</b>	<b>109.38</b>	<b>100.76</b>	<b>243.71</b>	<b>40.59</b>	<b>33.50</b>	<b>52.44</b>
<b>Correlation</b>	<b>-0.378938221</b>			<b>-0.03430638</b>		

(Source: Annual Report of BPCL &amp; NAYARA ENERGY)

**Comparative Appraisal of Capital Gearing Ratio of BPCL and NAYARA ENERGY (EOL)**


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 Research Through Innovation



## Research Through Innovation

### Interpretation:

According to table Capital gearing ratio of BPCL reveals that company has low geared ratio during the study. In 2006-07 company has only equity share capital and reserve & surplus but from 2007-08 the ratio is 145.96, in 2008-09 it is 12.12, 4.08 in 2009-10, 7.02 in 2010-11 and 6.73 in 2011-12, From 2012-13 it is decreases to 3.01, 1.63 in 2013-14, 1.90 in 2014-15 and 1.97 in 2015-16. Company is reputed as low gear because fixed interest-bearing loans are less than equity capital and reserves & surplus. The average of the ratio worked out to be 18.44 with a standard deviation of 44.95 with 243.71 CV indicates a relatively high variation. In the company, EOL the ratio is 0.39 in 2006-07 which increases in 2007-08 i.e., 0.43, 0.47 in 2008-09, 0.65 in 2009-10. In 2010-11 it is 0.19 which is decreases in 2011-12 i.e., 0.12. The ratio is increases from 2012-13 i.e., 0.14, 0.16 in 2013-14, 0.35 in 2014-15 and 0.42 in 2015-16. The average of the ratio worked out to be 0.33 with a standard deviation of 0.17 with 52.44 CV indicates a relatively high variation. Company is reputed as high geared because fixed interest-bearing debts are more than the equity share capital and reserve and surplus. We suggest that EOL must reduce the mix of fixed interest-bearing debts because it is not good at initial stage for companies or in which future earnings are uncertain. Comparatively BPCL is in better position as a low geared firm.

### Proprietary Ratio

The Proprietors Ratio is also known as Equity Ratio. It is very important Ratio for determining the long run ability to pay debts of a firm. It is the proportion of shareholders' fund to total assets. It is the general indicator of financial stability. The Ratio roughly provides an estimate of the amount of capitalization which may be currently used to support in the business. It is need to count the robustness of the capital structure of a firm.

$$\text{Proprietary Ratio} = \frac{\text{Shareholder's Fund}}{\text{Total Assets}} \times 100$$

- Shareholders' Fund = Equity & preference share capital, reserves and surplus, Undistributed profits - accumulated losses
- Total Assets = All assets in the Balance sheet

### Significance of Proprietary ratio:

The quantitative relationship of the ratio indicates the contribution of shareholders in complete capital of the company; therefore, it is known as important ratio to judge the long run solvency standing of the business. The ratio projects the combination of total assets of a firm which are financed by proprietors' or shareholders' funds. Creditors used the ratio to assess the contribution of shareholders' funds employed out of all assets of the company. A high ratio more than 75% means sufficient comfort for creditors indicates secure financial stance of the company and high security margin for creditors. A low ratio less than 60% means soreness for creditors which indicate that the company has burden of debt or depending on debts for its operations. High proportion of debts in the total capital may decrease the interest of creditors and increases the interest and risk of failure. Therefore, high ratio considered as better.

The given table, posit the work out figures of Proprietor's Ratio of BPCL and EOL, conferred in comparative table along with mean of the ratio, standard deviation, Coefficient of variation, and annual growth rate.

### Comparative Appraisal of Proprietor's Ratio of BPCL and NAYARA ENERGY(EOL)

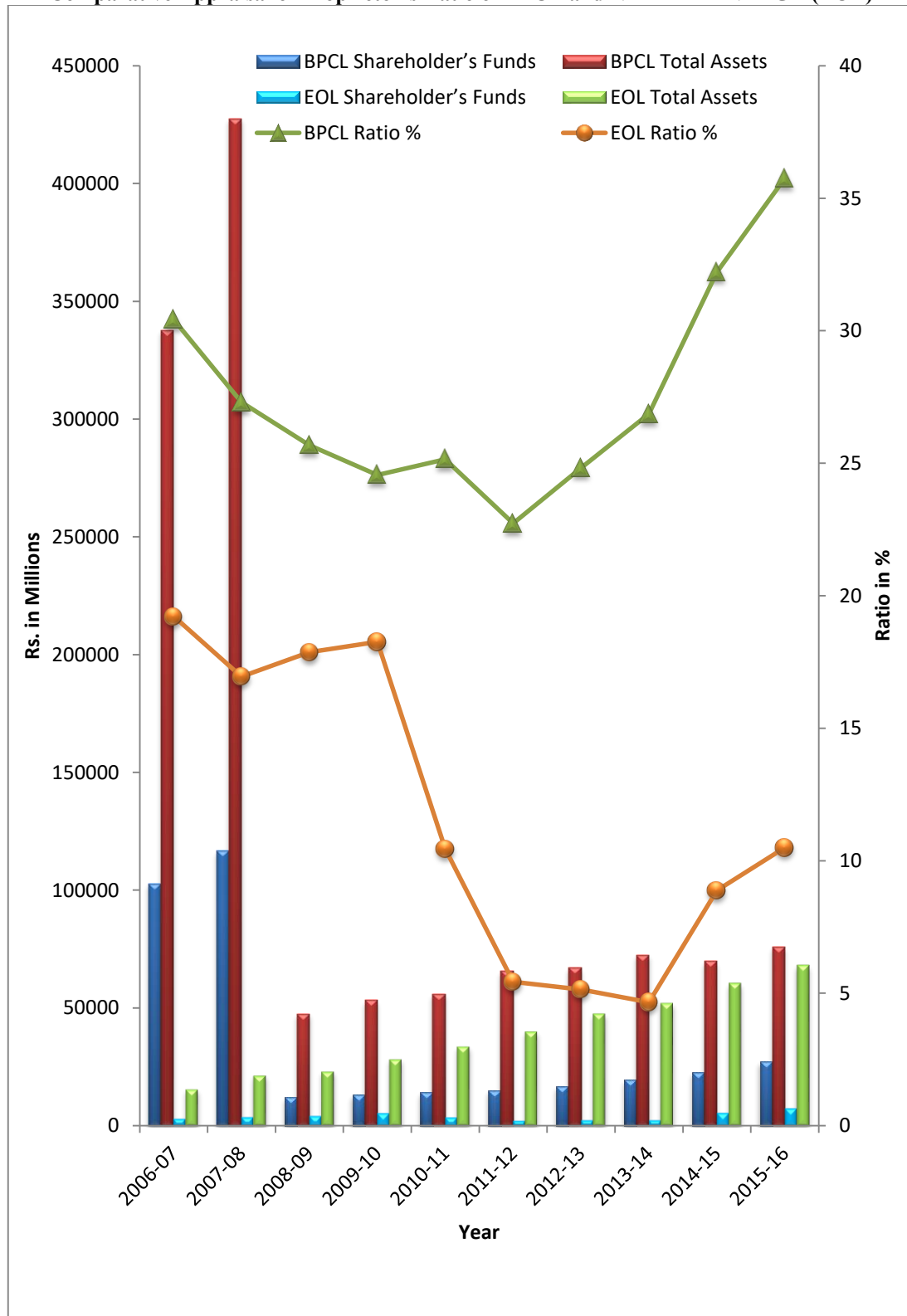
(Rupees in Millions)

Year	BPCL			EOL		
	Shareholder's Funds	Total Assets	Ratio %	Shareholder's Funds	Total Assets	Ratio %
2006-07	102735.41	337620.5	30.42	2995.13	15576.17	19.22
2007-08	116768.4	427608.43	27.3	3629.92	21405.26	16.95
2008-09	12128.11	47370.07	25.68	4135.83	23142.67	17.87
2009-10	13086.71	53272.36	24.56	5178.45	28344.56	18.26
2010-11	14057.62	55875.95	25.15	3531.73	33789.37	10.45
2011-12	14913.86	65606.98	22.73	2180.74	40089.63	5.43
2012-13	16634.02	66987.39	24.83	2446.83	47565.85	5.14
2013-14	19458.76	72427.41	26.86	2430.63	52064.26	4.66
2014-15	22467.48	69728.88	32.22	5369.62	60422.01	8.88
2015-16	27158.69	75989.41	35.74	7138.93	67991.39	10.49
<b>Mean</b>	<b>35940.91</b>	<b>127248.74</b>	<b>27.55</b>	<b>3903.78</b>	<b>39039.12</b>	<b>11.74</b>
<b>AGR</b>	<b>-7.36</b>	<b>-7.75</b>	<b>1.75</b>	<b>13.84</b>	<b>33.65</b>	<b>-4.54</b>

SD	39310.79	136541.39	4.03	1584.45	17622.64	5.85
CV	109.38	107.30	14.64	40.59	45.14	49.86
Correlation	0.995115872			0.407357972		

(Source: Annual Report of BPCL & NAYARA ENERGY)

**Comparative Appraisal of Proprietor’s Ratio of BPCL and NAYARA ENERGY (EOL)**



**Interpretation:**

According to table 4.6, Proprietor’s ratio of BPCL shows that the ratio is moving in up and down directions throughout the span of study. In the year, 06-07 it is 30.42% and 27.30% in 07-08. In 08-09 the ratio is 25.68% and 24.56% in 09-10. In the



year 10-11 the ratio is 25.15% and in 2011-12 it is 22.73%. In 2012-13 it is 24.83%, in 2013-14 it is 26.86%. In 2014-15 it is 32.22% and 35.74% in 2015-16. Generally, as per standard norms, high ratio more than 75% consider as satisfactory and low ratio less than 60% is not satisfactory. So, we interpret that company has low ratio less than 60% means, it has burden of debts or depending on debts for its operations. The average of the ratio worked out to be 27.55 with a standard deviation of 4.03 with 14.64 CV indicates a relatively high variation in case of EOL, the ratio is very low. In 2006-07 it is 19.22% and 16.95% in 2007-08. In 2008-09 it is 17.87% and 18.26% in 2009-10. In 2010-11 it is 10.45% and decreases to 5.43% in 2011-12; it is nearly same as 5.14% in 2012-13. The ratio is on least figure at 4.66% in 2013-14. It is 8.88% in 2014-15 and increases to 10.49% in 2015-16. The average of the ratio worked out to be 11.74 with a standard deviation of 5.85 with 49.86 CV indicates a relatively high variation. We can say that the company has burden of debt and depend on debts for its operations. Comparatively we conclude that both the companies have low ratio which is not good for long run solvency status of the business.

#### Funded Debts to Total Capitalization Ratio

The ratio expresses the composition of funded debt a company uses to finance with its total Capital employed in the business. Companies must manage funded debt carefully because of the cash flow needed to redeemed principal amount with interest. It is a quantitative relation between a funded debt and total capitalization. It belongs to the series of Capital structure ratio. Financing from funded debt also provide an opportunity for abnormal returns to shareholders but the company needed to use loans in an efficient manner that the returns are excess than the cost of debt.

#### Formula:

$$\text{Funded debt to Total capitalization Ratio} = \frac{\text{Funded Debt (Long term Debt)}}{\text{Total Capitalization}} \times 100$$

- Funded Debt = Debentures + Mortgage loan + Bonds + Other long-term loans
- Total Capitalization = Equity + Preference Share Capital + Reserve and Surplus + other undistributed reserves + Debenture + Mortgage Loans + Bonds + Other long-term loans.

#### Significance of Funded debt to total capitalization ratio:

The ratio is the one of the determinants of capital structure ratios. It measures the amount of the capital employed used by the fixed interest-bearing debts This ratio is a real measure of risk and allows firm to calculate how efficiently it can maintain a down turn in sales due to the relationship between long term debt and total amount of capitalization. Higher ratios are considered as riskier due to keep up the level of sales to meet their debt responsibilities but the higher ratio is not always risky because some companies carry high level of debt due to capital intensive operations. More than 1 ratio means more debt than capital or riskier and less than 1 means debt are manageable or less risky. Therefore, lower ratio is considered as better up to 50-55%. The ratio used to comparative analysis of BPCL and EOL.

The given table, situates the computed figures of Funded Debts to total capitalization Ratio of BPCL and EOL, bestowed in comparative table along with mean of the ratio, standard deviation, Coefficient of variation, and annual growth rate.

#### Comparative Appraisal of Funded Debts to total capitalization Ratio of BPCL and NAYARA ENERGY(EOL)

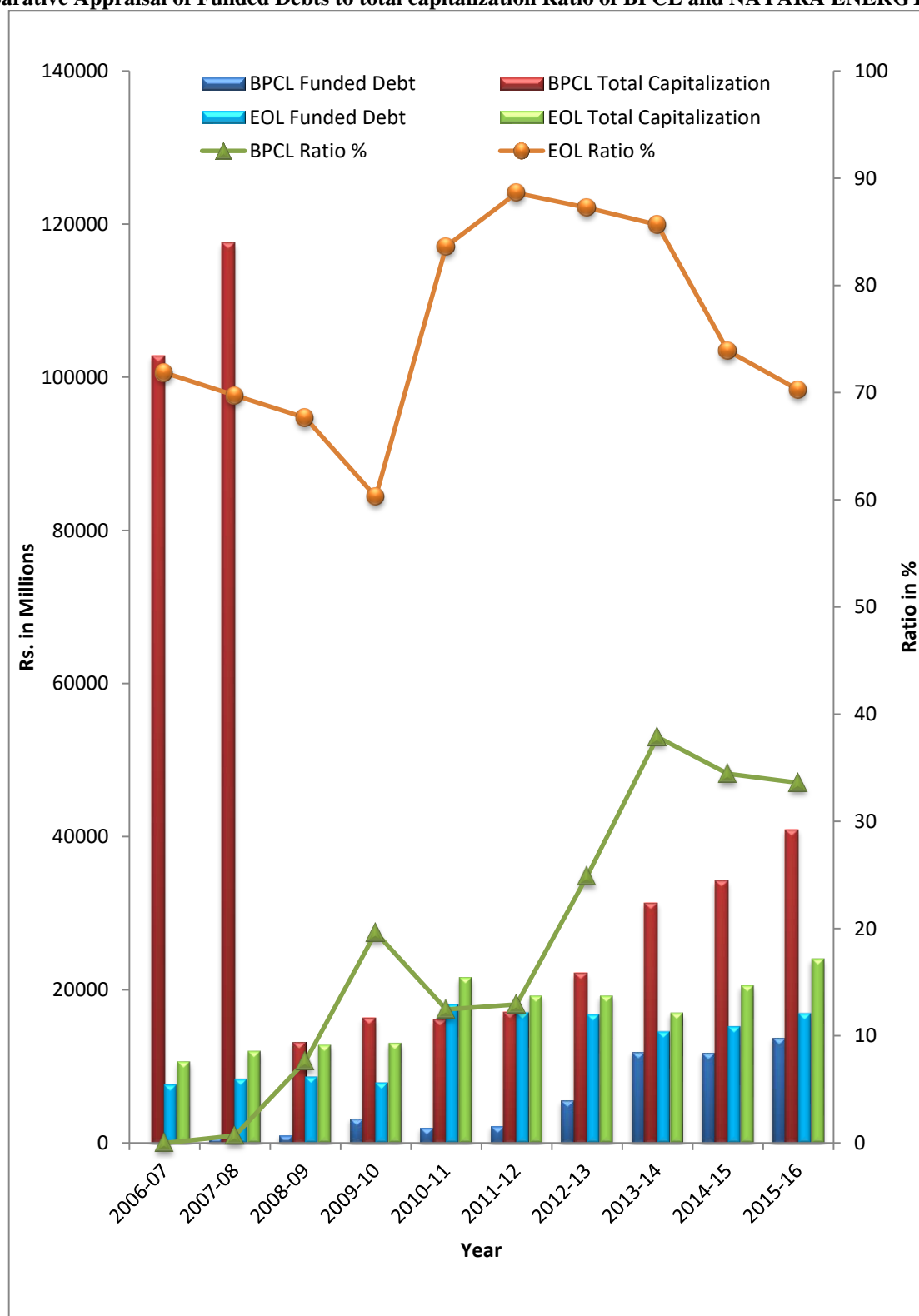
(Rupees in Millions)

Year	BPCL			NAYARA (EOL)		
	Funded Debt	Total Capitalization	Ratio %	Funded Debt	Total Capitalization	Ratio %
2006-07	0	102735.41	0	7644.39	10639.52	71.84
2007-08	800	117568.4	0.68	8364.72	11994.64	69.73
2008-09	1000	13128.11	7.61	8645.03	12780.86	67.64
2009-10	3200	16286.71	19.64	7865.13	13043.58	60.29
2010-11	2000	16057.62	12.45	18045.32	21577.05	83.63
2011-12	2215.05	17128.91	12.93	16998.35	19179.09	88.62
2012-13	5508.37	22142.39	24.87	16754.8	19201.63	87.25
2013-14	11869.1	31327.86	37.88	14523.42	16954.05	85.66
2014-15	11807.31	34274.79	34.44	15189.35	20558.97	73.88

2015-16	13746.42	40905.11	33.6	16878.17	24017.1	70.27
<b>Mean</b>	<b>5214.63</b>	<b>41155.53</b>	<b>18.41</b>	<b>13090.87</b>	<b>16994.65</b>	<b>75.88</b>
<b>AGR</b>	<b>-</b>	<b>-6.02</b>	<b>-</b>	<b>12.08</b>	<b>12.57</b>	<b>-0.22</b>
<b>SD</b>	<b>5254.18</b>	<b>37635.20</b>	<b>13.93</b>	<b>4385.75</b>	<b>4611.78</b>	<b>9.71</b>
<b>CV</b>	<b>100.76</b>	<b>91.45</b>	<b>75.65</b>	<b>33.50</b>	<b>27.14</b>	<b>12.79</b>
<b>Correlation</b>	<b>-0.256201152</b>			<b>0.939202566</b>		

(Source: Annual Report of BPCL & NAYARA ENERGY)

**Comparative Appraisal of Funded Debts to total capitalization Ratio of BPCL and NAYARA ENERGY (EOL)**



**Interpretation:**

According to table, BPCL has low ratio, which is a good sign for company. In 2006-07 company raise funds only from owner's fund. In 2007-08 ratio is 0.68% and in 2008-09 it is 7.61%. The ratio increases 19.64% in 2009-10 and 12.45% in 2010-11, it is 12.93% in 2011-12, Further it is increases to 24.87% in 2012-13 and 37.88% in 2013-14. In 2014-15 it is 34.44% and 33.60% in 2015-16. We may discuss that; company is maintaining standard norms and has less than 50% ratio throughout the span. It points out that company has less reliance on outsiders and situation is manageable. The average of the ratio worked out to be 18.41 with a standard deviation of 13.93 with 75.65 CV indicates a relatively high variation In EOL The average of the ratio worked out to be 75.88 with a standard deviation of 9.71 with 12.79 CV indicates a relatively high variation. we found that in 2006-07 ratio is 71.84% which increases in 2007-08 to 69.73%.67.64% in 2008-09 and 60.29% in 2009-10.Further in 2010-11 the ratio increases to 83.63% and 88.62% in 2011-12.The ratio decreases in 2012-13 to 87.25% and 83.66% in 2013-14.In 2014-15 it is 73.88% and 70.27% in 2015-16.We interpret that EOL company has more funded debt in total capitalization, it may risky for company due to keep up the level of sales to meet their debt responsibilities. Company should reduce the mix of funded debt in total capitalization

**Hypothesis H0: There is no significant difference in Capital Structure of Bharat Petroleum Corporation Limited (BPCL) and NAYARA ENERGY (Essar Oil Limited-EOL)**

	Ratio	Relation Between the Components	Table Value	Value of "r"	Degree of Correlation	Value of "t"	Result	Value of "r"	Degree of Correlation	Value of "t"	Result
							<b>BPCL</b>				<b>EOL</b>
1	Debt Equity Ratio	Outsiders Funds and Shareholders Funds	1.86	0.98	Very High Degree Correlation	13.72	t > t0.05, value of r is not significant <b>Null Hypothesis is rejected</b>	0.23	Very Low Degree Correlation	0.66	t < t0.05, value of r is significant <b>Null Hypothesis is Accepted</b>
2	Total Investment to Long Term Liability Ratio	Shareholders Fund + Long Term Liabilities and Long-Term Liabilities	1.86	-0.24	Very Low Degree Correlation	-0.69	t < t0.05, value of r is significant <b>Null Hypothesis is Accepted</b>	0.94	High Degree Correlation	7.77	t > t0.05, value of r is not significant <b>Null Hypothesis is rejected</b>
3	Ratio of Fixed assets to Funded Debt	Fixed Assets and Funded Debt	1.86	-0.41	Moderate Degree of Correlation	-0.028	t < t0.05, value of r is significant <b>Null Hypothesis is Accepted</b>	0.84	High Degree Correlation	4.33	t > t0.05, value of r is not significant <b>Null Hypothesis is rejected</b>
4	Solvency Ratio	Total Liabilities to outsiders and Total Assets	1.86	0.99	Very High Degree Correlation	19.94	t > t0.05, value of r is not significant <b>Null Hypothesis is rejected</b>	0.99	Very High Degree Correlation	19.94	t > t0.05, value of r is not significant <b>Null Hypothesis is rejected</b>
5	Capital Gearing Ratio	Equity share capital + Reserve and surplus and Preference Share capital	1.86	-0.37	Moderate Degree of Correlation	-1.13	t < t0.05, value of r is significant <b>Null Hypothesis is Accepted</b>	-0.03	Very Low Degree Correlation	-0.08	t < t0.05, value of r is significant <b>Null Hypothesis is Accepted</b>

		+ Long term debt bearing Fixed Interest									sis is Accepted
6	Proprietary Ratio	Shareholder's Funds and Total Assets	1.86	0.99	Very High Degree Correlation	19.94	$t > t_{0.05}$ , value of $r$ is not significant <b>Null Hypothesis is rejected</b>	0.40	Moderate Degree of Correlation	1.23	$t < t_{0.05}$ , value of $r$ is significant <b>Null Hypothesis is Accepted</b>
7	Funded Debt to Total Capitalisation Ratio	Funded Debt and Total Capitalisation	1.86	-0.25	Very Low Degree Correlation	-3.32	$t < t_{0.05}$ , value of $r$ is significant <b>Null Hypothesis is Accepted</b>	0.93	High Degree Correlation	7.28	$t > t_{0.05}$ , value of $r$ is not significant <b>Null Hypothesis is rejected</b>

## HYPOTHESIS TESTING

The table shows the Second Hypothesis for the study (H02) **“There is no significant difference in Capital Structure of Bharat Petroleum Corporation Limited (BPCL) and Essar Oil Limited (EOL)”** the components of capital structure of BPCL and EOL. The table depicts about relation between the components, value of ‘ $r$ ’ Degree of Correlation, value of ‘ $t$ ’ and results.

### Decision:

According to Capital Structure Ratio It is found that Debt equity ratio, Solvency ratio, Proprietary ratio, of BPCL is not presenting a significant value of ‘ $r$ ’ that means the values of the variables are not significant and there are significant differences in the 10 consecutive years of study. The ratio of Total Investment to Long Term liability ratio, fixed assets to funded debt, Capital Gearing ratio, funded debt to total capitalisation ratio have the value of ‘ $r$ ’ significantly. We can say that ratio of fixed assets to funded debt, Equity share capital + reserve and surplus and preference share capital + long term debt bearing fixed interest and funded debt to total capitalisation having almost same rates during 10 consecutive years.

According to Capital Structure Ratio of EOL It is found that, only Total Investment to Long Term liability ratio, Ratio of fixed assets to funded debt, Funded debt to total capitalisation ratio and Solvency ratio of Company is not presenting a significant value of ‘ $r$ ’ that means the values of the variables are not significant in the 10 consecutive years of study and there are significant changes. Debt equity ratio, Capital gearing ratio, Proprietary ratio have the value of ‘ $r$ ’ significantly. We can say that ratio of debt and equity, shareholders fund and total assets and Equity share capital + reserve and surplus and preference share capital + Long term debt bearing fixed interest of company having no significant changes during 10 consecutive years study.

After the analysis, we found that, in **BPCL** the value of ‘ $r$ ’ in most of the ratios is significant. That means, the overall capital structure ratios of the company are having no significant changes for the ten consecutive years of study or there is no significant difference between the Capital structure positions of BPCL. Hence, **Null Hypothesis is accepted and Alternative Hypothesis will be rejected**. After the analysis of, **EOL** Company we found that, value of ‘ $r$ ’ in most of the ratios is not significant. It shows that there is significant difference between the Capital structure ratios of company during ten consecutive years of study. Hence, **Null Hypothesis is rejected and Alternative Hypothesis will be accepted**

### Conclusion

It is the structure of Capital in a firm, which form the combination of outsider’s fund and owner’s fund. It is very useful tool to understand about the fund-raising policy to collect the total amount of capital employed in the business. It is the best way to find out the proportion between Debenture, bond, loans and common stock, preferred stock of equity. Capital structure maximizes the value of the firm as well as wealth of shareholders. A comparison of capital structure ratios for dissimilar firms in the same industry gives correct picture about concerns and conferred about the areas of improvement. The capital structure status of two dissimilar companies of same industry has been discussed in the chapter. The companies are BPCL and EOL; former is government owned company and later is private owned company of oil sector in India. The total 7 ratios have been studied in the chapter. They are Debt equity ratio, Total Investment to long term Liabilities, Ratio of fixed assets to funded debt, Solvency Ratio, Capital Gearing Ratio, Proprietor’s Ratio, Ratio of Funded Debts to total capitalization.

**Following are the findings of each one of the Ratio:**

- As standard norms low ratio (debt being low in comparison to shareholders fund) is reflect on as favourable from the long-term creditor's belief. BPCL Company has control on Debt equity ratio during the study. It indicates that claim of outsiders is greater than those of owners and company used maximum outsiders fund in order to take less risk of their investments and to increase their earning per share by paying a lower fixed rate of interest to outsiders. In the company EOL company has used optimum outsiders fund in order to take lesser risk of their investment and to increase earnings per share. We come to an end, that both the companies are using more outsiders fund in their capital structure but BPCL have control and balanced combination of debt and equity. EOL should minimize the use of outsider's fund because it may increase the interest liability. BPCL has better position than EOL.
- Generally, Total Investment to long term Liabilities ratio, less than 1.0 indicates the healthy financial position but in case of BPCL ratio is more than standard norms during the study, so we interpret that firm has more debt than equity and it is serious warning sign indicating financial burden or weakness on the business. In case of EOL we found that ratio is quite stable during the study, although it is more than 1.0 means, firm has more debt than. We conclude that comparatively EOL has better position than BPCL.
- In BPCL Ratio of fixed assets to funded debt is vacillating throughout the span of the study. The standard norm is 100% of ratio. In 2006-07 company has financed whole fixed assets with working capital because there are no funded debts. We interpret that fixed assets are excess in amount than funded debts throughout the whole period of ten years means company have acquired a portion of fixed assets, from working capital which is not good financial policy. although ratio have not touched the standard norms of equality in case of EOL but Fixed assets are more than long term funds show that, part of fixed assets financed by working capital. Comparatively we can say that according to this ratio, EOL has better financial position than BPCL.
- Solvency ratio of BPCL reveals that solvency position of the business is satisfactory due to lower ratio of total liabilities to total assets throughout the span of study we conclude that both the companies have lower ratio, which projects about the satisfactory positions or stable long run solvency standing of companies.
- Capital gearing ratio of BPCL reveals that company has low geared ratio during the study. Company is reputed as low gear because fixed interest-bearing loans are less than equity capital and reserves & surplus. EOL, Company is reputed as high geared because fixed interest-bearing debts are more than the equity share capital and reserve and surplus. We suggest that EOL must reduce the mix of fixed interest-bearing debts because it is not good at initial stage for companies or in which future earnings are uncertain. Comparatively BPCL is in better position as a low geared firm.
- Proprietor's ratio of BPCL shows that the ratio is moving in up and down directions throughout the span of study. Generally, as per standard norms, high ratio more than 75% consider as satisfactory and low ratio less than 60% is not satisfactory. So, we interpret that company has low ratio less than 60% means, it has burden of debts or depending on debts for its. We can say that the company has burden of debt and depend on debts for its operations. Comparatively we conclude that both the companies have low ratio which is not good for long run solvency status of the business.
- BPCL has low Ratio of Funded Debts to total capitalization, which is a good sign for company. We may discuss that; company is maintaining standard norms and has less than 50% ratio throughout the span. It points out that company has less reliance on outsiders, and situation is manageable. We interpret that EOL Company has more funded debt in total capitalization; it may risky for company due to keep up the level of sales to meet their debt responsibilities. Company should reduce the mix of funded debt in total capitalization.

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