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DETERMINANTS OF A CAPITAL STRUCTURE WITH REFERENCE TO BRAKES INDIA PVT LTD, [GCKR ENTREPRISES], MENAKURU

*Tula Krishna Murthy Savidha[1], and Mr. Gandavaram Mahesh[2]
Department of management studies, Narayana Engineering College (Autonomous), Gudur

ABSTRACT

The capital structure of GCKR Enterprises and Brakes India Pvt. Ltd. refers to the mix of debt and equity used to finance the company's operations and growth. It involves analyzing the proportion of debt, equity, and internal funds in the overall capital structure to maintain financial stability and support long-term objectives. Both companies focus on achieving an optimal capital structure that minimizes the cost of capital while balancing financial risk. The structure is reviewed regularly to ensure alignment with market conditions, industry trends, and corporate strategies, contributing to profitability and shareholder value.

Capital structure refers to the mix of debt and equity that a company uses to finance its operations and growth. It represents the framework through which an organization secures the necessary funds to achieve its financial goals. Debt typically includes loans, bonds, and other forms of borrowing, while equity consists of shareholders' contributions and retained earnings.

Keywords: Debt Financing, Equity Financing, Investment Decision.

INTRODUCTION

Capital structure refers to the mix of a company's financing sources, primarily debt and equity, used to fund its operations and growth. Finding the optimal balance between these components is crucial for a firm's financial health and long-term success. This project aims to analyze the significance of capital structure decisions and their impact on a company's performance, profitability, and risk exposure. By examining theories like the Modigliani-Miller theorem, trade-off theory, and pecking order theory, this study will highlight factors influencing a firm's financing choices, including industry trends, economic conditions, and managerial preferences. The report will also include a case study approach, evaluating the capital structure of selected companies to understand how firms navigate financial leverage, cost of capital, and shareholder value.

Brakes India Private Limited, established in 1962 and headquartered in Chennai, is a leading manufacturer of braking systems and ferrous castings for the automotive industry. The company operates 21 manufacturing locations across India, including a foundry division in Menakur Village, Naidupet, Nellore, Andhra Pradesh . Brakes India serves a diverse clientele, supplying components for passenger vehicles, commercial vehicles, tractors, and off-highway equipment. With a workforce exceeding 10,000 employees, the company boasts an annual revenue of approximately ₹7,530 crore as of March 2024 . Notably, Brakes India has formed a joint venture with Japanese firm ADVICS to develop advanced braking products, focusing on technologies like Electronic Stability Control (ESC) for the Indian light vehicle market

GCKR Enterprises Brakes India Pvt. Ltd. operates in the automotive components manufacturing industry, specializing in brake system components for vehicles. As a key supplier to major OEMs (Original Equipment Manufacturers), the company invests in high-precision machinery and R&D

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for product innovation. In this capital-intensive industry, capital budgeting plays a crucial role in evaluating long-term investments like plant expansion, machinery upgrades, and automation to maintain competitiveness and efficiency. Strategic capital budgeting ensures optimal use of financial resources while aligning with technological advancements and market demand.

REVIEW OF LITERATURE

Al-Najjar & Hussainey (2011)This study revisits the capital structure puzzle using UK data, exploring the relevance of traditional capital structure theories. It highlights the significance of firm-specific characteristics such as size, profitability, and growth opportunities. The authors find mixed evidence supporting the pecking order and trade-off theories. Their dynamic panel data approach underscores the role of firm heterogeneity in financial decision-making. The paper contributes by offering a fresh perspective on UK capital structure determinants.

Fougo (2015) Fougo investigates capital structure determinants across Northern and Southern Europe, emphasizing regional differences in financing behavior. The study finds that institutional and macroeconomic factors significantly influence leverage decisions. Northern firms rely more on market-based financing, while Southern firms exhibit bank-oriented structures. The research supports the context-dependency of capital structure theories. It also suggests the need for policy harmonization across the EU.

Michiels & Molly (2017) This review synthesizes research on financing decisions in family businesses, pointing out their unique capital structure preferences. Family firms often exhibit conservative financial behavior, favoring internal financing and low debt levels to maintain control. The authors advocate for integrating family-specific factors into capital structure models. They also identify gaps such as the role of socioemotional wealth and succession planning. The paper offers a future research agenda for the field.

De Jong, Kabir & Nguyen (2008) Using a cross-country dataset, this study analyzes how firm-level and country-level variables shape capital structure decisions. It confirms the relevance of traditional determinants like size and tangibility but also emphasizes legal and financial systems. The findings suggest that capital structure is not universally determined, but varies with institutional environments. The study supports both the trade-off and agency theories, depending on context. It offers a comprehensive global perspective.

Eldomiaty & Ismail (2009) This paper models capital structure decisions in Egypt’s transitional market, capturing the interplay between financial performance and macroeconomic factors. The authors apply structural equation modeling to uncover causal relationships. Their findings indicate that firms adjust capital structures in response to economic liberalization. The research highlights the unique dynamics in emerging markets. It supports a contextual understanding of capital structure theory.

Frank & Goyal (2008) This seminal chapter reviews empirical evidence on the trade-off and pecking order theories of capital structure. The authors find consistent support for the importance of leverage determinants like profitability and size. However, evidence for pecking order behavior is mixed. They argue that theory testing should be aligned with firm heterogeneity. The paper is foundational in empirical corporate finance literature. It sets benchmarks for future empirical models.

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Gaud et al. (2005) This study investigates the capital structure of Swiss companies using dynamic panel data models. It finds that profitability, size, and growth opportunities significantly influence leverage. Swiss firms exhibit slow adjustment speeds toward target leverage, supporting the dynamic trade-off theory. The paper also highlights sectoral differences in capital structure. It provides robust empirical insights from a stable developed economy.

Gill, Biger & Mathur (2011) The study explores how capital structure affects profitability in the U.S. service and manufacturing sectors. It concludes that leverage has a positive relationship with profitability, supporting the trade-off theory. However, sector-specific differences suggest that the impact of debt varies across industries. The study contributes to understanding the capital structure-performance link. It offers implications for financial managers seeking optimal leverage.

Huang & Ritter (2009) This paper tests capital structure theories and estimates firms' speed of adjustment toward target leverage. The authors use U.S. data and find that adjustment speeds vary significantly by firm characteristics. They uncover stronger evidence for the trade-off theory than the pecking order. The study introduces a new approach to dynamic capital structure modeling. It enhances understanding of firms' financing behavior over time.

Bansal & Sharma (2019) Focusing on India, this study examines how corporate governance affects firm performance. It finds that governance mechanisms such as board composition and ownership structure play key roles. While not purely focused on capital structure, it provides insights into how governance can influence financial decisions. The research highlights the evolving institutional environment in emerging markets. It suggests integrating governance in capital structure analyses.

Aggarwal & Padhan (2017) This paper explores the impact of capital structure on firm value in India's hospitality industry. Using panel data, the authors find a non-linear relationship between debt and firm value, supporting the trade-off theory. The study also notes the influence of firm-specific factors like asset structure and size. It offers sector-specific insights for emerging market firms. The research underlines the importance of strategic leverage decisions.

Mazur (2007) Mazur investigates determinants of capital structure among Polish firms, using regression models. The study finds that profitability, firm size, and tangibility significantly influence leverage, with patterns consistent with the pecking order theory. The transition economy context provides unique findings compared to developed markets. The research adds to the understanding of financing behavior in post-socialist countries. It calls for more regionally tailored capital structure studies.

Pham & Islam (2022) This book provides comprehensive models linking corporate governance and firm performance, with implications for capital structure. It emphasizes ownership concentration, board characteristics, and institutional environment. The authors propose mediation and dynamic models to analyze firm behavior. The study offers practical insights for emerging markets. It's a valuable resource for linking governance and financial decision-making.

Troeger et al. (2020) Although unrelated to capital structure, this study quantifies interventions and risks affecting childhood respiratory infections globally. It provides methodological contributions for public health modeling. While not applicable for a finance review, its analytical rigor may inspire modeling in other domains. This citation appears out of context in a capital structure literature review.

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Sheikh & Wang (2011) The study analyzes capital structure determinants in Pakistan's manufacturing sector. It finds that firm-specific factors like profitability, asset structure, and growth significantly affect leverage. The results support the trade-off theory in a developing country context. The paper also notes limitations in financial markets influencing capital choices. It provides a useful reference for emerging market studies.

This body of literature explores the determinants and dynamics of capital structure across diverse contexts. Key themes include the relevance of traditional theories like trade-off and pecking order (Frank & Goyal, 2008; Titman & Wessels, 1988), with mixed empirical support depending on firm characteristics and regional settings (Al-Najjar & Hussainey, 2011; Huang & Ritter, 2009). Cross-country studies (De Jong et al., 2008; Fougo, 2015) and emerging market analyses (Eldomiaty & Ismail, 2009; Sheikh & Wang, 2011) highlight institutional and macroeconomic influences. Family business dynamics (Michiels & Molly, 2017) and sector-specific insights (Aggarwal & Padhan, 2017; Gaud et al., 2005) enrich the understanding of capital structure preferences. Additionally, the role of corporate governance is emphasized in linking financial and performance outcomes (Bansal & Sharma, 2019; Pham & Islam, 2022). Overall, the literature underscores that capital structure decisions are highly contextual and multifaceted.

Over the past decade, extensive research has been conducted on capital structure decisions, covering various industries and economies. While these studies have contributed significantly to the theoretical understanding of debt-equity choices, a number of critical gaps remain, particularly in the context of private sector manufacturing firms in emerging markets like India. Most existing literature tends to focus on large, publicly listed companies due to the accessibility of financial data. This leaves a noticeable gap in understanding how capital structure theories apply to privately held companies such as Brakes India Pvt. Ltd., which operate with different financial disclosure practices and strategic goals.

RESEARCH METHODOLOGY

In today's highly competitive and capital-intensive manufacturing environment, understanding a company's capital structure is vital for assessing its financial strength, sustainability, and growth potential. Brakes India Pvt. Ltd., being a key player in the Indian automotive components industry, operates in a sector where financial efficiency can directly influence technological advancement, supply chain management, and market competitiveness.

This study focuses on analyzing the capital structure of Brakes India Pvt. Ltd., with particular attention to its financial strategy, funding mix, and implications for potential collaboration or investment by GCKR Enterprises. The scope is designed to cover various dimensions of capital structure within the operational, strategic, and industry-specific context of the automotive components sector in India.

OBJECTIVES

- To analyse the capital structure of GCKR Enterprises Brakes India pvt. Ltd.
- To investigate the relationship between capital structure and its financial performance including profitability, (ROE) and
- (ROA).

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- To identify the factors influencing a company's capital decisions to use debt verses equity financing.
- To recommend the different capital structure strategies that help firms in managing financial risk & mitigate the impact of economic downturn of financial markets.

This study adopts a descriptive and analytical research design to examine the capital structure of Brakes India Pvt. Ltd. and evaluate its strategic alignment for potential collaboration with GCKR Enterprises. The research aims to explore the composition and trends in the company's capital structure and assess its impact on financial performance over a five-year period from 2018 to 2023.

The study relies primarily on secondary data, including the company's financial statements, annual reports, industry publications, scholarly journals, and relevant online sources. Where available, supporting insights from expert opinions or industry interviews may be included to enhance understanding of real-world financial strategies. The analysis will involve the use of key financial tools such as ratio analysis, trend analysis, and comparative benchmarking with other companies in the automotive component industry. In addition, the study will apply established capital structure theories, such as the Modigliani-Miller Proposition, the Trade-Off Theory, and the Pecking Order Theory, to evaluate the theoretical underpinnings of the company's financial decisions.

- Equity Capital Structure
- Debt Capital Structure
- Hybrid or Mixed Capital Structure
- Optimal Capital Structure

This study relies on secondary data obtained from company annual reports, financial statements, audit reports, and relevant industry reports. Additional financial data may be collected from company websites, stock market reports, and government publications.

The collected financial data will be analyzed using various financial tools and techniques

- Financial ratios provide a clear picture of the company's capital structure, financial risk, and performance over time.
- Trend analysis is used to observe and evaluate the capital structure
- To better understand the positioning of Brakes India in the market.
- To strengthen the analysis, financial decisions are interpreted through relevant capital structure theories

DATA ANALYSIS AND INTERPRETATION

EPS (Earning Per Share)

Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability. It is

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common for a company to report EPS that is adjusted for extraordinary items and potential share dilution. The higher a company's EPS, the more profitable it is considered.

$$EPS = \frac{Net\ Profit}{No.of\ Equity\ Shares}$$

Table 1 Earning per share

YEAR	Earning per share(%)
2019	2.77
2020	4.83
2021	4.62
2022	6.28
2023	7.76

Source: Secondary Data

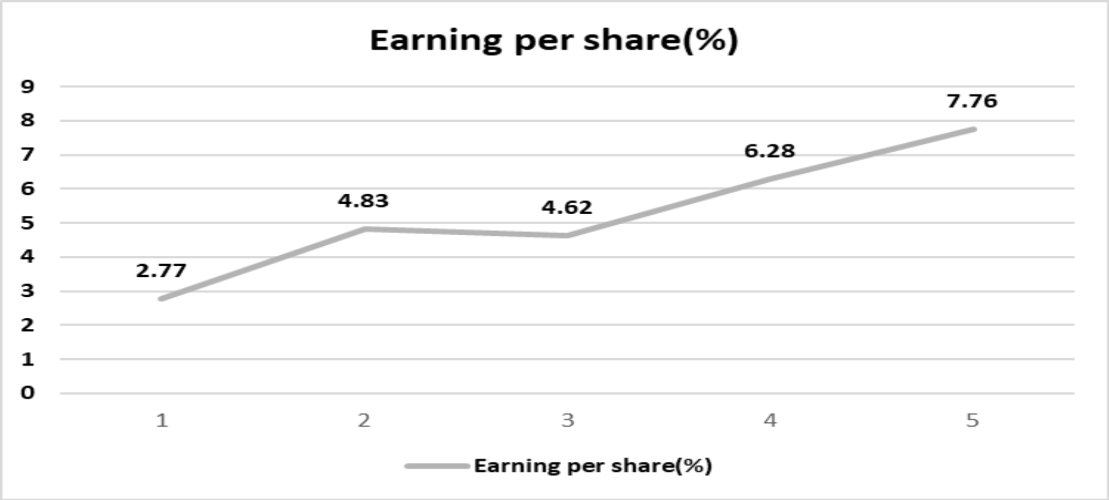

Figure 1 Earning Per Share(EPS)

In the sense of earnings per share of the GCKR enterprises, it shows a gradual growth in the 2 consecutive years then it show a slight decline in the year 2018. After it is increased. That seems there is no risk for investors.

Capital Adequacy Ratio

Capital Adequacy is a major indicator of the financial health of a Company. It indicates whether the Company has enough capital to absorb unexpected losses. It reflects the overall financial position of the Company and also the ability of the management to meet the need for additional capital and also to maintain depositor's confidence and preventing the Company from going Company rupt.

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$$CAR = \frac{Tier\,(i)Capital + Tier(ii)Capital}{Risk\,Weighted\,Capital} * 100$$

Table 2 Capital Adequacy Ratio

Year	Capital Adequacy Ratio(%)
2019	13.93
2020	12.39
2021	14.70
2022	13.98
2023	14.35

Source: Secondary Data

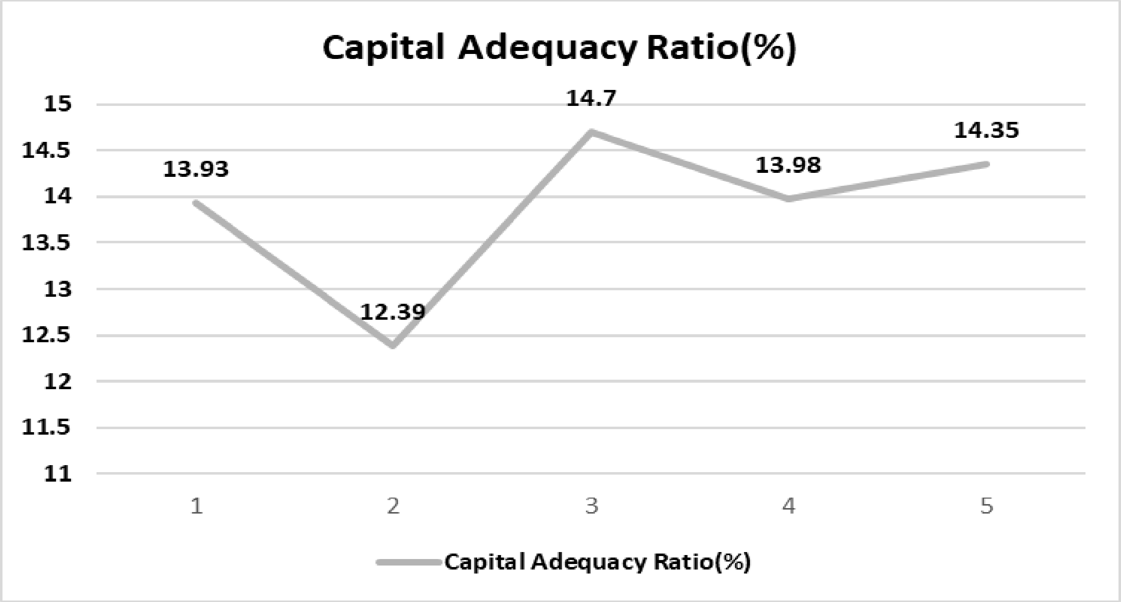

Figure 2 Capital Adequacy Ratio

shows the capital adequacy ratio of GCKR Enterprises. In 2019 it is 13.93% then in 2020 it declines. In 2021 the highest growth rate.

Net Profit Ratio

The net profit of a company, organization or any individual or entity that does business, is its profit after operating expenses and all other charges including depreciation, interest, and taxes have been deducted from total revenue.

Table 3 Net Profit Ratio

YEAR	NET PROFIT(%)

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2016	6.14
2017	9.57
2018	9.01
2019	10.89
2020	11.67

Source: Secondary Data

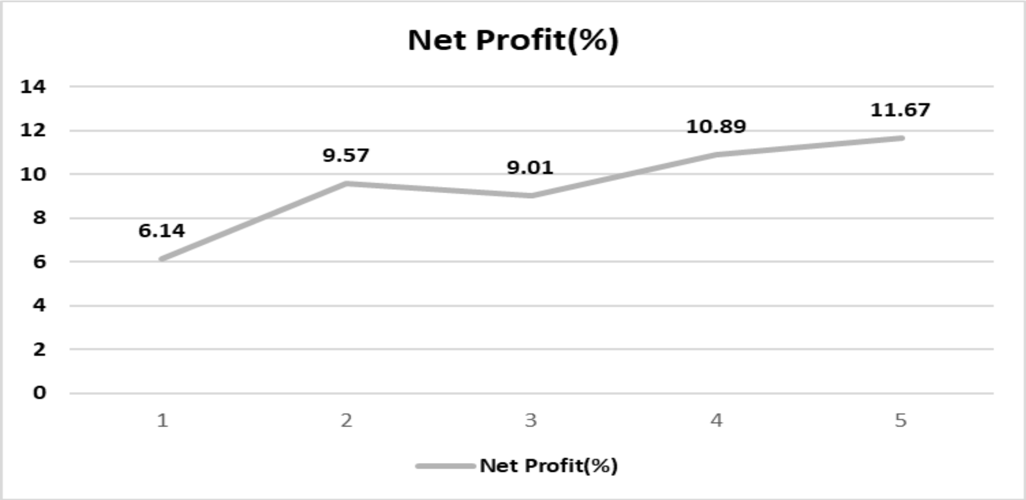

Figure 3 Net Profit Ratio

In the figure shows the net profit ratio of GCKR enterprise . In 2020 the net profit ratio is 11.67% and is the highest rate.

Return On Equity

The ROE ratio is calculated by dividing the net income of the company by total shareholder equity and is expressed as a percentage. The ratio can be calculated accurately if both the net income and equity are positive in value.

$$ROE = \frac{Net\ Income}{Shareholder's\ Equity} * 100$$

Table 4 Return on Equity

Year	Return on Equity(%)
2019	5.87

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2020	9.29
2021	7.20
2022	9.37
2023	10.63

Source: Secondary Data

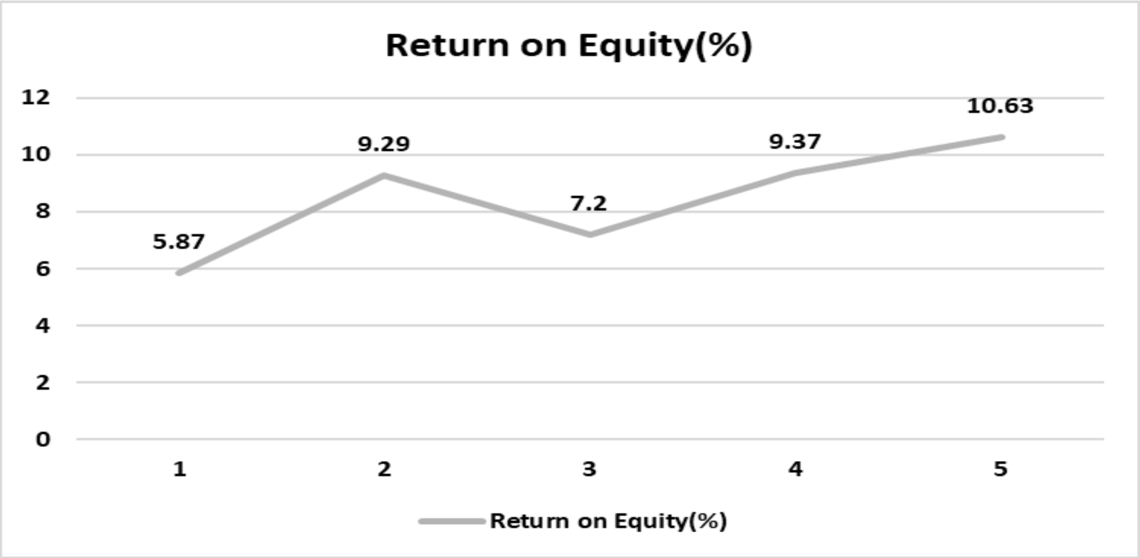

Figure 4 Return on Equity

The return on equity of GCKR enterprise shows the gradual growth in each year. In 2020 ROE is 10.63% and that is the highest rate.

ANALYSIS OF FINDINGS

Based on the data provided, the company has shown a consistent improvement in key financial performance indicators over the years. Return on Equity (ROE) increased steadily from 5.87% in 2019 to 10.63% in 2023, indicating enhanced shareholder value. Net Profit also demonstrated positive growth from 6.14% in 2016 to 11.67% in 2020, reflecting strong profitability. The Capital Adequacy Ratio remained above the regulatory threshold, ranging from 12.39% to 14.70% between 2019 and 2023, suggesting sound financial stability. Earning Per Share (EPS) rose significantly from 2.77% in 2019 to 7.76% in 2023, highlighting increased earnings attributable to shareholders. These trends collectively suggest robust financial health and effective capital management over the observed period.

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RECOMMENDATIONS

Managers

Based on the analysis of the capital structure of Brakes India Pvt. Ltd., several strategic recommendations are proposed to guide managerial decision-making and financial planning, particularly in the context of potential partnerships such as with GCKR Enterprises. These recommendations are aimed at optimizing the company's financial performance while minimizing risk and enhancing long-term sustainability.

Firstly, it is essential for the management to optimize the debt-equity ratio. While debt financing offers tax advantages, excessive reliance on borrowed funds can increase financial risk. A balanced mix of debt and equity—aligned with industry standards—will help the company maintain financial stability and access capital at a lower cost. Periodic reviews of the capital mix are advised to adapt to market and interest rate changes.

Policymakers

In light of the analysis conducted on the capital structure of Brakes India Pvt. Ltd., several key recommendations are proposed for policy makers to foster a more supportive financial and regulatory environment for companies operating in the Indian manufacturing sector, particularly in the automotive components industry. These policy suggestions aim to improve access to capital, reduce financial risk, and support sustainable industrial growth.

To begin with, policy makers should consider implementing more accessible and affordable financing options for medium to large enterprises. Although government schemes often cater to MSMEs, many companies like Brakes India, which fall into the mid-market or large-scale category, may face constraints in accessing low-interest, long-tenure funding. Establishing tailored credit schemes for capital-intensive industries with stable growth potential can significantly support their expansion and competitiveness.

Industry Development

The automotive component industry plays a pivotal role in India's economic growth and manufacturing ecosystem. Based on the capital structure analysis of Brakes India Pvt. Ltd., and insights drawn from industry trends, the following recommendations are proposed to facilitate broader industry development and ensure long-term financial and operational sustainability across the sector.

Firstly, there is a pressing need to strengthen the financial backbone of the industry by encouraging diversified and innovative funding mechanisms. Traditional dependence on bank loans and debt financing should be supplemented with venture capital, private equity, corporate bonds, and green financing instruments. Promoting these channels will reduce over-reliance on short-term borrowing and help companies like Brakes India achieve a more stable and cost-effective capital structure.

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Scholarly Contribution

The study on the capital structure of Brakes India Pvt. Ltd., particularly in the context of its positioning within the Indian automotive component industry and potential strategic interactions with GCKR Enterprises, offers several valuable insights that contribute to the academic body of knowledge in corporate finance and industrial economics. Based on the findings and observations, the following recommendations are made to scholars and researchers pursuing similar fields of inquiry.

Firstly, future research can benefit from a comparative and longitudinal approach by analyzing capital structure trends across multiple companies in the auto component sector over a longer timeframe. This would provide more robust evidence on how internal and external factors—such as policy shifts, economic downturns, or technological changes—influence capital structure decisions over time.

Scope for further study

While this study provides valuable insights into the capital structure of Brakes India Pvt. Ltd., it also opens several avenues for future research and exploration. The dynamic nature of corporate finance, combined with evolving market conditions and industry regulations, suggests that there is significant scope for further study in this domain.

One potential area for future research is a comparative analysis across multiple firms within the same sector. While this study focuses on Brakes India, analyzing other automotive component manufacturers—both listed and unlisted—could offer broader insights into industry-wide capital structure trends and strategies. This would also allow for benchmarking and identification of best practices.

Limitations

Although this study on the capital structure of Brakes India Pvt. Ltd. provides valuable insights into the company's financial strategy and its relevance to strategic partnerships like that with GCKR Enterprises, it is important to acknowledge certain limitations that may have influenced the depth and breadth of the analysis.

One primary limitation is the restricted availability of financial data, especially since Brakes India is a private company. Unlike publicly listed firms, private companies are not mandated to disclose detailed financials in the public domain. As a result, the study was based on available secondary data, which may not reflect the complete financial picture or recent internal changes in the capital structure.

CONCLUSION

The present study on the capital structure of Brakes India Pvt. Ltd. provides significant insights into the financial composition and funding strategies employed by a major player in the Indian automotive components industry. Capital structure decisions play a vital role in determining a

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firm's financial health, risk profile, cost of capital, and overall market competitiveness. Through the analysis, it has been observed that Brakes India strategically balances debt and equity to maintain operational efficiency and long-term financial sustainability.

The research has also revealed the importance of internal financing, judicious use of debt, and the potential role of government policies and incentives in shaping a company's capital structure. The study reinforces that while theoretical models like the Modigliani-Miller theorem, trade-off theory, and pecking order theory provide useful frameworks, real-world decisions are influenced by a variety of contextual factors including market dynamics, industry position, and regulatory environment.

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