



## A Study on Impact of Capital Structure on Profitability of Tata Motors LTD

M. Srija<sup>1</sup> & Prof. A. J. Praveen<sup>2</sup>

<sup>1</sup>Student Scholar,

HT No: 1326-24-672-026

<sup>2</sup>Research Guide, Principal and Professor of Management,  
St Mary's Centenary College of Management - Secunderabad

Corresponding Author – M. Srija  
DOI - 10.5281/zenodo.21450578

### Abstract:

*The present study examines the impact of capital structure on the profitability of Tata Motors Limited. Capital structure represents the proportion of debt and equity used by a company to finance its operations and long-term investments. In capital-intensive industries such as automobile manufacturing, maintaining an optimal balance between debt and equity is essential for financial stability and improved profitability. This study aims to analyse how capital structure decisions influence the financial performance of Tata Motors. The research is based on secondary data collected from annual reports, financial statements, and other published sources. Various financial ratios such as Debt–Equity Ratio, Return on Equity (ROE), Return on Assets (ROA), and Return on Capital Employed (ROCE) are used to evaluate the relationship between capital structure and profitability. The findings indicate that an effective balance between debt and equity helps reduce financial risk, control borrowing costs, and enhance profitability, thereby supporting sustainable growth and long-term financial performance of the company.*

**Keywords:** Capital Structure, Profitability, Debt-Equity Ratio, Financial Performance.

### Introduction:

Capital structure plays a crucial role in determining the financial performance and long-term sustainability of a company. It refers to the proportion of debt and equity that a firm uses to finance its operations, investments, and overall business activities. An optimal capital structure helps a company reduce its cost of capital, increase profitability, and maintain financial stability. Companies often make strategic decisions regarding the mix of debt and equity in order to maximize shareholder value and minimize financial risk. The relationship between capital structure and profitability has been widely studied in financial management because financing decisions significantly influence a company's operational efficiency and growth.

In capital-intensive industries such as the automobile sector, large investments are required for research and development, manufacturing facilities, advanced technology, and product innovation. As a result, companies in this industry rely heavily on both internal and external sources of finance. Debt financing provides tax advantages and allows companies to expand operations without diluting ownership. However, excessive reliance on debt may increase interest obligations and financial risk. On the other hand, equity financing provides financial stability and reduces the burden of fixed interest payments, but it may dilute ownership and reduce earnings per share. Therefore, maintaining a proper balance between debt and equity is essential for

improving profitability and ensuring sustainable growth.

Tata Motors Limited is one of the leading automobile companies in India and a part of the Tata Group. Established in 1945, the company has grown into a global automobile manufacturer with operations in several countries. Tata Motors produces a wide range of vehicles including passenger cars, commercial vehicles, electric vehicles, and luxury cars through its subsidiary Jaguar Land Rover. The company plays a significant role in the Indian automobile industry and contributes substantially to the country's economic development through employment generation, technological innovation, and exports.

Due to the large scale of its operations and continuous expansion into global markets, Tata Motors requires substantial financial resources. The company utilizes a combination of equity capital, retained earnings, and borrowings to finance its business activities. Over the years, the company has experienced fluctuations in profitability due to various factors such as market competition, economic conditions, technological advancements, and changes in financial structure. The capital structure decisions of Tata Motors have therefore played a key role in influencing its financial performance and profitability.

The study of the impact of capital structure on profitability is important because it helps understand how financial decisions affect the overall performance of a company. By analysing the relationship between debt and equity financing and profitability indicators such as Return on Equity, Return on Assets, and Return on Capital Employed, it becomes possible to evaluate the efficiency of financial management within the organization.

This study focuses on examining the capital structure of Tata Motors and analyzing how it influences the company's profitability. The findings of this study may help in understanding

the importance of maintaining an optimal capital structure for achieving financial stability, improving operational performance, and ensuring long-term growth in a competitive business environment.

### **Problem Statement:**

The capital structure of Tata Motors Limited plays an important role in influencing its profitability and financial stability. An imbalance between debt and equity financing may increase financial risk and affect business performance. Therefore, it is necessary to examine how the company's capital structure impacts its profitability and overall financial efficiency in a competitive automobile industry environment.

### **Literature Review:**

**Franco Modigliani** and **Merton Miller** explained that capital structure initially has no effect on firm value under perfect market conditions, but later research highlighted the influence of taxes and financial risk.

**Stewart C. Myers** developed the Pecking Order Theory, stating that firms prefer internal funds first, followed by debt and then equity.

**Michael C. Jensen** discussed the trade-off between debt benefits and financial distress costs.

**Studies on Tata Motors Limited** show that balanced debt and equity financing improves profitability and financial stability.

### **Objectives of the Study:**

1. To analyse the capital structure of Tata Motors Limited by examining the proportion of debt and equity used in financing the company's operations and investments.
2. To evaluate the profitability position of the company using important financial ratios such as Return on Equity (ROE), Return on

Assets (ROA), and Return on Capital Employed (ROCE).

3. To study the relationship between capital structure and profitability in order to understand how financing decisions influence the financial performance and overall efficiency of the company.

#### Research Questions:

1. What is the capital structure of Tata Motors Limited?
2. How does capital structure affect the profitability of the company?
3. Is there a relationship between debt–equity ratio and profitability of the company?

#### Research Methodology:

##### 1. Research Design:

Descriptive and analytical research design is used to study the relationship between capital structure and profitability of Tata Motors Limited.

##### 2. Sample Size:

The study considers financial data of Tata Motors Limited for the last five years.

##### 3. Sample Area:

The research focuses on the automobile industry in India, specifically analysing Tata Motors Limited.

##### 4. Data Collection:

The study uses both primary and secondary sources of data.

##### Primary Data:

Primary data is collected through questionnaires, surveys, or interviews with finance professionals.

##### Secondary Data:

Secondary data is collected from annual reports, financial statements, journals, and the official website of Tata Motors Limited.

##### 5. Sampling Technique:

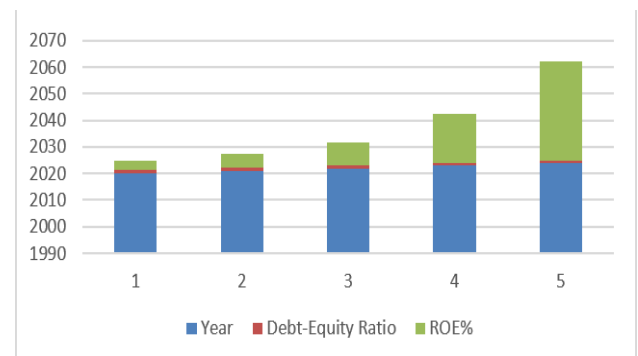
Convenience sampling technique is used by selecting readily available financial data for analysis.

#### Data Analysis:

**Table 1: Comparison of Capital Structure and Profitability of Tata Motors Limited**

| Year | Debt-Equity Ratio | ROE% |
|------|-------------------|------|
| 2020 | 1.30              | 3.5  |
| 2021 | 1.29              | 5.2  |
| 2022 | 1.18              | 8.6  |
| 2023 | 1.01              | 18.4 |
| 2024 | 0.64              | 37.5 |

**Graph 1: Comparison of Debt–Equity Ratio and ROE**

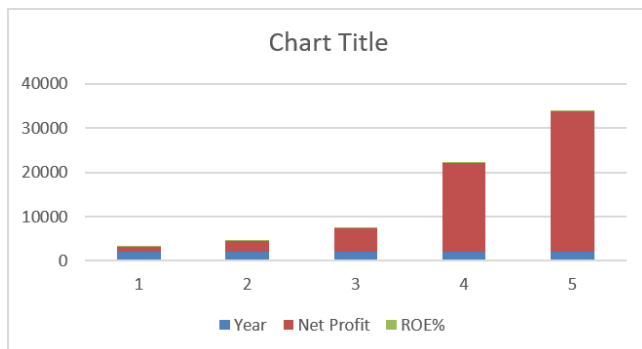


#### Interpretation:

The table shows that the **Debt–Equity Ratio of Tata Motors Limited decreases from 1.30 to 0.64**, while **Return on Equity increases from 3.5% to 37.5%**. This indicates that reducing debt and improving capital structure helps the company enhance profitability and financial performance over the years.

**Table 2: Comparison of Net Profit and Return on Assets (ROA) of Tata Motors Limited**

| Year | Net Profit | ROE% |
|------|------------|------|
| 2021 | 1200       | 1.2  |
| 2022 | 2500       | 2.5  |
| 2023 | 5400       | 4.8  |
| 2024 | 20000      | 8.9  |
| 2025 | 31800      | 1    |

**Graph 2:** comparison of net profit and ROE**Interpretation:**

In 2021, Tata Motors Limited reported a net profit of ₹1200 with 1.2% ROA. Profit increased in 2022 (₹2500, 2.5%) and 2023 (₹5400, 4.8%). A significant growth occurred in 2024 (₹20000, 8.9%). In 2025, profit further rose to ₹31800, but ROA declined to 1%, indicating lower asset efficiency.

**Findings:**

1. The net profit of Tata Motors increased from 2021 to 2025, showing improvement in profitability.
2. The company used its capital structure effectively to support business growth.
3. ROA increased from 2021 to 2024, indicating better use of assets.
4. In 2025, ROA decreased even though net profit increased.
5. Overall, capital structure has an important effect on the profitability of Tata Motors.

**Suggestions:**

- The Company should maintain a **balanced capital structure** between debt and equity.
- Tata Motors should **control borrowing costs** to improve profitability.
- The Company should **use its assets more efficiently** to increase ROA.
- Proper **financial planning and investment decisions** should be made.

- The Company should **focus on long-term financial stability and growth.**

**Conclusion:**

The study on the impact of capital structure on profitability of Tata Motors Limited shows that capital structure plays an important role in determining the financial performance of a company. Capital structure refers to the mix of debt and equity used by a company to finance its operations and business activities. A proper balance between these sources helps a company maintain financial stability and improve profitability.

During the study period from 2021 to 2025, Tata Motors showed a steady increase in net profit, which indicates improvement in its overall financial performance. The company's ability to generate higher profits reflects better management and effective use of financial resources. The Return on Assets (ROA) also increased from 2021 to 2024, showing that the company was efficiently using its assets to generate profits.

However, in 2025, although the net profit increased significantly, the ROA decreased. This indicates that the efficiency of asset utilization reduced during that year. This may be due to an increase in investments, expansion of assets, or other financial decisions.

Overall, the study concludes that maintaining a balanced capital structure is very important for improving profitability. Proper financial planning and management can help the company achieve long-term growth and maintain a strong position in the automobile industry.

**Bibliography:**

1. Eugene F. Brigham & Joel F. Houston (2019). *Fundamentals of Financial Management*. Cengage Learning.

2. I. M. Pandey (2010). *Financial Management*. Vikas Publishing House.
3. C. R. Kothari (2004). *Research Methodology: Methods and Techniques*. New Age International Publishers.
4. Prasanna Chandra (2011). *Financial Management: Theory and Practice*. Tata McGraw Hill.
5. Tata Motors Limited (2021–2025). *Annual Reports*.