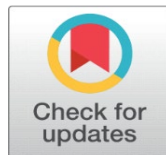
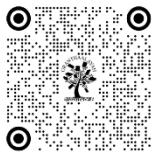


A STUDY ON CAPITAL STRUCTURE AND COST OF CAPITAL OF RURAL INDUSTRIES WITH SPECIAL REFERENCE TO KOVILPATTI TALUK

S. Subbiah Vijayakanth ¹, Dr. V. Valliammal ²

¹ Ph.D Research scholar, Reg. No. 20222231031001 PG & Research Department of Economics, V.O. Chidambaram College, Thoothukudi Affiliated to Manonmaniam Sundaranar University, Tirunelveli-12, Tamil Nadu, India

² Head & Associate Professor, PG & Research Department of Economics, V.O.Chidambaram College, Thoothukudi Affiliated to Manonmaniam Sundaranar University, Tirunelveli-12, Tamil Nadu, India



DOI

[10.29121/shodhkosh.v5.i3.2024.5601](https://doi.org/10.29121/shodhkosh.v5.i3.2024.5601)

Funding: This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

Copyright: © 2024 The Author(s). This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

With the license CC-BY, authors retain the copyright, allowing anyone to download, reuse, re-print, modify, distribute, and/or copy their contribution. The work must be properly attributed to its author.

ABSTRACT

This study aims to analyze the capital structure and cost of capital of rural industries in Kovilpatti Taluk, focusing on understanding how these industries finance their operations and the financial implications of their capital choices. Rural industries play a crucial role in regional economic development by generating employment and utilizing local resources. The study investigates the composition of capital—debt and equity—and examines the cost associated with each source of capital to assess the overall cost of capital for rural enterprises. Data were collected through primary surveys and secondary sources, including financial statements and reports from local industry bodies. The findings reveal the predominant reliance on informal and formal sources of finance, the variation in capital structure across different types of industries, and the impact of capital costs on profitability and sustainability. The study also highlights challenges faced by rural industries in accessing affordable finance and suggests strategies for optimizing capital structure to reduce the cost of capital, thereby enhancing financial efficiency and growth prospects. This research provides valuable insights for policymakers, financial institutions, and entrepreneurs aiming to strengthen the rural industrial sector in Kovilpatti Taluk.

Keywords: Rural Industry, Capital Cost and Income Structure



1. INTRODUCTION

Rural industries form the backbone of India's economy by providing employment opportunities, fostering entrepreneurship, and promoting balanced regional development. In particular, rural industries in Kovilpatti Taluk have emerged as vital contributors to the local economy, utilizing indigenous resources and traditional skills to produce goods ranging from textiles to agro-based products. Despite their significance, these industries often face financial constraints that limit their growth and sustainability. One of the critical factors influencing the performance and expansion of rural industries is their capital structure—the mix of debt and equity used to finance their operations. An optimal capital structure enables industries to minimize the cost of capital, improve profitability, and ensure long-term viability. However, rural industries frequently struggle with high borrowing costs, limited access to institutional credit, and over-reliance on informal financing, which can escalate their overall capital costs and financial risks. This study focuses on analyzing the capital structure and cost of capital of rural industries in Kovilpatti Taluk. It aims to understand the patterns of financing, sources of capital, and their impact on the financial health of these industries. By examining both

formal and informal financing mechanisms, the research intends to provide insights into how rural industries manage their funds and the challenges they face in optimizing capital costs.

2. STATEMENT OF THE PROBLEM

One of the objectives of a welfare state is to provide employment opportunities to all its citizens in order to raise their standard of living. The existing rural problems such as poverty, unemployment and ill-health in the economy could be solved only through increased production which is the result of full employment and technological progress. Rural Industries provide avenues for generation of self-employment in villages by making use of locally produced raw materials or materials available in the neighborhood. This local dependency leads to self-reliance with respect to self-employment locally, particularly to those who are subject to seasonal unemployment. Rural industries are essential for promoting inclusive economic development, especially in semi-urban and underdeveloped regions like Kovilpatti Taluk. These industries generate employment, support local entrepreneurship, and reduce the pressure on urban migration. However, one of the most persistent challenges they face is related to financial management, particularly the structure of capital and the cost incurred in raising that capital. An employment through rural Industries is not only a concept of productive economic activity, but an educative process involving the beneficiary's thinking and abilities.

3. SCOPE OF THE STUDY

In this study the capital and cost structure of various rural industrial units and the performance of rural industries in Kovilpatti taluk are analysed with a view to know income, sources of borrowing and repayment of loan. Kovilpatti taluk in Thoothukudi district depicts the leading features of a semi urban taluk in India. It has agricultural orientation with an emerging small industries scenario. The present study makes an attempt to analyses the aspects relating to capital cost and income structure of rural industrial units in Kovilpatti taluk, Thoothukudi district. An intensive exploration of the evolving system and style of capital cost and income structure of rural industries in undertaken in this study.

3.1. OBJECTIVES OF THE STUDY

- 1) To study the position of rural industries in Kovilpatti taluk;
- 2) To analyse the capital, cost and income structure of rural industries in Kovilpatti taluk;
- 3) To assess the performance of rural industries products in Kovilpatti taluk;
- 4) To offer suitable suggestions to improve the performance of the rural industries in Kovilpatti taluk.

4. REVIEW OF LITERATURE

Chidambaram and Rajendaran (2019), a financial institution which provides assistance to the organised sector like the SSI in the present era must aim towards winning the confidence of the borrowers. This will not only keep the borrowers in good spirit but also make them more loyal to the institution. The borrowers who have at the high level opinion about the organisation are the real assets. The independent factors significantly influencing the level of opinion of the borrowers were identified in the above analysis. The planners interested in uplifting the performance of the TIIC through boosting the morale of the borrowers may take note of these factors while framing policy decisions.

Namasivayam and Vijayakumar (2020) in this study remarked that liberalisation and globalisation of country's economy have brought in their wake serious challenges for the Indian industry particularly for small scale industries. This is the time for the SSI to produce excellent products with good quality equivalent to foreign goods at competitive price. Economic liberalisation has become almost a global movement Small scale industries. This is the time for the SSI to produce excellent. In turn the SSI can survive in the field of globalisation era.

Rajendra Prasad and Seethamma (2021) the working of the small-scale sector in Karnataka is progressively generating employment opportunities, and contributing positively to economic growth. In this regard the Government must safe guard this sector from sickness as well as from unfair competition from large-scale units. To conclude, we may say that the working of the small-scale sector in Karnataka is progressively generating employment opportunities, and contributing positively to economic growth.

SAMPLE UNITS**Table 1**

Distribution of sample unit

Sl.no	Categories	No of units
1.	Food products	115
2.	Agro products	58
3.	Cement	148
4.	Paper	96
5.	Cotton	28
6.	Synthetic	54
7.	Electrical	125
8.	Chemical	85
9.	Match works	209
10.	Automobile	28
Total		946

5. ANALYSIS OF DATA**Table 2**

Distribution on capital Structure of all industries

Source of finance	Food products	Agro products	Cement	Paper	Cotton	Synthetic	Electrical	Chemical	Match works	Automobile	Mean	Co-efficient of variation
Preference share capital	0.98	1.19	1.48	1.61	1.88	2.25	0.43	0.46	2.62	0.54	1.35	54
Equity share capital	18.07	7.17	20.83	41.33	10.32	15.13	21.16	20.91	20.32	13.33	18.85	47
Share holders reserve	44.18	35.17	51.36	47.70	49.04	44.83	59.33	54.96	43.36	57.17	48.71	14
Long term debts	21.30	43.52	20.25	9.36	25.24	20.07	14.86	13.17	14.65	17.08	19.95	45
Debentures	15.47	12.95	6.08	0	13.52	17.72	4.22	10.50	19.05	11.88	11.14	52
TOTAL	100	100	100	100	100	100	100	100	100	100	100	
Debt-equity ratio	61	136	39	12	69	67	24	32	57	42	54	

Source Computed Data

Table 3

Distribution on Cost of capital of all industries (Weighted Average)

Industries	No.of Companies	WACC in percentage	Coeff. of variation in percentage
Food products	9	19.20	45
Agro products	7	23.74	41
Cement	7	17.52	24
Paper	5	17.83	69

Cotton textile	10	27.27	40
Synthetic Textile	6	18.34	69
Electrical	11	28.68	60
Chemicals	14	14.34	28
Match works	9	10.88	15
Automobiles	9	14.08	28
Average		19.19 percent	
Co-efficient of variation		29 percent	

Source Computed Data

Table 4.a

Industries /Year	2022	2021	2020	2019	2018
Food products	70.04	99.79	121.75	107.95	103.95
Agro products	200.17	240.62	378.66	301.38	101.98
Cement	102.4	93.65	47.08	84.32	88.96
Paper	360.11	108.93	83.19	84.55	83.3
Cotton textile	108.44	309.33	72.39	67.65	6.87
Synthetic Textile	68.85	69.77	71.86	100.67	79.58
Electrical	329.1	400.82	189.93	124.87	78.79
Chemicals	77.04	64.79	94.94	90.73	119.26
Match works	98.11	108.78	115.42	87.2	72.52
Automobiles	81.24	111.05	98.48	98.06	101.58

Source Computed Data

Table 4.b

Source of variation	Degrees of freedom	Sum of squares	Mean squares	F value	Sig value (5%)
Industries	9	2574.602	286.067	2.489	2.08
Years	9	1202.504	133.612	1.163	2.08
Error	81	9309.551	114.933		
Total	99	13086.657			

Source Computed Data

6. FINDINGS OF THE STUDY

- **Capital Structure of all industries:** It is revealed in Table 2 that the average debt capital of the sample industries is observed to be about 54% of equity capital. The industry wise analysis shows that the debt equity ratio of 136% in the agro products is the highest and 12% in the paper industries is the lowest.
- **Cost of capital of all industries:** From table 3 it is found that match works has the highest decadal average of weighted average cost of capital while the chemical industries has the lowest percentage of the same.
- **Cost of capital (Weighted Average cost) - 5 years:**
- Food products-this industry has touched the highest weighted average cost of capital in the year 2020, this industry showed a steady increase from 2018 to 2020 and then a gradual decrease from 2020 to 2022.
- Agro products - this industry has touched the highest weighted average cost of capital in the year 2020, this industry showed a steady increase from 2018 to 2020 and then a gradual decrease from 2020 to 2022.

- Cement - this industry has touched the highest weighted average cost of capital in the year 2022, this industry showed a decrease from 2018 and showed an increase from 2021-2022.
- Paper - this industry has touched the highest weighted average cost of capital in the year 2022, this industry showed gradual increase from 2018 to 2022.
- Cotton textile - this industry has touched the highest weighted average cost of capital in the year 2021, this industry showed a gradual increase till 2021 and then had a fall in 2022.
- Synthetic Textile - this industry has not shown any increase, the highest weighted average cost of capital is found in the year 2019.
- Electrical - this industry has shown an increase till 2021 and a slight decrease in the year 2022.
- Chemicals - this industry has shown decrease till 2021 and a slight decrease in the year 2022.
- Match works - this industry showed an increase till 2020 and then started to decline gradually.
- Automobiles - this industry showed an increase till 2021 and then started to decline.
- Conclusion: to conclude cement and paper industry has shown an increasing phase and is still increasing.

7. SUGGESTIONS

- Rural industrialization policy has to provide targeted group and rural areas an opportunity to maximize utilization of their potentialities.
- The channels for distribution of raw materials and capital equipments and competitions emerging in the market front need to be taken care of and policy support should be identified in the arena of price, cost and profit.
- The Governments should promote technology parks in their respective regions. Training programmes for rural groups by experts are to be encouraged in countries where such institutions are not available. The first generation entrepreneurs can be promoted through such an effort.
- NGOs could be encouraged to have entrepreneurship development programmes. The services provided by these national and international NGOs could be the fields of voluntary business counselling, entrepreneurship awareness programme, management development programmes, training, setting up of business incubators, resource centres and credit.

For rural industries, marketing need not be limited to rural markets only. Necessary extension mechanism will be strengthened. Marketing federations and co-operative organizations are to be strengthened.

8. CONCLUSION

Thus it can be concluded that the extent of relationship between capital structure and cost of capital varies from company to company. The study also makes it clear that the weighted average cost of capital is sensitive not only towards the proportion of capital components but also towards the earnings per share, retention ratio as well as market price of the share. In other words, debt-equity ratio is one of the factors which affects the cost of capital and its impact on the cost of capital can hardly be measured in exact terms.

CONFLICT OF INTERESTS

None.

ACKNOWLEDGMENTS

None.

REFERENCES

Chidambaram K and R., Rajendran.R, "Industrial Investment Corporation (TIIC): An Analysis, "Souther Economics November, 15, 2005, Vol. 44 No. 14.

- https://www.dnb.com/businessdirectory/companyinformation.manufacturing.in.tamil_nadu.kovilpatti.html?page=12
- Kurien C.T. An Approach to Research produced in A Guide to Research in Economics, Rainbow Publication, Coimbatore, 1973.
- Namasivayam N. and S. Vijayakumar, "Globalization and Small Scale Industries - An Over View, Southern Economist, January 1, 2004, Vol. 42, No.17.
- Rajendra Prasad. T and Seethamma K.K, "Perspectives of SSI and Employment Generation in Karnataka," Southern Economist January 15, 2003, Vol: 41 No: 18.
- Rao R.V, "Cottage and Small Scale Industries and Planned Economy," Sterling Publishers -1977.
- Uma Lele "The Design of Rural Development" The Join Hopkins University Press; London 1975.