CHAPTER 1

INTRODUCTION

India's growth has been impressive in the last two decades with a raise in per capita income and a reduction in absolute poverty. The Indian Industrial sector contributes for 31.1 per cent growth of the total Gross Value Added (GVA) by the sector in 2016-17. Foreign Direct Investment received by the Construction Development sector of India for the infrastructure and construction development projects from April 2000 to December 2017 stood at US$ 24.67 billion, according to the reports of Department of Industrial Policy and Promotion (DIPP). The Indian construction industry has been playing an elixir role in the overall economic development of the country. The success of construction and its associated industries depend up on their efficient financial and business management.

In a business enterprise, financial management is a very important aspect that ensures its survival, progress and smooth functioning. The proper allocation and usage of capital funds improves the efficiency of management and enhances the profitability of business. An appropriate proportion of various sources of funds used in a business is termed as financial structure and capitalization refers to the total amount of securities issued by a firm. Capital structure decision is critical for any firm for maximizing return to the various stake holders and also to enhance firms' ability to operate in a competitive environment (A.M.Goyal 2013).

1.1 CAPITAL STRUCTURE

Capital structure decisions are important decisions for firms as the firms constantly make investment decisions for their sustenance and growth (Sakshi Khanna et al., 2014). Capital is the fund that every organization needs to undertake its business activities. Capital Structure refers to the way the firm's assets are financed out of long-term sources of finance (Rajni Kant et al., 2013). The long term sources of funds consists of debt and equity capital. Debt consists of debentures, bonds, long-term notes payable whereas equity comprises of common stock, preferred stock and reserves. The long term sources of funds are used for financing a firm's assets and overall operations.

The optimum capital structure can be defined as the capital structure or the combination of debt and equity that leads to the maximum value of the firm. Optimum capital structure provides for the maximization of value of the firm, wealth for its owners and minimizes the company's cost of capital.

1.1.1 Factors Determining Capital Structure

The formation of capital structure involves two decisions. Firstly, the type of securities to be issued, namely equity shares, preference shares and long term borrowings i.e., Debt securities. Secondly the relative ratio of securities, that can be determined by process of capital gearing. On this basis, the companies can be classified as highly geared companies and low geared companies. Highly geared companies have less proportion of equity capitalization. In low geared companies, equity capital dominates total capitalization. The key factors determining capital structure decisions are as follows.

1. Trading on Equity

Trading on equity or financial leverage denotes taking advantage of the usage of long term fixed interest bearing debt and preference share capital along with equity share capital on reasonable basis. It refers to additional profits that equity shareholders earn by issuance of debentures and preference shares. It is based on the assumption that, if the rate of dividend on preference capital and the rate of interest on borrowed capital is lower than the general rate of company's earnings, equity shareholders are at advantage. It means a company should go for a judicious blend of preference shares, equity shares as well as debentures. Trading on equity becomes more vital as variations in combination of securities may adversely affect the wealth and value of the firm.

2. Degree of control

In a company, the directors who are the elected representatives of equity shareholders have got maximum voting rights and control in a concern as compared to the preference shareholders and debenture holders. Preference shareholders have reasonably less voting rights while debenture

holders have no voting rights. Hence while raising additional funds, the company's management policies are such that they want to protect their voting rights and control over the firm. In such case, issue of debt securities are ideal but the risk of payment of fixed interest and possibility of liquidation of the company should be considered.

3. Choice of investors

The company's policy generally is to have different categories of investors for its securities. Therefore, a capital structure should give enough choice to all kind of investors according to their taste and preference to invest. Bold and adventurous investors generally prefer to invest in equity shares. Loans and debentures are generally raised from over cautious investors for safety of investment and stability in returns. The less cautious investors prefer preference shares for stable returns.

4. Capital market conditions

The capital market condition has got an important influence in the price of a company's shares. During depression period, the companies generally issue debentures and loans. While in the period of booms and inflation, the companies prefer issuing of equity shares. The appropriate timely issue of shares reduces the cost of raising funds.

5. Period of financing

If a company requires finance for a short period, it can prefer issue of debentures, redeemable preference shares and avail loans from banks and other institutions. In the case of permanent and long term financial need, the companies can prefer issuance of equity shares.

6. Cost of financing

The capital structure of a company has to focus on minimizing the cost of capital, when the funds are raised. The debentures at the time of profit earning are a cheaper source of finance, as compared to equity shares since the equity shareholders demand an extra share in profits. The debenture possess the advantages of fixed per centage of interest and tax deduction on the interest paid.

7. Stability of sales

The capital structure of a company is highly influenced by the amount of sales turnover. Therefore, if sales are high, the profits are high and then the company can meet its fixed commitments like interest on debentures, dividends on preference shares and repayment of debts. In case of fluctuating sales or declining sales, the company is not able to meet fixed obligations and so equity capital proves to be the safer source of finance.

8. Size of a company

The amount and proportion of capitalization depends upon the nature and size of the company. The capital structure of small size and private companies generally comprises of owners' funds, loans from banks and retained profits. Whereas, public companies possessing goodwill, efficiency and a consistent profitability can procure funds by issuance of shares and debentures as well as loans and borrowings from financial institutions.

9. Strategy of maneuverability

Maneuverability refers to the ability of altering source of funds in accordance with the change in need for funds. Therefore, in order to make the capital structure flexible and raise additional funds at the time of need, the company should prefer issue of convertible securities. Such flexibility should provide for not only, in obtaining funds but also for repaying them. The securities such as callable preference shares and long-term debt with options for advance payment provides for maneuverability.

10. Asset structure

The proportion of fixed assets and need of liquidity also determines capital structure. The companies with fixed assets dominating the asset structure could prefer more of debt capital. The companies in need of liquid assets can prefer short term debts.

11. Corporate tax rate

At times of higher profits, the companies prefer debt financing, as the interest on debt is tax deductible according to the Income Tax Act, 1961 u/s 36(1)(iii). The dividend paid for shares is not deductible from operating profits

for tax purposes. The choice of an appropriate capital structure policy involves a trade-off between tax benefits and the cost of capital. Hence, the corporate tax rate is also an important consideration.

12. Legal requirements

The capital structure of a company is also influenced by the statutory requirements. There are some legal restrictions to be considered while framing the capital structure. The banking companies under Banking Regulation Act, should not issue securities other than equity shares. The SEBI restricts the debt-equity ratio not to exceed 2:1 other than the capital intensive projects, the promoters should hold at least 25 per cent of the equity share capital etc.

1.2 DIVIDEND POLICY

The companies distribute a portion of its earnings to the equity shareholders, as dividend. Dividend policy refers to a company's policy which determines the amount of dividend payments and the amount of retained earnings for reinvesting in new projects (Mohammad et al., 2012). The preference shareholders are paid a fixed rate of dividend. The retained earnings are considered as easily accessible source for investment requirements. Therefore, the companies should ensure both fair payment of dividend to the investors and prompt retention of earnings.

The relationship between capital structure and dividend decisions is complex. The increased dividend payment could increase or decrease the value of the firm, or make the source of finance to be quiet expensive. Thus, the dividend decisions has an impact on both the long term financing and the wealth of shareholders. The changes in capital structure significantly impacts the dividend decisions of many companies, but in some others there may exist little, or no impact of capital structure on its dividend decisions.

1.2.1 Factors Determining Dividend Policy

The dividend policy should be framed after considering various legal and financial considerations. A general dividend policy, common for all firms at all times cannot be framed. Because the factors that determines the

dividend policy differs for different firms, at different stages of a business cycle. The following are some of the significant factors that determine the dividend policy decisions of a firm.

1. Dividend Payout ratio

The dividend payout ratio is an important determinant of dividend policy of a firm. It is the per centage share of the net earnings, distributed to the shareholders as dividends. The retention of earnings facilitate future growth, whereas, the payment of dividend reduces cash and results in the depletion of total assets. Therefore, funds should be raised to maintain the asset level and for investments. The funds can be obtained by issue of additional equity or debt. A low payout ratio may lead to decline in share price and a higher ratio may rise the market price of the shares. The payout policy should be framed on forecasting the amount of retained earnings needed and the amount of retained earnings available, with the payment of minimum dividends.

2. Stability of dividends

The companies follow different dividend policies. Some companies follow a constant dividend payout ratio and some others follow a constant dividend per share with extra dividend in the years of higher profits. The constant dividend payout ratio denotes a fixed per centage of dividend payment to the shareholders and it fluctuates according to the earnings of the firm. The dividend will be higher during period of higher profits and low or nil during lesser profits or loss. Constant dividend per share with extra dividend in the years of higher profits denotes the payment of a low fixed dividend per share. During times of higher profits, an extra dividend will be paid proportionately.

3. Legal, contractual, and internal constraints and restrictions

The statutory regulations, contractual restrictions and the internal constraints of the firm also have an impact on the dividend policy. The regulations of government and the Companies Act levy some norms to be followed by a company regarding (i) capital impairment, (ii) net profits and (iii) insolvency. Accordingly, the dividend should not be paid out of its paid-up

capital. It should be paid out of the firm's current profits plus past accumulated retained earnings and the cash dividend should not exceed this total amount. Further, if the payment of dividend would lead to insolvency, or the firm is in the state of insolvency, then such payment is prohibited.

The dividend payment may also be restricted by the contracts entered in while raising external finance such as loan agreement, lease agreement, preference share or debenture agreements. The internal constraints includes sufficient liquid assets of the firm to pay cash dividends and growth requirements. The investment opportunities of the firm also restricts higher dividends. Growing firms depends on their internal source for expansion, finance for profitable projects and so they need huge retentions.

4. Owner's considerations

The owner's considerations that determine dividend policy includes the tax status of shareholders, their opportunities of investment and dilution of ownership. Investors of lower tax ranges prefer higher dividends, as the dividend income is exempted from tax. The investors of higher tax ranges will be interested in less dividend and higher capital gains. The firm should evaluate the return available for shareholders from other investment opportunities, to increase payout ratio for a better rate of return and satisfaction of investors. A higher dividend policy could result in the dilution of ownership. A low retention leads to new issue of equity and increase outstanding issue, resulting in reduction in share price. Therefore, to reduce the possibility of dilution, the firm should maintain a higher per centage of retained earnings.

5. Clientele effect

The dividend policy should consider the preference of different category of investors expecting regular income or high capital gains. The clientele effect denotes consideration of the desire of different levels of dividend of different groups of investors and such groups are called clientele. Investor belonging to wealthy or young group, desires to save and would expect low dividend policies and higher capital appreciation. Investors

belonging to retired or weaker section groups expect higher and regular dividends to meet their current expenses.

6. Liquidity resources

The liquidity position of the firm also have an influence in the dividend payout policy. Even though a firm possess enough profits, it should have sufficient liquid resources in order to declare dividends. If it does not possess cash resources, stock dividend can be issued to its existing shareholders without affecting the cash position.

7. Capital market considerations

The companies that are financially strong or large in size, possessing easily marketable securities can follow a liberal dividend policy. Small enterprises having less access to capital markets follow a low dividend policy and depend more on retained earnings to procure funds. These firms declare dividends mainly to acquire funds from financial institutions. These institutions need the companies should have declared dividend for some specified number of years for not less than a specified rate.

8. Inflation

The inflation is another important factor that determines a firm's dividend payout policy. Rising prices do not permit the firms to replace obsolete machinery with depreciation provisions alone. Hence, such firms tend to retain large earnings in order to meet the huge expenditure. During the periods of inflation, firms follow the policy of low dividend payouts.

1.3 CONSTRUCTION INDUSTRY IN INDIA

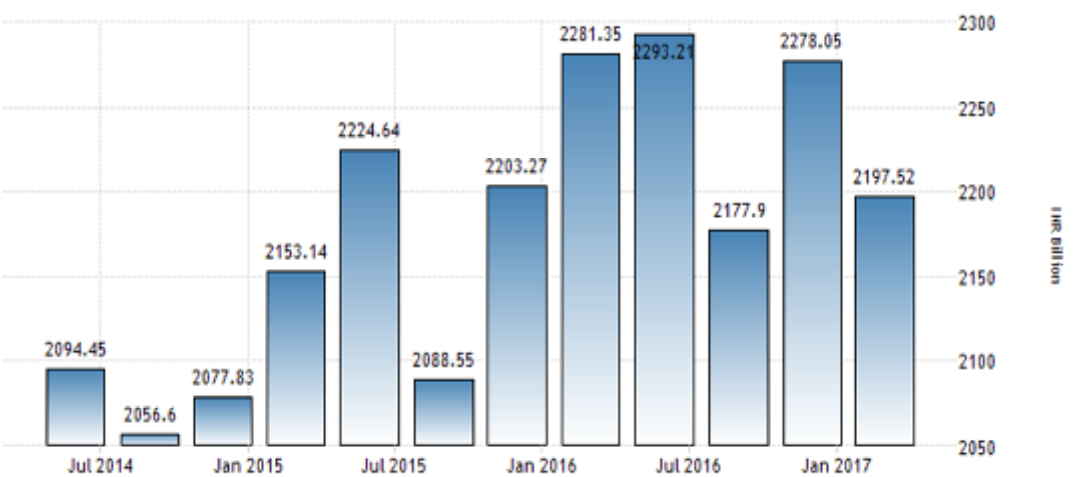
The construction industry is the second largest industry in India and has employed over 35 million people. The industry is estimated at US$126 billion in size in the year 2016 and is a prominent driver of FDI inflows. It can be categorized as (i) Infrastructure construction that includes railways, roadways, power, ports etc, (ii) Industrial construction that includes expansion projects from manufacturing sectors like oil and gas refineries, pipelines, textiles etc and (iii) Real estate construction that includes residential and commercial construction. Any growth in construction sector will positively

impacts the number of its associated industries, both basic industries and ancillary industries such as cement, steel, energy, technology, paint, rubber, granite, plastic, ceramic tiles etc.

The Indian construction industry faces many constraints. Among the people employed in construction industry, only six per cent have received the benefit of structured training and skill building. Knowledge upgradation programmes conducted by the central and state governments are inadequate. The laws governing constructions firms are not under unified regulatory framework. It also suffers from inadequacy of industrial finance, inefficiency due to poor technology, wastage and low value added.

Exhibit 1

India GDP from Construction for July 2014 – January 2017 (₹.Billion)



Source: tradingeconomics.com – Central Statistical Organisation, India

1.4 STEEL INDUSTRY IN INDIA

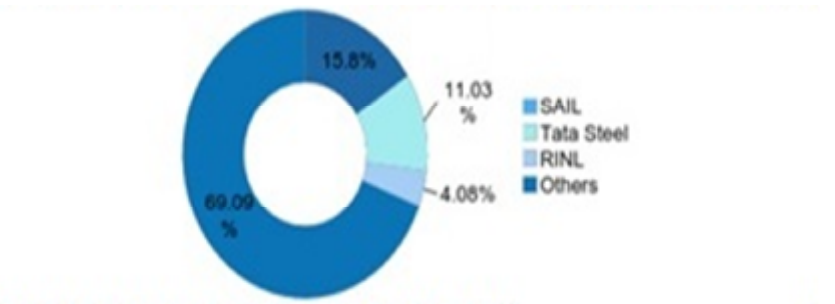
The steel retains its global market with growing demand across national boundaries, as it forms the base for various construction purposes. India is the third largest producer of crude steel in the world, with a production of 89.3 million tonnes per annum during the FY 2016. The country enjoys the benefits of domestic availability of raw material and cheap labour. It leads to

the cost advantage of domestic steel industry. The construction sector occupies 35 per cent of total steel production in India.

Steel forms the leading construction material, as it has its advantages of quality, durability, economical and can be reused or recycled endlessly. Steel is ideal for modernization, reconfiguring, extending or adapting with minimal disruption, and without costly, harmful redevelopment. The versatility of steel offers many advantages to the architects, the freedom to achieve their most ambitious innovative visions. Since steel is considered as one of the most sustainable construction materials, building owners naturally value the flexibility of steel buildings, and the value benefits they provide.

Exhibit 2

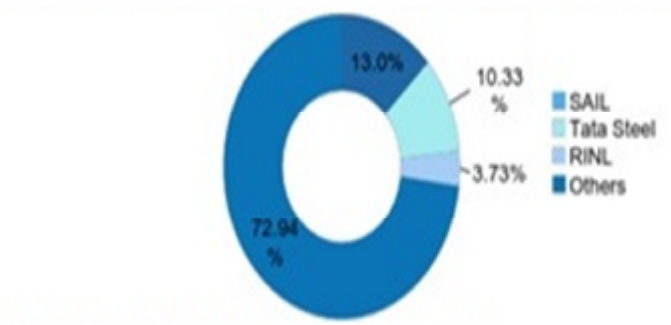
India's crude steel market share by production for 2016-17



Source: Ministry of Steel Annual Report 2016, TechSci Research
Notes: RINL – Rashtriya Ispat Nigam Limited, (1) April to December 2016

Exhibit 3

India's finished steel market share by production for 2016-17



Source: Ministry of Steel Annual Report 2016, TechSci Research
Notes: RINL – Rashtriya Ispat Nigam Limited, (1) April to December 2016

1.4.1 STEEL COMPANIES

The profiles of the selected Steel Companies are as follows.

1. Hisar Metal Industries Limited

Hisar Metal Industries Limited was established at Hisar, Haryana in 1991. They manufacture variety of Stainless Steel products of various grades and sizes for usage of small scale, medium and heavy industries. The company is popular for production of high precision, ultra-thin stainless steel strips and so Hisar is called as “Stainless steel city of India”. It has attained ISO 9001 certification for the Quality standard of stainless steel products.

2. JSW Steel Limited

JSW Steel Limited one of the leading producer of primary integrated steel, was started in 1982. The company manufactures various steel products that includes flat products – Hot rolled, Cold rolled, Color coated products, Galvanised steel, Galvalume steel and long products – TMT bars, Wire rods, special alloy steel. With over 40,000 employees, it plays a significant role as the largest exporter of coated products operating in over 100 countries. It it is known as “Strategic first mover” in steel industry.

3. Kirloskar Ferrous Industries Limited

Kirloskar Ferrous Industries Limited is a unit of Kirloskar group and was incorporated in 1991. Its manufacturing plants are located at Karnataka and Maharashtra. The core products manufactured are Pig Iron, Grey iron castings and S.G iron castings. It has attained an annual turnover of ∼1134 crores for the year 2016-17 in the manufacturing of Pig iron and castings. The company has achieved various awards and recognitions for its quality management systems such as ‘3 Star’ rating for EHS practices, CII Exim Bank Award for Business Excellence 2016, Best supplier Award from TAFE 2016, OHSAS 18001:2007, ISO-TS 16949:2009 certifications and so on.

4. Rishabh Digha Steel and Allied Products Limited

Rishabh Digha Steel and Allied Products Limited was incorporated in 1989 at Mumbai. Its core processing services are HR/CR Coil straightening

and De-coiling and the cutting of 16mm steel sheets. The company has attained ISO 9002 certification for its quality standards. Its reputed clients are Lloyd steels, Ispat steel Limited and dealers of Tata steel, Steel Authority of India etc.

5. Sarda Energy & Minerals Limited

Sarda Energy & Minerals Limited was incorporated in 2000. The company has merged with Chhattisgarh Electricity Company Limited (CECL) in 2007 and became a leading energy and minerals company. Its annual direct reduction process, for steelmaking capacity is 360,000 MT and crude steel manufacturing capacity is 240,000 Million Tonnes Per Annum (MTPA). They are also one of the leading exporters of ferro alloys from India with an annual production capacity of 75,000 MT. It has attained ISO 9001:2008 certification for its digital control system and manufacturing facilities.

6. Tata Sponge Iron Limited

Tata Sponge was established in 1991 as Ipitata Sponge Iron Limited and the name was later changed as Tata Sponge Iron Limited in 1996. It has the annual production capacity of 390,000 tonnes of sponge iron. It has attained various accreditations such as ISO 9002 and 14000 certifications. The company has achieved several awards for its superior quality standards and environmental endeavours such as Golden peacock National quality Award, Jn Tata highest delta Award, Earth care and Environment excellence Awards etc.

7. Tata Steel Limited

Tata Steel Limited was established in India in 1907 and it is operating in 26 countries with 80,000 employees. It has a production capacity of 9.7 MTPA, operating as Asia's first integrated private sector steel company. It manufactures various Flat products such as hot rolled, cold rolled, metallic coated, direct rolled, tubes, pre-finished steels, packaging steels, electro plated steels, electrical steels and narrow strip, construction products includes structural steel, floors, walls, roofs, modular and building components, agricultural implements, bearings and processes.

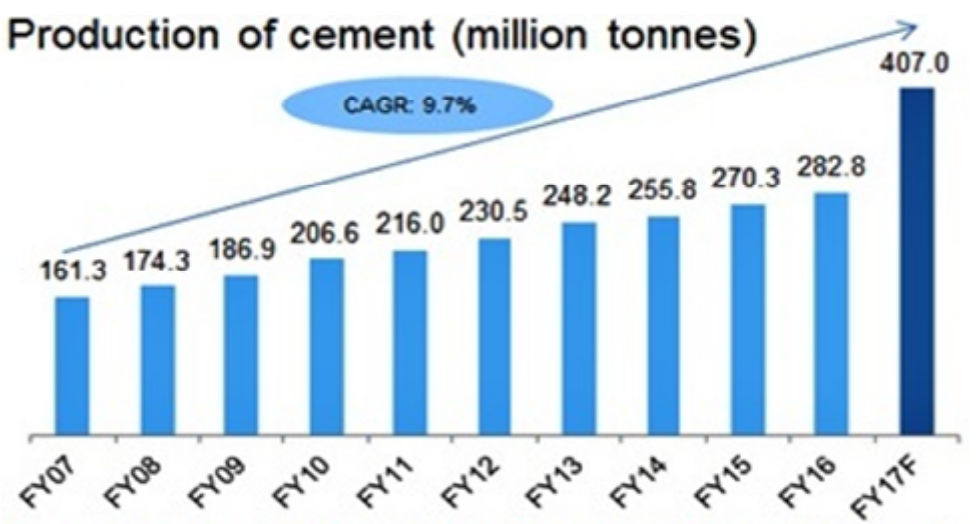
1.5 CEMENT INDUSTRY IN INDIA

The cement industry in India is the second largest in the world next to China, providing employment to more than one million people, with a total capacity of 420 MT (Million Tonnes) as on March 2017. Increasing industrial activities, real estate, construction and infrastructure developments, enhances the demand for cement worldwide. The demand for Cement is expected to reach 550-600 Million Tonnes Per Annum (MTPA) by 2025. The housing sector is the leading demand driver of cement that contributes to 67 per cent of the total consumption in India, followed by infrastructure at 13 per cent, commercial construction at 11 per cent and industrial construction at 9 per cent.

The demand for Cement is expected to reach 550-600 MT per annum (MTPA) by 2025. The cement industry has been anticipated to grow 20-25 per cent annually over the next three decades, to meet the requirement of a rapidly increasing construction activities in India and abroad. The cement industry suffers from shortfall such as reduction in raw material reserves, increasing cost of coal import, lack of innovation and technology etc.

Exhibit 4

Production of cement for the FY 2007-2016 (million tonnes)



Source**:** Department of Industrial policy and promotion, office of the Economic Advisor, TechSci Research, F– Forecast, CAGR– Compound Annual Growth Rate

1.5.1 CEMENT COMPANIES

The profiles of the selected cement Companies are as follows.

1. ACC Limited

ACC Limited was incorporated in 1936 and is the pioneer in building cement and concrete technology in India. The company manufactures different category of cements such as Portland cement, Premium cement, Bulk cement, Ready mixed concrete and concrete value added products. It has attained various awards for its quality standards, environmental and societal endeavours such as Green manufacturing excellence Award, Reader's digest trusted brand gold Award, Association of Business communicators Award, Clean and Green India Award etc.

2. Ambuja Cements Limited

Ambuja Cements Limited was established in 1986, formerly known as Gujarat Ambuja Cements Limited. It has an annual production capacity of 390,000 tonnes of cement. They are the pioneers to introduce 53 grade cement and Ambuja plus roof special- Portland Pozzolana Cement (PPC) in the market. It has attained numerous awards and recognitions for its quality standards, environmental consciousness and corporate social responsibility endeavors such as such as ISO 9002 certification, Leed India gold rating Award, Assocham CSR Excellence Award, FICCI Water Awards, CII sustainability Award etc.

3. Birla Corporation Limited

Birla Corporation Limited was commenced in 1919 as Birla Jute manufacturing industry, later the name was changed as Birla Corporation Limited in 1998. The cement products of the company includes Portland Pozzolana Cement (PPC), Ordinary Portland cement (OPC), 43 grade, 53 grade and Portland Slag Cement. It has attained various awards and certifications for their quality standards, environmental and corporate social responsibility activities that includes ISO 14001 and ISO 9001:2000 certifications, Best Corporate Ethics Award 2008, Best energy consumption and Implementation gold Award etc.

4. Deccan Cements Limited

Deccan Cements Limited was established as a public limited company in 1979 and had initiated commercial operations in 1982. It manufactures cement products namely regular grade cements such as Ordinary Portland cement 43, 53, Portland Pozzolana Cement and Portland Slag Cement and specialty cement such as S53, Sulphate Resistant Cement (SRC), Low Heat Cement (LHC), Low Alkali cement, etc. It has the production capacity of 2.3 million tonnes per Annum of cement. The company has achieved Best entrepreneur Award, Award for Corporate initiatives, Award for Environmental improvement in industries located in the state.

5. JK Cement Limited

JK Cement Limited was commenced in 1975 at Rajasthan. It is the second largest manufacturer of white cement in India possessing an annual capacity of 600,000 tonnes in India. They are the second largest producer of wall putty with an annual installed capacity of 700,000 tonnes. It has an installed grey cement capacity of 10.5 MTPA. It has attained many prestigious awards for productivity, environment management and human resource development such as Bhamashah Award by Government of Rajasthan 2013, Best employer Award, Certificate of excellence Awards 2016, Medallion mines Awards etc.

6. J.K Lakshmi Cements Limited

J.K Lakshmi Cements Limited was commenced in 1982, initially in Rajasthan, later at Gujarat and Haryana also. It is also the first cement producer of Northern India to be awarded an ISO 9002 certificate and be accredited by NABL (Department of Science & Technology, Government of India) for its Lab Quality Management systems. They also had been awarded with Productivity Excellence Award 2007-08, Energy Conservation Award 2008, Building Leadership Award 2007, National Award for Environmental Excellence & Energy Management 2007, Golden Peacock Award for Corporate Social Responsibility 2007, The Pinnacle Cement 2006 etc.

7. Kakatiya Cements Limited

Kakatiya Cements Limited was established in 1979 and is one of the leading mini cement plant. The company manufactures Ordinary Portland cement. Mining of Premium grade Limestone is done at Srinivas Nagar in Nalagonda District. It has attained ISI certification for its manufacturing quality standards. The company possesses an installed capacity of 297,000 tonnes per Annum.

8. KCP Limited

KCP Limited, cement manufacturing unit was incorporated in 1958. The company manufactures cement products such as Ordinary Portland cement Grade 53 and Portland Pozzolana Cement. It has the annual production capacity of 0.8 million tonnes in Macherla unit and 1.86 million tonnes in Muktyala unit. It has attained ISO 9000 certification, NCB Best Electrical Energy Performance Award in 2014 and 2015, International safety Award 2010, National energy conservation Award 2014 and Best management Award 2015.

9. Mangalam Cements Limited

Mangalam Cements Limited was established in 1976. The company has the production capacity of 3.25 MTPA and has newly established a Cement mill with a capacity of 1.25 MTPA in 2014. They offer cements in varieties such as 43 grades, 53 grades and Portland Pozzolana Cement. The company has achieved awards and recognitions such as ISO 9001:2000, ISO 18001:2007certification, National safety Award (Mines) 2010, Energy conservation Award 2014, Jamnalal Bajaj prize 2014, National safety Award 2011 and so on.

10. OCL India Limited

OCL India Limited was commenced in 1952. It manufactures a wide range of cement products such as Ordinary Portland cement 43 and 53 grades, Fly ash based - Portland Pozzolana Cement, 53S, Portland Slag cement, Sulphate Resistant cement and Masonry cement. It has the annual manufacturing capacity of 5.35 million tonnes. The company has received

many awards and recognitions for its quality standards, environmental and corporate social responsibility activities such as such as ICC Environment excellence Award, National Award for Energy efficiency, ISO 9002, IS/ISO 14001:2004 certifications and so on.

11. The Ramco Cements Limited

The Ramco Cements Limited formerly known as Madras Cements Ltd, was established in 1962. The company manufactures cement products such as Ordinary Portland cement 43 and 53 grades, Sulphate Resisting cement, Sleeper grade cement and Superfast Portland cement. The company has achieved numerous awards for its quality standards, environmental consciousness and corporate social responsibility activities such as Corporate performance Award, State safety Awards, National level excellent energy efficient unit Award, Green Award 2012 etc.

12. Shree Cement Limited

Shree Cement Limited was established in 1979, is one of the leading cement manufacturer in India. The company has the manufacturing capacity of 27.6 million tonnes per annum of cement. It has attained various awards such as Asia best CSR practices Award 2015, Global sustainability Award, NCCBM Award for best quality excellence, Green-co best practices Award 2016 etc., for its quality standards, environmental and corporate social responsibility activities.

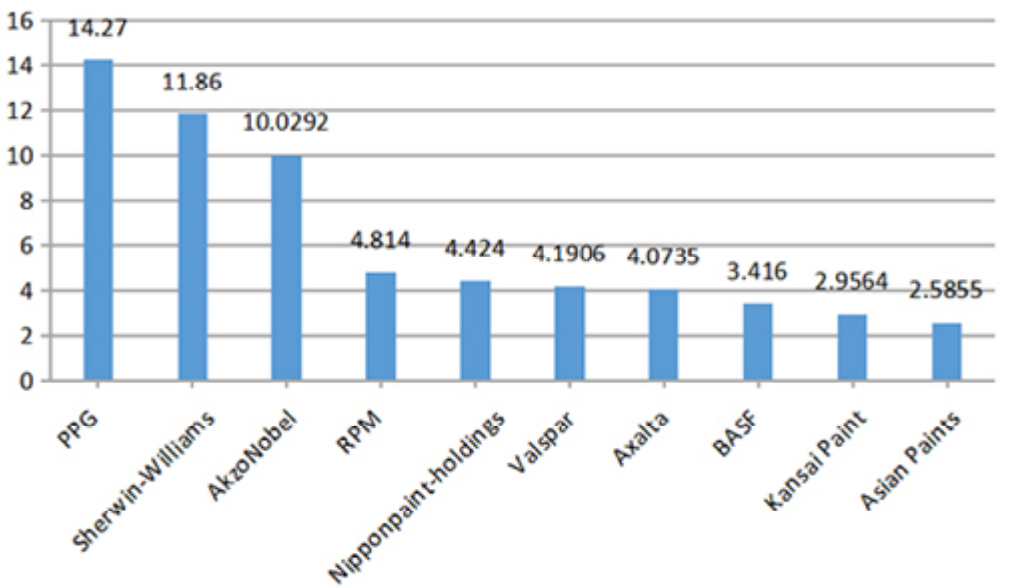
1.6 PAINT INDUSTRY IN INDIA

The Indian paint industry has its origin over 100 years. The decorative paints that are used by housing segment constitutes 75 per cent of total sales of the industry. Whereas, the industrial paints that are used for industrial purposes constitute the remaining 25 per cent of sales. The major players include Asian Paints occupies 30 per cent market share, Kansai Nerolac occupies 20 per cent market share, Berger Paints occupies 19 per cent market share and ICI Paints occupies 12 per cent market share. In the FY 2016, the market size of Indian paint industry stood at Rs.40,600 crores and is expected to reach Rs.70,875 crores by 2019-2020.

The Indian paint industry possess strong potential market share accompanied by innovative product range, nationwide distribution network and high caliber human resource, depicts a prosperous future for the industry. Rising input prices and stringent environmental regulations acts as barrier for its industrial growth. It also has to overcome the domination from foreign companies and strengthen the domestic companies so as to develop the country's economy.

Exhibit 5

Top ten World Paint Manufacturers 2017 sales value (Billion $)



Source: Published Reports of Coatings Industry 2017

1.6.1 PAINT COMPANIES

The profiles of the selected Paint Companies are as follows.

1. Akzo Nobel India Limited

The Akzo Company formed in 1969 was merged with Nobel Industries in 1994 and the Akzo Nobel was formed, later in 2008 the name was changed as Akzo Nobel India Limited. The company manufactures a wide range of

decorative paints, performance coatings, paint related chemicals such as specialty chemicals, functional chemicals and surface chemicals. The company has achieved FICCI National safety Award, Best community practices Award, National safety council Award 2015 etc., for its quality standards, environmental and corporate social responsibility activities.

2. Asian Paints Limited

Asian Paints Limited was established in 1942 and is operating as India's leading and Asia's fourth largest paint company. The company manufactures a wide variety of paints for decorative and industrial purposes. It has attained several awards and certifications for quality standards and corporate social responsibility activities such as Sword of honour Award, Best corporate governance and sustainability Award2016, Best audit committee Award etc.

3. Berger Paints Limited

Berger Paints Limited was incorporated in 1923 and is the second largest paint company in India. It manufactures a variety of paints, coating and related chemicals. Its landmark projects includes The Bandra Skywalk-Mumbai, Hotel Le Meridien- Delhi, TAPMI- Manipal, Bengaluru International Airport- Bengaluru, AIIMS- Delhi etc. It has attained various awards such as Reader's Digest Gold Award, NICMAR Award, ISO 9001:2008, ISO 14001:2004 certifications etc. for quality standards and corporate social responsibility activities.

4. Kansai Nerolac Paints Limited

Kansai Nerolac Paints Limited was established in 1920. The company manufactures a wide range of paints, coatings and paint ancillaries. It has attained various awards and achievements for quality standards, environmental and CSR activities such as FICCI Safety systems and excellence Award, Greentech Environment excellence Award, National Quality Award 2015, Corporate Governance Award etc.

1.7 GRANITE INDUSTRY IN INDIA

India is one of the leading country to mine and export granite in abundant. It accounts for nearly 20 per cent of total world reserves in granites, marbles, sandstone, slate etc. The southern part of the nation possess rich granite reserves and the production capacity of the processing units are increasing every year by 10 per cent. It provides job opportunities to more than 15 lakhs people. Around 80 per cent of the granite manufacturers are in Tamil Nadu, followed by Karnataka and Andhra Pradesh. About 85 to 90 per cent of the total granite production are exported to countries such as US, Europe, China and Italy.

There are around 100 granite manufacturers and few trading companies in India. The total granite production is estimated to be 350 to 400 containers per month in the year 2016. The price of an average container is US$ 18000 to US$ 24000. The total size of the Indian granite industry is estimated to be approximately US$ 85 million. There are some obstacles that restrict the growth of the industry namely lack of assistance from central and state governments, shortage of raw material, restrictive import policies etc.

1.7.1 GRANITE COMPANIES

The profiles of the selected Granite Companies are as follows.

1. Aro Granite Industries Limited

Aro Granite Industries Limited was established in 1988 and started as a 100 per cent Export Oriented Unit in 1991. The company manufactures polished/flamed Granite Tiles and Slabs. It has attained several awards and certifications for quality standards such as CAPEXIL Special exports Award, ISO 9001:2000, ISO 14000 etc.

2. Divyashakti Granites Limited

Divyashakti Granites Limited was established in 1993. It manufactures a wide variety of granite tiles and slabs. The company has achieved ISO certifications for its quality standards.

3. Inani Marbles and Industries Limited

Inani Marbles and Industries Limited was commenced in 1987, manufacturing of Granite, Marble, Quartzite and Sand stone. They have achieved various recognitions such as certificate of excellence INC 500-2013, Stona Awards 2010, 2012, 2016 etc.

4. Madhav Marbles and Granites Limited

Madhav Marbles and Granites Limited was incorporated in 1989, as a 100 per cent Export Oriented Unit. It is a leading processor and exporter of superior quality granites and marbles and famous for variety of green marbles. It has attained certificate of merit for quality products.

1.8 CERAMIC TILES INDUSTRY IN INDIA

India is the third largest tiles market in the world. Every year the Indian ceramic tiles industry grows about 15 per cent. The market size of the industry is estimated to be Rs.28000 crores in April 2017. In the last decade, the Indian ceramic industry has evolved into an organized market that was earlier consisting 60 per cent unorganized players. The leading players of the industry are Kajaria ceramics, HSIL ceramics, Somany ceramics, Euro ceramics and Asian Granito India. The global ceramic tile production growth rate in 2016-17 was at 11% but the Indian ceramic industry achieved a growth rate of 15%.

Ceramic tiles account for nearly 60 per cent of the total demand for tiles in India and is expected to grow at a CAGR of 8.7% by 2019. The Indian ceramic tiles industry enjoys the advantages of adequacy of raw materials, infrastructure, capital and technical skills. It suffers from volatile fuel prices, transportation costs, imports from china and dumping of imports from china that was later resolved by anti-dumping policies.

1.8.1 CERAMIC TILES COMPANIES

The profiles of the selected Ceramic Tiles Companies are as follows.

1. Kajaria Ceramics Limited

Kajaria Ceramics Limited was commenced in 1986, is one of the leading manufacturer of Ceramic/Vitrified tiles in India. It has attained various certifications for its quality products and safety management systems such as OHSAS 18001, SA 8000, ISO 14001, ISO 22000:2005 and ISO 50001:2011 certifications.

2. Orient bell Limited

Orient bell Limited was incorporated in 1977. The company manufactures a variety of digital ceramic and vitrified tiles. It has attained various certifications for its quality products and safety management systems such as OHSAS 18001, ISO 14001:2004, ISO 9001:2008 and BIS certifications.

3. Somany Ceramics Limited

Somany Ceramics Limited was established in 1969. The company offers a range of products like ceramic wall and floor tiles, polished vitrified tiles, glazed vitrified tiles, digital tiles, sanitary wares, bath fittings and tile laying solutions. They have achieved OHSAS 18001:2007, 9001:2008 certifications and awarded as Asia's most promising brand accreditation Award and so on.

1.9 STATEMENT OF THE PROBLEM

The capital structure of a firm comprises of various long term sources of funds that is utilized for financing of its assets. A sound capital structure should enable for the optimum utilization of funds in order to increase the return to its shareholders. It should also assist to increase the market price of shares and securities and thereby increase the value of the firm. The shareholders are distributed a sum regularly as dividend out of the profit earned, whereas the remaining portion is retained by the firm for future investments. The dividend policy should provide for a balance between profit maximization and wealth maximization. Any changes in capital structure impacts on the weighted average cost of capital. This impacts on profit earning of the firm and influences the dividend policies of the firm. An

optimum capital structure reduce the weighted average cost of capital and provide for increased return on investment. It should also increase the market value of shares and simultaneously the firm value.

The construction industry in India faces various challenges such as more competition in the industry leading to less profit margin, poor infrastructure reducing easy mobility of materials and construction equipments, poor productivity because of inadequate skilled labour and environmental issues. The weaknesses of Indian steel industry includes lack of capital, obsolete technologies, low capacity utilizations and changing government policies. The Indian cement industry faces challenges such as inadequate supply and rising cost of coal, infrastructure constraints and decline in exports. The Indian paint industry faces issues such as seasonal demand nature, environmental hazards, expensive technologies, changing import policies and exchange rates.

The challenges of granite industry are uncertainty in lease grant period, infrastructure facilities and insufficient investments. It also suffers from lack of focus by Government to improve infrastructure, differing quality of stones and their marketability. The problems faced by ceramic tiles industry in India are volatility in fuel prices, high transportation costs and cheaper imports from china. An ideal capital structure would be conducive for the construction associated industries to raise adequate funds from appropriate sources, so as to solve their financial problems and compete with the foreign manufacturers.

A proper dividend policy would lead to both satisfaction of investors and increase the firm value, which in turn would attract more foreign direct investments in to the construction and associated industries sector. The existing literature showed various studies concentrated merely on capital structure and dividend policy of construction industry. Only few studies have analysed the capital structure and dividend policy of industries that are supporting the construction industry, concentrating the companies individually.

Therefore, to fill this research gap the current study was conducted to examine the impact of capital structure on the dividend decisions of

construction associated industries in India by seeking answers to the following research questions.

1. What are the factors influencing the capital structure of construction associated industries in India?
2. What are the factors influencing the dividend decisions of the selected industries?
3. Whether there exists impact of capital structure on the value of the selected industries?
4. Does the dividend decisions impact on the value of the selected industries?
5. What will be the inter industry and intra industry trends of capital structure and dividend decisions?
6. Whether there exists any impact of capital structure on dividend decisions of the select industries?

1.10 OBJECTIVES OF THE STUDY

The objectives of the research study, “Impact of capital structure on dividend decisions with specific reference to select Construction associated Industries in India” are

1. To identify the factors influencing the capital structure and dividend decisions of the select industries.
2. To examine the impact of capital structure on the value of the select industries.
3. To assess the impact of dividend decisions on the value of the select industries.
4. To study inter and intra industry trends of capital structure and dividend decisions.
5. To study the impact of capital structure on dividend decisions of the select industries.

1.11 RESEARCH HYPOTHESES

The hypotheses developed for the research purpose are as follows,

- There is no significant impact of capital structure on the firm value of the select construction associated companies
- There is no significant impact of dividend decisions on the firm value of the select construction associated companies
- There is no significant impact of capital structure on dividend decisions of the select construction associated companies

1.12 SCOPE OF THE STUDY

The capital structure of the company is the blend of current and long term debt, owner equity and other sources of funds to its long term assets. Aligning the capital structure and dividend policy with the company's strategy is crucial task and need critical analysis (Obaid Ur Rehman 2016). In practice, in order to maximize firm value and shareholder welfare, one important task for managers is to decide the appropriate capital structure (Shun-Yu Chen 2011). An appropriate capital structure and dividend payout combination will provide for the growth of the firm, satisfaction of the investors and the development of the economy.

The study considers 30 companies belonging to construction associated industries. The construction associated industries selected for the study includes Basic industries and Ancillary industries. Basic industries consists of Steel industry (7 companies) and Cement industry (12 companies). Ancillary industry consists of Paint industry (4 companies), Granite industry (4 companies) and Ceramic tiles industry (3 companies) that are listed in Bombay Stock Exchange. The study covers a period of ten financial years from 2007-2008 to 2016-2017. The appropriate secondary data is collected from Capitaline Database.

The study provides wide scope for these industries to understand and take strategic capital structure and dividend decisions. This in turn offer wider scope for these construction associated industries to improve their efficiency, profitability, optimum use of funds and thereby support the development of Indian economy.

1.13 LIMITATIONS OF THE STUDY

The study foregoes some aspects that are not considered during the data collection and analysis, as they may lead to distraction from the key objective of the study. The limitations of the study are as follows,

i. The study is focused only on steel, cement, paint, granite and ceramic tiles industries in India.
ii. The study attempts to analyse only the quantitative financial data belonging to the study period and the qualitative aspects are not considered.
iii. The study is based on the secondary published data and the limitations applicable to it also binds the study.

1.14 CHAPTER SCHEME

The thesis report is organized in to five chapters.

Chapter 1: Introduction

This chapter consists of introduction of the study, statement of the problem, objectives of the study, scope of the study and limitations of the study.

Chapter 2: Review of Literature

This chapter presents the review of various studies in the area of research pertaining to the objectives of the study.

Chapter 3: Methodology

This chapter deals with the methodology adopted for the study in collection of data, variables selection and the tools used for analysis of data, according to the objectives of study.

Chapter 4: Results and Discussion

This chapter presents the results and discussion of the analysis as descriptive statistics of companies, factors influencing capital structure and dividend decisions, impact of capital structure on the value of the companies, impact of dividend decisions on the value of the companies, inter industry and

intra industry differences in capital structure and dividend decisions and impact of capital structure on dividend decisions of the companies.

Chapter 5: Summary and Conclusion

This chapter depicts the summary of findings and conclusion that are attained from the analysis of the data.