



CAPITAL STRUCTURE DECISIONS AND FIRM VALUE AT JSW STEEL

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ABSTRACT: The capital structure decisions of a company have a substantial impact on its financial stability and ultimate value. This research examines the relationship between corporate value and capital structure, with a particular focus on JSW Steel, one of the largest steel producers in India. The investigation examines the influence of a variety of financing options, such as debt, equity, and hybrid instruments, on the company's profitability, cost of capital, and market valuation. The research employs a combination of financial ratio analysis and recent empirical data to demonstrate the impact of leverage on JSW Steel's risk-return profile and shareholder value. The findings suggest that an optimal capital structure that achieves a balance between debt and equity can enhance the value of a business by reducing the cost of capital while maintaining financial flexibility. This research provides valuable insights for business managers and investors who are interested in understanding the strategic implications of financing decisions in the context of a capital-intensive and cyclical industry such as steel manufacturing.

Keywords: *Debt-Equity Ratio, Cost of Capital (WACC), Financial Leverage, Firm Valuation, Risk-Return Trade-off, Shareholder Wealth Maximization*

1. INTRODUCTION

The total cost of capital and the risk profile of a corporation are influenced by its capital structure, which includes the utilization of debt and equity. Moderate debt use is associated with higher business value as a result of tax sheltering, according to subsequent thinking and empirical evidence. This happens even if capital structure is not relevant in perfect, tax-free markets, according to the Modigliani-Miller theorem. On the flip side, a company's value could take a hit if it takes on too much debt due to rising agency expenses and other financial issues. Corporations aim for the best capital structure that reduces the weighted average cost of capital (WACC) in order to maximize the value of their companies.

Decisions on a company's capital structure have far-reaching effects on its value, risk profile, and financial health, making them essential for financial managers.

By taking out loans to boost returns, private equity firms can buy bigger companies with less ownership. Private equity firms may be able to get a better return on their investment with less capital if the company does well and its value goes up.

A leveraged buyout (LBO) occurs when a private equity (PE) firm uses the cash flows of an acquired company to improve the target company and raise capital to repay the debt. Debt repayment would be the initial allocation of any sale or public offering proceeds. A portion of the remaining funds would go to the investors



and private equity firm. The private equity firm stands to gain a lot upon exit if the company does very well.

A balance sheet can quickly become dangerous if large amounts of debt are accrued. In the case of a sharp drop in profits, a company with a lot of debt is more likely to fail on its bonds or loans. The cost of capital, which is the sum of the expenses incurred by a firm in relation to its debt and equity funding, can be affected by its capital structure.

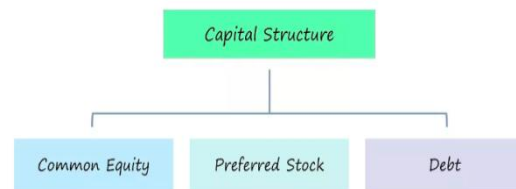
Because interest on debt may be written off as a business expense and because creditors get first dibs on a company's assets in a bankruptcy, debt financing is often more cost-effective than equity financing. The second factor that determines how investors and creditors are paid back in the case of a company's sale or liquidation is its liquidation preference. When it comes to private equity, creditors have more say over the company's assets than shareholders do. This means that in the case of a sale or dissolution of the company, the debt will be paid off before any money is distributed to the stock holders.

Because of the increased risk associated with the capital structure, equity investors are looking for larger returns. The lower cost of debt compared to equity allows it to lower the total cost of capital for a business. Optimizing the capital structure is striking the right balance between debt and equity to lower the cost of capital while keeping the default and bankruptcy risk of the company at acceptable levels.

A company's overall worth and financial security are heavily impacted by the choices it takes about its capital structure. It is critical to weigh the benefits of debt, including tax breaks, against the dangers

of a financial catastrophe in order to find the best mix of debt and equity funding for company operations and expansion. If a company's capital structure isn't ideal, it can lead to higher risk and lower value, whereas a well-designed structure can lower capital costs, boost earnings, and benefit shareholders. In order to make sure their investments last as long as possible and provide the most return possible, businesses carefully consider things like growth potential, interest rates, corporation risk, and market conditions.

2. TYPES OF CAPITAL STRUCTURES



Debt Capital

Public and private companies alike can benefit from the thorough overview of debt sources provided by the Debt Capital Structure data. Cash and stocks are among the several debt instruments included in the DCS data. It is derived from the tax returns and financial statements of real companies.

The DCS data includes a wide range of coverage types, as well as swaps and short-term credit facilities. Users can sort debt instruments by direct parent company and final issuer using the data. They can use this information to spot patterns and changes in the building over time.

Financial Leverage

The percentage of debt that makes up a large part of a company's total capital is indicated by this word. The term "capital gearing" can describe it. A highly leveraged company has a large amount of



debt, while a less leveraged company has a small amount of debt.

Equity Capital

Debt and equity make up the bulk of the capital structure. Equity capital is made up of a company's shares and rights to future cash flows. Common stock, preferred stock, retained profits, and short-term loans are all forms of equity. On the other hand, bonds and loans are the usual components of debt. A company's equity is its own capital, whereas its debt is the money it has borrowed.

Optimal Capital Structure

An essential part of financial management, the optimal capital structure allows a company to raise money from different places at the lowest feasible cost.

This capital structure is calculated by taking the discounted present value of future cash flows and multiplying it by the weighted average cost of capital (WACC). It brings equity and debt into balance.

3. LITERATURE SURVEY

Yuswandani, A. E., Tubastuvi, Jaroenwanit, P. (2025). The effects of profitability as a moderator on the relationships between firm value and company size, investment decisions, and capital structure are investigated in this research. Companies trading on the Indonesia Stock Exchange, with a focus on those in the Jakarta Islamic Index 70, had their data collected between 2019 and 2022. Quantitative correlation and moderating impact identification is achieved through the use of regression analysis. During profitable times, a company's worth is greatly affected by its capital structure and investment decisions, according to the research. Loans and investments might help companies with

larger revenue perform better. According to the research, if a business is profitable, its size will increase along with its worth. The results help managers make better financial and investment decisions. Improving a company's profitability is a key component in raising its value.

Monica, O. E., & Risty, I. (2025). Companies' worth and their capital structures are examined in this research from a number of countries, including Indonesia, Thailand, and China. S&P Capital IQ data for 2022 was used to compile the sample, which includes industrial enterprises from these countries. A regression analysis using STATA software can be used to find out how a company's stock and debt structures affect its performance. According to the findings, capital structure has a beneficial effect on company value, with the ideal amount of debt being able to boost returns while decreasing risk. Financial legislation and corporate governance differ among nations, which influences the link. Smart financial planning is beneficial for businesses in both established and developing countries, according to the poll. The research provides more thorough empirical evidence by analyzing data from different countries. Decisions made by managers, investors, and lawmakers about money can benefit from the results.

Nurdin, E., Awaluddin, I., Abdullah,. (2025). Firm size is used as a moderating factor in this research's analysis of the relationship between capital structure and company value. This research uses 116 firm-year data to analyze 29 food and beverage manufacturing companies listed on the Indonesia Stock Exchange from 2020 to 2023. In order to investigate correlations, quantitative methods like



panel data regression and moderated regression analysis are used. Larger companies gain more from this discovery since they have easier access to finance, but the results show that a company's funding technique favorably affects its valuation. The significance of scale in financial strategy is shown by the fact that the impact of capital structure on value is amplified as a function of firm size. Finding the sweet spot between debt and equity is crucial for getting the best results, according to the research. Managers can use these information to make better decisions regarding budget and strategy planning. Insights into the ebb and flow of company value in developing countries are offered by the research.

Sihombing, I., & Lestari, D. (2025). The impact of capital structure, company size, and profitability on manufacturing firm value is examined in this research. This research synthesizes data from prior research utilizing a descriptive literature-based methodology to offer a comprehensive examination of the correlations among these traits. There is a positive correlation between firm valuation and profitability as well as company size. When it comes to the stock market, bigger and wealthier companies usually do better. Depending on the specifics, different amounts of debt might have different effects on capital structure. In order to make a profit, the research stresses the requirement of good financial management. It stresses how critical it is to match the capital structure decisions with the needs of the company. With this data, managers may make better financial policy decisions. A company's worth is affected by its profitability, size, and leverage, according to the report.

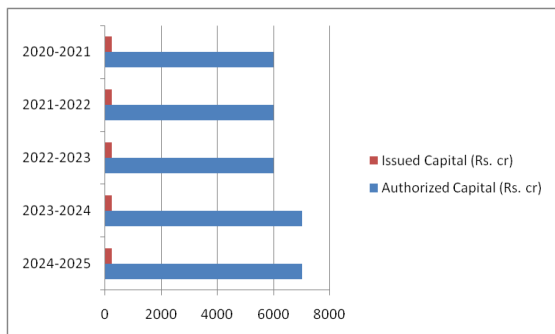
Karaca, C. (2025). Manufacturing companies listed on Borsa Istanbul from 2005 to 2023 are the focus of this research, which looks at the nonlinear association between capital structure and enterprise value. Using robustness evaluations, such as lag-augmented VAR panel causality tests and JKS half-panel jackknife estimation, the research demonstrates an inverted U-shaped association using the Method of Moments Quantile Regression (MMQR). While a moderate amount of leverage can increase a company's worth, taking on too much debt increases financial risk and reduces that value. According to the results, in order to maximize leverage, businesses need to keep a close eye on their financial structure. The research stresses the relevance of contextual factors, such as company traits and market circumstances. By offering real evidence from a growing market, the research gives managers techniques to increase their company's worth. Careful management of debt and equity is emphasized as being of paramount importance. Our understanding of the complexities of corporate finance systems is enhanced by the research.

4. DATA ANALYSIS AND RESULTS

Capital Structure of JSW Steel

| Period | Instrument | Authorized Capital | Issued Capital | - P A I D U P - | | |
|-----------|--------------|--------------------|----------------|-----------------|------------|---------|
| | | (Rs. cr) | (Rs. cr) | Shares (nos) | Face Value | Capital |
| 2024-2025 | Equity Share | 7030 | 244.05 | 2,44,04,79,526 | 1 | 244.05 |
| 2023-2024 | Equity Share | 7030 | 243.65 | 2,43,65,02,319 | 1 | 243.65 |
| 2022-2023 | Equity Share | 6015 | 240.44 | 2,40,43,56,419 | 1 | 240.44 |
| 2021-2022 | Equity Share | 6015 | 240.05 | 2,40,05,03,583 | 1 | 240.05 |
| 2020-2021 | Equity Share | 6015 | 240.58 | 2,40,57,66,346 | 1 | 240.58 |

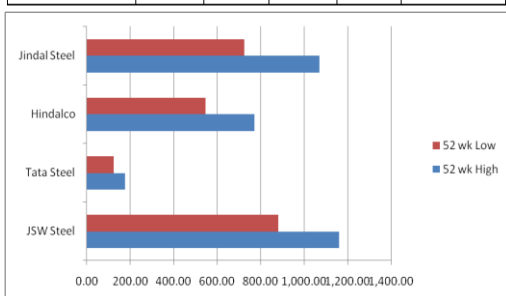




INTERPRETATION: The equity capital of JSW Steel has grown during the last five years. In 2021–2022, the issued and paid-up capital was ₹240.05 crore, but in 2024–2025, it climbed to ₹244.05 crore. Minor increases from new issuances or changes have led to a steady rise in the total number of equity shares. Given that there have been no stock splits or consolidations, the nominal value of shares has stayed at -1. The organization receives more funding for expansion and operational management from this consistent increase in equity capital.

Top Companies in India by Market Capitalisation – NSE

| Company Name | Last Price | % Change | 52 wk High | 52 wk Low | Market Cap (Rs. cr) |
|--------------|------------|----------|------------|-----------|---------------------|
| JSW Steel | 1,149.10 | 0.94 | 1,161.00 | 880 | 2,81,007.12 |
| Tata Steel | 172.66 | -0.36 | 174.44 | 122.62 | 2,15,540.66 |
| Hindalco | 741.05 | -0.65 | 772.65 | 546.45 | 1,66,530.72 |
| Jindal Steel | 1,052.65 | -0.95 | 1,069.70 | 723.35 | 1,07,379.57 |

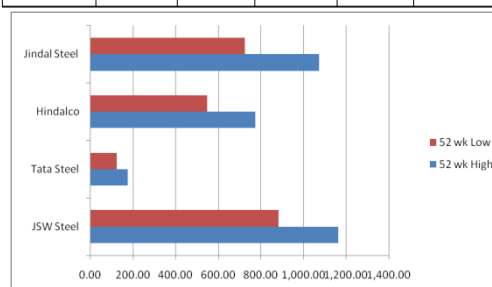


INTERPRETATION: JSW Steel has the largest market capitalization of any listed company, at ₹2,81,007 Cr, according to the most available NSE statistics. With ₹2,15,541 crore, Tata Steel is ranked second, followed by Hindalco with ₹1,66,531 crore, and Jindal Steel in fourth

place with ₹1,07,380 crore. Investors seem to have a lot of faith in JSW Steel as its stock price is getting close to its 52-week high.

Top Companies in India by Market Capitalisation – BSE

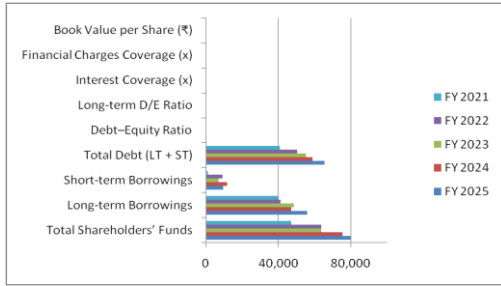
| Company Name | Last Price | % Change | 52 wk High | 52 wk Low | Market Cap (Rs. cr) |
|--------------|------------|----------|------------|-----------|---------------------|
| JSW Steel | 1,149.00 | 0.9 | 1,161.05 | 879.6 | 2,80,982.66 |
| Tata Steel | 172.65 | -0.35 | 174.35 | 122.6 | 2,15,528.17 |
| Hindalco | 741.5 | -0.57 | 772 | 546.25 | 1,66,631.85 |
| Jindal Steel | 1,053.15 | -0.86 | 1,070.00 | 723.95 | 1,07,430.58 |



INTERPRETATION: The most recent numbers from the NSE show that JSW Steel is still the biggest company, with a market worth of ₹2,80,983 Cr. The following companies are on the list: Tata Steel with ₹2,15,528 crore, Hindalco with ₹1,66,632 crore, and Jindal Steel with ₹1,07,431 crore. Investors seem to have a lot of faith in JSW Steel as its stock price is very close to its 52-week high of ₹1,161.

Leverage & Capital-Structure Snapshot

| Metric | FY 2025 | FY 2024 | FY 2023 | FY 2022 | FY 2021 |
|--------------------------------|---------|---------|---------|---------|---------|
| Total Shareholders' Funds | 79,839 | 75,283 | 63,659 | 63,501 | 46,977 |
| Long-term Borrowings | 55,919 | 47,241 | 48,346 | 41,176 | 39,551 |
| Short-term Borrowings | 9,576 | 11,582 | 6,825 | 9,259 | 1,285 |
| Total Debt (LT + ST) | 65,495 | 58,823 | 55,171 | 50,435 | 40,836 |
| Debt–Equity Ratio | 0.82 | 0.78 | 0.87 | 0.79 | 0.87 |
| Long-term D/E Ratio | 0.7 | 0.63 | 0.76 | 0.65 | 0.84 |
| Interest Coverage (x) | 2.21 | 2.99 | 2.39 | 7.61 | 4.53 |
| Financial Charges Coverage (x) | 3.12 | 3.88 | 3.37 | 8.78 | 5.59 |
| Book Value per Share (₹) | 327.14 | 308.98 | 263.36 | 262.7 | 194.34 |



INTERPRETATION: The capital structure of JSW Steel shows that the cash held by shareholders has been steadily rising, with retained earnings increasing the amount from ₹46,977 Cr in 2021 to ₹79,839 Cr in 2025. Concurrently, the overall debt rose from ₹40,836 crore to ₹65,495 crore. The company's debt-to-equity ratio was below 1, showing that its debt levels were kept sustainable. A steady growth in long-term debt was shown by the long-term debt-to-equity ratio, which rose from 0.65 to 0.70. Declining interest and financial cost ratios point to a diminished ability to pay down debt. Shareholders are getting richer as the book value per share keeps going up.

Weighted Average Cost of Capital (WACC)

| Parameter | Value |
|----------------------------------|--|
| Market Cap (Equity Value) | ₹2,81,000 cr |
| Total Debt (Gross) | ₹65,495 cr |
| Cash & Equivalents | ₹10,261 cr |
| Current Investments | ₹5,816 cr |
| Net Debt | ₹49,418 cr (= 65,495 - 10,261 - 5,816) |
| Enterprise Value (EV) | ₹3,30,418 cr (= 2,81,000 + 49,418) |
| Cost of Debt (K _d) | ~8% (assumed average borrowing rate) |
| Tax Rate | 25.17% (MAT + surcharge approx.) |
| Risk-free Rate (R _f) | 7.1% (10-yr GoI yield, FY25) |
| Equity Market Risk Premium (ERP) | 6% |
| Beta (levered) | 1.2 |

Cost of Equity (K_e) via CAPM

$$K_e = R_f + \beta \times ERP$$

$$= 7.1\% + 1.2 \times 6\%$$

$$= 14.3\%$$

The cost of equity (K_e) for JSW Steel is 14.3% according to the Capital Asset Pricing Model (CAPM), which stands for

the return that shareholders are hoping to get. With a beta of 1.2 and a 6% premium in the equity market, the company is exposed to market risk.

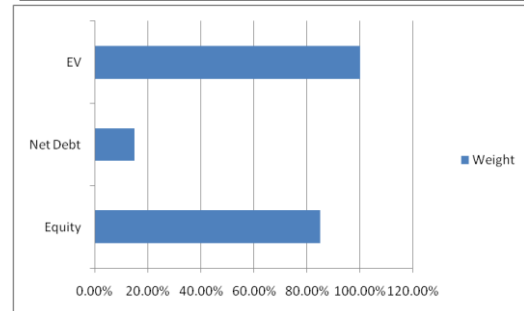
After-Tax Cost of Debt

The tax shelter makes debt financing more cost-effective, which leads to a better capital structure and lower WACC. The pre-tax borrowing cost (about 8%) is higher than the after-tax cost of debt (K_d × (1 - Tax Rate)).

$$K_d = 8\% \times (1 - 0.2517) \approx 6.0\%$$

Capital Structure Weights

| Component | Value (₹ cr) | Weight |
|-----------|--------------|--------|
| Equity | 2,81,000 | 85.00% |
| Net Debt | 49,418 | 15.00% |
| EV | 3,30,418 | 100% |



INTERPRETATION: The equity portion of JSW Steel's capital structure makes up 85% of its assets, while the net debt portion is 15%. This means that the company's financial leverage is lower. Although the WACC might go up a little bit, this distribution shows that the company is less reliant on debt and more on shareholder equity, which lowers financial risk. Contrast this with a capital structure that is more egalitarian.

WACC Calculation

$$WACC = (E/V)K_e + (D/V)K_d$$





| Term | Calculation | Result |
|----------------|----------------------|--------|
| Equity portion | $0.85 \times 14.3\%$ | 12.20% |
| Debt portion | $0.15 \times 6.0\%$ | 0.90% |
| WACC | | 13.10% |

Use in DCF:

Discount free cash flows (FCF) at 13.1% base-case.

For sensitivity:

- Low case WACC = 12% (lower beta or cheaper debt).
- High case WACC = 14.5% (higher risk premium or weaker coverage).

5. CONCLUSION

The value, risk profile, and financial health of a firm are profoundly affected by decisions about its capital structure. By balancing debt and equity, a business can lower its cost of capital and secure its future development and investment flexibility. Optimizing financing choices while preserving control and minimizing excessive risk requires firms to rigorously evaluate financial leverage, tax advantages, market dynamics, and shareholder interests.

Allocating resources efficiently, making a profit, managing risks, and developing growth strategies all have an impact on a company's value. Aligning financial decisions with long-term strategic objectives, creating investor confidence through transparency, and maintaining operational efficiency can help companies increase their market position and shareholder value. The firm's resilience, competitiveness, and ability to provide long-term returns to its stakeholders are ensured by a well-coordinated strategy for creating value and managing capital.

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