Capital Structure Performance A Case Study of State Bank of India And HDFC Bank limited

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Abstract- Capital structure is significant discipline of banking operations. This researcher constitutes an attempt to identify the impact ofCapital Structure Performance of two leading and rank one public and private sector banks. The analysis was donewith the Capital Structure and its impact on financial performance of select two banks during year 2012-13 to 2017-18 (Five years) of SBI and HDFC banks.The purpose of this paper is to examine the extent to which growth determines of Capital Structure and profitability performance of these two banks. This is done by examining the Capital Structure components consisting of total debt, short term debt and long-term debt of SBI and HDFC banks and then testing the resulting ideas empirically. This paper may provide useful insights for the interested stakeholders, such as customers, depositors, borrowers and investors etc.

Keywords: Capital Structure, Total debt, Long term debt, Short term debt, stakeholders

I. INTRODUCTION

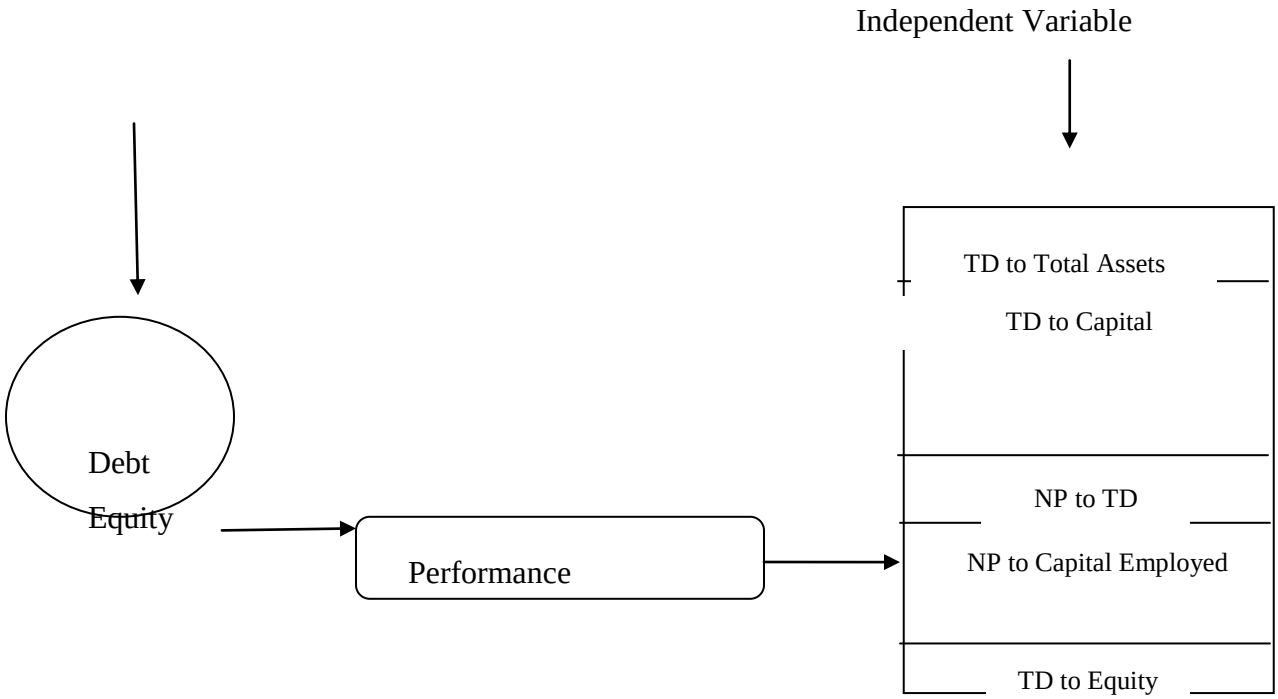
To understand how banks finance their operations, it is necessary to examine the determinants of their financing or capital structure decisions. Bank financing decisions involve a wide range of policy issues. Successful organization has always been dependent on factors such as availability of entrepreneurship, efficient production techniques, and skillful management methods and above all, adequate financial resources.

Capital structure is most significant discipline of Banks's operations. To understand how banks finance their operations, it is necessary to examine the determinants of their financing or capital structure decisions. Banks financing decisions involve a wide range of policy issues. The relationship between capital structure and financial performance is one that received considerable attention in the finance literature. How important is the concentration of control for the company performance or the type of investors exerting that control are questions that authors have tried to answer for long time prior studies show that capital structure has relating with corporate governance, which is the key issues of state owned enterprise. To study the effects of capital structure or financial performance, will help us to know the potential problems in performance and capital structure. The analyze has been made the capital structure and its impact on financial performance during 2013 to 2018 (Five years) financial year of SBI and HDFC banks.This point of study consideredCapital structure is dependent variable and financial performance parameters i.e. Gross Profit ratio, Net Profit Ratio, Return on Capital Employed, Return on Equity, Return on Total Assets and Return on Fixed Assets are independent variables.

Theoretically, the financial management should plan an optimum capital structure for their companies. The optimum capital structure is obtained when the earnings per share and market value per share is maximum. There is significant variation among industries and individual companies within an industry in terms of capital structure. Since a number of factors influence the capital structure decision of companies, the judgment of the person making the capital structure decision plays a crucial part. Two similar companies can have different capital structures if the decision makers differ in their judgment of the various factors. A totally theoretical model perhaps cannot adequately handle all those factors, which affect the capital structure decision.

Conceptual Frame work

Dependent Variable



Mode of Analysis

Capital structure:

Role of debt to Total funds =

$$\frac{\text{Total Debt}}{\text{Total funds}} \text{ X } 100$$

Capital Structure Performance:

$$\text{Total Debt to Total Assets} = \frac{\text{Total Debt}}{\text{Total Assets}} \text{ X } 100$$

$$\text{Total Debt to Capital Employed} = \frac{\text{Total Debt}}{\text{Capital Employed}} \text{ X } 100$$

$$\text{Net Profit to Total Debt} = \frac{\text{Net Profit}}{\text{Total Debt}} \times 100$$

$$\text{Net Profit to Capital Employed} = \frac{\text{PBIT}}{\text{Equity}} \times 100$$

$$\text{Total Debt to Equity} = \frac{\text{Total Debt}}{\text{Equity}} \times 100$$

2. REVIEW OF LITERATURE

Review of literature is necessary since it familiarizes the researcher with concepts and conclusions already evolved by earlier analysis. It also enables the present researcher to find out the scope for further study and frame appropriate objectives for the proposed evaluation. Since the proposal of the study is to measure the capital structure and financial performance of SBI and HDFC banks, the previous studies made in this area of research are briefly reviewed. It also includes the opinions expressed by various authors in leading articles, journals and books.

Modigliani and Miller(1958) have proposed that the capital structure doesn't have influence on the market value of the company, which will be settled by the composition of its assets. This is a model with several presuppositions unreal for the current context-in which perfect markets are those without brokerage costs, and individual taxes and where it is possible to investors to obtain financing at the same rates practiced to companies. There is not an information asymmetry, and the company's debt is free from risk. This field of investigation is called static trade-off theory. It is characterized by the idea that firms set a target for a leverage ratio and move toward it. Optimum capital structure for the company can be determined only through taking into account the advantages and disadvantages of funds provided to the company by debt and equity capital.

Chakraborty (1977) in his study found that age, retained earnings and profitability were negatively correlated with the debit equity ratio, while total assets and capital intensity were directly related to it. He felt that a high cost of capital for all the consumer industries was due to their low debt component. Here, author strongly suggested that high debt capital structure is favorable.

Deesomsak, Paudyal and Pescetto (2004), found that firm risk, growth opportunity and profitability do not have a significant impact on financial leverage of firms. What puzzles us about this study are the findings of the insignificant effects that profitability, growth and firm risk have on the capital structure differences among the firms. The twit study, on the other hand, does not offer evidence on the role of risk. In previous studies which do examine the effects of risk, most of them take accounting measurements of risk, usually volatilities or coefficient of variations in profit, ROA, ROE, or sales revenue.

Harrington (2005), in this study, supported the theories of capital structure, which indicates that profitability, is an important determinant of leverage. The results suggest that manufacturing firms in concentrated industries have a

slower rate of mean reversion in profitability when compared to firms operating in a more competitive environment. A slower rate of mean reversion in profitability leads to a greater response of leverage to profitability.

B.Nimalathasan&ValeriuBrabete(2010), they pointed out capital structure and its impact on profitability: a study of listed manufacturing companies in Sri Lanka. The analysis of listed manufacturing companies shows that Debt equity ratio is positively and strongly associated to all profitability ratios (Gross Profit, Operating Profit & Net Profit Ratios) Nimalathasan, B., Valeriu B., 2010 Capital structure and Its Impact on Profitability.

Saeed et al. [2] and Zafar et al. This theory study showed that the impact of capital structure on banking performance with in country and foreign country; Researcher include the Spread ratio, earning per share and Return on Assets as dependent variables, Total debt to total equity, Long term debt to Total equity, Short term debt to Total equity as independent variables. Result of this study validated a positive relationship factor of capital structure and performance of banking industry. A positive image created in mind about bank if low risk involves the results of these consequences to improving the financial performance and good relationship between bank capital and bank performance. Other than that; Earning ratio, researcher measured the risk using to different tools. AS measured of risk the important role of 'behaviors financing'. If researcher takes high risk then result will be high return, if takes low risk the result will be low return.

3. OBJECTIVES OF THE STUDY

The focus of this study is impact of capital structure on performance of the State Bank of India HDFC banks.

- To study the Capital Structure performanceof theSBI and HDFC banks.
- To analyses the impact of capital structure on financial performanceof SBI and HDFC banks.
- To understand the interrelationship between capital structure and financial performance of SBI and HDFC banks

4. HYPOTHESIS OF THE STUDY

Keeping the above objectives in mind, the following hypothesis were framed and tested during the study period.

NULLHYPOTHESIS (Ho)

Ho (1): There is no significant relationship between Capital Structure andTotal Debt to Capital Employed of SBI and HDFC banks.

Ho (2): There is no significant relationship betweenCapital Structure andNet Profit to Total Debt of SBI and HDFC banks.

Ho (3): There is no significant relationship betweenCapital Structure and Net Profit to Capital Employed of SBI and HDFC banks.

Ho (4): There is no significant relationship betweenCapital Structure and Total Debt to Equity of SBI and HDFC banks.

METHODOLOGY

The study was concerned with leading and popular banks and it has been confined toSBI and HDFC banks. The study was on the secondary data, which was obtained from the published sources i.e. Annual reports for the period of 5 years from, 2013-14to 2017-18. The collected data was analyzed with the help of ratio analysis. The many accounting ratios used to predict the financial performance of these two banks, gives a warning only when it is too late to take corrective action.

LIMITATIONS OF THE STUDY

The following are the limitations of the present study.

- The study was limited to 5 years from 2013-14 to 2017-18.
- The study was limited to SBI and HDFC banks.
- The data of this study has been primarily taken from published annual reports only.

ABOUT SBI AND HDFC BANKS

The origin of the State Bank of India goes back to the first decade of the nineteenth century with the establishment of the Bank of Calcutta in Calcutta on 2nd June 1806186. Three years later the bank received its charter and was redesigned as the Bank of Bengal on 2nd January 1809. The Bank of Bombay on the 15th April 1840 and the Bank of Madras on 1st July 1843 followed the Bank of Bengal. These three banks were governed by Royal Charter, which were revised from time to time187. These three banks received the exclusive right to issue paper currency in 1861 with the Paper Currency Act, a right they retained until the formation of the Reserve Bank of India. The business of the banks was initially confined to discounting of bills, keeping cash accounts, receiving deposits and issuing and circulating cash notes. Loans were restricted to Rs.1 lakh and the period of accommodation confined to three months only. With the passing of the Paper Currency Act of 1861, the right of note issue of the presidency banks was abolished and the Government of India assumed the sole power of issuing paper currency from 1 March 1862. None of the three banks had till then any branches although the charters had given them such authority. By 1876, the Bank of Bengal had eighteen branches including its head office; seasonal branches and sub agencies, the Banks of Bombay and Madras had fifteen each. The Presidency Banks Act, which came into operation on 1st May 1876, brought the three presidency banks under a common statute and the banks involved themselves in the financing of practically every trading, manufacturing and mining activity in the sub-continent. But the three banks were rigorously excluded from any business involving foreign exchange, as it was feared that these banks enjoying government patronage would offer unfair competition to the exchange banks, which had by then arrived in India. This exclusion continued till the creation of the Reserve Bank of India in 1935. The Presidency Banks of Bengal, Bombay and Madras with their 70 branches were merged on 27th January 1921 to form the Imperial Bank of India190. They took on the triple role of a commercial bank, a banker's bank and a banker to the government. The

establishment of the Reserve Bank of India as the central bank of the country in 1935 ended the quasi-central banking role of the Imperial Bank. The business of the banks was initially confined to discounting of bills of exchange or other negotiable private securities, keeping cash accounts and receiving deposits and issuing and circulating cash notes. Loans were restricted to Rs. One lakh and the period of accommodation confined to three months only. The earlier restrictions on its business were removed and the bank was permitted to undertake foreign exchange business and executor and trustee business for the first time. The Imperial Bank during the three and a half decades of its existence recorded an impressive growth in terms of offices, reserves, deposits, investments and advances, the increase in some cases amounting to more than six-fold. The lofty traditions of banking which the Imperial Bank consistently maintained and the high standard of integrity it observed in its operations inspired confidence in its depositors that no other bank in India could perhaps then equal. When India attained freedom, the Imperial Bank had a capital base (including reserves) of Rs.11.85 crore, deposits and advances of Rs.275.14 crore and Rs.72,94 crore respectively and a network of 172 branches and more than 200 sub offices extending all over the country

In 1994 HDFC Bank was incorporated, with its registered office in Mumbai, India. Its first corporate office and a full-service branch at Sandoz House, World were inaugurated by the then Union Finance Minister, Manmohan Singh. As of October 9, 2018, the bank's distributions network was at 4,805 branches and 12,260 ATMs across 2,657 cities and towns. The bank also installed 4.30 Lacs POS terminals and issued 235.7 Lacs debit cards and 85.4 Lacs credit card in FY 2017.HDFC Bank Limited is an Indian banking and financial services company headquartered in Mumbai, Maharashtra. It has 88,253 permanent employees as on 31 March 2018and has a presence in Bahrain, Hong Kong and Dubai. HDFC Bank is India's largest private sector lender by assets.[8] It is the largest bank in India by market capitalization as of February 2016. It was ranked 69th in 2016 BrandZ Top 100 Most Valuable Global Brands. HDFC Bank provides a number of products and services including wholesale banking, retail banking, treasury, auto loans, two-wheeler loans, personal loans, loans against property, consumer durable loan, lifestyle loan and credit cards.Along with these various digital products are Payzapp and Chillr.HDFC Bank merged with Times Bank in February 2000. This was the first merger of two private banks in the New Generation private sector banks category.In 2008, Centurion Bank was acquired by HDFC Bank. HDFC Bank Board approved the acquisition of CBoP for 95.1 billion INR in one of the largest mergers in the financial sector in India

5. CAPITAL STRUCTURE ANALYSIS:

Table-1 Statement of Total Debt to Total Assets Ratio						
	SBI			HDFC		
Year	Total Debt	Total Assets	TD to TS Ratio	Total Debt	Total Assets	TD to TS Ratio
2017-18	5292805113	34547519966	0.15	1688686881	1063934323	0.16
2016-17	4729288438	27059663041	0.17	1571245251	8638401917	0.18
2015-16	4826206670	23576175391	0.21	1099037828	7302618187	0.15
2014-15	4428483283	20480797998	0.21	934971775	6070965177	0.16
2013-14	2800575364	17927482908	0.16	907833960	4915995007	0.16
Mean	4415471774	24718327861	0.18	3551391240	5598382922	0.162
Range	2492229749	166200370	0.06	780852921	7574467594	0.03
SD	954588597	6470541218	0.028	365475558	289478529	0.012

Source: Compiled from Annual Reports of SBI and HDFC banks from 2013-14 to 2017-18.

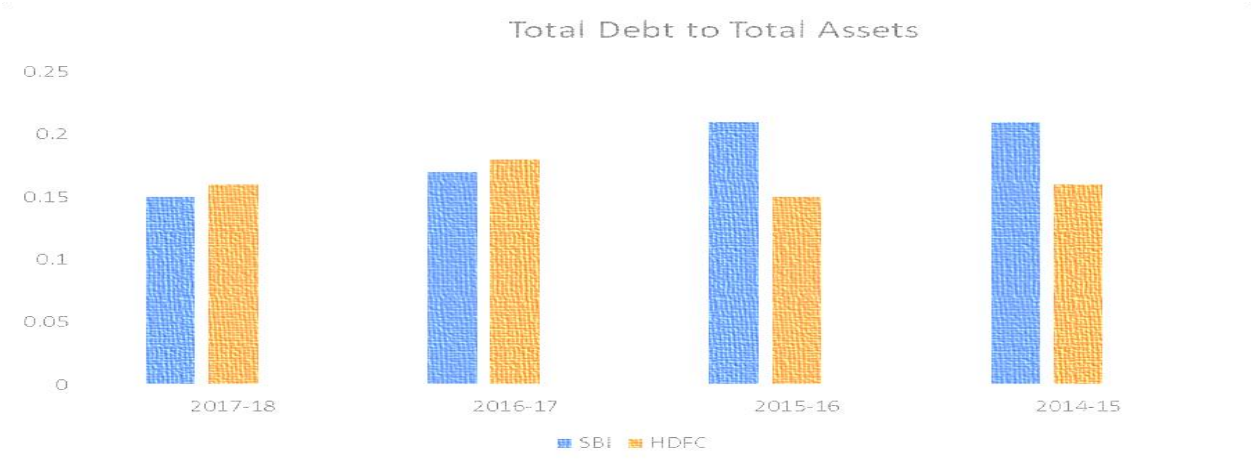


Table 1 indicates the capital structure leverage of the SBI and HDFC. Average of this ratio of these banks is 0.18 and 0.16 times respectively. Higherstandard deviation was seen in favor of SBI. It represents high level of leverage has been maintaining by the SBI than HDFC. Range of SBI is only 0.6 whereas HDFC 0.03 only. It is clear from the analysis that this ratio is fluctuating for both banks thought the study period. This ratio is positive to SBI.

Table-2 Statement of Total Debt to Capital Employed Ratio						
	SBI			HDFC		
Year	Total Debt	Capital Employed	TD to CE Ratio	Total Debt	Capital Employed	TD to CE Ratio
2017-18	5292805113	32277579151	0.16	1688686881	1027056196	0.16
2016-17	4729288438	25519585797	0.18	1571245251	8493839184	0.18
2015-16	4826206670	21186546279	0.23	1099037828	6915223363	0.16
2014-15	4428483283	19458700870	0.23	934971775	5874319471	0.16
2013-14	2800575364	4502550965	0.62	907833960	4664748973	0.17
Mean	4415471774	20588992612	0.28	1240355139	5395037437	0.17
Range	2492229749	27775028186	0.45	780852291	7466782988	0.02
SD	954588597	10263308909	0.19	365475557	2817615576	0.008

Source: Compiled from Annual Reports of SBI and HDFC banks from 2013-14 to 2017-18.

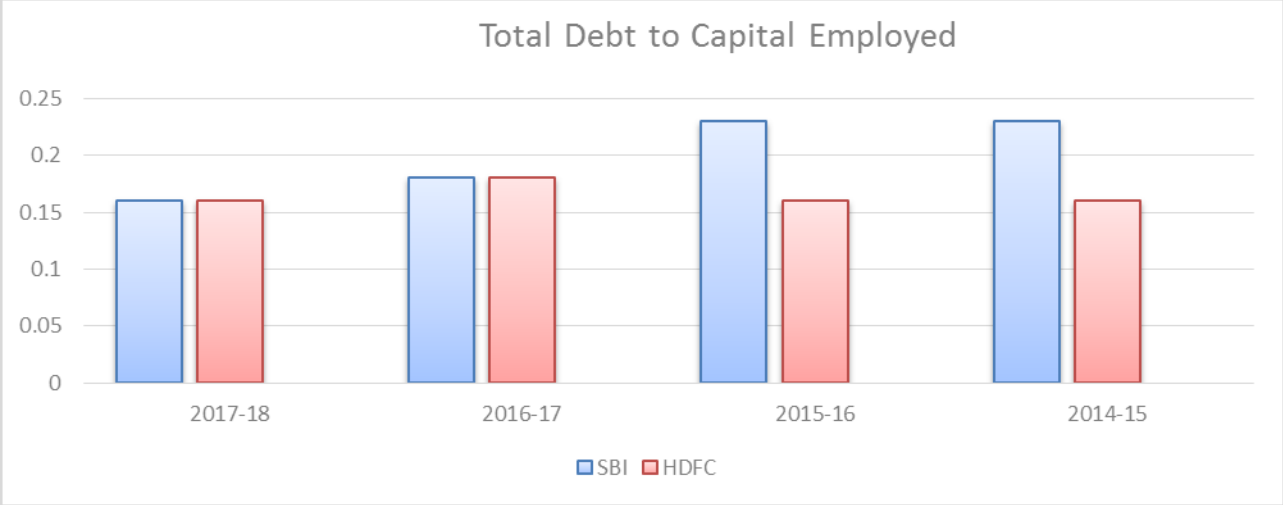


Table 2 indicates the Total debt to Capital Employed ratio of the SBI and HDFC. Average of this ratio of these banks is 0.28 and 0.17 times respectively. Higher standard deviation was seen in favor of SBI. It represents high level debt to capital employed has been maintaining by the SBI than HDFC i.e 0.19 and 0.008. Range of SBI is only 0.6 whereas HDFC 0.03 only. It is clear from the analysis that this ratio is fluctuating for both banks thought the study period. This ratio is favorable to SBI.

Table-3 Statement of Net Profit to Total Debt Ratio						
	SBI			HDFC		
Year	Net Profit	Total Debt	NP to TD Ratio	Net Profit	Total Debt	NP to TD Ratio
2017-18	654745371	5292805113	0.124	174867283	1688686881	0.10
2016-17	104841026	4729288438	0.021	152874022	1571245251	0.09
2015-16	99506537	4826206670	0.023	128173250	1099037828	0.11
2014-15	131015720	4428483283	0.03	107000484	934971775	0.12
2013-14	108911717	2800575364	0.04	84783761	907833960	0.11
Mean	219804074	4415471773	0.04	129539760	1240355139	0.11
Range	555238834	555238834	0.10	90083522	780852921.00	0.03
SD	243435011	954588597	0.04	35749328	365475557	0.011

Source: Compiled from Annual Reports of SBI and HDFC banks from 2013-14 to 2017-18.

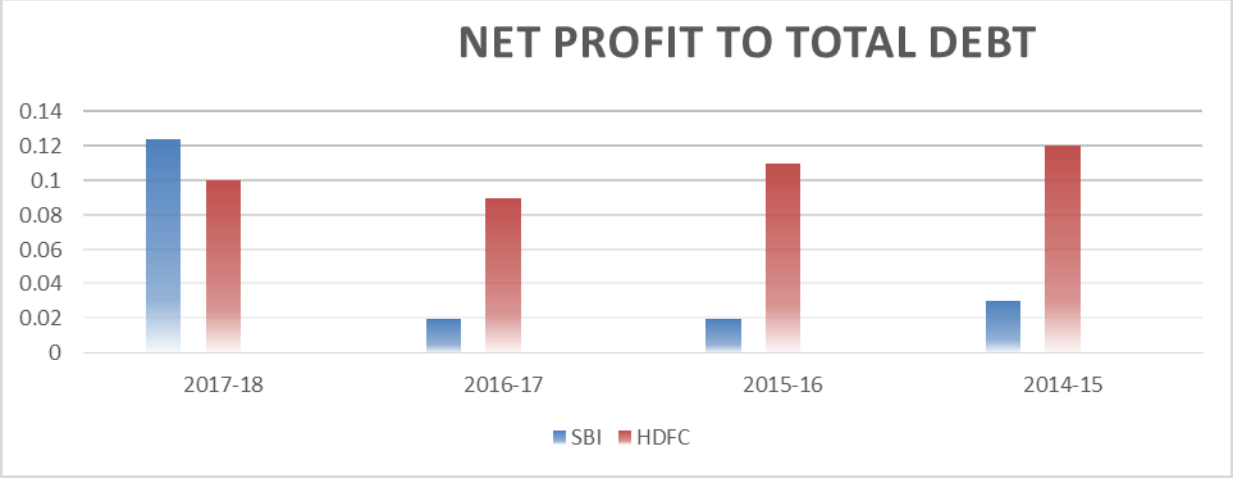


Table 3 It can be seen that Net profit to Total Debt ratio of the SBI and HDFC. Average of this ratio of these banks is 0.04 and 0.11 times respectively. Higher standard deviation was observed in favor of SBI. It represents high level of net profit to total debt was in favor of HDFC to SBI. Range of SBI is only 0.04 whereas HDFC 0.011 only. It is indicated from the analysis that this ratio is fluctuating for both banks thought the study period. This ratio is favorable to HDFC.

Table-4 Statement of Net Profit to Capital Employed Ratio						
	SBI			HDFC		
Year	Net Profit	Capital Employed	NP to CE Ratio	Net Profit	Capital Employed	NP to CE Ratio
2017-18	654745371	32277579151	0.002	174867283	1063934323	0.017
2016-17	104841026	25519585797	0.004	152874022	8638401917	0.018
2015-16	99506537	21186546279	0.005	128173250	7302618187	0.018
2014-15	131015720	19458700870	0.006	107000484	6070965177	0.018
2013-14	108911717	4502550965	0.024	84783761	4915995007	0.018
Mean	219804074	20588992612	0.008	129539760	5598382922	0.018
Range	555238834	27775028186	0.02	90083522	7574467594	0.00
SD	243435011	10263308909	.008	35749328	2889478529	0.004

Source: Compiled from Annual Reports of SBI and HDFC banks from 2013-14 to 2017-18.

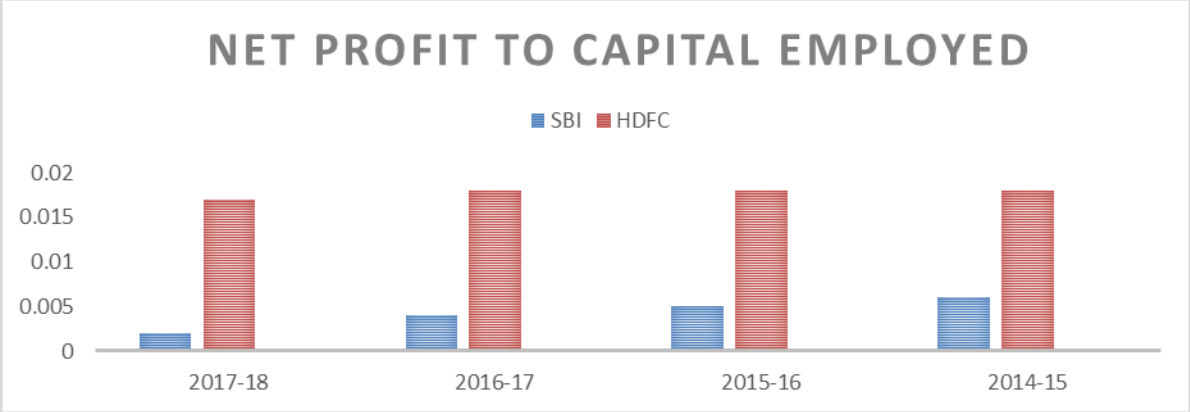


Table 4 It can be seen that Net profit to Capital Employed ratio of the SBI and HDFC. Average of this ratio of these banks is 0.008 and 0.018 times respectively. Higher standard deviation was haven bySBI than the HDFC. It represents high level of net profit to capital employed was in favor of HDFC to SBI. Range of SBI is only 0.008 whereas HDFC 0.004 only. It is observed from the analysis that this ratio is fluctuating trend for both banks during the study period. This ratio is favorable to HDFC.

Table-5 Statement of Total Debt to Equity Ratio						
	SBI			HDFC		
Year	Total Debt	Equity	TD to Equity Ratio	Total Debt	Equity	TD to Equity Ratio
2017-18	5292805113	2191285603	2.41	1688686881	2751636838	0.61
2016-17	4729288438	1882860626	2.51	1571245251	2492099128	0.63
2015-16	4826206670	1442744360	3.34	1099037828	1843885298	0.59
2014-15	4428483283	1284382265	3.45	934971775	1568128700	0.60
2013-14	2800575364	1182822496	2.37	907833960	1242620230	0.65
Mean	4415471774	1596819070	2.82	1240355139	1979674039	0.62
Range	2492229749	1008463107	1.08	780852921	1509016608	0.06
SD	954588597	426602616	0.53	365475558	630389265	0.02

Source: Compiled from Annual Reports of SBI and HDFC banks from 2013-14 to 2017-18.

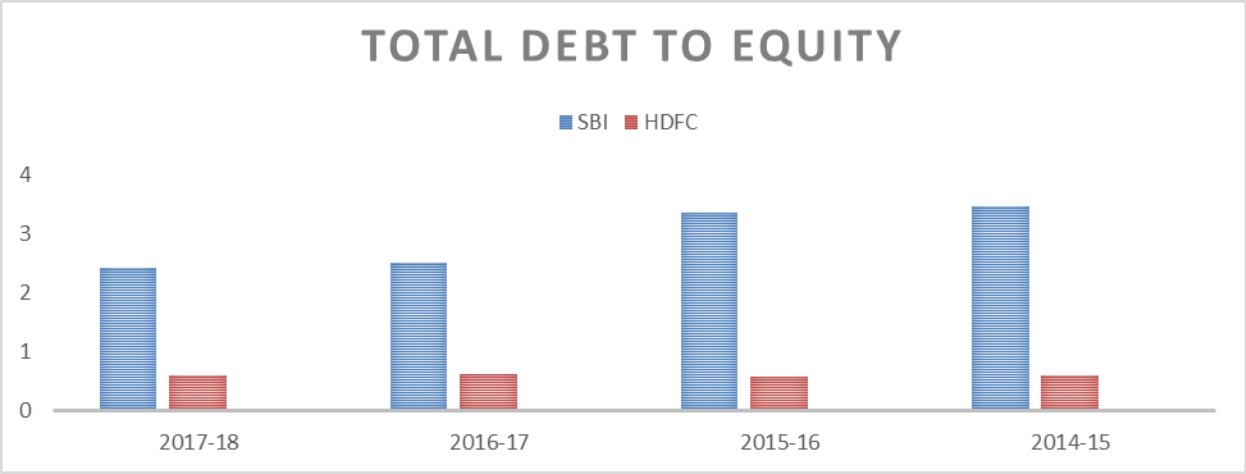


Table 5 It can be seen that Total Debt to Equity ratio of the SBI and HDFC. Average of this ratio of these banks is 2.82 and 0.62 times respectively. Higher standard deviation was haven by SBI than the HDFC i.e. 0.53 to 0.02, it represents high level of debt has been maintained by SBI than HDFC. Range of SBI is only 1.08 whereas HDFC 0.06 only. It is observed from the analysis that this ratio is fluctuating trend for both banks during the study period. SBI has high level trading on equity and this ratio is favorable.

Testing of Hypotheses

Correlation Analysis

Correlation is concern describing the strength of relationship between two variables. In this study the correlation co-efficient analysis is undertaken to find out the relationship between capital structure and financial performance of SBI and HDFC banks. The measure of correlation is called the co-efficient of correlation. It is denoted by 'r' and the simplest formula for computing the appropriate t value to test significance of a correlation coefficient employs the t distribution.

$$t = r\sqrt{\frac{n-2}{1-r^2}}$$

The degrees of freedom for entering the t-distribution is N – 2. Table value of (50-2) i.e. 48 degrees of freedom at 1% level of significance is 2.58 for two tailed test.

Table 6: SBI bank

Summary of rand t- Distribution Inferences

Relationship	'r' value	Correlation result	' t' value	Remark
Correlation between Capital Structure and Total Debt to Capital Employed	0.24	Positive	//1.72//	Insignificant
Correlation between Capital Structure and Net Profit to Total Debt	0.64	High Positive	//5.77//	Significant
Correlation between Capital Structure and Net Profit to Capital Employed	0.25	Positive	//1.79//	Insignificant
Correlation between Capital Structure and Total Debt to Equity	0.98	High Positive	//33.97//	Significant

Source: Computed

It can be seen from the Table 6. The correlation between capital structure and total debt to capital employed, net profit to total debt, net profit to capital employed and total debt to equity of SBI. By testing t test and correlation, it is found that Out of these components; capital employed to net profit and total debt to capital employed positive correlation and insignificant relation and net profit to total debt and total debt to equity have high positive relation and significant relation with capital structure of SBI. It is indicated that net profit to total debt and total debt to equity very much influences the capital structure of SBI.

Table 7: HDFC bank

Summary of r and t- Distribution Inferences

Relationship	'r' value	Correlation result	't' value	Remark
Correlation between Capital Structure and Total Debt to Capital Employed	0.87	High Positive	//12.3//	Significant
Correlation between Capital Structure and Net Profit to Total Debt	0.72	High Positive	//7.2//	Significant
Correlation between Capital Structure and Net Profit to Capital Employed	0.10	Positive	//0.69//	Insignificant
Correlation between Capital Structure and Total Debt to Equity	0.51	Positive	//4.11//	Significant

Source: Computed

It can be seen from the Table 7. The correlation between capital structure and total debt to capital employed, net profit to total debt, net profit to capital employed and total debt to equity of HDFC. By testing t test and correlation, it is found that Out of these components; capital employed to total debt, total debt to equity and net profit to capital employed have positive correlation and significant and net profit to capital employed is insignificant relation with capital structure of SBI. It is indicated that total debt to capital employed, net profit to total debt and total debt to equity very much influences the capital structure of HDFC.

Regression Analysis

Regression analysis is used to test the impact of financial performance on capital structure of the SBI and HDFC. Capital structure is dependent variable and financial performance parameters i.e. capital structure and total debt to capital employed net profit to total debt, net profit to capital employed and total debt to equity ratios are independent variables. F test table at 5% level of significance value is 10.13.

Ho (1): There is no significant relationship between Capital Structure andTotal Debt to Capital Employed of SBI and HDFC banks.

Capital structure and Total Debt to Capital Employed

Table 8

Model Summary

Bank	r	R Square	Adjusted R Square	Std. Error of the Estimate
SBI	0.24	.058	-.256	.03169
HDFC	.868	.753	.670	.00629

Source: Computed

Model Summary

Bank	r	R Square	Adjusted R Square	Std. Error of the Estimate
SBI	0.24	.058	-.256	.03169
HDFC	.868	.753	.670	.00629

ANOVA

Bank	Model	Sum of Squares	df	Mean Square	F	Sig.
SBI	Regression	.000	1	.000	0.186	0.696
	Residual	.003	3	.001		
	Total	.003	4			
HDFC	Regression	.000	1	.000	9.126	.057
	Residual	.000	3	.000		
	Total	.000	4			

Source: Computed

The above table indicates the coefficient of correlation between the capital structure and total debt to capital employed of SBI. It can be seen multiple r^2 is .058. That is 5.8% of variance of total debt to capital employed is computed by the capital structure. But, remaining 94.2 % of variance with is attributed to other factors. F and t test are supported that these resultsareinsignificant at 5% level and null hypothesis is rejected. Further it is indicated that capital structure to net profit to total debt is not influenced the financial performance of SBI. Whereas HDFC seen multiple r^2 is .753. That is 75.3% of variance of total debt to capital employed is counted by the capital structure. But, remaining 24.7 % of variance with is attributed to other factors. F and t test are supported that these results are significant at 5% level and null hypothesis is accepted. Further it is indicated that capital structure to total debt to capital employed is very much influenced the financial performance of HDFC.

Ho (2): There is no significant relationship betweenCapital Structure andNet Profit to Total Debt of SBI and HDFC banks.

Capital structure and Net Profit to Total Debt

Table 9

Model Summary

Bank	r	R Square	Adjusted R Square	Std. Error of the Estimate
SBI	.640	.410	.213	.02509
HDFC	.721	.519	.359	.00877

Source: Computed

ANOVA

Bank	Model	Sum of Squares	df	Mean Square	F	Sig.
SBI	Regression	.001	1	.001	2.084	.245
	Residual	.002	3	.001		
	Total	.003	4			
HDFC	Regression	.000	1	.000	3.240	.170
	Residual	.000	3	.000		
	Total	.000	4			

Source: Computed

The above table indicates the coefficient of correlation between the capital structure and net profit to total debt of SBI. It can be seen multiple r^2 is .410. That is 41% of variance of total net profit to total debt is computed by the capital structure. But, remaining 59 % of variance with is attributed to other factors. F and t test are supported that these results are significant at 5% level and null hypothesis is rejected. Further it is indicated that capital structure to net profit to total debt is influenced the financial performance of SBI. Whereas HDFC seen multiple r^2 is .519. That is 51.9% of variance of total debt to capital employed is supported by the capital structure. But, remaining 48.1 % of variance with is attributed to other factors. F and t test are supported that these results are significant at 5% level and null hypothesis is rejected. Further it is indicated that capital structure to net profit to total debt is very much influenced the financial performance of HDFC.

Ho (3): There is no significant relationship betweenCapital Structure and Net Profit to Capital Employed of SBI and HDFC banks.

Capital structure and Net Profit to Capital Employed

Table 10

Model Summary

Bank	r	R Square	Adjusted R Square	Std. Error of the Estimate
SBI	.247	.061	-.252	.03165
HDFC	.102	.010	-.319	.01258

Source: Computed

ANOVA

Bank	Model	Sum of Squares	df	Mean Square	F	Sig.
SBI	Regression	.000	1	.000	.194	.689
	Residual	.003	3	.001		
	Total	.003	4			
HDFC	Regression	.000	1	.000	.032	.870
	Residual	.000	3	.000		
	Total	.000	4			

Source: Computed

The above table indicates the coefficient of correlation between the capital structure and net profit to capital employed of SBI. It can be seen multiple r^2 is .061. That is 6.1% of variance of total net profit to capital employed is computed by the capital structure. But, remaining 93.9 % of variance with is attributed to other factors. F and t test are supported that these results are insignificant at 5% level and null hypothesis is accepted. Further it is indicated that capital structure to net profit to total debt is not influenced the financial performance of SBI. Whereas HDFC seen multiple r^2 is .010. That is 1% of variance of total debt to capital employed is supported by the capital structure. But, remaining 99 % of variance with is attributed to other factors. F and t test are supported that these results are insignificant at 5% level and null hypothesis is accepted. Further it is indicated that capital structure to net profit to capital employed is very much influenced the financial performance of HDFC.

Ho (4): There is no significant relationship between Capital Structure and Total Debt to Equity of SBI and HDFC banks.

Capital structure and Total Debt to Equity

Table 11

Model Summary

Bank	r	R Square	Adjusted R Square	Std. Error of the Estimate
SBI	.978	.956	.941	.00684
HDFC	.512	.262	.016	.01087

Source: Computed

ANOVA

Bank	Model	Sum of Squares	df	Mean Square	F	Sig.
SBI	Regression	.003	1	.003	65.320	.004
	Residual	.000	3	.000		
	Total	.003	4			
HDFC	Regression	.000	1	.000	1.064	.378
	Residual	.000	3	.000		
	Total	.000	4			

Source: Computed

The above table indicates the coefficient of correlation between the capital structure andtotal debt to equity of SBI. It can be seen multiple r^2 is .956. That is 95.6% of variance of total debt to equity is computed by the capital structure. But, remaining 3.4 % of variance with is attributed to other factors. F and t test are supported that these results are significant at 5% level and null hypothesis is rejected. Further it is indicated that capital structure to total debt to equity is influenced the financial performance of SBI. Whereas HDFC seen multiple r^2 is .262. That is 26.2% of variance of total debt to equity is supported by the capital structure. But, remaining 72.8 % of variance with is attributed to other factors. F and t test are supported that these results are significant at 5% level and null hypothesis is rejected. Further it is indicated that capital structure to total debt to equity is very much influenced the financial performance of HDFC.

6. CONCLUDING REMARKS

The capital structure policy deals with aspects like the proportion of debt and equity to finance the company's operation. The decision to build a capital structure that is optimal is significant in the process of achieving the objectives of wealth maximization of the company. It is a well known fact that the financial decision of any corporation is a complex affair which involves the analysis of different variables. The present study tries to analyze the capital structure of SBI and HDFC. It has since long been facing various problems and various factors were taken into consideration during the study to analyze the impact of Debt Fund, Capital Structure Leverage and on profitability of select two banks. From this study, the observations have been done.

- It is observed that major source of equity fund is reserves and surplus of both HDFC and SBI.

- Overall debt structure of both the banks, major source of debt funds is long term borrowings.
- It is observed that SBI financial solvency is beer than the HDFC.
- SBI is better debt performance as comparatively HDFC.
- Profitability to capital structure of HDFC is better than the SBI.
- It is observed that HDFC has high capital structure performance on profitability than SBI.
- SBI has high level of trading on equity.
- Net profit to total debt, total debt to capital employed is very much influenced the financial performance of HDFC.

To conclude, our finding from the capital structure and financial performance of SBI and HDFD banks is satisfactory during the study period. It suggests that the purpose of borrowing funds could be achieved since heavy borrowings led to increase in EPS and trading on equity. Corporation should try to achieve optimum capital structure. It is used as source of finance; it saves a considerable amount in payment of tax, an interest is allowed as deductible expenses in computation of tax. Hence, the effective cost of debt is reduced, called tax leverage. It is suggested that SBI and HDFC should emphasize on generating more profits by efficient utilization of its capital, assets, debt and improving the productive efficiency of customers. In addition to that diversification of lending, moderation of transaction costs and management of funds are very much influenced to the banks for better financial performance and profitability.

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