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Capital Structure Optimization: A Case Study of Run Services Info Care Private Limited

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ABSTRACT: This study examines the capital structure optimization strategies of Run Services Info care Private Limited, a Chennai-based service enterprise operating in the IT-enabled and electronics maintenance sector. In recent years, the company has experienced declining revenues alongside an increase in net worth, highlighting the importance of a strategically balanced debt-equity mix to maintain financial stability and support future growth.

Capital structure decisions play a pivotal role in determining a firm's financial resilience, cost of capital, and investor confidence. This research integrates both qualitative and quantitative approaches—analyzing five years of financial statements (2019–2023), conducting ratio analyses, and gathering insights from key financial stakeholders within the company. The analysis employs statistical tools such as correlation, regression, and ANOVA to assess the impact of capital mix on profitability, liquidity, and operational efficiency.

Findings indicate that while the company has reduced its reliance on debt and improved its asset utilization, challenges persist in managing short-term liquidity and sustaining profitability. The study also compares the firm's performance with industry benchmarks to identify areas of financial risk and opportunities for improvement.

The research concludes that capital structure optimization is not a one-time corrective measure but a continuous strategic process. Implementing a disciplined financial framework, strengthening internal controls, and aligning financing decisions with long-term business objectives are essential for enhancing shareholder value and ensuring organizational sustainability in a competitive service-driven economy.

KEYWORDS: Capital structure optimization, debt-equity mix, financial stability, service enterprise, IT-enabled services, electronics maintenance sector, financial resilience, cost of capital, investor confidence, financial statements analysis, ratio analysis, liquidity, operational efficiency, liquidity management, profitability challenges, industry benchmarking, internal controls, financial planning, strategic decision-making, shareholder value.

I. INTRODUCTION

Capital structure optimization plays a foundational role in shaping the financial health and strategic direction of a business. It refers to the process of determining the most effective mix of debt and equity financing that minimizes the cost of capital while maximizing firm value. For organizations operating in competitive and rapidly evolving sectors, such as IT-enabled services and electronic maintenance, having an optimal capital structure is crucial not only for financial efficiency but also for maintaining operational agility and long-term sustainability.

In optimal capital structure allows a company to balance the tax advantages of debt with the lower risk profile of equity. It affects critical business outcomes such as profitability, solvency, investor perception, creditworthiness, and the ability to pursue growth opportunities. Moreover, in a volatile economic environment marked by fluctuating interest rates, regulatory changes, and increasing market competition, the importance of strategic capital structuring becomes even more pronounced.

This study focuses on Run Services Infocare Private Limited (RSIPL), a Chennai-based enterprise offering electronics repair and IT infrastructure support services. Over the past five years, RSIPL has faced financial fluctuations, including declining revenues, inconsistent profit margins, and liquidity concerns, despite an increase in its net worth. These financial inconsistencies point to the need for a comprehensive review and restructuring of its capital composition

The service-based nature of RSIPL's business adds another layer of complexity to capital structure decisions. Unlike asset-heavy manufacturing firms, service companies often lack substantial tangible collateral, making them more dependent on internal financing or equity. Additionally, such firms rely heavily on human capital and recurring service contracts, which can affect revenue stability and borrowing capacity.

Through a detailed financial ratio analysis, stakeholder interviews, and benchmarking against industry standards, this research seeks to assess RSIPL's current capital structure and propose a tailored optimization strategy. By identifying key financial inefficiencies and areas of capital misallocation, the study aims to offer actionable insights that enhance liquidity, profitability, and strategic financial planning.

Ultimately, capital structure optimization is not merely a financial adjustment—it is a strategic imperative that aligns financial management with business objectives, stakeholder expectations, and long-term value creation.

II. OBJECTIVES OF THE STUDY

1. To assess the impact of capital structure on creditworthiness and investor confidence
 - Analyze how the mix of debt and equity influences market perception and financing accessibility.
2. To evaluate the effectiveness of fund utilization and financial risk management practices
 - Determine whether the company's current capital allocation maximizes returns and minimizes risk exposure.
3. To benchmark RSIPL's capital structure against industry standards and peer companies
 - Identify deviations or inefficiencies by comparing with best practices in the service sector.
4. To identify cost-effective strategies for optimizing the capital mix
 - Recommend financial structuring approaches that reduce capital cost while maintaining operational flexibility.
5. To study the relationship between capital structure and overall financial performance
 - Examine key ratios such as ROE, ROA, and interest coverage in relation to the company's debt-equity composition.
6. To analyze the role of capital structure in supporting business expansion and scalability
 - Understand how financing choices affect the company's capacity to scale operations and invest in new technology or markets.
7. To evaluate the influence of capital structure on liquidity and solvency
 - Measure how the debt-equity mix affects short-term obligations and long-term financial stability.
8. To examine the internal and external factors influencing capital structure decisions
 - Explore how factors like management risk appetite, tax considerations, market conditions, and regulatory environment impact financing choices.
9. To assess stakeholder perspectives on capital structure preferences and priorities
 - Gather insights from financial executives and decision-makers within RSIPL on their approach to capital structuring.
10. To support strategic financial planning through data-driven capital structure recommendations
 - Provide actionable insights that align capital structuring with RSIPL's growth goals and risk management policies.

III. SCOPE OF THE STUDY

This study focuses on analyzing the capital structure of Run Services Info care Private Limited (RSIPL) over a five-year period from 2019 to 2023. It involves a detailed examination of the company's financial strategies, particularly its approach to managing debt and equity in the context of evolving operational and market conditions. The research explores internal financial frameworks, including funding sources, leverage decisions, and capital allocation policies. It also considers the broader industry environment by assessing capital structure practices and challenges specific to the electronics repair and IT-enabled services sector. To gain deeper insights, the study incorporates qualitative data collected from 25 financial executives and key decision-makers within the company, shedding light on practical factors that influence financial structuring decisions. Furthermore, RSIPL's financial metrics are benchmarked against industry standards to evaluate its competitiveness and identify areas for improvement. The scope extends to the application of statistical tools such as ratio analysis, correlation, regression, and ANOVA to establish the relationship between capital structure components and the firm's financial performance. Overall, the study provides a holistic view of how capital structure impacts liquidity, profitability, risk management, and long-term sustainability in a service-based business environment.

IV. REVIEW OF LITERATURE

Key theories underpinning the study include:

- Modigliani and Miller (1958) – Capital structure irrelevance theory.
- Myers and Majluf (1984) – Pecking order theory.
- Jensen and Meckling (1976) – Agency costs and control.
- Baker and Wurgler (2002) – Market timing theory.
- Titman and Wessels (1988) – Determinants of leverage.

V. RESEARCH METHODOLOGY

- Design: Descriptive and analytical.
- Data Sources:
 - Primary: Structured interviews and questionnaires.
 - Secondary: Financial reports, annual statements, and industry benchmarks.
- Tools Used: Correlation, regression, ANOVA, and ratio analysis.

VI. DATA ANALYSIS AND INTERPRETATION

Key Ratio Findings (2019–2023):

Ratio	Trend	Insight
Debt-Equity	↓ from 1.81 to 1.15	Decreased leverage, improved solvency.
Interest Coverage	↑ from 0.44 to 3.28	Stronger ability to service debt.
Current Ratio	↓ from 1.74 to 1.20	Declining short-term liquidity.
Quick Ratio	Stable ~1.2–1.3	Good liquidity despite minor dips.
Proprietary Ratio	↑ from 0.36 to 0.46	Greater equity financing.
Asset Turnover	↑ from 0.86 to 1.33	Improved asset efficiency.
ROE	↓ from 18.63% (2021) to 10.22% (2023)	Lower shareholder returns recently.
ROA	↑ to 4.74%	Better asset utilization.

Statistical Tools:

- Correlation Analysis: Weak correlation between net profit and other financial variables.
- Chi-Square Test: No significant variation in profitability between early and recent years.

VII. FINDINGS OF THE STUDY

- The company has reduced its reliance on debt and improved financial ratios over time.
- However, challenges like low short-term liquidity and fluctuating profit margins persist.
- Despite growth in total assets and revenue, net profit margins and returns are inconsistent.
- Operational and capital efficiency are improving, but need strategic refinement.

VIII. SUGGESTIONS

- Strengthen Liquidity: Improve receivables and cash management.
- Optimize Debt Usage: Continue shifting to equity to lower financial risk.
- Boost ROE: Invest in high-yield projects and enhance fund utilization.
- Digital Tools: Implement inventory and finance analytics software.
- Diversify Revenue: Expand into new service areas and client segments.

IX. CONCLUSION

RSIPL has made significant strides in capital structure optimization, evidenced by improved solvency and asset efficiency. However, inconsistencies in profitability and liquidity indicate room for strategic improvements. By focusing on cost control, working capital efficiency, and revenue diversification, the firm can position itself for long-term financial sustainability.

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