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Comparative solvency analysis through optimum capital structure of Gail (India) Ltd. and ONGC Ltd.

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Abstract

The word solvency is used to identify whether the companies have a capacity to meet with its long-term commitments. In this paper solvency analysis is done to measure the long term financial obligations. Under this study debt-equity ratio, capital gearing ratio, solvency ratio, proprietary ratio and capitalization ratio has used to analyze the capital structure of GAIL (India) Ltd. and ONGC Ltd. During the study period it is found that debt-equity position, capital gearing ratio and proprietary fund position of the companies are not satisfactory. Solvency position of GAIL (India) Ltd. was satisfactory but the ONGC Ltd. has highly satisfactory solvency position. Capitalization ratio of GAIL (India) Ltd. is also satisfactory but the capitalization ratio of ONGC Ltd. is not satisfactory during the study period.

Keywords: Capital Structure, Debt-Equity, Solvency, GAIL (India) Ltd. and ONGC Ltd.

1. Introduction

The term solvency is used to meet long term financial obligations of the firm. Solvency plays a vital role in maintaining the stability of the firm. In common parlance, solvency position of the firm not only depends upon the liquidity but also on the capital structure of the firm. They both are interrelated to each other. Solvency means a company is able to pay its debt obligations. In this regard certain ratios are to be calculated to measure the solvency position of the company. In this competitive era, every company needs to maintain long term financial solvency position of the firm, for the smooth functioning of the business a firm needs to have adequate fund to meet its long-term debts. In this regard capital mix is also play a crucial role in deciding optimum capital structure of the firm. Capital structure refers to the way a firm is financing its assets through a combination of equity and debt. The form of financing and types of funding sources will define the firms' capital structure. The process of financing takes a very important place in firms' management because it must ensure financial continuity necessary for growth and maintaining competitiveness in their environment.

In the competitive environment every firm need adequate funds to meet its financial obligations. Now the question arises that at what proportion various source of long term finance should be used to raise the amount of capital. If the company needs to survive for a long run so it should correctly measure and managed the present and future need of capital which will help the company to run its financial operations smoothly. Capital structure helps the organization to manage a proper combination of debt and equity capital. Capital structure of a company refers to a proper mix of debt and equity capital and it includes all long term resources like loans, reserves, shares and bonds. Equity includes paid up share capital, share premium, reserves and surpluses (Retained earnings) while debt includes debentures and long term loans. Capital structure also suggests a firm, how to finance its overall operations and growth by using the different sources of funds. It is one of the pillar on which the entire organization stands. Capital structure is an important tool to control the cost of capital of the company. The purpose of capital structure is to minimize the cost of capital (Ko) and to maximize the value of the firm which would increase the wealth of the companies.

1.1 Justification of the topic

The reason behind to take this topic is to examine the solvency position through capital structure analysis of GAIL (India) Ltd. and ONGC Ltd. because the profitability and solvency of the concern depends upon the capital structure of the firm. In this study various ratios have been taken to measure the solvency position of both the companies. These ratios help to examine the debt and equity capital of GAIL (India) Ltd. and ONGC Ltd. An analyzing all these ratios the company can easily manage and control its capital structure of the firm. Solvency not only beneficial for the company itself but it is also one of the important aspects for the investors of the company. Every investors of the company are more interested to know about the solvency position of the company.

1.2 Review of Literature

Chandha Saurabh & Sharma Anil (2014), highlights the key determinates of capital structure of 422 Indian manufacturing companies listed in BSE. The researcher found that size, age, growth, asset tangibility, profitability, non-tax shield, business risk, uniqueness and ownership structure of the firms are significantly correlated with the financial leverage. Apart from these other variable such as dividend pay-out, liquidity, interest coverage ratio, inflation and GDP growth rate are found to be insignificant to determine the key factors of capital structure of companies in Indian manufacturing sector.

Babu N. Suresh and Chalam G.V. (2014), studied the key factors influencing capital structure decision of Indian computer software industry. The researcher examines the characteristics such as profitability, size, growth opportunities, asset tangibility, non-debt tax shield, risk (volatility) and liquidity of various firms on capital structure. This study is based on information collected from secondary source namely PROWESS of Centre for Monitoring Indian Economy (CMIE). The researcher covered the period from 1998 to 2011 for the study. In this research paper statistical tool such as multiple regression model,'t'-test, 'f'-test and Analysis of variance and SPSS 20 software was used for the analysis of the data.

Boodhoo Roshan (2009), studied the relationship between capital structure and ownership structure and also determined the factors which affect the capital structure of the firm. This study on "capital structure and ownership structure: a review of literature" examined brief views on literatures which indicate the debt financing is better as it permits tax deductibility on interest payments.

Sundaram, N. and Sudalaimuthu, S. (2009), suggested that corporate sector is basically depends on the external sources to meet its financial obligations. During the study period the researcher made comparative study of information technology companies by using ratio analysis tools and basic descriptive statistics. Their study on the profitability and financial position of IT companies in India during the post liberalization period indicates that a proper mix of debt and equity ratio can easily minimize the cost of capital and maximize the value of the firm.

Rao, Narendar V., *et al.* (2007), stated in their study "capital structure and financial performance: evidence from Oman" that the tax saving capital is found less due to the high interest cost. The researcher also studied the impact of financial leverage on the performance of publicly traded Oman companies. This study revealed that there is a negative relationship between the level of debt and financial performance. The data was collected from the Muscat security market and the capital authority of the sultanate of Oman for this research study.

1.3 Objectives of the study

This study has certain objectives which are as follows:-

- To analyze the concept of capital structure.
- To compare the solvency analysis through optimum capital structure of GAIL (India) Ltd. and ONGC Ltd.

1.4 Hypothesis of the study

- The following are the null hypothesis
- H01: There is no significant difference between debt and equity capital of GAIL (India) Ltd. and ONGC Ltd.

1.5 Research Design

- In this study we have analyzed the solvency position through capital structure of GAIL (India) Ltd. and ONGC Ltd. This research study is based on the secondary data collected from the annual data of GAIL (India) Ltd. and ONGC Ltd.other published documents. This study makes an attempt to understand the concept of solvency through optimum capital structure. This research is micro in nature and has descriptive research.
- Limitations
- This research study has some limitations which are as follows:
- This research study is based on the secondary data collected from the annual report of GAIL (India) Ltd. and ONGC Ltd.
- The reliability and authenticity of secondary data based on the audit of GAIL (India) Ltd. and ONGC Ltd.
- This research study is based on the non –availability of time.

1.6 Solvency analysis of GAIL (India) Ltd. and ONGC Ltd. through capital structure

Analysis and interpretation of data collected from the annual report of the two companies GAIL (India) Ltd. and ONGC Ltd. The period covered for this study is between financial years 2005-06 to 2014-15. Ratio analysis technique is used to analyze the data in this research study. This technique is used to examine the various aspects regarding solvency position of these selected companies. To know the long term solvency position of the firm various ratios has been analyzed which are as follows:

1.7 Debt-equity Ratio:-

Debt –equity ratio is helpful to measure how much debt financing has been used in the firm. It is also called as external-internal equity ratio or debt to net worth ratio. The ratio indicates the relationship between debt and equity. As per the ratio, there should be proper mix of debt and equity funds in financing the firm's assets.

$$\text{Debt-Equity Ratio} = \frac{\text{Outsiders Funds}}{\text{Shareholders' Funds}}$$

Table 1: Debt- Equity Ratio of GAIL (India) Ltd. and ONGC Ltd. Rs. in Crore

Year	GAIL (India) Ltd.			ONGC Ltd.		
	Outsiders Funds (Rs.)	Shareholders' Funds (Rs.)	Ratio in Proportion	Outsiders Funds (Rs.)	Shareholders Fund (Rs.)	Ratio in Proportion
2004-2005	6726.78	8626.11	0.78	24563.13	46314.25	0.53
2005-2006	6968.49	9973.30	0.70	29391.44	53593.33	0.55
2006-2007	7207.75	11392.91	0.63	35320.88	61409.86	0.58
2007-2008	8645.97	13004.88	0.66	37461.78	69943.50	0.54
2008-2009	10680.83	14769.63	0.72	44943.03	78084.81	0.58
2009-2010	13248.31	16799.00	0.79	44823.82	86441.29	0.52
2010-2011	12758.11	19253.34	0.66	51262.02	96708.41	0.53
2011-2012	17460.20	21624.48	0.81	58770.88	112956.73	0.52
2012-2013	20456.39	24227.80	0.84	53673.44	124453.22	0.43
2013-2014	22739.00	27072.33	0.84	62563.42	136725.01	0.46
2014-2015	23773.71	29119.52	0.82	63478.91	144600.98	0.44

Mean($\bar{x}$)	13696.87	17805.75	0.75	46022.98	91930.13	0.51
A.G.R.	23.04	21.60	0.43	14.40	19.29	-1.57
S.D. (σ)	6140.84	6686.55	0.07	12628.79	32320.47	0.05
C.V. (%)	44.83	37.55	9.76	27.44	35.16	9.34

Source: Compiled from Annual Report of GAIL (India) Ltd. and ONGC Ltd.

Interpretation

Table 1.1 indicates the relationship between the outsider's fund and equity share of the GAIL (India) Ltd. and ONGC Ltd. The outsider's fund and equity share capital of GAIL India Ltd. is increasing continuously for the study period. Outsider's fund was 6726.78 crore in the year 2004-05 which increased to 23773.71 crore in the year 2014-15. Equity share capital of GAIL (India) Ltd. also increased from 8626.11 in the year 2004-05 to 29119.52 crore in the year 2014-15. On the other hand ONGC Ltd. is maintaining their debt to equity ratio between 0.43 and 0.58 which means company does not majorly depend upon debt capital. Values of Standard deviation of the debt to equity ratio for GAIL (India) Ltd. and ONGC Ltd. are 0.07 and 0.05 respectively which indicate values of ratio had a lower degree of absolute variability.

Capital gearing Ratio

This ratio helps to show the relationship between various long term forms of financing such as debentures, preference share capital and equity share, capital including reserves and surplus. A company is said to be low geared if the larger portion of the capital is composed of common stockholder's equity. On the other hand the company is said to be high geared if the larger portion of capital is composed of fixed interest bearing debt.

$$\text{Capital Gearing Ratio} = \frac{\text{Equity Share Capital + Reserve and Surplus}}{\text{Preference Capital + Long-term debt bearing fixed interest}}$$

Table 2: Capital Gearing Ratio of GAIL (India) Ltd. and ONGC Ltd.

Year	GAIL (India) Ltd.			ONGC Ltd.		
	Equity Share capital & Reserve and Surplus (Rs.)	**Long term debt bearing Securities (Rs.)**	**Ratio in Proportion**	**Equity Share capital & Reserve and Surplus (Rs.)**	**Long term debt bearing Securities (Rs.)**	**Ratio in Proportion**
2004-2005	8626.11	3252.63	2.65	46314.25	15360.07	3.02
2005-2006	9973.30	3216.26	3.10	53593.33	19077.74	2.81
2006-2007	11392.91	2656.52	4.29	61409.86	21631.81	2.84
2007-2008	13004.88	2585.56	5.03	69943.50	19853.51	3.52
2008-2009	14769.63	2526.06	5.85	78084.81	23837.94	3.28
2009-2010	16799.00	2869.94	5.85	86441.29	25323.86	3.41
2010-2011	19253.34	3943.24	4.88	96708.41	27514.65	3.51
2011-2012	21624.48	7273.74	2.97	112956.73	33072.92	3.42
2012-2013	24227.80	11485.49	2.11	124453.22	36199.59	3.44
2013-2014	27072.33	13267.67	2.04	136725.01	43483.66	3.14
2014-2015	29119.52	13781.47	2.11	144600.98	44305.42	3.26
Mean($\bar{x}$)	17805.75	6078.05	3.72	91930.13	28151.01	3.24
A.G.R.	21.60	29.43	-1.85	19.29	17.13	0.75
S.D. (σ)	6686.55	4361.47	1.43	32320.47	9387.33	0.25
C.V. (%)	37.55	71.76	38.51	35.16	33.35	7.58

Source: Compiled from Annual Report of GAIL (India) Ltd. and ONGC Ltd.

Interpretation

During the study period highest capital gearing ratio for GAIL (India) Ltd. was 5.85 in the years 2008-09 and 2009-10 which again reduced to 2.11 in 2014-15 because of increase in long term debt bearing securities. ONGC Ltd. has maintained the capital gearing ratio more than 3 except 2005-06 and 2006-07 where it was less than 3. Values of Standard deviation of the capital gearing ratio for GAIL (India) Ltd. and ONGC Ltd. are 1.43 and 0.25 respectively which indicate that GAIL (India) Ltd. had a higher degree of absolute variability than ONGC Ltd.

Solvency Ratio: This ratio is used to indicate the relationship between the external equities or outsiders funds and total finance required for acquisition of assets. It is expressed as:

$$\text{Solvency Ratio} = \frac{\text{Total liabilities to outsiders}}{\text{Total Assets}} \text{ x } 100$$

Table 3: Solvency Ratio of GAIL (India) Ltd. and ONGC Ltd. Rs. in Crore

Year	GAIL (India) Ltd.			ONGC Ltd.		
	Total Liabilities to Outsiders (Rs.)	Total Assets (Rs.)	Ratio in Percentage	Total Liabilities to Outsiders (Rs.)	Total Assets (Rs.)	Ratio in Percentage
2004-2005	6726.78	15352.89	43.81	24563.13	70877.37	34.66
2005-2006	6968.49	16941.79	41.13	29391.44	82984.77	35.42
2006-2007	7207.75	18600.66	38.75	35320.88	96730.74	36.51
2007-2008	8645.97	21650.85	39.93	37461.78	107405.27	34.88
2008-2009	10680.83	25450.46	41.97	44943.03	123027.84	36.53
2009-2010	13248.31	30047.31	44.09	44823.82	131265.11	34.15
2010-2011	12758.11	32011.45	39.85	51262.02	147970.43	34.64
2011-2012	17460.20	39084.68	44.67	58770.88	171727.61	34.22
2012-2013	20456.39	44684.19	45.78	53673.44	178126.67	30.13
2013-2014	22739.00	49811.33	45.65	62563.42	199288.43	31.39
2014-2015	23773.71	52893.22	44.95	63478.91	208079.52	30.51
Mean($\bar{x}$)	13696.87	31502.62	42.78	46022.98	137953.07	33.91
A.G.R.	23.04	22.23	0.23	14.40	17.60	-1.09
S.D. (σ)	6140.84	12789.78	2.42	12628.79	44675.94	2.14
C.V. (%)	44.83	40.60	5.66	27.44	32.38	6.31

Source: Compiled from Annual Report of GAIL (India) Ltd. and ONGC Ltd.

Interpretation

During the study period total liabilities to outsiders of GAIL (India) Ltd is increasing continuously i.e. from 6726.78 to 23773.71 crore but total assets are also increasing from 15352.89 to 52893.22 crore simultaneously so the solvency ratio varies between 38.75 and 45.78. On the other hand ONGC Ltd is maintaining solvency ratio just above 30% which indicate stability in the capital structure. Values of Standard Deviation of the debt to equity ratio for GAIL (India) Ltd and ONGC Ltd are 2.42 and 2.14 respectively which is an indicator of high degree of uniformity among the values of the ratio.

Proprietary Ratio

Proprietary ratio is the ratio of shareholders' funds to total assets. This ratio is also called

"Net worth to total assets" ratio or equity ratio. It is expressed as:

$$\text{Proprietary Ratio} = \frac{\text{Proprietor's equity/Shareholders Funds}}{\text{Total Assets}}$$

Table 4: Proprietary Fund Ratio of GAIL (India) Ltd. and ONGC Ltd. Rs. in Crore

Year	GAIL (India) Ltd.			ONGC Ltd.		
	Shareholders' Funds (Rs.)	Total Assets (Rs.)	Ratio in Proportion	Shareholders' Funds (Rs.)	Total Assets (Rs.)	Ratio in Proportion
2004-2005	8626.11	15352.89	0.56	46314.25	70877.37	0.65
2005-2006	9973.30	16941.79	0.59	53593.33	82984.77	0.65
2006-2007	11392.91	18600.66	0.61	61409.86	96730.74	0.63
2007-2008	13004.88	21650.85	0.60	69943.50	107405.27	0.65
2008-2009	14769.63	25450.46	0.58	78084.81	123027.84	0.63
2009-2010	16799.00	30047.31	0.56	86441.29	131265.11	0.66
2010-2011	19253.34	32011.45	0.60	96708.41	147970.43	0.65
2011-2012	21624.48	39084.68	0.55	112956.73	171727.61	0.66
2012-2013	24227.80	44684.19	0.54	124453.22	178126.67	0.70
2013-2014	27072.33	49811.33	0.54	136725.01	199288.43	0.69
2014-2015	29119.52	52893.23	0.55	144600.98	208079.52	0.69
Mean ($\bar{x}$)	17805.75	31502.62	0.57	91930.13	137953.07	0.66
A.G.R.	21.60	22.23	-0.18	19.29	17.60	0.58
S.D. (σ)	6686.55	12789.78	0.02	32320.47	44675.94	0.02
C.V. (%)	37.55	40.60	4.23	35.16	32.38	3.24

Source: Compiled from Annual Report of GAIL (India) Ltd. and ONGC Ltd.

Interpretation

Table 1.4 shows that there is a positive trend in the amount of shareholders fund and total assets of both the companies. Proprietary fund ratio of GAIL (India) Ltd. was 0.56 in 2004-05 and 0.55 in 2014-15 which showed a little change. Firm maintained the ratio between 0.54 and 0.61 which an indicator of strong financial position. Proprietary fund ratio of ONGC Ltd. was 0.65 in 2004-05 and 0.69 in 2014-15 which also changed very little. Standard deviation values of the proprietary ratio for both GAIL (India) Ltd. and ONGC Ltd. is 0.02 which is an indicator of much better degree of uniformity among the values of ratio.

Capitalization Ratio

Capitalization Ratio is an indicator which measures the proportion of debt in relation to long term debt and shareholders' funds or equity. This ratio helps the investors to identify the amount of leverage utilized by a company.

$$\text{Capitalization Ratio} = \frac{\text{Long-term Debt}}{\text{Long-term Debt + Shareholders Equity}} \times 100$$

Table 5: Funded Debt to Capitalization Ratio of GAIL (India) Ltd. and ONGC Ltd. Rs. in Crore Rs. in Crore

Year	GAIL (India) Ltd.			ONGC Ltd.		
	Funded Debt (Rs.)	Total Capitalization (Rs.)	Ratio in Percentage	Funded Debt (Rs.)	Total Capitalization (Rs.)	Ratio in Percentage
2004-2005	3252.63	11878.74	27.38	15360.07	61674.32	24.91
2005-2006	3216.26	13189.56	24.38	19077.74	72671.08	26.25
2006-2007	2656.52	14049.43	18.91	21631.81	83041.67	26.05
2007-2008	2585.56	15590.44	16.58	19853.51	89797.01	22.11
2008-2009	2526.06	17295.69	14.61	23837.94	101922.74	23.39
2009-2010	2869.94	19668.94	14.59	25323.86	111765.14	22.66
2010-2011	3943.24	23196.58	17.00	27514.65	124223.06	22.15
2011-2012	7273.74	28898.22	25.17	33072.92	146029.65	22.65
2012-2013	11485.49	35713.29	32.16	36199.59	160652.82	22.53
2013-2014	13267.67	40340.00	32.89	43483.66	180208.66	24.13
2014-2015	13781.47	42900.99	32.12	44305.42	188906.39	23.45
Mean ($\bar{x}$)	6078.05	23883.81	23.25	28151.01	120081.14	23.66
A.G.R.	29.43	23.74	1.57	17.13	18.75	-0.53
S.D. (σ)	4361.47	10800.52	6.91	9387.33	41599.59	1.42
C.V. (%)	71.76	45.22	29.71	33.35	34.64	6.02

Source: Compiled from Annual Report of GAIL (India) Ltd. and ONGC Ltd.

Interpretation

During the study period funded debts of GAIL (India) Ltd. increased continuously i.e. from 3252.63 to 13781.47 crore and total capitalization also increased from 11878.74 to 42900.99 crore simultaneously so the funded debts to capitalization ratio varies between 14.59 and 32.89. In the year 2014-15 it was 32.12. In the same duration funded debt of ONGC Ltd. increased from 15360.07 to 44305.42 crore and total capitalization reached to 188906.39 from 61674.32 crore. Values of Standard deviation for the funded debt to capitalization ratio for GAIL (India) Ltd. and ONGC Ltd. are 6.91 and 1.46 respectively which is an indicator of high degree of uniformity among the values of ratio.

Testing of Hypothesis

Null Hypothesis (H_{01})

Table 6: There is no significant difference between the debt and equity capital of GAIL (India) Ltd. And ONGC Ltd.

The Result of Coefficient of Correlation and t-test						
Company	Variables	Co-efficient correlation	D.O.F (Degree of Freedom)	t-test: Calculated Value	t-test: Table Value at 5% Level	Result
GAIL (India) Ltd.	Debt-Equity	0.99	9	21.21	1.833	Significant (Rejected)
ONGC Ltd.	Debt-Equity	0.97	9	12.1	1.833	Significant (Rejected)

Significance level = 0.05

Result = t > t 0.05

There is no significant difference between the debt and equity capital of GAIL (India) Ltd. and ONGC Ltd. For GAIL (India) Ltd. calculated value of 't' is 21.21 and table value at 5% level of significance $t_{0.05}$ is 1.833. Hence calculated value is more than the critical value. Thus the hypothesis which was taken is rejected thus there is significant difference between debt and equity capital of GAIL (India) Ltd. whereas in case of ONGC Ltd., null hypothesis assumed as there is no significant difference between the debt and equity capital of ONGC Ltd. Hence the coefficient of correlation between debt and equity is + 0.97 which is a high degree coefficient of correlation and the calculated value of 't' is 12.1 and the critical value at 5% level of significance $t_{0.05}$ is 1.833 so calculated value is more than the table value. Thus the hypothesis which was taken is rejected and there is significant difference between the debt and equity capital of ONGC Ltd.

Findings and Suggestions

- The debt-equity capital position of GAIL (India) Ltd. is not satisfactory during the study period because company has been using less amount of debt as compare to equity capital. But the financial position of GAIL (India) Ltd. is satisfactory because it has huge amount of reserve and surplus.
- Debt-equity capital of ONGC Ltd. is not satisfactory during the study period because company have employed less debt capital as compare to equity share capital. During

the study period it is found that company hardly have an average ratio of 0.5:1 which is not worthwhile for the company because company is not taking the advantages of debt capital in their business due to it has adopted conservative policy of employed of debt capital.

- Capital gearing position of GAIL (India) Ltd. is not satisfactory because company is low geared during the study period, which indicates that company is not in a sound position. It has also seen that an average of capital gearing ratio was 3.72:1. Variable cost bearing securities consist of equity share capital, reserve and surplus and profit while fixed cost bearing securities consist of long term borrowing capital. During the study period, we found that company has not been in financial risk but still company is having high gearing ratio which is not worthwhile for the business.
- Capital gearing ratio of ONGC Ltd. is not satisfactory during the study period because company is low geared which is not optimum for the company. Company is in a sound position but average capital gearing ratio is 3.24:1 which indicates that company has not been using sufficient amount of fixed cost bearing securities (debt) in their business.
- Solvency position of GAIL (India) Ltd. was satisfactory during the study period because an average total liability was 42.78% as compare to total assets. Hence company can easily meet their total liability because the company has huge amount of total assets as compare to total liabilities. Total liabilities are fully secured but from company's point of view this situation is not worthwhile for the business but solvency position of the business is good.
- Solvency position of ONGC Ltd. was highly satisfactory during the study period because total liabilities are 33.91% of the total assets. Hence it is clear that total liabilities are highly secured and the company has good solvency position but as per company's point of view this situation is not satisfactory because total liabilities are very less as compare to total assets.
- The proprietary fund ratio of GAIL (India) Ltd. is not satisfactory during the study period because more than 57% of the total assets are managed by shareholders fund, which is not favorable because there are other sources of the total capital such as current liability and long term debts which make only 43% of the total assets, which is not a fair capital mix for the company.
- The proprietary fund ratio of ONGC Ltd. is not satisfactory during the study period because more than 66% of the total assets are managed by proprietary fund which is not suitable for the company because most of the assets have been purchased and managed by the proprietary funds and only 34% of the total assets are purchased from outsiders capital or borrowed capital. This situation is not good for the company because company is not getting advantage of borrowed and outsiders capital.
- The position of capitalization ratio of GAIL (India) Ltd. is also satisfactory during the study period because average amount of debt is 23.25% of the total capitalization. It is also clear that company can easily make the payment of long-term debts because long-term debts are less than total capitalization. This thing also leads to good solvency position of the business and it has a positive impact on the business and company can easily get loan facility from the outsiders.
- The capitalization ratio of ONGC ltd. is not satisfactory because company has been on average of 23.66% of total capitalization as debt capital means near about 80% long-term amount came from equity share capital and reserve and surplus only rest amount came from long-term debt. This situation cannot be favorable for the business, but company have good solvency position because company can easily make the payment of long-term liabilities of the business. It is also concluded that company did not want to take financial risk by increasing debt capital but in the modern business scenario company must take financial risk. But this company is avoiding financial risk which is not good.

Suggestions

- The debt-equity position of GAIL (India) Ltd. and ONGC Ltd. was satisfactory during the study period. But if we compare both the companies GAIL (India) Ltd. was much better than ONGC Ltd.
- Capital gearing position of GAIL (India) Ltd. and ONGC Ltd. was satisfactory during the study period. But position of GAIL (India) Ltd. was better than ONGC Ltd.
- Solvency position of both the companies was satisfactory during the study period but if we compare them the position of GAIL (India) Ltd is much better than ONGC Ltd.
- Proprietary fund position of both the companies was satisfactory during the study period because more than 50% amount has been invested in the total assets from proprietary funds. While more than 65% amount has been invested by proprietors in ONGC Ltd. When we compare both the company's position GAIL (India) Ltd. was much better than ONGC Ltd.
- The position of funded debt to capitalization of both GAIL (India) Ltd. and ONGC Ltd. are satisfactory because funded debts are less than total capitalization in both the companies. Thus the long-term debt capitals are secured in both the companies. Comparison states that in GAIL (India) Ltd. long-term debt capital are more secured than ONGC Ltd. Although long-term capital of the companies are secured during the study period.

It is concluded that both companies are in a sound position in their business and have abundant sound solvency position in their businesses because these companies can easily make the payment of long term liabilities because their rate of return are greater than their cost of capital. In this situation both the companies must get the advantages of employed of appropriate debt capital mix. Thus these companies should be increases their debt capital in the business.

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