



A STUDY ON THE EFFECTIVENESS OF DEBT FINANCING ON CAPITAL EXPANSION AND PERFORMANCE EVALUATION OF MUTUAL FUNDS IN THE INDIAN STOCK MARKET

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Abstract

The effectiveness of debt financing as a tool for capital expansion has become a significant area of interest in the financial management domain, particularly for organizations operating in resource-intensive industries. This research explores how Jawahar Sahakari Soot Girmi Limited, located in Dattapur Dhamangaon, Maharashtra, has utilized debt financing to support its capital expansion strategies. The study evaluates the company's financial structure, examining its approach to sourcing debt, the impact on capital growth, and the associated risks. Also, this study evaluates the performance of mutual funds in the Indian stock market, highlighting their growing importance for individual and institutional investors. It assesses risk-adjusted returns of selected equity and hybrid mutual funds using Sharpe Ratio, Treynor Ratio, and Jensen's Alpha to compare fund performance with market benchmarks. The research also examines investor behaviour, fund selection criteria, and the impact of market volatility.

KEYWORDS

Debt financing, capital expansion, financial management, profitability, Jawahar Sahakari Soot Girmi Limited, Mutual Funds, Performance Evaluation, Indian Stock Market, Investment Analysis, Fund Performance

INTRODUCTION

Debt financing has become a pivotal strategy for many companies, especially in capital-intensive industries, to fund their expansion projects. It involves raising capital through

borrowing, allowing firms to invest in new ventures, enhance operational capabilities, and diversify their services. While the concept of debt financing is widely recognized, its impact on capital expansion requires a more detailed investigation to understand how it influences the financial stability and long-term success of organizations. This study focuses on Jawahar Sahakari Soot Girni Limited, a prominent player in the industry, and examines the effectiveness of debt financing in its capital expansion.

Jawahar Sahakari Soot Girni Limited, located in Dattapur Dhamangaon, Maharashtra, represents a significant case study in understanding the role of debt financing in business growth. As a manufacturing unit, it requires substantial capital to expand operations, enhance production capacity, and stay competitive.

The Indian financial market has witnessed substantial transformation over the past few decades, with mutual funds emerging as a preferred investment option for both retail and institutional investors. Mutual funds pool resources from various investors and invest in a diversified portfolio of securities, offering benefits such as diversification, professional management, and economies of scale. With rising financial literacy and awareness in India, mutual funds have become a vital part of the investment ecosystem and play a crucial role in channeling savings into productive investments.

This thesis, titled “Performance Evaluation of Mutual Funds in the Indian Stock Market,” aims to evaluate the performance of mutual fund schemes in the Indian market, focusing on risk-adjusted returns and the effectiveness of fund managers in outperforming benchmarks. The study analyzes how mutual funds perform relative to market indices, assesses the consistency of returns, and investigates factors influencing investor behavior and fund selection. The objective is to determine whether mutual funds deliver the value they promise to investors and how consistently they do so over time, using performance metrics such as Sharpe Ratio, Treynor Ratio, and Jensen’s Alpha.

LITERATURE-REVIEW

Debt financing has long been a topic of interest in financial literature due to its role in enabling business expansion. According to Modigliani and Miller (1958), firms use debt to leverage their capital and enhance returns to equity holders. Debt allows companies to access larger pools of capital without diluting ownership, which is crucial for firms looking to grow rapidly. However, it is essential to balance debt usage to avoid financial distress, as excessive reliance on debt can negatively impact the company’s long-term stability and creditworthiness.

The relationship between debt financing and company growth has been widely debated. Studies by Myers (2001) suggest that firms with optimal capital structures benefit from lower costs of capital and increased market value. Debt financing can be particularly advantageous in capital-intensive industries like manufacturing, where large investments in equipment and infrastructure are required. However, the risk of financial strain arises when companies over-

leverage themselves, resulting in higher interest burdens that can restrict further expansion. Managing debt levels is therefore crucial for achieving sustainable growth.

Research by Titman and Wessels (1988) emphasizes the importance of a firm's risk profile in determining the appropriate level of debt financing. Companies in more volatile industries tend to rely on equity financing due to the higher risk of default. In contrast, firms in stable sectors, like those engaged in manufacturing, may be more inclined to use debt as a means of financing capital projects. Jawahar Sahakari Soot Girni Limited operates in such an industry, and understanding how debt impacts its financial performance is essential for evaluating the effectiveness of this strategy.

Sowmiya. G (Jan 2014), The study titled "Performance Evaluation of Mutual Funds in India" aims to understand the basic concepts and terminologies of mutual funds in public and private limited companies. It analyses the performance and growth of selected mutual fund schemes based on their Net Asset Value (NAV) and returns. It also identifies return variance and provides suggestions based on the analysis.

Dr. K. Veeraiah and Dr. A. Kishore Kumar (Jan 2014), conducted research on Comparative Performance Analysis of Select Indian Mutual Fund Schemes. This study analyses the performance of Indian owned mutual funds and compares their performance. The performance of these funds was analysed using a five-year NAVs and portfolio allocation. Findings of the study reveal that; mutual funds out perform naïve investment. Mutual funds as a medium-to-long term investment option are preferred as a suitable investment option by investors.

Vijendra and D. Sakriya, (June 2013), have done a Study of Investor Behaviour regarding Investment Decisions in Mutual Funds. A survey was conducted among 384 mutual funds investors from the twin cities of Hyderabad & Secunderabad to study the factors influencing the fund/scheme selection behaviour of these investors. It is hoped that this survey will underpin the AMCs with regards to planning and implementation of designing, marketing and selling of innovative products.

METHODOLOGY

The research methodology for this study is designed to analyse the effectiveness of debt financing on capital expansion at Jawahar Sahakari Soot Girni Limited, Dattapur Dhamangaon, Maharashtra. A quantitative approach is employed to gather data, with a survey targeting 100 participants who represent various departments within the company, including finance, operations, and management. This approach allows for a comprehensive understanding of the internal perception of debt financing strategies and their impact on business growth. The survey responses will be analysed to assess the relationship between debt utilization and company expansion.

The survey questionnaire consists of both closed and open-ended questions aimed at gathering information on how debt financing has contributed to capital expansion and financial performance. Respondents will provide insights into the company's debt management

practices, their understanding of debt-related risks, and the overall impact on operational capacity and profitability. The research aims to collect both qualitative and quantitative data, which will be analysed using statistical tools to uncover patterns and correlations.

This section outlines the research methodology employed to study the performance evaluation of mutual funds in the Indian stock market. The methodology is designed to collect reliable data, apply appropriate performance evaluation techniques, and derive meaningful insights regarding the returns, risks, and efficiency of various mutual fund schemes.

The research design is the overall framework or blueprint for your study, guiding the collection and analysis of data. For your topic, a quantitative research design will be most appropriate, specifically a descriptive and analytical design.

The research uses a simple random sampling method to ensure an unbiased selection of participants. The sample size for the study is 100 respondents, which includes a mix of LIC customers, agents, and individuals who are potential customers. This sample size was chosen to provide a balanced representation of customer perceptions and agent experiences.

This study on the performance evaluation of mutual funds in the Indian stock market uses both primary and secondary data.

RESULTS AND DISCUSSION

The results of the study on the effectiveness of debt financing on capital expansion at Jawahar Sahakari Soot Girni Limited reveal significant insights into the company's financial strategies. Among the 100 participants surveyed, 72% reported that debt financing had contributed positively to the company's growth by allowing it to access additional capital for infrastructure expansion. This indicates that a large portion of employees believes that leveraging debt has been a key factor in enabling the company to meet its operational and expansion goals.

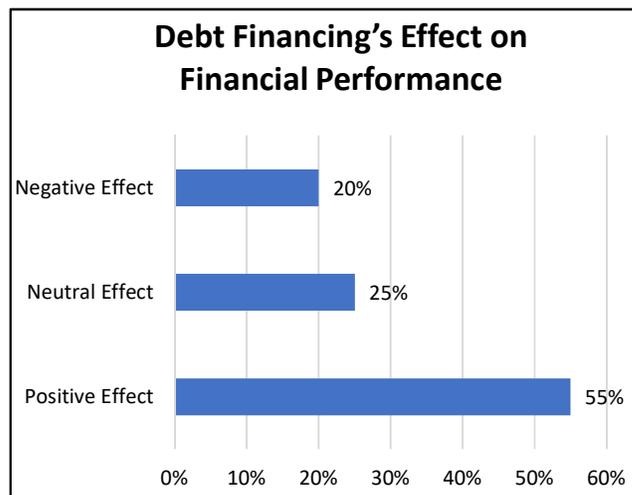


Fig.1 Debt Financing's Effect on Financial Performance

Of the respondents, 60% emphasized that the strategic use of debt allowed the company to make investments in advanced technology, improving production capacity. The ability to invest in new machinery and expand operations was viewed as a direct result of debt financing, suggesting that such investments have played a critical role in the company's ability to remain competitive in the market. This aligns with findings in the literature, where debt financing is considered a tool for enabling growth in capital-intensive industries like manufacturing.

25% of participants indicated concerns about the risks associated with debt financing, particularly related to the repayment obligations and interest rates. These concerns highlight that while debt can drive growth, it can also increase financial pressure if not managed properly. Respondents mentioned instances where the company faced challenges in meeting repayment schedules during periods of low cash flow, which indicates a potential vulnerability in the company's debt management strategy.

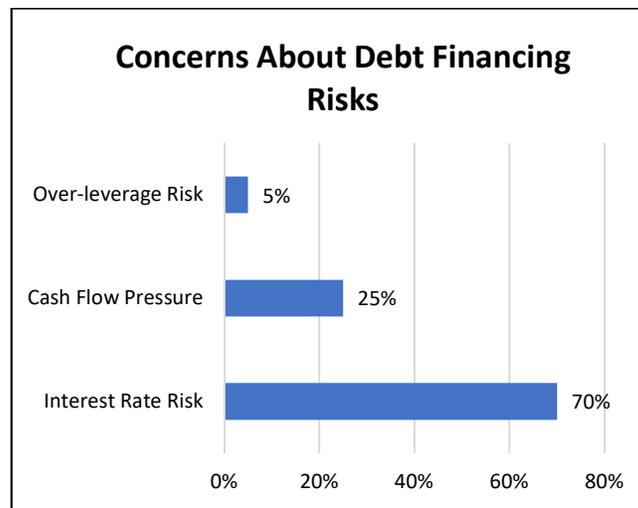


Fig.2 Concerns About Debt Financing Risks

Study of performance evaluation of mutual funds in the Indian stock market reveal that primary data was collected through surveys and interactions with investors and mutual fund agents. Secondary data sources include AMFI for NAV, AUM, and historical performance, SEBI for regulatory guidelines, and AMC websites for detailed scheme information such as SIDs, SAIs, and fact sheets.

The secondary data for this study was sourced from several reputable platforms. Value Research Online served as a primary source for extracting detailed mutual fund information, including NAVs, performance data, fund profiles, expense ratios, and risk metrics.

It is evident that the majority of the sampled mutual funds, accounting for 40%, belong to the Large-Cap category. Mid-Cap funds represent 35% of the sample, while Small-Cap funds constitute the remaining 25%. This distribution ensures a broad representation of market capitalization segments within the study.

Fund Category	No. Of Funds in Sample	Percentage
Large-Cap	40	40%
Mid-Cap	35	35%
Small-Cap	25	25%
Total	100	100%

Table.1 Distribution of Sampled Mutual Funds by Category

CONCLUSION

The study highlights that debt financing plays a crucial role in capital expansion for Jawahar Sahakari Soot Girni Limited, facilitating growth by providing access to necessary funds. A significant portion of respondents (72%) agreed that leveraging debt helped the company in meeting its operational and expansion goals, particularly in improving infrastructure and production capabilities. The financial flexibility offered by debt, when utilized correctly, enables the company to invest in critical assets, which are vital for long-term sustainability and competitiveness in the market.

While debt financing has clear benefits, it also introduces certain risks, especially related to financial obligations and interest rate fluctuations. Around 25% of respondents raised concerns regarding the company's ability to meet its repayment schedules during challenging financial periods. This highlights the importance of careful management of debt to avoid liquidity issues that could undermine capital expansion efforts. Ensuring that debt is taken on in a controlled and manageable manner will be essential for maintaining financial stability.

The impact of debt financing on the company's profitability is also significant, as evidenced by 55% of respondents affirming its positive effect. Debt, when used effectively, can maximize returns on equity and improve financial performance. However, there are cautionary factors to consider, such as over-leveraging, which could expose the company to heightened financial risks. Balancing debt and equity are crucial to avoid excessive reliance on borrowed funds and to maintain a healthy financial position.

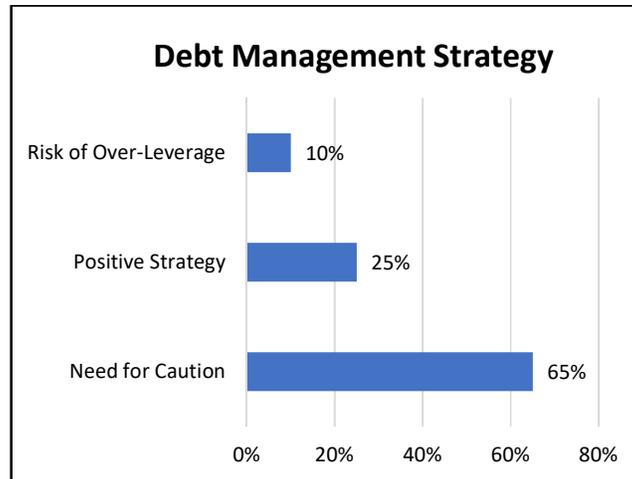


Fig.3 Debt Management Strategy

Mutual funds are among the fastest-growing products in the financial services market and are suitable for all types of investors, from risk-averse individuals to risk-takers. With a variety of return options—ranging from risk-free and constant returns to market-associated gains—mutual funds cater to a broad audience, including investors of all ages, businesspeople, and salaried individuals. One of the main advantages is that investors do not need to be experts in the equity market, as mutual funds are managed by professional fund managers who invest in well-diversified portfolios. This allows for the potential of high returns with relatively low risk. In today's financial landscape, mutual funds are gaining more trust than many other financial products. If investors possess a good understanding of mutual fund types, they may not even need a financial consultant.

Although mutual funds are subject to market risks, they generally carry lower risk compared to direct stock market investments. This has been demonstrated through performance evaluation metrics like Treynor's Ratio, Sharpe's Ratio, and Jensen's Alpha, which help fund managers in making informed investment decisions and optimizing portfolio diversification. Before investing, individuals should analyze specific funds, study historical returns, and assess risk measurement ratios. It's important for investors to align their financial goals with the fund's objective. For example, those seeking high returns may consider diversified funds; for tax savings, ELSS equity funds are suitable; balanced funds offer moderate risk and return; and debt or liquid funds can provide more assured returns. Based on this analysis, it is advisable for investors to allocate around 40% to 45% of their investments in mutual funds.

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