A STUDY ON CAPITAL STRUCTURE WITH REFERENCE TO ROOTS INDUSTRIES LIMITED, COIMBATORE

by

T.NITHYA PRIYA

Reg.no.71206631035

Of

Department of Management Studies

Kumaraguru College of Technology

Coimbatore

A PROJECT REPORT

Submitted to the

FACULTY OF MANAGEMENT SCIENCES

in partial fulfillment of the requirements

For the award of the degree

Of

MASTER OF BUSINESS ADMINISTRATION

August,2007

DECLARATION

DECLARATION

I, hereby declare that this project entitled "Determinants of Capital Structure with reference to Roots Industries Ltd. Coimbatore, on the analysis of the data for the period of five years i.e. 2002-2006" has been undertaken for academic purpose submitted to Anna University in partial fulfillment of the requirements for the award of the degree of Master of Business Administration. The project report is the record of the original work done by me under the guidance of Mr.A.Senthil Kumar during the academic year 2007-2008.

I, also declare hereby, that the information given in this report is correct to best of my knowledge and belief.

Date:

Place: Coimbatore

T.Nithya Priya.

CERTIFICATE

KCT Business School

Department of Management Studies

Kumaraguru College of Technology

Coimbatore – 641006

BONAFIDE CERTIFICATE

Certificate that this project report titled **"A Study on the Capital Structure with reference to Roots Industries Limited, Coimbatore for the study period of 2001 – 2002 to 2005 – 2006."** Is the bonafide work of **T.NITHYA PRIYA, (Reg no 71206631035)** who carried this research under my supervision. Certified further, that to the best of my knowledge the work reported herein dose not form part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

Faculty Guide

Director

Evaluated and Viva voce conducted on 29.10.07

Examiner I

Examiner II

S.L. No. : 2278 Date : 18 · 09 · 07 ·

PROJECT / INPLANT TRAINING / INTERNSHIP CERTIFICATE

This is to certify that ~~Mr. /~~ Ms. T. NITHYA PRIYA

MBA IInd year student of KUMARAGURU COLLEGE

OF TECHNOLOGY has ~~done~~ / **undergone** / **a Project** / ~~Inplant~~ training / ~~Internship~~ on

"THE CAPITAL STRUCTURE"

in our ROOTS INDUSTRIES LIMITED during

the period from JUNE '07 to AUGUST '07

During this period ~~his / her~~ conduct was GOOD

(KAVIDASAN)
GENERAL MANAGER - CORPORATE HRD.

ACKNOWLEDGEMENT

Its immense pleasure in acknowledging the people who help us with their ideas and thoughts to proceed with our work. I their by acknowledge to all those who have helped me in preparation of this project work.

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EXECUTIVE SUMMARY

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In order to convert the firm's dreams to reality, they need proper fund for all these activities. All this is possible only when they have a proper capital structure. This act as a challenging job to the finance mangers.

Capital structure refers to the mix of long-term sources of funds, such as debentures, long-term debt, preference shares, equity capital including reserves and surpluses. As a general rule there should be a proper mix of debt and equity.

The long term fixed interest bearing debt is employed by a firm to earn more from the use of those sources that their cost so as to increase the return on owners equity. The main of this approach is to maximize the value of the firm.

The study on "**A Study on the Capital Structure with reference to Roots Industries Limited, Coimbatore**" is an analytical study with five years of financial data that intends to understand the composition of the capital structure and are its impact on valuation of the firm. The researcher founds that the firm has skews more on the debt capital.

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INTRODUCTION

CHAPTER-1

INDRODUCTION TO THE STUDY

1.1 Background:-

Financial management is the managerial activity which is concerned with the planning and controlling of the firms financial resources.

"Financial management is concerned with efficient use of an important economic resources namely capital funds "– Solomon.

The subject of finance management is of immense interest to both academicians and practicing management. It is of great interest to academicians because the subject is still developing and practicing. Managers are interested in this subject because among the most crucial decision of the firm are those which related to finance and an understanding of the theory of finance management provides them with conceptual and analytical insights to make those decision skillfully.

Meaning:

According to Gerstenberg, capital structure refers to 'the make-up of a firm's capitalization. In other words, it represents the mix of different sources of long-term funds (such as equity shares, bonds, retained earnings, etc..,) in the total capitalization of the company.

A firm has to decide the way in which the capital projects will be formed, every time the firm makes investment decisions the same time they make the financial decisions.

promotion; subsequently whenever funds have to be raised to finance investment, capital structure decision is involved. A demand for raising fund generates a new capital structure since a decision has to be made as to the quantity and forms of financing. This decision will involve an analysis of the existing capital structure and factors which will govern the decision at present. The new financing decision of the company may affect its debt equity mix has implications for the shareholders earnings and risk, which in turn will affect the cost of capital and the market value of the firm.

Capital structure management:

Estimation of capital structure requirements for current and future needs is important for a firm, equally important in the determining of capital mix. Equity and debt are the two principle sources of finance for a business. Capital structure planning, which aims at the maximization of profits and the wealth of share holders ensure the maximum value of the firm or the minimum cost of capital. It is very important for financial manage to determine the proper mix of debt and equity for his firm.

The optimal capital structure is the one that strikes a balance between risk and return and thereby maximizes the price of the stock and simultaneously minimizes the cost of capital.

Elements of Capital structure:

Capital Mix:

Firms have to decide about the mix of debt and equity capital. The firm and analysts use debt ratios, debt-service coverage ratios, and the funds flow statements to analyze the capital mix.

Equity is the most permanent capital. Within debt, commercial paper has the shortest maturity and public debt longest. Capitalized debt like lease or hire purchase finance is quite safe from the lender's point of view and the value of assets backing the debt provides the protection to the lender. Collaterlised or secured debts are relatively safe and have priority over unsecured debt in the event of insolvency.

3.Terms and Conditions:

Firms have choices with regards to the basis of interest payments. They may obtain loans either at fixed or floating rates of interest. In case of equity, the firm may like to return income either in the form of large dividends o large capital gains. The financial manager can protect the firm against interest rates fluctuations through the interest rates derivatives. They may also state the schemes of payments, pre-payments, renegotiations etc.

4. Financial innovations:

Firms raise capital either through the issue of simple securities or through the issues innovative securities. Financial innovations are intended to make the security issue attractive to investors and to reduce cost of capital. The company may offer higher simple interest rate on debentures and offer to convert interest amount into equity. A firm can issue varieties of option-linked securities; it can also issue tailor-made securities to large suppliers of capital.

5.Financial market segments:

There are several segments of financial markets from where the firm can tap capital. The firm can raise short- term debt either from banks or by issuing commercial papers or certificate deposits in the money market. The firm also has the alternative of raising short-term funds by public deposits.

1. Profitability:

The capital structure of the company should be most profitable. The most profitable capital structure is one that tends to minimize the cost of financing and maximize earnings per equity share.

2. Solvency:

The pattern of the capital structure should be so devised as to ensure that the firm does not run the risk of becoming insolvent. Excess use of debt threatens the solvency of the company. The debt content should not, therefore, be such that it increase risk beyond manageable limits.

3. Flexibility:

The capital structure should be such that it can be easily manoeuvred to meet the requirements of changing conditions. Moreover, it should also be possible for the company to provide funds whenever needed to finance its profitable activities.

4. Conservatism:

The capital structure should be conservative in the sense that the debt content in the total capital structure does not exceed the limit which the company can bear. In other words, it should be such as is commensurate with the company's ability to generate future cash flows.

5. Control:

The capital structure should be so devised that it involves minimum risk of loss of control of the company.

circumstances within the company is operating. The relative importance of each of the above features will also vary from company to company.

1.1. e. Sources of raising Long term funds:

The capital of the company can be divided into different units with definite value called "shares". There are two types of "shares" which a company may issue.

1.Preference Share:

Shares which enjoy the preferential rights as to dividend and repayment of capital in the event of winding up of the company over the equity shares are called as "preference shares". The preference shares will get a fixed rate of dividend. Preference shares may be

- Cumulative preference shares
- Non –cumulative preference shares
- Redeemable preference shares
- Participating preference shares

2. Equity Share:

Equity shares will get dividend and repayment of capital after meeting the claims of preference share holders. There will be no fixed rate of dividend to be paid to the equity share holders and this rate may vary from year to year. This rate of dividend is determined by Directors and in case of large profits: it may even be more than the rate attached to preference shares. Such shareholders may go without any dividend if no profit is made.

The company for its extension and development may require raising funds without increasing its share capital. Debenture is an instrument in writing given by a company acknowledging the liability for the total amount received as a result of issue of debentures and agreeing thereby to pay the money raised after the expiry of the stipulated period at a certain rate of interest per annum. The debentures may be classified into three categories.

- Non convertible debentures
- Fully convertible debentures
- Partly convertible debentures

4. Term Loans:

Term loans are loans raised from the banks and other financial institutions for a fixed rate of interest. Terms loans are sources of long term debt. Therefore, this method of financing is also called project financing. Term loan represent long term debt with the maturity of more than one year. Purpose of term is mostly to finance the company's capital expenditure.

All these ways of raising funds has both advantage and disadvantage.

5. Cost of capital:

The opportunity cost of capital for a project is the discount rate for discounting its cash flows. The project's cost of capital is a minimum required rate of return on funds committed to the project which depends on the risk. Since the investment projects undertaken by a firm may differ in risks, each one of them will have its own unique cost of capital. The cost of capital for a project is defined by its risk rather than by the characteristics of the firm. The cost of capital plays an important role in the capital structure decision of the company.

The objective of any firm is the maximization of the value of the firm. This can be achieved by closely examining the capital structure decision of the firm from the point of its impact on the value of the firm.

The value of the firm depends upon its expected earnings stream. The capital structure can affect the value of the firm. There are conflicting opinions on the issue of capital structure which argues the value of firm, based on the capital structure positions.

The approaches are as follows.

1. Net Income Approach:

Net income approach says that capital structure decision depends on value of the firm. It says higher debt in capital structure will reduce the overall cost of capital and increase the value of the firm.

The Assumptions are,

- The use of debt does not change the risk perception of investors
- The debt capitalization rate is less than the equity -- capitalization Rate
- The corporate income taxes do not exist.
- The assumptions imply that equity capitalization and debt capitalization rate are constant. By magnifying the shareholders earnings will result in higher value of the firm.

Net operating income tells that division between debt and equity is irrelevant while considering the value of the firm. Increase in debt is offset by increase in cost of equity.

The Assumptions are,

- The market capitalizes the value of the firm as a whole, which makes the spilt between debt and equity unimportant.
- The market uses an overall capitalization rate to capitalize the NOI.
- The overall capitalization depends on the business risk.
- The use of less costly debt funds increases the risk of shareholders which causes the increase of overall capitalization rate.
- The debt capitalization rate is constant.
- The corporate income taxes do not exist.

3. Traditional Approach:

This is also known as intermediate approach which is a compromise between NI and NOI approaches. This approach is of the view, that the value of the firm can be increased or the cost of capital can be reduced by a mix of debt and equity capital. The manner in which the overall cost of capital reacts to changes in capital structure can be divided into 3 stages.

I Stage – Increasing Value:

The rate at which the shareholders capitalize their net income is constant on risk slightly with debt. The increase is not enough to offset the advantage of low cost debt. The cost of debt is constant on risks negligibly as the market views the value of debt as a reasonable policy.

When a firm has reached a certain degree of leverage increase in leverage have a negligible effect on the value of the firm. The reason is the increased cost of equity offsets the advantage of low cost debt. So, at this point the value of firm will be maximum on the capital will be minimum.

III Stage- Declining Value:

After a certain degree of leverage the value of firm decreases with leverage on the cost capital increases with leverage. This is because the investors expect a high degree of financial risk and demand a higher equity capitalization rate which offsets advantages of low cost debt.

4. Modigiliani Miller Hypothesis:

Modigliani and miller approach says that capital structure is irrelevant to the value of the firms. The total market value is independent of debt and equity mix.

- It assumes that the securities are traded in perfect capital markets.
- Firms can be grouped into homogeneous risk classes
- Risk of investors depends on both the random fluctuations of the expected NOI and possibility that the actual value of the variable may turn out to be different than their best estimates.
- There are no corporate taxes that exist
-

1.2 Review of literature:

Maçãs, Paulo J.; Serrasqueiro, Zélia M[1] Using panel data for the period 1999-2003, this study shows that internal and external financing are not perfect substitutes, not corroborating the theorem of Modigliani and Miller. Portuguese service industries prefer internal to external financing, corroborating Pecking Order theory. The bigger the size of

[1] Maçãs, Paulo J.; Serrasqueiro, Zélia M[1].. Service Industries Journal, Jul2007, Vol. 27 Issue 5, p549-562, 14p.

corroborates Agency theory. The results allow us to conclude that debt contributes to improving management efficiency, agency problems between shareholders and creditors having little relevance

Hechinger, John.[2] The article reports on the decision of Fidelity Investments to buy back a class of preferred shares from stockholders which could lead to a new ownership ***structure*** that would lower its corporate income taxes. Shareholders of Fidelity exchanged another class of preferred stock for $1.17 billion of non-voting common stock in December 2006. Spokeswoman Anne Crowley believes that the company decided to buy back the preferred stock to simplify its ***capital structure***.;

Cooper, Jay[3]. The article reports that several money management firms are launching domestic small-capitalization and mid-capitalization 130/30 strategies in the U.S. According to portfolio managers, those markets are less efficient and loosening the constraint to produce more than what large-cap strategies can produce. Short-extension strategies allow managers to short a certain percentage of the portfolio and balanced with more long positions to provide market exposure on the overall portfolio.; (*AN 25687014*)

Economist[4], 6/16/2007, Vol. 383 Issue 8542, p72-73, 2p; Abstract: The article discusses cellular phone operator Vodafone coming under scrutiny from activist shareholder group Efficient ***Capital Structures*** (ECS). ECS has proposed shareholder resolutions calling for Vodafone to spin out its stake in Verizon Wireless, and to cap the amount company executives can spend on acquisitions. ECS holds just 0.0004 percent of Vodafone's share ***capital***, but is using an obscure British financial law to exert pressure on the board of directors.

Jacobius, Arleen[5] The article reports that many large institutional investors are betting that ICV ***Capital*** Partners LLC is a front-runner in the world of private equity. Investors in ICV's first two funds include the $247.9 billion California Public Employees'

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[2] Wall Street Journal - Eastern Edition, 6/29/2007, Vol. 249 Issue 151, pC3, 00p
[3] Cooper, Jay Pensions & Investments, 6/25/2007, Vol. 35 Issue 13, p3-47, 2p, 2c.
[4] Economist, 6/16/2007, Vol. 383 Issue 8542, p72-73, 2p.
[5] Jacobius, Arleen[5]. Pensions & Investments, 6/11/2007, Vol. 35 Issue 12, p20-20, 1/3p, 1c.

Euroweek[6]. The article focuses on bonds issued by International Securities Trading Corp. (ISTC) on June 1, 2007. The reason behind the deal is to raise ***capital*** in anticipation of further balance sheet growth and to have a better combination of subordinated debt in the ***capital structure*** of the company. The transaction has a split distribution between Asia and Europe. Private banks took more than 70 percent of the paper and 15 percent went to fund managers.

Bryan-Low, Cassell; Singer, Jason[7]. The article focuses on a small activist investor group called Efficient ***Capital Structures*** Assets PPC (ECS) that is pressuring the European phone company Vodafone Group to restructure itself. A discussion of an increase in activist investor activity which has been seen worldwide and has resulted in many companies, including ABN Amro Holding NV, to make changes, is presented.

Bryan-Low, Cassell; Searcey, Dionne[8]. The article reports on the proposal of Vodafone Group PLC investor Efficient ***Capital Structures*** that the cellular telephone-service company present plans about potential restructuring options. A letter was sent by the investor saying it has shareholder support to require Vodafone to submit at the company's annual general meeting on July 24, 2007 a number of Efficient ***Capital's*** resolutions.

B: Marquardt, Carol A.; Wiedman, Christine I.. Accounting Horizons[9], We present descriptive evidence on the quality of firms' disclosures related to contingently convertible securities (COCOs). We document evidence of inconsistent and inadequate disclosure of the information necessary to undo the financial reporting effects associated with COCOs prior to 2004, when only the general disclosure requirements on ***capital structure*** provided in SFAS 129 were in effect. Disclosure quality improved after the introduction of FASB Staff Position 129-a, which specifically required firms to disclose

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[6] Euroweek, 6/8/2007 Issue 1007, p99-99, 1p

[7] Bryan-Low, Cassell; Singer, Jason[7]. Wall Street Journal - Eastern Edition, 6/8/2007, Vol. 249 Issue 133, pC1-C2, 2p

[8] Bryan-Low, Cassell; Searcey, Dionne[8]. Wall Street Journal - Eastern Edition, 6/7/2007, Vol. 249 Issue 132, pA12.

[9] By: Marquardt, Carol A.; Wiedman, Christine I.. Accounting Horizons[9], Sep2007, Vol. 21 Issue 3, p281-294, 14p.

descriptive evidence on the quality of firms' disclo
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1.3 Statement of the Problem

1. Financial Health of an organization depends on the fineness with which its capital is blended.
2. Hence the researcher focuses the Capital Structure of Roots Industries Ltd., and it's impact on the corporate profitability as a research problem to be studied upon.

1.4 Objectives of the study:

1. To study the capital structure of roots industry.
2. To study the existing capital structure
3. To study the efficiency in usage of capital of the unit under study

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[8] By: Marquardt, Carol A.; Wiedman, Christine I.. Accounting Horizons[8], Sep2007, Vol. 21 Issue 3, p281-294, 14p.

1. A study on the determinants of the capital structure in Roots Industries limited is unique and is one of the important aspect that are being framed by management to find out exactly the capital structure of the organization. This type of study helps the management to offer beneficiaries analyze the financial position of the company.

2. The capital structure must be properly analyzed so that the company would maintain their basic standards and would increase the financial position. The study helps to have an overview of the components in the capital structure and its effect on profitability.

1.6 Methodology

1.6.1 Type of the study:

Research design constitutes the blue print of the collection measurement and analysis of data. The research applied in the study is analytical research design.

Analytical study is a system of procedures and techniques of analysis applied to quantitative data. It may consist of a system of mathematical models or statistical techniques applicable to numeric data.

1.6.2 Method of Data Collection:

1. Unstructured Interviews with the finance controllers in the organisation
2. Audited and published annual reports of the organisation

1.6.3 Tools for Analysis:

- Ratio analysis

- Net operating income Approach

Period of the study:

Five financial years from 2001 – 2002 to 2005 – 2006

1.7 Limitations:

1. The study is based on the secondary data.
2. The study is limited to 5 years.
3. The study is limited with Roots Industries Limited and other concerns are not Considered .
4. Money value is not considered.
5. Financial Statements do not give effect to Qualitative factors.

1.8 Chapter Scheme:

Chapter ONE is introductory in nature. This chapter tells about the objectives and scope of the study and its limitations

Chapter TWO conveys about the history of the ROOTS INDUSTRIES LTD., and also their competitive strength, future plans of the organization in brief.

Chapter THREE gives the prevailing scenario with respect to ROOTS INDUSTRIES in brief.

Chapter FOUR gives the details about the data analysis and interpretation of the data using ratio analysis.

Chapter FIVE gives the key Findings and conclusions emerging from the study. This chapter also attempts to make suggestions to improve the capital structure of the company.

ORGANISATION PROFILE

ORAGANISATION PROFILE

Roots' single minded pursuit of enhancing the quality of life has led to many other diversifications. Roots, today, is a multifaceted corporate entity with interests in automobile accessories, cleaning equipment, castings, precision tools, hi-tech engineering services, healthcare and education.

In a dynamic world that is driven by technology, a successful presence depends on the way you mould that technology to fit popular needs. "Indigenous talent, a daring attitude, courage to accept and learn new things... and the simple spark of an idea. " That is the genesis of ROOTS.

Vision:

"We will stand technologically ahead of others to deliver world-class innovative products useful to our customers. We will rather lose our business than our customers' satisfaction. It is our aim that the customer should get the best value for his money.
Every member of our company will have decent living standards. We care deeply for our families, for our environment and our society. We promise to pay back in full measure to the society by way of selfless and unstinted service".

2.1 History of the Organization

ROOTS Industries Ltd. is a leading manufacturer of Horns in India and the 11th largest Horn Manufacturing Company in the world.
It is headquartered at Coimbatore in South India. ROOTS has been a dominant player in the manufacture of Horns and other products like Castings and Industrial Cleaning Machines.

Since its establishment in 1970, ROOTS has had a vision and commitment to produce and deliver quality products adhering to International Standards.

occupied a key position in

OEMs and after market. Similar to products, Roots has leading edge over competitors on strong quality system base.

RIL is the first Indian Company and first horn manufacturing company in the world to get ISO/TS 16949 certification based on effective implementation of QS 9000 and VDA 6.1 system requirement earlier.

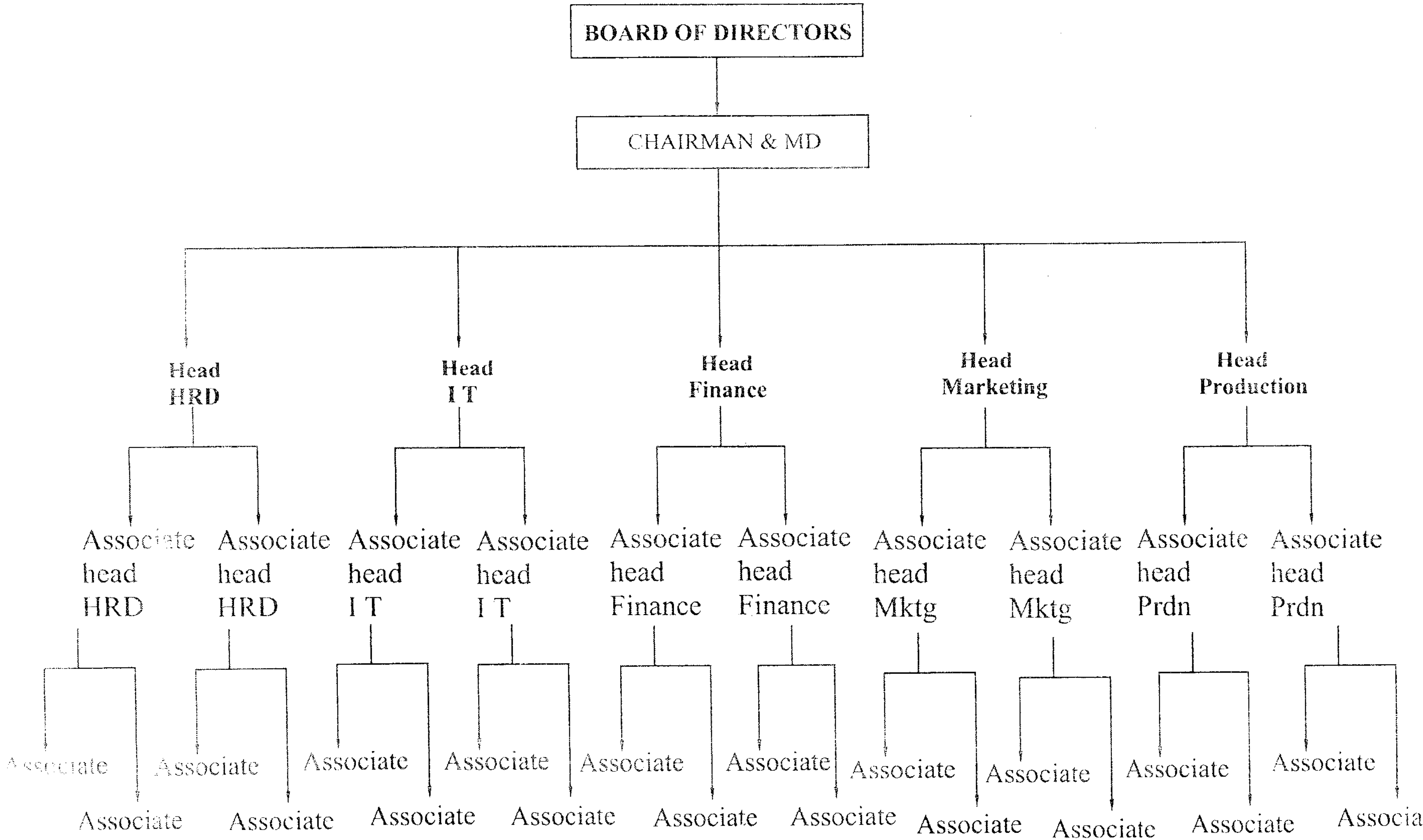
RIL has entered into technical collaboration with Robert Bosch, SA to further enhance the technical competence. Roots' vision is to become a world class company manufacturing world class product, excelling in human relation.

2.2 Management

ROOTS Industries Ltd., is managed by an excellent team of path-breakers, chief among them being the Chairman, Mr. K. RAMASWAMY, a Master's Degree Holder in Automobile Engineering from Lincoln Technical Institute, USA.

The company credo is echoed in his own words, "At ROOTS, we believe that if something is worth doing, it is worth doing well. And this attitude is reflected in every realm of our activities. As a customer, you naturally expect the best. We are fully geared, in spirit and method, to meet your requirements."

He is supported by technical and administrative people, experts in their own field, who together strive to maintain the highest quality quotient in all of ROOTS' products.


BOARD OF DIRECTORS
CHAIRMAN & MD
Head HRD
Head I T
Head Finance
Head Marketing
Head Production
Associate head HRD
Associate head HRD
Associate head I T
Associate head I T
Associate head Finance
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2.4.1 Electric Horns

Indian automobile market responded well and soon the global market too followed suit. Roots horns, in a very short span of time, got a place of pride in millions of vehicles across the globe.

2.4.2 Air Horns, Switches& controllers

Roots Auto Products Private Limited (RAPPL), the largest supplier of Air Horns in India caters to the needs of several OEMs: Ashok Leyland, Caterpillar India and JCB Escorts. Roots Air Horns also find a place of pride in Passenger vehicles, Trucks, Earth Moving equipment, Material Handling equipment, etc.

2.4.3 Multiclean-Cleaning Machines:

The genesis of Roots Multiclean Ltd., (RMCL) is due to the vision of the promoter of Roots group of company about the requirement of sophisticated cleaning equipment in the country following globalization of business and entry of Multi Nationals who have very high standard of house keeping. RMCL, situated in the suburbs of Coimbatore, is a Joint Venture with Hako Werke Gmbh & Co., Germany.

2.4.4 Aluminium & Zinc Pressure Die Cast:

Roots Cast Pvt. Ltd., (RCPL) (formerly known as Aruna Auto Castings Private Limited) was established in 1984 to meet the captive requirements of the Roots group. RCPL now has established itself as a major player in the die cast component manufacturing. RCPL supplies machined castings and sub-assemblies as per customer requisitions.

2.4.5 Precision Products-Dies, Tools, Jigs & Fixtures:

Roots Precision Products was established in 1987 to address the in-house tooling needs of the diverse industries in Roots group.

2.4.6 Polycraft Plastic Components:

Roots Polycraft (PC) manufactures precision plastic components. It is equipped with latest microprocessor injection moulding machines to maintain consistent process parameters. It manufacture small and medium size components for Automotive, Pump, Textile, and Medical Industries besides meeting the captive requirements of Roots Group. precision components are exported to UK, and textile components, to Germany.

2.5 Competitive strength of the Company:

Roots is a leading Original Equipment supplier to major vehicle manufacturers like Mercedez Benz, Mitsubishi, Mahindra & Mahindra, Toyota, Fiat, TELCO, TVS, Kinetic, etc.

The technical collaboration with Robert Bosch S.A. of Spain starting from 1995 has strengthened the R&D activities and increased Roots' technical competence to international standards.

Roots Multiclean Ltd. (RMCL) is a joint venture with Hako Werke GmbH & Co., Germany, one of the largest cleaning machine manufacturers with global operations. RMCL is the sole representative in India and SAARC countries for Hako Werke's entire range of cleaning equipment. The quality of RMCL products is so well established that Hako buys back a major portion for their global market.

RMCL also represents several global manufacturers of cleaning products and is gearing itself up to provide customized, total cleaning solutions.

2.6 Description of the functional areas:

2.6.1 Finance Department:

Finance is the life blood of business. Finance is that activities which is concerned with acquisition and conversion of capital funds in meeting the financial needs and over

manager.

The turnover of the company in 2006 is Rs 70 cores. There are 25 employees in finance department. The export rate is 15.20% for calculating depreciation both straight line method and written- down method is used for income-tax the depreciation is calculated using the written-down method.

Advertisement Cost:

In 1993 the advertising cost is 15%, now the advertisement cost is only 1%.

Provident Fund:

About 12% is taken for provident fund from the salary of the employees. The company will provide 12% separately totally 24% is paid after retirement.

Payments:

Payments are made by cheque if that payment is greater than Rs 1500.

Software Used:

SAP has been recently implemented.

Bankers:

The bankers of roots are Citi Bank, State Bank of India, Canara Bank, Punjab National Bank, ICICI Bank, HDFC Bank

Proper buying of material and merchandise are of great importance in any business. If the raw materials is not of requisite quality the cost of production would rise profit in decline quality of finished products may go down etc.

If raw materials are purchased in excess requirement there is an unnecessary tie-up of working capital with loan of interest incurring of storing and safe guarding expense the risk of obsolescence and decoration of raw material is more.

Hence Roots industries Ltd takes careful steps in purchasing from the materials of right time adequate quantity and right quality.

Purchase Procedures:

- Bill of materials.
- Vendor.
- Evaluation.
- Team of Engineers.
- Freeze the vendor.
- Risk enquiry.
- After evaluation.
- Purchase order.

Supplier:

There are 250 vendors all over India. The vendor supplies 4000 components based on the 5 product range.

2.6.3 Stores Department:

The main function of stores department is to keep track of purchase and issues of various components used in manufacturing process. The horn division of the company receives the components division. The component received our started systematically on

the first in first out method.

Stores Procedure:

- Sub component inwards.
- Waiting for inspection.
- Quality is checked.
- Material part no and bin card is issued
- Material issue note.
- Supply to assembly.

Identification Tags:

1. Green – Accepted
2. Red – Rejected
3. Yellow – Condition accepted
4. White – Non conformities
5. Blue – Rework/ segregation

2.6.4 Export Department:

The company has shown a tremendous growth in the export sector too, the turnover has increased from INR 4 million to 35 million in a span of 4 years due to its quality and performance coupled cost efficiency. The firm has been participating in Auto mechanika since 1992 and Auto Expo 1993 at New Delhi in order to expand there export division.

One of the joint moves the company has tied up with British company to produce inflatable jacks, the company has also acquired the European Homologation approvals for its EC/ECE countries to enter in these markets. Roots have entered into a technical collaboration with Robert Bosch S.A this move will help them increase their production capacity to 3 million horns per annum. M/s Owaw & co, Japan, one of the largest

Export to more than 15 countries like Germany, Australia, Italy, Japan, USA, Spain, Singapore, France, Brazil, UAE, Korea, U.K, and South Africa.

2.6.5 IT Department:

Today businesses are continuously trying to increase productivity and efficiency, reduce cost of production. For this technology is used to expand the existing, market and creates new markets. This is developed to the development and use of hardware, software, firmware and procedures associated with this processing. General Manager Mr. O.A. Balasubramanium heads this department.

Software used at Roots:

- Earlier FoxPro package was used.
- Intranet facility accessible to all authorized officers with a very effective package called LOTUS NOTES the means of the communication through fiber optic cables.

This package included the mailing facility among the 170 employers. In the organization and also it have the options of reservation of rooms for their meeting, to know the status of the room etc, QMS documents are available and it`s being view by all the employers but the information can`t be altered them .Only the authorized officers can change them.

They use the ERP which has different models where by they are customized.

Rules and Responsibility of marketing manager:

1. Setting targets of sales.
2. Planning for the growth of the organization through marketing.
3. Promotion of new existing products.
4. Surveying the demand.
5. Coordinating with the demand
6. Controlling & directing the marketing team.
7. Monitoring the activities and weakness of the competitors.
8. Analyzing the expectation of the customers.

Marketing Management communication system:

Two kinds of communication system are followed.

- Communicating within the organization between various departments and other sources.
- Communicating with the field representatives in respective zones.

Marketing Research activities:

Surveying method is followed through representatives of respective zones to find out the reach of the product. Intermediaries, the purpose of this survey process quality check, warranty providence, regulation of services for defective product etc, are done while research activities are carried out.

2.6.7 Production Department:

Orders are received from the marketing department. Since it is the marketing department that receives the orders for manufacturing the products from the management, soon after receiving the orders from their customers, and processing of the orders is done accordingly by the production department.

Batch type of production system is followed. Ordered products are monitored by purchase department and the raw materials required for that are received and processed so as to deliver the products at the required quantity on a required data.

2.6.8 HRD:

Roots have a strong people-oriented work culture that can be seen and felt across all its member concerns. Whether they work in group or in isolation, their effort is well appreciated and achievements well rewarded. They have a sense of belonging and they revel in an environment of openness and trust. Cross-functional teams function as one seamless whole and foster the true spirit of teamwork.

Roots as a learning organization systematically train its employees at all levels. Conducted in-house, the training programmes equip them to meet new challenges head on. Employees are encouraged to voice their feelings, ideas and opinions. There is a successful suggestion scheme in operation and best suggestions are rewarded.
Lasting relationship will evolve only when people know that their work is valued and that they contribute meaningfully to the growth of the organization. At Roots, people across the group companies, through interactions at workshops and seminars, get to know each other individually, share their common experiences and learn something about life.

2.6.9 QUALITY:

Roots are committed to manufacture customer-centric and technology-driven products on par with international quality standards. For example, the horns manufactured undergo a rigorous life-cycle test and are subjected to an endurance of over 200,000 cycles of performance while the industry norm requires only 100,000.
Equal emphasis is given to quality in human relation and quality in service. Roots in its journey towards Total Quality Management has reached important milestones: ISO 9001, QS 9000, VDA 6.1, ISO/TS 16949 and ISO 14001 Certification, presently in the process of obtaining NABL accreditation for our Metrology lab. The Group's TQM policy has a

QUALITY POLICY:

We are committed to provide world-class products and services with due concern for the environment and safety of the society.

2.6.10 Engineering Research Center:

The Engineering Research Center (ERC) is involved in the continuous improvement and enhancement of design to increase performance and reliability. The ERC functioning under three distinct heads cater to the needs of Roots Industries, Roots Multiclean and Roots Auto Products.

Though there is a three-pronged operational ethos, the ERC is integrated and meshed seamlessly with one single objective: that of design research and performance monitoring. Through extensive product engineering, the ERC cell of ROOTS achieves the following:

- Designing and developing new products with customer focus.
- Conducting required tests to ensure product reliability.
- Initiating necessary corrective and preventive action for ensuring peak performance
- Fine-tuning products with available components to satisfy customer requirements

2.6.11 Metrology Laboratory:

Roots' state-of-the-art Metrology Laboratory is a comprehensive calibration centre in South India that offers mechanical, electrical, torque, pressure and vacuum calibration instruments - all under one roof.

international standards. RMTL is ...

and Calibration laboratory as per ISO/IEC 17025 : 2005 standards in the field of Mechanical -- Dimensions, Pressure/Vacuum, & Force.

The laboratory offers on-site calibration facility and serves the industry to calibrate surface table, coordinate measuring machine, profile projector, Toolmakers Microscope. Pressure switches, Pressure gauges, Temperature indicators, RTDs, Temperature sensors/scanners, Electronic transmitters, Pressure reducing valves, Ovens, etc.The expertise of the laboratory has attracted many renowned Public and Private Sector undertakings.

MACRO -MICRO ANALYSIS

MACRO – MICRO ANAYLYSIS

The Macro & Micro analysis of Auto parts industries in economic growth, competitive strength, career growth, opportunities etc in domestic and foreign countries is given below.

3.1. Macro Analysis:

The auto parts industry directly influences the economies of the United States and the world. In a typical year, The U.S. auto parts industry generates around 17 percent of manufacturers' shipments of durable goods (products designed to last at least three years). Auto parts production consumes large amounts of iron, steel, aluminum, and natural rubber. The automobile industry also consumes more copper, glass, zinc, leather, plastic, lead, and platinum than any other U.S. industry. In 1997, U.S. retail sales of auto parts exceeded $284 billion, 3.5 percent of the nation's gross domestic product.

The U.S. auto parts industry has experienced strong job growth. In 1996, the auto parts industry accounted for 9 percent of all U.S. jobs producing durable goods, the highest level since 1979. Auto parts production workers earned compensation totaling $13.4 billion—a nearly 50 percent increase since 1990—and equal to 14 percent of the total paid by all manufacturers of durable goods. Sales of U.S. auto parts to Americans are expected to remain near the same level in the future, with about 1 to 2 percent growth per year, while foreign markets are expanding at rates that are two, three, and even ten times faster. Because exports will be essential to expanding the auto and auto parts industries, U.S. trade officials have negotiated trade agreements such as the Memorandum of Understanding with Korea (1993), the North American Free Trade Agreement (NAFTA, 1994), and the U.S.–Japan Automotive Framework Agreement (1995). These and other agreements have increased auto parts and other exports to Japan, Mexico, and Korea many times over.

In 1994, the United States successfully promoted the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), which helped American auto export

initiatives have helped the

exports on record. Between 1993 and 1996, Shipments abroad of motor vehicle increased 36 percent, and U.S. automotive parts exports increased 28 percent. The value of motor vehicle and parts exports reached $47.4 billion in 1996, up 7 percent from the previous year.

3.1.2. Future Macro Economic Drivers:

- High GDP growth rate
- India's huge geographic spread --Mass Transport System
- Increasing Road Development, Golden Quadrilateral
- Increasing disposable income with the service / rural agriculture sectors
- Cheap & easy financing schemes
- Replacement of aging passenger and commercial vehicles
- Graduating from motorcycles to passenger vehicles
- Growing Concept of Second Vehicle in Urban Area

3.1.3. Standing tall:

The auto component sector is on a growth trajectory as is evident by the fact that auto components have been designated as a "Thrust Sector" by the Government of India under the EXIM Policy. The Indian Department of Commerce is now set to aggressively promote export of auto components through a specific sectoral strategy. The size of the global auto component industry is $1.2 trillion with most of it located in high

are currently estimated to
increasing. Furthermore, the problem of high rejection rates which plagued the domestic auto ancillary industry has been overcome. This is reflected in the number of overseas deals concluded by the domestic industry amidst stiff competition from other Asian countries. The government has extended various fiscal incentives and policy measures which too has helped the industry.

3.1.4. Trends of Automobile Components:

Critically, outsourcing of automobile components that have relatively high engineering and design content from suppliers in low cost countries like India, is rapidly gaining momentum. It is estimated that in the next 10 years the auto components industry will reach $33-40 billion. Going by the current trends in the domestic automotive industry and as stated above, it is expected that the indigenous demand for auto components will also reach $13-15 billion in the next 10 years and about USD 20-25 billion would be exported. To meet the combined demand from domestic and international customers the industry will have to make significant incremental investment.

Hence, the Indian auto component industry is poised to achieve a prominent position in the global market and will in all probability be a major driver of growth and employment in the domestic economy. Considering the recent figures, whereby domestic demand is increasing by about 15 per cent over the previous year and exports by over 25 per cent, the above estimates, while undoubtedly challenging, appear achievable.

To, conclude, the auto-components sector in India appears well revved up to speed on from here on the success-track.

3.1.5. Opportunity to source from India:

- There is a growing demand for auto components
- Total production '2004: Approx. $ 6.73 billion
- Exports '2004: Approx. $1.4 billion. (CAGR of 19% -last 6 yrs)

- In the next 10 years the auto [illegible]

  billion. (Estimate)

- Indigenous Demand : $13-15 billion

- Export Demand : $20-25 billion

3.2. Micro Analysis:

India is the Largest Three Wheeler Market in the World, 2nd Largest Two Wheeler Market in the World, 4th Largest Passenger Vehicle Market in Asia, 4th Largest Tractor Market in the World, and 5th Largest Commercial Vehicle Market in the World. So, all vehicles need safety part of air horns, electric horns, etc. Roots industries which is the 11th largest auto horn producing company, with the huge competition roots industries is performing at global level. Thus roots industries will be suitable to satisfy the demand from the auto mobile industry.

Roots standard with this trend:

Roots group of companies is well known all over the world. They specialize in manufacturing horns and major establishment stand as their customers. With due concern towards maintaining and improving the quality of life, roots is pollution and conserving resources. This will be achieved through continual improvement in environmental awareness of all employees and associate legal compliance and objective towards environmental protection.

With its new vibrating horns taking the market by storm the company currently holds the no.1 position in the market. In 1978 – 1979, the sales figure was 3600 horns but it has touched 1.5 million horns in 1996 – 1997. This shows the recognition of the company as the pace setter in the automobile industry and its segments. The company today is the leading supplier to Original Equipments Manufacturers such as Hindustan Motors, Premier Automobiles, TELCO, Mahindra & Mahindra, Suzuki, UNO, Rover, and Hero Honda.

Export Division

The company has shown a tremendous growth in the export sector too, as the turnover has increased from 4 million to 35 million in a span of years due to its quality and performance coupled with cost efficiency.

Achievements and Rewards

The company has state-of-the-art manufacturing facilities one at coimbatore and in two other cities. The facilities include the latest CAD/CAM/EDP/Quality Assurance Centers. The R&D department is headed by Mr. K. Ramaswamy, the managing director himself. This is the 1st company in India that have received the ISO 9001 Certificate under writers laboratories inc, USA for electric horn design and manufacturing currently the company has gone for diversification to manufacture floor cleaning machines in collaboration with HAKO Works GMBH &Co of Germany.

DATA ANALYSIS & INTERPRETATION

DATA ANALYSIS AND INTERPRETATION

4.1 Debt-Equity Ratio:

This ratio indicates the relationship between the external equities or the outsider`s funds and the internal equities or the shareholders funds.

Debt-Equity Ratio = Outsiders Funds / Shareholders funds

Outsiders Funds = Debentures Bonds, Mortgage or bills.

Shareholders Funds = Equity Share Capital, Preference Share Capital, Capital Reserve, Revenue Reserves.

TABLE-1

DEBT-EQUITY RATIO

YEAR	OUTSIDERS FUND (in rupees)	SHAREHOLDERS FUND (in rupees)	RATIO (times)
2001-2002	127490496	86955732	1.47
2002-2003	112275630	90619242	1.24
2003-2004	127945985	88809061	1.44
2004-2005	184624217	111560772	1.65
2005-2006	278338992	114534994	2.43

Source: Secondary Data.

$= [(2.43/1.47)^{0.2}]-1$

$= 0.1058$

INTERPRETATION

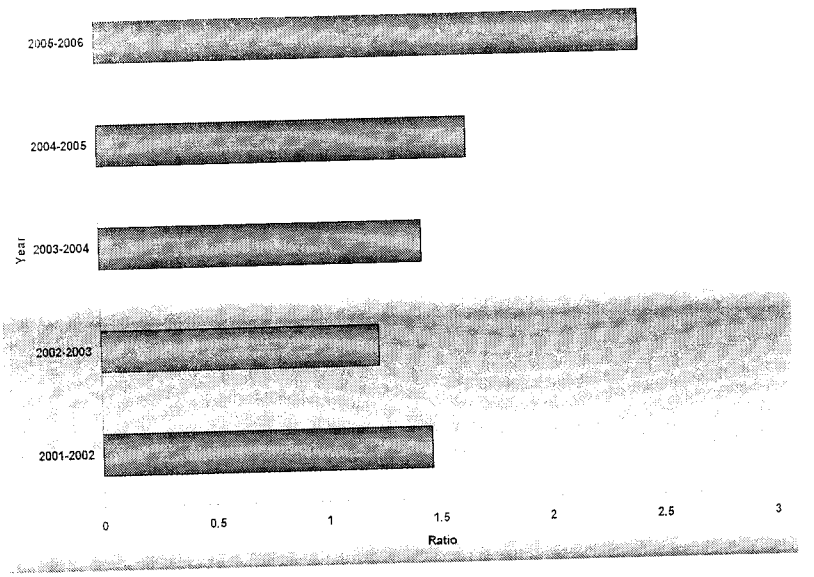
From the above calculated value 2.43 is the highest, which indicates that they have raised huge amount of debt then to their shareholders value. The next highest value is 1.65, 1.47, and 1.44. The least value is 1.24 which means the propionate of the debt to shareholders fund is minimum. Thus after this stage they have increased their debt value to increase the ratio.

INFERENCE

While comparing the company's debt equity ratio for five years has a high ratio; this is because the company has raised the outsider's fund.

CHART-1

DEBT-EQUITY RATIO



This ratio establishes the relationship between shareholders fund to total assets of the firm. This ratio can indicate the percentage of owner's capital to total capital of the firm.

Proprietary Ratio = Shareholder's funds / Total Assets

TABLE – 2

Proprietary Ratio

Year	Shareholder's funds (in rupees)	Total Assets (in rupees)	Ratio (times)
2001-2002	86955732	214446228	0.41
2002-2003	90619242	202894872	0.45
2003-2004	88809061	235449952	0.38
2004-2005	111560772	318913015	0.35
2005-2006	114534994	422377987	0.27

Source: - Secondary Data.

CAGR= [(0.27/0.41)^0.2]-1

= 0.0802

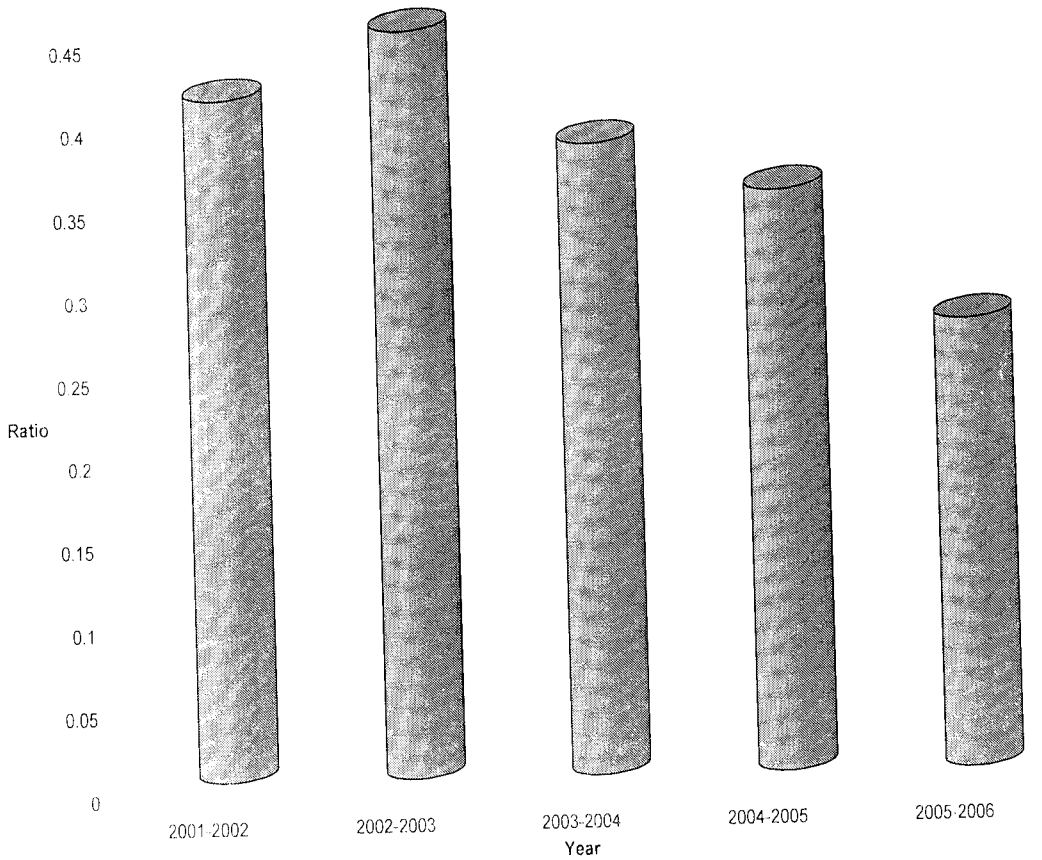
The highest among the calculated value is 0.45. The next highest values are 0.41, 0.38, and 0.35. The least among the calculated value is 0.27.

INFRENCE

The highest value indicates that large portion of their shareholders funds are used for the acquisition of the total assets. Where by the least value indicates only a small portion of their shareholder funds are used for acquiring the total assets.

CHART – 2

Proprietary Ratio



This ratio established the relationship between fixed assets and shareholders funds. .

Fixed Assets to proprietor's Ratio = Fixed Assets (after depreciation)

Shareholder's Funds

TABLE – 3

Fixed Assets to proprietor's Funds

Year	Fixed Assets (in rupees)	Shareholder's Funds (in rupees)	Ratio (times)
2001-2002	80389510	86955732	0.92
2002-2003	79647063	90619242	0.88
2003-2004	87955566	88809061	0.99
2004-2005	127624160	111560772	1.14
2005-2006	163169101	114534994	1.42

Source: - Secondary Data.

CAGR [(1.42/0.92)^0.2]-1

= 0.5435

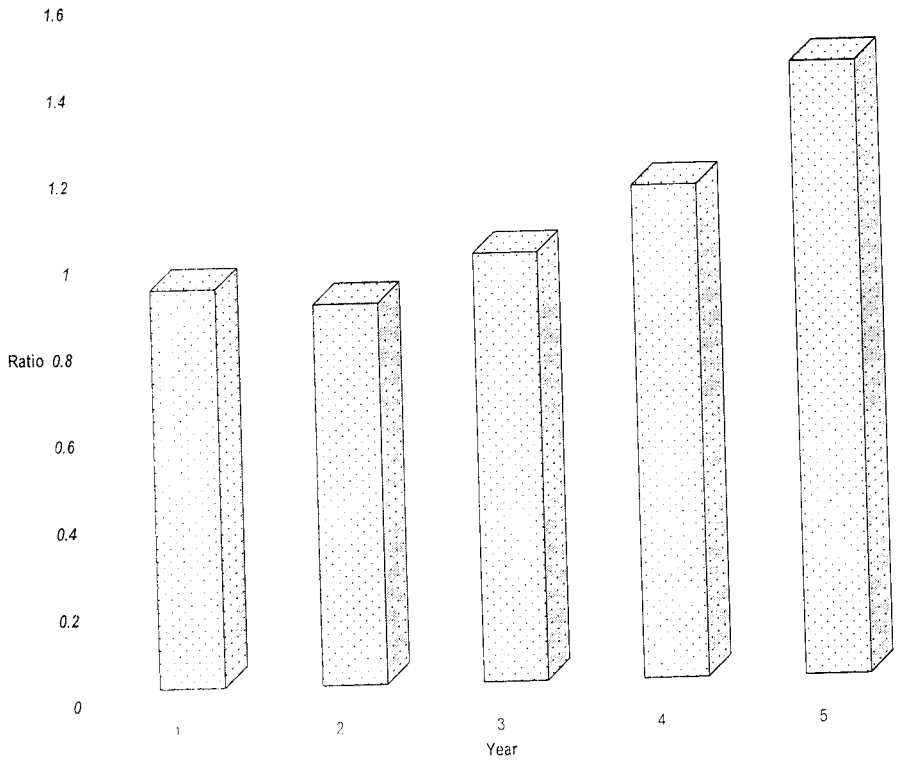
Through the analysis of the five data from 2002-2006. The highest among the above calculated value is 1.42. The next highest values are 1.14, 0.99, and 0.92. The least among the table is 0.88.

INFERENCE

The ratio has increased from 0.92 to 1.42, which indicates that the owners funds are not sufficient to fund the fixed assets, so the have used the outsiders fund for their fixed.

CHART-3

Fixed Assets to proprietor's Funds



The ratio indicates the extent to which the total of fixed assets is financed by long-term funds of the firm.

$$\text{Fixed Assets Ratio} = \frac{\text{Fixed Assets (After Depreciation)}}{\text{Total long- term funds}}$$

TABLE – 4

Fixed Assets Ratio

Year	Fixed Assets (in rupees)	Long- Term funds (in rupees)	Ratio (times)
2001-2002	80389510	178647970	0.45
2002-2003	79647063	161753747	0.49
2003-2004	87955566	154126527	0.57
2004-2005	127624160	210473916	0.61
2005-2006	163169101	290429362	0.56

Source: - Secondary Data.

CAGR= [(0.56/0.45)^0.2]-1

= 0.0447

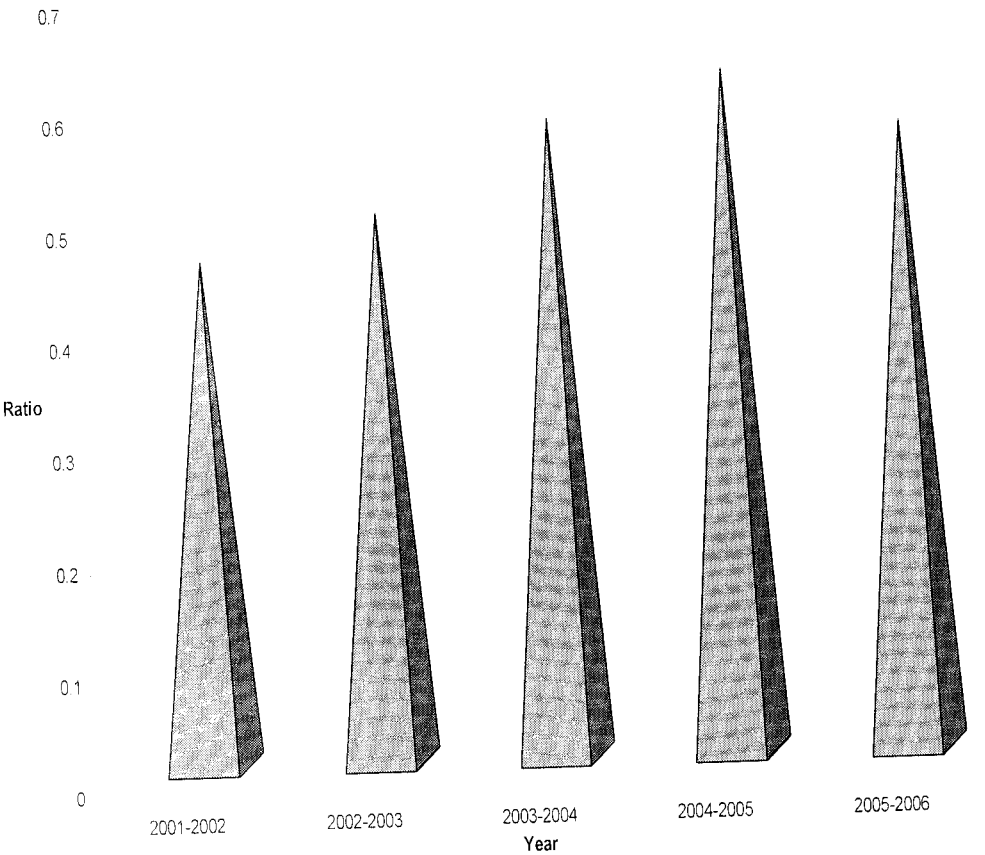
Through the analysis of the five data from 2002-2006.The highest among the table is 0.61. The next highest is 0.57, 0.56, and 0.49. The least among the calculated value is 0.45.

INFRENCE

Based on the analysis the low ratio indicates they have enough of long term funds, which can be used for their working capital also.

CHART-4

Fixed Assets Ratio



The ratio indicates the extent to which proprietors funds are invested in currents.

$$\text{Currents Assets to proprietors funds ratio} = \frac{\text{Current Assets}}{\text{Shareholders funds}}$$

TABLE – 5

Current Assets or proprietor's funds

Year	Currents assets (in rupees)	Shareholders funds (in rupees)	Ratio (times)
2001-2002	127850069	86955732	1.47
2002-2003	117811216	90619242	1.30
2003-2004	137698022	88809061	1.55
2004-2005	158251114	111560772	1.42
2005-2006	228680143	114534994	1.99

Source: - Secondary Data.

CAGR= [(1.99/0.45)^0.2]-1

0.0624

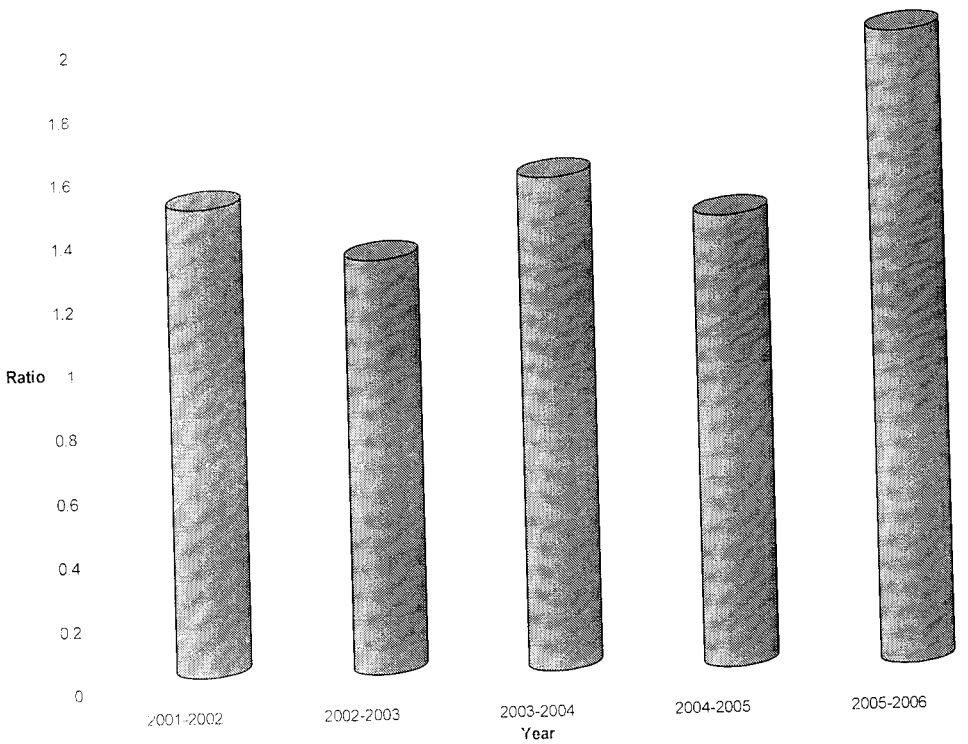
Through the analysis of the five data from 2002-2006. The highest among above calculated value is 1.99. The next highest value is 1.55. 1.47, and 1.42. The lowest among these values are 1.30

INFRENCE

Here the ratio clearly shows that company uses debt fund for its day to day operations. The company has taken steps in channelizing funds for working capital partially from debt and partially through equity.

CHART- 5

Current Assets or proprietor's funds



This ratio says the relationship between the share capital and the reserves that is created from the profit.

$$\text{Capital to Reserve Ratio} = \frac{\text{Share Capital}}{\text{Reserves}}$$

TABLE – 6

Capital to Reserve Ratio

Year	Share Capital (in rupees)	Reserves (in rupees)	Ratio (times)
2001-2002	16000000	76566281	0.21
2002-2003	16000000	78359608	0.20
2003-2004	16000000	18694906	0.86
2004-2005	16000000	22728026	0.70
2005-2006	16000000	29504001	0.54

Source: - Secondary Data.

CAGR = [(0.54/0.21)^0.2]-1

= 0.2079

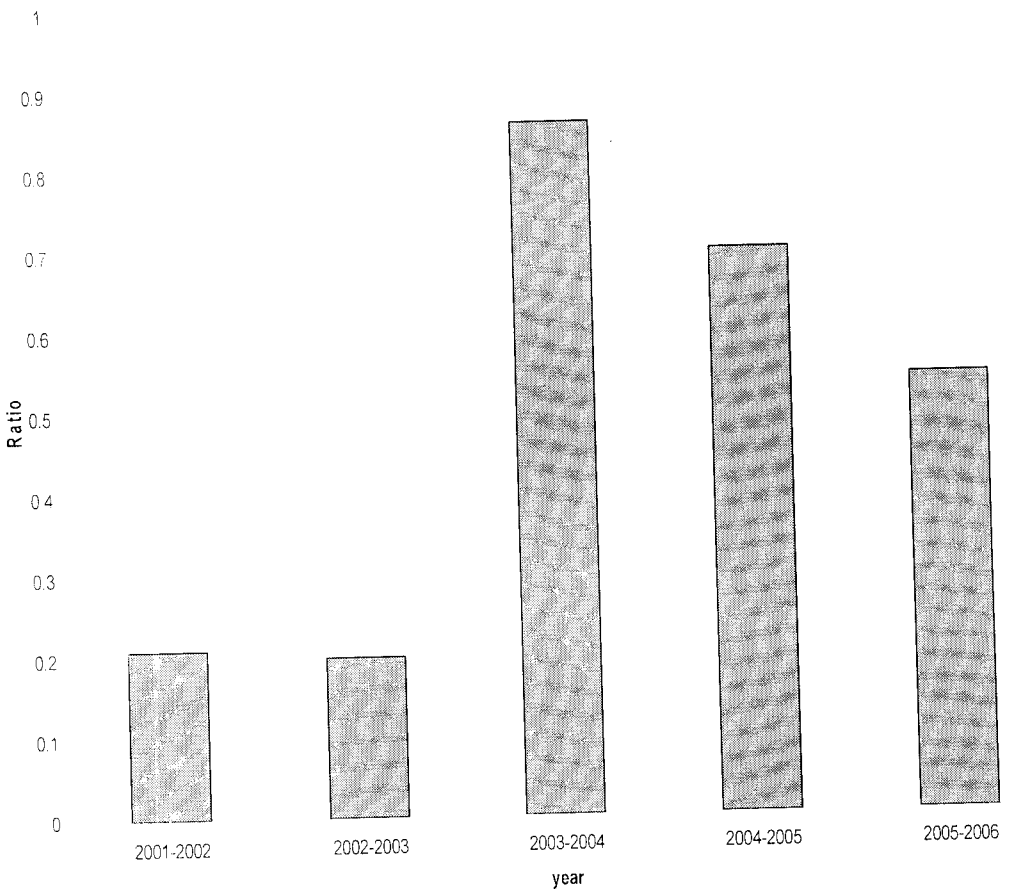
Through the analysis of the five data from 2002-2006. The highest among above calculated value is 0.86. The next highest value is 0.70, 0.54, and 0.21. The least among the values is 0.20.

INFERENCE

The company has mobilized funds from shareholders funds. Where the reserves have an increasing trend which is says they have enough funds for their future.

CHART – 6

Capital to Reserve Ratio



Net Income Approach:

a) Value of the firm = value of equity + value of debt

$$V = S + B$$

Where S = 16000000

B = 172496493

Therefore value of the firm = 16000000 + 172496493

$$V = 188496493$$

b) Cost of Capital $Ko = \frac{EBIT}{V}$

Where V = 188496493

EBIT = 7424617

Ko = 3.94%

This approach says that capital structure decision depends on the value of the firm. It says higher the debt in capital structure will reduce the overall cost of capital and increase the value of the firm.

a) Value of the firm = value of equity + value of debt

$$V = S + B$$

Where S = 16000000

B = 172496493

Therefore value of the firm = 16000000 + 172496493

$$V = 188496493$$

b) Cost of Capital $Ko = \frac{EBIT}{V}$

Where V = 188496493

EBIT = 7424617

Ko = 3.94%

c) Value of equity $Ke = Ko + ((Ko - Ki) * [B/S])$

Where Ko = 3.94%

Ki = 0.958

Ke= 3.94 + ((3.94-0.958) * [172496493/16000000])

Ke = 2.90%

a) Value of equity Ke = (K0 – Ki) * [B/S])

Where Ko =3.94%

Ki = 0.958

Ke = 3.94 + ((3.94 – 0.958) * [172496493/16000000])

Ke = 2.90%

b) Ko = EAT

V

EAT = 10020897

V = 188496493

Ko = 5.32%

CONCLUSION

FINDINGS FROM THE STUDY

- The companies' debt is in increasing trend, where it will affect the shareholders value.
- Mix of capital structure is not functioning in the proper proportion.their is a increase in the outsiders fund where its risky.
- The owners funds are not sufficient to fund the fixed assets, so they have used the outsiders fund for their fixed assets. Which is highly risky.
- The company have financed more of long term funds, which can be used for their working capital also.
- Debt fund is used for the day to day operations. The company has taken steps in channelising funds for working capital partially from debt and partially through equity.
- The company has mobilized funds from shareholders funds. Where the reserves have an increasing trend which says the company have enough funds for their future.

SUGGESTIONS FROM THE STUDY

The company has used its own money, and has not mobilized any funds from shareholders. The company can take appropriate steps to increase the reserves & surplus, in the years to come.

The company has invested heavily in fixed assets in every year during the period of study. The company has invested more in purchasing the assets. The company can aim to increase its EBIT and it is sure the company will be able to generate better earnings in the years to come.

This study deals with the capital structure of Roots Industries limited.From the above study it is found that the company has framed a satisfactory capital structure and the same will maintain the same in the future also.

The capital structure is the mix of the companies debt and equity. Capital Structure is the proportion of the equity to outsiders fund. And the amount of risk, the company wil face when they go for outsiders fund.

While deciding resource allocation capital its necessary to consider the shareholders wealth. And the amount they allocated in reserves for future.

Roots Industries limited is the leading manufacture of automobile. Through effective control on their capital structure they were able to gain the valuable position in the minds of the shareholders.

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