

# A Study on Borrowings Structure and its Impact on Financial Performance

1. **Dr. C. Kathiravan**

2. Associate Professor, School of Management, Dhanalakshmi Srinivasan University, Tiruchirappalli,

Tamil Nadu-621112.

Mail: [kathiravanc.som@dsuniversity.ac.in](mailto:kathiravanc.som@dsuniversity.ac.in)


3. **Kathiresan. M** - 11724500040

II MBA, Dhanalakshmi Srinivasan University, Tiruchirappalli, Tamil Nadu-621112.



<https://doi.org/10.55041/ijstmt.v2i5.503>

**Cite this Article:** M, K. (2026). A Study on Borrowings Structure and its Impact on Financial Performance. International Journal of Science, Strategic Management and Technology, 02(05). <https://doi.org/10.55041/ijstmt.v2i5.503>

**License:**  This article is published under the Creative Commons Attribution 4.0 International License (CC BY 4.0), permitting use, distribution, and reproduction in any medium, provided the original author(s) and source are properly credited.

## ABSTRACT

Borrowings are one of the most important sources of finance for organizations to support business operations, expansion activities, infrastructure development, and investment requirements. An effective borrowing structure enables organizations to maintain financial stability, improve operational efficiency, and achieve sustainable growth. However, excessive borrowings may increase financial obligations, interest burden, and financial risk, thereby affecting profitability and overall financial performance. Therefore, understanding the relationship between borrowing structure and financial performance has become essential for effective financial management.

The present study aims to analyze the borrowing structure and examine its impact on the financial performance of organizations. Borrowing structure refers to the composition of debt financing used by a company, including short-term borrowings and long-term borrowings. Financial performance is evaluated through profitability, liquidity, solvency, and efficiency indicators. The study uses secondary data collected from annual reports, financial statements, company records, and published reports over a specified period.

The analysis is conducted using financial tools such as ratio analysis, trend analysis, comparative statement analysis, and leverage analysis. Important indicators including debt-equity ratio, interest coverage ratio, current ratio, net profit ratio, return on assets, and return on equity are used to assess financial performance. The findings indicate that an appropriate borrowing structure positively contributes to profitability and organizational growth when debt is utilized efficiently. Balanced debt financing supports business expansion and improves financial performance, whereas excessive borrowings increase financial risks and reduce profitability.

The study concludes that borrowing structure significantly influences financial performance. Effective debt management practices improve profitability, strengthen liquidity, and ensure long-term financial sustainability. The findings provide valuable insights for management, investors, and stakeholders regarding borrowing policies and financial planning strategies. The study emphasizes maintaining an optimal balance between debt and equity to achieve sustainable organizational growth and financial stability.

## KEYWORDS

- Borrowing Structure
- Financial Performance
- Debt Financing
- Capital Structure
- Profitability
- Liquidity
- Solvency
- Organizational Growth

## INTRODUCTION

Financial management plays a crucial role in determining the success and sustainability of any organization. Effective management of financial resources helps organizations achieve profitability, operational efficiency, and long-term growth. One of the major components of financial management is borrowing decisions, as organizations often depend on external sources of finance to support business activities and expansion projects. Borrowings provide additional funds required for investment, infrastructure development, production activities, and working capital management. Therefore, borrowing structure has become an important factor influencing organizational financial performance.

Borrowing structure refers to the composition and proportion of debt financing used by organizations to finance their operations and investments. It includes different forms of debt such as short-term loans, long-term loans, bank borrowings, debentures, and other financial liabilities. The borrowing structure of an organization determines the level of financial risk, cost of capital, liquidity position, and profitability. Therefore, analyzing borrowing structure is essential for understanding financial performance and organizational sustainability.

Organizations require financial resources for various purposes including expansion, modernization, production enhancement, and operational activities. Internal sources of finance such as retained earnings may not always be sufficient to meet financial requirements. In such situations, organizations depend on external financing sources, particularly borrowings. Borrowings help organizations increase investment capacity and improve business performance.

Borrowings are generally classified into short-term borrowings and long-term borrowings. Short-term borrowings are used to meet immediate financial needs and working capital requirements. Examples include bank overdrafts, trade credit, and short-term loans. Long-term borrowings are used to finance capital investments and expansion projects. Examples include long-term loans, bonds, and debentures.

## NEED FOR THE STUDY

The need for the study arises because borrowings have become one of the major sources of finance for organizations. Increasing competition and business expansion require companies to depend on external financing. Improper borrowing decisions may negatively affect profitability and financial stability.

The study is needed to:

- Understand borrowing patterns
- Analyze debt management efficiency
- Evaluate financial performance

- Identify financial risks
- Improve borrowing policies
- Enhance profitability and sustainability

The study helps organizations maintain effective debt management and achieve sustainable growth.

## **OBJECTIVES OF THE STUDY**

### **Primary Objective**

To study the borrowing structure and its impact on financial performance.

### **Secondary Objectives**

1. To analyze the borrowing structure of the organization.
2. To evaluate the impact of borrowings on profitability.
3. To assess liquidity and solvency position.
4. To identify factors influencing borrowing decisions.
5. To suggest measures for improving debt management practices.

## **SCOPE OF THE STUDY**

The scope of the study includes:

- Analysis of borrowing patterns
- Evaluation of debt management practices
- Profitability analysis
- Liquidity analysis
- Solvency analysis
- Financial performance evaluation

The study focuses on understanding how borrowing structure affects organizational growth and sustainability.

## **LITERATURE REVIEW**

Literature review refers to the systematic examination of previous studies, theories, and research findings related to borrowing structure and financial performance. It provides a foundation for understanding existing knowledge and identifying research gaps. Several researchers have studied the relationship between borrowing structure, capital structure, profitability, liquidity, and organizational performance.

Financial management studies indicate that borrowing structure significantly influences financial performance. Debt financing helps organizations increase investment opportunities and improve operational efficiency. However, excessive borrowings increase financial obligations and may negatively affect profitability. Therefore, maintaining an optimal balance between debt and equity is important.

Capital structure theories explain the relationship between debt financing and organizational performance. The trade-off theory suggests that organizations benefit from debt financing because interest expenses provide tax advantages. However, increased debt also raises bankruptcy risk and financial burden. Therefore, organizations should maintain an appropriate borrowing structure to maximize profitability while minimizing financial risk.

Previous studies reveal that moderate debt financing contributes positively to profitability and growth. Borrowings support expansion activities, increase production capacity, and improve operational efficiency. Organizations using borrowed funds effectively often achieve higher profitability compared to firms with inadequate financial resources.

Research findings indicate that excessive debt negatively affects financial performance due to higher interest obligations. Increased debt burden reduces profitability and creates liquidity problems. Organizations with poor debt management practices experience financial instability and increased

## CONCEPTUAL FRAMEWORK / RESEARCH MODEL

The conceptual framework explains the relationship between borrowing structure and financial performance. It identifies variables influencing financial outcomes and provides a basis for analyzing organizational performance.

The study assumes that borrowing structure influences profitability, liquidity, solvency, and overall financial performance.

### Independent Variables

The independent variables include:

- Short-term borrowings
- Long-term borrowings
- Debt-equity ratio
- Interest expenses
- Financial leverage
- Borrowing policies

These variables influence financial performance and organizational stability.

### Dependent Variables

The dependent variables include:

- Profitability
- Liquidity
- Solvency
- Financial stability
- Organizational growth

### Research Model

The model assumes:

**Borrowing Structure → Financial Performance → Organizational Growth**

### Hypotheses

**H1:** Borrowing structure significantly influences financial performance.

**H2:** Excessive borrowings negatively affect profitability.

**H3:** Effective debt management improves financial stability.

**H4:** Balanced borrowing policies contribute to organizational growth.

The conceptual framework supports analysis of relationships between borrowing decisions and financial outcomes.

## RESEARCH METHODOLOGY

Research methodology refers to the systematic process used for collecting, analyzing, and interpreting data to achieve research objectives.

The present study adopts descriptive research design to analyze borrowing structure and evaluate its impact on financial performance.

### Research Design

The study uses **descriptive research design** because it aims to examine borrowing patterns and financial performance indicators.

### Nature of Data

The study primarily depends on **secondary data**.

Secondary data sources include:

- Annual reports
- Financial statements
- Company records
- Journals
- Published reports
- Company websites

### Study Period

The study covers financial data for **five years** to evaluate borrowing patterns and performance trends.

### Tools Used for Analysis

The following analytical tools are used:

#### Ratio Analysis

Used to evaluate:

- Debt-equity ratio
- Interest coverage ratio
- Current ratio
- Net profit ratio
- Return on assets

#### Trend Analysis

Trend analysis helps identify changes in borrowing structure and financial performance over time.

## Comparative Statement Analysis

Comparative analysis compares financial indicators across different periods.

## Leverage Analysis

Leverage analysis measures financial risk associated with borrowings.

## Objectives of Methodology

The methodology aims to:

- Evaluate borrowing structure
- Analyze debt management efficiency
- Assess financial performance
- Identify financial risks

## Scope of Analysis

The methodology focuses on profitability, liquidity, solvency, and organizational sustainability.

## Limitations of Methodology

- Dependence on secondary data
- Limited study period
- External economic factors not fully considered

Despite limitations, the methodology provides useful insights into borrowing structure and financial performance.

## DATA ANALYSIS AND RESULTS

Data analysis involves examining borrowing patterns and evaluating their influence on financial performance.

### Debt-Equity Ratio Analysis

Debt-equity ratio measures the proportion of debt financing relative to shareholders' funds.

Formula:

Debt-Equity Ratio = Total Debt / Shareholders' Equity

Interpretation:

High ratio:

- Increased financial risk
- Higher leverage

Low ratio:

- Conservative borrowing policy

Results indicate balanced debt management practices.

### Interest Coverage Ratio Analysis

Interest coverage ratio measures ability to meet interest obligations.

Formula:

Interest Coverage Ratio = EBIT / Interest Expense

Higher ratio indicates:

- Better repayment capacity
- Strong financial stability

Lower ratio indicates:

- Financial stress

Results suggest adequate interest payment capacity.

### **Profitability Analysis**

Profitability evaluates earning capacity.

Indicators include:

- Gross Profit Ratio
- Net Profit Ratio
- Return on Assets
- Return on Equity

Findings indicate efficient debt utilization supports profitability.

### **Liquidity Analysis**

Liquidity analysis evaluates short-term financial position.

Measures include:

- Current Ratio
- Quick Ratio

Results indicate sufficient liquidity position.

### **Solvency Analysis**

Solvency measures long-term financial sustainability.

Results show balanced borrowing structure contributes to financial stability.

### **Overall Findings**

The analysis reveals:

- Borrowings influence profitability
- Moderate debt improves financial performance
- Excessive debt increases financial risk
- Balanced borrowing structure supports sustainability
- Efficient debt management enhances growth

## DISCUSSION

The discussion section interprets the findings obtained from the analysis of borrowing structure and financial performance. The study indicates that borrowing decisions significantly influence organizational profitability, liquidity, solvency, and overall financial stability. Organizations depend on borrowings to finance operational activities and support long-term growth. Therefore, effective management of borrowings becomes essential for maintaining sustainable financial performance.

The findings reveal that moderate borrowings contribute positively to profitability and organizational growth. Debt financing increases investment capacity and allows organizations to expand operations. Borrowings provide financial resources required for purchasing assets, expanding production facilities, and implementing strategic projects. Efficient utilization of borrowed funds improves operational efficiency and supports long-term sustainability.

The analysis also indicates that excessive dependence on borrowings increases financial risk and interest burden. Higher debt levels create repayment obligations and reduce profitability. Organizations with excessive leverage may experience liquidity problems and financial instability. Therefore, maintaining an appropriate borrowing structure is important for minimizing risk and improving financial performance.

Liquidity analysis suggests that effective debt management improves short-term financial stability. Organizations maintaining adequate liquidity are better able to meet operational obligations and avoid financial distress. Solvency analysis indicates that balanced debt utilization supports long-term sustainability.

## FINDINGS OF THE STUDY

The major findings of the study are as follows:

1. Borrowing structure significantly influences organizational financial performance.
2. Moderate debt financing positively contributes to profitability and growth.
3. Excessive borrowings increase interest burden and financial risk.
4. Efficient debt utilization improves operational efficiency and profitability.
5. Balanced debt-equity structure supports financial stability.
6. Effective borrowing management improves liquidity position.
7. Solvency position indicates long-term financial sustainability.
8. Debt financing supports expansion and investment activities.
9. Organizations maintaining optimal borrowing structures achieve better financial performance.
10. Proper borrowing policies contribute to sustainable organizational growth.

The findings suggest that borrowing decisions have substantial implications for profitability and financial stability.

## SUGGESTIONS

Based on the findings, the following suggestions are recommended for improving borrowing structure and financial performance:

### 1. Maintain Optimal Debt-Equity Balance

Organizations should maintain balanced debt-equity ratio to minimize financial risk and improve profitability.

## **2. Reduce Excessive Dependence on Borrowings**

Excessive debt financing should be avoided because high interest burden negatively affects profitability.

## **3. Improve Financial Planning**

Organizations should strengthen financial planning and forecasting processes before taking borrowing decisions.

## **4. Enhance Debt Monitoring Practices**

Regular monitoring of debt levels helps identify financial risks and improve borrowing efficiency.

## **5. Utilize Borrowed Funds Efficiently**

Borrowed funds should be allocated to productive investments and expansion activities.

## **CONCLUSION**

The present study analyzed borrowing structure and examined its impact on financial performance. Borrowings are important sources of finance used by organizations for supporting operations, expansion activities, and investment requirements. Effective borrowing management improves profitability and financial stability, whereas excessive debt increases financial risk.

The study indicates that borrowing structure significantly influences profitability, liquidity, solvency, and organizational sustainability. Moderate debt financing supports growth and improves operational efficiency. However, excessive dependence on borrowings negatively affects profitability due to increased interest obligations and repayment burden.

Financial performance analysis reveals that organizations maintaining balanced borrowing structures achieve stronger profitability and better financial stability. Efficient debt utilization contributes positively to organizational growth and long-term sustainability.

## **IMPLICATIONS**

The implications of the study indicate practical importance for organizations, investors, and financial managers.

### **Managerial Implications**

Management can use findings to improve borrowing decisions and financial planning.

### **Financial Implications**

Effective borrowing management supports profitability and reduces financial risk.

### **Strategic Implications**

Balanced debt utilization helps organizations achieve long-term sustainability and competitive advantage.

## **LIMITATIONS**

The study has certain limitations:

1. The study depends mainly on secondary data.
2. Analysis is restricted to a specific study period.
3. External economic factors are not fully considered.
4. Findings may vary across industries and organizations.
5. Limited financial indicators are included in the analysis.

Despite these limitations, the study provides valuable insights into borrowing structure and financial performance.

## FUTURE RESEARCH DIRECTIONS

Future research may focus on:

### Comparative Studies

Comparing borrowing structures across industries and organizations.

### Long-Term Financial Analysis

Evaluating borrowing impact over longer periods.

### Advanced Statistical Techniques

Using sophisticated analytical models for financial performance prediction.

### Industry-Specific Research

Examining borrowing structures in sectors such as banking, manufacturing, and IT.

### Economic Factors

Analyzing effects of inflation, interest rates, and economic conditions on borrowing decisions.

Future studies can provide broader understanding of borrowing structure and financial sustainability.

## REFERENCES

1. Yoganand, S., Vijayashankar, U., & Bharathi, S. (2026). *Sustainable tourism in India: Assessing the effectiveness of carbon-neutral destination policies*. *Minnesota Journal of Business Law and Entrepreneurship*, 1, 1241–1251.
2. Brigham, E.F., & Houston, J.F. (2021). *Fundamentals of Financial Management*. Cengage Learning.
3. Pandey, I.M. (2015). *Financial Management*. Vikas Publishing House.
4. Khan, M.Y., & Jain, P.K. (2017). *Financial Management: Text and Problems*. McGraw Hill.
5. Van Horne, J.C., & Wachowicz, J.M. (2008). *Fundamentals of Financial Management*. Pearson Education.
6. Gitman, L.J., & Zutter, C.J. (2015). *Principles of Managerial Finance*. Pearson.
7. Ross, S.A., Westerfield, R.W., & Jordan, B.D. (2019). *Fundamentals of Corporate Finance*. McGraw Hill.
8. Brealey, R.A., Myers, S.C., & Allen, F. (2020). *Principles of Corporate Finance*. McGraw Hill.
9. Damodaran, A. (2015). *Applied Corporate Finance*. Wiley.
10. Higgins, R.C. (2015). *Analysis for Financial Management*. McGraw Hill.
11. Arnold, G. (2013). *Corporate Financial Management*. Pearson Education.
12. White, G.I., Sondhi, A.C., & Fried, D. (2003). *The Analysis and Use of Financial Statements*. Wiley.
13. Vijayashankar, U., & Bharathi, S. (2026). *Sustainable tourism in India: Assessing the effectiveness of carbon-neutral destination policies*. *Minnesota Journal of Business Law and Entrepreneurship*, 1241.
14. Fraser, L.M., & Ormiston, A. (2016). *Understanding Financial Statements*. Pearson.
15. Walsh, C. (2006). *Key Management Ratios*. Pearson Education.
16. Bernstein, L.A., & Wild, J.J. (2000). *Analysis of Financial Statements*. McGraw Hill.
17. Foster, G. (1986). *Financial Statement Analysis*. Prentice Hall.
18. Modigliani, F., & Miller, M.H. (1958). *The Cost of Capital, Corporation Finance and Theory of Investment*.
19. Myers, S.C. (1984). *The Capital Structure Puzzle*.
20. Jensen, M.C., & Meckling, W.H. (1976). *Theory of the Firm*.
21. Rajan, R.G., & Zingales, L. (1995). *What Do We Know About Capital Structure?*
22. Harris, M., & Raviv, A. (1991). *The Theory of Capital Structure*.
23. Ramesh, Vijayashakar, & Bharathi, S. (2026). *Taste and satisfaction: A study of Madurai's traditional cuisine*. *International Journal of Innovative Research in Technology*, 12(8), 1575.