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EXPECTED OF DEBT CAPITAL AND GEARING: RETURN, RISK AND IMPACT ON THE VALUE OF THE FIRM'S EQUITY

Yusuf GEZER[1]
Said KINGIR[2]

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ÖZET

Günümüzde, küresel iş dünyası, şirketlerin rekabetçi performans göstermelerini ve bu stratejileri verimli kullanan işletmeleri modelleyerek ilerlemelerini talep etmektedir. Bu nedenle, işletmeler giderek finansal yönetim gibi operasyonlarının ve işletmelerinin farklı alanlarına odaklanmaktadır. Borç sermayesi ve faktörlerin kullanımı, işletmelerin finansal yönetiminin en önemli alanlarından biridir, çünkü şirketlerinin öz sermayesinin beklenen getirisi, riski ve değeri üzerinde önemli bir etkiye sahiptir (Puxty & Dodds, 1988, s. 11). Bu nedenle, araştırma için seçilen konu, borç sermayesinin ana kaynakları ve kullanılan dişli oranı üzerindeki beklenen getiri, risk ve diğer olası etkilerdir. Bu araştırma, bir işletmenin finansal yönetiminde sahip olduğu değerin önemini ve değer kavramının sınırlamalarını göstermektedir. Makalede, borç sermayesinin ve faktörlerin kullanımının risk, getiri ve öz kaynak üzerindeki etkisinin önemini açıkça temsil edecektir. Ayrıca, borç sermayesinin değerini göstererek işletmenin finansal yönetimi için tutmaktadır. Bu kavramın uygulanmasındaki örnekler ve zorluklar da çalışmada değerlendirilecektir. Son olarak, bu makale işletmelerin finansal yönetim becerilerine katkıda bulunmayı amaçlamaktadır.

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ABSTRACT

Today, the global business community demands that companies perform competitively and move forward by modelling businesses that use these strategies efficiently. As such, businesses are increasingly focusing on different areas of their operations and businesses, such as financial management. The use of debt capital and factors is one of the most important areas of financial management of businesses, as it has a significant impact on the expected return, risk and value of their companies ' equity (Puxty & Dodds, 1988, p. 11). Therefore, the topic chosen for the research is the expected return, risk and other possible effects on the principal sources of debt capital and the rate of gearing used. This research shows the importance of the value a business has in its financial management and the limitations of the concept of value. The article will clearly represent the importance of the impact of the use of debt capital and factors on risk, return and equity. It also holds for the financial management of the business by showing the value of the debt capital. Examples and difficulties in applying this concept will also be evaluated in the study. Finally, this article aims to contribute to the financial management skills of businesses.

[1] Phd. Student Yusuf GEZER Sakarya Uygulamalı Bilimler University, Faculty of Tourism, Dept. of Tourism Management, yusufgezer@gmail.com, Orcid: 0000-0002-6722-467X
[2] Prof. Dr. Said KINGIR Sakarya Uygulamalı Bilimler University, Faculty of Tourism, Dept. of Tourism Management, saidkingir@hotmail.com, Orcid: 0000-0002-5459-3484

1. INTRODUCTION

Gear is a broad term used for the relationship between what companies have and what they borrow. In other words, a firm's equity, plus reserves and accumulated profits and debt capital, these can be explained as bonds or bank debt. If a company is working on its own private resources, it is said that debt capital is not used in the capital structure. As such, gearing involves the direction of debt capital and the firm's effects on risk and return. Gearing provides a fixed profit on debt servicing, capital repayments and interest payments to banks and bondholders who must be paid for everything the company earns or fails to earn. This increases the downside and downside risks of the company and shareholders (Stretton, 1999, p. 379).

The upward risk for the company is due to the company's opportunity to use more capital than its own debt. The downside risk, on the other hand, is that the borrowed capital, i.e., the debt capital, does not earn its costs. As a worst-case scenario for a company without debt capital, dividends cannot be paid even if the company has a bad financial year and loses or sinks, and therefore businesses are unlikely to survive. But if it breaks or loses even if it is a company with very high debt capital, it has to pay bondholders in some way, such as borrowing more, going bankrupt or selling assets (Stretton, 1999, p.379).

Therefore, the expected risks for shareholders increase upward when a company makes a super profit on non-capital borrowing, with all owners of its capital sharing them. If a company gets high income from banks and high-gear bondholders, it doesn't share them; for higher revenues, such as capital growth or dividends, it is constantly transferred from shareholders to places where businesses are in difficulty and difficulty. On the other hand, downside risk arises when a company fails to make a higher profit and actually loses or breaks, but even then bondholders should have benefits. Therefore, the use of capital debt and gearing has a significant impact on the expected risk, return and value of the firm's equity resources; and due to this effect, businesses should be extremely focused on this. This concept is extremely important so that individuals or businesses can largely focus on the company's impact on risk, return and capital value, as well as the amount of capital debt and gearing ratio.

2. LITERATURE REVIEW

In business, due to the extremely rapid competition, companies must take care of the management of their capital structures and improve their financial infrastructure in order to sustain and succeed in their business. The use of debt and foreigners is also one of the major areas of concern for jobs, where these areas have a significant impact on risk, returns and the value of companies ' equity. Therefore, this research focuses on the impact of debt capital and the diet used on the expected risk, return and value of the company's equity. How the use of debt capital and gearing, which are important business areas, can affect risk, returns and values, is of paramount importance as it is one of the most important areas determining the firm's success and failure. Participation, therefore, affects the value of the firm's equity, such as gearing from values or debt capital, will have a risk-free effect on its later existence (Torok & Cordon, 2002, p. 67).

The Ideal level of debt capital and financial leverage of the gear is at the level at which the firm's equity profit rises. So the use of leverage raises the level of risk that increases returns as it increases the stock's leverage. The use of debt capital and gearing as a company or an individual will always result in an increased risk level, as income must be used to pay down debt even when earnings or cash flows are reduced. From a robust perspective, the use of financial leverage can negatively and positively impact the firm's equity profit as a result of the increased risk level (Lee et al, 2010, p. 683).

Therefore, the use of debt capital and gearing is of paramount importance to the expected return, risk and how it can affect the firm's equity value. Because it is clear that the concept of the use of financial leverage of the business determines the success and failure of a firm that has a major impact on risk and return. On the other hand, the company's potential to use borrowed funds and revenue expectations, as well as the risks and dangers associated with excessive borrowing, have led to varying economic meanings in the company's use of debt capital. According to Douglas Vickers (1987, p.12), the economic importance of the use of debt capital is mainly due to the contractual nature of the arrangements entered into in connection with it. Companies are getting loans money from the debt capital sector of the capital market, debt from individual investors or financial intermediaries who buy debt securities as a way of allocating savings funds.

These forms of debt are used by firms when they build up their capital structure, making it easier to reduce the total cost of financing. Debt financing is significantly low cost and equity financing can be achieved using this debt. However, continued financial liabilities from the use of debt capital can result in the risk of possible bankruptcy. Despite these potential problems, often capital for the company's current owners also raises the value of the company. With this in mind, the firm helps with the use of credit and makes it easier because the tax savings are secure. Therefore, the use of debt capital is of great importance to determine the expected positive return and risk for a firm's capital structure and the company's equity profit.

3. METHODOLOGY

In this research, it was deemed appropriate to provide an understanding of the company's financial management with examples that criticise it and to prepare the problems and gains that may arise in capital management by supporting it with literature research. The use of debt capital and gearing is of great importance in terms of organizational risk, return and equity value. Use of capital debt, tax savings for companies, cost reduction, profit retention, etc. it is useful in various ways such as. However, determining the correct gearing ratio is really important for the company, as it can have positive and negative effects on the expected return and the firm's equity value. Therefore, companies need to critically assess costs and the benefits of using debt financing, and if the expected return and value of equity increases while reducing risks, the company should use its debt capital. Therefore, maintaining an efficient gearing position is one of the most important tasks of financial management of a business and this concept is of great importance to all businesses.

Business financial managers also use debt capital because it makes it easier to generate more income compared to the use of equity within the firm, which requires firm revenues to be shared with equity holders. The use of debt capital requires the firm to pay only the amount of interest from its revenues. On the other hand, Equity use requires the firm to pay to share more income with equity investors in the case of higher earnings (Way, 2012, n.e). For this reason, financial managers often use debt to take advantage of the debt finance feature by holding the rest of their income. Despite this situation, this debt can put pressure on the firm's ongoing activities as a result of having to meet its interest payment obligations. Financial management involves the use of debt to gain more from equity financing. However, the financial management of a business must effectively account for and analyze the cost and benefit of borrowing. They will then decide whether they can make more profits through debt financing or equity financing (Clayman, Fridson and Troughton, 2012, p. 10). Therefore, this concept also helps the firm manage its financials appropriately, which can lead to higher expected returns with lower risks and thus increase the equity value of businesses.

4. FINANCIAL MANAGEMENT OF THE BUSINESS

The importance of financial management is discussed above. So due to the impact of capital use and the gears used in a comprehensive understanding of the firm's equity debt concept, the expected return, the risk is quite clear. businesses are now moving too fast. Since businesses that want to survive in the market use their competitive strategies most efficiently, companies need to have a competitive advantage by focusing on all areas of their businesses. Financial management is one of the most important areas of concern that can give firms a competitive advantage. Proper capital configuration may be to minimize cost, maximize profit, and provide other factors. Gearing, leverage that demonstrates a firm's ability to service its debt, greatly affects a business's financial performance and position (Babu, 2012, p. 121). Therefore, gearing, which includes debt capital, plays an important role in the financial management of a business.

The use of debt capital and gearing is crucial to the financial management of a business because it determines the firm's risk, return and value. An Ideal debt capital, or gearing, is a level at which the equity value of the firm increases as the use of debt capital and gearing increases stock volatility, raises the level of risk, and thus increases revenues. However, if a firm is financially over-leveraged, it indicates that the firm is exposed to excessive debt capital by using excess funds in investments that correlate borrowing funds and pose more risk at a lower interest rate. When the expected risk of the investment is higher than the expected return, the value of the firm's equity may decline as shareholders assume it is too risky (Babu, 2012, p. 123). Therefore, proper use of debt capital and proper maintenance of the company are an extremely important part of the outstanding financial management of a business.

Exceptional financial management of a business involves the correct level of risk in relation to the expected return, which means that the expected level of return must outweigh the level of risk that would increase the firm's equity value. That's why it's really crucial for financial managers considering the risks associated with debt capital and a firm's gearing position. The most obvious risk relationship with gearing or financial leverage is that it implies losses. Because of the impact of financial leverage on solvency, you could face a possible bankruptcy of a firm with high debt, while avoiding bankruptcy of a less leveraged firm due to high liquidity. Therefore, efficient financial management of the business involves the amount of debt capital, i.e. gearing position, which can have positive and negative consequences for the company.

Financial managers borrow to get a higher return on debt-related interest, in other words, from debt capital. It's more than spending a lot of money, so the firm is really creating value. Research shows there is a misconception that firms are moving from desperation, known as involuntary leverage, to a higher level of financial leverage. However, involuntary leverage is not an effective factor for efficient financial management of a business; it often results in erosion of equity value as opposed to the addition of more debt capital. Therefore, it is characteristically a sign of the problem, not the cause. Therefore, the level of gearing or debt adjustment is important for the effective financial management of the company, as it can result in a return, i.e. lower the value of the equity or increase the value of the equity, i.e. greater risk return. In addition, many indicators are aimed at investors, such as the use of capital to lend more to companies. More investors see their involvement in the company as a sign that it is efficient enough to generate cash, especially for shareholders, gearing and the level of debt capital. Therefore, maintaining the right level of debt capital and keeping the appropriate equipment is an important task involved in the financial management of a business.

The use of capital debt provides a range of benefits to the asset, and therefore financial managers take this into account when developing the capital structure. Cost reduction, profit retention and tax savings are among the benefits of using debt capital. Use of debt capital requires lower cost of financing compared to equity (Way, 2012, n. e). Therefore, firms often use their debt to their capital structures to lower the average cost of financing. Companies using debt capital are contractually responsible for making periodic interest payments and returning the debt principal at maturity. Debt holders therefore carry less risk than equity holders, who often do not apply for their investments when firms fail. In the event of liquidation of the firm, debt holders have high-level claim rights for firm assets, which provides another layer of protection for their investments. Therefore, a safer debt investment requires less cost compensation (Way, 2012, n. e). Therefore, cost reduction is one of the major advantages offered by debt capital, where cost reduction is really important so that companies can compete effectively in a high substituibility market.

The use of debt also plays an important role in the effective financial management of companies with high taxes. The use of debt makes it easier to lower a firm's taxes due to allowable interest deductions. Tax rules allow interest payments to reach taxable income as expense deductions against income. The company pays less tax if it has a lower taxable income. However, dividends paid to equity holders may not be tax deductible and therefore must come from after-tax income. Therefore, tax savings make it easier to further reduce a firm's cost of debt financing, an advantage that equity financing lacks (Pratt & Grabowski, 2010, p. 39). Therefore, tax saving is another reason why firms go for debt capital. Companies that have to pay higher taxes borrow as debt capital and save tax through allowable interest deductions. Therefore, the effective financial management of a business varies from business to business; however, the benefits and risks associated with the use of capital and the expected returns of companies are considered lower risk, resulting in a higher value of the company's equity determines gear positions. Therefore, the use of debt capital and gearing plays an important role in increasing returns, reducing risks and increasing the company's equity value. It is clear that these are the main tasks of financial management of a business...

4.1. Example of The Concept

Debt capital is cheaper than equity if expressed as after-tax. Because of this, the expected rate of return on investment is higher than the cost of debt, the company will rationally choose to borrow the funds you need as an alternative to raising capital. Higher gearing leads to higher earnings, and therefore the company can increase the return of ordinary shareholders to its funds. However, there are also disadvantages to dealing with too much debt, the detail of which was analysed in the previous section. Higher risk is often covered by higher returns; therefore, shareholders of a high-gearing company generate more revenue in good economic conditions, where the company can afford fixed interest payments. In times of poor condition and shrinking profits, ordinary shareholders can end up with low returns or do nothing once all the credit is paid off. As such, they are far worse than the shareholders of a company with low gear, represented by the example given below (Gabriel, 2003, p. 431).

Table 1: Effects of Gearing Ratio on The Company's Returns

	Firm with high gearing	**Firm with low gearing**
	$000s	*$000s*
Debt capital (at 15% interest)	60	20
Equity capital	40	80
Total capital employed	100	100
Therefore, gearing ratio	**60%**	**20%**
In good times		
Profit before tax & interest	30	30
Interest payable	9	3
Profit before tax	21	27
Tax at 30%	*6.3*	*8.1*
Profit after tax	***14.7***	***18.9***
Return on equity	**14.7 / 40 = 37%**	**18.9 / 80 = 24%**

This example clearly illustrates the effects of the gearing ratio on the company's returns, meaning that using debt capital is beneficial for the company, but only as long as it provides higher returns compared to its cost. When a firm uses high debt capital, the gearing rate is high, and interest payments will increase with less tax payments, meaning more tax savings. On the other hand, a firm uses less debt capital, has a low gearing rate, and interest payments will be lower when paying higher taxes, so we can put it this way; relatively low tax savings will be achieved. Therefore, firms must effectively assess the risk and returns of the use of debt capital and then establish an effective capital structure that can lead to the increased value of a firm's equity.

4.2. Limitations and Difficulties in Implementation

Cost of equity, realistic earnings, industry averages, target or budget figures, etc. it is meaningless in itself unless it is interpreted in relation to other information such as gear ratio. Therefore, the implementation of gear use is limited to other information for interpretation. Similarly, the use of debt capital and the expected risk, the expected return and the impact on the equity value of the firm, accurate estimates of related risks and returns, direct and indirect cost of debt, cost of equity, and is based on other factors such as other financial factors. Therefore, the concept can only be applied after estimating all relevant aspects of debt capital and equity and the expected return, risk and value of the firm's equity.

The concept can be difficult to implement if a firm cannot predict appropriate risk and return measures related to the use of debt capital and the cost and benefit analysis of the increasing or decreasing gearing ratio. Companies can only use debt capital when their associated costs are less than the resulting returns, while risks must be lower than the company's equity value. In addition, determining the correct cost and the correct return also means a limitation in the implementation of this concept. Interpretations in this concept can be effective and useful only when they are accurate and reliable, where their accuracy and reliability is based on the availability of other factors such as goals and budget figures, cost of equity, realistic earnings, industry averages, and others. Therefore, this concept is difficult or limited in practice where there is no accurate or reliable factor that is important in determining the firm's equity value, as well as the impact of debt capital use and gearing on expected risk and return. It will also be difficult to implement the concept when there is no firm understanding of the factors that will help correct interpretations and predictions.

7. CONCLUSION AND CONTROVERSY

The use of debt capital and gearing is of great importance in terms of organizational risk, return and equity value. Use of capital debt, tax savings for companies, cost reduction, profit retention, etc. it is useful in various ways such as. However, determining the correct gearing ratio is really important for the company, as it can positively and negatively impact expected returns and the firm's equity value. Therefore, companies need to critically assess the costs as well as the benefits of using debt finance, and if the expected return and value of equity increases while reducing risks, the company should use its debt capital. Therefore, maintaining an efficient gearing position is one of the most important tasks of a business's financial management, and this concept is of great importance to all businesses.

This designation relates to the impact of debt capital and gearing on key business areas, including expected returns, risks and the value of the firm's equity. Therefore, significant learning is gained about the use of debt capital and gearing, as well as the expected risks and returns associated with them. The comprehensive study of the concept provides in-depth learning and a firm understanding of debt capital and its use, i.e. when debt capital should and should not be used by companies. Similarly, it is learned that the gearing ratio is so good that it yields more returns for the company than the risk and cost of equity. In this research, it enables learning how a job report should be written, i.e. what aspects should be addressed in a job report and how it should be stated. A well-written Business report covers all relevant aspects of the concept, showing its purpose, importance, application, examples and limitations. It will also contribute to the development of time management and search skills in the completion of this study. This research allows an ideal level of debt capital and gearing i.e. financial leverage to increase the company's equity profit, because the use of leverage increases the evaporation of equities and therefore raises the level of risk that increases returns. It is also learned that if the expected risk is high, the return on investment is higher and the equity value of the company may fall because shareholders assume it is too risky. Therefore, the appropriate capital structure i.e. gearing position is of great importance for the creation of businesses and hence the use of debt rather than equity in terms of the risks and returns expected by the company.

However, there are some difficulties or limitations involved in this concept, i.e. the correct amount of debt capital or the appropriate gearing position can only be determined by the firm when there are estimates and availability of other relevant factors. These factors include budget targets, cost of equity, associated risks, realistic earnings, industry averages, and others. This study will contribute to how the concept will be implemented. So companies understand the specific limitations and challenges that debt must deal with with the proper use of gearing that will result in higher expected returns and share value compared to capital-related risks, and relate it to efficiency. Therefore, in completing this article, he provided tremendous learning, including several aspects of the concept, and in relation to the writing and completion of a business report.

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