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A STUDY ON FINANCIAL LEVERAGE WITH SPECIAL REFERENCE TO DECCAN INDUSTRIES PRIVATE LIMITED , TAMIL NADU.

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ABSTRACT

For every economic activity, finance is that the lifeblood. From the business perspective leverage refers to the use of owned or borrowed equity to finance the acquisition of business assets. Leverage on one hand will increase a company's come on equity on the other hand poses a threat to the company's existence inside the type of liquidation; if company is unable actually its fastened interest liabilities. What is more use of leverage protects dilution of owner's equity. Thus leverage is a vital decision making area of financial management. Leverage cannot be regarded as a bad practice; as it is useful to finance company's growth and development through purchase of business assets. Borrowing should be within limits otherwise can pose a threat if company is unable to pay back the borrowed debts. This paper concentrates on the leverage analysis at DECCAN INDUSTRIES PRIVATE LIMITED and also the objective of the paper is to check the monetary financial leverage**.**

Key words: Financial Leverage, Operating Leverage, Combined Leverage.

I. INTRODUCTION

The term Leverage is always referred to the availability of fixed expenses in the smooth conduct of business operations. In other words it indicates that the financing of business assets should have been done out of the borrowed funds. Leverage suggests that use of fund or employment of plus within the capital structure of the firm that the firm must pay fixed costs or mounted come. Employment of such fund can facilitate the firm to extend its gain. If the firm uses higher Leverage it will be riskier for the firm if it's earning gets decreased gradually ad it pays fixed interest for the amount borrowed. In other words the Leverage effect will be favorable for the firm if it is able to earn more than the amount borrowed. Investors in a business like for the business to use debt financing but only to a point. If a business has mounted expenses it's aforementioned to own associate degree in operation leverage and if a business bears the value of funds in terms of interest its aforementioned to own a monetary leverage. It's typically aforementioned that leverage could be a necessary evil for a business to be increasingly profitable. At an equivalent time it's additionally been aforementioned that leverage could be a ambiguous brand. So that the blade does not get over your neck it's obligatory that leverage be deployed solely up to associate in nursing extent wherever come on investment is bigger than the value of capital. This shall guarantee maximization of shareholder's wealth.

OBJECTIVES OF THE STUDY

1. To understand the financial leverage of Deccan Industries
2. To analyze the operative potency and performance of the firm through monetary leverage analysis

LIMITATIONS OF THE STUDY

1. As the study relies on secondary knowledge, the inherent limitation of the secondary knowledge
2. Lack of availability to certain data due to confidentially of information
3. Due to constraints of time cost and non-availability of data, the study was restricted to a period of 5 years.

SCOPE OF THE STUDY

Scope of the study covers the world of study. The study involved with analyses of leverage position of the company.

II.REVIEW OF LITERATURE

Financial Leverage been favorite topic with the business community as well as the academia. In this study utmost care has been taken to include as diverse literature as possible on the theoretical aspect of the topic. **Bhagyalakshmi. K (2016),** ended that leverage analysis is should to review and assess the extent of business risk, money risk and also the overall total risk to the firm still. **Nandhini.M (2015),** analyzed that the impact of leverage on the profit and ended that the in operation and money position of the corporate was improperly fluctuated, what is more an impression over the price, fixed charge, fixed costs, charge and also the variable cost was needed to realize Associate in Nursing adequate profit. **Bindiya Soni and Jigna Trivedi (2014),** investigated the impact of degree of economic leverage and degree of operational leverage on EPS with the assistance of correlation analysis. beside this analysis, the paper additionally investigates the impact of debt-equity magnitude relation on the EPS of the same companies to ascertain the impact of debt on the wealth of the companies.

III. RESEARCH METHODOLOGY

RESEARCH DESIGN:

This study relies upon secondary knowledge .The requisite knowledge associated with the in operation, monetary and combined leverage are collected from the P&L A/C and also the B/S of Deccan Industries restricted. The necessary information has additionally been obtained from the printed annual reports.

TOOL APPLIED- Ratio Analysis

SOURCES OF DATA- Primary Data & Secondary Data
Primary data- collected from the managers and officials of Deccan Industries Private Ltd through discussion
Secondary data- collected from the published & unpublished sources, books, Journals, websites, magazines etc
RESEARCH TECHNIQUE- Exploratory Research Technique

IV. DATA ANALYSIS AND INTERPRETATION

1. Financial Leverage

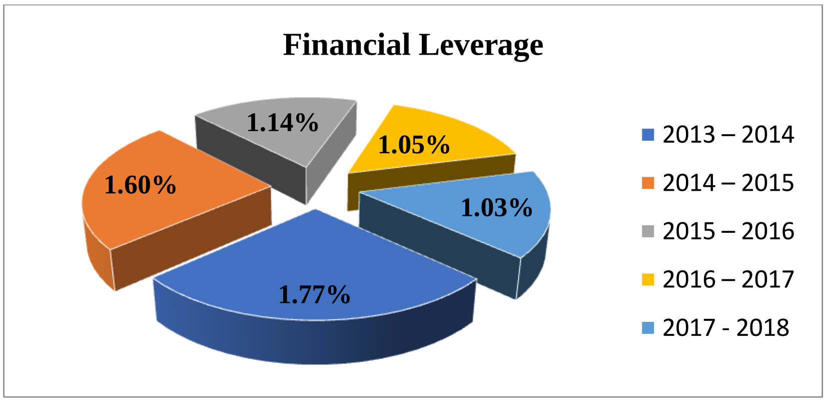
Financial leverage quantitative relation helps in deciding the result of debt on the general profit of the corporate.

$$\text{Financial Leverage} = \frac{\text{Operating Profit}}{\text{Profit Before Tax}}$$

Table 4.1 showing the financial leverage

Year	Operating Profit	Profit Before Tax	Financial Leverage
2013 – 2014	56.81	32.02	1.77
2014 – 2015	65.41	40.83	1.60
2015 – 2016	114.64	100.90	1.14
2016 – 2017	99.73	95.21	1.05
2017 – 2018	85.24	83.09	1.03

Chart 4.2 showing the Financial Leverage



INTERPRETATION

A Financial Leverage 2:1 is ideal. The Financial Leverage of the company ranges between 1.03% to 1.77% which indicates financial strength of the company. The company is able to secure new capital and capable to meet its current obligations.

2. Operating Leverage

It will reveal how a company is using its fixed costs to generate profit.

$$\textbf{Operating Leverage} = \frac{\textbf{Contribution}}{\textbf{Operating Profit}}$$

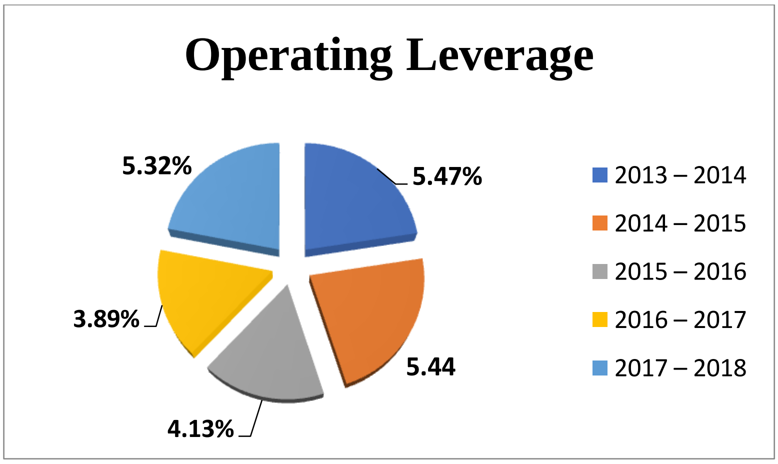
Table 4.2 Showing the Operating Leverage of the Company

Year	Contribution	Operating Profit	Operating leverage
2013 – 2014	310.91	56.81	5.47
2014 – 2015	355.75	65.41	5.44
2015 – 2016	473.44	114.64	4.13
2016 – 2017	388.48	99.73	3.89
2017 – 2018	453.24	85.24	5.32

INTERPRETATION

The above table shows the operating leverage ratio of the company between the year 2013- 2014 to 2017 – 2018, it was 5.77% in 2014 – 2014, decreased to 5.44% in 2014 – 2015, decreased to 4.13% in 2015 – 2016, decreased to 3.89% in 2016 – 2017, and increased to 5.32% in 2017 – 2018.

Chart 4.2 Showing the Operating Leverage of the Company



3. Combined Leverage

Combined leverage shows the total risks associated with the firm.

Combined Leverage = Financial leverage x Operating Leverage

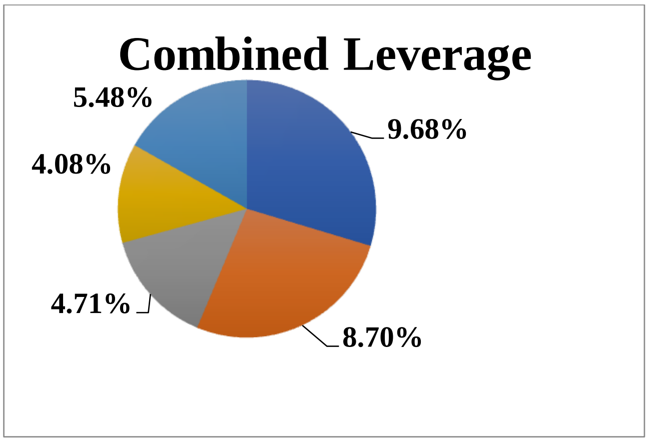
Table 4.3 Showing the Combined Leverage of the Company

Year	Financial Leverage	Operating Leverage	Combined Leverage
2013 – 2014	1.77	5.47	9.68
2014 – 2015	1.60	5.44	8.70
2015 – 2016	1.14	4.13	4.71
2016 – 2017	1.05	3.89	4.08
2017 - 2018	1.03	5.32	5.48

INTERPRETATION

The combined leverage of the company is 9.68% in 2013 – 2014, 8.70% in 2014 – 2015, 5.48% in 2017 – 2018, 4.71% in 2015 – 2016, 4.08% in 2016 – 2017.

Chart 4.3 Showing the Combined Leverage of the Company



V. FINDINGS

1. The financial leverage of the company ranges between 1.03% - 1.77%, which indicates that the business has higher level of financial risk on debt that can be reasonably expected to service with ongoing cash flows
2. The operating leverage of the company ranges between 3.89%-5.47%, indicates business risk, it has risk of insolvency and large business risk for the company
3. The combined leverage of the company ranges between 4.08%-9.68%, indicates it has high leverage which shows the high in total risk associated with the firm

VI. SUGGESTIONS

1. The company must raise price to make a profit, to improve operating leverage and decrease the business risk
2. By increasing net operating income, decreasing operating expenses, paying off some existing debt, decreasing the borrowing limits the financial leverage of the company can be improved.
3. The company needs to further improve its sales volume so as to cover up the risk and to bear increasing fixed cost.
4. The firm isn't maintaining Associate in nursing optimum combined leverage and therefore the firm ought to attempt to keep up a moderate combined leverage that optimizes a high share increase in sales than the share increase in EPS.

VI. CONCLUSION

Leverage is the key by which a firm can increase its sales. As a firm with high sales growth, the company will be able to obtain more funds initially. So, in total we are able to say that leverage contains a nice impact on a company's performance and growth. But, the firms should use the leverage considering its capability of taking risk. The cash management and risk management will provide information to the company regarding financial leverage analysis. The findings of the study will show the financial leverage analysis is satisfactory.

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