

A Study to Analyse Leverages With Special Reference to Neycer India Ltd., Vadalur

¹SARANYA, ²CHITRA ISAC, MBA., MPHIL., SET., PH.D.

¹II- MBA, ²Head department of management, Idhaya college for women, Kumbakonam, India.

¹sharanyaselvam1997@gmail.com

ABSTRACT - The main objective of this study are to analyze and impact of leverage on profitability neycer India ltd. Traditionally discussion on leverage were viewed from the perspective of financial leverage which arises from financing activities. However operating leverage arising from the operating activities of business Is also used extensively these days. operating leverage increases the return to limited equity fund by using the money to “control” assets rather than “own” them.

Keyword: Finance, leverage ,control, operating leverage, combined leverage, own

I. INTRODUCTION

Leverage means to have fixed expenses for a business. In a business there may be three kinds of leverage operating leverage, financial leverage combined leverage .If a business has fixed expenses it's said to have an operating leverage and if a business bears the cost of funds in terms of interest it's said to have a financial leverage. Where in operating leverage measure the impact of percentage change in earnings before interest tax due to percentage change in sales. Degree of financial leverage is a measure of percentage change in earning per share due to percentage change in the earning before interest and taxes

It's often said that leverage is a necessary evil for a business to be progressively profitable. At the same time it has also been said that leverage is a double-edged sword. so that the sword doesn't cut through your neck it's mandatory that leverage be deployed only up to an extent where return on investment is greater than the cost of capital. This shall ensure maximization of shareholder's wealth.

MEANING

Leverage refers to an increased means of achieving some purpose. Leverage allows us to accomplish certain things which are otherwise not possible, namely lifting of heavy objects with the help of leverage.

James Horne has defined leverage as 'the employment of an asset or funds for which for which the firm pays fixed cost fixed return '. The fixed cost (also called fixed operating cost) and fixed return(also called financial cost)from the basic of leverage. If there no are fixed cost, there is no leverage. The fixed costs remain constant irrespective of the level of output or sales.

II. REVIEW OF LITERATURE

Rafique (2011) investigated the effect of the profitability of the firm and its financial leverage on the capital structure of the automobile sector companies in Pakistan. To proceed with this, the capital structure of 11 listed firms has been analyzed by adopting an econometric framework over a period of five years. Estimating regression analysis and checking the relationship of the estimated model through Correlation Coefficient test, the study concluded that profitability in strongly negatively related to capital structure and positively to financial leverage but the correlation coefficient was insignificant. Hence, the study fails to establish any significant relation between profitability and financial leverage effect on the capital structure for the sample firms.

Salem and Naseem (2011) analyzed the leverage and profitability of selected oil and gas companies of Pakistan during 2004 to 2009 to understand the impact of leverage on profitability and EPS. The study failed to support the hypothesized positive relationship between financial leverage and both of the profit measures. Hence, the study found negative relationship of leverage to profitability and earnings per share. The results also indicated that high levered firms were less risky in both market based and accounting based

Shubita and Alsawalhah (2012) seeks to extend the finding regarding the effect of capital structure on profitability by examining the effect of capital structure on profitability of the industrial companies of Jordan. The study sample consists of 39 companies over a period of six years from 2004 to 2009. The result of study reveals significant negative relation between debt and profitability. The findings of the study suggested that profitable firm depend heavily on equity as their main source of financing.

III. RESEARCH METHODOLOGY

3.1 RESEARCH

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying new research systematically.

3.2 STATEMENT OF THE PROBLEM

The financial statement is a mirror ,which reflects the financial position and operational strength and weakness of concern. But a mere look at the financial statement will not reveal some crucial information. To bring out the hidden information ,financial statement over a period are to be studied . hence the study conduct to a evaluate to the relationship between to obtain better understanding of the of the company position and performance. leverage analysis reveals the utilization of firms debt into very effective way

3.3 OBJECTIVES OF THE STUDY

OBJECTIVES OF THE STUDY

- Analysis operating, financial and combined leverage
- To understand the degree of operating, financial and combined leverage
- To measure the growth of company

3.4 SCOPE OF THE STUDY:

- ✓ The study of leverage analysis is one of the techniques of financial analysis where the leverage are used as yardstick for evaluating the financial condition of the company
- ✓ The analysis is done to suggest possible solutions. The study is carried out of three years(2015-2016) to (2016 – 2017) and (2017 to 2018)
- ✓ The analysis of the data with a view to suggest favourable solutions to various problems related financial statement problems related financial statement

3.5 LIMITATION OF THE STUDY

As only limited secondary data was made available it was not possible to compute all the leverage. Lack of availability to certain data due to confidentiality of information.

PERIOD OF STUDY:

The period of the study is carried out from (2015-2016) (2016-2017), (2017 TO 2018)

SOURCE OF COLLECTION:

The data of the neyker details collected through the official website of the nycer india ltd and the available net source

IV. DATA ANALYSIS

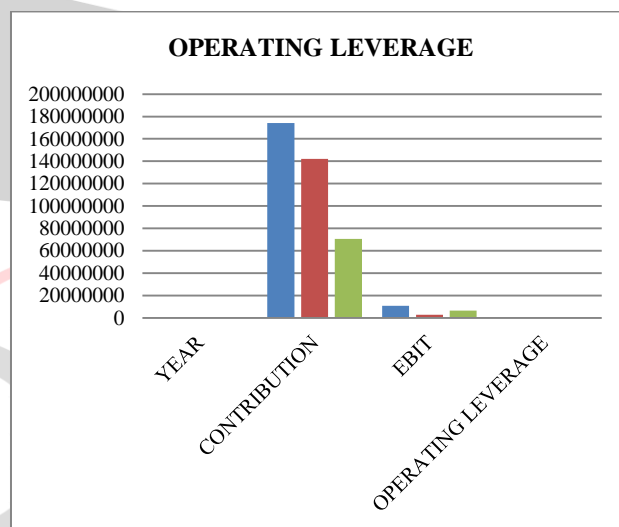
4.1 OPERATING LEVERAGE

$$\begin{aligned} \text{OPERATING LEVERAGE} &= \text{CONTRIBUTION} / \text{EBIT} \\ \text{CONTRIBUTION} &= \text{SALES} - \text{VARIABLE COST} \\ \text{EBIT} &= \text{CONTRIBUTION} - \text{FIXED COST} \end{aligned}$$

TABLE 4.1 OPERATING LEVERAGE

YEAR	CONTRIBUTION	EBIT	OPERATING LEVERAGE
2016	174233918	10846888	16.06
2017	142257432	2813628	50.56
2018	70621351	6543765	1.08

CHART 4.1



INTERPRETATION:

From the above calculation it is inferred that the operating leverage for 3 financial year 2016-2018 as follows

2015-2016 the operating leverage is to 16.06 times

2016-2017 the operating leverage is to 5.56

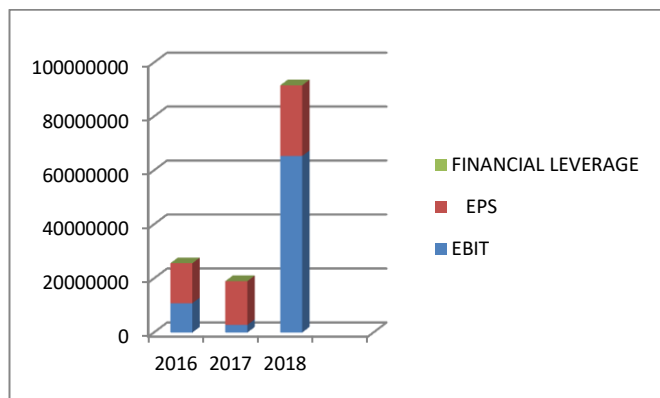
2017-2018 the operating leverage is to 1.08

4.2 FINANCIAL LEVERAGE

$$\text{FINANCIAL LEVERAGE} = \text{EARNING BEFORE INTEREST TAX} / \text{EARNING PER SHARE}$$

YEAR	EBIT	EBS	FINANCIAL LEVERAGE
2016	10846888	14787903	0.73
2017	2813628	16194283	0.17
2018	6543765	26228653	2.19

CHART 4.2



INTERPRETATION:

From the above calculation it is inferred that EBIT from EPS from the period of 3 Financial year from 2016 to 2018 is as follows

2015-2016 the financial leverage is to 0.73

2016-2017 the financial leverage is to 0.17

2017-2018 the financial leverage is to 2.49

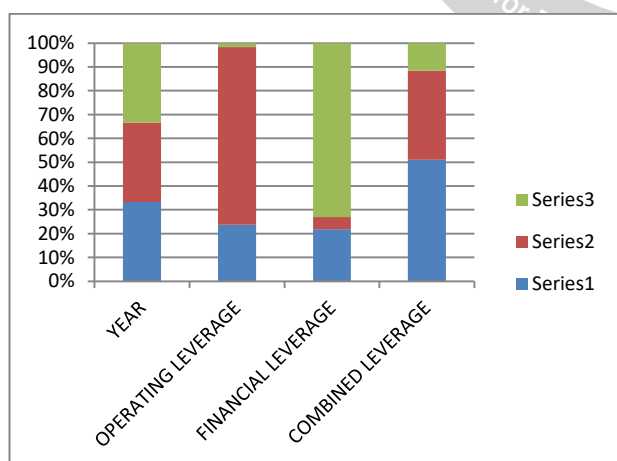
4.3 COMBINED LEVERAGE

$$\text{COMBINED LEVERAGE} = \text{OPERATING LEVERAGE} * \text{FINANCIAL LEVERAGE}$$

TABLE 4.3

YEAR	OPERATING LEVERAGE	FINANCIAL LEVERAGE	COMBINED LEVERAGE
2016	16.06	0.73	11.72
2017	50.56	0.17	8.59
2018	1.08	2.43	2.68

CHART 4.3 COMBINED LEVERAGE



INTERPRETATION:

From the above calculation it is inferred that the combined leverage for 3 financial leverage year 2016-2018

2015-2016 the combined leverage is to 11.72

2016-2017 the combined leverage is to 8.59

V. SUGGESTION

The companies operating leverage lower level, so the company has to take the necessary step to improve their level of operating leverage.

The company financial leverage in the average level so the company improve the earning per share level of the company to increase position of financial leverage.

The company combined leverage in the lower level so the company have to been increase there year financial performance to improve their combined leverage.

VI. CONCLUSION

Leverage analysis is very important to those firm which are exposed to high fixed operating and finance cost.

The operating leverage, financial leverage, and combined leverage are not favorable due to fluctuation in sales during these three years as well as it is reflecting increasing trends.

The concern here by recommended that it should try to increase it is overall sales so that it can minimize the impact of increased operating and financial leverage.

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