

## FINANCIAL PERFORMANCE THROUGH LEVERAGE ANALYSIS BATA INDIA LIMITED, HYDERABAD

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### ABSTRACT

When it comes to building an economy or a society, the steel sector is like a match: it helps get things rolling and keeps everyone happy. In today's worldwide economy, the steel sector played a pivotal role in the industrial revolution, therefore it's critical to evaluate its risks and profitability in order to pave the way for a prosperous future. Equity and debt finance the steel industry's astronomically large capital expenditures. Everyone with a stake in the stack should be aware of the potential downsides and upsides of the steel market. Earnings per share (EPS), operational leverage, financial leverage, and combined leverage are all used to evaluate the effect of leverage on performance.

### INTRODUCTION

#### INTRODUCTION TO LEVERAGES:

The company must make investment and financial choices if it want to increase the share value. The sum that has to be collected for the enterprise is proportional to the quantity of potential financing sources. Standard shares, preference shares, debentures, long-term loans, retained profits, and retained earnings are some of the financing options available to you. The capital structure of a firm is its combination of stock and debt. Interest is paid back when a debt is repaid. Equity includes dividend payouts. The tax-deductible nature of debentures makes them a useful tool for raising capital's equity component. A business may increase the economic well-being of its shareholders via the use of fixed-cost assets and finance, a process called leverage. The pros and cons of taking out a loan for which the business has a good idea of the repayment schedule. A situation is considered "favorable leverage" when the income of a business is greater than the costs of its fixed assets. Excessive leverage raises both the potential reward and the risk. When talking about fixed assets, three different kinds of leverage may be considered: financial, operational, and combination. One way to assess operating leverage is by comparing sales revenues to EBIT. The common term for earnings before interest and taxes (EBIT) is operating profit. The impact on operational profit is one way to quantify operational leverage. Earnings per share (EPS) divided by earnings before interest and taxes (EBIT) is one measure of financial leverage for a corporation. A company may increase the impact of increases in sales and EBIT via operational leverage by making greater use of its fixed operating costs. Operating, financial, and combined leverage have all been used to assess the company's financial success in the study on leverage. Essential statistical methods and applications, such as those for correlation analysis. Different kinds of loans we have the option to use three main forms of leverage: One is making loans to other individuals. Take use of Operations Leverage. (3) Leverage that is compounded or coupled Leverage comes in three main forms: financial, operational, and combination. There is a wide variety of leverage ratios: 1 Ratio of Debt to Equity 2. The rate of interest coverage the third factor is the current obligation to net value ratio. Here are a few examples of profitability ratios: 1, ROI was the first metric to be considered. 2. The capital ratio for return on equity

#### MEANING OF FINANCIAL LEVERAGE:

As a result of the financial constraints caused by fixed expenses, changes in EBIT also cause PAT to fluctuate. A capital structure's many funding sources, including debt, preference capital, owners' stock, etc., may be dynamically adjusted thanks to leverage in finance. When advertising, a firm must decide on its financial structure in case it has to raise money for investments.

$$\text{Financial leverage} = \frac{\text{Operating profit}}{\text{PBT}}$$

#### **Degree of financial leverage:**

It is defined as the percentage change in EPS due to given percentage change in EBIT.

$$\text{Degree of Financial leverage} = \frac{\text{Percentage change in EPS}}{\text{Percentage change in EBIT}}$$

#### **Factors Affecting Financial Leverage:**

The ratio of pre-tax profit to post-tax profits is known as financial leverage. Thus, financial leverage will rise in tandem with interest rate hikes. Interest, the cost of borrowing money, rises when assets are funded by debt. Financial leverage is another name for the debt-to-equity ratio. Increases in a company's financial leverage make its pretax earnings more susceptible to changes in PBIT. One way to quantify the sensitivity of earnings before taxes to changes in sales is the combined leverage factor, which is the sum of operational leverage and financial leverage. The net profit may be approximated by looking at the profit before taxes, since it is the amount from which income taxes are deducted. Changes in profit before taxes (PBT) lead to changes in net profits (NP), which in turn affect changes in earnings per share (EPS), a measure of a company's profitability. The combined leverage factor affects the volatility of net profit and earnings per share (EPS) for a given change in sales.

#### **Determinants of leverage and variables:**

A company's use of debt financing, or borrowing money, to increase profitability may be examined via the ratio of total liabilities to equity, often known as leverage. A higher probability of bankruptcy occurs for organizations that take out large loans during recessions as a result of excessive leverage and failure to pay obligations when they are due. The converse is also true: the lower a company's borrowings, the better its chances of avoiding bankruptcy and reducing leverage. In order to determine the effects of leverage, previous studies have concentrated on five criteria: company size, growth, profitability, liquidity, and tangibility.

#### **NEED FOR THE STUDY**

One way that businesses may boost their profits in today's cutthroat market is by reducing their fixed cost assets via leverage analysis. 2. To further understand the link between EBIT-EPS, we may use the leverage analysis, a crucial tool for assessing how different financial strategies affect shareholder income. Using an asset or finance source with fixed costs or returns is the third way of looking at leverage. 4. Profit is the amount of money that is earned in a day or in a period. 5. The "Impact of Leverages on Profitability" research clarifies the several elements that influence the profitability of the business. 6. With this information, the business may potentially reduce expenses related to fixed assets and increase earnings, resulting in a respectable return for shareholders.

#### **SCOPE OF THE STUDY**

The overall operations of the company are the primary focus of the investigation. Only data from the last six years are used in the analysis. Secondary data was the only source used throughout the inquiry. It does this by directing management to cut fixed-cost assets.

#### **OBJECTIVES OF THE STUDY**

The primary objective of this research is to determine the impact of several financial factors on overall profitability and earnings per share (EPS), including leverage, profitability, and earnings before interest and taxes (EBIT). In order to determine the impact of EBIT on EPS, 2. 3. To learn how sales and

profits affect shareholder returns and how profitable the company is. 4. To have a better understanding of how SALES-EBIT, EBIT-EPS, and EPS-SALES relate to one another.

## **RESEARCH METHODOLOGY**

Consideration of the study's aims informed the decision to use an exploratory research approach. One reason to do exploratory research is to familiarize oneself with the current literature. It relies on previously collected data and gives precedence to drawing conclusions from that data. What we call "research" is really just a word for collecting data. Everybody in the scientific world understands that research is really just a bunch of people getting together to collect data in order to test theories. In order to uncover new information, researchers conduct systematic investigations into various topics. The pieces of data furniture: The study relies only on secondary sources of information. The sole publicly available source for the secondary data is the company's annual report. Information Retained from Different Sources: This information is gathered from several sources, including documents, annual reports, and brochures that are supplied by the firm.

## **LIMITATIONS OF THE STUDY**

1. The data, which is mostly sourced from publicly accessible annual reports from prior years, does not provide any insight into the present condition of the organization. 2. The duration of the trial was limited to 45 days. This meant that we couldn't get the promised amount of data. 3. Investing in Chettinad cements will not be aided by this research. 4. Disinvestment or the stock market is the fourth option. 5. The accounting technique and other rules might be constrained by company-made changes, which could affect the efficiency of fixed assets.

## **PROFILE OF CEMENT INDUSTRY**

Salutations from every direction! The Cement Manufacturers' Association ranks India as the number two cement production globally. With deliveries of 12.56 MT of cement, cement production reached 12.54 MT in September 2019. In 2019–11, cement production increased to 81.54 MT from 77.22 MT in the prior fiscal year. The cement cargo volume also climbed substantially, going from 76.50 MT in the period April–September 2018–10 to 81.10 MT in the same period 2019–11. The biggest cement manufacturer in India, ACC, predicts that essential construction materials would cost 9–10% more in 2019 as a result of the governments persistent focus on infrastructure. Ratings agency Fitch predicted that the nation's cement capacity will reach more than 300 million tons in January 2019, up 50 million tons from the previous year. Executive President G Jayaraman of Birla Corporation Ltd. mentioned that 40 MT of capacity was added in 2018 and that he expects a similar trend to continue this year at the Green Genentech 2019 seminar in Hyderabad in May 2019, which was co-hosted by the Confederation of Indian Industry (CII) and the Cement Manufacturer's Association.

## **FUTURE TRENDS:**

Despite the downturn and reduced demand from the housing sector, the cement industry is projected to boost its capacity by 50 million tons and have stable growth in 2018 and 2019. • If India's GDP grows by 7% this fiscal year, analysts predict a 9-10% increase for the sector. The five largest cement manufacturers in India are ACC, Grasim Industries, Ambuja Cements, J.K. Cement, and Madras Cement. It's heartening to note that the industry heavyweights have all invested in increasing their production capacity during the last several months. Half of cement use is predicted to remain in the building industry for the near future. With more money going into India's fast expanding infrastructure from both the public and commercial sectors, cement demand has skyrocketed. The building industry cannot function without this crucial raw material. Such a factor has also played a significant role in convincing those larger corporations to join the expanding enterprise. To keep up with the surge in demand, major companies in India have erected 125 cement plants, while more than 300 smaller-scale cement makers have also sprung up. Cement production helps the economy expand, making it one of the country's most important industries. The annual cement consumption of a country is an economic indicator of its level of development.

## **PROFILE OF CHETTINAD CEMENT INDUSTRIES**

### **ABOUT THE COMPANY**

From its modest beginnings in 1912, the House of Chettinad has come a long way. A 19th-century philanthropist, educator, idealist, and businessman named Dr. Raja Sir Annamalai Chettiar established the organization with the intention of providing monetary aid to society via the expansion of industries and enterprises. The House of Chettinad's three tenets—"Strive," "Save," and "Serve"—have been the same since 1912. However, the vision itself has evolved throughout the years. Dr. Raja Sir Muthiah Chettiar, an entrepreneur, educator, dreamer, and philanthropist who was the son of the group's founder, carried on the business and helped bring his father's aspirations to fruition. Dr. M.A.M. Ramaswamy, who is the grandson of the founder and a multi-talented entrepreneur, educator, philanthropist, athlete, and ardent supporter of Tamil art, culture, and values, has been instrumental in the success of Chettinad Group. The country's cement demand was so high that in 1962, the Chettinad Cement Corporation Private Limited (formerly Chettinad Cement Corporation Limited) was established to address the need. Puliur, Karur District, Tamil Nadu was the site of the first manufacturing unit for the firm, and operations began there in April 1968. Sri M.A.M.R. Muthiah, the group's most vibrant and active southern Indian conglomerate, has appointed Chettinad Cement Corporation Private Limited as its gem. Muthiah is a practical, dynamic, and adaptable individual. The Group's present activities extend well beyond cement to include several other industries, including granite, engineering, silica, building, education, healthcare, plantations, shipping, power, transportation, stevedoring, clearing and forwarding, logistics, and a host of others. Products: Chettinad Cement is the best cement in the world. Chettinad Cement is the pinnacle of excellence, made with the best materials using state-of-the-art German technology and packaged in sealed bags. Chettinad Cement assures us that our "Superior Quality" goods are first-rate. Regular comparisons to the competition allow us to improve the performance of our items and remain ahead of the curve in terms of delivery and quality. The company consistently outperforms its rivals because to its internal quality standards, which transcend BIS norms. We have 50-kilogram sacks of everything. Promoting positive change: Our Group's value systems have included CSR even before the phrase became popular in the corporate world. Our late founder, Shri G.D. Birla, advocated for a trusteeship style of administration in the 1940s. We need to allocate some of our profits toward causes other than maximizing shareholder wealth if we want to be a responsible corporate citizen. His grandson Aditya Birla continued the family business and expanded it to include the idea of "sustainable livelihood" (which goes beyond traditional charity) in his successor. His decision was to make sure that everyone had enough money to meet their basic needs. But he could provide for his family indefinitely if you showed him how to fish.

## REVIEW OF LITERATURE

### Measures of Financial Leverage:

#### 1. Debt ratio:

Owner capital compared to creditor cash is shown by the debt ratio. By using this ratio, one may evaluate leverage. It is a measure of a company's long-term debt relative to its overall capital. A ratio of 1:2 is considered adequate according to popular thinking.

$$\text{Debt ratio} = \frac{\text{Total debt}}{\text{Capital employed}}$$

#### 2. Debt-equity ratio:

A company's long-term financial stability is threatened by a low debt-to-equity ratio. You may see this in an external-internal equity ratio. When comparing a company's capital structure, this ratio reveals the relative importance of debt and equity funding. The company's long-term financial performance is shown by a ratio of 2:1.

Total debt

D/E Ratio= -----

Net worth

### 3. Interest coverage ratio:

It is also known as the debt service ratio. This statistic is critical for fixed-interest, long-term loans as it reveals the company's ability to repay the loan. Excluding fixed interest costs, the formula to determine it is EBIT divided by that amount.

EBIT

ICR= -----

Interest

One may use book or market value to represent the first two metrics of financial leverage. Both of these metrics are referred to as capital gearing measures. Another way to determine financial leverage is by looking at the coverage ratio. One way to look at a company's income gearing is by looking at its interest coverage ratio. Owners' Return and Financial Security: The fundamental goal of a corporation utilizing financial leverage in an improving economy is to increase returns for shareholders. It is possible for a company's return on investment (ROI) or return on net assets (RONA) to exceed the cost of obtaining fixed-charges money, which is the underlying principle of financial leverage. In doing so, the company is able to increase returns to shareholders. We may quantify leverage using the three most essential financial metrics: EPS, ROE, and ROI.

### EPS Calculations:

Earnings per share (EPS) is a typical metric for evaluating the return on investment for ordinary shareholders. An indicator of a company's profitability over a certain time frame is earnings per share (EPS).

$$\text{Earnings per share} = \frac{\text{Profit after tax}}{\text{Number of shares}}$$
$$\text{EPS} = \frac{\text{PAT}}{N} = \frac{(\text{EBIT} - \text{INT})(1 - T)}{N}$$

### Return on Equity Calculation:

In a more literal sense, the remaining owners are the common shareholders. They are more invested monetarily and prepared to take more risks on the company's behalf. The primary metric used in the study is return on equity, which is sometimes called return on shareholder capital. A potential approach to determining it is as follows: R.O.E. may be computed using either book or market equity value.

$$\text{Return on equity} = \frac{\text{Profit after tax}}{\text{Value of equity}}$$

$$\text{ROE} = \frac{(\text{EBIT} - \text{INT})(1 - T)}{S}$$

Enterprises within the same sector often use this ratio, which measures the earning potential on shareholders' book value investment. Companies that consistently achieve high returns on equity are those who have excellent financial management and are quick to take advantage of lucrative investment possibilities.

**Effect of Leverage on ROE and EPS:**

<b>Favourable</b>	$ROI > i$
<b>Unfavourable</b>	$ROI < i$
<b>Neutral</b>	$ROI = i$

**OPERATING LEVERAGE:**

When operational profit changes at a faster rate than sales, a scenario called operating leverage arises. It may be calculated using a number of different metrics, including sales volume, contribution margin, and fixed expenditure amount. A company may increase the impact of increases in sales and EBIT via operational leverage by making greater use of its fixed operating costs. One way to put a price on it is to evaluate the degree of operational leverage.

$$\text{Operating leverage} = \frac{\text{Contribution}}{\text{Operating profit}}$$

**DATA ANALYSIS & INTERPRETATION**

**FINANCIAL LEVERAGE:**

It tells the extent of the change in earnings before tax due to change in operating income. When a firm procures debt capital to finance its needs, it is said to have financial leverage. It is calculated by using the below formula as,

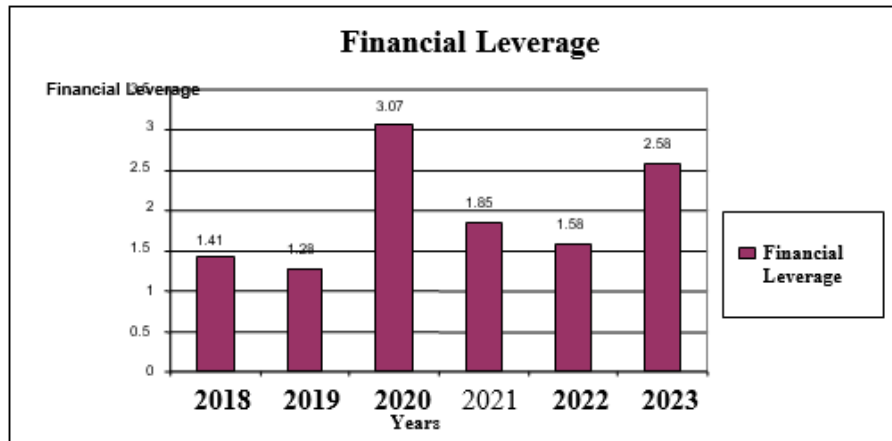
$$\text{Financial leverage} = \frac{\text{Operating profit}}{\text{PBT}}$$

Calculation of Financial leverage (Rs in Lakhs)

Table No:4.1

Years	Operating profit	PBT	Financial Leverage(Times)
2018	4549.19	3218.04	1.41
2019	4463.84	3474.25	1.28
2020	1924.07	626.84	3.07
2021	3997.1	2164.74	1.85
2022	6304.03	4001.44	1.58
2023	7430.3	2882.82	2.58

**Financial leverage**



**GraphNo: 4.1**

**INTERPRETATION:**

From 2018 through 2023, the financial leverage was examined, as shown in the table above. Operating profit, which exceeds PBT, is responsible for the high level in 2020. When a company's financial leverage rate of return on investment is higher than its cost of debt, it means the company is financially healthy. As a result of industry-wide declines, operational profit was low in 2019. The banking industry does not benefit from leverage.

**4.1.2 DEGREE OF FINANCIAL LEVERAGE:**

It is defined as the percentage change in EPS to a given percentage change in EBIT. The formula is as follows,

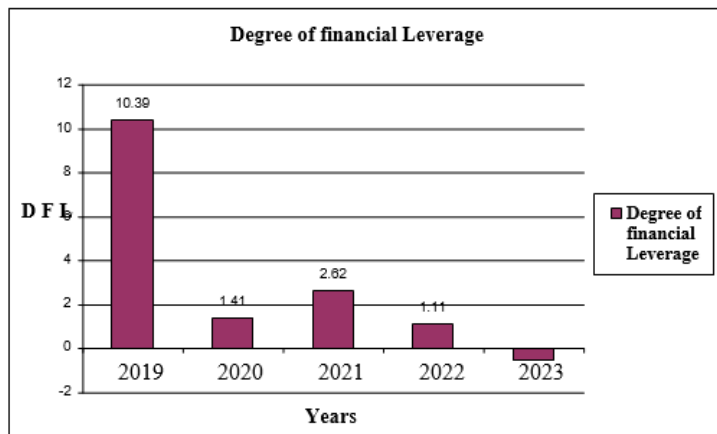
$$\text{Degree of Financial Leverage} = \frac{\text{Percentage change in EPS}}{\text{Percentage change in EBIT}}$$

Calculation of Degree of Financial leverage (Rs in Lakhs)

**Table No:4.1.2**

Years	% Change in EPS	% Change in EBIT	Degree of Financial Leverage
2018	-	-	-
2019	-19.54	-1.88	10.39
2020	-80.26	-56.90	1.41
2021	282.69	107.74	2.62
2022	63.82	57.72	1.11
2023	-29.14	17.87	-0.52

**Degree of Financial leverage**



**Graph No: 4.1.2**

**INTERPRETATION:**

The financial leverage level from 2018 to 2023 is shown in the table above. It is high for 2019 because EBIT's percentage change is larger than EPS's. The bottom line will benefit from this. In 2023, EBIT changes by a negative percentage, which is why it is low. Increasing operational profit ought to be the company's primary aim.

**4.2 OPERATING LEVERAGE:**

It occurs when fixed with fixed costs the percentage change in profits due to change in sales volume is greater than percentage change in sales volume.

Contribution

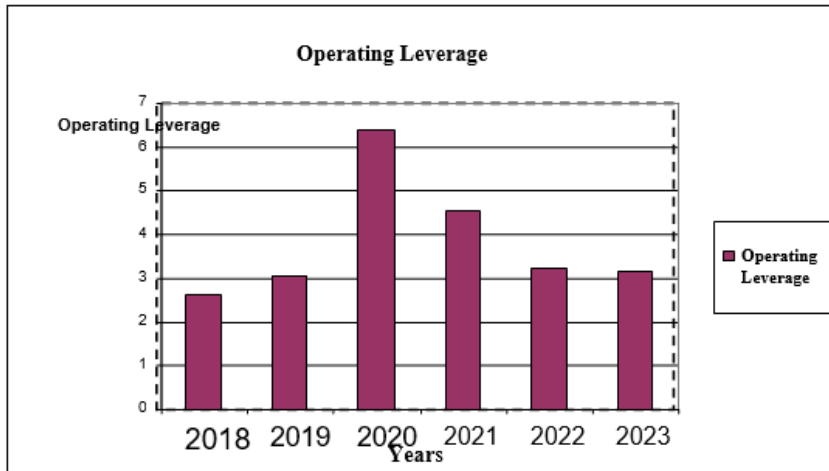
$$\text{Operating Leverage} = \frac{\text{Contribution}}{\text{Operating profit}}$$

**Calculation of Operating leverage (Rs in Lakhs)**

**Table No:4.2**

Years	Contribution	Operating profit	Operating Leverage(Times)
2018	11955.49	4549.19	2.63
2019	13612.88	4463.84	3.05
2020	12248.64	1924.07	6.38
2021	18031.08	3997.1	4.51
2022	20350	6304.03	3.23
2023	23383.16	7430.3	3.15

**Operating leverage**



**Graph No: 4.2**

**INTERPRETATION:**

The table above displays the operational leverage for the period from 2018 to 2023. At its peak, it occurs in 2020. An explanation for this may be found in the gap between operational profit and donation. Our best estimates indicate that the company's sales are fairly high. It is possible that the company may settle all of its obligations. Due to increasing operational profit, it is low in 2018. The company may be able to fulfill its obligations if it makes good use of its operating income.

**4.2.1 DEGREE OF OPERATING LEVERAGE:**

It is defined as the percentage change in Earnings before interest and taxes to a given percentage change in sales.

$$\text{Degree of Operating Leverage} = \frac{\text{Percentage change in EBIT}}{\text{Percentage change in SALES}}$$

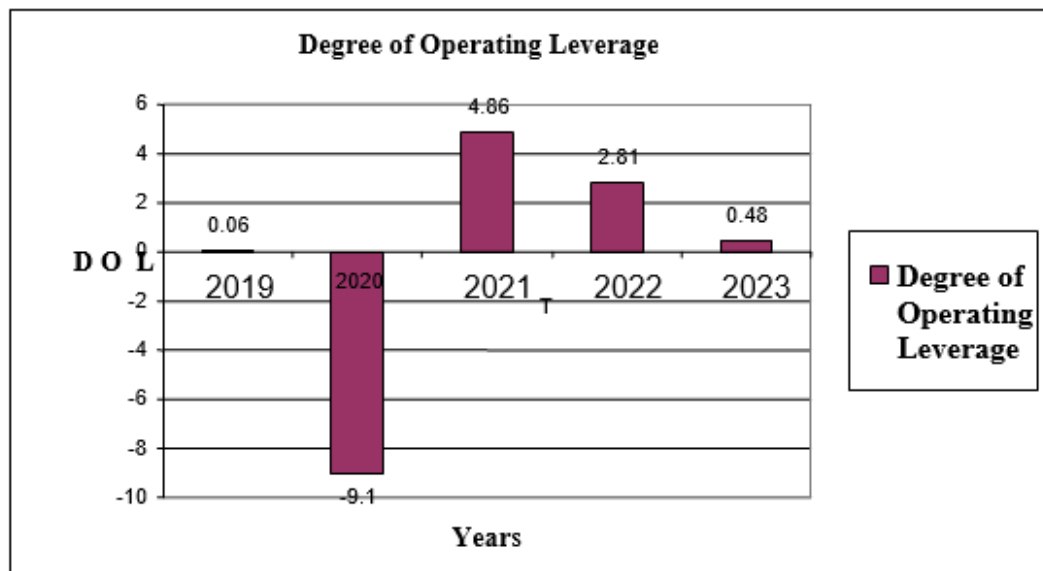
Calculation of Degree of Operating leverage (Rs in Lakhs)

**Table No:4.2.1**

Years	%Change in EBIT	% Change in SALES	Degree of Operating Leverage
2018	-	-	-
2019	1.91	32.39	0.06
2020	-57.70	6.34	-9.10
2021	107.74	22.19	4.86
2022	57.72	20.53	2.81
2023	17.86	37.55	0.48

(Source: Annual reports of Chettinad industries limited)

**Degree of operating leverage**



**Graph No: 4.2.1**

**INTERPRETATION:**

For the years 2018–2023, you can see the Operating Leverage Level in the table up there. Due to a larger percentage change in EBIT than in SALES, it is high for 2021. The company is allegedly cutting costs and boosting earnings, according to the story. Due to an expected negative percentage change in EBIT in 2020, it is low. The company is wasting money by not using its resources to their full potential.

**4.3 COMBINED LEVERAGE:**

Operating and financial leverage together cause wide fluctuations in EPS for a given change in SALES. If both the leverages are combined we get composite leverage and the risk associated. It is calculated by using below formula as,

$$\text{Combined Leverage} = \frac{\text{Contribution}}{\text{PBT}}$$

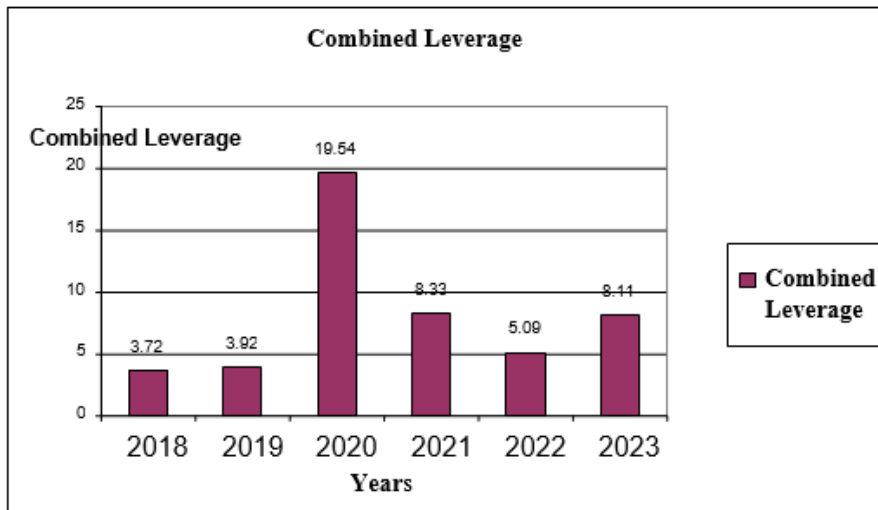
Calculation of Combined leverage

(Rs in Lakhs)

**Table No:4.3**

Years	Contribution	PBT	Combined Leverage(Times)
2018	11955.49	3218.04	3.72
2019	13612.88	3474.25	3.92
2020	12248.64	626.84	19.54
2021	18031.08	2164.74	8.33
2022	20350	4001.44	5.09
2023	23383.16	2882.82	8.11

**Combined leverage**



**GraphNo:4.3**

**INTERPRETATION:**

The combined leverage for the years 2018–2023, as shown in the table above, is available. In 2020, it reaches its highest point. The reason for this is because the contribution is more than the PBT. It is clear that the organization is skilled at controlling expenditures in order to maximize contribution. The higher PBT in 2018 is to blame for the low level. This is proof that the firm is good at making good use of contributions.

**4.3.1 DEGREE OF COMBINED LEVERAGE:**

It is defined as the percentage change in EPS to a given percentage change in sales.

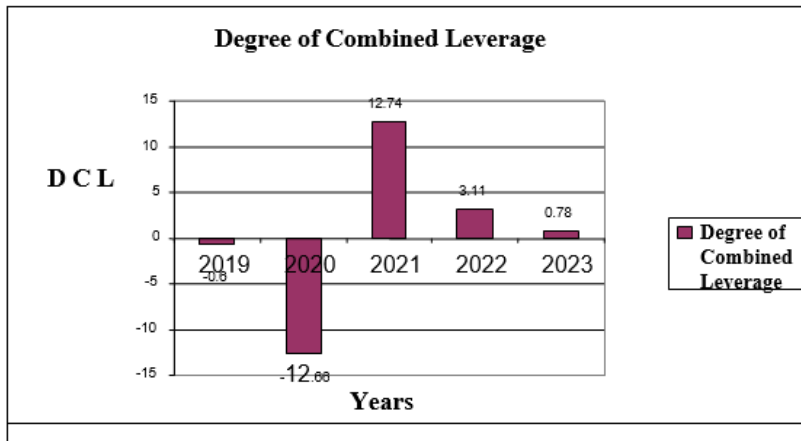
$$\text{Degree of Combined Leverage} = \frac{\text{Percentage change in EPS}}{\text{Percentage change in SALES}}$$

**Calculation of Degree of Combined leverage (Rs in Lakhs)**

**Table No:4.3.1**

Years	% Change in EPS	%Change in SALES	Degree of Combined Leverage
2018	-	-	-
2019	-19.54	32.39	-0.60
2020	-80.26	6.34	-12.66
2021	282.69	22.19	12.74
2022	63.82	20.53	3.11
2023	-29.14	37.55	0.78

**Degree of Combined Leverage**



**Graph No: 4.3.1**

**INTERPRETATION:**

Degree of Combined Leverage from 2018–2023, as seen in the table above. Growth in earnings per share (EPS) in 2021 is robust compared to revenue growth in 2020 and 2020 combined. A greater rate of return for investors is an indication of a successful business. This is because earnings per share will fall in 2020, resulting in a low number. Due to its poor profitability situation, the corporation offers very little in the way of awards.

**FINDINGS**

Since operating profit exceeds PBT in 2020, there is a significant amount of financial leverage. When a company's financial leverage rate of return on investment is higher than its cost of debt, it means the company is financially healthy. As a result of industry-wide declines, operational profit was low in 2019. The banking industry does not benefit from leverage. Due to a larger percentage change in EBIT than EPS, financial leverage is significant in 2019. The bottom line will benefit from this. In 2023, EBIT changes by a negative percentage, which is why it is low. Increasing operational profit ought to be the company's primary aim. In 2020, we expect a substantial Operating Leverage. The difference between operational profit and contribution is the basis for this. From what we can see, the company's revenues are rather substantial. The business may be able to pay off all of its debts. It is low in 2018 since operating profit is higher. By 2021, the degree of operational leverage is obvious. This resulted from a higher percentage change in EBIT compared to sales. The company is allegedly cutting costs and boosting earnings, according to the story. Due to an expected negative percentage change in EBIT in 2020, it is low. The company is obviously squandering its resources because of this. The combined leverage reaches a new peak in 2020. The reason for this is because the contribution is more than the PBT. It is clear that the organization is skilled at controlling expenditures in order to maximize contribution. The higher PBT in 2018 is to blame for the low level. This is proof that the firm is good at making good use of contributions. As a result of coupled leverage, earnings per share changed by a bigger percentage in 2021 than revenues per share changed by. A greater rate of return for investors is an indication of a successful business. This is because earnings per share will fall in

2020, resulting in a low number. Due to its poor profitability situation, the corporation offers very little in the way of awards. A high debt-to-equity ratio indicates that debt is growing at a greater pace than equity in 2021. This portends bad news for the bottom line of the business. It is really low this year. Due to the substantial margin of safety it allows, a low ratio gives long-term creditors additional protection. With a high interest coverage ratio in 2019, it indicates that EBIT is higher than interest payments. Lenders have greater trust in their ability to continuously pay interest due to the higher ratio. This is because it is low in 2020 due to lowering EBIT. If the ratio is low, it means the company could have problems paying its lenders' interest. There are a lot of present liabilities relative to total assets in 2020. Reason being, monetary value is secondary to existing obligations. So, it seems like the company's finances aren't so great. The company's current liabilities exceed its current assets. Net worth is higher in 2023 compared to current responsibilities, which is why it is low. As seen, the company's financial status is good. • PAT was more than capital employed in 2018, indicating a high Return on Investment ratio. The company's solid financial situation is shown by it. A higher value indicates an improved ratio. It will be low in 2020 since there won't be as much PAT. The company's profit margin is quite low, as is evident. Since PAT was higher than equity share capital in 2018, the Return on Equity capital ratio was strong. This indicates that the corporation is providing more significant rewards to its investors. It will be low in 2020 since there won't be as much PAT. The best way for the firm to repay cash to its shareholders is to increase its profitability after taxes. The relationship between sales and EBIT was determined to be 0.998348. One may argue that sales and EBIT are tightly related, as a 100% change in sales would always result in a 99.83% change in EBIT. It would seem from the data that sales and EBIT are positively related.

### SUGGESTIONS

If the business is serious about boosting profits for its shareholders, it should focus on growing sales. Reason being, sales are the main driver of EBIT and EPS volatility. Operational leverage is a metric that may be used to assess the strength of the correlation between EBIT and sales. (If the DOL is 6, a 100% increase in sales might be written off as 600% in EBIT). Therefore, in order to boost operational leverage, the corporation should strive to enhance sales. Looking at the level of financial leverage could help you figure out how strong the correlation is between EBIT and EPS. Earnings per share (EPS) grow faster than earnings before interest and taxes (EBIT) when debt is added, hence the firm aims to raise financial leverage by adopting acceptable debt in the capital structure. • In 2018, the company's return on investment was 34.21%, making it the most profitable year of the investigated period. Because of this, it's recommended that the company maintain its current level of operation. For the sake of providing shareholders with a respectable return on investment, the corporation should prioritize increasing sales and minimizing unnecessary expenditure, since the expected value of earnings per share is declining.

### CONCLUSION

Leverage refers to a company's ability to increase the economic well-being of its shareholders by making greater use of its cash and fixed-cost assets. Favorable leverage occurs when the revenue generated by a company's fixed assets exceeds their costs. Applying a leverage analysis is a great approach to understand how it will affect a company's profitability. The analysis lays out potential rewards for owners in great detail. If you want a good framework to examine how different circumstances affect the profits made for shareholders, go no further than Impact of Leverages on Profitability. The research shows that increasing sales should be the company's top priority, regardless of its financial situation. A decline in profit per share indicates that the firm has to increase its revenue by cutting costs and making better use of its resources.

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