

Vol 6 Issue 3 Dec 2016

ISSN No : 2249-894X

*Monthly Multidisciplinary
Research Journal*

*Review Of
Research Journal*

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FINANCIAL LEVERAGE – A CASE STUDY OF BAJAJ AUTO

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ABSTRACT :

The essence of current study is analysing financial leverage of a leading two Wheeler Company in India, Bajaj Auto. In order to calculate financial leverage of the company, data regarding Earnings before Interest and Taxes (EBIT) and Earnings before Taxes (EBT) has been taken from annual reports since 2006-07 to 2015-16.

KEY WORDS: Bajaj Auto, Financial Leverage.

INTRODUCTION:

The Bajaj Group occupies a place amongst top 10 business houses in India and Bajaj Auto is ranked as fourth largest, two wheeler and three wheeler manufacturer in world. "Leverage may be defined as meeting a fixed cost or paying a fixed return for employing resources or funds."



-Prof. S.C. Kuchchal

In simple words, leverage in business is all about aptitude of a business venture in utilising its "fixed cost assets" and "fixed cost funds" with the sole objective of increasing returns to its owners.

Basically, there are three types of leverages i.e. Financial Leverage, Operating Leverage and Combined Leverage. But, the current study mainly focuses on Financial Leverage of Bajaj Auto.

"Financial leverage exists whenever a firm has debts or other sources of funds that carry fixed charges."

-Hampton

From the above definition it is obvious that financial leverage

occurs only in the presence of debts or other sources of funds which carries a fixed rate of interest. Excessive employment of debt and its successful utilisation will increase the return to owners of a company and this phenomenon is commonly referred as financial leverage.

Formula,

$$\text{Financial Leverage} = \frac{\text{EBIT}}{\text{EBT}}$$

$$\text{Degree of Financial Leverage} =$$

$$\frac{\% \text{ Change in EPS}}{\% \text{ Change in EBIT}}$$

OBJECTIVES OF THE STUDY

- To calculate Earnings before Interest and Taxes (EBIT) of Bajaj Auto from 2005-06 to

2015-16.

- To find out Earnings before Taxes (EBT) of the company from 2005-06 to 2015-16.

- To calculate Degree of Financial Leverage of Bajaj Auto from 2006-07 to 2015-16.

RESEARCH METHODOLOGY

In order to calculate financial leverage of Bajaj Auto, secondary data has been used and the suitable information in current scenario has been amassed from annual reports of Bajaj Auto, websites, journals, magazines etc. The collected data has been incorporated in tables and figures with the objective of providing a momentous inference to the study.

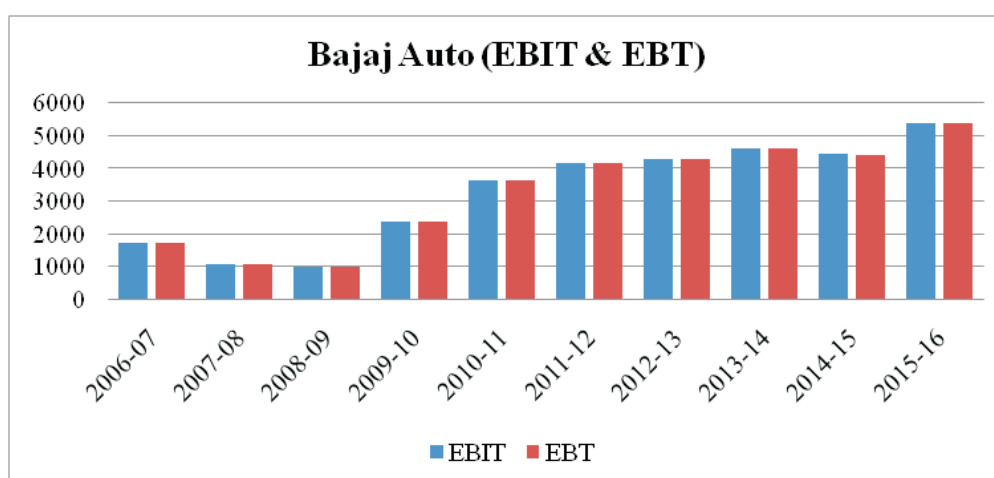
ANALYSIS AND INTERPRETATION

In order to exhibit financial leverage of Bajaj Auto, different tables and figures have been used which are made known as below:

Table 1: Bajaj Auto (EBIT & EBT)

Years	EBIT (Rs. in Crores)	EBT (Rs. in Crores)
2006-07	1705.93	1700.59
2007-08	1080.40	1075.24
2008-09	980.20	959.19
2009-10	2367.54	2361.56
2010-11	3621.51	3623.20
2011-12	4182.41	4160.17
2012-13	4266.67	4266.23
2013-14	4632.54	4632.05
2014-15	4431.57	4425.08
2015-16	5385.66	5385.18

Source: moneycontrol.com

Figure 1: Bajaj Auto (EBIT & EBT)

X Axis: Years

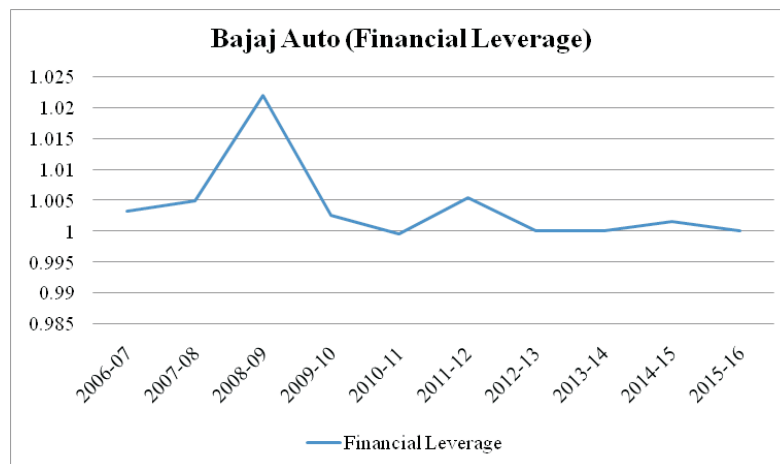
Y Axis: Rs. in Crores

Table 1 and figure 1 depicts Earnings before Interest & Taxes and Earnings before Taxes of Bajaj Auto from 2005-06 to 2015-16. EBIT of the company was highest in 2015-16 and lowest in 2008-09 during the study period. On the other hand EBT also witnessed its highest and lowest figures same as EBIT i.e. in 2015-16 and 2008-09 respectively.

Table 2: Bajaj Auto (Financial Leverage)

Years	EBIT (Rs. in Crores)	EBT (Rs. in Crores)	Financial Leverage
2006-07	1705.93	1700.59	1.0031401
2007-08	1080.40	1075.24	1.0047989
2008-09	980.20	959.19	1.0219039
2009-10	2367.54	2361.56	1.0025322
2010-11	3621.51	3623.20	0.9995336
2011-12	4182.41	4160.17	1.0053459
2012-13	4266.67	4266.23	1.0001031
2013-14	4632.54	4632.05	1.0001058
2014-15	4431.57	4425.08	1.0014666
2015-16	5385.66	5385.18	1.0000891

Source: moneycontrol.com

Figure 2: Bajaj Auto (Financial Leverage)

X Axis: Years

Y Axis: Financial Leverage

Table 2 along with figure 2 reveals financial leverage of Bajaj Auto which stood highest in 2008-09 and lowest in the year 2010-11.

CONCLUSION

Financial leverage of Bajaj Auto is concentrated in between 0.9995336 to 1.0219039 which exhibits minimum fluctuation in financial leverage of the company during the study period.

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