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Analyzing the Relationship Between EBIT and EPS

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ABSTRACT:

Using a range of expected Earnings Before Interest and Tax (EBIT) (EBIT), the EBIT-EPS technique chooses a capital structure that maximizes EPS. We use this when we want to know how different types of financial arrangements affect returns to shareholders. The benefits and drawbacks of EBIT-EPS analysis are the focus of this research. Commonly used phrases in financial analysis include capital structure, earnings per share, and earnings before interest and taxes.

INTRODUCTION TO EBIT-EPS ANALYSIS:

Earnings before Interest and Taxes (EBIT) refer to profits before interest and taxes. Net Operating Income is how salespeople refer to this pay explanation, while EBIT is how finance professionals refer to it. However, after deducting labor costs from deals on a remuneration order, it is the amount of money that an affiliate has (hence the term net working pay). Another thing to keep in mind is that this is the amount of money the affiliate was paid before the interest and commitments were removed (accordingly, EBIT).

Earnings after Taxes is abbreviated as EAT. By agents, this is referred to as Net Income or Net Profit after Taxes, but by finance professionals, it is referred to as EAT.

Earnings per Share (EPS) are the abbreviation for earnings per share. This is the most money that regular monetary patrons are willing to spend (per piece of stock had). This pay could be delivered as rewards, held by the affiliate and reinvested, or a combination of the two. As a strategy for measuring the impact of effect, the EBIT-EPS analysis fundamentally integrates the association of optional financing procedures under multiple EBIT assumptions. With varied degrees of success, a corporation can raise funding for its project proposal from a variety of sources.

For example, it can (I) only use respect capital, (ii) only use responsibility capital, and (iii) only use inclination capital (iv) Use a combination of (I) (ii) and (iii) to varied degrees (V) a combination of (I) (ii) and (iii) to varying degrees (vi) a combination of (I) (iii) to varying degrees and from childhood on The ideal benefit per share would be established by a mix of multiple sources, given the degree of pay before premium and commitments (EBIT) (EPS)

EBIT (earnings before interest and taxes) is a measure of a company's profitability.

On a pay statement, it is the amount of pay that an affiliation has after deducting working costs from deals; however, advantage before interest and commitments agents prefer to use the term net working pay for this remuneration clarifications thing, while finance individuals generally propose EBIT; in any case, on a pay statement, it is the amount of pay that an affiliation has after deducting working costs from deals; however, advantage before interest and commitments agents prefer to use the term net working pay for this retune (accordingly the term net working pay). Another thing to keep in mind is that this is the affiliation's compensation before interest and commitments are removed (hence EBIT).

Earnings After Tax (EAT):

This is referred to as Net remuneration or Net benefit after charges by assistants, but it is always referred to as EAT by finance professionals.

ISSN:0976-0172
Journal of Bioscience And Technology
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Earnings per Share (EPS):

The amount of money that traditional monetary clients are willing to spend is the benefit per share (per a piece of stock stated). This money could be distributed as benefits, held by the organization and re-invested, or a combination of the two.

Operating Leverage: How Much Operating Leverage Do You Have?

The ratio of the change in earnings before interest and taxes to the change in sales is used to calculate it.

$$DOL = \frac{\% \text{ Change in EBIT}}{\% \text{ Change in Sales}}$$

Financial Leverage:
The fixed expense accomplishes monetary effect and cause PAT to move nearby change in EBIT. The fixed charges among wellsprings of assets, for example, responsibility and propensity capital nearby the proprietors regard, and so forth, in the capital arrangement is depicted as cash related effect.

Level of Financial Leverage:

It is portrayed as the rate change in EPS to rate change in EBIT.

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

Combined Leverage:
Working and Financial Leverage together reason wide variances in EPS for a given change in deals. Utilizing an undeniable degree of working and monetary influence, even a little change in deals will have emotional impact on EPS.

$$DCL = \frac{\% \text{ Change in EPS}}{\% \text{ Change in Sales}}$$

OBJECTIVES OF THE STUDY

• To figure out how profitable EBIT and EPS are.
• To determine the company's leverage position.
• To comprehend the impact of leverage on earnings per share (EPS).

• To look at the impact of financial leverage on EPS performance while using different financing techniques with different levels of EBIT.

• To find the best financial education in the firm with the highest EPS.

OBJECTIVE OF THE STUDY

Only the top VISAKHAPATNAM STEEL PLANT employees are subjected to the gift examination (RINL). Keep in mind that the theater's research period is eight years long, with innumerable records of economic presentation. Under specified EBIT assumptions, EBIT-EPS analysis examines the impact of various financing patterns or financial leverage on the extent of returns available to shareholders. By integrating a number of assets, a corporation can finance its asset activities in a variety of ways.

NEED OF THE STUDY

The EBIT-EPS evaluation is an important device to investigate the effect of alternative monetary plans at the shareholders income and in variability income is the important component to determine the EBIT-EPS.
When the constant fee stays constant a small change in income results in the issue boom in EBIT. Fixed price does now not stays steady over the year the 12 months and might vary from yr to year therefore, better the constant value, higher the variability in EBIT whilst there's small change in income.
EPS represents the performance indicator of the organization. EPS calculation are made over year indicate whether or not or not the

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Journal of Bioscience And Technology
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firm incomes ability on per share basis has changed over that duration. EPS shows absolutely the profitability of the firm on per percentage basis.

METHODOLOGY

SOURCE OF DATA:

The study's methodology was based mostly on gathering secondary data, such as annual reports and corporate brochures.

Newspapers such as Enadu, Hindu, and others are examples.

Instruments for Analytical Purposes (Instruments for Analytical Purposes):

The company's financial success has been measured using operating, financial, and combined leverage. Correlation analysis is an important statistical technique and tool.

Earnings before Interest and Taxes (earnings before interest and taxes): (earnings before interest and taxes): (earnings before interest and taxes): (earnings before interest and taxes): (earnings before interest and taxes): (earnings before interest and taxes): (earnings (profits before taxes and interest): (profits before taxes and interest): (earn

Interest, taxes, and other charges are not included in earnings. It's the amount of income a company has after subtracting operating expenses from sales on an income statement; in any case, it's the amount of income a company has after subtracting operating expenses from sales (hence the term net operating income). Another way to look at it is that this is the amount of money earned before interest and taxes (hence EBIT).

Earnings after taxes:

This is referred to by accountants as net income or net profit after taxes, and by finance professionals as EAT.

Earnings per share are as follows:

The amount of profit that regular investors are entitled to is measured in earnings per share (EPS) (per share of stock owned).

This money could be dispersed as dividends, saved and re-invested by the company, or a combination of both.

OPERATING LEVERAGE:

Fixed costs exacerbate net operating income swings caused by minor sales fluctuations, resulting in operating leverage. As a leverage fulcrum, the fixed cost is used. If a corporation does not have fixed costs, there will be no operating leverage.

What Is Your Operating Leverage, and How Do You Determine It?

The ratio of the change in earnings before interest and taxes to the change in sales is what it's called. DOL is determined by the number of fixed elements in the cost structure.

$$DOL = \frac{\text{Contribution}}{\text{EBIT}}$$

FINANCIAL LEVERAGE:

Financial leverage is formed as a result of the constant cost, causing PAT to move in lockstep with variations in EBIT. The term "financial leverage" describes the fixed charges that exist between various kinds of capital in the capital structure, such as debt and preference capital, as well as owner stock.

The degree of financial leverage is calculated by dividing the change in EPS by the change in EBIT.

$$DFL = \frac{\text{EBIT}}{\text{EBT}}$$

COMBINED LEVERAGE:

When operating and financial leverage are combined, earnings per share (EPS) for a given change in sales vary greatly. Due to the company's high operating and financial leverage, even little changes in sales have a significant impact on EPS.

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Journal of Bioscience And Technology
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Combined Leverage Degree

Total leverage is calculated by multiplying financial leverage by operating leverage. The percentage change in revenue is used to assess operating leverage, which has an impact on operating risk.

Financial leverage affects financial risk since it is calculated as a percentage change in EPS as a result of a percentage change in EBIT. The effect of combining the two is total leverage, and total risk is the risk that comes with it.

$$DCL = DFL \times DOL.$$

LIMITATIONS OF THE STUDY

- The research is solely based on secondary data, with just an eight-year period being reviewed, and all computations are based on information provided by the VISAKHAPATNAM STEEL PLANT (RINL).
- Due to a time restriction, several external factors affecting leverage were not considered.
- The examination's 30-day time limit is no longer sufficient to complete all of the unique components.

INDUSTRY PROFILE

Steel is a versatile material that may be applied to a wide range of automotive and construction projects. Steel is a carbon-free iron alloy with a carbon concentration of less than 1%. Depending on the needs of the intended user, steel can be cast into a number of shapes, including bars, strips, sheets, nails, spikes, wire, rods, and pipes. Steel consumption is used to determine the level of industrialization and economic growth of a country.

Despite the fact that significant steel production did not commence until after 1900, splitting the historical period into pre- and post-independence periods makes understanding the steel sector's evolution easier.

A list of India's largest steel and associated companies follows:

1. Steel Authority of India Limited, situated in New Delhi (SAIL)

2. Ashtray I spat Nigam Limited, situated in Visakhapatnam (RINL)

3. NMDC Limited, situated in Hyderabad

MOIL Limited, situated in Nagpur, is ranked fourth.

KIOCL Limited, based in Bangalore, is rated sixth.

Kolkata-based Number six is Hindustan Steelworks Construction Limited (HSCL)

The seventh company on the list is MECON Limited, situated in Ranchi.

MSTC Limited, based in Kolkata, is ranked eighth.

9. Ferro Scrap Nigam Limited (FSNL), located in Bhilai (A subsidiary of MSTC Ltd.)

Tate Iron and Steel Firm are a British iron and steel firm.

THE INDUSTRY'S SCENARIO:

The Situation around the World

• Compared to 2012, global crude steel production climbed by 6.2 percent to 1718 million tones in 2013. (MT). (The World Steel Association, or WSA, provided this image.)

• China produced 684 metric tons of crude steel in 2013, followed by Japan (128 metric tons), the United States (86.4 metric tons), and India (72.2 metric tons; prove) in fourth place (72.2 MT).

• The World Steel Association forecasts a 3.6 percent increase in global apparent steel consumption in 2014, up from 5.6 percent in 2013. Global steel consumption is forecast to increase by 4.5 percent in 2015, to roughly 1686 Mt, with China's apparent steel consumption expected to increase by 4% in both 2014 and 2015. In 2014, India's apparent steel consumption is predicted to increase by 6.9% and by 9.4% in 2015.

• In 2013, global finished steel consumption was expected to be 217 kg per capita, compared to 460 kg in China.

Situation in the Family:

• The Indian steel sector saw a fresh period of expansion in 2007-08, backed by a resurgent economy and rising steel demand.

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Journal of Bioscience And Technology
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• India is currently the world's fourth largest producer of crude steel and the world's largest producer of sponge iron or DRI, thanks to a massive surge in production.

• Several factors, according to the Working Group on Steel for the 14th Plan's assessment, have the potential to boost the country's per capita steel consumption, which is currently estimated to be 55 kg (provisional). Among them are a nearly trillion-dollar infrastructure investment, a projected increase in manufacturing from 8% to 13-14 percent by 2030, a projected increase in urban population from 400 million to 600 million by 2030, and the emergence of the rural steel market, which consumes around 12 kg per year thanks to projects like Bharat Nirman and Pradhan M.

• According to the National Steel Policy 2005, which was announced in 2005, steel output is planned to reach 130 million tonnes by 2019-20. The Working Group on Steel for the 14th Plan forecasts that the county's crude steel capacity will be 160 MT by 2018-17, with the potential to reach 169 MT if all requirements are completed, based on an assessment of existing ongoing projects, including Greenfield and Brownfield.

• In light of substantial developments in the local steel sector (both on the supply and demand sides) as well as the Indian economy's steady growth since its establishment in 2005, the National Steel Policy of 2005 is presently being reviewed.

COMPANY PROFILE

VISAKHAPATNAM STEEL PLANT:

- Introduction
- Origin- History of VSP
- Milestones of VSP
- Vision
- Mission
- Objectives
- Core Values
- Achievements & Awards
- Raw Materials & Sources
- Major Units of VSP
- Production Performance
- Product Mix
- Process
- Board of Directors
- Organization Chart
- Department Chart: Finance(Budget)
- Description of Various Departments
- Recent Trends
- Financial Performance.

Introduction:

Steel is such a versatile material that it may be found in almost every item we come across in our daily lives, either directly or indirectly. It's used to keep a variety of little things like nails, pins, and needles, to name a few. Steel is one of the most essential basic materials used in almost all industries. Steel is both a basic and an essential industry. The economy of any country is dependent on the strength of its iron and steel sector. Steel is the most widely used material today, present in almost every aspect of life. All of the major discoveries of human ingenuity, such as the steam engine, railway, means of communication and connection, car, airplane, and computers, are connected in some way to steel and its clever and diverse use.

Steel is a versatile material with a wide range of beneficial characteristics, making it essential for the economy's continued development in building, industry, infrastructure, and consumer goods. Steel consumption has long been used as a proxy for a country's industrialization and economic growth. With the significance of steel in mind, the public sector constructed the following integrated steel mills with global alliances after independence:

ISSN:0976-0172
Journal of Bioscience And Technology
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S. NO.	STEEL PLANT	COLLABORATED BY
1.	DURGAPUR STEEL PLANT	BRITAIN
2.	BHILAI STEEL PLANT	ERSTWHILE USSR
3.	BOKARO STEEL PLANT	ERSTWHILE USSR
4.	ROURKELA STEEL PLANT	GERMANY

Origin and History of the organization:

Prime Minister Smt. India Gandhi stated in parliament on April 17, 1970 that the Government of India will construct an Integrated Steel Plant in Visakhapatnam under the Steel Authority of India Ltd. (SAIL) to meet the increasing domestic steel needs. The Selection Committee selected the site near the Balacheruvu stream in Visakhapatnam. The ceremonial inauguration and foundation stone were laid on January 20, 1971, by India's Prime Minister. M/s

Disturb & Company's thorough project study was commended by the former Soviet Union's administration, which provided technical and economic support. The Indian government and the former Soviet Union signed a cooperation agreement for the building of a 3.4 million ton integrated steel plant in Visakhapatnam on June 14, 1979. The Soviet Union agreed to give the Indian government 3.4 million rubles to help them build a steel plant. The Soviets and Indian design companies cooperated to amend Disturb Co.'s previous comprehensive project study, and a completely updated detailed project report for VSP was delivered in November 1980, according to the conditions of the agreement. A new company, Ashtray Spat Enigma Ltd. (RINL), was formed to speed up the project's completion.

Construction on the project started in 1982, and it took 4 and 6 years to finish the first and second phases, respectively. Due to a shortage of finances, the project schedule could not be maintained during construction, resulting in substantial cost and time overruns. The cost of the project has increased to about Rs.8500 crores. The Rationalized concept was developed in 1985 to save capital expenses. As a consequence, one Steel Melt Shop and one Rolling Mill, the universal beam mill, were closed. The second steel melt facility, which had a capacity of 2.2 MTPA of liquid steel, was expanded to a capacity of 3 MTPA without any additional infrastructure. The capabilities of Rolling Mills such as the Light and Medium Merchant Mill (LMMM), Medium Merchant and Structural Mill (MMSM), and Wire Rod Mill (WRM) were also updated without any changes to make the project economically viable. The project's cost was lowered to around.6281 crores as a result of these modifications. However, as the project proceeded, more cost overruns occurred, and the structure was eventually finished at a cost of around.8500 crores. Beginning in 1989, several operational units were commissioned one by one until the project was completed in July 1992. On August 1, 1992, the Honorable Prime Minister Sri. P.V. Narasimha Rao dedicated the plant to the nation. The plant was modernized using cutting-edge technology, large-scale computerization and automation, and other features that set it apart from other integrated steel mills in the country. The total manning of the organization was restricted to 17,500 employees in order to operate the plant to international standards and achieve such labor productivity. The plant has the capacity to manufacture 3.0 metric tons of liquid steel and 2.656 metric tons of saleable steel.

HIGHLIGHTS OF EXPANSION TO 6.3 MT LIQUID STEEL CAPACITIES:

1. Got of India approval ref: 6 (1) 2005-VSP dated 28th October 2005.	
2. Commencement Date 28th October 2005	
3. Main Units in Expansion	
Raw Material Handling Plant	
One Sinter Plant	
One Blast Furnace	3.25 Mt / year Sinter
One Blast Furnace	(BF-3800 C.2.50 Mt/ year Hot Metal
Claiming and Refractory Materials 14x500 t / day	
One Steel Melt Shop	2.60 Mt / year Liquid Steel
Rolling Mills	
Wire Rod Mill	600,000 t/ year
Light Structural Mill (LSM) (in stage –II)	700,000 t/ year
Augmentation of existing TPP	1X67.5 MVV turbo – generator with TB
Power Plant (BOO Basis)	2x67.5 MVV capacity with all necessary facilities
Air Separation Plant (BOO basis)	2x1400 t / day Oxygen
Captive Mines	Augmentation of capacities at Ashram. Jaggayyapeta And Garb ham Mines.

VISION:

To become a constantly developing world-class organization, we will harness our growth potential and sustain profitable growth, generate high-quality and cost-competitive products, and be the first choice of consumers.

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Journal of Bioscience And Technology
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Provide a dynamic work environment to unleash people's creative energy.

Master the art of business administration.

We've set goals for ourselves to be a respected corporate citizen, to keep the environment clean and green, and to create thriving communities.

MISSION:

By enhancing the supply of trustworthy raw materials, making steel at international cost and quality standards, and addressing the needs of stakeholders, a capacity of 20 Mt liquid steel will be attained.

OBJECTIVES:

Stabilize at 6.3 million tonnes by 2014-15, with the goal of increasing in subsequent phases in accordance with the Corporate Plan.

Existing Blast Furnaces will be modified to improve their energy efficiency, resulting in a 0.5 Mt capacity increases, increasing total hot metal capacity to 7.5 Mt.

Develop into one of the top five low-cost liquid steel producers in the world.

Aim for higher levels of client satisfaction.

There is a healthy work culture within the organization.

Protect the environment, enforce strict safety regulations, and take decisive action to address social challenges.

THE PRIMARY VALUES ARE AS FOLLOWS:

The company's core values are as follows:

Dedication

The importance of achieving client satisfaction cannot be overstated.

The process of improvement is ongoing.

Environmental consciousness

When it comes to creativity and innovation, two words come to mind: creativity and innovation.

MARKETING IN RINL:

RINL is the only company that sells RINL's products. RINL is a formidable competitor in both the domestic and international markets. China, Japan, the United States, and Sri Lanka are the primary destinations for steel. RINL is currently looking to extend and develop its businesses in these nations by engaging into long-term agreements with its clients.

In order to gain a slice of the growing, high-value niche markets, the company is expanding its product portfolio. Domestic markets are not being sacrificed in the cause of globalization.

RINL has built a robust dealer network to help meet the growing demand for Visakhapatnam Steel. RINL offers a customer counselling cell that is fully equipped and staffed by qualified persons, in addition to a network of dealers and stockists in high-demand locations. The commodities are delivered to 27 different locations and stockyards throughout India. At Headquarters and Regional Offices, Regional Managers, Branch Managers, Dealers, and Customers meet on a regular basis to assess the market situation and establish appropriate marketing strategies.

A list of RINL branches is provided below:

Ghaziabad, Faridabad, Chandigarh, Delhi, Patna, Hubli, Defraud, Ranchi, Kanpur, Guwahati, Jammu, Mumbai, Ahmadabad, Pune, Indore, Nagpur, Bhubaneswar, Kolkata, Agra, Jaipur, Ludhiana, Delhi, Patna, Hubli, Dehradun, Ranchi, Kanpur, Guwahati, Jammu, Mumbai, Ahmadabad

FINANCE AND ACCOUNTING DEPARTMENT:

The primary function of the Finance and Accounts Department at RINL is to oversee treasury management and provide financial services in order to conduct the company's business correctly. The Finance Department is divided into several sections. It has 275 employees, 260 of whom are executives and 17 of whom are non-executives. The entire department is under the direction of the Executive Director. The RINL Finance and Accounting Department is responsible for administrative oversight, responsibility assignment, and accountability. The following are a few examples:

The following sections of finance and Account department in RINL.

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Journal of Bioscience And Technology
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1. Raw material Accounts
2. Stores Accounting
3. Sales Accounts
4. Pay and PF Accounts
5. Works accounts section
6. Operational Bills Accounts
7. General Accounts Section
8. Corporate Treasury
9. Loans and Advances
10. Corporate Accounts
11. Internal Audit Section
12. Budget Section
13. Costing Section
14. Project Accounts.

THEORETICAL FRAME WORK

A company can fund its investments using both debt and equity. Wanted capital can also be used by the company. Regardless of the employer's rate of return on assets, the hobby charge on debt remains unchanged. The corporation is obligated to pay its debts under the law. The initial desire dividend is paid every year at the same rate; however, preference dividends are paid only when the company is profitable. The remaining income belongs to the ordinary investors. In other words, they own the gains after interest and turns. A company's dividend coverage, which isn't always stable, determines the cost of a stock payout.

Economic leverage, also known as gearing or trading on equity, is characterized as the use of fixed-cost financial resources such as debt and desiring capital in conjunction with the owner's equity within the Capital structure. The term "trading on equity" refers to the use of the owner's equity, or the equity that has been turned on, as a foundation for acquiring loans.

In the context of sales uncertainty, the EBIT-EPS analysis is a critical tool for examining the impact of possible financial plans on shareholder earnings.

While the constant charge remains constant, a minor change in sales results in a faster increase in EBIT. Fixed costs do not stay the same year after year and must fluctuate. As a result, when sales change a little, the higher the fixed charge, the more volatile the EBIT.

When the monetary circumstances of the income are correct, higher EBIT leads to increasing leverage, which leads to faster EPS growth, and vice versa. Excessive leverage raises trader expectations while also putting them at danger of losing money.

Earnings per share (EPS) is a number that determines how successful a firm is. When calculating EPS, reconstructed years are used to see if the company's per-share earnings capability has changed over time. EPS accurately depicts the company's profitability on a proportional basis.

All enterprises are funded through a combination of stock, debt, and hybrid protection. The amount of a firm's capital structure is determined by the composition of debt or fairness, which is then employed by firms to function. Modigliani and Miller's Contributory Work (1958) paved the way for today's capital structure study. According to the irrelevance notion, or MM-I thesis, a company's worth is irrelevant to how it is financed under specific conditions, such as no taxes, no financial disaster cost, an efficient market, and asymmetric records. The dividend coverage and the technique through which the company raises funds are no longer taken into account. To put it another way, a company's value is determined solely by its assets, not its financial structure. The same theory was supported by (Hamada, 1969), (Stieglitz, 1972), and (Hamada, 1969). (Hatfield, et al 1994).

According to the MM-II thesis (1963), the firm's cost is determined by the required fee of return, debt-equity ratio, and debt value. The firm's cost is applicable to its capital structure, according to this MM-II. MM-II discovered that a company's capital structure is best effective when it has a hundred and twenty percent debts because of the hobbies and tax benefits. Aside from that, several studies have shown that increased debt in a company's financing leads to higher bankruptcy costs, corporate and financial pain, and tax avoidance

ISSN:0976-0172
Journal of Bioscience And Technology
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(Jensen & Heckling, 1976). (Jensen & Meckling, 1976). Titman (Titman, 1984). However, as the internal MM-II plan points out, maintaining a 120 percent debt-to-income ratio in good standing isn't always possible.

The ideal capital structure is a mix of debt, common stock, and preferred stock that lowers the weighted cost of capital (WACC) and so maximizes the value of the company (Moyer, et al 2004). The bulk of studies show a link between capital structure and business success (Ai, 1997, Hung, et al, 2002). In a study of performance sensitivity to capital structure, (Akintoye, 2008) discovered that the performance indicators employed in his study (income before interest and taxes, income as a percentage, and dividend per share) were extremely sensitive to capital structure in the majority of the organizations. 1986, Jensen According to the unrestricted cash flow argument, increased leverage will improve financial performance since managers in such organizations are less likely to take on endeavors with negative net present value.

(Margaritis & Psillaki, 2011) discovered evidence to support the center forecast (Jensen & Meckling, 1976). According to (Ramachandra & et al, 2008), businesses that are significantly levered in comparison to the median face low income growth and profitability. (Eriotis and colleagues, 2002)

EBIT-EPS ANALYSIS CONCEPT:

The EBIT-EBT analysis is a method for assessing leverage or comparing alternative financing options at different EBIT levels. Simply put, an EBIT-EPS analysis looks at how financial leverage affects profits per share (EPS) at different levels of EBIT or under different economic scenarios.

It investigates the impact of financial leverage on EPS performance across a range of financing situations and EBIT levels. EBIT-EPS analysis is used to select the aggregate as well as the various resources. It assists you in selecting the option with the highest EPS.

We acknowledge that a corporation may fund its investment with a variety of resources, including borrowed capital and equity capital. Under different economic plans, the percentage of various assets may also be different. The firm's goal in each financing plan is to maximize EPS.

EBIT-EPS ANALYSIS HAS MANY ADVANTAGES:

As we've seen, an EBIT-EPS study looks at the influence of financial leverage on EPS performance under various financing schemes with varying EBIT levels. It enables a business to determine the most solid financial plans with the highest earnings per share (EPS).

DATA ANALYSIS AND INTERPRETATION

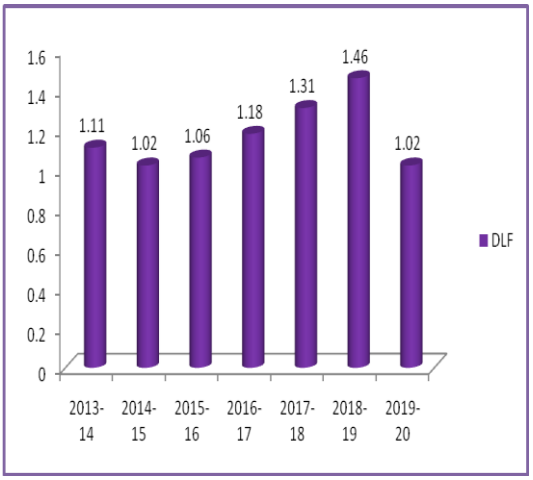
DEGREE OF FINANCIAL LEVERAGES:

The percentage change in profits per share (EPS) that occurs from a given percent change in earnings before interest and taxes is known as the degree of economic leverage (EBIT)

$$\text{DEGREE OF FINANCIAL LEVEREGE} = \frac{\text{EBIT}}{\text{EBT}}$$

(In crores)

YEAR	EBIT	INTEREST	EBT	DLF
2013-14	67.17	5.96	61.19	1.11
2014-15	226.28	6.11	220.19	1.02
2015-16	141.06	7.30	135.79	1.06
2016-17	75.26	13.88	63.38	1.18
2017-18	65.34	17.58	49.76	1.31
2018-19	303.81	15.55	290.26	1.46
2019-20	29.55	0.75	28.20	1.02



ISSN:0976-0172
Journal of Bioscience And Technology
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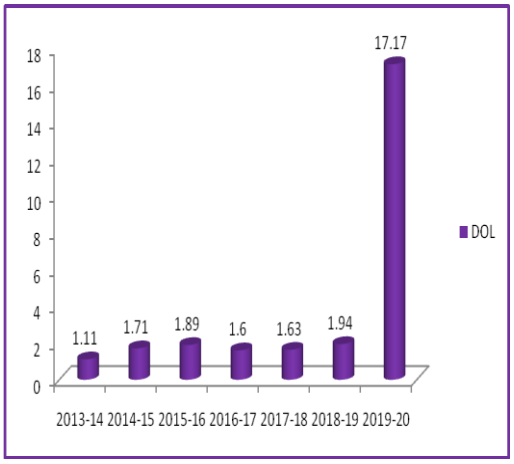
INTERPRETATION:
From the above table, it's far discovered that the monetary leverage was fluctuated at some point of the observe length because of fluctuations in interest quotes. The hobby expenses became extended from the year 2013-2020 and thereafter it changed into reduced. Increase of EBIT and decrease of interest, the EBT become high in the year 2018, the high EBIT and EBT could make a contribution to high DFL (1.Forty six) in that year. In the year 2018-19, both EBIT and EBT turned into improved inside the equal path, with that the DFL changed into reduced to 1.02 instances, which turned into low for the duration of the look at duration.

DEGREE OF OPERATING LEVERAGES:

Operating leverage is a percentage change in working profits or (EBIT) as a result of a given percentage change in sales. The value shape's number of fixed elements defines its size (DOL).

CONTRIBUTION
DEGREE OF OPERATING LEVERAGES

YEAR	CONTRIBUTION	EBIT	DOL
2013-14	73.57	67.17	1.11
2014-15	386.18	226.28	1.71
2015-16	228.91	141.06	1.89
2016-17	141.13	75.26	1.60
2017-18	126.64	65.34	1.63
2018-19	592.41	303.81	1.94
2019-20	506.91	29.55	17.17

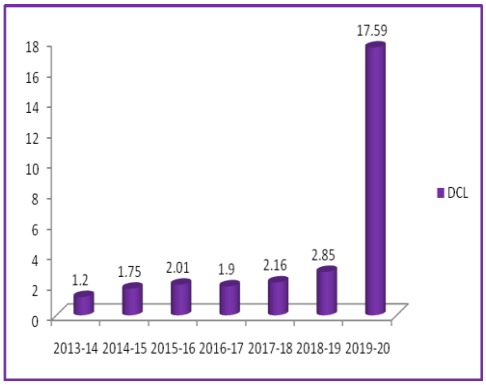


INTERPRETAION:
From the above desk, it is discovered that the DOL of the company become fluctuated at some stage in the have a look at duration that is because of adjustments in the contribution and EBIT. In the yr 2019-20 the contribution become Rs 506.91Crs and EBIT turned into declined to Rs 29.55Crs, because of boom of working charges. With that impact DOL turned into 17.17 instances in that 12 months. In the year 2013-14 the income of the business enterprise became low with that EBIT also low due to low contribution and EBIT, the enterprise's DOL changed into low i.E 1.Eleven instances. This approach that with every 1p.Cexchange of income, the EBIT is going to change best 1.11%

DEGREE OF COMBINED LEVERAGES:

Financial leverage multiplied by working profit leverage is the fundamental definition of leverage. The operating leverage is based on the working threat and is measured as a percentage of income. Financial leverage has economic hazard consequences, which are reflected in the stock market by an increase in EPS due to EBIT. If each of the impacts is mixed, the total leverages are determined, and the risk associated with the combined leverage is estimated as a general probability

DEGREE OF COMBINED LEVERAGES= DLF X DOL



INTERPRETAION:
From the above table it's far determined that each DLF&DOL values are very low during the year 2013-2020, with that DCL additionally got very low values i.E. 1.20, 1.Seventy five, 2.01, 1.Seventy five, 2.16, 2.Eighty five instances .In the 12 months 2019-20 because of growth of income & EBIT, the DOL turned into elevated to 17.17 instances, even though the DFL changed into low the DCL changed into high (17.Fifty nine) within the yr 2019-20.

CONTRIBUTION DEGREE OF OPERATING LEVERAGES:

ISSN:0976-0172
Journal of Bioscience And Technology
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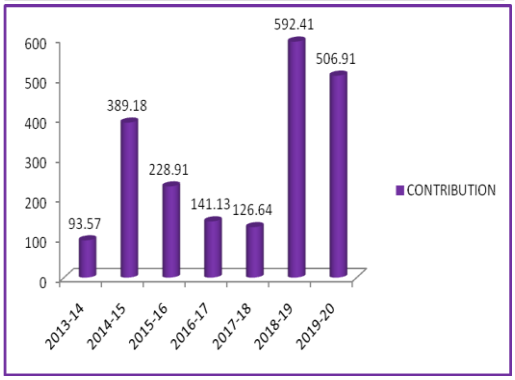
YEAR	INTREST	PROFIT	EBT
2013-14	5.96	67.17	61.19
2014-15	6.11	226.28	220.19
2015-16	7.30	141.06	135.76
2016-17	13.88	75.26	63.38
2017-18	17.58	65.34	49.76
2018-19	15.55	303.81	290.26
2019-20	0.75	29.55	28.80

YEAR	FIXEDCOST	PROFIT	CONTRIBUTION
2013-14	6.42	67.17	93.57
2014-15	182.88	226.28	389.18
2015-16	127.85	141.06	228.91
2016-17	45.89	75.26	141.13
2017-18	41.31	65.34	126.64
2018-19	288.6	303.81	592.41
2019-20	477.36	29.55	506.91

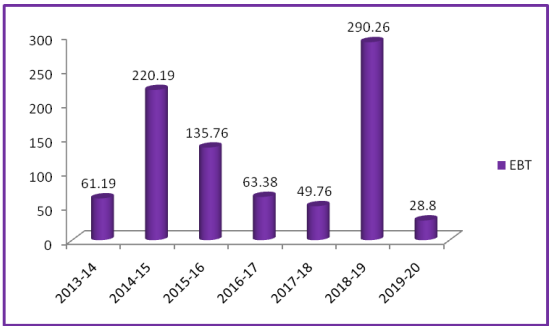


INTERPRETATION:

The fixed cost was increased and operating profit was showing fluctuations hence the was fluctuated during the study period.

CALUCALATION OF CONTRIBUTION DFL:

YEAR	DFL	DOL	DCL
2013-14	1.11	1.11	1.20
2014-15	1.02	1.71	1.75
2015-16	1.06	1.89	2.01
2016-17	1.18	1.60	1.90
2017-18	1.31	1.63	2.16
2018-19	1.46	1.94	2.85
2019-20	1.02	17.17	17.59



INTERPRERTATION:

The EBIT of the company was decreased with that the interest also decreased hence the EBIT was decreased during the study period.

Calculation of coefficient of correlation between DCL and EPS

```
CORRELATIONS
  /VARIABLES=DCL EPS
   /PRINT=TWOTAIL SIG
  /MISSING=PAIRWISE.
```

Correlations [DataSet0]

		DCL	EPS
DCL	Pearson Correlation	1	-.128
	Sig. (2-tailed)		.817
	N	7	7
EPS	Pearson Correlation	-.128	1
	Sig. (2-tailed)	.817	
	N	7	7

INTERPRETAION:
The co-efficient of correlation between DCL and EPS r= - 0.128.& p >0.05 hence the relationships is insignificant and weak relationship existing between DCL and EPS.

Calculation of coefficient of correlation between DFL and EPS

YEAR	DFL	EPS
2013-14	1.11	5.68
2014-15	1.02	43.57
2015-16	1.06	23
2016-17	1.18	14.91
2017-18	1.31	12.56
2018-19	1.46	53.45
2019-20	1.02	25.78

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CORRELATIONS
  /VARIABLES=DFL EPS
   /PRINT=TWOTAIL SIG
  /MISSING=PAIRWISE.
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CORRELATIONS

[DataSet0]

		DFL	EPS
DFL	Pearson Correlation	1	.438
	Sig. (2-tailed)		.325
	N	7	7
EPS	Pearson Correlation	.438	1
	Sig. (2-tailed)	.325	
	N	7	7

INTERPRETAION:

The co-efficient of correlation between DFL and EPS r= 0.438.

The significant values is 0.325 >0.05 hence the relationship is significant and both variables are moving in same direction positively.

Calculation of coefficient of correlation between DOL and EPS

YEAR	DOL	EPS
2013-14	1.11	5.68
2014-15	1.71	43.57
2015-16	1.89	23
2016-17	1.60	14.91
2017-18	1.63	12.56
2018-19	1.94	53.45
2019-20	17.17	25.78

```
CORRELATIONS
 /VARIABLES=DOL EPS
 /PRINT=TWOTAIL SIG
/MISSING=PAIRWISE.
```

CORRELATIONS

[DataSet0]

Correlations

		DOL	EPS
DOL	Pearson Correlation	1	-.173
	Sig. (2-tailed)		.744
	N	7	7
EPS	Pearson Correlation	-.173	1
	Sig. (2-tailed)	.744	
	N	7	7

INTERPRETAION:

The co-efficient of correlation between DOL and EPS r=.-0.173

The significant values are 0.744> 0.05 hence the relationship is insignificant and weak or negative relationship existing between DOL and EPS.

TREND ANALYSIS OF DEGREE OF COMBINED LEVERAGES:

(Times)

YEAR	DFL	EPS
2013-14	1.11	5.68
2014-15	1.02	43.57
2015-16	1.06	23
2016-17	1.18	14.91
2017-18	1.31	12.56
2018-19	1.46	53.45
2019-20	1.02	25.78

INTERPRETAION:

The forecasting value for the year 2021 is 1.78times

TREND ANALYSIS OF DEGREE OF FINANCIAL LEVERAGES:

(Times)

YEAR	DCL
2013-14	1.11
2014-15	1.20
2015-16	1.75
2016-17	2.01
2017-18	1.90
2018-19	2.16
2019-20	2.85
2019*	-1.31
2020*	0.83
2021*	1.78

INTERPRETAION:

The forecasting value for the year 2021 is 1.14times

TREND ANALYSIS OF DEGREE OF OPERTING LEVERAGES

(Times)

YEAR	DOL
2013-14	1.11
2014-15	1.71
2015-16	1.06
2016-17	1.89
2017-18	1.60
2018-19	1.63
2019-20	1.94
2019*	-1.32
2020*	0.69
2021*	1.59

INTERPRETAION:

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Journal of Bioscience And Technology
www.jbstonline.com

The forecasting value for the year 2021 is 1.59times

FINDINGS

- The fixed cost and EBIT both were fluctuated with the contribution was also increased at the end of the study period.
- The EBIT was high during the study period. This is because of increase of EBT than the interest rates.
- The Degree of Financial Leverage was comedown from the years 2018 – 2020. This is because of the percentage increase of PBT was less than the percentage increase of EBIT during that years.
- The Degree of Operating leverage was very low during year 2013-2020 this is because of contribution is more than EBIT.
- The Degree of Financial Leverage & Degree of Operating Leverage both are low during the years 2013 - 2020 with that Degree of Combined leverage was very low in that years.
- The numbers of shares are constant and PAT was increased with that EPS was increased during the study period.
- The coefficient of correlation between DFL & EPS is insignificant and having low association between two variables.
- The coefficient of correlation between DOL & EPS is insignificant and having negative relationship.
- The coefficient of correlation between DCL & EPS is insignificant and having negative association between two variables.

SUGGESTIONS

• "The greater financial leverage a corporation has, the better its profits are." As a result, raise financial leverage to allow equity investors to make more money.

• Only a smidgeon of operational leverage existed. As a result, improve the company's operational efficiency by increasing operating leverage.

• DCL focuses its efforts on the entire revenue of the company. Throughout the trial, the DCL decreased. As a result, if the correct financial decisions are made, such as high financial leverage being compensated by low operating leverage or vice versa, the value of DCL may improve.

• Earnings per share (EPS) are a good metric to utilize when calculating profitability. It showed an increased trend during the study period. As a result, obtaining shareholder ownership should be approached in the same way.

• Sales revenue determines the variability of EBIT. As a result, in order to increase EBIT and enhance operational efficiency, the company should focus more on producing sales revenue.

CONCLUSION

As a result of the study, the company's operating and financial leverage were both decreased. As a result of this adjustment, the degree of combined leverage was also reduced.

Finally, the study claims that in order to attain future profitability, the company's optimal capital structure and capacity utilization may need to be reframed.

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PROJECT MANAGEMENT & CONTROL AND REVIEW: ***Prof. PARASANNA CHANDRA***

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