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Research Article

Impact of Leverage & Coverage Ratios on ITC Ltd

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Abstract

Finance is the main area for all developed & developing countries. A firm & fruitful financial structure reflects healthy economy. Finance may be defined as the art and science of managing money. Finance involves both Financial Planning and Financial Management. The foremost objective of financial management is to maximise shareholders wealth. Capital Structure Decision, which involves in determining the Debt- Equity Mix have an impact on the profitability of the firm. With the increase in proportion of Debt Capital increases, then the Equity Earnings falls as well the risk of insolvency (Bankruptcy cost) increase. The risk of shareholders increases because the borrowed funds carry a fixed interest, which has to be paid whether the company earns profits or not. Thus, the earnings and the risk of the shareholders increase when there is a high proportion of borrowed funds as compared to owned funds in the capital structure of a company. Leverage refers to debt or to the borrowing of funds to finance the purchase of a company's assets. Business owners can use either Debt or Equity to finance or buy the company's assets. Using debt, or Leverage, increases the company's risk of bankruptcy. It also increases the company's returns; specifically its return on equity. This is true because, if debt financing is used rather than equity financing, then the owner's equity is not diluted by issuing more shares of stock. This paper concentrates on leverage and its relationship between profitability in ITC Ltd. In this paper, an attempt is made to performance an Analysis on: 1) Financial Performance of ITC Ltd, 2), Leverage of ITC Ltd and 3) Study the relationship between leverage and profitability. The financial statements of ITC have been collected over a period of 6 years (2011 to2016). The exploratory research design is adopted in this study which employs secondary data. The data collected is analysed by the percentages, averages, ratios and Correlation analysis tools reveals that the research evidence of the study indicates that, that degree of operating leverage is statistically significant positive correlation with the EPS. The financial performance of ITC is satisfactory. The analysis has shown that ITC has financed its activities mainly from its Reserve & Surplus and the amount of Debt has fallen over the years. It is suggested that ITC must increase its Debt funding to take the advantage of Tax Shield. Moreover, Cost of Debt is cheaper than Cost of Equity.

Keywords: *Leverage, Profitability, Degree of Financial Leverage, Degree of Operating Leverage, Combined Leverage, Correlation, Net Wort, Interest Coverage, Dividend Coverage*

Introduction

All Financial Decisions taken by a company have impact on the function of the organization and it will affect various departments of the organizations. Finance involves both Financial Planning and Financial Management. Financial Planning deals with planning about the amount of fund required as well as the different sources of procuring the fund. Financial Management is the process of managing the financial functions, making decision on the financial matters, implementation of the decisions and review of the implementation. The foremost objective of financial management is to maximise shareholders wealth.

Capital Structure Decision, which involves in determining the Debt- Equity Mix have an impact on the profitability of the firm. With the increase in proportion of Debt Capital increases, then the Equity Earnings falls as well the risk of insolvency (Bankruptcy cost) increase. The risk of shareholders increases because the borrowed funds carry a fixed interest, which has to be paid whether the company earns profits or not. Thus, the earnings and the risk of the shareholders increase when there is a high proportion of borrowed funds as compared to owned funds in the capital structure of a company.

Leverage, as a business term, refers to debt or to the borrowing of funds to finance the purchase of a company's assets. Business owners can use either Debt or Equity to finance or buy the company's assets. Using debt, or Leverage, increases the company's risk of bankruptcy. It also increases the company's returns; specifically its return on equity. This is true because, if debt financing is used rather than equity financing, then the owner's equity is not diluted by issuing more shares of stock.

Investors in a business like for the business to use debt financing but only up to a point. Beyond a certain point, investors get nervous about too much debt financing as it drives up the company's default risk.

Leverage analysis is the methodical classification of the data given in the financial statement. It is the process of identifying the financial strength and weakness of a firm from the available accounting data and financial statements.

On the other hand, if the proportion of the shareholders' funds is more than the proportion of the borrowed funds in the capital structure of the company, the earnings as well the risk of the shareholders will be less. Thus, the debt-equity mix in the capital structure of a company has a significant effect on the shareholders' earnings and risk. So the management has to make an intelligent use of both operating Leverage in profit planning and financial Leverage in planning the capital structure.

Operating Leverage

Operating Leverage refers to the use of fixed cost in the operations of the firm. A firm has to bear the fixed cost expenses irrespective of output.

Operating Leverage refers to a company's division between Fixed Costs and Variable Costs. Fixed Costs remains constant or unchanged with the change in the level of production or sales while Variable Cost varies. The Operating Leverage can be said to refer to the firm's share of Fixed Operating Cost in its production (Hillier et al., 2010). This means that, for a particular firm, the higher the Operating Leverage, the larger the sum they have to cover with sales, but the contribution margin will be relatively higher (Penman, 2012). Such firms are affected of small changes in sales leading to a greater effect on the return on invested capital (Brigham and Houston, 2011). Hence, there is a positive relationship between Operating Leverage and risk, which has been shown empirically by Lev (1974), Mandelker and Rhee (1984) and theoretically by Duett et al. (1996). Cyclical companies, e.g. auto manufacturers, with a high Operating Leverage tend to be more affected than non-cyclical companies, e.g. pharmaceutical companies or food companies, in times of economic downturn. This is due to their incapability of swiftly cutting costs (Bodie et al., 2009). Operating Leverage increases with a rise in fixed costs and/or a decline in variable costs.

The firm can use higher amount of operating Leverage i.e. using of higher amount of fixed cost when compared to variable cost only when the sales are rising because even a small change in sales will bring a proportionate change in operating profit.

Degree of Operating Leverage is defined as the relationship between Percentage changes in Operating Profit due to Percentage change in Sales.

Financial Leverage

The employment of fixed source of funds such as debt and preference share in the capital structure of the firm along with owner's equity is called financial Leverage or trading on equity. Financial Leverage may be favourable or unfavourable.

Financial Leverage is concerned with the extent to which firms rely on debt, and is therefore directly concerned with the Capital Structure of a firm. A firm with debt must make interest payments regardless of the sales, which leads to an increased risk.

The debt payments - in contrast to Equity dividends - have to be paid and debt-holders are thus prioritized over equity-holders in terms of cash-flow. The debt payments can therefore be seen as a Fixed Financial Cost. The priority remains in the case of a bankruptcy when the remaining assets are claimed.

A benefit of Financial Leverage is that it can contribute to increased profits if the return on investment (ROI) exceeds the interest rate on the debt, hence, companies may have incentives to use debt-financing.

Degree of Financial Leverage is defined as the relationship between Percentage change in Earnings Per Share due to Percentage change in Operating Profit.

In other words, degree of financial leverage is a leverage ratio which shows how much Financial Leverage affects the earnings per share for a company. It can be interpreted that a firm with higher degree of Financial Leverage will have more volatile income or cash flow situations.

Combined Leverage

Combined Leverage is a use of operating Leverage and financial Leverage in an appropriate proportion in the business. Operating Leverage affects the firm's operating profit and financial Leverage affects the earnings of the shareholder or EPS. Firm has to use a correct mixture of both the Leverages to take the fullest possible advantage of growing business opportunities.'

Earning Per Share (EPS)

The portion of a company's profit is allocated to each outstanding share of common stock. Earnings per share serve as an indicator of a company's profitability.

Leverage and Earning Per Share

There is a close relationship between the financial leverage and Earning per Share of the company. If degree of financial leverage is high and the return on investment is greater than the cost of debt capital, then the impact of leverage on EPS will be favourable. The impact of financial leverage is unfavourable when the earning capacity of the firm is less than what is expected by the lenders (i.e.) the cost of debt.

Leverage and Return on Investments

The Return on Investment comes from leverage appreciation of the assets value which is normally based on income. It means assets are purchased with only a portion of the purchase price coming from the buyer and the balance coming from the lender. Any increases in the value of the entire assets represent a real return on the original amount invested and the investor will make profits in the long run.

Profitability

Profitability plays an essential role in leverage decision. In general, the profitable companies are able to tolerate high level of debt, by virtue of their ability to meet the financial obligations on time. The profit earning companies can easily add more debt in their capital structure. The study reveals that the leverage has a significant influence on profitability.

Objectives of the study

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 statements over a period are to be studied.

Hence the study is conducted to evaluate the relationship between component parts of the financial statements of the ITC Limited and to obtain better understanding of the company position and performance. Leverage analysis reveals the utilization of firm's debt into very effective way.

- To know the overall operating efficiency and performance of the firm through financial analysis.
- To measure the growth of company.
- To offer suitable suggestions based on findings.

Scope of the Study

Scope of the study covers the area of study. The study concerned with analyses of leverage position of the company.

Sources of Data

The study is based on secondary data. It was a case study, studying particular unit, i.e. ITC Ltd. For the purpose of analysis, the researcher has collected final accounts of ITC Ltd. The researcher has gone through various journals, magazines, newspapers, publications and websites for obtaining information.

Period of Study

The study concerned with financial aspects of ITC Ltd. The Study period is from 2011 to 2016.

Tools for Analysis

The researcher has analyses the financial statements of ITC Ltd with the help of ratio analysis such as Leverage Analysis

To analyse the impact of leverage on profitability of ITC Ltd, the important statistical techniques such as arithmetic mean, standard deviation, correlation have been used for the study.

Key Variables

The variable that have been adopted for the present study are sales, PBIT, PBT, Net Worth, Capital Employed, Interest, Loans.

Limitation of the Study

- This study is concentration on one particular company, not inter firm comparison.
- The study is based on secondary data to that extend it has limitations.
- Lack of availability to certain data due to confidentially of information.
- Due to constraints of time cost and non-availability of data, the study was restricted to a period of 6 years.

Review of Literature

1) Scholars in varied industries have extensively researched Leverage and profitability. These have motivated the corporate to identify and improvise upon their financial performance. In February, 2014, Bindiya Soni and Jigna Trivedi, in a research paper titled, A Study on Leverage Analysis and Profitability for Selected Paint Companies in India1 analyses the impact of both financial leverage as well as operating leverage on the profitability (measured through Earning Per Share EPS) of the selected paint companies of India. Five listed paint companies of India were selected based upon the market capitalization for the research purpose. The study investigates the impact of degree of financial leverage and degree of operating leverage on EPS with the help of correlation analysis. Along with this analysis, the paper also investigates the impact of debt-equity ratio on the EPS of the said firms to see the impact of debt on the wealth of the firms. The findings suggest that financial leverage had no significant relationship on profitability while operating leverage had significant relationship on profitability with the exceptions of few.
2) Kumar Ramana, in a paper titled, An Empirical Study on Relationship between Leverage and Profitability in Bata India Limited2, elaborates on leverage and its relationship between profitability in Bata India Limited. this research paper, analyzes the performance of Bata India Limited, The exploratory research design is adopted in this study which employs secondary data .The financial statements of Bata India Limited have been collected over a period of 7 years (2005-06 to 2012- 13). The data collected is analyzed by the

percentages, averages, ratios and Correlation analysis tools reveals that the research evidence of the study indicates that, that degree of operating leverage is statistically significant positive correlation with the ROI. It is observed that degree of financial leverage is positively correlated with the ROI .It means that degree of financial leverage of Bata India was not at optimum level. It is suggested to Bata to revise its capital structure which should include the optimum blend of equity and borrowed funds so that it has positive impact on Return on Investment. More over degree of combined leverage is positively correlated with ROI of Bata India. The financial performance of the Bata India is satisfactory. The Bata India is employing less debt funds so it can't get the financial leverage benefits. Therefore the Bata India has to revise its capital structure so that financial leverage will help to maximize the shareholders wealth.

3) Sanjay J. Bhayani and Butalal Ajmera in a research paper titled, An Empirical Analysis Of Financial Leverage, Earnings And Dividend: A Case Study Of Maruti Suzuki India Ltd.6, have studied the theoretical approaches and practical application of financial leverage, earnings per share and dividend per share of Maruti Udyog Ltd. with data for the period of 2001-02 to 2008-09. For the purpose of analysis, researcher has used ratio techniques and to test hypothesis for correlation-co-efficient has been used. The result of the study indicates that there is a correlation between DFL and EPS and the difference is insignificant whereas result of correlation coefficient at 5% level of significance showed that the diffidence is significant between DFL and DPS and EPS and DPS.
4) Priyanka Sharma, Ankit Saxena and Karishma Choudhary, in a research paper titled, Leverage Analysis Of Amul –Anand Milk Union Limited, Ahmedabad, in February 2014, have conducted a comparative study and analysis of firms financial leverage, operating leverage and combined leverage has been done of five years i.e. from 2007-08 to 2011-12.

ITC of India Ltd. (ITC) - Company History

ITC Ltd is one of India's foremost private sector companies. The company is rated among the World's Best Big Companies Asia's Fab 50 and the World's Most Reputable Companies by Forbes magazine among India's Most Respected Companies by Business World and among India's Most Valuable Companies by Business Today.

ITC has a diversified presence in Cigarettes Hotels Paperboards & Specialty Papers Packaging Agri-Business Packaged Foods & Confectionery Information Technology Branded Apparel Personal Care Stationery Safety Matches and other FMCG products. While ITC is an outstanding market leader in its traditional businesses of Cigarettes Hotels Paperboards Packaging and Agri-Exports it is rapidly gaining market share even in its nascent businesses of Packaged Foods & Confectionery Branded Apparel Personal Care and Stationery.

ITC's wholly owned Information Technology subsidiary ITC Infotech India Ltd provides IT services and solutions to leading global customers.

ITC was incorporated on August 24 1910 under the name Imperial Tobacco Company of India Ltd. As the company's ownership progressively Indianised the name of the company was changed from Imperial Tobacco Company of India Ltd to India Tobacco Company Ltd in the year 1970 and then to I.T.C. Ltd in the year 1974.

In recognition of the company's multi-business portfolio encompassing a wide range of businesses - Cigarettes & Tobacco Hotels Information Technology Packaging Paperboards & Specialty Papers Agri-business Foods Lifestyle Retailing Education & Stationery and Personal Care - the full stops in the company's name were removed effective September 18 2001. The company now stands rechristened ITC Ltd.

During the year first six decades of the company's existence were primarily devoted to the growth and consolidation of the Cigarettes and Leaf Tobacco businesses the seventies witnessed the beginnings of a corporate transformation that would usher in momentous changes in the life of the company.

Risk Analysis

The variability of EBIT and EPS distinguish between two types of risk – (a) Operating Risk and (b) Financial Risk.

- Degree of Operating Leverage depends upon variability of sales and variability of expenses. The amount of revenue earned was Rs 3,19,931 million in 2011 which increased to Rs 5,46,906 million during 2015-16. The Compounded Annual Growth rate (CAGR) in Sale from 2011 to 2016 has been 11.32%. The Operating Profit of ITC Ltd has increased over the years from Rs 75,058 million in 2011 to Rs 1,54,917 million in 2016. The Degree of Operating Leverage has increased over the years.
- Growth in Sales has also lead to growth in Operating Profit as well as EPS over the years. EPS have from 6.45 in 2011 to 12.31 in 2016. The Compounded Annual Growth rate (CAGR) in EPS has been 13.81% from 2011 to 2016. The Debt capital of the company has decreased over the years as a result of which the Interest cost has declined. This has created an impact on DFL as a result of which the Financial Leverage has decreased from 1.009 in 2012 to 0.35 in 2016.
- Combined risk, can be measured by its Degree of Combined Leverage (DCL). DCL has remained positive over the years (i.e. Revenue Generated > Total Costs) and it has also decreased from 1.622 in 2012 to 0.702 in 2016. The decrease in Combined Leverage has taken place mainly due to the fall in Financial Leverage of the Firm. Small DCL value indicates relatively low combined risk since fixed costs and interest would be relatively low when compared to revenue.

Exhibit – I Growth & Leverage

(INR Millions)	2011	2012	2013	2014	2015	2016	CAGR
Revenue	3,19,931	3,66,175	4,39,208	4,92,473	5,27,591	5,46,906	
Sales (Growth %)		14.5%	19.9%	12.1%	7.1%	3.7%	**11.32%**
PBIT	75,058	92,487	1,11,928	1,30,579	1,44,302	1,54,917	
PBIT (Growth %)		23.2%	21.0%	16.7%	10.5%	7.4%	**15.60%**
Earning Per Share (Rs)	6.45	7.96	9.56	11.09	12.00	12.31	
EPS (Growth %)		23.4%	20.2%	16.0%	8.2%	2.6%	**13.81%**
%Change in Sales	-	14.5%	19.9%	12.1%	7.1%	3.7%	
% Change in PBIT	-	23.2%	21.0%	16.7%	10.5%	7.4%	
%Change in EPS	-	23.4%	20.2%	16.0%	8.2%	2.6%	
LEVERAGE							
DOL = % Change in PBIT / % Change in Sales	-	1.606	1.054	1.374	1.474	2.009	
DFL = % Change in EPS / % Change in PBIT	-	1.009	0.959	0.959	0.780	0.350	
DCL = % Change in EPS / % Change in Sales	-	1.622	1.011	1.318	1.149	0.702	

The Return on Investment of ITC Ltd on an average has been constant over the years. In 2011 the ROI was 19% which reached 19.33% in 2016. ROI has been maximum in 2014 which was 21.75%.

Exhibit – II Leverage Analysis

Year	DOL	DFL	DCL	ROI (%)
2011				19.00%
2012	1.606	1.009	1.622	20.79%
2013	1.054	0.959	1.011	21.52%
2014	1.374	0.959	1.318	21.75%
2015	1.474	0.780	1.149	21.01%
2016	2.009	0.350	0.702	19.33%

Exhibit – III Profitability & Net Worth

(INR Millions)	Revenue	PBIT	PBT	Net Worth	Loan	Capital Employed	Interest
2011	3,19,930.6	75,058.0	74,348.7	1,64,899.0	1,460.0	1,66,359.0	709.3
2012	3,66,174.5	92,486.5	91,681.5	1,94,585.8	1,558.6	1,96,144.4	805.0
2013	4,39,207.6	1,11,928.3	1,11,056.5	2,31,579.0	1,312.7	2,32,891.7	871.8
2014	4,92,472.8	1,30,579.2	1,30,515.5	2,72,369.6	1,191.4	2,73,561.0	63.7
2015	5,27,590.8	1,44,301.7	1,43,620.5	3,17,354.9	1,033.5	3,18,388.4	681.2
2016	5,46,906.3	1,54,916.5	1,54,331.8	3,39,644.1	937.3	3,40,581.4	584.7
CAGR (%)	**11.32%**	**15.60%**	**15.73%**	**15.55%**	**-8.48%**	**15.41%**	**-3.79%**
Mean	4,48,713.77	1,18,211.70	1,17,592.42	2,53,405.40	1,248.92	2,54,654.32	619.28
Median	4,65,840.20	1,21,253.75	1,20,786.00	2,51,974.30	1,252.05	2,53,226.35	695.25
SD	90847.58	30803.88	30913.95	68783.45	241.39	68550.78	289.85
COV	20.25	26.06	26.29	27.14	19.33	26.92	46.80
Kurtosis	-2.145	-2.013	-2.043	-2.283	-2.141	-2.280	3.139
Skewness	-0.631	-0.453	-0.456	-0.158	-0.183	-0.159	-1.984

Capital Structure Analysis

Exhibit III represents the details of Sales, PBIT, PBT, Net Worth etc., from 2011 to 2016. There has been a steady growth in Sales as a result of which Operating Profit, PBT have increased over the years.

During the whole period of study, it is observed that sales performance of ITC Ltd. was good as it increased in all the years but there was constant growth in sales. It is noted that the rate of interest as well as the amount have fallen over the years due to decrease in Loan amount.

The Net Worth has increased from Rs. 1,64,899 millions in 2011 to Rs 3,39,644.1 millions in 2016. The CAGR of Net Worth of ITC Ltd has been 15.55% while that of Capital Employed 15.41%. Moreover the Debt Capital of the firm has fallen from Rs 1,460 million in 2011 to Rs 937.3 million in 2016. This has also leaded to fall in interest expenses from Rs 709.3 million in 2011 to 584.7 million in 2016.

It is evident from the table that due to better performance in sales and almost constant interest during the study period, the interest rate as percentage of sales has shown a decreasing tendency due to the fall in the amount of Debt Capital in the Capital Structure of the firm. Interest Coverage Ratio is expressed as the number of times Operating Profit is more than Interest.

Interest Coverage Ratio = PBIT / Interest Expenses

The interest coverage ratio was 105.82 times in 2011 which increased to 264.95 times during 2016.

The increase in number of times in Interest Coverage Ratio has happened due to increase in sales as operating fixed costs remained fixed.

Exhibit – IV Interest Coverage

Year	PBIT (millions)	Interest (millions)	Interest coverage ratio
2011	75,058.0	709.3	105.82
2012	92,486.5	805.0	114.89
2013	1,11,928.3	871.8	128.39
2014	1,30,579.2	63.7	2049.91
2015	1,44,301.7	681.2	211.83
2016	1,54,916.5	584.7	264.95

Exhibit – V Dividend Coverage

(INR Millions)	PAT	Dividend Paid	Dividend Coverage
2011	50,179.3	38,662.1	1.3
2012	62,581.4	35,026.1	1.8
2013	76,080.7	35,916.2	2.1
2014	88,913.8	42,386.0	2.1
2015	96,631.7	48,756.1	2.0
2016	99,116.1	51,326.5	1.9

Exhibit – VI Capital Structure & Contribution

In INR Millions							% OF NET WORTH		% of Capital Employed		
Year	Share Capital	Reserves	Net Worth	DEBT	Capital Employed	D/E Ratio	Share Capital	Reserves	Share Capital	Reserves	DEBT
2011	7,738.1	1,57,160.9	1,64,899	1,460	1,66,359	0.0089	4.69%	95.31%	4.7%	94.5%	0.88%
2012	7,818.4	1,86,767.4	1,94,585.8	1,558.6	1,96,144.4	0.0080	4.02%	95.98%	3.9%	95.2%	0.79%
2013	7,901.8	2,23,677.2	2,31,579	1,312.7	2,32,891.7	0.0057	3.41%	96.59%	3.4%	96.04%	0.56%
2014	7,953.2	2,64,416.4	2,72,369.6	1,191.4	2,73,561	0.0044	2.92%	97.08%	2.9%	96.66%	0.44%
2015	8,015.5	3,09,339.4	3,17,354.9	1,033.5	3,18,388.4	0.0033	2.53%	97.47%	2.5%	97.16%	0.32%
2016	8,047.2	3,31,596.9	3,39,644.1	937.3	3,40,581.4	0.0028	2.37%	97.63%	2.4%	97.36%	0.28%
Total	**47,474.2**	**14,72,958.2**	**15,20,432.4**	**7,493.5**	**15,27,925.9**	**0.03**	**19.9%**	**580.1%**	**19.8%**	**576.9%**	**3.3%**
Average	**7,912.4**	**2,45,493**	**2,53,405.4**	**1,248.9**	**2,54,654.3**	**0.005**	**3.32%**	**96.68%**	**3.3%**	**96.15%**	**0.55%**

Dividend Coverage Ratio is expressed as the relation between Net Profit and Dividends declared. Over the years the Dividend Coverage has increased except in 2015-16 it declined from 2 to 1.9.

The 1st part of the Table shows the Analysis of Capital Structure of ITC, which reveals that Debt Equity Ratio has fallen over the years. The D/E ratio was 0.89 during 2011 which decreased to 0.0028 during 2015-16. This fall has been mainly due to the decrease in the amount of borrowing by ITC as well as the increase in Net Worth due to increase in Profit.

The 2nd part of the Table depicts the percentage of Share Capital to Net Worth, percentage of Reserves to Net Worth. The contribution of Share Capital has decreased over time while the contribution of Reserve & Surplus has increased. This increase provides a positive signal because the increase in Retained Earning has actually increased the Equity Share holders Fund as well as Wealth.

The 3rd part shows the contributions made by Share Capital, Reserves and Surpluses and Debt to the total Capital Employed. The average contribution made by Share Capital to Capital Employed has decreased from 4.5% in 2011 to 2.36% in 2016. The contribution from Retained Earnings has increased over time from 94.47% in 2011 to 97.36% in 2016.

Exhibit – VII Leverage & EPS

Period	DOL	DFL	DCL	EPS
2008				2.55
2009	15.09	0.95	14.27	5.56
2010	3.43	-0.13	-0.45	4.77
2011	0.65	11.38	7.35	12.18
2012	16.53	0.87	14.37	9.62
2013	-0.44	-2.47	1.08	10.07
2014	-1.88	1.05	-1.98	9.69
2015	3.50	1	3.49	16.59
2016	2.98	0.82	2.44	19.50

Exhibit – VIII Descriptive Statistics

Statistical Parameters	DOL	DFL	DCL	EPS
Mean	3.53887381	1.788585195	3.758923	11.77429
Standard Error	2.302709369	1.667521437	2.099754	1.85159
Median	2.982147408	0.869444814	2.442245	10.07
Standard Deviation	6.092396333	4.411847028	5.555426	4.898846
Sample Variance	37.11729308	19.4643942	30.86276	23.9987
Kurtosis	4.656571755	5.456213044	1.613691	-0.08778
Skewness	2.009622043	2.163137062	1.303551	0.407335
Range	18.41078169	13.84947001	16.35137	14.73
Minimum	-1.878012655	-2.467648483	-1.97704	4.77
Maximum	16.53276904	11.38182153	14.37433	19.5
Sum	24.77211667	12.52009636	26.31246	82.42
Count	7	7	7	7
Largest(1)	16.53276904	11.38182153	14.37433	19.5
Smallest(1)	-1.878012655	-2.467648483	-1.97704	4.77
Confidence Level (95.0%)	5.634526835	4.080277959	5.137912	4.530677
Coefficient of Correlation	0.731037212	0.593673012	0.779728	

Descriptive Analysis

From the descriptive analysis it is clear that the DOL, DFL and DCL show a fluctuating trend based on the mean and standard deviation values. The standard deviation of DOL is 6.09 which is more than the mean value of 3.53 while the SD of DFL is 4.41 while the mean value is 1.78 and that of DCL SD is 5.55 and Mean is 3.75.

Correlation Analysis

The coefficient of correlation between DFL and EPS, DOL and EPS and DCL and EPS are presented in Exhibit VI to assess the closeness of relation between each other. This table reveals that a correlation of 0.73 between DOL and EPS, 0.59 between DFL and EPS and 0.77 between DCL and EPS.

Conclusion

- ITC's debt Capital has declined over years as well as D/E ratio.
- Due to decrease in Debt, ITC does not get any tax shield.
- Net Sales and Assets of the company have increased a lot in recent years.
- The interest and Dividend Coverage ratio has increased over the years.
- To maximize the wealth of shareholders, leverage plays a positive role when rate of return is higher than the fixed rate of interest which is paid on loans borrowed.
- The long-term debt is positively related with the firms' gross profitability. This can be explained by the aggressive output and investment strategies adopted by the firms with higher long-term debts, combined with their technology up gradation efforts.
- The structure of the debt of the firms is therefore found to have an important bearing on the firms' choice of product market related strategies and thereby influencing the performance of the firms as well.
- ITC Ltd. is also using the financial leverage effectively thereby increasing the earning of the shareholders. Finally, it is concluded that the company should improve its debt equity ratio in order to have better trading on equity position and reframe its capital structure for further development.

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