An Analysis of Leverage And Cost Behavior With Reference To Gleneagles Healthcare India Private Limited

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Abstract- *In finance, leverage or leveraging refers to the use of debt to supplement investment. Companies usually leverage to increase returns to stock, as this practice can maximize gain (and losses). The easy but high risk increases in a stock price due to leveraging at US banks has been blamed for the usually high rate of pay for top executives during the recent banking crisis, since gains in stock are often rewarded regardless of method. Delivering in the action of reducing borrowings. In microeconomics, a key ensure of leverage is debt to GDP ratio. There are three types of leverage 1. Operating leverage 2. Financial Leverage 3. Combined Leverage*

Separating Mixed Costs into their variable and fixed elements. Mixed costs are common to a wide range of firms. Examples of mixed costs include sales compensation, repairs and maintenance, and factory overhead in general. Mixed costs must be separated into the variable and fixed elements to be included in a variety of business planning analyses such as Cost-Volume-Profit (CVP) Analysis. The way a specific cost reacts to changes in activity levels is called cost behaviour. Costs may stay the same or may change proportionately in response to a change in activity. Knowing how a cost reacts to a change in the level of activity makes it easier to create a budget, prepare a forecast, determine how much profit a new product will generate, and determine which of two alternatives should be selected. Fixed costs Fixed costs are those that stay the same in total regardless of the number of units produced or sold. Although total fixed costs are the same, fixed costs per unit changes as fewer or more units are produced. Straight-line Depreciation is an example of a fixed cost. It does not matter whether the machine is used to produce 1,000 units or 10,000,000 units in a month;the depreciation expense is the same because it is based on the number of years the machine will be in service. Variable costs Variable costs are the costs that change in total each time an additional unit is produced or sold. With a variable cost, the per unit cost stays the same, but the more units produced or sold, the higher the total cost.

I. INTRODUCTION

A company can raise the fund required for investment either by increasing owner’s claims or the creditor’s claim or both. The claims of the owner’s increases when the company raises the fund by issuing equity shares or ploughs back its earnings. The claims of the creditors increase when the funds are raised by borrowings. Means used to raise the funds represent the financial or the capital structure of the company.

The financing or capital structure decision is of tremendous significance for the management, since it influences the debt-equity mix of the company, which ultimately affect shareholder’s return and risk. In case the borrowed funds are more as compared to the owner’s funds, it results in increase in shareholder’s earning together with increase in their risk.

This is because the cost of borrowed funds less than that of shareholder’s fund on account of the cost of borrowed fund being allowable as a deduction for income tax purpose. But at the same time, the borrowed fund carries a fixed interest, which has to be paid whether the company is earning profit or not. Thus, the risk of the shareholders increases in case there is high proportion of borrowed funds in the total capital structure of the company.

In a situation where the proportion of the shareholder’s fund is more that the proportion of the borrowed fund, the return as well as the risk of shareholders will be much less.

Cost behaviour is the measure of how a cost responds to changes in the level of business activity. Understanding of how costs behave in a particular situation is crucial for decision-making process in an organization. Thus, the production performance results reported on the income statement

In marginal costing, only variable cost is charged to production. The Institute of cost & management accountants (U.K.) defines it as, “the practice of charging all cost, both variable & fixed to operation, process or product.” This explains why this technique is also called full costing. Administrative, selling & Distribution overhead as much from part of total cost as prime cost & factory burden.

II. NEED FOR THE STUDY

This study is conducted to know the leverage of gleneagles healthcare india private limited. This study helps to gain insight about the leverage in the organization and significantly increase the returns that can be provided on an investment.

III. OBJECTIVES OF THE STUDY

- To study the Operating, Financial & Combined Leverage
- To understand the Degree of Operating, Financial & Combined Leverage.
- To study the profit volume analysis.
- To study the Break-Even analysis of company.

IV. SCOPE OF THE STUDY

The study will explore the effects of Leverage in the organization, a case study of GLENEAGLES HEALTHCARE INDIA PRIVATE LIMITED located in Chennai. This study will conclude about increase in the profit that can be provided on an investment.

V. LITERATURE REVIEW

Prof. I. M. Pandey (2023) has defined leverage from different viewpoints and has explained elaborately the effects of leverage on Shareholders’ return. The point to be noted is that he has devoted a special section to the tax-shield effect of leverage. He has dissected the effects of leverage under different scenarios wherein sometimes the EBIT is varying and rate of taxes also varies. As a practical case- study, he has analysed the employment of leverage in Voltas Ltd. which is followed by many examples and illustrations.

Darshana Lakmal (2022) Management accounting involves using accounting techniques to aid in decision-making and planning for business enterprises. Marginal costing considers only variable manufacturing costs, while absorption costing considers all manufacturing costs as production costs. Both techniques have faced criticism for their overhead recovery rates and allocation of overheads. This paper reviews previous research and literature on marginal and absorption costing methods, highlighting their supporters and arguments in favor and against each method.

Mark Lee Inman (2022) Marginal costing is a decision-making technique that considers only activity-related costs, assuming time-related costs will be incurred regardless of expenditure decisions. It charges variable costs to cost units and writes off fixed costs against the contribution for the period. Marginal costing is useful in reporting, especially when monitoring operating divisions or activities and dealing with corporate fixed overhead. However, it is unrealistic to take an arbitrary allocated cost over which operations management has no control and appraise it. This approach could produce misleading data when considering decision making and marginal costs.

Avraham Kamara (2021) Operating leverage increases profitability but reduces optimal financial leverage, contradicting trade-off theory. This is demonstrated using China's entry into the World Trade Organization and its impact on U.S. firms' capital-labour ratio.

B. Kriefman (2021) Marginal costing is a method used to analyze costs in a way that excludes fixed or unavoidable costs, focusing on short-term changes in total costs resulting from changes in business activity level, known as marginal costs. Marginal costing

Garin Pratiwi Solihati (2021) This study examines the impact of leverage, return on assets, company size, and sales growth on the value of manufacturing companies listed on the Indonesia Stock Exchange The results show that leverage and return on assets positively affect firm value, while company size and sales growth have no effect.

R. Watts (2019) Firms on growth tend to have less leverage and faster growth compared to their historical records. Most borrowing firms struggle to dispose of debt due to lack of finance. Debt also hinders firms from doling out dividends, as they may be cautious about giving out large amounts due to the fear of future cash reserves being used to service debt.Tobias Adrian and

Bayu Pratama (2018) This study investigates the impact of company size, financial leverage, profitability, and dividend payout ratio on earnings smoothing practices in Indonesian companies listed on the LQ-45 index. Data was collected from 19 companies using purposive sampling. The results show that company size positively influences earnings smoothing practices, while financial leverage has a negative impact. Profitability also positively influences earnings smoothing practices, but dividend payout ratio doesn't significantly affect them. The study provides valuable insights for investors on earnings smoothing practices and their internal and external influences.

VI. RESEARCH MEDHODOLOGY

Research methodology provides a structured approach to addressing research problems effectively. It emphasizes the importance of a methodical approach to achieving clearly defined objectives, as without proper data collection and analysis, targets cannot be met. Hence, gathering the necessary data is crucial in any study, particularly in the realm of social science research. Research involves meticulous, patient, and systematic inquiry or examination within a specific field of knowledge to establish principles or factors. It is a controlled, methodical, and critical investigation into hypothetical propositions concerning the relationships among natural phenomena. Social research specifically delves into the underlying processes in people's lives within various associations. The primary aim of applied research is to discover, interpret, and develop methods and systems to advance human knowledge on a scale.

DATA COLLECTION:

The data collection classified into two types they are:

1. Primary Data
2. Secondary Data

PRIMARY DATA

The research has been collected data with the help of primary way. It includes personal discussion with staff member off concern. Also Researcher has been collected the data with the help of investigation and questionnaires'

SECONDARY DATA

The secondary data are collected from information which is used by other. It is not direct information. This information already collected and analysis by other and that information used by others. This secondary data are collected from following.

1) Companies' income statement
2) Internet Website

TOOLS AND TECHNIQUE OF THE ANALYSIS:

For study Analytical technique are used such as table, graphs, charts, diagrams are used in the study.

REFERENCE PERIOD: -

The reference period of the study is 5 years from 2018-2019 to 2022-2023.

VII. LIMITATION OF THE STUDY

- The study is limited for five years statement of accounts Gleneagles Healthcare India Private Limited.
- The scope & duration of study is limited.

VIII. DATA ANALYSIS AND INTERPRETATION

CALCULATION OF OPERATING LEVERAGE

The formula for computing the Operating leverage is given below:
Operating leverage = Contribution / Operating profit (or) EBIT

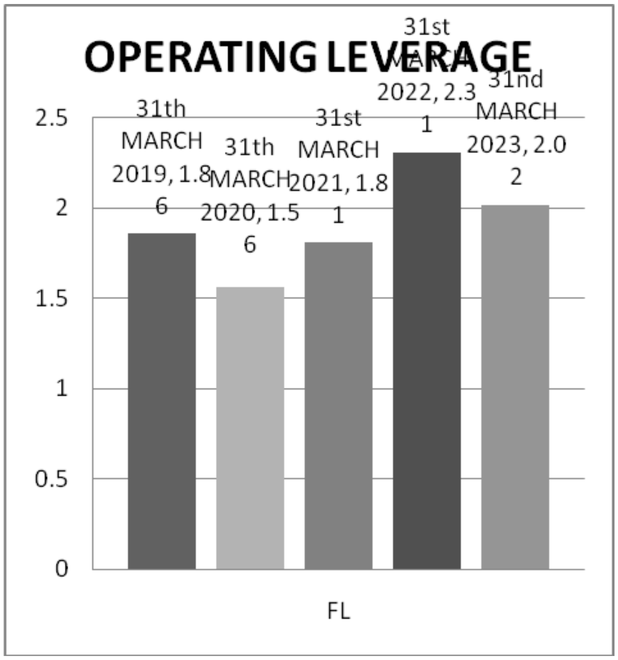
Table-2.7 Table showing operating leverage

YEAR	CALCULATION	RESULT
31st MARCH 2019	73557000/215748000	1.86
31st MARCH 2020	389147000/139268000	1.56
31st MARCH 2021	432513000/192980000	1.81
31st MARCH 2022	714945000/405293000	2.31
31st MARCH 2023	725338000/366882000	2.02

INTERPRETATION: -

In the year 31st MARCH 2022, the company is having the Operating Leverage 2.31 & in 31st MARCH 2022 It is lowered down to 2.02 this is due to behaviour of the variable cost with respect to fixed cost.

Chart No:2.1 Chart showing operating leverage



CALCULATION OF DEGREE OF OPERATING LEVERAGE

The formula for computing the Degree of Operating leverage is given below:

Degree of operating leverage = Percentage Change in Operating profit/
Percentage Change in sales

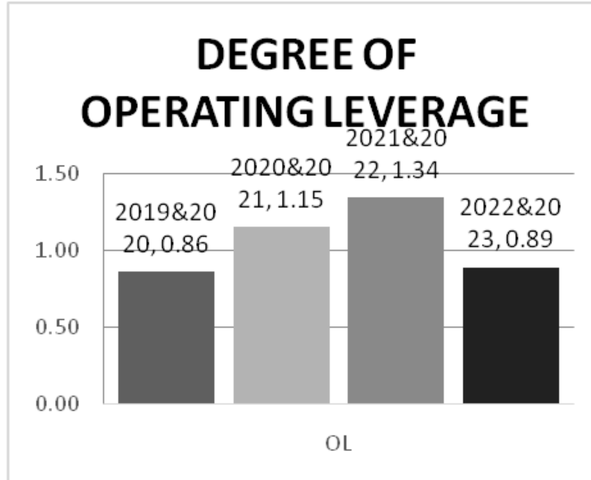
Table-2.8 Table showing degree of operating leverage

YEAR	CALCULATION	RESULT
2019&2020	(975975000-1236365000)/ 1236365000 (267195000-139268000)/ 139268000	0.85
2020&2021	(975975000-1046136000)/1046136000 (192980000-139268000)/ 139268000	1.15
2021&2022	(405293000-182980000)/ 132980000 (1382197000-1046136000)/ 1046136000	1.34
2022&2023	(366882000-405293000)/ 405293000 (1576828000-1382197000)/ 1382197000	0.89

INTERPRETATION: -

The Degree of Operating Leverage is raising due decrease in operating leverage i.e.,
1.34

Chart No:2.2 Chart showing degree of operating leverage



CALCULATION OF FINANCIAL LEVERAGE

The formula for computing the financial leverage is given below:

Financial leverage = Operating Profit (EBIT) / Profit Before tax (EBT)

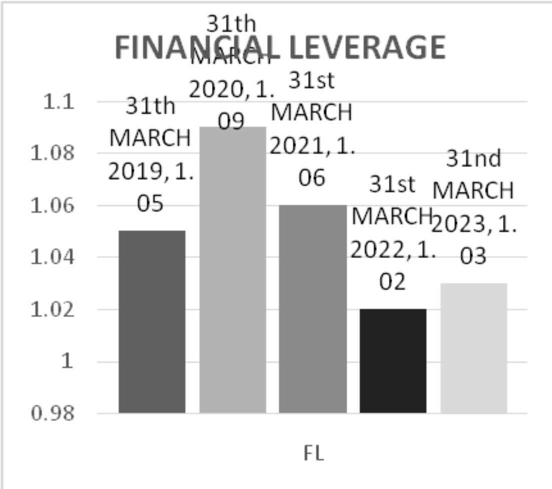
Table-2.9 Table showing financial leverage

YEAR	CALCULATION	RESULT
31st MARCH 2019	267195000/69727000	1.05
31st MARCH 2020	139268000/49521000	1.09
31st MARCH 2021	192980000/52644000	1.06
31st MARCH 2022	405293000/83723000	1.02
31st MARCH 2023	366882000/355611000	1.03

INTERPRETATION: -

In the year 31st MARCH 2021, the company is having the Financial Leverage 1.06& in 31st MARCH 2022 it is lowered down to 1.03 this is due to changes in the fixed cost.

Chart No:2.3 Chart showing financial leverage



CALCULATION OF DEGREE OF FINANCIAL LEVERAGE

The formula for computing the Degree of Operating leverage is given below:
Degree of Financial leverage = Percentage Change in Taxable income (or)EPS
/ Percentage Change in operating income(or)EBIT

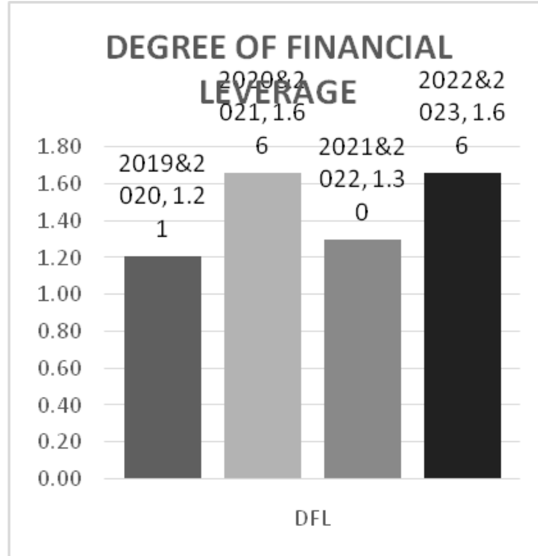
Table-2.10 Table showing age of the degree of financial leverage

YEAR	CALCULATION	RESULT
2019&2020	(0.72-1.14)/1.14 (975975000-1236365000)/ 1236365000	1.21
2020&2021	(0.78-0.72)/0.72 (975975000-1046136000)/1046136000	1.66
2021&2022	(1.45-0.78)/0.78 (405293000-182980000)/ 132980000	1.30
2022&2023	(1.62-1.45)/1.45 (366882000-405293000)/ 405293000	1.66

INTERPRETATION: -

Degree of Financial Leverage is Exists & favorable for the company as itis above one i.e.,1.66

Chart No:2.4 Chart showing degree of financial leverage



CALCULATION OF PROFIT VOLUME RATIO

The formula for computing the P/V ratio is given below:
P/V Ratio = (Contribution / Sales) *100

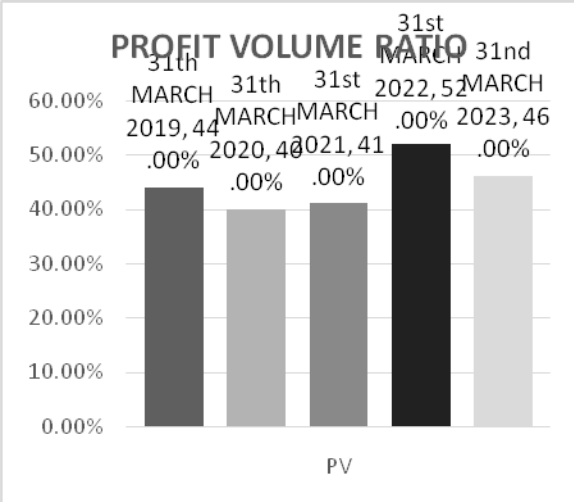
Table-2.12 Table showing PV ratio

YEAR	CALCULATION	RESULT
31st MARCH 2019	556498000/1236365000	44%
31st MARCH 2020	249879000/975975000	40%
31st MARCH 2021	239533000/104613600	41%
31st MARCH 2022	309352000/1382197000	52%
31st MARCH 2023	725338000/ 1576828000	46%

INTERPRETATION: -

As comparing the PV Ratio, it is found that the PVR is increased in the 31st MARCH 2022 the reason behind this high increase in sales volume

Chart No:2.6 Chart showing PV ratio



CALCULATION OF BREAK-EVEN-POINT (IN SALES)

The formula for computing the Break-Even Point is given below:
B.E.P. (in sales) = Total Fixed cost / Profit Volume ratio

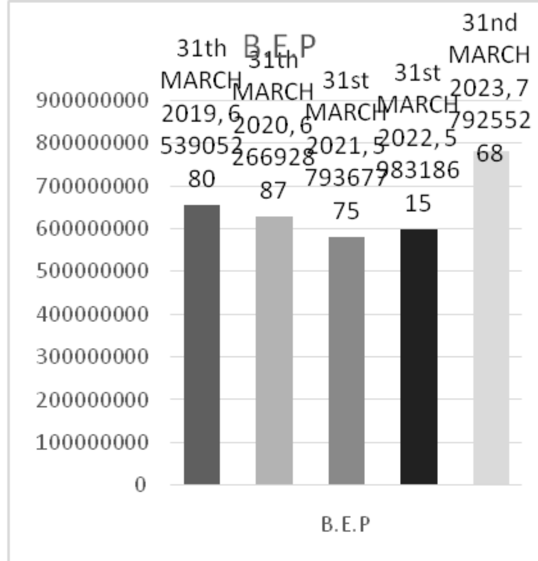
Table-2.13 Table showing B.E.P (in sales)

YEAR	CALCULATION	RESULT
31st MARCH 2019	289303000/44%	653905280
31st MARCH 2020	249879000/40%	626692887
31st MARCH 2021	239533000/41%	579367775
31st MARCH 2022	309352000/52%	598318615
31st MARCH 2023	358456000/46%	779255268

INTERPRETATION: -

As comparing the BEP, it is found that the BEP is increased in the 31st MARCH 2023 the reason behind this high increase in sales volume.

Chart No:2.7 Chart showing B.E.P (in sales)



***Can not calculate BEP in unit as annual production is not available**

CALCULATION OF MARGIN OF SAFETY

The formula for computing Margin of Safety is given below:
Margin of safety = actual sales – sales at BEP

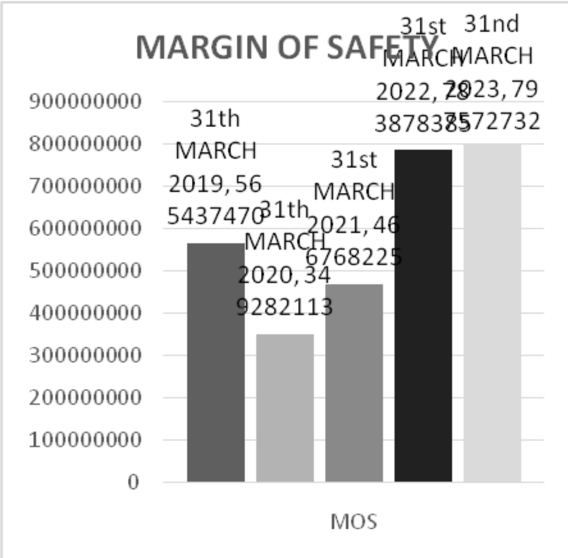
Table-2.14 Table showing margin of safety

YEAR	CALCULATION	RESULT
31st MARCH 2019	236365000-653905280	565437470
31st MARCH 2020	975975000-626692887	349282113
31st MARCH 2021	1046136000-579367775	466768225
31st MARCH 2022	1382197000-598318615	783878385
31st MARCH 2023	1576828000-779255268	797572732

INTERPRETATION: -

As comparing the Margin of safety of the years, it is found that the Margin of safety is decreased in the year 31st MARCH 2020 as the sale is decreasing

Chart No:2.8 Chart showing margin of safety



CALCULATION OF PROFIT PERCENT ON SALES

The formula for computing Profit Percent of Sales is given below:
Profit Percent of Sales = Profit / Sales *100

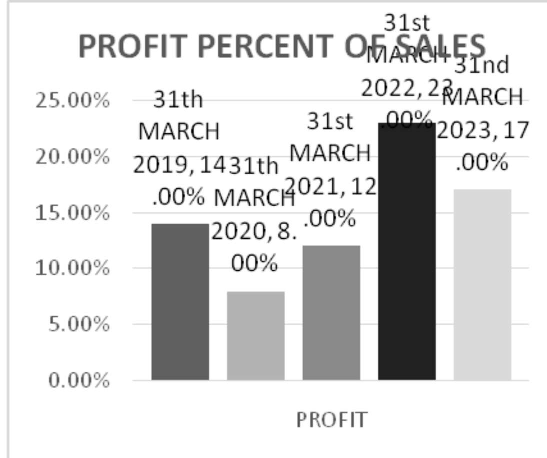
Table-2.15 Table showing profit percent of sales

YEAR	CALCULATION	RESULT
31st MARCH 2019	(14198011/650986715) *100	14%
31st MARCH 2020	(12236433/469487850) *100	8%
31st MARCH 2021	(10363670/334725393) *100	12%
31st MARCH 2022	(17270978/472283672) *100	23%
31st MARCH 2023	(11242025/638792466) *100	17%

INTERPRETATION: -

- As comparing the Profit percentage with sale, it is found that the Profit is increased in the year 31st MARCH 2022 this due to increase in the output.
- As comparing the Profit percentage with sale, it is found that the Profit is decreased in the year 31st MARCH 2023 this due to increase in the tax.

Chart No:2.9 Chart showing percent of sales



IX. FINDINGS

- In the year 31st MARCH 2022, the company is having the Operating Leverage 2.31 & in 31st MARCH 2022 It is lowered down to 2.02 this is due to behaviour of the variable cost with respect to fixed cost.
- The Degree of Operating Leverage is raising due decrease in operating leverage i.e.,1.34
- In the year 31st MARCH 2021, the company is having the Financial Leverage 1.06& in
- 31st MARCH 2022 it is lowered down to 1.03 this is due to changes in the fixed cost.
- Degree of Financial Leverage is Exists & favorable for the company as itis above one i.e.,1.66
- In the 31st MARCH 2020, the company is having the Combined Leverage 3.04&in 31st MARCH 2021it is lowered down to 2.39 this gives how the risk bearing for the company is lowered down
- As comparing the PV Ratio, it is found that the PVR is increased in the 31st MARCH 2022 the reason behind this high increase in sales volume
- As comparing the BEP, it is found that the BEP is increased in the 31st MARCH 2023 the reason behind this high increase in sales volume.
- As comparing the Profit percentage with sale, it is found that the Profit is increased in the year 31st MARCH 2022 this due to increase in the output**.**
- As comparing the Profit percentage with sale, it is found that the Profit is decreased in the year 31st MARCH 2023 this due to increase in the tax**.**
- As comparing the tax percentage with sale, it is found that the Profit is increased in the year 31st MARCH 2022 this due to increase in the output**.**
- As comparing the percentage all fixed cost, it is found that the interest on loan is taking over 44.95 percentage in overall interest.

- As comparing the percentage all fixed cost, it is found that the salary is taking over 85-90 percentage in overall fixed cost.

X. SUGGESTION

- Having high operating leverage company may reduce administration salary because it holds more that 80% of fixed financial expenses
- On variable expenses the consultation expenses having high percentage reducing it will have increase profit of the organisation
- Financial leverage is above one so the Management may reduce the interest on loan because it holds 30-40% fixed operating expenses
- The company margin of safety is high even sales is decreasing so the company may reduce its debt capital on capital structure

XI. CONCLUSION

The project work entitled as **"AN ANALIYSIS OF LEVERAGE AND COST BEHAVIOUR WITH REFERENCE TO GLENEAGLES HEALTHCARE INDIA PRIVATE LIMITED"** is conducted in Chennai**,** theresearcher found that the company is increasing in profitability and solvency but the operating leverage still in high level it is too risk. The company is suggested to low fixed operating expenses.

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