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LEVERAGE AND ITS IMPACT ON FINANCIAL DECISION IN INDIAN CORPORATE

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ABSTRACT

In the process of selection of a target debt - equity mix, the company analyses a number of factors. One of such factors is the consideration of leverage. This discussion of leverage, in this area of study, is related to the acceleration of profits through changes in some of the financial variables, which means that leverage is a tool of profit planning. The management employs this tool, more often than not, to increase the Company's return on equity capital and more so when it is impossible to improve operating efficiency of the company and increasing the return on total investment. The financial process of using borrowings to produce gain for the residual owners is termed as 'trading on equity'. Financial leverage is like a super - structure which requires a solid foundation. Mere availability of debt finance would not induce them to increase its proportion without considering their debt - absorbing and debt - repaying capacity. Therefore, this paper is aimed at analyzing the companies' financial decision based on corporate leverage.

KEYWORDS: Debt, equity, leverage, operating efficiency, financial variables, financial leverage