

A study on the Impact of Leverage on the Profitability of Royal Enfield in Bangalore

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Abstract- Financial leverage is a measure of how much a company uses equity and debt to acquire their assets. The financial leverage ratio indicates the extent to which a company has used borrowed money to fund its capital structure. Profitability is a measure of an organization's profit relative to its expenses. The present study has been undertaken to examine and understand how Leverage plays a crucial role in the profitability of automobile companies. It is concerned with examining the profitability position of the five selected automobile companies in Bangalore for a period of five years (2018-2019 to 2022-2023). The study covers the comparison between previous year's data with current year data. Data for the study has been collected over a period of five years, from respective Royal Enfield companies' annual reports from their official websites.

Keywords - Financial leverage, borrowed funds, Increase potential return on investment

Introduction

Finance is characterized as the arrangement of cash when it is required. Each endeavor, whether enormous, medium, or little, needs money to continue its activity and to accomplish its objectives. Without sufficient money no venture might perhaps achieve its goals. Finance alludes to the admission of streams of cash through an association. It concerns the utilization of abilities in the control, use and control of cash. Right from the limited time stage up to the end, finance assumes a

sufficient part in an organization's life. It is fundamental that a right gauge of the current and future requirement for capital be made to have an ideal capital construction which will assist the association with running its work without a hitch and with practically no pressure. Without a doubt, finance is one of the main parts of business. With enormous assets, everyday income, and consistent exchanges, overseeing and checking every one of the above turns important. To be explicit monetary administration assist the association with figuring out what to spend, where to spend and when to spend and fund is the useful course of business which assists with meeting objectives and targets.

The capital plan is the blend of commitment and worth used by an association to finance its general errands and advancements. There are two kinds of parts in the capital plan, they are commitment and worth. Commitment comes as bond issues or advances, while worth could come as typical stock, inclined towards stock, or held benefit. Impacts are the benefits to get the association by using the commitment.

Monetary influence is a proportion of how much firms use value and obligation to fund their resources. An organization can back its speculations by obligation and value. The organization may likewise utilize inclination capital. The pace of revenue on obligation is fixed regardless of the organization's pace of return on resources. The monetary influence utilized by an organization is expected to procure erring on the decent charge's assets than their expenses. here, a try is made to examine the leverages evaluation and profitability of selected company (Royal Enfield Pvt limited) in India during the duration from 2018 to 2022. Financing the company's property is a very critical hassle in each business endeavor and as need might arise to be a right blend of obligation and value capital in funding the organization's property. The utilization of long-lasting steady revenue bearing obligation and want rate capital related to the value stocks is alluded to as monetary influence or trading on value. The long-term steady revenue bearing obligation is recruited through an organization to procure extra from involving those sources then their expenses for you to blast the backpedal on proprietor's value. Influence strategy utilization of funds or work of property in the capital construction of the organization for which the organization needs to pay steady expense or consistent return. The work of such funds will help the organization to support its productivity. The influence of an organization is generally connected with a benefit measure, which can be a profit from financing or on pay sooner than charges. A right combination of each functioning influence and financial influence adds to the increment of the organization, even as an inadmissible combination of influence confines the increment of the organization.

Bicycles are the most common form of personal transportation because they are easy to maintain, easy to operate, and inexpensive compared to other personal transportation such as cars, etc. Therefore, the most important consumer expectations from a bike are more reliability, good mileage, good performance & pickup, long durability, high availability of spare parts & easy to ride.

Literature Review

1. Ariel StametNugraha, SilvianaLiaAngraini (2022)

The Executives responsibility depends on the monetary reports for modern execution which will significantly help financial backers in navigation, industry apparatuses utilized in the association utilizing data about the stake possessions of the organization. Organization hypothesis brings the possibility of pay smoothing by empowering modern administration that guarantee good bookkeeping strategies.

2. Ibrahim Hussain, GholamSyedali Khan (2021)

Many companies believe in the application of Financial Leverage in their business as it has a significant influence and importance in business performance. Retail, FMCG, Heavy-Goods Manufacturing and Pharmaceutical companies are the best examples.

Retail Industry shows a significant use of financial leverage in the past couple of years.

3. Dr. Anil Kumar Goyal (2021): The study investigated the impact of financial leverage on profitability. Impact of financial leverage on accounting-based profit (ROE) and market-based profit (market return) were examined. It was hypothesized that highly leveraged hotel firms have higher profitability.

Remarks: This study presents an empirical insight on the Impact of Financial Leverage on the profitability and return on equity (ROE) on Indian Hotel Industry. Profitability is determined by various factors of a particular firm or sector; financial leverage is one of them. Financial leverage is simply use of fixed cost bearing instruments in the capital structure of a firm

4. PriyankaMeghanathi (2021): From the above study researcher conclude that there is no significant negative relationship between financial leverage with Net profit Ratio and there is a significant positive relationship between financial leverage with Earning per share, Return on Equity and Return on Asset.

Remarks

Impact of Financial Leverage on Profitability of Reliance Industries LTDVOL. 02, ISSUE 0

Statement of the Problem:The available composition and data suggest that financial impact is one of the factors that impact the organization's advantage. It incorporates the capital plan decisions. It has been seen that as a rule heads of the association use a couple of level of commitment and a level of significant worth to support their assets. There for right choice of the blend of commitment and worth is indispensable for the manager of Any association. Those associations who detestation to get resources for the supporting of Their assets need to rely absolutely upon esteem subsidizing in this manner they are freed from any legitimate number of charges to pay which suggests there is no financial impact related with that association.

Need of the study

Most loans are obtained through banks through the variety of lending alternatives they provide. Consequently, this study has been carried out to evaluate the company's financial performance.

Objectives of the study:

- To study the relationship between Profitability and leverages of Royal Enfield
- To identify and analyze the impact of leverage of the Royal Enfield.
- To examine the financial performance of the Royal Enfield.

Scope of the study

Leverage analysis and its effects on profitability are covered in a study. Due to the secondary data, the results are constrained. For the previous five years, secondary data was gathered, and interpretations were produced of it. One vehicle firm is the only subject of the investigation.

Limitations of the study

- Because the research on the topic will take five years to complete, it is unlikely that the company will be successful for its whole lifespan.
- The study can be impacted by the financial statements' limitations.
- The geographic scope of this search is the Bangalore metropolitan area. This prevents the results from being generalized to other contexts.

The coordinated area of the bicycle industry is the exclusive subject of research. Because this assignment was approved at the collegiate level, the students' skills and background might not be adequate.

Research methodology: It explains how the research tools and objectives were adopted to conduct the research and the data can be collected through either primary data or secondary data.

Hypothesis

H0: Null Hypothesis

There is a significant relationship between Operating leverage and Profitability (ROI) of Royal Enfield.

H1: Alternative Hypothesis

There is no significant relationship between Operating leverage and Profitability

Table 1 - Table showing the Ratio of Operating leverage

Year	Contribution	Operating profit or EBIT	Operating Leverages
2022	2234.44	1783.71	1.25
2021	2723.89	2342.06	1.16
2020	3346.5	3046.22	1.10
2019	3087.73	2864.43	1.08
2018	2401.09	2247.47	1.07
		Average	1.13

Source-company Balance sheet Analysis

Royal Enfield's operating leverage is displayed in the above table. It is the proportion of contributions to EBIT. In the year 2018, operational leverage is 1.07. 2019 sees a change to 1.08; 2020 and 2021 see 1.10 and 1.16 respectively. It almost demonstrates a steady progression. It increases to 1.25 by 2022. The ratio is generally 1.13.

Table 2 - Table showing ratio of financial leverage

Year	EBIT or operating profit	EBT	Financial leverages
2022	1783.71	1767.26	1.01
2021	2342.06	2323.18	1.01
2020	3046.22	3038.89	1.00
2019	2864.43	2859.09	1.00
2018	2247.47	2243.91	1.00
		Average	1.00

source -company balance sheet Analysis

The financial leverage of Royal Enfield is displayed in the above table. It is the proportion of EBIT

to EBT. It demonstrates an upward tendency. The financial leverage is 1.00 in 2018, 2019, and 2020, which is constant. It indicates an upward tendency in the upcoming years.

2021 and 2022 see a 1.01 increase. Financial leverage is typically one. This illustrates a favorable financial leverage ratio.

Table 3 - Table showing Combined leverage

Year	Operating leverage	Financial leverage	Combined leverage
2022	1.25	1.01	1.2625
2021	1.16	1.01	1.1716
2020	1.1	1	1.1
2019	1.08	1	1.08
2018	1.07	1	1.07
		Average	1.13682

Source company balance sheet

Analysis

Royal Enfield has a 1.13 average total leverage ratio. The total corporate leverage has an upward trend. It stands at 1.07 in 2018 and slowly climbed to 1.26 in 2022.

Findings

Leverage analysis, Ratio Analysis and Hypothetical analysis.

Leverage Analysis

- The company's earnings before interest and taxes (EBIT) are impacted by working influence, which is demonstrated by operating leverage. Furthermore, the degree of operational leverages is crucial if we need to examine the impact of fixed spending and variable expenses on the main company operations. As a result, the risk rises with growing operating leverage.

- From 2018 through 2022, an organization's financial leverage remains stable.

As a result, there is reduced risk, which encourages many investors to participate. A high level of financial leverage indicates that an organization's earnings per share (EPS) are more erratic.

- Between 2018 and 2022, the total leverage does not significantly rise.

As the organization has more fixed costs, the significant amount of combined influence in 2022 indicates the risk it is taking. In contrast, a low level of combined leverage from the years 2018 to 2021 would be beneficial for the organization.

Ratio analysis

- When a company's current ratio rises, it indicates that it is expanding and becoming more capable. The multiple liquidity proportion indicates that there is enough money on hand for the organization to continue operating.

- By comparing all of the company's running expenses, the operating ratio provided information about how well an organization was managed. The operating ratio has been less than 1 for all five years, which shows the business is more cost-effective and efficient.

The Net Profit Ratio is essentially constant across all years. Therefore, the company's ability to turn a profit is not significantly different. The ratio is generally 0.18. Even if there is a net profit, the value has decreased as of 2022.

- Since 2018, Royal Enfield's debt-to-equity ratio has increased, posing a danger to investors and lenders alike. The company's average cash ratio is 1.13, which is considered to be a healthy value.

This will help us estimate an association's ability to pay its ongoing obligations.

- In 2022, the Earnings per Share value significantly changes due to COVID 19.

Hypothetical Analysis

- Between Return on Investment (ROI) and Operating Leverage, the Null hypothesis is accepted and the Alternative hypothesis is rejected.

- When it comes to the relationship between Return on Investment (ROI) and Financial Leverage, the Alternative Hypothesis is rejected and the Null Hypothesis is accepted.

- When considering Return on Investment (ROI) and coupled leverage, the Alternative Hypothesis is disproved and the Null Hypothesis is accepted.

Suggestions

To advance their organizational levels and increase business value, Royal Enfield must accomplish written projects. This Organization should work to improve their value cycle to provide a derivation of buyer associations in all regions, as well as to produce and impart strategies to see affordable cost and transport.

- Organization's must maintain a successful strategy with the help of lowering standard fees and planning adventure in crowded markets.

- By lowering fixed costs and improving its operations in certain industry segments. The company could extend deals to hold clients to their regular and devoted customers.

- The company needs to demonstrate more zeal for working with quick resources and quick liabilities of quick proportion.

- The operating (Working) capital, flow assets, and current liabilities should all be located primarily outside of the country in order for the business to flourish to a continually expanding level.
- Highly leveraged operations Businesses should rely less on innovations. As a result, organizations should maintain Low Operating Leverage to aid in development.

On the off chance that it is not, however, its management is moderate.

- It will be a very risky connection because of the combination of high operating and financial leverage. As a result, the organization would benefit from maintaining the low combined leverage level from 2017 to 2020, hence it should be done so going forward.

Conclusion

The "E reality of leverages and Profit on Royal Fifiield was the objective. The examination of leverages and profitability employs a variety of methods and metrics to rate the organization's preparedness and competency. When calculating ratios, correlations, and descriptive statistics, financial instruments including balance sheets and profit and loss statements from the previous five years were used. Additionally, the different levers are examined, and the findings are evaluated in light of the data gathered. The breakdown and translation of financial analysis is a crucial instrument for analyzing an organization's show. The firm's assets and liabilities are exposed. The overall condition of the relationship between the Return on Investments and the leverages is outstanding, it has become increasingly obvious throughout the inquiry. The company has recently established uniform size pay. The project's operating funds should be used in increasing the viability and employment of the business enterprise. The company is still cautious about using illogical liquidity to make money. The project is moving forward in accordance with the comprehensive plan, and 2019–20 is a profitable year for the commercial endeavor, but 2020–21 wasn't very productive for the firm. A major driver of the company's output, leverage also influences the number of investors. The financial leverage, operating leverage, and combined leverage of Royal Enfield are well correlated with return on investments, claims this study. The conclusion shows that Profitability and Firm Size have a positive and significant relationship.

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