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AN EMPIRICAL ANALYSIS OF FINANCIAL LEVERAGE, EARNINGS AND DIVIDEND: A CASE STUDY OF MARUTI SUZUKI INDIA LTD.

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ABSTRACT

This paper attempts to make an analytical study of 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 't' has been used. The result of the study indicates that there is a correlation between DFL and EPS and the difference is insignificant where as result of correlation coefficient at 5% level of significance showed that the diffidence is significant between DFL and DPS and EPS and DPS.

KEYWORDS
Financial Leverage, Dividend, Earnings.

INTRODUCTION

Liberalisation, globalisation and privatization are the important issues to the entrepreneur and corporate threatening the existence of a firm. In such a complex corporate environment, it is the challenge to the finance manager to survive the firm in long- run perspective with the objective of maximizing the owner's wealth. With a view to achieve this objective, finance manager is required to pay his due attention on investment decision, financing decision and dividend decision. Assuming that sound investment policy and portunity are there, it is my intention in this paper to optimize the financing decision and dividend decision in the context of achieving the stated objective. Financing decision refers to the selection of appropriate financing-mix and so it relates to the capital structure or leverage. Capital structure refers to the proportion of long- term debt capital and equity capital required to finance investment proposal. There should be an optimum capital structure, which can be attained by the judicious exercise of financial leverage. This paper mainly concentrates on the exercise of financial leverage in the context of understanding its impact on earnings and dividend per share

FINANCIAL LEVERAGE

Financial leverage is primarily concerned with the financial activities which involve raising of funds from the sources for which a firm has to bear a fixed charge. These sources include long-term debt (e.g. bonds, debentures etc.) and preference share capital. Long-term debts capital carries a contractual fixed rate of interest and its payment is obligatory. As the debt providers have prior claim on income and assets of a firm over equity shareholders, their rate of interest is generally lower than the expected return on equity shareholders. Further interest on debt capital is a tax deductible expense. These two phenomena lead to the magnification of rate of return on equity capital and hence EPS. It goes without saying that the effect of changes in EBIT on the earnings per share is shown by the financial leverage. Financial leverage can best be described as "the ability of a firm to use fixed financial charges to magnify the effect of changes in EBIT on the firm's earning per share."

EARNINGS PER SHARE IN THE CONTEXT OF OPTIMUM CAPITAL STRUCTURE

Earnings per share are the reward of an investor for making his investment and it is the best measure of performance of a firm. "The bottom line of Income Statement is an indicator of performance of 'think tank' or 'top level' of the company". Ordinary investors lacking in-depth knowledge and inside information mainly based on EPS to make their investment decision. So it should be the objective of financial management to maximize the EPS from the view point of both the investor and owners. Again the objective of financial management is maximization of value measure in terms of market price of equity share of a corporate entity. Given the objective of the firm to maximize the value of equity share, a firm should select a desired combination of financing mix or capital structure to achieve the goal. Theoretically, optimum capital structure implies that combination of debt and equity at which overall cost of capital is minimum and value of the firm is maximum. The prevailing view is that the value maximization criterion as a criterion of optimal capital structure is measured in terms of market price of equity share i.e. the value of the firm is maximized when the market price of equity share is maximized. So, according to this view, maximization of market price of equity share leading to the maximization of value of the firm is a criterion of optimum capital structure. But I beg to differ. Market price of equity share though basically depends on firm's earnings per share, it also depends to a great extent on many external factors such as government monetary and economic policies, political stability, state of economy, speculative trends etc. and it may be contended that market price of share has no direct bearing on the optimum capital structure. In this context an example of a firm may be drawn which is running with optimum debt-equity combination. Now due to the influence of some external factors i.e. sudden political change or something like this, the market price of its equity shares started decreasing and as a result value of the firm went on decreasing. Due to the downward movement of the value of the firm, its capital structure will not become optimum further and will need restructuring to become optimum again. In practice, change in market price of equity share may occur very rapidly and hence it is very difficult to change the composition of capital structure accordingly. Capital structure decision is an internal decision of the firm. So what I really think is that increase in market price of equity share due to the influence of external factors leading to the maximization of the value of the firm should not be a criterion of optimum capital structure. Rather 'EPS may be a better substitute as a criterion of value maximization in respect of optimum capital structure,[3] and as such maximizing EPS should be the main slogan or mul-mantra of a firm in order to realize the objective of maintaining an appropriate capital structure.

DIVIDEND POLICY DECISION

Dividend decision is the major decision area of financial management. A firm is to decide what portion of earnings would be distributed to the shareholders by way of dividend and what portion of the same would be retained in the firm for its future growth. Both dividend and retention are desirable but they are conflicting to each other. A finance manager should be able to formulate a suitable dividend policy, which will satisfy the shareholders without hampering future progress of the firm. It is common that higher the earnings, higher will be the amount of dividend and vice-versa.

FINANCIAL LEVERAGE, EARNINGS AND DIVIDEND

Use of fixed cost bearing capital in the capital structure is termed as financial leverage. Such capital especially debt is cheaper than the equity as the cost of debt is generally lower than that of equity and a tax advantage is attached with its use. In this circumstances, if total capital employed remains constant, increase in the financial leverage or use of debt implies that a relatively cheaper source of fund replaces a source of fund having relatively higher cost. Now if a company follows this practice its net return will be attributable to the low base of equity shareholders (lower base being due to the increase in financial leverage).As a result it will lead to the magnification of return to the equity and thus EPS. But one should keep in mind that the same holds good in favourable business environment where the company is able to earn a rate of return on investment being higher than its cost of financing. So long this situation continues the return on equity or EPS will increase with the increase in financial leverage. The excess of the rate of return on investment over the fixed rate of interest and pref. dividend will go to the equity shareholders. However, during the period of adversity when the company is not in a position to earn greater (at least equal) rate of return than the cost of debt and pref. share, its return on equity and EPS, instead of increase, will actually decrease, with the increase in the financial leverage. As higher earnings would result in higher dividend, the above discussion follows that increase in the use of financial leverage increases the earnings per share and thus dividend per share. Conversely decrease in the use of financial leverage decreases the earnings and dividend per share. Keeping these theoretical backgrounds in view, it is my humble effort to draw the attention of readers regarding subjectivity of this paper and its applicability into real corporate practice. For this purpose a case study has been introduced in the next section considering the case of Maruti Udyog Limited, a leading automobile company in India. Now it is proposed to present brief profile of the company in the subsequent paragraph.

COMPANY PROFILE

Maruti Suzuki India Ltd (formerly Maruti Udyog Ltd) is India's largest passenger car company, accounting for over 50 per cent of the domestic car market. The company offers full range of cars from entry level Maruti 800 & Alto to stylish hatchback Ritz, A-star, Swift, Wagon R, Estillo and sedans DZire, SX4 and Sports Utility vehicle Grand Vitara. The company is a subsidiary of Suzuki Motor Corporation of Japan. The company is engaged in the business of manufacturing, purchase and sale of motor vehicles and spare parts (automobiles). The other activities of the company include facilitation of pre-owned car sales, fleet management and car financing. They have four plants, three located at Palam Gurgaon Road, Gurgaon, Haryana and one located at Manesar Industrial Town, Gurgaon, Haryana. The company has seven subsidiary companies, namely Maruti Insurance Business Agency Ltd, Maruti Insurance istribution Services Ltd, Maruti Insurance Agency Solutions Ltd, Maruti Insurance Agency Network Ltd, Maruti Insurance Agency Services Ltd Maruti Insurance Agency Logistics Ltd and True Value Solutions Ltd. The first six subsidiaries are engaged in the business of selling motor insurance policies to owners of Maruti Suzuki vehicles and seventh subsidiary, True Value Solutions Ltd is engaged in the business of sale of certified pre-owned cars under the brand 'Maruti True Value'. Maruti Suzuki India Ltd was incorporated on February 24, 1981 with the name Maruti Udyog Ltd. The company was formed as a government company, with Suzuki as a minor partner, to make a people's car for middle class India. Over the years, the company's product range has widened, ownership has changed hands and the customer has evolved. In October 2, 1982, the company signed the license and joint venture agreement with Suzuki Motor Corporation, Japan. In the year 1983, the company started their productions and launched Maruti 800. In the year 1984, they introduced Maruti Omni and during the next year, they launched Maruti Gypsy in the market. In the year 1987, the company forayed into the foreign market by exporting first lot of 500 cars to Hungary. In the year 1990, the company launched India's first three-box car, Sedan. In the year 1992, Suzuki Motor Corporation, Japan increased their stake in the company to 50%. In the year 1993, they introduced the Maruti Zen and in the next year they launched Maruti Esteem in the market. In the year 1995, the company commenced their second plant. In the year 1997, they started Maruti Service Master as model workshop in India to look after sales services. In the year 1999, the third plant with new press, paint and assembly shops became operational. In the year 2000, the company launched Maruti Alto in the market. In the year 2002, Suzuki Motor Corporation increased their stake in the company to 54.2%. In January 2002, the company introduced 10 finance companies (8 + 2JVs) in Mumbai. Also, they found one new business segment, Maruti True Value for sales, purchase and trade of pre-owned cars in India. In the year 2005, the company launched the first world strategic model from Suzuki Motor Corporation 'the SWIFT' in India. In the year 2006, they launched WaganR Duo with LPG and also the New Zen Estillo. During the year 2006-07, the company commenced operations in the new car plant and the diesel engine facility at Manesar, Haryana. In November 2006, they inaugurated a new institute of Driving Training and Research (IDTR), which was set up as a collaborative project with Delhi Government at Sarai Kale Khan in South Delhi. During the year 2007-08, the company signed an agreement with the Adani group for exporting 200,000 units annually through the Mundra port in Gujarat. They launched Swift Diesel and SX4- Luxury Sedan with Tag line 'MEN ARE BACK' during the year. In July 2007, the company launched the new Grand Vitara, a stylish, muscular and 5-seater in the MUV segment. The company changed their name from Maruti Udyog Ltd to Maruti Suzuki India Ltd with effect from September 17, 2007.During the year, the company entered into a joint venture agreement with Magneti Marelli Powertrain SpA and formed Magneti Marelli Powertrain India Pvt Ltd for manufacturing Electric Control Units. Also they entered into another joint venture agreement with Futaba Industrial Co Ltd and formed FMI Automotive Components Ltd for manufacturing Exhaust Systems Components. During the year, the company made pact with Shriram City Union Finance Ltd, a part of Shriram Group, Chennai, to offer easy, transparent and hassle-free car finance to their customers, particularly in semi urban and rural markets. The agreement is a joint initiative of the two companies for providing competitive car finance to people in Tier-II and Tier-III cities across the country. During the year 2008-09, the company launched a new A2 segment car, branded the A-star in India and in Europe as the new Alto. They raised their production capacity to a landmark 1 million cars. In June 2008, the company launched Maruti 800 Duo, which is a dual fuel (LPG-cum- petrol) model car. In March 2009, the company launched A-star or Suzuki Alto at Geneva Motor Show sales begin at EU. In April 2009, the company revealed new Ritz K12M engine at Gurgaon plant. The company plans to modernize some part of their Gurgaon plant, expand their K-series capacity, invest further in new model development and take the projects of test track and crash course facility and Brand Centres further.

OBJECTIVES OF STUDY

The objectives of the study are as under:

1. To study the methods of raising finance and financial leverage practice of the company
2. To Examine the impact of financial leverage on EPS
3. To know about the dividend policy of the company
4. To assess the inter relationship between degree of financial leverage (DFL), earnings per share (EPS) and dividend per share (DPS)
5. To summaries main finding of the study and offer some suggestion, if any, for improving EPS by the use of financial leverage

HYPOTHESIS

In order to realize the above objectives, the following hypothesis has been formulated.

1. The company uses debt as a cheaper source of finance than equity
2. The company is enable to earn a higher rate of return on investment than the cost of financing investment.
3. DFL and EPS are positively correlated in such a manner that increase in financial leverage leads to increase in the EPS
4. DFL is positively correlated with DPS.
5. EPS is positive correlated with DPS

RESEARCH METHODOLOGY

COLLECTION OF DATA

The data of Maruti Udyog Ltd. have been collected from the annual reports of the company and capitaline data base. The data collected from this source have been used nd compiled with due care as per requirement of the study.

PERIOD OF STUDY

The present study covers a period of eight years from 2001-02 to 2008-09.

TECHNIQUES OF ANALYSIS

The study has been made by converting the collected data in to relative measures such as ratios, percenatgae rather than absolute one. For analyzing the degree of association between DFL, EPS and DPS, statistical technique of Pearson's correlation analysis has been used to judge whether the calculated correlation co-efficient are significant or not.

EMPIRICAL ANALYSIS

TABLE -1: COMPUTATIONS OF EBIT, EBT & EAT

year	Total capital	Long term employed	Equity share capital	Reserve $ surplus	Net worth	EBIT	Interest	Earning before tax (EBT)	Earning dividend	After tax (EAT)
2001-02	3363.3	656	132.3	2575	2707.3	195.3	77	118.3	39.7	118.3
2002-03	3554	456	144.5	2953.5	3098	334.8	52.7	282.1	42.7	282.1
2003-04	3903.1	311.9	144.5	3446.7	3591.2	813.2	43.4	769.8	43.3	769.8
2004-05	4686.4	307.6	144.5	4234.3	4378.8	1340.9	36	1304.9	57.8	1304.9
2005-06	5524.3	71.7	144.5	5308.1	5452.6	1770.4	20.4	1750	101.1	1750
2006-07	7484.7	630.8	144.5	6709.4	6853.9	2317.4	37.6	2279.8	130	2279.8
2007-08	9315.6	900.2	144.5	8270.9	8415.4	2562.6	59.6	2503	144.5	2503
2008-09	10043.8	698.9	144.5	9200.4	9344.9	1726.8	51	1675.8	101.1	1675.8

Source: Annual reports of Maruti Udyog Ltd.

TABLE -2: COMPUTATION OF DFL, EPS, DPS, DIP RATIO, COST OF DEBT, COST OF EQUITY AND RATE OF RETURN ON INVESTMENT

year	DFL	EPS (Rs.)	DPS (Rs.)	Dividend pay-out ratio%	Rate of Interest (%)	Cost of Debt (%)	Cost of equity (%)	Rate of return on investment (%)
2001-02	1.65	78.99	30.01	37.99	6.8	4.7	1.50	3.5
2002-03	1.19	4.88	1.48	30.31	11.7	8.1	1.58	7.9
2003-04	1.06	18.56	1.50	8.07	11.6	8.0	1.40	19.7
2004-05	1.03	29.25	2.00	6.84	13.9	9.6	1.61	27.8
2005-06	1.01	40.65	3.50	8.6	11.7	8.1	2.31	31.7
2006-07	1.02	53.29	4.50	8.44	28.5	19.6	2.38	30.5
2007-08	1.02	59.03	5.00	8.47	6.0	4.1	2.11	26.9
2008-09	1.03	41.57	3.50	8.41	6.6	4.6	1.20	16.7

Source: Annual reports of Maruti Udyog Ltd.

NOTES AND EXPLANATIONS

1. DFL = Degree of Financial Leverage = EBIT I EBT
2. EPS = EAT / No. of Equity Shares.
3. DPS = Dividend / No. of Equity Shares.
4. DIP Ratio = DPS / EPS x 100
5. Rate of Interest = (Interest / Long-term debt) X 100
6. Interest on debt capital is an allowable expenditure for income tax purpose and it qualifies for deduction in computing taxable income. So it reduces effective cost of debt in the following way: Cost of debt (%) = Rate of Interest (1 - tax rate).Tax rate varied over the years with the changes in Tax Legislations. Tax rate being not available has been computed by approximating it to be equivalent of tax provisions. So an average tax rate has been approximated as (Total of 8 years' provision for tax + Total of 8 years' profit before tax) X 100, which comes 31% approx. in case of Maruti Udyog Ltd.
7. The return expected by the equity shareholders may be referred to as cost of equity. There are various models for its computation. But in real term a firm has to incur cost in respect of equity shares in the form of dividend payment. So the most suitable formula is : Cost of equity (%) = (Dividend / Equity or Net worth) x 100
8. Rate of return on investment = (EAT / Total Capital Employed) x 100

(i) Financial leverage practice and EPS of Maruti Udyog Ltd.

From the table -2 as presented above , it is seen that Maruti Udyog Ltd. Did not find debt capital than equity capital over the period of eight years from 2001-02 to 2008-09. Maruti Udyog Ltd. had to pay higher rate of interest lading to a greater cost of debt than that of equity despite an average tax advantage attached with debt financing @ 31% over the period covered our study. Contrary to the common supposition debt being cheaper than equity, it is surprising to note that the lower cost of debt (4.1%) in 2007-08 and the greater cost of equity (2.38%) as evidence in the year of 2006-07. Maruti Udyog Ltd. enjoyed equity as a cheaper source of finance by maintaining a lower pay-out ratio. So the basic assumption of the proposition which makes leverage advantageous was not fulfilled. As a result leverage benefits did not true in case of MUL. In the year 2001-02 , MUL used highest DFL (1.65) resulting higher EPS (as.78.99) over the whole period of eight years under consideration. Although this year (along with seven years prospective years) yielded lower rate of investment (3.5%) than after tax cost of debt (4.7%). It made the company conservative in using debt financing and the company started decreasing its DFL 1.19 to 1.03 during the period of next years under consideration. If one looks at the financial data of MUL, given in table-2 a declining trend to EPS with decline in DFL become evident. The table shows that EPS was increasing from 18.56 to as 59.03 with the decrease in DFL from 1.65 to 1.02 during the period of first six years from 2001-02 to 2008-09. In the year In the year 2002-03, EPS decreased to 4.88 against Rs. 78.99 in 2001-02 with the decrease in DFL from 1.65 to 1.19. This might have taken place owing to the fact that this year debt carried the higher rate of interest ((11.7%) leading to the higher cost of debt (8.1%). In the last year of consideration EPS decreased with the increased DFL. Successive EPS of last two years showed a fluctuating trend with the increase in DFL like all the preceding years.

So there is a clear conflict between the accepted leverage theorems and actual practiced in Maruti Udyog Ltd. In theory there is a positive relationship between DFL and EPS in such a way corresponding increase or decrease in DFL with the fulfillment of main two criteria – one being dent capital cheaper than equity capital and another being rate of return on investment exceeded (after-tax) cost of debt. But in case of MUL, a different relationship between DFL and EPS is evident from the data. Even MUL could not fulfill the second criterion, just indicated, for all the years, it failed to fulfill the first criterion for every year. The company could not enjoy debt as cheaper means of financing over the whole period. Particularly the Indian corporate sector enjoys equity as a cheaper source of financing since dividend payment is optional here. The case of MUL discussed in this study, just a representative one.

CAPITAL STRUCTURE POLICY OF MUL

The logic of capital structure policy of MUL is to increase its net worth by ploughing back of profit in this way to reduce cost of equity as a cheaper cost if its net-worth is strengthen by ploughing back of profits, which is not dividend bearing. Now if we have a mark on Table-1 , an increase amount of reserve and surplus included in net worth is seen all over the period of eight years. Keeping the equity capital constant throughout the period of study, the company increased its net-worth with the utilization of reserve & surplus by the same amount. The company increased its capitalization from Rs. 3363.3 Cr. to 10043.8 Cr. with the correspondingly less increase in the use of long term debt from Rs. 656 cr. to 698.9 cr. during the study. Both the excess capitalization and slightly increase in the use of debt in each year were commensurated by the reserve and surplus i.e., by successful ploughing back of profit instead of making additional issue of equity shares. If the same was made by fresh issue of equity shares the company would not be able to reward its shareholders more in terms of return. Since reserve & surplus was not divided bearing, its utilization brought down the cost of equity and at the same time it maintained the lower base of equity share- holders resulting higher amount of EPS (lower base means lower number of equity shares).

TABLE – 3: ANALYSIS OF CAPITAL STRUCTURE

%of Net worth			% of Capital Employed		
year	Equity capital %	Reserve $ surplus (%)	Long term employed	Equity share capital	Reserve $ surplus
2001-02	4.9	95.1	19.5	3.9	76.6
2002-03	4.7	95.3	12.8	4.1	83.1
2003-04	4.0	96.0	8.0	3.7	88.3
2004-05	3.3	96.7	6.6	3.1	90.4
2005-06	2.7	97.3	1.3	2.6	96.1
2006-07	2.1	97.9	8.4	1.9	89.6
2007-08	1.7	98.3	9.7	1.6	88.8
2008-09	1.5	98.5	7.0	1.4	91.6

Source: Annual reports of Maruti Udyog Ltd.

Table-3 has been prepared to reflect the relative method of finance adopted by the company. It is seen from the table – 3 that the net-worth of the company constituted equity capital and reserve & surplus and it was 4.9% of equity capital and 95.1% of reserve & surplus in the year 2001-02. In the following years the company stated increasing the proportion of reserve & surplus from 95.3% to 98.5% with decrease in the proportion of equity capital from 4.7% to 1.5% during the period from 2002-03 to 2008-09. One can observe from the table that a percentage decrease in the equity capital led to the same percentage increase in the reserve and surplus. For example 5% percentage decrease in equity capital led to 55 increases in the reserve and surplus in the second year of study and so on. Thus increase in the proportion of reserve and surplus to net worth in this way might cause reduction in the cost of equity during the study period. The same analysis may be drawn from table -3 about long-term debt, equity share capital and Reserve & surplus to capital employed.

DIVIDEND POLICY OF MUL

Table-2 shows that DPS of first two years of consideration is same and thereafter the company has been increasing DPS at a slow rate. The dividend payout ratio of the company is gradually decreasing during the study period. Overall, we can say that MUL is following a conservative dividend policy

FINANCIAL LEVERAGE, EARNING AND DIVIDEND

The first finding follows that the company has been experiencing a converse effect of financing leverage on earnings per share and as such earnings per share and as such earnings per share has been increasing with the decrease in the financial leverage. Now if we want to establish a relationship between financial leverage, earnings per share and dividend per share has been increasing with decrease in the earning per share and decrease in the degree of financial leverage with the exception of the year 2007-08 as evident from Table-2. General view is that higher the earnings, greater is the dividend and vice-versa. In the second year consideration, there is no change in the DPS through there is a slight increase in the EPS. Almost in all the remaining years there is an increase in DPS with the increase in the EPS except 2007-09. But the proportionate increase in DPS is less than that of EPS during the period of six years from 2002-03 to 2006-07. As a consequence D/P ratio has been decreasing during the study period.

CORRELATION ANALYSIS

TABLE – 4: RELATIONSHIP BETWEEN DFL, EPS & DPS

Relationship between DFL,EPS and DPS			
		Correlation co-efficent	Calculated "t" value of r
1	DFL& EPS	0.48	1.48
2	DFL & DPS	0.93	6.28*
3	EPS&DPS	0.75	2.78*
(1) Note: Table value of (n-2) i.e 6 degree of freedom at 5% level of significance is 1.96			

Source: computed with the data obtained from table-2

The co-efficient of correlation in between DFL, EPS and DPS are presented in Table-4 to assess to closeness of association between each other. It is evident from the table that the co-relation, co-efficient between DFL and EPS is 0.48. It indicates that there is a positive association between DFL and EPS supporting the explanation given earlier the value of correlation co-efficient is also found to be highly insignificant at 5% level of significance, as the calculated T value of 1.48 is lesser than the table value of 1.96. So the hypothesis that DFL and EPS are positively correlated is outright accepted. Here the data as obtained from the annual report of MUL are consistent with the assumption that the hypothesis is true. In order to assess the degree of association between DFL and DPS, correlation co-efficient between these two variables has been calculated. It is seen that correlation co-efficient between DFL and DPS is (0.96) indicating that there is a high degree of positive correlation between DFL and DPS. The value of correlation co-efficient is found to be much insignificant at 55 levels. Lastly, the co-efficient of correlation between EPS and DPS is (0.75) which is also insignificant at 5% level.

The study on the inter relationship between the degree of financial leverage, earning per share and dividend per share of MUL showed both positive and negative association. For the purposes of study, the correlation co-efficient of three sets of selected variables have been analyzed. The sign of correlation co-efficient between (i) DFL and DPS and (II) EPS and DPS are not conformed to hypotheses that DFL is positively correlated with DPS and EPS. The data could not provide any evidence of the hypothesis. So this hypothesis is not accepted to be true case MUL. The result of correlation co-efficient between EPS and DPS is what we have not expected. So the hypothesis that EPS is positively correlated with DPS might be rejected to be false in case of MUL

CONCLUSION

MUL could not enjoy the benefit of accepted leverage theorem. Rather it accrued operation of financial leverage. So leverage theorem is not a general rule. The dividend policy of the company is conservative. The company has been maintaining a decreasing trend in its dividend pay-out. The company was enabling to maximize the EPS by the reverse operation of financial leverage. The company successfully pulled down the degree of financial leverage to reap the EPS advantage. Thus the objective of this paper to maximize the EPS through judicious operation of financial leverage has been fulfilled

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