

# How To Present A Research Proposal Before RDC

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TITLE :

A COMPARATIVE STUDY OF  
IMPACT OF FINANCIAL  
LEVERAGE ON THE FINANCIAL  
PERFORMANCE OF SELECTED  
INDIAN INDUSTRIES

# RATIONALE FOR THE SELECTION OF PROBLEM AND SIGNIFICANCE OF THE RESEARCH TOPIC

YEAR	1946	1961	1971	1980	1991	1995	2009
NO. OF STOCK EXCHANGES	7	7	8	9	20	22	23
NO. OF REGISTERED COMPANIES	1125	1203	1599	2265	6229	8593	10575
CAPITAL OF REGISTERED COMPANIES (Rs. In Crores)	270	753	1812	2973	32041	57583	93207

SOURCE: RBI HANDBOOK PAGE NO. 339-342

# Capital formation by Non-Government Companies

YEAR	AMOUNT (Rs. in crores)
2005-06	21154.00
2006-07	31600.00
2007-08	43737.59
2008-09	14670.59

SOURCE : RBI Hand Book page 339-342

# PERCENT

## AGE OF DEBT FUND TO TOTAL FUNDS

YEAR	%
1995-96	56.60
1996-97	73.10
1997-98	94.50
1998-99	98.20
1999-00	93.40
2000-01	95.40

2001-02	98.20
2002-03	97.90
2003-04	78.30
2004-05	78.20
2005-06	77.90
2006-07	81.70
2007-08	73.40
2008-09	93.50

SOURCE : RBI ANNUAL STATISTICS

## RESEARCH QUESTIONS :

1. Why study of impact of Financial Leverage on Profitability and Liquidity is required and which aspects will be covered in the study ?
2. Is there any relationship between Financial Leverage and Profitability and Liquidity ?
3. To what extent does Financial Leverage impact Profitability and Liquidity of companies cutting across various industries?
4. Is there any rational behind the impact of Leverage on Profitability and Liquidity of selected companies from different industries ?

# RESEARCH OBJECTIVES :

This research work clearly aims to serve the following objectives:

1. To study the theoretical aspects of Financial Leverage and Profitability and Liquidity
2. To examine the relationship between Financial Leverage and Profitability and Liquidity
3. To analyse the practical impact of Financial Leverage on the Profitability and Liquidity of selected companies belonging to different industries
4. To draw out conclusions based on analysis of impact of Financial Leverage on the selected industries' Profitability and Liquidity

## RESEARCH HYPOTHESIS :

Vis-a-vis the aforementioned research questions and the underlying objectives the following hypotheses have been formulated whose validity remains to be tested;

1. There are various aspects which are considered for the study of Impact of Financial Leverage on the Profitability and Liquidity of a company
2. There is no similarity between Impact of Financial Leverage on Profitability and Liquidity on companies grouped differently and belonging to different industries
3. Financial Leverage does not have any impact on Profitability and Liquidity



# SCOPE OF THE STUDY :

Scope of the research work is limited to the following aspects :

1. To observe various theoretical aspects of Financial Leverage, Profitability and Liquidity
2. To study the relationship between Financial Leverage employed by selected Indian companies from different industries and their Profitability and Liquidity
3. To carry out comparative analysis of the impact of Financial Leverage on the Profitability and Liquidity of selected Indian industries. However, it is not necessary that the top industries selected from different groups must have top five companies. In some industries, the number of best performing companies may be less than five.
4. To draw out conclusions based on analysis of the impact of Financial Leverage on the Profitability and Liquidity of selected Indian companies from selected Indian industries for a period of 10 years from March 2000 to March 2010.

In order to formulate and examine the research hypotheses, the following methods of research shall be employed :

1. To study the literature review of Financial Leverage on Profitability and Liquidity exploratory, descriptive and library researches will be carried out.
2. To investigate the relationship between the Financial Leverage and Profitability and Liquidity, exploratory research and experimental research shall be done.
3. In order to analyse the impact of Financial Leverage on Profitability and Liquidity of a company, ex-post facto research and analytical research would be done.

# SAMPLE SIZE, SAMPLE SELECTION PROCEDURE, SAMPLING TECHNIQUES

There are 5000 plus companies representing different industries listed on the Bombay Stock Exchange and categorised into different groups such as A, B, S etc. This study attempts to assess, observe and analyse the impact of leverage on the selected companies belonging to top performing industries and the companies within :

BSE is one of the worlds busiest Stock Exchanges in that it handles the highest no. of transactions in a day. It is ISO 9001-2000 certified and is a hallmark of quality, reliability and unbiased and independent assessment of securities. Hence, the companies listed on BSE have been selected.

The selection of top 5 industries is based on the growth rates they have clocked and their contribution to GDP and the volume of export. For this the resource at CMIE were used. The leading companies within them have been obtained using various parameters including their assessment and rating by BSE. The other parameters are

1. The market share of the company in the industry
2. Major acquisitions and growth plans
3. Business-related strengths and weaknesses of these industries and insights into the opportunities and threats facing them

# SOURCES OF DATA COLLECTION

Data can be collected through two sources,

1. Primary sources
2. Secondary sources

Considering the nature of study, only secondary sources of data are used because most of the required data are available from the annual reports of the company at the end of financial period.

For the research work, mandatory information of Annual Reports may be utilised, but in addition to that other secondary sources of data such as data base of Centre for Monitoring Indian Economy (CMIE) may also be utilised to get the information in a more condensed form.

## DATA ANALYSIS :

1. Content analysis of the Profitability and Liquidity of selected Indian companies from selected Indian industries for the selected time period.
2. Analysis of income and financial statements of the companies to measure Financial Leverage using appropriate applications.
3. Analysis of income and financial statements of the companies to measure their Profitability and Liquidity with the help of various accounting ratios.
4. Analysis of impact of Financial Leverage on the companies Profitability and Liquidity and find out any correlation between them.

- Financial Leverage is measured in terms of proportionate change in EPS as a result of change in EBIT level. The formula for calculating Financial Leverage is as under :

Percentage change in EPS

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Percentage changes in EBIT

Where EPS is Earnings Per Share

EBIT is Earnings Before Interest & Taxes

# TOOL CONSTRUCTION : PLAN FOR ITS CONSTRUCTION, QUALITY MEASURES, FINALISATION

1. Abstracts of annual reports of the selected companies with special emphasis on income statement (Profit and Loss Account), statement of financial position (Balance Sheet) and statement of sources and application of funds will be obtained.
2. Financial Leverage of the selected companies will be measured with the help of appropriate formulae
3. The Profitability and Liquidity of the selected Indian companies will be measured with the help of various accounting ratios.
4. The relationship between Financial Leverage and Profitability and Liquidity of the companies will be analysed and the impact of the former on the latter will be determined.
5. The impact of Financial Leverage on the Profitability and Liquidity will be observed and relevant conclusions will be drawn out from the analysis.

# LIMITATIONS OF THE STUDY

Critical points related to the research work from different viewpoints have been mentioned as under :

1. Field of study is limited to only Indian industries and the companies belonging to them. There are so many other companies in foreign countries which may be considered for analysis. But since the study is limited to Indian companies, only Indian listed companies have been selected for the study.
2. There are numerous stock exchanges in India at national and regional level like, National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Ahmadabad stock exchange, Delhi stock exchange, Vadodara stock exchange etc. but out of them, NSE, BSE have been selected for selection of listed companies, because they are leading stock exchanges in India and most of national as well as regional companies are listed under them.
3. The country's economy was liberalized only in the previous decade and its effects are prominently visible in the current decade and hence the period of latest 10 years has been selected for the research.
4. For the research work primary data and secondary data can be applied but considering the nature of proposed research work only secondary data are used.
5. A company's Profitability and Liquidity may be affected by numerous factors but in this research work the impact that Financial Leverage has on Profitability and Liquidity of a company has been measured and analysed.
6. For the research work, impact of Financial Leverage has been studied with regard to the Profitability and Liquidity of the selected Indian companies only. Financial Leverage may have several other effects on a company which are beyond the purview of this research.
7. For the study , many other accounting reports and statements can be utilised but in this research work, income statements and statements of financial position have been considered.



## CHAPTER PLAN :

The research work has been divided into the following chapters :

1. INTRODUCTION
2. LITERATURE REVIEW
3. RESEARCH METHODOLOGY
4. ]
5. DATA AND DATA ANALYSIS
6. OBSERVATIONS AND CONCLUSIONS
  - Annexure
  - References and Bibliography
  - Webliography

## TIME-SCHEDULE :

The tentative time limit schedule has been divided in the following periods for the proposed research work.

1. Six months for the library work and data collection for the proposed research work
2. Six months for the data processing and preparation of synopsis for the proposed research work
3. Second year of the proposed research work is spared for chapter wise thesis writing
4. Third year of the proposed research work is utilized for data analysis and conclusions.

THANK YOU

