Assignment 12

Why does EBIT fall as the firm takes more debt?

EBIT (Earnings Before Interest and Taxes) is ~~may fall as a firm takes on mo~~ a key financial metric that measures a company ~~performan~~ profitability from its core operations.

* Increased Interest expenses:-

Higher debt levels leads to higher interest payments, which reduce EBIT.

* Debt servicing costs:

Higher debt servicing costs, including principal and interest payments, can strain cash flows and reduce EBIT.

* Higher risk premium:-

Increased debt raises the risk of default, leading to higher interest rates and reduced EBIT.

* Reduced operational efficiency:-

Excessive debt can distract management's focus on operations, leading to decreased revenues and EBIT.

* Increased financial leverage:-

Higher debt amplifies financial leverage, making EBIT more sensitive to changes in sales and operating margins.