MINOR PROJECT REPORT

ON

INVESTIGATING THE RELATIONSHIP BETWEEN FINANCIAL LEVERAGE AND FIRM VALUE

SUBMITTED IN PARTIAL FULFILLMENT FOR THE AWARD OF THE

DEGREE OF BACHELOR OF COMMERCE
2021-2024

UNDER THE GUIDANCE OF

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STUDENT DECLARATION

This is to certify that I have completed the Project titled "Investigating the relationship between Financial Leverage and Firm Value" under the guidance of "Dr. Priya Sharma" in partial fulfilment of the requirement for the award of degree of Bachelor of Commerce at Vivekananda Institute of Professional Studies, Vivekananda School of Business Studies, New Delhi. This is an original piece of work and has not been submitted elsewhere.

Devansh Goyal

NAME OF STUDENT

STUDENT SIGNATURE

CERTIFICATE

This is to certify that the project titled "Investigating the relationship between Financial Leverage and Firm Value" is an academic work done by "Devansh Goyal" submitted in the partial fulfilment of the requirement for the award of the degree of Bachelor of Commerce from Vivekananda Institute of Professional Studies, Vivekananda School of Business Studies, New Delhi, under my guidance & direction. To the best of my knowledge and belief the data & information presented by him/her in the project has not been submitted earlier.

Dr. PRIYA SHARMA

SIGNATURE OF FACULTY GUIDE

ACKNOWLEDGEMENT

I express my sincere gratitude and thanks to Dr. Priya Sharma for giving me an opportunity to enhance my skill in my project. I am thankful for her guidance, patience and consummate support. I extend my heartiest thanks to her for enlightening my path. Without her sincere advice, this project has been impossible.

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I also feel grateful and elated in expressing my indebtedness to all those who have directly or indirectly helped me in accomplishing this research.

CHAPTER - 1

INTRODUCTION

WHAT IS FINANCIAL LEVERAGE?

Financial leverage is the use of debt to finance a company's assets. It is a way for companies to increase their returns on equity (ROE) by using borrowed money to generate income. However, financial leverage also increases risk, as companies with high levels of debt are more likely to default on their loans if their income declines.

There are two main types of financial leverage: operating leverage and financial leverage. Operating leverage refers to the use of fixed costs to generate income. For example, a company that manufactures cars has fixed costs, such as the cost of its factory, that do not change as the number of cars it produces changes. If the company produces more cars, its profits will increase, but its fixed costs will remain the same. This means that the company's profits will be more sensitive to changes in sales volume when it has high operating leverage.

Financial leverage refers to the use of debt to finance a company's assets. When a company borrows money, it is able to generate income from the assets it purchases with the borrowed money. However, the company must also make interest payments on the debt. If the company's income declines, it may not be able to make its debt payments, which could lead to bankruptcy.

The optimal level of financial leverage for a company will depend on a number of factors, including the company's industry, its business cycle, and its financial strength. Companies in cyclical industries, such as manufacturing and energy, are more likely to experience periods of high and low profits. As a result, these companies should use less financial leverage than companies in more stable industries, such as healthcare and utilities.

Companies that are in a strong financial position, with high levels of cash flow and low debt levels, can afford to use more financial leverage than companies that are in a weak financial position.

Ultimately, the decision of how much financial leverage to use is a complex one that should be made on a case-by-case basis.

How does financial leverage work?

Financial leverage works by magnifying the returns to shareholders. When a company uses debt to finance its assets, it is able to generate higher returns on equity (ROE) than if it had financed its assets entirely with equity. This is because the interest payments on debt are tax-deductible, which lowers the company's taxable income. As a result, the company's ROE is higher than it would be if it had financed its assets entirely with equity.

For example, let's say a company has Rs.100 of assets and Rs.50 of debt. The company's ROE is calculated as follows:

ROE = Net income / Shareholders' equity
Use code with caution. Learn more
If the company has a net income of Rs.10, its ROE is 20%.

Now, let's say the company uses Rs.100 of debt to finance its assets. The company's ROE is now calculated as follows:

ROE = Net income - Interest expense / Shareholders' equity
Use code with caution. Learn more
If the company's net income is still Rs.10 and its interest expense is Rs.5, its ROE is now 15%.

As you can see, the company's ROE is higher when it uses debt to finance its assets. This is because the interest payments on debt are tax-deductible, which lowers the company's taxable income.

The risks of financial leverage

While financial leverage can increase ROE, it also increases risk. This is because if the company is unable to make its debt payments, it may be forced into bankruptcy. As a result, investors may demand a higher return on equity for companies with high financial leverage.

For example, let's say the company in the previous example has a debt-to-equity ratio of 1.0. This means that the company has Re.1 of debt for every Re.1 of equity. If the company's net income falls to Rs.5, it will not be able to make its debt payments. As a result, the company may be forced into bankruptcy.

Here are some of the advantages of financial leverage

Increased ROE: When a company uses debt to finance its assets, it is able to generate higher returns on equity (ROE) than if it had financed its assets entirely with equity. This is because the interest payments on debt are tax-deductible, which lowers the company's taxable income. As a result, the company's ROE is higher than it would be if it had financed its assets entirely with equity.

Increased financial flexibility: Financial leverage can give a company more financial flexibility. This is because debt can be used to finance growth opportunities, such as acquisitions or new product development. Debt can also be used to pay off existing debt, which can improve the company's credit rating and make it easier to borrow money in the future.

Here are some of the disadvantages of financial leverage

Increased risk: Financial leverage increases risk. This is because if the company is unable to make its debt payments, it may be forced into bankruptcy. As a result, investors may demand a higher return on equity for companies with high financial leverage.

Decreased financial flexibility: Financial leverage can decrease financial flexibility. This is because debt payments are a fixed cost, which means that they must be paid regardless of how much income the company generates. As a result, the company may have less money available to finance growth opportunities or pay off existing debt. Overall, financial leverage is a double-edged sword. It can increase ROE and financial flexibility, but it can also increase risk. The decision of whether or not to use financial leverage is a complex one that should be made on a case-by-case basis.

What is firm value?

Firm value is the total market value of a company's equity and debt. It is calculated by adding the market value of the company's equity to the market value of its debt.

The market value of equity is the price that investors are willing to pay for a share of the company's stock. The market value of debt is the price that investors are willing to pay to buy the company's bonds.

Firm value is a measure of the total economic value of a company. It is used by investors to assess the attractiveness of an investment. It is also used by managers to make decisions about how to allocate resources and to set strategic goals.

How to calculate firm value?

There are a number of ways to calculate firm value. One common method is to use the discounted cash flow (DCF) method. The DCF method calculates the present value of all future cash flows generated by the company. The present value is calculated by discounting the future cash flows by a rate of return that reflects the risk of the investment.

Another common method to calculate firm value is to use the asset-based approach. The asset-based approach calculates the value of the company's assets, minus the value of its liabilities. The assets are valued based on their market value, while the liabilities are valued based on their book value.

Factors that affect firm value

There are a number of factors that can affect firm value, including the following:

- Industry: The industry in which a company operates can have a significant impact on its firm value. Some industries, such as technology and healthcare, are more cyclical than others, such as utilities and consumer staples. This means that the value of companies in cyclical industries can fluctuate more than the value of companies in more stable industries.

- Competitive position: The competitive position of a company can also affect its firm value. Companies with a strong competitive position, such as a dominant market share or a unique product or service, are generally more valuable than companies with a weaker competitive position.

- Financial strength: The financial strength of a company can also affect its firm value. Companies with strong financials, such as low debt levels and high cash flow, are generally more valuable than companies with weak financials.

- Future growth prospects: The future growth prospects of a company can also affect its firm value. Companies with strong growth prospects, such as those in emerging markets or those that are developing new products or services, are generally more valuable than companies with weak growth prospects.

The importance of firm value

Firm value is an important concept in finance and economics. It is a measure of the total economic value of a company and is used by investors and managers to make important decisions.

For investors, firm value is a measure of the potential return on an investment. By understanding the factors that can affect firm value, investors can make better decisions about where to invest their money.

For managers, firm value is a measure of the company's overall performance. By understanding the factors that can affect firm value, managers can make better decisions about how to allocate resources and to set strategic goals.

In corporate finance theory, the debt finance and equity finance are main source of external finance, However , the matter is how them to be composed of to minimize the agency costs and maximize the firm value. In capital structure theories, Besides the M&M(1958) capital structure irrelevance theorem, there exists a fit contingency for debt and equity finance respectively. According to the trade off theory, Modigliani and Miller(1963) find that there is a difference between the value of a leveraged firm and that of an unleveraged firm. This difference is the value of the interest tax shield. The trade off theory suggests that firms would seek more debt as long as the present value of the tax shield is greater than the present value of bankruptcy, agency costs and all other costs associated with higher leverage. Based on the agency cost theory, As debt is sold, the agency costs of debt also increase with leverage, while the proportion of equity , and agency costs of equity decreases.

The result is a decrease in the total agency costs. Jesen and Meckling (1976) argue that there is an optimum amount of leverage that would be associated with a minimum amount of total agency costs. Besides, Jesen(1986) pointed out that debt may reduce the agency costs of free cash flow by reducing the amount of cash under management control. The optimal debt-equity ratio is the point at which firm value is maximized, the point where marginal costs of debt just offset the marginal benefits. Grounded on the pecking order theory, Myers and Majluf (1984) argued that the firm prefer the debt finance to the equity finance when using external financing. The signaling theory (Ross, 1977; Heinkel,1982; Stien, 1992) states that a firm with favorable prospects will raise new capital through debt financing, while a firm with unfavorable prospects will go through equity financing. Incentive-signaling model developed by Ross(1977), provides a theory for the determination of the financial structure of the firm.

The manager of a firm maximizes his incentive return by choosing a financial package that trades off the current value of the signal given to the market against the incentive consequences on that return. According to the management entrenchment theory, proponents of this theory argue that subjective reasons may determine leverage choices made by managers. However, different conclusions are drawn by Agrawal and mandelker (1987), and Mehran (1992) on one hand, and Friend and Lang (1988), and Berger et al.(1997) on the other hand. Based on the market timing theory, Baker and Wurgler (2000) argued that when equity prices are too high, existing shareholders benefit by issuing overvalued equity, and when equity prices are too low, issuing debt is preferable, Besides, Baker and Wurgler (2002) stated that―capital structure evolves as the cumulative outcome of past attempts to time the equity market.‖. From above analysis, we can come to the following conclusion about capital structure theory.

Firstly, there don‘t exist the optimal capital structure except the trade-off theory.

Secondly, there exists information asymmetry except trade-off theory.

Thirdly, there don‘t maximize the firm value except the trade-off theory. In regarding the optimal capital structure, the trade-off theory emphasize the optimal capital structure, where the marginal benefits of debt equals the marginal costs of debt and firm reach it‘s maximum value. In regarding information asymmetry, the pecking order theory, the signal theory, the management entrenchment theory and the market timing theory, they all face different level of information asymmetry and incur agency costs respectively. In regarding the maximum firm value, the pecking order theory don‘t lay stress on it, the market timing theory emphasize the maximum value of the existing shareholder, while, the incentive signaling theory and the management entrenchment theory pay attention to self-interests of managers. Therefore, the trade-off theory is more suitable for the capital structure in general. Besides, the average interest rate leveli of loan is more lower from 2000-2009 than before in Taiwan, which may lead to the lower WACC and offer an incentive for firm to use debt finance. However, firm with different financial quality may accompany different bankrupt costs when using debt finance, In general, firms with better financial quality may incur lower bankrupt costs than those with worse financial quality. Therefore, we can infer that firms with better financial quality may have the more positive leverage effect on firm values than those with worse financial quality.

Nevertheless, as we know, there is no paper to explore this contextual variable influencing the effect of leverage on firm value. This is my motivation to explore this article. The first objective of this paper is to investigate whether and to what extent the leverage has the effect on the firm value. The empirical results show that the value of a leveraged firm is greater than that of an unleveraged firm if we don‘t consider bankruptcy probability. If we consider the benefit and cost of debt simultaneously, the leverage is positively related to the firm value before reaching firm‘ optimal capital structure. The second objective of this paper is to examine the leverage effects on firm value under different firm finance quality (I e., Z-score). The empirical results indicate that the positive influence of leverage to the firm value tends to be stronger when the firm financial quality is better. This paper contributes to the extant literature in corporate finance in two respects. Firstly, we are the first to employ Moderated Regression Analysis (MRA) as the empirical model to explore the leverage effects on firm value under different firm contextual variables. Secondly, our paper is first to explore the influence of bankruptcy probability and financial quality to the effect of leverage on firm values. The rest of the paper is organized as follows. In Section2 we present literature review and develop hypothesis. Section3 we construct research design. In Section4 we display the results and discussion. The last section is devoted to conclusions.

Two types of funding

- **Debt Funding**
- **Equity Funding**

Debt Funding

Debt financing is a type of financing in which a borrower receives money from a lender in exchange for agreeing to repay the loan, plus interest, over a specified period of time. Debt financing can be used by individuals, businesses, and governments to raise money for a variety of purposes, such as buying assets, investing in new projects, or covering operating expenses.

There are many different types of debt financing available, each with its own advantages and disadvantages. Some of the most common types of debt financing include:

- Bank loans: Bank loans are one of the most common forms of debt financing. Banks typically offer loans to businesses and individuals with good credit histories.
- Bonds: Bonds are a type of debt security that is issued by governments, corporations, and other organizations. Bonds can be sold to investors, who receive periodic interest payments until the bond matures, at which point they receive the full face value of the bond.
- Leasing: Leasing is a type of debt financing in which a borrower leases an asset from a lender for a specified period of time. The borrower makes monthly payments to the lender, which cover the cost of the asset plus interest. At the end of the lease term, the borrower has the option to purchase the asset for a specified price.

Debt financing can be a good option for businesses and individuals who need to raise money quickly and don't want to give up ownership of their business or assets. However, it's important to carefully consider the terms of any debt financing agreement before signing on the dotted line. Make sure you understand the interest rate, repayment schedule, and any other fees associated with the loan. You should also make sure you can afford the monthly payments, even if your business experiences a downturn.

Here are some of the advantages of debt financing:

- Quick access to capital: Debt financing can provide businesses and individuals with quick access to capital. This can be helpful if you need to raise money to cover unexpected expenses or to take advantage of a business opportunity.
- No equity dilution: Debt financing does not require you to give up any ownership in your business. This can be important if you want to maintain control of your business.
- Tax benefits: In some cases, debt financing can provide tax benefits. For example, interest payments on business loans may be tax-deductible.

Here are some of the disadvantages of debt financing:

- Interest payments: Debt financing typically requires you to make interest payments on the loan. This can add up over time, especially if you have a long-term loan.
- Repayment schedule: You will need to repay the loan according to a specified repayment schedule. This can be a burden if your business experiences a downturn and you are unable to make your payments.
- Risk of default: If you are unable to repay the loan, the lender may take possession of your assets. This could include your business, your home, or other valuable property.

Overall, debt financing can be a good option for businesses and individuals who need to raise money quickly and don't want to give up ownership of their business or assets. However, it's important to carefully consider the terms of any debt financing agreement before signing on the dotted line. Make sure you understand the interest rate, repayment schedule, and any other fees associated with the loan. You should also make sure you can afford the monthly payments, even if your business experiences a downturn.

Equity Fundig

Equity funding is a type of financing in which a company sells shares of its ownership to investors in exchange for capital. This type of funding can be used to grow a business, launch a new product or service, or expand into new markets.

There are many different types of equity investors, including:

- Angel investors: Angel investors are typically wealthy individuals who invest their own money in early-stage companies.
- Venture capitalists: Venture capitalists are firms that invest money in early-stage companies with the potential for high growth.
- Private equity firms: Private equity firms are firms that buy controlling stakes in companies with the goal of improving performance and then selling the company for a profit.

Equity funding can be a good option for businesses that need to raise a significant amount of capital and are willing to give up some ownership in exchange for the investment. However, it's important to carefully consider the terms of any equity financing agreement before signing on the dotted line. Make sure you understand the valuation of your company, the terms of the investment, and the exit strategy for the investors.

Here are some of the advantages of equity funding:

- Access to capital: Equity funding can provide businesses with access to significant amounts of capital. This can be helpful if you need to raise money to grow your business, launch a new product or service, or expand into new markets.
- Expertise and advice: Equity investors often have experience in the industry in which you are operating. They can provide you with valuable advice and expertise that can help you grow your business.
- Network: Equity investors often have a network of contacts that can be helpful to your business. They can introduce you to potential customers, partners, and employees.

Here are some of the disadvantages of equity funding:

- Loss of control: Equity funding requires you to give up some ownership in your business. This can be a concern if you are not comfortable sharing control with others.
- Dilution: As your company grows and raises additional equity funding, the ownership stakes of existing investors will be diluted. This means that they will own a smaller percentage of the company, which could reduce their profits.
- Exit strategy: Equity investors will eventually want to exit their investment. This could mean selling their shares to another investor, taking the company public, or merging with another company. If you are not prepared for an exit, it could be difficult to find a buyer for your shares.

Overall, equity funding can be a good option for businesses that need to raise a significant amount of capital and are willing to give up some ownership in exchange for the investment. However, it's important to carefully consider the terms of any equity financing agreement before signing on the dotted line. Make sure you understand the valuation of your company, the terms of the investment, and the exit strategy for the investors.

Here are some additional tips for raising equity funding:

1. Do your research: Before you start raising equity funding, it's important to do your research and understand the different types of equity investors and their investment criteria.
2. Prepare a business plan: A business plan is a document that outlines your business goals, strategy, and financial projections. It's an important tool for attracting equity investors.
3. Build a strong network: Networking is an important way to meet potential equity investors. Attend industry events, join relevant organizations, and connect with people on social media.
4. Be prepared to pitch your business: When you're ready to start pitching your business to equity investors, it's important to be prepared and confident. Practice your pitch in front of friends, family, or colleagues before you start meeting with investors.

Raising equity funding can be a challenging process, but it can be a rewarding one if you're successful. By following these tips, you can increase your chances of raising the capital you need to grow your business.

The Tax Shield Effect

Modern capital structure theory started in 1958, when Modigliani and Miller （1958） (M&M hereafter) first brought out ―Capital Structure Irrelevance Theory‖, advocated that the firm value and weighted average cost of capital (WACC) is unaffected by the financial structure of the firm. However, M&M‘s perfect market assumptions: such as no transaction costs, no taxes, symmetric information and identical borrowing rates, and risk free debt, are contradictory to the operations in the real world.

Modigliani and Miller (1963) later modified their original M&M‘s model and considered the tax deductibility of interest (tax shields effect). Modigliani and Miller (1963) demonstrate that when corporate tax laws allow the deductibility of interest payments, the market value of a firm is an increasing function of leverage.

Tax Shield = Deduction X Tax Rate

Instrument of Debt Financing are are benificial as they are allowed in deductions whereas Equity Financing instruments are not allowed in deductions for e.g. dividends. So,
Debt Financing > Equity Financing, which helps in more deduction, Hence, More tax can be saved which directly incrases the profits of a company.

OBJECTIVE OF THE PROJECT WORK

I have carried out a research which is both qualitative and quantitative in its support. The qualitative approach applies to both, descriptive and inductive forms of research. While as in case of quantitative approach, an extensive use has been made of the literature available to carry out a detail research on the nature of the problem. I have chosen Reliance Group, TATA Group, Mahindra Group, Adani Group and The Aditya Birla Group as the target company for my research study so as:

- To study the Relationship between Financial Leverage and Firm Value.
- To study how people invest on the basis on Financial Leverage and Firm Value

THE COMPANIES CHOOSED FOR THE PROJECTS ARE

The Reliance Group

The TATA Group

The Adani Group

The Aditya Birla Group

The Mahindra Group

THE RELIANCE GROUP

The Reliance Group is an Indian multinational conglomerate headquartered in Mumbai, India. It was founded in 1958 by Dhirubhai Ambani, who is considered to be one of the most successful businessmen in India. The Reliance Group is one of the largest private sector companies in India, with a market capitalization of over $200 billion.

The Reliance Group operates in a wide range of industries, including energy, petrochemicals, natural gas, retail, telecommunications, mass media, and textiles. The group's flagship company is Reliance Industries Limited (RIL), which is the largest private sector company in India. RIL is involved in the exploration and production of oil and gas, the refining and marketing of petroleum products, and the production of petrochemicals.

The Reliance Group has a significant presence in the Indian retail sector. The group's retail business is divided into two segments: Reliance Retail and Reliance Digital. Reliance Retail is a chain of supermarkets, hypermarkets, and convenience stores. Reliance Digital is a chain of electronics stores.

The Reliance Group also has a significant presence in the Indian telecommunications sector. The group's telecommunications business is called Reliance Jio Infocomm Limited (Jio). Jio is a mobile phone service provider that offers 4G LTE services. Jio is the largest mobile phone service provider in India, with over 400 million subscribers.

The Reliance Group is a major player in the Indian economy. The group's businesses employ over 250,000 people and contribute to the Indian government's tax revenue. The Reliance Group is also a major contributor to India's exports. The Reliance Group has been criticized for its environmental record. The group's oil and gas exploration and production activities have been linked to environmental damage. The group has also been criticized for its use of water in its manufacturing processes.

Despite the criticism, the Reliance Group remains one of the most successful companies in India. The group's businesses are well-managed and profitable. The group is also committed to innovation and new business ventures. The Reliance Group is well-positioned to continue to grow and succeed in the years to come.

The Reliance Group was founded in 1958 by Dhirubhai Ambani. Ambani was born in 1932 in the small town of Chorwad, Gujarat, India. He dropped out of school at the age of 11 to help support his family. In 1958, Ambani founded Reliance Commercial Corporation, a textile trading company. The company was a success, and Ambani soon expanded into other businesses, including manufacturing and oil and gas exploration.
In the 1970s, Ambani began to focus on the oil and gas sector. He acquired a number of oil and gas assets, including the Bombay High oil field. The Bombay High oil field is one of the largest oil fields in India, and it has played a major role in the Reliance Group's success.
In the 1980s, Ambani began to diversify the Reliance Group's business interests. He entered the retail sector with the launch of Reliance Fresh, a chain of supermarkets. He also entered the telecommunications sector with the launch of Reliance Jio, a mobile phone service provider.
Dhirubhai Ambani died in 2002. He was succeeded by his two sons, Mukesh Ambani and Anil Ambani. Mukesh Ambani is the chairman of Reliance Industries Limited, while Anil Ambani is the chairman of Reliance Group.
The Reliance Group has continued to grow and expand under the leadership of Mukesh Ambani.

Gross Debt – Rs. 3,14,708cr
Market Cap – Rs. 16,74,000cr

THE TATA GROUP

The Tata Group is an Indian multinational conglomerate headquartered in Mumbai, India. It was founded in 1868 by Jamsetji Tata, who is considered to be one of the most successful businessmen in India. The Tata Group is one of the largest private sector companies in India, with a market capitalization of over $150 billion.

The Tata Group operates in a wide range of industries, including automobiles, steel, telecommunications, software, and energy. The group's flagship company is Tata Sons, which is a holding company that owns stakes in a number of other Tata companies.
The Tata Group has a significant presence in the Indian economy. The group's businesses employ over 600,000 people and contribute to the Indian government's tax revenue. The Tata Group is also a major contributor to India's exports.
The Tata Group has been praised for its corporate social responsibility initiatives. The group has a number of programs that are designed to improve the lives of people in India, including education, healthcare, and rural development.

The Tata Group was founded in 1868 by Jamsetji Tata. Tata was born in 1839 in the small town of Navsari, Gujarat, India. He was a Parsi, a minority religious group in India. Tata was educated in Mumbai and in England. After returning to India, Tata worked for a number of British trading companies. In 1868, Tata founded the Tata & Company, a trading company. The company was a success, and Tata soon expanded into other businesses, including manufacturing and mining.

In the early 1900s, Tata began to focus on the development of India's industrial sector. He founded a number of companies that played a major role in the development of India's economy, including the Tata Iron and Steel Company (TISCO), the Tata Hydroelectric Power Company, and the Tata Power Company.

Tata was a visionary businessman who believed that India could become a major industrial power. He worked tirelessly to promote the development of India's economy, and he is considered to be one of the founding fathers of modern India.

The Tata Group has continued to grow and expand under the leadership of a number of Tata family members. The group is now one of the largest and most respected companies in India.

Here are some of the most notable Tata companies:

- Tata Motors: One of the largest automobile manufacturers in India
- Tata Steel: One of the largest steel producers in India
- Tata Consultancy Services (TCS): One of the largest IT services companies in the world
- Tata Power: One of the largest power companies in India
- Tata Chemicals: One of the largest chemical companies in India
- Tata Teleservices: One of the largest telecommunications companies in India
- Tata Global Beverages: One of the largest tea and coffee companies in the world
- Tata Housing: One of the largest real estate companies in India
- Tata Trusts: A philanthropic organization that supports a number of social causes in India

The Tata Group is a major force in the Indian economy and a symbol of India's progress. The group is committed to corporate social responsibility and is working to improve the lives of people in India. The Tata Group is a truly global company that is making a difference in the world.

Total Debt – Rs. 1,21,600cr
Total Value – Rs.23,60,000cr

THE ADANI GROUP

The Adani Group is an Indian multinational conglomerate headquartered in Ahmedabad, India. It was founded in 1988 by Gautam Adani, who is considered to be one of the most successful businessmen in India. The Adani Group is one of the largest private sector companies in India, with a market capitalization of over $150 billion.

The Adani Group operates in a wide range of industries, including energy, ports, airports, agriculture, and infrastructure. The group's flagship company is Adani Enterprises Limited (AEL), which is a holding company that owns stakes in a number of other Adani companies.

The Adani Group has a significant presence in the Indian economy. The group's businesses employ over 70,000 people and contribute to the Indian government's tax revenue. The Adani Group is also a major contributor to India's exports.

The Adani Group has been praised for its corporate social responsibility initiatives. The group has a number of programs that are designed to improve the lives of people in India, including education, healthcare, and rural development.

The Adani Group was founded in 1988 by Gautam Adani. Adani was born in 1957 in the small town of Bhuj, Gujarat, India. He dropped out of school at the age of 11 to help support his family. In 1988, Adani founded Adani Enterprises Limited (AEL), a commodity trading company. The company was a success, and Adani soon expanded into other businesses, including ports and power.

In the early 2000s, Adani began to focus on the development of India's infrastructure sector. He founded a number of companies that played a major role in the development of India's economy, including Adani Ports and Special Economic Zone Limited (APSEZ), Adani Transmission Limited (ATL), and Adani Green Energy Limited (AGEL).

Adani is a visionary businessman who believes that India can become a major economic power. He works tirelessly to promote the development of India's economy, and he is considered to be one of the most successful businessmen in India.

The Adani Group has continued to grow and expand under the leadership of Gautam Adani. The group is now one of the largest and most respected companies in India.

Here are some of the most notable Adani companies:

- Adani Ports and Special Economic Zone Limited (APSEZ): One of the largest port operators in India
- Adani Transmission Limited (ATL): One of the largest power transmission companies in India
- Adani Green Energy Limited (AGEL): One of the largest renewable energy companies in India
- Adani Enterprises Limited (AEL): A holding company that owns stakes in a number of other Adani companies

The Adani Group is a major force in the Indian economy and a symbol of India's progress. The group is committed to corporate social responsibility and is working to improve the lives of people in India. The Adani Group is a truly global company that is making a difference in the world.

Gross Debt – Rs. 2,27,000cr
Total Debt – Rs. 15,58,000cr

THE ADITYA BIRLA GROUP

The Aditya Birla Group is an Indian multinational conglomerate headquartered in Mumbai, India. It is one of the largest private sector companies in India, with a market capitalization of over $100 billion. The group's businesses operate in a wide range of industries, including cement, metals, textiles, financial services, and retail.

The Aditya Birla Group was founded in 1857 by Seth Shivratan Birla. The group's businesses have grown significantly since then, and it is now one of the largest and most respected companies in India. The group's businesses employ over 600,000 people and contribute to the Indian government's tax revenue. The Aditya Birla Group is also a major contributor to India's exports.

The Aditya Birla Group has been praised for its corporate social responsibility initiatives. The group has a number of programs that are designed to improve the lives of people in India, including education, healthcare, and rural development.

The Aditya Birla Group was founded in 1857 by Seth Shivratan Birla. Shivratan Birla was a textile trader who started his business in the small town of Pilani, Rajasthan, India. The business was a success, and Shivratan Birla soon expanded into other businesses, including cement and metals.

In the early 1900s, Shivratan Birla's son, Ghanshyam Das Birla, took over the business. Ghanshyam Das Birla was a visionary businessman who helped to grow the group's businesses into some of the largest in India. He also played a major role in the development of India's economy.

In the late 1900s, Ghanshyam Das Birla's grandson, Aditya Birla, took over the business. Aditya Birla is a successful businessman who has helped to grow the group's businesses into some of the largest in the world. He is also a major philanthropist who has donated millions of dollars to charity.

The Aditya Birla Group has continued to grow and expand under the leadership of Aditya Birla. The group is now one of the largest and most respected companies in India.

Here are some of the most notable Aditya Birla companies:

- Aditya Birla Cement: One of the largest cement producers in the world
- Hindalco Industries: One of the largest aluminum producers in the world
- Aditya Birla Nuvo: One of the largest textiles companies in India
- Aditya Birla Financial Services: One of the largest financial services companies in India
- Aditya Birla Retail: One of the largest retailers in India

The Aditya Birla Group is a major force in the Indian economy and a symbol of India's progress. The group is committed to corporate social responsibility and is working to improve the lives of people in India. The Aditya Birla Group is a truly global company that is making a difference in the world.

Total Debt – Rs. 1,90,000cr
Value – not available

THE MAHINDRA GROUP

The Mahindra Group is an Indian multinational conglomerate headquartered in Mumbai, India. It is one of the largest private sector companies in India, with a market capitalization of over $200 billion. The group's businesses operate in a wide range of industries, including automotive, aerospace, agribusiness, aftermarket automotive components, construction equipment, defence, energy, farm equipment, finance and insurance, industrial equipment, information technology, leisure and hospitality, logistics, real estate, retail and education.

The Mahindra Group was founded in 1945 by K.C. Mahindra. The group's businesses have grown significantly since then, and it is now one of the largest and most respected companies in India. The group's businesses employ over 250,000 people and contribute to the Indian government's tax revenue. The Mahindra Group is also a major contributor to India's exports.

The Mahindra Group has been praised for its corporate social responsibility initiatives. The group has a number of programs that are designed to improve the lives of people in India, including education, healthcare, and rural development.

The Mahindra Group was founded in 1945 by K.C. Mahindra. Mahindra was born in 1904 in the small town of Ludhiana, Punjab, India. He was a Parsi, a minority religious group in India. Mahindra was educated in Mumbai and in England. After returning to India, Mahindra worked for a number of British trading companies. In 1945, Mahindra founded Mahindra & Mohammed, a trading company. The company was a success, and Mahindra soon expanded into other businesses, including manufacturing and mining.

In the early 1950s, Mahindra began to focus on the development of India's automotive sector. He founded a number of companies that played a major role in the development of India's automobile industry, including Mahindra & Mahindra (M&M), which is now one of the largest automobile manufacturers in India.

In the 1970s, Mahindra began to diversify the group's business interests. He entered the aerospace sector with the launch of Mahindra Aerospace, and he also entered the defence sector with the launch of Mahindra Defence.

In the 1980s, Mahindra began to focus on the development of India's infrastructure sector. He founded a number of companies that played a major role in the development of India's infrastructure, including Mahindra Lifespaces, which is now one of the largest real estate developers in India.

In the 1990s, Mahindra began to focus on the development of India's information technology sector. He founded a number of companies that played a major role in the development of India's IT industry, including Mahindra Satyam, which is now one of the largest IT companies in India.

In the 2000s, Mahindra began to focus on the development of India's renewable energy sector. He founded a number of companies that played a major role in the development of India's renewable energy industry, including Mahindra Susten, which is now one of the largest renewable energy companies in India.

The Mahindra Group has continued to grow and expand under the leadership of K.C. Mahindra's son, Anand Mahindra. Anand Mahindra is a successful businessman who has helped to grow the group's businesses into some of the largest in the world. He is also a major philanthropist who has donated millions of dollars to charity.

The Mahindra Group is now one of the largest and most respected companies in India. The group is committed to corporate social responsibility and is working to improve the lives of people in India. The Mahindra Group is a truly global company that is making a difference in the world.

Total Debt – Rs.75,779cr
Value - Not available

CHAPTER - 2

REVIEW

OF

LITERATURE

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"The optimal level of financial leverage for a firm will depend on a number of factors, including the firm's industry, its business cycle, and its management's risk tolerance."

CHAPTER - 3

RESEARCH METHADOLOGY

The study is an exercise involving estimation of parameters as regard to organizational requirements. The research was designed so as to get the relevant information that can be used for various organizational purposes.

DATA SOURCE:

Research used both primary and secondary data to accomplish the objectives.

PRIMARY DATA: It is the first hand gathered to help solve the problem at hand. Data is collected personally for the specific project through research. Questionnaire was designed to gather information on the company marketing and services.

SAMPLE SIZE: 200

SURVEY AREA: Delhi, NCR

SECONDARY DATA: It is the second hand data already available and collected by someone else. The data were extracted through internet, publications; articles, company books, etc.

SOURCE : WWW.Moneycontrol.com

DATA COLLECTION:

The study used the survey method to collect the raw information specific to the current research work. The survey method is advantageous because it helps to collect detailed information about an individual respondent.

Survey:

The type of survey undertaken was that of sample type keeping in consideration the time constraints besides the viability of census survey. The sample survey undertaken to reach the desired destination was carefully planned and executed by using selected samples.

Statistical Tool:

The tool used for obtaining the relevant information was questionnaire. A well structured questionnaire was administered to the sample of the study. The questionnaire was designed keeping in view both major and minor objectives of the study.

Sampling:

With the customer being unknown and given the time and resource constraints random sample was obtained from the population. The random sampling is a type of sampling method where each individual unit has an equal probability of being chosen

SAMPLE SIZE: 200

Data completion and analysis:

After the data was collected, it was tabulated and findings of the project were presented followed by analysis and interpretation to reach certain conclusions.

TOOLS : Word Charts
MS Excel

LIMITATIONS OF THE PROJECT

Everything in this world has its own advantages and disadvantages which shows

- **'NOTHING IS PERFECT'**

  Following are the problems faced but it's a part of game?

- **TIME CONSUMING:**

  It is very much obvious that it is a time consuming process. So much time has been spent for this purpose.

- **LOW PARTICIPATION:**

  Obviously many respondents have not participated in this and have also created some problems which simply show that they were not interested.

- **BIASNESS:**

  Sometimes interested customers were also biased so the collected figures involve both positive and negative figures. It does not cover all the aspects of the company.

CHAPTER - 4

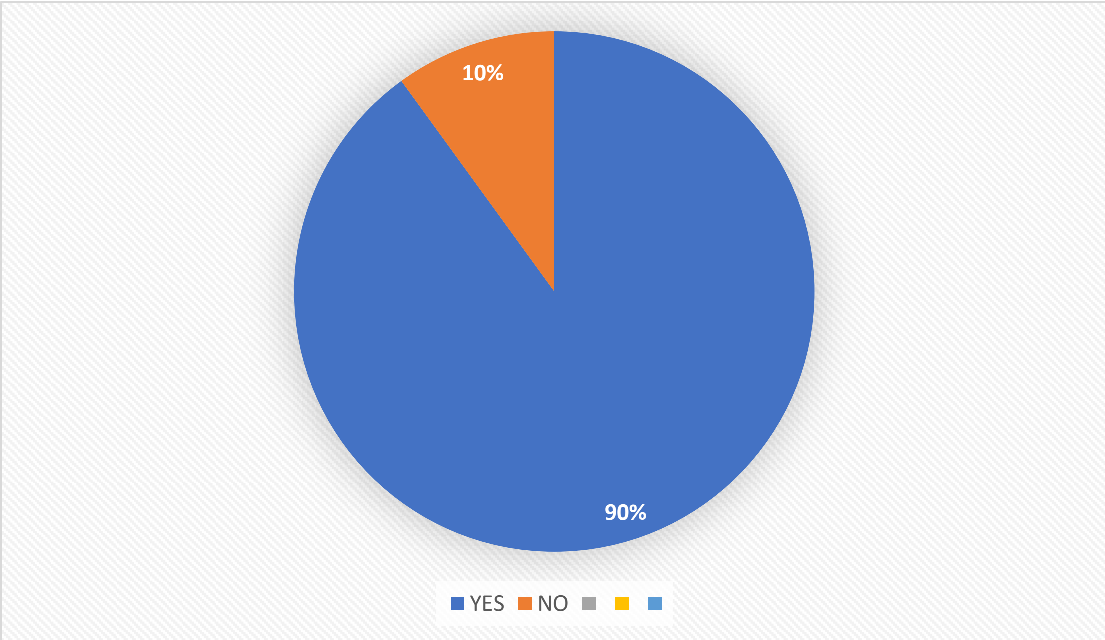
ANALYSIS

DATA ANALYSIS

1. Are you familiar with the concept of Financial leverage ?

Yes

No



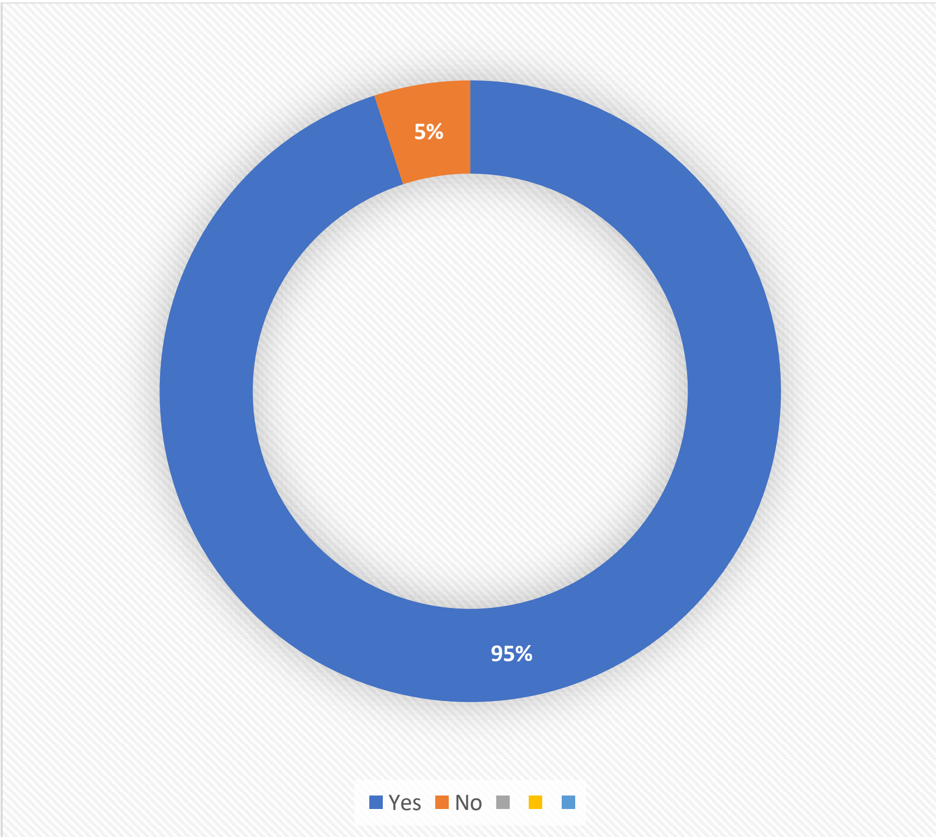
After analysing the above data it can be clearly seen that 90% people know about financial leverage and 10% people don't about Financial leverage

2. Do you know what is meant by the term "firm value"?

Choose only one option

No

Yes



After analysing the above data it can be clearly seen that 95% people know about Firm Value and 5% people don’t about Firm value.

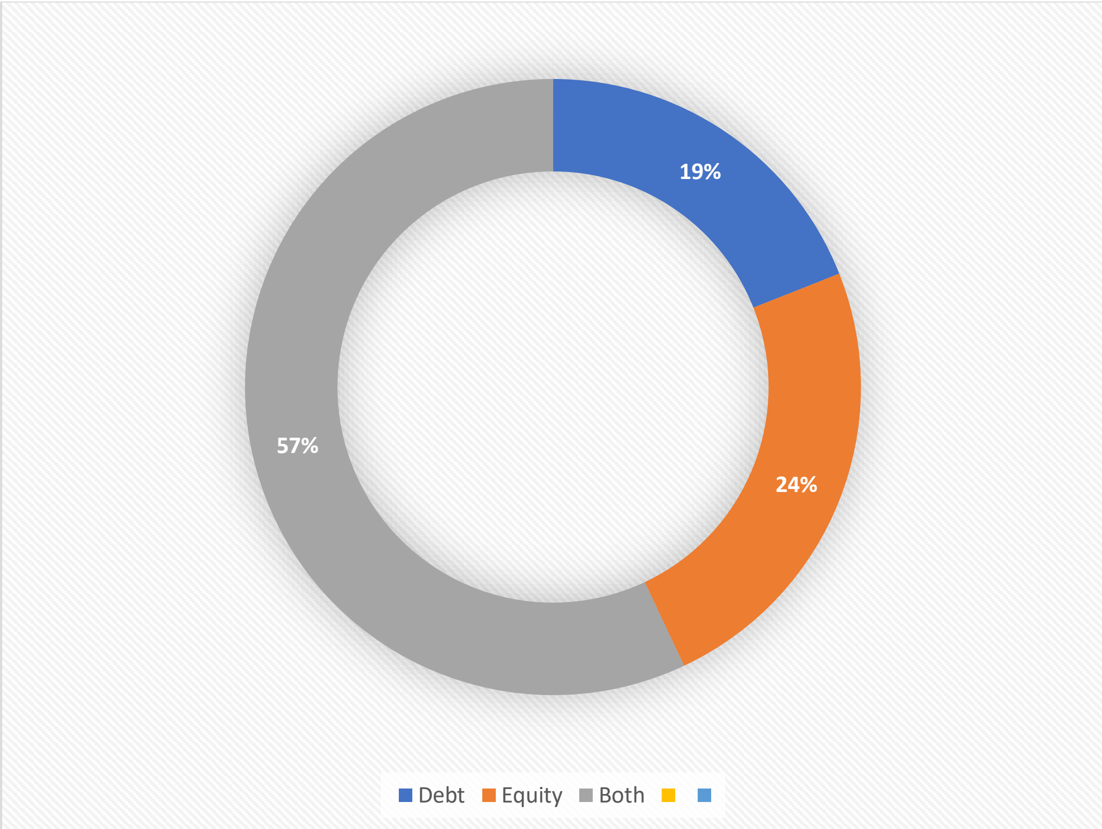
3. In your opinion, which financing method is better for a company ?

Choose only one option

Debt financing

Equity financing

Both (depending upon the situation)



After analysing the above data it can be clearly seen that 24% people thinks Equity financing is better than Debt financing to finance a company and 19% people thinks Debt financing is better than Equity financing to finance a company and 57% people think both the methods are good.

4. How does a company's financial leverage affect its risk level?

Choose only one option

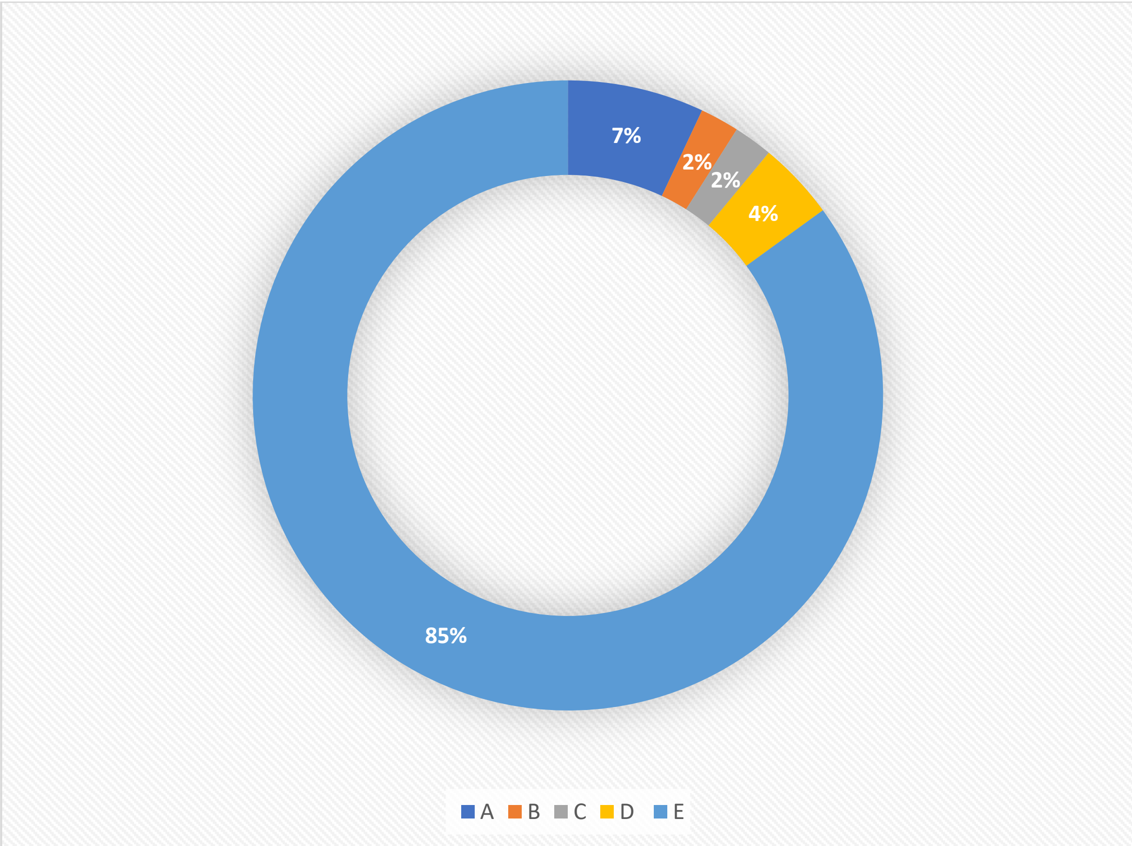
A. Higher the leverage – Higher is the risk

B. Higher the leverage – Lower is the risk

C. Lower the leverage – Higher is the risk

D. Lower the leverage – Lower is the risk

E. Both A & D



After analysing the above data it can be clearly seen that 85% people voted for Both A & B, 7% people voted for Higher the leverage – Higher is the risk, 2% people voted for Higher the leverage – Lower is the risk, 2% people voted for Lower the leverage – Higher is the risk, 4% people voted for Lower the leverage – Lower is the risk.

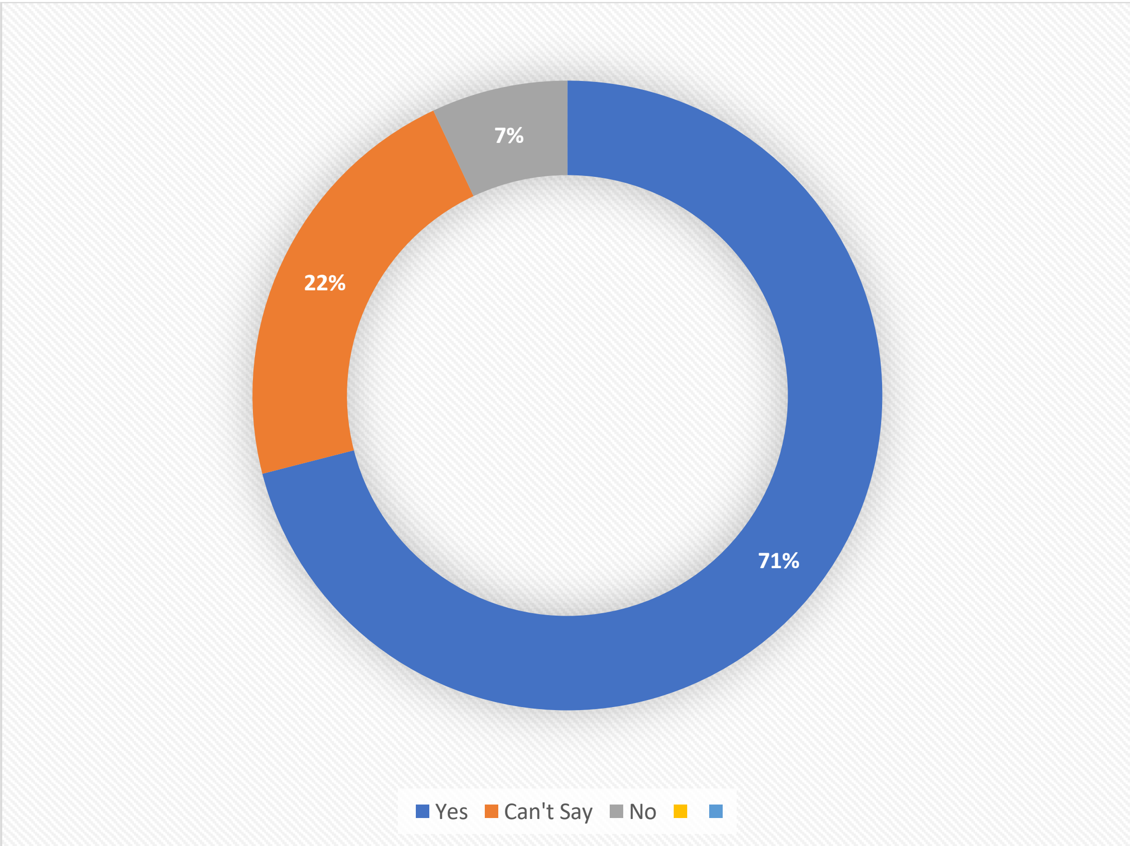
5. Can financial leverage have both positive and negative effects on a company's profitability?

Choose only one option

Yes

Can’t Say

No



After analysing the above data it can be clearly seen that 83% people voted for Yes and 17% people voted for No.

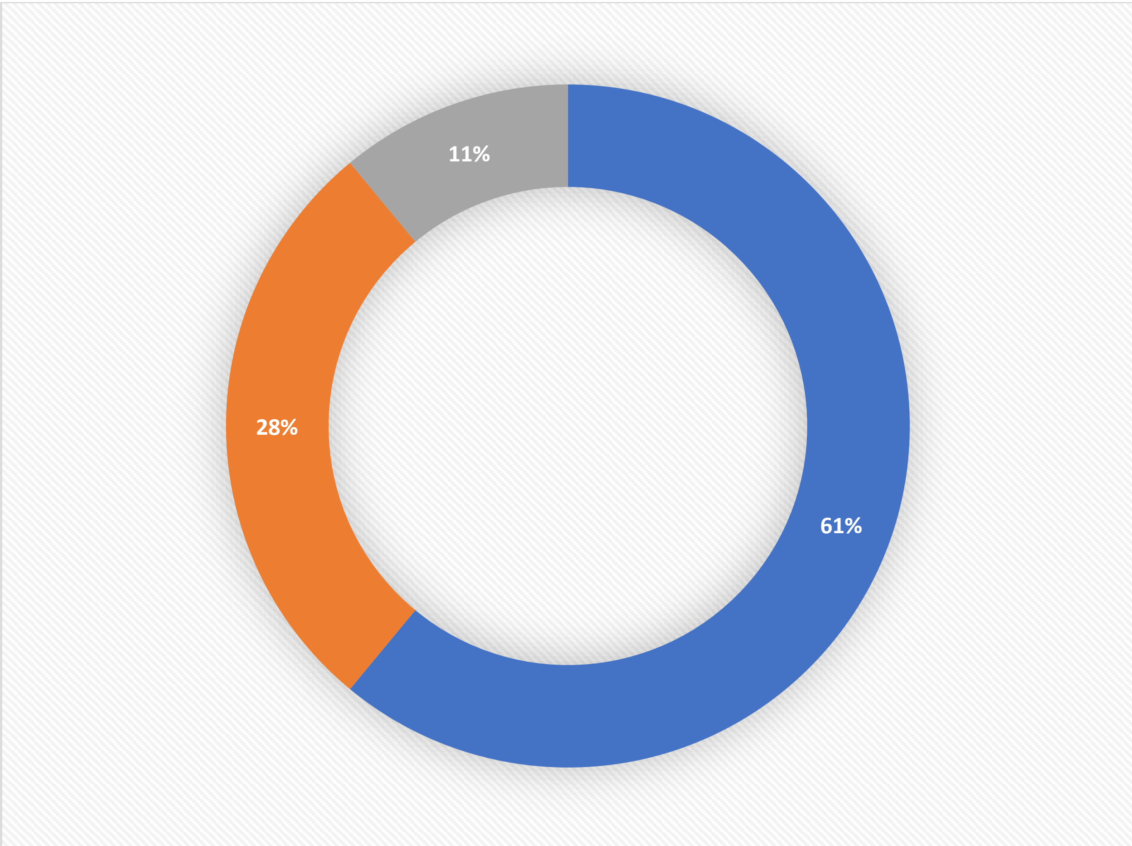
6. Do you think Financial Leverage will increase the Firm's Valuation?

Choose only one option

Yes

Can't Say

No



After analysing the above data it can be clearly seen that 61% people voted for Yes, 28% people voted for can't say and 11% people voted for No.

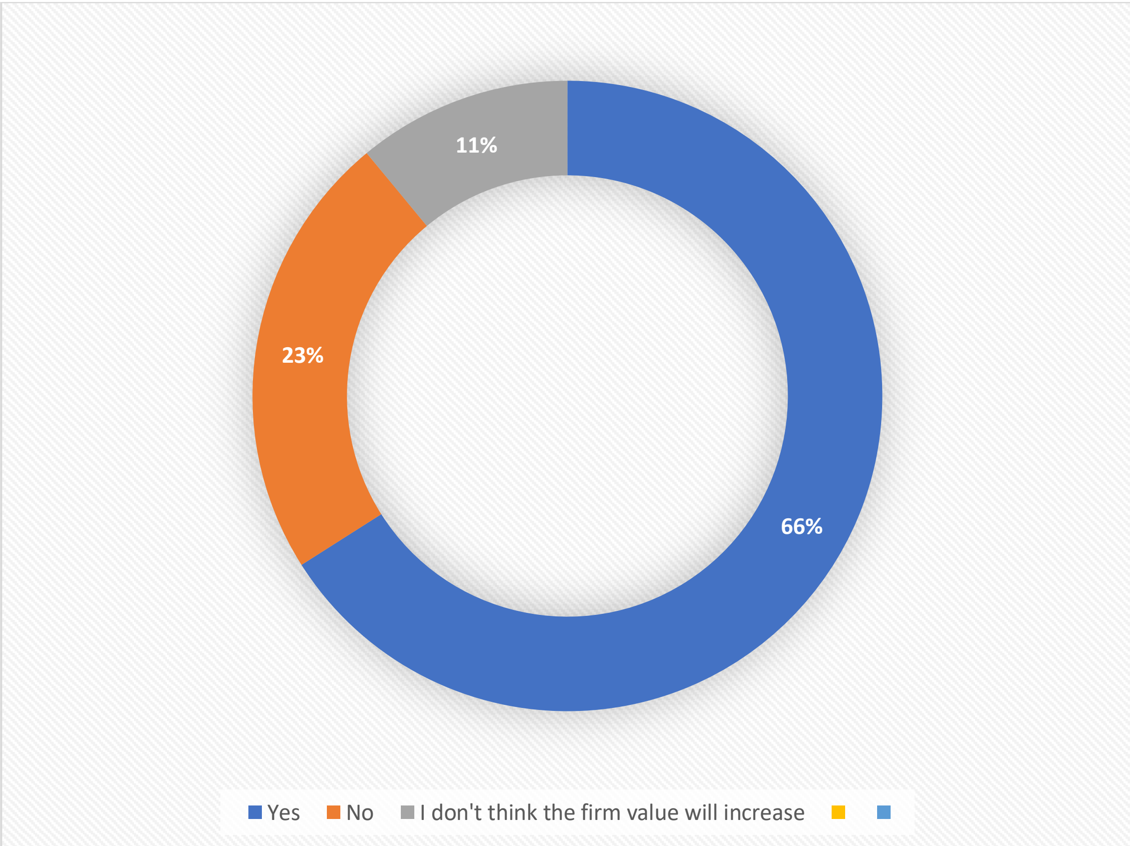
7. Do you think Financial Leverage will increase the Firm's Valuation on temporary basis?

Choose only one option

Yes

No

I don't think Firm Value will increase



After analysing the above data it can be clearly seen that 66% people voted for Yes, 23% people voted for No and 11% people voted for I don't think firm value will increase.

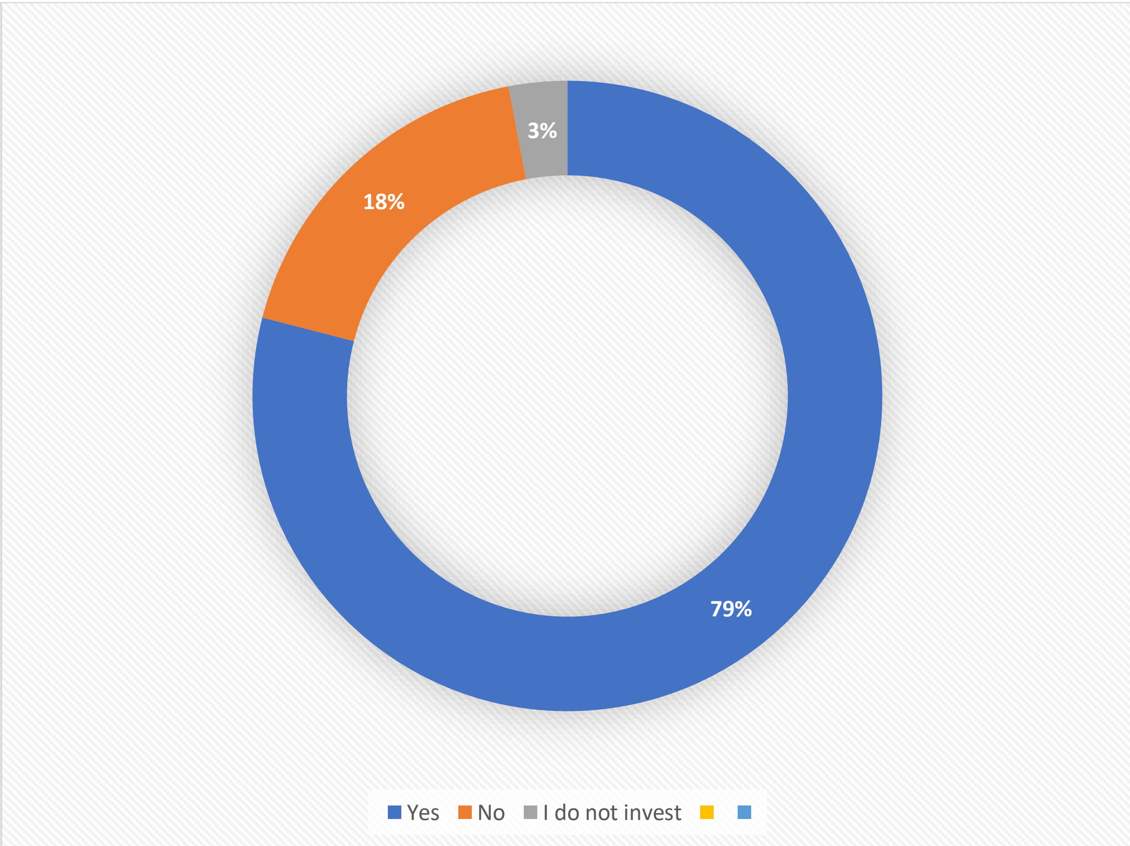
8. Have you ever made investment decisions based on a company's financial leverage or firm value?

Choose only one option

Yes

No

I do not invest



After analysing the above data it can be clearly seen that 79% people voted for Yes, 18% people voted for No and 3% people voted for I do not invest.

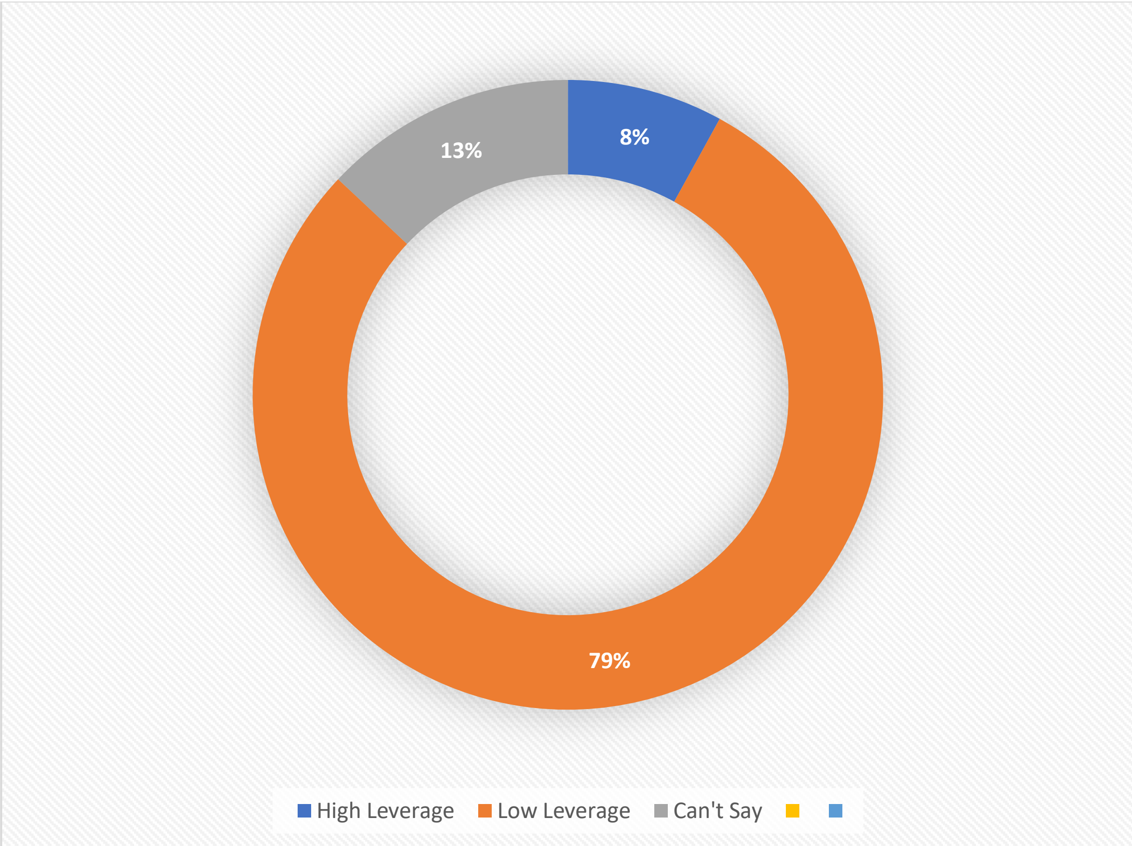
9. Which company will prefer to invest for long term?

Choose only one option

High Leverage

Low Leverage

Can’t say



After analysing the above data it can be clearly seen that 8% people voted for High Leverage, 79% people voted for Low Leverage and 13% people voted for Can’t say.

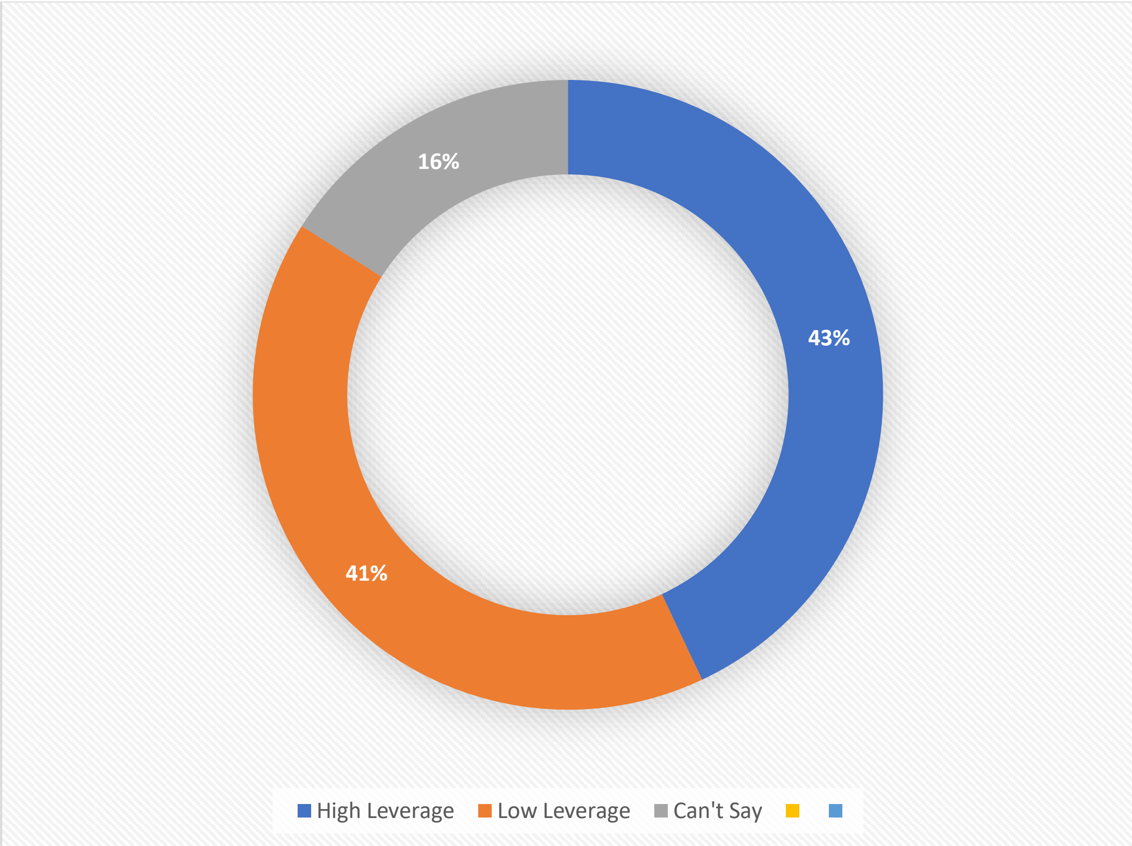
10. Which company will prefer to invest for short term?

Choose only one option

High Leverage

Low Leverage

Can’t say



After analysing the above data it can be clearly seen that 43% people voted for High Leverage, 41% people voted for Low Leverage and 16% people voted for Can’t say.

11. How important do you think it is for business owners and investors to understand the relationship between financial leverage and firm value?

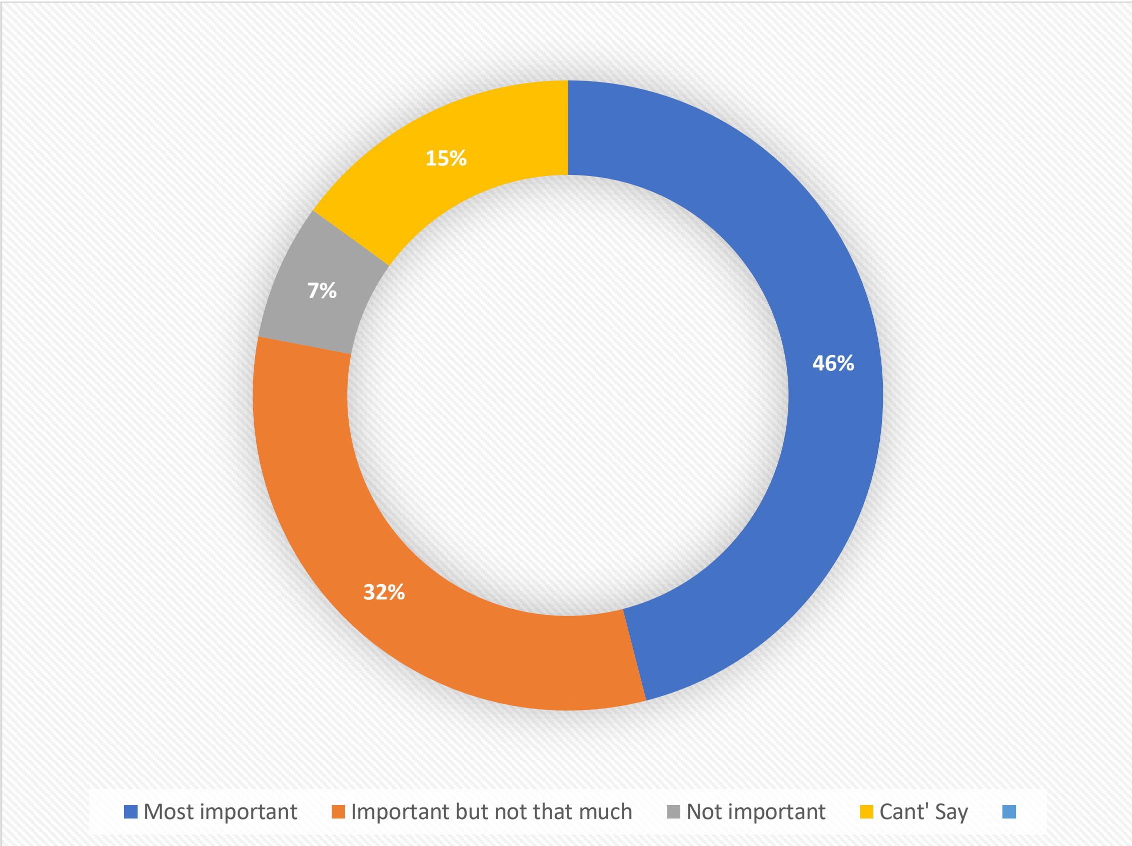
Choose only one option

It is most important

It is important but not that much

It is not important

Can’t Say



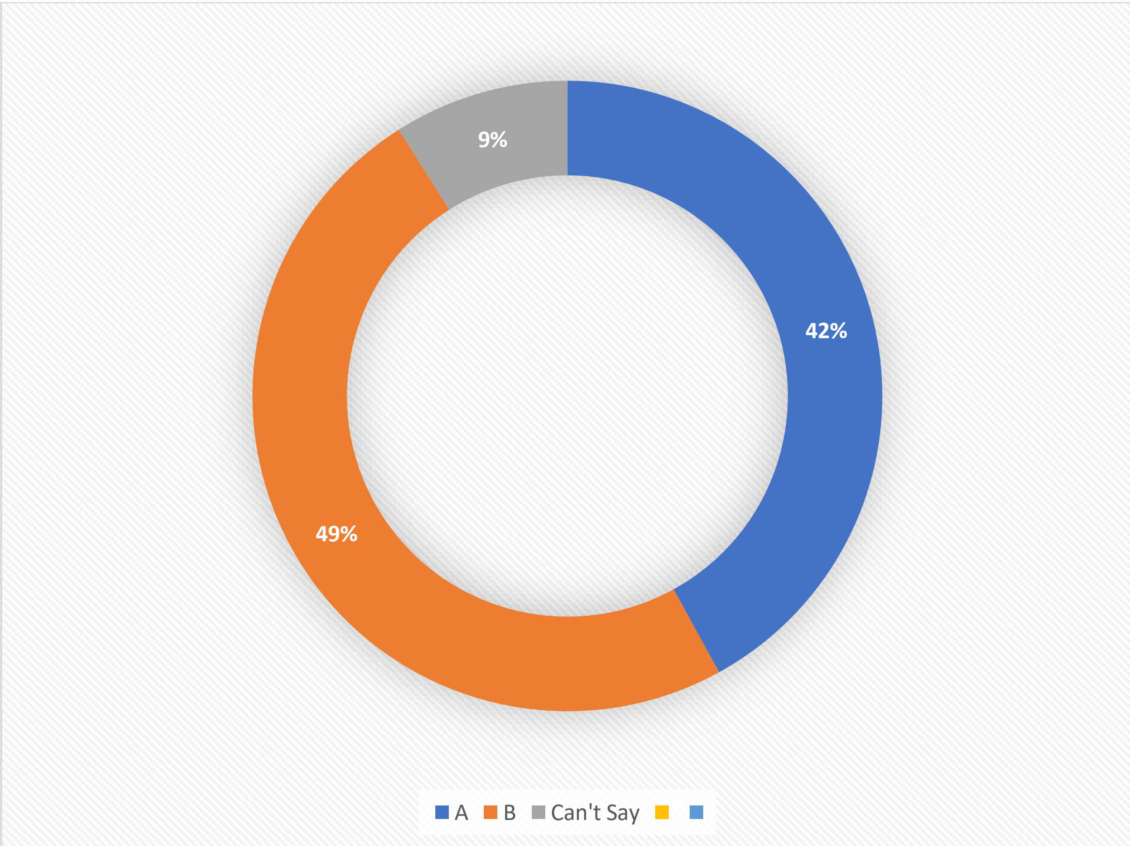
After analysing the above data it can be clearly seen that 46% people voted for most important, 32% people voted for important but not that much, 7% people voted for not important and 15% people voted for can’t say.

12. Do you think a high leverage company can invest in growth opportunities? Choose only one option

A. Yes as they have high value and can borrow more money by leveraging equity or bonds

B. No as they already have so much of debt to repay

C. Can’t Say



After analysing the above data it can be clearly seen that 42% people voted for part A, 49% people voted for part B and 9% people voted for Can’t say.

CHAPTER – 5

SUGGESTIONS, CONCLUSION AND FINDINGS

SUGGESTIONS

- **Use debt to finance growth opportunities.** When a company has profitable growth opportunities, it can use debt to finance those opportunities. This can help the company to grow faster and increase its value.
- **Use debt to take advantage of tax breaks**. Interest payments on debt are tax-deductible, which can help to reduce a company's tax liability. This can free up cash that can be used to invest in the business or return to shareholders.
- **Use debt to manage risk**. Debt can be used to manage risk by providing a cushion against unexpected losses. For example, if a company's profits decline, it may be able to continue to make its debt payments by using cash reserves. This can help to prevent the company from going bankrupt.
- **Avoid too much debt**. Too much debt can increase a company's risk of bankruptcy. This can make it difficult for the company to raise additional capital, and it can also make it more expensive for the company to borrow money. As a result, it is important for companies to avoid taking on too much debt.

Overall, financial leverage can be a valuable tool for companies. However, it is important to use debt wisely and to avoid taking on too much debt. By carefully considering the risks and benefits of financial leverage, companies can use debt to increase their value.

Here are some additional factors that companies should consider when making decisions about financial leverage:

- **The company's industry**: Some industries are more cyclical than others, and companies in cyclical industries are more likely to experience fluctuations in their profits. As a result, companies in cyclical industries may be more sensitive to the risks of financial leverage.
- **The company's business model**: Some business models are more capital-intensive than others. Companies with capital-intensive business models are more likely to require a high level of debt financing.

- **The company's financial health**: Companies with strong financial health are more likely to be able to handle the risks of financial leverage. Companies with weak financial health may be more likely to experience financial distress if they take on too much debt.

FINDINGS

- After analysing the above data it can be clearly seen that both equity and debt financing are good financing methods for a firm depending upon the situation.
- After analysing the above data it can be clearly seen that more people think that higher the financial leverage higher is the risk level.
- After analysing the above data it can be clearly seen that more people think that financial leverage can have both positive and negitive effect on a company.
- After analysing the above data it can be clearly seen that less people think that financial leverage will increase the Firm’s Valuation.
- After analysing the above data it can be clearly seen that less people think that financial leverage will increase the Firm’s Valuation on a temporary basis.
- After analysing the above data it can be clearly seen that more people invest on the basis on a firm’s financial leverage and firm’s value.
- After analysing the above data it can be clearly seen that more people would invest in a low leveraged company for if investing for long term.
- After analysing the above data it can be clearly seen that there is mixed opinion for people to invest in high leveraged company or a low leveraged company when investing for short-term.
- After analysing the above data it can be clearly seen that more people think that it is important for investors to understand the relationship between financial leverage and the firm value.
- After analysing the above data it can be clearly seen that there is a mixed opinion for peoplethat a high leverage company can invest in growth opportunities.

CONCLUSIONS

There is no single answer that will apply to all companies, as the optimal level of financial leverage will vary depending on a number of factors, such as the company's industry, its business model, and its financial health.

However, in general, a moderate level of financial leverage can be beneficial for a company, as it can increase the company's return on equity (ROE). This is because debt is a fixed cost, so when a company's profits increase, the company's ROE will also increase. Additionally, debt can provide a tax advantage, as interest payments on debt are tax-deductible.

However, too much financial leverage can be harmful for a company, as it can increase the company's risk of bankruptcy. This is because when a company has a high level of debt, it is more likely to be unable to meet its financial obligations if its profits decline. Additionally, a high level of debt can make it more difficult for a company to raise additional capital, as investors may be reluctant to lend money to a company that is already heavily indebted.

As a result, it is important for companies to carefully consider the risks and benefits of financial leverage when making decisions about how to finance their businesses. Companies should aim to strike a balance between maximizing their ROE and minimizing their risk of bankruptcy.

In addition to the factors mentioned above, there are a number of other factors that can affect the relationship between financial leverage and firm value. These include:

The company's industry: Some industries are more cyclical than others, and companies in cyclical industries are more likely to experience fluctuations in their profits. As a result, companies in cyclical industries may be more sensitive to the risks of financial leverage.

The company's business model: Some business models are more capital-intensive than others. Companies with capital-intensive business models are more likely to require a high level of debt financing.

The company's financial health: Companies with strong financial health are more likely to be able to handle the risks of financial leverage. Companies with weak financial health may be more likely to experience financial distress if they take on too much debt.

Overall, the relationship between financial leverage and firm value is a complex one that depends on a number of factors. Companies should carefully consider all of these factors when making decisions about how to finance their businesses.

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ANNEXURE

QUESTIONNAIRE

1. Are you familiar with the concept of Financial leverage ?
2. Do you know what is meant by the term "firm value"?
3. In your opinion, which financing method is better for a company ?
4. How does a company's financial leverage affect its risk level?
5. Can financial leverage have both positive and negative effects on a company's profitability?
6. Do you think Financial Leverage will increase the Firm’s Valuation?
7. Do you think Financial Leverage will increase the Firm’s Valuation on temporary basis? Have you ever made investment decisions based on a company's financial leverage or firm value?
8. Which company will prefer to invest for long term?
9. Which company will prefer to invest for short term?
10. How important do you think it is for business owners and investors to understand the relationship between financial leverage and firm value?
11. Do you think a high leverage company can invest in growth opportunities?