Activity: Compute the operating, financial and combined leverage of two companies belonging to the same sector.

HERO MOTOCORP

Years	EBIT	EPS	Sales Revenue (Net)	%Change in EBIT	%Change in EPS	%Change in Sales revenue	DOL	DFL	DCL
2015	3328.82	119.53	27518						
2016	4396.73	156.86	28599.30	32.08	31.2	03.92	8.18	0.97	7.95
2017	4664.51	169.11	28500.46	06.09	7.80	-0.34	-17.9	1.28	-22.9
2018	5240.41	185.14	32230.49	12.30	9.47	13.08	0.94	0.76	0.714
2019	5019.33	169.47	33650.34	-4.21	-8.46	4.40	-0.95	2.01	-1.92
2020	3918.34	181.90	28836.09	-21.93	7.37	-14.30	1.53	-0.02	-0.51

BAJAJ AUTOMOBILES

Years	EBIT	EPS	Sales Revenue (Net)	%Change in EBIT	%Change in EPS	%Change in Sales revenue	DOL	DFL	DCL
2015	4695.74	105.6	21106.15						
2016	5548.37	135.8	22586.52	18.15	28.5	7.01	2.58	1.57	4.05
2017	5337.03	132.2	21766.68	-3.80	-2.65	-3.58	1.06	0.67	0.71
2018	5815.88	140.5	25164.92	8.97	6.27	15.61	0.57	0.69	0.39
2019	6365.64	161.5	30249.96	9.45	14.9	20.20	0.46	1.57	0.72
2020	6583.36	176.2	29918.65	3.42	9.10	-1.09	-3.13	2.66	-8.32

Formulae Used-

1.DOL- %change in EBIT / %change in Sales

2.DFL- %change in EPS / %change in EBIT

3.DCL- %change in EPS / %change in Sales

INTERPRETATION (C.Y.)

1. Operating Leverage- Hero has operating leverage of 1.53. It means that 1% increase in sales will result in 1.53 % increase in operating profit.

While Bajaj Automobiles has operating leverage of -3.13. It means that 1% decrease in sales will result in 3.13% decrease in EBIT. We can conclude that the Hero is better than Bajaj as the company with higher operating leverage is the company the profits of which are more sensitive to change in sales.

2.Financial Leverage- Hero has Financial leverage of -0.02 which says that 1% decrease in EBIT will results in 0.02% decrease in EPS. On the other hand, Bajaj has financial leverage of 2.66. It means that 1% increase in EBIT will result in 2.66% increase in EPS.

The company with highest financial leverage is the company the EPS of which is most sensitive to change in operating profits. So, Bajaj seems better on the grounds of financial leverage.

3.Combined Leverage- Hero has a combined leverage of -0.51. It means that 1% decrease in sales revenue will result in 0.51% decrease in EPS. While Bajaj has a combined leverage of -8.32. That show a 1% decrease in sales revenue will decrease a -8.32% in EPS.