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OPERATING LEVERAGE – WITH SPECIAL REFERENCE TO BAJAJ AUTO

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ABSTRACT

The current study focuses on analysing operating leverage of Bajaj Auto, one of the leading two Wheeler Company in India. With the objective of calculating the degree of operating leverage, data regarding Earnings before Interest and Taxes (EBIT) and Gross Sales has been occupied from annual reports of Bajaj Auto since 2005-06 to 2015-16. However, the focal point of current study is on calculating degree of operating leverage of Bajaj Auto from 2006-07 to 2015-16.

KEYWORDS: Bajaj Auto, Operating Leverage

INTRODUCTION

Today, Bajaj Auto one of the leading two wheeler and three wheeler manufacturing company in India and is ranked as fourth largest, two wheeler and three wheeler manufacturer in world.



“Leverage is the ratio of the rate of return on shareholders’ equity and the rate of return on total capitalisation.”

-Solomon Ezra

Form above definition it is quite obvious that leverage, in the context of business refers to the talent of a business venture in utilising its “fixed cost assets” and “fixed cost funds” with the goal of mounting returns to its owners i.e. equity shareholders.

“Operating leverage exists when changes in revenues produce greater changes in EBIT.”

-John Hampton

The above definition high lighten the fact that, under operating leverage a business venture attempts to increase its sales which

results in increase in revenue without increasing the investments in fixed cost assets.

Leverage can be classified into three categories i.e. Financial Leverage, Operating Leverage and Combined Leverage. The current study primarily focuses on Operating Leverage of Bajaj Auto.

Formula,

Operating Leverage = Contribution/Operating Profit

Where,

Contribution = Sales – Variable Cost

Operating Profit = Contribution – Fixed Cost

Degree of Operating Leverage =

$\frac{\% \text{ Change in EBIT}}{\% \text{ Change in Sales}}$

OBJECTIVES OF THE STUDY

- To compute Earnings before Interest and Taxes (EBIT) of the company from 2005-06 to 2015-16.
- To find out Gross Sales of Bajaj Auto from 2005-06 to 2015-16.
- To calculate Degree of Operating Leverage of Bajaj Auto from 2006-07 to 2015-16.

RESEARCH METHODOLOGY

With the objective of calculating degree of operating leverage of Bajaj Auto, secondary data has been used and the appropriate information in current state of affairs has been amassed from annual reports of Bajaj Auto, websites, journals, magazines etc. The collected data is then integrated in tables and figures with the aim of providing a momentous

conjecture to the study.

ANALYSIS AND INTERPRETATION

In order to display operating leverage of Bajaj Auto, different tables and figures have been used which are revealed as below:

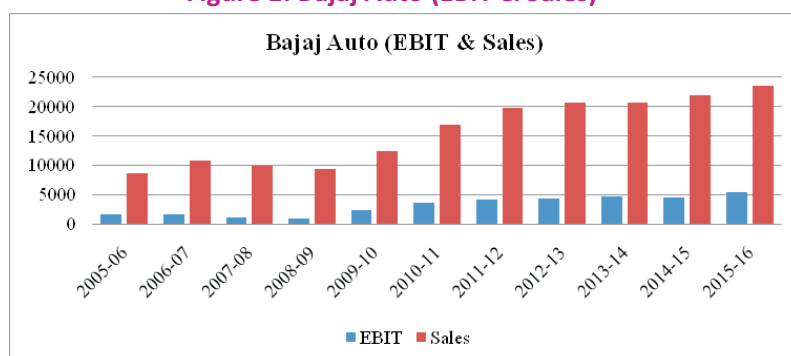
Table 1: Bajaj Auto (EBIT & Sales)

Years	EBIT (Rs. in Crores)	Sales (Rs. in Crores)
2005-06	1543.69	8653.83
2006-07	1705.93	10741.90
2007-08	1080.40	9856.66
2008-09	980.20	9310.24
2009-10	2367.54	12421.00
2010-11	3621.51	16830.20
2011-12	4182.41	19827.00
2012-13	4266.67	20617.90
2013-14	4632.54	20727.00
2014-15	4431.57	22013.20
2015-16	5385.66	23546.20

Source: moneycontrol.com

Sales = Gross Sales

Figure 1: Bajaj Auto (EBIT & Sales)



X Axis: Years

Y Axis: Rs. in Crores

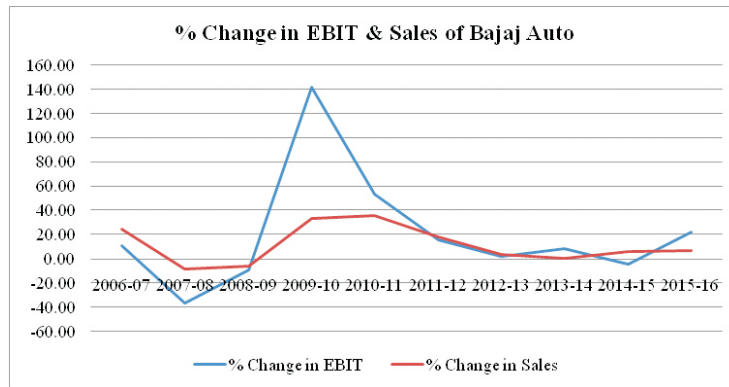
Table 1 and figure 1 reveals EBIT and sales figures of Bajaj Auto from 2005-06 to 2015-16. Both EBIT and sales figures stands highest in 2015-16 and lowest in 2008-09.

Table 2: % Bajaj Auto (Degree of Operating Leverage)

Years	% Change in EBIT	% Change in Sales	Degree of Operating Leverage
2006-07	10.51	24.13	0.44
2007-08	-36.67	-8.24	4.45
2008-09	-9.27	-5.54	1.67
2009-10	141.54	33.41	4.24
2010-11	52.97	35.50	1.49
2011-12	15.49	17.81	0.87
2012-13	2.01	3.99	0.51
2013-14	8.58	0.53	16.19
2014-15	-4.34	6.21	-0.70
2015-16	21.53	6.96	3.09

Source: moneycontrol.com

Figure 2.1: % Change in EBIT & Sales of Bajaj Auto

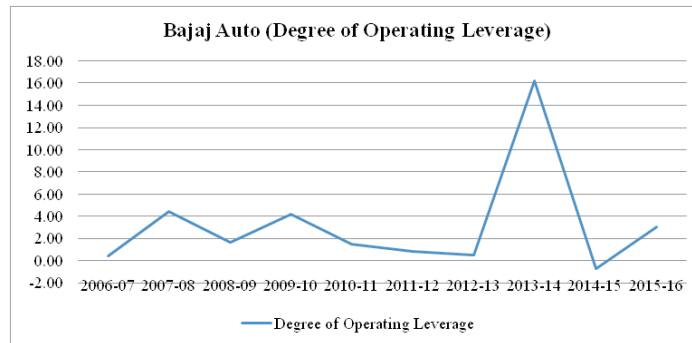


X Axis: Years

Y Axis: % Change in EBIT & % Change in Sales

Table 2 and figure 2.1 along with figure 2.2 exhibits the percentage change in EBIT, percentage change in sales and degree of operating leverage of the concern from 2006-07 to 2015-16. The highest positive change in EBIT was recorded in 2009-10 whereas the highest positive change in sales was witnessed in the year 2010-11. On the other hand, the percentage change in EBIT was negative in 2007-08, 2008-09 and 2014-15. The percentage change in sales was negative in 2007-08 and 2008-09.

Figure 2.2: Bajaj Auto (Degree of Operating Leverage)



X Axis: Years

Y Axis: Degree of Operating Leverage

CONCLUSION

Degree of operating leverage of Bajaj Auto was highest in 2013-14 and lowest figure of degree of operating leverage was observed in 2014-15. Further, it was only in 2014-15 when degree of operating leverage of the company was negative.

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