

ISSN 2063-5346



# LEVERAGES AND CAPITAL STRUCTURE - THE DETERMINANT FACTORS OF PROFITABILITY: A STUDY ON THE SELECTED REAL ESTATE COMPANY IN INDIA

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Article History: Received: 01.02.2023

Revised: 07.03.2023

Accepted: 10.04.2023

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## Abstract

Real estate sector is one of the most recognized sectors at the global level. It comprises of four sub-sectors, namely, retail, housing, hospitality, and commercial. After the agricultural sector, real estate sector is known as the second highest employment generation sector. Leverage and capital structure are commonly known as the two important aspect of any company, which have a much influence on the profitability of any company. Analysis of both the aspect help the company to take certain important decision which help in increasing profit and reducing overall cost of capital. The four Real Estate Industries are considered on the basis of net sales volume and those are traded stock as well frequently, which are D. Reality Ltd, Peninsula land ltd, Parsvnath Developer Ltd, Akruiti City Ltd. The main aim of this paper is to make the comparative study in respect of leverage and capital structure with its impact on the financial performance of the selected Real Estate Company. In this article, the statistical tools are used such as average, standard deviation, coefficient of variation and multiple regression analysis. The analysis conclude that the ROCE of Parsvnath Developer Ltd and Akruiti City Ltd company have positive significant relationship with leverage while the ROCE of D. Reality Ltd and Peninsula land ltd Company have positive insignificant relationship with leverage. Furthermore, while comparing the capital structure of the selected Real Estate Company, D.Reality Ltd. has the highest average amount of equity and lowest average debt capital while Peninsula Land Ltd has the lowest equity capital and Parsvnath Developer Ltd has the highest average amount of debt capital. It should be noted here that these companies are contributing a lot in growth of our GDP and generating the millions of the jobs.

**Key words:** leverage, capital structure, Real Estate Company, GDP, Profitability.

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DOI:10.31838/ecb/2023.12.s1-B.310

## Introduction:

The real estate industry is one of the most recognized industries on a global scale. It consists of four sub-sectors, such as housing, retail, accommodation, and commercial. The growth of this sector is well complemented by the growth in the business environment and as result the demand for office space also as urban and semi-urban housings.

Capital structure represents the relationship and mix of different kinds of long-term funds in the total capital of the business enterprise. It means the pattern of capital employed in the company. It is a financial plan of the company in which the various sources of capital are mixed in such proportions that it provides a distinct capital structure most suitable for the requirements of the business enterprise. Capital structure is the permanent long term financing that is represented by long term debt, equity share capital and retained earnings.

The term leverage is used to describe the ability of a company to use fixed assets or funds to increase the return to its equity share holders. In general, leverage often refers to borrowing funds to finance the purchase of inventory, equipment or other assets. It is an investment strategy of using borrowed capital.

Solvency is the ability of a business enterprise to meet its long-term debts and financial obligations. It can be an important measure of company's financial health and its ability to manage the operations into the foreseeable future. But the long term solvency ratio analysis is equally important for evaluating the long term financial viability of a company. The long term solvency is measured by debt-equity and profitability ratios which focus on operating efficiency of the company.

Capital structure and leverage are the two important decisions of the companies for growth and expansion of the business enterprise. To decides the portion of the

debt and equity capital in the capital structure is crucial and complex decision so every companies has to take this decision by seeing past data about profitability and debt-equity capital of the Companies.

## Review of Literature

**Afza & Nazir (2008)** investigated seventeen industrial groups of public limited companies listed at Karachi Stock Exchange for a period of five years from 1997-98 to 2002-03. Their outcome should provide a better understanding of working capital management policies of limited company in an emerging market such as Pakistan.

**Afeef (2011)** examined Analyzing the Impact of Working Capital Management on the Profitability of SME's in Pakistan for a period of six years from 2002-03 to 2007-08. The survey result suggest that working capital management indicators have a noticeable effect on the profitability of business enterprise in Pakistan.

**Nasif & Shubiri (2011)**, the relationship between aggressive/conservative working capital practices and profitability and risk was reviewed. The above analysis shows a negative relationship between efficiency measures and working capital aggressiveness, investment and financing policy.

**Shehzad(at.el)(2012)** analyzed the effectiveness working capital management of Pakistan's textile companies for the five-years period i.e. from 2003-04 to 2008-09. Performance Index of Working Capital, Utilization Index of Working capital and Efficiency Index of Working capital are used for measuring the overall efficiency of working capital. Finding of the result suggests that overall performance of textile industry was satisfactory, but contrary to this the performance of individual firms fluctuated very much during the considered time span.

**Kwenda & Holden (2013)**, investigated that the 92 companies in eight economic sectors for a period ten years, i.e. 2001-2010 and analyzed using descriptive statistics and trend analysis. The study indicates that the listed companies heavily depend on trade credit as the source of short term finance and trade receivables and inventory are their main working capital investment

**Babu & Chalam(2014)** examined the relationship between working capital management components and profitability of firms in Indian Leather Industry listed on the Bombay Stock Exchange. The results revealed that the working capital management has significant effect on profitability of the firms for overall leather industry during the study period.

**Mishra (at.el)(2016)**,in their article, “A Study Of Working Capital Management In Small Scale Industries” The main aim of the paper to analysis the working capital management and finance in respect of small scale industries. From the above analysis, the very high degree of liquidity is not good for a business because such a situation represents unnecessarily excessive funds of the business being tied-up in current assets.

**Yegon,at.el (2016)** This study attempted to provide empirical evidence about the effect of Working Capital Management on corporate financial Performance of tea firms in Kenya for a period of seven years from 2005 to 2012. The results portrayed that the cash conversion cycle, net trade cycle and inventory turnover days are

#### Analysis and interpretation

**Table 1:** The comparisons of Equity Capital are given among D. Reality Ltd, Peninsula land ltd, Parsvnath Developer ltd, Akruiti City Ltd.

Year	D.Reality Ltd	Peninsula land Ltd	Parsvnath Developer Ltd.	Akruti City Ltd
<b>2011-2012</b>	3415.90	1513.53	2669.33	1634.94
<b>2012-2013</b>	3416.20	1637.48	2724.53	1658.28
<b>2013-2014</b>	3375.09	1502.12	2779.60	1692.17

significantly affecting the financial performance of the firms.

#### .Objective of the study:

The following are the specific objectives of the study area:

- To study and calculate various Leverage of selected Real Estate Companies in India
- To make the comparative study with respect to Leverage and Capital Structure position of selected Real Estate Companies in India.
- To study the impact of leverage on the profitability of the selected real Estate company in India

#### Research Methodology:

This study builds on a secondary study and concentrates on the Indian Real Estate Industry. Thus the four Real Estate Industries are selected on the basis of net sales volume and those are traded stock as well frequently, namely odd number position is considered, D.Reality Ltd, Peninsula land ltd, Parsvnath Developer ltd, Akruiti City Ltd. The data is obtained from the annual reports of the selected Real Estate Industry under study. The study period is limited, from 2011-12 to 2018-19. In this article, the statistical tools are used such as average, standard deviation, coefficient of variation and multiple regression analysis. The study uses five parameters to measure performance and namely, Equity, Debt, Operating Leverage, Financial Leverage, Combined Leverage.

<b>2014-2015</b>	3350.65	1474.04	2671.34	1711.43
<b>2015-2016</b>	2981.49	1732.75	2630.69	1732.73
<b>2016-2017</b>	2986.13	1509.75	2482.19	1728.22
<b>2017-2018</b>	2986.13	1049.23	2164.96	1754.88
<b>2018-2019</b>	2824.19	488.34	942.46	1734.30
<b>Average</b>	3157.79	1363.40	2383.14	1705.87
<b>Standard Deviation</b>	237.09	379.38	573.69	38.64
<b>Coefficient of Variation</b>	0.075	0.278	0.241	0.0226

\*Equity = Equity means only Equity Share Capital.

From the above table, it can be noted that the average value of Equity capital and its coefficient of variation of D. Reality Ltd are 3157.9 and .075 which is high and slight more variability as compared to Akruiti City Ltd (1705.87,.0226) ,Parsvnath Developers Ltd (2383.14, .241) and Peninsula Land Ltd (1363.40, .278)

**Table 2: The comparisons of Debt Capital are given among D. Reality Ltd, Peninsula land ltd, Parsvnath Developer ltd, Akruiti City Ltd.**

Year	D.Reality Ltd	Peninsula land ltd	Parsvnath Developer ltd.	Akruiti City Ltd
<b>2011-2012</b>	31.58	764.34	1458.28	368.72
<b>2012-2013</b>	112.39	809.16	1639.17	681.63
<b>2013-2014</b>	80.54	828.43	2226.52	521.51
<b>2014-2015</b>	30.60	1429.60	2433.35	444.96
<b>2015-2016</b>	154.36	1478.71	2573.22	250.85
<b>2016-2017</b>	79.28	1565.42	3322.51	185.56
<b>2017-2018</b>	129.51	1908.88	3272.41	141.19
<b>2018-2019</b>	8.80	1821.42	3183.09	105.82
<b>Average</b>	78.38	1325.75	2513.57	337.53
<b>Standard Deviation</b>	48.56	433.98	675.38	189.61
<b>Coefficient of Variation</b>	0.620	0.327	0.269	0.568

Observation on D. Reality Ltd shows that the average long term debt are less (78.38), but its coefficient of variation (.620) is more variability as compared to Akruiti

City Ltd. (337.53, .568) ,Peninsula Land Ltd (1325.75, 327), but the value of long term loan (Parsvnath Developer Ltd) is very high as compared to others company.

**Degree of Operating Leverage:**

Operating Leverage refers to the extent to which the change in profit disproportionately with sales, used in the activities of the company. A company is said to be operating leverage if it engaged both the amount of fixed cost and variable cost in the company. If it employs greater amount of fixed cost (small amount of variable cost), then the company is said to

be high degree operating leverage and vice-versa.

The degree of operating leverage may be defined as the percentage change in profits resulting from a percentage change in Sales. The same is expressed in equation form:

$$\text{Degree of operating leverage} = \frac{\text{Percentage change in Operating Profit}}{\text{Percentage change in Net Sales}}$$

**Table No 3:** Comparison of Degree of Operating Leverage among selected Real Estate Industries in India

Year	D.Reality Ltd	Peninsula land ltd	Parsvnath Developer ltd.	Akruti City Ltd
<b>2011-2012</b>	-0.3686	0.942	3.8944	-0.7471
<b>2012-2013</b>	-0.757	-0.0397	-0.1067	3.3672
<b>2013-2014</b>	1.4029	1.8372	-0.6696	2.7637
<b>2014-2015</b>	-0.1445	-3.8029	-0.0172	-0.7867
<b>2015-2016</b>	2.01	4.5295	0.3144	1.6657
<b>2016-2017</b>	2.3653	1.7717	0.9664	3.3782
<b>2017-2018</b>	0.3357	1.4806	1.5186	2.1989
<b>2018-2019</b>	-0.2117	0.6847	1.1092	0.341
<b>Average</b>	0.579	0.925	0.876	1.522
<b>Standard Deviation</b>	1.183	2.335	1.416	1.721
<b>Coefficient of Variation</b>	2.044	2.524	1.617	1.130

It can be noticed from the above table, the average value of operating leverage and its coefficient of variation in D. Reality Ltd is (.579, 2.044), in Parsvnath Developer Ltd is (.876, 1.617), in Peninsula Land Ltd is (.925, 2.524) and in Akruiti City Ltd is (1.522, 1.130) .The negative sign in operating leverage happens when the companies fixed cost is greater than its contribution. High operating leverage is good when sales and EBIT both are increasing and it is not good in opposite situation.

**Degree of financial leverage:**

Financial leverage refers to the ratio of long term debt to total funds used by the company and it is intended to earn more on fixed charges funds than their costs. It can also be said to the extent of change in residual net income disproportionately with operating profit. If the amount of fixed interest or dividend bearing securities is higher, then the financial leverage is become higher and vice-versa. In general way, it indicates the Percentage change in EBT (profit before taxes) as a

result of Percentage change in the profit (earnings before interest and taxes). This may be calculated as follows:

$$\text{Financial Leverage} = \frac{\text{Percentage Change in EBIT}}{\text{Percentage Change in EBT}}$$

**Table No 4:** Comparison of Degree of Financial Leverage among selected Real Estate Industries in India

Year	D.Reality Ltd	Peninsula land Ltd	Parsvnath Developer Ltd.	Akruti City Ltd
<b>2011-2012</b>	1.3185	0.3637	-2.1221	34.066
<b>2012-2013</b>	0.8241	0.787	-0.7941	-33.07
<b>2013-2014</b>	0.4687	0.3758	2.2421	4.351
<b>2014-2015</b>	2.1089	-0.6071	0.9483	18.762
<b>2015-2016</b>	1.0815	-0.7804	0.8433	7.91
<b>2016-2017</b>	0.9376	-0.4024	0.9783	-14.383
<b>2017-2018</b>	1.0616	-0.5036	0.8154	-3.431
<b>2018-2019</b>	-1.5227	0.1078	0.7214	10.233
<b>Average</b>	0.784	-0.082	0.454	3.055
<b>Standard Deviation</b>	1.045	0.566	1.323	20.481
<b>Coefficient of Variation</b>	1.332	-6.870	2.915	6.704

It can be seen from the study that the financial leverage of Real Estate Company showed a fluctuating trend in the study period. The average value of financial leverage and its co-efficient of variation in D. Reality Ltd (.784, 1.332), in Peninsula Land Ltd (-.082, -6.870), Parsvnath Developer Ltd (.454, 2.915) and in Akruti City Ltd (3.055, 6.704). In case of Akruti City Ltd, the co-efficient of variation value is more variability is compared to others company. The negative sign in financial leverage means when the company's rate of interest on borrowed money is greater than the income on invested amount and vice-versa. This negative DFL means that an increase in operating profit will lead to

a decrease in the company's net loss and vice versa.

**Degree of Combined Leverage:**

Combined leverage means the product of the operating and financial leverage in common language. But it express the relationship between the revenue from the sales (i.e, contribution= sales – variable cost) and Earning before taxes or taxable income. It refers to the extent of change in taxable income for changing in sales in disproportionately. Contribution means Earnings before interest and taxes (EBIT). This may be computed as follows:

$$\text{Composite Leverage} = \text{Operating leverage} \times \text{Financial Leverage}$$

**Table No 5:** Comparison of Combined Leverage among selected Automobile Industries in India

Year	D.Reality Ltd	Peninsula land Ltd	Parsvnath Developer Ltd.	Akruti City Ltd
<b>2011-2012</b>	-0.486	0.3426	-8.2644	-25.45
<b>2012-2013</b>	-0.6239	-0.0313	0.0847	-111.352
<b>2013-2014</b>	0.6576	0.6905	-1.5012	12.025
<b>2014-2015</b>	-0.3047	2.3088	-0.0163	-14.76
<b>2015-2016</b>	2.1738	-3.5348	0.2652	13.175
<b>2016-2017</b>	2.2177	-0.713	0.9455	-48.589
<b>2017-2018</b>	0.3563	-0.7456	1.2382	-7.544
<b>2018-2019</b>	0.3223	0.0738	0.8002	3.49
<b>Average</b>	0.539	-0.201	-0.806	-22.375
<b>Standard Deviation</b>	1.114	1.654	3.128	41.417
<b>Coefficient of Variation</b>	2.067	-8.227	-3.881	-1.850

The combined leverage of D. Reality Ltd, Peninsula Land Ltd, Parsvnath Developer Ltd and Akruti City Ltd shows a fluctuating trend during the period of study. The average value of combined leverage is (.539, 2.067) in D.Reality Ltd, (-.201, -8.227) in Peninsula land Ltd, (-

.806, -3.881) and in Akruti City Ltd ( -22.375, -1.850). A company with a relatively high level of combined leverage is seen as riskier than a company with less combined leverage because high leverage means more fixed costs to the business.

**Table No 6:** The table shows the Return on Capital Employed of selected Real Estate Industries in India

Year	D.Reality Ltd	Peninsula Land Ltd	Parsvnath Developer Ltd.	Akruti City Ltd
<b>2011-2012</b>	-.0427	-1.593	-.2576	-.0041
<b>2012-2013</b>	-.0268	-.318	-.0542	.0151
<b>2013-2014</b>	.0012	-.095	-.0140	.0038
<b>2014-2015</b>	.0177	.010	.0008	.0123
<b>2015-2016</b>	-.0073	-.004	-.0328	.0063
<b>2016-2017</b>	-.0122	.033	.0084	.0209
<b>2017-2018</b>	.0001	.120	.0270	.0185
<b>2018-2019</b>	.0185	.104	.0096	.0244
<b>Average</b>	-0.0064	-0.2178	-0.0391	0.0121
<b>Standard Deviation</b>	0.0209	0.5725	0.0919	0.0095
<b>Coefficient of Variation</b>	-3.252	-2.627	-2.352	0.789

From the above table, it can be observed that the average value of Return on capital Employed and its coefficient of variation is (.0121, .789) in Akruti City ltd, (-.0064, -3.252) in D. Reality Ltd , (-0.0391, -2.352) in Parsvnath Developer Ltd and (-.2178, -2.627) in Peninsula Land Ltd.

**Objective no-3. To study the impact of leverage on profitability of the selected Real estate company**

**H<sub>01</sub> = There is no significant impact of profitability on the leverage of D.Reality Ltd during the study period**

For testing the first hypothesis of the study, the impact of profitability on leverage (O.L, F.L and C.L) of D.Reality Ltd. were computed and F-test was applied to find out the significance of the difference

Regression Statistics					
Multiple R	0.334595				
R Square	0.111954				
Adjusted R Square	0.55408				
Standard Error	0.026103				
Observations	8				
	<b>df</b>	<b>SS</b>	<b>MS</b>	<b>F</b>	<b>Significance F</b>
Regression	3	0.000344	0.000115	0.16809	0.912642
Residual	4	0.002726	0.000681		
Total	7	0.003069			
	<b>Coefficients</b>	<b>Standard Error</b>	<b>t Stat</b>	<b>P-value</b>	
Intercept	-0.00281	0.013308	-0.21151	0.842832	
Operating Leverage	0.0015	0.030523	0.049131	0.96317	
Financial Leverage	-0.00628	0.010684	-0.58764	0.588344	
Combined Leverage	0.000809	0.032385	0.024978	0.981269	

From the above table, the model is not fitted

ROCE = -0.00281 + 0.0015 (O.L) - 0.00628 (F.L) - .000809(C.L), where O.L, F.L, and C.L means the explanatory variable. From the first table, R<sup>2</sup> = .111954, adjusted R<sup>2</sup> = .55408, Thus the model is not fit, since the p-value is much greater than 0.05

It is also noticed that all four p-values are much higher than 0.05. Therefore, the null hypothesis are rejected and conclude that the Operating Leverage, Financial Leverage and Combined Leverage, all three, are insignificant in the model.

**H<sub>02</sub> = There is no significant impact of profitability on the leverage of**



**Peninsula Land Ltd during the study period**

For testing the first hypothesis of the study, the impact of profitability on

leverage (O.L, F.L and C.I) of Peninsula Land Ltd. were computed and F-test was applied to find out the significance of deference

Regression Statistics					
Multiple R	0.476421				
R Square	0.226977				
Adjusted R Square	-0.35279				
Standard Error	0.665896				
Observations	8				
	df	SS	MS	F	Significance F
Regression	3	0.520791	0.173597	0.391497	0.766475
Residual	4	1.773672	0.443418		
Total	7	2.294463			
	Coefficients	Standard Error	t Stat	P-value	
Intercept	-0.00281	0.013308	-0.21151	0.842832	
Operating Leverage	0.0015	0.030523	0.049131	0.96317	
Financial Leverage	-0.00628	0.010684	-0.58764	0.588344	
Combined Leverage	0.000809	0.032385	0.024978	0.981269	

From the above table, the model is not fitted

ROCE = -0.00281 + 0.0015 (O.L) – 0.00628 (F.L) + .000809(C.L), where O.L, F.L, and C.L means the explanatory variable. From the first table, R<sup>2</sup> = .226977, adjusted R<sup>2</sup> = .35279, Thus the model is not fit, since the p-value is much greater than 0.05

It is also observed that all four p-values are much higher than 0.05. Therefore, the null hypothesis are rejected and conclude that the Operating Leverage, Financial Leverage and Combined Leverage, all three, are insignificant in the model

**H03 = There is no significant impact of profitability on the leverage of Parsvnath Developer ltd during the study period**

For testing the first hypothesis of the study, the impact of profitability on liquidity (O.L, F.L and C.I) of Parsvnath Developer ltd. were computed and F-test was applied to find out the significance of

<b>Regression Statistics</b>					
Multiple R	0.992039				
R Square	0.984142				
Adjusted R Square	0.972248				
Standard Error	0.015324				
Observations	8				
	<b>df</b>	<b>SS</b>	<b>MS</b>	<b>F</b>	<b>Significance F</b>
Regression	3	0.05829	0.01943	82.74406	0.000469
Residual	4	0.000939	0.000235		
Total	7	0.059229			
	<b>Coefficients</b>	<b>Standard Error</b>	<b>t Stat</b>	<b>P-value</b>	
Intercept	-0.03739	0.009445	-3.9585	0.01669	
Operating Leverage	0.005197	0.006581	0.78975	0.47385	
Financial Leverage	0.025953	0.006858	3.78435	0.01936	
Combined Leverage	0.022395	0.002768	8.09043	0.00126	

From the above table, the fitted model is  $ROTE = -0.03739 + 0.005197 (O.L) + 0.025953 (F.L) + .022395(C.L)$ , where O.L, F.L, and C.L means the explanatory variable. From the first table,  $R^2 = .984142$ , adjusted  $R^2 = .972248$ , Thus the model is fitted, since the p-value is less than 0.01

It is also remarked that all the three p-values are less than 0.05. Therefore, the null hypotheses are rejected here and conclude that the Operating Leverage, Financial Leverage and Combined leverage, all three, are significant in the model. Since the regressors in the model are in percentage, therefore, 1% increases in F.L leads to an increase in (Return on Capital Employed) ROCE by .025953 and

1% increase in C.L leads to a significant rise in ROCE by. 0.022395 on the average. But, one variable namely, Operating leverage (O.L) is statistically insignificant relation with Return on Capital Employed.

**H<sub>04</sub> = There is no significant impact of profitability on the leverage of Akruiti City Ltd**

**during the study period**

For testing the first hypothesis of the study, the impact of profitability on leverage (O.L, F.L and C.l) of Akruiti City Ltd. were computed and F-test was applied to find out the significance of the difference

<b>Regression Statistics</b>					
Multiple R	0.932621				
R Square	0.869782				
Adjusted R Square	0.772119				
Standard Error	0.043911				
Observations	8				
	<b>df</b>	<b>SS</b>	<b>MS</b>	<b>F</b>	<b>Significance F</b>
Regression	3	0.051516	0.017172	8.905921	0.030378
Residual	4	0.007713	0.001928		
Total	7	0.059229			
	<b>Coefficients</b>	<b>Standard Error</b>	<b>t Stat</b>	<b>P-value</b>	
Intercept	0.143129	0.055812	2.5645	0.06234	
Operating Leverage	-0.05687	0.024026	-2.3671	0.077064	
Financial Leverage	-0.01029	0.002514	-4.09487	0.014916	
Combined Leverage	0.002869	0.000652	4.400735	0.011684	

From the above table, the fitted model is  $ROTE = .143129 - 0.05678 (O.L) - 0.01029 (F.L) + .002869 (C.L)$ , where O.L, F.L, and C.L means the explanatory variable. From the first table,  $R^2 = .869782$ , adjusted  $R^2 = .772119$ , Thus the model is fitted, since the p-value is less than 0.05

From the above table, it is also observed that the two p-values are less than 0.05. Therefore, the null hypotheses are rejected

here and conclude that the Operating Leverage, Financial Leverage and Combined leverage, all three, are significant in the model. In case of Akruiti City Ltd, 1% increases in F.L leads to a reduction in (Return on Capital Employed) ROCE by. 0.01029 and 1% increase in C.L leads to a significant rise in ROCE by. 0.002869 on the average. But, one variable namely Operating leverage (O.L) is statistically insignificant relation with Return on Capital Employed.

### Findings of the study:

1. Akruti City Ltd has the highest average operating Leverage (1.522) and D. Reality Ltd has lowest average leverage (0.579) among the four selected Real Estate Company.
2. Akruti City Ltd has the highest average financial Leverage( 3.055) while Peninsula Land Ltd has a lowest average ( -0.082)
3. In case of D.Reality Ltd, the highest average combine leverage (0.539) Akruti City Ltd has the lowest one ( - 22.375).
4. While comparing the capital structure of the selected Real Estate Company, D.Reality Ltd. has the highest average amount of equity capital ( 3157.79 Cr.) while the Peninsula Land Ltd has the Lowest equity capital (1363.40cr.)
5. While comparing the capital structure of the selected Real Estate Company, Parsvnath Developer ltd has the highest average amount of debt capital of (2513.57cr.) and D.Reality Ltd. has the lowest average debt capital of (78.38 Cr).
6. In case of D.Realty Ltd, the correlation of Return on Capital Employed(ROCE) , are low positive (11.1954) which have a insignificant impact on leverage (O.L, F.L, and C.L) ,since the P-value (0.912642) is much greater than .05,
7. In case of Peninsula Land Ltd, the correlation of Return on Capital Employed (ROCE), are also low positive (22.6977) which have an insignificant impact on leverage (.O.L,F.L, and C.L) in period of study, since the p-value (.766475 ) is much higher than .05

### Conclusion-

A high degree of operating leverage together with a high degree of financial leverage makes the position of the firm very risky. High operating leverage results from employing the assets for which it has

to pay higher fixed costs and high financial leverage results from the use of large amount of debt capital. In order to keep the overall risk under manageable limits, the company will have to strive a proper combination of operating and financial leverage. For this purpose, a company which has assumed high operating leverage should employ lower financial leverage and on the other hand, a company which has assumed lower operating leverage can afford to employ a higher degree of financial leverage.

Leverage is good if the company generates enough cash flow to cover interest payments and pay off the borrowed money at the maturity date, but if the company is unable to meet its future obligations and may lead to bankruptcy.

The study of both leverage and capital structure is important for any company. Manager of any company has to study both aspect with due care because the analysis of leverage will help the manager to decide about the production and debt amount to be acquired so that the profit can be maximized. Capital structure analysis will help the finance manger to decide the mixture of owner fund and debt capital to be maintained so that overall cost of capital is lowest one. Hope this paper will give some idea regarding leverage and capital structure position of leading Real Estate companies in India.

### Suggestion:

1. When the degree of operating leverage is high, it is very risky situation where a small fall in sales then it will highly effect on the operating profit i.e. excessively damaging to the company's efforts to achieve profitability. Therefore, it is advised to maintain the degree at proper way. , i.e. if there is no fixed costs, and then there will be no operating leverage.
2. From the above study, it can be observed that the financial leverage of

the company may be low or high. If the portion of fixed cost capital is high, then the financial leverage will become high and vice-versa. It is advised to use the cost of borrowed funds is less than the overall return of funds, then the financial leverage is favorable and vice-versa.

3. From the above findings, it is recommended that the low operating leverage and high financial leverage of companies is considered to be an ideal situation for the maximization of the profits with minimum risk.
4. It should be suggested that if the companies with low liquidity, then the company may choose cheap source of finance for mobilizing their capital.
5. It should be considered that the company's corporate tax is high then the company should be mobilized high quantum of debt by minimizing the cost of debt.
6. It should be suggested that if the company's return on investment is low or high then the company can mobilize the cheap source of capital or more quantum of capital by issue of debenture respectively.

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