EBIT – EPS Analysis as A Tool to Understand the Performance of Indian Infrastructure Sector

ABSTRACT
EBIT-EPS analysis allows managers to see how different capital structures affect the earnings and levels of the firm. The objective of the study is to analyse the EBIT in the infrastructure sector and to conduct a comparative study of EBIT analysis between the companies and over a period of time. The study intends to examine the average profitability, debt fund level and earnings per shares in infrastructure sector over a period of 5 year from 2009 to 2013.

Introduction
The EBIT – EPS analysis is a method to study the effect of leverage, essentially involves the comparison of alternative methods of financing under various assumptions of EBIT. A firm has the choice to raise funds for financing its investment proposals from different sources in a different proportion. The choice of the combinations of the various sources would be one which gives the level of earnings before interest and tax and would ensure the largest EPS.

EBIT can be calculated by subtracting variable and fixed cost from net sale. EPS can be obtained by dividing the result for tax and interest subtracted from EBIT by number of shares. EBIT analysis allows managers to see how different capital structures affect the earnings and levels of the firm.

Measuring of firm performance
As multiple concepts of firm’s performance exist depending on the level of aggregation and the difference in dimensionality, it should not be surprising that multiple measures of firm performance are found in empirical literature. The appropriate measures of performance depend on the performance concept selected. Performance measures are either financial or organisational. Financial performance such as profit maximisation, maximising profit on assets, and maximising shareholders’ benefits are at the core of the firm’s effectiveness (Chakravarthy, 1986). Operational performance measures, such as growth in sales and growth in market share, provide a broad definition of performance as they focus on the factors that ultimately lead to financial performance (Hoffer and Sandberg, 1987). The usefulness of a measure of performance may be affected by the objective of a firm that could affect its choice of performance measure and the development of the stock and capital market.

The most commonly used performance proxies are return on assets (ROA), return on equity (ROE) and return on investment (ROI). These accounting measures representing the financial ratios from balance sheet and income statements have been used by many researchers (For example: Demsetz and Lehn, 1985, Gorton and Rosen, 1995, Mehran, 1995, and Ang, Cole and Line, 2000). These are also the measure of performance used in this study. However, there are other measures of performance called market performance measures, such as price per share to the earnings per share (P/E) (Abdel Shahid, 2003), market value of equity to book value of equity (MBVR).

Understanding earnings before interest and taxes
Every business is confronted with making decisions every day and each decision directly affects the direction the business would take. Every decision a business owner or manager makes affect the financial position of the business either directly or indirectly. Financial analysis is a tool used to measure the choices made for the business, and to assist business owners and managers with future business decisions. But before analysis can be used, the business owner or manager must first understand the fundamentals of the various financial statements and how each one is used to analyze a business’s financial position.

The basic financial statements are the Income Statement, Statement of Cash Flows, Balance Sheet and Statement of Retained Earnings. The Statement which is at front line for every business is the Income Statement which is referred as the Profit and Loss Statement. The Income Statement tells the story of how the business is operating in a specified period of time. The Income Statement will list out the earnings and expenses of a firm. The difference between earnings and expenses is Earnings before Interest and Taxes.

Earnings – Expenses = EBIT
EBIT or Earnings before Taxes will include interest obligations on loans and debt instruments. Interest is subtracted from Operating Profits to obtain the taxable income for the business.

EBIT – Interest = EBT
After taxes have been subtracted, the left out is the net earnings which is to be transferred to retained earnings and revenue sharing for partners or shareholders. Analysis can be applied to each part of the calculation to help the business owner or manager make decisions for growth and expansion. Analysis is also used by external parties such as banks and investors to determine the risks partnering to the business, through investing or business loans. Some analysis can be very straightforward such as determining the operating profit margin which is shown as a percentage; the higher the percentage, the higher the profit margin.

Objectives of the study
To understand the EBIT analysis of infrastructure sector companies. To analyse the EBIT of the infrastructure sector companies and to conduct a comparative study of EBIT analysis of Infrastructure sector between the companies and over a period of time.

Sources of data
The data collected for the purpose of the study was secondary data. The EBIT analysis of Infrastructure companies’ data was collected from the ‘PROWESS database’. 5 years data of 50 companies were considered for analysis of EBIT of Infrastructure sector. Literature relating to EBIT and Capital Structure analysis are collected from various reference books and journals.

Methodology of the study
Simple statistical techniques like ratio calculation and aver-
The analysis of infrastructure sector (ANOVA) between the table No.01 ratio.

Limitations of the study
The data considered is secondary sources. Sufficient data for some companies are not available. The time available for the study was too short. For the analysis purpose simple statistical techniques are used in the study. The study is a basic level of study; a broader analysis is required for the better understanding of profitability and long term earnings of the companies.

Assumption
The standard assumption ‘no accounting manipulation in either of the two numbers involved (EBIT and Interest expenses in this case)’ is made while calculating the interest coverage ratio.

Table No.01
Analysis of infrastructure sector (ANOVA) between the years and the between companies

<table>
<thead>
<tr>
<th>Ratios</th>
<th>Between Years</th>
<th>Between Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F</td>
<td>P-Value</td>
</tr>
<tr>
<td>Debt Equity ratios</td>
<td>5.378</td>
<td>1.571</td>
</tr>
<tr>
<td>Debt Ratio</td>
<td>4.650</td>
<td>9.266</td>
</tr>
<tr>
<td>Interest Cover (PBDITA)</td>
<td>1.175</td>
<td>0.233</td>
</tr>
<tr>
<td>Interest Cover (PBT)</td>
<td>1.137</td>
<td>0.279</td>
</tr>
<tr>
<td>EBIT</td>
<td>15.566</td>
<td>6.344</td>
</tr>
</tbody>
</table>

The average debt equity ratio of infrastructure sector companies is 0.2958:1 for the period 2009 to 2013. The debt equity ratio reveals insignificant difference between infrastructure sector companies at 5 per cent level of significance. There is a significant difference between the years and the result reveals that infrastructure sector companies maintain same levels of debt equity ratio. However, the debt equity ratios are different over the years.

The average debt ratio of infrastructure sector companies is 0.2776:1 for the period 2009 to 2019. The debt ratio reveals insignificant difference between infrastructure sector companies at 5 per cent level of significance. It is found that there is a significant difference between the years and the result reveals that infrastructure sector companies maintain same levels of debt ratio. However, the debt ratios are different over the years.

The average interest cover (PBDITA) ratio of infrastructure sector companies is 0.07565:1 for the period 2009 to 2013. The Interest Cover (PBDITA) ratio reveals insignificant difference between infrastructure sector companies at 5 per cent level of significance. It reflects the significant difference between the years and the result reveals that infrastructure sector companies have same levels of Interest Cover (PBDITA). However, the Interest Cover (PBDITA) is different over a period of 5 years.

The average interest cover (PBT) ratio of infrastructure sector companies is 0.05184:1 for the period 2009 to 2013. The Interest Cover (PBT) ratio reveals insignificant difference between infrastructure sector companies at 5 per cent level of significance. It indicates that there is also insignificant difference between the years and the result reveals that infrastructure sector companies do not maintain same levels of Interest Cover (PBT).

The average EBIT of infrastructure sector companies is 1363.679545 million rupees for the period 2009 to 2013. The EBIT reveals significant difference between infrastructure sector companies at 5 per cent level of significance. There is a significant difference between the years for infrastructure sector companies and the result reveals that infrastructure sector companies maintain different levels of EBIT.

Findings
The study on EBIT Analysis of Selected Infrastructure Companies in India could able to identify the following findings.

All infrastructure sector companies maintain same levels of debt equity ratio. However, the debt equity ratios are different for different years. The result reveals that infrastructure sector companies maintain same levels of debt ratio but the debt ratios are different for different years. The analysis reveals that infrastructure sector companies have same Interest Cover (PBDITA). The Interest Cover (PBDITA) is different for different years. The analysis reveals that infrastructure sector companies have different Interest Cover (PBT). The analysis reveals that the Indian infrastructure sector companies have different EBIT.

Conclusion
Infrastructure companies maintain a standard debt equity ratio over the years. However, this ratio is not same across the years. The result of the study reveals that the debt ratios of this sector are also same over the years. The interest coverage ratio of this sector is same when we consider PBDITA. However, the interest coverage ratio is different for the companies when we consider PBT. Further it reveals that the earning capacities of the infrastructure companies are also different. It is clear that the earning capacity and the debt capacity is firm specified and not influenced by the sector.

REFERENCE