

Leverage-

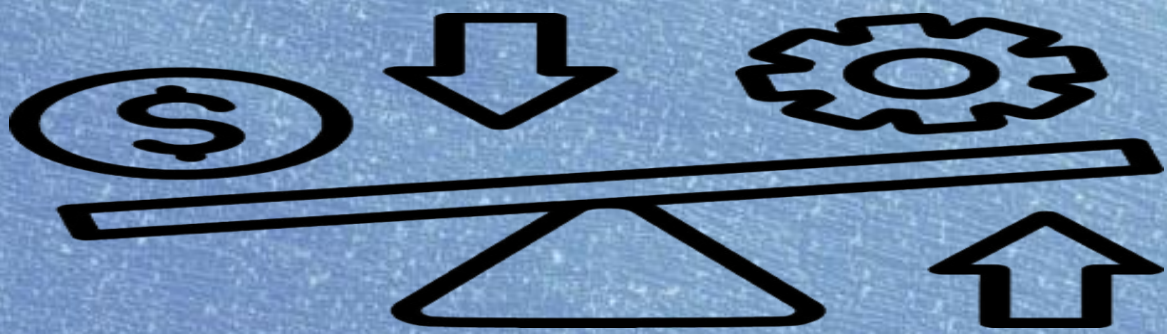
A Powerful Ally

or a Hidden

Trap?

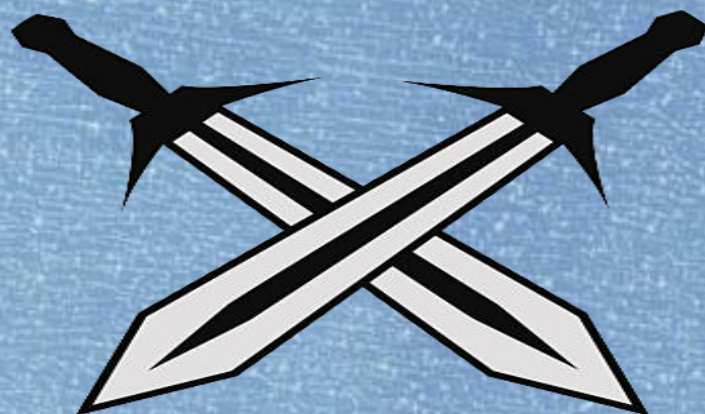
 [Saurabh Giri](#)

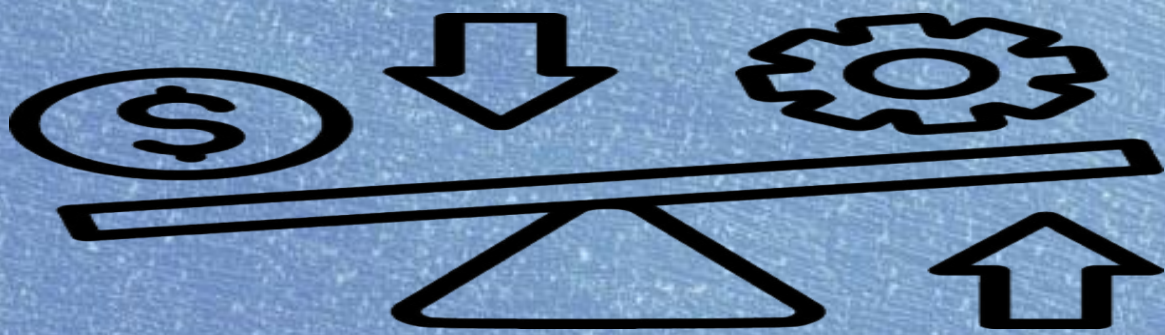




🔄 **Leverage is like a two-edged sword** ✂️ —use it wisely, and it **fuels growth** ; misuse it, and it **cuts deep into profits!** 💰

Smart businesses use leverage to **scale operations, reduce taxes, and boost returns** 📈 , but when income declines, it **magnifies losses** 💰





🚀 How Leverage Works

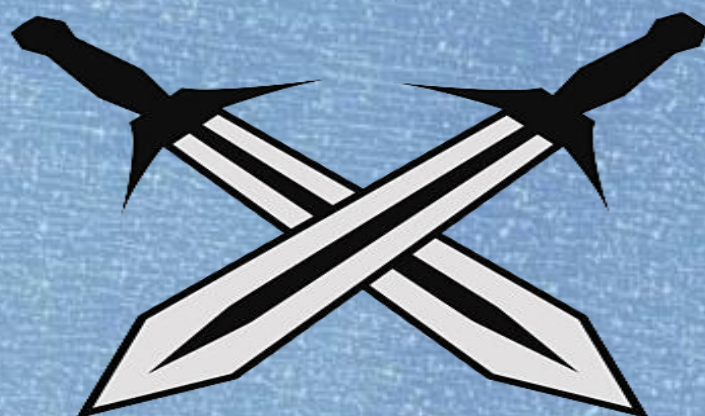
Leverage means using **borrowed funds** to amplify growth. But what happens when revenue **declines**?

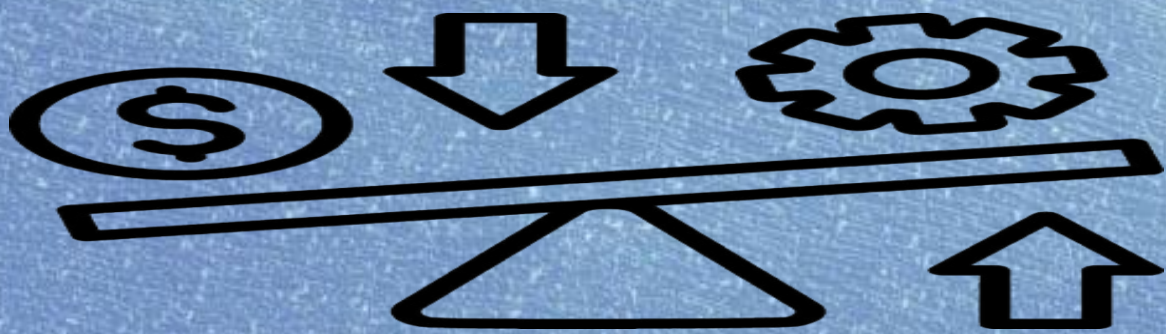
💡 Understand this with an example!

Imagine a company with ₹50,00,000 EBIT. Let's see how leverage affects profits in two scenarios:

1 When the company is doing **booming business** 🚀

2 When the business slows down 📉

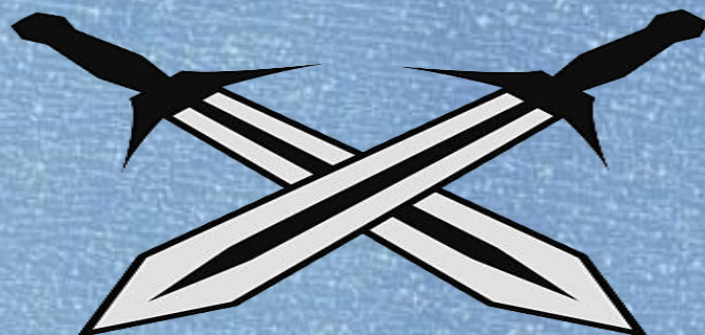


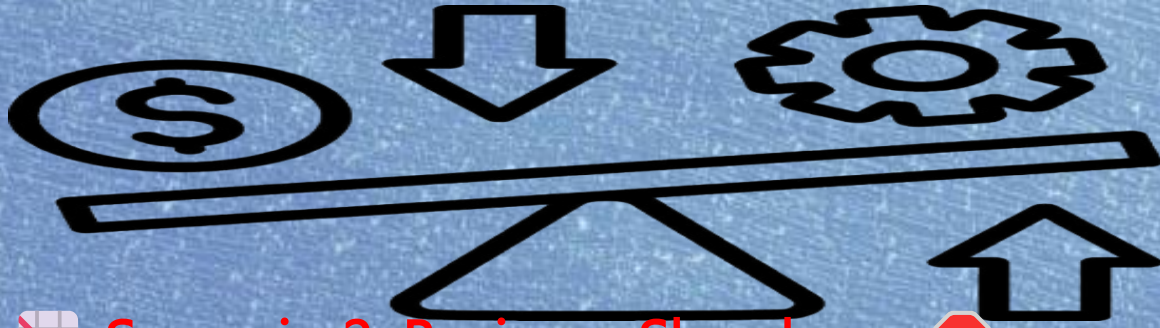


Scenario 1: Business is Booming 🚀

Metrics	Without Leverage 🏠	With ₹1 Cr Debt 💳 (10% Interest)
Revenue 💰	₹1,20,00,000	₹1,20,00,000
Operating Expenses 🏭	₹70,00,000	₹70,00,000
EBIT (Operating Profit) 📈	₹50,00,000	₹50,00,000
Interest Expense 🏠	₹0	₹10,00,000
EBT (Profit Before Tax) 📊	₹50,00,000	₹40,00,000
Tax @ 25% 🏛️	₹12,50,000	₹10,00,000
Net Profit 💰	₹37,50,000	₹30,00,000

With Leverage → Lower Tax, Higher Risk!

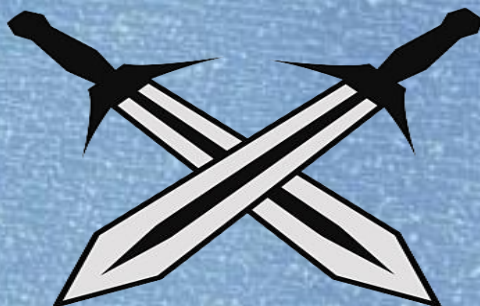


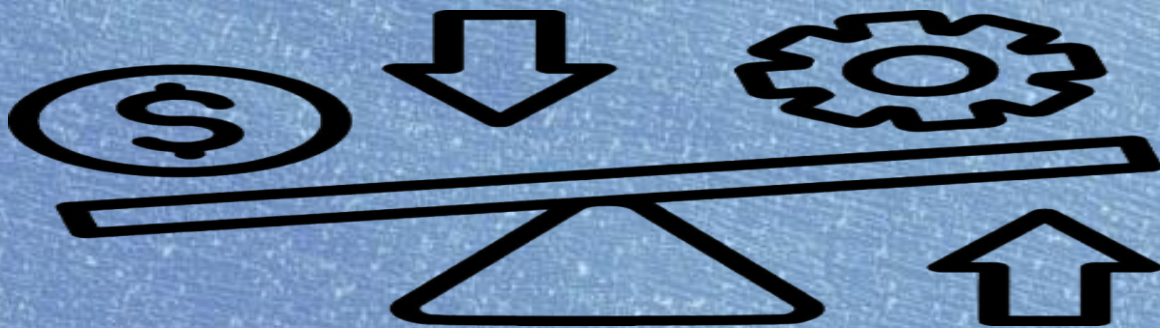


Scenario 2: Business Slowdown

Now, let's assume revenue drops by 30%, reducing EBIT to ₹35,00,000. How does leverage affect the company now?

Metrics	Without Leverage 	With ₹1 Cr Debt  (10% Interest)
EBIT (Operating Profit) 	₹35,00,000	₹35,00,000
Interest Expense 	₹0	₹10,00,000
EBT (Profit Before Tax) 	₹35,00,000	₹25,00,000
Tax @ 25% 	₹8,75,000	₹6,25,000
Net Profit 	₹26,25,000	₹18,75,000






⚠️ **Notice the Difference?**

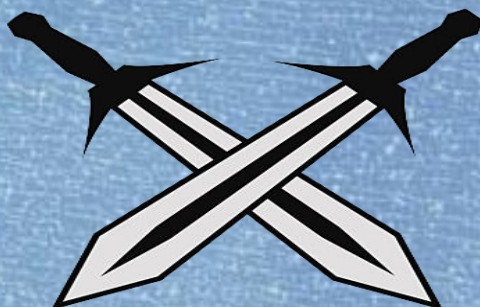
▼ Revenue drops by 30% 

📦 Without leverage, net profit falls by ₹11,25,000 (from ₹37,50,000 to ₹26,25,000) – a 30% drop in revenue leads to a 30% drop in profit.

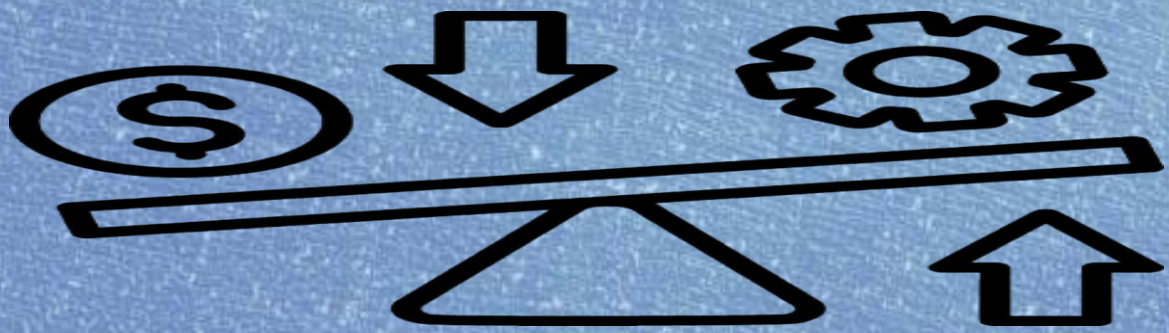
🔔 With ₹1 Cr Debt  (10% Interest), net profit falls from ₹30,00,000 to ₹18,75,000 – a massive 37.5% drop!

 **Revenue down by 30%, but profit falls even more (by 37.5%) due to fixed interest costs!**

⚔️ This is why leverage is a two-edged sword! It magnifies both gains and losses. Use it wisely!  

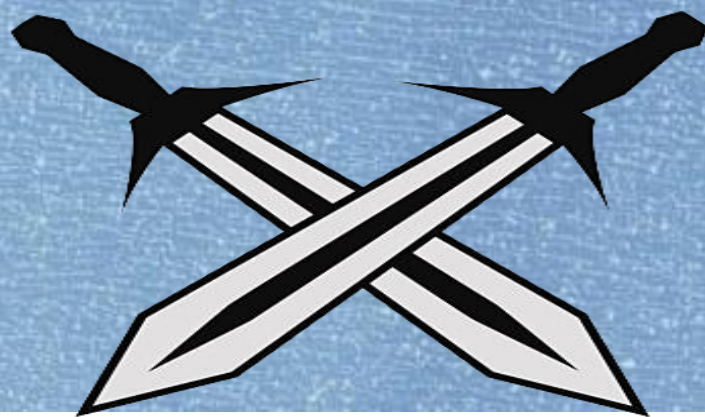


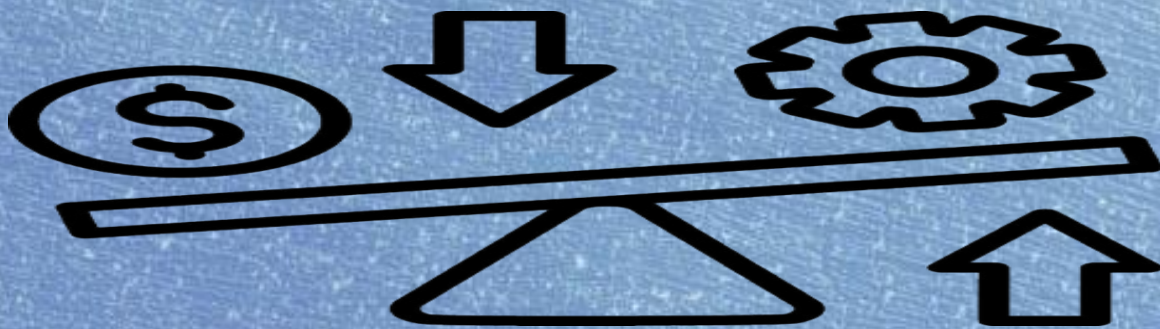
SWIPE



◆ When to Take Leverage?

- ✓ When business has consistent profits & predictable cash flow 💰
- ✓ When expansion guarantees higher ROI than interest cost 📈
- ✓ When tax savings from interest outweigh risks of fixed obligations 🏦



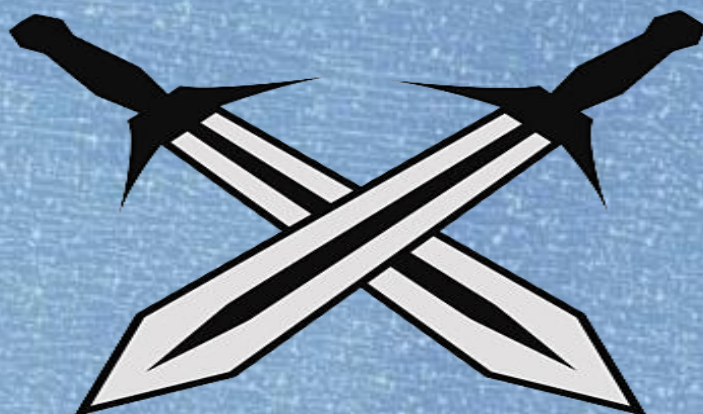


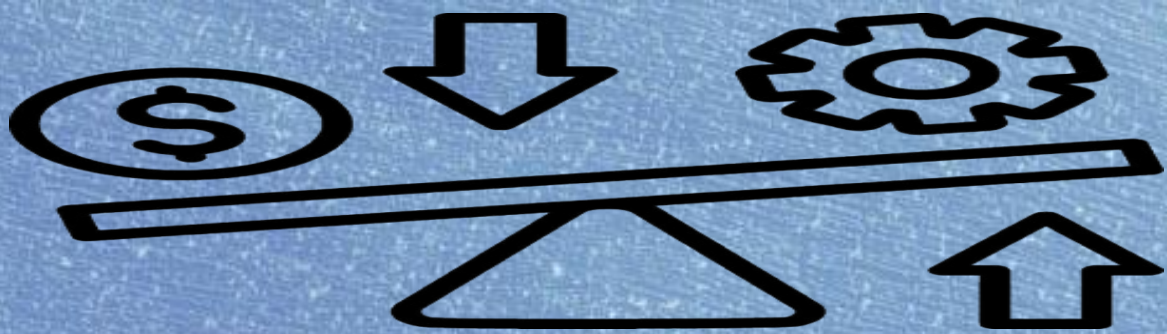
◆ How Much Leverage is Ideal?

⚖️ Maintain a Debt-to-Equity ratio below industry standards to stay safe 🚨

📊 Keep Interest Coverage Ratio (EBIT/Interest) above 3x to handle downturns

💡 Don't let EMIs exceed 30-40% of net profits—keep buffer cash!





◆ Once Taken, What's Next?



FOCUS ON PROFITABILITY:

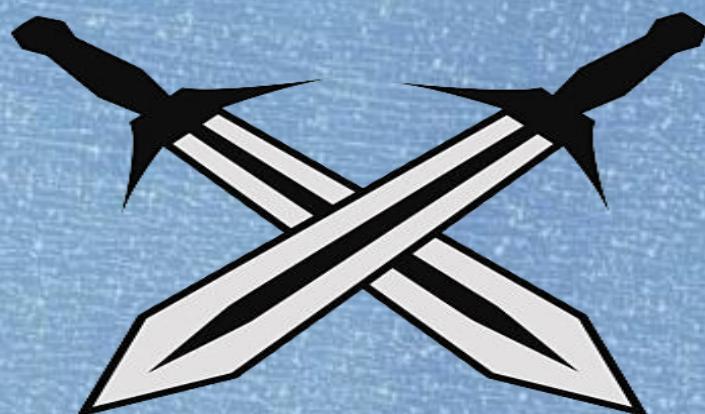
Leverage only works if earnings grow faster than debt costs!



Monitor Cash Flow: Ensure stable revenue streams to avoid liquidity crunch



Plan for Worst Case: Keep an **emergency fund** & always have a debt repayment strategy



🙏 Thank You! 🤝

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💙 I truly appreciate your support and insights.

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- [Saurabh Giri](#) 🏆

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