

Capital Structure

CAPITAL $\xrightarrow{\text{②}}$ Financial manager (FM) $\xrightarrow{\text{①}}$ PROJECT

- FM will arrange Rs. 10,00,000 for Investment.
 - In which proportion (structure / mix / ratio) Rs. 10,00,000 should be arranged.
 - To maximise EPS & MPS
 - Capital structure.
- FM wants to invest Rs. 10,00,000 in project.
 - Which project to invest
 - To maximize return
 - Investment Decision.

$$\begin{array}{l} \text{ESC} \quad \times \\ \text{PSC} \quad \times \\ \text{Debt} \quad \times \\ \hline \text{Capital} \quad 10,00,000 \end{array} \left. \begin{array}{l} \text{structure or proportion} \\ \text{of Rs. 10,00,000 will be decided} \\ \text{in this chapter to maximize EPS \& \text{MPS.}} \end{array} \right\}$$

* Format:

Income statement:

Particulars	Options		
	1	2	3
EBIT			
- Interest			
EBT			
- Tax			
EAT			
- Preference Dividend			
NP for ESH			
÷ NO OF ES			
EPS			
x PE Ratio			
MPS			

13 min

Suppose that a firm has an

Question 11. (Illustration 11)

Suppose that a firm has an all equity capital structure consisting of 1,00,000 ordinary shares of ₹ 10 per share. The firm wants to raise ₹ 2,50,000 to finance its investments and is considering three alternative methods of financing – (i) to issue 25,000 ordinary shares at ₹ 10 each, (ii) to borrow ₹ 2,50,000 at 8 per cent rate of interest, (iii) to issue 2,500 preference shares of ₹ 100 each at an 8 per cent rate of dividend. If the firm's earnings before interest and taxes after additional investment are ₹ 3,12,500 and the tax rate is 50 per cent, FIND the effect on the earnings per share under the three financing alternatives.

Income statement:

Particulars	Options		
	1	2	3
EBIT	312500	312500	312500
- Interest	-	(20,000)	-
EBT	312500	292500	312500
- Tax @ 50%	(156250)	(146250)	(156250)
EAT	156250	146250	156250
- Pref. Div	-	-	(20,000)
NP for ESH	156250	146250	136250
÷ No of ES (100,000 + New)	÷ 125000	÷ 100,000	÷ 100,000
EPS	1.25	1.46	1.36

Decision: Option 2 should be selected to maximize EPS.

(WN-1): Capital structure: (250,000)

Particulars	1	2	3
ESC (10)	250,000		
8% Debt		250,000	
8% PSC			250,000
	250,000	250,000	250,000

NEW:

a) Equity shares	25000 (250,000 ÷ 10)		
b) Interest		20,000 (250,000 × 8%)	
c) Pref. Dividend			20,000 (250,000 × 8%)

17 min

Best of Luck Ltd., a profit

Question 12. (Illustration 12)

Best of Luck Ltd., a profit making company, has a paid-up capital of ₹ 100 lakhs consisting of 10 lakhs ordinary shares of ₹ 10 each. Currently, it is earning an annual pre-tax profit of ₹ 60 lakhs. The company's shares are listed and are quoted in the range of ₹ 50 to ₹ 80. The management wants to diversify production and has approved a project which will cost ₹ 50 lakhs and which is expected to yield a pre-tax income of ₹ 40 lakhs per annum. To raise this additional capital, the following options are under consideration of the management:

- (a) To issue equity share capital for the entire additional amount. It is expected that the new shares (face value of ₹ 10) can be sold at a premium of ₹ 15.
- (b) To issue 16% non-convertible debentures of ₹ 100 each for the entire amount.
- (c) To issue equity capital for ₹ 25 lakhs (face value of ₹ 10) and 16% non-convertible debentures for the balance amount. In this case, the company can issue shares at a premium of ₹ 40 each.

ADVISE which option is the most suitable to raise the additional capital, keeping in mind that the management wants to maximize the earnings per share to maintain its goodwill. The company is paying income tax at 50%.

Income statement:

Particulars	Options		
	1	2	3
EBIT (60,00,000 + 40,00,000)	100,00,000	100,00,000	100,00,000
- Interest	-	(8,00,000)	(4,00,000)
EBT	100,00,000	92,00,000	96,00,000
- Tax @ 50%	(50,00,000)	(46,00,000)	(48,00,000)
EAT	50,00,000	46,00,000	48,00,000
- Pref. Div	-	-	-
NP for ESH	50,00,000	46,00,000	48,00,000
÷ No of ES (10,00,000 + New)	÷ 12,00,000	÷ 10,00,000	÷ 10,50,000
EPS	4.17	4.6	4.57

Decision: Option 2 should be selected to maximize EPS.

(WN-1): Capital structure: (50,00,000)

Particulars	1	2	3
Esc	50,00,000 (25)		25,00,000 (50)
16% Debenture		50,00,000	25,00,000
	50,00,000	50,00,000	50,00,000
NEW: No of shares	2,00,000	-	50,000
Interest	-	8,00,000	4,00,000

16 min Shahji Steel Limited requires

Question 13. (Illustration 13)

Shahji Steel Limited requires ₹ 25,00,000 for a new plant. This plant is expected to yield earnings before interest and taxes of ₹ 5,00,000. While deciding about the financial plan, the company considers the objective of maximizing earnings per share. It has three alternatives to finance the project - by raising debt of ₹ 2,50,000 or ₹ 10,00,000 or ₹ 15,00,000 and the balance, in each case, by issuing equity shares. The company's share is currently selling at ₹ 150 but is expected to decline to ₹ 125 in case the funds are borrowed in excess of ₹ 10,00,000. The funds can be borrowed at the rate of 10 percent upto ₹ 2,50,000, at 15 percent over ₹ 2,50,000 and upto ₹ 10,00,000 and at 20 percent over ₹ 10,00,000. The tax rate applicable to the company is 50 percent. ANALYSE which form of financing should the company choose?

Income statement:

Particulars	Options		
	1	2	3
EBIT	500,000	500,000	500,000
- Interest	(25,000)	(137,500)	(237,500)
EBT	475,000	362,500	262,500
- Tax @ 50%	(237,500)	(181,250)	(131,250)
EAT	237,500	181,250	131,250
- Pref. Div	-	-	-
NP for ESH	237,500	181,250	131,250
÷ NO OF ES	÷ 15,000	÷ 10,000	÷ 8,000
EPS	15.83	18.13	16.41

Decision: option 2 should be selected to maximise EPS

(WN-1): Capital structure: (25,00,000)

Particulars	1	2	3
Debt (Borrowed)	2,50,000	10,00,000	15,00,000
ESC	22,50,000	15,00,000	10,00,000
	25,00,000	25,00,000	25,00,000

NEW: a) NO OF ES : 15,000 10,000 8,000
 (22,50,000 ÷ 150) (15,00,000 ÷ 150) (10,00,000 ÷ 125)

(Q.12) : Interest:

<u>Debt</u>	<u>%</u>
Upto 250,000	10%
Above 250,000, upto 10,00,000	15%
Above 10,00,000.	20%

Option 1: $250,000 \times 10\% = 25,000$

Option 2: $250,000 \times 10\% = 25,000$
 $7,50,000 \times 15\% = 1,12,500$

 $10,00,000$ $1,37,500$

Option 3: $250,000 \times 10\% = 25,000$
 $7,50,000 \times 15\% = 1,12,500$
 $500,000 \times 20\% = 1,00,000$

 $15,00,000$ $2,37,500$

Ganapati Limited is considering

Question 18. (PP4)

Ganapati Limited is considering three financing plans. The key information is as follows:

(a) Total investment to be raised is ₹ 2,00,000.

(b) Plans of Financing Proportion:

Plans	Equity	Debt	Preference Shares
A	100%	-	-
B	50%	50%	-
C	50%	-	50%

(c) Cost of debt 8%

Cost of preference shares 8%

(d) Tax rate 50%

(e) Equity shares of the face value of ₹ 10 each will be issued at a premium of ₹ 10 per share.

(f) Expected EBIT is ₹ 80,000.

You are required to DETERMINE for each plan:

(i) Earnings per share (EPS)

(ii) The financial break-even point

(iii) Indicate if any of the plans dominate and compute the EBIT range among the plans for indifference.

1. Income statement: (EPS)

Particulars	Options		
	A	B	C
EBIT	80,000	80,000	80,000
- Interest	-	(8000)	-
EBT	80,000	72000	80,000
- Tax @ 50%	(40,000)	(36000)	(40,000)
EAT	40,000	36000	40,000
- Pref. Div	-	-	(8000)
NP for ESH	40,000	36000	- 32000
÷ No of ES	÷ 10,000	÷ 5000	÷ 5000
EPS	4	7.2	6.4

Decision: option B should be selected to maximise EPS

(WN-1): Capital structure: (200,000)

Particulars	% 1	% 2	% 3
ESC	100 200,000	50 100,000	50 100,000
8% Debt		50 100,000	
8% PSC			50 100,000
	100 200,000	100 200,000	100 200,000
NEW: a) NO OF ES (ESC ÷ 20)	10,000	5000	5000
b) Interest		8000	
c) Preference Dividend			8000

2. Financial BEP:

Extra: ✓ Financial BEP means EBIT at which NP for ESH is zero.

$$\text{Financial BEP} = \frac{\text{Interest} + \text{Preference Dividend}}{1-t}$$

✓ Reverse Income statement:

Part	A	B	C
EBIT	NIL	8000	16000
-Int	↑	(8000)	-
EBT		NIL	16000
-Tax @ 50%		↑	8000
EAT		8000	8000
-PD			8000
NP for ESH	NIL	NIL	NIL

$$\text{Financial BEP} = \frac{\text{Interest} + \text{Preference Dividend}}{1-t}$$

Plan A = NIL

Plan B = 8000 + 0 = 8000

Plan C = 0 + $\frac{8000}{1-0.5}$ = 16000

3. Indifference Point:

Extra:

Indifference Point means amount of EBIT at which EPS under both options is same.

$$EPS = \frac{(EBIT - \text{Interest})(1 - t) - \text{Preference Dividend}}{\text{NO of ES}}$$

a) Indifference point between A & B:

$$EPS \text{ under Plan A} = EPS \text{ under Plan B}$$

$$\frac{(EBIT - 0)(1 - 0.5) - 0}{10,000} = \frac{(EBIT - 8000)(1 - 0.5) - 0}{5000}$$

$$\frac{0.5 EBIT}{10,000} = \frac{0.5 EBIT - 4000}{5000}$$

$$0.5 EBIT = \frac{(0.5 EBIT - 4000) \times 10,000}{5000} \quad \begin{matrix} -2 \\ -1 \end{matrix}$$

$$0.5 EBIT = EBIT - 8000$$

$$8000 = 0.5 EBIT$$

$$\therefore EBIT = 16000$$

b) Indifference Point between A & C:

$$EPS \text{ under Plan A} = EPS \text{ under Plan C}$$

$$\frac{(EBIT - 0)(1 - 0.5) - 0}{10,000} = \frac{(EBIT - 0)(1 - 0.5) - 8000}{5000}$$

$$\frac{0.5 EBIT}{10,000} = \frac{0.5 EBIT - 8000}{5000}$$

$$0.5 EBIT = \frac{(0.5 EBIT - 8000) \times 10,000}{5000} \quad \begin{matrix} -2 \\ -1 \end{matrix}$$

$$0.5 EBIT = EBIT - 16000$$

$$16000 = 0.5 EBIT$$

$$EBIT = 32000$$

c) Indifference Point between B & C:

$$\text{EPS under Plan B} = \text{EPS under Plan C}$$
$$\frac{(\text{EBIT} - 8000)(1 - 0.5) - 0}{5000} = \frac{(\text{EBIT} - 0)(1 - 0.5) - 8000}{5000}$$

$$\frac{0.5\text{EBIT} - 4000}{5000} = \frac{0.5\text{EBIT} - 8000}{5000}$$

$$0.5\text{EBIT} - 4000 = 0.5\text{EBIT} - 8000$$

∴ There is no indifference point between Plan B & C.

Plan B dominates Plan C:

Reasons:

- Plan B has higher EPS in comparison to Plan C
- Plan B has lower financial BEP in comparison to Plan C

Aaina Ltd. is considering

Question 15. (PP1)

Aaina Ltd. is considering a new project which requires a capital investment of ₹ 9 crores. Interest on term loan is 12% and Corporate Tax rate is 30%. CALCULATE the point of indifference for the project considering the Debt Equity ratio insisted by the financing agencies being 2 : 1.

Assumed: 1st Plan was all equity.

Share price = ₹ 10

(WN-1): CAPITAL structure:

Particulars	1	2		
12% Debt		600,00,000	?	2
ESC	900,00,000	300,00,000	?	1
	900,00,000	900,00,000		3
<u>NEW:</u> a) NO OF ES (ESC ÷ 10)	90,00,000	30,00,000		
b) Interest	-	7200,000		

1. Indifference Point:

$$\frac{\text{Option 1}}{(EBIT - 0)(1 - 0.3)} = \frac{\text{Option 2}}{(EBIT - 7200,000)(1 - 0.3)}$$

$$\frac{\quad}{90,00,000} = \frac{\quad}{30,00,000}$$

$$0.7 EBIT = \frac{(0.7 EBIT - 5040,000) \times 90,00,000}{30,00,000}$$

$$0.7 EBIT = 2.1 EBIT - 15120,000$$

$$15120,000 = 1.4 EBIT$$

$$\therefore EBIT = 10800,000$$

Question 16. (PP2)

Xylo Ltd. is considering two alternative financing plans as follows:

Particulars	Plan - A (₹)	Plan - B (₹)
Equity shares of ₹ 10 each	8,00,000	8,00,000
Preference Shares of ₹ 100 each	-	4,00,000
12% Debentures	4,00,000	-
	12,00,000	12,00,000

The indifference point between the plans is ₹ 4,80,000. Corporate tax rate is 30%. CALCULATE the rate of dividend on preference shares.

1. Rate of Preference Dividend

$$\frac{\text{EPS under Plan A}}{80,000} = \frac{\text{EPS under Plan B}}{80,000}$$

$$\frac{(4,80,000 - 4,80,000)(1 - 0.3) - 0}{80,000} = \frac{(4,80,000 - 0)(1 - 0.3) - PD}{80,000}$$

$$302400 = 336000 - PD$$

$$\therefore PD = 336000 - 302400$$

$$= 33600$$

$$\therefore \text{Rate of Preference Dividend} = \frac{33600}{4,00,000} \times 100 = 8.4\%$$

Ganesha Limited is setting up a project with

Question 17. (PP3)

Ganesha Limited is setting up a project with a capital outlay of ₹ 60,00,000. It has two alternatives in financing the project cost.

Alternative-I: 100% equity finance by issuing equity shares of ₹ 10 each
Alternative-II: Debt-equity ratio 2:1 (issuing equity shares of ₹ 10 each)

The rate of interest payable on the debts is 18% p.a. The corporate tax rate is 40%. CALCULATE the indifference point between the two alternative methods of financing.

(WN-1): Capital structure: (60,00,000)

<u>Particulars</u>	<u>1</u>	<u>2</u>
Esc (10)	60,00,000	1 20,00,000
18% Debt		2 40,00,000
	60,00,000	3 60,00,000
NEW: a) NO OF ES (Esc ÷ 10)	600,000	200,000
b) Interest	-	720,000 (40,00,000 × 18%)

1. Indifference Point:

$$\frac{\text{EPS under Plan 1}}{600,000} = \frac{\text{EPS under Plan 2}}{200,000}$$

$$\frac{(EBIT - 0)(1 - 0.4)}{600,000} = \frac{(EBIT - 720,000)(1 - 0.4)}{200,000}$$

$$0.6 EBIT = \frac{(0.6 EBIT - 432000) \times 600,000}{200,000} - 3$$

$$0.6 EBIT = 1.8 EBIT - 1296000$$

$$1296000 = 1.8 EBIT - 0.6 EBIT$$

$$EBIT = 1080,000$$

Alpha Limited requires funds

Question 20. (PP6)

Alpha Limited requires funds amounting to ₹ 80 lakh for its new project. To raise the funds, the company has following two alternatives:

- (i) To issue Equity Shares of ₹ 100 each (at par) amounting to ₹ 60 lakh and borrow the balance amount at the interest of 12% p.a., or
 (ii) To issue Equity Shares of ₹ 100 each (at par) and 12% Debentures in equal proportion.

The Income-tax rate is 30%.

IDENTIFY the point of indifference between the available two modes of financing and state which option will be beneficial in different situations.

(WN-1) : Capital Structure: (80,00,000)

Particulars	Plan 1	Plan 2
Esc	60,00,000	40,00,000
12% Debt	20,00,000	40,00,000
	80,00,000	80,00,000
NEW: a) No of Es (Esc ÷ 100)	60,000	40,000
b) Interest	240,000	480,000

1. Indifference Point:

$$\frac{\text{EPS under Plan 1}}{(EBIT - 240,000)(1 - 0.3)} = \frac{\text{EPS under Plan 2}}{(EBIT - 480,000)(1 - 0.3)}$$

$$\frac{60,000}{60,000} = \frac{40,000}{40,000}$$

$$0.7 \text{ EBIT} - 168000 = \frac{(0.7 \text{ EBIT} - 336000) \times 60,000}{40,000 \times 1}$$

$$0.7 \text{ EBIT} - 168000 = 1.05 \text{ EBIT} - 504000$$

$$504000 - 168000 = 1.05 \text{ EBIT} - 0.7 \text{ EBIT}$$

$$336000 = 0.35 \text{ EBIT}$$

$$\therefore \text{EBIT} = 960,000.$$

2. Income Statement:

Particulars	EBIT = 950,000		EBIT = 970,000	
	Plan 1	Plan 2	Plan 1	Plan 2
EBIT	950,000	950,000	970,000	970,000
- Interest	(240,000)	(480,000)	(240,000)	(480,000)
EBT	710,000	470,000	730,000	490,000
- Tax @ 30%	(213,000)	(141,000)	(219,000)	(147,000)
NP for ESH	497,000	329,000	511,000	343,000
÷ No of ES	÷ 60,000	÷ 40,000	÷ 60,000	÷ 40,000
EPS	8.28	8.23	8.52	8.58

<u>Range</u>	:	<u>Preferred Plan</u>
Below Indifference Point	:	Plan 1 (lower Int + PD)
At Indifference Point	:	Plan 1 or Plan 2
Above Indifference Point	:	Plan 2 (Higher Int + PD)

Yoyo Limited presently has ₹ 36,00,000

Question 19. (PP5)

Yoyo Limited presently has ₹ 36,00,000 in debt outstanding bearing an interest rate of 10 per cent. It wishes to finance a ₹ 40,00,000 expansion programme and is considering three alternatives: additional debt at 12 per cent interest, preference shares with an 11 per cent dividend, and the issue of equity shares at ₹ 16 per share. The company presently has 8,00,000 shares outstanding and is in a 40 per cent tax bracket.

- (a) If earnings before interest and taxes are presently ₹ 15,00,000, DETERMINE earnings per share for the three alternatives, assuming no immediate increase in profitability.
- (b) ANALYSE which alternative do you prefer. COMPUTE how much would EBIT need to increase before the next alternative would be best.

1. Income Statement (EPS):

Options

Particulars	1	2	3
EBIT	1500,000	1500,000	1500,000
- Interest (360,000 + New)	(840,000)	(360,000)	(360,000)
EBT	660,000	1140,000	1140,000
- Tax @ 40%	(264,000)	(456,000)	(456,000)
EAT	396,000	684,000	684,000
- Pref. Div	-	(440,000)	-
NP for ESH	396,000	244,000	684,000
÷ No of ES (800,000 + New)	÷ 800,000	÷ 800,000	÷ 1050,000
EPS	0.495	0.305	0.651

Decision: option 3 should be accepted.

(WN-1): Capital Structure: (40,00,000)

Particulars	1	2	3
12% Debt	40,00,000		
11% PSC		40,00,000	
ESC (16)			40,00,000
	40,00,000	40,00,000	40,00,000
NEW: a) NO OF ES (40,00,000 ÷ 16)			250,000
b) Interest	480,000		
c) Pref. Div		440,000	

2. i) After option 3 next best option is option 1

ii) Indifference Point:

$$\frac{\text{EPS under option 1}}{(EBIT - 840,000)(1 - 0.4)} = \frac{\text{EPS under option 3}}{(EBIT - 360,000)(1 - 0.4)}$$

$$\frac{\text{EPS under option 1}}{800,000} = \frac{\text{EPS under option 3}}{1,050,000}$$

$$(0.6 EBIT - 504,000) \times \frac{1,050,000}{800,000} = (0.6 EBIT - 216,000)$$

$$0.7875 EBIT - 661,500 = 0.6 EBIT - 216,000$$

$$0.7875 EBIT - 0.6 EBIT = 661,500 - 216,000$$

$$0.1875 EBIT = 445,500$$

$$EBIT = 23,76,000.$$

iii) IF EBIT is

Below 2376000 = option 3 (low Int & PD)

At 2376000 = option 1 or 3

Above 2376000 = option 1 (High Int & PD)

iv) At present option 3 is better when EBIT is Rs. 15,00,000.
IF EBIT increases by Rs. 8,76,000 (23,76,000 - 15,00,000)
then option 1 will be better.

40 min The following data are presented in respect

Question 14. (Illustration 14)

The following data are presented in respect of Quality Automation Ltd.:

	(₹)
Profit before interest and tax	52,00,000
Less: Interest on debentures @ 12%	12,00,000
Profit before tax	40,00,000
Less: Income tax @ 50%	20,00,000
Profit After tax	20,00,000
No. of equity shares (of ₹ 10 each)	8,00,000
EPS	2.5
PE Ratio	10
Market price per share	25

The company is planning to start a new project requiring a total capital outlay of ₹ 40,00,000. You are informed that a debt equity ratio (D/D+E) higher than 35%, pushes the Ke up to 12.5%, means reducing the PE ratio to 8 and rises the interest rate on additional amount borrowed to 14%. FIND OUT the probable price of share if:

- (i) the additional funds are raised as a loan.
- (ii) the amount is raised by issuing equity shares. (Note: Retained earnings of the company is ₹ 1.2 crore)

1. Income Statement:

<u>Particulars</u>	<u>14% Debt</u>	<u>ESC</u>
EBIT	5892200	5892200
- Interest (1200,000 + New)	(1760,000)	(1200,000)
EBT	4132200	4692200
- Tax @ 50%	(2066100)	(2346100)
EAT/NP for ES	2066100	2346100
÷ No of ES (800,000 + New)	÷ 800,000	÷ 960,000
EPS	2.58	2.44
x PE Ratio	x 8	x 10
MPS	20.64	24.44

Decision: EPS is higher under option 1 but
 MPS is higher under option 2
 ∴ Option 2 (Equity) should be selected.

(WN-1): Capital structure: (Rs. 40,00,000)

Particulars:	14% Debt	Esc
a) Debt:		
Old: 12% Debt (12L ÷ 12%)	100,00,000	100,00,000
New: 14% Debt	40,00,000	-
	a) 140,00,000	100,00,000
b) Equity:		
Old: Esc (8L x 10)	80,00,000	80,00,000
Returning Earning	120,00,000	120,00,000
NEW: Esc	-	40,00,000
	b) 200,00,000	240,00,000
c) Debt + Equity: (a+b)	340,00,000	340,00,000
d) Debt Equity Ratio	41.18%	29.41%
$\frac{\text{Debt}}{\text{Debt} + \text{Equity}} \times 100$	$\left(\frac{140L}{340L} \times 100\right)$	$\left(\frac{100L}{340L} \times 100\right)$
e) PE Ratio	8	10
	(as Debt equity ratio more than 35%)	(as Debt equity ratio less than 35%)

f) NEW:

NO OF ES	-	160,000 (40L ÷ 25)
Interest	560,000	

(WN-2): Revised EBIT:

a) Return on capital employed = $\frac{\text{EBIT}}{\text{Debt} + \text{Equity}} \times 100$
 $= \frac{5200,000}{100L + (80L + 120L)} \times 100 = 17.33\%$

b) Revised EBIT = $(300L + 40L) \times 17.33\%$
 5892200

Axar Ltd. has a Sales of

Question 24. (PP10)

Axar Ltd. has a Sales of ₹ 68,00,000 with a Variable cost Ratio of 60%.

The company has fixed cost of ₹16,32,000. The capital of the company comprises of 12% Long term debt, ₹ 1,00,000 Preference Shares of ₹ 10 each carrying dividend rate of 10% and 1,50,000 equity shares.

The tax rate applicable for the company is 30%.

At current sales level, DETERMINE the Interest, EPS and amount of debt for the firm if a 25% decline in Sales will wipe out all the EPS.

Solution:

- 25%

Income statement:

Particulars	Original	BEP	Present level
Sales	100 6800,000	5100,000	6800,000
-vc	60 4080,000	(3060,000)	4080,000
Contribution	40 2720,000	2040,000	2720,000
-fc	(1632000)	(1632000)	(1632000)
EBIT	1088000	408000	1088000
- Interest		393714	(393714)
EBT		14286	694286
-Tax @30%		4286	(208286)
EAT		10,000	486000
-Pref Div	(10,000)	(10,000)	(10,000)
NP for ESH		-	476000
÷ NO OF ES	÷150,000	÷150,000	÷150,000
EPS		-	3.17

1. Interest: 393714

2. EPS: 3.17

3. Amount of Debt: $\frac{393714}{12\%} = 3280950.$