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Leveraged Buyout Feasibility Study of ITC Limited

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ABSTRACT: Leveraged Buyouts (LBOs) are an important strategy in commercial finance where accessions are financed substantially through espoused finances and repaid using unborn cash overflows. This study evaluates the fiscal feasibility of a leveraged buyout of ITC Limited using five times of fiscal data and projected performance. Financial tools similar as rate analysis, EBITDA analysis, cash- inflow analysis, valuation, and debt prepayment modeling were used to assess profitability, liquidity, influence capacity, and cash- inflow sustainability. The results show that ITC Limited has stable profitability, strong liquidity, low being debt, and harmonious cash overflows, indicating a strong capability to support fresh influence. The analysis also shows seductive investor returns with a MOIC of about 3.38 times and IRR of around 27.6 percent. The study concludes that ITC Limited has sufficient fiscal strength to support a leveraged buyout and induce seductive investor returns.

KEYWORDS: Leveraged Buyout (LBO), Financial Performance, EBITDA Analysis, Cash Flow Analysis, Debt Capacity, Enterprise Value, Investor Returns, IRR, MOIC, Valuation.

I. INTRODUCTION

Mergers and acquisitions are strategic tools used by companies to enhance growth, operational efficiency, and shareholder value. Among various acquisition strategies, leveraged buyouts (LBOs) have emerged as an important financial mechanism where acquisitions are financed largely through debt. The acquired company's assets and cash flows are utilized to repay the borrowed funds.

The effectiveness of an LBO depends on the financial stability of the target company. Companies with strong profitability, predictable cash flows, and low existing leverage are considered ideal candidates. Financial ratio analysis and valuation techniques are essential in assessing the feasibility of such transactions.

In India, leveraged buyouts have been relatively limited due to regulatory restrictions and conservative lending practices. However, increasing private equity participation and capital market development have created opportunities for structured leveraged acquisitions. ITC Limited, being a diversified conglomerate with stable earnings and strong cash flow generation, provides a suitable case for evaluating LBO feasibility. This study analyzes ITC Limited's financial performance and evaluates whether it can sustain additional leverage under a leveraged buyout framework.

II. REVIEW OF LITERATURE

Several studies have examined the financial factors that determine the feasibility of leveraged buyouts (LBO's). Financial statement analysis plays a crucial role in evaluating firm performance and sustainability. Penman (2013) and Palepu, Healy & Peek (2016) state that ratio analysis helps assess profitability, liquidity, and solvency, which are essential indicators of a firm's financial strength. Strong profitability and stable margins indicate the company's ability to generate consistent earnings.

Capital structure theories also explain the role of debt in enhancing firm value. Modigliani and Miller (1963) highlighted that debt financing provides tax advantages, which can increase firm value. Jensen (1986) argued that



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leverage can improve managerial efficiency by reducing agency costs. However, Myers (1984) noted that excessive debt increases financial risk, suggesting that optimal leverage is necessary for stability.

Cash flow sustainability is a key determinant in leveraged buyouts. Rappaport (1986) emphasized that cash flows, rather than accounting profits, drive long-term value. Vadodara (2012) explained that companies with predictable and stable free cash flows are better suited for higher leverage, as they can service debt obligations effectively. Strong cash flows reduce default risk and improve financial flexibility.

Research on private equity and investor returns shows that leveraged buyouts can generate attractive returns when structured properly. Kaplan and Scholar (2005) found that successful buyouts create significant value for investors through operational improvement and efficient use of leverage. Zachary et al. (2013) also highlighted that value creation in buyouts depends on financial discipline and growth in operating earnings.

Overall, the literature suggests that companies with stable profitability, strong cash flows, low existing debt, and efficient operations are suitable candidates for leveraged buyouts. This study applies these theoretical insights to evaluate the financial feasibility of a leveraged buyout of ITC Limited within the Indian corporate context.

III. RESEARCH METHODOLOGY

The study employs a descriptive and analytical research design to evaluate the feasibility of a leveraged buyout. The analysis relies exclusively on secondary data obtained from published annual reports and financial statements of ITC Limited. Financial tools such as ratio analysis, EBITDA analysis, cash flow analysis, valuation techniques, and debt repayment modeling were utilized to assess financial performance and leverage capacity. Purposive sampling was employed to select ITC Limited as the sample company due to its strong financial position and stable cash flows. The analysis was conducted using financial modeling techniques to evaluate debt repayment capacity and potential investor returns.

IV. RESULTS AND DISCUSSION

4.1 Operating Performance and EBITDA Assessment

EBITDA serves as the primary measure of operating strength in leveraged transactions, as it represents cash-generating ability before financing decisions. For ITC Limited, EBITDA was derived from financial statements using:

EBITDA = EBIT+ Depreciation & Amortization

Table -1: EBITDA CALCULATION

YEAR	EBIT	DEPRECIATION AMORTISATION	& EBITDA
2021	15357.11	1645.59	17002.7
2022	18926	1732.41	20658.41
2023	23928.79	1809.01	25737.8
2024	24430.39	1816.39	26246.78
2025	24336.84	1950.58	26287.42

INTERPRETATION

The EBITDA of ITC Limited demonstrates a steady increase from 2021 to 2025, indicating strong operating performance and consistent cash-generating ability. This stable growth in EBITDA suggests that the company has sufficient earnings capacity to support debt repayment under a leveraged buyout structure.



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4.2 ACQUISITION AND FINANCING

Valuation of the Target Company (Sunrise Foods Pvt. Ltd.) & Sources and Uses of Funds

TABLE-2: Acquisition

Particulars	Amount (₹ crore)
EBITDA	2700
Entry EV / EBITDA Multiple	10
Enterprise Value (EV)	27000
Net Debt	2250
Equity Value (Purchase Consideration)	24750

TABLE-3: Financing

Uses of Funds	Amount (₹ crore)
Purchase of Equity Shares	24750
Transaction / Advisory Fees	750
Total Uses of Funds	25500
Sources of Funds	Amount (₹ crore)
Internal Accruals (ITC Cash)	8500
Bank Term Loan	17000
Total Sources of Funds	25500

INTERPRETATION

The valuation indicates that the target company is valued at ₹27,000 crore based on the EBITDA multiple method, with an equity purchase value of ₹24,750 crore after adjusting for net debt. The acquisition is financed through a combination of internal funds and bank loans, with a higher proportion of debt reflecting a leveraged financing structure. The total sources and uses of funds are balanced, demonstrating that the acquisition is financially well-structured and feasible.

4.3 FINANCIAL PROJECTIONS

TABLE-4: Financial Projections

YEAR	Revenue (₹ Cr)	EBITDA (₹ Cr)	Free Cash Flow (₹ Cr)
2025	30,000	3,000	1,650
2026	31,500	3,150	1,732.50
2027	33,075	3,307.50	1,819.13
2028	34,728.75	3,472.88	1,910.08
2029	36,465.19	3,646.52	2,005.59
2030	38,288.45	3,828.84	2,105.86



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INTERPRETATION

The projections show a steady increase in revenue, EBITDA, and free cash flow over the forecast period, indicating consistent business growth and improving operating performance. The rising cash flows suggest that the company will have sufficient internal funds to service debt and reduce leverage, supporting the financial sustainability of the leveraged buyout structure.

4.4 EXIT VALUATIONS

TABLE-5: Exit Valuation

Calculation Of MOIC & IRR	Value
Exit Equity Value	28,756
Entry Equity	8,500
MOIC (times)	3.38
IRR	27.60%

INTERPRETATION OF EXIT VALUATION

The exit valuation indicates the market value of the investment at the end of the holding period, and using the EV/EBITDA multiple ensures that the valuation reflects the company's earnings potential. A higher exit value compared to the entry value demonstrates successful value creation and effective use of leverage in the acquisition.

V. CONCLUSION

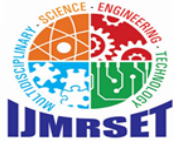
The study concludes that the proposed leveraged buyout structure is financially feasible based on the company's stable profitability, strong cash-flow generation, and low existing leverage. Ratio analysis indicates sound liquidity and solvency positions, while EBITDA and free cash flow projections demonstrate sufficient capacity to service acquisition-related debt. The debt repayment schedule shows gradual reduction in leverage over the holding period, ensuring financial stability. Exit valuation and investor return analysis reveal attractive returns in terms of IRR and MOIC, indicating strong value creation potential. Overall, the findings confirm that a well-structured leveraged buyout can enhance shareholder value when supported by consistent earnings and disciplined financial management.

LIMITATIONS OF THE STUDY

The study is based entirely on secondary data obtained from published financial statements. Financial projections rely on assumptions regarding growth rates, margins, interest rates, and valuation multiples, which may differ from actual future performance. Macroeconomic factors such as inflation, policy changes, and market volatility are not explicitly considered in the model. The analysis focuses only on financial feasibility and does not examine legal, regulatory, or operational challenges associated with leveraged buyouts. Furthermore, the study is limited to a single company and may not be generalized to other firms or industries.

SCOPE FOR FUTURE RESEARCH

Future research can extend this study by incorporating sensitivity analysis under different interest rate and growth scenarios. Comparative analysis across multiple companies or industries can provide broader insights into leveraged buyout feasibility in India. Further studies may also include macroeconomic variables, risk assessment models, and scenario-based forecasting to enhance practical applicability. Additionally, future research can explore legal, taxation, and regulatory implications of leveraged buyouts within the Indian corporate framework.



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