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# Capital Structure, Cash Flow Sustainability and IRR Analysis in a Leveraged Acquisition: A Study of Titan Company Limited

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**ABSTRACT:** Leveraged Buyouts (LBOs) are acquisition strategies in which a company is purchased primarily through debt financing, with repayment supported by the target firm's future cash flows. The feasibility of such transactions depends on financial stability, profitability, and debt-servicing capacity. This study evaluates the financial viability of a leveraged buyout of Titan Company Limited using five years of audited financial data and structured financial modelling. The analysis includes ratio assessment, EBITDA evaluation, operating projections, debt repayment modelling, and valuation techniques. A leveraged capital structure with 65% debt and a five-year holding period is assumed under conservative growth conditions. The findings indicate that Titan demonstrates stable profitability, adequate liquidity, and sufficient cash-flow generation to support additional leverage. The model estimates a Multiple on Invested Capital (MOIC) of 2.7 times and an Internal Rate of Return (IRR) of approximately 22%, indicating attractive investment potential under realistic assumptions.

**KEYWORDS:** Leveraged Buyout (LBO), Financial Feasibility, Titan Company Limited, EBITDA Analysis, Cash Flow Analysis, Debt Capacity, Capital Structure, Enterprise Valuation, Investor Returns, Internal Rate of Return (IRR), Multiple on Invested Capital (MOIC).

## I. INTRODUCTION

Mergers and acquisitions are important strategies for achieving expansion, competitive advantage, and long-term shareholder value. Among various acquisition methods, Leveraged Buyouts (LBOs) have become a significant financial strategy in corporate finance. An LBO involves acquiring a company primarily through borrowed funds, where the purchase price is largely financed by debt and repaid using the target company's future cash flows. The use of leverage reduces initial equity investment and enhances potential returns.

The success of an LBO depends on the target company's financial strength and stability. Firms with consistent profitability, predictable cash flows, moderate leverage, and strong market positions are generally suitable candidates. Financial statement analysis and cash-flow evaluation are essential to assess debt capacity and sustainability.

In India, leveraged buyouts have been relatively limited due to regulatory and financing constraints. This study evaluates the feasibility of a leveraged buyout of Titan Company Limited, examining whether its financial strength and cash-flow capacity can support additional leverage while generating attractive investor returns.

## II. REVIEW OF LITERATURE

Previous studies have examined the evaluation of financial performance, cash-flow sustainability, leverage capacity, and investor returns in leveraged transactions. Mathuva, Tauringana, and Owino (2019) highlighted that audited financial statements provide reliable information for evaluating long-term financial performance. Similarly, Candraditia Daryanto and Wiwiek Daryanto (2019) found that financial ratio analysis based on audited reports effectively reflects firms' financial health.



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Research on cash-flow generation emphasises the importance of operating and free cash flows in corporate valuation. Jensen (1986) explained that free cash flow plays a critical role in corporate finance decisions and may influence managerial efficiency. Qu Yi, Jia Bingbing, and Zhang Jianrui (2018) found a positive relationship between free cash flow and firm performance.

Studies related to leverage and debt capacity suggest that firms with stable cash flows are better suited for leveraged structures. Brinkhuis and De Maeseneire (2009) concluded that sustainable leverage in leveraged buyouts depends on stable cash flows and favourable debt market conditions. Akhtar et al. (2021) also reported that moderate leverage can support sustainable growth, while excessive leverage increases financial risk.

Research on private equity performance highlights the importance of return estimation in leveraged transactions. Kaplan and Schoar (2005) found that leveraged buyouts often generate attractive investor returns during favourable credit cycles. Groh and Gottschalg (2009) also observed that leveraged buyouts can produce positive risk-adjusted returns when leverage is structured appropriately.

These studies collectively emphasise that financial strength, stable cash flows, and balanced leverage are essential determinants of successful leveraged buyout transactions. This literature provides a foundation for analysing the financial feasibility of a leveraged buyout of Titan Company Limited.

### III. RESEARCH METHODOLOGY

The study adopts a descriptive and analytical research design to evaluate the financial feasibility of a leveraged buyout of Titan Company Limited. The analysis is based on secondary data obtained from audited financial statements and published annual reports.

Financial tools such as ratio analysis, EBITDA evaluation, operating projections, debt repayment modelling, and valuation using the EBITDA multiple method are applied. Investor returns are estimated using Internal Rate of Return (IRR) and Multiple on Invested Capital (MOIC) to assess the viability of the leveraged acquisition.

### IV. RESULTS AND DISCUSSION

#### 4.1 Operating Performance and EBITDA Assessment

EBITDA serves as the primary indicator of operating strength in leveraged buyout transactions, as it reflects earnings before financing decisions. For Titan Company Limited, EBITDA is calculated as:

$$\text{EBITDA} = \text{EBIT} + \text{Depreciation \& Amortisation}$$

Table 1: EBITDA Calculation

Particulars	Amount (₹ Cr)
Profit Before Tax (PBT)	4,535
Interest Expense	953
Depreciation	693
<b>EBITDA</b>	<b>6,181</b>

**Interpretation:** The EBITDA of ₹6,181 crore indicates strong operating performance and stable earnings capacity. This level of EBITDA provides a solid foundation for supporting acquisition-related debt under a leveraged structure.

#### 4.2 Acquisition and Financing Structure

The entry valuation is determined using the EBITDA multiple method. An entry multiple of 10× is applied to the base year EBITDA.



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**Table 2: Enterprise Valuation**

Particulars	Amount (₹ Cr)
EBITDA (2025)	6,181
Entry Multiple	10×
Enterprise Value	61,810
Transaction Fees (2%)	1,236
<b>Total Uses of Funds</b>	<b>63,046</b>

**Interpretation:** Based on a 10× EBITDA multiple, the enterprise value is ₹61,810 crore. After including transaction fees, the total acquisition cost amounts to ₹63,046 crore.

**Table 3: Sources of Funds**

Sources	Amount (₹ Cr)
Debt (65%)	40,980
Equity (35%)	22,066
<b>Total Sources</b>	<b>63,046</b>

**Interpretation:** acquisition is financed through 65% debt and 35% equity, reflecting a moderately leveraged capital structure consistent with standard private equity transactions.

### 4.3 Financial Projections and Debt Repayment

EBITDA is projected to grow at an annual rate of 8% over a five-year holding period (2025–2029).

**Table 4: Projected EBITDA (8% Growth)**

Year	EBITDA (₹ Cr)
2025	6,181
2026	6,675
2027	7,209
2028	7,786
2029	8,409

**Interpretation:** The projected increase in EBITDA reflects operational stability and consistent brand performance. Rising earnings enhance free cash flow and support gradual deleveraging.

**Table 5: Debt Repayment Schedule**

Year	Opening Debt	Interest (10%)	Principal Repaid	Closing Debt
2025	40,980	-	-	40,980
2026	40,980	4,098	4,098	36,882
2027	36,882	3,688	4,098	32,784
2028	32,784	3,278	4,098	28,686
2029	28,686	2,869	4,098	24,588

**Interpretation:** Debt declines steadily during the holding period, reducing from ₹40,980 crore to ₹24,588 crore at exit. The projected EBITDA remains sufficient to cover interest and principal repayments, indicating sustainable leverage.



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### 4.4 Exit Valuation and Investor Returns

Exit valuation is estimated using the same 10× EBITDA multiple to ensure conservative assumptions.

**Table 6: Exit Valuation**

Particulars	Amount (₹ Cr)
Exit EBITDA (2029)	8,409
Exit Multiple	10×
Exit Enterprise Value	84,092
Less: Exit Debt	24,588
<b>Exit Equity Value</b>	<b>59,504</b>

**Interpretation:** The increase in enterprise value results from EBITDA growth and systematic debt reduction. Value creation is driven by operational improvement and deleveraging rather than multiple expansion.

**Table 7: Investor Returns**

Particulars	Value
Equity Invested	22,066
Equity at Exit	59,504
Holding Period	5 Years
MOIC	2.7×
IRR	22%

**Interpretation:** The leveraged buyout generates a Multiple on Invested Capital (MOIC) of 2.7 times and an Internal Rate of Return (IRR) of approximately 22%. These returns are consistent with private equity benchmarks and indicate strong investment attractiveness under conservative assumptions.

### Overall Analysis

The financial evaluation demonstrates that Titan Company Limited possesses stable operating performance, adequate liquidity, and sufficient debt-servicing capacity to sustain a leveraged acquisition. Under conservative growth and financing assumptions, the transaction generates attractive investor returns while maintaining manageable financial risk.

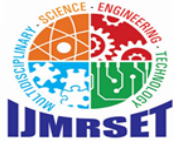
## V. CONCLUSION

The study evaluated the financial feasibility of a leveraged buyout of Titan Company Limited using financial analysis and LBO modelling. The results indicate that Titan maintains stable profitability, adequate liquidity, and strong cash-flow generation, enabling it to support additional leverage.

The analysis shows that the leveraged structure can generate attractive investor returns, with an estimated IRR of around 22% and MOIC of 2.7×. Overall, Titan demonstrates the financial strength required to sustain a leveraged buyout under conservative assumptions.

### LIMITATIONS OF THE STUDY

The study is based entirely on secondary data obtained from published annual reports and financial statements. The financial model relies on assumptions regarding EBITDA growth, interest rates, and exit valuation, which may vary



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under actual market conditions. Macroeconomic factors such as inflation, interest rate fluctuations, and market volatility are not explicitly incorporated into the analysis. Additionally, the study focuses only on financial feasibility and does not consider legal, regulatory, taxation, or operational complexities associated with leveraged buyouts in the Indian corporate environment.

### SCOPE FOR FUTURE RESEARCH

Future research can extend this study by analysing leveraged buyout feasibility across multiple companies and industries to improve generalisability. Comparative studies between Indian and international firms may provide deeper insights into differences in leverage practices and financial structures. Researchers may also incorporate macroeconomic variables such as interest rate changes, inflation, and market cycles into the financial model. In addition, future studies could examine regulatory, tax, and operational factors affecting leveraged buyouts to develop a more comprehensive evaluation framework.

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