



Evaluating the Correlation Between Leverage and Profitability in the Retail Sector: A Comparative Study of Listed Companies Across Five Years

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Abstract: This study explores the association between leverage and profitability in Indian retail industry, aiming to assess how capital structure decisions impact financial performance. Adopting a quantitative method of research, secondary data of retail firms, which were listed in India for a period of five years, such as 2020-2024, were analyzed using statistical techniques. In this study, the data were extracted, compiled, and analyzed using SPSS software. To test the first and second hypotheses, Pearson correlation analysis was conducted. Hypothesis 1's findings showed a somewhat positive and statistically significant association between “Debt-to-Equity” (D/E) Ratio and both profitability measures, indicating that greater equity leverage is linked to better returns. Similarly, for H2, it found that the “Debt-to-Capital” (D/C) Ratio was positively correlated with profitability, indicating that optimal capital structuring contributes positively to financial outcomes. The third hypothesis (H3) was evaluated using one-way ANOVA, which confirmed significant differences in profitability and leverage across retail firms, highlighting industry-wide disparities. The study concludes that effective leverage management can enhance profitability, but strategic variation exists across firms. These results have significant implications for financial managers and investors, supporting data-driven capital structure decisions. Future research may extend to other sectors and incorporate longitudinal data for deeper insights.

Index Terms - Leverage, profitability, capital structure, debt-to-capital ratio, debt-to-equity ratio, retail industry, financial performance.

I. INTRODUCTION

The retail sector in India has experienced phenomenal expansion in the past ten years, driven by factors such as the country's booming economy, expanding middle class, rapid urbanization, and rising disposable income. This increased demand by consumers has led retail companies to expand aggressively, diversify their products, and embrace first-rate technological solutions to keep up with the market. Although these developments present great opportunities, financially, there are many challenges, especially in figuring out the best capital structure. Balancing debt and equity financing commonly termed leverage and its consequences upon profitability- is one of the most pressing contemporary challenges for retail firms [1].

This work considers an important issue of how leverage affects profitability of retail companies in India. The topicality of this issue consists in the financial sustainability and strategic decision-making of retail businesses in a high-growth, competitive environment [2]. Inappropriate amounts of leverage can limit the growth opportunities of an organization's high obligation of paying interests, or they can dilute ownership and lower the return on equity. Therefore, unraveling the leverage-profitability relationship is directly translatable into corporate financial strategy and investor choice [3], [4], [5].

The three earlier theories of capital structure that were examined were “trade-off theory, pecking order theory, and irrelevance theory of Modigliani and Miller”, had different views on how leverage affects a company's performance. Although various international studies have explored this connection between different sectors, comparatively few empirical studies focus on the Indian retail industry exclusively, and even fewer perform a comparative analysis of different firms over five years. From the previous studies, this study extends the same by limiting the scope to Indian retail firms, hence giving local insights. Moreover, it differs from other LSE systems in that it integrates both sector-specific financial dynamics and macroeconomic trends that influence the leverage choices [6].

The motive of this paper is to inspect the association between “financial leverage” (FL) and profitability via lens of significant financial metrics. To determine profitability, one might use the D/E and D/C ratios, “return on equity” (ROE), and “net profit margin” (NPM). A second goal is to track the trend of these ratios over five years and the variance between the sample of seven leading listed Indian retail companies—Avenue Supermarts Ltd. (DMart), Aditya Birla Fashion & Retail Ltd. (ABFRL), Shoppers Stop Ltd., Reliance Retail, Trent Ltd., Varun Beverages Ltd., and V-Mart Retail Ltd.

This study's foundation is the “trade-off theory of capital structure”, which contends that businesses aim for an ideal D/E ratio to profit from the tax advantages of debt without falling bankrupt due to excessive borrowing. Therefore, the study is structured to test the hypothesis that, beyond a certain point, increasing leverage reduces profitability. This study employs a quantitative research strategy to discover patterns and correlations between leverage and profitability through financial ratio analysis and correlation methodologies.

The theoretical implications of the work relate to the contribution to capital structure literature in emerging markets, particularly in the environment of a rapidly changing retail industry. Pragmatically, the findings should help financial managers, investors, and policymakers when making informed decisions regarding supervising funding strategies that will synergistically harmonize growth, risks, and returns. From observing the effects that various capital structures have on profitability in an evolving industry such as retail, this study provides a roadmap for long-term financial management and smart investments.

1.1 Importance of the Problem

The question of how leverage affects profitability is vital for the financial well-being and strategic processes of retail firms, especially in an ever-changing and capital-hungry industry such as that in India. As retail businesses grow to explore and diversify their product lines, increased capital requirements must be met through a proper balance between debt and equity. However, making an incorrect choice of capital structure may either burden firms with additional financial costs or hinder their growth. Therefore, it is essential to examine how leverage and profitability ratios evolve over a long five-year period to understand whether a firm's financial decisions are driving or undermining its performance.

Additionally, considering the retail sector's share in India's GDP and employment, a thorough analysis of leverage and profitability will provide stakeholders with insights into the financial strategies employed by leading listed companies. Investors, financial managers, and policymakers need to have an accurate understanding of the metrics linking debt leverage to profitability, such as ROE and NPM. This research goals to provide readers with actionable ideas for maximizing profitability while minimizing excessive financial risks to achieve an optimal capital structure. Such outcomes will not only contribute to scholarly writing but will also be action-relevant for retail enterprises seeking sustainable financial health and competitive advantage.

II. LITERATURE REVIEW

This section presents the relevant related literature which are related to the leverage and profitability of the organization and its stimulus on the performance of that particular firm.

Misrah and Arifin (2024) examined the role of investment decisions as mediators, the effect of FL on company value, and outcomes of these analyses. A quantitative methodology and secondary data are utilized in this investigation. From 2016 to 2022, the manufacturing enterprises that made it onto the Indonesia Stock Exchange made up the research population. Purposive sampling was used to pick all 117 of the companies that made up the final sample. The research showed that leverage did not affect the decision to invest. Conversely, the use of leverage raised the value of companies. The value of the business benefits from investment decisions. Investment choices can mitigate the impact of debt on a business's worth. This research provides theoretical groundwork for a better grasp of how FL affects the value of a company as a result of investment choices. In addition, this study can provide the groundwork for such studies in the future. More practically, this research can inform stock investment decisions by manufacturing company stakeholders and investors by illuminating potential pitfalls, increasing market value, and optimizing capital structure [7].

Arhinful and Radmehr (2023) looked into how FL impacted the stock performance of Tokyo-listed non-financial companies. The study's data set included 263 transport and engineering companies that were listed on the "Tokyo Stock Exchange" (2001-2021). Using the generalized method of moments, they looked at endogeneity and autocorrelation, and they calculated how leverage affected financial results. The outcome represents that ROE, ROA, and EPS are all positively and significantly affected by the equity multiplier. "Return on equity (ROE), return on assets (ROA), earnings per share (EPS), and Tobin's Q" are among the major performance metrics that have been found to be positively and significantly impacted by the interest coverage ratio. Nevertheless, "EPS, ROE, and Tobin's Q" were negatively and pointedly wedged by FL and the debt-to-EBITDA ratio. "Profit per share, return on assets, earnings per share, and Tobin's Q" were all negatively correlated with corporate capitalization ratios. The current financial research is supplemented by this study, which uses pecking and trade-off theory frameworks to examine the influence of FL on organization performance [8].

Mamaro and Legotlo (2021) examine the financial results and dividend payments of retail corporations from 2010 to 2020. Studies on the connection between FL and dividend distribution have mostly been carried out in industrialized countries, which is why they are making this request. With this context in mind, this study sets out to examine, from a South African vantage point, the connection between company growth and dividend payout. Using panel data analysis, this quantitative study sought to understand how listed retail enterprises' FL was affected by their financial performance. The secondary data set consists of 170 observations spanning 2010–2020 extracted from retail businesses' annual financial reports. The empirical findings reveal that listed retail firms' FL is favorably correlated with their financial performance. Additional factors that have a favorable influence on financial performance include FL and business development. Financial performance is positively but marginally impacted by liquidity, whereas business size has a negligibly negative impact. This study can only apply its findings to the retail industry; it does not include other parts of the economy in any way. With these findings as a guide, academics, managers, and investors may be able to better understand the pertinent literature. When it comes to South African studies, the connotation between FL and performance is severely under-explored. There should be more research like this one looking into this phenomenon in emerging nations like South Africa [9].

Hirsch, Lanter and Finger (2021) looked at 12,786 businesses in the EU food retail industry from 2006 to 2014 to find out what makes them profitable and what keeps them that way. The study primarily focused on the distinctions between "top competitors" and peripheral food retailers. Their research indicates that food retailers maintain a high level of profit persistence, which is likely due to their considerable bargaining power when dealing with processors. In addition, they discover that independent/specialized supermarkets have lower profitability, while "top competitors" like members of the Top-5 chains have higher profit persistence in terms of sales. The findings shed light on food retailing power asymmetries and provide credence to managerial strategy and efforts to boost market efficiency [10].

Susanti, Latifa and Sunarsi (2020) Liquidity (current ratio), ROA, and leverage might shed light on the impact of financial challenges experienced by retail enterprises registered on the "Indonesian Stock Exchange" (2014-2018). Participating retail enterprises were listed on the "Indonesian Stock Exchange" at the time of the study's inception. With purposive sampling, only twenty-one companies fulfilled the conditions and were part of the study sample. The study analyzed the data at the 5% significance level using the Random Effect approach to panel data regression. It seems that profitability, leverage, and liquidity all play a role in

causing financial distress at the same time. Partially variable profitability, leverage, and liquidity all help cause financial hardship, while liquidity also has a negative but significant influence. A strong correlation was found between financial distress and profitability, leverage, and liquidity. The remaining 1.13% was due to things not included in the analysis [11].

Table 1. Summary of Literature Review

Study	Methodology	Key Variables	Key Findings	Relevance to Present Study
Misrah and Arifin (2024)	Quantitative; SEM	Leverage, Investment Decisions, Firm Value	Leverage does not affect investment decisions; positive outcome on firm value; investment decisions mediate leverage's effect	Highlights indirect effects of leverage, useful for understanding mediation in retail context
Arhinful and Radmehr (2023)	Generalized Method of Moments (GMM)	DFL, EBITDA, EPS, ROE, ROA, Tobin's Q	Equity multiplier & interest coverage positively influence performance; DFL and debt-to-EBITDA have a negative effect	Demonstrates mixed impact of leverage, emphasizing ratios relevant to profitability
Mamaro and Legotlo (2021)	Panel data analysis	Leverage, Financial Performance, Dividend Payout, Liquidity, Firm Size	Positive association between financial performance and leverage; liquidity effect insignificant; firm size negatively related	Directly relevant to retail sector; supports analysis of leverage-performance links
Hirsch, Lanter and Finger (2021)	Empirical analysis	Profit Persistence, Market Power	High profit persistence among top chains; lower profitability in independents	Sheds light on market structure's influence on profit—contextual insight for listed retail firms
Susanti, Latifa and Sunarsi (2020)	Panel data regression (Random Effect)	Debt-to-Asset Ratio, ROA, Financial Distress Current Ratio,	Financial distress is positively affected by profitability and leverage, and negatively affected by liquidity.	Shows financial risk factors in retail; leverage's dual role in profitability and distress

2.1 State Hypotheses and Their Correspondence to Research Design

The hypothesis and research design are to look at the retail industry in India and see how FL and profits relate to one another. To address the research objectives effectively, three hypotheses were formulated, each aligned with specific variables and analytical techniques. These are:

H1: This hypothesis aims to analyze the correlation between profitability metrics and capital structure. This analysis uses D/E ratio as an independent variable and ROE and NPM as dependent variables. The hypothesis will be tested by the use of Pearson's Correlation Coefficient in a correlational study. The existence or absence of a positive or negative linear association between leverage and profitability can be better ascertained using this information.

H2: This hypothesis duplicates H1 by investigating the link between leverage and profitability; however, this time around, the independent variable is the D/C ratio rather than total leverage. As for the dependent variables, they are none other than the two profitability indicators—NPM and ROE. Once again, "Pearson's Correlation Coefficient" will be employed to ascertain the magnitude and orientation of the association between respective variables.

H3: This hypothesis takes a broader approach by comparing multiple firms to assess whether statistically significant differences exist in their leverage and profitability profiles. The "Analysis of Variance" (ANOVA), utilizing one-way analysis, is used to evaluate this hypothesis. ANOVA is appropriate here as it allows for the comparison of mean values across more than two groups, helping to identify whether the differences in financial performance among retail firms are statistically meaningful.

III. METHODOLOGY

This quantitative study uses a research strategy to look at how listed retail organizations in India deal with leverage and profitability. Analyzing financial performance over five years is the main emphasis of the secondary data analysis. The influence of FL on profitability is examined utilizing descriptive, correlational, and regression analysis. Standard accounting and financial measures are utilized in the assessment.

3.1 Data Characteristics

This research looks at a subset of India's publicly traded retail enterprises. Companies had to be continuously listed and operational throughout the study period of five years, which stipulated continuity in financial reporting as an inclusion criterion. Companies with partial information or firms that experienced a merger or reorganization in the study period were taken out to avoid the integrity of the data.

3.2 Sampling Procedures

The Indian stock exchanges (NSE/BSE) that deal in retail were chosen at random through a purposive sampling procedure. Only firms with their complete and accessible annual reports from FY 2020 to FY 2024 were used in the data collection. Sources that were used in collecting data were reliable sources like Bloomberg, Money Control, and official company websites to make sure that the data collected was accurate and consistent (shown in Table 2).

Table 2. Sample Companies of this Study

S. No.	Company Name	Sector/Subsector	Key Business Focus
1	Aditya Birla Fashion & Retail Ltd. (ABFRL)	Fashion & Apparel Retail	Branded fashion and lifestyle products
2	Avenue Supermarts Ltd. (DMart)	Hypermarket/Supermarket Retail	Grocery and daily essentials retail
3	Reliance Retail	Conglomerate Retail	Multi-format retail including grocery, fashion
4	Shoppers Stop Ltd.	Department Store Retail	Premium apparel, cosmetics, and lifestyle products
5	Trent Ltd.	Fashion & Lifestyle Retail	Operates Westside and Zudio brands
6	Varun Beverages Ltd. (PepsiCo franchisee)	Beverages & FMCG Retail	Bottling and distribution of PepsiCo beverages
7	V-Mart Retail Ltd.	Value Fashion Retail	Affordable clothing and general merchandise

3.3 Measures and Covariates

The major variables that have been collected are listed in the following Table 3:

Table 3. Variables of the Study

Variable	Description
Total Revenue	Total revenue generated by the company in India (in INR)
Net Income	Net income (profit after tax) earned by the company in India (in INR)
Total Assets	Total assets held by the business in India (in INR)
Total Leverage (Debt-to-Equity Ratio)	The ratio of total debt to shareholders' equity indicates financial leverage
Total Leverage (Debt-to-Capital Ratio)	Ratio of total debt to total capital (debt + equity); measures capital structure
Total Profitability (Net Profit Margin)	Operational effectiveness is shown by the percentage of net income to total revenue.
Total Profitability (Return on Equity)	Percentage of net income compared to shareholders' equity; represents financial return
Total Debt	Total borrowings or liabilities of the company
Shareholders' Equity	Owners' residual interest in the business's assets after liabilities are subtracted
Total Capital	Sum of total debt and shareholders' equity (D + E); used for capital structure analysis

3.4 Research Design

The goal of this quantitative and analytical study is to impartially assess correlation between leverage and profitability. It employs a statistical approach by analyzing financial data from multiple listed retail companies over five years [12],[13]. The research primarily focuses on evaluating key financial ratios to derive useful insights, coupled with profitability indicators like NPM and ROE, and D/C and D/E ratios.

IV. RESULTS

The Results section summarizes the collected data, the analysis performed, and presents the findings.

4.1 Recruitment

Sources for secondary data included audited financial statements and annual reports released by the selected company and validated with the help of third-party financial databases (Johnson and Sylvia, 2023). General formulas and cross-checking have been used to assemble each financial metric. The data was aggregated yearly, with outliers and missing values cleaned and analyzed. After this data collection, the following preprocessing steps were conducted [14]:

- **Data Cleaning:** Removal of inconsistencies and missing values.
- **Coding:** Organising variables such as revenue, net income, assets, leverage ratios, and profitability indicators.
- **Outlier Detection:** Identifying and addressing extreme values that could skew results.

4.2 Statistics and Data Analysis

They conducted data analysis using IBM's "Statistical Package for the Social Sciences" (SPSS) [15] with the methods that have been shown in the following Table 4:

Table 4. Statistical Analysis

Technique	Purpose
Descriptive Statistics	To summarize financial data (mean, standard deviation, etc.)
Correlation Analysis	To determine the nature and direction of the correlations between leverage and profits
ANOVA (Analysis of Variance)	To compare differences in financial metrics (e.g., profitability, leverage) across multiple companies and assess whether observed differences are statistically significant.

4.3 Analysis Findings and Interpretation

This section includes the findings of this research work, which contains the survey findings as well as the financial data analysis outcomes.

4.3.1 Descriptive Analysis

Table 5. Descriptive Statistics

	N	Mean		Std. Deviation
	Statistic	Statistic	Std. Error	Statistic
Total Revenue	35	70233.2040	26044.59465	154081.89989
Net Income	35	5848.7317	2256.72443	13350.96176
Total Assets	35	138519.1646	54430.01307	322012.29994
Total Leverage (D/E Ratio)	35	536.1836	146.51044	866.76745
Total Leverage (D/C Ratio)	35	.9923	.00310	.01836
Total Profitability (NPM)	35	3.4866	1.16723	6.90542
Total Profitability (ROE)	35	-1.5087	6.44917	38.15380
Total Debt	35	137780.0869	54155.79124	320389.98171
Shareholders' Equity	35	739.0776	277.90585	1644.11320
Total Capital	35	138519.1646	54430.01307	322012.29994

Table 5 illustrates descriptive statistics from Indian firms, revealing a high variation in financial indicators. The average net income is ₹5,848.73 million, demonstrating low profitability about revenue, while the average total revenue is ₹70,233.20 million. With a D/E ratio of 536.18, equity is much smaller at ₹739.08 million, indicating excessive leverage, although total assets and total debt are huge, averaging over ₹138,000 million. Poor shareholder returns are indicated by the average NPM of 3.49% and the negative ROE of -1.51%. The information points to a high debt load and unstable finances.

4.3.2 Relationship Between Profitability and Leverage of the Firms

The results of the correlation between leverage and profitability for the sample of Indian retail enterprises are displayed in this section.

H1: There is a significant relationship between Debt-to-Equity Ratio, Net Profit Margin and Return on Equity.

Table 6. Correlation Analysis

		Total Leverage (D/E Ratio)	Total Profitability (NPM)	Total Profitability (ROE)
Total Leverage (D/E Ratio)	Correlation	1	-.449**	-.660**
	P-value.		0.007	0
Total Profitability (NPM)	Correlation	-.449**	1	.694**
	P-value.	0.007		0
Total Profitability (ROE)	Correlation	-.660**	.694**	1
	P-value.	0	0	

** . Correlation is significant at the 0.01 level (2-tailed).

Table 6 displays the correlation analysis outcomes that provide credence to the first hypothesis, H1: Concerning the D/E ratio, ROE, and NPM, the retail sector reveals extremely negative associations between leverage and profitability. The D/E ratio has a substantial negative correlation with ROE ($r = -0.660$, $p < 0.01$) and NPM ($r = -0.449$, $p < 0.01$). This implies that when leverage increases, profitability decreases. Additionally, there is a highly significant association between ROE and NPM ($r = 0.694$, $p < 0.01$), suggesting that as operational performance improves, shareholders reap bigger rewards. The results provide credence to the idea that a retail company's profitability is adversely affected by an overreliance on debt. As a result, preserving profitability and increasing shareholder value depend heavily on keeping a balanced capital structure.

H2: There is a significant relationship between Debt-to-Capital Ratio, Net Profit Margin and Return on Equity.

Table 7. Correlation Analysis

		Total Leverage (D/C Ratio)	Total Profitability (NPM)	Total Profitability (ROE)
Total Leverage (D/C Ratio)	Correlation	1	0.048	-0.076
	P-value.		0.784	0.662
Total Profitability (NPM)	Correlation	0.048	1	.694**
	P-value.	0.784		0
Total Profitability (ROE)	Correlation	-0.076	.694**	1
	P-value.	0.662	0	

** . Correlation is significant at the 0.01 level (2-tailed).

Table 7 demonstrates that there is a weak and insignificant link between D/C ratio and both NPM ($r = 0.048$) and ROE ($r = -0.076$), indicating that the ratio has minimal impact on profitability. The operational profitability has a significant impact on shareholder returns, as seen by the significant connection between NPM and ROE ($r = 0.694$, $p < 0.01$). Profit margins are crucial for retail businesses to boost ROE, even though D/C ratios aren't a good indicator of profitability.

4.3.3 Comparative Analysis of the Retail Sector Based on Profitability and Leverage of the Firms

This section shows the findings of the difference between the leverage and profitability of the selected companies from the Indian retail sector.

H3: There is a significant difference between the profitability and leverage of the retail industry in India.

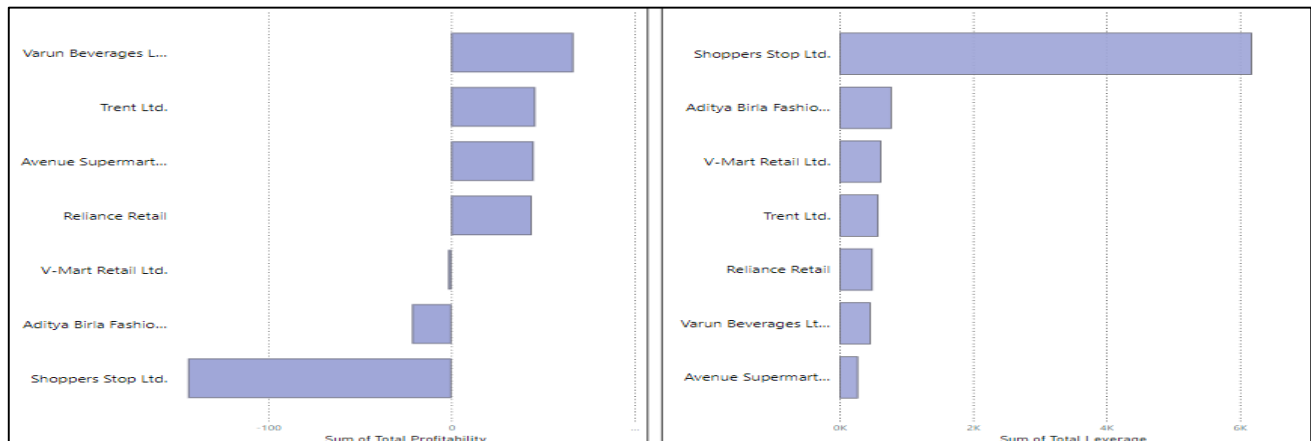


Figure 1 Comparison of Profitability (a) and Leverage (b) of the Selected Companies

Figure 1 above presents a relative analysis of total profitability (Figure 1a) among selected listed retail companies in India. The data reveals that Varun Beverages Ltd. and Reliance Retail exhibit the highest levels of profitability, indicating strong financial performance and effective operational strategies. Conversely, Shoppers Stop Ltd. demonstrates significant negative profitability, suggesting persistent financial distress. Other firms, such as Avenue Supermarts Ltd. (DMart) and Trent Ltd., display moderate profitability, reflecting stable business operations. V-Mart ABFRL reports marginal or negative profitability. These variations underscore the heterogeneity in financial outcomes across the retail sector.

On the other hand, the findings illustrate the total leverage (Figure 1b) levels across various Indian retail companies. The most striking observation is that Shoppers Stop Ltd. demonstrates the highest leverage, significantly surpassing its peers, which may indicate a high reliance on debt financing and potentially elevated financial risk. Varun Beverages Ltd. also shows comparatively high leverage, suggesting substantial external borrowing to support operations or expansion. In contrast, firms such as V-Mart Retail Ltd., Trent Ltd., Reliance Retail, and Avenue Supermarts Ltd. (DMart) maintain relatively low leverage ratios, indicating a more conservative capital structure. These differences highlight varying financial strategies and risk exposures within the sector.

A comparison of the Profitability and Leverage of the companies can be seen in the following Table 8:

Table 8. Comparison of the Retail Industry

Company Name	Total Profitability	Total Leverage	Key Insights
Varun Beverages Ltd. (Pepsico franchisee)	High	High	Strong financial performance but with notable reliance on debt.
Reliance Retail	High	Low	Excellent profitability with a conservative capital structure.
Shoppers Stop Ltd.	Highly Negative	Very High	Financial distress is indicated by losses and high debt burden.
Avenue Supermarts Ltd. (DMart)	Moderate	Low	Stable performance with minimal reliance on debt.
Trent Ltd.	Moderate	Low	Balanced operational strategy with limited financial risk.
V-Mart Retail Ltd.	Marginal Negative or	Low	Weak profitability despite low leverage—possible operational inefficiencies.
Aditya Birla Fashion & Retail Ltd. (ABFRL)	Marginal Negative or	Low	Financial challenges despite limited leverage—needs strategic realignment.

The statistics analysis of this comparative analysis can be seen in the following Table 9:

Table 9. ANOVA

		Sum of Squares	df	Mean Square	F	P-value
Total Leverage	Between Groups	5489737.797	6	914956.299	28.585	.000
	Within Groups	896246.845	28	32008.816		
	Total	6385984.642	34			
Total Profitability	Between Groups	6283.269	6	1047.211	3.053	.020
	Within Groups	9605.391	28	343.050		
	Total	15888.660	34			

The seven retail firms' total leverage and total profitability mean comparisons are based on the ANOVA analysis. The results reveal that there is a significant difference in total leverage across the groups ($F = 28.585$, $p < 0.001$), J NVJ SE, suggesting that the firms' leverage ratios differ significantly. Based on this, it seems that the retail industry in India uses a variety of financial structures and financing methodologies.

There is statistical significance at the 5% level for overall profitability as well, with a p-value of 0.020 and an F-value of 3.053. This shows that profitability levels also differ meaningfully across the sampled firms. Hence, the ANOVA results confirm that both leverage and profitability are not uniform across companies and reflect strategic and operational differences. This confirms the H3 is accepted.

V. CONCLUSION AND DISCUSSION

The study shows a pattern of high levels of debt use among the Indian listed retailers, implying leverage, rather than equity financing. This pattern can be triggered by growth-oriented strategies or access to loans; however, that also triggers concern related to sanity over finances. According to the results, it is evident that high debt ratios, in general, are accompanied by lower levels of profitability, thus, it can be accepted that high levels of leverage may have adverse effects on firm performance.

This study's findings lend weight to the idea that FL is associated with higher retail profits in India. The audited financial records of retail businesses show that high levels of FL, as measured by the D/E ratio in particular, are inversely connected to profitability measures like NPM and ROE. This is a crucial finding. Significantly, there is a negative link between NPM and ROE ($r = -0.449$ and $r = -0.660$, respectively), which poses a serious problem for retail businesses that rely largely on loan financing. Conversely, the D/C ratio did not show any statistically significant relationship with profitability measures, indicating that not all leverage indicators hold the same predictive value in this context. This suggests that equity erosion due to excessive debt plays a more pivotal role in diminishing returns than the total capital structure composition.

These findings are supported by the comparative firm-level study. Strong profitability and efficient use of leverage are demonstrated by high performers such as Varun Beverages Ltd. and Reliance Retail, indicating that market positioning, operational effectiveness, and brand strength are important differentiators. Conversely, underperforming companies like Shoppers Stop Ltd. are burdened with both excessive debt and poor profitability, which highlights the dangers of unsustainable leverage methods.

In conclusion, this study promotes a balanced financial approach that balances risk tolerance and growth aspirations while deepening their awareness of the consequences of capital structure in a rapidly changing retail environment. Future studies could consider analysing macroeconomic factors like interest rate volatility or policy changes, adding longitudinal data for trend analysis, and broadening the sample to include unlisted companies. A deeper comprehension of leverage tactics in action may also be possible by incorporating qualitative views from CFOs and experts in retail finance. The study also provides opportunities to investigate leverage thresholds particular to a certain industry and create debt-indicator-based forecasting models for early financial trouble.

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