**Abstract**

Fundamental analysis uses the degree of financial leverage (DFL) to determine the sensitivity of a company’s earnings per share (EPS) when there is a change in its earnings before interest and taxes (EBIT). When a company has a high DFL, it generally has high interest payment. The high level of interest payments negatively affects EPS. A higher DFL ratio means that the company’s EPS is more volatile. Since leverage results from using borrowed capital as a funding source when investing to expand the firm’s asset base and generate returns on risk capital, the investors risk of interest payments are carefully analyzed so as to reduce the risk of the investors and also to increase the returns. The relationship between the earnings per share and degree of financial leverage is that of an ‘inverse relationship’, i. e when the level of earnings increases, there is a decline in the level of degree of financial leverage. When a company is referred to be “highly leveraged”, it means that the company’s funds consists of more debts than equity. The concept of leverage is used by both companies and investors. The investors use it to in crease the returns that can be provided on an investment. The ‘return’ that the investors expect is in the form of earnings per share they acquire due to capital appreciation. The earnings available to the equity shareholders after external payments is allocated among the shareholders as their return