

### Leverage Ratios

#### Debt Ratio

Debt Ratio =  $\frac{\text{Total Debt}}{\text{Total Assets}}$  measures the relative amount of company's assets that are financed by Debt

*High Debt Ratio = Higher financial risk*

#### Debt Equity Ratio

D/E Ratio =  $\frac{\text{Total Debt}}{\text{Total Common Equity}}$  ratio of firm's total liabilities to Equity Capital

*High D/E Ratio indicates higher risk to the shareholders*

#### Equity Multiplier

Equity Multiplier =  $\frac{\text{Total Assets}}{\text{Total Common Equity}}$  extent to which firm's assets are greater than the shareholder's equity

*If EM is 5, it means investment in total assets is 5 times the investment by Equity Shareholders*

#### Market Debt Ratio

Market Debt Ratio =  $\frac{\text{Total Debt}}{\text{Total Debt} + \text{Market Value of Equity}}$  ratio between the market value of debt to the market value of debt and equity

#### Liabilities to Assets Ratio

LAR =  $\frac{\text{Total Liabilities}}{\text{Total Assets}}$  show the share of total liabilities out of total assets

#### Interest Coverage Ratio

ICR =  $\frac{\text{Operating Income}}{\text{Interest Expenses}}$  shows how easily a firm can pay its interest expenses

#### Debt Service Coverage Ratio

### Leverage Ratios (cont)

DSCR =  $\frac{\text{Operating Income}}{\text{Total Debt Service}}$  reveals how easily a firm can pay its debt obligations

### Leverage Ratios or Debt Management Ratios

indicate the extent to which debt financing is used by a firm. These ratios measure long-term solvency of a firm.

### Liquidity Ratios

#### Current Ratio

Current Ratio =  $\frac{\text{Current Assets}}{\text{Current Liabilities}}$  ratio of current assets and current liabilities. It measures the liquidity stand of a firm

*Ideal ratio is 2:1 or more. A low CR, say 0.5:1, means company has Rs.50 for every Rs.100 of debt and can't cover its short-term debts*

#### Quick Ratio

Quick Ratio =  $\frac{\text{Quick Assets}}{\text{Current Liabilities}}$  also known as **Acid Test Ratio**

Quick Ratio =  $\frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$  a measure of short-term solvency of a firm

*Reliable because assets forming part of quick assets are easily convertible into cash in short notice. Quick ratio of 1:1 represents satisfactory financial situation*

#### Cash Ratio

### Liquidity Ratios (cont)

Cash Ratio =  $\frac{\text{Cash} + \text{Cash Equivalents}}{\text{Current Liabilities}}$  measures a firm's ability to pay off its short-term liabilities with cash and cash equivalents

### Operating Cash Flow Ratio

OCFR =  $\frac{\text{Operating Cash Flow}}{\text{Current Liabilities}}$  measure of the number of times a firm can pay off its current liabilities with the cash generated in a given period

**Liquidity Ratios** are used to assess the short-term solvency position of a firm i.e. firm's ability to pay short term obligations out of current/liquid assets.

### Assets Management (Performance) Ratios

#### Inventory Turnover Ratio

ITR =  $\frac{\text{Cost of Goods Sold}}{\text{Inventory}}$  measures how firm's investment in inventory is being used to generate sales

*shows how rapidly inventory is turning into receivables through sales*

#### Days Sales Outstanding

DSO =  $\frac{\text{Receivables} \times \text{No. of days}}{\text{Total Credit Sales}}$  used to evaluate a firm's ability to collect its sales in timely manner

*It is a measure of quality of debtors as It shows the average length of time that a firm takes to realize in cash after credit sales has been made*

#### Receivables Turnover Ratio



### Assets Management (Performance)

#### Ratios (cont)

RTOR = indicates the no. of times Annual the firm collects its account Credit Sales receivables during a year / Accounts Receivables

*Higher RTOR, higher the efficiency of management assets*

#### Fixed Assets Turnover Ratio

FATOR = measures the effectiveness Sales / Net of a firm's ability to make Fixed Assets efficient utilization of fixed assets

*High FATOR indicates efficient utilization of fixed assets in sales generation*

#### Total Assets Turnover Ratio

TATOR = measure of a firm's ability to Sales / Total make effective utilization of Assets its total investment of generating sales revenue

*High TATOR indicates efficient utilization of total assets in sales generation*

**Assets Management Ratios** measure the effectiveness of a firm's asset utilization. Also Called **Turnover Ratios or Efficiency or Performance Ratios** because they indicate the speed with which assets are being converted into sales

### Market Values Ratios

#### Price Earnings Ratio

PE Ratio = Ratio of company's stock Market Price price to the earnings per (per Share) / share Earnings (per Share)

*can only be calculated for listed companies. Higher PE ratio = higher growth rate of the firm*

#### Market to Book Value Ratio

MBVR = comparison of market Market Value value with book value of a (per Share) / firm Book Value (per Share)

*IF MTBR < 1, undervaluation; IF MTBR > 1, overvaluation;*

#### Dividends Per Share

DPS = Total total dividends shared per Dividends / unit share No. of Shares

*Higher DPS = much profitable for shareholders*

#### Dividends Payout Ratio

Payout Ratio = the amount of dividend Dividends (per that a company gives out Share) / to its shareholders out to Earnings (per its current earnings Share)

#### Dividend Yield Ratio

DYR = measures the amount of Dividend (per dividends attributed to Share) / Share shareholders relative to Price the market value per share

**Market Values Ratios** represent the ratios that relate the firm's stock price to its earnings and Stock Value per Share

### Profitability Ratios

#### Net Profit Margin

NPM = measures net income per Rupee Net of sales; it measures the Income operating efficiency / Sales

#### Gross Profit Margin

GPM = compares the gross profit to its Gross net sales to show how much Profit / profit it makes after paying the Sales cost of goods sold

$GPM = (Sales - Cost\ of\ goods\ sold) / Sales$

*High GPM is a sign of good management efficiency to produce goods and services at low cost*

#### Earning Power Ratio

$EPR = Operating\ Profit / Total\ Assets$

#### Return on Assets

$RoA = Net\ Income / Total\ Assets$

#### Return on Equity

$RoE = Net\ Income / Total\ Equity$

**Profitability Ratios** measure the operating efficiency of a firm

