Financial Ratios Cheat Sheet

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Leverage Ratios

Debt Ratio

Debt Ratio = Total Debt / 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 = Total Debt / 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 = Total Assets / 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 = Total Debt / (Total Debt + Market Value of Equity)	ratio between the market value of debt to the market value of debt and equity

Liabilities to Assets Ratio

LAR = Total Liabilities / Total Assets	show the share of total liabilities out of total assets

Interest Coverage Ratio

ICR = Operating Income / Interest Expenses	shows how easily a firm can pay its interest expenses

Debt Service Coverage Ratio

Leverage Ratios (cont)

DSCR = Operating Income / 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 = Current Assets / 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 it short-term debts*

Quick Ratio

Quick Ratio = Quick Assets / Current Liabilities	also know as **Acid Test Ratio**
Quick Ratio = (Current Assets - Inventories) / 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 = (Cash + Cash Equivalents) / Current Liabilities	measures a firm's ability to pay off its short-term liabilities with cash and cash equivalents

Operating Cash Flow Ratio

OCFR = Operating Cash Flow / 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 = Cost of Goods Sold / 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 = (Receivables x No. of days) / 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 = Annual Credit Sales / Accounts Receivables	indicates the no. of times the firm collects its account receivables during a year
Higher RTOR, higher the efficiency of management assets	

Fixed Assets Turnover Ratio

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

Total Assets Turnover Ratio

TATOR = Sales / Total Assets	measure of a firm's ability to make effective utilization of 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 = Market Price (per Share) / Earnings (per Share)	Ratio of company's stock price to the 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 = Market Value (per Share) / Book Value (per Share)	comparison of market value with book value of a firm
IF MTBR<1, undervaluation; IF MTBR > 1, overvaluation;	

Dividends Per Share

DPS = Total Dividends / No. of Shares	total dividends shared per unit share
Higher DPS = much profitable for shareholders	

Dividends Payout Ratio

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

Dividend Yield Ratio

DYR = Dividend (per Share) / Share Price	measures the amount of dividends attributed to shareholders relative to 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 = Net Income / Sales	measures net income per Rupee of sales; it measures the operating efficiency

Gross Profit Margin

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