



B.Com Honours

Semester V

Calicut University

Management Accounting

Course Code: COM5CJ302 • Module 2 Notes

Module II: Ratio Analysis

Curricular Scope & Foundational Framework

Ratio Analysis is the quintessential quantitative diagnostic instrument of management accounting. By establishing meaningful mathematical relationships between interconnected items across financial statements, it strips away the distorting effects of absolute corporate size, enabling rigorous comparisons across time, competitors, and industry benchmarks. This module delivers an exhaustive examination of the theoretical taxonomy of financial ratios, mathematical formulas, diagnostic interpretations of **Liquidity, Turnover / Activity, Solvency / Leverage, Profitability, and Market Valuation** ratios, the three-tier **DuPont Analysis framework**, and the advanced algorithmic technique of **reconstructing financial statements from financial ratios**.

1. Meaning, Nature, and Conceptual Framework of Ratio Analysis (Unit 5)

An accounting figure in isolation is practically meaningless. Stating that a corporation earned a Net Profit of ₹50,00,000 conveys very little about its managerial performance without knowing whether the invested capital was ₹1 Crore or ₹100 Crores. A **Financial Ratio** provides immediate diagnostic context by expressing the relative relationship between two numbers drawn from the Balance Sheet, Statement of Profit and Loss, or both.

Definition: Kennedy and McMullen

"The relationship of one item to another expressed in simple mathematical terms is called a ratio. The analysis of financial statements with the aid of ratios is termed as Ratio Analysis."

Definition: Accountant's Handbook (Wixon)

"A ratio is an expression of the quantitative relationship between two numbers. It is a yardstick by which the volume and trends of corporate financial activities can be measured and evaluated."

Modes of Expressing Financial Ratios

Financial ratios are mathematically formulated and communicated in four distinct forms:

- **1. Pure Ratio / Proportion (X : Y):** Expresses the direct quotient between two numbers where the denominator is scaled to 1. For example, Current Assets of ₹4,00,000 and Current Liabilities of ₹2,00,000 are expressed as **2 : 1**. Widely used for liquidity and solvency ratios.
- **2. Percentage (%):** Expresses the relationship as parts per hundred. For example, Gross Profit of ₹2,50,000 on Net Sales of ₹10,00,000 is expressed as **25%**. Standard for profitability and expense ratios.
- **3. Rate / Times / Velocity:** Expresses how many times one figure contains or revolves around another within a specific accounting period. For example, Cost of Goods Sold of ₹12,00,000 divided by Average Inventory of ₹2,00,000 is expressed as **6 Times**. Standard for turnover and coverage ratios.
- **4. Fraction or Duration in Days / Months:** Expresses the duration of time required to complete an operating cycle. For example, an Average Collection Period of **60 Days** or **2 Months**.

2. Classification of Financial Ratios

Financial ratios can be organized into two complementary taxonomies:

A. Structural / Traditional Classification

Classifies ratios based on the financial statement source:

- **Balance Sheet Ratios:** Both variables originate from the Balance Sheet (e.g., Current Ratio, Debt-Equity Ratio, Proprietary Ratio).
- **Revenue Statement Ratios:** Both variables originate from the Income Statement (e.g., Gross Profit Ratio, Operating Ratio, Net Profit Ratio).
- **Composite / Inter-Statement Ratios:** One variable is taken from the Income Statement and the other from the Balance Sheet (e.g., Return on Capital Employed, Inventory Turnover Ratio, Debtors Turnover Ratio).

B. Functional / Managerial Classification

Classifies ratios according to the financial purpose:

- **Liquidity Ratios:** Measure short-term debt-paying ability and working capital solvency.
- **Leverage / Solvency Ratios:** Gauge long-term financial viability, capital structure gearing, and debt protection.
- **Activity / Turnover Ratios:** Measure the velocity and operational efficiency of asset utilization.
- **Profitability Ratios:** Evaluate earnings power relative to sales and capital investment.
- **Market / Valuation Ratios:** Assess equity share performance from an investor perspective.

3. Managerial Uses and Critical Limitations of Ratio Analysis

While Ratio Analysis is indispensable to corporate controllers, financial analysts, commercial bankers, and equity investors, it is subject to fundamental structural constraints that must be critically managed:

Key Managerial Benefits

- **Simplification of Financial Statements:**
Reduces complex multi-crore ledger figures into standardized, intuitive diagnostic indicators.
- **Inter-Firm & Intra-Firm Benchmarking:**
Enables meaningful comparisons across direct industry peers regardless of scale, and tracks longitudinal performance across time.
- **Budgetary Control & Forecasting:** Provides realistic quantitative standards for setting operational targets and variance control limits.
- **Insolvency Early Warning System:**
Pinpoints deteriorating liquidity or debt over-leveraging long before corporate failure or bankruptcy occurs.

Inherent Inherent Limitations

- **Historical Cost & Inflation Distortion:**
Relies on historical accounting book values without adjusting for price-level fluctuations, distorting asset turnover and capital return metrics.
- **Vulnerability to Window Dressing:** Subject to creative accounting manipulation (e.g., postponing year-end purchases or holding cheques to artificially inflate the Current Ratio).
- **Divergent Accounting Policies:** Inconsistent depreciation methods (SLM vs WDV) or inventory valuation rules (FIFO vs Weighted Average) undermine inter-firm comparability.
- **Absence of Qualitative Dimensions:**
Ignores labor relations, management caliber, brand loyalty, and regulatory shifts.

4. Liquidity Ratios: Measuring Short-Term Financial Health (Unit 6)

Liquidity refers to the operational speed and certainty with which an enterprise can convert its current assets into cash to satisfy its maturing short-term financial obligations. A failure of liquidity leads to technical insolvency, commercial bankruptcy, and credit rating downgrade.

CURRENT RATIO (WORKING CAPITAL RATIO)

Benchmark: 2 : 1

$$\text{Current Ratio} = \text{Current Assets} \div \text{Current Liabilities}$$

Component Breakdown:

- **Current Assets:** Inventories (Raw Materials, WIP, Finished Goods, Stores), Trade Receivables (Debtors and Bills Receivable less Provision for Doubtful Debts), Cash and Cash Equivalents, Short-term Marketable Securities, Short-term Loans and Advances, and Other Current Assets (Prepaid Expenses, Accrued Income).
- **Current Liabilities:** Trade Payables (Creditors and Bills Payable), Short-term Borrowings (Bank Overdraft, Cash Credit), Outstanding Expenses, Unclaimed Dividends, and Short-term Provisions (Taxation, Proposed Dividend).
- **Diagnostic Interpretation:** A ratio of **2:1** is traditionally considered the standard norm, providing a 100% safety buffer for creditors against shrinkage in asset value. A very high ratio may signal excessive idle cash, obsolete inventory, or lax credit collection. A ratio below 1.5:1 signals working capital strain.

QUICK RATIO (ACID-TEST / LIQUID RATIO)

Benchmark: 1 : 1

$$\text{Quick Ratio} = \text{Quick Assets} \div \text{Current Liabilities}$$

Component Breakdown:

- **Quick Assets = Current Assets – Inventories – Prepaid Expenses – Advance Tax**
- **Rationale:** Inventories are excluded because they require processing, packaging, and commercial sale before cash is realized; during market recessions, inventories cannot be liquidated without steep discounts. Prepaid expenses cannot be converted into cash to settle debts.
- **Diagnostic Interpretation:** An acid-test ratio of **1:1** indicates that the business has exactly ₹1 of highly liquid assets for every ₹1 of immediate obligations, representing an impeccable short-term solvency shield.

ABSOLUTE CASH RATIO (SUPER-QUICK RATIO)

Benchmark: 0.5 : 1

$$\text{Absolute Cash Ratio} = (\text{Cash in Hand} + \text{Cash at Bank} + \text{Current Marketable Investments}) \div \text{Current Liabilities}$$

Diagnostic Utility: Measures immediate cash solvency by excluding trade debtors, recognizing that accounts receivable take 30 to 90 days to collect. A benchmark of **0.5:1** is regarded as optimal in cash-intensive industries.

5. Activity, Turnover, and Operating Efficiency Ratios (Unit 6)

Turnover ratios measure the speed and efficiency with which enterprise capital locked up in assets is deployed to generate revenue. Higher turnover ratios indicate efficient asset utilization, minimal idle capital, and superior management velocity.

INVENTORY TURNOVER RATIO (ITR) & HOLDING PERIOD

Efficiency Metric

$$\begin{aligned} \text{Inventory Turnover Ratio} &= \text{Cost of Goods Sold (COGS)} \div \text{Average Inventory} \\ \text{Average Inventory Holding Period} &= 365 \div \text{Inventory Turnover Ratio (in Days)} \end{aligned}$$

Component Formulas:

- **Cost of Goods Sold (COGS):** Opening Inventory + Net Purchases + Direct Manufacturing Expenses – Closing Inventory; OR Revenue from Operations – Gross Profit.
- **Average Inventory:** (Opening Inventory + Closing Inventory) ÷ 2.
- **Managerial Interpretation:** A high ITR indicates brisk sales, minimal carrying costs, and fresh inventory. A low ITR indicates dead stock, over-investment in inventory, storage wastage, and heightened risk of obsolescence.

TRADE RECEIVABLES (DEBTORS) TURNOVER & AVERAGE COLLECTION PERIOD

Credit
Management

$$\text{Debtors Turnover Ratio} = \frac{\text{Net Credit Revenue from Operations}}{\text{Average Trade Receivables}}$$
$$\text{Average Collection Period (ACP)} = 365 \div \text{Debtors Turnover Ratio (in Days)}$$

Component Formulas:

- **Net Credit Sales:** Gross Credit Sales – Sales Returns. (If credit sales figures are unavailable, Total Net Revenue is used as a proxy).
- **Average Trade Receivables:** $(\text{Opening Debtors \& B/R} + \text{Closing Debtors \& B/R}) \div 2$ (computed on Gross Debtors before deducting bad debt provisions).
- **Managerial Interpretation:** ACP measures the average time taken to collect cash from credit customers. If the firm's credit terms are "Net 30 Days" and ACP is 65 Days, it reveals lax credit control, poor collection mechanisms, and severe risk of bad debt write-offs.

TRADE PAYABLES (CREDITORS) TURNOVER & AVERAGE PAYMENT PERIOD

Working Capital
Financing

$$\text{Creditors Turnover Ratio} = \frac{\text{Net Credit Purchases}}{\text{Average Trade Payables}}$$
$$\text{Average Payment Period (APP)} = 365 \div \text{Creditors Turnover Ratio (in Days)}$$

Diagnostic Utility: Evaluates the promptness with which the company settles supplier dues. A high turnover indicates prompt settlement and eligibility for cash discounts; a very low turnover may suggest liquidity problems or strong supplier bargaining power.

WORKING CAPITAL & ASSET TURNOVER RATIOS

Velocity Indicators

$$\text{Working Capital Turnover} = \text{Net Revenue from Operations} \div \text{Net Working Capital}$$

$$\text{Fixed Assets Turnover} = \text{Net Revenue from Operations} \div \text{Net Fixed Assets}$$

$$\text{Total Assets Turnover} = \text{Net Revenue from Operations} \div \text{Total Assets}$$

Operating Cycle Formula: Cash Conversion Cycle (CCC) = Raw Material Storage Period + Work-in-Progress Period + Finished Goods Period + Debtors Collection Period – Creditors Payment Period.

6. Profitability Ratios: Margin and Investment Returns (Unit 6)

Profitability reflects the final operational outcome of all corporate activities. Management analyzes profitability across two distinct dimensions: relative to sales revenue (operating margins) and relative to capital resources invested (investment returns).

A. Profitability Ratios Based on Sales

Ratio Name	Mathematical Formula	Diagnostic Significance
Gross Profit Ratio	$(\text{Gross Profit} \div \text{Net Revenue from Operations}) \times 100$	Measures basic manufacturing/trading efficiency before administrative and selling overheads.
Operating Ratio	$[(\text{COGS} + \text{Operating Expenses}) \div \text{Net Revenue}] \times 100$	Measures percentage of revenue consumed by operational costs. Lower is better.
Operating Profit Ratio	$(\text{Operating Profit} \div \text{Net Revenue from Operations}) \times 100$	Represents purely operational margin: 100% – Operating Ratio . Excludes non-operating income.
Net Profit Ratio	$(\text{Net Profit After Tax} \div \text{Net Revenue from Operations}) \times 100$	Indicates bottom-line profitability available to shareholders after all expenses, interest, and taxes.

B. Profitability Ratios Based on Capital Investment

RETURN ON CAPITAL EMPLOYED (ROCE / ROI)

The Master Metric

$$\text{ROCE} = (\text{Earnings Before Interest and Taxes [EBIT]} \div \text{Capital Employed}) \times 100$$

Component Formulations:

- **EBIT (Operating Profit):** Net Profit before deducting Interest on long-term borrowings and Income Tax.
- **Capital Employed (Liabilities Approach):** Share Capital (Equity + Preference) + Reserves and Surplus + Long-Term Debts – Fictitious Assets (Preliminary Expenses, P&L debit balance) – Non-Trade Investments.
- **Capital Employed (Assets Approach):** Net Fixed Assets (Cost – Depreciation) + Working Capital (Current Assets – Current Liabilities) – Non-Trade Investments.
- **Diagnostic Primacy:** Measures how efficiently total long-term capital is employed regardless of financing structure. If ROCE is less than the borrowing interest rate, debt financing dilutes equity returns (unfavorable financial leverage).

RETURN ON EQUITY (ROE) & RETURN ON ASSETS (ROA)

Shareholder Value

$$\begin{aligned}\text{Return on Equity (ROE)} &= [(\text{Net Profit After Tax} - \text{Preference Dividend}) \div \text{Equity Shareholders' Funds}] \times 100 \\ \text{Return on Assets (ROA)} &= (\text{Net Profit After Tax} \div \text{Total Assets}) \times 100\end{aligned}$$

Equity Shareholders' Funds (Net Worth): Equity Share Capital + All Reserves and Surplus – Accumulated Losses – Fictitious Assets.

7. Solvency, Capital Structure, and Leverage Ratios (Unit 7)

Long-term solvency ratios assess the financial stability of an enterprise, its debt servicing capacity, and the security margin available to long-term lenders and debenture holders.

DEBT-EQUITY RATIO (CAPITAL GEARING)

Benchmark: 2 : 1

$$\text{Debt-Equity Ratio} = \text{Long-Term Debt} \div \text{Shareholders' Funds (Net Worth)}$$

Component Breakdown:

- **Long-Term Debt:** Debentures, Term Loans from Banks/Financial Institutions, Mortgages, Public Deposits, and Long-Term Bonds.
- **Shareholders' Funds (Net Worth):** Equity Capital + Preference Capital + General Reserves + Capital Reserves + Retained Earnings – Fictitious Assets.
- **Managerial Interpretation:** A ratio of **2:1** is the acceptable industrial standard. A high debt-equity ratio (highly geared) indicates substantial financial risk and high fixed interest burdens; during economic downturns, it can trigger default. A low ratio (lowly geared) provides high safety to creditors but fails to exploit "Trading on Equity" to maximize EPS.

PROPRIETARY RATIO & TOTAL DEBT TO TOTAL ASSETS RATIO

Capital Protection

$$\begin{aligned}\text{Proprietary Ratio} &= \text{Shareholders' Funds} \div \text{Total Assets} \\ \text{Total Debt to Total Assets Ratio} &= \text{Total Debt (Long-Term + Current Debt)} \div \text{Total Assets}\end{aligned}$$

Interpretation: The Proprietary Ratio measures the percentage of total corporate assets financed by owners' equity. A high proprietary ratio indicates greater independence from external creditors.

INTEREST COVERAGE RATIO (DEBT SERVICE RATIO)

Benchmark: 6 to 8 Times

$$\text{Interest Coverage Ratio} = \text{EBIT} \div \text{Fixed Interest Charges}$$

Diagnostic Significance: Indicates how many times the company's operating earnings cover its fixed interest commitments. If the ratio falls below 1.5, lenders face severe default risk.

DEBT SERVICE COVERAGE RATIO (DSCR)

Banking Standard: 1.5 to 2.0

$$\text{DSCR} = (\text{Net Profit After Tax} + \text{Depreciation} + \text{Non-Cash Charges} + \text{Interest on Long-Term Debt}) \div (\text{Interest} + \text{Principal Repayment Installment})$$

Commercial Lending Application: This is the premier metric used by commercial banks, term-lending institutions, and credit rating agencies to appraise term-loan viability, since principal debt must be serviced from actual cash flows (PAT + Depreciation), not accounting profits.

8. Market Test and Valuation Ratios (Unit 7)

Market test ratios evaluate the company's performance, dividend yield, and earnings capacity through the lens of equity capital markets and investor valuation:

Valuation Ratio	Formula	Market Interpretation
Earnings Per Share (EPS)	(Net Profit After Tax – Preference Dividend) ÷ Number of Equity Shares	Measures net earnings generated per individual equity share. Core driver of stock price.
Dividend Per Share (DPS)	Total Equity Dividend Paid ÷ Number of Equity Shares Outstanding	Represents actual cash dividend paid directly to shareholders per share.
Dividend Payout Ratio	(DPS ÷ EPS) × 100 OR (Total Dividend ÷ Total Earnings Available) × 100	Proportion of earnings distributed to shareholders vs retained in business.
Price-Earnings Ratio (P/E)	Market Price Per Share (MPS) ÷ Earnings Per Share (EPS)	Indicates what investors are willing to pay per rupee of current earnings. High P/E signals strong growth expectations.
Dividend Yield Ratio	(Dividend Per Share ÷ Market Price Per Share) × 100	Reflects the actual cash return on investment based on prevailing market price.
Book Value Per Share	Equity Shareholders' Funds ÷ Number of Equity Shares Outstanding	Represents the accounting net asset backing behind every equity share.

9. The DuPont Analysis Framework

Developed by the DuPont Corporation, this framework decomposes **Return on Equity (ROE)** into three distinct operational and financial drivers to reveal the underlying source of corporate profitability:

THREE-TIER DUPONT DECOMPOSITION OF ROE

Strategic Diagnostic

$$\text{ROE} = \text{Operating Efficiency (Profit Margin)} \times \text{Asset Use Efficiency (Asset Turnover)} \times \text{Financial Leverage (Equity Multiplier)}$$
$$\text{ROE} = (\text{Net Profit} \div \text{Sales}) \times (\text{Sales} \div \text{Total Assets}) \times (\text{Total Assets} \div \text{Shareholders' Equity})$$

Managerial Strategic Insights:

- **Net Profit Margin (PAT / Sales):** Reflects operational efficiency, pricing power, and cost control.
- **Total Asset Turnover (Sales / Total Assets):** Reflects commercial efficiency and capacity utilization of firm assets.
- **Equity Multiplier (Total Assets / Equity):** Reflects financial leverage and debt exposure. If a company achieves high ROE primarily through an inflated equity multiplier, it is taking high financial risk rather than generating superior operational margins.

10. Construction of Financial Statements from Ratios (Unit 8)

A critical technical skill in management accounting is **reverse engineering financial statements**—synthesizing a complete Balance Sheet and Income Statement from given financial ratios and select financial data.

Master Case Study 1: Complete Balance Sheet Construction from Ratios

Problem Statement: From the following financial data and ratios, prepare the **Balance Sheet of Zenith Manufacturing Ltd.** as on 31st March 2024:

- Gross Profit (20% on Sales): ₹1,20,000
- Shareholders' Funds (Net Worth): ₹4,00,000
- Current Ratio: 2.5 : 1
- Quick (Liquid) Ratio: 1.5 : 1
- Inventory Turnover Ratio (based on COGS): 6 Times
- Debtors Turnover Ratio (Debtors Collection Period): 2 Months
- Reserves and Surplus: ₹1,00,000
- Long-Term Debt to Equity Ratio: 0.5 : 1
- Fixed Assets to Net Worth: 0.75 : 1

Step 1: Sales and Cost of Goods Sold (COGS)

- Gross Profit = ₹1,20,000 (which is 20% on Sales).
- Total Sales = $\text{₹1,20,000} \div 0.20 = \text{₹6,00,000}$.
- Cost of Goods Sold (COGS) = Sales - Gross Profit = $\text{₹6,00,000} - \text{₹1,20,000} = \text{₹4,80,000}$.

Step 2: Inventory (Stock)

- Inventory Turnover Ratio = $\text{COGS} \div \text{Closing Inventory} = 6 \text{ Times}$.
- Closing Inventory = $\text{₹4,80,000} \div 6 = \text{₹80,000}$.

Step 3: Current Assets and Current Liabilities

- Current Ratio = $\text{Current Assets (CA)} \div \text{Current Liabilities (CL)} = 2.5 \rightarrow \text{CA} = 2.5 \text{ CL}$.
- Quick Ratio = $\text{Quick Assets (QA)} \div \text{CL} = 1.5 \rightarrow \text{QA} = 1.5 \text{ CL}$.
- Difference between CA and QA = Inventory = $2.5 \text{ CL} - 1.5 \text{ CL} = 1.0 \text{ CL}$.
- Therefore: $1.0 \text{ CL} = \text{₹80,000} \rightarrow \text{Current Liabilities} = \text{₹80,000}$.
- Current Assets = $2.5 \times \text{₹80,000} = \text{₹2,00,000}$.
- Quick Assets = $1.5 \times \text{₹80,000} = \text{₹1,20,000}$.

Step 4: Debtors (Trade Receivables) and Cash Balance

- Debtors Collection Period = 2 Months.
- Debtors = $\text{Sales} \times (2 \div 12) = \text{₹6,00,000} \times (1 \div 6) = \text{₹1,00,000}$.

• Quick Assets = Debtors + Cash $\rightarrow ₹1,20,000 = ₹1,00,000 + \text{Cash}$.

• Cash and Bank Balance = $₹1,20,000 - ₹1,00,000 = ₹20,000$.

• Verification: CA = Stock (₹80,000) + Debtors (₹1,00,000) + Cash (₹20,000) = ₹2,00,000.

Step 5: Share Capital, Reserves, and Long-Term Debt

• Shareholders' Funds (Net Worth) = ₹4,00,000.

• Reserves and Surplus = ₹1,00,000.

• Share Capital = Net Worth - Reserves = $₹4,00,000 - ₹1,00,000 = ₹3,00,000$.

• Long-Term Debt to Equity = 0.5 : 1.

• Long-Term Debt = $0.5 \times \text{Net Worth} = 0.5 \times ₹4,00,000 = ₹2,00,000$.

Step 6: Fixed Assets & Balance Sheet Balancing

• Fixed Assets to Net Worth = 0.75 : 1 $\rightarrow \text{Fixed Assets} = 0.75 \times ₹4,00,000 = ₹3,00,000$.

• Total Liabilities = Share Capital (₹3,00,000) + Reserves (₹1,00,000) + Long-Term Debt (₹2,00,000) + Current Liabilities (₹80,000) = ₹6,80,000.

• Total Assets = Fixed Assets (₹3,00,000) + Current Assets (₹2,00,000) = ₹5,00,000. Balancing figure on Asset side = Non-Current Investments or Other Non-Current Assets = $₹6,80,000 - ₹5,00,000 = ₹1,80,000$.

Constructed Balance Sheet of Zenith Manufacturing Ltd. as on 31st March 2024

Equities and Liabilities	Amount (₹)
1. Shareholders' Funds	
• Share Capital	3,00,000
• Reserves and Surplus	1,00,000
2. Non-Current Liabilities	
• Long-Term Borrowings (Debt)	2,00,000
3. Current Liabilities	
• Trade Payables & Short-Term Dues	80,000
TOTAL EQUITIES AND LIABILITIES	6,80,000
Assets	Amount (₹)
1. Non-Current Assets	
• Fixed Assets (Plant, Property & Equipment)	3,00,000
• Non-Current Investments (Balancing figure)	1,80,000
2. Current Assets	
• Inventories (Closing Stock)	80,000
• Trade Receivables (Debtors)	1,00,000
• Cash and Bank Balances	20,000
TOTAL ASSETS	6,80,000

11. Master Summary Matrix of Managerial Financial Ratios

Ratio Classification	Key Metric	Core Formula	Standard Norm
Liquidity	Current Ratio	$\text{Current Assets} \div \text{Current Liabilities}$	2 : 1
	Quick Ratio	$\text{Quick Assets} \div \text{Current Liabilities}$	1 : 1
Activity / Turnover	Inventory Turnover	$\text{Cost of Goods Sold} \div \text{Average Stock}$	6 to 8 Times
	Debtors Turnover	$\text{Net Credit Sales} \div \text{Average Receivables}$	Industry Norm
	Working Capital Turnover	$\text{Revenue from Operations} \div \text{Net Working Capital}$	4 to 6 Times
Solvency / Leverage	Debt-Equity Ratio	$\text{Long-Term Debt} \div \text{Net Worth}$	2 : 1
	Proprietary Ratio	$\text{Shareholders' Funds} \div \text{Total Assets}$	> 0.50 : 1
	Interest Coverage	$\text{EBIT} \div \text{Fixed Interest Charges}$	6 to 8 Times
Profitability	Gross Profit Ratio	$(\text{Gross Profit} \div \text{Revenue}) \times 100$	20% - 30%
	Return on Capital (ROCE)	$(\text{EBIT} \div \text{Capital Employed}) \times 100$	> 15%
Valuation	Price-Earnings (P/E)	$\text{Market Price Per Share} \div \text{EPS}$	Peer Multiple

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