



Key Financial Ratios

Training Material

Shiva Consultancy Group

A blue ballpoint pen is positioned diagonally on the left side of the slide, resting on a document. The document features a bar chart with several blue bars of varying heights. The background of the document is white with light blue horizontal lines. The pen has a blue barrel and a silver-colored tip.

Introduction

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- Overview of Financial Ratios
Importance in Investment
and Loan Decisions



Balance Sheet Ratios - Interest Coverage

- A measure of how easily a company can pay its interest costs

Formula: $\text{EBIT} / \text{Interest Expense}$

Threshold: > 5

Balance Sheet Ratios - Net Debt/Free Cash Flow

- A ratio indicating a company's ability to pay off its debt with its available cash flow

Formula: $\text{Net Debt} / \text{FCF}$

Threshold: < 5



Balance Sheet Ratios - Debt/Equity

- A ratio showing how much a company relies on borrowed money compared to its own funds

Formula: $\text{Debt} / \text{Equity}$

Threshold: $< 80\%$



Capital Intensity Ratios - CAPEX/Sales

- A ratio used to measure the amount of capital expenditures (CAPEX) a company incurs relative to its total sales revenue
Formula: $\text{CAPEX} / \text{Sales}$
Threshold: $< 5\%$


Capital Intensity Ratios - CAPEX/Cash from Operations

- Shows a company's capital expenditure relative to the cash generated from its core operations
Formula: $\text{CAPEX} / \text{Cash from Operations}$
Threshold: $< 25\%$

Capital Allocation Ratios - Return on Equity (ROE)

- A financial metric used to measure a company's profitability by evaluating its net income relative to its shareholders' equity
Formula: $\text{Net Income} / \text{Equity}$
Threshold: $> 20\%$





Capital Allocation Ratios - Return on Invested Capital (ROIC)

- Evaluates the efficiency of a company's capital investments by measuring the return generated from all of its invested capital
Formula: $\text{NOPAT} / \text{Invested Capital}$
Threshold: > 15%

Capital Allocation Ratios - Return on Capital Employed (ROCE)

- A measure of a company's profitability relative to all the capital invested in its operations
Formula: $\text{NOPAT} / \text{Capital Employed}$
Threshold: $< 20\%$



Profitability Ratios

- Gross Margin

- Gross margin is a financial metric that represents the percentage of revenue a company retains after deducting the costs directly associated with producing its goods or services
Formula: $(\text{Revenue} - \text{COGS}) / \text{Revenue}$
Threshold: > 40%



	Series 1	Series 2
Jan	0.38	7.29
Feb	0.27	7.51
Mar	0.42	0.24
Apr	0.70	9.99
May	0.35	0.91
Jun	0.01	8.08
Jul	8.54	5.70
Aug	7.79	7.19
Sep	8.17	5.90
Oct	9.71	5.90
Nov	5.45	2.43
Dec	6.16	2.43

Profitability Ratios - EBIT Margin

- A financial metric that measures a company's profitability by expressing its earnings before interest and taxes as a percentage of its total revenue
Formula: $\text{EBIT} / \text{Revenue}$
Threshold: $> 10\%$



	Series 1	Series 2
Jan	0.17	5.60
Feb	0.95	8.52
Mar	1.56	7.74
Apr	2.03	8.52
May	2.69	8.52
Jun	2.73	8.52
Jul	3.49	8.52
Aug	65	8.52
Sep	1.56	8.52
Oct	5.90	8.52
Nov	2.43	8.52
Dec		

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Profitability Ratios - Free Cash Flow Margin

- Free cash flow margin is the percentage of revenue that represents the cash a company generates after covering its operating expenses and capital expenditures

Formula: $\text{Free Cash Flow} / \text{Revenue}$

Threshold: $> 10\%$



Dividend Ratios - Dividend Yield

- Dividend yield is the percentage of a company's share price returned to investors as dividends annually
Formula: $\text{Dividend per share} / \text{Stock price}$
Threshold: High and sustainable



Dividend Ratios - Payout Ratio

- Payout ratio is the proportion of a company's earnings paid out to shareholders as dividends
Formula: $\text{Total Dividends} / \text{Net Income}$
Threshold: $< 50\%$





Valuation Ratios - Price-to-Earnings Ratio

- Price-to-earnings ratio (P/E ratio) is a valuation metric that shows how much investors are willing to pay for each dollar of a company's earnings
Formula: $\text{Stock price} / \text{Net Income}$
Threshold: The lower the better



Valuation Ratios - Free Cash Flow Yield

- Free cash flow yield is the percentage of a company's free cash flow per share compared to its share price, showing the return investors receive on their investment

Formula: $\text{Free Cash Flow} / \text{Stock Price}$

Threshold: The higher the better



Conclusion

- Summary of Key Ratios
Importance of Regular Analysis
Q&A Session