

Case Study on Ratio Analysis

Ramchandra, a business banker, is analyzing Dry Supply's financial statements. When calculating ratios, many commercial lenders use a ratio summary. The table below summarizes the key ratios as they might appear on his spreadsheet.

Ratio Summary: Dry Supply for	15/07/2015	15/072016	15/07/2017
<i>Liquidity</i>			
Current ratio	1.3x	1.5x	1.8x
Quick ratio	0.8x	1.0x	1.2x
Working capital	\$47,000	\$66,000	\$92,000
<i>Leverage</i>			
Debt to net worth	3.3x	2.7x	1.9x
Tangible leverage	3.3x	2.7x	1.9x
Tangible effective leverage	1.3x	1.0x	0.7x
<i>Profitability</i>			
Gross profit margin	27.9%	28.8%	31.3%
Operating profit margin	2.3%	3.0%	5.0%
Pretax profit margin	2.2%	2.8%	4.4%
Net profit margin	1.0%	1.5%	2.5%
Return on assets	8.2%	10.0%	14.8%
Return on equity	35.1%	36.6%	42.6%
<i>Efficiency</i>			
Accounts receivable turnover	44.5d	44.0d	44.5d
Inventory turnover	41.3d	39.4d	38.8d
Accounts payable turnover	24d	25d	18d
Sales to total assets	3.7x	3.6x	3.4x
<i>Coverage</i>			
Interest coverage	4.3x	4.7x	4.6x
Fixed charge coverage	4.5x	4.7x	4.3x
Dividend payout ratio	0.0%	0.0%	0.0%

Comment on each of the five types of ratios and draw your conclusions. List down any questions that you think Ramchandra may want to ask the borrower.