Financial Ratio Analysis Report

Your friendly financial insights!

Current Ratio

2.50

A current ratio of 2.5 means the company has $2.50 in current assets for every $1.00 in current liabilities, indicating strong short-term liquidity and ability to pay its immediate debts. This is a healthy ratio, suggesting the company is not at risk of short-term financial distress. Given the strong quick ratio of 2.0, the company's liquidity position is further solidified, indicating they can easily cover their short-term obligations even without relying on inventory.

Quick Ratio

2.00

The quick ratio of 2.0 indicates the company has $2 in liquid assets for every $1 in current liabilities, meaning it's very capable of meeting its short-term obligations even without selling inventory. This is a strong position, especially when compared to the current ratio of 2.5, which suggests a good portion of current assets are tied up in inventory. The company should focus on maintaining this healthy liquidity while optimizing inventory management.

Net Profit Margin

8.00

A net profit margin of 8.0% means the company keeps 8 cents of profit for every dollar of revenue. This indicates a moderate level of profitability, suggesting the company is managing its costs relatively well. Given the strong current and quick ratios, the company can handle short-term obligations, while a low debt-to-equity ratio and high interest coverage show low financial risk; if the net profit margin is below industry average, the company should focus on reducing costs or increasing sales prices to improve profitability.

Roa

6.67

Return on Assets (ROA) of 6.67% indicates the company is generating 6.67 cents of profit for every dollar of assets it owns. This is a moderate return, suggesting the company is utilizing its assets reasonably well to generate profits. However, compared to an ROE of 10%, it suggests the company has some leverage but it is not highly reliant on debt which is confirmed by a Debt-to-Equity ratio of 0.5. An improvement could be made by optimizing asset usage or improving profitability.

Roe

10.00

ROE of 10% means the company generates 10 cents of profit for every dollar of shareholder equity. This is a decent return, but could be improved. Given the ROA of 6.67% and a debt-to-equity ratio of 0.5, the company is using leverage moderately to boost returns, suggesting potential to increase profitability or use debt more efficiently.

Asset Turnover

0.83

The asset turnover of 0.83 indicates that for every dollar of assets, the company generates $0.83 in revenue. This is a relatively low turnover, suggesting the company isn't using its assets very efficiently to generate sales. To improve, the company should explore strategies to increase sales or reduce its asset base. Given the strong current and quick ratios, the company could potentially reduce some assets without impacting liquidity.

Inventory Turnover

6.00

An inventory turnover of 6 means the company sells and replaces its inventory 6 times per year. This indicates a healthy rate of sales and efficient inventory management, avoiding excessive storage costs. However, compared to the asset turnover of 0.83, the company could potentially improve overall sales efficiency by optimizing inventory levels or marketing strategies to boost sales.

Debt To Equity

0.50

A debt-to-equity ratio of 0.50 indicates that the company uses half as much debt financing as equity financing. This suggests a relatively conservative capital structure, which is generally a strength. The company's strong interest coverage ratio of 15.0 further reinforces that it can easily handle its debt obligations, and given the company's good profitability (8% net profit margin, 6.7% ROA, 10% ROE), there isn't a need to recommend a change.

Interest Coverage

15.00

The Interest Coverage ratio of 15.0 means the company can comfortably cover its interest expenses with its operating profits. This indicates a strong ability to handle debt obligations and suggests low financial risk. Given the healthy Debt-to-Equity ratio of 0.5, the company is not overleveraged, further supporting its financial stability.