ASSIGNMENT - 5

DUPONT ANALYSIS

Dupont analysis is a financial analysis technique that helps to identify the factors that contribute to a company's profitability. It breaks down the company's Return on equity (ROE) into three key components:

1. profitability (operating efficiency) (profit margin) : $\frac{\text{Net income}}{\text{Sales}}$
2. Asset utilization (Turnover) (Asset Efficiency): $\frac{\text{Sales}}{\text{Total Assets}}$
3. Financial Leverage (capital structure): $\frac{\text{Total assets}}{\text{Shareholder's equity}}$

Profit margin.
Measures the company's ability to convert sales into profits.

Assets turnover.
Measures the company's ability to generate sales from its assets.

Financial leverage.
Measures the company use of debt to finance its assets.

The Dupont model is:

$$ROE = \frac{\text{Net Income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total assets}} \times \frac{\text{total assets}}{\text{Shareholders' equity}}$$