Assignment - 5

1) What is Dupont Analysis:

Dupont Analysis is a method of analyzing a company's financial performance by breaking down it Return on equity (ROE) into three key components.

1. Profitability (Net Income / Sales)
2. Efficiency (Sales / Total Assets)
3. Leverage (Total Asset / Shareholder's equity)

Formula:

ROE = (Net Income / Sales) × (Sales / Total Assets) × (Total Asset / Shareholder's equity)

This analysis helps identify area where a company can improve it performance such as:

i) Increasing profitability through cost reduction or pricing strategies.

ii) Enhancing efficiency by better utilizing asset

iii) Optimizing leverage by managing debt and equity levels.

Dupont Analysis provide a comprehensive view of a company's financial health and helps investors analysts and managers make informed decisions.

Example:

Company XYZ has

- Net Income : $ 100,000
- Sales : $ 500,000
- Total Assets : $ 750,000
- Shareholders' equity : $ 250,000

Using DuPont Analysis:

1. Profitability : $ 100,000 / $ 500,000 = 20%
2. Efficiency : $ 500,000 / $ 750,000 = 66.7%
3. Leverage : $750000 / $ 250,000 = 3

ROE = 20% × 66.7% × 3 = 40%

This means company XYZ ROE is 40% driven by its profitability, efficiency and leverage.