Assignment-5

DuPont Analysis

ROE = Net profit margin × Asset turnover × Equity

Net Profit margin :-

$$= \frac{\text{Net Income}}{\text{Sales}}$$

It shows how much profit a company makes for every Rupees of sales.

Asset Turnover :-

$$= \frac{\text{sales}}{\text{Total Assets}}$$

It indicates how efficiently a company uses it asset to generate sales.

Equity multiplier :-

$$= \frac{\text{Total Assets}}{\text{Shareholders Equity}}$$

It reflects the financial leverage of the company (how much of the company's assets are financed by equity vs. debt)

Definition of Dupont analysis :-

Dupont analysis is a method used to break down a company's Return on Equity (ROE) into three parts : net profit margin , asset turnover , and equity multiplier to understand the sources of its profitability.