Assignment - 5

1) Explain Dupont Analysis

Dupont Analysis

A Dupont Analysis is used to evaluate the component parts of a company's ROE [Return on equity] This allows an investors to determine what financial activities contribute the most to the changes in ROE. An investors can use tools like this to compare the operational efficiency of two similar firms

Dupont Analysis vs Return on Equity.

The return on equity ratio is net income divided by shareholders equity the Dupont analysis is still the ROE, Just an expanded version The ROE calculation alone reveals how well a company utilizes capital from shareholders. with a dupont analysis investors and analysts can dig into what Drives changes in ROE or why an ROE is considered high or low. That is a Dupont analysis can help deduce whether its profitability. use of Assets or debt that's driving ROE,

Formula:

Dupont Analysis

$$= \frac{\text{net Profit}}{\text{sales}} \times \frac{\text{Sales}}{\text{Assets}} \times \frac{\text{Assets}}{\text{Equity}}$$

Use and Purpose of Dupont Analysis

* Dupont Analysis is a framework for analyzing fundamental performance originally popularized by the Dupont corporation, now widely used to compare the operational efficiency of two similar firms.

* Dupont analysis is a useful technique used to decompose the different drivers of returns on equity