Assignment 5

Dupont Analysis

A dupont Analysis is used to evaluate the Component Parts of a Company's RoE [Return On Equity]. This allows an investor to determine what Financial activities Contribute the most to the Changes in RoE. An investor Can use tools like this to Compare the operation efficiencial of two Similar firms.

Dupont Analysis Vs Return On Equity.

The return on Equity metric is net income divided by Shareholder's Equity. The Dupont Analysis is still the RoE, Just an Expanded version. the RoE calculation alone Reveals how well a company utilizes capital from Shareholder's. With a Dupont Analysis investors and analysist Can Drivers Changes in RoE or why an RoE is Considered high or low. That is a Dupont Analysis Can help Deduce whether it's 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 frame work 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 driver of return on Equity.