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 Asset)
3. Leverage (Total Asset / Shareholder's equity)

Formula

ROE = (net Income / Sales) x (Sales x Total Asset) x (Total Asset / Shareholder equity)

This analysis help identify area where a Company Can improve it performance Such as:

i) Increasing Profitability throught Cost reduction or Pricing Strateg.

ii) Enhanceing efficiency by better utilizing asset.

iii) optimizing leverage by managing debt and equity level.

Dupont Analysis Provide a Comprehensive View of a Company 'financial health and helps investor analysts and Manager.

Make informed decesion

Exampl:

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 = $750,000/$250,000 = 3

ROE = 20% x 66.7% x 3 = 40%

This means Company XYZ ROE is 40% driven by its Profitability, efficiency and leverage.