Assignment - 05

1) What is DuPont Analysis Dupont Analysis

DuPont Analysis is a methods of analysis 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 / share holder's equity)

Formula

ROE (Net income / sales) × (sales / total asset) × (total asset / share holder's equity)

This analysis helps identify the where a company can improve it performance such as.

i) increasing profitability through cost reduction or pricing strategic

ii) Enhancing efficiency by letter analyzing

iii) optimizing leverage by managing debt and Equity level

iv) DuPont analysis provide an comprehensive view of a company's financial health and help inventors analysis and manageing.

make informed decision

Example

company XYZ ltd

* Net income ₹ 1,00,000
* Sales : ₹ 5,00,000
* Total Assets ₹ 7,50,000
* Share holder Equity : ₹ 2,50,000

Using dupont analysis:

1) Profitability : ₹ 1,00,000 / ₹ 5,00,000 = 20%

2) Efficiency : ₹ 5,00,000 / ₹ 7,50,000 = [illegible]

3) leverage : ₹ 7,50,000 / ₹ 2,50,000 = 3

ROE = 20% × 66.7% × 3 = 40%

This means company XYZ ROE is so driven by its profitability efficiency and leverage.