

Leverage Ratios:											
1	Debt to Asset Ratio										
2	Equity to Asset Ratio										
3	Debt to Equity Ratio										
4	Equity to Debt Ratio										
5	Interest Coverage Ratio										
Debt to Asset Ratio: Debt to Asset Ratio=Total Liabilities(Interest Bearing) / Total Assets						Equity to Asset Ratio: Equity to Asset Ratio=Total Shareholders' Equity / Total Assets					
This shows the proportion of debt to total asset i.e. how much asset has been supplied by the creditors.						This shows the proportion of equity to total asset i.e. how much asset has been supplied by the shareholders.					
Debt to Equity Ratio: Debt to Equity Ratio=Total Liabilities(Interest Bearing) / Total Shareholders' Equity						Equity to Debt Ratio: Equity to Debt Ratio=Total Shareholders' Equity / Total Liabilities					
This shows how much greater or lower the debt is as compare to shareholders' equity						This shows how much greater or lower the equity is as compare to total liabilities.					

Interest Coverage Ratio:
Interest Coverage Ratio=EBIT / Interest Expense

It shows how much greater EBIT is as compare to interest expense, showing the ability of the firm to pay interest.

Example:			
ASSETS		Amount	
Current Assets		30,000	
Non-Current Assets		70,000	
		100,000	
Debt to Asset Ratio:		Out of total assets, 35% assets have been supplied by debt holders.	
Debt to Asset Ratio = Debt / Total Assets			
= 35,000 / 100,000 = 0.35			
Equity to Asset Ratio:		Out of total assets, 60% assets have been supplied by Share holders.	
Equity to Asset Ratio = Shareholders' Equity / Total Assets			
= 60,000 / 100,000 = 0.6			
Debt to Equity Ratio:		Debt is 42% less than equity.	
Debt to Equity Ratio = Debt / Equity			
= 35,000 / 60,000 = 0.58			
Equity to Debt Ratio:		Equity is 71 % greater than debt.	
Equity to Debt Ratio = Equity / Debt			
= 60,000 / 35,000 = 1.71			

Condensed Income Statement				
Sales				100,000
Less: Cost of Goods Sold				<u>(45,000)</u>
Gross Profit				55,000
Less: Operating Expenses				<u>(15,000)</u>
Income before interest and tax				40,000
Less: Interest Expense				<u>(10,000)</u>
Income before tax				30,000
Less: Tax Expense				<u>(9,000)</u>
Net Income				<u>21,000</u>
Interest Coverage Ratio				
Interest Coverage Ratio= EBIT / Interest Expense				
= 40,000 / 10000 = 4				
It shows that company can pay the interest of				
Rs.10000 4 times out of EBIT.				

Profitability Ratios:

Profitability Ratios Formula

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Sales}} \times 100$$

$$\text{Operating Profit Margin} = \frac{\text{Operating Profit}}{\text{Sales}} \times 100$$

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Assets}} \times 100$$

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Shareholder's Equity}}$$

Return on Capital Employed(ROCE):

Return on Capital Employed Formula

$$\text{Return on Capital Employed} = \frac{\text{EBIT}}{\text{Total Assets} - \text{Total Current Liabilities}}$$

$$\text{Return on Capital Employed} = \frac{\text{EBIT}}{\text{Shareholder's Equity} + \text{Long Term Liabilities}}$$

$$\frac{\text{Profit margin}}{\text{PBIT}} \times \frac{\text{Asset turnover}}{\text{Sales revenue}} = \frac{\text{ROCE}}{\text{Capital employed}}$$

