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7 types of Profitability Ratios every investor should know!■

A Detailed thread■■■

#investing #finance

A Profitability Ratio is a type of ratio which helps investors to evaluate a company's ability for generating income profit in relation to its revenue, operating costs, balance sheet assets & equity shareholders during a particular period of time.

Higher Profitability Ratios generally show the ability of the company to generate profits & cashflows.

There are 7 ratios which we can use while analysing any company:■■

1■. Return on Equity

It measures a company's annual return or net income divided by the value of its shareholders' total Equity.

In simpler words, it measures the profit made on every 1 rupee of shareholders' Equity.

2■. Dividend per share

This profitability ratio shows the amount of dividend that is distributed to its shareholders by the company. The high ratio shows that the company has surplus cash.

3■. Price Earning Ratio

P/E Ratio determines the relation between the current stock price & the earnings of the company per share.

Lower the P/E ratio, lesser the price has to be paid for a particular share & vice versa.

4■. Return on Capital Employed

ROCE shows how much operating profit a company makes compared to capital provided by various sources

High ratio shows that a larger chunk of profits can be invested back into company for benefit of shareholders which is sign of growth in company.

5■. Return on Asset

ROA shows how well the company is utilizing its assets to generate profits. Measuring ROA is more fruitful for companies which are highly dependent on assets for generating revenue like construction, steel industry etc.

Higher ROA shows higher efficiency of the company in generating profits through its assets employed.

6■. Net Profit Margin

This ratio indicates how profitable a company is after its expenses including interest & taxes. This ratio can be derived by dividing the company's net income by its total revenues.

7■. Operating Profit Margin

Operating profit margin tells how well the company's operations contribute to its profitability.

A higher margin shows the company is earning enough money from business operations to pay for all the costs involved in maintaining the business.

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