How to Read **Financial Ratios**

EGRESS AUSTRALASIA

Area	Ratio	Formula		Benchmark	Increasing Means	Decreasing Means
Liquidity	**Current**	Current Assetts / Current Liabilities		<1.5 times	Increasing means there is more captial assetts (Favourable) (note the Inventory).	Decreasing means there are less assets or more liabilities. (unfavourable) (again note whats happening to inventory)
	Quick	Current Assets - Invenotry / Current Liabilities		>0.75	Increasing means there are more non inventory Current Assetts (eg: Cash at bank) (Favourable).	Decreasing means the company has significant inventories
Operating	**Days Receivables**	Trade Receivables / Sales	x 365		The customers are taking longer to pay.	The customers are paying quicker
	Days Payables	Trade Payables / Cost of Goods Sold	x 365		We're taking longer to pay our suppliers.	Were paying our suppliers quicked.
	Days Inventory	Inventory / Cost of Goods Sold	x 365		Increasing means we're holding more inventory. May also indicate Obsolete Stock.	Decreasing means we're holding less stock. Could mean we're growing quickly, turning it over more quickly, plant / supply issues.
	Sales to Assets	Sales / Total Assets		Realestate, construction, airlines, mining	the assets are being used more efficently	The assets are being used less efficently.
Finacing	**Debt to Equity**	Total Liabilities / Total Equity			increasing means we're **taking on** more debt and increasing our gearing.	Decreasing means were **paying off** debt or taking on more equity. Decreasing our gearing.
	Interest Bearing Debt to Equity	Interest Bearing Liabilities / Total Equity			indicates we're taking on more bank loans	Indicates we're paying off the bank loans,
	Interest Cover	EBIT / Interest Expense		> 3 or 4 times	Increasing indicates we're more likley to meet the interest payments from the bank (Favourable)	Decreasing indicates we're less likley to cover the interest required to be paid (unfavourable)
Profitability Ratios	**Gross Profit Margin**	Gross Profit / Sales	x 100		Making more money, Either from more sales, Higher Prices or lower Cost Of Goods.	You making less money either from Lower Prices, lower Sales, or higher Costs of goods.
	EBIT	EBIT / Sales	x 100		Your making more profit	your making less profit
	ROA (return on Assets)	EBIT / Total Assets	x 100	>5% >10% high risk	The organisation is more successful at using it's assets to drive profit	The organisation is less successful at utilizing assets to drive profit.
	ROE (return on Equity)	NPAT / Total Equity	x 100	>5% >10% high risk	The organisation is making more Net Profit After Tax giving shareholders a greater return for their equity	The organisation is making Less Net Profit After Tax giving shareholders a worse return for their equity