

IV Profitability Ratios (part 2)

1. Return on Total Assets Ratio

$$= \frac{\text{EBIT}}{\text{Average Total Assets}} \times 100$$

* This ratio shows the financial income which a company earns in a financial year in comparison to the average of that company's total assets.

2. Return on Equity Ratio (ROE)

$$= \frac{\text{Net Income After Taxes}}{\text{Average Shareholders' Funds}} \times 100$$

* This ratio reflects the return on shareholder's funds that the business enterprise was able to earn

* Avg sh. holders' funds

$$= \frac{\text{Beginning sh. holder's funds} + \text{Ending sh. holder funds}}{2}$$

3. Return on Equity Shareholders' Funds

$$= \frac{\text{Net profit after Tax \& all types of preference dividends}}{\text{Average equity sh. holders' funds}} \times 100$$

* The ratio measures the relationship between Net profit & Equity share holders' funds.

* This ratio shows how much money is returned to the owners as a percentage of the money they have invested or retained in the company.

4. Earning per share ratio (EPS)

$$= \frac{\text{Net profit available to Eq. sh. holders}}{\text{No. of equity shares outstanding}}$$

* EPS is the portion of a company's profit that is allocated to each outstanding share of its common stock.

* Net profit calculated after deducting Tax and dividends on preference shares.

5. Dividend per share (DPS)

= $\frac{\text{Dividends (Earnings paid to share holders)}}{\text{No. of ordinary shares outstanding}}$

No. of ordinary shares outstanding

* Present & future investors are usually interested in DPS or an EPS

6. Price Earning Ratio

= $\frac{\text{Market value per share}}{\text{Earnings per share}}$

* This formula is used for valuing companies and to find out whether they are over valued or undervalued

* Market value is basically the current price at which a share or security is sold in the market.

* The market value will be higher than Book value per share in case of profitable & growing companies.

PROFITABILITY RATIOS (Part 2)

1. Calculate Earning per share (EPS) & Price Earning (P/E) Ratio from the following:

	(₹)
Equity shares of Rs 100 each	30 00 000
10% preference share capital	10 00 000
Profit before Tax	20 00 000
Depreciation	50 000

Tax Rate is 35% & proposed dividend is 20%. Also the Market price of equity share is Rs. 200 each.

2. Calculate P/E Ratio and Dividend per share from the following info:

	(₹)
① Net profit after Tax	50 00 000
② No. of Equity shares of Rs. 10 each	1 00 000 Sh.
③ Dividend paid	10 00 000
④ Market price per share	500

Ans 1 EPS = Rs. 40 per sh.
 P/E = 5 Times

Ans 2. P/E = 10 Times
 DPS = Rs. 10 per sh.