Ratio analysis

Finance

14/APR Commercial Bank of Dubai PSC Project BUS 2303 – Financial Management Aaesha Naser ALMail (H00249944) Table of contents

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Ratio definitions

Total debt ratio

Type: debt utilization

Purpose: it measures the percentage of assets that have been financed by debt (borrowings).

Formula:

Total debt=

Debt - equity ratio

Type: debt utilization

Purpose: this ratio measures what is the amount of debt for every $1 invested in Equity.

Formula:

Debt/Equity =

Times interest earned ratio

Type: debt utilization

Purpose: the purpose is to measure the firm's ability to meet interest payments out of it's operating profit.

Formula:

Times interest earned ratio=

Total assets turnover

Type: Assets utilization

Purpose: it measures how frequently a firm converts it’s current assets into cash.

Formula:

Total assets turnover =

Calculations

Commercial bank of Dubai PSC 2012

Commercial bank of Dubai PSC 2013

Industry Average 2013

Total debt ratio

0. 82

0. 83

. 45

Debt/Equity ratio

4. 77

5. 16

1. 2

Time interest earned ratio

1. 07

1. 13

12

Total Assets Turnover

4. 11

1. 15

2. 9

Trend analysis

Total debt ratio: the firm's has increased from 2012 to 2013 by 0. 01%. However, leverage implies risk, it also provides the common shareholders with the opportunity to enhance their return.

Debt/Equity ratio: the company had small percentage of Debt/Equity in 2012 equals 4. 77% and it increased to 5. 16% in 2013. In both years, it seems to be good as performance

Time interest earned ratio: the company earned more in 2013 than what it did in 2012, and increased it's risk to creditors because they may not get the interest that is due to them.

Total assets turnover: the company is better in 2012 in using Assets Turnover to generate sales. The assets Turnover is in decreasing trend from 2012 to 2013 and that indicates the company have less efficiency.

Comparing ratios with the industry averages

Total debt ratio: the firm has high ratio requires more funds to pay interest and repay principle amount. Because it's ratio more than industry average.

Debt/Equity ratio: The Company is doing very well because in 2013 the ratio equals 5. 15, which is higher than industry average, and it's a greater amount of debt.

Time interest earned ratio: The Company may face difficulty in borrowing additional funds. Because the creditors may not get the interest that is due to them.

Total assets turnover: the firm has less efficiency in using its assets to generate sales.

Reasons

Total debt ratio: our company has less ratio compared to industry average because they are using more of owners capital and retained earnings to

finance it's assets.

Debt/Equity ratio: the company is better than other companies because it has higher ratio, and that means our company is doing well.

Time interest earned ratio: the firm has less ability to meet interest payments out of operating profit.

Total assets turnover: the company has less efficiency in generating sales comparing to industry average.

Recommendation

Debt to income ratio compares the amount owed to that earned. Debt management requires that in case of a lower ratio, more savings should be done. An increasing debt to equity ratio means that the company is being financed more by creditors' more than internal cash flow. This is not healthy, and a firm should stick to its affordable growth rate tied to its assets. An increasing interest coverage ratio means that the company is gearing sufficient funds from its operations. This implies that the company does not have to use the cash at hand to make up for any difference or need to outsource funds.

Assets turnover ratio measures the amount of revenue generated from assets owned by the company. A decreasing trend because of reducing sales implies that promotions and advertising of sales must be done (Gibson and Gibson 187).

Conclusion

The debt to income ratio measures the level of total income to that of total assets of the company. The company's increasing ratio of 0. 01% means that the both assets and sales are on the rise. Debt to equity ratio increases in the current year which means a lesser risk to the potential shareholders of

the company. The investment potential of the company is safer for the likely investors. Competitors in the same industry are competing fairly with the company. The higher the higher the interest cover means improved ability of the company to pay its obligations. The company has enough chance to bear the amount of its prevailing finance cost.

From its assets turnover ratio, the company is not optimizing the use of its assets. The company cannot generate more sales with any fewer assets. Decreasing asset turnover ratio means a negative impact on the return on equity (Gibson and Gibson 187).