My First Stock
@myfirststock99

17-09-2022
10:00

10 Financial Terms of Investing explained 🧵👇

1) EBITDA
2) PAT
3) ROE
4) ROCE
5) D/E Ratio
6) Acid Test Ratio
7) Working Capital Turnover
8) PE
9) PS Ratio
10) Interest Coverage

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1) Earnings before Interest Tax Depreciation & Amortization (EBITDA) margin -

It shows how efficiently an organization is operating.

Ratio = EBDITA / Net Sales

EBITDA = Operating Income (EBIT) + Depreciation + Amortization

EBDITA Margin of 10% and more is considered good.

2) PAT Margin -

Its similar to EBDITA Margin, the only difference is - it is calculated after taxes.

PAT Margin = [PAT/Total Revenues]

A good margin will vary considerably by industry, but as a general rule of thumb, 5% is low, 10% is avg and 20% can be considered high

3) Return on equity

It indicates how much return the shareholders are making over their initial investment in the company

ROE - [Net Profit / Shareholders Equity* 100]

Generally 15%+ ROE can be considered to invest in a company with a good cashflow and low debt.

4) ROCE - Return on Capital Employed

Return on Capital employed indicates the overall return the company generates considering both the equity and debt

ROCE = [Profit before Interest & Taxes / Overall Capital Employed]

ROCE of 15% and above is considered good

5) Debt to Equity Ratio -

It can be measured directly from Balance sheet - [Total Debt/Total Equity]

D/E Ratio < 1 = Safe
1 < D/E < 2 = Moderate
D/E > 2 Aggressive and risky

Lower is better, means funds can be arranged easily

But then again depends on Sector to Sector

6) Interest coverage Ratio -

The interest coverage ratio is a debt and profitability ratio used to determine how easily a company can pay interest on its outstanding debt.

IC Ratio - [Earnings before Interest and Tax / Interest Payment]

Higher is better

7) Acid Test Ratio -

The acid-test ratio is a measure of how well a company can satisfy its short-term (current) financial obligations.

Ratio - {Currents Assets - Inventories}/Current Liabilities

Ideally, a business should have an acid-test ratio of at least 1:1

8) Working Capital Turnover -

Working capital turnover ratio indicates how much revenue the company generates for every unit of working capital.

Working Capital Turnover = [Revenue / Average Working Capital]

Higher the working capital turnover ratio the better it is

9) P/S - Price/Sales Ratio

This ratio compares the stock price of the company with the company's sales per share

Price to sales ratio = Current Share Price / Sales per Share

One can easily find overvalued and undervalued stocks using this ratio and by comparison with peers

10) Price to Earning (P/E) Ratio

P/E = Stock Price/ Earning per Share

P/E indicates how expensive or cheap the stock is trading at - lower is better

Compare PE of similarly placed companies to find undervalued gems.

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