

Miss: Guessoum Khawla

Lecture 06: Financial ratios.

1_ The meaning of financial ratios:

Financial ratios are quantitative measures used to assess the financial performance and health of a company. They are calculated using data from a company's financial statements, such as the balance sheet, income statement, and cash flow statement. Financial ratios provide valuable insights into a company's profitability, liquidity, efficiency, and overall financial stability.

2_ Types of financial ratios:

1. Profitability ratios: These ratios measure a company's ability to generate profits relative to its revenue or assets. Examples include gross profit margin, net profit margin, return on assets (ROA), and return on equity (ROE).

2. Liquidity ratios: These ratios assess a company's ability to meet its short-term obligations with its current assets. Examples include the current ratio and quick ratio.

3. Solvency ratios: These ratios evaluate a company's long-term financial stability and ability to meet its long-term debt obligations. Examples include the debt-to-equity ratio and interest coverage ratio.

4. Efficiency ratios: These ratios measure how effectively a company is utilizing its assets to generate revenue or profits. Examples include asset turnover ratio and inventory turnover ratio.

5. Market valuation ratios: These ratios assess how the market values a company's stock relative to its earnings or book value. Examples include price-to-earnings (P/E) ratio and price-to-book (P/B) ratio.

3_ the importance of financial ratios:

- Financial ratios are important because they give insights into a company's performance and health.
- Investors use them to make informed decisions.
- Companies use ratios to identify strengths/weaknesses and improve financial performance.
- Ratios are crucial for evaluating companies and making investment decisions.