Flipside Finance

AN IN-DEPTH LOOK INTO THE LEVERAGE ASPECT

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DEBT RATIO

Formula

$$\frac{\text{Total Debt}}{\text{Total Assets}} \times 100$$

Use Case

Indicates the proportion of a company's **assets** financed by **debt**.

Nuances

Companies with **higher** debt ratios may be more **sensitive** to changes in interest rates.

Example

If a company has $30 million in debt and $70 million in equity, the debt ratio is 0.3.

Industry Benchmarks

Retail	0% - 40%
Manufacturing	30% - 70%
Energy	30% - 60%
Consumer Goods	0% - 40%
Healthcare	20% - 50%
Technology	0% - 30%

DEBT-TO-EQUITY RATIO

Formula

$$\frac{\text{Total Debt}}{\text{Shareholder's Equity}} \times 100$$

Use Case

This measures the amount of **debt** used to finance assets compared to **shareholder equity**.

Nuances

Debt for **buybacks** or **dividends** may boost shareholder value but raises the **risk** with a higher D/E ratio.

Example

If a company has $50 million in debt and $100 million in equity, the D/E ratio is 0.5.

Industry Benchmarks

Retail	0% - 50%
Manufacturing	50% - 200%
Utilities	50% - 150%
Consumer Goods	0% - 50%
Real-Estate	50% - 200%
Healthcare	50% - 150%

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DEBT-TO-EBITDA RATIO

Formula

$$\frac{\text{Total Debt}}{\text{EBITDA}} \times 100$$

Use Case

Assesses a company's ability to repay its debt using its **operating income.**

Nuances

Some companies might have to exclude **non-recurring expenses** from EBITDA to get realistic view.

Example

If a company has $40 million in debt and EBITDA of $10 million, the ratio is 4 times.

Industry Benchmarks

Real-Estate	4 - 8 times
Manufacturing	3 - 6 times
Biotech	1 - 5 times
Consumer Goods	1 - 3 times
Automotive	3 - 7 times
Healthcare	2 - 4 times

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EQUITY MULTIPLIER

Formula

$$\frac{\text{Total Assets}}{\text{Shareholder's Equity}} \times 100$$

Use Case

Measures the proportion of a company's **assets** funded by **equity.**

Nuances

The ratio doesn't provide insights into **working capital** management.

Example

If a company has $150 million in assets and $50 million in equity, the EM is 3.

Industry Benchmarks

Retail	1 - 2
Real-Estate	6 - 10
Energy	2 - 5
Consumer Goods	1 - 2
Technology	1 - 3
Healthcare	2 - 4

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INTEREST COVERAGE RATIO

Formula

$$\frac{\text{EBIT}}{\text{Interest Expense}} \times 100$$

Use Case

Assesses a company's ability to cover **interest expenses** with its **operating income.**

Nuances

A declining trend in the ICR may suggest worsening **financial conditions** or increasing **leverage.**

Example

If a company has EBIT of $1 million and interest expenses of $200,000, the ratio is 5.

Industry Benchmarks

Automotive	2 - 6
F. Institutions	varies
Energy	2 - 5
Consumer Goods	5 - 10
Telecom	3 - 8
Technology	3 - 7

DEBT SERVICE COVERAGE RATIO (DSCR)

Formula

$$\frac{\text{Net Operating Income}}{\text{Total Repayments (Principle + Interest)}} \times 100$$

Use Case

Evaluates a firm's ability to cover its debt obligations from its **operating income.**

Nuances

DSCR may not always consider **lease obligations.**

Example

If a company has a net operating income of $2 million and total debt service of $1.5 million, the DSCR is 1.33.

Industry Benchmarks

Retail	1.2 - 2.0
Technology	1.0 - 2.0
Telecom	2.0 - 3.0
Utilities	2.0 - 3.0
Real-Estate	1.25 - 2.0
Healthcare	1.2 - 2.0

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