

Q6 ? How's the Du Pont Analysis for the company?

Objective:

The objective of Du Point Analysis is for granular insight into the most important business metric, namely, RoE (Return on Equity).

What to look for:

- ◆ Long-term trend of the 3 components of RoE – Profit Margin, Asset turnover and Leverage.

Framework #10

Du Pont Analysis

Du Pont Analysis is a financial framework developed by Du Pont Corporation, USA. It breaks down RoE into insightful components as under –

Return on Equity i.e.

$$\frac{\text{PAT}}{\text{Net Worth}} = \frac{\text{PAT}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Assets}} \times \frac{\text{Assets}}{\text{Net Worth}}$$

$$\text{PAT Margin} \times \text{Asset Turnover} \times \text{Leverage}$$

Investors must monitor all 3 variables to get timely opportunities. We ran a screener on the top 500 companies in 2015. The criteria were –

- ◆ 2020 PAT Margin > 2015 PAT Margin
- ◆ 2020 Asset Turnover > 2015 Asset turnover and
- ◆ Leverage <2 i.e. Debt equity not > 1.

Only 17 out of 500 companies met the above criteria. Needless to add, 15 of the 17 stocks have outperformed the market. Their average return is 15% v/s 1% for the Sensex. These companies are profiled below.

Framework #10

Rising margin and asset turn with healthy lever age is a sound formula for investing success

Company	PAT Margin		Asset Turn (x)		Leverage	Price CAGR
	2015	2020	2015	2020	2015	2015-20
P&G Health	4%	16%	2.4	2.9	1.1	32%
Abbott India	9%	12%	6.5	9.2	1.2	31%
Honeywell Auto	5%	13%	3.6	4.9	1.1	25%
AstraZeneca	-4%	7%	4.9	6.4	1.0	21%
EPL	6%	8%	1.4	1.4	1.3	20%
Balkrishna Inds	12%	17%	1.0	1.0	1.0	20%
3M India	6%	10%	2.5	3.0	1.0	19%
Godfrey Phillips	6%	10%	2.1	2.4	1.0	17%
Ipca Labs	8%	13%	1.1	1.3	1.0	17%
Sanofi India	9%	13%	1.8	2.2	1.0	13%
Sanofi India	10%	12%	1.8	2.0	1.1	12%
VST Industries	16%	22%	6.8	27.4	1.7	12%
The Ramco Cement	7%	11%	0.6	0.8	1.5	11%
Jubilant Life	-1%	10%	0.8	1.0	1.7	10%
Carborundum Univ.	4%	10%	1.4	1.6	1.0	3%
ABB	3%	4%	2.6	3.0	1.1	-4%
Siemens	2%	6%	2.9	3.0	1.1	-4%
Average Sensex						15%
						1%