SIMPLY WALL ST

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Comparing Mukand's 15% ROE Vs Its Industry

While some investors are already well versed in financial metrics (hat tip), this article is for those who would like to learn about Return On Equity (ROE) and why it is important. We'll use ROE to examine Mukand Limited (NSE:MUKANDLTD), by way of a worked example.

Return on Equity or ROE is a test of how effectively a company is growing its value and managing investors' money. Simply put, it is used to assess the profitability of a company in relation to its equity capital.

How Do You Calculate Return On Equity?

Return on equity can be calculated by using the formula:

Return on Equity = Net Profit (from continuing operations) ÷ Shareholders' Equity

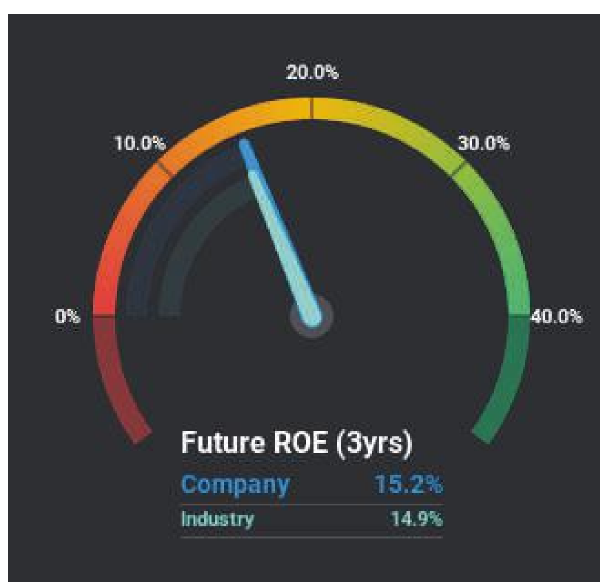
So, based on the above formula, the ROE for Mukand is

15% = ₹1.1b ÷ ₹7.4b (Based on the trailing twelve months to September 2022).

The 'return' is the amount earned after tax over the last twelve months. So, this means that for every ₹1 of its shareholder's investments, the company generates a profit of ₹0.15.

Does Mukand Have A Good Return On Equity?

One simple way to determine if a company has a good return on equity is to compare it to the average for its industry. However, this method is only useful as a rough check, because companies do differ quite a bit within the same industry classification. If you look at the image below, you can see Mukand has a similar ROE to the average in the Metals and Mining industry classification (15%).



NSEI:MUKANDLTD Return on Equity January 18th 2023

That isn't amazing, but it is respectable. Although the ROE is similar to the industry, we should still perform further checks to see if the company's ROE is being boosted by high debt levels. If a company takes on too much debt, it is at higher risk of defaulting on interest payments. Our risks dashboardshould have the 4 risks we have identified for Mukand.

How Does Debt Impact Return On Equity?

Virtually all companies need money to invest in the business, to grow profits. The cash for investment can come from prior year profits (retained earnings), issuing new shares, or borrowing. In the first two cases, the ROE will capture this use of capital to grow. In the latter case, the debt required for growth will boost returns, but will not impact the shareholders' equity. That will make the ROE look better than if no debt was used.

Combining Mukand's Debt And Its 15% Return On Equity

It appears that Mukand makes extensive use of debt to improve its returns, because it has an alarmingly high debt to equity ratio of 3.04. We consider it to be a negative sign when a company has a rather low ROE despite a rather high debt to equity.

Summary

Return on equity is one way we can compare its business quality of different companies. Companies that can achieve high returns on equity without too much debt are generally of good quality. All else being equal, a higher ROE is better.

But when a business is high quality, the market often bids it up to a price that reflects this. The rate at which profits are likely to grow, relative to the expectations of profit growth reflected in the current price, must be considered, too. You can see how the company has grow in the past by looking at this FREE **detailed graph** of past earnings, revenue and cash flow.

Of course, **you might find a fantastic investment by looking elsewhere**. So take a peek at this **free** list of interesting companies.

Valuation is complex, but we're helping make it simple.

Find out whether Mukand is potentially over or undervalued by checking out our comprehensive analysis, which includes **fair value estimates, risks and warnings, dividends, insider transactions and financial health**.