

Financial Ratio Analysis Of Kroger Corporation

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Kroger Company is a retailing company in the United States of America. It is one of the largest supermarket chains based on both revenues and retail. The firm operates subsidiaries in supermarkets, multi-department stores, jewellery stores, and other convenience stores across the country. The firm's financial analysis will examine its fiscal information with regard to decision-making. The analysis will help determine the business's performance and suitability in comparison to the industry standards set by competitors. This report will examine three financial ratios: return on assets, net profit margin, and return on equity.

Return On Assets

The return on assets ratio, also known as the return on total assets, is a profitability ratio that shows how profitable a company is in relation to its total assets (Higgins). The ratio measures the total net income generated by an organization's average total assets. It gives investors an idea of how the efficiency of the business's management in handling the firm's assets and using them to generate profit during specific accounting periods. Return on asset is given as a percentage and is calculated as shown below.

Return on Asset= (net income/ average total assets)*100%

Fiscal Year 2018

Net income =1.89B

Total assets= 37.81B

Return on assets= (1.89/37.81)*100%

ROA= 5%

Fiscal Year 2017

Net income= 1.96B

Total assets= 37.53B

Return on asset= (1.96/37.53)*100%

ROA=5.22%

YEAR	2017	2018
Net Income	1.96B	1.89B
Total Assets	37.53B	37.81B
ROA	5.22%	5%

Analysis Of Return On Asset

Since the return on asset is a ratio that measures how efficiently a company is using its assets to generate net income, a higher ratio is favourable as it indicates that more income is generated from the total assets. At 5.22%, Kroger's return on assets in 2017 was significantly higher than that of 2018, which was 5% (Yahoo Finance). This means that more profits were generated in the previous year. According to Yahoo Finance, the industry average for retail companies' return on assets is 7.37%. Kroger had an ROA of 5% in 2018 and 5.22% in 2017, which implies that the company's performance is exemplary relative to the industry ratio.

Net Profit Margin

The net profit margin is another profitability ratio that measures the percentage of net income of a business in comparison to its net assets. It shows what is left in revenues after all the relevant expenses are settled. This ratio is used to compare the profitability of companies within the same industry. It shows the potential of each company depending on its profitability.

The net profit margin is calculated as shown below:

Net profit margin = (net income/ net sales) *100%

Fiscal Year 2018

Net income = 1,907,000

Net sale = 122,662,000

Net profit margin = (1,907,000/122,662,000)*100%

Net Profit Margin = 1.55%

Fiscal Year 2017

Net income = 1,975,000

Net sales = 115,337,000

Net profit margin = $1,975,000 / 115,337,000$

Net Profit Margin = 1.71%

YEAR	2017	2018
Net Income	1,975,000	1,907,000
Net Sales	115,337,000	122,662,00
Net Profit Margin	1.71%	1.55%

Analysis Of The Net Profit Margin

The net profit margin ratios for the two years demonstrate the percentage of net income generated by sales in the respective years (Higgins). The net profit margin in 2017 (1.71%) was higher than the one in 2018 (1.55%), exhibiting a decline in profitability, perhaps due to borrowing expenses or a reduction in sales (Yahoo Finance). A higher net profit margin is favourable because it indicates more profitability and shows that the current business practices are working.

According to Yahoo Finance, the average industry ratio for net profit margin is 2.97%, and this shows that Kroger Company is doing well. The variation in this ratio from the industry or competitor standards is due to factors such as competition, product differentiation, elasticity of demand, and other factors in play in the market.

Return On Equity

Return on equity is another profitability ratio that measures the ability of a company to make profits from its equity investments. This ratio indicates how much profit a company is making from the capital invested by common shareholders and is usually expressed as a percentage. Besides, return on equity also shows how a company's management is using equity to fund its operations and achieve its growth targets.

The formula for calculating return on equity is demonstrated below:

Return on equity ratio = (net income/shareholder's equity)*100% (Higgins, p.38).

Fiscal Year 2018

Net income = 1,907,000

Shareholder's equity = 2,906,000

Return on equity = $(1,907,000/2,906,000)*100\%$

ROE = 65.62%

Fiscal Year 2017

Net income = 1,975,000

Shareholder's equity = 2,514,000

Return on equity = $1,975,000/2,514,000$

ROE = 77.72%

YEAR	2017	2018
Net Income	1,975,000	1,907,000
Shareholder's equity	2,514,000	2,906,000
ROE	77.72%	65.62%

Analysis Of Return On Equity

Return on equity gives an insight into how a company's management is using equity to finance the firm's growth. A sustainable return on equity means that a company is using its equity efficiently to generate returns for shareholders. The equity is reinvested in productive and good assets. A poor ROE ratio implies that the company invested in unproductive assets and made poor decisions with regard to investment. A comparison of a firm's ROE with the industry average can show how the company competes with others in the same industry. According to CSIMarket.com, the industry's average ROE is 23.67%. When compared with Kroger, it is evident that the business is doing well and surpassing

industry expectations. This shows that it has a substantial competitive advantage over its competitors.

Works Cited

Higgins, Robert. (2012). *Analysis for financial management*. New York: McGraw-Hill Education, 2012.

Yahoo Finance. "The Kroger Company." *Yahoo Finance*. Yahoo, 2018. Retrieved from <https://finance.yahoo.com/quote/KR/financials?p=KR>