A Report on

“Fundamental analysis”

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Executive summary

Fundamental analysis is basically done for long term and mid term investment which is also called as delivery based investment or trading. The main important aim behind is to study and understand the company in which you are planning to invest your hard earned money and get excellent returns.

In the fundamental analysis include economic analysis, industry analysis and company analysis. In the fundamental analysis mainly focus on analysis of company as ratios, balance sheet, profit and loss account, cash flow statement.

In this project focus on warren buffet strategy and long term investment in share market.

Learning: In this project I have learn how to analysis of financial statement of company and get useful information. How to find out intrinsic value of company and give recommendation of company share price that buy sell and hold

Fundamental analysis:

Fundamental analysis is basically done for long term and mid term investment which is also called as delivery based investment or trading. The main important aim behind is to study and understand the company in which you are planning to invest your hard earned money and get excellent returns.

Fundamental analysis is the examination of the underlying forces that affect the well being of the company, industry groups and companies. As with most analysis the goal is to develop a forecast of future price movement and profit from it. At the company level, fundamental analysis may involve examination of financial data, management, business concept and competition. At the industry level their might be an examination of supply and demand forces of the products. For the national economy fundamental analysis might focus on economic data to asses the present and future growth of the economy.

Fundamental analysis is a method of evaluating a security by attempting to measure its intrinsic value by examining related economy, financial and other qualitative and quantitative factors. Fundamental analysis attempt to study every thing that can effect the securities value including macro economic factors and individual specific factors.

Three phase of the fundamental analysis

A. Understanding of the Macro Economic environment and developments (Economy analysis)

B. Analyzing the prospectus of the industry to which the firm belongs (Industry analysis)

C. Assessing the projected performance of the company (Company analysis)

Economic analysis

The purpose of analyze economic condition of the country in fundamental analysis to asses the general economic situation both within the country and internationally. The economy is like the tide and the various industry groups and individual companies are like boats. When economy expands most industry groups and companies benefits and grows. When the economy decline most sector and companies usally suffer. The stock market does not operate in a vacuum it is an integral part of the whole economy of a country, more so in a free economy that of United States and to some extent in mixed economy like ours. To gain insight into the complexities of stock market. One needs to develop a sound economic understanding and be able to interpret the impact of important economic indicators on stock markets.

The following are some important factors which should be taken into account while doing fundamental analysis:

- Economic Growth
- Per capita income
- Industrial Production
- Inflation
- Interest Rates
- Foreign Exchange Reserves
- Budgetary Deficit
- Domestic Savings and Investment
- Tax Rates
- Infrastructure
- Political Situation

Economic overview of India:

Economic Survey of India 2010-11 was tabled by the Union Finance Minister of India Pranab Mukherjee on 25 February 2011.The Survey predicted the 9% growth for Indian economy in the next fiscal and estimated 8.6 percent growth in this financial year. The Economic Survey expressed concern over inflation and advocated for more money tightening by the Reserve Bank of India to reduce inflationary pressures. As per the survey, the inflation stood at 8.23 per cent in January 2011. The Survey stated that inflation could be 1.5 per cent more in future as India is on a growth path. As per the Survey, despite risks of global events like volatility in commodity prices and political turmoil in the West Asia, the Indian economy is set to grow faster and scale greater heights. It further adds that industrial output grew by 8.6 per cent and is concerned about the fall in factory output in the coming months.

According to the economic Survey, Manufacturing registered 9.1 percent growth and Exports had an impressive growth of 29.5 percent from April to December. The Survey pointed out that imports also increased by 19 percent in the same period due to higher prices of crude oil and food grains.

The economic Survey of India stated that the trade gap has narrowed to over 82 billion US dollars in the first nine months of the current fiscal and gross fiscal deficit is at 4.8 per cent which is 1.5 percent less than last fiscal. The Survey stated that the spending in social sector programmes increased by five percent of the GDP over past five years.

As per the economic Survey of India 2010-11, the production of food grains is estimated at over 232 million tonnes with record production of wheat. It makes a strong case for a second green revolution with technological breakthrough in agriculture sector. The Survey also emphasised on the scope for further improvements in Mahatma Gandhi National Rural employment guarantee scheme to build permanent assets including infrastructure development.

The Survey pointed out that Forex reserves of India are estimated to be over 297 billion US dollars. This is mainly due to growth in export sector.

On the reform agenda the Economic Survey urged for better convergence of schemes to avoid duplications and leakage and to ensure that benefits reach to the targeted groups. It also supported for urgent need to focus on land acquisition and environment clearance for infrastructure projects and huge capacity addition in this vital sector in a time bound manner.

Besides advocating for a new goods and services tax, the Economic Survey also suggested increasing private public partnerships in infrastructure sector.

According to the Economic Survey of India, inflation and widening current account deficit remain major areas of concern. The Economic Survey put emphasis on the farm and the infrastructure sectors for achieving higher economic growth.

Industry analysis

The purpose of industry analysis is to review prevailing conditions within specific industry and its segments. The company's industry obviously influences the outlook for the company. Even the best stocks can post mediocre returns if they are in an industry that is struggling.

“It is often said that a weak stock in a strong industry is preferable to a strong stock in a weak industry.”

To assess the industry group potential, an investor would want to consider the overall growth rate, market size, and its importance to economy. While the individual company is still important, its industry group is likely to exert as much as, or more, influence on the stock price. When stock move the usually move as groups; there are very few lone guns out there. An understanding of the industry sector involved, including the maturity of the sector and any cyclical effects that the overall economies have on it, is also necessary.

The followings are some important factors which should be considered in Fundamental Analysis

- Growth: A growing industry gives room for profitability.
- Profitability: Average profitability of the industry should be attractive.
- Demand-Supply: the wider demand supply gap, the better is the industry’s fortune in the future
- Entry barrier
- Competition and Market share:
- Technology trends
- Government Policy
- Capacity Utilization

Industry Overview

Products which have a quick turnover, and relatively low cost are known as Fast Moving Consumer Goods (FMCG).The FMCG sector seems to have finally joined India Inc's growth party by posting surprising double-digit growth in sales in the past couple of years. With annual revenues of Rs 72,000 crore, it is the one of the largest sectors in the Indian economy. The industry's future prospects look bright, considering rising household incomes and the spread of modern retail. However, the per capita income level in India is still very low compared to the developed world. Besides, the penetration level of many products is also relatively low and several categories remain fairly unbranded.

All these factors provide a huge untapped potential for the industry. In contrast to other manufacturing sectors, FMCG is relatively less capital-intensive, but demands immense skills and expenditure on branding and distribution. Most companies in the sector create value through product differentiation, package innovation, and differential pricing and highlighting the functional aspect of foods. While inflation restricts the industry's growth, many companies in the sector thrive under inflationary pressures. Most companies pass on the cost inflation to consumers, via a judicious blend of price hikes, packaged size reduction and change in product mix. Few consumers react by down trading to lower priced products, but most hang on to their preferred brands.

The top five FMCG companies constitute nearly 70% of the total revenues generated by this sector. Multinational FMCG companies like Hindustan Unilever, ITC, Nestle, Procter & Gamble, Dabur India and GlaxoSmithKline Consumer Healthcare traditionally comprise the first category of FMCG companies. They tend to spend nearly 10% of their revenues on an average on advertising and promoting their products, which is the highest ad spend figure in the industry.

Justifying their high product pricing, these companies largely tend to capture value by addressing a felt need. FMCG products are those that get replaced within a year. Example of FMCG generally include a wide range of frequently purchased consumer products such as toiletries, soap, cosmetics, tooth cleaning products, shaving products and detergents, as well as other nondurables such as glassware, bulbs, batteries, paper product, and plastic good. FMCG may also include pharmaceuticals, consumer 10 electronics, packaged food products, soft drinks, tissue paper, and chocolate bars. Subsets of FMCGs are Fast Moving Consumer Electronics which include innovative electronic products such as mobile phones, MP3 players, digital cameras, GPS Systems and Laptops. These are replaced more frequently than other electronic products

The Indian FMCG sector is the fourth largest sector in the economy with a total market size in excess of US$ 13.1 billion. It has a strong MNC presence and is characterized by a well established distribution network, intense competition between the organized and unorganized segments and low operational cost.

Availability of key raw materials, cheaper labour costs and presence across the entire value chain gives India a competitive advantage.

The FMCG market is set to treble from US$ 11.6 billion in 2003 to US$ 33.4 billion in 2015. Penetration level as well as per capita consumption in most product categories like jams, toothpaste, skin care, hair wash etc in India is low indicating the untapped market potential. Burgeoning Indian population, particularly the middle class and the rural segments, presents an opportunity to makers of branded products to convert consumers to branded products.

Growth is also likely to come from consumer 'upgrading' in the matured product categories. With 200 million people expected to shift to processed and packaged food by 2010, India needs around US$ 28 billion of investment in the food-processing industry.

Automatic investment approval (including foreign technology agreements within specified norms), up to 100 per cent foreign equity or 100 per cent for NRI and Overseas Corporate Bodies (OCBs) investment, is allowed for most of the food processing sector. At the macro level, Indian economy is poised to remained buoyant and grow at more than 7%. The economic growth would impact large proportions of the population thus leading to more money in the hands of the consumer. Changes in demographic composition of the population and thus the market would also continue to impact the

FMCG industry

Recent survey conducted by a leading business weekly, approximately 47 per cent of India's 1 + billion people were under the age of 20, and teenagers among them numbered about 160 million. Together, they wielded INR 14000 Cr worth of discretionary income, and their families spent an additional INR 18500 Cr on them every year. By 2015, Indians under 20 are estimated to make up 55% of the population - and wield proportionately higher spending power. Means, companies that are able to influence and excite such consumers would be those that win in the market place.

The Indian FMCG market has been divided for a long time between the organized sector and the unorganized sector. While the latter has been crowded by a large number of local players, competing on margins, the former has varied between a two-player-scenario to a multi-player one.

Unlike the U.S. market for fast moving consumer goods (FMCG), which is dominated by a handful of global players, India's Rs.460 billion FMCG market remains highly fragmented with roughly half the market going to unbranded, unpackaged home made products. This presents a tremendous opportunity for makers of branded products who can convert consumers to branded products. However, successfully launching and growing market share around a branded product in India presents tremendous challenges. Take distribution as an example. India is home to six million retail outlets and super markets virtually do not exist. This makes logistics particularly for new players extremely difficult. Other challenges of similar magnitude exist across the FMCG supply chain. The fact is that FMCG is a structurally unattractive industry in which to participate. Even so, the opportunity keeps FMCG makers trying.

The FMCG sector in India is expected to grow at a compounded Annual growth rate (CAGR) of 9% to a size of Rs 1, 43,000 crore by 2010.

Company analysis

The purpose of company analysis to analyze the financial and non-financial aspects of a company to determine whether to buy, sells, or holds onto the shares of a particular company After determining the economic and industry conditions, the company itself is analyzed to determine its financial health. This is usually done by studying the company's financial statements. From these statements a number of useful ratios can be calculated. The ratios fall under five main categories: profitability, price, liquidity, leverage, and efficiency. When performing ratio analysis on a company, the ratios should be compared to other companies with in the same or similar industry to get a feel same or similar industry to get a feel for what is considered" normal." These are quantitative factors of company analysis; there are also some qualitative factors which should be considered also.

- ✓ Find out as much as possible about the company and their products.
- ✓ Do they have any "core competency" or "fundamental strength" that puts them ahead of all the other competing firms?
- ✓ What advantage do they have over their competing firms?
- ✓ Do they have a strong market presence and market share? Or do them constantly have to employ a large part of their profits and resources in marketing and finding New customers and fighting for market share?

Following are some more important aspects about company

- Shareholding pattern
- Growth
- Technology
- Expansion Plan
- Profitability
- Capital History
- Marketing Capabilities
- Most important its financial statement

After you understand the company & what they do, how they relate to the market and their customers, you will be in a much better position to decide whether the price of the companies stock is going to go up or down. So fundamental analysts use different tools and ratios to compare all sorts of companies no matter what business they are in or what they do

Company overview

Nestle India: Nestle India is a subsidiary of Nestle S.A. Of Switzerland. With seven factories and a large number of co-packers, Nestlé India is a vibrant Company that provides consumers in India with products of global standards and is committed to long-term sustainable growth and shareholder satisfaction.

The Company insists on honesty, integrity and fairness in all aspects of its business and expects the same in its relationships. This has earned it the trust and respect of every strata of society that it comes in contact with and is acknowledged amongst India's 'Most Respected Companies' and amongst the 'Top Wealth Creators of India'.

Nestlé has been a partner in India's growth for over nine decades now and has built a very special relationship of trust and commitment with the people of India. The Company's activities in India have facilitated direct and indirect employment and provides livelihood to about one million people including farmers, suppliers of packaging materials, services and other goods.

The Company continuously focuses its efforts to better understand the changing lifestyles of India and anticipate consumer needs in order to provide Taste, Nutrition, Health and Wellness through its product offerings. The culture of innovation and renovation within the Company and access to the Nestlé Group's proprietary technology/Brands expertise and the extensive centralized Research and Development facilities gives it a distinct advantage in these efforts. It helps the Company to create value that can be sustained over the long term by offering consumers a wide variety of high quality, safe food products at affordable prices.

Nestlé India manufactures products of truly international quality under internationally famous brand names such as NESCAFÉ, MAGGI, MILKYBAR, MILO, KIT KAT, BAR-ONE, MILKMAID and NESTEA and in recent years the Company has also introduced products of daily consumption and use such as NESTLÉ Milk, NESTLÉ SLIM Milk, NESTLÉ Fresh 'n' Natural Dahi and NESTLÉ Jeera Raita. Nestlé India is a responsible organization and facilitates initiatives that help to improve the quality of life in the communities where it operates.

BRANDS

MILK PRODUCTS AND NUTRITION

- EVERYDAY DAIRY WHITENER
- EVERYDAY GHEE
- MILK
- SLIM MILK
- SILM MILK
- NEVISTA PRO-HEART MILK
- FRESH ‘n’ NATURAL DAHI
- FREAH ‘n’ NATURAL SLIM DAHI

- JEERA RAITA
- NESVITA DAHI
- MILKMAID FRUIT YOGHURT
- MILKMAID
- MILKMAID FUNSHAKES
- NIDO

BEVERAGES

- NESCAFE CLASSIC
- SUNRISE PREMIUM
- SUNRISE SPECIAL
- CAPPUCCINO
- MILO SMART PLUS READY –TO- DRINK
- ICED TEA WITH GREEN TEA
- NESTEA ICED TEA
- PREPARED DISHES AND COOKING AIDS
- MAGGI 2 MINUTE NOODLES
- VEG ATTA NOODLES
- RICE NOODLES MANIA
- CUPPA MANIA
- SAUCES
- PICHKOO
- PIZZA MAZZA
- MAGIC CUBES
- BHUNA MASALA
- COCONUT MILK POWDER
- HEALTHY SOUPS
- HEALTHY SOUP-SANJEEVNI

CHOCOLATES ANs CONFECTIONERY

- KIT-KAT
- KIT-KAT CHUNKY
- MUNCH
- MUNCH POP CHOC
- MILKYBAR
- MILKYBAR CHOO
- BAR-ONE
- MILK CHOCOLATE
- POLO
- ECLAIRS

Current situation of nestle:

“Nestle India continues its stellar performance in Q1CY11 despite of raw material pressure and much talked intensifying competition in instant noodles business,” said Himani Singh, an analyst with Elara Capital. For the First Quarter of Calendar Year 2011 Nestle India posted total sales of Rs. 18,144 lack as compared to Rs. 14,854 lack in the same period in CY2010, a 8.3% quarter-on-quarter growth. Net profit was Rs. 2,557 lack vis-à-vis Rs. 2,034 lack in the same period in 2010, a growth of 25.7%. “Domestic sales have increased by 23.1% on account of volumes as selling prices,” was the information put out by Nestle India on their quarterly numbers.

In the FMCG sector their product mix is important and analysts have given Nestlé’s product strategy a nod. The focus on better product mix helped the company to expand its margins. Also their strategy of new product launches is helping them to fight off the competition and combat the pressure of raw materials. But there are challenges that Nestle India will have to confront. While net profit has increased year-on-year growth could have been even better, but for the higher tax outgo. Also, the company’s Pantnagar facility will come out from 100% tax exemption to 30% in April 2011, which according to analysts means that tax rates for Nestle for CY11 are likely to increase from current 28%to30%.

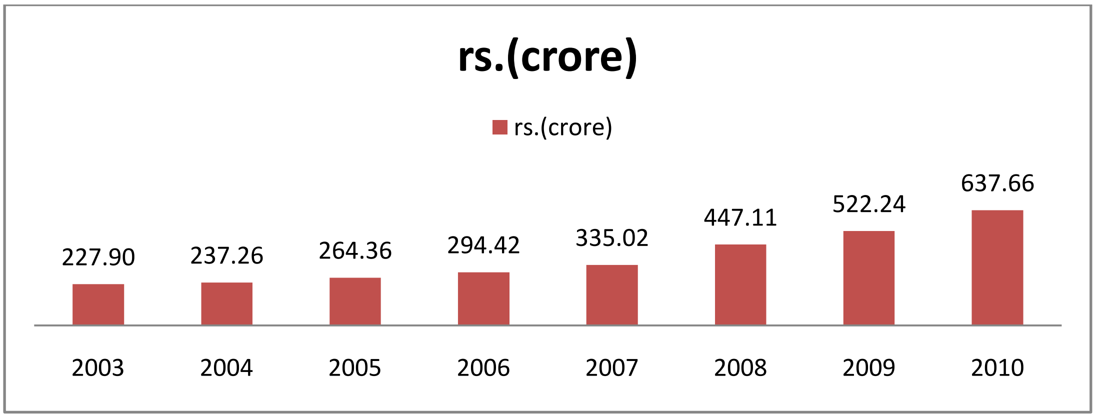
We believe Nestle is one of the best plays on the healthy growth potential in the Indian food-processing sector. To meet the rising consumer demand, Nestle plans to spend approximately Rs. 20-25 billion on capex over the next 2-3 years. Due to this high capex, the dividend payout ratio is likely to remain below normal levels over the next two years,’ was the inputs from IIFL – India Private Research Team.

‘Financial ration of nestle

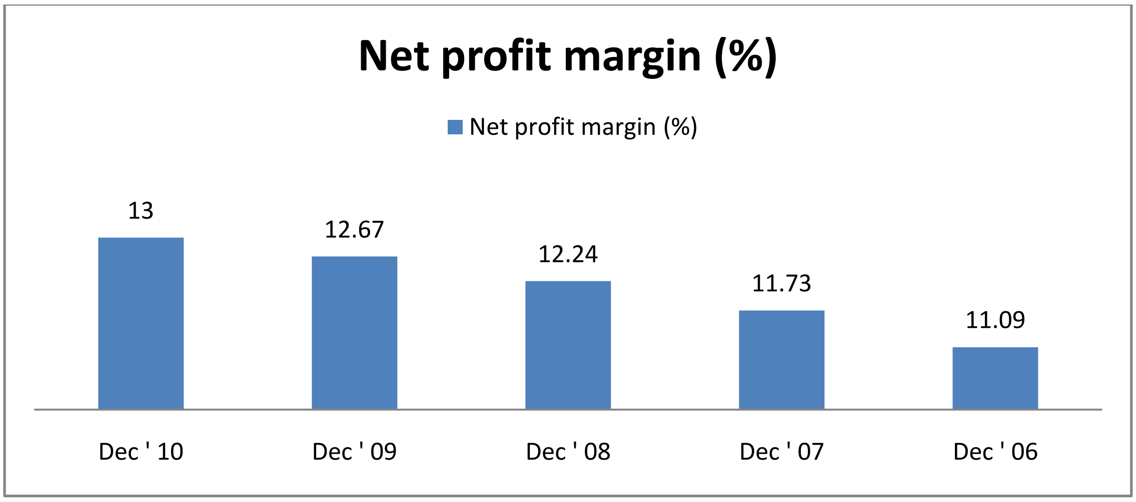
A financial ratio is an expression of the relationship between two selected items from the income statement or the balance sheet. Ratio analysis helps you to evaluate the weak and strong points in your financial and managerial performance. Financial ratio analysis is calculation and comparison of ratio which are derived from the information in a company’s financial statements. The level and historical trends of these ratios can be used to make inferences about a company’s financial condition its operations and attractiveness as an investment

Sales:

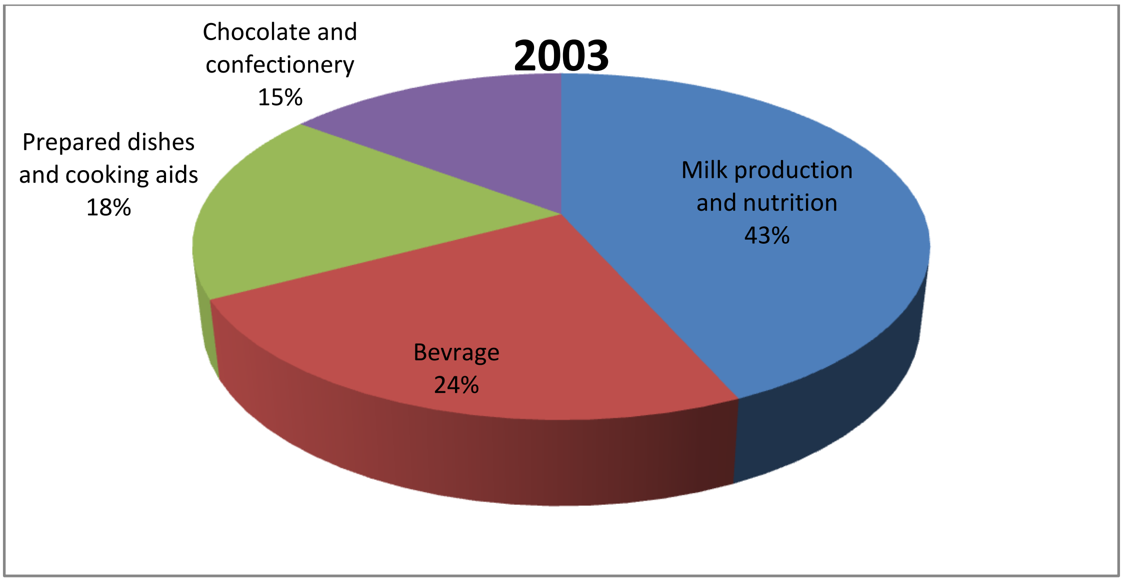
Year	2003	2004	2005	2006	2007	2008	2009	2010
Sales(cr.)	227.9	237.26	264.36	294.32	335.02	447.11	522.24	637.66



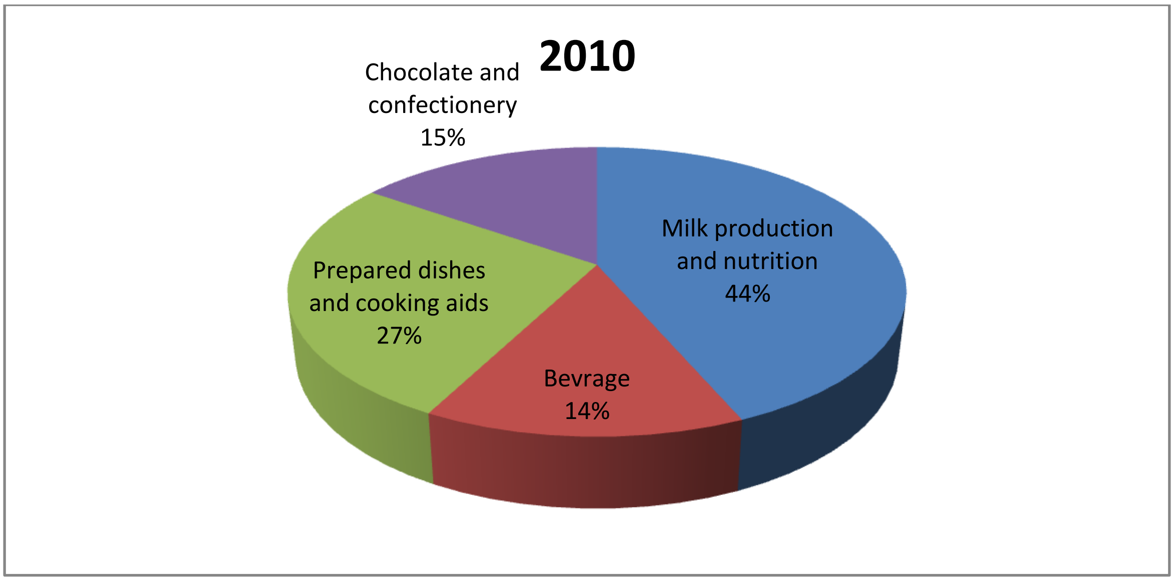
Net profit margin (%): Company increase continue net profit margin



Sales share in 2003:



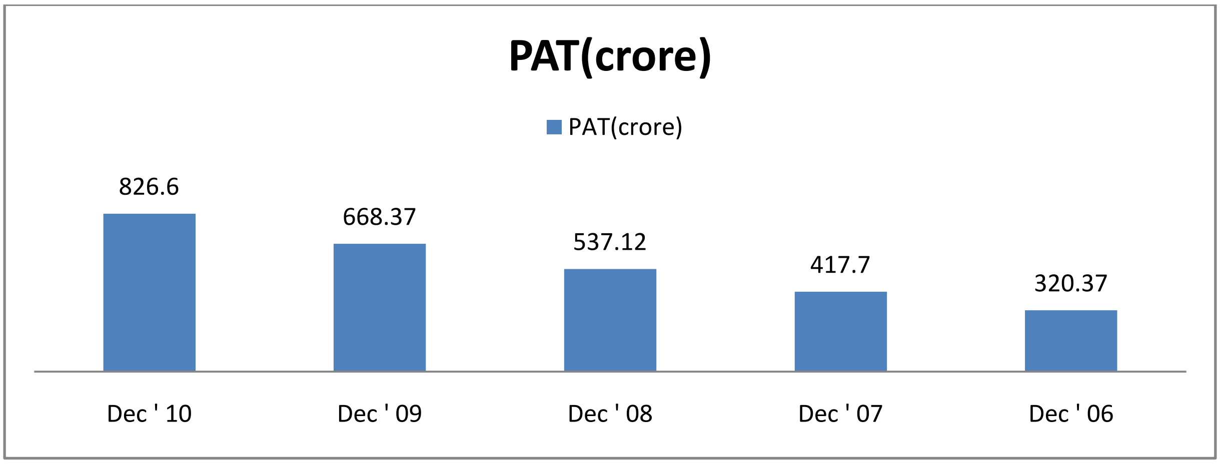
Sales share in 2010:



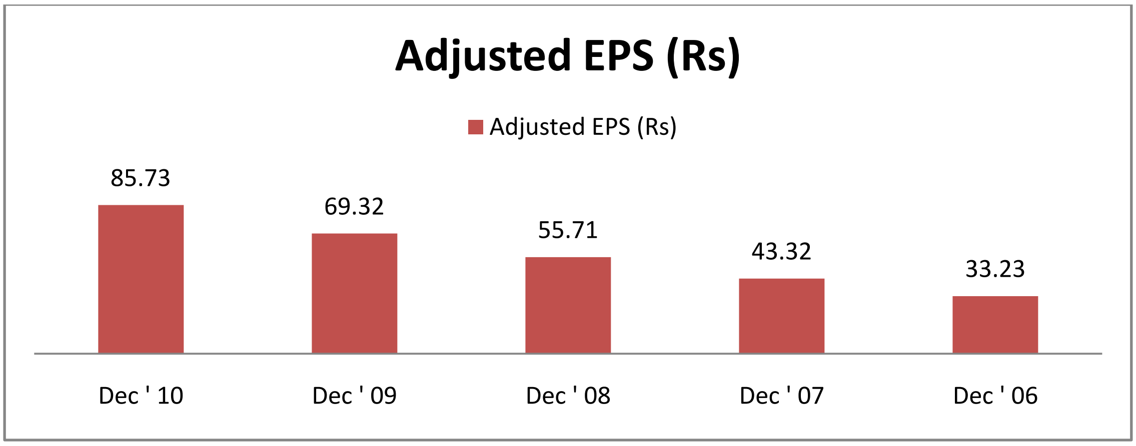
Interpretation: increase share of prepared dishes and cooking aids in 2003 was18% in 2010 its 27%

Profit after tax:

Year	2006	2007	2008	2009	2010
Profit (cr.)	826.6	668.37	537.12	417.7	320.37

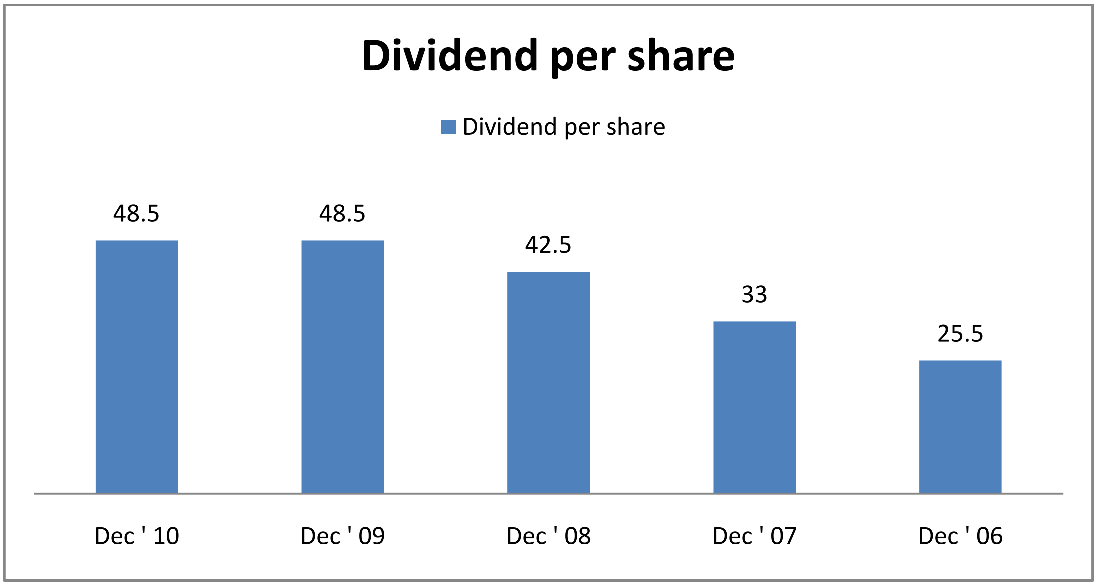


Earning per share:



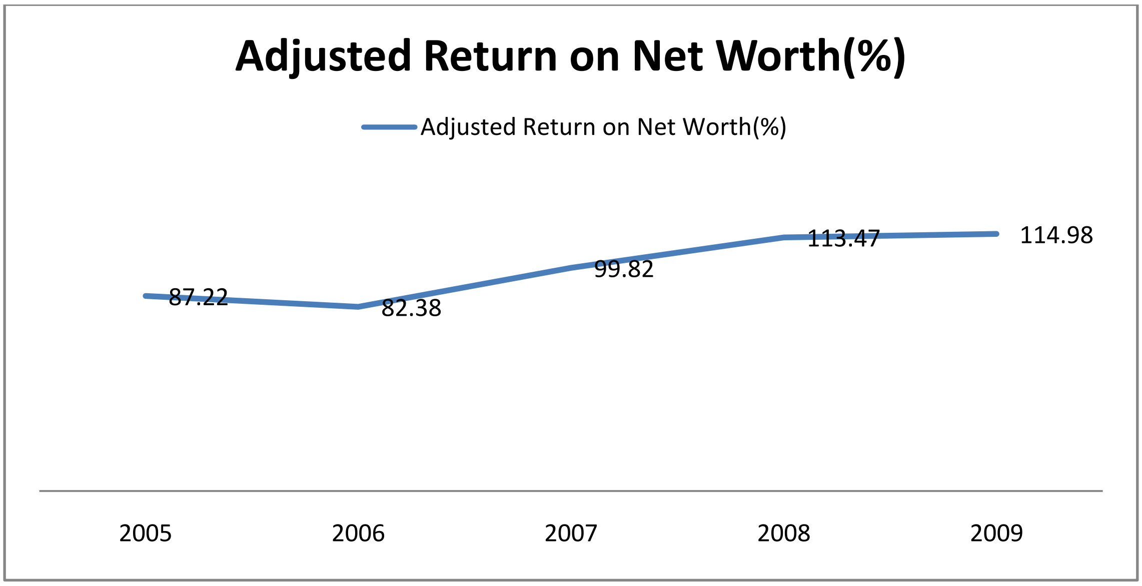
Interpretation: - High earning per share is considered good from investor's point of View. Nestlé's this ratio is increasing year by year. It shows that investors has good prospectus in Nestle if they will purchase is share.

Dividend per share:



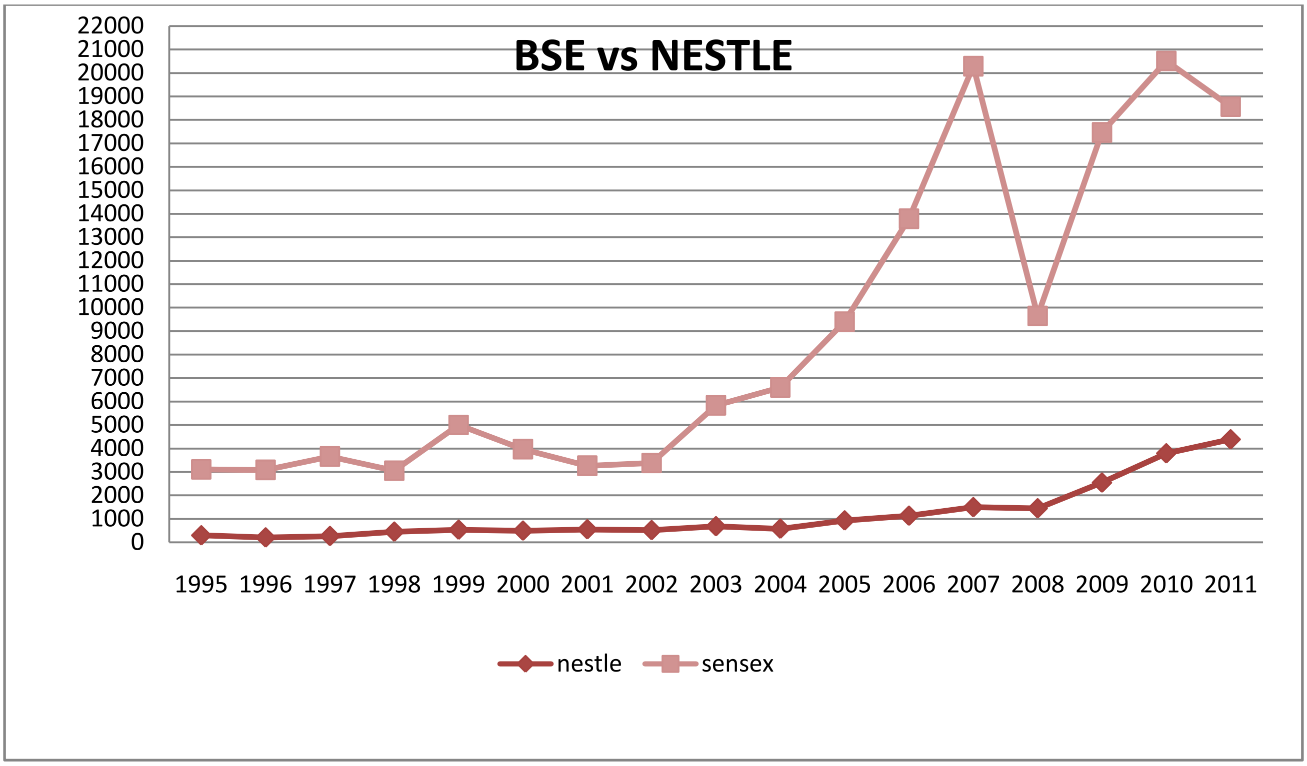
Interpretation: Dividends are a form of profit distribution to the shareholder. Having a growing dividend per share can be a sign that the company's management believes that the growth can be sustained

Return on net wroth:

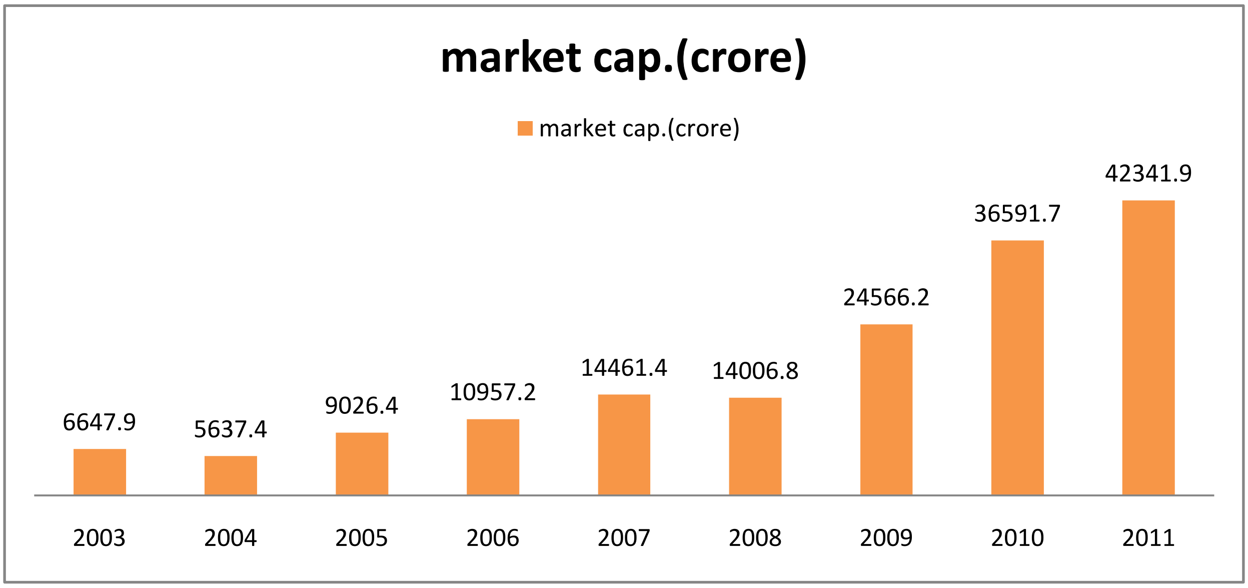


Interpretation: This ratio useful for comparing the profitability of a company to that of other firms in the same industry and ratio also consider efficiency of a company operation

Performance of BSE vs. Nestle last fifteenth year



Market capitalisation:



Factor responsible for future projection of growth:

Spending pattern:

An increase is spending pattern has been witnessed in Indian FMCG market. There is an upward trend in urban as well as rural market and also an increase in spending in organized retail sector. An increase in disposable income, of household mainly because of in-crease in nuclear family where both the husband and wife are earning, has leads to growth rate in FMCG goods.

Changing profile and mind set:

People are becoming conscious about health and hygienic. There is a change in the mind set of the Consumer and now looking at “Money for Value” rather than “Value for Money”. We have seen willingness in consumers to move to evolved products/ brands, because of changing lifestyles, rising disposable income etc. Consumers are switching from economy to premium product even we have witnessed a sharp increase in the sales of packaged water and water purifier.

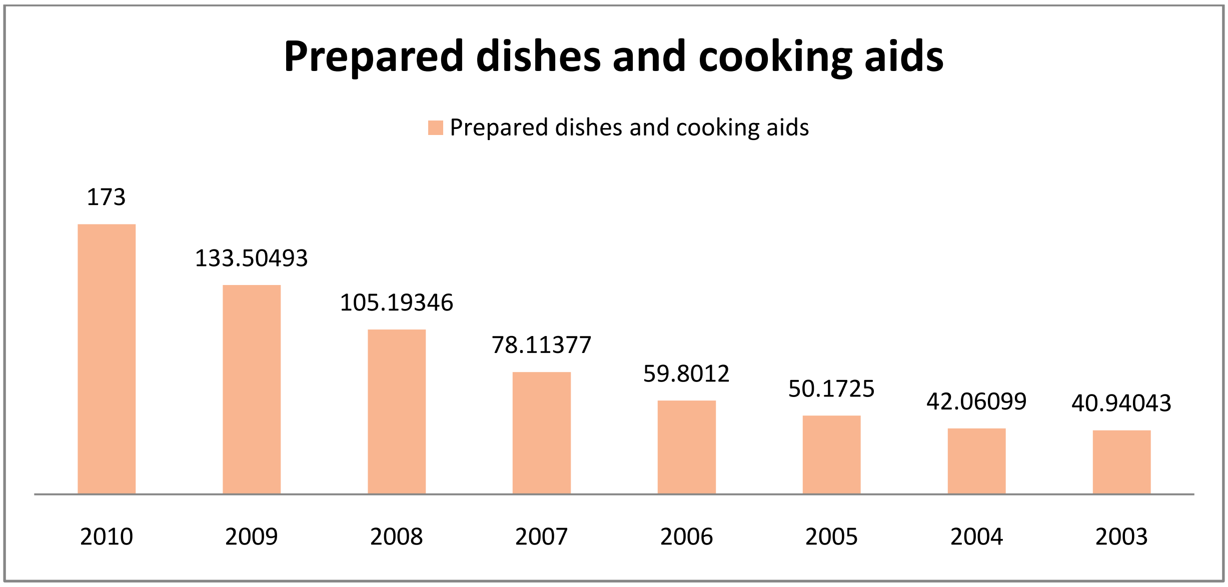
Market size: According to estimates based on China's current per capita consumption, the Indian FMCG market is set to treble from US$ 11.6 billion in 2003 to US$ 33.4 billion in 2015. The dominance of Indian markets by unbranded products, change in eating habits and the increased affordability of the growing Indian population presents an opportunity to makers of branded products, who can convert consumers to branded products

Findings according to a recent survey by A. C. Nielsen shows about 71 per cent of Indian take notice of packaged goods' labels containing nutritional information compared to two years ago which was only 59 per cent.

Other factor:

- ✓ Changing consumer preference from unpacked/unbranded packed food to packed/branded packed food
- ✓ Strong product portfolio with some of best-knows branded globally such as Nescafe Maggi kitkat,Polo,and milo
- ✓ Nestle maintain leadership position in noodles and baby foods
- ✓ Nestle able to launch its brand extensions successfully. Compare to other FMCG player
- ✓ Increase share of prepare Dishes and cooking aids
- ✓ The FMCG market set to treble from us $ 11.6 billion in 2003 to US $33.4 billion 2015
- ✓ Successful understanding of changing life style of Indian

Sales growth of prepaid dishes and cooking foods



Future project of nestle India:

Nestle India is planning a capex for brown field projects at Samalkha (Rs 650 crore), Nanjangud (Rs 400 crore), Ponda (Rs 500 crore) and Bicholim (Rs 150 crore), apart from two greenfield projects, totalling Rs 1,700 crore over the next four-five years (Rs 550 crore in CY11). This is far higher than Rs 920 crore spent in the last five years.

Intrinsic value of share:

r			1	2	3	4	5	6	7	8	9	10
year profit			8186	9413.9	10826	12450	14317	16465	18935	21775	25041	287
th rate			15%	15%	15%	15%	15%	15%	15%	15%	15%	15
count factor			0.934	0.874	0.816	0.762	0.7129	0.6663	0.6227	0.582	0.543	0.5
count value per annum			7645.72	8227.7	8834	9486.8	10207	10971	11791	12673	13597	146
al of pv of cash flow			108062									
idual value												
h flow in year 10					14630							
th rate					5%							
h flow in year 11					14637.3							
italization rate (k-g)					2%							
ue at end of year 10					731866							
count factor at end year 0					0.508							
					371788							
ket value of pany(million)					479850							
ket value of pany(lack)					4798496							
of share(lack)		964.16										
ue per share					4976.87							

Recommendation:

On the basis of this assignment's data we can say that there will be benefit to investors to invest their money in FMCG sector because FMCG sector is growing industry. And Indian government is also providing various facilities in the development of FMCG industry. In India Nestle is growing company. On the basis of its various ratios Net profit margin ratio, earning per share, dividend payout ratio, return on net worth, we can say that company has good profitability condition, good liquidity position; good market condition because earning per share is increasing every year. So on the **basis of intrinsic value we can say that investor can take benefit in future by purchasing Nestle share**

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When you are investing in share market some factor most important which is compulsory know for you if you don’t know about it, don’t invest in share market

If an investor invest money these are compulsory factor:

Here are the 12 tenets Hagstrom says for the basis for how Buffett decides which stocks or companies to buy.

Is the business simple and understandable?

Buffett will not invest in a business he can not understand, which is one of the reasons he avoided technology stocks even during the boom of the late 1990s. If you understand a business, you have a better chance of seeing opportunities and problems before they arise.

Does the company have a consistent operating history?

Although past performance is no guarantee of future results, it does show whether a business can operate in a variety of business conditions.

Does the business have favourable long-term prospects?

This may seem like a no-brainer, however Buffett believes in holding good companies for the long term and that meant seeing a clear future. Companies that operated on trends, fads and technology that is out of date tomorrow didn’t fit his model regardless of how profitable they were in the short run.

Is the management rational?

Buffett places a great deal of importance on management and one of the areas he focuses on is how excess cash is used. If the company can generate above average returns by reinvesting the cash in the business it should do so because this builds shareholder value. However, if not the management should return the cash to shareholders. In other words, the decision should be rational.

Is the management candid with shareholders?

Although strides have been made in opening company books, Buffett believes that many company executives still hide behind accounting conventions and don’t fully report to shareholders. He admires managers that admit mistakes and take responsibility for the company.

Does management resist the institutional imperative?

Buffett describes the institutional imperative as that need for managers to act and do like their peers no matter how irrational it may seem. Call it peer pressure for CEOs.

What is return on equity?

Buffett focuses on return on equity rather than the more popular earnings metric in evaluating companies. His rationale is that earnings are fleeting and can be manipulated. Long term, return on equity will have a more profound effect on the company's fortune than earnings.

What are the company's "owner earnings?"

Buffett uses a rough calculation that replaces the traditional cash flow calculation to give him a clearer picture of company value. His calculation includes estimates of future capital expenditures, something missing in cash flow calculations.

What are the profit margins?

If a company can't convert sales into profits, it has obviously failed. One of the ways this happens is to keep expenses to a minimum. Buffett avoids companies with bloated expenses because it reflects a lack of discipline even if the company is profitable – it would be more profitable if expenses were always controlled.

Has the company created at lease one dollar of market value for every dollar retained?

Buffett notes that this is the test of correct capital allocation. Has the company correctly use capital to created market value (shareholder value) with cash it retained? If the company is holding on to cash, but not creating value for shareholders, what's the point?

What is the value of the company?

Buffett says the value of a company is simply the total of the net cash flows (owner earnings) expected to occur over the life of the business, discounted by an appropriate interest rate. This model differs from most you'll find because it depends on being able to predict earnings for the life of a company. Buffett says if you pick company that has the attributes mentioned above, you can do this.

Can it be purchased at a significant discount to its value?

This is pure Buffett and where he gains his margin of safety. By buying at a discount, he knows that even if he is off somewhat of his evaluations, the discounted price will cover the difference. However, my guess is he doesn't need that margin very often.

Way of increase returns of equity

1. Increase assets turnover (ration between sales and assets)
2. Widen operating margins
3. Pay lower taxes
4. Increase leverage

Financial tents

Focus on return on equity: Warren Buffett believes that the return that a company gets on its equity is one of the most important factors in making successful stock investments. Buffet believes that a business should achieve good return on equity while employing or no debt. Return on equity, or ROE, helps us determine how well management creates value for shareholders.

Reference list:

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