CREDIT RATIOS CHEAT SHEET

Key Leverage · Coverage · Liquidity · Efficiency · Profitability Metrics with Formulas, Benchmarks & Interpretation

IG = Investment Grade | HY = High Yield | RE = Real Estate | LBO = Leveraged Buyout | LTM = Last Twelve Months

LEVERAGE RATIOS

Measure the degree to which a company uses debt financing relative to equity or earnings.

Ratio	Formula	What It Measures	Interpretation	Benchmark
Debt / Equity (D/E)	Total Debt ÷ Total Shareholders' Equity	Financial leverage; how much of the firm is funded by creditors vs. owners.	Shows the proportion of financing from debt. A rising D/E can signal increasing risk if not offset by earnings growth.	*IG corps: <2.0x | High-yield: 3–5x | Banks: varies by regulation*
Debt / EBITDA	Total Debt ÷ EBITDA	Core leverage; how many years of operating cash flow it takes to repay debt.	The most widely used credit leverage metric. Lenders typically set covenant thresholds here. Rising ratio = deteriorating credit quality.	*Investment Grade: <2.5x | B-rated HY: 4–6x | CCC: >6x*
Net Debt / EBITDA	(Total Debt – Cash & Equivalents) ÷ EBITDA	True leverage net of available liquidity.	More accurate than gross D/EBITDA; reflects the debt that actually needs servicing. Preferred by credit analysts for M&A; and LBO analysis.	*IG: <2.0x | BB: 2–4x | B: 4–6x | CCC: >6x*
Debt / Total Capital	Total Debt ÷ (Total Debt + Total Equity)	Capital structure composition; debt's share of total funding.	Expresses leverage as a percentage. A value above 50% means debt exceeds equity in the capital structure.	*Conservative: <35% | Moderate: 35–55% | Aggressive: >55%*
Total Liabilities / Total Assets	Total Liabilities ÷ Total Assets	Solvency; the proportion of assets financed by all creditors.	Broad measure of insolvency risk. Approaching 1.0x (or above) indicates assets barely cover — or fail to cover — all obligations.	*Generally <0.6x preferred; >0.8x signals distress risk*
Equity Multiplier	Total Assets ÷ Total Equity	Asset leverage; assets per dollar of equity.	Component of the DuPont ROE decomposition. High multiplier amplifies both returns and losses. Common in banking analysis.	*Non-financial corps: 2–4x | Banks: 8–15x (regulated)*

COVERAGE RATIOS

Measure a company's ability to service its debt and fixed obligations from earnings or cash flow.

Ratio	Formula	What It Measures	Interpretation	Benchmark
Interest Coverage (EBIT)	EBIT ÷ Interest Expense	Ability to meet interest payments from operating earnings.	The most fundamental credit safety metric. Below 1.5x, a company struggles to cover interest from operations alone — a red flag for lenders.	*IG: >4x | BB: 2.5–4x | B: 1.5–2.5x | CCC: <1.5x*
EBITDA Interest Coverage	EBITDA ÷ Interest Expense	Cash-based ability to cover interest (before capex and taxes).	More generous than EBIT-based coverage since it adds back D&A.; Preferred for capital-intensive industries where D&A; is large but non-cash.	*Comfortable: >5x | Adequate: 3–5x | Tight: <3x*
Fixed Charge Coverage (FCCR)	(EBIT + Lease Payments) ÷ (Interest + Lease Payments)	Ability to meet all fixed obligations including leases.	Broader than interest coverage; critical for retailers, airlines, and other lease-heavy businesses. <1.0x means the firm cannot cover fixed charges from earnings.	*Lender minimum covenant: typically >1.2x | Strong: >2.0x*
Debt Service Coverage (DSCR)	Net Operating Income ÷ (Principal + Interest Payments)	Ability to service total debt (principal + interest) from operating income.	Standard metric in real estate and project finance. A DSCR below 1.0x means the asset does not generate enough cash to service its debt.	*Min for loan approval: 1.20x | Strong: >1.50x | RE norm: 1.25–1.50x*
Cash Flow Coverage	Operating Cash Flow ÷ Total Debt	How quickly a company could theoretically repay all debt from operations.	Captures actual cash generation vs. accounting earnings. Useful when earnings quality is uncertain. Higher = faster theoretical deleveraging capacity.	*Strong: >0.25x | Adequate: 0.10–0.25x | Weak: <0.10x*
Asset Coverage Ratio	(Total Assets – Intangibles – Current Liabilities) ÷ Total Debt	Liquidation coverage; tangible asset backing for each dollar of debt.	Used by senior secured lenders to assess recovery in default. Focuses on hard assets that retain value. Below 1.0x means creditors face losses in liquidation.	*Senior secured lenders target: >2.0x | Minimum threshold: 1.0x*

LIQUIDITY RATIOS

Measure the ability to meet short-term obligations using readily available assets.

Ratio	Formula	What It Measures	Interpretation	Benchmark
Current Ratio	Current Assets ÷ Current Liabilities	Short-term solvency; can the firm meet obligations due within 12 months.	The classic liquidity gauge. Below 1.0x means current liabilities exceed current assets — a potential working capital crisis. High ratios may indicate idle assets.	*Healthy: 1.5–3.0x | Minimum: >1.0x | Retail/HY: sometimes <1.0x*
Quick Ratio (Acid Test)	(Cash + Short-term Investments + Receivables) ÷ Current Liabilities	Immediate liquidity; assets convertible to cash quickly vs. near-term obligations.	Strips out inventory (may not sell quickly). More conservative than current ratio. Important for manufacturers and distributors where inventory is illiquid.	*Strong: >1.0x | Adequate: 0.7–1.0x | Weak: <0.7x*
Cash Ratio	(Cash + Cash Equivalents) ÷ Current Liabilities	Most conservative liquidity; pure cash vs. near-term obligations.	The strictest liquidity test — only includes actual cash. Rarely above 1.0x in practice; firms don't hold excessive idle cash. Useful in distress scenarios.	*Typical range: 0.1–0.5x | >0.5x considered very strong*
Operating Cash Flow Ratio	Operating Cash Flow ÷ Current Liabilities	Ability to cover short-term obligations from core business cash generation.	Forward-looking complement to the current ratio. Uses actual cash flows rather than balance sheet values, reducing the impact of accrual accounting choices.	*Strong: >0.5x | Adequate: 0.3–0.5x | Concern: <0.3x*
Days Cash on Hand	(Cash + Short-term Investments) ÷ (Annual Operating Expenses ÷ 365)	How many days a firm can operate using only its existing cash.	Critical for hospitals, nonprofits, and distressed situations. Answers: 'If revenue stopped tomorrow, how long could we keep the lights on?'	*Healthcare: >150 days | General: >30 days | Distress watch: <15 days*
Net Working Capital (NWC)	Current Assets – Current Liabilities	Absolute dollar buffer of short-term assets over short-term liabilities.	Positive NWC = liquidity cushion. Negative NWC can be intentional (e.g., Amazon's negative cash conversion cycle) or a sign of stress. Track trend over time.	*Context-dependent; trending improvement is key signal*

EFFICIENCY & WORKING CAPITAL

Measure how effectively a company manages its assets and operating cycle.

Ratio	Formula	What It Measures	Interpretation	Benchmark
Days Sales Outstanding (DSO)	(Accounts Receivable ÷ Revenue) × 365	Average days to collect payment after a sale.	Rising DSO signals collection problems or customer financial stress. Spikes can precede write-offs. Compare to industry peers and prior periods.	*Best practice: <45 days | Warning: >60 days | Industry-specific*
Days Payable Outstanding (DPO)	(Accounts Payable ÷ COGS) × 365	Average days to pay suppliers; implicit financing from vendors.	Higher DPO can improve cash conversion but strains supplier relationships. Extremely high DPO may signal inability to pay, not shrewd management.	*Varies widely; 30–60 days typical; >90 days warrants scrutiny*
Cash Conversion Cycle (CCC)	DSO + DIO – DPO	Total days cash is tied up in the operating cycle.	Measures operational efficiency. Shorter (or negative) CCC = less working capital needed. Negative CCC (Amazon, Walmart) means suppliers finance growth.	*Negative = excellent | <30 days = good | >60 days = capital-intensive*
Asset Turnover	Revenue ÷ Total Assets	Revenue generated per dollar of assets; operational efficiency.	Low-margin businesses (retail) need high turnover; high-margin businesses tolerate low turnover. Critical in DuPont ROE decomposition.	*Retail: >2.0x | Manufacturing: 0.5–1.5x | Utilities: <0.5x*

PROFITABILITY (Credit Lens)

Viewed through a credit lens: sustainability of cash generation to support debt service.

Ratio	Formula	What It Measures	Interpretation	Benchmark
EBITDA Margin	EBITDA ÷ Revenue	Cash operating profitability as a percentage of revenue.	Widely used credit proxy for cash generation capacity. Strips out capex, taxes, and capital structure decisions. The foundation of most credit models.	*Software: 20–40% | Manufacturing: 10–20% | Retail: 5–12%*
Free Cash Flow (FCF) Margin	(Operating CF – Capex) ÷ Revenue	Cash left after maintaining/growing the asset base, as % of revenue.	The 'real' profitability metric for credit. Positive FCF = self-funding; negative FCF = needs external capital. Serial FCF deficits are a major red flag.	*Strong: >10% | Adequate: 5–10% | Concern: <5% or negative*
Return on Assets (ROA)	Net Income ÷ Total Assets	Profitability generated per dollar of assets.	Measures management's ability to deploy assets productively. Declining ROA with stable margins suggests asset bloat or poor capital allocation.	*Strong: >10% | Adequate: 5–10% | Banks target: 1–2% (different structure)*

ANALYST NOTES & BEST PRACTICES

■ **Always compare within industry:** Benchmarks shift dramatically across sectors. A 4x Debt/EBITDA is distressed for a utility but normal for a cable company.

■ **Trend analysis beats point-in-time:** A ratio deteriorating over 3 years is more alarming than a single elevated reading.

■ **Cash flow trumps earnings:** Prioritize cash-based metrics (OCF, FCF, DSCR) over GAAP earnings, which are subject to accrual manipulation.

■ **Watch covenant thresholds:** Credit agreements define exactly which ratios matter and at what levels — know the specific definitions in the credit docs.

■ **Cross-check leverage and coverage:** High leverage (4x D/EBITDA) is manageable with strong coverage (5x interest); dangerous with weak coverage (<2x).

■ **Seasonality and LTM adjustments:** Use trailing twelve months (LTM) figures adjusted for seasonality, one-time items, and run-rate synergies in M&A; contexts.