



FINANCIAL RATIOS

Debt ratios

How much a company or a household owes, and whether its income can carry the payments

Company figures for April to June 2026, released by RBI on 27 August 2026

For training and education only. Not investment advice.

Debt is neither good nor bad in itself. What matters is its size, and whether income covers the payments.

Debt ratios put a number on both questions. The same two ideas apply to a company and to a household.

Four company ratios

D/E



Debt-equity

Borrowings ÷ net worth. How many rupees the company has borrowed for every ₹1 its owners have put in or kept in.

ICR



Interest coverage

Profit before interest and tax ÷ interest. How many times over this year's profit pays this year's interest.

DSCR



Debt service

Cash available for lenders ÷ interest plus principal due. Like coverage, but it counts repayments too.

CR



Current ratio

Current assets ÷ current liabilities. Can bills due within a year be met from assets that turn to cash within a year?

Net worth (equity) is what the company owns minus what it owes: share capital plus reserves.

Source for the coverage definition: RBI press release on private corporate business sector, Q1 2026-27, 27 Aug 2026.

Same profit, different debt

TWO COMPANIES

Each earns ₹30 crore a year before interest and tax. Both borrow at 10% a year.

A: debt ₹50 crore, net worth ₹100 crore.

B: debt ₹200 crore, net worth ₹50 crore.

- 1 Debt-equity: $A = 50 \div 100 = 0.5$. $B = 200 \div 50 = 4.0$. B has borrowed ₹4 for every ₹1 of its owners' money.
- 2 Interest: A pays ₹5 crore, B pays ₹20 crore. Coverage: $A = 30 \div 5 = 6.0$ times. $B = 30 \div 20 = 1.5$ times.
- 3 Profit before interest falls by a third, to ₹20 crore. A: $20 \div 5 = 4.0$ times. B: $20 \div 20 = 1.0$ time.
- 4 At 1.0, all of B's operating profit goes on interest. RBI treats 1 as the minimum for a company to be viable.

Borrowing makes a fall in profit bite harder. Coverage shows the room left.

Illustration with two invented companies and assumed figures. Not a view on any company.

What to check inside each ratio

Ratio	Formula	Check this
Debt-equity	Total borrowings ÷ net worth	Which debt is counted: short-term loans and lease liabilities as well as long-term loans?
Interest coverage	Profit before interest and tax ÷ interest	A one-off gain in the year inflates the profit and flatters the ratio.
Debt service cover	Cash available for lenders ÷ (interest + principal due)	Large repayments due this year can make it low even when coverage looks comfortable.
Current ratio	Current assets ÷ current liabilities	Inventory and money owed by customers may not turn into cash on time.
Quick ratio	(Current assets – inventory) ÷ current liabilities	A stricter test of the next twelve months, for businesses that hold a lot of stock.

Source for the coverage formula: RBI press release, 27 Aug 2026. Other formulas are the common textbook forms; companies state their own in their results.

The household versions



EMI-to-income ratio

All monthly loan instalments (EMIs) $\div$ monthly take-home pay. It shows how much of each month's income is already committed to lenders before anything else is spent.



Emergency ratio

Money that can be withdrawn within days $\div$ essential monthly spending, EMIs included. The answer is in months: how long the household could keep paying if income stopped.

Neither has one right level. It depends on how steady the income is and on other commitments.

A household's two numbers

ONE HOUSEHOLD

Take-home pay: ₹80,000 a month.

EMIs: home loan ₹22,000, two-wheeler ₹3,000, personal loan ₹7,000.

Savings that can be withdrawn within days: ₹2,40,000.

- 1 Total EMIs: $22,000 + 3,000 + 7,000 = ₹32,000$ a month.
- 2 EMI-to-income ratio: $32,000 \div 80,000 = 0.40$. Forty per cent of take-home pay goes to lenders.
- 3 Essential spending: EMIs ₹32,000 plus food, power and school fees ₹28,000 = ₹60,000 a month.
- 4 Emergency ratio: $2,40,000 \div 60,000 = 4$. The savings would cover four months if income stopped.

One number shows how much income is committed; the other shows how long savings would last.

Illustration with an invented household and assumed figures.

Where things stand

Listed non-government non-financial companies, April to June 2026, as compiled by RBI.

MANUFACTURING

10.2

Interest coverage in April-June 2026: profit before interest and tax was 10.2 times interest.

NON-IT SERVICES

2.6

Interest coverage in the same quarter, which RBI says increased.

COMPANIES COVERED

3,247

Listed non-government non-financial companies whose quarterly results RBI used.

Source: RBI, Performance of Private Corporate Business Sector during Q1:2026-27, Press Release 2026-2027/974, 27 Aug 2026.

If you learnt this from older material

Older beliefs

- A debt-equity of 1:1 means little debt.
- A set share of income for EMIs is 'alright' for all.
- The liquidity ratio is the acid-test ratio.
- Debt ratios must be worked out from annual reports.

What holds now

- 1:1 means as much borrowed as owners have in. High or not depends on the business.
- No single level suits every household. It depends on income and commitments.
- The acid-test ratio is a company measure; the household one counts months.
- Companies with listed debentures report debt-equity and other ratios with results.

Source: SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, regulation 52(4), as amended up to 22 Jan 2026.

Four things people get wrong



'Any debt is a bad sign.'

Borrowing can pay for assets that earn more than the interest. The question is whether income covers the payments in bad years too.



'Low debt-equity means low risk.'

A company with little debt can still have a weak business, or bills due this year that it cannot pay.



'Interest is covered, so the debt is fine.'

Principal falling due must also be repaid or refinanced. Debt service cover counts both.



'You can compare any two companies.'

Compare within an industry. In April-June 2026 RBI put coverage at 10.2 for manufacturing and 2.6 for non-IT services.

Four questions to ask of any debt ratio

1

Which debt is counted?

Long-term loans only, or short-term borrowings and leases as well?

2

Which accounts and when?

Standalone or consolidated, and for which period. A quarter and a full year can give different answers.

3

Compared with what?

Others in the same industry, or the same company's own history.

4

What if income falls?

Rework the coverage with lower profit, or the household ratio with lower pay. How much room is left?

We explain these ratios. We do not use them to tell a client which company or fund to buy.

Check yourself

Q1 A company has borrowings of ₹300 crore and a net worth of ₹200 crore. What is its debt-equity ratio?

Q2 Profit before interest and tax is ₹48 crore and interest is ₹12 crore. What is the interest coverage, and what would a coverage of 1.0 mean?

Q3 Take-home pay ₹1,20,000 a month; EMIs ₹30,000; savings available within days ₹3,00,000; essential spending with EMIs ₹75,000 (assumed). Work out both ratios.

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- Interest coverage defined as profit before interest and tax $\div$ interest, with 1 as the minimum for viability: RBI Press Release 2026-2027/974, 27 Aug 2026.
- Coverage of 10.2 (manufacturing) and 2.6 (non-IT services), 3,247 companies: RBI, Performance of Private Corporate Business Sector during Q1:2026-27, 27 Aug 2026.
- Ratios reported with results by entities with listed non-convertible securities: SEBI Listing Obligations and Disclosure Requirements Regulations, 2015, reg. 52(4), amended to 22 Jan 2026.
- Companies A and B, the household and all quiz figures are invented for illustration. They do not refer to any real company or person.

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