

NET PROFIT MARGIN

The Net Margin Ratio reflects the percentage of revenue that remains in the business after deducting all costs, such as operating costs, interest, depreciation and taxes.

This ratio reflects the extent to which the company is making a profit after covering its costs and its financial strength.

1. Πως υπολογίζεται το Καθαρό Περιθώριο Κέρδους;

$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Net Sales}}$$

EXAMPLE

The calculation of the Net Profit Margin is as follows:

Assume we know a company's net income and total revenue. For example, if a company has a net income of €360.000 from a total income of €2.400.000

Then,

$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Net Sales}} = \frac{360.000\text{€}}{2.400.000\text{€}} = \mathbf{15\%}$$

This means that the company remains at 0.15€ as profit for every 1€ of sales.

2. Why is Net Profit Margin important?

The Net Profit Margin is a key financial ratio that provides valuable insights into a company's overall performance. It is commonly used to:

- Assess financial strength
- Compare results with similar companies
- Support financing and lending decisions

2.1. Assessing financial performance

Net profit margin shows how much money a company retains after covering all its expenses. It helps us understand whether the company is in financial prosperity or if it needs to make changes. If the profit margin decreases, it may mean that expenses are too high, or prices are too low. It's a good way to identify problems early on. If a company has a higher profit margin, it usually means that it manages its money better and can grow more easily.

2.2. Comparing with others

The calculation of the net profit margin helps to evaluate the business in relation to similar businesses. If the profit margin is higher than others, it means that the company is probably more profitable and can grow easily. If the margin is lower, it may mean that it can be improved.

2.3. Helping banks decide

Financial institutions use the net profit margin to determine whether the business is strong enough to take out a loan and repay it. They usually look at the last 3 to 5 years to check if your business is stable and strength.