

$$\text{Earnings per share} = \frac{450}{107.36} = 4.19$$

Since the price earnings multiple is low, there is every possibility of a rise in the price and investor can buy this share.

Case: Best of Three?

Miss Mahima wants to invest in the one of the three companies given below. She is very particular about the current financial position of the company. She believes that no company should be considered for investment unless it has a good current financial position. You are asked to examine the data as laid out in Table 11.17 and choose a company for her.

Table 11.17 Current financial analysis of X, Y, Z companies

| Ratio | X | | Y | | Z | |
|--|------|------|------|------|------|------|
| | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 |
| Current ratio | 2.1 | 2.5 | 2.0 | 2.26 | 2.71 | 2.53 |
| Acid test ratio | 1.27 | 1.42 | 1.38 | 1.50 | 1.90 | 1.76 |
| <i>Composition of current assets (in per cent)</i> | | | | | | |
| Cash | 13 | 13 | 34 | 29 | 34 | 34 |
| Receivables | 38 | 36 | 24 | 26 | 33 | 32 |
| Inventory | 45 | 47 | 33 | 35 | 31 | 31 |
| Other current assets | 4 | 4 | 9 | 10 | 2 | 3 |
| Net sales to inventory | 3.90 | 3.77 | 4.45 | 4.23 | 5.65 | 5.25 |
| Net sales to working capital | 3.29 | 2.97 | 3.10 | 2.81 | 2.87 | 2.85 |