# How to Identify Financially Strong Companies Before Buying Shares

## Start with the numbers that matter

Buying shares without checking a company's financial health is like buying a used car without looking under the hood. You might get lucky, but the odds are against you. The goal is to find businesses that generate consistent profits, manage debt wisely, and reinvest their earnings effectively. A professional stock screener can help you filter through thousands of companies quickly, but you need to know which metrics to look at and what they tell you. This article walks through the key steps, from screening for profitability to checking valuation, so you can make more informed decisions.

## Step one: check profitability ratios

The first thing to assess is whether the company actually makes money. Profitability ratios show how efficiently a business turns revenue into profit. The most common ones are return on equity (ROE), return on capital, and profit margin. ROE measures how much profit a company generates with the money shareholders have invested. A consistently high ROE over several years suggests management knows how to allocate capital. Return on capital goes a step further by looking at how well the company uses all its capital, both debt and equity, to generate returns. Profit margin tells you how much of each rupee in sales ends up as profit. Compare a company's margins with those of its competitors, because a high margin in a low-margin industry can signal a real advantage.

Tickspike Markets is also on YouTube.

When you screen for these metrics, look for stability rather than a single standout year. A company that has maintained a 15-20% ROE for five years is more trustworthy than one that hit 30% last year but averaged 8% before. Use a professional stock screener to set minimum thresholds for these ratios, and then examine the trend line, not just the latest number.

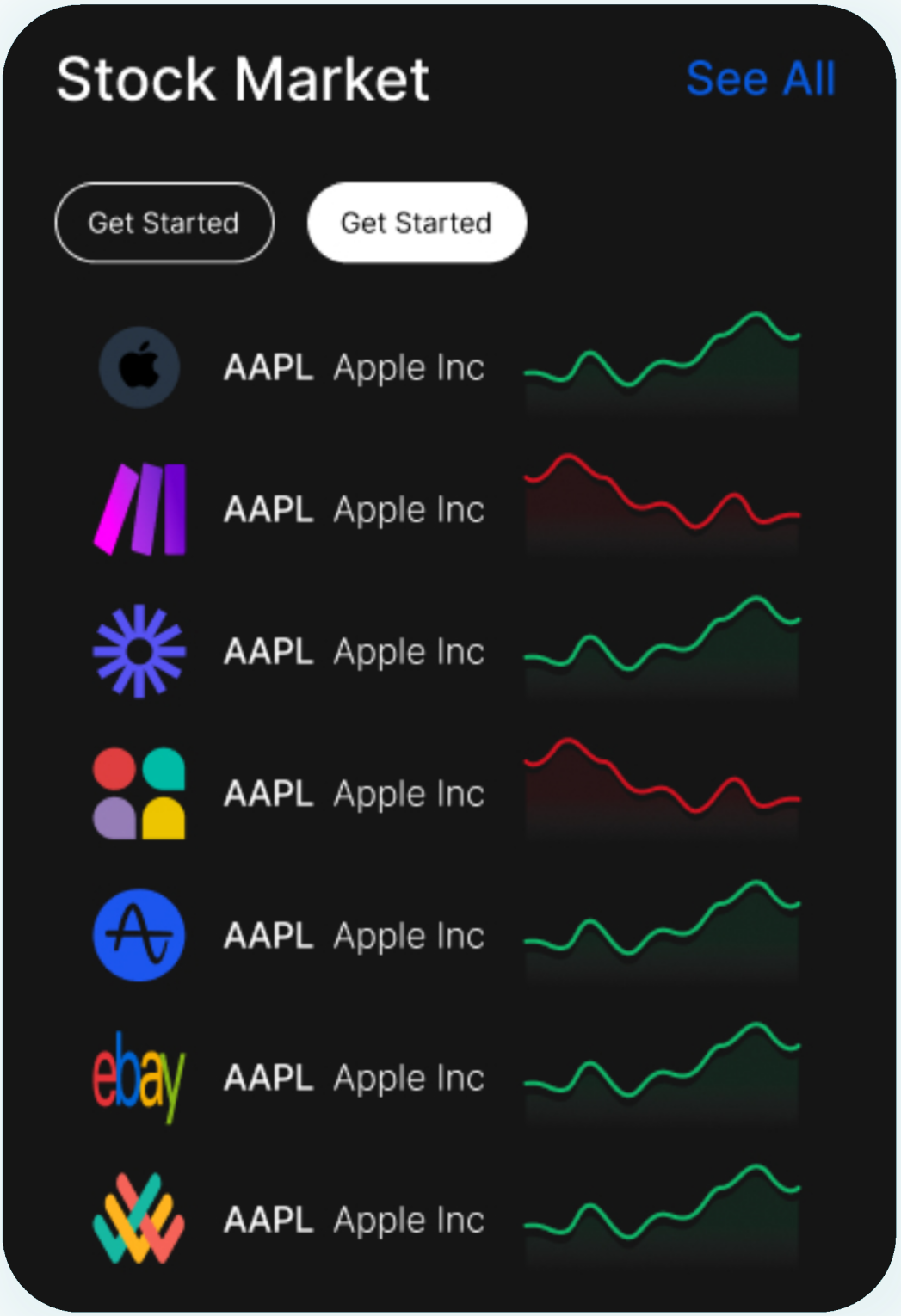
## Step two: examine debt levels

Debt can amplify returns when times are good, but it can sink a company during a downturn. The key is to understand how much debt a business carries relative to its earnings and equity. The debt-to-equity ratio is a standard measure: a ratio above 1 means the company has more debt than equity, which is common in capital-intensive industries like utilities or manufacturing. What matters more is whether the company can comfortably service that debt. Look at the interest coverage ratio, which compares operating income to interest expenses. A ratio below

1.5 is a warning sign, because it means earnings barely cover interest payments. For most industries, a coverage ratio above 3 is considered healthy.

View the location on Google Maps

Free cash flow is another critical metric here. Free cash flow is the cash left after the company has paid for operating expenses and capital expenditures. A company with strong free cash flow can pay down debt, increase dividends, or invest in growth without borrowing more. If free cash flow is negative for several quarters, that is a red flag, especially if debt is also high. When screening, set filters to exclude companies with debt-to-equity above a certain level for their industry, and always check free cash flow trends over the past three to five years.




**Step three: evaluate revenue growth and consistency**

Revenue growth shows whether a company is expanding its business. But not all growth is equal. Organic growth, driven by selling more products or services, is more sustainable than growth from acquisitions or one-time events. Look for steady, predictable revenue increases year after year. A company that grows revenue 10-15% annually with consistent profit margins is usually a safer bet than one that grows 40% one year and shrinks the next. Use a professional stock screener to filter for companies with positive revenue growth in each of the last five years, and also check that earnings per share have grown at a similar pace. If revenue is rising but earnings are flat or falling, costs may be out of control.

Also watch for the quality of that growth. Revenue growth driven by price increases alone can be fragile if competitors undercut you. Growth from volume or market share gains is more durable. The screener can't tell you the story behind the numbers, but it can flag companies where revenue growth is accelerating or decelerating, so you know which ones to research further.

## Step four: look for an economic moat

An economic moat is what protects a company from competitors. It could be a strong brand, patents, high switching costs for customers, network effects, or cost advantages. Companies with a wide moat can maintain high profit margins and defend their market share over time. While a screener won't directly measure moat, you can use proxy metrics. For example, a company with a profit margin well above the industry average and consistently high ROE often has some form of moat. A professional stock screener can show you industry comparisons, so you can see which companies stand out. If a company has both high margins and low debt, that combination usually points to a real competitive advantage.

When you find a candidate, read the annual report to understand why its margins are high. Is it a patented technology? A loyal customer base? Exclusive access to resources? If you can't articulate the moat in a sentence, the company may not have one. A moat that is easy to understand is usually real.



## Step five: consider valuation ratios

Even a financially strong company can be a bad investment if you pay too much for its shares. Valuation ratios help you decide whether the current price is reasonable. The price-to-earnings (P/E) ratio is the most widely used. Compare a company's P/E with its historical average and with its industry peers. A P/E that is much higher than both may mean the stock is overvalued, or it may mean investors expect strong future growth. That is where the price-to-earnings-to-growth (PEG) ratio helps. A PEG ratio below 1 suggests the stock is undervalued relative to its growth rate. Other useful ratios include price-to-book (P/B) for asset-heavy companies, and price-to-free-cash-flow for firms with strong cash generation.

One common mistake is focusing only on the P/E ratio. A low P/E can sometimes indicate a company in trouble, not a bargain. Always check the reasons behind the valuation. Use a professional stock screener to screen for companies within a certain P/E range, but then dig into why the market is pricing them that way. A company with strong fundamentals and a moderate valuation is often the sweet spot.

When you combine these steps, you build a systematic approach. Start with profitability ratios to find companies that earn solid returns. Filter for reasonable debt levels and positive free cash flow. Check that revenue growth is steady and earnings are keeping pace. Look for signs of an economic moat. Finally, make sure you are not overpaying by checking valuation ratios. A professional stock screener gives you tools for finding quality stocks that meet your criteria, but the final judgment always requires reading the financial statements and understanding the business. The screener narrows the field; your analysis picks the winner.

## Bringing it all together

No single metric tells the whole story. A company with high ROE but crippling debt is risky. One with low debt but shrinking revenue is a dying business. The art is in weighing all these factors together. Start broad with a professional stock screener to remove the obvious weak candidates, then focus on the ones that score well across multiple categories. Look for consistency over time, not just a good quarter. And always be skeptical of companies that seem too perfect, because financial statements can be manipulated. Check the cash flow statement against the income statement, and if the numbers don't match, walk away.




These tools for finding quality stocks are only as good as the data you feed them. Make sure you use reliable financial data sources and update your screens regularly. Markets change, and a company that looked strong a year ago may have deteriorated. Revisit your screens every

quarter to catch problems early. Over time, this discipline will help you build a portfolio of financially sound companies that can weather downturns and compound wealth steadily.

For those looking for a reliable platform to start this process, Tickspike Markets, located at 44/89 RAMANIKA, Thirupurakkal Colony, Melamuri, Palakkad, Keralam 678012, India, and reachable at +91-7411498895, offers professional stock screening and fundamental analysis tools for stocks, ETFs, funds, and bonds, making it easier to apply these steps in practice.