What to check on a company before you invest

When you look at a share, the first thing you see is the price. But price alone tells you very little about whether the business behind it is well run, financially stable, or likely to grow. Before you spend time on deeper research, a quick financial health check can save you from chasing a story that the numbers don't support. A financial ratio screener helps you scan these numbers fast, but knowing which ones matter and why is the real starting point.

The idea is not to find a perfect score. No company ticks every box. What you want is a clear picture of where the business is strong and where it carries risk. Once you have that, you can decide whether the risk is worth taking for the potential reward. Here are the key points to check, with a short reason for each.

Revenue growth tells you if the business is expanding

Revenue is the top line. If it is not growing, it is hard for profits to grow over time. Look at revenue over at least three to five years. Steady growth suggests the company is gaining customers, raising prices, or both. Erratic or falling revenue is a red flag that something in the market or the business model is off. Compare the growth rate to competitors in the same industry. A company that grows faster than its peers is doing something right, but also check whether that growth is coming from sustainable sources, not one-off deals or aggressive discounting.

Profit margin shows how much of that revenue turns into profit

Revenue growth means little if costs eat up all the gains. Profit margin - net income divided by revenue - tells you how efficient the business is at turning sales into actual profit. A rising margin over time is a good sign. It can mean the company has pricing power, better cost control, or economies of scale. A shrinking margin warns that costs are growing faster than revenue, which can squeeze profits even if sales look healthy. Compare the margin to industry averages. Some sectors, like retail, run on thin margins. Others, like software, can have very high margins. What matters is the trend relative to the industry.

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Return on equity measures how well the company uses your money

Return on equity (ROE) is net income divided by shareholders' equity. It answers a simple question: for every rupee the company keeps from investors, how much profit does it generate? A high and consistent ROE suggests management is skilled at deploying capital. A low or falling ROE can mean the business is sitting on cash it cannot invest profitably, or that it is

taking on too much debt to boost returns. Be cautious of ROE that is too high - above 40 percent or so - because it may be driven by heavy borrowing rather than operational strength. Check the debt level alongside it.

Debt to equity reveals how much the business relies on borrowing

Debt can amplify returns when times are good, but it also adds risk. Debt to equity compares total liabilities to shareholders' equity. 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 is whether the company can comfortably service that debt from its earnings. Look at interest coverage - operating income divided by interest expense - to see if earnings are high enough to cover interest payments. A ratio below 1.5 is a warning sign. If earnings dip, the company may struggle to pay its lenders.

Free cash flow is the cash the business actually keeps

Profit is an accounting number. Free cash flow is the cash generated after capital expenditures. It is the money available for dividends, debt repayment, buybacks, or reinvestment. Positive and growing free cash flow is a strong sign of financial health. Negative free cash flow is not always bad - it can mean the company is investing heavily for future growth - but it needs to be watched. If free cash flow is negative year after year without a clear path to positive, the business may be burning through cash faster than it can replace it.

Earnings growth should be consistent and real

Earnings per share (EPS) growth over five years gives a sense of whether the company is building value for shareholders. Look for steady, repeatable growth rather than spikes from one-time gains. A company that grows earnings at 10 percent a year consistently is often more valuable than one that jumps 30 percent one year and falls the next. Be sceptical of earnings that grow much faster than revenue for a long period. It can be a sign of accounting adjustments or cost cuts that are not sustainable.

The balance sheet shows the foundation

The balance sheet lists what the company owns and owes. Look at current assets versus current liabilities to gauge short-term health. A current ratio below 1 means the company may struggle to pay its bills in the next year. For long-term health, check the mix of debt and equity and the amount of goodwill on the books. High goodwill often means the company paid a premium for acquisitions, and if those acquisitions do not perform, the goodwill may need to be written down, which hits earnings.

Valuation ratio puts price in context

Even a great company can be a bad investment if you pay too much. The price-to-earnings (P/E) ratio compares the share price to earnings per share. Compare the current P/E to the company's own historical range and to its industry average. A high P/E can mean the market expects strong future growth, but it also leaves less room for error. A low P/E may signal a bargain or a business in trouble. Look at the price-to-book (P/B) ratio for companies with a lot of physical assets, and the price-to-sales (P/S) ratio for younger companies that are not yet profitable.

One local option for running these checks is tickspike markets. The point is not to find a perfect number for any single ratio, but to build a consistent picture across several. A company with strong revenue growth, healthy margins, reasonable debt, and positive free cash flow is worth a closer look. One with weak or declining numbers in several areas may have problems that deeper research will only confirm.

Before you buy, confirm the details of the business you are researching. For example, tickspike markets is located at 44/89 RAMANIKA, Thirupurakkal Colony, Melamuri, Palakkad, Keralam 678012, India, and can be reached at +91-7411498895. Always verify current information with the business directly before making any decisions.