



## COEFFICIENT OF RETURN ON ASSETS (ROA)

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**Abstract:** The following thesis talks about the coefficient of return on assets, how it is determined, where, when and by whom it is used, as well as its reflection in Uzbek companies. In addition, it is possible to get acquainted with the problems that can be encountered in profitability and their solutions in the article.

**Keywords:** ROA, ROE, banks, ratio, finance, profitability, assets, equity, risk, financial performance, profit, earnings, banking, industry benchmarks, financial health, tangible assets, intangible assets, investment, management, revenue, economic growth, market.

## Introduction

ROA is a financial metric that measures how efficiently a company generates profit from its total assets. It's calculated by dividing the company's net income by its total assets. This ratio helps investors and businesses assess how effectively a company is using its resources to generate returns. A higher ROA indicates stronger profitability, while a lower one suggests weaker performance. Comparing a company's ROA with others in the same industry gives insight into how well it competes with its peers.

In Uzbekistan, ROA plays a key role as the economy shifts from being relatively closed to more open, aiming to attract foreign investment and compete globally. However, the average ROA in Uzbekistan is about 0.5%, which is significantly lower than the global average of 3.3%. Service-oriented businesses tend to have higher ROAs compared to other industries because they rely more on human capital and technology than on physical assets. Smaller companies also tend to show higher ROAs since they are more agile and can adapt quickly to market changes.

Despite challenges such as limited financing options and outdated technology, certain industries in Uzbekistan, particularly the service sector—comprising financial services, hospitality, and consulting—perform better in terms of ROA. Service businesses typically require fewer physical assets, like buildings and equipment, focusing instead on human talent and technology, which can boost profitability.

Company size also influences ROA. Smaller businesses generally have higher ROAs because they are less encumbered by bureaucracy and overhead costs, allowing them to respond more quickly to changes in the market. As Uzbekistan continues to modernize and



attract international investment, opportunities for companies to improve their ROAs are likely to grow.

### Main part

ROA is a valuable financial metric that evaluates how efficiently a company utilizes its assets to generate profits. It is one of the most widely used profitability ratios, serving as a key indicator for investors, analysts, and managers.

Expressed as a percentage, ROA reflects the company's profitability relative to its assets. A higher ROA indicates that the company is making better use of its resources to generate earnings. The formula for calculating ROA is simple: divide the company's net income by its total assets:

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Net income is the total revenue a company earns after subtracting all expenses, including taxes, interest, and depreciation. Total assets represent the sum of everything the business owns, both tangible (like equipment) and intangible (like patents).

Consider this example: Sam and Milan each start a hot dog stand. Sam spends \$1,500 on a simple metal cart, while Milan invests \$15,000 in a zombie apocalypse-themed stand, complete with costumes.

Assuming these were their only assets, let's say Sam earns \$150 and Milan earns \$1,200 over a certain period. While Milan's business brings in more revenue, Sam's is more efficient in generating profits. Using the ROA formula:

$$\text{Sam's ROA} = \$150 / \$1,500 = 10\%$$

$$\text{Milan's ROA} = \$1,200 / \$15,000 = 8\%$$

This example shows that higher income doesn't always translate into higher profitability. A company with fewer assets can still achieve better returns by using its resources more efficiently.

An ROA above 5% is generally considered good, while anything over 20% is seen as excellent. However, it's important to compare ROA only among companies within the same industry. For example, a software company typically holds fewer tangible assets than an automobile manufacturer. As a result, the software company may show a higher ROA, but this could be misleading due to the difference in asset structures.

ROA is a useful tool for tracking a company's performance over time and comparing it with competitors in the same sector. It also reveals changes in how efficiently a business manages its assets. If a company's ROA improves over time, it suggests better asset utilization and higher profitability. On the other hand, a declining ROA might signal



challenges, such as shrinking profit margins or rising asset costs. This makes the ROA ratio a valuable indicator of both operational efficiency and potential financial trouble.

ROA is a key financial ratio that measures a company's profitability and efficiency. Here's why it's important:

1. ROA shows how well a company uses its assets to generate earnings. A high ROA means efficient asset use, while a low ROA signals room for improvement.
2. It reflects how effectively assets are managed to produce profits, highlighting areas where efficiency can improve.
3. ROA allows for performance comparison across companies in the same industry, helping investors make informed decisions.
4. By monitoring ROA over time, investors can assess how well a company maintains profitability and manages assets.

Various factors — such as industry type, competition, financial structure, and asset management—can affect ROA. Therefore, it's essential to consider these factors when evaluating a company's performance using this ratio.

### **ROA and ROE:**

ROA measures how efficiently a company uses its assets to generate profits, while ROE evaluates how well it generates profits using shareholder equity. Both ratios help investors, analysts, and managers understand a company's financial performance and compare it with others in the same industry.

$ROA = \text{Net Income} / \text{Total Assets}$

- Indicates the percentage of assets used to generate profits.
- Useful for assessing asset efficiency.

$ROE = \text{Net Income} / \text{Shareholder's Equity}$

- Shows the percentage of equity generating profits.
- Reflects financial leverage and shareholder returns.

A high ROA suggests strong returns from invested assets, while a high ROE indicates good returns for shareholders. However, these metrics should not be viewed in isolation. High ROE driven by financial leverage can increase risk, which may lead to a lower ROA. Using both ratios together gives a more complete picture of a company's financial health.

### **Conclusion**

While exploring the topic discussed in the article, the following key points emerge:

- ROA (Return on Assets) serves as a valuable metric to evaluate a company's profitability and how efficiently it utilizes its assets to generate income. It provides analysts, investors, and managers with insights into a company's financial performance and its competitive standing within the industry.



- ROA and ROE (Return on Equity) are both essential indicators of a company's profitability and overall financial health. To accurately assess a business, it's important to analyze these ratios alongside other financial metrics and industry standards to gain a well-rounded understanding.
- The ROA ratio plays a crucial role in evaluating business profitability in Uzbekistan. Although the current average ROA is relatively low, there is room for growth, especially in the service sector and among smaller enterprises. As Uzbekistan continues modernizing its economy and attracting foreign investment, improvements in ROA across the business landscape are likely in the coming years.

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