**Abstract**

A leverage ratio is any one of several measurements that look at how much capital comes in the form of debt (loans) or assesses the ability of a company to meet its financial obligations. The leverage ratio category is important because companies rely on a mixture of equity and debt to finance their operations, and knowing the amount of debt held by a company is useful in evaluating whether it can pay its debts off as they come due. Too much debt can be dangerous for a company and its investors. However, if a company’s operations can generate a higher rate of return than the interest rate on its loans, then the debt is helping to fuel growth in profit. Nonetheless, uncontrolled debt levels can lead to credit downgrades or worse. On the other hand, too few debts can also raise questions. A reluctance or inability to borrow may be a sign that operating margins are simply too tight. There are several different specific ratios that may be categorized as a leverage ratio, but the main factors considered are debt, equity, assets and interest expenses.