

Impact Factor 6.1



Journal of Cyber Security

ISSN:2096-1146

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A RESEARCH ON FINANCIAL STATEMENT ANALYSIS OF VODAFONE IDEA LIMITED BY USING THE TECHNIQUE OF RATIO ANALYSIS

Author: Ms. Swapna Nambiar M.COM.,

E-mail: swapnanambiar@skasc.ac.in

Assistant professor, Department of commerce,

Sri Krishna Arts and science college, Bharathiyar University, Coimbatore, Tamil Nadu

Co-Authors: Maheswari.D, Aishwariya. K. V, Swetha Sree. R. Ahmed Soilihi Riana

M.COM students

E-mail: maheswarid19mco026@skasc.ac.in aishwariyakv19mco003@skasc.ac.in

Swethasreer19mco048@skasc.ac.in

Abstract: Vodafone Idea Limited is a multinational telecommunication company. The main aim of this paper is to measure the financial performance of the Vodafone idea limited. The users (both fixed and mobile phone user) of Indian telecommunication sector are extremely high. Indian telecommunication network is second largest in the world. The present study is based on a research on financial statement analysis of Vodafone Idea Limited by using the technique ratio analysis and helpful to find the financial performance of the company. The study covers a period for last five financial years 2015-2016 to 2019-2020 of the Vodafone Idea Limited. The financial ratios like liquidity ratio, solvency ratio, activity ratio and profitability ratios are used to evaluate the company's performance.

Keywords: Vodafone Idea, Telecommunication, Financial Statement, Financial Ratios, Financial performance

I. INTRODUCTION

Financial statement analysis helps the company to know about their financial situation by investigating its financial reports. Financial ratio technique is useful to analysis and interprets the financial statement. Financial analysis and interpretation is helpful to identify the company's financial strength and weakness. The financial ratios like liquidity ratio, solvency ratio, activity ratio and profitability ratios are used to evaluate the company's performance. This study helps the investors and creditors to evaluate past and present performance and to predict the future performance.

In Telecom sector, India has the world's second largest number of fixed and mobile phone users. The Indian Telecom companies serve the TV broadcasting, internet, telephone etc. Now they are currently changing into the various transmission system interconnectivity and next generation network.

Vodafone Idea Limited is a multinational telecommunication company of Aditya Birla Group and Vodafone Group partnership. It is India's on the

leading telecom service provider. This company provides pan India voice and data services across 2G, 3G and 4G platform. The company have large range portfolio to support the growing demand for data and voice, the business is committed to deliver wonderful customer experiences and to enable the millions of customers to join and build a better future for creating a truly 'Digital India'. The Vodafone Idea limited is listed on National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) in India

The users of Indian telecommunication are extremely high. There is drastic growth in decade, from 37 million subscribers (2001) to 846 million subscribers (2011). In 2019, Indian telecommunication have 1151.8 million subscribers and in 2020 which is increased to 1170.8 million subscribers.

II. HISTORY OF VODAFONE IDEA MERGER

2017 – In March, Idea cellular and Vodafone India officially announced that they would merge.

2018 – In July they got approval for merger from Department of Telecommunication (DoT) and they got final permission from National Company Law Tribunal to Vodafone-Idea merger.

2018 – The merger was completed on 31st august and they named the entity as "VODAFONE IDEA LIMITED".

After this merger they become the largest telecom company in India by subscriber base and by revenue. Under the term of agreement, Vodafone group hold 42.2% shares, Aditya Birla group hold 26% and remaining shares are held by public.

2020 – In August, they lost their significant number of total and active subscribers. Until September 2020, Vodafone and Idea operates as two separate brands as **Vodafone** – a postpaid & prepaid GSM and **Idea** – a prepaid GSM.

III. COMPANY PROFILE

Idea cellular which is owned Kumar Mangalam Birla came forward with the proposal to merge with Vodafone India. After the merger between Vodafone and Idea they became largest Indian telecommunication company and they named as “Vodafone Idea Limited”. On 7 September 2020, they revealed their new brand identity ‘Vi’ which says the two separate brands into one unified brand.

- To realize the ‘Digital India’ vision.
- Deliver consumer benefits through combination of network.
- The merger helps to create a world class telecom infrastructure.

Table- I: Profile of the Company

Name of the company	Vodafone Idea Limited
Nature of the business	Telecommunication
Founded	Vodafone India – 2007, Vodafone idea – 31 august 2018
Headquarters	Mumbai and Gandhinagar
Products offered	Mobile telephony Wireless broadband Internet services
Legal status of the firm	Public
Revenue	Rs. 45,996.80 Crore (2020)
Website	www.myvi.in

IV. REVIEW OF LITERATURE

According to Atashi Bedi (2018), the merger and acquisition are most important for corporate restructuring or business combination in today’s corporate finance world. It is considered as a strategy to improve financial performance and growth. This study is an effort to find out the difference between pre and post- acquisition performance of five acquirer telecom firms in terms of profitability, liquidity and solvency are used to analyze the position and performance of the company.

Ajmera Tushar R (2020) has measured the profitability of the selected service provider of Indian telecommunication companies. In this study, Tushar identifies the liquidity and solvency of selected service provider of Indian telecommunication and these financial indicators are useful to determine their management efficiency.

Gagan Shankhdhar (2021) in his paper “The study of financial performance of selected companies in

telecom sector” has focus on the analyzing the financial performance of four telecom companies for the period of 10 years from 2011-12 to 2019-2020. The main purpose of the study is to find the financial performance of chosen telecom associations.

V. STATEMENT OF THE PROBLEM

Financial performance is the process of evaluate the financial statement to understand the position and performance of the company. It helps the investors and creditors to evaluate past and present performance and to forecast the future performance. Financial ratio is used to find financial performance of Vodafone Idea Limited.

VI. OBJECTIVES OF THE STUDY

- The primary aim of the study is to evaluate the financial performance of Vodafone Idea limited.
- To state the data analysis and interpretation of past five year by using financial ratio analysis.
- To evaluate the operating effectiveness of the company.
- To determine the profitability of the business.

VII. SCOPE OF THE STUDY

A research on the financial statement analysis of Vodafone Idea Limited by using the technique of ratio analysis for last five years used to find the data analysis and interpretation and helpful to understand the financial performance and financial position of the company

VIII. RESEARCH METHODOLOGY

This paper is particularized and based on secondary data. This paper consists of both present and historical information. The data has been collected from published annual reports of Vodafone Idea Limited taken from the websites. Also related texts like textbooks, journals, publication of professional and other published paper were considered.

The study covers a period for last five financial years 2015-2016 to 2019-2020 of the Vodafone Idea Limited were taken.

IX. DATA ANALYSIS AND INTERPRETATION

A. Liquidity Ratio

Table- II: Liquidity Ratio

LIQUIDITY RATIO

Years	Current Ratio	Quick Ratio
2015-16	0.26	0.28
2016-17	0.30	0.29
2017-18	0.56	0.47
2018-19	0.56	0.46
2019-20	0.30	0.30

Interpretation

In the above table, Current Ratio from financial year 2015-16 to 2017-18 is on an increased trend and for 2018-19 remains constant as 2017-18. But in 2019-20 the current ratio is reduced drastically. The Current Ratio is below 1, so the Vodafone Idea has inadequate current asset to reconcile its current liabilities.

In the above table, Quick Ratio from financial year 2015-16 to 2017-18 is increased and also there is a decrease in last two consequent years (2018-19 to 2019-20). The Quick Ratio is less than 1, so the Vodafone Idea may not be able to pay its current liabilities in short term.

B. Activity Ratio

Table- III: Activity Ratio

ACTIVITY RATIO				
Years	Inventory Turnover Ratio	Debtors Turnover Ratio	Fixed Assets Turnover Ratio	Total Assets Turnover Ratio
2015-16	53.82	33.89	1.39	2.10
2016-17	52.33	28.97	1.09	1.58
2017-18	60.65	25.69	0.73	0.98
2018-19	44.75	17.72	0.41	0.91
2019-20	46.66	14.06	0.36	-2.62

Interpretation

In the above table, Inventory Turnover Ratio for the financial years 2015-16 to 2019-20 was having a fluctuated trend over the period. However in 2019-20, there was a raise in the ratio compared to previous year. Inventory Turnover Ratio measures a Vodafone Idea's ability in managing its inventories (stocks).

In the above table, the Debtors Turnover Ratio was constantly decreased for last five financial years (2015-16 to 2019-20). This decreased trend in Debtor's Turnover Ratio indicates that Vodafone Idea has a poor collection practice, bad credit policy and delinquent clients.

In the above table, the Fixed Assets Turnover Ratio from the financial year 2015-16 to 2019-20 was continuously decreased. This declining trend in Fixed Assets Turnover Ratio indicates that Vodafone Idea has over-invested in fixed assets.

In the above table, the Total Assets Turnover Ratio

was constantly decreased for last five financial years (2015-16 to 2019-20). This Total Assets Turnover Ratio decline trend indicates that Vodafone Idea is failing to utilize its assets to generate sales.

C. Solvency Ratio

Table- IV: Solvency Ratio

SOLVENCY RATIO		
Years	Debt to Equity Ratio	Long Term Debt Equity Ratio
2015-16	1.59	1.52
2016-17	2.10	2.10
2017-18	2.10	2.09
2018-19	1.82	1.75
2019-20	16.28	16.28

Interpretation:

In the above table, Debt to Equity Ratio for the financial year 2015-16 to 2016-17 is increased, 2017-18 remains constant and 2018-19 there is decline. However in 2019-20, the ratio is drastically increased. An increase Debt to Equity Ratio, that Vodafone Idea has been aggressive in financing its growth with debt.

In the above table, Long Term Debt Equity Ratio for the financial year 2015-16 to 2016-17 is increased, in 2017-18 the ratio is slightly differs from 2016-17 and in 2018-19 there is a decline. However in 2019-20, the ratio is drastically raised. An increase Long Term Debt Equity Ratio of the Vodafone Idea indicates the high risk to their shareholders.

D. Profitability Ratio

Table- V: Profitability Ratio

PROFITABILITY RATIO						
Years	GPR	NPR	OP	ROCE	RONW	EPS
2015-16	15.84	7.39	33.28	9.69	11.58	6.41
2016-17	6.78	-2.35	28.79	3.57	-1.62	-2.28
2017-18	-9.59	-16.02	21.38	-2.38	-15.33	-10.30
2018-19	-28.57	-38.13	10.89	-5.80	-24.51	-16.94
2019-20	-20.73	-163.55	33.17	-8.22	-1249.1	-25.83

Interpretation:

In the above table, Gross Profit Margin Ratio for the financial year 2016-17 is decreased compared to 2015-16. Over the last 3 year from 2017-18 to 2019-20, there is a drastic decrease and these ratios are even in negative value. The Gross Profit Margin Ratio for Vodafone Idea shows the negative trend, when the cost of production exceeds the sales.

In the above table, Net Profit Margin Ratio from the financial year 2015-16 to 2019-20 there is a

drastic decrease and the ratios are even in negative values. The negative Net Profit Margin Ratio shows that Vodafone Idea is not making as much of money as its spending.

In the above table, after 2015-16 the Operating Profit Margin Ratio from the financial year 2016-17 to 2018-19 has a decreased trend in the ratio and 2019-20 there is an increase. In 2019-20, the Operating Profit Margin Ratio shows an improving profitability trend.

In the above table, the Return on Capital Employed for the financial year 2016-17 is decreased compared to 2015-16. In the last 3 year there is a drastic decrease and the ratios are even in negative values. The Vodafone Idea has decreased Capital Employed, which means they have a poor working capital which exceeds the size of net fixed assets.

In the above table, Return on Net Worth from the financial year 2015-16 to 2019-20 has a drastic decrease and ratios are even in negative value. A return on net worth is decreased due to the Vodafone Idea's poor decisions and their equity management is also not with a good performance at all.

In the above table, earning per share from the financial year 2015-16 to 2019-20 has a drastic decrease and ratios are even in negative values. EPS of Vodafone Idea is showing downward trend, which indicates that Vodafone Idea's earnings is at a declining trend and they want to spend some time to improve on this.

X. FINDINGS

- ✓ Liquidity ratio of the Vodafone Idea is not in better position. It shows they have inadequate liquid assets to reconcile its current liabilities.
- ✓ The Gross Profit Margin Ratio and Net Profit Margin Ratio of Vodafone Idea shows in the negative trend, which indicates the cost of production exceeds the sales
- ✓ The increase in Long Term Debt Equity Ratio of the Vodafone indicates the high risk to their shareholders.
- ✓ This decreased trend in Debtor's Turnover Ratio indicates that Vodafone Idea has a poor collection practice, bad credit policy and delinquent clients.
- ✓ The Vodafone Idea has decreased Capital Employed, which means they have a poor working capital which exceeds the size of net fixed assets.
- ✓ A return on net worth is decreased due to the Vodafone Idea's poor decisions and their equity management is also not with a good performance at all.

XI. SUGGESTIONS

- ✓ The current ratio of the Vodafone Idea is low so they want to increase its current ratio to meet its short term obligation.
- ✓ Liquidity ratio of the Vodafone Idea is not in better position for last five years. So they want to maintain proper liquid funds like cash and bank balance.
- ✓ EPS of Vodafone Idea is showing downward trend, which indicates that Vodafone Idea's earnings is at a declining trend and they want to spend some time to improve on this.
- ✓ The firm has incurred loss during the period of study so they should focus on getting profit in the coming years

XII. CONCLUSION

Ratio analysis and interpretation of financial statement is an important tool in assessing the financial performance and financial position of the Vodafone Idea Limited. In this study the financial performance of Vodafone for last five years not good. The company should focus on getting profits in the upcoming years by taking care internal and as well as external factors.

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