FINANCE AND BUSINESS ANALYTICS

CA_ONE

ANALYSIS AND INTERPRETATION OF FINANCIAL ACCOUNTS

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VODAFONE GROUP PLC ANALYSIS:

Vodafone is a renowned telecommunications service provider company. Its registered office and headquarters are in Newbury, Berkshire and England and it predominantly offers its service in Asia, Africa and Europe, Overall it operates in 22 countries worldwide. Vodafone group PLC has accomplished a lot over several years with its increasing demand and the threat of growing competitiveness from other telecommunications service firms, Vodafone group aims to incorporate its 5G Network service across the globe to deepen customer engagement.

Vodafone group has fair number of shareholders and always thrives to hand them excellent returns. In this report we analyze and interpret the financial ratios from the figures stated in the annual report to determine how well the Vodafone Group PLC perform on financial basis

LIQUIDITY AND SOLVENCY RATIOS:

This type of ratio is used to assess as to how well the company can manage to meet its short-term debt obligations. The liquidity ratio focuses on the ability of company to generate sufficient cash-flow

There are three commonly used ratio i.e. Current, Quick (Acid-Test) and Gearing. The liquidity ratios include current ratio and quick ratio and the solvency ratios include gearing ratio.

The interpretation and analysis of these ratios for the Vodafone Company based on its consolidated financial statement is given below:

1. **Current Ratio:** It is the ratio of current assets to current liabilities (Current Assets/Current Liabilities). It defines how well the current assets can cover the current liabilities over the period of 12 months. Current assets include all of cash, inventory, receivables stocks, E.T.C and current liabilities include all the things Vodafone owes which are Borrowings, Taxation liabilities, Trade and other Payables E.T.C . Generally, from Markets perspective current ratios should be greater than one so that current assets could cover current liabilities if the current ratio is greater less than one that means company is not able to meet its current liabilities.

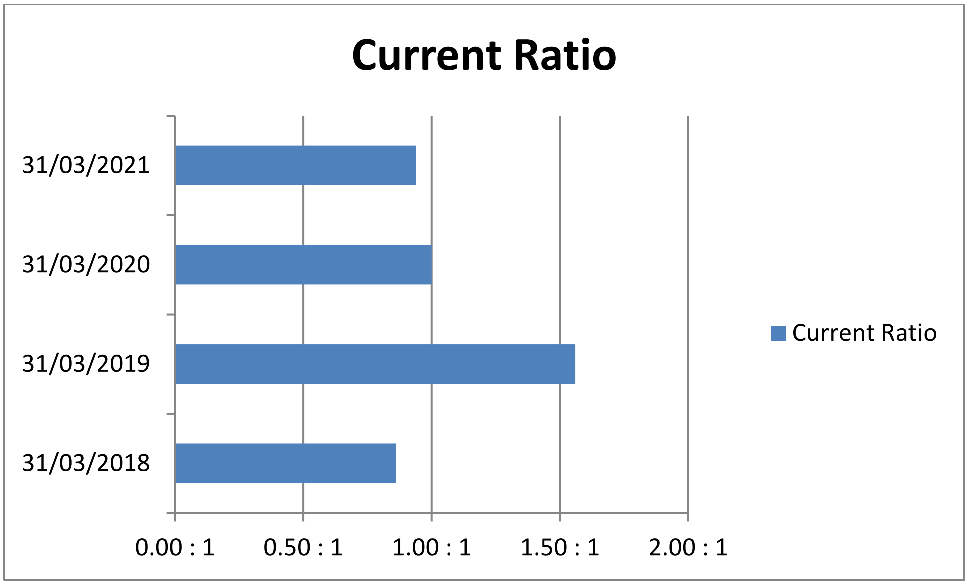
Current Ratio Interpretation:

After calculating the Current ratio for years 2021, 2020, 2019, 2018 we get to know that good enough for most of these years. In Fiscal Year 2021, The Current Ratio was 0.94:1 which means for every one Euro as liabilities, Vodafone has 94 cents as assets to cover it. Current ratios are Interpreted based on rule of thumb which is an ideal figure i.e. 2:1 for current ratios. This figure can be used for general comparison, but at the same time there can be different perspective. In terms of creditor's perspective or investor's perspective it is low, but in terms of owners perspective it can be a normal figure as Vodafone is a service industry and most of its assets can be contracts or receivables.

It was high for year 2019 and 2020; the highest being on 2019 i.e. 1.56:1 which means it had almost 2 times more assets to cover its liabilities. It was lowest in 2018 i.e. 0.86:1 however it seems to be improved since then.

year	31/03/2018	31/03/2019	31/03/2020	31/3/2021
Current Assets	24131	39817	33246	27013
Current Liabilities	28025	25523	33385	28711
Current Ratio	0.861053	1.560044	0.995836	0.940859
Year on Year change		*81.18%*	*-36.17%*	*-6%*

The Following Bar chart illustrates the growth and downfall of the Current ratios for respective years:



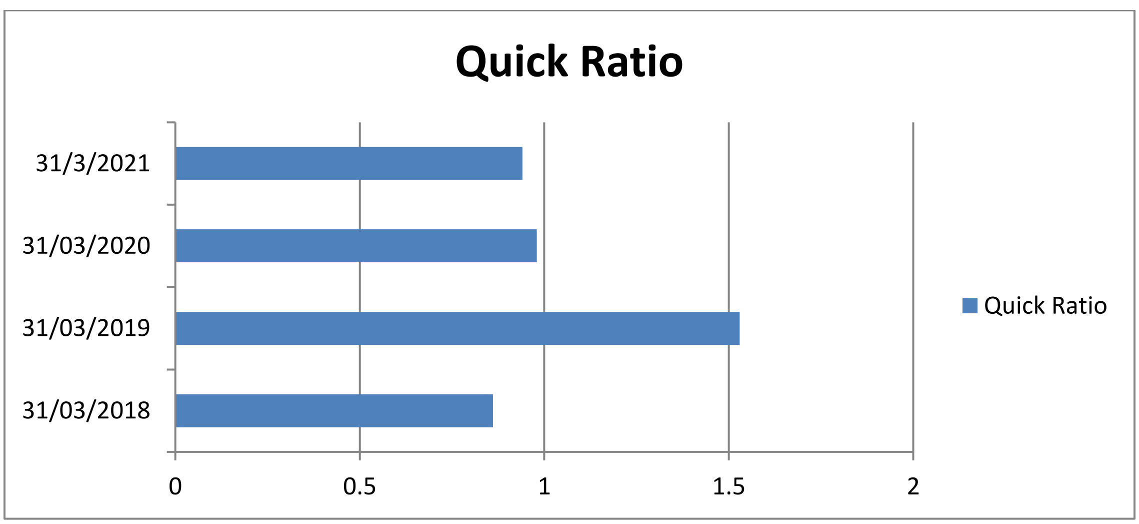
2. **Quick Ratio**: As the name suggests Quick ratio implies that how quickly the assets can cover the liabilities. It can be said as the true measure of liquidity as it considers the assets that can cover the liabilities over immediate effect. For quick ratio we have current liabilities in denominator and Current Assets minus the inventory in the numerator ((Current Assets-Inventory)/Current Liabilities).

Quick Ratio Interpretation:

From the accounts we get that the quick ratio was less than one for 2021, 2020 and 2018 and it was highest for year 2019 as 1.53:1. This means that Vodafone group PLC was more liquid in year 2019 and it had assets that can be quickly converted into cash to meet its short-term obligations. Also from 2019 we can see the trend going downward. Although comparing it to the 'Rule-of-Thumb' figure it cannot be stated as decent trend because most of the figures are below 2:1 but they are in the range of 1:1 and can be considered healthy range especially for service companies.

year	31/03/2018	31/03/2019	31/03/2020	31/3/2021
Current Assets	24131	39817	33246	27013
Inventory	€106	€714	€598	€676
Quick Ratio	0.861053	1.53	0.98	0.92
Year on Year change		78.71%	-36.17%	-6.20%

The Following Bar chart illustrates the growth and downfall of the Quick ratios for respective years:



3. **Gearing Ratio**: It is the ratio of Long-term Debt to the sum of Long-term Debt and Equity (Long-Term Debt/ (Long Term Debt+Equity)). It has long-term Debt in the numerator and sum of long-term debt and total equity in the denominator. It

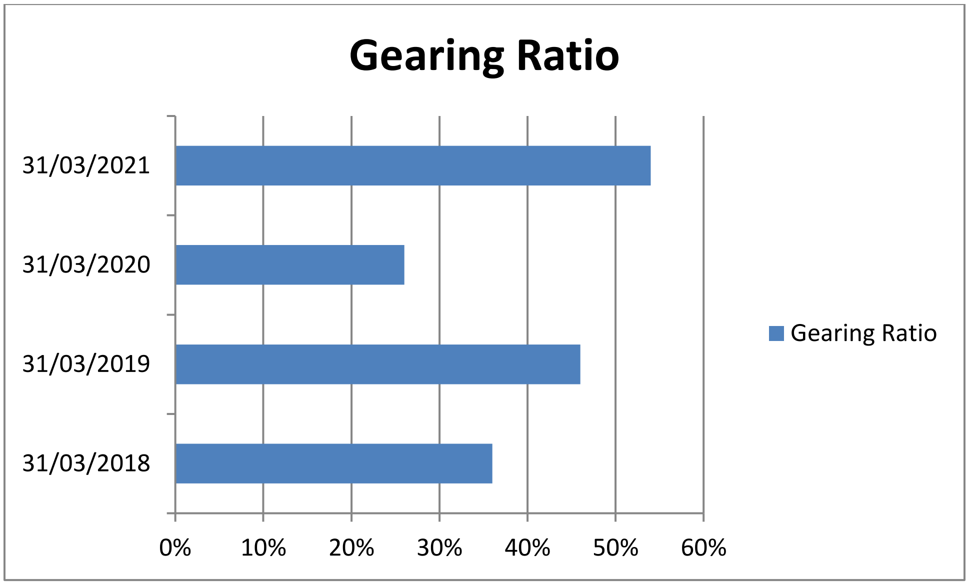
is the measure of the risk level of a company and it is expressed in percentile. In case of Vodafone's Account the Long-term Debt figure we obtain from Non-Current Liabilities section and equity from Total Equity section. The higher the gearing ratio percentage the riskier and volatile the company will be and it would mean that most of the company's costs are financed by the debt.

Gearing Ratio Interpretation:

On looking at Vodafone financial statements and evaluating the gearing ratios, we get to see the upwards trend as given in year on year change for Gearing ratios in and this would potentially raise the red flags for its investors. Generally the Ideal range for Gearing Ratio is 25% to 50% and for this range the risk-factor is considered low to moderate. In this case it was lowest for the year 2018 which is 36% and it was highest in the year 2020 i.e. 56%. Although it can also attribute to the fact that Vodafone is primarily a service company and most of its finances are post-paid or on contract basis.

year	31/03/2018	31/03/2019	31/03/2020	31/3/2021
Debt	€37,980	€53,894	€72,158	€68,536
Equity	€68,607	€63,445	€62,625	€57,816
Gearing Ratio	36%	46%	56%	54%
Year on Year change		*28.90%*	*16.56%*	*1%*

The Following Bar chart illustrates the growth and downfall of the Gearing ratios for respective years:



Reference for Liquidity Ratios: https://corporatefinanceinstitute.com/resources/knowledge/finance/liquidity-ratio/

PROFITABILITY RATIOS

The company needs to be profitable to attract more investors or shareholders so as to run their company and maintain their stock holdings. The Profitability ratios are the perfect tools to assess the company's performance in generating profits and understanding its financial health.

There are a lot of profitability ratios; however we will discuss three main ratios that we will discuss in this section i.e. Gross Margin, Net Margin and Return on assets

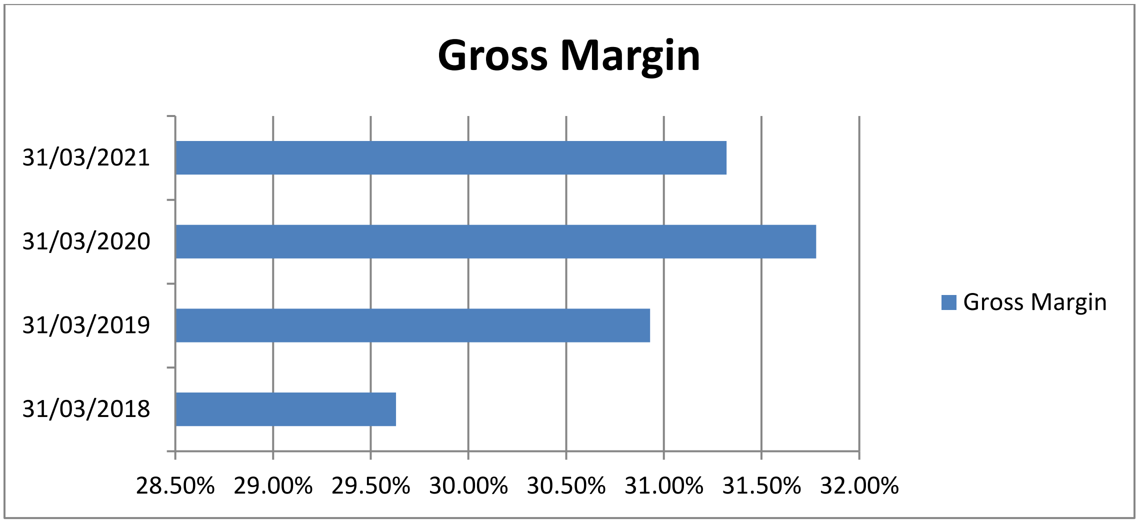
1. **Gross Margin**: It is the ratio of Gross Profit to Sales. This ratio defines the actual profits the company is generating from its Sales taking out its cost of goods sold or the costs requires to produce a good. In this we have Gross Profit in the Numerator and Sales (Revenue in this case) in the Denominator. It is expressed in percentage. So if the company is generating more profits it will have higher Gross Margin and this would indicate that it's using its resources effectively and have a good business strategy and their business is really going well. However the comparison of this ratio can be different from industry to industry. Some companies would compare their gross margin ratios with competitors while some with their past data.

Gross Margin Interpretation:

On looking at Vodafone's Accounts and evaluating its Gross Margin ratio from the Revenue and Gross Profit Figures as stated in income statement, we get to see that there is an upward trend in figures indicating the rise in overall profits. However there was a downfall in the year 2021 by 1.43% as mentioned in the year on year change in below table. But overall company's performance is potentially getting better and this in turn will lead to attract more investors.

year	31/03/2018	31/03/2019	31/03/2020	31/3/2021
Gross Profit	€13,800	€13,506	€14,292	€13,723
Sales	€46,571	€43,666	€44,974	€43,809
Gross Margin	29.63%	30.93%	31.78%	31.32%
Year on Year change		*4.38%*	*2.74%*	*-1.43%*

The Following Bar chart represents the figures graphically:



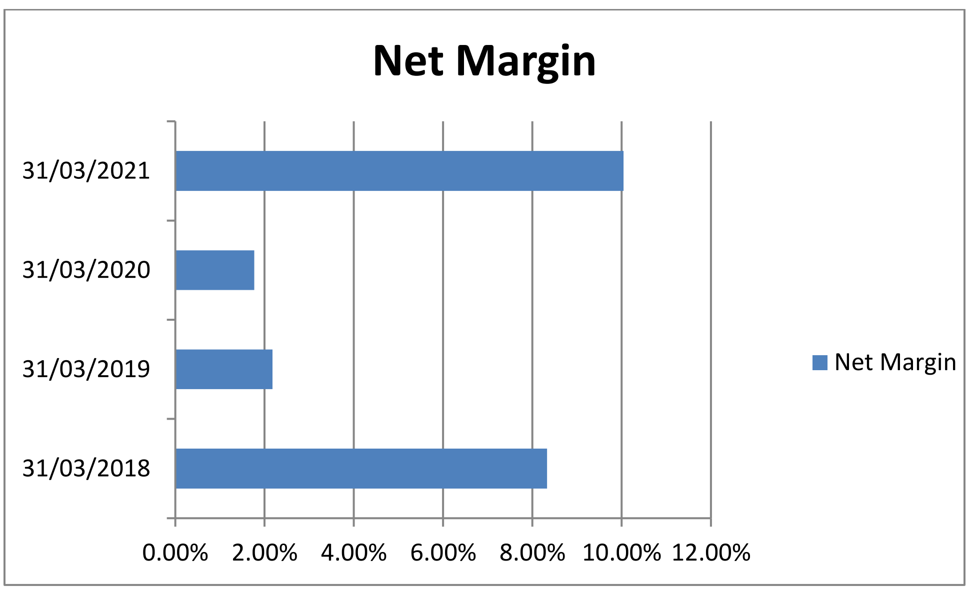
2. **Net Margin:** It is the Ratio of Net Profit before tax to the Sales (Revenue). In Here we have Net profit before Tax in Numerator and Sales (Revenue for Vodafone) in Denominator. It gives us the profit after including most of the expenses like SG&A, Impairment losses, COGS E.T.C. but not taking expenses on Tax into Account. Similar to gross profit it is also expressed in percentage and higher the percentage, more profitable company is. This can also be said as more specified or detailed version of profit margin. Often it is also referred as bottom line profit margin.

Net Margin Interpretation:

After Looking at Vodafone's Income statement and Evaluating Vodafone's Account we get to know that the Net Margin was fluctuating in all those years. It may attribute to the unstable expenses especially the impairment losses of Vodafone Company which is the write-down on certain assets investment caused by the depreciation on of that assets or excess spending on undervalued assets.Net Margin was reported very high during the year 2021 at 10.04% it can be due to the fact that impairment losses were null.

year	31/03/2018	31/03/2019	31/03/2020	31/3/2021
Net profit before Tax	€3,878	€951	€795	€4,400
Sales	€46,571	€43,666	€44,974	€43,809
Net Margin	8.33%	2.18%	1.77%	10.04%
Year on Year change		-73.85%	-18.84%	468.18%

The Following Bar chart represents the figures graphically:



3. **Return on Assets:** It is the ratio of Net profit before tax to Total Assets. It can be defined as how well the company utilizes its total assets to generate Net Profits. Similar to Net Margin, to calculate this ratio we take Net Profit before tax which exclude taxes and includes most of all other expenses like SG&A, Impairment Losses E.T.C in the Numerator and Total Assets which is the sum total

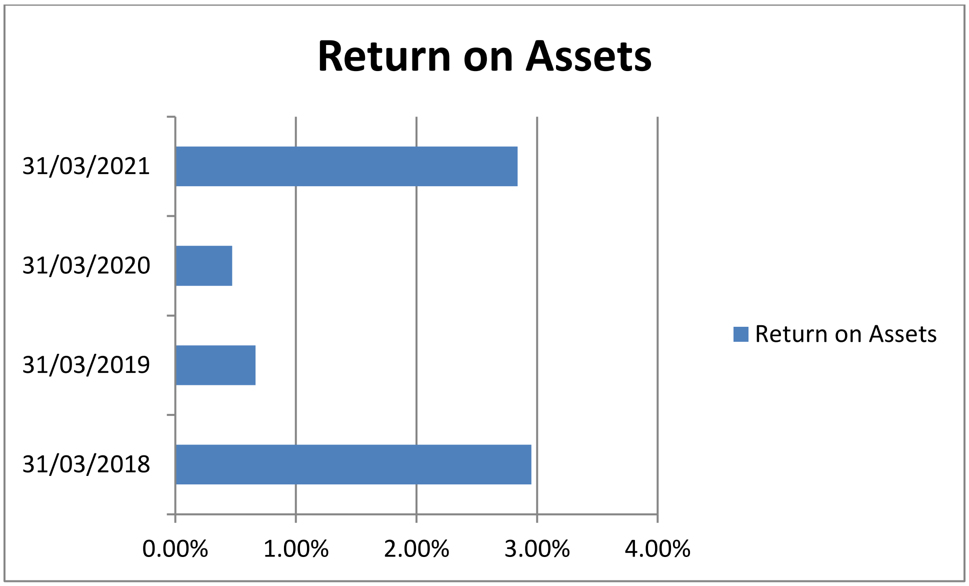
of all the current assets into denominator. Generally, the companies should have low Return on Assets Ratio for better efficiency but shouldn't be negligible as it would indicate that company's liquidity strength is uncertain.

Return on Assets Interpretation:

On evaluating the Return to Assets Ratio for Vodafone Group we observe that, the figures were excellent for all the years. However it were very low for the years for the years 2019 and 2020 and this might raise the suspicion for the liquidity of the company. This can indicate that Vodafone has more intangible assets or non-Fixed like treasure notes, bill, Network Licenses, other receivables E.T.C that can be easily converted into cash.

year	31/03/2018	31/03/2019	31/03/2020	31/3/2021
Net profit before Tax	€3,878	€951	€795	€4,400
Total Assets	€145,611	€142,862	€168,168	€155,063
Return on Assets	2.9523868389064%	0.665677366969523%	0.472741544170116%	2.83755634806498%
Year on Year change		*-77.45%*	*-28.98%*	*500.23%*

The Following Bar chart illustrates the growth and downfall of the Return on Assets ratios for respective years:



Reference:
https://corporatefinanceinstitute.com/resources/knowledge/finance/profitability-ratios/

EFFICIANCY RATIOS

As the name suggests Efficiency Ratios allows us to analyze the financial efficiency of the company. More importantly, how effectively a company uses its resources to generate capital and profits and to manage its financial aspects like cash flow, Inventory, Debts E.T.C. and also how well the company can pay its bills if they fall due.

There are lots of Efficiency ratios that can be used to inspect the company's operational effectiveness. However, we will discuss three main efficiency ratios i.e. Inventory Turnover, Inventory days, Accounts Receivable days.

1. **Inventory Turnover**: It is the ratio of Cost of Goods Sold to Inventory. For this ratio we have Costs of Goods Sold in Numerator and Inventory in Denominator. It can be interpreted as how many times or how frequently the company utilizes its inventory for the cost of goods incurred in Revenue generation over the 12-month Period. If the Inventory Turnover Ratio is more then we can say that the inventory was effectively utilized more number of times in generating overall cash-flow thus increasing the liquidity in business

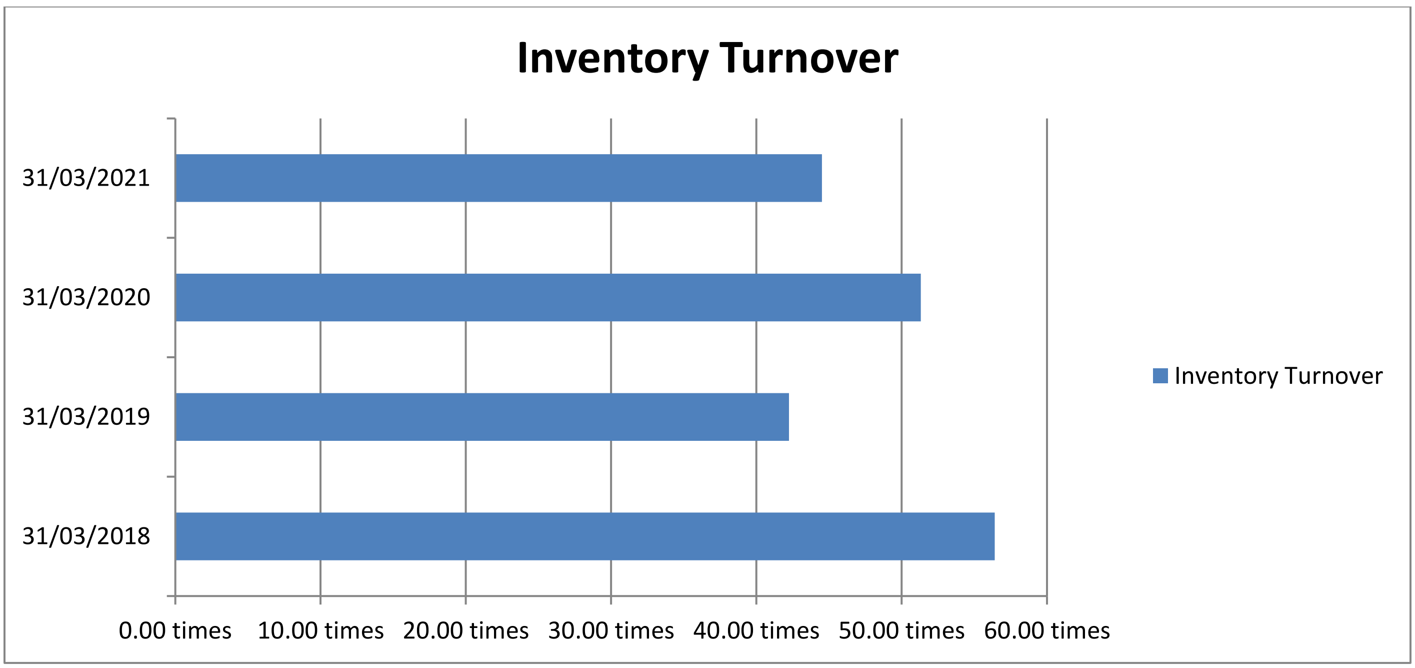
But if the Inventory ratio was determined to be less multiples then that would mean the business is not liquid and the profit making ability is poor.

Inventory Turnover Interpretation:

On looking on Vodafone's Balance Sheet and evaluating the Inventory ratios for each year, we can say that the Inventory Ratio was good overall. It was highest in the year 2018 where it was 56.50 times during 12-Month Period as seen in the Table below. This means that Vodafone is good at processing the Inventory more number of times and making profits while utilizing its inventory and maintaining the business liquid.

year	31/03/2018	31/03/2019	31/03/2020	31/3/2021
Costs of Goods sold	€32,771	€30,160	€30,682	€30,086
Inventory	€581	€714	€598	€676
Inventory Turnover	56.40 times	42.24 times	51.31 times	44.51 times
Year on Year change		*-25.11%*	*21.46%*	*-13.26%*

The Following Bar chart illustrates the growth and downfall of the Inventory Turnover ratios for respective years:



2. Inventory Days: It describes as to how many days it takes for a firm to actually convert its inventory to cash. This Ratio has 365 in numerator which is the number of days in a year and Inventory Turnover into denominator. The figure is represented in days. So if the number of days is more for a company it means that it's taking more days than average to process its inventory and turn them into finished goods and eventually turn them into sales. This would indicate that the company is not liquid and not well-managed or well-equipped.

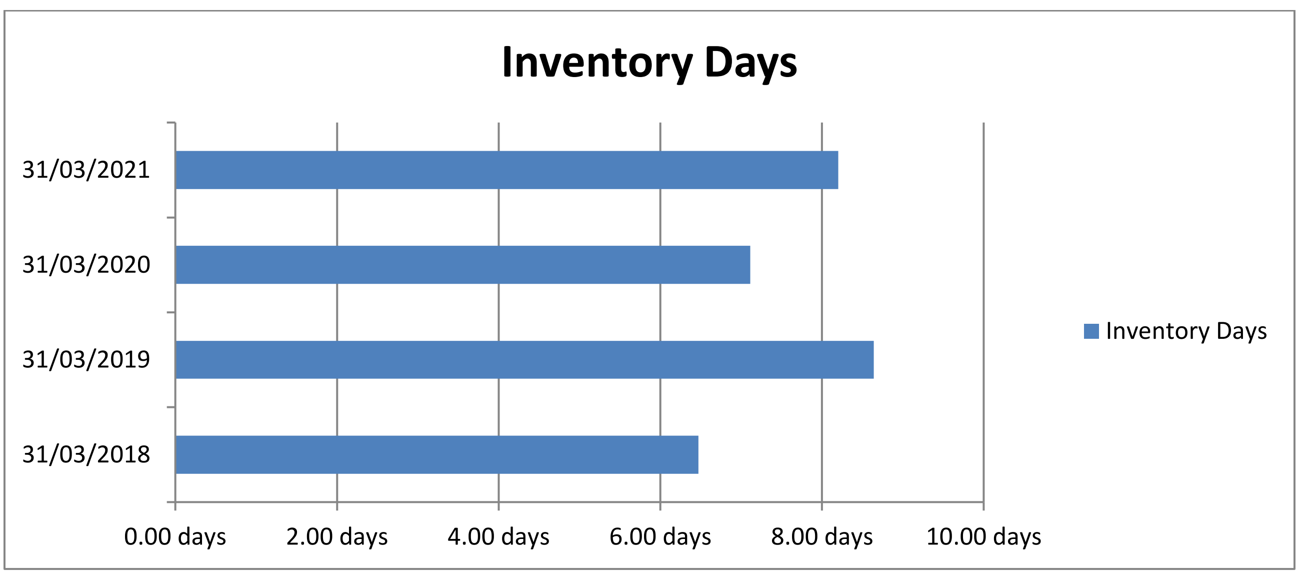
Inventory Days Interpretation:

On evaluating Vodafone's Inventory days we get to see that it has fair number of days on average for each year as evaluated in below Table. It means that Vodafone is fairly flexible in converting its Inventory into sales. It can also be

attributed to the fact that Vodafone has more cash equivalents or the Inventory that can be easily converted into cash. On looking at year on year change in below table we can see the positive downfall in percentage indicating that fewer days were taken in 2020 to converts its inventory into cash.

year	31/03/2018	31/03/2019	31/03/2020	31/3/2021
Inventory	€581	€714	€598	€676
Inventory Days = 365/Inventory Days	6.47 days	8.64 days	7.11 days	8.20 days
Year on Year change		*33.53%*	*-17.67%*	*15.28%*

The Following Bar chart represents the figures graphically:



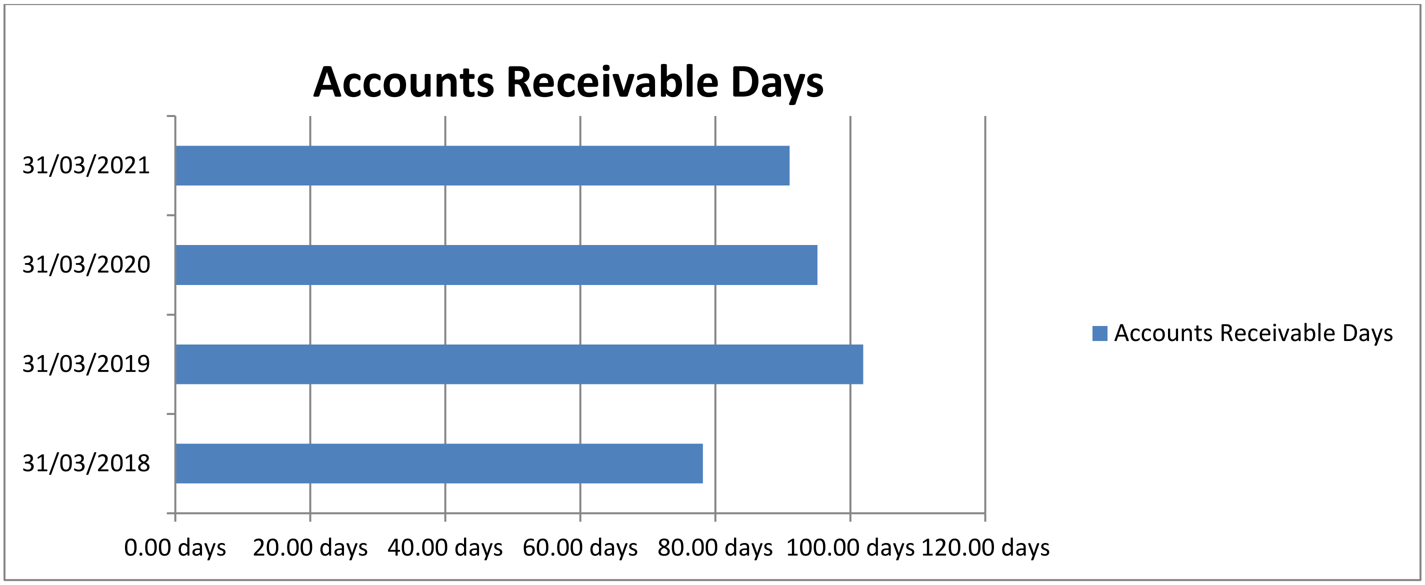
3. **Accounts Receivable Days:** It is the Ratio of Accounts Receivables multiplied by 365 to Sales/Revenue. It has Accounts Receivables or Trade and Other and the Sales or Revenue term in Denominator. It gives us the numbers of days taken by the company to convert its credit sales or cash or other account receivables into cash. So if the clients or customers take more time to pay its credit then the receivable days would eventually be more, if not then it would be less. Generally, it's considered good to have less number of receivable days as it would mean company's credit transaction are fluent and it would not face restricted cash - flow.

Accounts Receivable Days Interpretation:

On evaluating the Performance of Vodafone on Account receivable days by getting the trade and other receivables from financial positions statement, under the current assets column and multiplying it by 365 and then dividing the whole by sales or revenue, we get to see that it was not too good for most of the years and would have been better if the days were less. But on comparative performance we can say that it had improved with regards to previous years..

year	31/03/2018	31/03/2019	31/03/2020	31/3/2021
Accounts Receivable	€9,975	€12,190	€11,724	€10,923
Sales	€46,571	€43,666	€44,974	€43,809
Accounts Receivable Days = Accounts receivable*365/Sales	78.18 days	101.9 days	95.15 days	91.01 days
Year on Year change		*30.34%*	*-6.62%*	*-4.35%*

The Following Bar chart illustrates the growth and downfall of the Accounts Receivable Days ratios for respective years:



Reference: https://corporatefinanceinstitute.com/resources/knowledge/finance/efficiency-ratios/

INVESTMENT RATIOS

As the name suggests Investment Ratios are made for mainly for the stocks assessments for the Investors. They can also be called as shareholders ratio. Mostly they are used to analyze the share price of a company and the potential returns the shareholders would get upon investing or buying shares of a certain company.

In this section we will analyze and interpret three main Investment rations:

Earnings per Share Ratio, Price per Earning Ratio and Return on Equity

1. **Earnings per Share Ratio:** It is the ratio of finalized profit after tax or Net profit to the total number of shares issued annually. In this ratio we have profit after tax in numerator which is profit for financial year as stated in consolidated income statement of Vodafone annual report and number of shares issues in

denominator which is stated in called up share capital Section of Vodafone annual report.

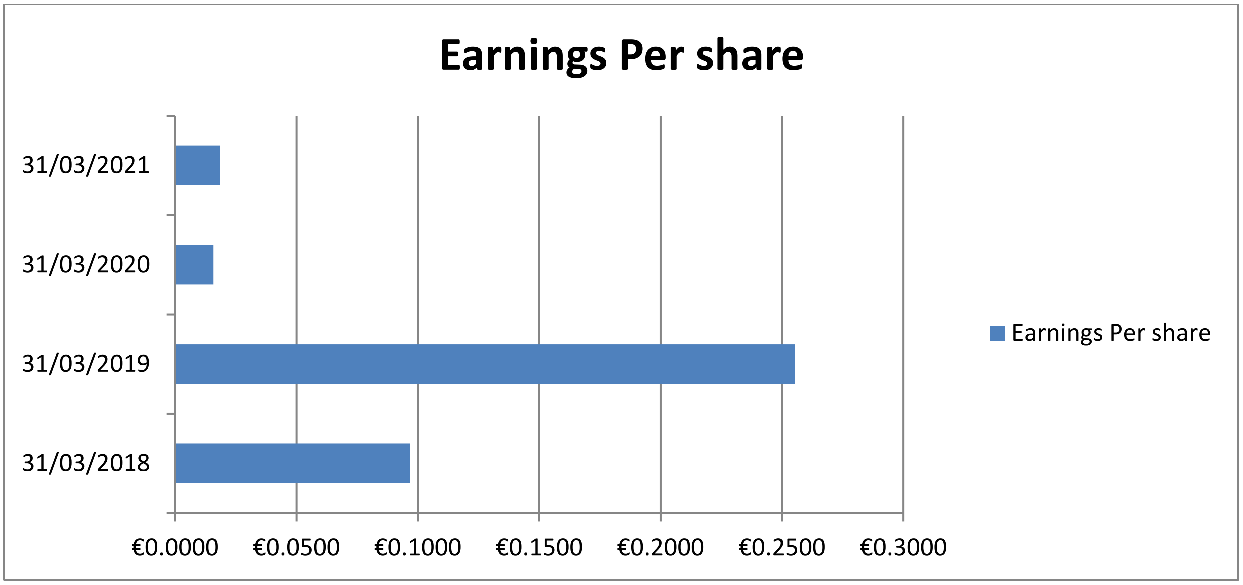
Earnings per share ratio Interpretation:

Earnings per share ratio can be interpreted as the potion of Net profit of a company that belongs to shareholders if they hold a unit stocks in that company. For example if we look at Vodafone's report for year 2021, it had net profit of 536 million Euros and number of shares issued was 28817 million roughly , so using this the estimated Earnings per shares figure was 0.02 Euros which is exactly the income earned by investors for the unit shares they purchased.

On looking at Vodafone's Earning per share Ratio for each year from 2018 to 2021 we get that it had quite fluctuating trend as observed in the below table. The highest was reported in the year 2019 which is 0.27 which means that in 2019 the investors were getting high returns on their shares as given in below table. So this high Earnings per share would potentially lead to increase in share price or equity of company while attracting more investors and ultimately gaining more profits.

year	31/03/2018	31/03/2019	31/03/2020	31/3/2021
Profit after Tax	€2,788	€7,644	€455	€536
Number of Shares Issued	28814	28815	28815	28817
Earnings per share ratio	€0.0968	€0.2553	€0.0158	€0.0186
Year on Year change		*174.17%*	*-94.05%*	*17.79%*

The Following Bar chart illustrates the growth and downfall of the Earnings per share ratios for respective years:



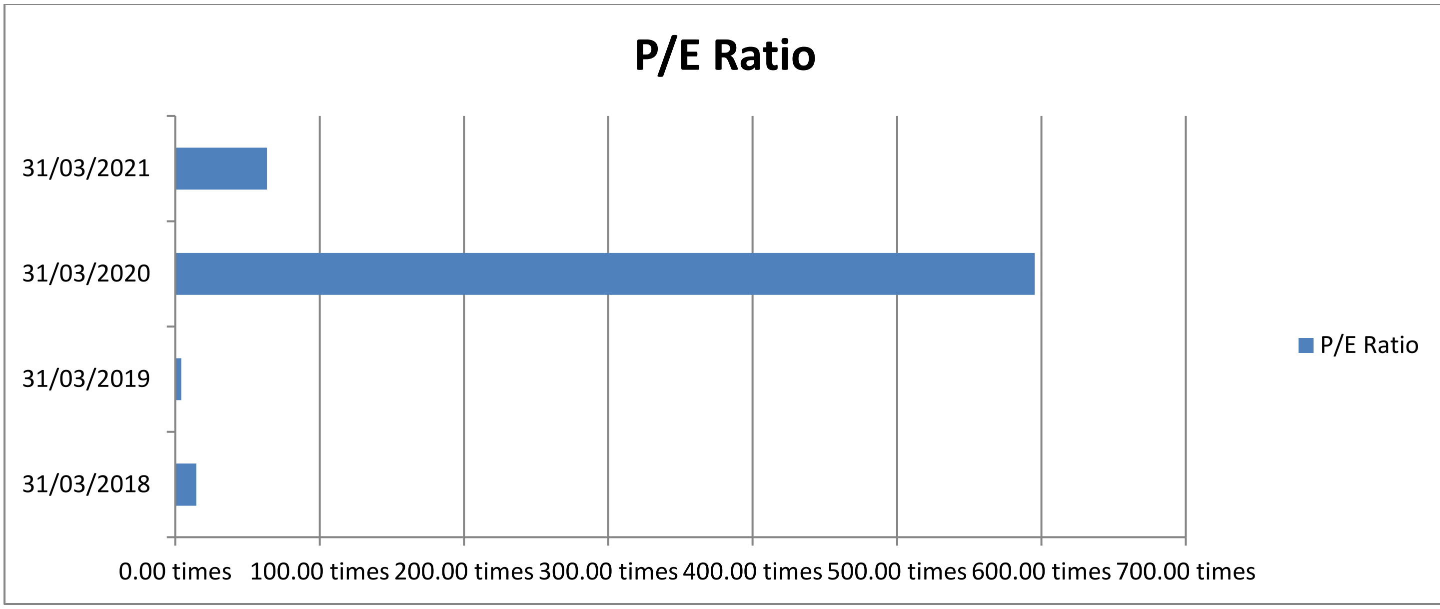
2. **Price per Earnings ratio**: It is the ratio of share price to earnings per share. In this we have share price in the numerator and earnings per share in the denominator. The annual share price figure can be obtained from finance websites like yahoo Finance under the London Stock Exchange data. The share price is obtained from adjusted close price section and is converted from pence to Euros. According to investors point of view the P/E Ratio will evaluate if they are getting reasonable returns on their stocks and whether its good decision to keep on investing in foreseeable future based on its profits. The P/E ratio is a relative measure it is always compared to the past performance or with the competitors P/E ratios to assess the company's own performance. The Price per earnings ratio can also be expressed as times

Price per Earnings ratio interpretation:

The P/E ratio for Vodafone is quite volatile for those years as seen from the table below. It was reported lowest in year 2018 as given in the table below it can be due to indication of higher gross profit that year. Also in the year 2018, the share price was normal while the earning per share ratio being high and this would altogether mean those investors were getting the stocks at fair price bargain. The P/E ratio was way high in the year 2020 compared to other fiscal year also the percentage rise was incredibly high compared to previous year. It can be mainly due to low EPS and high share price and for the company it can be very profitable indicating high potential for growth, considering the volume of shares purchased. But at the same time if the gap between EPS and share price continue to grow then it can be annoying for investors as these stocks can be perceived as overvalued.

year	31/03/2018	31/03/2019	31/03/2020	31/3/2021
Share Price	€1.41	€1.11	€9.40	1.18
Earnings per share	€0.10	€0.27	€0.02	€0.02
Price/Earning Ratio	14.57 times	4.18 times	595.30 times	63.44 times
Year on Year change		*-71.29%*	*14127.03%*	*-89.34%*

The Following Bar chart illustrates the growth and downfall of the Price per Earnings ratio for respective years:



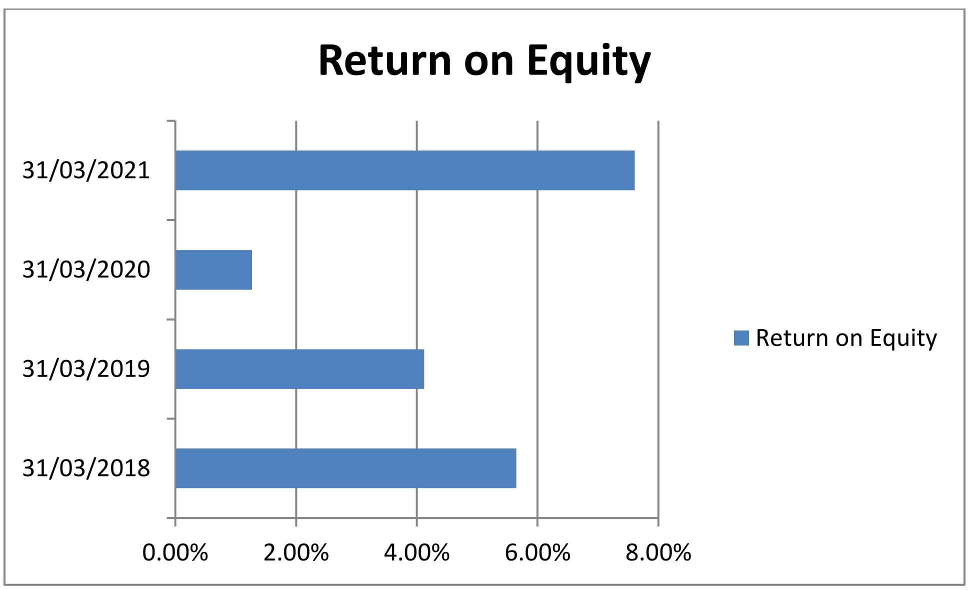
2. **Return on Equity:** It is the Ratio of profit before Tax to the sum of share capital and retained earnings. It has net profit before tax in the numerator and Total Equity which is the alternate term to sum of share capital and retained earnings in the Denominator and both are obtained from Equity Section. It is expressed as percentage and can be interpreted as how well the company utilizes its shareholders total equity to generate net profits. A higher ROE value can perceived as company is good in using its financial leverage from shareholder and that in turn leads to increasing productivity and attracting more investors. However it doesn't capture the exact value of the shareholders Investment.

Return on Equity Interpretation:

On looking a Vodafone's balance sheet and evaluating the Return on Equity as given in table below we get to know that most of the fiscal year had good percentage of ROE, however there was a huge drop in the ROE figure in year 2020 with a sudden increase in an average of 499.49% in year 2021.This can be attributed to the fact that the tax and other expenses where huge that year and so the Net profit after tax was low. Since Vodafone is Service Company we can say that it had stable and predictable cash-flow from its financial leverages and the risk-level is low.

year	31/03/2018	31/03/2019	31/03/2020	31/3/2021
Net Profit Before Tax	€3,878	€2,613	€795	€4,400
Share Capital + Retained Earnings/Total Equity	€68,607	€63,445	€62,625	€57,816
Return on Equity	5.65%	4.12%	1.27%	7.61%
Year on Year change		*-27.14%*	*-69.18%*	*499.49%*

The Following Bar chart illustrates the growth and downfall of the Return on Equity ratios for respective years:



Reference:
https://corporatefinanceinstitute.com/resources/knowledge/finance/financial-ratios/

Conclusion: Overall we can observe that most of the ratios give indication of good financial condition. However some ratios like gearing ratio, Return on equity has quite a negative impact on company and to counter this company can strive to reduce debt financing and also try to improve its productivity.