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Financial Analysis: A Case of Vindhya Telelinks Ltd., Jaipur

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Abstract

The focus of the current study is to conduct a financial analysis of Vindhya Telelinks Ltd. to determine the company's financial viability and offer helpful recommendations to the owners. A premier manufacturer, Vindhya Telelinks Limited offers its clients Polyethylene Insulated Jelly Filled Telephone Cables (JFTC) of the highest calibre. The company holds an IS/ISO 9001:2000 certification for its quality management system. This study's data come from both primary and secondary sources and is descriptive in nature. The cash flow statement, balance sheet statement, and profit and loss account were examined as part of the financial analysis. To evaluate the company's financial situation, financial ratios were also computed.

Introduction

The M.P. Birla Group's Universal Cables Limited, Satna, and the MP State IDCL joined together to form "Vindhya Telelinks Limited" to carry out a project to produce JFTC. Commercial production at the Rewa plant in Madhya Pradesh started in 1986. The business provides optimised facilities for the production of optical fibre cables (OFC), with the most recent innovation covering the whole range of such links and a cap of more than 34,272 Cable KM annually. The company also includes a top-notch operation for fabricating optical fibre ribbons, with a yearly capacity of over one million ribbon kilometres. It can supply approximately 5783 kilometres of optical fibre ribbon cable with various fibre checks. The company has established itself as the top supplier of jelly-filled telecommunication cables to BSNL, MTNL, and other top user organisations including Bharti, Huges, Reliance Info

COMM, Tata Tele Services, Spice Telecom, NTPC, SAIL, Railways, Defense organizations, different coal fields & mining companies, oil & refining companies, Department of Atomic Energy, Nuclear Power Corporation, etc. The customer segment of the company includes Basic & cellular services, Indian Railways, Information technology, Refineries, Coal fields, Defence, Gas, Power Utilities, Cable T.V. Operators, Internet & Other Value-added Service Providers. The primary pillars of the company's success are customer contentment, consistency in product quality, timely delivery, and an ongoing effort to improve quality and customer pleasure.

Financial Analysis

In this study, financial analysis was carried out to examine the company's financial statements. This analysis will be helpful for making important decisions, such as investments and plans for projects and financing activities. Financial data is used to evaluate a company's performance, and the results are presented to the senior management with suggestions for future improvement. The way toward evaluating the association between fragment pieces of financial reports in order to gain a prevailing awareness of the resolute positions and execution is through the assessment of spending reports. The focus of financial analysis is on crucial numbers in monetary rundowns and the substantial association that exists between them. The primary goal of the cash related analyst is to select the facts pertinent to the decision from the whole information contained in the spending rundowns. To summarise, financial assessment is a process of assurance, association, and evaluation. The resulting provided a metric that can be used to evaluate investment opportunities.

Objectives of the Study

The purpose of the study was to investigate and analyse the company's current financial position as well as the cash transactions that are related to the business. Additionally, the study aimed to provide useful information regarding a variety of financial ratios and their connections to cash management. The following is an enumeration of the primary goals that were pursued:

- To ascertain the company’s current level of profitability as well as its future potential.
- To investigate how the firm handles its cash requirements.
- To figure out which method of cash budgeting is applicable to the organisation.

Research Methodology

This is a descriptive study which uses data from both primary and secondary sources. Financial analysis was conducted by analyzing the final accounts, fund flow statement, cash flow

statement and annual reports of the company. Financial ratios were also calculated to assess the financial position of the company.

Primary data was collected through non-structured interview method. The questions were asked from the plant's regular staff members from finance department. The purpose of the survey was to gather information on the perspectives of those working at Vindhya Telelinks Ltd. on matters pertaining to Financial and Ratio Analysis. Secondary data was collected from BSP circulars, manuals, and brochures that have been distributed by the organisation, Magazines, and gazettes report on personnel policy and on the work of programmers, etc.

Data analysis and Findings

A. **Income Statement Analysis**

The data given below is extracted from the Annual Report of Vindhya Telelinks Limited Fiscal Year 2017-18. It shows the data of two financial year, i.e., 2017-18 and 2016-17.

	(in Lakhs)	**(in Lakhs)**
INCOME STATEMENT	**Year 2018**	**Year 2017**
Revenue from Operations	135138.46	103335.05
Other Revenue	914.77	1713.38
TOTAL REVENUE	**136053.23**	**105048.43**
Cost of Revenue, Total	83883.96	45092.86
GROSS PROFIT	**52169.27**	**59955.57**
Selling/ General/ Administraive Expense, Total	27422.55	35658.14
Research and Development	661.83	540.18
Depreciation and Amortization	1332.07	1266.41
Unusual Expense (Income)	976.51	1314.53
Other Operating Expense, Total	5432.22	9105.51
OPERATING INCOME	**16344.09**	**12070.80**
Interest Expense	3743.42	2355.06
PROFIT BEFORE TAX (PBT)	**12600.67**	**9715.74**
Income Tax	4267.63	2879.87

PROFIT AFTER TAX (PAT)	**8333.04**	**6835.87**
Total extraordinary items	0.00	0.00
NET PROFIT	**8333.04**	**6835.87**

From the above data, Gross Profit Ratio, Operating Profit Ratio, Net Profit Ratio, Tax Ratio and Interest coverage ratio have been calculated for both the financial years with the help of following formulae:

Ratio	**Formulae**
Gross Profit Ratio	Gross Profit/ Total Revenue
Operating Profit Ratio	Operating Income/ Total Revenue
Net Profit Ratio	Net Profit/ Total Revenue
Tax Ratio	Income Tax/ Profit before tax (PBT)
Interest Coverage Ratio	Operating Income/ Interest Expenses

Results from calculation of Ratios

	Year 2018	**Year 2017**
Gross Profit Ratio	38.34%	57.07%
Operating Profit Ratio	12.01%	11.49%
Net Profit Ratio	6.12%	6.51%
Tax Ratio	33.87%	29.64%
Interest Coverage Ratio	4.37	5.13

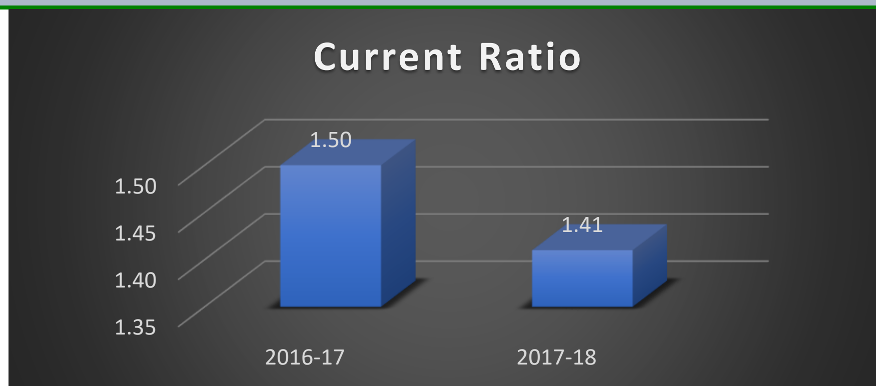
Interpretation - The gross profit ratio has decreased from 57.07% in 2017 to 38.34% in 2018, which shows decreased profits of the company.

B. Financial Ratio Analysis

The following financial ratios were calculated to assess the position of the company:

- **Current Ratio** - The current ratio is the proportion that is utilized the majority of the time in order to quantify the organization's liquidity. This is because the current ratio is a quick, natural, and simple measure that allows one to comprehend the connection between an organization's current resources and current liabilities. In essence, it provides an answer to the question of how many of the organization's present resources are required in order to cover the organization's current obligations.

	2016-17	2017-18
Current Asset	90605.80	132953.49
Current Liabilities	60272.64	94328.76
Current Ratio	**1.50**	**1.41**



Interpretation - A proportion that is either exactly 2:1 or very close to that rule of thumb. It indicates that current assets should be at least twice as large as current liabilities in order to be regarded as adequate. If a company's current ratio is more than one, it indicates that the company is in healthy shape. Here the Current ratio for both the financial year is above 1, which indicates the healthiness of the company, but the ratio has decreased from financial year 2017 to financial year 2018, which is an alarming signal for the company.

- **Acid Test Ratio/ Quick Ratio** - There are times when current assets might include massive amounts of inventory, prepaid expenses, and other things along these lines. This has the potential to change our understanding of the present assets, which are not very flexible.

	2016-17	2017-18
Current Asset	90605.80	132953.49
Inventories	19051.45	37285.45
Current Liabilities	60272.64	94328.76

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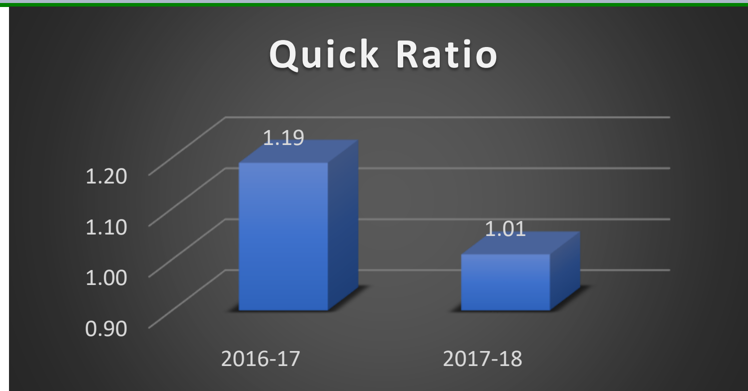
Quick Ratio	1.19	1.01

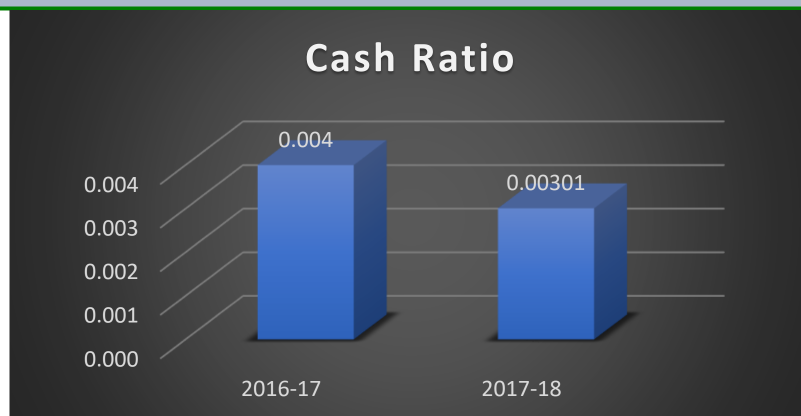


Interpretation - This ratio is sometimes referred to as the Quick Ratio or the Acid Test. A score of 1.0 is considered to be a reliable recommendation for a healthy basic analysis file.

A quick ratio of one-to-one is generally seen as being sufficient and may be thought of as either a rule of thumb or a convention. If not all of the debtors can be realized and cash is required right away to satisfy the present obligation, a fast ratio of 1:1 does not always indicate that the company has an acceptable liquidity situation.

- **Cash Ratio** - In the event that the company has a higher cash ratio, it will undoubtedly be in a position to be able to pay off its short-term obligations.

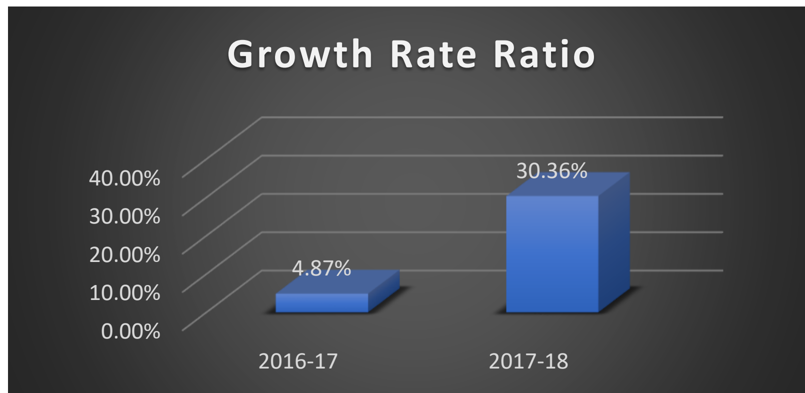
	2016-17	2017-18
Cash & Cash Equivalents	240.86	284.87
Current Liabilities	60272.64	94328.76
Cash Ratio	**0.004**	**0.00301**



Interpretation - When trying to get a complete view of the company's liquidity status, it is important to look at all the above ratios related to cash. The Cash Ratio is the gold standard for measuring liquidity. If this figure is very high, then it is reasonable to assume that the company

has sufficient liquid assets in its bank accounts to meet all of its short-term financial obligations.

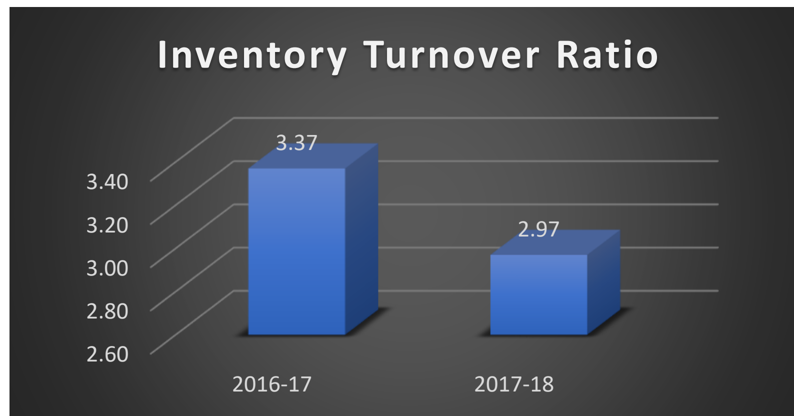
- **Growth rate ratio** – It shows the comparative growth rate of the company with reference to previous financial year.



Interpretation-_If a portfolio grows by 4.87% one year and 30.36% the next, the average growth rate would be 25.49% per year. So, the changes in the arrival rate of the speculation between the beginning of the primary year and the end of the year are not included in the estimates.

- **Inventory turnover ratio** – It is a measure of how well inventory is managed. It compares the value of products sold over a period to the average number of products in stock. This shows how many times the average amount of inventory is "turned," or sold, during a given time. In other words, it shows what percentage of the total average dollar amount of a company's stock was sold during the year.

	2016-17	2017-18
Cost of Goods Sold	45092.86	83833.96
Average Inventory	13388.47	28168.23
Inventory Turnover Ratio	**3.37**	**2.97**

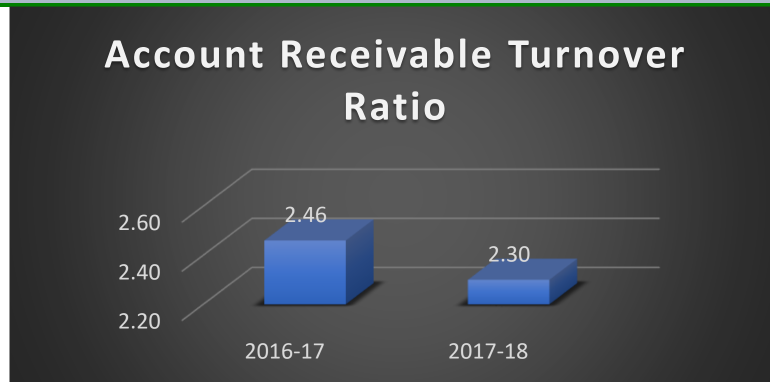


Interpretation - It is essential to have a high inventory turnover since this may be used as a measurement of how well a company is able to regulate the products it sells. This demonstrates that the company does not waste resources by keeping goods that cannot be sold and do not overpay by purchasing an excessive quantity of inventory. It also demonstrates that the corporation is capable of properly selling the stuff that it acquires. This statistic also reveals to investors the degree to which a company's inventory is liquid. A retailer's inventory is one of the most essential assets it must declare on its financial statements. If this inventory is unable to be sold, then it has no value to the corporation. This metric illustrates how quickly and readily a company may convert its inventory into cash.

- **Accounts receivables turnover ratio -** A proficiency percentage or action proportion, accounts receivable turnover estimates the frequency with which a company may convert its accounts receivable into cash within a certain time period. At the end of the day, the accounts receivable turnover percentage provides a quantitative estimate of the frequency with which an organisation may collect its typical accounts receivable during the course of the year. The efficiency with which a business collects its credit sales from customers is represented by this percentage. Some businesses are able to collect their receivables from customers in as little as three months, while others may take up to six months or even a whole year to do so. It's possible that the receivables turnover ratio may also be interpreted as a measure of the company's liquidity in some way or another. When companies are able to convert their accounts receivable into cash in a shorter amount of time, their liquidity improves.

	2016-17	2017-18
Revenue	104490.25	136211.96
Average Receivable	42474.75	59277.98

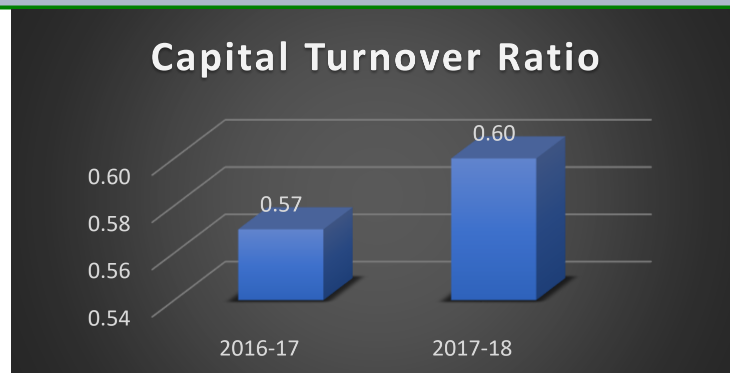
Receivable Turnover Ratio	**2.46**	**2.30**



Interpretation – Higher ratio is considered good, but it seen that it has decreased from financial year 2017 to financial year 2018.

- **Capital turnover ratio -** When we talk about capital turnover, we are referring to the ratio of a company's annual sales to the total value of its investor base. It is anticipated that a determination will be made about the volume of profit that a firm is able to generate with the use of a certain measure of worth. Additionally, it is a general percentage of the degree of financial risk-taking that is necessary in a certain sector in order to generate business transactions.

	2016-17	2017-18
Net Sales	104490.25	136211.96
Total Assets	242001.14	319434.59
Current Liabilities	60310.58	94351.46
Capital Turnover Ratio	**0.57**	**0.60**

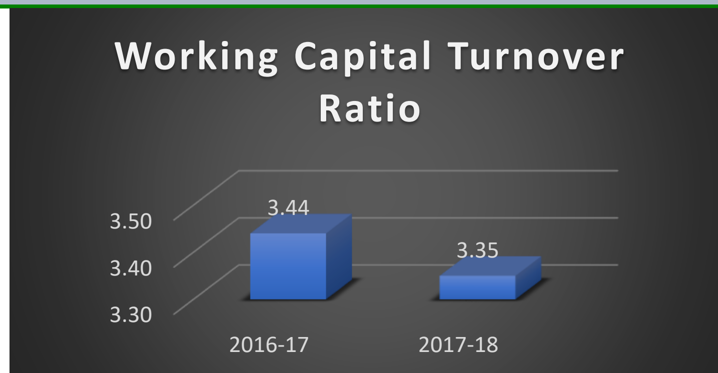


Interpretation - The capital turnover ratio is a measure of how well an organisation is putting its available capital to work for it. A high capital turnover percentage indicates that the organisation is capable of achieving the highest number of transactions with the least amount

of capital that is being employed. The higher the share of capital turnover, the more favourable the circumstances will be.

- **Working capital turnover ratio -**It is a percentage that evaluates how effectively a corporation is employing its working money to assist a /particular level of transactions. It measures how much money an organisation has available to work with at any one time. Work capital turnover is another term for net deals to working capital, and it illustrates the relationship between the assets that are utilised to support an organization's activities and the earnings that the company generates as a result of those activities.

	2016-17	2017-18
Net Sales	104490.25	136211.96
Current Assets	90726.43	135069.80
Current Liabilities	60310.58	94351.46
Capital Turnover Ratio	**3.44**	**3.35**

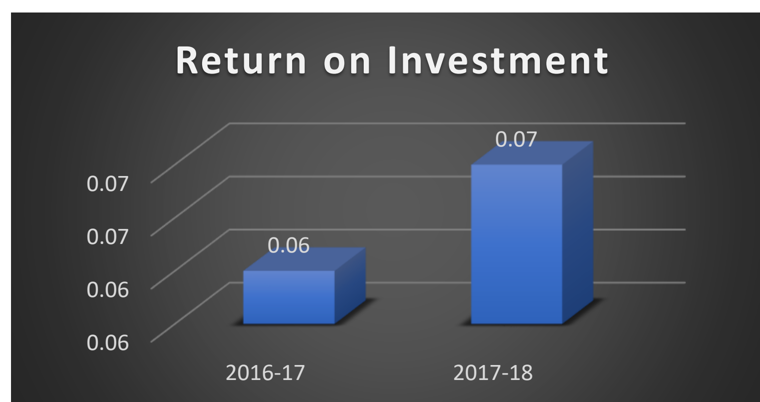


Interpretation - When there is a high turnover rate, it indicates that management is often quite effective in making use of a company's immediate resources and liabilities to boost sales. On the other hand, a low percentage indicates that a company is investing resources into a significant number of records receivable and stock advantages for the purpose of assisting its business.

- **Return on capital employed/ investment -** ROCE, also known as profit for capital used, is a benefit percentage that compares an organization's net-working benefit with the amount of capital that it has used. This comparison determines how well an organisation can produce benefits from the capital it has used. ROCE is a percentage that indicates the extent to which resources are working effectively while also taking into consideration long-term funding. This makes ROCE a drawn-out benefit proportion. For this reason, return on capital

employed (ROCE) is considered a more important percentage than return on value when determining the longevity of a firm.

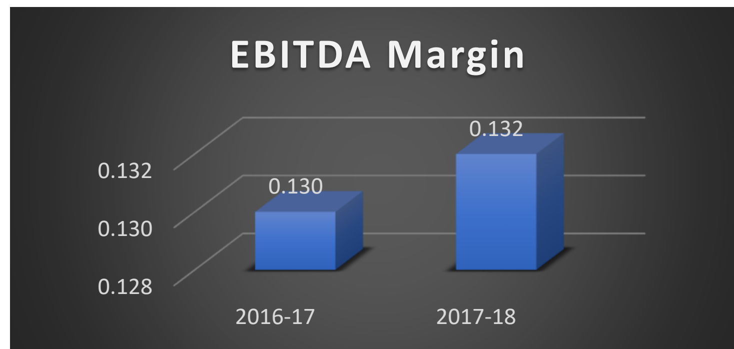
	2016-17	2017-18
PBIT	10894.90	15895.57
Total Assets	242001.14	319434.59
Current Liabilities	60310.58	94351.46
Return on Investment	**0.06**	**0.07**



Interpretation - The arrival on capital utilised ratio indicates how much of an increase in benefit is produced by one dollar's worth of capital that is put to use. A higher ratio is obviously preferable since it indicates that a greater amount of dollars' worth of benefits are created for every dollar's worth of capital that is put into use.

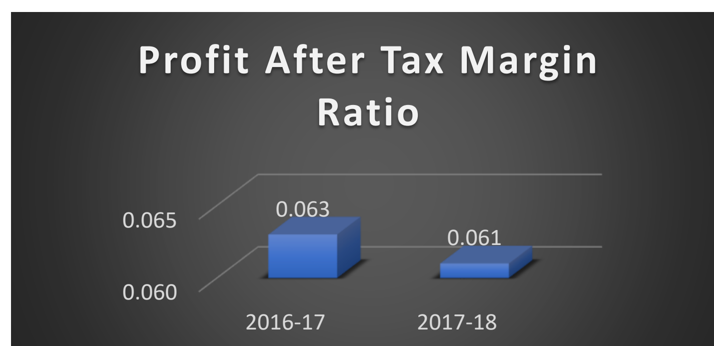
- **Earning before interest tax depreciation and amortisation ratio -** The earnings before interest, taxes, depreciation, and amortisation (EBITDA) edge is a financial ratio that converts the fundamental profit formula into a measure that can be applied to evaluate all different types of companies in any industry.

	2016-17	2017-18
EBITDA	13385.05	17834.92
Operating Revenue	102654.84	135138.46
Return on Investment	**0.130**	**0.132**



- **Profit after tax margin ratio -** An after-charge overall revenue is a money related execution percentage that is figured out by dividing net gain by net deals. This process produces an after-charge overall revenue. The entire income of an organisation after taking into account all fees is very important since it reveals how well the business manages its costs. The total income after taking into account all fees is the same as the net revenue.

	2016-17	2017-18
Profit Before Tax(PBT)	9358.89	12600.70
Total Revenue	104490.25	136211.96
Tax	2795.02	4267.63
Return on Investment	**0.063**	**0.061**



Interpretation - In most cases, a greater margin indicates that an organisation is operating well; nevertheless, a low after-charge net revenue does not always indicate that the business is not effectively managing expenditures. For a more accurate depiction of the situation, the ratio should be considered in conjunction with other monetary measurements.

Conclusion

Vindhya Telelinks Limited's ratio analysis, when studied, provides insight into the company's performance in relation to many facets of its finances. It has been determined that there has been a rise in sales and net profit during the 2017-18 fiscal year, as well as an increase in the cash balance for the aforementioned year. In addition to this, it has been noticed that the present ratio does not meet expectations. The ratio of net working capital to total capital is also growing for the year in question. The aforementioned aspects of the recommendation have the potential to bring about improvements in both the performance and the efficiency of the firm. In the aftermath of examining and dissecting the conclusion, it has been found that Vindhya Telelinks Limited has a brisk expansion of harmony. Having successfully operated throughout the course of the past seventy-five years while making steady improvement. Financial ratio analysis is generally important for any organization because it provides the capacity for correlation of various proportions and a couple of previous years' profit, return on capital, costs, and other productivity proportions, which enables the executives to make quick financial decisions. After doing the research described above, we came to the conclusion that the status of the organisation is not stable from one year to the next and does not remain the same throughout time.

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