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Telecom Industry Ratio Analysis (al Affiliation) Telecomm Industry Financial Ratio Analysis Liquidity Ratios Current Ratio Current ratio is among the most widely used test of financial strength. The ratio calculates whether a business is able to meet its short-term obligations. The ratio is calculated by dividing current assets by current liabilities. The minimum acceptable ratio is 1: 1. Any figure below this ratio implies that the company is not expected to pay its short-term obligations on time. The current ratio of Ooredoo is $(28,361,079/23,531,834) = 1.2$ while that of Vodafone is $(425,302/1,004,395) = 0.42$.

Quick Ratio

The quick ratio is also referred to as the decisive test ratio as it concentrates only on liquid assets of the business. The quick ratio is calculated by dividing the sum of cash and receivables by current liabilities. Unlike the current ratio, the quick ratio ignores inventories and other current assets that may have doubtful liquidity. A satisfactory quick ratio, depending on the history of collecting debts is 1: 1. The quick ratio of Ooredoo is $(20,203,819/23,531,834) = 0.86$ while that of Vodafone is $(172,166/1,004,395) = 0.17$.

Working Capital

Creditors concentrate on the working capital as it deals more with cash flows. Working capital is the difference between current assets and current liabilities. Most banks tie loan approvals on a company's minimum working capital requirement. The working for Ooredoo is $(28,361,079-23,531,834) = 4,829,245$ while that of Vodafone is $(425,302-1,004,395) = -579,093$.

Leverage Ratio

The leverage ratio shows the extent to which a company relies on debt to

keep operating. Creditors such as banks and suppliers are more concerned by this ratio. Leverage ratio is calculated by dividing total liabilities by the net worth of the company. The higher the ratio the more risky it becomes to extend credit to the company. The leverage for Ooredoo Company is $(23,531,834/97,415,655) = 0.24$ while that of Vodafone is $(1,795,200/7,753,696) = 0.23$.

Profitability Ratios

Gross Profit Ratio

The gross profit ratio is calculated by dividing gross profits by net sales. Different industries have a standard guideline of the gross profit ratio with which companies can compare their specific numbers. Companies need to keep track of the trend of the gross profit ratio and ensure it does not deviate away from the target. The gross profit ratio for Ooredoo Company is $(3,895,146/33,851,340) = 0.12$ while that of Vodafone is $(343,586/1,431,670) = 0.24$.

Efficiency Ratios

Return on Assets

The return on assets ratio indicates how a company efficiently utilizes its assets. This ratio is calculated by dividing net profits by total assets. Bankers and investors calculate this ratio by dividing net pre-tax profit by total assets. The return on assets for Ooredoo Company is $(3,293,330/97,415,655) = 0.034$ while that of Vodafone Qatar is $(-213,213/7,753,696) = -0.028$.

Return on Equity

The return on Equity ratio is widely used by investors and bankers to

determine the prospects of investing or extending a loan to the company. This ratio is calculated by dividing net profit by the total equity. The return on equity for Ooredoo Company is $(3,293,330/32,427,332) = 10.16\%$ while that of Vodafone is $(-213,213/5,958,496) = -3.59\%$.

Conclusion

From the above ratio analysis, it is evident that Ooredoo Company is financially better than Vodafone Qatar. The liquidity ratio analysis indicate that Vodafone has a current ratio of less than 1: 1, meaning that the company is unable to meet its short-term obligations. More so, Ooredoo has a healthy working capital of 4,829,245 while Vodafone has a negative working capital. On the leverage front, both Ooredoo and Vodafone are at par with a leverage of 24% and 23% respectively. Vodafone has a better gross profit margin but high depreciation and amortization amounts lead to the company reporting net losses. On the efficiency front, Ooredoo is performing better than Vodafone as it has a higher return on assets and return on equity ratios. Therefore, Ooredoo is the better performing company in the Telecoms industry for the financial period ending Dec 2013.

Reference

Qatar Exchange,. (2015). Qatar Exchange. Retrieved 14 May 2015, from <http://www.qe.com.qa/pps/qe/qe%20english%20portal/Pages/Listed%20Companies/Listed%20Companies?CompanyCode=>