



**ORIGINAL RESEARCH PAPER**

**Finance**

**A COMPARATIVE PROFITABILITY ANALYSIS OF VISA AND MASTERCARD**

**KEY WORDS:** Visa Inc., MasterCard Inc., Financial Services, Profitability Analysis.

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**ABSTRACT**

The banking sector is the fastest growing sector contributing to the financial development of the country with the advancement in technology. In wake of the COVID-19 pandemic that gripped the world in 2020, the global economy underwent a rapid digital transformation, and this shift further highlighted the crucial role played by payment processing networks in facilitating financial transactions. These networks enable the seamless transfer of funds through card associations and Electronic Fund Transfer (EBT) systems, making it easier for individuals and businesses to conduct transactions in a safe, secure, and efficient manner. The basic requirement of the study is to find out the effectiveness of financial services provided by Visa and MasterCard payment networks.

**INTRODUCTION OF THE STUDY:**

Debit cards have revolutionized the way we make financial transactions, providing a safe, convenient, and efficient payment method. They offer a host of benefits, including cashless transactions, ATM withdrawals, and value-added services. Visa and MasterCard are the most widely used payment networks in the world, offering a range of benefits in collaboration with issuing banks. These benefits can include rewards programs, extended warranty coverage, and luxury offers. With the rise of e-commerce, debit cards have become an essential part of the banking system and a preferred choice for customers.

**Statement Of The Problem:**

Due to technological advancements, the banking sector has seen significant growth. Amidst the COVID-19 pandemic, payment processing networks have played a crucial role in facilitating financial transactions. The study focuses on evaluating the effectiveness of financial services provided by Visa and MasterCard.

**Objectives Of The Study:**

- To judge the financial soundness and operating efficiency of both the companies by Comparative balance sheet.
- To analyze profitability performance of both the companies and compare the same.

**Scope Of The Study:**

The main scope of the study is to find out the financial performance of both the firms in the past five years (2018-2019 to 2021-2022) and make a comparative profitability analysis. The study gives an idea about the liquidity position and the annual growth rate of the firms.

**Review Of The Literature:**

Dr.V.Deepa (2023), Banks rely on technology to provide traditional and digital banking services. Plastic money, such as debit and credit cards, is a convenient and safe way to make payments. It reduces the risk of handling a large amount of cash and has become an essential tool in the banking business.

Clarissa Giebel (2023), Engaging with finances has become increasingly digitalized in recent years, particularly since the COVID-19 pandemic, yet it is unknown how finance management has been affected in people living with dementia. The aim of this qualitative study was therefore to explore how digitalization and the recent pandemic have affected finance management skills in people with dementia.

**Research Methodology**

**Nature and Source of Study**

Analytical research is used for the purpose of study and the present study is based on secondary data.

**Source and period of study**

Sources of data are collected from annual reports on the official website of the companies and market reports. The present study analyses the comparative profitability of Visa and MasterCard Inc. for a period of five years from 2018-2019 to 2021-2022.

**Limations Of The Study:**

- The study covers analysis of only two types of payment networks.
- The period of study is limited to the financial years 2018-2019 to 2021-2022 and the findings and suggestions are based in the analysis.

**Data Analysis And Interpretation:**

**Trend Analysis**

**Table 1: Table Showing Trend Percentage Of Sales And Profit Before Tax Of Visa Inc.**

Particulars	Sales		Profit Before Tax	
	in millions, US\$	%	in millions, US\$	%
2018	20609	100	10301	100
2019	22977	111.49	12080	117.27
2020	21846	106.00	10866	105.48
2021	24105	116.96	12311	119.51
2022	29310	142.22	14957	145.20

**Interpretation:**

- 2018 is considered as base year.
- The Trend Percentage of base year is considered as 100.
- The Trend percentage of Sales and Profit before tax has come down in the year 2020 due to Covid-19 pandemic.
- After that trend Percentage has accelerated growth and in the year 2022 it has reached 142.22% and 145.20%.

**Table 2: Table showing Trend percentage of Sales and Profit before Tax of MasterCard Inc.**

Particulars	Sales		Profit Before Tax	
	in millions, US\$	%	in millions, US\$	%
2018	30792	100	13893	100
2019	35974	116.83	19577	140.91
2020	31538	102.42	16805	120.96
2021	36482	118.48	19055	137.16
2022	46213	150.08	29005	208.77

**Interpretation:**

- 2018 is considered as base year.
- The Trend Percentage of base year is considered as 100.
- The Trend percentage of Sales and Profit before tax has come down in the year 2020 due to Covid-19 pandemic.

- After that trend Percentage has accelerated growth and in the year 2022 it has reached 142.22% and 145.20%.

**Comparative Balance Sheet**

Comparative Balance sheet of Visa Inc. for the Years 2018-2022

**Table 3: Comparative Balance sheet of Visa Inc. for the years (2018-2022)**

COMPARATIVE BALANCE SHEET OF VISA INC. FOR THE YEARS (IN \$ MIL)													
PARTICULARS	2018		2019		2020		2021		2022		ABSOLUTE CHANGE	%	CHANGE
	BASED ON	2018	ABSOLUTE CHANGE	% CHANGE	2019	ABSOLUTE CHANGE	% CHANGE	2020	ABSOLUTE CHANGE	% CHANGE			
A. Fixed Assets and Other Non-Current Assets	5309	5834	535	1.17	5274	1970	3.17	5505	428	0.38	5529	262	7.15
B. Working Capital	8111	7551	-560	-9.32	3125	580	0.74	1850	497	3.73	3521	1571	23.79
C. Capital Employed (B-A)	2802	1717	-1085	-2.34	849	1261	2.52	6257	327	0.25	6490	3469	9.18
D. Long term Borrowings	2304	2475	171	2.35	4703	2024	8.41	2850	526	2.64	2097	-452	-18.76
E. Shareholder's Fund (C-D)	5498	2442	-3056	-1.95	2787	-1918	-3.12	2387	233	0.54	2583	87	2.9
Represented By:													
F. Share Capital	1241	1252	11	0.01	2760	44	0.25	1001	-19	-1.5	2285	17	0.7
G. Reserves	1357	1190	-167	-1.22	2027	156	0.42	1576	232	0.35	1312	-85	-6.9
Shareholder's Funds (F-G)	3483	2442	-1041	-1.95	2823	1293	4.45	2388	233	0.54	2583	87	2.9

**Interpretation:**

- The following Table 3 shows the position of Fixed Assets, Working Capital, Capital Employed, Long Term Borrowings and Shareholder's Fund of Visa Inc. from the financial year ending from 2018 to 2022.
- The Fixed Asset and Other Non-Current Assets have accelerated growth from 1.17% in the year 2018 to 8.39 % in the year 2021 which has come down to 7.15% in the year 2022.
- The Working capital has shown an increasing trend till the year 2021 ranging from 9.32%-71.73%, but has come down in the year 2022 to 23.79% which depicts an increase in the current liabilities of the firm.
- The Long-term Borrowings has increased from the year 2018 till the year 2021, ranging from 2.35%-23.64%, but has come down to 18.76% in the year 2022.
- The Shareholder's funds show a negative trend in the year 2020, which depicts that liabilities exceeded in the year 2020 due to COVID-19 pandemic, and has accelerated growth in the year 2022.

Comparative Balance sheet of MasterCard Inc. for the Years 2018-2022

**Table 4: Comparative Balance sheet of MasterCard Inc. for the years (2018-2022)**

COMPARATIVE BALANCE SHEET OF MASTERCARD INC. FOR THE YEARS (IN \$ MIL)													
PARTICULARS	2018		2019		2020		2021		2022		ABSOLUTE CHANGE	%	CHANGE
	BASED ON	2018	ABSOLUTE CHANGE	% CHANGE	2019	ABSOLUTE CHANGE	% CHANGE	2020	ABSOLUTE CHANGE	% CHANGE			
A. Fixed Assets and Other Current Assets	2073	1540	-533	-25.71	1952	-118	-5.99	2284	332	16.87	2294	110	4.82
B. Working Capital	2304	3751	1447	62.81	1015	-1330	-57.13	571	-18.63	528	-53	-9.47	
C. Capital Employed (A-B)	1049	1811	762	72.63	937	-117	-12.37	1713	676	39.48	1766	553	32.26
D. Long term Borrowings	2726	4101	1375	50.44	551	-2822	-103.85	749	472	24.32	774	25	0.4
E. Shareholder's Fund (C-D)	1549	1549	0	0	386	-1736	-111.79	964	-804	-83.41	992	28	2.9
Represented By:													
F. Share Capital	200	200	0	0.00	200	0	0.00	57	-143	-71.5	57	0	0.00
G. Reserves	1349	1349	0	0	186	-1166	-86.37	907	-747	-55.84	935	28	3.03
Shareholder's Funds (F-G)	1549	1549	0	0	386	-1736	-111.79	964	-804	-83.41	992	28	2.9

**Interpretation:**

- The following Table 4 shows the position of Fixed Assets, Working Capital, Capital Employed, Long Term Borrowings and Shareholder's Fund of Visa Inc. from the financial year ending from 2018 to 2022.
- The Fixed Asset and Other Non-Current Assets have accelerated growth from -23.08% in the year 2018 to 10.97 % in the year 2022.
- The Working capital shows a negative trend in all the five years, which implies that current liabilities are used to finance fixed assets in the firm.
- The Long-term Borrowings has increased from the year 2018 till the year 2022, ranging from 50.44%-184.26%, which again depicts that long term borrowings have not

been used to finance the Fixed assets, instead Working Capital has been used.

- The Share capital remains constant till the year 2020, after which shares have been issued.
- The Reserves shows a deficit ranging from -51% to -20.54% and in the year 2022 the firm has managed to obtain surplus of 31.82%.

**Findings, Suggestions And Conclusions:**

**Findings:**

- The Comparative balance sheet of Visa Inc. shows an increasing trend of all the items till the year 2021 but has decreased in the year 2022, whereas, The Comparative balance sheet of MasterCard Inc. depicts that all the fixed assets is financed through working capital instead of long-term debt.
- The Trend Percentage of Sales and Profit Before Tax of both, i.e., Visa Inc. and MasterCard Inc. have come down in the year 2020 due to COVID-19 Pandemic.

**Suggestions:**

- Both the companies should focus more towards improving their efficiency.
- Improving management quality with adoption of new methodologies that reduce operating costs.
- Working Capital should be effectively managed.

**Long term debts should be used to finance the fixed assets instead of working capital.**

**CONCLUSION:**

In Conclusion, Visa and MasterCard are both profitable and innovative, but differ in revenue models and cost strategies. They compete fiercely, adapting to changing market dynamics and investing in digital transformation. New technologies present opportunities for revenue diversification and cost optimization. Overall, both companies are well-positioned to maintain profitability and drive innovation in the global payments landscape.

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