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“A STUDY ON FINANCIAL PERFORMANCE OF SELECTED TELECOM COMPANIES IN INDIA”

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Abstract

India stands second-largest **telecommunications** market in the world. As of January 2021, the total subscriber base in the country was at 1,183.49 million, while Gross revenue of the **telecom sector** stood at US\$ 9.35 billion in the third quarter of financial year 2021. Since last five years there are lot of problems and issues faced by small companies who were brutally crushed by telecom leader. The paper is an attempt to study financial performance of major telecom companies of India after entry of Reliance JIO.

Keywords: Profitability, Liquidity, Solvency, Vodafone, Airtel

Introduction:

Unlike other countries India too has adopted globalization, privatization and Liberalization in the year of 1991. Globalization, privatization and liberalization accelerated all round reforms in many sectors, especially in developing economies, in the world. Developing countries- like India have realized the importance of communication in the later part of 20th century. Since then, telecom sector is also one of those sector which flourish post GPL scenario. According to Government of India, Department of Telecommunication, today Indian Telecommunication Sector is one of the fastest growing telecom sectors and it has become the second largest network in the world, next to China. The Government of India really has encouraged the telecom sector to penetrate in the new markets across the country by adopting appropriate policies. World Bank believes that an increase in mobile and broadband penetration increases the per capita GDP by 0.81% and 1.38% respectively in the developing countries like India.

LITERATURE REVIEW:

Researcher have done the literature review by taking past research work, various articles and other secondary source of information.

Raza, D. (2015), analysed the financial performance of Indian telecom sector specially focus on Bharat Sanchar Nigam Limited and Bharti Airtel comparatively. As the Indian telecom sector is one of the key contributor towards the development of our country and also towards the other industries. From the analysis and interpretation of the financial performance of both the companies comparatively, it has been found that Bharti Airtel performed better than BSNL.

Adebayo, A. A., & Ekejiuba, C. O. (2016) mentioned that telecommunications industry is a very essential sector to the economic growth of any country because it contributes highly to the GDP of any country and leads to the development and growth of the country; hence it is important that the sector should not be neglected. Maximum growth can only be experienced when the telecommunications infrastructure are adequate and very well developed.

Singh R. (2017) in his study mentioned that Reliance Jio's mega entry in the market generates lot of drastic and unanticipated changes in consumer's behaviours and 45 perceptions. It leads to a uncertainty and the big services providers in the market talks about mergers and acquisitions. Further he mentioned that due to exiting barriers in the industry, they will not get of the industry adn it becomes very difficult to survive for small players in the market.

Chopra, S., & Chawla, P. (2018), evaluate the growth of the Indian telecom sector in light of its innovative capabilities and production of intellectual property. The economic growth of the telecom sector must be seen holistically, meaning that domestic Indian telecom companies must be internationally competitive and occupy a higher place in the telecommunications value chain. Researchers argues that regulatory focus needs to shift towards encouraging and protecting intellectual property in India, so as to incentivize investment in expansion of technological capabilities through R&D.

Ramachandran, N., & Kelkar, A. S. (2019), conducted study with the aim to analyse the financial performance of telecom companies in Oman. Annual reports of two telecom companies were collected for seven years (2010-2016) and the financial statement data was analysed using Z score model. Under this research researcher studied about the *working capital, Retained Earnings, EBIT, Market value of equity and sales*. The study financial indicators gives an idea for the investors in which company they can make investments to earn more returns. The parameters selected for analysis proves to be useful to an investor for his basic analysis of selecting portfolio of investment. Authors suggested that the companies must go ahead with innovative steps to attract customers and increase their profitability.

Syriopoulos, T., Tsatsaronis, M., & Gorila, M. (2020), studied the financial performance indicators in cruise industry and researcher studied about the *Revenue and profit growth, Managerial efficiency ratios, ROIC versus WACC: Growth and value dynamics, Financial leverage – Solvency, earning per share, share price performance, and corporate value*

creation. Researcher conclude that Critical financial performance, indicators, such a ROE, ROA and ROIC ratios, are consistently high, reflecting efficient managerial investing, operating, and financing decisions.

Tripathi & Japee (2020) studied the evaluation of financial performance of selected equity mutual funds of India. Researcher observed that 10 funds out of 15 performed well in a highly volatile market. The researcher found that an investor must consider risk ratios of the fund before investing. The findings of this research study are going to be help full to investors for his future investment decisions.

Research Methodology

Research Objectives:

To know and analyze financial performance of Bharti Airtel and Vodafone Idea.

Research Design: Descriptive research design. It describes trends of profitability, liquidity, solvency.

Type of Research: Current research work is descriptive research in nature

Sample Plan: Researcher has selected. Bharti Airtel and Vodafone Idea, Researchers have studied financial performance of last five years viz. 2015-16 to 2019-20.

Evaluation Criteria:

Researcher have examined financial performance with the help of ratio analysis. We have examined financial performance on the basis of following criteria.

1. Profitability:

We have examined Profitability with the help of following three ratios:

Gross Profit Margin = (Total Revenue – Cost of Goods Sold)/Total Revenue x 100.

Operating Margin= (Operating Income /Total Revenue) x 100.

Net Profit Margin= (Total Revenue – Cost of Goods Sold)/Total Revenue x 100.

2. Liquidity:

Telecom companies are service providers. Hence there is no stock of goods. Thus in the current research work we have considered current ratio as indicator of liquidity.

Current Ratio= (Current Assets/Current Liabilities)

3. Solvency:

- i. Debt Equity Ratio= Total Liabilities/Total Shareholder's Equity
- ii. Interest Coverage Ratio = Earnings Before Interest and Tax/Interest Expenses

Source of Data:

Researcher have obtained data from annual reports of respective companies.

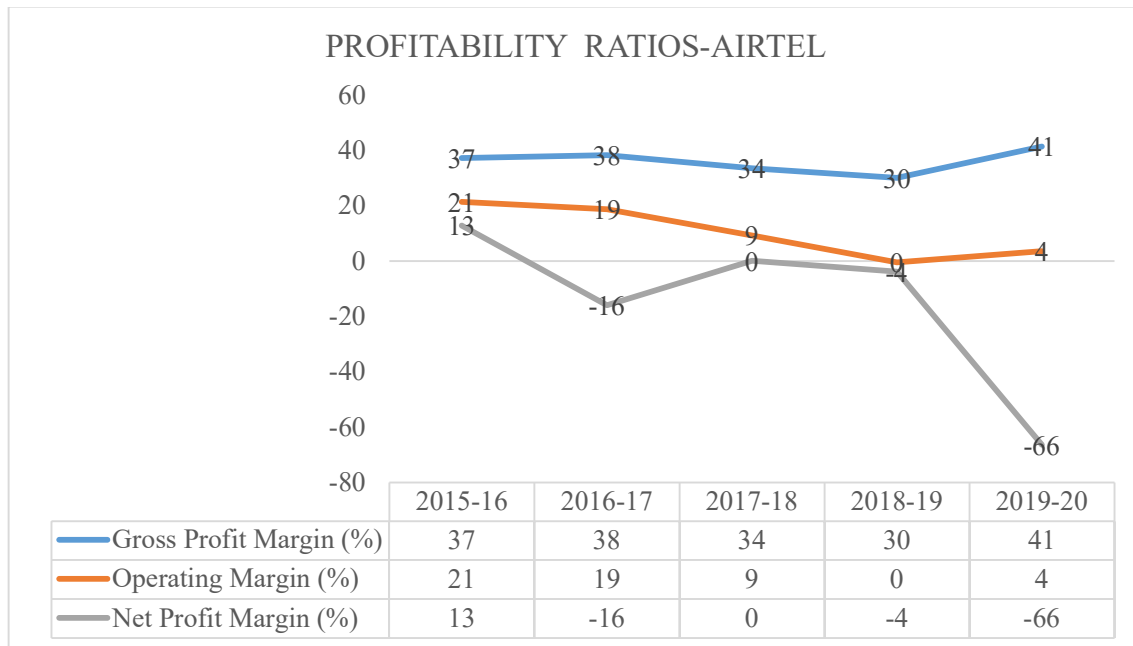
Statistical Tool:

Excel

Limitation and Future scope of Study: Current research work is based on the past year data on financial performance of selected telecom companies. With current dynamic environment of business, financial performance of telecom companies keep changing, so further research can be done in this field.

Data Analysis

Data Analysis -Bharti Airtel: Profitability or Margin Ratio

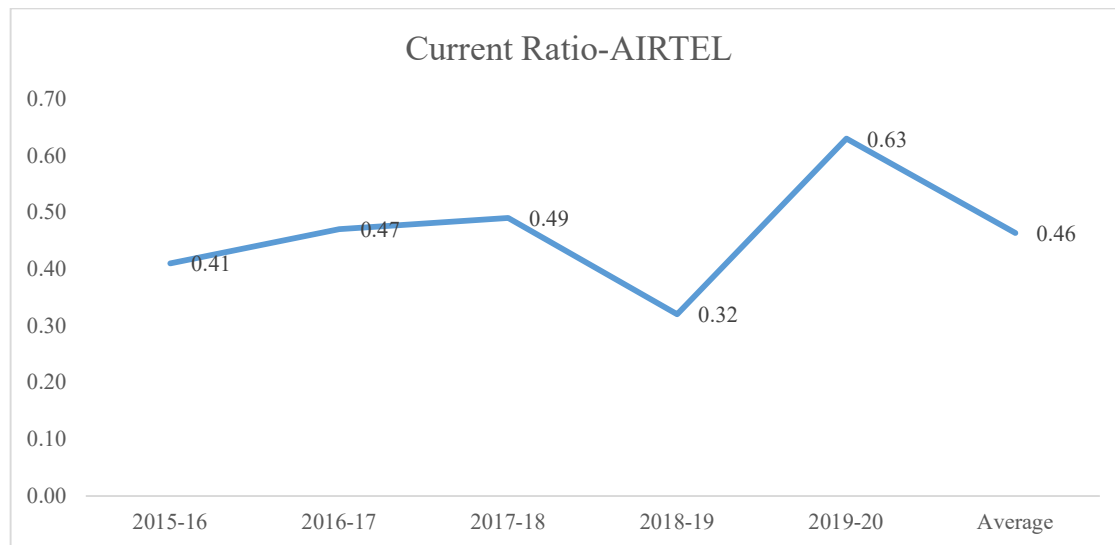


On the basis of above chart we can conclude that there is high volatility has been observed in case of Operating Margin and Net Profit Margin both. In case of Gross Profit Margin consistence has been observed as compared to other two parameters of the Margin or Profitability ratios.

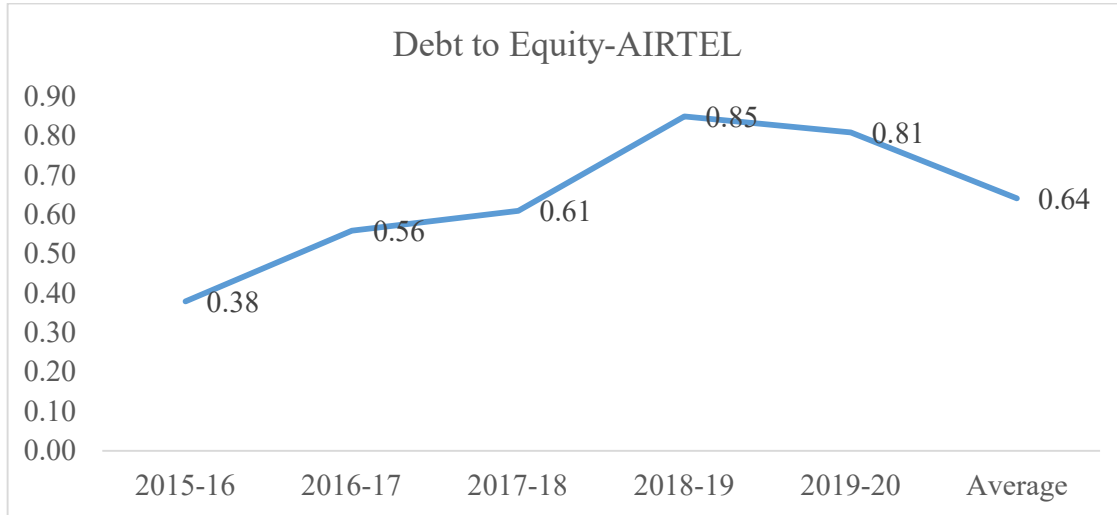
Out of total five years of study only first year of study shows Profitable condition of the company. Since 2016-17 company is making loss. An attempt of recovering loss has not been successful. In the last year of study net loss of the company after considering every expenses were mounted to Rs66 cores.

Operating margin trend is also showing downward trend in span of four years. In the first three years of study margin is constantly reduced. In a span of three years' operating margin is reduced by 50%. In fourth year of study company has lost Operating margin and stand at a position of no profit no loss. But after some efforts from management Side Company has regained profitability marginally.

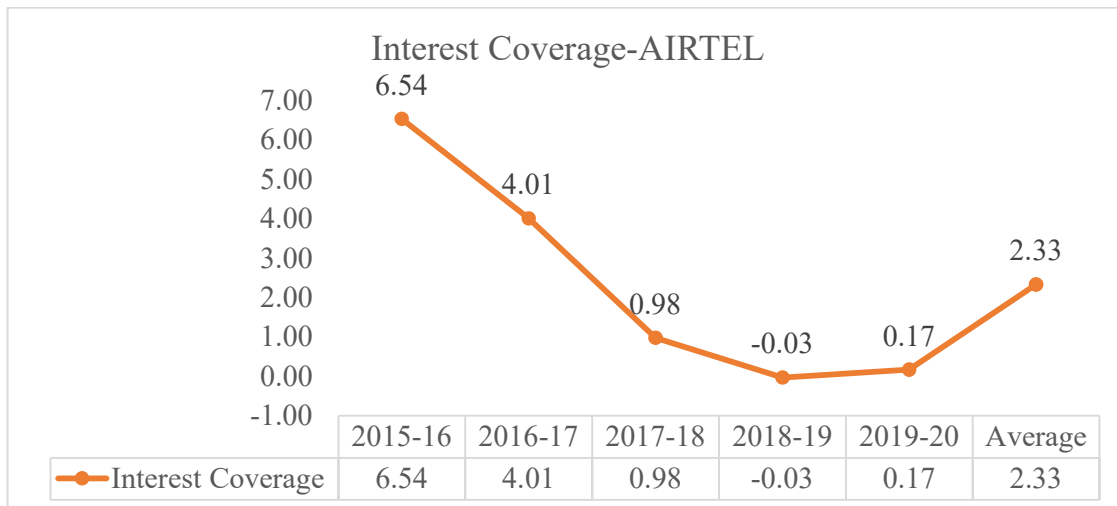
Gross Profit margin shows profitability of company after considering expenses of basic services and with considering administrative and other incidental cost. Company has managed Gross Profit Margin rasion decently in the first three years of study. In the fourth year company has faced set back and there is minor reduction in the gross profit. However, in the last year of study company has recovered it to great extent. Decent growth in the Gross Profit has been observed.



Current ratio is indication of working capital status of the company. The above chart has depicted that company has constantly maintained Current Assets in the company. Ideal ratio is 2:1 but in the Telecom sector it is extremely difficult to maintain such. Telecom Company is service Provider Company. Hence they are always without stock. Absence of stock in the balance sheet makes liquid rasion and current rasion equal. IN the first three years of research current ratio has been increased from 0.41 to 0.49. From the financial year 2018-19 it has been reduced. Thus company is failed to maintain required current assets during 2018-19. However, in the year 2019-20 due to better operational activities ratio has been reached to 0.63.



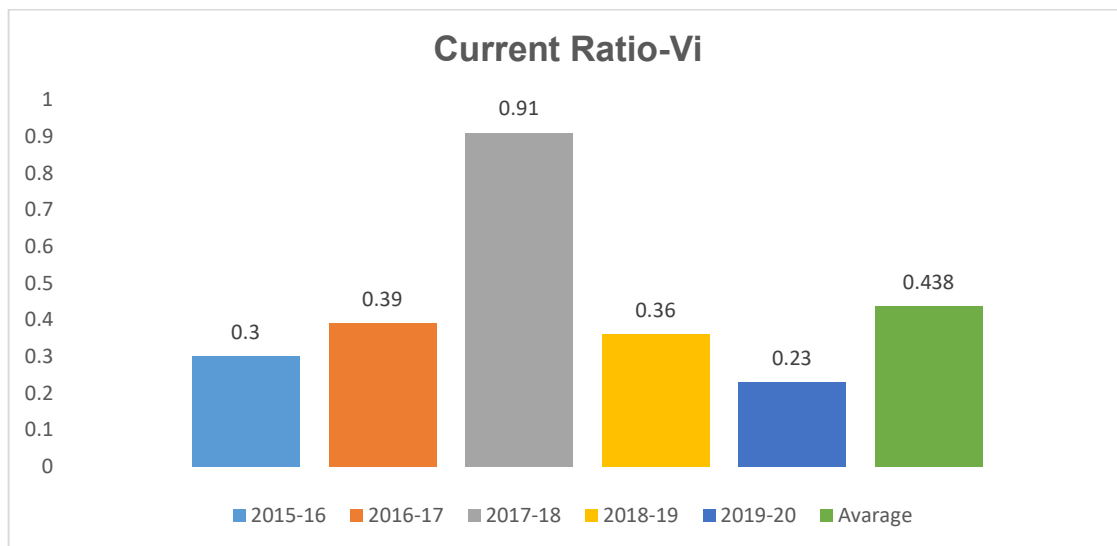
Debt equity ratio indicate amount of debt in comparison of equity share capital of the firm. Lower the ratio better the financial situation. Looking to the above chart we can conclude that for the first four years of study shows constant growth of debt as compared to equity. This situation indicates that firm is getting debt constantly from outside. Such inflow has increased debt as well as increase its servicing cost i.e. Interest cost. Marginal debt has been repaid in the year 2019-20. If we look at an average, then we can say that there is debt equity ratio of 0.64. Thus we can conclude out of one-rupee equity 64 paise debt has been generated. This is not healthy sign of the organization. Amount of debt in comparison of equity has been increased more than 100% in a span of four years. This show insignificant managerial skill of utilizing fund in the business.



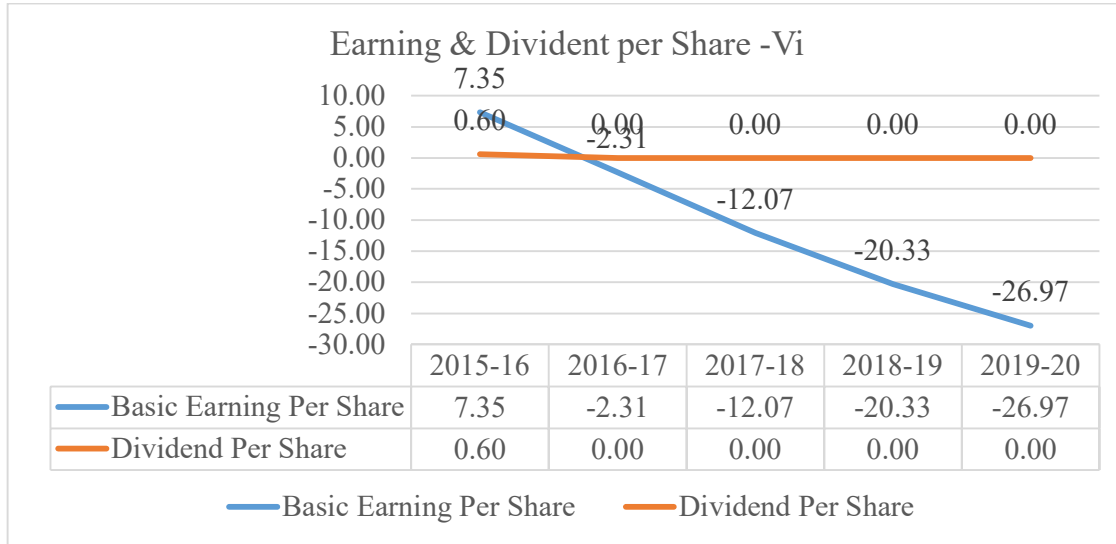
The *interest coverage ratio* measures how many times a company can *cover* its current *interest* payment with its available earnings. Ability of firm to make payment of debt was very high at the first year of study. But from the second year of study the ability to pay

debt has been reduced to great extent. And in the fourth year of study it was negative. Hence we can say that in the fourth year of study it has been observed that firm is not able to repay interest burden created out of the debt. The result is matching with the previous ratio of debt equity ratio. First had taken significant amount as debt to run the organisation and it hampers firm's profitability to great extent. Firm has slightly recovered his position or ability to repay interest cost in the fifth year of study. However, such recovery is negligible fully. On average firm has achieved Interest Coverage Ratio of 2.33.

DATA ANALYSIS-VODAFONE-IDEA (Vi)

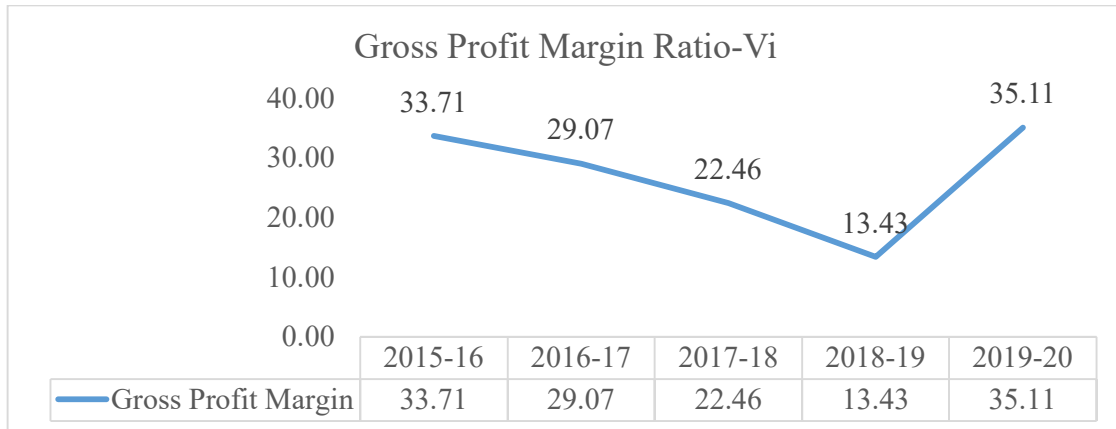


Above chart explain the Current Ratio of Vodafone. It can be analysed that in the year of 2015-16, it was 0.3, in 2016-17 current ratio was 0.39. In the year of 2017-18, company have highest current ratio equal to 1(0.91). In the further year 2018-19 (0.36), and 2019-20 (0.23) current Ratio of company drop significantly. Which indicate that company does not have enough current capital to pay-off its current liabilities.

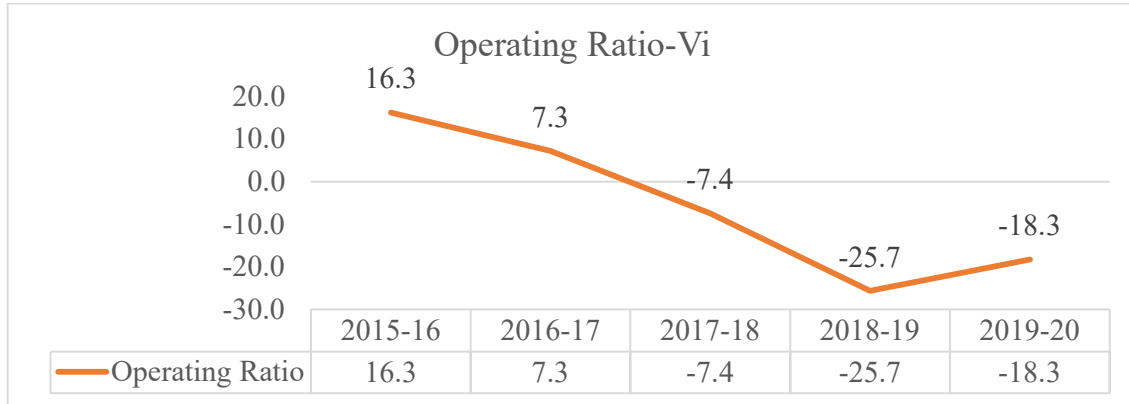


Above chart explain the earning per share ratio of Vi. It can be observed that in the year of 2015-16, Vi has positive earnings (7.35%) per share, where as in the year of 2016-17, earning per share fall to -2.31%, further in the year of 2017-18 it was -12.07%, in the year of 2018-19 earning per share was -20.33 and in the year of 2019-20 it was least earning and remain -26.97%.

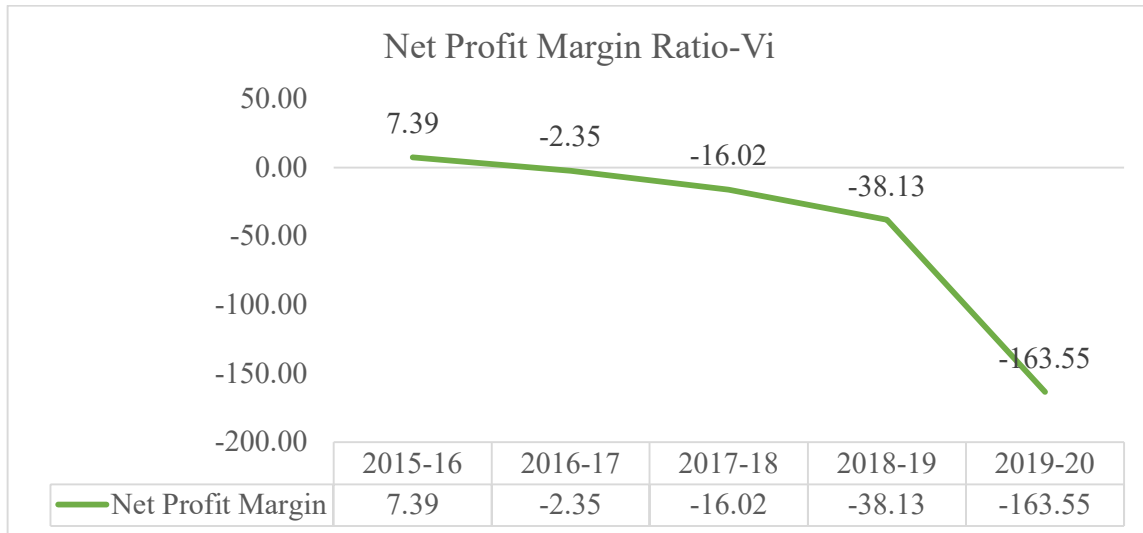
Regarding the dividend per share, in the year of 2015-16, dividend paid was 0.60% of per share, where as in coming year 2016-17-18-19-20, it remain zero (0%) share.



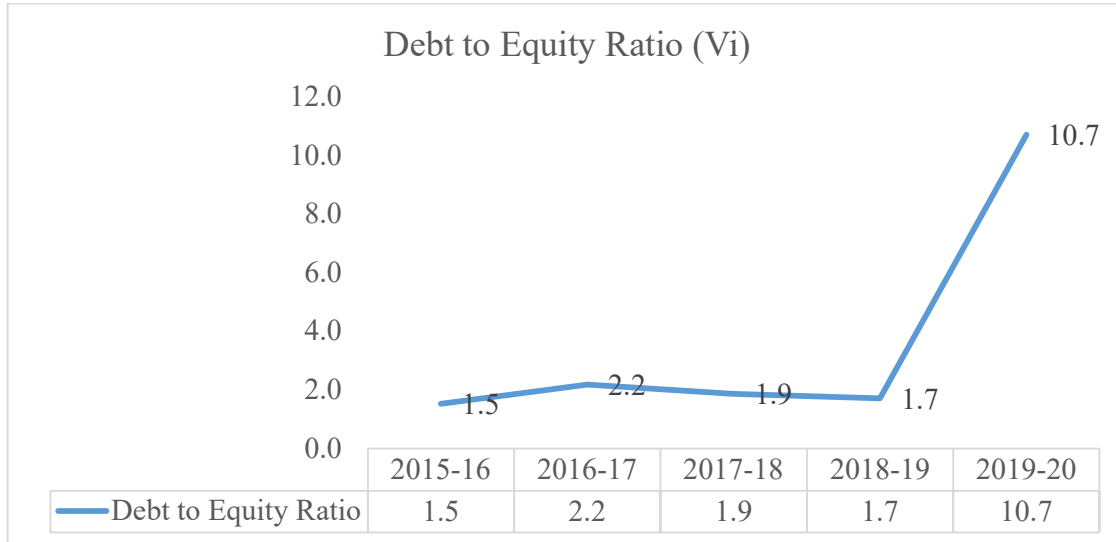
Above chart explain the gross profit margin ratio of Vi. It can be observed that in the year of 2015-16, Vi has GPMR of (33.71%) per share, where as in the year of 2016-17, GPM fall to 29.07%, further in the year of 2017-18 it was 22.46%, in the year of 2018-19 gross profit margin was 13.43% and in the year of 2019-20 Gross Profit margin increased rapidly up to 35.11%.



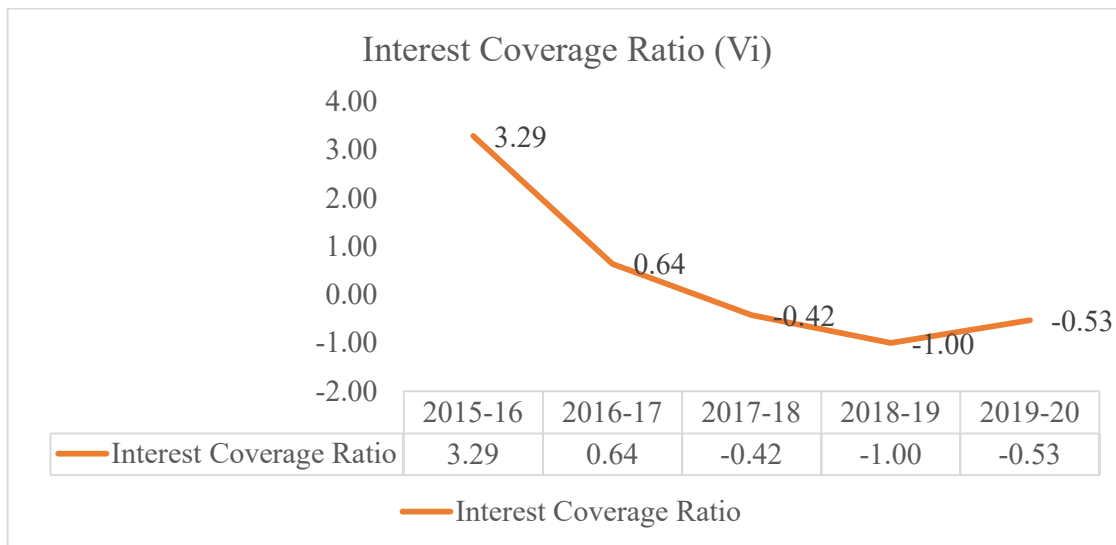
Above chart explain the operating ratio of Vi. It can be observed that in the year of 2015-16, Vi has operating ratio at (16.3%), where as in the year of 2016-17, operating ratio fall to 7.3%, further in the year of 2017-18 it was -7.4%, in the year of 2018-19 operating ratio was -25.7%% and in the year of 2019-20 operating ratio increased up to -18.3%.



Above chart explain the Net profit margin ratio of Vi. It can be observed that in the year of 2015-16, Vi has NPMR of (7.39%), where as in the year of 2016-17, NPM fall to -2.35%, further in the year of 2017-18 it was -16.02%, in the year of 2018-19 net profit margin was -38.13% and in the year of 2019-20 Net Profit margin decreased rapidly up to -163.55%. Above data indicate that Vi India's net profit margin is falling year on year since 2015-16.



Above chart explain the debt to equity ratio of Vi. It can be observed that in the year of 2015-16, Vi has debt to equity ratio 1.5%, where as in the year of 2016-17, debt to equity ratio was 2.2 %, further in the year of 2017-18 it was 1.9%, in the year of 2018-19 debt to equity ratio was 1.7% and in the year of 2019-20 debt to equity ratio increase to 10.7%. Which indicate that company is having high debt to equity.



Above chart explain the interest coverage ratio of Vi. It can be observed that in the year of 2015-16, Vi has interest coverage ratio 3.29%, where as in the year of 2016-17, interest coverage ratio was 0.64 %, further in the year of 2017-18 it was -0.42%, and in the year of 2018-19 interest coverage ratio was -1.0% and in the year of 2019-20 interest coverage ratio was -0.53%.

FINDINGS AND CONCLUSION

FINDINGS RELATED WITH VODAFONE IDEA:

- Operational profitability of the firm has been reduced during the period of study to great extent.
- Gross Profit Margin of the firm is 26.76% on average which can be considered to be absolutely reasonable.
- Net Profitability of the firm is negative since 2016-17. And such negative return has been increased phenomenally in last three years of study.
- Highest volatility has been observed in case of Net Profit margin during the year of study.
- Over all low profitability has been reflected in the profitability in comparison of “Net Worth” invested in the business and “Capital Employed” also.
- Average Return on Capital Employed for five years of study was negative.
- The negative income of the firm is denting the reserves of the firm in last five years. Thus operational activities need to be controlled by management.
- Level of liquidity in the firm is significantly lower in all years of study. The firm’s current assets are less than current liabilities. Consistency has been observed in the low level of current assets during the period of study.
- Due to negative return during the period of study firm has not declared and paid any dividend in span of last four years.
- On an average one tenth face value of firm has been evaporated due to loss in the business.
- Solvency can be measured on the basis of Debt Equity ratio of the firm. Lower the ratio better the situation. However, firm has obtained outside fund to run the business throughout all the years of study.
- Huge amount of debt has been borrowed during 2019-20. Such borrowing has increased cost of interest in the firm. Such borrowing is also affecting operational profit adversely.
- Ability to pay interest of the firm is negative in the last three years of study. This indicates weak profitability of the firm.
- Low or negative profitability has dented out reserves of the firm to great extent. This also results into erosion of reserve to great extent.
- Negative profitability of the firm affects adversely to the solvency of the firm.

FINDINGS RELATED WITH AIRTEL

- Gross Profit margin is satisfactory during entire period of study. Average Gross Profit Margin of the firm is 36% in span of last five years can be considered to be good efforts of firm.
- Operational Profitability of the firm is reducing constantly since 2016-17. This reduction in the profitability affect adversely to the Net Profit Margin and Return on Capital Employed also.
- Very high volatility has been observed in case of Net Profit Margin Ratio. Uncertainty of income consistency leads to focus on non-core business.
- Basic Earnings Per share is in negative in three years of study.
- Even though there is negative Net Profit of the firm, firm has declared dividend consistently in all five years of study.
- Debt Equity ratio shows portion of debt in the firm in comparison of equity. Firm is not able to keep the ratio lower during period of study. IN the first year of study it was just 0.38 and it has been raised to 0.81 in the year 2019-20.
- Over all consistency has been observed in the debt of the firm as compared to equity. Thus we conclude that firm has not off load its debt.
- Ability of firm to repay debt in the interest coverage ratio was satisfactory in the first two years of study. However, it has been deteriorated in last three years of study to great extent. However, average figure of interest coverage is satisfactory.
- Utility of assets for generating turnover is satisfactory. Though Average ratio shows efficient use of assets firm, over all downward trends has been observed in all five years of study.
- Current Ratio indicating higher level of current liability as company to current assets. Low current ratio indicates inefficiency of management of the company.

Conclusion:

In this study researcher has evaluated the financial performance of the two large and old companies, Airtel and Vodafone Idea. Researcher has evaluated financial performance through ratio analysis which shows more volatility in selected time span of last five year from 2015-16 to 2019-20. In case of Profitability considering gross profit and net profit Airtel is performing better than Vodafone, In case of Liquidity both companies are on same track, but minutely average liquidity of Airtel is better than Vodafone. TO measure solvency researcher has used the debt equity ratio and interest coverage ratio in both

analysis Airtel is performing better than Vodafone Idea throughout the five year, so overall we can conclude that over a five year of period Airtel's financial performance was better than Vodafone Idea's financial performance.

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