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PROFITABILITY ANALYSIS OF PUBLIC SECTOR TELECOM COMPANIES IN INDIA

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Abstract:
A well-developed telecom sector is important for the growth of every country. The Telecom sector has been playing a vital role in the economic development of the country. Telecom sector plays crucial role in economic growth as well as development of various sector of an economy. In India telecom sector have shown tremendous growth after the liberalization. Many private company have entered in to the market which has created stiff competition in the market. All the telecom companies have to show superior performance to survive in the competitive market. In this paper an attempt is made to study the profitability analysis of public sector telecom companies in India. The objective is to study the profitability of public sector telecom companies i.e. BSNL and MTNL during the period 2012-2013 to 2016-2017. The study is based on the secondary data. The tools used are ratio analysis and anova test. This study examines the overall profitability and financial soundness of Indian public sector telecom companies. Analyzing the telecom companies overall profitability indices reveal that the performance of public sector telecom companies was very poor during the study period. The companies were having very limited growth with respect to the profitability which is mainly due to very high operating expenses and the huge competition in the sector. With the increasing competition in the telecom sector, profitability has become a greatest challenge to Indian public telecom companies. Both the public sector telecom companies should explore every possibility for improvement and increase the profitability to survive in the competitive market.
Key Words: Public Sector, Telecom sector, Profitability, Ratio, Z Score analysis.

INTRODUCTION

A well-developed telecom sector is important for the growth of a country. Telecom landscape in India has changed completely since liberalization and monopolies in Telecom sector have been replaced with competitive regime.
In the last decade a dramatic change in the ownership structure of telecommunications companies has taken place, from public (state-owned) monopolies to private companies. The rapid development of mobile telephone networks and video and Internet technologies has created enormous competitive pressure on the companies. As new competitors arise, companies need intelligent tools to gain a competitive advantage. The Telecom sector has been playing a vital role in the economic development of the country. Telecom sector is considered to be a powerful engine of economic development and important instrument of self reliance and social justice. Hence it become necessary to measure the profitability and growth of the telecom sector which has direct impact on the development of the various sector of the economy. The proposed study, “Comparative profitability analysis of telecom companies in India,” throws light on the profitability condition and financial performance of Indian telecom sector over a given period of time. With the increasing competition in the telecom sector, profitability has become a greatest challenge to Indian telecom companies. Telecom companies should explore every possibility for improvement and increase the profitability to survive in the competitive market.

Analysis of profitability of public sector telecom companies

The analysis of profitability is mainly a test of earning capacity of business. Profit is the lifeblood of every business unit. It is also very essential for the survival of any business. The efficiency of management functioning is also determined on the basis of the profitability of business. Profit is also required for the long-term growth of the business. The profitability analysis of public sector telecomcompanies have been made by using following ratios:

1. Net Operating Profit Ratio
2. Return on Capital Employed Ratio
3. Net Profit Ratio
4. Return on Owners' Equity Ratio
5. Earning Per share

Objectives of study:-

The present study "Profitability analysis of public telecom companies in India." has been designed to achieve the following objectives:-

(1) To analyses and evaluate the profitability of the public telecom companies
(2) To analyses and evaluate the return on capital of the public telecom companies.
(3) To analyses and evaluate the Earning per share of the public companies.
(4) Predicting possible financial distress of public telecom companies.

Data Collection:-

For completion of the study only secondary data has been used. The main sources are annual reports. Besides for framing conceptual framework, various books and published material in standard books and newspapers, Journals and websites has been made use of.

Period of Study

The study is made for the consecutive tenure of five years from the accounting year 2012-2013 to 2016-17.

Tools and Techniques

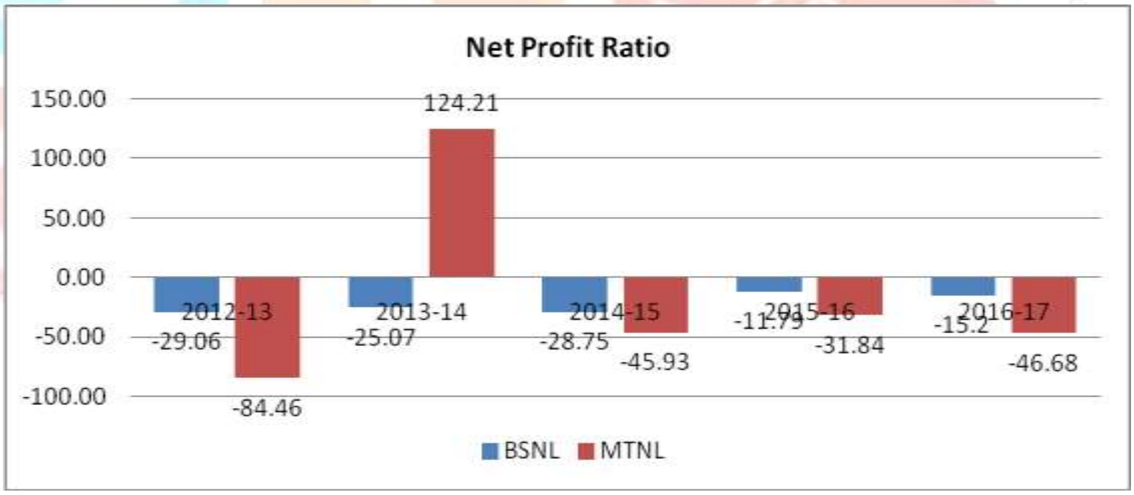
Following are some of the important techniques which are being used in the present study for analyzing financial performance of Public Telecom Companies in India.

1. Ratio Analysis
2. Z Score Analysis

Analysis and Interpretation:

1. **Net Profit Ratio:**

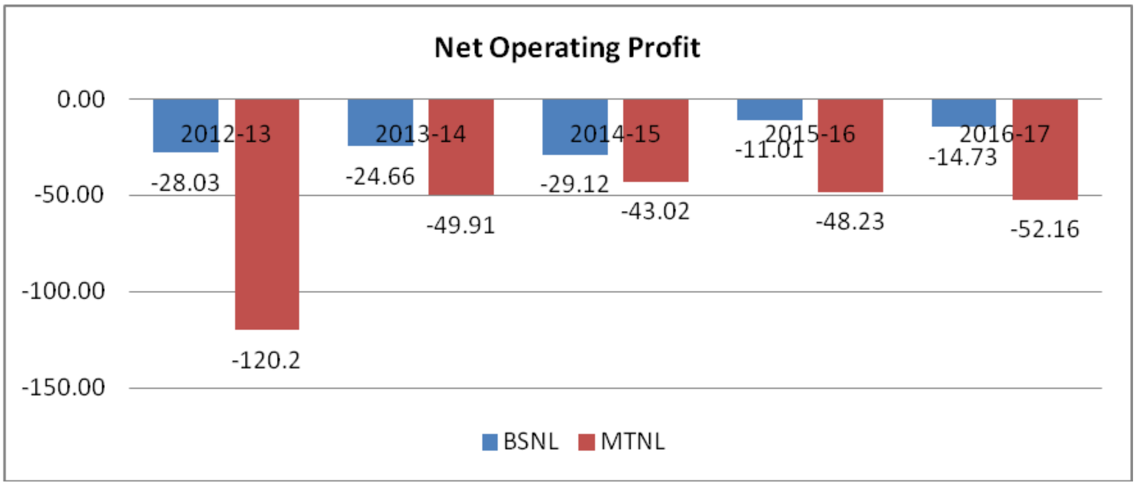
Chart 1.1 Net Profit Ratio



It can be observed from the above graph, that the both the public sector telecom companies have shown negative net profit ratio during the whole study period, except MTNL in the year 2013-14. In the year 2013-14 MTNL have shown very high net profit ratio which was due to the 116209.31 million Provision written back for Pension and Gratuity by the company. The main reason behind the negative ratios was continuous loss incurred by the companies. The negative profitability was mainly due to the very high amount of operating and administration expenses as well as inability of the companies to raise its earning capacity.

2. Net Operating Profit Ratio

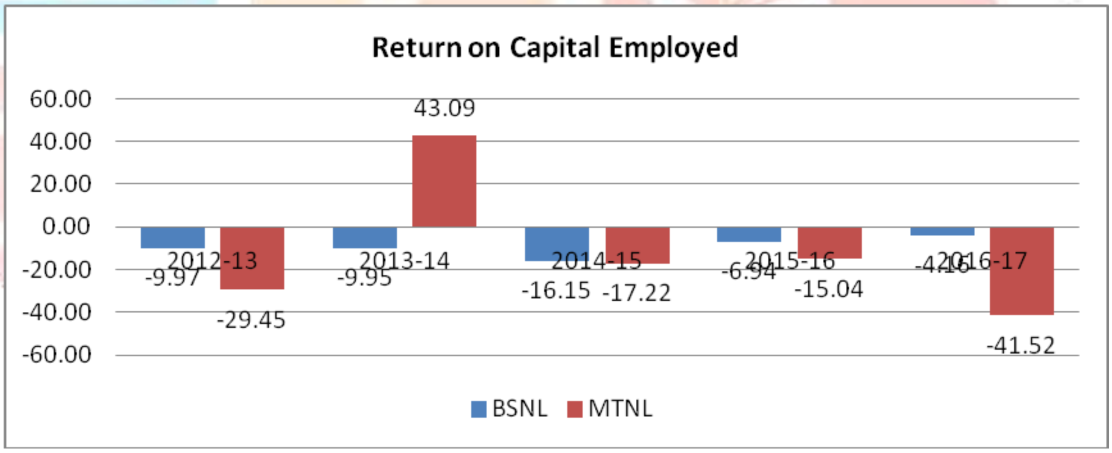
Chart 1.2 Net Operating Profit Ratio



It can be observed from the above graph, that the both the public sector telecom companies have shown negative net operating profit ratio during the whole study period, The main reason behind the negative ratios was continuous loss incurred by the companies. The negative profitability was mainly due to the very high amount of operating and administration expenses as well as inability of the companies to raise its earning capacity.

3. Return on Capital employed Ratio

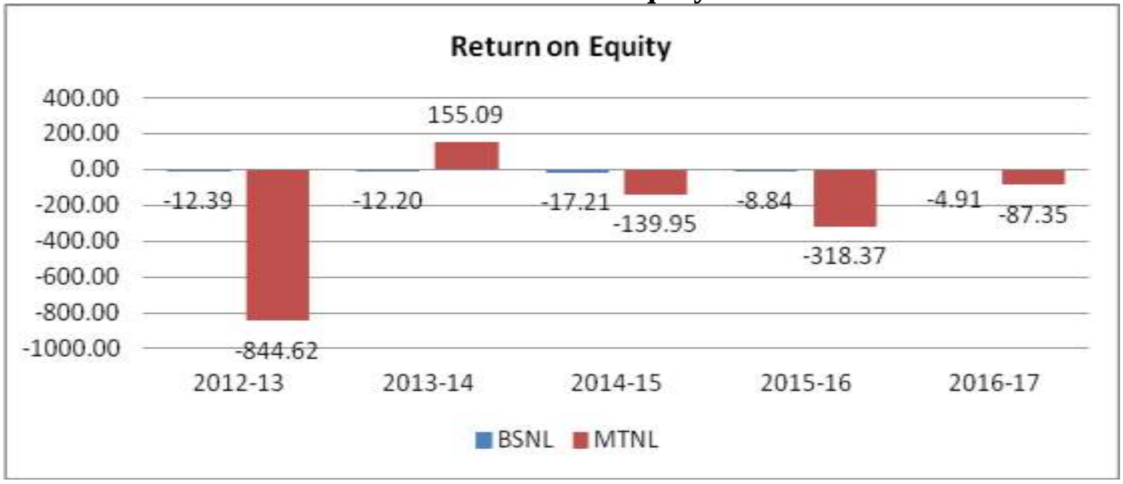
Chart 1.3 Return on Capital employed Ratio



It can be observed from the above graph, that the both the public sector telecom companies have shown negative return on capital employed ratio during the whole study period, except MTNL in the year 2013-14. In the year 2013-14 MTNL have shown very high return on capital employed ratio which was due to the 116209.31 million Provision written back for Pension and Gratuity by the company. The main reason behind the negative ratios was continuous loss incurred by the companies. The negative profitability was mainly due to the very high amount of operating and administration expenses as well as inability of the companies to raise its earning capacity.

4. Return on Equity Ratio

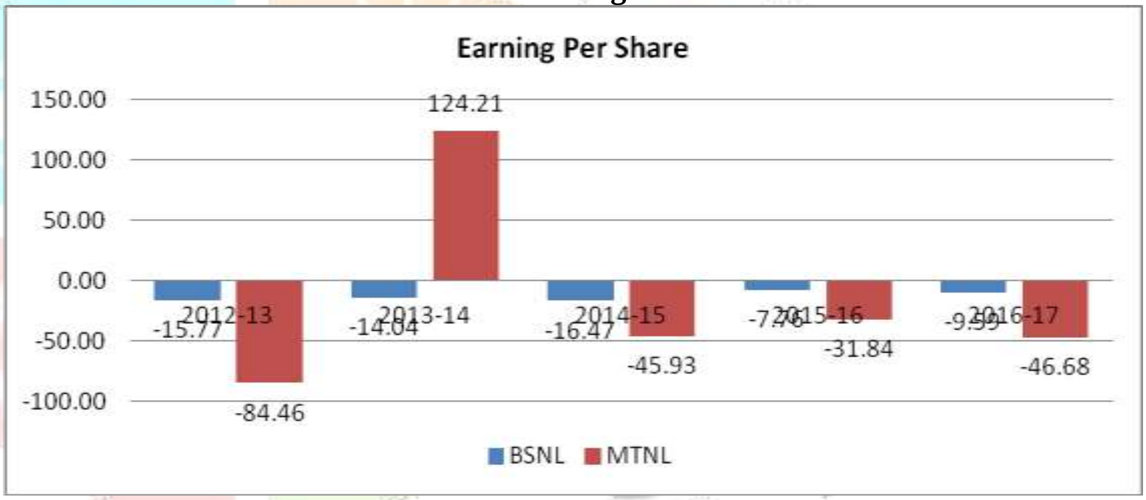
Chart 1.4 Return on Equity Ratio



It can be observed from the above graph, that the both the public sector telecom companies have shown negative return on equity ratio during the whole study period except MTNL in the year 2013-14. The main reason behind the negative ratios was continuous loss incurred by the companies. The negative profitability was mainly due to the very high amount of operating and administration expenses as well as inability of the companies to raise its earning capacity.

5. Earning Per Share

Chart 1.5 Earning Per Share



It can be observed from the above graph, that the both the public sector telecom companies have shown negative EPS during the whole study period, except MTNL in the year 2013-14. In the year 2013-14 MTNL have shown very high EPS which was due to the 116209.31 million Provision written back for Pension and Gratuity by the company. The main reason behind the negative EPS was continuous loss incurred by the companies. The Loss was mainly due to the very high amount of operating and administration expenses as well as inability of the companies to raise its earning capacity.

Z Score Analysis:

The Altman Z score is an empirical model that is very much useful to predict the probability of corporate insolvency. It is one of the useful tool which helps in predicting the company's financial performance with respect to the liquidity of the company.

The Z score model consists of five variables:

X1 = Working Capital / Total Assets

X2 = Retained Earnings / Total Assets

X3 = EBIT / Total Assets

X4 = Market Value of Equity / Total Liabilities

X5 = Net Sales / Total Assets

Original Altman Z Score for Public Companies is as follows.

$$Z = 1.2*X1 + 1.4*X2 + 3.3*X3 + 0.6*X4 + 0.999*X5$$

Critical values of Altman's Model

Score Result

Z<1.8	Distress Likely to bankrupt
1.8<Z<2.99	Grey Zone Stale
Z>2.99	Safe Zone Safe

Table No.1 Z Score Analysis of BSNL

Sr. No.	Year	WC/TA	RE/TA	EBIT/TA	Equity/TL	Sales/TA	Z Score	Output
1	2012-13	-0.08	-0.11	-0.26	0.23	0.28	**0.06**	Distress Zone
2	2013-14	-0.09	-0.11	-0.26	0.24	0.31	**0.09**	Distress Zone
3	2014-15	-0.13	-0.16	-0.37	0.28	0.39	**0.01**	Distress Zone
4	2015-16	-0.18	-0.07	-0.17	0.28	0.46	**0.32**	Distress Zone
5	2016-17	-0.03	-0.05	-0.12	0.22	0.24	**0.27**	Distress Zone

It can be observed from the above analysis that during the whole study period the BSNL comes under danger zone as its score was below 1.80 which falls under "Distress Zone" and which indicates likelihood of insolvency of the company. The main reason behind the low level of Z score was mainly due to the negative EBIT and very Low level of Reserve and surplus.

Table No.1 Z Score Analysis of MTNL

Sr. No.	Year	WC /TA	RE/TA	EBIT/TA	Equity/TL	Sales/TA	Z Score	Output
1	2012-13	-0.30	-0.22	-0.52	0.01	0.14	**-0.89**	Distress Zone
2	2013-14	-0.30	0.51	1.19	0.01	0.14	**1.54**	Distress Zone
3	2014-15	-0.35	-0.08	-0.18	0.01	0.14	**-0.46**	Distress Zone
4	2015-16	-0.49	-0.08	-0.19	0.01	0.13	**-0.62**	Distress Zone
5	2016-17	-0.38	-0.12	-0.28	0.01	0.20	**-0.57**	Distress Zone

It can be observed from the above analysis that during the whole study period the MTNL comes under danger zone as its score was below 1.80 which falls under "Distress Zone" and which indicates likelihood of insolvency of the company. The main reason behind the low level of Z score was mainly due to the negative EBIT and very Low level of Reserve and surplus.

Conclusion:

BSNL and MTNL are the only two public telecom company in India. After making the profitability analysis of both the companies it has been observed that during the whole study period BSNL and MTNL has shown very poor performance with respect to the profitability, which was mainly due to the huge amount of operating and administration expenses incurred by the companies as well as inability of the company to raise its earning capacity. Further Z score analysis indicates that the both company fall under the distress zone and hence needs intense care with respect to the improvement in financial performance. After the liberalization many private telecom companies have entered in to sector and therefore the sector have become very competitive. Hence, all the companies are needed to improve their financial performance in order to survive in the highly competitive market.

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