INTRODUCTION

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. 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 becomes necessary to measure the profitability and growth of the telecom sector which has direct impact on the development of the various sectors 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 telecom companies 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](chart.png)

   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

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

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:

- \( X_1 = \frac{\text{Working Capital}}{\text{Total Assets}} \)
- \( X_2 = \frac{\text{Retained Earnings}}{\text{Total Assets}} \)
- \( X_3 = \frac{\text{EBIT}}{\text{Total Assets}} \)
- \( X_4 = \frac{\text{Market Value of Equity}}{\text{Total Liabilities}} \)
- \( X_5 = \frac{\text{Net Sales}}{\text{Total Assets}} \)

Original Altman Z Score for Public Companies is as follows.

\[ Z = 1.2 \times X_1 + 1.4 \times X_2 + 3.3 \times X_3 + 0.6 \times X_4 + 0.999 \times X_5 \]
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>
<thead>
<tr>
<th>Sr. No.</th>
<th>Year</th>
<th>WC/TA</th>
<th>RE/TA</th>
<th>EBIT/TA</th>
<th>Equity/TL</th>
<th>Sales/TA</th>
<th>Z Score</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2012-13</td>
<td>-0.08</td>
<td>-0.11</td>
<td>-0.26</td>
<td>0.23</td>
<td>0.28</td>
<td>0.06</td>
<td>Distress Zone</td>
</tr>
<tr>
<td>2</td>
<td>2013-14</td>
<td>-0.09</td>
<td>-0.11</td>
<td>-0.26</td>
<td>0.24</td>
<td>0.31</td>
<td>0.09</td>
<td>Distress Zone</td>
</tr>
<tr>
<td>3</td>
<td>2014-15</td>
<td>-0.13</td>
<td>-0.16</td>
<td>-0.37</td>
<td>0.28</td>
<td>0.39</td>
<td>0.01</td>
<td>Distress Zone</td>
</tr>
<tr>
<td>4</td>
<td>2015-16</td>
<td>-0.18</td>
<td>-0.07</td>
<td>-0.17</td>
<td>0.28</td>
<td>0.46</td>
<td>0.32</td>
<td>Distress Zone</td>
</tr>
<tr>
<td>5</td>
<td>2016-17</td>
<td>-0.03</td>
<td>-0.05</td>
<td>-0.12</td>
<td>0.22</td>
<td>0.24</td>
<td>0.27</td>
<td>Distress Zone</td>
</tr>
</tbody>
</table>

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

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 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.
Reference:
1. Dr. B. Vijayalakshmi, A Journal of Economics and Management Vol.2 Issue 8 August 2013, ISSN 2278-0629
9. Management, Vol. 6, No. 10; October 2011