

## **A Study of Financial Resource Management in the Selected Indian Telecommunication Companies**

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### **ABSTRACT**

*Today telecommunications is thought of both in terms of goods and services. India is the World's second largest service provider in the Mobile Service Market and has world's third largest internet user base while China being the largest service provider. Though Telecom Companies are growing tremendously but introduction of new smart phones every now and then is posing great challenges for Telecom Companies in terms of lower call rates, good network, increased speed of internet etc. The intensity of competition and price war is growing so globally that these telecom brands are going for high scale marketing and sponsorship activities. So, proper management of financial resources is a must for maintaining the turnover, solvency and profitability of a concern. The aim of this research paper is to calculate and study ratios using the tool of ratio analysis; ratios like Current ratio, Debt Equity Ratio, Asset Turnover ratio and Net Profit Ratio. Further Trend Analysis has been applied on the gathered data to study the trend in the ratios calculated.*

**Keywords:** Telecommunication Sector, Ratio Analysis, Financial Resources.

### **INTRODUCTION:**

As per the Report by Internet And Mobile Association Of India (IAMAI) the internet user base stood at 481 million in December 2017 with an increase of 11.34% over December 2016. This internet user base is expected to reach 500 million by June 2018. India being second largest service provider in the Mobile Service Market and provider of world's third largest internet user base. Thus a need is felt to examine and evaluate the working of the management and to compare and analyze the financial performance of the selected telecom companies by using the technique of Ratio Analysis and Trend Analysis. A Ratio is an expression of Relationship between the numerator and the denominator and thus is a yardstick to evaluate the financial performance or position of the selected Telecom Companies. While Trend Analysis helps in computing the Trend of the series of information i.e upwards or downwards and thus involves computation of percentage of percentage relationships that each statement item bears to the same item, with the base year. Under this research paper various ratios like current ratio, debt equity ratio, asset turnover ratio and net profit ratio are calculated so as to compare and study the liquidity position, earning capacity of the firm and asset rotation of the selected firms.

### **Telecommunication Sector:**

Telecom sector has a significant contribution towards the economic growth of the Indian Economy. Being the World's second largest Telecommunication Sector, its important sectors includes telephones, internet and the ever growing television broadcasting industry. Easy Access to Telecom Equipments and a fair regulatory framework ensures consumers of the availability of telecom services at affordable prices. The rising number of users of net through mobile phones is an indication of revolution in the telecom stream. The share of revenue from the services is many times higher than the earning from the manufacturing of the equipments. Importance of telecom sector can be judged from its contribution to GDP and through the generation of tax revenues to the

government. Mobile phones have gained acceptability of the customer due to its portability thus making people remain connected always. Low cost of the handsets, increasing mobile applications and innovative Telecom sector has made services accessible to all. Telecom sector has come a long way and is still in its race of spreading teledensity and internet services across India. Under this research paper two major Telecom companies-Bharti Airtel and Idea Cellular Limited have been selected with the below mentioned profile.

**Profile of Bharti Airtel:**

Bharti Airtel today was formerly known as Bharti Tele-Ventures Limited (BTVL) is one of the major telecommunications service providers in India. Founded in 1985, its business is framed of three strategic business units-mobile services, enterprise services and the telemedia services. It was India’s first private company operator to provide service at pan India level. To generate maximum opportunities for growth and development Bharti Airtel is also performing the Supply Chain Management function which has been formulated to maximize the mutual opportunities for development, advancement and profitability further. Under the Chairmanship of Mr. Sunil Bharti Mittal its profitability has grown by leaps and bounds and has presently touched The company is providing enterprise services and end to end data services through fibre optic, connectivity in mobile circle and fixed line, VSAT’S, ISP and bandwidth access internationally through its gateways and landing stations.Ericsson and Nokia are its network equipment partners. Its equipment suppliers include Nortel; Siemens amongst many others. The company also has an alliance with IBM for its information technology needs.

**SWOT Analysis of Bharti Airtel Ltd**

<p><b>Strengths</b>                  .Biggest network Sharing                  .Price Gain                  .Superior Service</p>	<p><b>Weaknesses</b>                  .Anxiety for price                  .Compliance with Government norms</p>
<p><b>Opportunities</b>                  .continuous growth of market share                  .Superior performance</p>	<p><b>Threats</b>                  .Equality in Tariffs                  .Competitive Rivalry</p>

**Profile of Idea Cellular Limited:**

In the year 1995 with the joint efforts of AT&T, Aditya Birla group and Tata Group, a cellular network was set up. The group further increased their operations in the year 2000 resulting in the merger and acquisition of RPG Cellular. With effect from 1 May 2002, company changed its name from Birla Tata A&T Limited to Idea Cellular Limited. Idea soon emerged as the fastest growing Indian Company. Further in the year 2004 Idea Acquired Escotel covering 60% of the Indian population and 65%of the potential telecom market. Its philosophy is reflected in its baseline-“An Idea can change Your Life “It is the third largest mobile operator in India based at Mumbai. It was the first company to launch next generation EDGE technology in Delhi in 2003.It was also the first company to offer flexible tariff plans for its prepaid customers.

**SWOT Analysis of Idea Cellular Limited**

<p><b>Strengths</b>                  .Quick Activation                  .Good network connectivity</p>	<p><b>Weaknesses</b>                  .Limited portfolio of products                  .Brand image</p>
<p><b>Opportunities</b>                  .Rural telephony                  .New Markets                  .Competitive strengths</p>	<p><b>Threats</b>                  .Development of IT                  .New entrants                  .Market demand</p>

**REVIEW OF LITERATURE:**

Pratibha A. Dabholkar (2011) brought forward a variety of factors that affect user attribution and satisfaction in a TBSS failure/recovery context –anxiety, employee assistance, source of error and suggested that are all critical in TBSS context.

Ragupathi Dassam (2013) focused primarily on developing a discipline which could strengthen investment in human resource management .He concluded that financial management and human resource management are strong tools for strengthening the inherent benefits of the two related disciplines so as to enhance productivity and profitability.

Jayawardhana A (2016) studied the financial statements over the study period of Adidas using horizontal, vertical, trend and ratio analysis. It was highlighted that high operating expenses could hinder the growth of the company so suggested that company should establish cost cutting goals, maximize employees task efficiency and should consider about outsourcing.

Sharma Vivek (2017) after making comparative study of current ratio, debt equity, asset turnover and net profit ratio over the selected telecom companies concluded that Bharti Airtel is performing better than other telecom companies and suggested all companies to concentrate and improve upon its short term solvency position.

**RESEARCH METHODOLOGY:**

**Objective of Study:**

1. To study financial performance of selected telecom companies.
2. To study the profitability of selected telecom companies.
3. To analyse and compare the financial performance of selected telecom companies.
4. To evaluate the financial trend in the selected companies.

**Hypothesis of Study:**

- H0 Ratio of Current Asset to Current Liability is uniform in the selected Telecom Companies.
- H1 Ratio of Current Asset to Current Liability is not uniform in the selected Telecom Companies.
- H0 Ratio of Debt to Equity is uniform in the selected Telecom Companies.
- H1 Ratio of Debt to Equity is not uniform in the selected Telecom Companies.
- H0 Ratio of Net sale to Total Assets is uniform in the selected Telecom Companies.
- H1 Ratio of Net sale to Total Assets is not uniform in the selected Telecom Companies.
- H0 Ratio of Net Profit to Net Sales is uniform in the selected Telecom Companies.
- H1 Ratio of Net Profit to Net Sales is not uniform in the selected Telecom Companies.

**Data Collection:**

This study focuses on Telecom Sector .The data for the selected Telecom Companies have been collected from the secondary sources for the study period of 9 years from March 2008 till March 2017.

**Tools and Techniques:**

The collected data has been presented in the form of tables And tools like Ratio Analysis And Trend Analysis has been applied. Various ratios like current ratio, debt equity ratio, Asset Turnover Ratio and Net profit ratios along with Trend percentages have been calculated for the selected companies over the study period.

**DATA ANALYSIS:**

Ratios act as a yard stick for the study and comparison of performance of selected companies over the study period. The collected data has been studied and analyzed using the tools of ratio analysis and trend.

**Test of Hypothesis –I:**

**Current Ratio:**

This ratio expresses the relationship between the Current assets and current liabilities of a firm and is a general measure of liquidity of a firm. It is calculated as

Current Ratio=Current Assets/current Liabilities

Year	Bharti Airtel	% change	Idea Cellular	% change
2017	0.60	-	0.29	-
2016	0.65	8.33	0.33	13.79
2015	0.73	12.30	0.39	18.18
2014	0.93	27.39	0.42	7.69
2013	0.65	-30.10	0.52	23.80
2012	1.02	56.92	0.53	1.92
2011	0.63	-38.23	0.49	-7.54
2010	0.70	11.11	0.96	95.91
2009	0.69	-1.42	0.98	2.08
2008	0.57	-17.39	0.43	-56.12
<b>Average</b>	<b>6.87</b>		<b>5.34</b>	

Source: moneycontrol.com

The above table shows that over a period of study of 9 financial years the average of current ratio along with Trend of Bharti Airtel is higher than Idea Cellular. This indicates that Bharti Airtel has sufficient current assets to meet its short term operating needs. The current ratio of Bharti Airtel is more than the standardized degree leading to the increase in the volume of nonperforming assets.

**Interpretation:** The calculated average value of current ratios is not the same. So, H0 Hypothesis is rejected.

**Test of Hypothesis –II:**

**Debt Equity Ratio:**

This ratio measures the relative claim of outsider and owners against the assets of the firm. It are calculated as.

Debt Equity Ratio=Outsiders Funds/Shareholders Funds

Year	Bharti Airtel	% Change	Idea Cellular	% Change
2017	0.56	-	2.18	-
2016	0.50	-10.71	1.56	-28.44
2015	0.26	-48	0.74	-52.56
2014	0.13	-50	1.14	54.05
2013	0.24	84.61	0.80	-29.82
2012	0.29	20.83	0.79	-1.25
2011	0.23	-20.68	0.86	8.86
2010	0.14	-39.13	0.57	-33.72
2009	0.28	100	0.67	17.54
2008	0.33	17.85	1.84	174.62
<b>Average</b>	<b>2.96</b>		<b>11.15</b>	

Source: moneycontrol.com

The above table reflects the Debt –Equity position during the study period from 2008 to 2017. The average debt equity ratio of Idea Cellular is higher than Bharti Airtel. The table further reflects fluctuations in the ratio over the study period for both the companies. Though there is no rule of thumb for debt equity ratio but 1:1 is considered to be an ideal ratio.

**Interpretation:** The calculated average value of Debt Equity ratio is not the same. So, H0 Hypothesis is rejected.

**Test of Hypothesis –III:**

**Asset Turnover Ratio:**

This ratio reflects the velocity at which the total assets get rotated in the business operations. It is calculated as.

Asset Turnover Ratio= Net Turnover/Total Asset

Year	Bharti Airtel	% Change	Idea Cellular	% Change
2017	0.46		0.57	-
2016	0.54	17.39	0.76	33.33
2015	0.64	18.51	0.88	15.78
2014	0.70	9.37	0.89	1.136
2013	0.69	-1.42	0.91	2.247
2012	0.71	2.89	0.84	-7.69
2011	0.79	11.26	0.75	-10.71
2010	0.92	16.45	0.64	-14.66
2009	1.10	19.56	0.68	6.25
2008	1.18	7.27	0.82	20.58
<b>Average</b>	<b>7.73</b>		<b>7.74</b>	

Source: moneycontrol.com

The table above shows the asset turnover ratio along with its fluctuating trend over a period of 9 years for the two companies. This ratio basically indicated the efficiency with which a company uses its assets so as to generate revenue. Since telecommunication companies have larger asset base so their asset turnover ratio in comparison to companies in other sectors is lower.

**Interpretation:** The calculated average value of Asset Turnover ratio is near the same. So, H0 Hypothesis is accepted.

#### Test of Hypothesis –IV:

##### Net Profit Ratio:

This ratio measures the relationship of Net profit to Net Sales. It is calculated as

Net Profit Ratio= Net Profit/Net Sales

Year	Bharti Airtel	% Change	Idea Cellular	% Change
2017	-15.93	-	-2.35	-
2016	12.51	- 178.53	7.30	410.63
2015	23.78	90.08	8.98	23.01
2014	13.22	-44.40	6.46	-28.06
2013	11.23	-15.05	3.37	-47.83
2012	13.77	22.61	2.99	-11.27
2011	20.29	47.34	5.50	83.94
2010	26.47	30.45	8.89	61.63
2009	22.58	-14.69	10.15	14.17
2008	23.99	6.24	15.54	53.10
<b>Average</b>	<b>164.42</b>		<b>66.83</b>	

Source: moneycontrol.com

The above table shows that over the study period the relation of net profit to net sales of Bharti Airtel is higher and better than Idea Cellular which is good for the future soundness of the firm. Ratio basically indicates excess of income over expense which indicates Bharti has a better control over its expenditures than Idea Cellular Limited.

**Interpretation:** The calculated average value of Net Profit ratio is not the same. So, H0 Hypothesis is accepted.

#### FINDINGS AND CONCLUSION:

On the basis of above study we can conclude that Bharti Airtel is a performing better than Idea Cellular Limited in respect of average net profit and average current ratio which was 6.87 and 164.42 as against of Idea of 5.34 and 66.83 respectively. It indicates a good control over expenditures, judicious and optimum utilization of funds and good maintenance of current assets over current liabilities. While the asset turnover ratio of both the companies almost stands at par at an average of 7.73 and 7.74 respectively, this indicates efficient management of finances by both the companies. The average Debt Equity Ratio of Idea Cellular Limited is higher than Bharti which stands at 11.15 as against 2.96 of bharti. Bharti Airtel needs to improve upon its debt equity ratio and more efforts are required to better the current ratio. Hence from the above study we conclude that both the companies need to work upon to improve its short term solvency position as per the rule of thumb of 2:1 by improving its current ratios.

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