# Profitability Analysis of Selected Telecommunication Companies of India

DEVENDRA A. KHAKHDIA

Asst. Prof.

Harivandana College, Rajkot

**Abstract:**

*Telecommunication is the transmission of signals, signs, writings, words, messages, sounds and images by radio, wire, optical or other types of electromagnetic systems. Telecommunication happens when there is a exchange of information between participants with the help of technology. In present era communication sector is playing a dominant role in the Indian Economy. The importance of telecommunication has been experienced by every sphere of life such as in education, healthcare, patients, business, economic growth etc. The present paper deals with the profitability analysis of the top 3 telecommunication companies based on operational revenues highest to lowest for the last 5 years. Accounting tool Ratio analysis and statistical tools average and one-way ANOVA has been used. Researcher concluded that profitability situation of any company during study period is not good. Tata communication and Airtel showed positive result while Reliance communication can't survive further because of poor profitability.*

**Keywords:** *Telecommunication Industry, Profitability analysis, Return on Net worth*

## 1. Introduction

Finance is considered as the life blood of business enterprise because in the modern money-oriented economy, finance is one of the foundations of all kinds of economic activities. There is well known saying "Business needs money to make money". Money can be doubled only when it is properly managed. It is truly said that business needs money to make more money. With the help of financial statement analysis technique one can analyses the Profitability position of the company and it can also help the investors and creditors to take decision regarding making investment in the companies based on the financial evaluation. Telecommunication industry of India passes through pressure of competition. Its profitability condition is not good. So, it's in depth analysis is required.

## 2. Statement of problem

Even though there are few players and important industry for the development of nation, selected companies face Net losses or wide fluctuation in net profit for last five years from 2012-13 to 2016-17.

## 3. Nature of the Study

The present study is based on the Secondary data. This research work started in the form of ex-post facto study in which the researcher made attempt to study the past existing situation. Nature of research is analytical and applied in nature because in this research work in depth analysis of available data is done and researcher found solution for problem faced by selected sample telecommunication companies.

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## 4. Scope of the Study

### 4.1 Functional Scope

Functional Scope of this study is to analyse Profitability of Indian telecommunication Companies through Ratio Analysis.

### 4.2 Geographical Scope

In the present study researcher has selected 3 telecommunication companies which comes under the scope of telecommunication industry in India and are listed in India stock market. So, whole India is geographical criteria for this research.

### 4.3 Importance of the Study

Even though few Telecommunication service provider companies in India, they face net losses and wide fluctuation in their net profit in last 5 years. This study is very important because telecommunication industry role in development of the country is very important. So it becomes necessary to find out the causes and solution of serious financial problem of this industry. In depth analysis will be useful to all stake holders of the company as well as research scholar for further research.

## 5. Objectives of the Study

1. To know the profitability position of selected Telecommunication companies during study period.
2. To compare Profitability situation of selected Telecommunication companies during study period and give some suggestion to improve profitability.

## 6. Hypotheses of the Study

$H_{01}$: There is no significant difference in Operating Profit to Revenue from operation Ratios among the selected telecommunication Companies.

$H_{02}$: There is no significant difference in Net profit Ratios among the selected telecommunication Companies.

$H_{03}$: There is no significant difference in Return on net worth Ratios among the selected telecommunication Companies.

$H_{04}$: There is no significant difference in Earning Per Share among the selected telecommunication Companies.

## 7. Population of the Study

The population of the study is all telecommunication companies provide telephony and/or Internet services in India.

## 8. Sampling Technique

A purposive sampling technique is used by researcher which is suitable for this study. Study is about profitability of telecommunication industry; samples are selected on the basis of operational revenue highest to lowest of financial year 2016-17.

## 9. Sample of the Study

| Company | Operating Profit |
|---|---|
| Bharti Airtel | 6227.63 Cr. |
| Tata Communication | 5068.63 Cr. |
| Reliance Communication | 3537 Cr |

(Source: Annual Reports of the Companies)

## 10. Period of the Study

This research study considers the data of last 5 years of the selected telecommunication companies which were from 2012-13 to 2016-17.

## 11. Data Collection

The present research is mainly based on the secondary data, in which data was taken from the annual reports of the selected telecommunication companies and from their official websites.

## 12. Tools & Techniques

Profitability ratios are taken as accounting tool which are Operating Profit to Revenue from operation Ratio, Net profit Ratio, return on net worth Ratio, Earning Per Share ratio and Return on Capital employed ratio. Mean and One-way ANOVA are used as statistical tool.

## 13. Analysis and Interpretation

**Table No. 1 Table showing Operating Profit to Revenue from Operations**

| Year | Airtel | Tata Comm. | Reliance Comm. | Avg. |
|---|---|---|---|---|
| 2012-13 | 29.7 | 22.65 | 24.21 | **25.52** |
| 2013-14 | 32.65 | 22.8 | 16.26 | **23.90** |
| 2014-15 | 35.01 | 23.8 | 15.33 | **24.71** |
| 2015-16 | 37 | 24.89 | 21.21 | **27.70** |
| 2016-17 | 38.04 | 23.54 | 9.81 | **23.80** |
| **Avg.** | **34.48** | **23.536** | **17.364** | **25.13** |

(Source: Calculated from Annual Reports data)

For testing the hypothesis ANOVA test has been calculated as follows:

| Source of Variation | SS | df | MS | F | P-value | F crit |
|---|---|---|---|---|---|---|
| Between Groups | 751.37 | 2 | 375.685 | 26.088 | 0.000 | 3.885 |
| Within Groups | 172.81 | 12 | 14.401 | | | |
| | | | | | | |
| Total | 924.181 | 14 | | | | |

**Table No. 2 Table showing Net Profit Ratio**

| Year | Airtel | Tata Comm. | Reliance Comm. | Avg. |
|---|---|---|---|---|
| 2012-13 | 10.89 | 9.91 | 4.87 | **8.56** |
| 2013-14 | 13 | 11.21 | 5.87 | **10.03** |
| 2014-15 | 21.75 | 13.52 | -1.38 | **11.30** |
| 2015-16 | 12.59 | 7.89 | -3.68 | **5.60** |
| 2016-17 | -15.89 | 13.66 | -50.78 | **-17.67** |
| Avg. | **8.468** | **11.238** | **-9.02** | **3.562** |

(Source: Calculated from Annual Reports data)

For testing the hypothesis ANOVA test has been calculated as follows:

| Source of Variation | SS | df | MS | F | P-value | F crit |
|---|---|---|---|---|---|---|
| Between Groups | 1206.48 | 2 | 603.24134 | **2.34831** | 0.13782 | **3.88529** |
| Within Groups | 3082.59 | 12 | 256.8828133 | | | |
| | | | | | | |
| Total | 4289.08 | 14 | | | | |

**Table No. 3 Table showing Return on Net worth Ratio**

| Year | Airtel | Tata Comm. | Reliance Comm. | Avg. |
|---|---|---|---|---|
| 2012-13 | 9.44 | 6.32 | 1.88 | **5.88** |
| 2013-14 | 9.93 | 6.88 | 2.33 | **6.38** |
| 2014-15 | 16.9 | 8.08 | -0.43 | **8.18** |
| 2015-16 | 6.98 | 4.41 | -1.39 | **3.33** |
| 2016-17 | -9.81 | 7.45 | -7.46 | **-3.27** |
| Avg | **6.688** | **6.628** | **-1.014** | **4.10** |

(Source: Calculated from Annual Reports data)

For testing the hypothesis ANOVA test has been calculated as follows:

| Source of Variation | SS | df | MS | F | P-value | F crit |
|---|---|---|---|---|---|---|
| Between Groups | 196.208 | 2 | 98.10380667 | **2.53667** | 0.12055 | **3.88529** |
| Within Groups | 464.091 | 12 | 38.67425667 | | | |
| | | | | | | |
| Total | 660.299 | 14 | | | | |

**Table No. 4 Table showing Earning per Share Ratio**

| Year | Airtel | Tata Comm. | Reliance Comm. | Avg. |
|---|---|---|---|---|
| 2012-13 | 13.42 | 16.68 | 3.02 | **11.04** |
| 2013-14 | 16.51 | 19.03 | 3.54 | **13.03** |
| 2014-15 | 33.02 | 23.67 | -0.62 | **18.69** |
| 2015-16 | 19.46 | 13.78 | -1.52 | **10.57** |
| 2016-17 | -24.83 | 24.2 | -7.22 | **-2.62** |
| Avg. | **11.516** | **19.472** | **-0.56** | **10.142** |

(Source: Calculated from Annual Reports data)

For testing the hypothesis ANOVA test has been calculated as follows:

| Source of Variation | SS | df | MS | F | P-value | F crit |
|---|---|---|---|---|---|---|
| Between Groups | 1017.35 | 2 | 508.6739467 | **3.00635** | 0.08742 | **3.88529** |
| Within Groups | 2030.4 | 12 | 169.2 | | | |
| | | | | | | |
| Total | 3047.75 | 14 | | | | |

## 14. Findings

1. Operating profit to revenue from operations Maximum 38.04% of Bharti Airtel in year 2016-17 and Minimum 9.81% of Reliance Communication in year 2016-17. Average of Airtel is maximum

34.48% and Reliance communication is minimum 17.36%. Bharti Airtel Rank is first then after Tata Communication rank is second and last rank is of Reliance communication.

2. Net Profit is Maximum 21.75% of Bharti Airtel in year 2014-15 and Minimum -50.78% of Reliance Communication in year 2016-17. Average of Tata Communication is maximum 11.24% and Reliance communication is minimum -9.02%. On the basis of Average Net Profit only Tata communication and Bharti Airtel gave positive return.

3. Return on Net worth is highest 16.9% in Airtel in year2014-15 and lowest -9.81 of Airtel in year 2016-17. Here Airtel fluctuation highest can be seen during study period in Return on Net worth. Average is maximum 6.69% in Airtel and minimum in Reliance Communication -1.014%. Return on Net worth is very similar and less of Bharti Airtel and Tata communication.

4. EPS is maximum 33.02 Rs. in Airtel in year 2014-15 and minimum -24.83 Rs. in Airtel in year 2016-17. Hera also highest fluctuation can be seen in Airtel. Average EPS is maximum 19.47 Rs. in Tata Communication and minimum -0.56 Rs. in Reliance Communication.

5. During the study period Researcher found that Debt on all companies is higher. So revenue is utilized for repayment of loan and interest. Because of price competition in the market, no one can generate good revenue and profit.

## 15. Suggestions

1. All Companies should go for capital restructuring to overcome the situation of High Debt burden.
2. All companies should increase the prices of the services. Price war should be finished.

## 16. Conclusion

By considering four profitability ratios, it can be concluded that Tata Communication performance comes on first rank and then after Airtel is on second rank and Reliance communication is on third rank. Reliance communication performance is not better by any measure. Reliance communication cannot survive in future. So, investors should exit from the company.

## 17. Limitations of the study

1. The study is based on Telecommunication Industry of India only.
2. The study period is only 5 years and only 3 companies are considered. So the results of the study cannot be generalized.
3. The study is based on secondary data. So it may many times misleads
4. As accounting tool, ratio analysis has its own limitations.
5. Average and single factor ANOVA have their own limitations.

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