

Financial Aspects of Telecom Sector in India – A Study of Accounting Ratio

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ABSTRACT

The fundamental concentration of this part is to show a review of advancement of India's media transmission arrangement towards provisioning and estimating of media transmission administrations. This portrayal is fundamental to comprehend the decisions made by the strategy creators on playing out the current foundation that are included in the provisioning and evaluating of telecom administrations in India. The significant changes in the financial ramifications of these approach changes. An application of accounting ratios for the selected major telecom service provider for the year 2005 to 2014 have been analyzed on the ground of financial statements of the company. To understand the future consequences and application of inferential statistics is used.

INTRODUCTION

India's telecom division has been doing particularly well in past good. Its basic and intramural and institutional changes have given huge development chance to this segment. India has almost 200 million phone lines making it the third biggest system on the planet after china and USA with a development rate of 45% Indian telecom industry has the most noteworthy development rate in the world.

The primary changes in Indian media communications area started in 1980s when the private division was permitted in media transmission gear producing. In 1985, branch of Telecommunication was built up.

The media transmission division in India has developed since the development of first exploratory electronic transmit Line amongst Kolkata and diamond Harbor for East India Company in November 1850. It is one among the most established systems on the planet. In the year 1881, permit was conceded to privately owned business to open phone trades at Mumbai, Kolkata, Chennai, Karachi and Rangoon .Telephone trade at Mumbai (90 users), Kolkata (102 users), Chennai (24 users), Karachi (11 users) and Rangoon (17 users) were opened in the year 1882. In 1885, Indian Telegraph Act 1885 was established entitling the Government of India to be the sole administrator of permit others to work the media transmission benefits the plain old telephone benefits initially worked by privately owned business were assumed control by the national government in 1943, and turn into an open restraining infrastructure. Free India acquired a media transmission framework with 321 phone trade, 82985 direct trade lines and 537 Public Call workplaces from its pioneer legacy. Foundation of Indian Telephone Industry in 1948 as a Public Sector Unit and setting up of Telecom Research Center in 1956 at Delhi was set up as an imperative point of interest in the early phase of improvement of media transmission area in November 1960.

It was in the year 1851 that the British initially presented media transmission benefits in India through operational land lines close Calcutta Gradually, the telephone utility was made

operational in the year 1881. After autonomy, the outside media transmission organizations were nationalized and the Posts, phone and Telegraph Company was set up by the Ministry of Communications.

In the year 1985, the Department of Telecommunications was set up to give residential and long separation telephone utilities. In the year 1986, the administration built up two organizations in particular Mahanagar Telephone Nigam Limited for metropolitan telephone utilities and Videsh Sanchar Nigam Limited for universal telephone utilities.

With the financial advancement in the 1990s, the telecom showcase in India was likewise profited as it were. The administration was enhanced and the taxes were additionally fundamentally brought down. In the year 1997, the administration set up the Telecom Regulatory Authority of India to give a thorough telecom benefit in the nation. In 1999, adjustment was conveyed to the strategy and the cell administrations were presented.

Indian Telecom industry is a standout amongst the most quickly developing ventures in India. It is thought to be a genuine aid to the nation's economy as well as to its occupants as it has made life simpler and speedier inside and out, from the pre-autonomy period to till date this adventure of industry passed various vital points of reference that is demonstrated.

In pre 1902 the first cable telegraph service was established, later on in 1902 the wireless telegraph stations were established between Sagar Island and Sandhead after that in 1907 the Central Battery of telephones introduced in Kanpur. In extension of communication the automatic exchange were started in Shimla in 1913. In span of 1927, the radio telegraph system between the United Kingdoms and India was started with imperia wireless chain beam stations at Khadki and Daund. The radio telephone system between the UK and India were took place in 1933. The expansion of this system was developed in 1953 by extending 12 channel carrier system in 1953. 1960 was the year was the first subscriber trunk dialing route commissioned was started between Lucknow and Kanpur. During 1975, the first PCM system

commissioned between Mumbai city and Andheri telephone exchange. The great expansion of telecom graced in 1976 when first digital microwave junction was started. In 1979, the optical fiber system for local junction was commissioned at Pune. In 1980, the communication is expanded with first satellite earth station for domestic communications at Sikandrabad. In 1983, the analogue stored program Control exchange for trunk lines were started in Mumbai. The C- Dot system was started in 1984 for indigenous development and production of digital exchanges. The year 1995 was the grace year when the first mobile telephone service started on non-commercial basis on 15th August in Delhi. First time the internet was introduced in 1995 in India. It started with Mumbai, Delhi, Kolkata and Pune on 15th August. In 1997, to regulate the services properly for everyone government has set up telecom regulatory authority of Inlaid (TRAI). In 2000, the corporatize the operations wing to Dot named as department of telecommunication services later on it was named as Bharat Sanchar Nigam Limited (BSNL). The basic Reviews for the study acquired from the studies of various reviews.

Arumugasamy (2005) opines that there are two elements in charge of the development of telecom administrations in India. One reason is accessibility of less expensive handsets with lesser usefulness which suits the Indian conditions with clean resistance and battery limit. The other reason is the noteworthy plunge in levies from a level of around Rs.16 per require a STD, to a low tax administration of Re.1 a call across the country.

Kuber (2005) declares that the offers of camera telephones from all producers topped 84 million units worldwide amid the year 2003. It is likewise no mystery that an ever increasing number of individuals now want to purchase camera telephones against customary ones. Dependence offers camera telephones at a low cost of Rs. 4,500; the infiltration is relied upon to rise facilitate. The primary camera telephone was presented in Japan by a main versatile administrator having a place with the Vodafone gathering and was fabricated by Sharp. Today, even the section level models from Nokia, Sony Ericsson, Motorola and others offer essential imaging capacities and some are additionally offering video catch and survey abilities and picture altering programming.

Dhaliwal (2006) reports that India had set to record third biggest versatile populace in world amid 2007 as working classes went portable'. Portable proprietorship was relied upon to cross 100 million in 2007, as the biggest white collar class on the planet took up possession.

Indian Minister for Telecommunications (2007) reports that as indicated by 2001 evaluation, the number of inhabitants in India. It was 109 crores and 80 lakhs. In India, 70 lakh mobile phones are fabricated yearly and 20 crore individuals are PDA clients. Nokia produced 400 lakhs (40 million) mobile phones worldwide amid 2007.

Gupta (2005) opines that amid the year June 2005, commanded to a great extent by Nokia with an aggregate piece

of the overall industry of 59 percent, and took after by Samsung (13 percent) and Motorola (7 percent) individually, the Indian versatile handset showcase obliged 45 million GSM endorsers. As per Gartner, the aggregate number of cell phones sold was around 21 million in India in 2004, which is assessed to be 34 million in 2005. To tap the market potential, numerous substantial electric developed services groups are genuinely considering setting up their handset offices in India.

Singh (2006) outfits the way that Nokia, Samsung, Sony Ericson and LG have built up their assembling base in India to grasp cost viability and battle the piece of the overall industry fight all the more adequately. Nokia's piece of the overall industry was an amazing 78.8 for every penny in February 2006.

Jharwal (2005) says that telecom division is one of the quickest developing areas of the Indian economy. Amid 2005, India had more than 100 million phone systems thought to be one of the biggest systems on the planet. In the year 2005, India was the fifth biggest system on the planet after china, USA, Japan and Germany.

METHODOLOGY

Objective is a base for any work. The targets decide the future and result of the exploration. Nobody work is begun with no targets. The present research work has additionally a goal to examine profitability of selected companies through ratio. To understand the nature of profitability of selected seven telecom companies the researcher has derived a hypothesis that - there is no significant difference in Operating Profit Ratio of selected telecom Companies in India. The concerned information's were collected from the financial statements of the companies and operating profit ratio was computed.

ANALYSIS AND RESULTS:

The operating profit ratio shows how much benefit an organization makes subsequent to paying for variable expenses of creation, for example, compensation, crude materials, and so on. It is communicated as a rate of offers and demonstrates the productivity of an organization controlling the expenses and costs related with business operations.

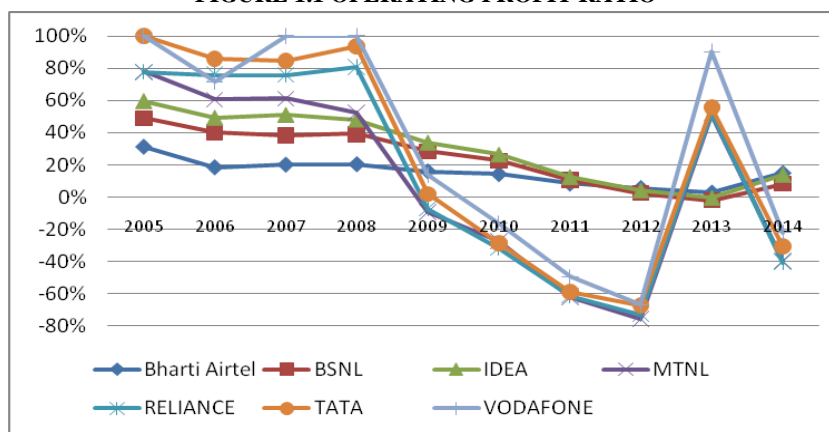
$$\text{Operating Profit Ratio} = \frac{\text{Operating Income}}{\text{Net Sales}}$$

It can be seen from table 1.1 for operating profit ratio that seven telecom companies for the year 2005 to 2014 have been computed. In 2005, the past records of reliance communication and Vodafone were not available the details for the said ratios were computed for five companies i.e. Airtel, BSNL, Idea, MTNL and Tata communication. The operating profit ratios for the said companies were computed as 17.87 for Airtel, 10.27 for BSNL, 6.25 for Idea, 10.42 for MTNL and 12.67 for TATA communications. Among them the ratio shows higher impact for Airtel, Second stands have been taken by TATA communications. BSNL and MTNL have almost equal value for operating profit ratio and Idea stands last in position.

TABLE 1.1 OPERATING PROFIT RATIO

Year	Airtel	BSNL	IDEA	MTNL	RELIANCE	TATA	VODAFONE
2005	17.87	10.27	6.25	10.42	0	12.67	0
2006	22.59	26.52	11.21	13.88	18.88	11.59	-17.44
2007	24.23	21.95	15.54	12.42	17.48	10.13	18.77
2008	22.74	21.02	10.15	4.75	31.83	13.63	7.51
2009	26.47	20.53	9.03	-71.38	3.53	15.01	19.44
2010	20.29	11.7	5.5	-76.26	-6.24	4.5	17.37
2011	13.77	3.55	2.99	-121.83	1.4	4.18	14.99
2012	11.23	-6.86	3.71	-155.19	5.53	10.76	0.97
2013	13.22	-22.16	6.46	230.71	6.53	12.39	154.52
2014	23.78	-10.69	8.98	-85.09	-1.42	15.61	13.64

FIGURE 1.1 OPERATING PROFIT RATIO



In 2006, as it was the introductory phase for Vodafone, the company was in the phase of loss of -17.44, other than that Airtel stands second highest with 22.59 after BSNL (26.52), which stood first amid all the telecom companies. Reliance communication competed with 18.88, MTNL stand fourth with 13.88, Tata communications ranked fifth with operating profit ratio of 11.59, Idea stands second last with 11.21 of operating profit ratio. During this year BSNL stands with high profitability before Airtel compare to last year. The values of operating profit for all companies increased, only TATA communication recorded its profitability with 1.08% during the year.

For the year 2007, Airtel recorded with 24.23, which is again fruitful ratio for company. It increased with 1.62%, BSNL comparatively reduced with 4.57%. This was the first year where the profitability of the company reduced. For this year compare to other companies it stood second with operating profit ratio of 21.95. Idea was rated as fifth for the assessment year. It has gained operating profit ratio as 4.33%, for the year 2007, the operating profit ratio is recorded as 15.54. MTNL has reduced its profitability with 1.46% for the said year the operating profit ratio was recorded as 12.42 for the year. The operating profit ratio for Reliance communication was computed as 17.48, compare to last year it reduced with 1.40% of total profit. In case of TATA communication the operating profit ratio was computed as 10.31%, with decreased in total of 1.46% compare to last year.

Vodafone had a good growth first time as its growth recorded as 18.77 compare to last year it has the highest growth compare to other companies. The year 2007 is much fruitful for Vodafone, Airtel and Idea, as they have growth in operating profit ratios. The effective downfall was recorded for BSNL during the year.

During 2008, Reliance communication had a swift jump which stands first with operating profit ratio of 31.83; it has a growth of 14.35% in profitability. Second position was acquired by Airtel communication with operating profit ratio of 22.74, but compare to last year it had computed decreased in its growth of operating profit ratio with 1.49%. BSNL stand on third position with operating profit ratio of 21.02, it has decreased 0.93% of total profitability compare to last year. TATA communication found in increasing order with operating profit ratio of 13.63, the company had a growing structure in profitability of 3.5% compare to last year. Idea stands fifth in compare to other telecom companies, it had operating profit ratio of 10.15 which had a downfall of 5.39% during this year compared to last year. Vodafone was listing second last and before MTNL. The operating profit ratio of company was computed as 7.51 compare to last assessment year the profitability of company reduced with 11.26%, which was the highest decreased situation in telecom sector for the year 2008. MTNL stands last during this year with operating profit ratio of 4.75, it had also decreased value of 7.67% during the year. The financial year 2008, was graceful only for

Reliance communication and TATA communication. Other five companies were did loss in profitability.

During 2009, Airtel stands first with operating profit ratio of 26.47; this year company put efforts to gain profitability in net income and total sales. The success for this year of company was recorded with hick of 3.73% compare to last year. BSNL stood second with operating profit ratio of 20.53, but the unit was again computed in loss of 0.49% of total profitability compare to 2008 financial statements. Vodafone puts good efforts to raise the ratio than last year. For this year Vodafone stood third with operating profit ratio of 19.44, it increased with 11.93%, the company covers what it had loosed in 2008 during this year. TATA communication again steadily grew up its operating profit ratio and stood fourth among telecom sector. The operating profit ratio of company recorded was 15.01; it was increased 1.38% compare to last year. The Idea stood fifth in rank with operating profit ratio of 9.03, compare to last year it decreased profitability with 1.12% in 2009. It was a remarkable time for Reliance communication as it stood on sixth position and had a great downfall in total abundance of 28.30% for the year 2009. It was a biggest disgrace next to MTNL. During 2009, MTNL was in a difficult position. It was computed last in selected telecom companies. The operating profit ratio computed negative as -71.38, shows that the MTNL was in a great loss.

The financial year 2010 was the most defeated year for telecom industry. During this year all the selected companies under the study were in a great loss compare to last years. During the year, Airtel stood first with operating profit ratio of 20.29, compare to last year it was in decreasing position, it had decreased rate of 6.18% compare to last year. Vodafone stood second with operating profit ratio of 17.37; it decreased of 2.07% than last year.

BSNL stood on third position with operating profit ratio of 11.7 shows decreasing scenario of 8.83% in total profitability. Idea stood on forth position compare to last year it moves a rank step behind in operating profit ratio of company for this year. The operating profit ratio of company for this year was recorded as 5.5, the profitability of company reduced with 3.53% during this year.

Financial year 2013 was much fruitful for telecom industry. Particularly for this year MTNL and Vodafone changes their history of last eight years. MTNL had a dramatic changes in operating profit ratio value first time and was recorded highest in telecom segment with operating profit ratio of 230.71. MTNL stood first during the year.

Vodafone also initiated in augmentation progress and was stood second with operating profit ratio of 154.52. These two companies had a high growth in financial statements during the year. Other companies had a steady growth. Airtel stood with third rank having operating profit ratio of 13.22, compare to last year it has increased its value in operating profit ratio of 1.99%. Tata grew with 1.63%, the operating profit ratio of the company for this year was 12.39 and rated fourth in position. Reliance communication grew little with 1%, with actual value

of operating profit ratio of 6.53. Idea improved with 2.75% growth in operating profit ratio, the real value of operating profit ratio was computed as 6.46. Among all the seven companies under study BSNL was in a loss of -22.16 of computed operating profit ratio and stood last in position.

In 2014, Airtel computed of operating profit ratio of 23.78 and stand first amid all selected companies under the study. It has a growth of 10.56% in financial statement of the company. Vodafone stood second with 13.64 of operating profit ratio. Tata communication stood third with increased value of 15.61 of operating profit ratio, with increased rate of 3.22% during the year. Idea defined on fourth position as per the financial ratio operating profit ratio computed for company was recorded as 8.98, which showed growth of 2.52% in year.

Reliance communication was in loss, as the financial statement for operating profit ratio shows negative value, the firm was in loss during year. BSNL stood on sixth position; it had a little growth in balance sheet during the year. For this year company was doing loss due to that it had again operating profit ratio value of -10.69 in financial statement. MTNL had again a great downfall in financial updates. The company was doing loss and operating profit ratio had computed as -85.09 at the end of the year.

The overall performances of the companies till end of 2014 were derived that operating profit ratio was computed in fluctuating from. The trend of the last ten years of study was not much graceful to the companies of telecom sector. Among all the companies Airtel and Tata have a little and stable growth in telecom sector.

BSNL and MTNL are doing constant losses. Idea is still fight to make place in market. Reliance communication and Vodafone were recorded in decreasing order according to the financial statements. The net operating income of companies is continuously fluctuated and due to that the sector cannot maintain the target sales and that cause high variability if operating profit ratio calculations.

After 2006 the telecom sector was alien in high competition that may one of the reasons for uncertain variation in operating profit ratio values. It can be also stated here that both the operations operated by government (BSNL and MTNL) are doing loss for last many years. Other side the private operators have covered the market promptly.

Table 1.2 presents sample statistics for operating profit ratio for selected companies for 10 year. Overall performance of Vodafone is computed healthier. Second position is acquired by Airtel in case of operating profit ratio it clears the companies have stable net operating income and sales from market. Tata stood on third rank in market with average of 11.10 for all the ten years record. MTNL is continuously doing loss and that cause to negative average of -23.7.

The highest fluctuations are computed for MTNL, as the table shows high standard deviation of 108.09 and mean standard error of 34.18. It shows that company must reform their operating strategies. The same is applicable to Vodafone,

as the mean statistics of company is computed healthier, but year wise stability in operating profit ratio is too poor.

BSNL required to check the reasons as it was working on steady ground initially and for last three years the financial

record goes down that cause higher variability in financial transactions. Other than the discussed companies Airtel, Idea and Tata have steady growth in case of operating profit ratio.

Table 1.2 One-Sample Statistics for Operating Profit Ratio

Companies	N	Mean	Std. Deviation	Std. Error Mean
Airtel	10	19.65	5.31821	1.68177
BSNL	10	7.70	16.385	5.181
IDEA	10	8.00	3.830	1.211
MTNL	10	-23.7	108.095	34.183
RELIANCE	10	7.90	11.493	3.635
TATA	10	11.10	4.149	1.312
VODAFONE	10	23.10	47.697	15.083

Table 1.3 One-Sample Tests for Operating Profit Ratio

Companies	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Airtel	11.68	9	0.000	19.654	15.84	23.45
BSNL	1.48	9	0.171	7.7	-4.02	19.42
IDEA	6.60	9	0.000	8.0	5.26	10.74
MTNL	0.69	9	0.506	-23.7	-101.03	53.63
RELIANCE	2.17	9	0.058	7.9	-.32	16.12
TATA	8.46	9	0.000	11.1	8.13	14.07
VODAFONE	1.53	9	0.160	23.1	-11.02	57.22

To understand the future consequences the researcher would like to study the inferential scenario of the companies. The further computation has been made based on hypothesis. The null hypothesis is derived that there is no significance difference in operating profit ratio for the selected telecom companies. The results are tested by using t – test and are presented in table 1.3.

The t – statistics for each of the company determines for one sample test. The values of t- statistics are significant at 5% level for Airtel, Idea and Tata.

These all three companies have equal fluctuations in terms of operating profit ratio. BSNL, MTNL, Reliance and Vodafone are recorded in equal formation of operating profit ratio. The table 1.3 clears that for net operating income and sales Airtel, Idea and Tata maintain the financial statements; other companies are required to preserve the balance for future growth.

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