

# **A Study on Financial Health of Telecom Companies in India**

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## **Abstract**

*Telecommunication provides technological base for social communication which means communication between business, government, families, individuals etc. It also helps people to stay connected with their community by developing and participation. Telecommunication connects different regions and nations, telecom industry is a major part of contribution to the economy of the country.*

*The Indian Telecom industry contributes 14.5 lacs crores to the economy at large and also supports employment generation for five million people by providing direct and indirect job opportunities whereas telecom industry estimates growth in contribution upto 8.2% to GDP of the nation for year 2020*

*Telecom consumers think of telecommunications in terms of both products and services. In modern times it has become common need for consumers to buy telecommunications devices as products as well as services. For example, a customer may subscribe at first the Wi-Fi or internet service package and later may install LAN for further internet facility.*

*Keywords- Telecommunication companies, financial health and financial challenges*

## **Introduction**

The Telecommunications Industry of India is significant industries in the world linking different parts of the country through various modes like telephone, radio, television, satellite and internet. The Telecom Regulatory Authority of India governs this industry by providing a regulatory framework and suitable environment for its efficient operation. The Indian telecom industry stands as the second- largest in the world due to its rapid advancement and is in cut-throat competition with the telecom industries of the other developed countries. The telecommunication services offered by this industry are easily accessible at affordable prices to the customers of urban and rural areas of India. India's telecom network encompasses a highly developed and unique technology in the world. The present study has therefore been undertaken to study financial performance of Indian Telecom Industry while emphasizing upon its major segments, the Government Telecom policies followed for its systematic functioning and its growth and development in the present scenario along with the future opportunities for advancement.

The Indian Telecom sector act as a vital tool for the development and growth of the country and for the development of different sectors of the nation. The telecom sector of India earns profits for contribution to Indian Government and also provides direct and indirect employment creation for millions of people of India. Telecom industry is providing product as well as services to the customers as such it contributed revenue of USD 33,500 as a whole including Indian and foreign units. The Government of India has adopted several measures to provide a business friendly environment for companies in the Indian Telecom market while competing with each other. Due to the rapid advancement in technologies, the telecom operators of India are concentrating on the updating and satisfying need of business, banks, individual, and other market sectors. Indian telecom sector have highest numbers of internet users in the world.

Objectives of study-

1. To study financial performance of telecom sector
2. To study challenges faced in terms of liquidity by telecom sector

3. To study financial growth and development with respect to changing AGR decisions and its impact on telecommunication companies

## Research Methodology

The study will be undertaken on the basis of secondary data for three telecom companies namely Reliance Jio, Vodafone Idea, Airtel etc. based on last five years financial performance and the present AGR issues and challenges and measures to solve them.

Hypothesis of the study-

On the basis of information to be collected some null hypothesis can be estimated like –

1.  $H_{01}$  – There is no significant changes in operating revenues of the selected telecom companies
2.  $H_{02}$  – There is no significant changes in gross revenue of the selected telecom companies
3.  $H_{03}$  – There is no significant changes in operating profit of the selected telecom companies
4.  $H_{04}$  – There is no significant changes in overall financial performance of selected telecom companies

## Review of Literature

1. Andrea Pannone, 2001, Issue-2, Vol-10, pg no. 453-480, in their Industrial and corporate change publication –

“Accounting and pricing for telecommunication industry, an operational approach” the said publication makes us understand the contradictory approach of problems arising during production and cost analysis models as such models are incapable of solving specific issues related to network services activities on one side and on other side it also it leads to incorporating tools to organize and keep accounting records for performing production activities. The paper considers telecommunication network connection cost and pricing along with investment strategies which are guiding tool for accounting policy of price determination. Study also reveals different models like MAPA model, model of new accounting system for telecommunication activity to improve yields by identifying production capacity and increasing it.

Conclusion-

Study is useful for highlighting the concept of pricing and accounting quality improvement as such most significant part which was acknowledge by policy makers that prices charged for services are not valid for present telecommunication context

2. The Hindu – Press media communication report- New delhi – page no. 15- 8/9/15 interview with CMD of bsnl Mr. Anupam Srivastava-

The publication released from public relation cell BSNL company as per this study BSNL aims to increase the revenue by 50% as compared to present i.e 28000 crores in 2014-2015 as such in 2018-19 it was expected to 42000 crores increase in revenue as such BSNL pays 15000 cr of revenue as salaries to staff and 11000-12000 cr as for maintainence of network (landline and mobile) and for core equipment.

Conclusion- It was concluded from the interview that landline connection will go down and same will be compensated with broadband connections in future which may results in increase in revenue upto 40000 crores.

3. Megha Gaste & Prof. Vanishri R. Hundekar- IRJET journal-volume-04, Issue-11, Nov-17 page no. 1390,”Financial performance of telecom companies”

The study was based on comparision of effectiveness of capital employed and to know financial performance of telecom companies, the BSNL, Vodafone and bharti airtel were selected and financial status for period of 2013-14, 2014-15, 2015-16 were analysed with reference to return on capital employed (ROCE) and profitability.

Conclusion- It was concluded that ROCE has declined for BSNL company from 18.6% to 7.86% in 2015-2016 and Vodafone and bharti airtel was on growth phase. It was observed highest profit and highest ROCE of Bharti airtel as compared to BSNL company so to improve such variations BSNL needs to introduce new technology and understand change in need of customer expectations in future so as to maintain profitability and returns on capital employed.

4. Yosuf mohammed nulla- International business school Suzhou at xjtlu-IBBS working papers Issue - 4 – may 2014 – “IFRS impact on accounting quality in telecommunications industry”  
The study was presented for accounting quality and adoption of IFRS norms with the help of regression model in two approach i.e. statement of financial position (balancesheet and statement of operation and comparison was observed between pre- IFRS to IFRS transition phase for understanding accounting quality and its application of different variable like EPS, market price , earning persistency etc.

Conclusion – It was observed that results were consistent with both approach as such forecast accuracy improves for liquidity and learning overall accounting quality has been affected in both way positive and negative.

5. Rudradeep Biswas- Telecom talk news- 29 december 2010, “CDMA in India- past, present and future”-The study was based on article relevant to CDMA losing its ground in telecom market, as such CDMA had great fall when leading phone makers like nokia and sony Ericson were charged more rates and apart ffrom this CDMA was not able to provide network upgradation and more over emphasis were given for data services rather than voice services.

Conclusion- The competition increased between GSM and CDMA users as such in September 2010, the reliance CDMA users were only 37.73% and of Tata indicom were only 18% which were great set back to cdma phone manufacturer in India.

6. Dr. Syed Khaja safiuddin & Mahmad Mushtaq khan – ALJRRLSJM Journal- volume -1, Issue -8 (2016 september)- “Liquidity and profitability performance analysis of selected telecom companies”  
The study was done to know about liquidity performance and profitability performance of two selected telecom companies i.e. Bharti airtel and Vodafone India with the variables influencing their financial statement for 5 years and data collected was statistically analysed with the help of liquidity ratios, profitability ratio like return on assests, return on equity.

Conclusion – It was observed that current ratio of Vodafone limited was 69% in 2015 whereas of bharti airtel was 38% which was comparatively lower than Vodafone limited. Vodafone limited was better in terms of liquidity, profitability and equity ratio than bharti airtel limited.

7. Carlos camps and Antonio oriol-management solution Journal -2016 page no. 21 &22 – “Telecommunications operators in the new digital era ” - The study reveals financial restrictions with reference to weak revenue performance, value of core and non-core assets and also to improve investment profitability, associated with maintainence cost as well as maximizing cash flow operation.

Conclusion- The study shows European operators lost upto 12 billion from year 2008-2012, and EBITDA margins 3percentage point whereas Google and Microsoft took 35% of business from the world telecommunication operators in 2015.

8. Andy Mukherjee- Economic times- Bloomberg, November 13, 2019 –“India Imperils foreign investment with telecom cash grab” The government and private telecom enterprises have develop rift based on decision on AGR for telecommunication companies as such Vodafone idea accounts for 14 billion as net debt, the AGR settlement decision had worsen the financial grounds of Telco’s companies, it may also result in liquidation of Vodafone limited in India to set-off loans to Indian banks.

Conclusion- The article highlights on losing control by Vodafone and birla with huge losses to government revenue upto 1.7 billion in annual spectrum revenues and also to banks upto 4 billions for loans settlement

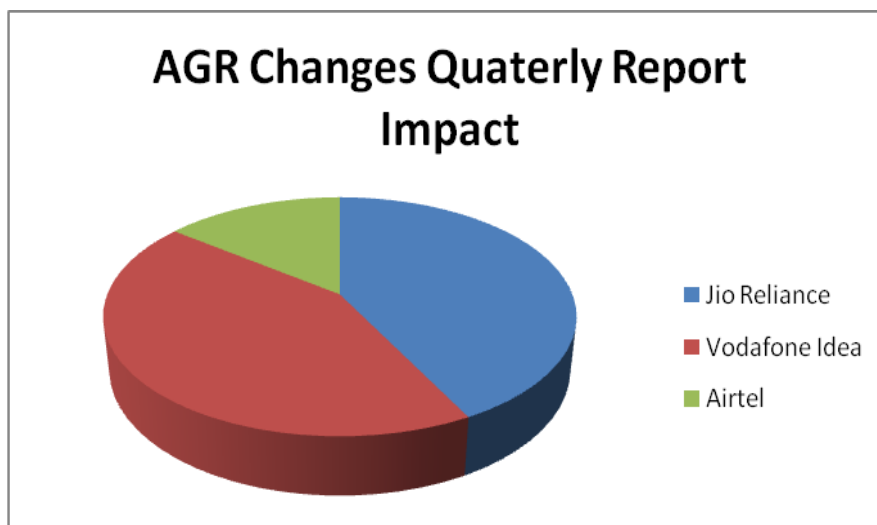
9. Kalyan parbat and gulveen Aulakh – Economic times – telecom policy – October 25, 2019- “Supreme court judgement on AGR could pave the way for two telecom companies in telecom market” The decision of supreme court judgement supporting the government decision of Adjusted Gross Revenue (AGR) .i.e reliance jio and bharti airtel. According Department of Telecommunication Airtel owes Rs. 21682.13 crore as license fees (including penalties and interest) Vodafone owes 28308.73 crore whereas JIO is well placed in competition to capitalize the competitors weakness and also have 5G spectrum auction advantage.

Conclusion- Supreme court has not laid down any deadline for payment of dues and hopefully government may provide some relief and whereas if government continues with present AGR decision of supreme court than it would clearly signal the advent of two player market which would include Airtel and Jio.

**Analysis and Interpretation of data-**

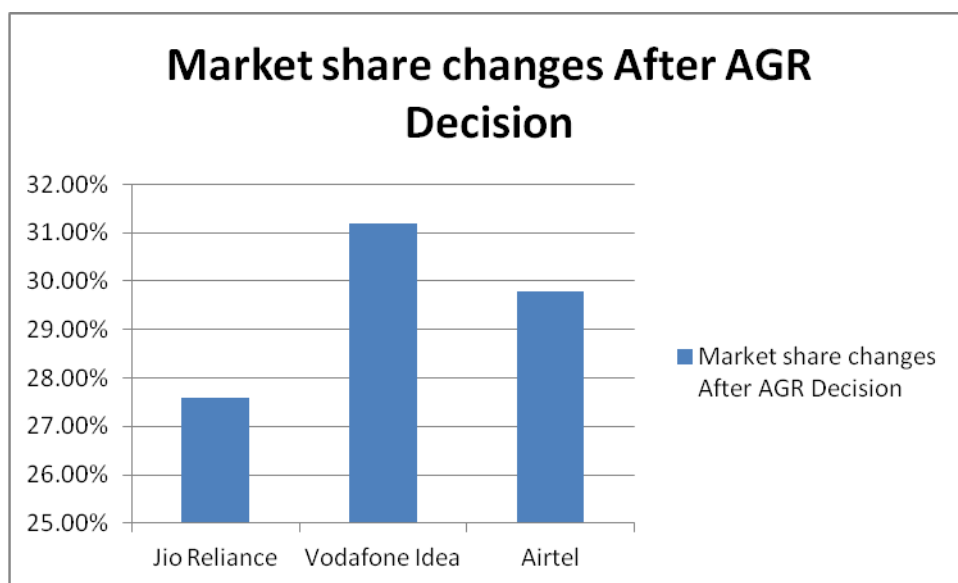
**1. Financial performance after AGR decision and its impact-**

Telecom companies	AGR changes (Rs. In crore)	
Jio Reliance	6.75%	Rs. 11528.95
Vodafone Idea	6.86%	(Rs. 6260.22)
Airtel	2.32%	(Rs. 7295.03)



**2. Changes in Market share after changes in AGR decision in second quarter**

Telecom companies	Market share changes After AGR Decision
Jio Reliance	27.60%
Vodafone Idea	31.20%
Airtel	29.79%



**Ratio Analysis-**

(fig.in crore)

Particulars	Vodafone Idea	Airtel	Reliance Jio
<b>Operating Ratio's</b>			
Earning per share	-20.33	-4.58	55.48
Dividend per share	0.00	2.50	6.50
Net operating revenue ratio	0.43	4.37	2.33
<b>Profitability Ratio</b>			
Return on equity	-22.13	-1.85	4.53
Return on capital employed	-5.27	-1.56	9.95
Return on assets	-6.03	0.82	4.53
<b>Efficiency Ratio's</b>			
Assets turnover ratio	15.81	22.27	47.82
Inventory turnover ratio	0.00	49.60	8.40
<b>Leveraging Ratio's</b>			
Debt-equity ratio	1.71	0.85	0.39
<b>Liquidity Ratio's</b>			
Current ratio	0.36	0.34	0.76
Quick ratio	0.36	0.34	0.54

Source- Dion Global Solutions Limited (2019)

**Interpretation-**

1. The above table highlights the comparative analysis of three telecom companies financial key ratios i.e. of Vodafone idea, Airtel, Reliance Jio for the year ended 2019.
2. The profitability and liquidity ratio analysis of reliance jio company are comparatively showing positive trends as 4.53 crores as returns on equity and on assets, 9.95 crores as return on capital employed respectively
3. Reliance jio has tremendously captured market with efficiency of 8.40 and 47.82 for inventory sales and assets turnover ratio's respectively

4. The Telecom industry recorded fall in revenue earnings in second quarter i.e 4.6% in adjusted gross revenue in July –September 2019
5. The gross revenue for telecom sector including revenue for interest, dividend and other revenue from service providing declined by 2.15% that is upto Rs. 59,992 Crore for quarter ending September 2019.
6. Reliance Jio has shown positive trend in AGR in second quarter i.e increase by 6.75% that is upto Rs. 11528 crores by revenue from different licensed services.
7. The Airtel and Vodafone Idea has observed downfall by 2.32% and 6.86% for second quarter
8. The market share and its earnings has shown a lot variations like Vodafone Idea market share stands 31.20% even after losing 11 million subscribers during September due to rise in price of voice calling and other services packages
9. The otherside of changes in AGR impact shows new addition of subscribers for Airtel and Reliance Jio as such 29.79% and 27.60% adding net 5million subscribers and 25 million subscribers respectively
10. The overall telecom sector has fallen to Rs. 37338 crore during second quarter ending in July 2019
11. The monthly average revenue for telecom companies has shown declining trend that is from Rs80.66 to Rs.78.17 per user per month in second quarter ending 2019
12. The impact of variations in AGR is also seen on already bankrupt telecom companies like Videocon telecommunications which are processing their insolvency proceedings had been burdened heavily by additional debts for payment of license fees, spectrum charges pending, interest and other penalties etc.
13. The tough competition had created the pressure in recent years in average revenue per user resulting in decline of Rs. 169 in first quarter of 2017 and further downfall upto Rs.124 in first quarter in 2020 that is AGR falling from Rs. 44570 crores to Rs. 28650 crores respectively
14. The overall high operating leverage of telecom companies results in decline on profitability and cash flows, which accounts for 35-40% of tariff hikes may positively increase the cash flow generation and ARPU levels in future

## Conclusion

1. The telecommunication sectors in India is a major market for its enterprise business and also for its 4G and expected 5G services deployment in the retail telecom markets.
2. Indian telecom market consists of more than 7millions radio implementations along with telco services providers, whereas telecom companies in collaboration with state owned BSNL company is about to implement industrial automation based on 4G and 5G technology helping in improving operational efficiency of the industries
3. The future of 5G technology along with artificial intelligence is going to be great as every area of commerce and culture will be supporting connection with telecom's 5G technologies over more than 50 networks world-wide. Improving digital health in every walk of life of companies, individual's, firms, organisation etc. belonging from different fields.
4. Vodafone idea board has taken decision for payment of AGR dues as such right issue of shares of Rs. 25000 crores for payment of Rs.2826.1 crores AGR dues.
5. DOT Department of telecommunication has now granted 2 years moratorium on deferred payment of liabilities.
6. The study also helps in understanding the deffered government grants allotted and its usage by telecom companies
7. The study provides knowledge and also aware about future AGR position of the different teleccompanies and the impact of it on their growth policie

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