

## COMPARISON OF BSNL WITH OTHER TELECOM INDUSTRIES

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### ABSTRACT

*India's telecom sector has shown massive upsurge in the recent years in all respects of industrial growth. From the status of state monopoly with very limited growth, it has grown in to the level of an industry. Telephone, whether fixed landline or mobile, is an essential necessity for the people of India. This changing phase was possible with the economic development that followed the process of structuring the economy in the capitalistic pattern. The stupendous growth of the telecommunication companies in India over the last fifteen years can be attributed to the liberal government of India, economic policy. The economic renaissance affected in the early 1990s brought around a paradigm shift on the overall business scenario of India. The telecommunication companies in India went through a huge make-over during the implementation of the open-market policy of India. In this research paper, special emphasis has been laid over the comparative analysis of major telecom companies with BSNL by using secondary sources of data. For the completion of efficient research work, descriptive and exploratory research design has been used which further conclude that BSNL is having very weak financial position as compared to Bharti Airtel and Idea Cellular. Trends of previous 5 years have shown that company has slowly deteriorated its position i.e. from the leader to loser. If the same trend continues in the next few years than we can see death of this giant company.*

**Keywords:** *Capital employed, Descriptive research design, Exploratory research design, Ratio analysis, Secondary data.*

### INTRODUCTION

**Bharat Sanchar Nigam Limited** (abbreviated **BSNL**) is a state-owned telecommunications company headquartered in New Delhi, India. BSNL is one of the largest cellular service provider, with over 66.88 million customers as of June 2010 and the largest

land line telephone provider in India. Its headquarters is located at Bharat Sanchar Bhawan, Harish Chandra Mathur Lane, Janpath, New Delhi. It has the status of *Miniratna*, a status assigned only to reputed Central Public Sector Enterprises in India.

BSNL is India's oldest and largest Communication Service Provider (CSP). Currently it has a customer base of 90 million as of June 2008. It has footprints throughout India except for the metropolitan cities of Mumbai and New Delhi which are managed by Mahanagar Telephone Nigam Limited (MTNL). As of June 30, 2010 BSNL commanded a customer base of 27.45 million Wire line and 72.69 million Wire line subscribers

## CHALLENGES

During the financial year 2008-2009 (from April 1, 2009 to March 31, 2009) BSNL has added 8.1 million new customers in various telephone services taking its customer base to 75.9 million. BSNL's nearest competitor Bharti Airtel is standing at a customer base of 62.3 million. However, despite impressive growth shown by BSNL in recent times, the Fixed line customer base of BSNL is declining. In order to woo back its fixed-line customers BSNL has brought down long distance calling rate under One India plan, however, the success of the scheme is not known. However, BSNL faces bleak fiscal 2009-2010 as users flee

Presently there is an intense competition in Indian Telecom sector and various Telco's are rolling out attractive schemes and are providing good customer services.

Access Deficit Charges (ADC, a levy being paid by the private operators to BSNL for provide service in non-lucrative areas especially rural areas) has been slashed by 20% by TRAI, w.e.f. April 1, 2009. The reduction in ADC may hit the bottom lines of BSNL.

BSNL has started 3G services in 290 cities and acquired more than 6 Lakh customers. It has planned to roll out 3G services in 760 cities across the country in 2010-11.

**Broadband services:** The shift in demand from voice to data has revolutionized the very nature of the network. BSNL is poised to cash on this opportunity and has planned for extensive expansion of the Broadband services. The Broadband customer base of 3.56 Million customers in March'2009 is planned to be increased to 16.00 million by March 2014. Now BSNL is the under top five telecom service provider company in India.

## OBJECTIVES OF THE STUDY

- To analyze the financial statements of past 5 years of BSNL and other major competitors in the telecom industry.
- To describe the trends of various financial factors of BSNL over past 5 years.
- To know the Financial Position of the company.
- To analyze Inter- Intra firm Comparison: Ratio Analysis provides the data for inter-firm comparison as well as intra firm comparison. Ratios highlight the factors associated with successful and unsuccessful firms. They also reveal attractiveness and unattractiveness of the firm in the industry, over-valued and under-valued firms.

## RESEARCH METHODOLOGY

Methodology is the basic framework and the approach that has to be followed to carry out the approach used to collect the data, the sources of primary data, i.e., from where and how it has been collected.

## RESEARCH DESIGN

In the present study descriptive and exploratory research is done. This research focuses on discovery of insights and relationships among various financial factors among various companies. Companies which are taken as a sample of Indian Telecom Industry is based on the market share. 2 from the Top five companies and 2 from the Bottom five companies (Ratings have been provided to 10 companies in the telecom industry according to their respective market share) have been considered for comparison with BSNL.

## DATA COLLECTION

Secondary data is taken and the sources of secondary data are

- (a) Authenticated company's website on Internet.
- (b) Annual reports provided by BSNL, Bharti Airtel and MTNL of financial year 2004-05, 2005-06, 2006-07, 2007-08, 2008-09.

## RATIO ANALYSIS

**Table 1 CURRENT RATIO**

Sr No.	TelecomPlayers	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1	AIRCEL.	1.29	1.34	1.34	1.35	1.35	<b>1.37</b>
2	BSNL	1.75	1.98	2.46	2.47	2.25	<b>2.63</b>
3	TATA TELECOM	1.84	1.19	1.08	1.44	1.31	<b>1.13</b>
4	BHARTI AIRTEL	0.47	0.44	0.47	0.57	0.69	<b>0.70</b>
5	IDEA CELLULAR	2.45	0.74	0.87	0.43	0.36	<b>0.21</b>

**IDEAL RATIO = 2:1**

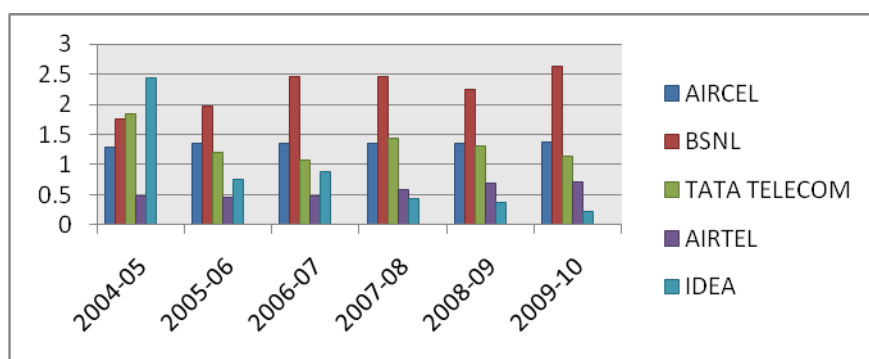


Figure 1

## INTERPRETATION

The two basic components of this ratio are current assets and current liabilities. Current assets include cash and those assets which can be easily converted into cash within a short period of time, generally, one year, such as marketable securities or readily realizable investments, bills receivables, sundry debtors, (excluding bad debts or provisions), inventories, work in progress, etc. Prepaid expenses should also be included in current assets because they represent payments made in advance which will not have to be paid in near future.

Current liabilities are those obligations which are payable within a short period of time generally one year and include outstanding expenses, bills payable, sundry creditors, bank overdraft, accrued expenses, short term advances, income tax payable, dividend payable, etc.

A relatively high current ratio is an indication that the firm is liquid and has the ability to pay its current obligations in time and when they become due. On the other hand, a relatively low current ratio represents that the liquidity position of the firm is not good and the firm shall not be able to pay its current liabilities in time without facing difficulties. An increase in the current ratio represents improvement in the liquidity position of the firm while a decrease in the current ratio represents that there has been deterioration in the liquidity position of the firm. A ratio equal to or near 2:1 is considered as a standard or normal or satisfactory. The idea of having doubled the current assets as compared to current liabilities is to provide for the delays and losses in the realization of current assets. However, the rule of 2:1 should not be blindly used while making interpretation of the ratio. Firms having less than 2 : 1 ratio may be having a better liquidity than even firms having more than 2 : 1 ratio. This is because of the reason that current ratio measures the quantity of the current assets and not the quality of the current assets. If a firm's current assets include debtors which are not recoverable or stocks which are slow-moving or obsolete, the current ratio may be high but it does not represent a good liquidity position.

Current Ratio of BSNL is increasing for each subsequent year i.e. from 1.75 in year 2004-05 to 2.25 in 2008-09. Forecast on the basis of regression analysis for the year 2009-10 current ratio is 2.63. This indicates that the company can successfully pay off its debt while at the same time still have cash left over to continue operating. This is also because of slow nature of Debt collection which makes company less liquid than what it looks like in the trend.

The Current Ratio of AIRCEL and Tata Telecom is flatter over the subsequent year which means company is maintaining significant liquidity over the period of time. Their projected current ratio of the year 2009-10 is somewhat similar to the 2008-2009 i.e. 1.37 is projected for 2009-10 and 1.35 is the actual of 2008-09 for the AIRCEL.

Current Ratio of Bharti Airtel Ltd. is 0.69 for the year 2008-2009. This means that the company is having fewer assets to cover the liability and also the investors should be weary of the fact that the company cannot pay off its short-term debt if necessary

Current Ratio of IDEA is declining over the period of time i.e. 2.45 in the year 2004-05 to .36 for the year 2008-2009 and projected to be reduced till 0.21 for the year 2009-10. This means that the company is having fewer assets to cover the liability and also the investors should be weary of the fact that the company cannot pay off its short-term debt if necessary and hence company's liquidity position is very bad as compared to any other telecom operator.

#### CONCLUSION

From the above figure we can easily state that among all the telecom operator BSNL is having highest current ratio and it represent that BSNL is having very good liquidity and can pay off their short term liability very easily as they are marinating huge cash reserves.

**Table 2 Earning Per Share**

Sr No.	TelecomPlayers	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1	AIRCEL.	15.05	9.21	7.4	6.46	5.45	<b>2.129</b>
2	BSNL	15.65	15.28	14.03	4.44	1.15	<b>1.08</b>
3	TATA TELECOM	26.54	16.83	16.44	10.68	18.1	<b>10.809</b>
4	BHARTI AIRTEL	6.53	10.62	21.27	32.9	40.79	<b>49.662</b>
5	IDEA CELLULAR	0.1	0.56	1.94	3.96	3.96	<b>5.44</b>

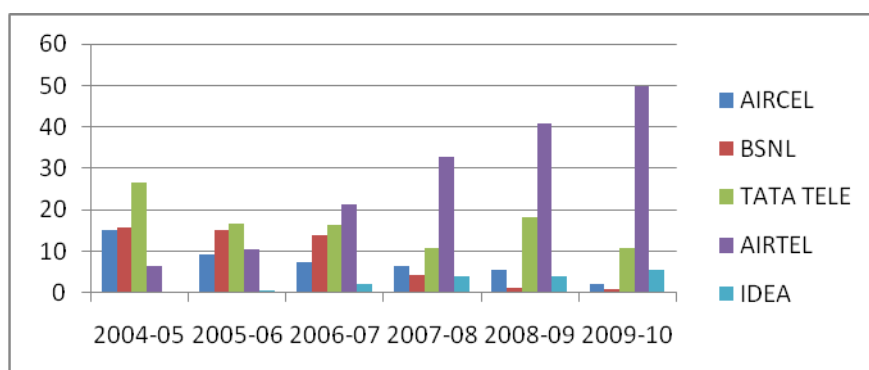


Figure 2

## INTERPRETATION

The earnings per share is a good measure of profitability and when compared with EPS of similar companies, it gives a view of the comparative earnings or earnings power of the firm. EPS ratio calculated for a number of years indicates whether or not the earning power of the company has increased.

EPS of majority of the company have been reduced significantly except Bharti Airtel and Idea Cellular. Earning per Share of BSNL have been reduced from 15.65 (2004-05) to 1.15 (2008-09) and projected from the regression analysis that it will reduce in 2009-10 to 1.08. This may be mainly because of decrease in income of services over the period of time. Decrease in income from services can be attributed to increase in competitive rivalry as various international players like Vodafone and Reliance came into the Indian market with improved technology and made tariff wars to attract the customers.

EPS of Bharti Airtel have been increased significantly over the years i.e. 6.53 (2004- 05) to 40.79 (2008-09) and projected to be 49.662(2009-10). This is because of improvement of technology by the company over the years as compared to other players like BSNL which made the company to capture the market share of these companies who doesn't go in tandem with the changing technology.

## CONCLUSION

From Earning per Share perspective Bharti Airtel is considered to be most attractive company as the company's earning potential have been increased irrespective of the increase in competition in the Indian telecom market.

**Table3 Debtor Turnover Ratio**

Sr No.	TelecomPlayers	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1	AIRCEL.	3.29	3.51	4.12	4.95	5.365	<b>5.924</b>
2	BSNL	5.03	5.73	6.2	5.92	6.41	<b>6.743</b>
3	TATA TELECOM	6.3	5.62	4.78	3.25	3.12	<b>1.995</b>
4	BHARTI AIRTEL	11.38	12.57	14.31	12.28	12.78	<b>13.417</b>
5	IDEA CELLULAR	17.74	20.01	35.89	38.28	47.355	<b>55.105</b>

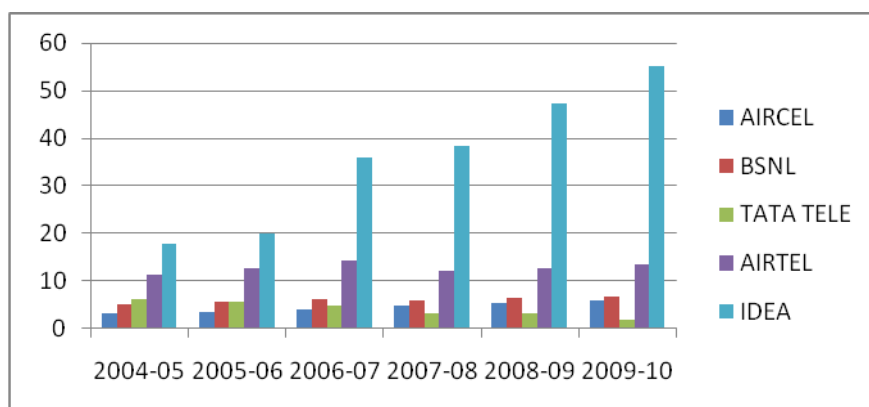


Figure 3

**INTERPRETATION**

A concern may sell goods on cash as well as on credit. Credit is one of the important elements of sales promotion. The volume of sales can be increased by following a liberal credit policy. The effect of a liberal credit policy may result in tying up substantial funds of a firm in the form of trade debtors (or receivables). Trade debtors are expected to be converted into cash within a short period of time and are included in current assets. Hence, the liquidity position of concern to pay its short term obligations in time depends upon the quality of its trade debtors.

Accounts receivable turnover ratio or debtor's turnover ratio indicates the number of times the debtors are turned over a year. The higher the value of debtor's turnover the more efficient is the management of debtors or more liquid the debtors are. Similarly, low debtors turnover ratio implies inefficient management of debtors or less liquid debtors. It is the reliable measure of the time of cash flow from credit sales. There is no rule of thumb which may be used as a norm to interpret the ratio as it may be different from firm to firm.

**Debtor Turnover Ratio of BSNL** is 6.41 for the year 2008-2009. So the debtor velocity is  $365/6.41$  which comes out as 56.94 days i.e. BSNL takes on an average 57 days to collect its money back from the debtors, which is again higher than the industry standards. Projected Debtor turnover for 2009-10 to improve and reach to 6.74 which mean on average 54 days to convert the debtors into cash.

**Debtor Turnover Ratio of Bharti Airtel Ltd.** is 12.78 for the year 2008-2009. So the debtor velocity is  $365/12.78$  which comes out as 28.56 days i.e. Bharti takes on an average 28 days to collect its money back from the debtors, which is again lower than as compared to the industry. Projected Debtor turnover ratio to improve and reach to 13.41 which mean 27 days to convert debtor into cash.

**Debtor Turnover Ratio of IDEA** is 47.33 for the year 2008-2009. So the debtor velocity is  $365/47.33$  which comes out as 7.71 days i.e. IDEA takes on an average 8 days to collect its money back from the debtors, which is a good sign for the company and highest amongst the industry. Projection for 2009-10 is 55.10 which means only 6 days are taken to convert debtors into cash.

**Debtor Turnover Ratio for Tata Telecom** is worse amongst the industry and its position to convert debtors into cash has been deteriorating over the years i.e. from 6.3 in 2004-05 to 3.12 in 2008-09 which means now they take 117 days to convert debtors into cash. So it is the sign of unattractiveness of the company.

**Debtor Turnover Ratio of AIRCEL** is- 5.36 for the year 2008-2009. So the debtor velocity is  $365/5.36$  which comes out as 68 days i.e. AIRCEL takes on an average 68 days to collect its money back from the debtors, which is again higher when compared to the industry standards of 57 days (BSNL).

### Conclusion

Among all the players of telecom industry Idea and Bharti both have good liquidity position because their ability to convert debtors into cash is better from any other player in the industry which also signifies that their risk of loss due to bad debt will becomes low. BSNL is maintaining very low debtor turnover ratio which can be because of liberal credit which they offer to their customers.

**Table 4 RETURNS ON CAPITAL EMPLOYED**

Sr No.	TelecomPlayers	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1	AIRCEL.	10.16	5.95	6.77	6.48	4.785	<b>3.763</b>
2	BSNL	10.09	9.94	9.05	4.97	1.46	<b>0.33</b>
3	TATA TELECOM	11.41	11.52	10.28	6.53	6.23	<b>4.589</b>
4	BHARTI AIRTEL	19.27	20.74	29.06	27.95	28.4	<b>32.725</b>



5	IDEA CELLULAR	7.52	10.44	14.96	16.92	20.64	<b>23.912</b>

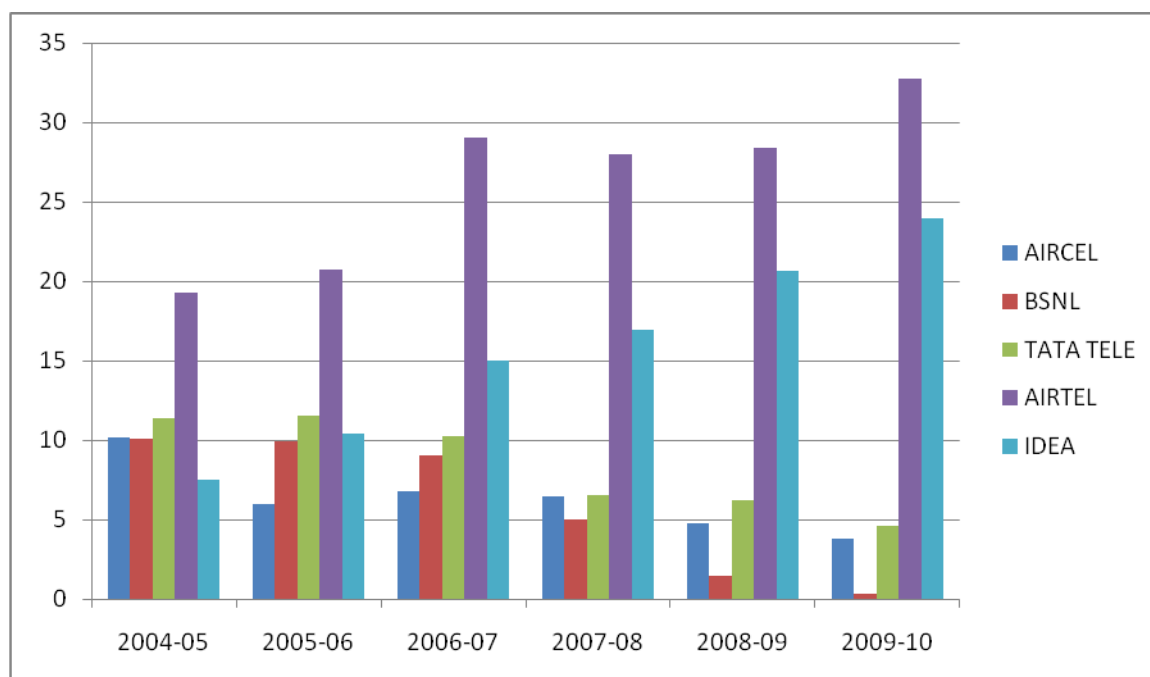


Figure 4

## INTERPRETATION

The prime objective of making investments in any business is to obtain satisfactory return on capital invested. Hence, the return on capital employed is used as a measure of success of a business in realizing this objective. Return on capital employed establishes the relationship between the profit and the capital employed. It indicates the percentage of return on capital employed in the business and it can be used to show the overall profitability and efficiency of the business. Return on capital employed ratio is considered to be the best measure of profitability in order to assess the overall performance of the business. It indicates how well the management has used the investment made by owners and creditors into the business. It is commonly used as a basis for various managerial decisions. As the primary objective of business is to earn profit, higher the return on capital employed, the more efficient the firm is in using its funds.

**Return on Capital Employed Ratio** of BSNL is 1.46 for the year 2008-2009, which indicate that the company is earning 1.46 percent return on the net capital employed by company that consists of fixed assets, investments and net working capital. ROCE of the company is deteriorating with each succeeding year because increase in number of competitor with each year which lead to decrease in market share in due to which income from services have been declining. Further more investments are required by the co. to acquire new technology like 3g

which will provide return in coming years. As the trend says the Return on capital will fall in the coming years and will be around .433 percent.

**Return on Capital Employed Ratio** of AIRCEL is 4.785 for the year 2008-2009, which indicate that the company is earning 4.8 percent return on the total capital employed that consists of fixed assets , investments and net working capital. Projected return on capital is even worse i.e. 3.76 for 2009-10

### Conclusion

Return on capital employed is one of the key ratios that determine the fate of the company in the future. Through the graphs we can easily see that most of the companies are having negative trend in the past years due to their inability to meet the competition and rapid changes in technological environment. Only few of the private players like Bharti and Idea have improved their return on capital and have positive trend in the returns over the past 5 years.

**Table5 Price Earning Ratio**

Sr No.	TelecomPlayers	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1	AIRCEL.	8%	5%	4%	3%	1%	<b>1%</b>
2	BSNL	-	59%	34%	8%	2%	<b>1%</b>
3	TATA TELECOM	13%	7%	7%	4%	7%	<b>3%</b>
4	BHARTI AIRTEL	26%	27%	35%	30%	28%	<b>31%</b>
5	IDEA CELLULAR	2%	18%	23%	29%	39%	<b>48%</b>

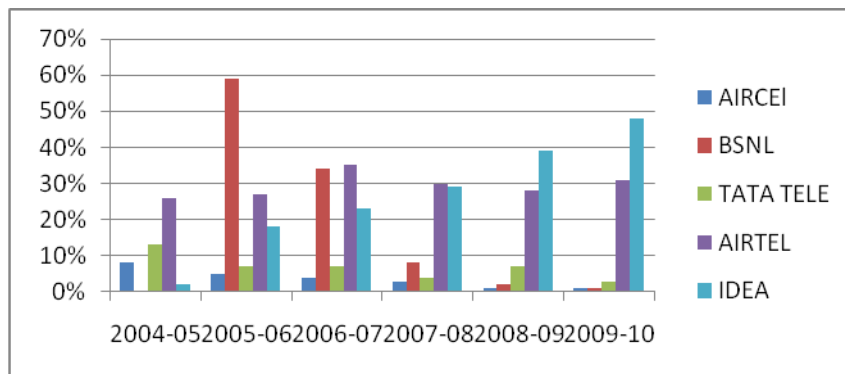


Figure 5

## INTERPRETATION

A valuation ratio of a company's current share price compared to its per-share earnings. Calculated as:

$$= \frac{\text{Market Value per Share}}{\text{Earnings per Share (EPS)}}$$

In general, a high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. However, the P/E ratio doesn't tell us the whole story by itself. It's usually more useful to compare the P/E ratios of one company to other companies in the same industry, to the market in general or against the company's own historical P/E. It would not be useful for investors using the P/E ratio as a basis for their investment to compare the P/E of a technology company (high P/E) to a utility company (low P/E) as each industry has much different growth prospects.

## Conclusion

From the figure 4.6 we can easily state that only expectation of investors of Bharti and Idea is growing i.e. the P/E ratio of Bharti Airtel and Idea is growing with each successive year but expectation from Idea is growing at increasing rate which means idea is one of the emerging leader in the industry and its expectations have been outperformed from the entire industry i.e. According to the projection of 2009-10 P/E of Bharti is 31% whereas Idea is 48%. P/E of BSNL was the highest in 2005-06 when it was the leader of the industry but as the time passes expectation of the investors have been declined and now it is only 8 % and projected to be only 5%.

**Table 6 NET PROFIT MARGIN RATIO**

Sr No.	TelecomPlayers	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1	AIRCEL.	16.1	9.7	8.5	7.7	3.9	1.26
2	BSNL	30.4	24.7	22.5	9.3	8	<b>-3.88</b>
3	TATA TELECOM	22.2	12.1	11.2	8.9	13.25	<b>7.2</b>
4	BHARTI AIRTEL	14.8	17.8	22.5	24	22.58	<b>26.864</b>
5	IDEA CELLULAR	1.6	6.2	11.4	15.3	20.2	<b>24.83</b>

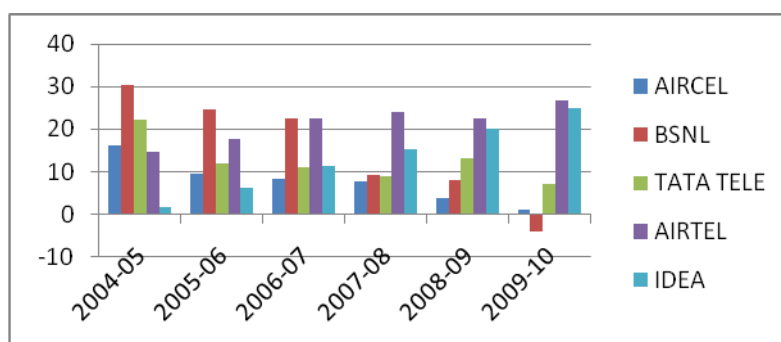


Figure 6

## INTERPRETATION

This ratio also indicates the firm's capacity to face adverse economic conditions such as price competition, low demand, etc. Obviously, higher the ratio the better is the profitability. But while interpreting the ratio it should be kept in minds that the performance of profits also be seen in relation to investments or capital of the firm and not only in relation to sales.

**Net Profit Ratio** of BSNL is 2 for the year 2008-2009, which is lower in comparison with the industry ratio. This shows that BSNL had to pay other indirect expenses which led to fall in the net profit. Through fig 4.8 we can also see that there is continuously negative trend from year 2004-05 to 2009-10. If this trend continues then according to my projection company would be in net loss in 2009-10 and the ratio would be around -3.88.

**Net Profit Ratio** of Bharti Airtel Ltd. is 22.58% for the year 2008-2009 which is higher in comparison with the industry ratio, so this goes to show the efficiency of the operation of the company. Company's trend line shows that company is earning greater profits in each

successive year which makes company attractive in the industry. If the trend continues than projected ratio for 2009-10 will be 26.86 % .

**Net Profit Ratio** of IDEA is 20.2 for the year 2008-2009 which is higher in comparison with the industry ratio. According to the previous five year trends this company is one of the fastest growing company and its profits are increasing at increasing rate as compared to Bharti Airtel. So projection for 2009-10 will be 24.83 through regression analysis.

**Net Profit Ratio** of AIRCEL is 3.9 for the year 2008-2009, which is lower in comparison with the industry ratio. It shows the inefficiency amongst the public sector undertaking. Profits of the company are decreasing at an increasing rate which shows that highly negative trend for the company and if it continues than projected ratio for 2009-10 will be 1.26.

## RECOMMENDATIONS

From the above finding and analysis various inferences can be drawn out which are as follows:

- BSNL is having highest current ratio which represents that BSNL is having very good liquidity position and can pay off their short term liability very easily as they are maintaining huge cash reserves.
- From Earning per Share perspective Bharti Airtel is considered to be most attractive company as the company's earning potential have been increased irrespective of the increase in competition in the Indian telecom market.
- Market leader of 2004-05 BSNL is having tough time because its market share as well as profit margins has been reduced over the period of time which leads to significant reduction in the earning power of the companies.
- Among all the players of telecom industry Idea and Bharti both have good debt collection power because their ability to convert debtors into cash is better from any other player in the industry which also signifies that their risk of loss due to bad debt is least. BSNL is maintaining very low debtor turnover ratio which can be because of liberal credit which they offer to their customers but it may prove dangerous to the company.
- Return on capital employed is one of the key ratios that determine the fate of the company in the future. Through the graphs we can easily see that most of the companies are having negative trend in the past years due to their inability to meet the competition and rapid changes in technological environment. Only few of the private players like Bharti and Idea have improved their return on capital and have positive trend in the returns over the past 5 years.
  - P/E of BSNL was the highest in 2005-06 when it was the leader of the industry but as the time passes expectation of the investors have been declined and now it is only 2 % and projected to be only 1%.

- Net profit ratio shows that Bharti Airtel ,Aircel and Idea cellular are having positive trend in past five years. Company's like BSNL have to work hard to break out their negative trend.

## CONCLUSION

From the above inferences it can be concluded that BSNL is having very weak financial position as compared to Bharti Airtel and Idea Cellular. Trends of previous 5 years have shown that company has slowly deteriorated his position i.e. from the leader to loser. If the same trend continues in the next few years than we can see death of this giant company.

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