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LIQUIDITY & PROFITABILITY PERFORMANCE ANALYSIS OF SELECTED TELECOM COMPANIES

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ABSTRACT

Liquidity and profitability are two very important and vital aspects of corporate business life. No firm can survive without liquidity. A firm not making profit may be considered as sick but, one having no liquidity may soon meet its downfall and ultimately die. Financial ratios are useful indicators to measure a company's performance and financial situation. The present study aims to analyze the liquidity and profitability performance of selected Indian telecom companies (Bharti Airtel, and Vodafone India)[1].

We know that a company's operating performance depends upon some key factors like turnover, profit, assets utilization, etc. and the variables which are found in profit and loss account and balance sheet of a company. Henceforth, considering the growth and prosperity of telecom market, the study aims to analyze the financial performance of selected telecom companies, in terms of liquidity and profitability. The study through empirical approach, may use ratios and indicators to measure the performance and identify the financial health status of the companies operating under one of the most dynamic sector in Indian economy.

Key words_ *Liquidity, Profitability, Performance.*

1, Leading telecom companies in India in terms of subscriber base(Wikipedia).

INTRODUCTION

The term 'Liquidity' refers to the ability of a firm to meet its short-term maturing obligations within one year. The Liquidity resources of a firm may be kept in various forms: cash in hand and cash at bank in current assets, reserve drawing power under a cash credit or overdraft arrangement and short term deposits. Cash balances in current account provide the highest degree of liquidity. A firm can maintain liquidity if it holds assets that could be shifted or sold quickly with minimum transaction cost and loss in value. The test of liquidity is the ability of the firm to meet its cash obligations when they are due and to exploit sudden opportunities in the market. Whenever one speaks of a firm's liquidity, one tries to measure firm's ability to meet expected and unexpected cash requirements, expand its assets, reduce its liabilities or cover any operating losses.

Profitability can be defined as the final measure of economic success achieved by a company in relation to the capital invested in it. This economic success is determined by the magnitude of the net profit. Profitability is the ability of a business to earn a profit. A profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue, such as producing a product, and other expenses related to the conduct of the business activities. Profitability is the primary goal of all business ventures. Without profitability the business will not survive in the long run. So measuring current and past profitability and projecting future profitability is very important.

Review of Literature

A non-systematic literature review was undertaken to identify the financial ratios included in articles in peer-reviewed journals, industry publications, and articles in magazines and newspaper.

To identify ratios in peer-reviewed articles, searches of academic databases using keywords such as "financial management", "profitability and liquidity" and "ratio analysis" were undertaken

Singh and Pandey (2008) In their research suggested that, for the successful working of any business organization, fixed and current assets play a vital role, and that the management of working capital is essential as it has a direct impact on profitability and liquidity. They studied the working capital components and found a significant impact of working capital management on profitability for Hindalco Industries Limited.

Chakraborty and Bandopadhyay (2007) In their research studied strategic working capital management, and its role in corporate strategy development, ultimately ensuring the survival of the firm. They also highlight how strategic current asset decisions and strategic current liabilities decisions had multi-dimensional impact on the performance of a company.

Raheman and Nasr (2007) In their study made an attempt to show the effect of different variables of working capital management including average collection period, inventory turnover in days, average payment period, cash conversion cycle, and current ratio on the net operating profitability of Pakistani firms. They selected a sample of 94 Pakistani firms listed on Karachi Stock Exchange for a period of six years from 1999 - 2004 and found a strong negative relationship between variables of working capital management and profitability of the firm. They found that as the cash conversion cycle increases, it leads to decreasing profitability of the firm and managers can create a positive value for the shareholders by reducing the cash conversion cycle to a possible minimum level.

Lazaridis and Tryfonidis (2006) They conducted a cross sectional study by using a sample of 131 firms listed on the Athens Stock Exchange for the period of 2001 - 2004 and found statistically significant relationship between profitability, measured through gross operating profit, and the cash conversion cycle and its components (accounts receivables, accounts payables, and inventory). Based on the results analysis of annual data by using correlation and regression tests, they suggest that managers can create profits for their companies by correctly handling the cash conversion cycle and by keeping each component of the conversion cycle (accounts receivables, accounts payables, and inventory) at an optimal level.

Eljelly (2004) In his study empirically examined the relationship between profitability and liquidity, as measured by current ratio and cash gap (cash conversion cycle) on a sample of 929 joint stock companies in Saudi Arabia. Using correlation and regression analysis, Eljelly found significant negative relationship between the firm's profitability and its liquidity level, as measured by current ratio. This relationship is more pronounced for firms with high current ratios and long cash conversion cycles. At the industry level, however, he found that the cash conversion cycle or the cash gap is of more importance as a measure of liquidity than current ratio that affects profitability. The firm size variable was also found to have significant effect on profitability at the industry level.

Ghosh and Maji, (2003) The study made an attempt to examine the efficiency of working capital management of the Indian cement companies during 1992 – 1993 to 2001 – 2002. For measuring the efficiency of working capital management, performance, utilization, and overall efficiency indices were calculated instead of using some common working capital management ratios. Setting industry norms as target-efficiency levels of the individual firms, this paper also tested the speed of achieving that target level of efficiency by an individual firm during the period of study. Findings of the study indicated that the Indian Cement Industry as a whole did not perform remarkably well during this period.

Research Gap

Most of the research studies carried out on liquidity and profitability performance analysis are confined to USA, Poland, Greece, Indonesia and European countries. In India very few studies have been carried out on liquidity and profitability performance analysis in Indian Telecommunication sector. Most of the studies carried out are in the manufacturing, IT and airline sector. In most of the studies the variable selected for measuring the profitability was ROA which is not the best measure of profitability, the best measure of profitability is ROE which is the main objective of any business.

Need for the study

The telecom sector in India is currently the second-largest telecommunication market and has the third highest number of internet users in the world. The present study aims to find the liquidity and profitability performance of selected group of telecom companies. The Indian mobile economy is growing rapidly and will contribute substantially to India's gross domestic product (GDP), according to report prepared by GSM Association (GSMA) in collaboration with the Boston Consulting Group (BCG). The industry has attracted FDI worth US$ 17.7 billion during the period April 2000 to September 2015, according to the data released by Department of Industrial Policy and Promotion (DIPP)[1].

India's telecommunications market is expected to experience further growth, fueled by increased non-voice revenues and higher penetration in rural market. Telecom penetration in the nation's rural market is expected to increase from 46.14 per cent as of December 2014 to 70 per cent by 2017. The emergence of an affluent middle class is triggering demand for the mobile and internet segments. But the competitive environment of the telecom companies is so tense that any telecom company that aims to survive must be fully aware of the consequences of its liquidity and profitability obligations as both variables can make or destroy its future. This study is largely centered on liquidity and profitability performance analysis in medium run. In order to answer these quires a deductive scientific approach was developed.

Indian Telecom Sector[2]

India is currently the world's second-largest telecommunications market and has registered strong growth in the past decade and half. The liberal and reformist policies of the Government of India have been instrumental along with strong consumer demand in the rapid growth in the Indian telecom sector. The government has enabled easy market access to telecom equipment and a fair and proactive regulatory framework that has ensured availability of telecom services to consumer at affordable prices. The deregulation of foreign direct investment (FDI) norms has made the sector one of the fastest growing and a top five employment opportunity generator in the country.

Market Size[3]

Driven by strong adoption of data consumption on handheld devices, the total mobile services market revenue in India is expected to touch US$ 37 billion in 2017, registering a Compound Annual Growth Rate (CAGR) of 5.2 per cent between 2014 and 2017, according to research firm IDC.

India's mobile subscriber base is expected to cross 500 million! subscribers by the end of FY2015 from 453 million subscribers at the end of FY2014.

According to a study by GSMA, smartphones are expected to account for two out of every three mobile connections globally by 2020 making India the fourth largest smartphone market.

The broadband services user-base in India is expected to grow to 250 million connections by 2017, according to GSMA. India added the highest number of net mobile phone subscriptions of 13 million during the third quarter of 2015.

International Data Corporation (IDC) predicts India to overtake US as the second-largest smartphone market globally by 2017 and to maintain high growth rate over the next few years as people switch to smartphones and gradually upgrade to 4G. In spite of only 5 per cent increase in mobile connections in 2015, overall expenditure on mobile services in India is expected to increase to US$ 21.4 billion in 2015, led by 15 per cent growth in data services expenditure, as per research firm Gartner.

The Indian telecom sector is expected to generate four million direct and indirect jobs over the next five years according to estimates by Randstad India. The employment opportunities are expected to be created due to combination of government's efforts to increase penetration in rural areas and the rapid increase in smartphone sales and rising internet usage.

Investment

With daily increasing subscriber base, there have been a lot of investments and developments in the sector. The industry has attracted FDI worth US$ 17.7 billion during the period April 2000 to September 2015, according to the data released by Department of Industrial Policy and Promotion (DIPP).

Some of the major developments in the recent past are:

- Vodacom SA, a subsidiary of Vodafone Plc, has entered into an agreement with Tata Communications Ltd to buy the fixed-line assets of TataComm's South African telecom subsidiary Neotel Pty Ltd.
- Bharti Airtel has planned to invest Rs 60,000 crore (US$ 9.02 billion) over a period of three years with a view to boost its telecom network capacity thereby improving the quality of voice and data services to its customers.
- Reliance Communications Ltd, India's fourth largest mobile services provider, has agreed to acquire Sistema Shyam TeleServices Ltd (SSTL), the local unit of Russian company Sistema JSFC, in a deal valued at Rs 4,500
- crore (US$ 687 million), which includes payments to the government for spectrum allotted to Sistema.
- Videocon Industries Ltd plans to set up a mobile handset assembly plant along with manufacturing set top boxes in Punjab for an investment of Rs 500 crore (US$ 76.7 million) over three years.
- American Tower Corporation, a New York Stock Exchange-listed mobile infrastructure firm, has acquired 51 per cent stake in telecom tower company Viom Networks in a deal worth Rs 7,635 crore (US$ 1.17 billion).
- Chinese smartphone maker OnePlus has announced its partnership with Foxconn, a Taiwanese company, for assembling its phones in Foxconn's factory in Andhra Pradesh.
- Swedish telecom equipment maker Ericsson has announced the introduction of a new radio system in the Indian market, which will provide the necessary infrastructure required by mobile companies in order to provide fifth-generation (5G) services in future.
- Out of the total number of smartphones shipped in India during the June 2015 quarter, 24.8 per cent were made locally - a significant rise as compared to 19.9 per cent in the previous quarter - as per Cyber Media Research firm.
- Global telecom equipment makers like Ericsson, Nokia Networks and Huawei are looking forward to over US$ 1 billion revenue opportunity as mobile phone operators in India roll out high-speed broadband services on the 4G LTE technology across the country.

- Lenovo Group of China has commenced manufacturing its smartphones in India, through its contract manufacturer Flex's facility near Chennai, thus becoming the largest Chinese company to follow 'Make in India' strategy.
- Foxconn, the world's largest contract-manufacturing firm for consumer electronics and manufacturer for Apple products, has signed a Memorandum of Understanding (MoU) with Maharashtra state government to invest US$ 5 billion over the next three years for setting up a manufacturing unit between Mumbai and Pune.

Government Initiatives

The government has fast-tracked reforms in the telecom sector and continues to be proactive in providing room for growth for telecom companies. Some of the other major initiatives taken by the government are as follows:

- The Telecom Regulatory Authority of India (TRAI) has directed the telecom companies or mobile operators to compensate the consumers in the event of dropped calls with a view to reduce the increasing number of dropped calls.
- With a view to encourage consolidation in the telecom sector, the Government of India has approved the rules for spectrum trading that will allow telecom companies to buy and sell rights to unused spectrum among themselves. The Union Cabinet chaired by the Prime Minister, Mr Narendra Modi, gave its approval to the guidelines on spectrum sharing, aimed to improve spectral efficiency and quality of service, based on the recommendations of the Telecom Regulatory Authority of India (TRAI).
- The Government of India plans to roll out free high-speed Wi-Fi in 2,500 cities and towns across the country over the next three years. The program entails an investment of up to Rs 7,000 crore (US$ 1.06 billion) and will be implemented by state-owned Bharat Sanchar Nigam Ltd (BSNL).

1, Sources http://www.ibef.org/industry/telecommunications.aspx

2, Sources http://www.ibef.org/industry/telecommunications.3, Cellular Operators Authority of India (COAI), Telecom Regulatory Authority of India (TRAI), Department of Telecommunication (DoT), Department of Industrial Policy and Promotion (DIPP).

Objectives of the Study

This research has the following objectives:

1) To study the liquidity performance of selected companies.
2) To study the profitability performance of selected companies.

Scope of the study

Scope of the study is confined to liquidity, profitability performance with reference to selected telecom companies in India. The study will be carried out for a period of 5 years from 20010/11 to 2015/16.

Limitations of the study

The study shall be carried out with the help of secondary data. The reliability of the results will be based on authenticity of the data collected. Secondary data is mainly accessed due to lack of access to primary data related to financials of the company.

Methodology

Financial management theories provide various indexes for measuring a company's performance. One of them is accounting ratios. The uses of the financial ratios are quite common in the literature. Company regulators, for example, use financial ratios to help evaluate a company's performance.

Data Set:

The data used in the present study was acquired from the annual reports of the top two telecom companies I.e. Bharti Airtel, and Vodafone India. The analysis is based on financial statements of the two Telecom companies of our economy.

Variables:

The present study carries out the issue of recognizing key variables that influence financial performance. All the variables stated below have been used to test the hypotheses of study.

Liquidity ratios

Static measurement of liquidity determines the relation between current assets and short-term liabilities. The ratios based on this relation are the relationship of various ranges of current assets with different liquidity levels to short-term liabilities. They reflect, thus, various degrees of financial liquidity of an enterprise. There are two basic ratios of financial liquidity.

Current ratio (CR) – III-degree liquidity ratio

$$CR = CA/CL$$

where:

CR – current ratio

CA – current assets

CL – Current liabilities

The current ratio is the most frequently used one. It offers a general view of the company liquidity and is a starting point of its analysis. It defines to what degree current assets cover short-term liabilities. It determines then potential ability of an enterprise to pay all its current liabilities through liquidizing possessed resources of current assets. The higher the value of the ratio, the higher this ability is.

Quick Ratio (QR) – II-degree liquidity ratio

$$QR = CA – I/CL$$

where:

QR – quick ratio

I – inventory

The least liquid element of current assets is inventory. To obtain the liquidity measure on the basis

of a group of assets which are easier to sell, we separate them from the current ratio. The quick

ratio shows to what degree short-term liabilities are covered with the most liquid current assets.

Profitability measurement

Assets profitability ratios are the relation of income net to total assets involved in company activities. They show what amount of financial result is generated by a cash unit of the assets.

Return on assets (ROA)

$$ROA = NI/TA \times 100$$

where:

ROA – return on assets

NI – net income

TA – total assets

Return on assets ratio is a basic measure of the profitability of all assets and reflects its earning power. The ratios of own equity profitability constitute a relation of the financial result to own equity, showing what amount of profit (loss) is generated by its monetary unit.

Return on equity (ROE)

$$ROE = NI/E \times 100$$

where:

ROE – return on equity

E – equity

The return on equity ratio is a key ratio in evaluating profitability. The difference between this ratio and the return on assets ratio in a rough approximation expresses the level of financial leverage.

Data Analysis

After concluding steps of the data collection statistical analysis of the data has been done by using mean.

Liquidity ratios:

CR = CA/CL

Year	Bharti Airtel	Vodafone
2011	0.53	0.50
2012	.23	0.63
2013	0.40	0.76
2014	0.44	0.99
2015	0.38	0.69
Mean	0.396	0.71

Sources www.moneycontrol.com & http://www.gurufocus.com/

The above table shows that over the course of five financial periods of study the mean of Current Ratio in Vodafone is higher than Bharti Airtel. This shows that Vodafone has sufficient current assets to meet short term operating needs, but even though we can't claim it as on good position as current ratio of 0.71 times is much lesser than the standardized degree and leads to risk of bankruptcy.

QR = CA – I/CL (Quick Ratio)

Year	Bharti Airtel	Vodafone
2010	0.92	0.48
2011	0.30	0.61
2012	0.30	0.86
2013	0.47	0.75
2014	0.39	0.97
2015	0.33	0.67
Mean	0.542	0.868

Sources www.moneycontrol.com & http://www.gurufocus.com/

The mean values of quick ratios are not same for the selected companies. The quick ratio shows to what degree short-term liabilities are covered with the most liquid current assets. From the table we can see Vodafone has higher quick ratio than Bharti Airtel. This means there is significant difference between the performance of selected telecom companies on the basis of Quick Ratio.

Profitability measurement

R O A = NI/TA × 100 (Return on assets)

Year	Bharti Airtel	Vodafone
2010	14.48	5.58
2011	5.44	5.17
2012	2.69	4.78
2013	1.41	0.30
2014	1.53	44.80
2015	2.50	4.71
Mean	5.61	13.06

Sources www.moneycontrol.com & http://financials.morningstar.com/

Return on assets as a basic measure of the profitability, we can see the performance of Vodafone is better than that of Bharti Airtel in terms of profitability.

R O E = NI/E × 100 (Return on equity)

Year	Bharti Airtel	Vodafone
2010	28.78	9.79
2011	14.25	8.96
2012	8.57	8.46
2013	4.51	0.58
2014	5.04	83.29
2015	8.52	8.41
Mean	13.93	23.89

http://financials.morningstar.com/

Being the key ratio in evaluating profitability, we can see the performance of Vodafone has improved and it has performed better than Bharti Airtel in terms of return on equity.

CONCLUSION:

Financial management has great importance in making management decisions. The financial soundness of a company can be achieved maintaining liquidity and profitability of the company. The purpose of this study was to measure the liquidity and profitability of the selected Telecom companies. While meeting its short term operational or working requirements whereas analysis of fixed assets and return on equity concentrates on long term performance. So now to conclude the current ratio of Vodafone is better than Bharti Airtel show that Vodafone is better in terms of liquidity. Vodafone has also performed better than Bharti Airtel in terms of quick ratio.

The profitability ratios show that return on assets is higher in Vodafone than that of Bharti Airtel which means former has higher rate of profits. And in terms of return on equity also Vodafone has performed far better than Bharti Airtel.

To conclude there is a vast difference in the performance of selected Telecom companies in terms of liquidity and profitability performance.

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