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Solvency Analysis of Selected Telecommunication Service Companies In India

Milan B. Undavia (Lecturer), M.COM; P.G.D.I.F.A

ABSTRACT *In this paper an attempt has been made to know the solvency position of selected Telecommunication service companies in India. The study covers top four telecommunication companies namely Bharti Airtel, Reliance Communication, Idea & Tata Tele. The purpose of this study is to analyze the financial performance in terms of solvency of the selected companies. To achieve these objectives, data has been collected for five years from 2011-2012 to 2015-2016 from secondary sources and for getting results various kind of accounting technique like ratio and statistical tools like average, Standard Deviation and Co-efficient of variation have been applied.*

KEYWORDS : Financial Performance, Solvency, Liquidity

Introduction of Telecommunication Industry in India

In the today's competitive world communication plays a very important role. India's telecom sector has shown massive upsurge in the recent years in all respects of industrial growth. 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.

Liquidity or Solvency position of a company may be analyzed on the basis of short term and long term solvency or liquidity. Liquidity or short term solvency means the ability of the enterprise to meet short term obligations as and when they become due. While long term solvency means the ability of the enterprise to meet long term obligations on the due date. Long term solvency implies the capacity of the company to pay off the claims of debenture holders, preference shareholders and other long term creditors. The study concentrates on to ascertain the debt repayment capacity of the selected Telecommunication companies of India.

Literature Review

Bhunia (2010) have conducted study on Tata Steel Ltd & Lloyds Steel Industries Ltd for a period of 9 years (1997-1998 to 2005-2006). The study revealed that the negative deviations were significant due to decrease in current assets and also a simultaneous increase in current liabilities in case of both the companies. The study also concluded that all deviations of current assets are mainly due to decrease in the inventories and receivables. It was also found that receivable management is not good enough in case of the entire selected companies under the study.

Bhunia (2011) have conducted the study on two public sector drug pharmaceutical enterprises listed on BSE namely – Karnataka Antibiotics & Pharmaceuticals Ltd. (KAPL) & Rajasthan

Drugs & Pharmaceuticals Ltd. (RDPL) for the period of 12 years from 1997-1998 to 2008-2009. The study revealed that liquidity position was strong in case of KAPL & it was so poor in case of RDPL and thereby reflecting the ability of the companies to pay short term obligations on due dates & they relied more on external funds in terms of long term borrowings thereby providing a lower degree of protection to the creditors.

Khan (2011) have conducted the study on four steel companies namely Tata Steel Ltd, Lloyds Steel Industries Ltd, Kalyani Steels Ltd. & JSW Steel Ltd. for the period from 1997 to 2006.The study is conducted to examine the overall efficiency of the management of liquidity in selected companies. Liquidity position is very unsatisfactory in case of all selected steel companies except KSL. To remove poor liquidity position, efforts should be made to reduce current liabilities in order to improve liquidity position. The inventory management is required to be progressed in case of all the selected steel companies by way of proper application of inventory control system such as EOQ, JIT & ABC Analysis etc.

Marimuthu (2012) have made an attempt to analyze the performance of textile industry by selecting 5 companies of Tamilnadu. For the purpose of analysis, researchers have used Ratio Analysis and various statistical techniques like Descriptive Statistics & ANOVA Test. The study finally revealed that KPRML was efficient in generating income, assets & its overall efficiency was good. The study also revealed that all these companies should concentrate on their liquidity position, receivables, payables particularly on working capital.

Goel (2012) has selected 5 FMCG companies namely HUL, Dabur India, Godrej Consumer, Marico and Colgate Palmolive for a period from 2006 to 2011 to measure the relative liquidity and solvency level in selected companies. The study found that there is no relationship between liquidity and solvency. He also found that the relatively low liquidity observed in firms was important to increasing profitability. It is also found that increased profitability from decreased solvency can be offset by increased solvency.

Panigrahi (2013) has tried to study on the liquidity position of 5 leading Indian Cement companies namely Ambuja Cement, ACC Ltd, India Cements, Madras Cements and Shree Cements for a period of 10 years viz 2000-2001 to 2009- 2010. The study found that liquidity position of small companies are better as compared to big ones and the growth rate of current ratio, quick ratio and working capital to current assets of all the companies are negative which indicates an unsound liquidity position. The study also revealed that low or negative working capital in some cases indicates the aggressive working capital management policy of the firms which implies minimum investment in current assets by the companies so as to derive a higher rate of return.

Objective of the Study

The main objective of the study is to know the liquidity and financial performance of selected Telecommunication Service companies in India.

Research Methodology

The study covers the period of five years from 2011-2012 to 2015-2016. Secondary data has been used to collect the data. In this study, in order to analyze the liquidity and solvency, various accounting ratios as well as various statistical tools such as Average, Standard Deviation and Co-efficient of variation have been used. The study has been made to analyze the liquidity position Of selected companies and to concentrate on the companies' capacity to repay the short – term debt as well as long term debt.

Analysis:

Following ratios have been computed for analyzing liquidity of Telecommunication Industry.

Current Ratio (CR) , Liquid Ratio (LR) , Debtor's Turnover Ratio (DTR), Debt Equity Ratio (DER) ,Long Term Debt Equity Ratio(LTDER),Total Debts to Owners Fund Ratio (TDOFR), Interest Coverage Ratio(ICR).

TABLE NO: 1 CURRENT RATIO

YEAR	BHARTI AIRTEL	R.COM	IDEA	TATA TELE	CO.AVE
2011-2012	1.02	0.77	0.53	0.35	0.6675
2012-2013	0.65	0.69	0.52	0.33	0.5475
2013-2014	0.93	0.72	0.42	0.26	0.5825
2014-2015	0.73	1.48	0.39	0.35	0.7375
2015-2016	0.65	0.8	0.33	0.19	0.4925
MEAN	0.796	0.892	0.438	0.296	0.6055
S.D	0.170	0.331	0.086	0.070	0.1642047
C.V%	21.312	37.160	19.600	23.600	25.418203

Interpretation (Table no: 1)

A relatively high current ratio is an indication that the firm is liquid and has the ability to pay its current obligations in time as 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. **Table no: 1**indicates during the study period, average of the current ratio is higher in R.Com. The S.D of current ratio is very high in R.Com. The co-efficient of current ratio of Bharti Airtel, Idea and Tata Tele is below the company average.

TABLE NO: 2 QUICK RATIO

YEAR	BHARTI AIRTEL	R.COM	IDEA	TATA TELE	CO.AVE
2011-2012	1.37	1.19	0.55	0.57	0.92
2012-2013	0.75	1.43	0.55	0.62	0.8375
2013-2014	0.98	1.23	0.46	0.59	0.815
2014-2015	0.75	1.61	0.39	0.8	0.8875
2015-2016	0.66	0.95	0.35	0.33	0.5725
MEAN	0.902	1.282	0.46	0.582	0.8065
S.D	0.287	0.250	0.091	0.168	0.137
C.V%	31.838	19.535	19.805	28.838	17.005

Interpretation (Table no: 2)

It indicates rupees of quick assets available for each rupee of current liability. Traditionally, a quick ratio of 1:1 is considered to be a satisfactory ratio. However, this traditional rule should not be used blindly since a firm having a quick ratio of more than 1, may not be meeting its short-term obligations in time if its current assets consist of doubtful and slow paying debtors while a firm having a quick ratio of less than 1, may be meeting its short-term obligations in time because of its very efficient inventory management. **Table no: 2** shows that Quick ratio is more satisfactory in Bharti Airtel (0.90) and R.Com (1.28) as the ratio is more than the company as a whole. It has been able to meet their current obligation under the study period. C.V. of Liquid Ratio of all selected companies shows more consistency than the company as a whole during the study period.

TABLE NO: 3 DEBTORS TURNOVER RATIO

YEAR	BHARTI AIRTEL	R.COM	IDEA	TATA TELE	CO.AVE
2011-2012	23.14	6.39	30.38	8.24	17.0375
2012-2013	20.7	5.63	25.58	8.75	15.165
2013-2014	22.63	5.51	30.98	9.93	17.2625
2014-2015	20.27	6.49	36.76	13.1	19.155
2015-2016	16.98	6.86	34.63	14.85	18.33
MEAN	20.744	6.176	31.666	10.974	17.39
S.D	2.434	0.582	4.298	2.875	2.5470871
C.V%	11.732	9.420	13.574	26.195	15.23022

Interpretation (Table no: 3)

It indicates the number of times the debtors are turned over during a year. Generally, the higher the value of debtor's turnover the more efficient is the management of debtors /sales or more liquid are the debtors. Similarly, low debtors turnover implies inefficient management of debtors/sales and less liquid debtors. **Table no: 3** shows that DTR of Bharti Airtel (20.744) and Idea (31.666) is higher than the company as a whole (17.39 times). C.V. of DTR of Tata Tele is 26.195%, which shows less consistency during the study period as the C.V. of company as a whole is 15.230%.

TABLE NO: 4 DEBT –EQUITY RATIO

YEAR	BHARTI AIRTEL	R.COM	IDEA	TATA TELE	CO.AVE
2011-2012	0.29	0.62	0.79	-4.74	-0.76
2012-2013	0.24	0.92	0.8	-3.33	-0.3425
2013-2014	0.13	0.96	1.14	-2.61	-0.095
2014-2015	0.26	0.76	0.74	-2.28	-0.13
2015-2016	0.5	0.87	1.56	-2.72	0.0525
MEAN	0.284	0.826	1.006	-3.136	-0.255
S.D	0.135	0.137	0.348	0.974	0.3985758
C.V%	47.54173143	16.63493	34.6033	-31.0514	16.932147

Interpretation (Table no: 4)

It indicates the margin of safety to long-term creditors. A low debt-equity ratio implies the use of more equity than debt which means a larger safety margin for creditors since owner's equity is treated as a margin of safety by creditors and vice versa. **Table no.4** shows, a high debt equity ratio is observed in Tata Tele. C.V. of DER of Tata Tele is negative. The other companies are more efficient in managing debt and equity capital.

TABLE NO: 5 INTEREST COVERAGE RATIO

YEAR	BHARTI AIRTEL	R.COM	IDEA	TATA TELE	CO.AVE
2011-2012	5.98	1.12	2.72	0.01	2.4575
2012-2013	4.91	1.32	2.58	-0.17	2.16
2013-2014	7.42	0.58	5.17	0.01	3.295
2014-2015	12.11	0.03	5.66	0.05	4.4625
2015-2016	4.01	0.2	3.23	0.38	1.955
MEAN	6.886	0.65	3.872	0.056	2.866
S.D	3.185	0.562	1.440	0.200	1.3465649
C.V%	46.251	86.401	37.181	357.500	131.83299

Interpretation (Table no: 5)

The objective of computing this ratio is to measure the debt-servicing capacity of a firm so far as fixed interest on long term debt is concerned. **Table no: 5** shows during the study period, average of the interest coverage ratio is higher in Bharti Airtel (6.886) & Idea (3.872). The Standard Deviation of Interest coverage Ratio is very high in Bharti Airtel & Idea. The coefficient of variation of Interest Coverage Ratio of Bharti Airtel (46.251%), R.Com (86.401%) and Idea (37.181%) is below the company average.

TABLE NO: 6 LONG TERM DEBT EQUITY RATIO

YEAR	BHARTI AIRTEL	R.COM	IDEA	TATA TELE	CO.AVE
2011-2012	0.17	0.52	0.67	0	0.34
2012-2013	0.18	0.69	0.75	0	0.405
2013-2014	0.11	0.73	1.1	0	0.485
2014-2015	0.25	0.72	0.73	0	0.425
2015-2016	0.49	0.76	1.49	0	0.685
MEAN	0.24	0.684	0.948	0	0.468
S.D	0.148	0.095	0.347	0.000	0.1475195
C.V%	61.802	13.893	36.575	0.000	28.067257

Interpretation (Table no: 6)
Table no: 6 shows that ratio is high in R.Com (0.684) & Idea (0.948). C.V. of Long Term Debts to Equity Ratio is higher in Bharti Airtel (61.802%) & Idea (36.575%) which shows less consistency during the study period because C.V. of industry as a whole is 28.067%.

TABLE NO: 7 TOTAL DEBT TO OWNERS FUND

YEAR	BHARTI AIRTEL	R.COM	IDEA	TATA TELE	CO.AVE
2011-2012	0.29	0.62	0.79	0	0.425
2012-2013	0.24	0.92	0.8	0	0.49
2013-2014	0.13	0.96	1.14	0	0.5575
2014-2015	0.26	0.76	0.74	0	0.44
2015-2016	0.5	0.87	1.56	0	0.7325
MEAN	0.284	0.826	1.006	0	0.529
S.D	0.135	0.137	0.348	0.000	0.1551331
C.V%	47.542	16.635	34.603	0.000	24.69499

Interpretation (Table no: 7)
The high the Total Debts to Owner Fund Ratio, the more is the risk and so also the profitability. A low ratio indicates more use of owner fund. **Table no: 7** shows, a high Total Debts to Owner Fund Ratio is observed in Idea (1.006), which means use of more debts capital as compared to owner's fund. C.V. of Total Debts to Owner Fund Ratio of R.Com (16.635%), which shows more consistency during the study period because C.V. of company as a whole is 24.694%.

Conclusion:
Financial Management is of crucial importance in management decision making. The optimal of financial soundness is could be achieve by company that manage the tradeoff between liquidity and solvency management. The purpose of this study is to investigate the effective liquidity management to support companies while meeting its short term operational or working requirements whereas analysis of solvency, fixed assets and return on equity concentrates on long term performance. Higher Risk in Tata Tele Company & Reliance Communication, both companies gave negative return to the shareholders. Highest Return in Bharti Airtel & Idea, these companies gave to superior return to the shareholders.

ABBREVIATIONS:
CR- Current Ratio
LR- Liquid Ratio
DTR- Debtor's Turnover Ratio
DER- Debt Equity Ratio
LTDER- Long Term Debts to Equity Ratio
TDOFR- Total Debt to Owners Fund Ratio
ICR- Interest Coverage Ratio

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