

## A Comparative Study of Financial Performance of Bsnl and Idea Cellular Ltd.



### Management

**KEYWORDS :** Financial Performance, Liquidity, Profitability Management, Comparative Analysis

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### ABSTRACT

*Efficient management of finance is very important for the success of an enterprise. Term financial performance is very dynamic term. The subject matter of financial performance has been changing very rapidly. In present time greater importance is given to financial performance. In the area of telecom sector BSNL and IDEA are two major operators in the telecom sectors. Their comparative financial performance analysis give us an idea about the financial efficiency and soundness of each company. This study will show the financial performance of individual company as well as their comparative financial analysis. This study will also show the financial strength and weakness of both the company against each other. For the purpose of comparative financial analysis of BSNL and IDEA, ratio analysis has been used to evaluate the financial performance of both the company. This study will be helpful to the investors, government, financial analyst, various stake holder of the company and many other users of the financial information.*

### Introduction

Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Efficient management of finance is very important for the success of an enterprise. Term financial performance is very dynamic term. BSNL and IDEA are to major operators in the telecom sectors. Their comparative financial performance analysis give us an idea about the financial efficiency of each company. This study will show the financial performance of individual company as well as their comparative analysis.

### Concept of Working Capital Analysis

From the financial management point of view, capital in broader sense can be divided into two main categories-fixed capital and working capital. Here I am going to study the concept of working capital. The term working capital generally is used in two senses - '**Gross working capital**' which denotes total current asset and '**Net working Capital**' which denotes the excess of current assets over current liabilities. Both the concepts have their own significance and relevance. In common parlance, working capital is that part of capital, which is in working or which is used to meet day-to-day expenses.

### Concept of profitability Analysis

The analysis of profitability is mainly a test of earning capacity of business. Profit is the lifeblood of every business unit. It is also very essential for the survival of any business. The efficiency of management functioning is also determined on the basis of the profitability of business. Profit is also required for the long-term growth of the business. The profitability analysis of selected units have been made by using various ratios such as net profit ratio, return on capital employed ratio and return on total asset ratio.

### Objectives of study:-

The present study "A comparative study of Financial Performance of BSNL and IDEA", has been designed to achieve the following objectives:-

- (1) To analyses and evaluate the Liquidity position in the selected units.
- (2) To analyses and evaluate the overall profitability in the selected units.

- (3) To analyses and evaluate the trends in financial performance of the selected units.

### Scope of the study:

The present study is confined to the two leading units in telecom industry namely BSNL and IDEA. The study covers a period of five years from 2009-10 to 2013-14. This period is enough to cover both the short and medium terms fluctuations and to set reliability.

### Data Collection:-

For completion of my study, only secondary data has been used. The main sources are annual reports. Besides for framing conceptual framework, various books and published material in standard books and newspapers, Journals and websites has been made use of.

### Limitations of the study

To know the extent to which the study is reliable it is necessary to note the limitations under which the study has been completed. The following important limitations have been noted while conducting the present study:-

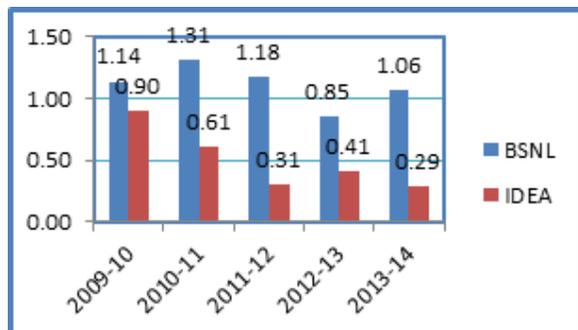
- 1) The main source of information is annual reports. They represent financial information/position on particular date. What happened between such two dates cannot easily be presumed or predicated.
- 2) The annual reports mostly contain quantitative and financial information and as regards to qualitative aspect of financial performance, my source was limited due to far away location of head offices of the selected units.
- 3) The financial performance covering a large period say 15 years or 20 years can give a much clear picture of management practices of financial performance. My study covering a period of 5 years can touch only a part of the problem.

### Data Analysis

#### Current Ratio:

One of important function of the financial manager is to maintain sufficient liquidity. Current ratio is an important criterion to test the liquidity and also the short term solvency. The ratio of 2:1 is considered as standard of current ratio.

Chart 1.1



(Source: Compile Personally from Annual Reports)

From the above table and graph it is clear that throughout the period, the current ratio of BSNL was above 1, except in the year 2012-13 when it has current ratio of only 0.85 times which indicates that its current liabilities was above its current assets in the year 2012-13.

On the other hand current ratio of IDEA was below 1 throughout the study period, which indicates the weak liquidity position of the company. For the period 2011-12 to 2013-14 its current ratio was below 0.5 i.e. 0.31, 0.41 and 0.29 respectively, which indicates that company has very less amount of current assets i.e. below 50%, to pay its current liabilities.

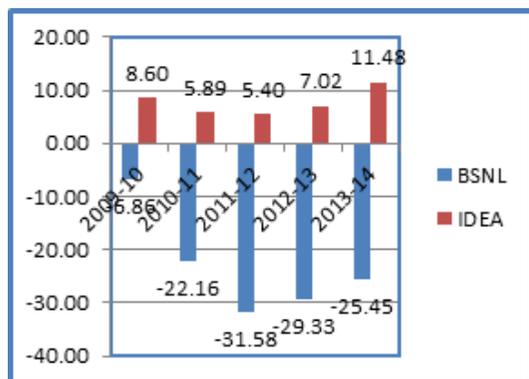
The standard for current ratio is 2:1 which means that company should have double the value of its current assets as compare to the current liabilities.

From the above table and graph it can be concluded that the liquidity position of both the company during the study period was not sufficient, but as from comparison point of view the BSNL has the better liquidity position than the IDEA.

**Gross Profit Ratio:**

This ratio measures the gross margin of profit from sales. The higher the gross profit ratio the better is the financial position.

Chart 1.2



(Source: Compile Personally from Annual Reports)

From the above table & graph it is clear that BSNL has made loss throughout the study period. During the period 2011-12 to 2013-14 proportion of loss is very huge i.e. -31.58%, -29.33% and -25.45% respectively.

On the other hand gross profit ratio of IDEA was at increasing trend in the last two years. It has 11.48% of gross profit in the year 2013-14 as compare to the lowest level of 5.40 in the year 2011-12. After the year 2011-12 company's gross profit margin has increased very positively i.e. 7.02% and 11.48 % respectively

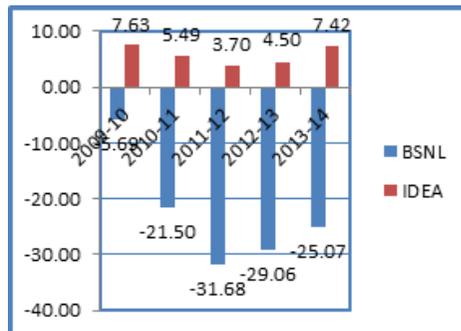
in the year 2012-13 and 2013-14.

From the above table and graph it can be concluded that the financial position of BSNL is very poor, it has made continuous and huge loss during the study period while on the other hand IDEA has made remarkable profit during study period and it has a very profitability position as compare to the BSNL.

**Net Profit Ratio:**

This ratio measures the net margin of profit from sales. The higher the net profit ratio the better is the financial position.

Chart 1.3



(Source: Compile Personally from Annual Reports)

From the above table & graph it is clear that BSNL has made loss throughout the study period. During the period 2011-12 to 2013-14 proportion of net loss is very huge i.e. -31.68%, -29.06% and -25.07% respectively.

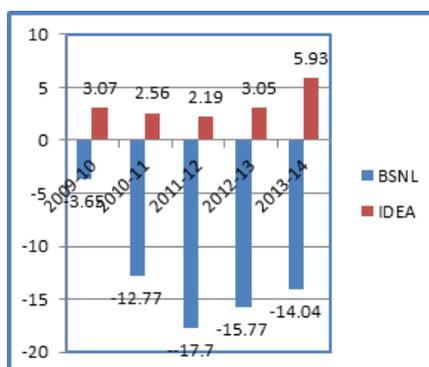
On the other hand net profit ratio of IDEA was at increasing trend in the last two years. It has 7.42 % of net profit in the year 2013-14 as compare to the lowest level of 3.70 in the year 2011-12. After the year 2011-12 company's net profit margin has increased very positively i.e. 4.50% and 7.42 % respectively in the year 2012-13 and 2013-14, but if we compare the net profit margin of 2009-10 and 2013-14, the ratio was high in the year 2009-10 i.e. 7.63% as compare to 7.42% in the year 2013-14.

Further from the above table and graph it can be concluded that the financial position of BSNL is very poor, it has made continuous and huge net loss during the study period while on the other hand IDEA has made reasonable net profit during study period and it has a better profitability position as compare to the BSNL.

**Earnings Per Share:**

Earnings per share serves as an indicator of a company's profitability. Higher EPS indicates the better financial operating efficiency of the company.

Chart 1.4



(Source: Compile Personally from Annual Reports)

From the above table & graph it is clear that Earning Per Share of BSNL is negative throughout the study period. In the year 2011-12 it has a EPS of Rs. -17.7 which is highest in the study period. The main reason for negative EPS is continuous loss during the study period.

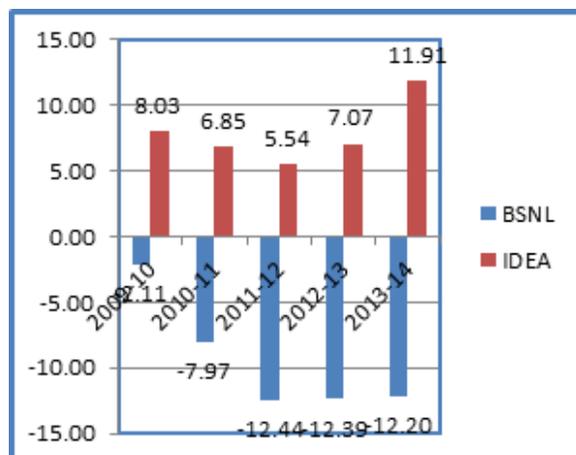
On the other hand the EPS of IDEA is positive throughout the study period. After the year 2011-12 company's Earning Per Share has increased very positively i.e Rs.3.05 and Rs. 5.93 respectively in the year 2012-13 and 2013-14.

Further from the comparison point of view it can be concluded that during the study period the EPS of BSNL was negative, while the EPS of Idea was positive during the study period which indicates that the financial position of IDEA is much better than the BSNL.

#### Return on Shareholders' Funds:

Return on Shareholders' Funds is one of the ratios of overall profitability group, which indicates the profitability of a firm in relation to the funds supplied by the shareholders or owners. This ratio is very important from the owner's point of view as it helps the firm to know whether the firm has earned enough returns to repay its shareholders or not

Chart 1.5



(Source: Compile Personally from Annual Reports)

From the above table & graph it is clear that return on shareholder's fund of BSNL was negative throughout the study period. The main reason for negative return is the continuous loss made by the BSNL.

On the other hand the return on shareholder's fund of IDEA was positive throughout the study period. After the year 2011-12 company's return on shareholder's funds has increased very positively i.e 7.07% and Rs. 11.91 respectively in the year 2012-13 and 2013-14.

Further from the comparison point of view it can be concluded that during the study period the Return on shareholder's funds of BSNL was negative, while the Return on shareholder's funds of Idea was positive during the study period which indicates that the financial position of IDEA is much better than the BSNL.

#### Conclusion:

BSNL and IDEA Cellular Ltd. both the companies are major players in telecom sector in India. After making the comparative analysis of both the firms i found that performance of IDEA Cellular Ltd. is better than the BSNL. Further it has been observed from the analysis that BSNL has made continuous loss during the study period which was the main reason of weak financial position of BSNL. While on the other hand IDEA has maintain its financial stability during the study period as well as it has shown the improvement in the financial position in last two years i.e in the year of 2012-13 and 2013-14, which indicates the positive sign for future improvement.

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