CHAPTER - I

INTRODUCTION

1.1 General Background

Telecommunication is a term coming from Greek and meaning communication at distance through signals of varied coming from a transmitter to a receiver. The science and technology of sending and receiving information such as sound, visual images, or computer data over long distances through the use of electrical, radio, or light signals, using electronic devices to encode the information as signals and to decode the signals as information.

In ancient times, telecommunications involved the use of visual signals, such as beacons, smoke signals, semaphore telegraphs, signal flags, and optical heliographs, or audio messages via coded drumbeats, lung-blown horns, or sent by loud whistles, for example. In the modern age of electricity and electronics, telecommunications now also includes the use of electrical devices such as telegraphs, telephones and teleprinters the use of radio and microwave communications, as well as fiber optics and their associated electronics, plus the use of the orbiting satellites and the Internet.

A revolution in wireless telecommunications began in the first decade of the 20th century with pioneering developments in wireless radio communications by Nikola Tesla and Guglielmo Marconi. Other highly notable pioneering inventors and developers in the field of electrical and electronic telecommunications include Charles Wheatstone and Samuel Morse (telegraph), Alexander Graham Bell (telephone), Edwin Armstrong, and Lee de Forest (radio), as well as John Logie Baird and Philo Farnsworth (television).

1.2 Nepal Telecom Policy Environment

Nepal has adopted financial liberalization policy from the beginning of 1980s by opening financial markets to private sectors and inviting foreign partnership in financial sectors. As a result positive impact has been experienced in development of financial market. The revolutionary development in the information and communication technologies have made possible the modern means of communication to bring to the doorstep and common people. Liberalization of the market has made possible to attract foreign investment and encouraged participation of private sector for the penetration of information and communication technology in Nepal. The telecommunications service is an essential pre-requisite for the information-oriented technology and its proper application and the telecommunications service has widely been using also in education and other leading social and cultural sectors of the country.

Nepal has developed a progressive policy and legal framework for telecommunications. The first National Communications Policy was adopted in 1992 and updated in 1999 to encourage private sector participation. A sound Telecommunications Act was passed by Parliament in 1997, establishing the Nepal Telecommunications Authority (NTA) and a Radio Frequency Policy Determination Committee. The Telecommunication Act 1997 was brought into action which has created the competitive atmosphere in telecom industry which resulted the private sector investment in the telecommunication industry. As size and sector of telecommunication grew up to IT, Telemedicine, e-governance, e-commerce, e- education etc the government brought the telecommunication policy; 2004 to address the entire telecommunication sector.

The telecommunication is more significant in comparison with the other infrastructures in the context of difficult geographical structure of Nepal. The technological development rapidly taking place in the telecommunication sector

and dynamic change also taking place in its structure has opened up new opportunities in this sector. It would be possible that the Nepalese peoples may be benefited from the gradual depreciation universally taken place in the tariff of the telecommunication service. In this context, the necessity of timely and dynamic policy is realized to utilize the additional possibilities and opportunities to be appeared in the telecommunication sector in future for the prosperity and welfare of Nepalese peoples by utilizing the achievements gained in telecommunication sector to the maximum extent and the Telecommunication Policy, 2060 (2004 A.D.) has, therefore, hereby been formulated for substitution of the Telecommunication Policy, 2056 (1999 A.D.)

At this point of time, there are various telecom based company which are actively doing their business. The major telecommunication service providers are Nepal Doorsanchar Company Limited (NDCL), United Telecom Limited (UTL) and Spice Nepal (P) Ltd.(N Cell). Other small Players are STM Sanchar (P) Ltd, Nepal Satellite Telecom (P) Ltd. (NSTPL),Nepal Smart Telecom and Global Mobile Personal Communication by Satellite (GMPCS).

Table 1.1

Telecom Statistics at a glance

Available Voice Telephone Services

Services	Fixed		Mobile		Others		Total
Operators	PSTN	WLL	GSM	CDMA	LMS	GMPCS	
NDCL	623,381	147,589	5,949,082	850,808	-	-	7,570,860
UTL	-	71,247		-	545,145	-	616,392
SNPL	-	-	7,699,070	-	-	-	7,699,070
STM	5,181	-	-	-	155	-	5,336
NSTPL		2,611	-	-	143,708	-	146,319
Smarts	598	-	-	-	310,629	-	311,227
GMPCS	-	-	-	-	-	1,742	1,742

	629,160	221,447	13,648,152	850,808	999,637	1,742	
		850,607		14,498,960		1,001,379	16,350,946

Source : MIS report of NTA (April 2012)

Table 1.2

Data /internet Services

Services					Total
	NDCL	UTL	SNPL	ISPs	
Dialup(PSTN + ISDN)	4,602	-	-	14,145	18,747
Wireless Modem, Optical Fibre Ethernet	-	-	-	32,279	32,279
Cable Modem,Cable etc.	-	-	-	17,036	17,036
ADSL	83,464	-	-	-	83,464
GPRS	1,660,877	-	2,672,122	-	4,332,999
CDMA 1X	112,949	70,062	-	-	183,011
Total	1,861,892	70,062	2,672,122	63,460	4,667,536

Source : MIS report of NTA (April 2012)

1.3 Statement of the Problem

Nepal Telecom as a state owned enterprise has involved in providing the cost effective and people friendly telecom services in the nation since long time. The organization has enjoyed monopoly in the telecom market and got policy privilege during long period. The scenario has completely changed after recent entry of telecom operators in the market. As those companies are involved in business of various telecom services the natural monopoly enjoyed by Nepal telecom tends to be ended. In the emerging liberalized policy that the government should not involve in the profit motive business except the sensitive affairs and facilitating jobs, private and multinational companies were established in the various part of the nation. Similarly the

public enterprises were made private by making them private company or public limited company. In this scenario, Nepal Telecom a state owned enterprises is going to issue it s share to the public as a public limited company. In this context the analysis of financial health of Nepal Telecom as a largest business enterprise in Nepal would have great deal of importance to the various stakeholders.

Nepal Telecom as a state owned enterprise; it is complicated to assess the efficiency with its socio economic development goals but every organization should have sound financial health to be efficient in the utilization and management of the resources. Proper collection, utilization and management of the fund are financial management. To make assurance of the strong financial operation of the company, the empirical analysis called financial performance analysis can have the great importance. As most of the organization depends heavily upon the external and internal information, industrialization without proper access of telecommunication is difficult to imagine. Nepal is on the process of industrialization and people have the demand of new and new technology and telecommunication is now thought to be basic requirement in urban area and important means of development in rural sector. In this context, there is high demand of NT services and it does have a little market competition. Despite the fact NT has not seen efficient to fulfill the demands. The Balance sheet shows the huge amount of cash and bank balance lying idle. Volume of sundry debtors seems to be very large. Various studies related to the NT pointed out the problem of its outstanding debt collection and high liquidity position. Further suggestion is that NT management should estimate immediate required funds and either invest the entire excess fund in marketable securities, or use that fund in refunding debt as the interest it pays for loan for capital investment is less than the rate of earning in liquid fund. Studies have shown that the return on total assets is not so good.

Thus the problem toward which this study is directed is assessment of financial operation of Nepal Telecom. So, the present research tries to solve the following research questions:-

- What are sources of long term financing on Nepal Telecom?
- If assets utilization in Nepal Telecom is efficient?
- What is the position of Nepal Telecom to meet the current obligations?
- Is the company providing fair rate of return?

Financial analysis may not provide exact answer to these questions but it does indicate what can be expected in the future.

1.4 Objective of the Study

Objectives of the study are guidelines by which the study can be conducted in a systematic manner. The main objective is to assess the strengths and weakness of Nepal Telecom. The specific objectives are:

- To analyze the financial performance of Nepal Telecom through financial analysis.
- To examine the trend of different financial ratios.
- To examine the relation between sales with total cost, sales with GDP and Investment with profit.

1.5 Significance of the study

Analysis of financial performance is a crucial part of financial decision making process of business enterprise. Poor financial management affects adversely on liquidity, turnover and profitability. It is required to measure the financial position of the enterprise periodically in order to ensure smooth function of an enterprise. Financial analysis assists in identifying the major strengths and weakness of a business enterprise. It indicates whether a firm has enough funds to meet the obligation, a reasonable accounts receivable collection period, an efficient inventory management policy, sufficient plant

property and equipment and adequate capital structure, all of which are necessary if a firm is to achieve the goal of maximizing shareholder's wealth. Financial analysis can also be used to assess a fir m's viability as an ongoing enterprise and to determine whether a satisfactory return on investment is being earned for the risks taken.

Nepal Telecom is an enterprise of great national concern. It has to face stiff competition in near future as private players are already entered and there is open door to further enter. The government is going to participate to the private sector in its ownership. So the concerned parties are looking over its performance with keen interest. As a state owned enterprise it has the obligation of socio economic development with its profitability concern. So the insight over financial position of Nepal Telecom; leading telecommunication service provider in the nation will be useful to provide information to stakeholders and draw attention of concerned management regarding what can be done for further strengthening the financial position.

1.6 Limitation of the study

There will be some limitations while undergoing this study. The main limitations of the study will be:

This study is based on the 5 years financial reports.

Only the financial aspect and financial structure analysis shall be made with bird eyes view, the other area such as Marketing, Human Resource, Research and Development aspects are also the combined input to measure the overall efficiency. Secondary data are collected from annual reports of the concerned enterprises, so the study suffers from all those limitations that are associated with these reports.

The study makes the analysis of financial performance of Nepal Telecom; it may not be applicable to any other enterprise. There is time and budget limitation.

1.7 Organization of the study

The study is divided in the following five chapters as prescribed by the university.

Chapter I : Introduction

Chapter II : Review of Literature

Chapter III : Research Methodology

Chapter IV : Presentation and Analysis of Data

Chapter V : Summary, Conclusion and recommendations

First Chapter focuses on general background of the study. It deals with major issues to be investigated along with general background of the study, statement of problem, objective of study with organization of the study. This chapter signifies the rational of this study.

Second chapter deals with conceptual consideration and review of related literature which provide a framework with the help of which the study has been accomplished. In this chapter major empirical works has been also discussed.

Third Chapter is devoted to methodological approach employed in this study. This chapter includes research design, nature and sources of data, population and samples, method of analysis and definition of key terms.

The fourth chapter deals with the techniques used in analyzing the collected data and its presentation in the descriptive and analytical manner. This chapter also deals with the strengths, weakness, opportunities and challenges faced by Nepal Telecom.

The fifth chapter consists of summary, conclusion, and recommendation of the study.

CHAPTER - II

REVIEW OF LITERATURE

Review of literature provides the background information about the area of study. Researcher has reviewed various Books, Journals and Newspapers, Policy researchers and Thesis that were found while studying about the problems and prospects of the concerned field. The review of literature basically highlights the existing literature and research work related to the present research being conducted with the view of finding out what had been already explained by the authors and researchers and how the current research adds further benefits to the field of research. The chapter has been divided into main Three parts as follow:

- Conceptual frame work
- Review Of Articles / Journals
- Review of related Thesis

2.1 Conceptual frame work

2.1.1 Financial statements

Financial statement presents financial state of affairs of a firm on numerical terms. They are used and analyzed and used for appraisal of financial performance of a firm. Financial statements contain the basic financial information about revenues, expenses assets, liabilities and cash flows during a specified period **(**Paudel et al ;2007:2).

The Financial Statements are the means of presentation of a firm's financial condition and basically consist of two types of statements - The Balance Sheet & Income Statement. These are prepared to report the overall business activities as well as financial status of the firm for a specified period to its stakeholders. These contain summary of information regarding financial affairs that is organized

systematically. The top management is responsible for preparing these statements. The basic objective of financial statements is to assist in decision making. The analysis and interpretation of financial statements depend on the nature and type of information available there in (Pandey; 2004:31).

Hence financial statement refers to any formal and original statement that discloses the financial information related to any business concern during a period. The income statements and balance sheet usually prepared at the end of each financial year show the firm's position.

A) Balance Sheet

Balance sheet is one of the basic financial statements of an enterprise. It is also called the fundamental accounting report. As the name suggests, the balance sheet provide information about financial standing or a position of a firm at a particular point of time usually end of the financial year. It can be visualized as a snapshot of the financial status of a company (Khan & Jain; 1993:13).

Balance sheet summarizes the assets, liabilities and owner's equity of a business at a moment of time, usually at the end of the financial year. Balance sheet is a financial statement, which contains information regarding different capital expenditures made on purchase of assets on particular date and information regarding various sources of funds acquired by the business concern to finance these assets and also the different sources of capital and liabilities at that particular point of time.

B) Income Statement

Income statement is designed to portray the performance of the business firm for specific period of time i.e. for a year or month or quarter. The business revenues and expenses resulting from the accomplishment of the firms operation are shown

in the income statements. It is the “Scoreboard” of the firm’s performance during particular period of time. It shows the summary of revenues, expenses and net income or loss of a firm for a particular period of time. Income statement also serves as a true measure of the firm’s profitability (Khan & Jain; 1993:15).

2.1.2 Financial Analysis

Financial statement analysis involves the use of various financial statements. These statements perform several things. First, the balance sheet summarizes the assets, liabilities and owners equity of a business at a moment in time, usually the end of a year or a quarter. Next, the income statement summarizes the revenues and expenses of the firm over a particular period of time, again usually a year or quarter. While the balance sheet represents a snapshot of the firm’s financial position at a moment in time, the income statement depicts a summary of the firm’s profitability over time. From these two statements certain derivate statements can be produced, such as statement of retained earnings, a sources and uses of funds statements and a statement of cash flows etc (Van Horne; 1996:56).

Financial analysis is the process of analyzing various items of financial statements to assess a firm’s comparative strengths and weaknesses. In other words, financial analysis involves analyzing financial statements prepared in accordance with generally accepted accounting principles to ascertain information concerning magnitude, timing and riskiness of future cash flows **(**Paudel et al ;2009:24).

"Financial statement analysis involves a comparison of firm’s performance with that of other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify its current strengths and weakness

and to suggest actions that might enable the firm to take advantage of the strengths and correct its weaknesses (Weston; 1996:78).

Financial analysis (also referred to as financial statement analysis or accounting analysis) refers to an assessment of the viability, stability and profitability of a business, sub-business or project. It is performed by professionals who prepare reports using ratios that make use of information taken from financial statements and other reports. These reports are usually presented to top management as one of their bases in making business decisions (wikipedia.org).

2.1.3 Objectives of Financial Analysis

Financial analysis enables us to explore various facts related to the past performance of business and predicts about the future potentials for achieving expected results. Major objectives of analysis of financial statement are to assess various factors in relation to the business firm as presented below.

- The present and future earning capacity or profitability of the concern
- The operational efficiency of the concern as a whole, and of its various parts or departments.
- The short-term and long-term solvency of the concern.
- The comparative study regarding to one firm with another firm.
- The possibility of developments in the future making future forecasts and preparing budgets.
- The financial stability of business concern,
- The rea1meaning and significance of financial data,
- The long term liquidity of its fund.

2.1.4 Need of Financial Analysis/ Financial Status Analysis

The need for the analysis of financial statement arises in order to address the following questions (Pradhan; 2000:47-48).

- How was the firm doing in the past? Was there any problem? If so, in what Area?
- How it is doing at present? Is it doing better compared to the past performance, competitors and industry average? Is there any problem at present? If so, in what areas?
- What about the future? Is there any likely problem on the way in the future? What will its position be in the future?
- What corrective actions can be taken now to solve the problems and improve the performance? How will the recommendation of any course of actions or changes in the policy or practice help solve problems and improve the company's position?
- What are the expected results of recommendations? Are there any improvements?

2.1.5 Significance of Financial Analysis

Significance of analysis lies on the objectives of financial analysis of any firm. The facts discovered by the analysis are perceived differently by different groups associated with the concern. The facts and the relationships concerning managerial performance, corporate efficiency, financial strengths and weaknesses and credit worthiness are interpreted on the basis of objectives in the hand.

Such analysis leads management of an enterprise to take crucial decisions regarding operative policies, investment value of the firm, internal financial control system and bargaining strategy for funds from external sources (Agrawal; 1993).

The parties that are benefited by the results or conclusion drawn from the analysis of financial performance can be numerated as (Srivastava; 1993:58-59).

A) Top Management

The responsibility of the top management is to evaluate:

- Are the resources of the firm has been used effectively and efficiently?
- Is the financial condition of the firm sound enough?

On the basis of past facts, firms can anticipate their future. Hence, top management can measure the success or failure of a company's operations, determine the relative efficiency of various departments, process and products appraise the individual's performance and evaluate the system of internal audit.

B) Creditors

The creditors can find out the financial strength and capacity of the borrower to meet their claims. Trade creditors are interested in the firm's ability to meet their claims over a short span of time. The suppliers of long term debt focus upon the firm's long term solvency and survival. A lending bank through and analysis of these statements can decide whether the borrower retains the capacity of refunding the principal and paying interest in time or not.

C) Shareholders

The shareholders, who have invested their money in the firm' s shares are most concerned about the firm's earning. They evaluate the efficiency of the management and determine about the necessity for the change. In large company the shareholder's interest is to decide whether to buy, sell or hold the shares. They wish to buy the shares in case of sound performance of the firm where as they simply intend to hold the shares in the condition of satisfactory performance. But they are hurried to sell the shares in case of poor performance.

D). Economists

To diagnose the prevailing status of business and economy, economists analyze the financial statements (of any firm). The government agencies analyze them for the purpose of price regulation; rate setting and similar other purposes.

E). Labor Unions

Productivity is the synonym of well-motivated labors. Labor unions are interested in rights and benefits of labor to enhance the moral of labors. For further motivation they expect increase in wages, fringe benefits and so on. These benefits are affected by the company's profitability condition. Therefore the union assesses the financial condition of the firm to determine whether the firm is in the situation or not to make such facilities available.

2.1.6 Process of Financial Analysis

Financial analysis basically financial statement analysis, is a technique of answering various questions regarding the performance of a firm in the past, present and the future on the basis of past performance. The analysis recommends the steps to be taken by financial managers while undergoing the assessment of financial position. The questions, that as elucidated above create the need to follow certain steps such as first identification and analysis of problem in order to come up with appropriate recommendations, and then to project the expected results and examine them if there are improvements before implementing such recommendations.

2.1. 7 Techniques of Financial (Statement) Analysis

The fundament of the analytical technique is to simplify or reduce the data under review to the understandable terms. There are various tools and techniques of financial statement analysis, each of which is used according to the purpose for which the analysis is carried out. The widely used techniques are as follows:

a. Ratio Analysis

b. Du Pont System of Financial Statement Analysis

c. Common Size Analysis

d. Funds Flow Analysis

e. Cash Flow Analysis

a. Ratio Analysis:

Ratio analysis has been used as a major tool in the interpretation and evaluation of financial analysis. The term ratio refers to the numerical quantitative relationship between the two items/variables. A ratio is calculated by dividing one item of the relationship with the other base. In financial analysis, a ratio is used as a yardstick for the evaluation of financial performance of the firm. "The analysis of financial ratio involves two types of comparison. First, the present ratio may be compared with the past and expected future ratios for the same company and second, the method of comparison involves comparing the ratios of one firm with those of similar firm or with industry averages at the same point, in time. Such comparison gives insight into the financial performance of the firm." Ratio analysis is widely in use. It may not give the entire picture of an enterprise. Ratios themselves are not conclusion. They are only the means. The Ratios are calculated from data available in the financial statement of an enterprise. The Ratio completed from the available data are numerical, there should not be the tendency to regard them as a precise portrayals of a firm true financial status. For some firms, accounting data may closely approximate economic reality, for others, it is necessary to go beyond the figures in order to obtain their financial condition of performance.

Types of Ratios

Different Ratios can be calculated from the available data in the financial statement. Broadly Ratios are classified in four groups. They are:

1) Liquidity ratios

2) Capital structure/leverage ratios

3) Activity ratios

4) Profitability ratios

1) Liquidity ratio

Liquidity refers to the ability of enterprises to pay its current liabilities. Liquidity implies the utilization of such funds of the firm which are idle or in very little Amount. A proper balance between the two contradictory requirements i.e. liquidity and profitability are required for the efficient financial management. The more current assets associated with high liquidity and low profitability and vice versa. The less current Ratio and quick Ratio are the most widely used ratios for the general purpose to measure the liquidity position of an enterprise.

2) Capital structure/leverage ratios

The Capital Structure/Leverage Ratio is associated with the long -term solvency of an enterprise. The long -term creditors would judge the soundness of a firm on the basis of long term financial strength measured in terms its ability to pay the interest regularly as well as repay the installment of principal due to dates or in one lump sum at the time of maturity. Leverage Ratios show how much of an enterprise's fund are financed by debt & equity. These Ratios also show the prospects for future financing. The Capital Structure Ratio indicates the soundness of capital structure of an enterprise. It can be calculated on two ways. The first approach is to examine what proportion of borrowed capital occupies the capital structure i.e. calculated the Debt to Total Capital Ratio. The second approach is to examine the number of times the interest earned covered by earnings and to calculate the fixed charges covered by earnings.

3) Activity ratio

An Activity Ratio may be defined as the test of relationship between sales and various types of Activity Ratios. Activity Ratios are employed to evaluate the efficiencies with which the firm manages and utilizes its assets. These Ratios are also called Turnover Ratios because they indicate the speed with which the assets

are being covered or turned over into sales. So Activity Ratios presume that there exists an appropriate relationship between sales and various assets. The more important Activity Ratios for general -purpose analysis are Inventory Turnover Ratio, Total Assets Turnover Ratio, Fixed Assets Turnover Ratio, Capital Employed Turnover Ratio etc.

4) Profitability ratio

Profitability is very important aspect of management of any enterprise. It shows the overall performance of an enterprise. The Profitability Ratios are calculated to measure the operative effectiveness of an enterprise. Besides management of the company, creditors and owners are interested in the Profitability Ratios of the firm. Profitability Ratios can be calculated on the basis of either sales or investment. The important Profitability Ratios, calculated in relation to sales are Net Profit Margin, Gross Profit Margin, and Operating Expenses Ratio etc. Similarly, the important Profitability Ratios, calculated in relation to investment are Return on Shareholders' Equity, Return on Capital Employed, and Return on Fixed Assets etc. Together these Ratios indicate the firm's efficiency of operation (Pandey; 1998:133).

b. Du Pont System of Financial Statement Analysis:

The Du Pont system is designed to show how the profit margin on sales, the assets turn over ratio and the use of debt interact to determine the rate of return on equity (Weston & Copeland; 1996:307).

The Du Pont system of financial statement analysis is developed by the financial experts of the Du Pont Company by putting together the effects of profitability, investment and the equity ratios. The approach is based on the relationship among the three basic areas of the firm such as (i) cost controlling area (ii) Assets management area and (iii) Financial leverage area. The directed to address the concern of the shareholders; hence its main focus is on the return on equity (ROE).

The ROE is analyzed in terms of the factors that directly affect the ROE. The factors such as costs, assets utilization and leverage ratio are the grounds on which several test are made to see how the ROE is affected by such factors. The following modified Du Pont Chart presents the relationship among these factors and ROE.

For a business firm, the return on assets (ROA) is the rate of return on the total investment that includes both equity and debt capital. The ROA does not reflect the actual rate of return to equity holders. What reflects the return for stock holders is the return on their money (i.e ROE), which is generally higher than the ROA. Thus ROA is an overall measure and reflects the overall performance of the company. The Du Pont system addresses the concerns of stockholder and focuses on ROE. Du Pont equation defines ROE as a product of ROA and equity multiplier and ROA as a product of profit margin and total assets turnover.
The Du Pont equation is as follows:

ROE = ROA x equity multiplier
= profit margin x total assets turnover x equity multiplier
= (Net profit/sales) x (sales/total assets) x (total assets/ equity)

c. Common Size Analysis

The common size analysis is another technique of analyzing the items of financial statement on relative terms. Under this method, the percentage of every item in the income statements and balance sheets is carried out for past several years to determine the performance trend of each item during the period under analysis. After analyzing the rising, falling or constant trend of efficiency in the business operation one can make comparison with the industry average or competitors.

The common size analysis is carried out for a period of one or more. The income statement items are divided by sales and expressed as a percentage of sales. The balance sheets items are divided by total assets and expressed as percentage of total assets. These percentages for a company are compared with the standard measures such as percentages calculated in the same manner industry and the competitors. Thus, the comparison shows the company's performance relative to competitors as well as compared to it own past record.

d. Funds Flow Analysis

Funds flow analysis is the statement of changes in financial position of any organization that determines only the sources and used of fund between two dates of balance sheet. It is prepared to uncover the information that financial statements fail to describe clearly. It describes the sources from which funds were derived and used to which these funds were put. The statement is prepared to summarize the changes in assets and liabilities resulting from financial and investment transactions during the period as well as those changes occurred due to the changes in owner’s equity. It also uncovers the way of using financial resources during the period by the firm.

Method of preparing funds flow statement depends essentially upon the sense in which the term 'fund" is used. There are three concept of fund: cash concept, total resources concept and working capital concept. According to cash concept, the word fund is synonymous with cash. Total resources concept refers total assets and resources as fund. The term' fund" represents only to working capital on the stated last concept However, working capital concept of fund has gained wide acceptance as compared to the other concepts Therefore any transaction that increases the amount of working capital is taken as source of fund while conducting funds flow analysis. Any transaction that decreases working capital is treated as application. But, any transaction that affects current liabilities or current

assets without resulting any changes in working capital is not taken as sources or use.

e. Cash Flow Analysis

This statement is carried out to know clearly the various items of inflow outflow of cash. It is different from funds flow analysis in the sense, the analysis relates to the movement of cash rather than the inflow and outflow of working capital.

It deals the causes of changes in cash position for the period of two balance sheets date in brief. At the time of preparing cash flow statement, only cash receipt from debtors against credit deals are considered as the source of cash. Similarly, cash purchases and cash payments to suppliers for credit purpose are regarded as the uses of cash. The same holds true for expenses and incomes outstanding and prepaid expenses are not to be considered under this analysis.

2.1.8 Limitations of Financial Analysis

Financial performance analysis is of great significance for investor, creditor, management, economist, and other parties having interest in business. It helps management to evaluate its efficiency in past performance and takes decision relating to the future (Jain; 1989:33).

However, it is not free from drawbacks. Its limitations are listed below.

(a) Historical nature of financial statements:

The basic nature of statements is historical. Past can never be a precise and can never be perfectly helpful for the future forecast and planning.

(b) No subject for judgment:

Financial analysis is a tool to be used by experts, analysts etc. to evaluate the financial performance of firm. That's why it may lead to faulty conclusion if used by unskilled analyst.

(c) Reliability of figures:

Reliability of analysis depends on reliability of the figures of the financial statements under scrutiny. The entire working of analysis will be vitiated by manipulation in the income statement, window dressing in the balance sheet, questionable procedures adopted by the accountant for the valuation of fixed assets and such other facts.

(d) Single year analysis is not much valuable:

The analysis of these statements relating to single year only will have limited use and value. From this, one can not draw meaningful conclusion.

(e) Result may have different interpretation: Different users may differently interpret the result derived from the analysis. For example, a high current ratio may suit the banker but it may be the cause of inefficiency of the management due to under-utilization of fund.

(f) Change in accounting methods:

Analysis will be effective if the figures derived from the financial statements are comparable. Due to change in accounting methods the figures of current period may have no comparable base, and then the whole exercise of analysis will become futile.

(g) Pitfall in inter-firm comparison:

When different firms are adopting different procedures, records, objectives, policies and different items under similar heading, comparison will be more

difficult. If done, it will not provide reliable basis to assess the performance, efficiency, profitability and financial condition of the firm as compared to the whole industry.

(h) Price level change reduces the validity of analysis:

The continuous and rapid changes in the value of money, in the present day, economically also reduces the validity. Acquisition of assets at different level of prices make comparison useless as no meaningful conclusion can be drawn from a comparative analysis of such items relating to several accounting periods.

(i) Selection of appropriate tool

There are different tools of analysis available to the analyst. The tools to be used in a particular situation depend on skill, training, intelligence and expertise of the analyst. If wrong tool is used, it may lead to wrong conclusion. This may be harmful to the interest of business.

2.2 Review Of Articles /Journals

Neupane (2006), in his article "Increasing bad debt: matter of thinking" published in *Sanchar* 2006. This article pointed out some facts about the bad debt and doubtful debt of Nepal Telecom during 2055/56 BS to 2059/60 B. S.

He found the amount of doubtful debt is in increasing trend and Bad debt is in fluctuation trend. He concluded the following reasons;

- There is no clear cut strategies and vision to recover bad debt in time.
- There is lack of inter office coordination to collect receivables.
- It has seen that there delay payment by government offices which has enhanced others to make delay payment or remain unpaid.
- There is lack of motivation to employees as they feel recovery of bad debt is a risky job.

- In some cases, there is unauthorized use of telephone service and organization has no effective control mechanism.

A study on the performance of PEs of Nepal was conducted by the Management Consultant Company. In the study it was concluded that the assets management, in general Current Assets Management in particular were weakest point in Nepalese PEs.

It was pointed out that financial performance of the PEs was poor and indicated management of the resources. The report also pointed out that because of the lack of operational objectives, application of the long run planning, use of modern management tools. Capital budgeting and efforts towards cost control had not seen made so far. The study thus pointed that there was poor current assets management and management of resources in PEs of Nepal thereby causing poor financial performance.

Upadhaya (2007), in his article "Five years financial projection of Nepal Telecom" published in *3 rd Anniversary Souvenir* 2007. He highlights Nepal Telecom have to invest on modern technology in time and optimum utilization of the technology so as to guide for the high return on investment. Only investing on modern technology may not be sufficient to get the required return on investment its optimum utilization is must other wise the investment in new technology cannot give the return. Investment in modern new technology may turn riskier for the company. He had analyze past five year financial data of NTC and tried to project the financial future of the company. He found that the operating profit of NTC is slightly increasing this is due to decreasing of operating expenses. Study shows that NTC is successful to manage cost efficient. Return on assets is about 26% this means Company is able earn 26% profit in terms of total assets. He projects the future five years financial performance of NTC by using regression analysis, judgmental approach. According to his projection growth rate on return will remain around 4.69%.

Strategic plan of 7th phase of NTC-2002 based on the analysis of the period 1996-2000, has drawn attention upon the investment environment of NTC as follow.

- Total income is increasing
- Liquidity is also increasing
- NTC has got sufficiently good fund for investment.
- There is high possibility of external funding to NTC as it has strong base to pay the
- loans back on due time.

Pokharel (2010), "Financials- Past, Present & Future of Nepal telecom" published in *6th Anniversary Souvenir* 2010. This article basically a short overview of how Nepal Telecom has performed financially for last ten years and probable implications on the financials of the company in the years to come. The company has different types of stakeholders like investors, employees, customers, government, creditors etc. The types which show more concern to the company's financials are employees and investors. For employees and investors, the concern is like how and to what extent the company will prosper in coming days. Although we can not predict future, but we can use our intelligence and business acumen to deal with future if stakeholders' concern are to be addressed properly.

He concluded "The level of competition can put a brake on higher revenue growth; cost will be the key ultimately for maintaining the healthy bottom line. The key component in Nepal Telecom's cost structure is employee cost. Our company is being run by 6000 employees and if we compare it with the number of employees running the private sector competitor companies. In the long run, when margins get shrink, it is the productivity of the cost which can only sustain our company in the business. Having said that let me take an opportunity to say that cost management (Say employee cost, administrative cost, operation and

maintenance cost) has direct link with the overall management of the company. As telecom is a very dynamic field, current management structure also need some kind of support from those who are really capable of doing it much better. As we are determined to build our future, we have to accept and realize our limitations in the areas of managing the dynamics of technology advancement, business development, customer tastes and preferences etc. Current management structure also needs the continuous advice on the strategy front through some kind of strategic alliance. Strategic alliance is not a fashion statement; it basically arises out of the fundamental business delivery needs. How can our company deliver it more efficiently? Therefore it is based on the principle that who has a better domain knowledge, which can get better economies of scale and to track human capital better. If there is somebody who has better domain knowledge and economies of scale, we should not hesitate in forming that kind of alliance or partnership".

Pokharel (2011), in his article "Strategic Investment in Nepal Telecom" published in *7th Anniversary Souvenir* 2011. This article is written in the context of strategic investment in Nepal Telecom and to share the developments so far in this regard. Nepal Telecom is a substantially Government owned company as GON has more than 91 percent stake of total share capital, other shareholders are Employees 5% and public around 3.5%. Like the ownership structure, the Board, ultimate authority in the company, has representation mainly from Government Ministries besides representation each for Public Shareholder, Employees shareholder and the Managing Director of Nepal Telecom.

According to this article, At present Nepal Telecom is facing fierce competition from its rivals with regard to market expansion, quality of service, changing customer preferences, reduction in tariffs etc. In contrast to Nepal Telecom, the main rival Ncell has significantly less number of employees and many non core activities are getting done through outsourcing. This naturally gives more

advantage to Ncell with regard to cost structure as Employee cost is the biggest cost in Nepal Telecom's cost structure around 10 % as per the financial results of 2066-67(The same ratio is around 5% of Annual Revenue in Bharati Airtel, India) . Payroll cost of Ncell could not be mentioned as they do not report it publicly being a private company. Now it can be imagined that the subscriber base gap and hence revenue base gap between Nepal Telecom and Ncell will definitely be getting reduced but cost structure mainly through employee costs will put tremendous pressure on Nepal Telecom in coming days. Similarly another major cost driver "operation and maintenance" of equipments are being outsourced by private operators like Ncell but Nepal Telecom is relatively less effective towards that also.

He said, bringing strategic investment to Nepal Telecom is a very complicated task as it has to pass through many divestment and privatization processes. Moreover, it has to satisfy many stakeholders like Government, Political Parties, Employee Unions, and Management etc. Then Option of Management Contract which has been successfully implemented in Rastriya Banijya Bank, Nepal Bank Limited can be taken to start with. Depending upon the performance and output of management contract, further decision on strategic sale can be taken. But if that also takes time to get implemented, and then consultancy of some expert advisory group shall have to be taken for the time being instead of staying in status quo.

2.3 Review of Related Thesis

There are few researches that have been made in the areas of financial performance of NTC. Most of the researches have not been fully able to explain the financial condition of this organization. Thus an attempt has been made to review the available thesis, which is relevant to this study. Most research works

have been done in the areas of manufacturing. But there are few in the areas of public utilities.

Aryal (2003) has submitted the thesis entitled "*Working Capital Management in Nepal Telecommunication Corporation*"

Objectives of the study were;

- To appraise working capital of NTC with respect to cash, receivable and inventory management.
- To know how far NTC is being able to utilize its current assets properly.
- To evaluate the credit policy of NTC and its effectiveness.
- To study the relationship between sales and different variables of working capital
- To shed light on creation and mobilization of fund in NTC.

The Major findings were.

- NTC kept its large portion of profit as retained earning. There are no systematic techniques used for managing the cash in NTC.
- The fund collected from different sources is used mainly to purchase of fixed assets Large portion for purchase or current assets and in repayment of current liabilities some amount is used in purchasing marketable securities.
- The size of current assets were increasing rapidly than the fixed assets. Which indicates the conservative policy in current assets. Size of working capital in NTC is far greater than the industry average.
- Cash and bank balance constitute the most important and largest element of working capital in NTC. About 36%of current assets is held as cash during the study period.
- The growth trend of current assets is highly increasing than the total assets and net sales. The increasing trend of receivable seems to be consistent with the increase in net sales. But the size of cash has been increased in an

inconsistent manner, which is the main cause of rapid increase in current assets.

- NTC kept excess amount of working capital. The volume of sales seems to be increasing every year. But rate of growth in working capital is higher than that of sales. Therefore, the turnover ratios are continuously decreasing every year.
- There has been excess liquidity position in NTC. The relationship between liquidity and profitability ratio does not follow any regular trend during that period. There is no correlation between liquidity and profitability. This condition does not meet the proposition that 'Higher the liquidity lower the profitability'. Calculation of t-statistic shows that there is no significance difference between liquidity and profitability in NTC.
- There is no comprehensive long\mid term planning or control system of account receivable in the corporation. Larger amount is still due from many a last years and the amount of doubtful debt covers a significant portion of the account receivable.

Regmi (2004) on his unpublished thesis "*An Evaluation of financial Position of Nepal Telecommunications Corporation*" the main objectives of the study are: -

- To highlight the different aspects of NTC.
- To analyze, examine and interpret the financial position of NTC by using various techniques.

The Main Findings were

- There is no serious liquidity problem in NTC. The current Ratio of NTC is 1.43 times. The current assets of NTC are greater than current liabilities in each fiscal year. It shows the better liquidity position of NTC. But it does not mean that there is not any liquidity problem in NTC. The current Ratio is affected by the huge amount of sundry debtors. The coefficient of

correlation between current assets and current liabilities is 0.9903 and the probable error of the correlation is .0090 This means that both the variables are positively correlated and the corporation has been following a uniform policy to finance current assets and current liabilities.

- NTC has invested the huge amount in purchasing the fixed assets but the revenue generating ability is very low in comparison to investment, which is only 0.04 times. This shows that there is no effective utilization of fixed assets in generating revenue.

- There is increasing trend in the size of total assets but it is not significant. The total assets turnover ratio is very low. On an average, the total assets turnover ratio is only 0.22 times. Therefore, it can be said that the management of NTC is not able to utilize the assets properly.

- From the analysis of financial statement, we know that sundry debtors are the most sensitive sector for the management of NTC. In an average, the collection period is 132 days. Only in two fiscal years, the collection period is below the average debt collection period and in other three years the collection period is highly greater than the standard debt collection period. Because the receivables are taking long period to be collected, there is very low debtor's turnover ratio.

- It is already mentioned that NTC has been operating under the profit position over the five years study period. But return on total assets percentage shows poor performance. On an average, NTC is able to earn only 3.88% rate of return on total assets. This shows the very low profitability position. In the first four fiscal years, it has not even been able to cover the average rate of return on total assets. But it has shown some

improvements in the last fiscal year of the study period. In most of the fiscal years, the return is very low in relation to total assets. It means return has not increased as increment in the investment of assets.

Karki (2007) has made a study entitled, "*Revenue Planning in Service oriented Company*" A case study of Nepal Telecom. The main objectives of the study are to search and highlight the role of revenue planning in the performance of N.T.C. Therefore, the major objectives of the study are as follows.

- To sketch out the use of revenue planning tools and techniques.
- To examine the use of planning in managerial short run and long run decision making.
- To point out short Cumming in sales budgeting and planning.

His Major Findings:

- No plans and programmed has been made about possible consumption of telephone industries.
- NTC has not adopted of practice of preparing monthly revenue earning reports
- The revenue plan prepared by the branches and sub branches were not taken as reference for preparing of central revenue plan.
- There are consistency between planned sales and actual sales, their correlation was high.
- Planned sales revenue was highly and positively correlated. The correlation of actual sales revenue is also positive and high.
- The analysis of category wise revenue plan shows that achievement in domestic, noncommercial and industrial categories are highly consistent. But the achievements in remaining categories are fluctuating.

- NTC has been making efforts to bring operating loss down to 10% since 1990/00 but actual loss crossed about 2% in the analysis period.

Karn (2008) has made a study entitled, "*Profit Planning Mechanism of Nepal Nepal Telecom limited"* The major points that I found by the detailed study as well as analysis of the entire budgeting practice of NTC in relation to its profitability are presented below:

The major objectives of the study are as follows:

- To analyze the Financial position of Nepal Telecom
- To analyze the target and actual budget of Nepal Telecom
- To assess the strength and weakness of Nepal Telecom.

His Major Findings:

- The study showed that the actual sales achievement of NTC is highly consistent with budgeted sales in the fiscal year2002/03 to FY 2005/06. The actual sales achievement is below than target sales. Target is sets high expectations, but actual sales achievement are on average 92.57 percentages of budgeted sales. It can be said that the targets were not sets on a realistic basis. The analysis of above table also shown that there is no systematic sales plan, it clear that the performance of planning section of NTC is not satisfactory and its prepare the sales plan on adhoc basis. Budgets are set only the assumption of management.
- Budget is prepared because of historical data. Nevertheless, NTC actual achievement of sales or revenue is less than budgeted sales or revenue during the study period. It shows that the efficiency of the management for prepared the planning. Besides this due to the unavoidable situation or external environmental condition, NTC cannot meet the targeted sales.

Mobile phones are distributed due to the political situation of the country in the FY 2004.

- Average inventory turnover ratio of NTC for the past five years is 20.3618 times. It ranged between a highest of 32.565 times in FY 2004/05 AD and a lowest of 10.812 times in the FY 2001/02 A.D. The overall Ratio Trends shows an upward direction particularly in the most recent years. Average age of inventory of NTC for the study period is 21 Days.
- Average Debtors Turnover Ratio of NTC for the past five years is 2.8282 times. It ranged between a highest of 3.119 times in the FY 2001/02 AD and a lowest of 2.3796 times in the FY 2003/04 AD. Average Collection Period of NTC over the five years of the study period is 128 days. Average of the total Assets Turnover Ratio of NTC for past five years is 0.26404 times. The ratio seems to be a little volatile as it ranged from 0.2580 in the FY 2003/04 to 0.2747 in the FY 2001/02 AD. Fixes Assets Turnover of NTC is in increasing trend. It ranges from a minimum of 0.823 Times in the FY 2001/02 AD to a maximum of 1.026 times in the FY 2007/08 AD.

Shrestha (2009) on his unpublished thesis "*A Study On Profitability Of Nepal Telecom"*The major findings of this study as related in analysis are summarized here under.

- During the Study Period, the computations show that the Profit Margin upon sales is favorable. Net Profit Margin Ratio of NTC is 0.424 in an average, which indicates the good performance. The average ratio of 0.42 indicates that each 100 rupees sale is contributing 42 rupees for rewarding the owners.

- The computations show that the average of the O-E ratio of NTC for past seven years is 49.5 Percentage. The operating cost is increased due to repair

& maintenance of destroyed tower equipments. The higher Operating Expenses Ratio shows the increases in Operating Expenses and decrease in company capacity.

- The calculation shows that the average ROA of NTC for the study period is 10.8%. The average ratio of 10.8% indicates that each 100 rupees of investment in assets is generating a profit of Rs. 10.80.
- The computations show that the average ROCE of NTC for the study period is 13.5%. The average ratio of 13.5% indicates that each 100 rupees of long term fund employed by the company is generating after tax profit of 13.5 rupees.

- The calculation shows the average ROE ratio of NTC for past 7 years period is around 13.7%, which indicates that the equity holders of NTC earned 14 rupees of return on their investment of Rs. 100 over the last 7 years, on average.

- The Karl Pearson's co-efficient of correlation between Investment and Profit (r) is found to be 0.9924, which implies that there exists a high degree of positive correlation between Total investments and Total profit. This means the two variables move in the same direction; i.e. if Total investments increases then Total profit also increases, and vice-versa.
- The regression equation shows that, on average, 100 Rupees change in Total Investment (Asset) would result in 9.1 Rupees changes in the net profit of NTC.

- The Karl Pearson's co-efficient of correlation between Sales Revenue and Cost (r) is found to be 0.9952, which implies that there exists a high degree of positive correlation between Sales Revenue and Cost. This means the

two variables move in the same direction; i.e. if Sales Revenue increases then Cost also increases, and vice-versa.

- The regression equation shows that, on average, 100 rupees change in volume (sales) would result in 62.08 Rupees change in the total cost of NTC.

- The Karl Pearson's co-efficient of correlation between Investment and Sales (r) is found to be 0.9966, which implies that there exists a high degree of positive correlation between Investments and Sales**.** This means the two variables move in the same direction; i.e. if Investments increases then Sales also increases, and vice-versa.
- The regression equation shows that, on average, 100 rupees increase in assets investment would result in 23.77 rupees increase in sales revenue of NTC.

Shrestha (2010) on his unpublished thesis "*An Analysis of financial performance of Nepal Telecom*" the major findings of the study are: -

- Ratio is said to tell more than what is told alone by absolute values comprising the Ratio. Indexing of two items tell more than the items tell together. All Ratios computed in chapter four try to measure the financial position and/or performance of NTC, the core subject matter of this study. The analysis becomes irrelevant if the corrective actions based on the suggestion do not make difference.

- This research has used two short-term liquidity indicator Ratios. On the basis of these Ratios, one should say that the overall short-term solvency position of NTC is satisfactory. Perhaps, because of the service nature of its operation, NTC has maintained low level of inventory compared with other current assets components.

- The Average Age of Inventory and the Average Collection Period are simply mirror images of Inventory Turnover and Debtor Turnover Ratios. Conclusions are solely based on historical Straight Line Trend, Actual Trend and historical average. Of the various resources being enquired, current assets have the poorest performance. Though inventory seems to have good utilization rate compared to other current assets, it is because of the inventory's small size NTC carries. So NTC should be concerned about its current assets investment in future. As the increase in sales is not accompanied proportionally by the rate of increase in working capital. So There seems to be laxity in management in efficiently mobilizing the working capital. Fixed Assets Turnover/utilization seems to be improving over time. But it is still far below 1.00 mark which should make management not to be complacent. The performance of current assets in terms of volume generation was so poor over time that the improvement in performance of fixed assets could not compensate it.

- This research has, in effect, used 3 Leverage Ratios to judge the extent to which NTC has been financed with debt and bear fixed obligations. TD to TA and TD to TE Ratios are essentially the same measure. It seems that NTC has kept the policy of increasing its debt financing proportion gradually over the study period. The amount of long -term debt usedby NTC has decreasing. Capital employed now solely consists of equity. On overall, the firm should maintain its long - term debt to the levels so that Debt Ratio is around 50%.

- This research has used 6 Profitability Ratios to judge the overall effectiveness of the firm. The first three Ratios use sales as a base to measure performance, while the other three use investment/capital as a base

to measure performance. The profitability position shown by the first type of Ratios seems good. The profit margin are good, operating costs

- proportion are minimum. But the trends are not satisfactory enough. The cause may be the destruction of infrastructure during the civil war and internal problems of the concern.

- Operating Expenses Ratio Trend is maintaining its stage up and Modified Net Profit Margin. It means that operating expenses as well as other expenses are slowly going up on average over the study period.

- Organization can expect to receive medium level rate of return in future on their investments. The after tax return on total assets is also going in upward trend according to least square method. The way it behaved to its customers under monopoly is certainly not going to work under competitive market. Given the competitors mainly concentrated around big cities, the Organization subsidizing its rural operation through urban profit is going to face competition with such a severe constraint. Solvency position, short-term as well as long -term, is good and the direction of the Ratios which indicate these positions is positive particularly from the viewpoint of the lenders. But when it comes to resource employment position, it can be safely said that the turnovers generated by the assets are not satisfactory.

- Utilization of working capital in particular is very poor. Profitability on the operational front seems fairly good but with such low turnover, this cannot be termed excellent. Moreover, the negative trend of profit on operation makes the situation even more disappointing. The low rate of profit on assets/capital accompanied by negative growth rate on these Ratios shows that asset returns are poor on aggregate. Investments decisions are weak, operational efficiency are weak, only financial position / management is

good. But even the financial management from the viewpoint of the equity holder can be termed unsatisfactory because of there educing leverage benefits to the Share holders. So, on all fronts, NTC need to have a fresh re - look so that it can run smoothly in coming days of the 21st century.

2.4 Research gap

The former research in telecommunication sector, there are only one stake holder telecom company NTC. Nowadays there are many telecom service providers. In the past research period the total no. of shares of NTC owned by Government. Now government distributes the some portion of the shares to the public and its employee. Here are very tough competitions between the telecom service providers. The organization has enjoyed monopoly in the telecom market and got policy privilege during long period. The scenario has completely changed after recent entry of telecom operators in the market. As those companies are involved in business of various telecom services the natural monopoly enjoyed by Nepal telecom tends to be ended. Recent data and information has been used as the secondary data in this study.

CHAPTER - II

RESEARCH METHODOLOGY

The term ‘research’ is believed to be derived from the French word ‘Researcher’ meaning to search again. The research work is undertaken following a systematic way, which is called Research Methodology. As per Kother, it is the way to solve systematically about the research problem. The basic objective of the study is to appraise the true picture of the financial performance of Nepal Telecom and to recommend necessary suggestions for the improvements. Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing the relationships between capital and assets of the organization. Financial analysis plays an important role in finding the real picture of financial performance of any organization. It provides an idea to the management while adopting the financial policies.

The study requires an appropriate research methodology so as to achieve its objectives. The purposeful methodology has been followed for the fulfillment of the stated objectives. The methodology consists of research design, nature and sources of data, data collection procedure, data processing, sample and population and tabulation and analytical tools use.

A human nature is so curious and always wants to do something new and different. For this, several questions raises in his mind and to get the answers, he should gather information from different sources and analyze them to get the result. The researcher for gaining the knowledge about method of goal achievement, when we desire, is know as research methodology (Joshi; 2001:12). Research methodology is the way to solve systematically about the research problem (Kothati;1990:39).

3.1 Research Design

Research design is a set of advance decisions that make up the master plan specifying the methods and procedures for collection and analyzing the needed information. Research design is the plan structure and strategy of investigation conceived so as to obtain answer to research questions. The research is based on recent historical data as well as primary source of information. The study will explore the financial position of Nepal Telecom. The financial position refers to the amount of resources i.e. assets and liabilities of the company on the specific period and the results of their utilization. To conduct the study both descriptive and analytical research approaches has been adopted. Descriptive approach is utilized for conceptualization, problem identification, conclusion and suggestion of the study whereas analytical approach will be followed for the presentation and analysis of data. Thus the study is analytical as well as exploratory in nature. The data have been analyzed on the basis of standard financial formulas used in the book of financial management.

3.2Population and sample

As the study concerns to the financial position of Nepal Telecom, the study tries to draw conclusion by analyzing yearly financial statement of the organization. Thus the entire fiscal years are considers as the population and the five years from 2062/2067 are taken as sample.

3.3 Types and sources of data

The main source of data for the purpose of this study is the published financial statements of Nepal Telecom. The study is thus mainly based on the secondary data. However a good effort has been made to draw the vital information by gathering and analyzing primary source of information. It constitutes mostly the annual reports, which comprises balance sheet and profit and loss account statement. Information has also been supplemented from various publication of

Nepal Telecom. All other available published and unpublished material concerning the study as well as some journal abstracts will also be used in the study. The data has been processed through editing, coding and classification of the collected data. Present data have been analyzed using various analytical as well as descriptive financial and statistical tools. The reliability of the study and its findings depends upon the mainly on secondary data.

The major sources of data and information are as follows:

- Website of Nepal Telecom: http://www.ntc.net.np
- Annual Reports and other published documents of Nepal Telecom.
- Economic Survey F/Y 2067/68, Ministry of Finance, HMG/N
- Various Planning Documents, National Planning Commission HMG/N
- Telephone inquiries
- Materials published in paper and magazines.
- Various Research Studies, Dissertations and articles related to the subject.

3.4 Data Collection Procedure

The main sources of data are secondary and they are collected directly from official records and published statements. The researcher has consulted concerned officials for data and information. Verification and clarification of data has been done through discussion with the concerned authority.

3.5 Data processing

The balance sheet, income statements and the profit and loss accounts of the company for 5 years create from 2062/063 are collected for the convenience of the study. Then all the raw data are processed and presented in tabular form with the help of simple arithmetic rules. Entire raw data are converted into approximate and condensed in the form of consolidated balance sheet and income statement. Most of the data have been compiled in one form and processed and interpreted as

per the need of the study. The secondary type of data is presented for the analytical purpose after the tabulation of data. This type of data processing will help to present the clear situation of financial position of Nepal Telecom.

3.6 Analytical Tools Used in the Study

Since the study is concentrated on Financial Performance of Nepal Telecom some important financial as well as statistical tools and techniques are used for the analysis. The major tool employed for the analysis of this study is the ratio analysis that establishes the quantitative relationship of two variables of the financial statements. Ratio Analysis is the basic tool used for the study and is considered to be the powerful tool of financial analysis. Beside ratio analysis, various other financial tools and statistical tools have been studied.

3.6.1 Ratio Analysis

Ratio Analysis Ratio analysis is a widely used tool of financial analysis. Ratio analysis is a powerful and important tool of financial analysis, which helps in identifying the health of the organization. In other words, Ratio analysis helps the analyst make qualitative judgment on the firm's financial position as well as performance. It presents the actual situation of the organization. It provides guideline especially in spotting trend towards better or poor performance. Since financial efficiency is vital element to achieve the goal, the management should be aware of the current financial position. If present condition can be assessed correctly, then the management can predict the future position, and take corrective actions to improve the financial position. So it is very important for any organization to analyze its financial position with the help of ratio analysis.

Ratio analysis helps in identifying the strengths & weaknesses of the organization. Through Ratio analysis, one can meaningfully summarize the large quantities of financial data to make qualitative judgment about the firm's financial performance as well as financial position. The financial Ratio is simply the relationship

between two figures taken mainly from the financial statements of a business firm. Mathematically, Ratio refers to the numerical or quantitative quotient between two variables. A Ratio is calculated by dividing one item of the financial statement with other. The primary purpose of Ratio is to point out areas of further investigation. Ratio analysis is used as a major tool in interpreting and evaluating financial statements.

Ratio analysis stands for the process of determining and presenting the relationship of items and groups of items in the financial statement. According to Van Horne, "to evaluate the financial condition and performance of a firm, the financial analysis needs certain yardsticks. The yardstick frequency used is a Ratio or index relating to pieces of financial data to each other."(Van Horne, 1998:759)

3.6.1.2 Types of Ratio Used

Ratio may be classified in number of ways keeping in view of the particular purpose. There are different views about classification of ratio analysis. According to James C Van Horne," Different types of ratios namely liquidity ratio, leverage ratio , turnover ratio and profitability ratios are used in analysis of the financial position of a company." The study considers only those ratios, which are essential for decision making of capital structure. Following ratios are used to know the financial performance of Nepal Telecom.

A) Liquidity Ratio
B) Turnover Ratio/Assets Management Ratio / Activity Ratio
C) Profitability Ratio
D) Leverage/ Solvency Ratio/ Debt Management Ratio

A. Liquidity Ratio

Generally, the first concern of the financial analysis is liquidity. It tests whether the firm will be able to meet its maturing short-term obligations or not. The preparation of cash budgets & funds flow statements is required for detailed liquidity analysis of a company, but Liquidity Ratios provide a quick and easy measure of liquidity as it shows the relationship between cash & other current assets to current liabilities. Two commonly used liquidity Ratios are presented here. This Ratio helps to analyze the financial capacity of NTC to repay current liabilities and short - term loan.

I. Current Ratio

Commonly used to measure the short term solvency of a firm. It is a measure of short – term financial liquidity that indicates the availability of the rupees of current assets for each rupee of current liabilities. "The higher the Current Ratio, the larger is the amount of rupees available per rupee of current liability, the more is the firm's ability to meet current obligations and the greater is the safety of funds of short - term creditors."(Khan, 3ed: 4) The current assets normally include those assets that can be converted into cash within a year; such assets are marketable securities, accounts receivable and inventories. Current liabilities generally include those obligations maturing within a year; such liabilities are accounts payable, short term notes payable, current maturities of long term debt, accrued income taxes and other accrued expenses etc. The Current Ratio is calculated by using this formula.

Current Ratio = Current asset/ Current Liabilities

II. Quick Ratio

The Quick Ratio is calculated by deducting inventories from current assets and dividing the remainder by current liabilities. Generally, quick assets mean those types of assets that can be converted into cash quickly without any loss in value. So cash is considered the most liquid or quick asset and other quick assets include

sundry debtors, bills receivables, marketable securities etc. Inventories are typically the least liquid of the firm's current assets and the assets on which losses are most likely to occur in the event of liquidation. Therefore, the measure of the firm's ability to pay off short term obligation without relying on the sale of inventories is important.

Quick Ratio = (Current Assets - Inventory) / (Current Liabilities)

OR

Quick Ratio = Quick Assets / Current Liabilities

B. Activity Ratios

Activity Ratios are used to measure the speed with which various accounts are converted into sales or cash (Lawrence, 5th ed;1997). Funds have been invested in various assets - fixed as well as current to generate sales and profits in the firm. And these Ratios, also called Turnover Ratios, are employed to evaluate the efficiency with which the firm manages and utilizes its assets. So it involves a relationship between sales and various types of assets. A number of Ratios are available for measuring the activity of the firm.

I. Inventory Turn Over Ratio

Inventory Turnover Ratio indicates the efficiency of the firm in producing and selling its product. It is the measurement of how quickly inventory turns into sales. Generally, the higher the Inventory Turnover Ratio, the better is the inventory management. Low Ratio is either the sign of slow moving / obsolete inventory or the sign of excess inventory level than warranted by the production & sales activities. A very high Ratio should also be carefully analyzed as it may be the result of carrying too low level of inventory. Due to this situation, the firm might suffer from the problem of frequent stock outs and frequent replenishment in small volume which adversely affect the total cost of maintaining the inventory (ordering and carrying costs). Thus neither too high nor too low Ratio should be

better for the company. It is calculated by dividing, the cost of goods sold by average inventory.

Inventory Turnover = Cost of Goods Sold / Average Inventory

In the absence of information on cost of goods sold, one can use the following formula to find Inventory Turnover Ratio.

Inventory Turn Over Ratio = Sales / Inventory

Where, Average inventory is the closing balance of inventory.

We can also calculate the Average Age of Inventory dividing the number of days in a year i.e.360 by inventory turnover ratio. It shows the average length of time, inventory is held by the firm.

Average Age of Inventory = 360 / Inventory Turnover Ratio

II. Debtors (Account Receivable) Turn Over Ratio

Many firms sell their goods both for cash and credit. And when goods are sold for credit to the customers, debtors are created. Debtors Turnover Ratio indicates how many times debtors are turned into cash each year. Generally higher value of this Ratio indicates the management of credit is more efficient. Debtors Turnover Ratio is calculated dividing credit sales by average debtors. But in the absence of information about a firm's credit sales and opening & closing balances of debtors one can calculate this Ratio dividing sales by closing balance of debtors.

Debtors Turnover Ratio = Credit Sales / Average Debtors

OR

Debtors Turnover Ratio = Sales / Debtors

III. Average Collection Period (ACP)

The average number of days in which debtors remain outstanding is called Average Collection Period. It can be computed as follows.

ACP = Debtors / Average Credit Sales Per Day

OR

ACP = Debtors*360 / Credit Sales

But in the absence of information about a firm's credit sales, the Ratio will be calculated as
follows:

Debtors/ Average Sales Per Day

Or

ACP = Debtors*360 / Sales

IV. Assets Turnover Ratios

Assets Turnover Ratio is simply the relationship between sales and assets. Several Assets Turnover Ratios can be calculated. But only four types of Assets Turnover Ratios are calculated in this research.

a). Total Assets Turnover Ratio

This Ratio shows the relative efficiency in utilizing its resources in order to make output by the firm. It is calculated by dividing sales by total assets.

Total Assets Turnover Ratio = Sales / Total Assets

b). Fixed Assets Turnover Ratio

Fixed Assets Turnover measures the relative efficiency of utilizing fixed or earning assets to generate sales by the firm. And it is calculated simply dividing sales by net fixed assets of the firm.

Fixed Assets Turnover Ratio = Sales / Net Fixed Assets

V. Working Capital Turnover Ratio

A firm may like to relate net working capital to sales to judge the efficiency of net current assets employed by the firm. It may compute net Working Capital Turnover Ratio by dividing sales by net working capital. Mathematically,

Working Capital Turnover = Sales / Net Working Capital

This Ratio indicates the amount of sales generated by each rupee of current assets that is financed by permanent fund.

VI. Capital Employed Turnover Ratio

Capital Employed Turnover indicates the amount of sales generated by each unit of permanent capital employed in the business. It can be taken as refined estimated for Total Assets Turnover. It is also called Net Assets Turnover. It excludes the amount of current liabilities from total assets to arrive at the amount of capital employed. Fund financed by current liabilities is not considered as a part of true capital because it is argued that current liability financing frequently changes its size.

Mathematically,

Capital Employed Turnover Ratio = Sales / Total Capital Employed

Where;

Total Capital Employed = Total Assets - Total Current Liabilities

C. Profitability Ratios

Profitability Ratio is the main concern of the owners and the management of the firm. The management of the firm always wants to know how efficient the operation of the firm is. Likewise the owners of the company always expect a reasonable return for their investment in the firm. For this reason, profitability Ratio can be a good measurement of the operating efficiency and profitability of

the firm. By the help of the Profitability Ratios, one can make a quick and clear view towards the firm's Profitability, Return on Assets, and Return on Equity and Earnings per Share etc. In general, Profitability Ratios can be determined by two different factors of the financial statements. One is related to the income statement i.e. sales, expenses etc. and the other one is related to the balance sheet i.e. the investments, capital etc.

Profitability Ratios Related To sales:

These Ratios explain how much profit earned or how much expenses occurred by the company on each rupee of its sales. The following Profitability Ratios related to income statement are presented here.

I. Net Profit Margin

Net profit is the residue of revenue over total costs. The costs include operating & selling expenses, interests, and taxes. The Net Profit Margin Ratio measures the relationship between Net Profit and sales of the firm. It indicates the ability of the management in running the business efficiently in terms of revenue generation, costs of producing goods & services, operating & selling expenses, costs of borrowed capital and making a reasonable return for its owners. It is computed by dividing net profit after tax by sales.

Net Profit Margin = Net Profit After Tax (NPAT) / Sales

Some Scholars does not consider interest charges as the expenses of the firm in computing Net Profit Margin. To exclude the effect of financing charges on profitability, they used the following alternative formula for computing Net Profit Margin Ratio:

Net Profit Margin = (NPAT + Interest After Taxes) / Sales

II. Operating Expenses Ratio

The Operating Expenses Ratio explains the changes in Operating Profit Margin. This Ratio is computed by dividing operating expenses by sales. Operating expenses consists of cost of goods sold, selling expenses and general and administrative expenses excluding interests.

Operating Expenses Ratio = Operating Expenses / Sales

Profitability Ratios Related To Investments:

Another computation of Profitability Ratios is related to investments. It is called Return on Investment (ROI). But there are different concepts of investments in financial literature: assets, capital employed and shareholders' equity. Based on these, the ROI also categorized in different categories:

Return on Assets

Return on Capital Employed

Return on Shareholders' Equity.

III. Return on Assets (ROA)

Here, the Profitability Ratio is measured in terms of the relationship between net profits and the assets of the firm. Different approaches are applied to define Net profit and assets for calculating ROA. But we will apply net profit after tax (NPAT) plus interest and total closing assets for this study. It is computed as:

Return on Assets = (NPAT + Interest After Taxes)/Total Assets

IV. Return on Capital Employed (ROCE)

This is another type of ROI and a little different from ROA. Here, profit is related to the capital employed which is equal to net fixed assets plus net working capital or shareholders' equity plus long term debt. It is calculated as:

ROCE = (NPAT + Interest After Taxes) / Capital Employed

Where,

Capital Employed = Owner's Equity + Total Long Term Debt

V. Return on Equity (ROE)

Common or ordinary shareholders are entitled to the residual profits. "While the ROCE expresses the profitability of a firm in relation to the funds supplied by the creditors and owners taken together, the Return on Shareholders' Equity measures exclusively the return on the owners' fund. A Return on Shareholders Equity is calculated to see the profitability of owners' investment. The shareholder's equity or net worth will include paid - up share capital, share premium and reserves and surplus less accumulated losses. Net worth can also be found by subtracting total liabilities from total assets. It is computed as net profit after taxes divided by shareholder's equity.

Return on Equity = Net Profit After Taxes (NPAT) / Net Worth (NW)

D. Leverage Ratios

Leverage Ratios measure the firm's ability to meet its long - term obligations. These also indicate how much levered the firm is. In other words, from Leverage Ratios, one can easily know, how much long - term debt is being used in the company and whether the company will be able to pay the debt or not when due. The Leverage Ratios are the main concern of long - term outside creditors such as debenture holders, banks, and financial institutions etc. "The short term creditors like bankers and suppliers of raw materials are more concerned with the firm's current debt paying ability. On the other hand, long term creditors, like debenture holders, financial institutions, etc. are more concerned with the firm's long term financial strength. So Leverage Ratios are calculated to judge the long term financial position of the firm. Some basic types of Leverage Ratios are:

I. Debt Ratio

The Ratio of total debt to total assets, generally called the Debt Ratio, measures the percentage of funds provided by creditors. In other words, this Ratio shows the

proportion of interest bearing debt in the capital structure. Debt Ratio is calculated by dividing the total debt by total assets (net). Total debts include both current and long - term debts and total assets (net) include net fixed assets plus current assets. In the outside creditors' view, low Debt Ratios are preferred because the lower the Ratio, the greater the probability against their losses in the event of liquidation while in the stockholders' view, the reverse is preferred because the high leverage will increase the probability of expected earnings. But there should be an appropriate mix of debt & equity financing for better health of the company.

Debt Ratio = Total Debt/ Total Assets

II. Debt Equity Ratio

Debt Equity Ratio reflects the relative portion of creditors' and shareholders' claims upon the total assets of the company. It can be computed by dividing total debt by net worth.

Debt Equity Ratio = Total Debt / Net Worth

III. Long -Term Debt Ratio

Long - Term Debt Ratio explains the leverage in terms of long - term capitalization and it is calculated dividing long - term debt by capital employed. Capital employed consists of long - term debt plus net worth.

Long -Term Debt Ratio = Long -Term Debt/ Capital Employed

Where;

Capital Employed = Long -Term Debt + Net Worth

IV. Interest Coverage Ratio:

It is also known as 'Time-Interest-Earned Ratio'. This Ratio measures the debt servicing capacity of a firm insofar as fixed interest on long term debt is concerned. Higher Ratio is preferable both from the view point of lenders as well as from the view point of the owners. This Ratio, as the name suggests, shows how

many times the interest charges are covered by the EBIT out of which they will be paid. In other words, it indicates the extent to which a fall in EBIT is tolerable in the sense that the ability of the firm to service its interest payments would not be affected. It is determined by dividing by dividing the operating profits or earning before interest and taxes (EBIT) by fixed interest charges on debts.

Interest Coverage Ratio = EBIT / Interest

3.6.1.3 Comparison of Standards

The Ratio analysis involves comparison for a useful interpretation of the financial statements. A Ratio itself could not help much to the analyzer unless he/she makes comparison of it with some standards. There are many types of standards available for comparisons. The important ones are:

a. Past Ratios

b. Projected Ratios

c. Competitors' Ratios

d. Industry Ratios

Comparison with past Ratios of the same company may be suitable to evaluate performance over a period of time of a company. It is known as time series analysis or trend analysis. Projected Ratios are future Ratios that are developed from projected financial statements of the company. Comparison with future Ratios helps to find whether the company's performance is accordance with the long term planning or not. Comparison with competitors' Ratio is also called cross-sectional analysis. The analyzer compares the company's performance with its competitors' and finds the company's relative financial position / performance. Industry Ratios are always useful to compare the company's performance with whole the industry's as it is from the same industry. This sort of analysis, known as the industry analysis, helps to ascertain the financial standing and capability of the firm vis-à-vis other firms in the industry (Pandey; 2006: 105).

Among various types of comparisons, this research mainly uses the past Ratios for meaningful analysis of NT's financial performance.

3.6.2 Statistical Analysis

Facts and figures about any phenomenon whether it relates to population, production, sales, profit or any other matters are called 'statistics'. In this sense, the term statistics is considered synonymous with figure. To the layman, the term statistics usually carries only the nebulous and too often distasteful connections of figures. "The word statistics refer either to quantitative information or to a method of dealing with quantitative information." (Gupta, 1983:1). This Research applies the following statistical tools for the required financial analysis.

- Arithmetic Mean
- Correlation Analysis
- Regression Analysis

3.6.2.1 Arithmetic Mean

The Arithmetic Mean is the most popular and commonly used measures of central tendency, which represents the entire data by a single value. The Arithmetic Mean of values of variable in a given set of observation is the summation of all the values of the variables divided by the number of observations. In general, $x_1 \Gamma x_2 \Gamma x_3 \Gamma .....x^n$ are given observations up to N^{th} term, then their Arithmetic Mean (X bar) is given by:

$$\bar{x}\,\mathrm{X}(x_1 \Gamma x_2 \Gamma x_3 \Gamma .....x^n / N$$

Where, X = Mean, $\bar{x}\,\mathrm{X}(x_1 \Gamma x_2 \Gamma x_3 \Gamma .....x^n$ are the given set of observations and N = numbers of its observed

3.6.2.2 Correlation Analysis

Correlation Analysis is the statistical tool generally used to describe the degree to which one variable is related with another. The relationship is generally assumed to be a linear one. This analysis is also used in conjunction with Regression Analysis to measure how well the regression line explains the variations of the independent variable. It enables one to determine to the degree and direction of association between two variables.

For measuring Correlation, it is essential that the two phenomena should have cause and effect relationship. In absence of such relationship, one should not talk of Correlation between them. But the Correlation in itself does not tell about the nature of the cause and effect of relationship between the variables. It is explained by Regression analysis. There are several mathematical methods of measuring Correlation. The method developed by Carl Pearson, popularly known as Pearson's co-efficient of Correlation, is most widely used in practice. Carl Pearson's co-efficient of correlation measures the degree of association between two variables, say variable X and variable Y, and is denoted by the symbol 'r'. The formula for computing Pearsonian correlation 'r' is:

$$r = \frac{COV(XY)}{VAR(X)VAR(Y)}$$

$$r = \frac{N \quad XY - X \quad Y}{\sqrt{N \quad X^2 - (\quad X)^2}\sqrt{N \quad Y^2 - (\quad Y)^2}}$$

The value of the co-efficient of Correlation obtained by the above formula shall always lie between +1 to -1. The following general rules are taken to interpret the value of 'r'.

A. If 'r' = +1, it means that there is perfect positive relationship between the two variables.

B. If 'r' = -1, it means that there is perfect negative relationship between the two variables.

C. If 'r' = 0, it means that there is no relationship between the two variables i.e. the variables in question are independent.

D. The closer the value of 'r' to =+1 or -1, the closer the relationship between the two variables; and the closer the value of 'r' to 0, the less close is the relationship.

The correct interpretation of 'r' depends on the size of the sample, among the other things. Smaller the size of sample, less reliable is the result. So we need to test the statistical significance of 'r' before confidently inferring from it.

Probable Error: The Probable Error of the co-efficient of Correlation helps in interpreting its value. With the help of Probable Error, it is possible to determine the reliability of the value of coefficient in so far as it depends on the conditions of random sampling. The Probable Error of the coefficient of Correlation is obtained as follows:

$$\text{P.E. r} = 0.6745 \times \frac{1\Gamma r^2}{\sqrt{n}}$$

Where r is coefficient of Correlation and n is the number of pairs of items.

Interpretation:

1. If the value of r is less than the Probable Error, there is no evidence of Correlation, i.e. the value of r is not at all significant.
2. If the value of r is more than six times the Probable Error, the existence of Correlation is practically certain, i.e., the value of r is significant.

3.6.2.3 Regression Analysis

Regression analysis is used to estimate the likely value of one variable from the known value of the other variable i. e. in regression analysis we establish a kind of

average irreversible functional relationship between the two variables. The cause and effect relationship is clearly indicated through regression analysis than by correlation. In other words, regression analysis is a mathematical measure of the average relationship between two or more variables in terms of original units of data. There are two types of variables in regression analysis viz. dependent variable and independent variable, the variable whose-value is influenced or is predicted is called dependent variable whereas the variable which influences the value or is used for prediction is called independent variable. The dependent variable is also known as regressed or explained variable while the independent variable is called as regress or predictor or explanatory variable.

3.6.2.4 Lines of Regression

If there exists a relationship between two variables, the points in the scatter diagram will more or less concentrate around a cure, called the curve of regression. If the curve is a straight line, it is called the line of regression and relationship between the variables is said to be linear regression.

A line of regression is the line, which gives the best estimate to the value of one variable for any specified value of the other variable. Thus the line of regression is the line of best fit. The term best fit is interpreted in accordance with the principle of Least Squares which consists in minimizing the sum of squares of the residuals or the errors of estimates, i.e. deviation between the given observed values of the variables and their corresponding estimated values as given by the line of best fit. If we have two variables X and Y, we shall have two regression lines, Minimizing squares of error parallel to y-axis gives the equation of the line of regression equation of Y on X and minimizing the sum of squares of the errors parallel to X-axis, gives the equation of the line of regression of X on Y.

Regression Equation of Y on X.

It is the line, which gives the best estimates for the values of Y for any specified values of X. Regression equation of Y on X is given by

$Y = a + b \times X$ ..... (I)

Where,

Y= Dependent variable
X= Independent variable
a = Intercept of the line
b = Slope of the Line (It measures the average change in the value of Y as a result of one unit change in value of X). It is also called regression coefficient of Y on X. In other words, it measures the rate of relationship.

The value of the constants a and b can be determined by solving following equation.

$Y = n\,a + b\,\Sigma X$ ..... (ii)
$\Sigma XY = a\,\Sigma X + b\,\Sigma X$ .....(iii)

By calculating the equation no (ii) and (iii), we get the value of 'a' and 'b' and substituting these value in equation (i), we get required estimated regression equation of Y on X.

3.7 Methods of Presentation and Analysis

Simple methods of analysis have been used, data presentation and analysis has been divided into small sub - topics. Every result has been tabulated and clear interpretation of it has been given simultaneously. Detail of calculations has been presented in appendices at the end of the report. Tables, and have been used to

make report clear and easily understandable. Summary, conclusion and recommendation have been presented at the last chapter of the report.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

This chapter highlights the financial position of Nepal Telecom. The tools used for the purpose of analysis have been discussed in detail in research methodology. Some financial and statistical tools have been used to evaluate the financial position of NT. The financial too include ratio analysis between various variables whereas the statistical tools include Correlation and regression analysis between the variables. The major variable like assets, liabilities, sales, debt, and equity are taken for the analysis. Moreover the variables affecting to the financial performance are also considered in the study. The analysis is made through the data presentation and various financial ratios reflecting the relationship among variables affecting financial performance. The main objective of this study is to examine the financial position/performance of NTC. To meet this objective, it is essential to present, analyze and interpret data contained in annual reports of NTC. The annual reports include balance sheet and Income statement along with their supporting schedules. Analysis and interpretation of data is an attempt to find - out the implications and the significance of past activities/decisions in the light of present position and future prospect and to make suggestion for future action. In this study, the data are presented, analyzed and interpreted on the basis of research questions. The analysis part begins with a brief overview of financial position/performance indicators of the firm. The different types of tools and techniques that have been used to analyze the data are as follows:

- **Ratio Analysis**
- **Trend Analysis**
- **Correlation/Regression Analysis**

4.1 Liquidity Ratio:

Liquidity ratios are used to judge an organizations ability to meet its short-term obligation. These ratios are comparison of short-term obligation with the resources available and are measured by current ratio and quick ratio. The liquidity ratio reflects the short-term financial strength of a firm.

4.1.1 Current Ratio (CR)

Table 4.1

Calculation of current ratio and its straight line trend equation

'000'

Year order	Fiscal year	Current Assets	Current Liabilities	Current Ratio	Straight Line Trend
1	2062/63	22,526,522	15,665,380	1.44	1.30
2	2063/64	23,519,754	15,675,154	1.50	1.57
3	2064/65	24,180,639	15,014,440	1.61	1.84
4	2065/66	27,663,560	12,406,063	2.23	2.11
5	2066/67	33,039,650	13,661,063	2.42	2.38
Average Current Ratio				1.84	

Source: Annual Reports of Nepal Telecom

Straight Line Trend of the Ratio is: $\hat{Y}$ = **1.03+0.27(x)**

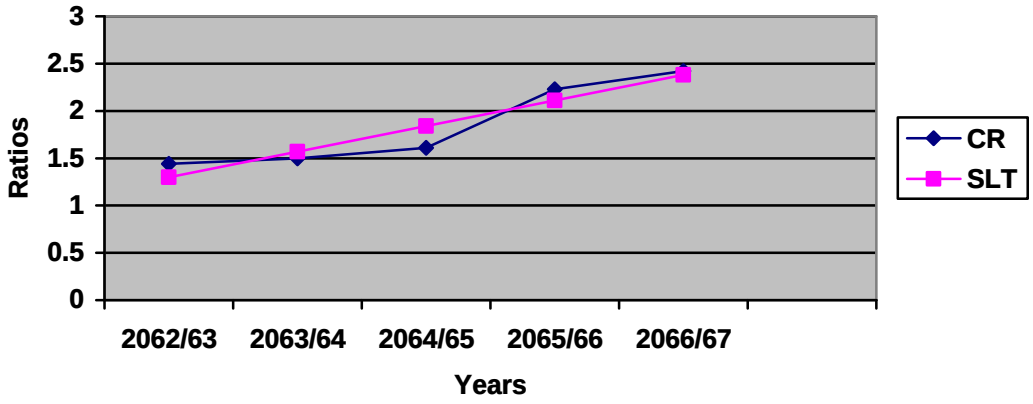
When X=6, $\hat{Y}$ =2.65, i.e. Expected Current Ratio for next year (year=6)

Where, Y= estimate of the Current Ratio

X= measure of time when base year 2062/63 = 1

Figure 4.1

Current ratio and its straight line trend



The table 4.1 shows that the average Current Ratio is 1.84 times during the study period. The Ratio 1.84 on an average indicates that the Organization has current assets of Rs 1.84 for each rupee of current liabilities. As current liabilities are paid by the current assets, it seems that NTC will be able to pay its current liabilities at the time of requirement. It ranges between a highest of 2.42 times in F/Y 2066/67 B.S and a lowest of 1.44 times in F/Y 2062/63. The overall Ratio trend increase smoothly. While comparing with the average, one finds that in F/Y 2065/66 to 2066/67 B.S the Ratio is higher than the average and for F/Y 2062/63, 2064/65 the Ratio is lower than the average. If we see the actual trend, we can find its Current Ratio is not so volatile over time.

The fitted Trend Line shows that the liquidity position of the Organization would remain sound in future.

4.1.2 Quick Ratio/ Acid Test Ratio

Table 4.2

Calculation of quick ratio and its straight line trend equation

'000'

Year	Fiscal year	Quick Assets	Liabilities Current	Quick Ratio	Straight Line Trend
1	2062/63	22,197,207	15,665,380	1.42	1.26
2	2063/64	23,192,070	15,675,154	1.48	1.54
3	2064/65	23,764,215	15,014,440	1.58	1.82
4	2065/66	27,483,429	12,406,063	2.22	2.10
5	2066/67	32,867,378	13,661,063	2.41	2.38
Average Quick Ratio				1.82	

Source: Annual Reports of Nepal Telecom

Straight Line Trend of the Ratio is: $\hat{Y} = 0.98 + 0.28(X)$

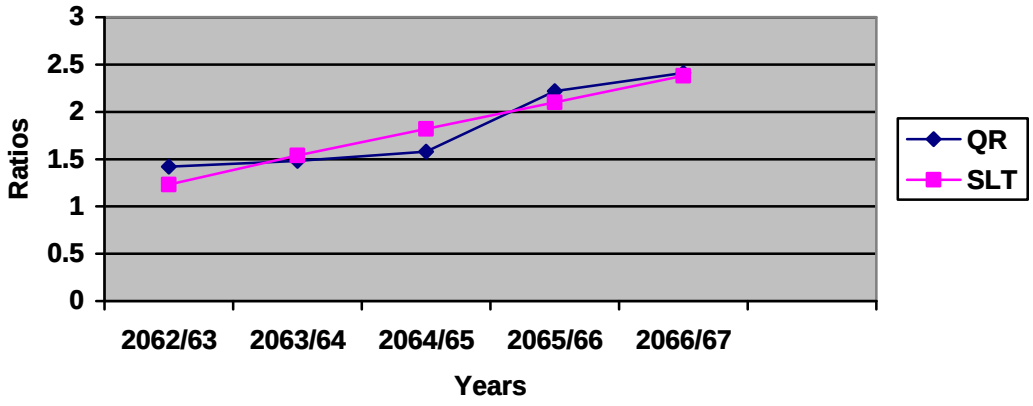
When X=6, $\hat{Y}$ = 2.66 i.e. Expected Quick Ratio for next year (year=6)}

Where, $\hat{Y}$ = estimate of the Quick Ratio

X= measure of time when base year 2062/63 = 1

Figure 4.2

Quick ratio and its straight line trend



The table 4.2 shows that the average Quick Ratio is 1.82 times during the study period. The Ratio of 1.82, on an average, indicates that the Organization has quick assets of Rs 1.82 for each rupee of current liabilities. As average Current Ratio is 1.84 throughout the study period, we can see a little difference between these two Ratios. It means that the least liquid item among the current assets, the inventory,

has occupied a very nominal place as part of the total current assets of NTC. In this respect, NTC can be said to have a good liquidity position to fulfill its current obligations when they become due.

The table shows that the Ratio ranges between a highest of 2.41 times in F/Y2066/67 B.S and a lowest of 1.42 times in F/Y 2062/63 B.S. The overall Ratio Trend shows clear direction. It seems Increasing slowly. While comparing with the average, one finds that in F/Y 2065/66 and 2066/67B.S the Ratio is higher than the average and in F/Y 2062/63 to 2064/65 B.S the Ratio is lower than the average.

The Straight Line Trend fitted on the basis of least square method shows a lung run positive growth rate of 0.28 times per year for this Ratio. Based on the fitted Trend Line, it can be expected that the liquidity position of the Organization could growth in future.

4.2 Turnover Ratio/ Activity Ratio

Funds of creditors and owners are invested in various assets to generate sales and profits. The better the management of assets, the larger will be the amount of sale. Activity Ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. These Ratios are also called Turnover Ratios because they indicate the speed with which assets are being converted or turned over into sales. So, it involves a relationship between sales and assets reflecting whether assets are managed well. Several Activity Ratios can be calculated to judge the effectiveness of assets utilization.

4.2.1 Inventoty Turnover Ratio(ITR)

Table 4.3

Calculation of inventory turnover ratio and its straight line trend equation

'000'

Year order	Fiscal year	Operating Sales	Inventories	Inventory Turnover	Line Trend
1	2062/63	10413654	329315	31.62	14.93
2	2063/64	13967318	327684	42.62	44.96
3	2064/65	16788359	416424	40.32	74.99
4	2065/66	20646629	180131	114.62	105.02
5	2066/67	25114462	172272	145.78	135.05
Average Inventory Turnover Ratio				74.99	

Source: Annual Reports of Nepal Telecom

Straight Line Trend of the Ratio is: $\hat{Y}$ = **-15.10+30.03 (X)**

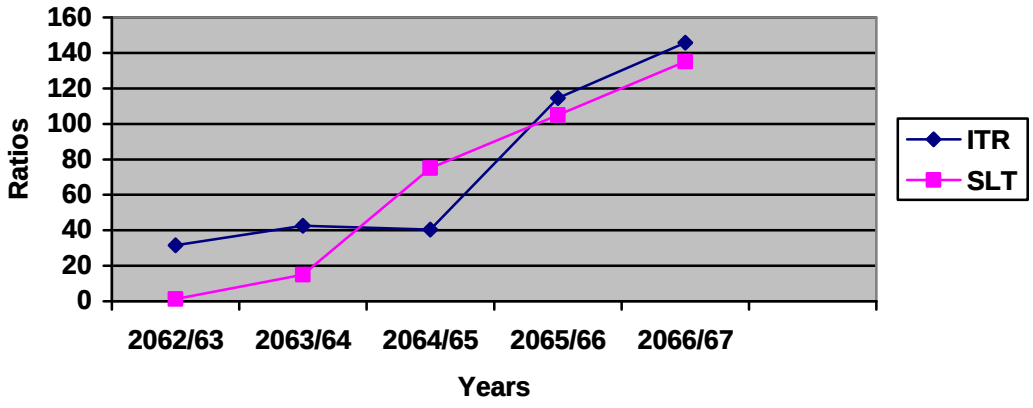
When X=6, $\hat{Y}$ = 165.08{i.e. Expected ITR for next year (year=6)}

Where, $\hat{Y}$ = estimate of the Inventory Turnover Ratio

X= measure of time when base year 2062/63 = 1

Figure 4.3

Inventory turnover ratio and its straight line trend



The table 4.3 show that the average of the Inventory Turnover Ratio of NTC for the past five year was 74.99 times. The average Ratio of 74.99 indicates that each rupee of inventory is generating sales of Rs. 74.99. It ranges between a highest of 145.78 times in F/Y 2066/67 B.S and a lowest of 31.32 times in F/Y2062/63 B.S.

The overall Ratio Trend shows an upward direction particularly in the most recent years. If we see the actual trend, we can find that the Inventory Turnover Ratio is slightly volatile over time. But for the last years, the Ratio is increasing continuously. And since a high Ratio is good from the view point of inventory utilization, the increasing Ratio seems favorable for NTC.

The Straight Line Trend fitted on the basis of least square method shows a long run positive growth rate of 30.03 times per year for this Ratio. Based on the fitted Trend Line, it can be expected that the inventory utilization level of NTC should improve in coming years.

4.2.2 Average Age of Inventory

Table 4.4

Calculation of Average Age of Inventory (days)

Year order	Fiscal year	Inventory Turnover	Average Age of Inventory
1	2062/63	31.62	11
2	2063/64	42.62	8
3	2064/65	40.32	9
4	2065/66	114.62	3
5	2066/67	145.78	2
Average Age of Inventory			7

Source: Annual Reports of Nepal Telecom

The table 4.4 shows that the Average Age of Inventory of NTC for the study period is 7 days. The average value of 7 indicates that an item of inventory purchased by the firm remains in the go down for 7days before being released for sale or service to its customers (i.e. a typical item of inventory in the store is replaced every 7^{th} day. The Average Age ranges between a highest of 11 days in F/Y 2062/63 B.S and a lowest of 2 days in F/Y 2066/67 B.S. The overall value trend shows a downward direction particularly in the most recent years.. If we see

the actual trend, we can find that the Average Age of Inventory is showing decreasing tendency over time, particularly for the last four years. And since a lower value is good from the view point of inventory utilization, the decreasing value is a good indication for NTC.

4.2.3 Debtors Turnover Ratio (DTR)

Table 4.5

Calculation of Debtors Turnover Ratio and its straight line trend equation

'000'

Year order	Fiscal year	Operating Sales	Debtors	Debtors Turnover	Straight Line Trend
1	2062/63	10,413,654	3,099,496	3.36	3.42
2	2063/64	13,967,318	3,455,512	4.04	4.09
3	2064/65	16,788,359	3,482,611	4.82	4.76
4	2065/66	20,646,629	3,593,205	5.75	5.43
5	2066/67	25,114,462	4,295,998	5.85	6.10
Average Debtor Turnover Ratio				4.76	

Source: Annual Reports of Nepal Telecom

Straight Line Trend of the Ratio is: $\hat{Y}$ **=2.755+0.669 (X)**

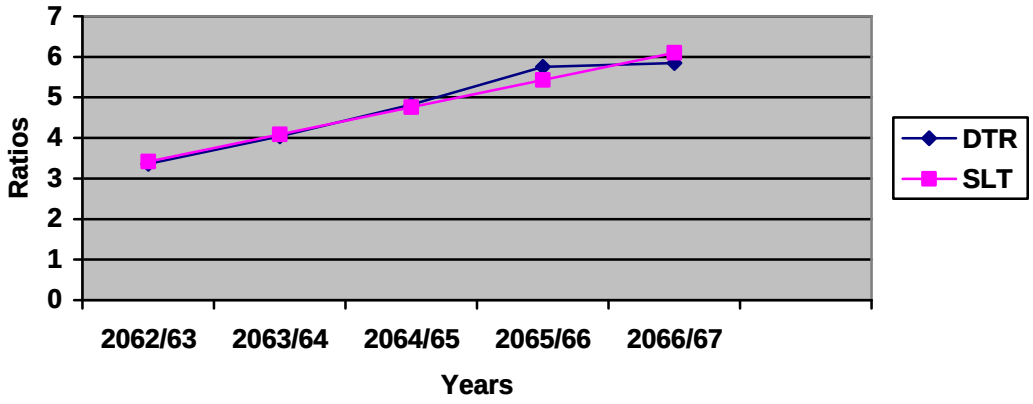
When X=6, $\hat{Y}$ = 6.769 {i.e. Expected DTR for next year (year=6)}

Where, Y= estimate of the Debtors Turnover Ratio

X= measure of time when base year 2062/63=1

Figure 4.4

Debtors Turnover Ratio and its straight line trend



The table 4.5 shows that the average DTR of NTC for the past five year was 4.76 times. The average Ratio of 4.76 indicates that each rupee of investment in receivables is generating sales of Rs. 4.76. It ranges between a highest of 5.85 times in F/Y 2066/67B.S and a lowest of 3.36 times in F/Y 2062/63 B.S. The overall trend of the Ratio shows upward direction. It has shown marked improvements over the most recent years of the study period which, if maintained, can be a very good sign for the credit collection of the NTC. While comparing with the average, one finds that from F/Y 2065/66 and 2066/67B.S. the Ratio is higher than the average and for F/Y2062/63 to 2064/65B.S. the Ratio is lower than the average.

The Straight Line Trend fitted on the basis of least square method shows a long run positive growth rate of 0.669 times per year for this Ratio. Based on the fitted Trend Line, it can be expected that the receivable management of NTC should improve in coming years.

4.2.4 Average Collection Period (ACP)

Table 4.6

Calculation of Average Collection Period

Year order	Fiscal year	Operating Sales	Debtors	ACP Days
1	2062/63	10,413,654	3,099,496	107
2	2063/64	13,967,318	3,455,512	89
3	2064/65	16,788,359	3,482,611	75
4	2065/66	20,646,629	3,593,205	63
5	2066/67	25,114,462	4,295,998	62
5yrs-Average Collection Period				79

Source: Annual Reports of Nepal Telecom

The table 4.6 shows that the Average Collection Period of NTC over the five years of study period is 79 days. The average value of 79 indicates that an invoice of credit receivable remains outstanding for 79 days before being collected from the customers (i.e. a typical debtor of NTC pays his/her dues 79 days after the purchase of goods/consumption of service). The ACP ranges between a highest of 107 days in F/Y 2062/63 and a lowest of 62 days in F/Y 2066/67. While comparing with the average, one finds that from F/Y 2062/63 and 2063/64 the values are higher than the average and for F/ Y 2064/65 to 2066/67; the values are lower than the average. The actual value trends show a downward movement for the overall period of five years. If we take a close look at the actual trend, we can find that the Average Collection Period is showing decreasing tendency of the study periods. And since a lower value is good from the view point of collection efficiency, the decreasing value may be a good indication for NTC in coming years.

4.2.5 Total Assets Turnover Ratio

Table 4.7

Calculation of Total Assets Turnover Ratio and its straight line trend equation '000'

Year	Fiscal year	Total	Total	TA	straight
1	2062/63	11,058,914	39,214,958	0.28	0.30
2	2063/64	14,751,623	43,529,300	0.34	0.33
3	2064/65	17,889,309	49,371,223	0.36	0.36
4	2065/66	22,147,582	57,512,954	0.39	0.39
5	2066/67	27,221,068	64,189,996	0.42	0.42
Total Assets Turnover Ratio				0.36	

Source: Annual Reports of Nepal Telecom

Straight Line Trend of the Ratio is: $\hat{Y} = 0.267 + 0.031(X)$

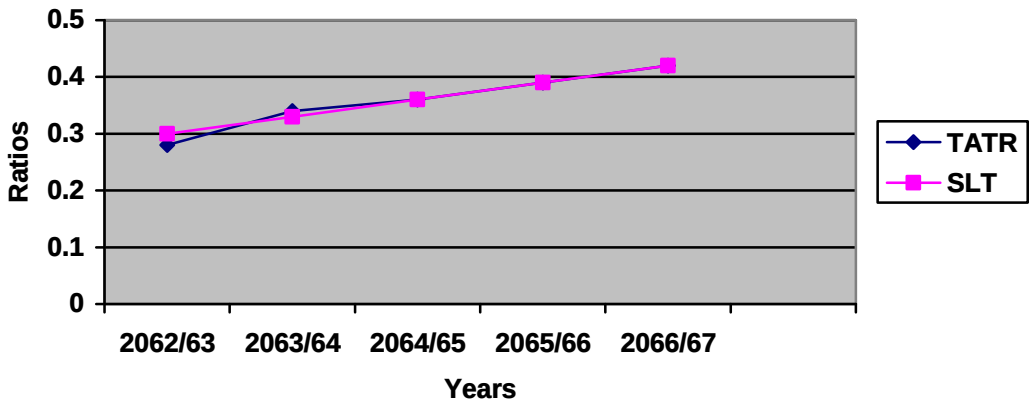
When X=6, $\hat{Y}$ = 0453 {i.e. Expected TAT Ratio for next year (year=6)}

Where, Y= estimate of the Total Assets Turnover Ratio

X= measure of time when base year 2062/63 = 1

Figure 4.5

Total Assets Turnover Ratio and its straight line trend



From the table 4.7 shows that the average of the TATR Ratio of NTC for past five year was 0.36 times which is lower then the general standard average of at least 1.00 times for this line of business that each rupee of investment in assets is generating sales of Rs. 0.36. While comparing with the average, one finds that from F/Y 2064/65, 2065/66 and 2066/67 the values are higher than the average and for F/ Y 2062/63 and 2063/64; the values are lower than the average. The overall Ratio Trend shows a random movement of the Ratio over the five year period. Though the Turnover Ratio is mildly volatile over time. Unless the firm generates sufficient volume the further investment in assets will not be justified.

The Straight Line Trend fitted on the basis of least square method shows a long run negligible positive growth rate of 0.031 times per year for this Ratio. If this

Ratio is to move as per the fitted Trend Line in future, it can be expected that the total assets utilization level of NTC should remain at least constant in coming years. Continuous expansion of its assets over the recent years followed by marginal increase in sales has primarily caused TATR to remain stable. If the firm cannot utilize this expanded capacity in the near future, the firm may have to make savings its assets investment or else it would face inactive TATR Ratio.

4.2.6 Fixed Assets Turnover Ratio (FATR)

Table 4.8

Calculation of Fixed Assets Turnover ratio and its straight line trend

'000'

Year order	Fiscal year	Total Sales	Net Fixed Assets	FA Turnover	Line Trend
1	2062/63	11,058,914	10,088,427	1.10	1.07
2	2063/64	14,751,623	11,361,043	1.30	1.25
3	2064/65	17,889,309	12,897,703	1.39	1.43
4	2065/66	22,147,582	15,365,515	1.44	1.61
5	2066/67	27,221,068	14,143,908	1.92	1.79
Fixed Assets Turnover Ratio				1.43	

Source: Annual Reports of Nepal Telecom

Straight Line Trend of the Ratio is: $\hat{Y} = 0.89+0.179 (X)$

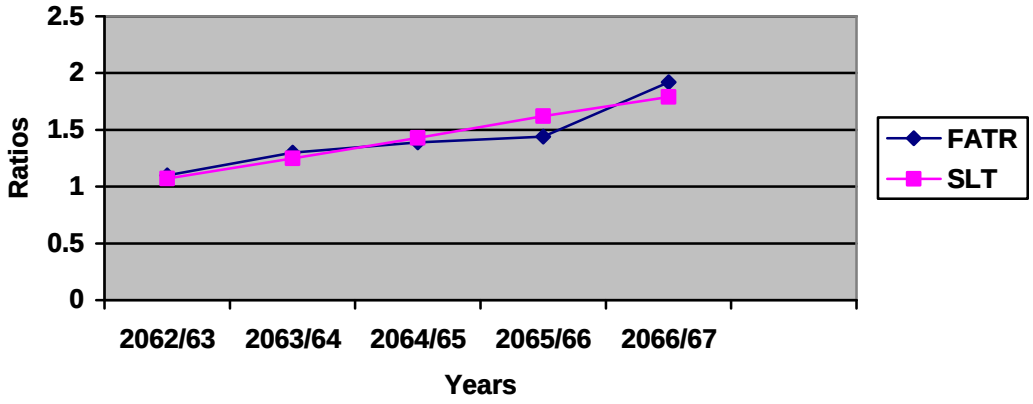
When X=6, $\hat{Y}$ = 1.96{i.e. Expected FAT for next year (year=6)}

Where, Y= estimate of the Fixed Assets Turnover Ratio

X= measure of time when base year 2062/63 = 1

Figure 4.6

Fixed assets turnover ratio and its straight line trend



From the table 4.8, it is clear that the Fixed Assets Turnover of NTC is in increasing trend. It ranges from a minimum of 1.10 times in F/Y 2062/63 B.S to a maximum of 1.92 times in F/Y 2066/67. While comparing with the average, one finds that in initial 3 years, the Ratios are below the average and for later three years, the Ratios are above the average. The average Ratio is 1.43 times which indicates that each rupee of investment in fixed assets is generating sales of 143 paisa, the good aspect is that it is showing a clear upward trend in 5years of the study period. It can be safely termed that the company's efficiency in using its fixed assets is good and it is going toward the right direction in the most recent years.

The Straight Line Trend fitted on the basis of least square method shows a sizeable long run positive growth rate of 0.89 times per year for this Ratio. If this Ratio is to move as per the fitted Trend Line in future, it can be expected that the fixed assets utilization level of NTC should improve, at least in coming years. NTC should try to increase its current level of fixed assets utilization in the near future.

4.2.7 Working Capital Turnover Ratio (WCT)

Table 4.9

Calculation of Working Capital Turnover ratio and its straight line trend equation

'000'

Year order	Fiscal year	Total Sales	Current Asset	Current Liab.	Net WC	WC Turnover Ratio	Staight Line trend
1	2062/63	11,058,914	22,526,522	15,665,380	6,861,142	1.61	1.83
2	2063/64	14,751,623	23,519,754	15,675,154	7,844,600	1.88	1.74
3	2064/65	17,889,309	24,180,639	15,014,440	9,166,199	1.95	1.66
4	2065/66	22,147,582	27,663,560	12,406,063	15,257,497	1.45	1.58
5	2066/67	27,221,068	33,039,650	13,661,063	19,378,587	1.40	1.49
Average WC Turnover						1.66	

Source: Annual Reports of Nepal Telecom

Straight Line Trend of the Ratio is: $\hat{Y} = 1.912 - 0.084(X)$

When X=6, $\hat{Y}$ =1.408{i.e. Expected WCT for next year (year=6)}

Where, Y= estimate of the Working Capital Turnover Ratio

X= measure of time when base year 2062/63 = 1

Figure 4.7

Working Capital Turnover ratio and its straight line trend

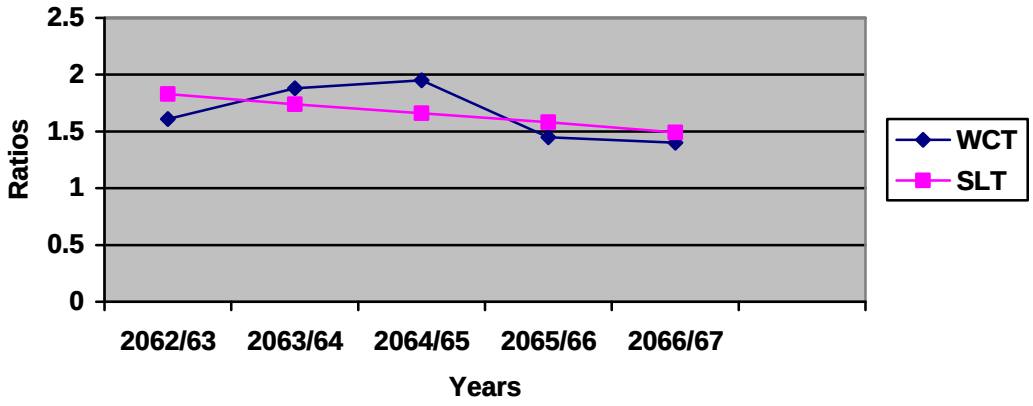


Table 4.9 shows that the average of the WCT Ratio of NTC for past five year was 1.66 times and this is lower than the general standard average of at least 2.00 times

for this line of business. It ranges from a minimum of 1.40 times in F/Y 2066/67 B.S to a maximum of 1.95 times in F/Y 2064/65. The ratio seems to be Turnover Ratio is slightly volatile over time. The average Ratio of 1.66 indicates that each rupee of investment in working capital is generating sales of Rs. 1.66. Mostly time Ratio Trend shows a downward movement of the Ratio over the five year period.

The Straight Line Trend fitted on the basis of least square method shows a long run sizeable decline rate of 0.084 times per year for this ratio. If this ratio is to move as per the fitted trend Line in future, it can be expected that the total assets utilization level of the company would be to the level of dissatisfactory in the near future. If the firm cannot utilize added investment in working capital in the near future, the firm may have to make savings its working capital investment or else it would face further decline in WTC Ratio.

4.2.8 Capital Employed Turnover Ratio (CET)

Table 4.10

Calculation of Capital Employed Turnover Ratio and its straight line trend equation '000'

Year order	Fiscal year	Total Sales	Capital Employed	CE Turnover	Line Trend
1	2062/63	11,058,914	23,549,578	0.47	0.49
2	2063/64	14,751,623	27,854,146	0.53	0.49
3	2064/65	17,889,309	35,343,893	0.51	0.50
4	2065/66	22,147,582	46,280,626	0.48	0.51
5	2066/67	27,221,068	52,504,647	0.52	0.51
Average CE Turnover ratio				0.50	

Source: Annual Reports of Nepal Telecom

Straight Line Trend of the Ratio is: **$\hat{Y}$ = .4838+0.0054 (X)**

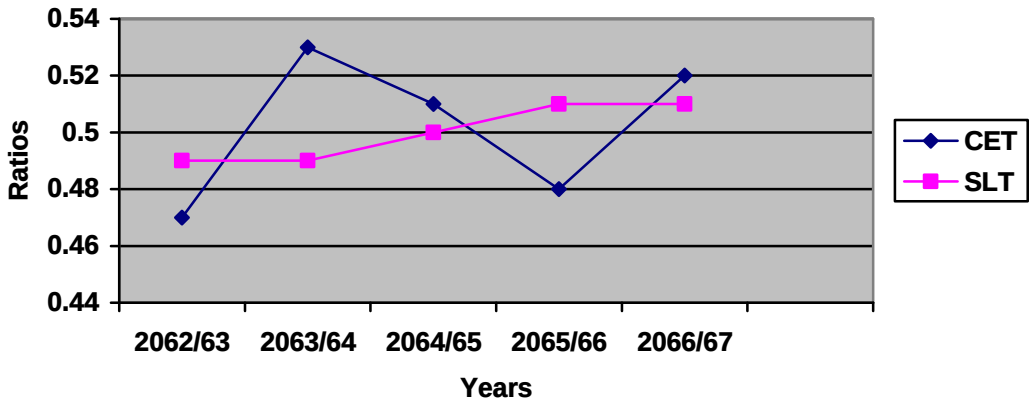
When X=6, $\hat{Y}$ =0.516 {i.e. Expected CET for next year (year=6)}

Where, Y= estimate of the Capital Employed Turnover Ratio

X= measure of time when base year 2062/63 = 1

Figure 4.8

Capital Employed Turnover Ratio and its straight line trend



The table 4.10 shows that the average of the CET Ratio of NTC for past five years was 0.50 times which is lower than the general standard average of at least 1.00 times for this line of business. Barring a sudden upward swing, the ratio seems to be steadily increasing over the 5-year period. The Ratio ranges from the lowest of 0.47 in F/Y 2062/63 B.S to the highest of 0.53 in 2063/64 B.S. The average Ratio of 0.50 indicates that each rupee of investment in permanent capital is generating sales of just 50.00 paisa. The overall Ratio Trend shows a positive movement of the Ratio over the five year period. While comparing with the average, one finds that in F/Y 2062/63and 2065/66 B.S; the Ratio is lower than the average and for F/Y 2063/64,2064/65 and 2066/67 B.S; the Ratio is higher than the average.

The Straight Line Trend fitted on the basis of least square method shows a long run positive growth rate of 0.0054 times per year for this Ratio. If this Ratio is to move as per the fitted Trend Line in future, it can be expected that the volume generated by the permanent capital of the company should increase in coming years.

4.3 Leverage Ratios

The short - term creditors like bankers and suppliers of raw materials are more concerned with the firm's current debt paying ability. On the other hand, long term creditors, like debenture holders, financial institutions, etc. are more concerned with the firm's long term financial strength. In fact, a firm should have a strong short as well as long term financial position. To judge the long term financial position of the firm, financial leverage, or Capital Structure Ratios are calculated. These Ratios indicate mix of the funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owners equity in financing the firm's assets.

4.3.1 Total Debt Ratio (TDR)

Table 4.11

Calculation of Total Debt Ratio and its straight line trend equation

'000'

Year order	Fiscal year	Total Debt	Total Assets	Total Debt ratio	Line Trend
1	2062/63	15,665,380	39,214,958	0.40	0.41
2	2063/64	15,675,154	43,529,300	0.36	0.35
3	2064/65	15,014,440	49,371,223	0.30	0.30
4	2065/66	12,406,063	57,512,954	0.22	0.25
5	2066/67	13,661,063	64,189,996	0.21	0.19
Average TD ratio				0.30	

Source: Annual Reports of Nepal Telecom

Straight Line Trend of the Ratio is: $\hat{Y} = 0.462 - 0.054(X)$

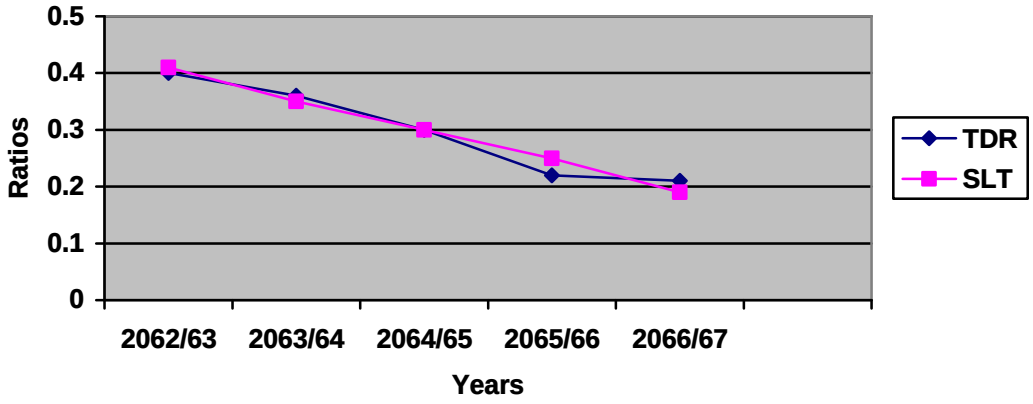
When X=6, $\hat{Y}$ =0.138{i.e. Expected TD Ratio for next year (year=6)}

Where, Y= estimate of the Total Debt Ratio

X= measure of time when base year 2062/63 = 1

Figure 4.9

Total debt ratio and its straight line trend



The table 4.11 shows that Total Debt to Total Asset Ratio of NTC from F/Y 2062/63 to F/Y 2066/67 B.S is presented. The overall Ratio Trend shows a downward movement of the Ratio over the five year period. The average ratio for the five -year period indicates that the creditors have contributed just around 30% of the fund requirement of the business. It seems that in recent years the Corporation, recognizing the risk and utilizing the surplus profit, has increased the debt.

The Straight line trend fitted on the basis of least square method shows a long run decline rate of 0.054 times per year for this Ratio. If this ratio is to move as per the fitted Trend Line in future, the debt would decrease so fast this company loose the benefits of leverage.

4.3.2 Debt Equity Ratio (DE)

Table 4.12

Calculation of Debt Equity Ratio and its straight line trend equation

'000'

Year order	Fiscal year	Total Debt	Total Equity	DE Ratio	Straight Line
1	2062/63	15,665,380	23,549,578	0.67	0.66
2	2063/64	16,866,834	26,662,466	0.63	0.57
3	2064/65	15,014,440	35,343,893	0.42	0.48
4	2065/66	17,057,667	41,629,022	0.41	0.39
5	2066/67	13,661,063	47,149,599	0.29	0.30
Average Debt Equity ratio				0.48	

Source: Annual Reports of Nepal Telecom

Straight Line Trend of the Ratio is: $\hat{Y} = 0.753 - 0.091 (X)$

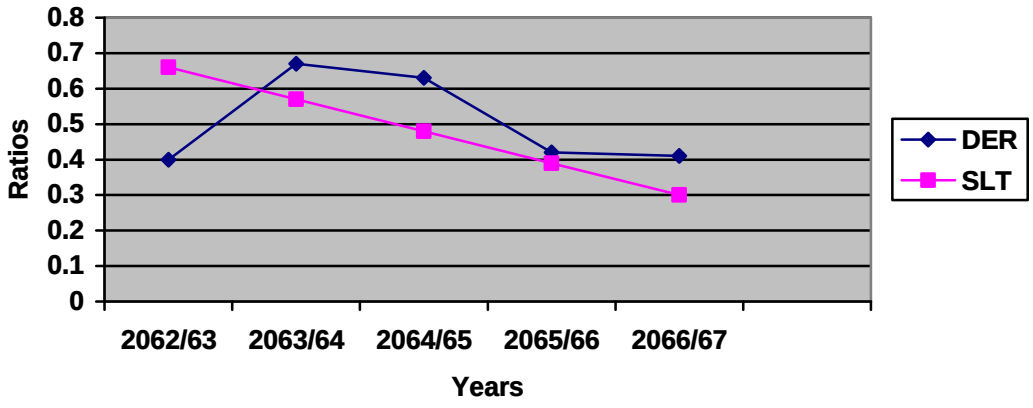
When X=6, $\hat{Y}$ = 1.299 {i.e. Expected Debt-Equity Ratio for next year (year=6)}

Where, Y= estimate of the Debt-Equity Ratio

X= measure of time when base year 2062/63 = 1

Figure 4.10

Debt Equity Ratio and its straight line trend



The Figure 4.10 shows that the Total Debt to Equity Ratio of NTC is decrease year by year. This decrease indicates that the organization deliberately wants to decrease its financial leverage/risk and shows the management's attitude to content with lever down the capital structure of the organization. The Ratio ranges from a higher of 0.67 in F/Y 2062/63 B.S to a lower of 0.29 in F/Y 2066/67 B.S. The

average is 0.48 which means that for each rupee of equity holder's money, the debt holder's have contributed 48 paisa to finance the firm's operation. The overall Ratio Trend shows a downward movement of the Ratio over the five year period. While comparing with the average, one finds that in F/Y 2062/63 and 2063/64 B.S; the Ratio is higher than the average and for F/Y 2064/65, 2065/66 and 2066/67 B.S; the Ratio is lower than the average. The average of this Ratio over the study period is clearly much lower than the general industry norm of 1.5:1.

The Straight Line Trend fitted on the basis of least square method shows a long run negative growth rate of 0.091 times per year for this Ratio. If this Ratio is to move as per the fitted Trend Line in future, it can be expected that the debt financing level of the company would almost two third the equity financing of the Organization in the coming year. Continuous addition in debt over the study periods followed by marginal increase in total debt in the same periods has primarily caused D-E Ratio to nosedive over the study period.

4.3.3 Long Term Debt to Capital employed ratio (LTD TO CE)

Table 4.13

Calculation of LTD to CE ratio and its straight line trend equation

'000'

Year order	Fiscal year	Long term Debt	Capital Employed	LTD to CE ratio	Line Trend
1	2062/63	-	23,549,578	-	0.000
2	2063/64	1,191,680	27,854,146	0.04	0.025
3	2064/65	-	35,343,893	-	0.050
4	2065/66	4,651,604	46,280,626	0.10	0.075
5	2066/67	5,355,047	52,504,647	0.10	0.100
Average LTD to CE ratio				0.05	

Source: Annual Reports of Nepal Telecom

Straight Line Trend of the Ratio is: $\hat{Y} = -0.025 + 0.025 (X)$

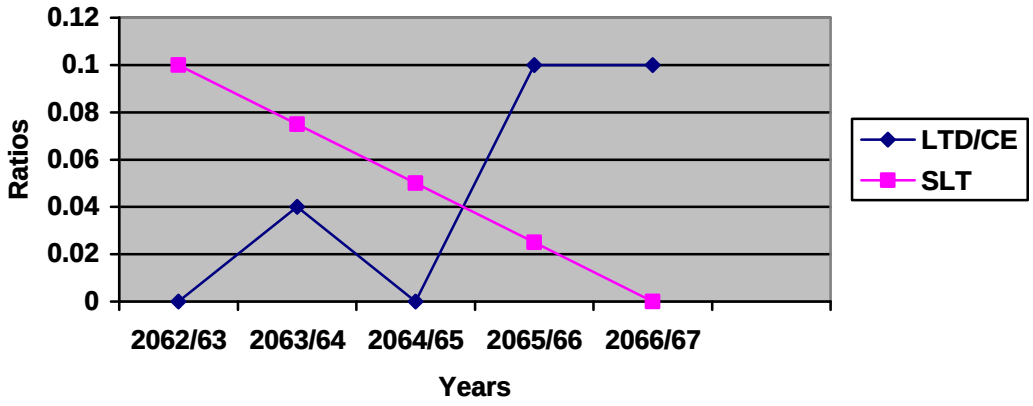
When X=6, $\hat{Y}$ = 0.125 i.e. Expected LTD to CE Ratio for next year (year=6)}

Where, Y= estimate of the LTD to CE Ratio

X= measure of time when base year 2062/63= 1

Figure 4.11

LTD to CE ratio and its straight line trend



The table 4.13 shows the fluctuating pattern of ratios over time. The average Ratio of 0.05 implies that out of total capitalization; negligible amount is financed by permanent debt sources and remaining by equity fund. This may imply a good margin of safety to the company lenders point of view. But, from the view point of the owners, the reduction in this Ratio position signifies that the company is not properly utilizing the benefits of the leverage for magnifying the return to the stockholders.

The Straight Line Trend fitted on the basis of least square method shows a long run growth rate of 0.025 times per year for this Ratio.

4.3.4 Interest Coverage Ratio(IC):

Table 4.14

Calculation of Interest Coverage Ratio and its straight line trend equation

'000'

Year order	Fiscal year	Interest Expenses	EBIT	IC ratio	Straight Line Trend
1	2062/63	65,045	6,908,772	106.22	75.63
2	2063/64	67,143	8,050,464	119.90	130.31
3	2064/65	93,308	10,964,763	117.51	185.00
4	2065/66	48,066	13,633,991	283.65	239.68
5	2066/67	48,667	14,489,762	297.73	294.36
Average Interest Coverage ratio				185.00	

Source: Annual Reports of Nepal Telecom

Straight Line Trend of the Ratio is $\hat{Y} = 20.95+54.682(X)$

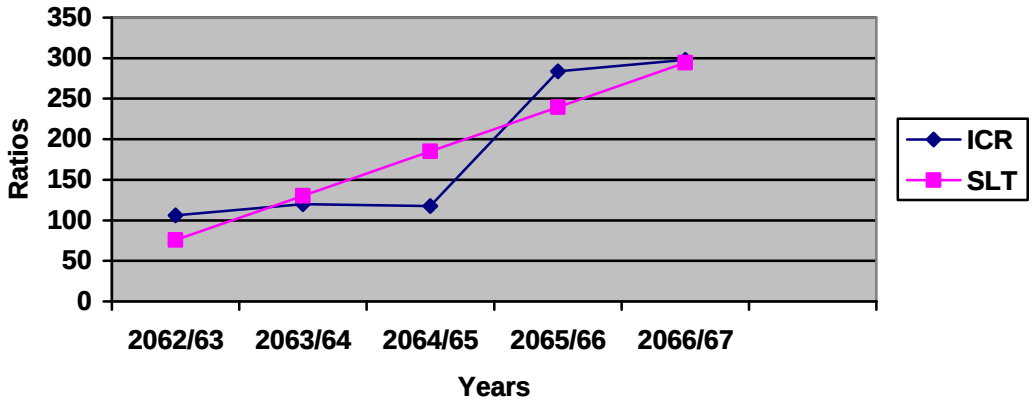
When X=6, $\hat{Y}$ = 349.04 {i.e. Expected IC Ratio for next year (year=6)}

Where, Y= estimate of the Interest Coverage Ratio

X= measure of time when base year 2062/63 = 1

Figure 4.12

Interest Coverage Ratio and its straight line trend



The table 4.14 shows the Interest Coverage Ratio of NTC over the study periods. It seems that the Organization has excellent and all time increasing Coverage Ratios over the period i.e. the debt servicing capacity of NTC seems quite favorable. But this is a good performance in disguise because we can see that the organization is reducing its use of long term debt over the years so fast that the fixed interest burden of the organization becomes almost negligible in the most

recent year. The average Interest Coverage Ratio is 96 times which implies that NTC has been able to cover the interest expenses by a good margin of safety. In other words, the Organization seems to be able to earn good operating profit to meet its fixed obligations.

During the study period, the Ratio ranges from a minimum of 106.22 times in F/Y 2062/63 to a maximum of 297.73 times in F/Y 2066/67. In last two years, there has been remarkable improvement in Coverage Ratio but this all is more because of declining interest expenses rather than excellent operating profits. So, the performance of the firm in terms of Interest Coverage Ratio should be judged carefully in this case.

The Straight Line Trend fitted on the basis of least square method shows a long run sizeable positive growth rate of 54.682 times per year for this Ratio. If this Ratio is to move as per the fitted Trend Line in future, it can be expected that the debt servicing ability of the firm would not be any cause of concern in coming years. Continuous sharp reduction in long term debts over the study periods followed steady increase in operating income over the same periods has primarily caused Interest Coverage Ratio to increase fast over the study period.

4.4 Profitability Ratio

A company should earn profits to survive over a long period of time. Therefore, profits are essential for a company. But, then, it does not mean that every action initiated by management of a company should be aimed at maximizing profits. The social consequence of the actions does also matter. So, maximum profit consistent with social responsibility should be the long run objective. It is unfortunate that the word 'profit' is looked upon as a term of abuse since some firms always want to maximize profits at the cost of employees, customers and society. Except such infrequent cases, it is a fact that sufficient profits must be

earned to sustain the operation of the business, to be able to obtain funds from investors for expansion and growth and to contribute towards the social overheads for the welfare of the society.

4.4.1 Net Profit Margin (NPM)

Table 4.15

Calculation of net profit margin ratio and its straight line trend equation using net profit after tax as profit

'000'

Year order	Fiscal year	Total Sales	NPAT	NP Margin	Line Trend
1	2062/63	11,058,914	4,936,647	0.45	0.45
2	2063/64	14,751,623	5,652,688	0.38	0.44
3	2064/65	17,889,309	7,942,901	0.44	0.43
4	2065/66	22,147,582	10,178,026	0.46	0.42
5	2066/67	27,221,068	10,775,154	0.40	0.41
Average of Net Profit Margin ratio				0.43	

Source: Annual Reports of Nepal Telecom

Straight Line Trend of the Ratio is $\hat{Y} = 0.456 - 0.00878(X)$

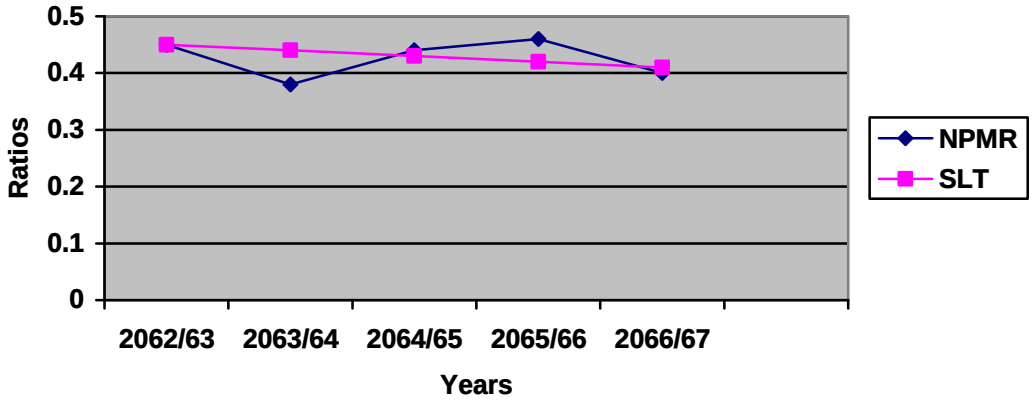
When X=6, $\hat{Y}$ = 0.403 {i.e. Expected NPM for next year (year=6)}

Where, Y= estimate of the Net Profit Margin Ratio

X= measure of time when base year 2062/63 = 1

Figure 4.13

Net profit margin ratio and its straight line trend



The table 4.15 shows that the average of the NPM Ratio of NTC for past five year was 43%. The Ratio seems to be stable barring over the study period. The average Ratio of 0.43 times indicates that each rupee sales is contributing 43 paisa for rewarding the owners. The overall Ratio Trend shows a small swing in negative direction of the Ratio within the range of 0.447% to 0.412% over the five year period. The computations show that the Net Profit Margin upon sales is favorable. With the low Turnover Ratio, further improvement in NPM is sure to have a positive result on the equity holders' return.

The Straight Line Trend fitted on the basis of least square method shows decline rate of 0.00878 per year for this Ratio. If this Ratio is to move as per the fitted Trend Line in future, it can be expected that the profit margin level of the company in coming years should remain at stable to the firm currently earning. Continuous increase in the cost composition of the Organization due to civil war during the period is perhaps showing its effect on the profitability of the organization.

4.4.2 Operating Expenses Ratio (OE)

Table 4.16

Calculation of operating expenses ratio and its straight line trend equation

'000'

Year order	Fiscal year	Total Sales	Operating Expenses	OE Ratio	Straight Line trend
1	2062/63	11,058,914	4,430,147	0.40	0.38
2	2063/64	14,751,623	6,175,128	0.42	0.39
3	2064/65	17,889,309	6,921,870	0.39	0.41
4	2065/66	22,147,582	8,961,760	0.40	0.43
5	2066/67	27,221,068	12,536,111	0.46	0.44
Average operating expenses ratio				0.41	

Source: Annual Reports of Nepal Telecom

Straight Line Trend of the Ratio is: **$\hat{Y}$ = 0.359+.017 (X)**

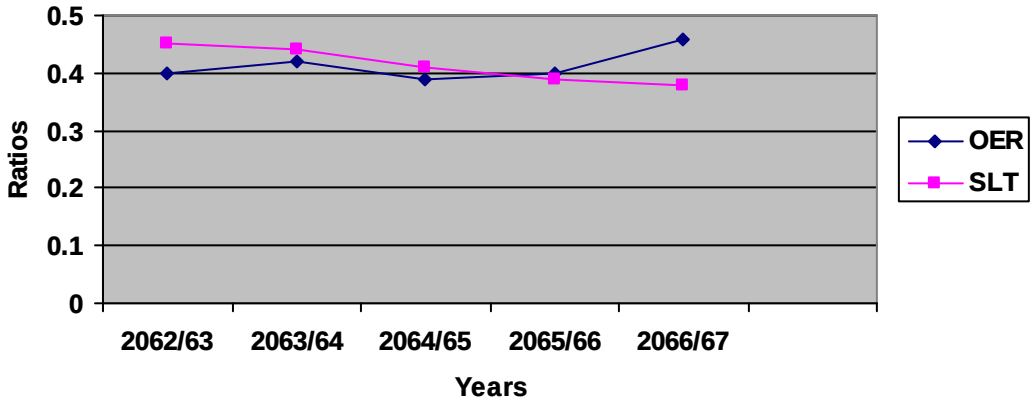
When X=6, $\hat{Y}$ = 0.461 {i.e. Expected OE Ratio for next year (year=6)}

Where, Y= estimate of the Operating Expense Ratio

X= measure of time when base year 2062/63 = 1

Figure 4.14

Operating expenses ratio and its straight line trend



From the table shows that the average OE Ratio of NTC for past five years is 41% which is lower than the general standard average of around 50% for this line of business. The Ratio seems to be stable but slightly in increasing trend as it ranges from a lower of 40% in F/Y 2062/63 to 46% in F/Y 2066/67 B.S. The average Ratio of 0.41 indicates that the firm incurs a cost of 41 paisa for each rupee of sales it generates. Barring F/Y 2062/63, the Ratio is increasing on year to year

basis.. Though the operating expense Ratio is relatively stable over time, but for the last year, the Ratio is increasing continuously which should be the real cause of concern for the NTC. Unless the firm takes measures to tame the operating expenses, the situation may go out of control.

The Straight Line Trend fitted on the basis of least square method shows a long run positive growth rate of 00.017% per year for this Ratio. If this Ratio is to move as per the fitted Trend Line in future, it can be expected that the cost of operation of NTC should increase slowly but surely. Continuous increase in input prices due to inflation and the security situation not accompanied by the equal sales increase has brought this position.

4.4.4 Return on Assets Ratio (ROA)

Table 4.17

Calculation of Return on Assets ratio and its straight line trend equation

'000'

Year order	Fiscal year	Total Assets	NPAT	ROA	Straight Line Trend
1	2062/63	39,214,958	4,936,647	0.13	0.12
2	2063/64	43,529,300	5,652,688	0.13	0.13
3	2064/65	49,371,223	7,942,901	0.16	0.15
4	2065/66	57,512,954	10,178,026	0.18	0.17
5	2066/67	64,189,996	10,775,154	0.17	0.18
Average of Return on Assets				0.15	

Source: Annual Reports of Nepal Telecom

Straight Line Trend of the Ratio is: $\hat{Y} = 0.099+0.017 (X)$

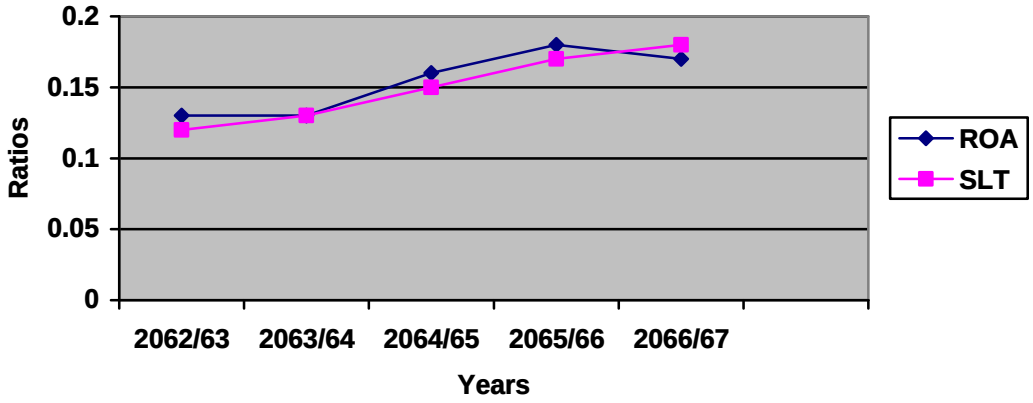
When X=6, $\hat{Y} =0.201$ {i.e. Expected ROA Ratio for next year (year=6)}

Where, Y= estimate of the Return on Assets Ratio

X= measure of time when base year 2062/63 = 1

Figure 4.15

Return on Assets ratio and its straight line trend



The table 4.17 shows that the average ROA of NTC for the study period is 15% The Ratio seems to be a almost stable as it ranges from 13% to 18% . The actual trend of this Ratio is showing upward movement particularly in the most recent years. The average Ratio of 15% indicates that each 100 rupees of investment in assets is generating a profit of Rs. 15 The actual Trend Line is positive direction.

The Straight Line Trend fitted on the basis of least square method shows a long run is going to positive growth rate 0.017 %per year for this Ratio. If this Ratio is to move as per the fitted Trend Line in future, it can be expected that the total assets return level of the company should further progress in coming years.

4.4.5 Return on Capital Employed (ROCE)

Table 4.18

Calculation of Return on Capital Employed ratio and its straight line trend

Equation ‘000’

Year order	Fiscal year	Capital Employed	NPAT	ROCE	Line Trend
1	2062/63	23,549,578	4,936,647	0.21	0.202
2	2063/64	27,854,146	5,652,688	0.20	0.206
3	2064/65	35,343,893	7,942,901	0.22	0.210
4	2065/66	46,280,626	10,178,026	0.22	0.214
5	2066/67	52,504,647	10,775,154	0.21	0.218
Average of Return on Assets				0.21	

Source: Annual Reports of Nepal Telecom

Straight Line Trend of the Ratio is: **$\hat{Y}$ = 0.198+0.004 (X)**

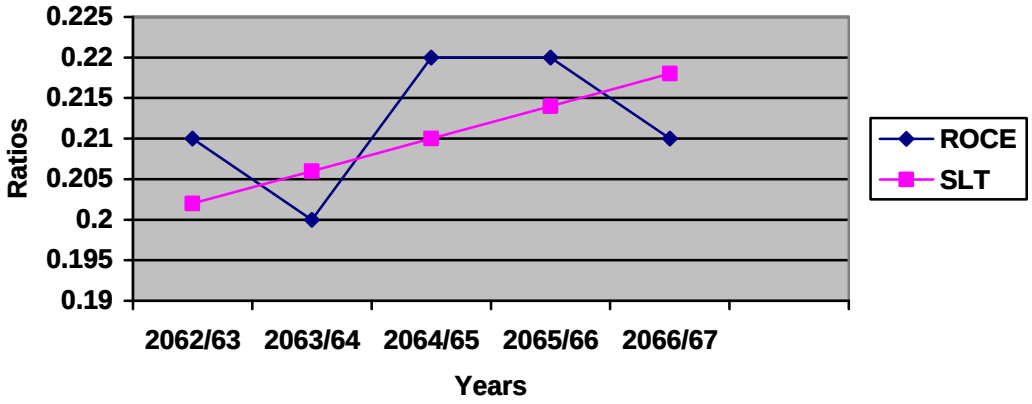
When X=6, $\hat{Y}$ = 0.222 i.e. Expected ROCE Ratio for next year (year=6)}

Where, Y= estimate of the ROCE Ratio

X= measure of time when base year 2062/63 = 1

Figure 4.16

Return on Capital Employed ratio and its straight line trend



The table 4.18 shows that the average ROCE of NTC for the study period is 21% As is the case with ROA, this is good if we compare this return with the cost of debt. But the past trend of this Ratio does not show any clear downward trend as it is the case with ROA. Therefore, it can be safely said that the return to the long term stakeholders are better than the return earned by its assets assuming that cost of the short-term sources are negligible. The average Ratio of 21% indicates that each rupee of long term fund employed by the Organization is generating after tax profit of 21 paisa.

The Straight Line Trend fitted on the basis of least square method shows a long run negligible positive growth rate 0.004 per year for this Ratio. If this Ratio is to move as per the fitted Trend Line in future, it can be expected that the return level

of the long term capital employed by the company should increase slightly in coming years.

4.4.6 Return on Equity (ROE)

Table 4.19

Calculation of return on equity ratio and its straight line trend equation

'000'

Year order	Fiscal year	Total Equity	NPAT	ROE	Straight Line Trend
1	2062/63	23,549,578	4,936,647	0.21	0.194
2	2063/64	26,662,466	5,652,688	0.21	0.207
3	2064/65	35,343,893	7,942,901	0.22	0.220
4	2065/66	41,629,022	10,178,026	0.24	0.233
5	2066/67	47,149,599	10,775,154	0.23	0.246
Average of Return on Equity				0.22	

Source: Annual Reports of Nepal Telecom

Straight Line Trend of the Ratio is: $\hat{Y} = 0.1816+0.0128 (X)$

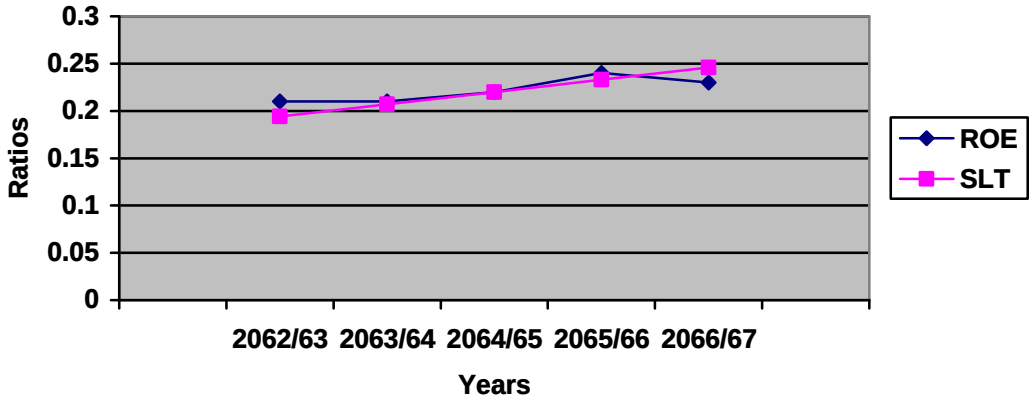
When X=6, $\hat{Y}$ = 0.2584 {i.e. Expected ROE Ratio for next year (year=6)}

Where, Y= estimate of the Return on Equity Ratio

X= measure of time when base year 2062/63 = 1

Figure 4.17

Return on equity ratio and its straight line trend



The table 4.19 shows that ROE of NTC for past 5 years. The average Ratio for the 5-year period is around 22% which indicates that the equity holders of NTC earned 22 paisa of return on their investment of Re. 1.00 over the last 5 years, on average. The Ratio seems to be stable but slightly in increasing trend. NTC has to take measures to make the Ratio more stable in future which should increase the confidence of the owners.

The Straight Line Trend fitted on the basis of least square method shows a long run positive growth rate of 0.0128 per year for this Ratio. If this Ratio is to move as per the fitted Trend Line in future, it can be expected that the equity holders' return would further go slightly upward from its current level.

4.5 Statistical Analysis

4.5.1 Correlation & Regression analysis of Gross Domestic Product (GDP) and Sales Revenue

Table 4.20

Computation of Correlation & Regression Co-efficient from the variables GDP and Sales Revenue

(in ten millions of Rs.)

Fiscal year	GDP (X)	Total Sales(Y)	X^2	Y^2	XY
2062/63	65,408	1,106	4,278,206,464	1,222,996	72,334,145
2063/64	72,783	1,475	5,297,365,089	2,176,104	107,366,738
2064/65	81,566	1,789	6,653,012,356	3,200,274	145,915,938
2065/66	98,805	2,215	9,762,428,025	4,905,154	218,829,184
2066/67	117,190	2,722	13,733,496,100	7,409,865	319,003,696
Total	435,752	9,307	39,724,508,034	18,914,393	863,449,700

Source : Economic survey F/Y 2067/68 GON and Annual report of NT

Summary of Computations

r =0.992561

PE = 0.0150075741

|r| > PE

|r| > 6 x PE & |r| >0.5

The value of r is found to be 0.9925 (**see appendix:1**) which means that there exists a high degree of positive Correlation between GDP and Sales Volume i.e. the two variables increase/decrease strongly in the same direction. The value of r is far greater than 6 times the probable error, which means that there is clear evidence of significant association between these two variables. The computed value of r indicates a cause and effect relationship.

The regression co-efficient is -747.01. The regression equation of Sales (Y) on GDP (X) is given by

$\hat{Y}$ = -747.01+0.02993 (X)

The value of b is found to be 0.02993 **(see appendix:2)**, which means that 1 unit change in GDP would result in 0.02993 unit change in the Sales Revenue of NTC. Given the forecast of GDP of the country for future by the economists, we can use the above developed equation to estimate what the revenues of the NTC would likely to be in the coming years and plan accordingly for future sales.

4.5.2 Correlation & Regression Analysis of Investments (Total Assets) and Profit

Table 4.21

Computation of Correlation & Regression co - efficient from the variables investments and profit

(million)

Fiscal year	Investment (X)	Profit (Y)	X^2	Y^2	XY
2062/63	4,157	4,937	17,280,233	24,370,513	20,521,407
2063/64	4,884	5,653	23,852,088	31,956,409	27,608,461
2064/65	8,370	7,943	70,059,913	63,089,660	66,483,503
2065/66	11,167	10,178	124,710,153	103,592,295	113,661,827
2066/67	13,034	10,775	169,890,891	116,103,944	140,445,728

Source: Annual Reports of Nepal Telecom

Summary of Computations

r = 0.995413

PE = 0.00276876

|r| > PE

|r| > 6 x PE & |r| >0.5

The value of r is found to be 0.9954 (**see appendix:3**), which implies that there exists a high degree of positive Correlation between Total Investments and Total Profit. This means the two variables move in the same direction; i.e. if Total Investment increases then Total Profit also increase and vice-versa. The value of r is greater than 6 times the probable error and higher than +0.5; means that there is significant degree of positive Correlation between the variables i.e. the value of r is significant. Hence, the relationship between Total Investments and Total Profit is that of a cause and effect one.

The regression co-efficient is 2285.61 The regression equation of Profits (Y) on Investments (X) is given by

$\hat{Y}$ = 2285.61+ .67425 (X)

The value of b is found to be 0.67425 (see appendix:4), which means that, on average, 1 unit change in Total Investment (Asset) would result in .67425 unit change in the Net Profit of NTC. Given the capital budget plan of the NTC for coming years, we can use the above Equation to estimate what the profit of the NTC would likely to be in the coming years.

4.5.3 Correlation & Regression Analysis of sales revenue and Total Cost

Table 4.22

Computation of Correlation & Regression co - efficient from the variables sales revenue and total cost

'in 10 million'

Fiscal year	Total Sales Revenue(X)	Total Cost (Y)	X^2	Y^2	XY
2062/63	1,106	450	1,222,996	202,059	497,109
2063/64	1,475	624	2,176,104	389,663	920,841
2064/65	1,789	702	3,200,274	492,130	1,254,971
2065/66	2,215	901	4,905,154	811,765	1,995,453
2066/67	2,722	1,258	7,409,865	1,583,772	3,425,717
Total	9,307	3,935	18,914,393	3,479,390	8,094,090

Source: Annual Reports of Nepal Telecom

Summary of Computations

r = 0.9865

PE = 0.0087037

|r| > PE

|r| > 6 x PE & |r| >0.5

The value of r is found to be 0.9865**(see appendix:5),** which implies that there exists a high degree of positive Correlation between Sales Revenue and Cost. This means the two

variables move in the same direction; i.e. if Sales Revenue increases then Cost also increases, and vice-versa. The value of r is greater than 6 times the probable error and higher than +0.5; means that there is significant degree of positive Correlation between the variables i.e. the value of r is significant. Hence, the

relationship between Total Costs and Total Sales Revenue is that of a cause and affect one.

The regression co-efficient is -113.54 Hence the regression equation of Costs (Y) on Sales (X) is given by,

$\hat{Y}$= -113.54+ 0.4838(X)

The value of b is found to be 0.4838 **(see appendix:6)**, which means that, on average, 1 rupee change in Volume (Sales) would result in 48.38 paisa change in the Total Cost of NTC.

4.6 Major Findings are as :

- On the basis of Liquidity ratios, the average Current ratio is 1.84. It indicates that the overall short-term solvency position of NTC is satisfactory. NTC will be able to pay its current liabilities at the time of requirement.

- The average Quick ratio is 1.82 times and Current ratio is 1.84 throughout the study period, we can see a little difference between these two Ratios. It means the inventory has occupied a very nominal place as part of the total current assets of NTC. In this respect, NTC can be said to have a good liquidity position to fulfill its current obligations when they become due.

- Current assets have the poor performance. Though inventory seems to have good utilization rate compared to other current assets, it is because of the inventory's small size NTC carries. So NTC should be concerned about its current assets investment in future.

- The Average Collection Period is 79 days. The ACP ranges between a highest of 107 days in F/Y 2062/63 and a lowest of 62 days in F/Y 2066/67. The actual value trends show a downward movement for the overall period

of five years. If we take a close look at the actual trend, we can find that the Average Collection Period is showing decreasing tendency of the study periods. And since a lower value is good from the view point of collection efficiency, the decreasing value may be a good indication for NTC in coming years.

- There is increasing trend in the size of total assets but it is not significant. The total assets turnover ratio is low. On an average, the total assets turnover ratio is only 0.36 times. Therefore, it can be said that the management of NTC is not able to utilize the assets properly.

- The average of the WCT ratio is 1.66 times. It ranges from a minimum of 1.40 times in F/Y 2066/67 B.S to a maximum of 1.95 times in F/Y 2064/65. The ratio seems to be slightly volatile over period. In mostly years the is decreasing trend.

- The overall D/A ratio Trend shows a downward movement of NTC over the five year period. The average ratio for the five -year period indicates that the creditors have contributed just around 30% of the fund requirement of the business.

- The average Interest Coverage Ratio is 96 times. It indicates s that NTC has been able to cover the interest expenses by a good margin of safety.

- Operating expenses ratio Trend is maintaining its stage up. The Straight Line Trend fitted on the basis of least square method shows a long run positive growth rate of 00.017% per year for this ratio. It means that operating expenses as well as other expenses are slowly going up on average over the study period.

- The average ROA of NTC for the study period is 15% The ratio seems to be a almost stable as it ranges from 13% to 18%. The Straight Line Trend fitted on the basis of least square method shows a long run is going to positive growth rate 0.017 %per year for this Ratio. If this Ratio is to move as per the fitted Trend Line in future, it can be expected that the total assets return level of the company should further progress in coming years.

- The average of ROE for the 5-year period is around 22. The ratio seems to be stable but slightly in increasing trend.

- The Correlation between GDP and sales is to be 0.9925. It indicates that there is higher degree (0.9925) of Correlation between GDP and sales.

- The Correlation between Investment and profit is to be 0.9954, which implies that there exists a high degree of positive Correlation between two variables. Regression coefficient of investment on profit is be 0.67425 which means that, on average, 1 unit change in Total Investment (Asset) would result in .67425 unit change in the Net Profit of NTC.

- The Correlation between Sales Revenue and Cost is to be 0.9865. It means that there is highly positive relationship between this two variables. So it indicates that two variables move in the same direction

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Nepal Telecom is the principal and the biggest telecom company in Nepal. Though it was a government organization initially, it was transformed into Public Limited Company in the year 2004. Nepal Telecom was the basic telephonic service provider to the country. Nepal Telecom as a progressive, customer spirited and consumer responsive Entity is committed to provide nation-wide reliable telecommunication service to serve as an impetus to the social, political and economic development of the Country.

The main objective of the study is to assess the strengths and weakness of Nepal Telecom as the background of Financial indicator. Different financial indicator show to what extent would the organization is capable to meet the expectations of various stakeholders of the company. In the light of this main issue of the study has focused to evaluate the financial status/position of Nepal Telecom on the basis of latest available information.

To make the study significant, ratio analysis and trend analysis, income and expense analysis, correlation and regression analysis have been carried out regarding the major variables of NTC. On basis of the analysis we will conclude our findings and try to provide some relevant recommendations to the management of NTC so that they can apply those recommendations if they deem appropriate.

To analyze the financial Status of Nepal Telecom through financial analysis and examine the future trend of different financial ratios; major finding is that there is no effective utilization of assets in NTC. NTC kept its large portion of profit as retained earning. There are no systematic techniques used for managing the cash in NTC. Apply cash management techniques so as to invest excess fund in marketable securities.

Nepal Telecom is financially performing well. It has able to use its assets in an effective manner providing a huge return to the shareholders.

5.2 Conclusion

Globalization and speedy technological advancements has introduced incredible competitive pressures on telecom businesses around the world. The need to develop innovative technologies and the strain in available resources along with the time constraint has increased the need to look for resources that would reduce financial risks along with creating a good market value. NT has better performance than other state owned enterprise of Nepal, in the sense that it is such a state owned enterprise, which is operating under the net profit margin since the establishment of NTC. Financial statement of the company shows that the Gross Revenue as well as Net Profit has increased to a tune of higher rate. The overall short-term solvency position of NTC is satisfactory. Perhaps, because of the service nature of its operation, NTC has maintained low level of inventory compared with other current assets components.

There seems to be negligence in management in efficiently mobilizing the working capital. Fixed Assets Turnover/utilization seems to be improving over time. The performance of current assets in terms of volume generation was so poor over time that the improvement in performance of fixed assets could not compensate it. That's why the Total Assets Turnover is poor and fluctuating.

So, overall, the asset utilization position of NTC is termed poor as well as deteriorating over the five years of study period. NTC should pay constant/close attention on the desirability of the current size of its current assets investment. If the company can improve asset utilization, it can charge cheaper rates for its service which would be vital in coming days because of the competition from the

private sector permitted by the government under its liberalization and open market policy.

Solvency position, short-term as well as long -term, is good and the direction of the Ratios which indicate these positions is positive particularly from the viewpoint of the lenders. But when it comes to resource employment position, it can be safely said that the turnovers generated by the assets are not satisfactory. Utilization of working capital in particular is very poor. Profitability on the operational front seems fairly good but with such low turnover, this cannot be termed excellent. Moreover, the negative trend of profit on operation makes the situation even more disappointing. The low rate of profit on assets/capital accompanied by negative growth rate on these Ratios shows that asset returns are poor on aggregate.

Overall the company is able to perform well. The general faith of people on the government telecom will drive the profit of the business in upward trend. Because of its low price of calls, and effective reach it will prove to be one of the best earning company for the government. If the management is managed properly, this company should and will provide a huge return to the government and its shareholders.

5.3 Recommendations

Based on the major findings of the study of financial status/position analysis of Nepal Telecom, some suggestions or recommendations have been forwarded in this part. It is hoped that these recommendations will prove to be useful to the management of the company and concerned offices, institutions and individuals.

- Though the average cost of producing and selling services to the customers of this Organization is satisfactory, the increasing trend of cost should be a

cause of concern. With such a low Turnover Ratio of the Organization's assets, the management should be careful not to let the Profit Margin go down. This can be achieved either by increasing price charged to the customer or by reducing cost. Given the competition that is forthcoming in the recent years, the Organization should concentrate itself seriously on second alternative (i.e. reducing cost).

- Current assets have the poor performance. Though inventory seems to have good utilization rate compared to other current assets, it is because of the inventory's small size NTC carries. So NTC should be concerned about its current assets investment in future.

- It seems that the Organization is losing the benefit of the leverage over time, particularly in the most recent years. A profitable company like NTC should not hesitate to use the cheaper debt source to magnify the Return of Equity. So, the management should consider using long-term debt when financing new expansion projects in the future.

- Average collection period of NTC is poor. On average, it takes near to 3 months to collect a typical account, so the collection effort needed to be intensified by providing attractive packages to the customers, providing more authority and accountability to the concerned officers so that ACP can be reduced to more manageable level.

- It seems that the working capital is not managed properly in generating sales volume. The excess investment in working capital is not properly utilized. So NTC can think of reducing its current assets components by using cash to expand its equipment capacity or reducing operating expenses.

- The overall D/A Ratio Trend shows a downward movement. It seems that in recent years the Corporation, recognizing the risk and utilizing the surplus profit, has increased the debt.

- The average of ROE for the 5-year period is around 22.The Ratio seems to be stable but slightly in increasing trend. NTC has to take measures to make the Ratio more stable in future which should increase the confidence of the owners.

- Though Assets Turnover is increasing over time, it is still below 1.5 times barrier. So, NTC management should be careful in future not to undertake capital intensive investment projects if they fail to generate sufficient volume. And the assets Turnover could be increased to some extent if the company runs in installed capacity of the equipment as far as possible.

- Given the high risk perception on most part of the countryside where the key communication towers and related structures are situated, NTC should buy enough insurance for all of these structures. So that it does not suffer from huge losses even if the facilities/structures are destroyed. The past experience of the management of not buying enough insurance for those valuable structures should have taught a good lesson to them.

- The investment appraisal criteria should be overhauled to make it more scientific so that it weighs all relevant factors before making further investment decision so that the project do not provided lesser return than cost of capital.

- High and significant Correlation between investment and profit points to the fact that additional investment to need in this sector.

- Set up pro-forma balance sheet and income statements to use these as a general guideline to determine the size/proportion of investment and financing items of balance sheet and operational items of the income statement, so that a standardization and rationalization in operation, financing and investment can be made.

The Organization should impart professional management on its top hierarchy. Given the tough competition emanating from the private sector, the Organization should resist unnecessary political interferences in managing its day to day operations. It should seek freedom to decide on its own under the broad guidelines given by the government and to increase the net profit, the organization should control the operating as well as non - operating expenses. There are some unnecessary and wasteful expenses which can be brought down. For this, the management and staffs of NTC needs to be more careful in cost factor.

APPENDIX 1: Co-efficient of Correlation of GDP and Sales:

Now, the Karl Pearson's co-efficient of correlation(r) is given by

$$r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 863449700 - 435752 \times 9307}{\sqrt{5 \times 39724508034 - (435752)^2} \sqrt{5 \times 18914393 - (9307)^2}}$$

$$r = 0.992561$$

Calculation of Probable error,

$$\text{P.E. } r = 0.6745 \times \frac{1 - (0.992561)^2}{\sqrt{5}}$$

P.E. r =0.00447119

APPENDIX 2: Regression co-efficient of GDP and Sales:

$$b = \frac{N \sum XY - \sum X \sum Y}{N \sum X^2 - (\sum X)^2}$$

$$b = \frac{5 \times 863449700 - 435752 \times 9307}{5 \times 39724508034 - (435752)^2}$$

$$b = 0.02993$$

$$a = \frac{Y}{N} - b \times \frac{X}{N}$$

$$a = \frac{9307}{5} - 0.02993 \times \frac{435752}{5}$$

$$a = -747.01$$

Hence the regression equation of Sales (Y) on GDP (X) is given by

$$\hat{Y} = -747.01 + 0.02993(X)$$

APPENDIX 3: Co-efficient of Correlation of Investment and Profit:

$$r = \frac{N \sum XY - \sum X \times \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \times \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 368720925 - 41613 \times 39486}{\sqrt{5 \times 405793279 - (41613)^2} \times \sqrt{5 \times 339112821 - (39486)^2}}$$

$$r = 0.995413$$

Calculation of Probable error,

$$\text{P.E. r} = 0.6745 \times \frac{1 - 0.9954^{2}}{\sqrt{5}}$$

P.E. r=0.00276876

APPENDIX 4: Regression co-efficient of Investment and Profit:

$$b = \frac{N \sum XY - \sum X \sum Y}{N \sum X^{2} - \left(\sum X\right)^{2}}$$

$$b = \frac{5 \times 368720925 - 41613 \times 39486}{5 \times 405793279}$$

$$b = 0.674$$

$$a = \frac{\sum Y}{N} - b \times \frac{\sum X}{N}$$

$$a = \frac{39486}{5} - 0.67425 \times \frac{41613}{5}$$

$$a = 2285.61$$

APPENDIX 5: Co-efficient of Correlation of Sales Revenue and Total Cost:

$$r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 8094090 - 9307 \times 3935}{\sqrt{5 \times 18914393 - 9307^2} \sqrt{5 \times 3479390 - 3935^2}}$$

$$r = 0.986532$$

Calculation of Probable error,

$$\text{P.E. } r = 0.6745 \times \frac{1 - 0.9865^2}{\sqrt{5}}$$

P.E. r=0.00807037

APPENDIX 6: Regression co-efficient of Sales Revenue and Total Cost:

$$b = \frac{N \sum XY - \sum X \sum Y}{N \sum X^2 - \sum X^2}$$

$$b = \frac{5 \times 8094090 - 9307 \times 3935}{5 \times 18914393 - 9307^2}$$

$$b = 0.4838$$

$$a\ \mathrm{X}\frac{Y}{N}\ \mathrm{Z}b \mid \frac{X}{N}$$

$$a\ \mathrm{X}\frac{3935}{5}\ \mathrm{Z}0.4838 \mid \frac{9307}{5}$$

$$a\ \mathrm{X}\,\mathrm{Z}113.54$$

APPENDIX 1: Co-efficient of Correlation of GDP and Sales:

Now, the Karl Pearson's co-efficient of correlation(r) is given by

$$r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 863449700 - 435752 \times 9307}{\sqrt{5 \times 39724508034 - 435752^2} \sqrt{5 \times 18914393 - 9307^2}}$$

$$r = 0.992561$$

Calculation of Probable error,

$$\text{P.E. } r = 0.6745 \times \frac{1 - 0.992561^2}{\sqrt{5}}$$

P.E. r =0.00447119

APPENDIX 2: Regression co-efficient of GDP and Sales:

$$b = \frac{N \sum XY - \sum X \sum Y}{N \sum X^2 - (\sum X)^2}$$

$$b = \frac{5 \times 863449700 - 435752 \times 9307}{5 \times 39724508034 - (435752)^2}$$

$$b = 0.02993$$

$$a = \frac{Y}{N} - b \times \frac{X}{N}$$

$$a = \frac{9307}{5} - 0.02993 \times \frac{435752}{5}$$

$$a = -747.01$$

Hence the regression equation of Sales (Y) on GDP (X) is given by

$$\hat{Y} = -747.01 + 0.02993(X)$$

APPENDIX 3: Co-efficient of Correlation of Investment and Profit:

$$r = \frac{N \sum XY - \sum X \times \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \times \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 368720925 - 41613 \times 39486}{\sqrt{5 \times 405793279 - (41613)^2} \times \sqrt{5 \times 339112821 - (39486)^2}}$$

$$r = 0.995413$$

Calculation of Probable error,

$$\text{P.E. r} = 0.6745 \times \frac{1 - 0.9954^2}{\sqrt{5}}$$

P.E. r=0.00276876

APPENDIX 4: Regression co-efficient of Investment and Profit:

$$b = \frac{N \sum XY - \sum X \sum Y}{N \sum X^2 - (\sum X)^2}$$

$$b = \frac{5 \times 368720925 - 41613 \times 39486}{5 \times 405793279}$$

$$b = 0.674$$

$$a = \frac{\sum Y}{N} - b \times \frac{\sum X}{N}$$

$$a = \frac{39486}{5} - 0.67425 \times \frac{41613}{5}$$

$$a = 2285.61$$

APPENDIX 5: Co-efficient of Correlation of Sales Revenue and Total Cost:

$$r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 8094090 - 9307 \times 3935}{\sqrt{5 \times 18914393 - 9307^2} \sqrt{5 \times 3479390 - 3935^2}}$$

$$r = 0.986532$$

Calculation of Probable error,

$$\text{P.E. r} = 0.6745 \times \frac{1 - 0.9865^2}{\sqrt{5}}$$

P.E. r=0.00807037

APPENDIX 6: Regression co-efficient of Sales Revenue and Total Cost:

$$b = \frac{N \sum XY - \sum X \sum Y}{N \sum X^2 - (\sum X)^2}$$

$$b = \frac{5 \times 8094090 - 9307 \times 3935}{5 \times 18914393 - 9307^2}$$

$$b = 0.4838$$

$$a\ \mathrm{X}\frac{Y}{N}\ \mathrm{Z}b \mid \frac{X}{N}$$

$$a\ \mathrm{X}\frac{3935}{5}\ \mathrm{Z}0.4838 \mid \frac{9307}{5}$$

$$a\ \mathrm{X}\mathrm{Z}113.54$$

BIBLIOGRAPHY

Brigham, E. F, Gapenski, L.G. & Ehrhardt, M.C. (1999). *Financial Management: Theory and Pratice*. New Delhi: Harcourt Asia Pvt Ltd.

Chandra, P. (1994). *Financial Management Theory and Practice*. New Delhi: Tata McGraw Hill Publishing Co. Ltd.

Gautam, Rishi Raj & Thapa, K.(2008). *Capital Structure Management*. Kathmnadu: Asmita Publication.

Economic Survey (2010/11). Government of Nepal.

Gitman, L. J. (1991). *Principles of Managerial Finance*. Singapore: Harper Collins Publishers.

Gupta, S. C. (1992). *Fundamentals of Statistics*. Bombay: Himalaya Publishing House.

Pandey, I. M.(1999). *Financial Management*. New Delhi: Vikash Publishing House Pvt. Ltd.

Paudel, R.B., Baral, K.J., Gautam, R.R., Dahal, G.B. & Rana, S.B. (2007). *Fudamentals of Financial Management*. Kathmandu: Asmita Publication.

Paudel, R.B., Baral, K.J., Gautam, R.R., Dahal, G.B. & Rana, S.B. (2009). *Corporate Financial Management*. Kathmandu: Asmita Publication.

Pradhan, Radhe S.(2006). *Research in Nepalese Finance*. Kathmandu: Buddha Academic Pvt. Ltd.

Sharma, P. K. & Chaudhary, A.K. (2002). *Statistical Methods*. Kathmandu: Khanal Books Prakashan.

Shrestha, M.K. (2000). *Financial Mamagement Theory and Practice*. Kathmandu:CIT

Van Horne, J. C. & Wachowicz, J.M. (2004). *Fundamentals of Financial Management. New Delhi*: Prentice Hall of India.

Van Horne, J. C. (2002). *Financial Management and Policy*. New Delhi: Personal Education Pvt. Ltd.

Weston, J .F.,Beasley, S., & Birgham, E.F.(2003). Essentials *of Managerial*

Finance. Fort Worth: The Dryden Press.

Wolf, H. K. & Pant, P.R. (2000). *Social Science Research and Thesis Writing* Kathmandu: Buddha Academic Pvt. Ltd.

Related Articles / Journals

NT *Anniversary Souvenirs*, (2004 to 2011)Kathmandu: NT.

NT *Annual Reports*. (2005/06 to 2010/11). Kathmandu: NT.

NT *MIS reports*,(2006 to 2011) Kathmandu: NT.

Neupane R.L.(2006). Increasing Bad Debt: Matter of Thinking. *Sanchar*. Kathmandu: TEAN.

Pokharel, S.B. (2010). Financial-Past,Present & Future NT. *6th Anniversery souvenir*. Kathmandu: NT.

Pokharel,S.B. (2011). Strategic Investment of Nepal Telecom NT. *7th Anniversery souvenir* ,Kathmandu: NT.

Upadhaya, P.R.(2007). Five year Financial Projection of Nepal Telecom NT. *3rd Anniversery souvenir* ,Kathmandu: NT.

Related Thesis

Aryal, S. (2003). *Working Capital Management in Nepal Telecommunication Corporation*. Unpublished Master's thesis, Central Department of Management, Tribhuvan University.

Karki, S. (2007). *Revenue Planning in Service Oriented Company, A case Study of Nepal Telecom*. Unpublished Master's thesis, Central Department of Management, Tribhuvan University.

Karn, L.(2008). *Profit Planning Mechanism of Nepal Nepal Telecome limited.* Unpublished Master's thesis, Central Department of Management, Tribhuvan University.

Regmi, S.R.(2004). *An Evaluation of Financial Position of Nepal*

Telecommunications Corporation. Unpublished Master's thesis, Central Department of Management, Tribhuvan University.

Shrestha, T.R. (2009). *A Study On Profitability Of Nepal Telecom.* Unpublished Master's thesis, Central Department of Management, Tribhuvan University.

Shrestha, P.(2010). *A Study on Profitability of Nepal Telecom*. Unpublished Master's thesis, Central Department of Management, Tribhuvan University.

Web Sites

http://www.mof.gov.np
http://www.nepse.org.np
http://www.nrb.org.np
http://www.ntc.net.np
http://www.nta.gov.np
http://www.wikipidea.com
http://www.google.com