

Chapter 1

Introduction

1.1 General Background of Nepalese Economy

Nepal is a land-locked country situated between China and India. Till 1950, the country was isolated from the rest of the world. Means of transportation and communication did not exist. After the commencement of first five years development plan (1956), planned economic development started in Nepal. This is the period of tenth Five year development plan but the success in hand is very negligible in agricultural and industrial development.

Recently, Nepal has adopted the path of economic development and liberalization for the economic growth of the nation. Many public and private enterprises are established with an objective of the overall development of the country. Likewise, public utility service organization like Nepal Telecom is playing major role in the development of the country.

Nepal is predominately an agricultural country and about two-third of the area of the country is occupied by the hills and mountains. It has a population of about 26.4 million with annual population growth rate of 2.24 percent and literacy rate of 48 percent. Almost 90 percent of the population lives in the rural areas and most of them depends upon the agricultural sector. This sector provides around 40 percent contribution to GDP. On the other hand, due to lack of appropriate policy, plans, stable political environment, infrastructures, technology and adequate investment the industrial sectors remains still at infant stage. It provides very negligible contribution to GDP and employment opportunity.

Whichever the type of enterprises is public or private various activities such as finance, marketing, production etc. should be performed for its operation. Each activity should be well performed for the better performance of the business. The

achievement of the business organization largely depends upon how well these activities are integrated and coordinated in the business system.

Finance is that area of business, linking all other related areas of the business. It is the means of integrating and coordinating such functions in the business organization. It is concerned with analyzing the financial statements of the enterprise and drawing certain conclusions. The success and failure of an organization is generally measured in terms of its financial condition. Therefore, every organization has financial personnel to analyze the financial position of the business within certain intervals.

Thus, Financial Analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account. In other words, it is the process of the critical Judgment of detail accounting information given in the financial statements. To depict the performance of any firm, financial analysis is essential. For example: Stakeholders are interested to know the trend of past performance such as sales, expenses, assets, liabilities, return on equity, net income etc. This helps them to make future anticipation of their interests in the business. The concerned stakeholders may be the promoters, managers, creditors, investors, government, customers etc.

1.2 Brief Overview of Telecommunication

Telecommunication is one of the fastest, cheapest, comfortable and reliable media of communication. In the context of Nepal, Nepal Telecom is the chief taxpayer among all other companies. In this globalization and scientific era, telecommunication is getting more important, useful and an indispensable aspect of our lives.

The world's telecommunication network is the largest man-made machine of all time. With the change and development in science and technology, telecommunication is getting more advanced and making the world a smaller

place. The newer mechanisms are more reliable, comfortable and less time consuming which helps people to communicate to distant places very easily and in less time.

1.3 History of Telecommunication in Nepal

The history of Telecommunication development in Nepal is not a long one. The first telecommunication service was started during the regime of

Chandra Shamsher in 1970 B.S. (1913 A.D.). With the help of a small magneto telephone exchange, telephone service was introduced and this service was only used by the Rana family and in some important government office. However, this service was not so reliable and was named as 'Shree Chandra Telephone' after the name of Chandra Shamsher.

In 2008 B.S., CB telephone exchange was established in Kathmandu and 100 lines were distributed within the city to private citizens and after two years additional 50 lines were distributed. Meanwhile, the trunk system with Palpa was also established, and then in 2012 B.S. (1955 A.D.), a remarkable happening took place. This year is considered a very special year in the history of Nepal telecommunication because it is the year when telephone lines were distributed to general public and were allowed to keep telephone personally. After few years, in 2019 B.S., first Public Telephone Exchange in Kathmandu with 300 lines CB was introduced with the help of Indian Government and more 120 lines exchange was introduced with the help of Sweden's L.M. Ericsson Company in Singh Durbar.

The International Telecommunications Service using HF Radio to India and Pakistan was begun in 2021 B.S. (1964 A.D) and 1000 lines were distributed in

Kathmandu through first Automatic Exchange in subsequent year. At the same time, trunk services from Kathmandu to Calcutta and Delhi were also established and HF communication service was introduced in 58 districts of Nepal. In 2026 B.S., Telecommunication Department was transferred into Nepal Telecommunication Board and then the autonomy was seen in the telecommunication field. Telex service was commenced from 2028 B.S, from Kathmandu by using manual telex exchange. Till 2028 B.S., 300 lines in Biratnagar, 600 lines in Patan were established using separate exchanges and in Kathmandu overall 5000 lines were distributed.

To enhance the communication with foreign countries and for the benefit and Comfort of the Nepalese people, Nepal telecommunication commenced its International Subscriber Dialing system (ISD) in 2044 B.S. After 8 years, in 2052 B.S. Optical Fiber Network was installed with the objective of obtaining fastest, cheapest and most reliable way of communication. And a year later i.e. in 2053 B.S., all Transmission link were converted to Digital Transmission link, in the same year, the entire Telephone network was automated, independent International Gateway Exchange was established and VSAT services were introduced. In 2054 B.S., digital link with D.O.T (department of telecommunications). India through Optical Fiber in Birgunj- Raxaul was introduced and in 2055 B.S., direct link with Bangladesh was established.

Nepal Telecom has always tried to provide more and more facilities to its customers and pursuing its objective; it introduced GSM mobile service in the year 2056 B.S. (1999 A.D.) and also launched Internet service in the subsequent year. Launching of mobile and Internet services brought a great revolution in the way people communicate.

They are the easiest and most comfortable way of communicating different places. Recently, a new milestone has been added in the telecommunication history of Nepal. NT has launched CDMA based basic telephone or "C-phone" service in the Kathmandu Valley in 8th July 2005. "C-phone" is a kind of fixed

wireless phone. The main objective of this service is to expand its services to rural parts of the country. NT is planning to distribute a total of one million C-phone lines throughout the country by 2008. It has announced that it would distribute around 100,000 lines in Kathmandu Valley, 75,000 lines in Biratnagar and another 75,000 line in Bhairahawa in the first phase. NT has launched CDMA based mobile service. This service includes Mobile phones and fixed wireless phones. CDMA mobiles are marketed under the brand name of Sky phone, and fixed wireless phones are named "C-Phone". The current project which is in its fifth (final) phase, and aims to distribute 1 million lines which will include 30% fixed phones (C-phone prepaid and C-phone postpaid) and 70% mobile throughout Nepal from three Exchanges located at Kathmandu (capacity 400000 lines), Biratnagar (capacity 300000 lines) and Bhairahawa (Capacity 300000 lines). Nepal telecom's CDMA service is the only mobile phone service in Nepal to cover all of the 75 districts. It covers 75 district headquarters along with 2267 VDCs as of 2 Jestha, 2065(the network is ever expanding).

Nepal telecom has also started ADSL services from Kathmandu to provide high speed internet.

1.4 Role of Telecommunication

Telecommunication has become one of the crucial factors for development in any country. It is one of the quickest, cheapest and the most scientific means of communication these days. Without telecommunication it would be very difficult to transfer our messages at the right time and to the right person. There are other means of communication like postal service, telegraph etc. but they are comparatively slower, expensive and less convenient. Therefore, telecommunication is one of the swift and reliable means of communication in the scientific age.

The development and efficiency of every sector of the country like health services, transportation, banking private or government organization depends upon the efficiency of telecommunication; it brings coordination

Among different government entities, this ultimately promotes administrative efficiency. The increase in administrative efficiency certainly enhances the productivity of the government decision and a better utilization of country's resources as well as mobilization of labor force for the achievement of national goals. So, realizing the importance of telecommunications for the overall development, most of the developing nations are giving great attention to its development. In Nepal, the demand in both the landline and the mobile phones is increasing and to meet this increase in demand the infrastructures are continuously being developed.

Telecommunication contributes in the development of social condition of the nation as it is an easy means of exchanging and giving knowledge, ideas, information and so on. This helps every society to be well informed and always be in the track of development. It also helps one to know other people living in different part of the world, know their culture, values and respect them. Without communication, human society would remain static and not much different from old societies.

Nepal has a very low teledensity i.e. number of telephone lines per 100 inhabitants. Teledensity is calculated as:

$$\frac{\text{Total number of Subscribers}}{\text{Total number of population}} \times 100$$

Total number of population

Lower the teledensity, higher the opportunity for other telecom companies to establish their business in the country.

1.5 The Vision and Goal of Nepal Telecom

Nepal Telecom professes vision of to remain as a leading player in the telecommunication sector of the country while extending reliable and affordable telecommunications services to all regions including the remote area of the country. Nepal Telecom is to provide cost effective telecommunication services to every nook and corner of the country.

1.6 Objectives of the Study

The main objective of the study is to analyze the financial performance of Nepal Telecom. To achieve the main objective, it covers the following specific objectives:

1. To examine the current trend of NT financial activities.
2. To make the trend analysis for the future prospects of NT,
3. To analyze the financial performance of NT for past Five years.
4. To analyze the statistical performance of NT for past Five years.

1.7 Present Scenario of Nepal Telecom

Nepal Telecom (then, the Nepal Telecommunications Corporation) has 30 glorious years to look back upon. Within these long years, it has passed from different phases, and confronted with every challenge on its way of progress. It took around 16 years, to reach its present form as the national operator of local, long-distance and international telecommunications services. Although few other companies are sprouting in this field, they are far behind where Nepal Telecom is today.

We came to know that, Telecommunication department was established in 2016 B.S. It was changed to Nepal Telecommunication Board in 2026 B.S. Subsequently, it was changed to Nepal Telecommunication Corporation on 1st Asadh, 2032 B.S. Then after, on 1st Baisakh, 2061 B.S., it started its operation as Nepal Doorsanchar Company Limited (Nepal Telecom).

Nepal Doorsanchar Company limited (Nepal Telecom) was registered on 22nd Magh 2060 under company act 2053 and the notice of this effect was published in Nepal Gazette dated 26th Chaitra 2060, after dissolving then Nepal Telecommunications Corporation.

Nepal telecom has always put its endeavors in providing its valued customers a quality service since its inception. To achieve this goal, technologies best meeting the interest of its customers has always been selected. The nation wide reach of the organization, from urban areas to economically non-viable most remote location, is the result of these efforts that makes this organization different from others.

Definitely, Nepal Telecom's widespread reach will assist in the socio-economic development of the urban as well as rural areas, as telecommunication is one of the most important medium required for development. Accordingly, in the era of globalization, it is felt that milestones and achievements are not adequate enough to catch up with the global trend in the development of telecommunication sector and the growth of telecommunication services in the country will be guided by technology, declining equipment prices, market growth due to increase in standard of life and finally by healthy competition.

1.8 Challenges of Nepal Telecom

The first and important challenge of Nepal Telecom is to provide equitable information to the society. People in urban areas are enjoying every kind of

information but rural people are still deprived of the basic telecommunication facility. Although the opportunities opened up by new technologies and services continue to grow, without access to basic telecom services. This is not only due to shortage of funds but also due to imbalance in the distribution of access resources and opportunities in the information and communications fields. The challenges of Nepal Telecom are not so easy to achieve. For a large organization like Nepal Telecom, just surviving is not acceptable. And to flourish, it has to confront successfully with all its challenges.

Nepal Telecom has been facing financial, social, technological, transportation and manpower shortage problems to extend its services in rural areas. For this reason, NT has introduced technologies like CDMA, Mobile services, Access Network and others to reach every part of the world and provide equal information opportunity to the people in the country.

People are using 'internet phone and voice mail services of computer software' for international calls, which is highly cheaper than Nepal Telecom's ISO call rates. These computer facilities have made millions of loss to Nepal Telecom. Many international companies are trying to make such soft wares that directly make ISD calls without the use of telephone lines. If these types of products are launched, than telephone sector will be in great loss and thus has to lower its call rates and must be satisfied with small market and profit only. This is a great threat and a challenge for Nepal Telecom.

In addition to the above mentioned challenges the most key challenge for NT is to combat the destruction caused by the rebels to Telephone towers. The insurgents in the rural areas have destroyed many towers; thus, interrupting the whole telecommunication facility in the villages. This has not only caused a heavy loss to NT, but has also treated a great problem to the villagers in their daily life and economic activities. To cope up with this problem, NT has recently launched the CDMA-based basic telephone or 'C-phone'. 'C-phone' is a wireless telephone service, which will certainly be useful in those areas

where the telephone towers cannot be installed due to topographical situation of Nepal.

1.9 Problems of Nepal Telecom

Though it is generally said that NT is the most profitable government organization, it is not away from the problems, which are generally found among Nepalese organizations. One has to move ahead solving many obstacles to obtain its perfect goal. NT has many such problems, which are being an obstacles toward achieving the its goal;

1. NT unable to create favorable environment for employee's trainings and developments failing to motivate them to enhance their efficiency and knowledge in customer care and public relation to cope up with the changing and competitive environment.
2. The Human Resource departments facing many problems like dissatisfaction among the employees due to improper promotion and transfer policy of the company.
3. Major problem of Nepal Telecom is the lack of estimating the actual costs and ignoring its long-term impacts in terms of proper utilization of assets and resources.
4. Incapability of the company to expand its network in time has made unable to meet the customers' demand whenever and wherever required and has not been able to utilize the total capacity in some region. Conversely, the additional networks decrease the service quality.
5. Lack of proper coordination among management functions is the major problem of the company.

1.10 Statement of the Problem

Being a developing country Nepal is striving to develop and modernize the economy rapidly. But the structure of the economy has still remained primarily agricultural with very small manufacturing base and information technology. Major problem in development may be due to unavailability of the cheap financing and un-directive principle and policies of the country. Many public entities are changed into private to work more effectively and to cope with the changing need of the nation as well as people. So, Nepal Telecommunications Corporation was also changed on 1st Baisakh, 2061 B.S., as Nepal Doorsanchar Company Limited (Nepal Telecom) and started its operation.

Nepal Telecom functioning like monopoly over the distribution of the services. To know about the existing financial position of NT whether it's satisfactory or not, its collection procedures and policies, the operating and non-operating expenses and the communication gaps between management should be considered. Time to time political insurgency is also one of the hurdles, for the smooth functioning of Nepal Telecom. The study intends to analyze these above problems of Nepal Telecom and know its operation policies and procedures after its transformations into company.

Nepal Telecom is a dominant operator in the field of telecom sector and basic Infrastructures for the development of the nation. Without it one cannot imagine the functioning of all the organizations whether public or private in the country.

1.11 Focus of the Study

The focus of the study is to analyze the financial performance of NT based on Ratio Analysis as a financial tool.

1. Only the financial aspect and financial structure analysis is made to evaluate the financial performance of NT; though other factors such as human resources,

marketing, management etc. play equally important role in the performance of any organization

2. The statistical tools have been used to see the future trend of NT and also to know the significance between different variables.

3. Most of the findings are based upon the available secondary data and some of them are based upon the information provided by NT employees.

1.12 Significance of the Study

A series of financial statements analysis and interpretation of different years helps one to forecast and measure the trend regarding the firm's ability. Apart from these, this study can be used as a reference material to conduct further in-depth study and analysis.

Appropriate financial performance analysis is very important. The company will have to plan its financial requirement initially at the time of its promotion, expansion and operation. This study has been framed in such a way that it will be helpful for managerial decision and the concerned decision-makers to determine the fund requirement, liquidity, solvency, efficiency and profitability position of the company.

1.13 Limitation of the Study

The study was limited by a number of factors like:

* This study is totally dependent on the financial statements, Balance Sheet and Profit & Loss Account.

* This study is based on the secondary data provided by the company. Thus, the limitation of secondary data may exist.

* Due to unavailability of the recent data of NT after transformation, the study could not be carried out for the most recent ones, which restricted the area of this research.

* Only five years of financial data are studied, in itself is the limitation for the financial performance analysis of NT.

* Detailed study could not be made due to time-constraint.

* In-depth information could not be obtained from all the telecom's employees

1.14 Plan of the Study

This research comprises of five chapters, which are as follows:

1. Chapter 1 - Introduction

This chapter describes the subject matter of the study, objectives of the study, significance of the study, limitation of the study, focus of the study, statements of the problems, research methodology and plan of the study.

2. Chapter 2 - Review of Literature

This chapter consists of conceptual review of books, journals, related research papers and review of Nepal Telecom.

3. Chapter 3 - Research Methodology

This chapter contains research design, population and sample, nature and sources of data collection, procedures and analytical tools used.

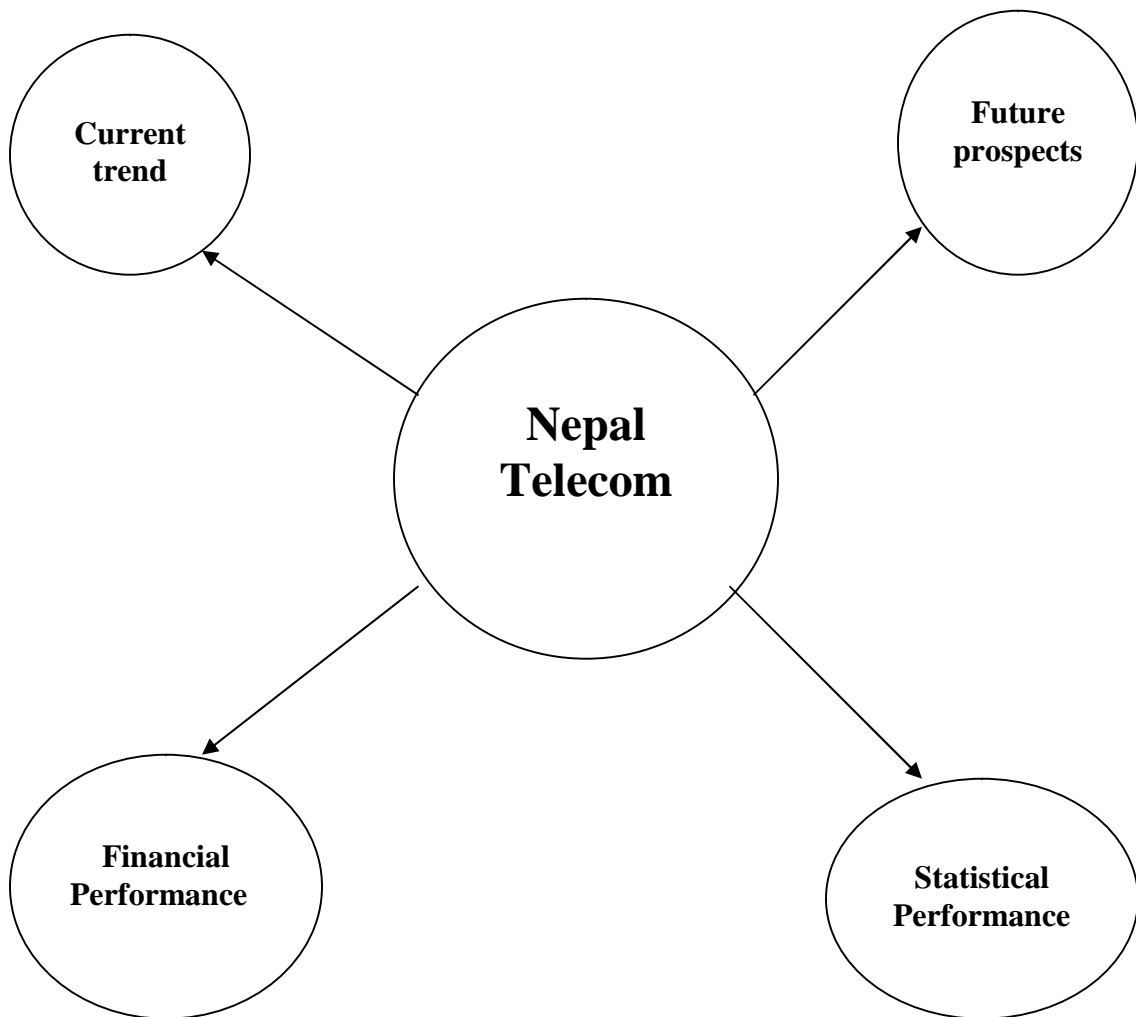
4. Chapter 4 - Presentation and Analysis of data

This chapter contains presentation of data in various ways and its interpretation.

5. Chapter 5 - Summary, Conclusion and Recommendation

1.15 Conceptual Framework

It deals with the model of Nepal telecom:



CHAPTER 2

REVIEW OF LITERATURE

2.1 Introduction

The process of reading, analyzing, evaluating, and summarizing scholarly materials about a specific topic. The results of a literature review may be compiled in a report or they may serve as part of a research article, thesis, or grant proposal.

The purpose of literature review is thus to find out what research studies have been conducted in one's chosen field of the study and what remains to be done (Wolff and Pant; 2005:30).The primary purpose of literature review is to learn more about the subject.

Review of literature means reviewing research studies or other relevant propositions in the related area of the study so that the past studies, their conclusions and deficiencies may be known and further research can be conducted. This chapter highlights available literature related to this research, which makes the base of knowledge for this study.

2.2 Conceptual Reviews

2.2.1 Review of Books

2.2.1.1 Communication

.According to Phillip Kotler in 'Marketing Management' has said that "Communication is the process of exchanging information, ideas and feelings between two or more people through written or spoken words, symbols and actions". There are many means of

communication and many different language systems. It is also the art of developing the understanding among the people.

Again according to Govinda Ram Agrawal in his book 'Marketing Management' has said that communication is one of the basic human activities and is the binding element for all social interaction. People communicate their thoughts by conversation, written, words, symbols, sign and pictures.

There are varieties of communication media available to reach the target audience. Personal communication channels are based on face to face contact, telephones or through emails. An indirect personal channel includes communication through experts e.g. doctors, engineers' e.t.c. Non personal channels of communication include a variety of media atmospheres and events. Media includes television, radio, newspapers, magazines and internet displays. These media have their own characteristics, costs and usefulness

2.2.1.2 Finance and Financial Statements

Finance is concerned with any activity, which is related to money. Previously, finance was limited only for the long-term fund. The traditional concept of finance is changed due to industrialization, technological innovation and intense competition, "Financial management is that managerial activity which is concerned with planning & controlling of the firm's financial resources". (Pandey I.M., Financial Management)

Financial statements are the organized annual summary documents prepared by the organization, which discloses financial information relating to any business Organization. Financial statements are prepared for the purpose of presenting a periodical review of report on the progress by the management and deals with; firstly the status of the investment in the business and secondly the result achieved during the period under reviews. The statement that discloses the status of the investment is known as Balance Sheet and the statement that shows results achieved during the

period is known as Profit & Loss Account. In recent years, a third statement is also being prepared by the business organization, which is called Retained Earnings Statement. Financial statement is prepared from the accounting records maintained by the firm. The basic objective of financial statements is to assist in the decision making of the organization.

2.2.1.3 Financial statement Analysis and Interpretation

Financial analysis is the process of identifying the financial strength and weakness of a firm by establishing proper relationship between the items of balance sheet and profit & loss account. Management is interested in all aspects of financial analysis in order to evaluate its operating performance to audit its internal financial control system and to develop a strategy of generating fund from external sources. Financial analysis not only help the organization but also helps regulating authorities like-the government in determining liability and formulating effective plan and policies for economic growth.

Analysis and interpretation of financial statements is an attempt to determine the liquidity, solvency, efficiency and profitability position of an organization and also highlight the sources and uses of funds on the basis of data supplied by financial, statement. Analysis and interpretation of financial statements fulfill the different needs of the concerned parties like owners, lenders and the management itself about their invested interests by providing them with adequate information and letting them know whether their interest are promoted or not. A series of financial statements analysis and interpretation of different years help one to forecast and measure the trend regarding the firm's ability to meet the short term and long-term abilities. If management is to maximize a firm's value, it must take advantages of the firm's strength and simultaneously revise its weakness. Financial statement analysis also helps by:

- (1) Comparing the firm's performance with that of other firm's of the same industry.
- (2) Evaluating trends in operations over time.

The task of the financial analyst is to select the information relevant to the decision, under consideration from the total information contained in the financial statements. The second task of financial analyst is to arrange the information in such a way to highlight the significant relationship between the variables. And the final task is the interpretation and drawing of the conclusions. So in brief, financial analysis is the process of collection, arrangement of data, showing of the relationship among them and evaluating and interpreting the result. It is concerned with making the investment decision, financing decision and dividend decision (C.R. Kothari, Quantitative Techniques, Vikash Publishing House, Pvt. Ltd).

Financial Analysis of NT is based on one of the major tools of financial-analysis i.e. Ratio Analysis. Not only this trend analysis of NT for next 5 years is drawn to predict the future, whether the growth is positive or negative. Nepal Telecom contains important variables that are presented and interpreted with the help of selected ratios to analyze financial position and financial performance of Nepal Telecom.

2.2.2 Review of Webs

The word 'telecommunication' is formed by two words: Telephone and Communication. The word 'Telephone' itself is formed by two words: i.e. 'Tele' and 'Phone', where 'Tele' means far and 'Phone' means sound. And 'Communication' means the interchange of data, information, ideas between two or more parties to bring out a mutual understanding between them. Therefore, we can say that 'Telecommunication' is the interchange of data, information, ideas, suggestions and others through the means of telephone.

Telecommunications and consumer devices are evolving rapidly. Effective communication requires tools and planning. Specific tools that can be used for communication include telephones, pagers and Personal Digital Assistants (PDAs). There are different tools of communication. They are:

- 1) Basic communication tools,
- 2) Computers and,

3) The internet. But here we are going to deal about one basic communication tools i.e. telephones.

Telephone was invented by Alexander Graham Bell, American scientist in 1887 A.D. along with his assistant Thomas and Watson. From 1887 to 1980, telecommunication was only meant for telephone service. But due to the drastic development in the field of computer and information technology, there was a great revolution in the field of telecommunication and the use of telephone went manifold. Presently, telephone service is used in Internet, voicemail, mobile phone, pager and others and has become very important from business and economic point of view. Telephone is a device used for receiving and transmitting information and messages, thus making communication possible over a distance. It plays a dominant role in daily activities and has become an essence of human life.

The fixed wire telephone is used extensively in Nepal but with the gradual development in international technology and growing human need the wireless telephone is becoming a requirement. The need for this type of telephone depends entirely on ones needs.

2.2.3 Review of Journals

"Helping all of the world's people to communicate" - It is the theme of the World Telecommunication Day, 17 May 2003. In this special day, Kofi A. Annan (Secretary-General of United Nations) delivered a special message to the people all over the world. He emphasized that millions of people in the poorest countries are still excluded from the "right to communicate", increasingly seen as a fundamental human right, for this reason, he encouraged to work in cooperation with the private sector, make available the benefits of new technologies, especially information and communication technologies. He further added that information and communication technologies must be used to bridge the digital divide and accelerate progress in the poorest corners of the world. (Nepal Telecommunication Corporation: 28th Anniversary Souvenir, 2003).

According to Pradeep Raj Upadhaya, Deputy Manager (C.A.) Nepal Telecom, 4th Anniversary Souvenir, 2008. In today's business world, risk management has introduced itself as the most essential part of management activities. We cannot remain untouched by the issue of managing risks. "Risk & Return" is a well accepted principle. "Greater the risk, more the return". But, we should not think about taking more risk for better return; we should think about "Managed Risk" because unmanaged risk never gives better return. In this context, this is my little endeavor to make us all knowledgeable towards risk and risk management. Then we can collectively go ahead with the strategy of risk Management.

What is Risk Management?

In the foregoing paragraphs, we gained some knowledge relating to risk and the need for risk management. So, at this stage we should understand the meaning of risk management and its importance. Risk Management is: The culture, process and structure consisting of well-defined steps which, if taken in sequence, support better decision making by contributing a greater insight into risk and their impact. The process of identifying and controlling an Organization's losses. The process of determining what can happen, Why & How? A systematic use of available information to determine how often specified events may occur and estimate its impact. Overall process of Risk Analysis & its evaluation, Identifying gaps in performance of the Company's survival.

Importance of Corporate Risk Management

The importance and need of better corporate risk management can be highlighted as below:

-) It is a scientific way to capture, understand and analyze the Risk Universe of the Company.
-) It helps to interlink Risks with Corporate Goals. It helps to prioritize RISK AREAS impacting the Organizational Goals. It enables to estimate the returns at different levels of Risk.

Risk Management Techniques

While managing risks, one should understand the risk characteristics of Risk Universe and should be able to link those risks to strategic objectives. After understanding and linking risks to strategic objectives of business, the following techniques can be used to manage them as per requirement:

1. Assess

We should, first, assess the probability of risk to accomplishment of objectives and our risk tolerance level.

2. Avoid

We can redesign the process to avoid particular risk.

3. Diversify

We can spread the risk on numerous assets or processes to reduce an overall risk of loss or impairment.

4. Control

We can design activities to prevent, detect and contain adverse events or promote positive outcomes.

Lastly, let's collectively think:

-) What are the Risks to Nepal Telecom?
-) What is the scenario of Risk Universe in Nepal Telecom?
-) How can we gain from Managed Risk?
-) Are we managing Risk?

Similarly, Yoshio Utsumi (Secretary-General of International Telecommunication Union) in World Telecommunication Day held in Geneva for the first phase of the World Summit on the Information Society said that by working together and by "Helping all of the world's people to communicate" will create a vision that will fulfill the great promise of the information society and also the future with improved communication will make the world a more equitable, peaceful and sustainable place for all.

As published in 'Telecom World', Kualalampur, Telecom was found to be competent at measuring profitability, but has made little progress in applying marketing budget to customer development and therefore comes lowest of the sectors studied for customer focus. As a result, the sector remains focused on customer acquisition and market share growth above customer development] (Telecom World, Kualalampur, 10th edition)

According to Shiv Bhushal Lal, Regional Director, Birgunj, 4th Anniversary Souvenir 2008.

Everything at Nepal Telecom has the customer's interest at core, with customer service and value added in which "Customer Service" as Customer Strategist is used to build the passion and sell the services strategy to the top executives and leadership team to improve the ability to customize our customer service programs for our organization.

As published in "THT Business Special Telecom", going through this article telecom experts said that it is utmost important to fully privatize Nepal Telecom to deliver better service to the people in the free market but this delay in privatization is due to the weak management, strikes, irregular services to the public and moreover the repeated change of the senior officials and finance ministers. The privatization of NT will bring many changes regarding effective telecom services at the cheaper cost, government will not have monopoly on its resources and services, and it will bring a big change in stock market making it more attractive.

Sudhir Prasad Aryal, (Kathmandu Regional Directorate of NT) has fully supported the transformation of hundred percent government monopoly operators into the newly entrusted Nepal Telecom, a dominant operator in the field of telecom sector. He also said that Nepal Telecom is now focusing more on management at, marketing issues, less on routine technical aspects and is moving from a seller market into a buyer market. He has emphasized on the issue that the people have to move to an accepted

model of modern corporate governance. He has come up with three broad road-maps as:

Vision: to be comparable with international telecom operators in near future.

Goal: to achieve the above vision.

Action: a new definition of rules and responsibilities.

For, meeting these road-maps, he suggested that the Managing Director's office should look at the high level performance of the organization and should be well equipped to aid the Managing Director to discharge his duties effectively and efficiently. He also emphasized to synergize all of the NT's energy to total customer satisfaction by modernizing the services to international level and incorporating the state-of-the-art technologies. (Nepal Telecom: 1st Anniversary Souvenir, 2005)

Buddhi Prasad Acharya, Chartered Accountant of NTC has suggested utilizing its fund rather than accepting high interest bearing loans for capital investment since the rate of earning in liquid fund is less than the rate of interest it pays for the loan, (Doorsanchar ko Bartaman Abastha Ra Nijikiran", (Kathmandu: TEAN 1999). Mr. Acharya in another article again has suggested utilizing its internal resources, he has written, "it has become possible to maximize profit utilizing internal resources with minimum cost. In other hand, liquidity position of the corporation is quite high as it keeps capacity to pay off whole debt at once if the circumstances so required. Keeping in view, the increasing services, it can be expected that the further profitability trend will get improved furthermore in comparison to current trend provided the revenue structure from national and international services remain ascertained limit at unchanged tariff situation. ("Profitability structure of NTC at a glance", NTC Silver Jubilee Special Issue: 2000).

According to Telecommunication Policy, 2060 B.S., the objective of Nepal Telecom is to make the telecommunication service reliable and accessible to all people at the reasonable cost throughout the Kingdom in collaboration with the private sector in order to support the social and economic development of the country.

N R Mokhriwale (CEO, United Telecom Ltd Kathmandu), has told in brief that the upcoming budget should be adopted both in the short as well as long-term policy to develop telecom sector more vibrantly and competitively. He has emphasized more on TSC and VAT which is literally more for the consumers to enjoy the services. Totaling the PTSC and VAT it comes nearly 29.5% which is very high. Another point he has added is about the lengthy process of the clearance of the infrastructure items like power plants, batteries, towers etc from the custom duty. Despite taking the license from Nepal Telecommunication Authority (NTA), numbers of recommendations for the check and clearance of the equipments have to go before the actual clearance from the custom duty.

According to National Communication Policy, 2049 B.S., the objectives of Nepal Telecom are:

-) To provide telecommunication service to public;
-) To help in economic, social and development task of Nepal;
-) To provide lowest, reliable and efficient telecommunication both in national and international level;
-) To develop as a backbone of national development of Nepal

2.2.4 Review of Related Research Studies

Prior to this study, there are very few thesis and research papers submitted to the libraries of Tribhuvan University and its wing college on the same topic. Most of the research has not fully been able to explain the financial condition of this organization. But besides this, there is some other thesis that is related to this study to some extents. The review and the extract from them are presented in this section.

Dipendra Kumar Neupane has submitted thesis on the topic "A study on Profit Planning in Nepal Telecom". The general objective of the study was;

To examine the present comprehensive profit planning system applied by NTC.

The other specific objectives of the study were to highlight NTC to analyze functional budgets adopted in the corporation, to analyze ratio analysis and variances of NTC.

According to Prem Lal Adhikari on topic "An evaluation of financial position of Nepal Telecommunication Corporation", 1995, depicted the following findings:

NTC does not have serious liquidity problem.

The current assets and current liabilities are positively correlated and the corporation has been following a uniform policy to finance. NTC has invested the huge amount in purchasing the fixed assets but the revenue generating ability is very low in comparison with the investment, which is 0.04 times. This shows that there is no effective utilization of fixed assets in generating revenue.

NTC is increasing investment on total assets but return is not as per the investment, which is not good for future prospects. On an average the total assets turnover ratio is only 0.22 times which is very low.

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 can find that the collection period is 132 days on an average. Only in two fiscal years the collection period is below the average, whereas. In other three years the debt collection period is very high as per the standard. So, it can be inferred that the firm is not adopting proper receivable management policy referring with NTC management; it has set 90 days as standard collection period. It has 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. In the first four fiscal years, it is not able to cover the average rate of return on total assets too. 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. This shows that the return has not shown an increment in the investment on assets.

He has expressed the existing problems in NTC as follows:

-) NTC is not effectively utilizing its assets. NTC has been seriously facing the problem of outstanding debt collection, which is the major issue.
-) Profit earned by NTC is not sufficient to make it self-reliance in its activities. Increasing in cost in each fiscal year is another major issue of NTC. It is not adopting the cost control tools & techniques. Another major issue is that NTC is not conducted under the business principle. The idea of privatization is coming into telecommunication sectors too. But NTC is not in a position to meet the competition with the private sectors.

A research made by Rajendra Kumar Pokhrel on topic "Traffic structure of Nepal Telecommunication in Nepal", 1997, is a very novel study and gave new findings as:

The tariff rates for local telephone, STD, ISD and other services are reasonable. Time constraint is necessary but three minutes allotted at the present is not sufficient. The interest rates provided by NTC for the amount of deposit by its subscriber are relatively low in comparison to the rate of interest provided by the banks. NTC takes differential tariff for the use of telecommunication facilities during the day, evening and night shift. It helps for the proper distribution of tariff load with respect to time, improves the grade of service and encourages the low income and internet-surfers group to be benefited from the services.

NTC overall financial performance is satisfactory. This shows that NTC is maintaining the good liquidity position and the financial capacity of the firm to repay current liabilities is worthwhile. The range of the inventory turnover is sound from the viewpoint of liquidity. NTC debtors' turnover ratio is low which shows that the receivable are not collected in time. So it is suggested that the management should make effective strategy to collect the receivables. NTC is increasing investment in fixed assets but the return on it is not satisfactory. It means NTC has inefficiency in proper utilization of fixed assets in generating sales which is the major issue. The working capital turnover ratio reflects the inefficient utilization of working capital in generating sales revenue. The operating profit margin of the corporation is satisfactory which should be maintained. Corporation should go for in-depth analysis of its strength and weakness. NTC should

adopt participatory management policy to overcome the weakness and know its strength.

Manohar Krishna Shrestha on his study of Revenue Collection Improvements in Service Delivery of NTC" made 1994 has analyzed about the revenue collection of NTC. This study was designed to show the actual revenue collection position, problem in revenue collection and to give the workable suggestion for improving the revenue collection position. The study covered the period of 10 years from 1983 to 1992. He recommended that NTC should take an immediate action such as display of customer's service chart in the counter, maintain complain desk, provide adequate manpower, and encourage payment through banks. Simplify new line connection procedures maintain a free telephone counter for calling information etc. The long term measures should be included for constructing some of the services term related to telecommunication such as maintain to the private sectors and specification of the quality and standard of service.

Another research study was conducted by Dipti Basnet on topic "Financial Performance Analysis of Nepal Telecom", 2006. According to her Objectives of the study was as follows:

-) To examine the current trend of NT financial activities.
-) To make the trend analysis for the future prospects of NT.
-) To analyze the financial performance of NT for the past eight years.
-) To analyze the statistical performance of NT for the past eight years.

And her major findings are sum up below:

- 1) First of all, NT is maintaining the good liquidity position. During her study the current ratio ranges between highest of 5.67 times and lowest of 3.70 times. While the standard current ratio should be 2 \ 1 times, comparing these ratios NT maintains more than the standard. So, this ratio helps to analyze the financial capacity of NT to pay its short-term liability more than 3 times. During the study

period quick ratio is also sound. This shows that current liabilities could be covered with quick assets in each year. The straight line trend of both the ratios shows the positive growth rate which indicates that the payment of short-term liabilities under favorable terms and conditions should not be of much problem to NT in the coming years and as well as company is maintaining its short-term liquidity position.

- 2) Debtor's turnover ratio is one of the important ratios to find the efficiency of the company in collecting its outstanding bills. Here higher the ratio more efficient is the credit management, In her research study only during the four years, 1995/96, 2000/01, 2001/02 and 2002/03 it has performed better than average 2.214 times i.e. 2.503, 3.119, 2.496 and 2.379 times. And again in 2002/03 ratio has decreased this shows that management is efficiently collecting debts. The ratio has shown remarkable improvement in the F/Y 2000/01, which if maintained could be good move for the credit collection of Nepal Telecom.
- 3) Total assets turnover ratio indicates the efficiency with which the firm is able to use its total assets to generate sales revenues. The standard turnover ratio is 1:1 times, but during this whole period of study the ratio is less than the standard i.e. 0.241 times in lower and 0.270 times in higher. This shows that NT is lacking in efficient utilizations of its fixed assets by the marginal increase in sales. The straight line trend also shows a long run negligible negative growth rate.
- 4) Net Profit Margin measure the overall firm's ability to turn each rupee sales into net profit. As we see, the average NPM of NT over this period is 39.85% or 0.3985 indicates that each rupee of sales is contributing Rs. 0.3985 for rewarding the owners. The ratio ranges between highest of 44.60% in F/Y 1997/98 and lowest of 35.50% in F/Y 1996/97. The straight line trend shows a long run positive growth rate which may help NT to have greater profit margin in the coming years. And also there is very high degree of positive correlation coefficient between the NPAT and Sales of $r = + 0.981$.

- 5) The ROCE ratio has a clear fluctuating trend with the highest ratio of 0.159 or 15.90% in F/Y 2002/03 and lowest ratio of 0.115 or 11.5% in F/Y 1995/96. The average ratio for the study period is 0.136 which indicates that each rupee of long term fund employed by the company is generating after tax profit of Rs 13.6 which is not so good comparing with the investment in capital employed. But the straight line trend shows the return level of the long-term capital employed by the company may increase in upcoming years. While comparing with the ROCE with the ROA of Nepal Telecom, we could see that the return to the long-term stakeholders are better than the return earned by the assets. From the statistical calculation the value of r is +0.972 which represents the NPAT and Capital Employed of NT is highly positively correlated.
- 6) One of the main reasons that is said to have adverse effect on its profitability and the slow growth of Nepal Telecom during these years is the political insurgency. The destruction caused to many of its key structures all over the country has resulted in drastic decline in the operational profit and the development of the infrastructures of the developing country like Nepal. But this argument is not totally valid. Because, NT management could not vision the other threats apart from the natural threats. And also the management did not considered appropriate to purchase insurance to cover whole of the fixed assets of Nepal Telecom.

2.3 Nepal Telecom after Transformation

Change starts when someone sees the next step. In case of organizations that strive to perform mere, change is a natural, continuous process. Although all changes are normally painful, only those organizations having excellent management strategies can face those changes boldly, and turn each of the 'obstacles-on-the-way' to opportunities-to-the-destination. Although the telecommunications entity had a number of transformations to reach the status of Nepal Telecommunication Corporation (NTC), all those past transformations were under the cent percent

ownership of the government. On the other hand, the present transformation of the same entity to 'Nepal Telecom' is however, different as the entity has changed from "the-only-one" to "one-of-the many" telecom operators of the country.

The then Nepal Telecommunication Corporation was transformed into Nepal Doorsanchar company Limited (Nepal Telecom) on 1st Baisakh, 2061 B.S, (13'h April, 2004 A.D.)- This new company (Nepal Doorsanchar Company Limited) was registered with the Company Registrar Office on 2060-10-11 under the company act 2053, and the notice to this effect was published in Nepal Gazette dated 26th Chaitra 2060. This change was made to work more effectively and cope-up with the changing need of the nation and people as well.

According to Sugat Ratna Kansakar, Immediate Past Managing Director of Nepal Telecom, the recent transformation from corporation status to company status is a positive step to bring in corporate culture, professionalism and more dynamism in the organization. It is also one of the steps in the way of privatization.

Satisfying its objective of transformation, NT has attained a fine achievement in its every aspect. It not only satisfied itself with a good increase in profit but has also pleased its customers with many new schemes and services.

Nepal Telecom is heading ahead to meet its objective as "NATION BUILDING IS OUR GOAL". Nepal Telecom target is to reach every Nepalese citizen and very soon its new slogan would be "ghar-ghar ma telephone, haat-haat ma mobile".

Although transformation is a challenging job, Nepal Telecom in its short span of time has well-faced the challenges and attained the followings:

- i. Realization of 'Need of Change' of Nepal Telecom by the employees.
- ii. Better plans and ideas are formulated by Nepal Telecom to be more competitive and service oriented.
- iii. A new insight of Modern Management Techniques.

- iv. Effective training programs are provided to meet the changed management.
- v. For the effective management of NT, it has taken helpful hands from foreign consultants.
- vi. NT has also introduced Participatory Management Programs.
- vii. Although it is government owned organization, it is working with new ideas, more professionalism, and more dynamism, improved working process after transformation into NT.
- viii. Nepal Telecom maintains a fully digital network employing the world's latest switches and transmission equipment to provide reliable and cost-effective service to its customers.
- ix. It has also improved its Internet and mobile services.
- x. NT is adopting computerized policy to enhance e-business.
- xi. To meet the growing telephone demand of the country, NT has increased its telephone capacity from 90,885 exchange lines to 649,854 exchange lines.
- xii. The line capacity has increased from 700,000 to 1,000,000 within the two years of transformation and its target is to distribute 2,500,000 lines by 2010 A.D.
- xiii. People had to wait nearly 6 to 7 years to get PSTN land-line service, but after the transformation they now get PSTN service within a day, which is considered to be a remarkable achievement for NT.
 - xiv. Nepal Telecom has introduced new technologies like Wireless Local Loop i.e. CDMA

Government of Nepal is bringing out policies and programs for better services to citizens using information technology. To name a few are services delivery through the internet,

E-money transaction and e-sewa. To provide all these services to customers it is necessary to have digitized information about customers and services. And NT is intensively using this digital form of technology within its premises for providing required information.

The day will not be so far when NT will be providing different online services to customers like payment through internet, payment of bills through ATM, interactive Voice Response (IVR) for 198 services, IVR for outstanding payment query, payment through e-money and so on.

2.4 Nepal Telecom with Its Competitors: NCELL (Mero Mobile), UTL and STM Telesanchar

As per the Telecommunication Policy, 2056, the Government has decided to encourage the participation of private sector to speed up the development of communication in the country. Although few other companies are sprouting in this field, they are far behind where Nepal Telecom is today. However, one of the biggest challenges for Nepal Telecom is to stand in the competition with private sector. It is not so far when many private companies will be registered in Nepal for providing telecommunication services.

2.4.1 NCELL, (Spice Nepal Private Limited) (Mero Mobile)

NCELL (Spice Nepal Private LTD) has launched Mero Mobile the first private mobile operator in Nepal. It has started GPRS services in Kathmandu. NCELL is the first privately owned GPRS mobile operator in the Kingdom of Nepal, headquartered in Lalitpur and planning to have its customer care offices throughout the country. NCELL has built its GPRS mobile network using the most advanced telecommunication equipments available in the market in order to provide its valued subscribers with the highest quality of services- NCELL strives to bring a wide range of mobile phone services.

Goal of NCELL

"Our goal is to make the Mero mobile brand synonymous with innovation and quality. We want to be an integral part of our customers' lives, providing exceptional memorable experiences of the mobile phone. By recognizing, valuing and responding to their needs in lifestyle, the home, business and the community – our business remains profitable, responsible, original and vibrant. Overall, our offer encompasses voice services (including a range of enhanced calling features), broadband data and multimedia

services. We are using dual band (900 as well as 1800 MHz) which allow us to cater more clients in terms of capacity and coverage."

Services Provided by NCELL

1. General Packet Radio Service
 - a) WAP - Wireless Application Protocol.
 - b) Call Waiting
 - c) Call Forwarding
 - d) Conference Call
 - e) USSD - Unstructured Supplementary Services Data
 - f) CLIP - Calling Line Identity Presentation.

2. Customer Care Services
 - a) Sim card changing,
 - b) Change phone number
 - c) Roaming
 - d) International
 - e) Tariff Change
 - f) Itemization - One time call itemization
 - g) ACC (IVR) - Automatic Customer Service
 - h) 1CS - Internet Customer Service
 - i) One hour free call per month from mero mobile to mero mobile

3. News & Information
 - a) News
 - b) Sport
 - c) Culture
 - d) Weather
 - e) Exchange rates
 - f) Astrology
 - g) Business astrology

4. Messaging Services
 - a) Short Messaging System (SMS)
 - b) SMS to E-mail gateway
 - c) Voice Mail Services
5. Entertainment Services
 - a) SMS Dating
 - b) SMS Love Match
 - c) Biorhythm

Nepal Telecom is no more in monopolistic market; hence to survive in a cut throat competitive market it is necessary to overcome the following challenges:

-) By implementing customer care measures, NT will be able to provide full range of high quality telecommunication services at competitive price.
-) Re-engineering of whole Nepal Telecom.
-) Provisioning all services on customer's demand.
-) Outsourcing services, this can be cost effective and are also available in market.
-) Installation of Services (on demand, reduce waiting time, reallocation of services, deactivation on minimum time, additional value added service on demand).
-) More allocation of budget, authority and trained manpower for Customer Care.
-) Change of thought as thought change is better than physical change i.e. changing of attitude.

2.4.2 United Telecom Limited (UTL)

United Telecom Limited (UTL) is a consortium of four companies who have come together in a joint venture, to explore various telecom opportunities in Nepal. UTL got service license for its operation from 4th October 2002. UTL is a Nepalese company and is registered with:

-) Registrar of Companies, Kathmandu
-) Department of Industries

) Department of Inland Revenues, Government of Nepal

UTL Covers

- 1) Kathmandu
- 2) Pokhara
- 3) Butwal
- 4) Bhairawa
- 5) Hetauda
- 6) Birgunj
- 7) Biratnagar

Features

The system, in addition to voice and data services, is capable of providing the following features:

-) Wake-up Call Reminder Facility
-) Abbreviated Dialing
-) Call forwarding
-) Call Transfer
-) Call Waiting (Call Alert)
-) Dynamic STD/ ISD facility
-) Call Hunting Facility/Mobile Access Hunting
-) Voice Mail Service (VMS)
-) G3 Fax
-) Data Service
-) SLA (Selective Line Access)
-) Conference Calling

Three Way Call (TWC)

Conference Calling (CC)

-) CLIP (Calling Line Identification Presentation)

Future Plans

) UTL envisages being an ISP.

) Besides providing basic ISP services, UTL will look into value added activities such as a Nationwide Portal, developing web pages etc.

) Being the leading private company in the telecommunication sector, UTL will look into expanding its operations into all related areas including:

- Rural Telephony
- Paging
- Mobile Trunk call
- Total Network Solutions for Banks

2.4.3 STM Telesanchar

STM Telecom Sanchar is a licensed Rural Telephony Services (RTS) operator in Nepal. STM Sanchar is a subsidiary of STM Group headquartered in USA, a global leader in the field of rural telephony having set up networks in more than 52 countries worldwide. STM Telecom Sanchar was licensed in 2003 by Government of Nepal to provide Rural Telecom Services. The obligation under the project was to set up 1068 PCOs (Public Call Offices) in the rural areas of 16 districts of Eastern Nepal. STM Sanchar was successful in rolling out the network in 18 months as per the license stipulations. Despite the most challenging situation prevailing in Nepal, especially in rural areas, STM has fulfilled the obligation to the people of rural Nepal having provided state of the art rural telephony network.

STM Telecom Sanchar has made a pioneering effort introducing payphones in the villages where no other means of communication exist and today STM stands as one of the respected organization in Nepal. With these payphones the rural population now enjoys seamless connectivity anytime anywhere. With more than 3000 remote phones stretched from the highest location Gorakshep

5180m lying in the foothills of gigantic Mt. Everest to the lowest place in Nepal, Kechana, and STM has been able to address the long waiting needs of the rural people.

Vision

The Company's vision for the future is to grow access lines.

Mission

STM's mission is to serve the needs of its rural communities. The mission of the Company is to:

-) Create chances for a better standard of living in the community
-) Build awareness on new communication technologies
-) Promote the region
-) Reduce inaccessible

Milestone

2003 - Awarded Rural Telecommunications Service License

2003 - Established State-of-the-Art telecom infrastructure in Nepal

2006 - STM Sanchar successfully completed licensed milestones within given timeframe

2006 - Exceed license obligation

2006 - Installed a PCO at Gorekshep 5180m near Mt. Everest Base Camp

2007 - Introduced individual subscriber lines

2007 - STM Sanchar exceeded the license obligation of 1068 PCOs

2007 - Nationwide permission granted by Nepal Telecommunications Authority

2007 - STM Sanchar launches International Long Distance Services

2007 - STM Sanchar introduces Rural Broadband

2007 - STM Sanchar established Telecenter and introduced Tele-medicine

Year 2008

-) Scaling up of Telecenter and Telecenter offerings to include Tele-Education, Tele-Agriculture, Government facilitating e-governance and other ICT applications.
-) Network expansion to cover every underserved village.
-) Introduction of rural wireless technology
-) Scaling up Broadband reach and ISP services
-) Introduction of Prepaid Calling Cards
-) Banking and Corporate connectivity

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

In simple words, research means to search or study about a phenomenon. The word research is composed by "re" and "search" where 're' means repeatedly or again and again, and 'search' means to investigate or find. Thus, to research again and again is

research. Research Methodology is the research method used through the entire study to solve the research problems with certain objectives in mind.

Research Methodology is comprised of tools and techniques (i.e. method) used to analyze the data as well as logic behind their application. To achieve the objectives an appropriate research methodology has to be followed. Thus, this chapter focuses on research design, sample and population, nature and sources of data collection and tools used for analysis. In this research, one of the strong measures used in financial analysis is Ratio Analysis along with some statistical measures like Arithmetic Mean, Trend Analysis, Correlation & Regression and Probable Error.

3.2 Research Design

This research work is analytical and descriptive as per the need of classification and arrangement of research work. Analysis is made on the basis of past so, the research is also historical in nature. The accumulated data is presented, tabulated and described systematically under specific heading so as to meet the objective of the study. Thus, research design is a plan to obtain the answer of research question through analysis of data.

3.3 Population and Sample

All the service providing organization like Security-service, Fire-service, Postal service, Health-service, Transportation-service, Telecommunication service e.t.c. is included in the service industry. Telecommunication-service is like Nepal Telecom, UTL Mero Mobile and STM Telesanchar are the population of the study. Among these telecommunication services, Nepal Telecom is the sample of this study purpose as it is the largest and oldest one. And the objective is mainly focused with the financial

analysis of Nepal Telecom. The study comprises financial statement i.e. only balance sheet and profit and loss account of Nepal Telecom.

3.4 Nature and sources of Data Collection & Procedure

There are two sources of data collection Primary and Secondary sources of data.

3.4.1 Primary Data:

Some of the findings are based upon the information nourished by NT employees.

3.4.2 Secondary Data: The study is conducted on the basis of secondary data. The relevant data are collected from the Annual Reports, various documents & publications relating to the proposed study, NT library, NT website and TU library. Besides these some published and unpublished materials are also used in this study. The data has been rearranged so as to make easier for the present study. This study is based on the secondary data hence the reliability of the findings depends on these data.

3.5 Analytical Tools Used

To analyze and interpret the financial data of Nepal Telecom, various financial and statistical tools and techniques are used. Under financial tool, Ratio analysis is used whereas in statistical tool, Arithmetic Mean, Trend Analysis, Correlation Analysis Probable Error and Regression Analysis have been applied.

3.5.1 Financial Tool

Financial statements are prepared not at the end, but to assist users to make the decisions. The financial statements, therefore, need to be interpreted. The commonly and widely used means of conducting financial analysis is ratio analysis. Ratio simply

expresses a quantitative relationship between two figures. In general it is a statistical yardstick through which the relationship between two figures can be compared and measured.

Ratio analysis is the process of determining, interpreting, and presenting the relationship of items and groups of items from the financial statements. Financial ratios help to describe the financial condition of a business firm, efficiency of its activities, its comparable profitability, and the perception of investors as expressed their behavior in financial markets. They often permit analysts and decision takers in portraying past and current financial position and performance of the firm since they reveal strengths and weaknesses of the firm. The ratios are expressed as percentages, fractions, or proportions. The way of a particular ratio depends on the need of a particular user. Though there are many categories of financial ratios, each serving the particular purpose is commonly categorized in four classes; liquidity, activity, leverage and profitability.

Ratio analysis may be done for a variety of purposes, which ranges from a simple analysis of the short-term liquidity position of the firm to a comprehensive assessment of the strengths and weaknesses of the firm in various areas. In other words, ratio analysis helps the analyzer to make quantitative judgment on the firm's financial position as well as performance. It presents the actual situation of the organization and provides guidelines especially in spotting trend towards better or poor performance.

Ratio analysis has many managerial uses also. Ratio analysis helps in assessing the operating efficiency of the business and measuring the financial solvency. Not only these, it helps in making quantitative judgment while decision-making, taking corrective action and forecasting future.

3.5.1.1 Liquidity Ratios

A liquid asset is one that trades in an active market and hence can be quickly converted into cash at the going market price. Therefore, we can say that, the ability of a firm to meet its short-term obligation is known as liquidity. It reveals the short-term financial strength of the business and helps to know the capacity of the concern to pay back its

short-term liability. A full liquidity analysis requires the use of cash budgets, but by relating the amount of cash and other current assets to current obligations. Usually two ratios are calculated for this purpose.

- A. Current Ratio
- B. Quick Ratio

3.5.1.1.1 Current Ratio

This ratio shows the relation between current assets and current liabilities. It is calculated by dividing current assets by current liabilities.

Current assets are those assets, which can be converted into cash within a short period of time, normally not exceeding one year. The current assets include Cash in hand, Cash at bank, Inventories, Bills receivables, Sundry debtors less reserve, Marketable securities, Work-in-progress, Prepaid expenses, Loan and advance, Accrued income (income due but not received) of Nepal Telecom.

Current liabilities means the obligation which are payable within a short period, these kinds of liabilities are expected to mature within a year. It includes Bills payable, Outstanding expenses, Income tax payable, Short-term loan, Provision for tax, Sundry creditors, Cash credit, Bank overdraft, Unclaimed dividend, Income received in advance, Accrued interest on loan and debentures. The current ratio is calculated through following way:

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

The ratio shows the availability of current assets for every one rupee of current liabilities or current obligation. Higher the current ratio, better the liquidity position is. However, the standard form of current ratio is 2:1. If this ratio of the firm is not enough, it will not

be able to meet its current obligation properly which may result in bad credit rating and less creditors' confidence eventually may lead to the bankruptcy. On the other hand if the firm has high degree of this ratio, a good amount of current assets will remain unproductive and the firm will not be able to produce satisfied return.

3.5.3.1.2 Quick Ratio

Quick ratio is also known as 'Acid test Ratio' or 'Liquid Ratio'. It shows the relationship between quick assets and current liabilities and is calculated by dividing quick assets by current liabilities.

Quick assets are those assets that can be converted into cash without significant loss in the value of assets in a very short period. It includes all the current assets except Inventories and prepaid expenses. Inventories are typically the least liquid of a firm's current assets; hence those on which losses are most likely to occur in the event of liquidation. Likewise, prepaid expenses are paid in advance and there is no question of recovering the cash paid in advance for future services. Therefore, this is a measure of the firm's ability to pay off short-term obligations immediately as and they occur. The quick ratio is calculated by following way:

$$\text{Quick Ratio} = \frac{\text{Quick assets}}{\text{Current liabilities}} = \frac{\text{Curent assets} - (\text{Inventory} + \text{Prepaid Exp})}{\text{Current liabilities}}$$

However, an ideal quick ratio is said to be 1:1. It is also considered to be more stringent measure of liquidity than current ratio. Like current ratio, low quick-ratio means the firm has difficulty in meeting its current obligation immediately. However, very high quick ratio signals low investment in inventory that may in turn lead to sales opportunities

losses, and excess investment in cash that do not produce any return for the organization.

3.5.1.2 Turnover Ratio / Activity Ratio

The activity ratio is helpful to know how well a firm manages and utilizes its assets. This ratio is also known as "Efficiency Ratio" or "Assets Management Ratio". It measures how effectively the firm is managing its assets and also indicates the speed with which the assets are being converted or turned over into sales.

Funds of creditors and owners are invested in various assets to generate sales and profits. The better the management of assets, the larger the amount of sale is. So, we can say that the asset management ratios involve a relationship between sales and assets. Several ratios are calculated under this ratio to judge the effectiveness of utilization. They are:

- A. Inventory Turnover Ratio
- B. Average Age of Inventory
- C. Debtors Turnover Ratio
- D. Average Collection Period
- E. Total Assets Turnover Ratio
- F. Fixed Assets Turnover Ratio
- G. Capital-employed Turnover Ratio

3.5.1.2.1 Inventory Turnover Ratio

Inventory turnover ratio evaluates the inventory and indicates the efficiency of the firm in producing and selling its product. It indicates as to how fast the goods are sold and the speed with which stock is rotated into sales. It is also known as Stock Turnover Ratio. It shows the relation between Sales and Inventories and can be obtained by dividing sales by inventories as shown below:

$$\text{Inventory Turnover Ratio} = \frac{\text{sales}}{\text{Inventories}}$$

A high inventory turnover ratio is preferable as it indicates the efficient management of inventory whereas a low ratio implies excess inventory level, which is of course unproductive and it represents an investment with a low or zero rate of return.

The sales occur over the entire year, whereas the inventory figure is for one point in time. So, it would be a better approach to use an average inventory measure. Summing up the monthly figures during the year and dividing it by 12 calculate the average inventory value. In another method, the average inventory can be obtained by summing up the opening and ending inventory and dividing it by 2. And if the information regarding opening inventory is missing, sales can be simply divided by ending inventory to obtain inventory turnover ratio.

3.5.1.2.2 Average Age of Inventory

Average age of inventory is just an alternate method of expressing the efficiency of the inventory management. Lesser the time of the inventory the inventory remains in the storage, the better would be the inventory management of the organization. The average age of inventory is calculated by dividing 360 by Inventory Turnover Ratio.

$$\text{Average Age of Inventory} = \frac{360}{\text{ITR}}$$

The lower is the Average Age of Inventory the better is the result for the organization, as it indicates that the inventories remains in the go down for less period of time.

3.5.1.2.3 Debtors Turnover Ratio

Firm sells its goods both in cash and on credit; Credit is an important promotional tool these days. When the firm extends its credit to its customers, debtors are created in the firm's accounts, which are one of the important sources of current assets. However, the collection period from debtors must be tried to keep short as it greatly affects the

liquidity position of the firm. The efficiency of the concern for collection from debtors is measured by this ratio and is also termed as 'Receivable Turnover Ratio'; it shows the relationship between credit sales and average debtors. It can be calculated by dividing the credit sales by average debtors which is shown below:

$$\text{Debtors Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Debtors}}$$

If the information regarding credit sales and opening and closing balance of debtors is not available, debtors-turnover ratio can be calculated through following way:

$$\text{Debtors Turnover Ratio} = \frac{\text{Sales}}{\text{Debtors}}$$

The higher ratio indicates that the management uses its cash from the debtors within a short period of time and a low ratio means that the firm is not so efficient in collecting its debt.

3.5.1.2.4 Average Collection Period

The average number of days for collecting the cash from the debtors is called average collection period (ACP). It is also known as 'Days sales Outstanding' (DSO). This ratio evaluates the accounts receivables and calculates the days' sales that are tied up in receivables. Thus, the DSO represents the average length of time that the firm must wait after making a sale before receiving cash, or the average collection period.' In other words, it indicates how fast or slow the money is collected from the debtors. It is calculated in the following way:

$$\text{Average Collection Period} = \frac{360}{\text{DTR}} = \frac{\text{Receivables}}{\text{Annual sales}/360}$$

Here, receivables mean debtors.

The minimum days of ACP are preferable for any firm. The minimum days shows that the firm is efficient in collecting money from its debtors and it also reduces the chance of bad debts. A higher and increasing ACP shows the excess blockage of funds with

debtors, which increases the bad debts as well as it deprives the firm from investing its money in some productive assets. Therefore, an increasing ACP demands the change in credit policy of the firm.

3.5.1.2.5 Total Assets Turnover Ratio

This ratio is calculated to take information on utilization of total assets for generating sales by the firm. In simple words, it measures the turnover of all the firm's assets. The total assets include current assets, fixed assets and investment. The fictitious assets and deferred expenditure must be excluded while ascertaining fixed assets. this ratio is calculated in the following way:

$$\text{Total Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Total Assets}}$$

Like former two assets ratios, a higher total assets turnover ratio is preferable. A high ratio indicates overall efficiency in utilizing its total assets, which ultimately helps the organization to reduce its financing cost and increase the profit.

3.5.1.2.6 Fixed Assets Turnover Ratio

Fixed assets turnover ratio helps any firm to know how effectively it is using its fixed assets like plant, equipment and others. It is a relationship between sales and fixed assets. In other words, it shows the sufficiency of sales in relation to investment in fixed assets. It is calculated in the following way:

$$\text{Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Net Fixed Assets}}$$

Net Fixed Assets means depreciation is deducted from the gross fixed assets. This ratio has its own importance in the firm and is based on the consideration that the sale in any firm is based upon its ability to utilize its fixed assets as well.

The higher ratio represents the better utilization of fixed assets whereas the low ratio indicates that the firm is not able to utilize its plant and equipment to its full capacity, which adversely affects the production and increases the cost of the production.

3.5.1.2.7 Capital-employed Turnover Ratio

Capital-employed turnover ratio depicts the relationship between capital employed and sales. Capital employed is the sum of long-term liabilities and the owner's equity. It measures how effectively the capital employed in the business is utilized and its contribution in generating sales of the firm. The following formula is used for calculating this ratio:

$$\text{Capital-employed Turnover Ratio} = \frac{\text{Sales}}{\text{Capital Employed}}$$

Higher capital-employed turnover ratio shows that the management is efficient in utilizing its total amount of capital employed. However, the lower ratio indicates that the firm is not generating enough volume of business given its both long-term funds and owner's funds. In this case, sales should be increased, some assets should be disposed of or a combination of these steps should be taken.

3.5.1.3 Leverage Ratios

The third classification of the financial ratio is the leverage ratio. It is also termed as 'Solvency Ratio' or 'Capital Structure Ratio'. This ratio indicates the mix of the funds provided by owners and creditors and measures the enterprise's ability to pay the interest regularly and to repay the principal on maturity.

The following ratios are included in leverage ratios:

- A. Debt-equity Ratio
- B. Long Term Debt to Capital Employed Ratio
- C. Total Debt Ratio

D. Times-Interest Earned Ratio

3.5.1.3.1 Debt-equity Ratio

The relation between long-term debts and owner's equity is known as Debt-equity ratio. It is one of the important ways of measuring long-term financial solvency of the firm. It is calculated using the following formula:

$$\text{Debt-equity Ratio} = \frac{\text{Long-term Debt}}{\text{Shareholder's equity}} = \frac{\text{Total Debt}}{\text{Shareholder's equity}}$$

A high ratio shows the large share of financing by the creditors as compared to that of owners. It indicates the margin of safety to the owners. The creditors prefer low debt-equity ratio as it implies larger safety margin for creditors.

Higher the ratio indicates higher the risk for the business. A high ratio indicates that the outsiders and creditors provide most of the funds invested in the business. This increases the firm's liability towards its creditors. And lower the ratio shows that the owners provide most of the funds invested in the business.

3.5.1.3.2 Long Term Debt to Capital Employed Ratio

Long Term Debt to Capital Employed Ratio is also known as Debt to total capital ratio. This ratio shows the relationship between the long-term debt and total capital of the firm. This ratio also gives the similar indications as the debt-equity ratio, i.e. it is also used to analyze the long-term solvency of a firm. This ratio helps to know the proportion of interest-bearing debt in the total capital structure of the firm. This ratio can be calculated by dividing long-term debt by total capital employed. Its symbolical presentation is:

$$\text{Debt to Total Capital Ratio} = \frac{\text{Total Debt}}{\text{Capital Employed} + \text{Current Liabilities}}$$

Here, capital employed means total capital invested in the business. Total capital includes the shareholder's equity i.e. share capital and retained earnings as well as long-term debt. Total debt includes short and long term borrowing from financial institution, debenture/bonds, deferred payments, bank borrowings, public deposits and any other interest-bearing loan.

A low ratio is considered favorable for both shareholders and creditors as it indicates the lower claim of debt holders and provides security to creditors in extending credit. On the contrary, a high ratio represents greater risk to shareholders as well as creditors.

3.5.1.3.3 Total Debt Ratio

This ratio is also known as Debt Assets ratio. Like the first two leverage ratio, this ratio may also be used to analyze the long-term solvency of the firm and helps us to know how the firm is financed. This ratio can be obtained by dividing total debt by total assets of the firm, which is symbolically presented below:

$$\text{Total Debt Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Total debt includes both current liabilities and long-term debt. Both creditors and stockholders prefer low debt-ratio. It is because the lower ratio indicates greater protection to creditors against the losses in case of bankruptcy and magnified expected earnings to the stockholders.

3.5.1.3.4 Times-Interest Earned Ratio (ICR)

Times Interest Earned Ratio is also known as 'interest coverage ratio'. This ratio indicates the ability of a firm to pay interest charges on its borrowed capital. It is determined by dividing Earnings before Interest and Taxes (EBIT) by the interest charges:

$$\text{Times-Interest Earned Ratio} = \frac{\text{EBIT}}{\text{Interest Charges}}$$

EBIT is used as numerator because the full amount of EBIT is available to pay interest charges. This ratio measures the extent to which operating income can decline before the firm is unable to meet its annual interest cost. A high TIE ratio is favorable for the firm as well as creditors, debenture holders, and loan creditors. A high ratio indicates the low burden of borrowing of the business i.e. the adequacy of earnings to pay the interest of the money borrowed.

3.5.1.4 Profitability Ratio

Lord Keynes has well said that "Profit is the engine that drives the business enterprises". Earning profit is the major motive of every organization and it is the 'profit' that supports the business for its successful operation. Without profit, no organization can exist, expand and stand in the competition. However, earning satisfied return is not an easy task for any business. It needs proper coordination and management of different aspects of business. Profitability is the net result of a number of policies and decisions, and this ratio shows the combined effects of liquidity, asset management and debt on the final profit of the firm. It shows the overall efficiency and the earning capacity of the business concern. The following ratios are included in Profitability Ratio:

- A. Net Profit Margin
- B. Operating Expenses Ratio
- C. Return on Assets
- D. Return on Equity
- E. Return on Capital Employed

3.5.1.4.1 Net Profit Margin

Net Profit Margin ascertains the net profit margin on sales. In other words, this ratio depicts the relationship between net profit and sales, and helps to ascertain net profit earned when a rupee worth of goods/services sold. Net profit is obtained after

subtracting operating expenses, income tax, interest, etc. from the gross profit. This ratio is calculated in the following way:

$$\text{Net Profit Margin} = \frac{\text{NPAT}}{\text{Sales}} \times 100$$

Higher net profit ratio is preferable to the firm because it shows that the firm is able to earn more profit per rupee of sale. It is an indication of overall efficiency of the firm and better utilization of total resources. Financial strategy and operating efficiency greatly affects the amount of net profit. In case of poor net profit ratio, either of the two factors or both the factors have to be investigated.

3.5.1.4.2 Operating Expenses Ratio

The relation between the operating expenses and sales value of the firm is ascertained by operating ratio. This ratio measures the operating efficiency of the firm and provides the information about the cost structure of the firm. This ratio is calculated in the following way:

$$\text{Operating expense ratio} = \frac{\text{Operating Expenses}}{\text{Sales}}$$

Operating expense includes cost of goods sold, administrative expenses and selling & distribution expenses. The lower percentage of this ratio is favorable as it indicates the lower operating expenses for a given level of sales and higher profit for the firm whereas the higher percentage indicates decline in business capacity.

3.5.1.4.4 Return on Assets

Return on assets (ROA) is also known as 'profit to assets ratio'. This ratio measures the relationship between net income and total assets and helps a firm to know how well its assets management is contributing in its net profit. In clear words we can, say that this ratio measures the profitability of all financial resources invested in the firm's assets. It is calculated in the following manner:

$$\text{Return on Total Assets} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}} \text{ or } \frac{\text{Net Profit After Tax} + \text{Interest}}{\text{Total Assets}}$$

Total Assets = Current assets + Fixed assets + intangible assets

This ratio is shown in percentage and higher the percentage; more efficient is the utilization of available source and tools. So, higher percentage of ROA is preferable for the firm.

3.5.1.4.5 Return on Equity (ROE)

Return on equity is an important measure to make out how well the firm has been able to use the resources contributed by the owners. It depicts the relation between net profit after tax and shareholder's funds. Shareholders are entitled to residual profits. The rate of dividend completely depends upon the amount of profit left after paying interest to the creditors and debenture holders except that for preference shareholders who are paid fixed amount of dividend. Moreover, the earnings may be distributed to shareholders or retained in the business itself for its future development or for the future expansion. That is why shareholder's fund includes the total amount of equity share capital, preference share capital, reserve and surplus, reserve fund, general reserve, capital reserve, and share premium. Return on shareholder's equity is calculated in the following way:

$$\text{Return on Equity} = \frac{\text{Net Profit After Tax}}{\text{Shareholder's Equity}} \text{ or } \frac{\text{Net Profit After Tax} + \text{Interest}}{\text{Shareholder's Equity}}$$

High ratio of return on shareholder's equity represents good financial health of the business. It symbolizes the efficiency of management in utilizing its shareholder's fund whereas low ratio represents inefficient financial management.

3.5.1.4.6 Return on Capital Employed

Return on capital employed (ROCE) establishes relationship between net income and capital employed. Capital employed is a summation of equity shares, preference shares, reserves and long-term debt. Alternatively, it is a summation of net fixed assets

and net working capital. Net income is net profit after tax. This ratio measures the productivity of capital employed.

$$\text{Return on Capital Employed} = \frac{\text{Net Profit After Tax}}{\text{Capital Employed}} \text{ or } \frac{\text{Net Profit After Tax} + \text{Interest}}{\text{Capital Employed}}$$

This ratio measures the effectiveness of share capital and long-term borrowings in generating profit. The higher the ratio, the better is the firm's ability to generate profit from the share capital and long-term borrowings. Moreover, a high ratio indicates high productivity of capital employed.

3.5.2 Statistical Tool

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. The word statistics refer to a method of dealing with quantitative information. This research uses the following statistical tools for the required financial analysis: Arithmetic Mean, Trend Analysis, Correlation and Regression Analysis.

3.5.2.1 Arithmetic Mean

The arithmetic mean is the most popular and commonly used measure of central tendency, which represents the entire data by a single value. The arithmetic mean of values of a variable in a given set of observations is the summation of all the values of the variables divided by the number of observations. In general, $X^1, X^2, X^3, \dots, X^n$ are given observations up to n^{th} term, then their arithmetic mean (\bar{X}) is given by:

$$\bar{X} = \frac{X_1 + X_2 + X_3 + \dots + X_n}{N}$$

Where,

\bar{X} = Mean

X_1, X_2, \dots, X_n = given set of observation.

N = Numbers of item observed.

3.5.2.2 Trend Analysis

Trend Analysis is an analysis of a firm's financial ratios and/or financial figures over time in order to determine the improvements or deterioration or stability of its financial situation. Thus, the concept of trend analysis does not include short-range fluctuation but the steady movement over a long time. Trend Analysis describes the average relationship between two series where the one series relates to time and the other series to the value of a variable. It generally shows that the line of the 'best-fit' or 'straight-line' is obtained or not. The line of the best fit describes the change in the given series accompanying a unit change in time. Another words, it gives the possible mean value of independent variable.

The straight-line trend is represented by the equation:

$$Y_n = a + bX$$

Where,

Y_n = Designates trend values to distinguish them from the actual values

a = Intercept

b = Slope of the trend line

X = Independent variable

In order to determine the values of constants a and b , the following two normal equations are to be solved:

$$\sum y = Na + b \sum X \quad (1)$$

$$\sum XY = a \sum X + b \sum X^2 \quad (2)$$

Where,

N= total numbers of years.

By solving the above equations for a and b, we get:

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

$$a = \frac{\sum Y}{N} - b \left[\frac{\sum X}{N} \right]$$

The constant, a simply equals the Y-intercept value and the constant b equals the rate of change in Y.

The above mentioned is used in this study to determine the trend of various ratios i.e. long-term tendency of various ratios that indicate financial position or the performance.

Correlation Analysis

Correlation analysis is the statistical tool generally used to describe the degree for measuring correlation, it is essential that the two phenomena should have 'cause and effect' relationship. In absence of such relationship, one should not expect correlation between them. But the correlation in itself does not tell about the nature of the cause and effect relationship between the variables. It is explained by regression analysis. There are several mathematical methods of measuring correlation. The method known as Pearson's co-efficient of correlation, developed by Karl Pearson, is most widely used. Karl Pearson's co-efficient of correlation measures the degree of association between two variables i.e. variable X and variable Y, and is denoted by the symbol r. The formula for computing Pearson's correlation r is:

$$r = \frac{\text{Cov}(XY)}{\sqrt{\text{Var}(X) \times \text{Var}(Y)}}$$

It can be expressed as follows:

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

Where,

X = Value of variable X

Y = Value of variable Y

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

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

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

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

The closer the value of r to +1 or -1, the closer is the relationship between the two variables and closer the value of r to 0, lesser is the relationship. The correct interpretation of r depends on the size of the sample among the other things. Smaller the size of sample, the less reliable is the result.

3.5.2.3 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:

$$P.E. (r) = 0.6745 \cdot (1-r^2) / \sqrt{n}$$

Where r is coefficient of correlation and n is the number of pairs of items. The following general rules are taken to interpret the value of r:

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.

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.

3.5.2.4 Regression analysis

Regression analysis is a statistical tool, which helps to determine the statistical relationship between two (or more) variables and estimate or predict the unknown values of one variable from known values of another variable. The variable(s) whose value is known is called independent variable(s) and the variable whose value is to be predicted is known as dependent variable. Though the tool or regression analysis can be extended to three or more variables, we confine our analysis in just two variables in this research.

The quality of the relationship set up can be checked by coefficient of correlation between the variables. In this part of analysis, we also assume a simple linear regression between variables. The regression equation of Y (dependent variable) on X (the independent variable) is expressed as follows:

$$Y_n = a + bX$$

In this equation, a and b are unknown constants, which determine the position of the line. These constants are called the parameters of the line. The parameter, a, determines the level of the fitted-line i.e., Y-intercept. The parameter, b determines the slope of the line, i.e. the change in Y for one unit change in X. The symbol \hat{Y} (Y hat) stands for the value of Y computed from the relationship for a given value of X.

The least square method is applied to draw a straight-line regression trend. To compute the value of 'a' and 'b', the following two equations should be solved simultaneously:

$$Y = Na + b \sum X \quad (1)$$

$$\sum XY = a \sum X + b \sum X^2 \quad (2)$$

The assumptions of the least-square technique and the method of solving these simultaneous equations is same as those in straight line trend mentioned earlier,

3.6 Methods of Presentation and Analysis

Simple methods of analysis have been used to present the analysis and calculations, 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, diagrams and graphs have been used to make report clear and easily understandable. Summary, conclusion and recommendation have been presented at the last chapter of this report.

CHAPTER – 4 DATA PRESENTATION AND ANALYSIS

Data presentation and analysis is the fourth chapter of this research study. This is one of the major chapters of this study because it includes detail analysis and interpretation of data from which concrete result of Nepal Telecom can be obtained. In this chapter, the collected data are presented in a systematic manner so that they will be helpful in drawing certain conclusions. The effort has been made to analyze the overall financial analysis of Nepal Telecom. For this, all the major variables are considered for the analysis. The specific objective of this study is to examine the financial performance of Nepal Telecom. To meet this objective, it is essential to present, analyze and interpret data contained in annual reports of Nepal Telecom. This study is done on the basis of the balance sheet and the income statement from the annual reports obtained from Nepal Telecom.

The entire table summarizes the key economic figures of Nepal Telecom for the study period of five years. This analysis would help to analyze the strength and weakness of the company so that some recommendations could be made.

4.1 Financial Analysis of Nepal Telecom

Financial Analysis of NT is based on the major tools of financial-analysis i.e. ratio Analysis. Not only this trend analysis of NT for next 5 years is drawn to predict the future, whether the growth is positive or negative. Nepal Telecom contains important variables that are presented and interpreted with the help of selected ratio to analyze financial position and financial performance of Nepal Telecom as calculated below;

4.2 Financial Analysis

4.2.1 Liquidity Ratios

To assess the company's short-term solvency position and its impact on smooth functioning of the enterprise, the following liquidity ratios have been computed and analyzed.

Current ratio

The current ratio is calculated through following way:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Here, current assets includes stores and spares, sundry debtors, interest accrued on Investment, advances and prepaid expenses, advances and loans to employees, Inter branch balance, bank balance, cash balance, deferred expenditure. Where as current liabilities includes sundry creditors, sundry creditors-Interadministration, interest

accrued and Due, deposits and advances and other liabilities. (Annual Report of Nepal Telecom)

The tabular form of CR of NT study period is as follows;

Table 4-1: Calculation of CR (in 000' N. Rs.)			
Fiscal Year	Current Assets	Current Liabilities	CR
2001/02	15,336,626	2,943,376	5.21
2002/03	18,424,147	3,675,412	5.01
2003/04	20,213,763	3,630,863	5.57
2004/05	20,598,353	3,858,484	5.34
2005/06	22,526,522	4,475,753	5.03

Average Current Ratio = 5.232 times

The above figures show that the Average Current Ratio is 5.232 times during the study period. This ratio indicates that the company has current assets of Rs 5.232 for each rupee of current liabilities. A higher current ratio shows that NT maintains a sound liquidity position and is able to pay its current liabilities at the times of requirement. It ranges between a highest of 5.57 times in F/Y 2003/04 and lowest of 5.01 times in F/Y 2002/03. While comparing with the average, one finds that in F/Y 2003/04 to 2004/05 the ratio is higher than the average and for F/Y 2001/02, 2002/03 and 2005/06 the ratio is lower than the average. If we see the actual trend, we can find that the current Ratio is stable overtime.

The graphic representation of CR is shown below:

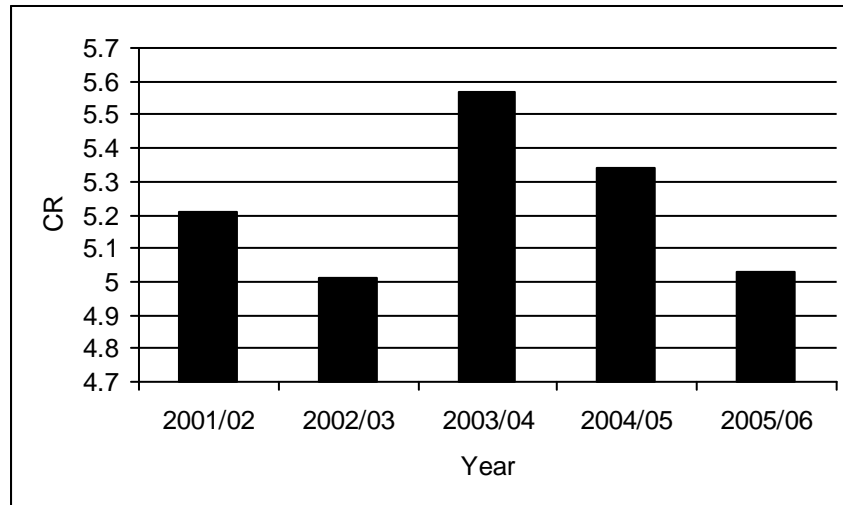


Fig: 4-1.

In the above figure number of Years is measured in X axis and the Current Ratio is measured in Y axis. From the above figure we can observe that the CR is high in the year 2003/04. High current ratio indicates that NT is able to maintain a sound liquidity position and is able to pay high current liabilities at the time of its requirement. However, the standard form of current ratio is 2:1. If this ratio of the firm is not enough, it will not be able to meet its current obligation properly which may result in bad credit rating and less creditors' confidence eventually it may lead to bankruptcy.

Quick ratio

The quick ratio is calculated by following way:

$$\text{Quick Ratio} = \frac{\text{Quick assets}}{\text{Current liabilities}} = \frac{\text{Current assets} - (\text{Inventory} + \text{Prepaid Exp})}{\text{Current liabilities}}$$

While calculating quick ratio for NT, inventory and prepaid expenses is deducted from total current assets i.e. Current assets - (Inventory + Prepaid Exp) and divided by total current liabilities. Here, inventory is stores and spares. (Annual Report of Nepal Telecom)

The tabular form of QR of NT for the study period is as follows:

Fiscal Year	Quick Assets	Current Liabilities	Quick Ratio
2001/02	11,128,104	2,943,376	3.78
2002/03	13,571,008	3,675,412	3.69
2003/04	13,946,011	3,630,863	3.84
2004/05	12,958,166	3,858,484	3.36
2005/06	15,768,952	4,475,753	3.52

Average Quick Ratio = 3.638 times

The above figures show that the Average Quick Ratio is 3.638 times during the study period. This ratio indicates that the company has Quick Ratio of Rs 3.638 for each rupee of current liabilities. As average Current Ratio is 5.232 times, Quick Ratio is 3.638 times through out the study period. We can see a difference between these two ratios (about 1.594). It means that the least liquid item among the current assets, i.e. inventory, has occupied a very nominal place as part of the total current assets of NT. This shows that NT will be able to fulfill its current obligations when ever required. The figures show that the ratio ranges between a highest of 3.84 times in F/Y 2003/04 and a lowest of 3.36 times in the F/Y 2004/05. While comparing with the average ones finds that in F/Y 2001/02, 2002/03 the ratio is higher than the average and in F/Y 2004/05, 2005/06 the ratio is lower than the average. If we see the actual trend, we can find that the Quick Ratio is not so unstable overtime.

The graphic representation of Quick ratio is shown below:

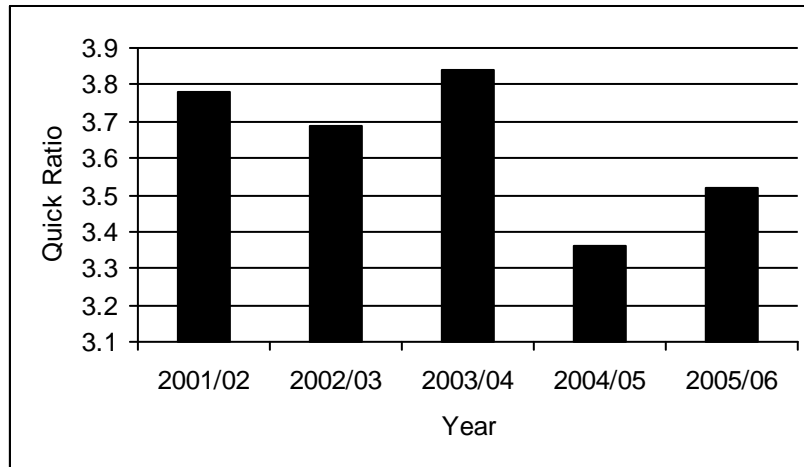


Fig: 4-2

In this figure years are measured in X axis and Quick Ratios are measured in Y axis. For the first three years there is not much difference in the QR but it has decline significantly in the year 2004/05. Low QR means the firm has difficulty in meeting its current obligation immediately.

4.2.1 Turnover Ratio / Activity Ratio

Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. Several activity ratios can be calculated to gauge the effectiveness of assets utilization. They are;

Inventory Turnover Ratio

The inventory turnover ratio is calculated by following way:

$$\text{Sales Inventory Turnover Ratio} = \frac{\text{Sales}}{\text{Inventories}}$$

Here sales includes operating sales i.e. Local Telephone, Domestic Trunk Telephone, International Telephone, Domestic Telegraph, International Telegraph, International Telex, Leased Circuits, Telefax, Mobile and internet, interconnection , PCC Card,

CDMA, Others whereas inventory includes Stores & Spares. (Annual Report of Nepal Telecom)

The tabular form of ITR of NT of five years is as follows:

Table 4-3: Calculation of ITR (in 000' N. Rs.)

Fiscal Year	Operating Sales	Inventory	ITR
2058/59	6,159,520	483,231	12.75
2059/60	7,208,087	400,784	17.98
2060/61	2,241,821	255,250	8.78
2061/62	8,584,144	309,857	27.70
2062/63	10,413,655	329,315	31.62

Average Inventory Turnover Ratio = 19.77 times

From the observation we can see that the average Inventory Turnover Ratio of NT for five years of study period is 19.77 times. It ranges between a highest of 31.62 times in F/Y 2005/06 and a lowest of 8.78 times in F/Y 2003/04. The overall ratio trend shows an upward movement particularly in the most recent years except in F/Y 2003/04. While comparing with the average, we find that in F/Y 2001/02, 2002/03 and 2003/04 the ratio is lower than the average and in F/Y 2004/05 and 2005/06 the ratios are higher than the average. If we see the actual trend we find that ITR has quite fluctuated in the F/Y 2003/04. Then after, it has increased continuously till F/Y 2004/05 and 2005/06 with sharp increase to 31.62 times in the final F/Y 2005/06. Since high ITR is good from the view point of inventory utilization, the increasing ratio seems favorable for NT.

The graphic representation of ITR is shown below:

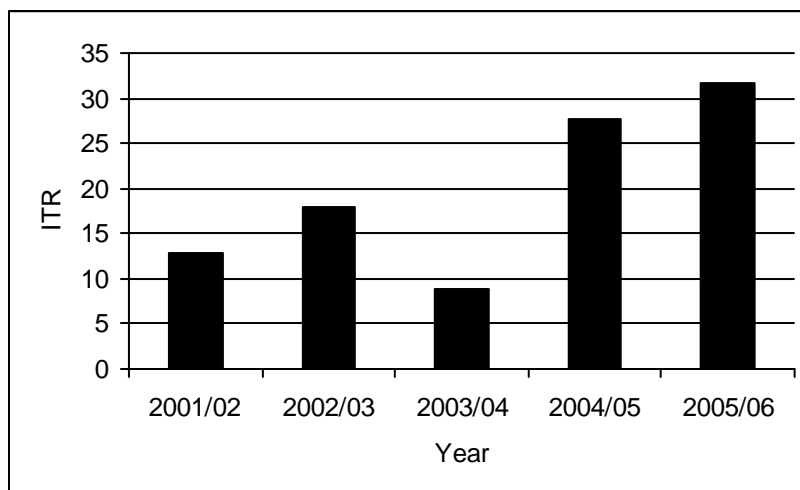


Fig: 4-3.

Here, X axis measures the number of years and Y axis measures the inventory turnover ratio. In F/Y 2005/06 there is a high ITR which implies that high ITR is preferable as it indicates the efficient management of inventory whereas a low ratio implies the excess inventory level, which is unproductive and it represents an investment with a low or zero rate of return.

Average Age of Inventory

The average age of inventory is calculated by following way:

$$\text{Average Age of Inventory} = \frac{360}{\text{ITR}}$$

Average age of inventory is just an alternate method of expressing the efficiency of the inventory management. Lesser the time the inventory remains in the storage, the better would be the inventory management. (Annual Report of Nepal Telecom)

This AAI of NT for five years is calculated below:

Table 4-4: Calculation of AAI (in 000' N. Rs.)

Year	ITR	AAI (in days)
2001/02	12.75	28.23
2002/03	17.98	20.02
2003/04	8.78	41.00
2004/05	27.70	13
2005/06	31.62	11.39

Average Inventory Age = 23 days

As shown above, Average Age of Inventory of NT for the study period is 23 days. The average age of inventory of 23 days indicates that an item purchased by the company remains in the go down for 23 days before being released for sale of service to its costumers. The average age ranges between a highest of 41 days in F/Y 2003/04 and lowest of 13 days in F/Y 2004/05. While comparing with the average, we find that in F/Y 2001/02 and 2003/04 the AAI is higher than the average but in F/Y 2002/03, 2004/05 and in 2005/06 the average age of inventory is less than the average. AAI has decreased which is good from the viewpoint of inventory utilization. As we know that the lesser the time the inventory or the finished goods or services remains in the go down, the better is the sales of the goods or the services. Here also, the AAI is decreasing which implies that the company has excellent future.

The graphic representation of AAI is given below:

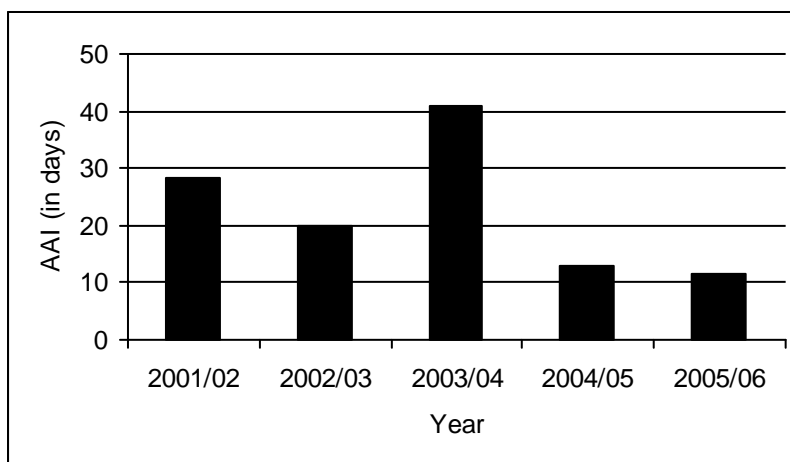


Fig: 4-4.

In the above figure year is measured in X axis and AAI is measured in Y axis. As, we know that, lower is the AAI the better will be the result for the organization, as it indicates that the inventory remains in the go down for less period of time. So, in this case in the F/Y 2005/06 the inventory has remained in the go down for the lesser period as compared to the F/Y 2003/04 in which the inventory has remained for the longer period in the go down. So, lesser the time of inventory better would be the inventory management of the organization.

Debtors Turnover Ratio

The Debtors Turnover Ratio is calculated by following way:

$$\text{Debtors Turnover Ratio} = \frac{\text{Sale}}{\text{Debtors}}$$

Here sales includes operating sales (Local Telephone, Domestic Trunk Telephone, International Telephone, Domestic Telegraph, International Telegraph, International Telex, Leased Circuits, Telefax, Mobile Service, Others) whereas, debtors or receivables means Sundry debtors. (Annual Report of Nepal Telecom)

The DTR of NT is calculated below:

Table 4-5: Calculation of DTR (in '000 N.Rs.)			
Fiscal year	Sales	Debtors	DTR
2001/02	6,159,520	2,468,080	2.50
2002/03	7,208,087	3,030,277	2.38
2003/04	2,241,821	2,668,942	1.19
2004/05	8,584,144	2,825,943	3.04
2005/06	10,413,655	3,099,496	3.36

Average Debtors Turnover Ratio = 2.494 times

From the observation, we find that the Average Debtors Turnover Ratio for the study period is 2.494 times. The average ratio of 2.494 times indicates that each rupee of investment in receivables is generating sales of Rs 2.494. It ranges between the highest of 3.36 times in F/Y 2005/06 and a lowest of 1.19 times in F/Y2003/04. The ratio has shown remarkable improvement in the F/Y 2005/06, which if maintained could be good move for the credit collection of Nepal Telecom. While comparing with the average, we find that in the F/Y 2001/02, 2004/05 and 2005/06 the ratio is higher than the average and in F/Y 2002/03 and 2003/04 the ratio is lower than the average. As we know that, the higher the DTR the better is the management because, it signifies that the collection of the cash from its creditors is within the short span of time.

The graphic representation of DTR is shown below:

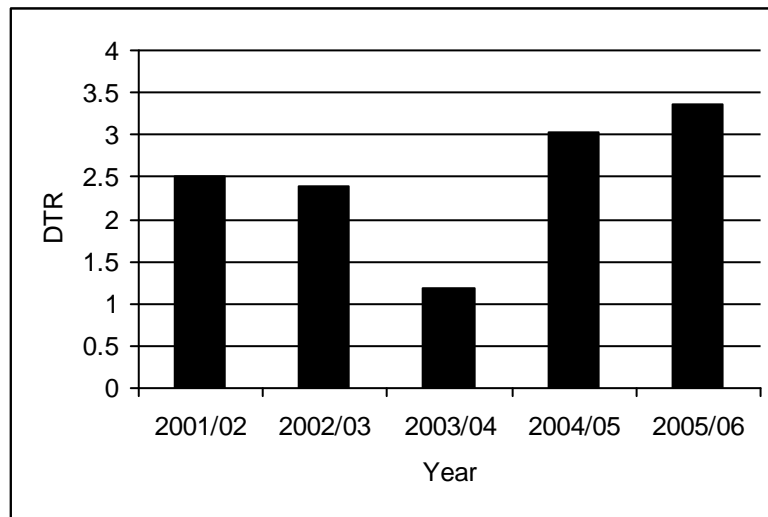


Fig: 4-5:

In the above figure, Year is measured in X axis and DTR is measured in Y axis. In the F/Y 2003/04 has low DTR which implies that the firm is not so efficient in collecting its debt and in the F/Y 2005/06 has higher DTR which implies that the management uses its cash from the debtors within a short period of time.

Average Collection Period (ACP)

ACP is calculated by the following way:

$$\text{Average Collection Period} = \frac{360}{\text{DTR}} = \frac{\text{Receivables}}{\text{Annual sales} / 360}$$

The average number of days through which debtors remain outstanding is called average collection period (ACP). Here, receivables mean Sundry Debtors. Lesser the time the receivables remain due, better is the average collection period. (Annual Report of Nepal Telecom).

The ACP of NT is calculated below:

Year	DTR	ACP (days)
2001/02	2.50	144
2002/03	2.38	151.26
2003/04	1.19	302.52
2004/05	3.04	118.42
2005/06	3.36	107.14

Average of ACP = 165 days

As shown above the Average Collection Period of NT over the five years of study period is 165 days. The value of 165 days indicates that an invoice of credit receivables remains outstanding for 165 days before being collected from the customers, ACP ranges between a highest of 302 days in F/Y 2003/04 and a lowest of 107days in F/Y 2005/06. While comparing with the average we find that in F/Y 2003/04 the collection period are more than the average and for F/Y 2001/02, 2002/03, 2004/05 and 2005/06 the collection days are less than the average. The Average Collection period of Nepal Telecom is much higher than the standard set i.e. 90 days. The ACP is much longer than the standard which increases the probability of bad debts and if not the cash is blocked, otherwise could be used for further investment or have to forgo opportunity cost. So, Nepal Telecom should be aware regarding the collection policy or say revise its policy regarding the collection period.

The Average Collection Period is shown below:

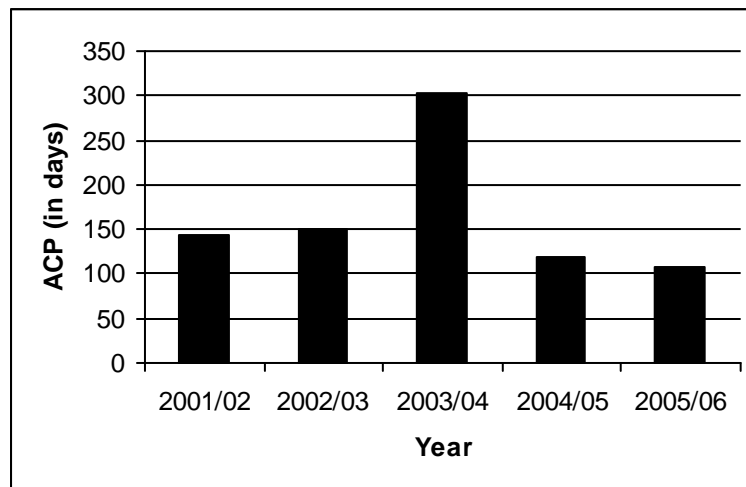


Fig: 4-6:

Here, X axis measures the number of years and Y axis measures the ACP. The minimum days of ACP are preferable to any firm. In the F/Y 2005/06 has low ACP which states that the NT is efficient in collecting money from its debtors and it also reduces the chance of bad debts. In the F/Y 2003/04 a higher and increasing ACP shows the excess blockage of funds with debtors, which increases the bad debts as well as it deprives the firm from investing its money in some productive assets.

Total Assets Turnover Ratio

The total assets turnover is calculated as follows:

$$\text{Total Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Total Assets}}$$

Here, Total Assets includes Fixed Assets, Capital Work-in-Progress, Investments, Current Assets and Loans & Advances. (Annual Report of Nepal Telecom)

The TATR of Nepal Telecom is shown below:

Year	Sales	Total Assets	TATR
2001/02	6,159,520	25,281,824	0.244
2002/03	7,208,087	29,892,993	0.241
2003/04	2,241,821	33,21,352	0.067
2004/05	8,584,144	35,572,772	0.258
2005/06	10,413,655	39,35,406	0.2646

Average TATR =0.215 times

As shown above the Average of Total Assets Turnover Ratio of NT over the five years of study period is 0.215 times which is lower than the general standard average of at least 1.00 times. The average ratio of 0.215 times indicates that each rupee of investment in assets is generating sales of Rs 0.215. While comparing with the average we find that in F/Y 2001/02, 2002/03, 2004/05 and 2005/06 the ratio is higher than the average and in F/Y 2003/04 the ratio is lower than the average.

The TATR is graphically presented below:

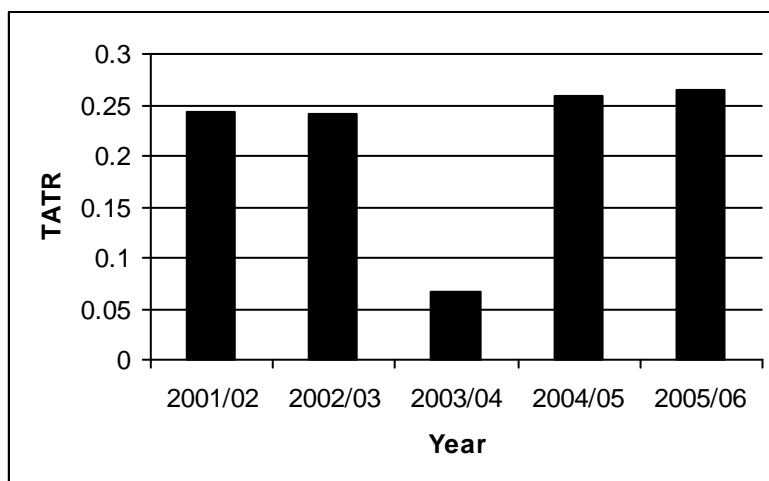


Fig: 4-7.

In the above figure Year is measured in X axis and TATR is measured in Y axis. In F/Y 2005/06 has higher TATR which indicates overall efficiency in utilizing its total assets, which ultimately helps the organization to reduce its financing cost and increase the profit.

Fixed Assets Turnover Ratio

FATR is calculated by following way:

$$\text{Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Net Fixed Assets}}$$

Here, Net Fixed Assets means depreciation being deducted from Total Fixed Assets i.e. Land, Building, Plant and Machinery, Heating and Lightning, Furniture, Office Equipment Vehicles. (Annual Report of Nepal Telecom)

The FATR of Nepal Telecom is shown below:

Table 4-8: Calculation of FATR (in'000 N. Rs.)

Year	Sales	Net Fixed Assets	FATR
2001/02	6,159,520	6,840,397	0.90
2002/03	7,208,087	7,607,614	0.95

2003/04	2,241,821	8,094,882	0.28
2004/05	8,584,144	9,040,917	0.95
2005/06	10,413,655	10,088,427	1.03

Average Fixed Assets Turnover Ratio = 0.822 times

From the above figure, we see that the FATR of NT is quite fluctuating. It ranges from a minimum of 0.28 times in F/Y 2003/04 to a maximum of 1.03 times in F/Y 2005/06. The average FATR over the years of study period is 0.822. For the F/Y 2001/02, 2002/03, 2004/05 and 2005/06 the ratio is higher than the average. Although the average of this ratio is little below the standard, the last two years is showing a clear upward trend, which is very good in terms of company's efficiency in using its fixed assets.

The graphical representation of FAT ratio is show below:

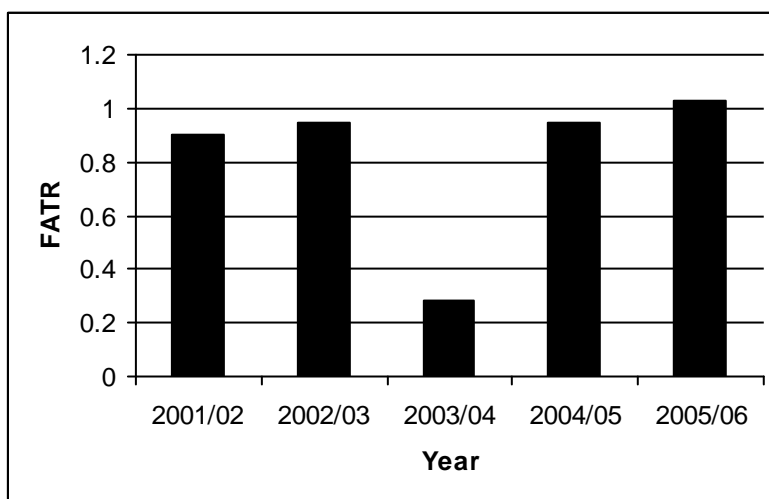


Fig: 4-8.

In the above figure X axis measures the number of years and Y axis measures the FATR. In the F/Y 2003/04 the FATR is very low which indicates that the firm is not able

to utilize its plant and equipment to its full capacity, which adversely affects the production and increases the cost of the production. In the F/Y 2005/06 has higher FATR which represents the better utilization of fixed assets compared to other F/Ys.

Capital Employed Turnover Ratio (CETR)

The following formula is used for calculating this ratio:

$$\text{Capital-employed Turnover Ratio} = \frac{\text{Sales}}{\text{Capital Employed}}$$

Here, Capital employed includes Equity Capital, Reserves and surplus, and Loans from Government of Nepal. Short-term Liabilities and Provisions are not included in Capital Employed. (Annual Report of Nepal Telecom)

The CETR of NT for the period of 5 years is shown below:

Table 4-9: Calculation of CETR (in 000' N. Rs.)

Year	Sales	Capital Employed	CETR
2001/02	6,159,520	17,227,404	0.358
2002/03	7,208,087	19,755,646	0.365
2003/04	2,241,821	20,591,636	0.109
2004/05	8,584,144	20,850,094	0.412
2005/06	10,413,65	23,686,027	0.440

Average Capital Employed Turnover Ratio = 0.3368 times

From the above observation, we find that the average CETR of NT over five years period is 0.3368 times which is lower than the standard average of 1.00. The ratio ranges from the lowest of 0.109 times in F/Y 2003/04 to the highest 0.440 in F/Y 2005/06. The average ratio is 0.3368 times indicates that each rupee investment in capital is generating sales of Rs 0.3368. While comparing with the average we find that in F/Y 2001/02, 2002/03, 2004/05 and 2005/06 the ratio is higher than the average, and for F/Y 2003/04 the ratio is lower than the average. Capital Employed shows poor performance for the period of 2003/04. Thereafter, has improved consistently over the two years.

The graphical representation of CETR is shown below:

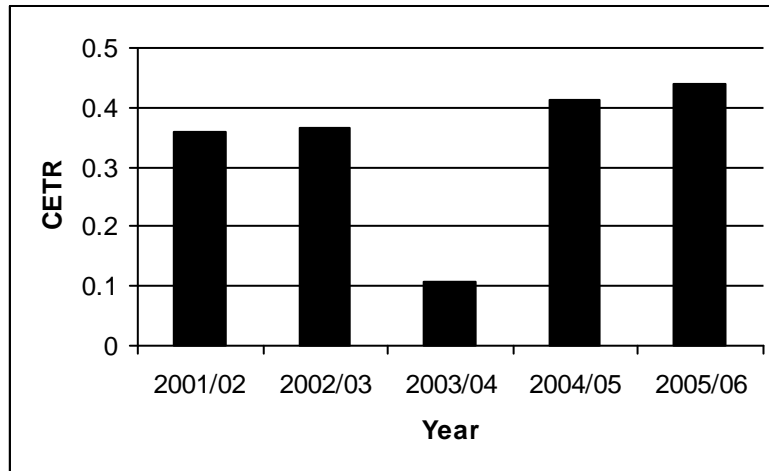


Fig: 4-9.

In the above figure, X axis measures the year and Y axis measures the CETR. In the F/Y 2005/06 has higher CETR which implies that the NT is able to utilize its total amount of capital employed. However, in the F/Y 2003/04 the lower ratio indicates that the NT is not generating enough volume of business given its long term funds and owner's funds. In this case, some assets should be disposed of, sales should be increased or a combination of these steps should be taken.

4.2.3 Leverage Ratio

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 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.

Debt-Equity Ratio

The DER is calculated as follows:

$$\text{Debt-equity Ratio} = \frac{\text{Long-term Debt}}{\text{Shareholder's equity}} = \frac{\text{Total Debt}}{\text{Shareholder's equity}}$$

Total Debt includes Loans from Government of Nepal against international bodies, Current Liabilities and Provision. Shareholder's equity includes Equity Capital and Reserve Surplus. (Annual Report of Nepal Telecom)

The table below shows DER of Nepal Telecom.

Table 4-10: Calculation of DER (in '00N.Rs.)			
Year	Total Debt	Shareholder's equity	DER
2001/02	8,354,410	16,927,414	0.49
2002/03	10,371,127	19,521,866	0.53
2003/04	12,640,965	20,580,387	0.61
2004/05	14,746,917	20,825,855	0.71
2005/06	15,665,379	23,686,027	0.66

Average Debt Equity Ratio = 0.66 times

The above table depicts the DER of NT over the five years of study period. As we see, the DER has gradually increased each year except in the last year where it has decreased. The ratio ranges from a highest of 0.71 in F/Y 2004/05 to the lowest of 0.49 in F/Y 2001/02. The average DER is 0.66 which means that for each rupee of equity

holder's money, the debt holder's have contributed Rs.0.66 to finance the firm's operation. This changed situation of NT shows that NT is trying to work desperately in the changed scenario of high risk yields to high gain.

The graphical representation of DER is shown below:

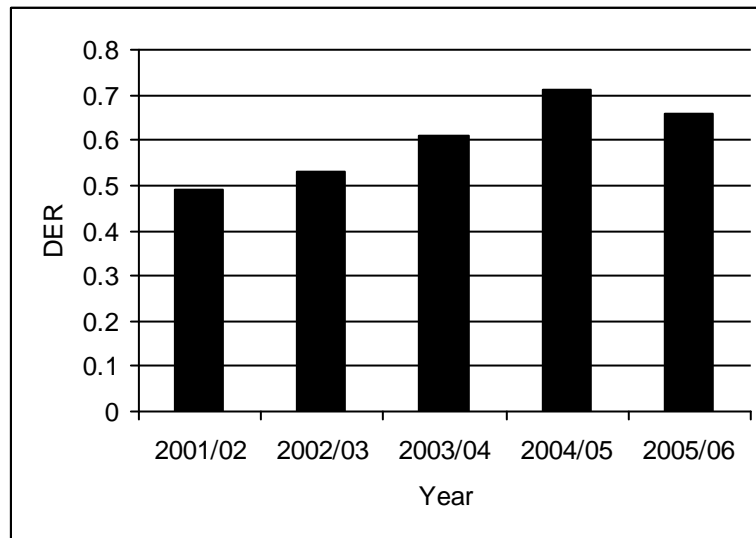


Fig.4.10

In the above figure X axis measures the year and Y axis measures DER. In the F/Y 2004/05 has higher ratio which shows that the large share of financing by the creditors as compared to that of the owners, it indicates the margin of safety to the owners. The creditors prefer low debt equity ratio as it implies larger safety margin for the creditors. Also, higher ratio indicates higher the risk for the business. A high ratio indicates that the outsiders and creditors provide most of the funds invested in the business. In the F/Y 2001/02 has low ratio which implies that the owners provide most of the funds invested in the business.

Long-term Debt to Capital Employed Ratio

The LTD to CE ratio is calculated as follows:

$$\text{Long-term Debt to Total} = \frac{\text{Long-term Debt}}{\text{Capital Employed}}$$

Hers Long-term Debt is Loans from Govt. of Nepal against International bodies. And Capital Employed includes Equity Capital, Reserves and Surplus and Loans from Government of Nepal against international bodies. (Annual Report of Nepal Telecom)

The LTD to CE Ratio of NT is summarized below:

Table 4-11: Calculation of LTD to CE (in 000' N. Rs.)

Year	LTD	Capital Employed	LTD to CE Ratio
2001/02	299,990	17,227,404	0.017
2002/03	233,780	19,755,646	0.012
2003/04	11,249	20,591,636	0.0005
2004/05	24,239	20,850,094	0.0011
2005/06	-	23,686,027	-

Average LTD to CE Ratio = 0.00612 times

The above figure shows that the long term lenders' have financed 1.7%, 1.2% and rest are less than 1% in the F/Y 2001/02 to 2005/06. The ratio has declined sharply from 1.7% to less than 1% over the five years of study period. The average ratio of 1.7% implies that out of total capitalization, only about 1.7% is financed by permanent debt sources and remaining is done by equity fund. This may imply a good margin of safety to the company lenders, 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 shareholders. NT is conservative is using debt for further investment.

The Long-term Debt to Capital Employed Ratio is shown below:

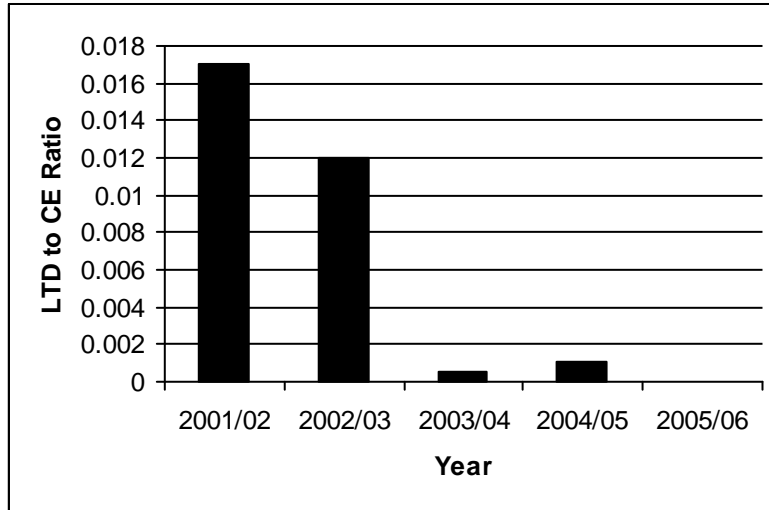


Fig: 4-11.

In the above figure Year is measured in X axis and LTD to CE ratio is measured in Y axis. Here, in the F/Y 2005/06 has no LTD to CE ratio or its nil, its considered as favorable for both the shareholders and creditors as it indicates the no claim of debt and provides the security to creditors in extending credit. In the F/Y 2001/02 has higher ratio which implies that the there's the greater risk to shareholders as well as the creditors.

Total Debt Ratio (TDR)

The TDR is calculated as follows;

$$\text{Total Debt Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Total Debt includes Loans from Government of Nepal against, Current Liabilities and Provision whereas Total Assets includes Fixed Assets, Capital Work-in-Progress, Investments, Current Assets, Loans and Advances. (Annual Report of Nepal Telecom)

The Total Debt Ratio of NT is shown below:

Table 4-12: Calculation of TD Ratio (in '000 N. Rs.)

Year	Total Debt	Total Assets	TDR
2001/02	8,354,410	25,281,824	0.330
2002/03	10,371,127	29,892,993	0.347
2003/04	12,640,965	33,21,352	0.381
2004/05	14,746,917	35,572,772	0.415
2005/06	15,665,379	39,35,406	0.398

Average TDR = 0.3742 times

From the above figure, we find that the average Total Debt Ratio of NT is 0.3742 times. Total Debt of NT includes all short term as well as long term loans included in the Balance Sheet of NT. The total assets include the entire assets of NT shown in the Balance Sheet. As we see from the table the TDR of NT has increased gradually in each year. The average ratio for the five years period indicates that the creditors have contributed around 0.3742 of the fund required in the business.

The graphical representation of Total Debt ratio is shown below:

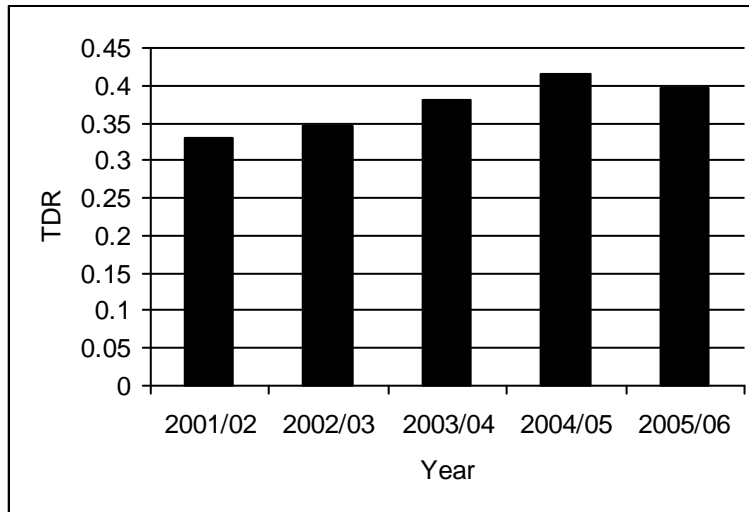


Fig 4.12

In the above figure, Year is measured in X axis and TDR is measured in Y axis. In comparison to the other F/Ys, in the F/Y 2001/02 has lower TDR and both the stockholders and creditors prefer the low TDR. It is because the lower ratio indicates the greater protection to the creditors against the losses in case of bankruptcy.

Times-Interest Earned Ratio or Interest-Coverage Ratio

$$\text{Times-Interest Earned Ratio/Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest Charge}}$$

Here, EBIT means earning before interest and tax whereas, Interest Charges is Interest on Loan. (Annual Report of Nepal Telecom)

The ICR of Nepal Telecom is presented below:

Table 4-13: Calculation of ICR (in 000' N. Rs.)

Year	Interest Charges	EBIT	ICR
2001/02	38,407	2,923,591	76
2002/03	15,955	3,631,922	228
2003/04	58	1,246,221	21,487
2004/05	696	4,311,376	6,195
2005/06	1,108	6,198,467	5,594

Average of ICR = 6716

The above figure shows the ICR of NT over the study period. It seems that company has excellent and all time increasing coverage ratios over the period of the debt servicing capacity of NT seems quite favorable. The long term debt of the company has declined so sharply over the study period that the fixed interest burden of the company has become almost negligible in the most recent years. This may be the main reason of increasing ICR. The ICR of NT has increased tremendously in F/Y 2003/04 by 6.381 times. The average ICR is 6712 times which implies that NT is able to cover the interest expenses by a good margin of safety.

The graphical presentation of ICR is shown below:

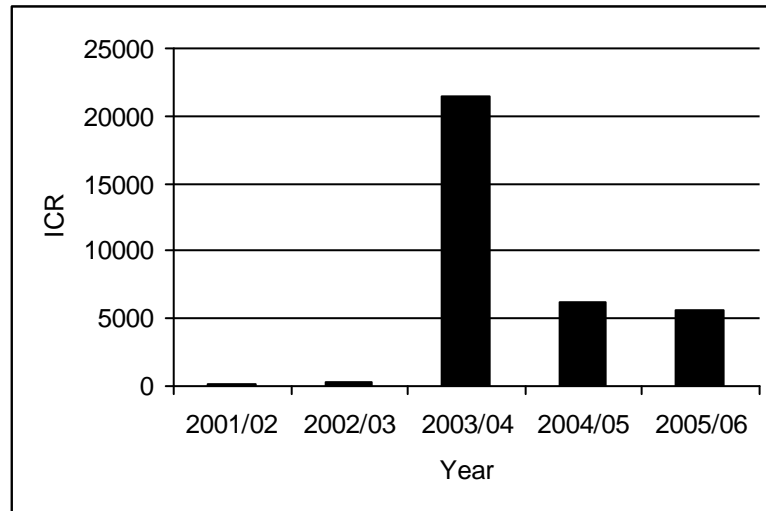


Fig 4.13

In the above figure, Year is measured in X axis and ICR is measured in Y axis. In the F/Y 2003/04 has high ICR which is favorable to NT as well as the creditors, debenture holders and loan creditors. A high ratio indicates the low burden of borrowing of the business i.e. the adequacy of earnings to pay the interest of the money borrowed.

4.2.4 Profitability Ratio

A company should earn profit to survive over a long period of time, Therefore, profit is essential for a company but it would be wrong to assume that every action initiated by the management of a company should be aimed at maximizing profits, irrespective of social consequences. So, maximum-profit consistent with social responsibility should be the long run objective of any firm. Except in some cases, it is a fact that sufficient profit is very essential to sustain the operation and existence of the business and also to contribute towards the welfare of the society itself.

Profit is the difference between revenues and expenses over a period of time. Profit is the ultimate 'goal' of a company and a firm will have no future if it fails to make ample amount of profit. Therefore, the financial manager should continuously evaluate the

efficiency of the company in terms of profits and the profitability ratios are calculated for this purpose.

Net Profit Margin

Net Profit Margin is computed by following formula.

$$\text{Net Profit Margin} = \frac{\text{NPAT}}{\text{Sales}} \times 100$$

Here sales includes operating sales (Local Telephone, Domestic Trunk Telephone, International Telephone, Domestic Telegraph, International Telegraph, International Telex, Leased Circuits, Telefax, Mobile Service, Others).

The NPM of Nepal Telecom is presented below:

Table 4-14: Calculation of NP Margin (in '000 N.Rs.)

Year	NPAT	Sales	NPM Ratio
2001/02	2,326,529	6,159,520	37.77%
2002/03	3,137,225	7,208,087	43.52%
2003/04	1,071,392	2,241,821	47.79%
2004/05	3,700,551	8,584,144	43.11%
2005/06	4,593,303	10,413,65	44.11%

Average NPM = 43.26 %

The above table depicts the NPM of NT over the five years of study period. As we see, the average NPM of NT over this period is 43.26% which is much higher than the general standard average of at least 25%. This average of 43.26% or 0.4326 indicates that each rupee of sales is contributing Rs. 0.4326 for rewarding the owners. The ratio ranges between highest of 47.79% in F/Y 2003/04 and lowest of 37.77% in F/Y

2001/02. While comparing with the average, we find that in F/Y 2002/03, 2003/04 and 2005/06 the NPM is higher than the average, in F/Y 2001/02 and 2004/05 the ratio is lower than the average.

The graphical representation of Net Profit Margin is shown below:

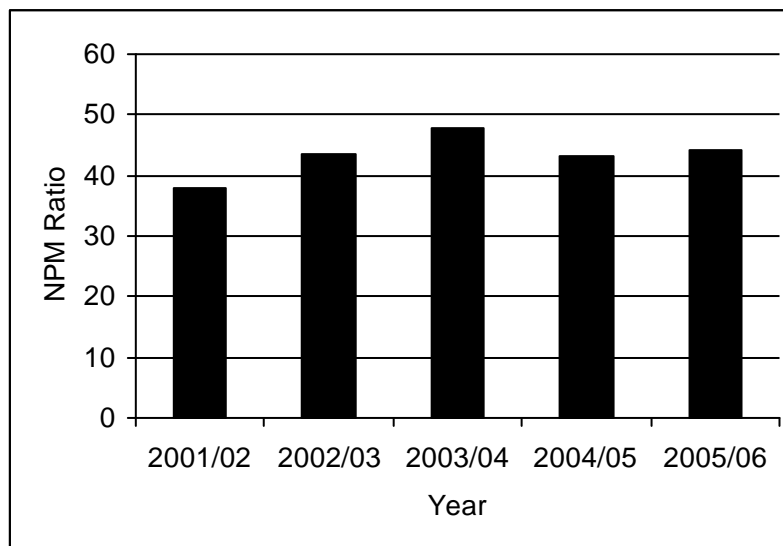


Fig 4.14

In the figure 4.14, Year is measured in X axis and NPM ratio is measured in Y axis. Higher NPM is preferable to the firm because it shows that the firm is able to earn more profit per rupee of sale. In the above case, in the F/Y 2003/04 has higher NPM which is an indication of overall efficiency of the firm and better utilization of total resources. Financial strategy and operating efficiency greatly affects the amount of net profit.

Operating Expenses Ratio

The OER is measured calculate as follows:

$$\text{Operating Expenses Ratio} = \frac{\text{Operating Expenses}}{\text{Sales}}$$

Operating expenses costs. Here sales includes operating sales (Local Telephone, Domestic Trunk Telephone, International Telephone, Domestic Telegraph, International Telegraph, International Telex, Leased Circuits, Telefax, Mobile Service, Others) and non-operating sales, under non-operating sales it includes only sale of- telephone set (Net).

The Operating Expenses Ratio of NT is shown as:

Table 4-15; Calculation of OE Ratio (in '000 N. Rs.)			
Year	operating Expenses	Sales	OER
2001/02	3,235,929	6,159,520	0.525
2002/03	3,576,165	7,208,087	0.496
2003/04	995,600	2,241,821	0.444
2004/05	4,272,768	8,584,144	0.498
2005/06	4,215,188	10,413,65	0.405

Average OER = 0.4736

Above figure shows that the average OER of NT over five years of study period is 47.36% which is less than the general standard average of 50%. The ratio seems to be quite fluctuating through out the study period and ranges from highest of 52.5% in F/Y 2001/02 and lowest of 40.5% in the F/Y 2005/06. While comparing with the average, we find that in F/Y 2001/02, 2002/03, 2004/05 the ratios are higher than the average. For the F/Y 2003/04 and 2005/06 the ratio is lower than the average. The OE ratio of NT seems to be moving less than the industry average of 50% which is a good signs for NT. As we know that the increasing OER affects the profit adversely, here NT has adopted the measures to decrease its OER below the industry average of 50%. The

decrease in the OER is due to the decrease in operating expenses as well as other expenses of NT.

The graphical presentation of OER is shown below;

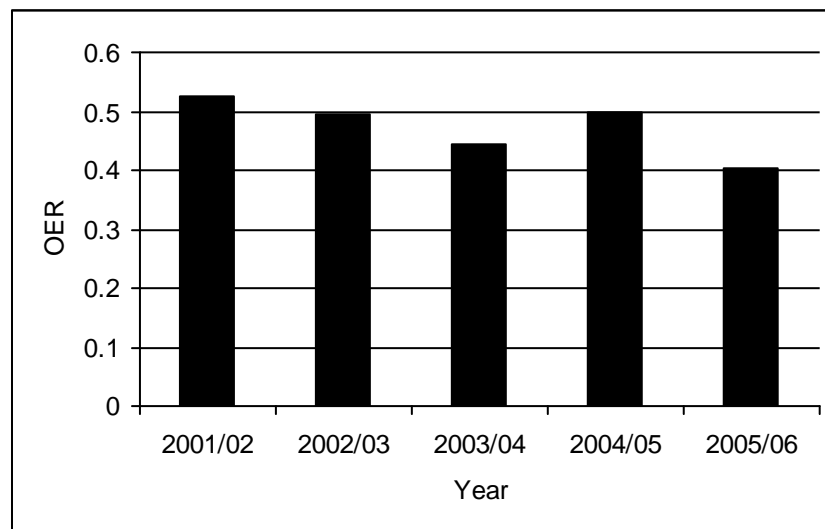


Fig 4.15

In the figure 4.15, Year is measured in X axis and OER is measured in Y axis. In the F/Y 2005/06 has lower OER which is favorable as it indicates the lower operating expenses for a given level of sales and higher profit for the firm whereas the higher percentage of OER indicates decline in the business capacity.

Return on Assets

The conventional approach of calculating ROA is as follows;

$$\text{Return on Total Assets} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

Total Assets represent pool of funds supplied by shareholders and lenders, while NPAT represents residual income of the owners. Total Assets includes Fixed Assets, Capital Work-in-Progress, Investments, Current Assets, Loans & Advances and Deferred Expenditure. (Annual Report of Nepal Telecom)

The Return on Total Assets of NT is shown below;

Table 4-16 Calculation of ROA (in '000 N. Rs.)			
Year	NPAT	Total Assets	ROA
2001/02	2,326,529	25,281,824	0.092
2002/03	3,137,225	29,892,993	0.496
2003/04	1,071,392	33, 21,352	0.444
2004/05	3,700,551	35,572,772	0.498
2005/06	4,593,303	39,35,406	0.405

Average ROA = 0.387 times

The above table depicts the ROA ratio of NT over the five years of study period. As we see, the ROA ratio has moved in fluctuating trend. The ratio ranges between highest of 0.498 times i.e. 49.8% in the F/Y 2004/05 and lowest of 0.092 times i.e. 9.2% in the F/Y2001/02. The average ratio is 38.7% i.e. 0.387 which indicates that each 100 rupees of investment in assets is generating profit of Rs.38.7. While comparing with the

average, we find that in F/Y 2001/02 the ratio is lower than the average but in F/Y 2002/03, 2003/04, 2004/05 and 2005/06 the ratios are higher than the average.

The graphical presentation of ROA is shown below;

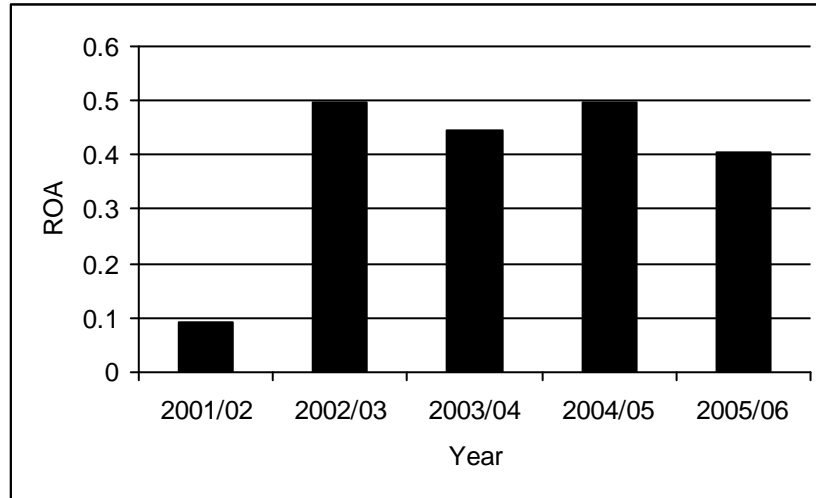


Fig: 4-16.

In the figure 4.16, Year is measured in X axis and ROA is measured in Y axis. This ROA is shown in percentage and higher the percentage, more efficient is the utilization of available source and tools. So, in the above figure in the F/Y 2002/03 and F/Y 2004/05 has higher ROA which is preferable to NT.

Return on Equity (ROE)

The conventional approach of calculating ROE is as follows:

$$\text{Return on Equity} = \frac{\text{Net Profit After Tax}}{\text{Shareholder's Equity}}$$

Here, Shareholder's Equity includes Equity Capital and Reserves & Surplus. (Annual Report of Nepal Telecom)

The ROE of Nepal Telecom is shown below:

Table 4-17 Calculation of ROE (in '000 N. Rs.)			
Year	Net Profit After Tax	Shareholder's Equity	Return on Equity

2001/02	2,326,529	16,927,414	0.137
2002/03	3,137,225	19,521,866	0.161
2003/04	1,071,392	20,580,387	0.052
2004/05	3,700,551	20,825,855	0.178
2005/06	4,593,303	23,686,027	0.194

Average ROE = 0.1444 times

The ROE of NT over the five years of study period is depicted in the table above. The average ROE is 0.1444 i.e. 14.44 % which indicates that the equity holders of NT earned Rs.0.1444 of return on their investment of Re 1.00 over the last five years. The return in F/Y 2003/04 must have decreased due to decline in the level of debt financing that sharply reduced the benefits of the leverage. Simultaneously, it also may have declined due to high rate of increment in equity capital. During the last two years the ROE has sharply increased.

The graphical representation of ROE is shown below:

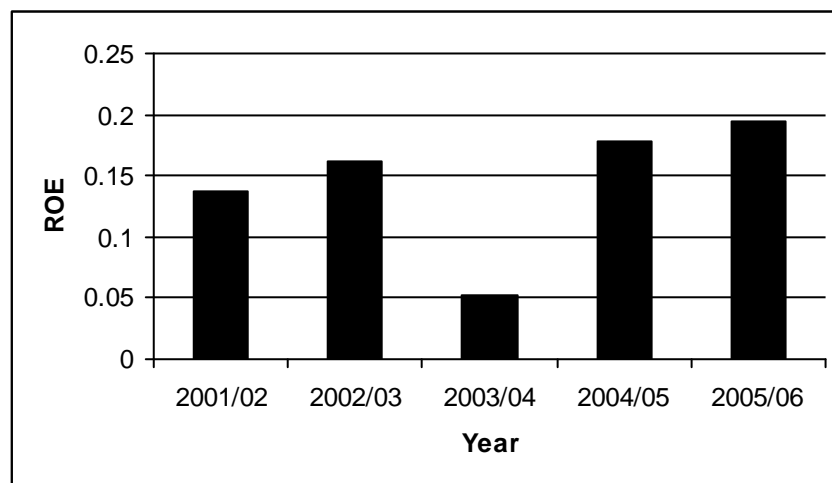


Fig 4.17

In the figure 4.17, Year is measured in X axis and ROE is measured in Y axis. In the F/Y 2005/06 represents high degree of ROE which indicates the good financial health of

the business. It symbolizes the efficiency of management in utilizing its shareholder's fund whereas low ROE represents inefficient financial management in the F/Y 2003/04.

Return on Capital Employed

The ROCE is calculated by following way as:

$$\text{Return on Capital Employed} = \frac{\text{Net Profit After Tax}}{\text{Capital Employed}}$$

Capital Employed includes Equity Capital, Reserves & Surplus and Loans from Govt. of Nepal against international bodies. (Annual Report of Nepal Telecom)

The ROCE of Nepal Telecom is shown below:

Year	Net Profit After Tax	Capital Employed	Return on Capital Employed
2001/02	2,326,529	17,227,404	0.135
2002/03	3,137,225	19,755,646	0.159
2003/04	1,071,392	20,591,636	0.052
2004/05	3,700,551	20,850,094	0.177
2005/06	4,593,303	23,686,027	0.194

Average ROCE = 0.1434 times

The above table shows the ROCE of NT over the five years of study period. As seen above, the ratio has a clear fluctuating trend with the highest ratio of 0.194 times or 19.40% in F/Y 2005/06. The average ratio for the study period is 0.1434 i.e. 14.34% which indicates that each rupee of long term fund employed by the company is generating after tax profit of Rs.0.1434

The graphical presentation of ROCE is shown below:

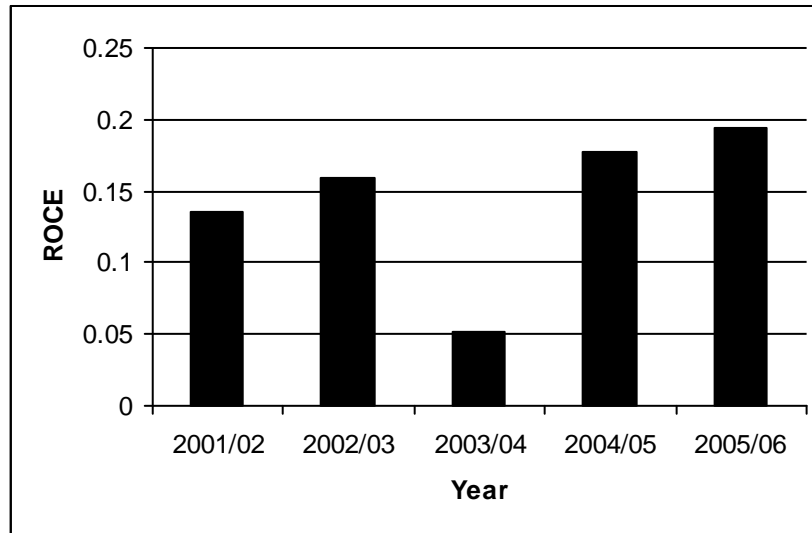


Fig 4.18

In the figure 4.18, Year is measured in X axis and ROCE is measured in Y axis. This ratio measures the effectiveness of share capital and long term borrowings in generating profit. In the F/Y 2005/06 has higher ROCE which is considered as favorable for the firm as it is able to generate profit from the share capital and long term borrowings. Moreover, high ratio indicates high productivity of capital employed as compared to other F/Ys.

4.3 Statistical Analysis of Nepal Telecom

Statistical Analysis of Nepal Telecom is based upon the statistical tools like; Correlation & Regression Analysis and its Probable Error. Correlation Analysis intends to measure the relationship of one variable with the other variable. Probable Error tells whether the relationship between the two variables is significant or not, Regression Analysis intends to use the relationship between the known variables and the unknown variables to

estimate and predict the values of unknown one. Nepal Telecom contains some important variables that are presented and analyzed to find out the financial position and its performance.

Correlation and regression Analysis of some important variables Sales and Total Assets, Total Debt and Net Worth, Interest charges and EBIT, NPAT and Sales, NPAT and Total Assets, NPAT and capital Employed are presented in this study.

Correlation & Regression Analysis of Sales and Total Assets

Here, Sales includes Local Telephone, Domestic Trunk Telephone, International Telephone, Domestic Telegraph, International Telegraph, International Telex, Leased Circuits, Telefax, Mobile Service, sale of telephone set (Net) and others. Whereas, Total Assets includes Fixed Assets, Capital Work-in-Progress, Investments, Current Assets, Loans & Advances and Deferred Expenditure. (Annual Report of Nepal Telecom)

The summary of computations of the regression equation of Y (dependent variable i.e. Sales) on X (the independent variable i.e. Total Assets) and the Karl Pearson's Coefficient of Correlation (r) is expressed as follows:

$$Y = 186.215 + 2.805(X)$$

$$r = -0.9906$$

$$PE = 0.5976$$

$$r < PE$$

$$r < 6PE$$

$$r < 0.3387$$

The value of 'r' is - 0.9906, which shows a high degree of negative correlation between the sales and total assets. This signifies that with an every increase in independent variable (i.e. total assets) there is decrease in dependent variable (i.e. sales). Here r is also less than the 6 P.E, which shows the insignificant relation between the sales and total assets.

The Regression equation fitted on the least square method is:

$$Y_n = 186.215 + 2.805(X)$$

This equation calculates the change in sales with a rupee change in total assets. The value of b is found to be 2.805, which means that 1 unit change in Total Assets would result in 2.805 unit change in Sales of NT. We can use the above equation to estimate what sales of NT would likely to be in the coming years and plan the total Assets accordingly for the future.

Correlation & Regression Analysis of Total Debt and Net Worth

Total Debt includes Loans from Government of Nepal against international body. Current Liabilities and Provision, Equity Capital and Reserve & Surplus included in shareholders equity. (Annual Report of Nepal Telecom)

The regression equation of Y (dependent variable i.e. Total Debt) on X (the independent variable i.e. Net worth) and the Kari Pearson's Coefficient of Correlation (r) is expressed as follows:

$$Y_n = +0.85$$

$$PE = 0.067135$$

$$r > PE$$

$$r > 6 \times PE$$

$$0.85 > 0.40281$$

The value of V is 0.85, which shows a high degree of positive correlation between the total debt and equity of the firm. And the r is also greater than 6 P.E which shows that the relation between total debt and equity is significant.

The Regression equation fitted on the least square method is:

$$Y_n = -9207.894 + 2.853315(X)$$

The subsequent change in equity with a rupee change in total debt can be easily known with the help of above Regression equation. The value of b is found to be 2,853315, which means that 1 unit change in Net Worth would result in 2.853315 unit change in Total Debt of NT. We can use the above equation to estimate what Total Debt of NT would likely to be in the coming years and plan the Net Worth accordingly for the future.

Correlation & Regression Analysis of Interest Charges and EBIT

Here, EBIT means earning before interest and tax whereas, Interest Charges is Interest on Loan. (Annual Report of Nepal Telecom)

The summary of computations of the regression equation of Y (dependent variable i.e. Interest Charges) on X (the independent variable i.e. EBIT) and the Karl Pearson's Coefficient of Correlation (r) is expressed as follows:

$$Y_n = -3794, 373 - 4.244(.V)$$

$$r = -0.69$$

$$PE = 0.1239$$

$$r < PE$$

$$r < 6PE$$

$$r < 0.7434$$

The calculation shows that the correlation coefficient between the Interest Charges and EBIT is negatively correlated which is -0.69. This shows that the EBIT is increasing whereas, the interest charges is decreasing. The r is also less than 6P.E which shows that the relation between the EBIT and Interest charges is insignificant.

The Regression equation fitted on the least square method is:

$$Y_n = -3794.373 - 4.244(X)$$

With the help of this equation, we can easily calculate the change in EBIT with a slight change in firm's Interest Charges. The subsequent change in EBIT with a rupee change in Interest Charges can be easily known with the help of above Regression equation. But the value of b is found to be -4.244, and the correlation between the EBIT and Interest Charges is also insignificant.

Correlation & Regression Analysis of NPAT and Sales

Here NPAT means Net Profit after Tax. Whereas, Sales includes operating sales and non-operating sales (Local Telephone, Domestic Trunk Telephone, International Telephone, Domestic Telegraph, International Telegraph, International Telex, Leased Circuits, Telefax, Mobile Service, Others), under non-operating sales it includes only sale of telephone set (Net).(Annual Report of Nepal Telecom)

The summary of computations of the regression equation of Y (dependent variable i.e. NPAT) on X (the independent variable i.e. Sales) and the Karl Pearson's Coefficient of Correlation (r) is expressed as follows:

$$Y_n = 8354.82 - 0.4833 (X)$$

$$r = - 0.070$$

$$PE = 0.300$$

$$r < PE$$

$$r < 6PE$$

$$r < 1.8$$

The value of 'r' is – 0.070 which shows a negative correlation between sales and NPAT. This relation implies that the increase in sales generates the decrease in NPAT. And the r is also less than 6 P.E which shows that the relation between the sales and NPAT is insignificant i.e. there is no relation between these two variables.

The Regression equation fitted on the least square method is:

$$Y_n = 8354.82 - 0.4833 (X)$$

With the help of this equation, we can easily calculate the change in NPAT with a slight change in sales. The value of b is found to be - 0.4833, which means that 1 unit change in Sales would result in – 0.4833 unit change in NPAT of NT. We can use the above equation to estimate what NPAT of NT would likely be in the coming years with the slight changes in the Sales.

Correlation & Regression Analysis of NPAT and Total Assets

Total Assets represent pool of funds supplied by shareholders and lenders while NPAT represents residual income of the owners. Total Assets includes Fixed Assets Capital Work-in-Progress, Investments, Current Assets, Loans & Advances and Deferred Expenditure, (Annual Report of Nepal Telecom)

The summary of computations of the regression equation of Y (dependent variable i.e. NPAT) on X (the independent variable i.e. Total Assets) and the Karl Pearson's Coefficient of Correlation (r) is expressed as follows:

$$Y_n = 4507.91 + 5.089(X)$$

$$r = - 0.00797$$

$$PE = 0.30$$

$$r < PE$$

$$r > 6PE$$

$$r < 1.8$$

The value of 'r' is – 0.00797, which shows a negative correlation between the NPAT and Total Assets. And the r is also less than 6 P.E which shows that the relation between the two variables is insignificant.

The Regression equation fitted on the least square method is:

$$Y_n = 4507.91 + 5.089(X)$$

With the help of this equation, we can easily calculate the change in NPAT with the change in Total Assets. The value of b is found to be 5.089, which means that 1 unit change in Total Assets would result in 5.089 unit changes in NPAT of NT. We can use the above equation to estimate what NPAT of NT would likely be in the coming years.

Correlation & Regression Analysis of NPAT and Capital Employed

Capital Employed includes Equity Capital, Reserves & Surplus and Loans from Govt. of Nepal against international bodies. (Annual Report of Nepal Telecom)

The summary of computations of the regression equation of Y (dependent variable i.e. NPAT) on X (the independent variable i.e. Capital Employed) and the Karl Pearson's Coefficient of Correlation (r) is expressed as follows:

$$Y_n = -817.358 + 7.62(X)$$

$$r = +0.97$$

$$PE = 0.0133$$

$$r > PE$$

$$r > 6PE$$

$$r > 0.0798$$

From the statistical calculation the value of r is +0.97 which represents the NPAT and Capital Employed of NT is positively correlated. And the r is also greater than 6PE which shows that the relation between the two variables is significant. If we compare this ratio with the ROA of NT, it can be said that the return to the long term stakeholders are better than the return earned by its assets.

The Regression equation fitted on the least square method is:

$$Y_n = -817.358 + 7.621(X)$$

With the help of this equation, we can easily calculate the change in NPAT with the change in Capital Employed. The value of b is found to be 7.621, which means that 1 unit change in Capital Employed would result in 7.621 unit change in NPAT of NT. We can use the above equation to estimate what the NPAT of NT would likely be in the coming years with the change in the Capital Employed.

4.4 Major Findings

1. First of all, NT is maintaining the good liquidity position. During the study the current ratio ranges between highest of 5.57 times and lowest of 5.01 times. While the standard current ratio should be 2:1 times, comparing these ratios in the lowest form also NT maintains more than the standard. So, this ratio helps to analyze the financial capacity of NT to pay its short-term liability more than 3 times. During the study period quick ratio is also sound. This shows that current liabilities could be covered with quick assets in each year. CR and QR show the positive growth rate which indicates that the payment of short-term liabilities under favorable terms and there is not much problem to NT in the coming years as company is maintaining its short-term liquidity position.
2. Debtors' turnover ratio is one of the important ratios to find the efficiency of the company in collecting its outstanding bills. Here, higher the ratio the efficient is the credit management. In the F/Y 2003/04 has low DTR which implies that firm is not so efficient in collecting its debt and the ratio has shown remarkable improvement in the F/Y 2005/06, which if maintained could be good move for the credit collection of Nepal Telecom.
3. Total assets turnover ratio indicates the efficiency with which the firm is able to use its total assets to generate sales revenues and it also indicates the overall efficiency in utilizing its total assets. The standard turnover ratio is 1:1 times, but during this whole period of study the ratio is less than the standard i.e. 0.2646

times in higher and 0.067 times in lower. This shows that NT is lacking in efficient utilizations of its fixed assets by the marginal increase in sales.

4. Net Profit Margin measure the overall firm's ability to turn each rupee sales into net profit. As we see, the average NPM of NT over this period is 43.26 % or 0.4326 indicates that each rupee of sales is contributing Rs.0.4396 for rewarding the owners. The ratio ranges between highest of 47.79 % in F/Y 2003/04 which is an indication of overall efficiency of the firm and better utilization of total resources.
5. The ROCE ratio has a clear fluctuating trend with the highest ratio of 0.194 or 19.40 % in F/Y 2005/06 and lowest ratio of 0.052 or 5.2% in F/Y 2003/04. The average ratio for the study period is 0.1434 which indicates that each rupee of long term fund employed by the company is generating after tax profit of Rs.14.34 which is not so good comparing with the investment in capital employed. Moreover, high ratio indicates high productivity of capital employed as compared to other F/Ys. While comparing with the ROCE with the ROA of Nepal Telecom, we could see that the return to the long-term stakeholders are better then the return earned by the assets.
6. Besides the above factors, the slow growth of Nepal Telecom during these years is the political insurgency. The destruction caused to many of its key structures all over the country has resulted in drastic decline in the operational profit. And also the management did not considered appropriate to use the insurance policy to cover whole of the fixed assets of Nepal Telecom.

4.5 Other Findings

- Inventory turnover ratio is increasing in each year except in the F/Y 2003/04. This shows that the organization is able to use its inventory to generate sales revenue, which indicates that the sale of inventory is sound.

- Average age of inventory is decreasing each year from the average of 41 days to 11 days. This shows that the organization is able to sale in service within the short storage period.
- Average collection period is also increasing, which shows the satisfactory performance. It indicates that NT is able to collect cash in short span of time from its debtors.
- Fixed assets turnover ratio measures the efficiency with which the firm uses its net fixed assets to generate sales. The average FATR over the five years of study period is 0.822 times. The last two years is showing a clear upward trend, which shows that NT is efficiently using its fixed assets.
- Capital employed ratio is lower than the average of 0.3368 times. This ratio shows that the huge amounts of long-term debt are not efficiently employed in generation of revenues. The ratio ranges from the lowest of 0.109 times in F/Y 2003/04 to the highest of 0.440 in the F/Y 2005/06.
- Debt-Equity Ratio of NT has gradually declined each year except in the last two years where it has increased insignificantly. This position of NT shows that it is trying to work desperately in the changed scenario of high risk high gain. The correlation coefficient between the Total Debt and Net worth also shows that there is significant positive correlation i.e. $r = +0.85$.
- LTD to CE Ratio of Nepal Telecom has declined sharply from 17% to 0% over the five years of study period. This may imply a good margin of safety to the company lenders as the company has to pay fewer amounts as interest and retain more earnings. Moreover, the company has huge amount of ideal cash which could be utilized if needed.
- Interest Coverage Ratio of NT shows that the company has all time increasing coverage ratios over the period. NT is able to cover the interest expenses by a

good margin of safety. The debt servicing capacity of NT seems quite favorable so the outsiders will always be willing to finance NT.

- The average Operating Expenses Ratio of NT over five years of study period is 47.36% which shows that the OE ratio of NT seems to be less than the industry average of 50% which is a good sign for NT. However in F/Y 2001/02, the ratio is high than the industry average and it is a real matter of concern as the increasing OER affects the profit adversely.
- The ROA ratio of NT over the five years of study period has moved in fluctuating trend. The ratio is high in the F/Y 2004/05 and lowest in the F/Y 2001/02. The average ratio is 38.7% i.e. 0.387 which indicates that each 100 rupees of investment in assets is generating profit of Rs.38. The higher ratios are desirable but the trend is moving towards the unsatisfactory results of improper utilization of total assets in terms of generating profit.
- Nepal government is encouraging the participation of private sector to speed up the development of communication in the country. And resulting to this some companies like UTL, Mero Mobile and STM Telesanchar have already started its' operation. Although, these companies are far behind where NT is today, but also NT should not ignore this fact of increasing competition in the near future

CHAPTER-5

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter is an important chapter for the research study because this chapter is the extracts of all the previously discussed chapters. This chapter consists of mainly three parts: Summary, conclusion and recommendation. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and in recommendation part; suggestions are made based on the result and the experience of the study. Recommendation is made for improving the present situation to the concerned parties as well as for further research.

5.1 Summary

Nepal is moving towards the development. Natural resources of the country are remaining unutilized due to the lack of financing and technical know how. Recently, Nepal has adopted mixed and liberal economic policy with the implicit objective to help the state and the private sector, on the ground of open and liberal eco-system. Many public enterprises are being privatized with business motives; they have become the need of developing countries.

In this world of globalization telecommunication plays a vital role and is being indispensable aspect of our lives. Telecommunication is the fastest, cheapest and the most reliable media of communication. Nowadays one cannot imagine life without telecommunication. To every organization, telecommunication is very popular medium of communication. Alexander Graham Bell, American scientist is the inventor of the telephone.

Nepal Telecom has passed 30 glorious years since its commencement in 1970 B.S. A remarkable happening took place in 2012 B.S. and is considered a very special year in the history of Nepal telecommunication because in this year telephone lines were distributed to general public and were allowed to keep telephone personally. In pursuit of development, Nepal Telecommunication is continuously trying new technologies and in this course, overall telecommunication service of the world is linked with Nepal. With the aim of improving and achieving its height, Nepal Telecommunication Corporation (NTC) was transformed into Nepal Doorsanchar Company Limited (NT) a couple of years back i.e. on 1st Baisakh, 2061. Above all these changes were made to work more effectively and cope up with the changing need of the nation and people as well. During all these years, Nepal Telecom has always served the nation with low cost, efficient and reliable telecommunication services keeping in pace with the rapid development made in the telecommunication sector worldwide.

In this sense, this study is conducted to identify and examine the financial analysis of Nepal Telecom. Before the financial analysis and evaluation the theoretical background about Nepal Telecom is essential. So, in the first chapter the introduction of Nepal Telecom, its history, its role, objectives of establishment, challenges of NT, services provided by NT, future plan, significance of the study, research methodology, statement of the problems, and so on are made.

In the second chapter, conceptual review of books relating to communication, other effective communication tools, finance and financial statements, review of journals, review of previous research work and review of Nepal Telecom after transformation with its competitors are studied.

The third chapter is the research methodology, which comprises of tools and techniques used to analyze the secondary data. Thus, in this chapter focus have been made on research design, sample and population, nature and sources of data collection and tools used for analysis,

Lastly in fourth chapter the collected data are presented in tabular and graphic form and analyzed to know the financial performance of Nepal Telecom using various financial and statistical tools like ratio analysis, mean, correlation & regression analysis and probable error.

5.2 Conclusion

The primary objective of any telecom administration is to provide telecom service to its customers with high quality service, ensure good returns on the capital and recurring investments. Its objective is to provide nation wide essential, low cost, reliable and readily available telecommunication services to the general public, government and country as a whole thereby, supporting the unity, integrity and the economic development of the country.

Besides these there comes the sustainability of the organization. Despite the continuous political insurgency in the country for these long years; making huge damages to NT regarding its property, the progress schedules and other physical threats to the technical support engineers and other members of the company the progress and the financial performance of the company is satisfactory. On the basis of the research, the researcher comes to the conclusion that the financial performance of NT is satisfactory from the result, which is commendable.

5.3 Recommendations

Based on the analysis, interpretation & conclusion, certain recommendation can be made here so that the concerned authorities, future researchers, academicians' can get some insights on the NTC and the present condition after transformation into Nepal Telecom. It is considered that this research will be fruitful to improve the present

condition as well as for further research. The major recommendations after this study are:

1. NT being a service-oriented company maintains a good liquidity position is the matter of concern, as NT's huge ideal cash balance shows that cash is not being utilized for the productive purpose or say conservative in terms of investment in new areas. Due to these reasons NT is forgoing opportunity loss.
2. NT has huge amount of outstanding receivables this shows that reliable policy has not been adopted by receivables management board for the receivables collection. So, NT should make appropriate decisions regarding credit terms, credit standard and credit policy. Serious measures should be taken as; break-down in the phone line if payment delayed then the standard time, blacklisting of long term defaulters forwarding legal action, modern pill paying techniques should be introduced, attractive discount packages should be introduced for speeding up the collection and vice versa.
3. It is advisable that NT has an excessive holding of the Inventory, so Inventory managers should find the breakeven point of holding inventory to be benefited with the opportunity cost.
4. Relating to the investment made in fixed assets. It seems that the organization is just keen in investment rather than reviewing how income is generated from the concerned areas of investment. Huge amount is invested in fixed assets and new technologies every year but the amount of benefit derived from these are very low as compared to the investment. Due to this company is bearing heavy operating expenses and also forgoing profit. So, NT should be more focused on income generating sales and also take serious steps which should be forwarded to utilize the remaining unutilized capacity
5. Fixed assets turnover ratio measures the efficiency with which the firm uses its net fixed assets to generate sales. Although in, the last two years it is showing a clear upward trend, which shows that NT is efficiently using its fixed assets.

6. To increase the Net Profit, certain controlling measures should be followed by the organization. NT should organize internal-office controlling bodies to check all operating as well as non-operating expenses, the increasing administrative expenses, the budgeting of management and committees fees. This could be accomplished by setting performance standard, cost control technique which will perhaps improve the cost efficiency as well as enable the firm to withstand adverse economic conditions and profitability of the company.
7. ROE is regarded as an important measure because it reflects the productivity of shareholders capitals as well as the operational efficiency of management. The management is obviously not contented with achieving the current level of the ROE which is very low as regard to investment. NT should gear up in investing in long run new technologies to meet internationally.
8. NT should take immediate action to stop unauthentic telephone service users. Due to these activities the revenue collection of NT is decreasing.
9. Nepal Telecom should review its policy regarding the charges of the telephone bills which is very high for the consumers to enjoy the services. Nepal Telecom policy should be more focused on the uses of the services and generate more profit from the sales rather than collecting the taxes.
10. NT to meet the current challenges, some of the structural changes in the management is highly essential, The Company should be more autonomy and the senior management should be more professional as such to establish the business culture. To discharge the duties effectively and efficiently the nerve center i.e. information exchange center should be well-equipped and further expanded.
11. NT need to create an environment of integrity, trust and respect to make sure that everyone is treated fairly and make them feel they are part of Nepal Telecom. To

boost-up lower level of employees should be supported; otherwise this may be the threat to the organization.

12. NT's one of the major challenge is manpower challenges; here the lack of trained and qualified manpower for the installation of telecommunication system in the rural areas is to be solved. Moreover the installed capacity has not been fully utilized. If NT utilizes its installed capacity at its full then definitely the operating cost will go down which in turn rises the profit.
13. Today's world is the world of media and we have "a slogan if you converse you trade" following this line the competitors are selling their product. Nepal Telecom being the leading organization is not motivated towards selling the service; lack of advertising of its new services like 1445 dialing system, easy calling card e.t.c, provided by NT is depriving public from the use of these facilities and resulting losses to the company. So, market research should be made frequently. Not only these, NT should be more customers oriented and should handle the complaints and suggestions provided by the customers immediately.
14. NT being a government owned organization has to face time-to-time interventions from government.

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Appendix – 1

Current Ratio of NT and its Average for 5 years (in N.Rs. Millions)

Fiscal Year	Current Assets	Current Liabilities	Current Ratio(X)
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2001/02	15,336,626	2,943,376	5.21
2002/03	18,424,147	3,675,412	5.01
2003/04	20,213,763	3,630,863	5.57
2004/05	20,598,353	3,858,484	5.34
2005/06	22,526,522	4,475,753	5.03

We know that,

$$\text{Current Ratio (2001/02)} = \frac{\text{CurrentAssets}}{\text{CurrentLiabilities}}$$

$$\text{Current Ratio (2001/02)} = \frac{15,336,626}{2,943,376}$$

= 5.21 times and so on.

Again,

$$X = \frac{X_1 \Gamma X_2 \Gamma X_3 \Gamma \dots \Gamma X_n}{5}$$

Where,

X = Mean

X₁, X₂....X_n = Given set of observation

N = Numbers of item observed.

$$X = \frac{5.21 \Gamma 5.01 \Gamma 5.57 \Gamma 5.34 \Gamma 5.03}{5}$$

= 5.232 times and so on.

