CHAPTER-I

INTRODUCTION

1.1   Background of the Study

The overall development of the nation depends upon the uplifting of the national economy which in turn depends upon the nature of its infrastructure. One of the basic elements in achieving self reliant growth of the economy for sustaining desired level of economic development is an accelerated rate of infrastructure development. Telecommunication has been identified as one of the three basic infrastructures apart from Power and Roads, which is needed for the socio-economic development. Investment in telecom sector has multiplier effects. It is considered that every rupee invested in telecommunication sector generates three fold effects in the nation's GDP. Telecommunication is the pre-requisite for other dimension of development and it plays an important role for other industries. Thus telecom has dual role as both a traded product and service and as a facilitator of trade in other product and services. Moreover Telecommunication can have a dramatic impact on achieving specific social and economic development objectives.

In fact the development of telecommunication is not only vital for IT based industry but it has wide effect on entire economy of the country. Realizing the facts, Nepal Government has also recognized that the provision of world class Telecommunication infrastructure is the key to rapid economic and social development. For bringing telecommunication as the major infrastructure of development, government has implemented national communication policy (1992). Introduction of liberalized

economic policy in Nepal has gradually facilitated the private sector investment as a result multinational companies also showed their presence. In this context, to speed up the process of telecommunication development, The Telecommunication Act; 1997 was brought into action which has created the competitive atmosphere in telecom industry which resulted the private sector investment in the telecommunication industry. As size and sector of telecommunication grew up to IT, Telemedicine, e-governance, e-commerce, e- education etc the government brought the telecommunication policy; 2004 to address the entire telecommunication sector.

Though the company was registered in Magh 2060 BS in office of the company registrar the company has got the formal inception in Baisakh 2061 BS after all the assets and liabilities of then Nepal Telecommunications Corporation (NTC) were transferred to it by formal notice of the government in gazette. Nepal Telecommunications Corporation was state owned enterprise established in 2032 BS to provide telecommunication in the nation. Before its establishment the telecommunication service were managed and distributed by Telecommunication Development Board both as an operator and authority, a government body under the ministry of communication. The main reason behind the changing of status of 'Nepal Telecommunications Corporation', a state owned enterprise as a public utility concern to 'Nepal Doorsanchar Company Limited (Nepal Telecom)' as a limited company is to transfer the government investment in the organization to the private sector. This was happened according to the policy of economic liberalization that the government has adopted. .

The capital structure of Nepal Telecom consists of equity capital and at present Nepal Telecom has the authorized capital of Rs 25 Billion allocated to 250 million shares of each Rs100 Par. Issued and paid up capital is Rs 15 Billion.

The company at its top most level has a seven member Board of Director (BOD). Chairman is secretary of Ministry of information and Communication; Members are representatives from Ministry of information and communication, Ministry of Finance, Ministry of Law, Justice and Parliamentary affairs and Citizen Investment Trust. Other members are Managing Director and representative from employees (Article of memorandum-2). Senior Management Committee is the second in hierarchy which is headed by Managing Director and constitutes senior executives of the company. Managing Director performs as a Chief Executive Officer (CEO). Under the Head Office there are 20 departments 4 directorates. The regional directorates are performing as full fledged Profit centers. Total approved Post in NT are 6,984 but the total no of working manpower at present is 5,708 out of which 880 are Officers and 4,828 are of Assistant level.

Industrialization and Information revolution has brought the globalization which is considered as the economic, technical and political integrations of the people in world. This in reality made the world as a global village. At the 21'st century people in one corner of the earth is affected by the activities in another corner. Globalization made trade facilitation around the world. In this context Nepal could not be alone without affiliating to the global Trade forum of World Trade Organization (WTO), hence became the member of World Trade Organization in 2004. Now Nepal is the member of other regional economic blocks BIMSTEC and SAARC. To become successful in

present global environment of the business, organizations should be able to face the global competition in quality and cost of the product. In this context Nepal has adopted the liberalized economy and hence giving up the ownership of state owned enterprises gradually by participating private sector in the ownership. The Government is promoting the private sector by various means which facilitated the investment of private sector, as a result there are various players doing there business in Telecommunication industry as well.

In this context Nepal Telecom is facing competition in its services and seems to face stiff competition in future. Despite the competition rose, the demands of NT services are high but the company is not able to meet the customers demand due to various constraints like government intervention, slow procurement procedure, management style, work culture, mismanagement of resources etc.

Despite the various shortcomings the company plays vital role in achievement of desired level of national development goal by fulfilling the need of reliable dimension of infrastructure development.

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Nepal Telecom Ltd. was established on 2032/03/11 B.S. under Nepal telecommunication act 1971 to provide liable and affordable telecommunication service all over the country.

Most rural areas of Nepal are characterized by low population density, long distances between settlement areas and unfavorable geographical and climate conditions. Other difficulties are low education Level, loss job opportunities, low per capital income, increasing tendency of population to migrate to urban center, unreliable or non existent public transport, irregular or non- existent power supply, poor health care and medical services. The basic objective of the need for providing telecommunication facilities in those rural areas is trigger the development activity .

Role of Nepal Telecom

) To fulfill the need of distance communication

) To add a reliable dimension of infrastructure development

) To introduce emerging technology of communication

) To enhance economic development of nation

) To minimize the digital divide by serving in rural area

1.2 Statement of the Problem

Nepal Telecom as a state owned enterprise has involved in providing the cost effective and people friendly telecom services in the nation since long time. The organization has enjoyed monopoly in the telecom market and got policy privilege during long period. The scenario has completely changed after recent entry of telecom operators in the market. As those companies are involved in business of various telecom services the

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natural monopoly enjoyed by Nepal telecom tends to be ended. In the emerging liberalized policy that the government should not involve in the profit motive business except the sensitive affairs and facilitating jobs, private and multinational companies were established in the various part of the nation. Similarly the public enterprises were made private by making them private company or public limited company. In this scenario, Nepal Telecom a state owned enterprise is going to issue it's share to the public as a public limited company. In this context the analysis of financial health of Nepal Telecom as a largest business enterprise in Nepal would have great deal of importance to the various stakeholders.

Nepal Telecom as a state owned enterprise; it is complicated to assess the efficiency with its socio economic development goals but every organization should have sound financial health to be efficient in the utilization and management of the resources. Proper collection, utilization and management of the fund is financial management. To make assurance of the strong financial operation of the company, the empirical analysis called financial performance analysis can have the great importance.

As most of the organization depends heavily upon the external and internal information, industrialization without proper access of telecommunication is difficult to imagine. Nepal is on the process of industrialization and people have the demand of new and new technology and telecommunication is now thought to be basic requirement in urban area and important means of development in rural sector. In this context, there is high

demand of NT services and it does have a little market competition. Despite the fact NT has not seen efficient to fulfill the demands.

The Balance sheet shows the huge amount of cash and bank balance lying idle. Volume of sundry debtors seems to be very large. Various studies related to the NT pointed out the problem of its outstanding debt collection and high liquidity position. Further suggestion is that NT management should estimate immediate required funds and either invest all the excess fund in marketable securities, or use that fund in refunding debt as the interest it pays for loan for capital investment is less than the rate of earning in liquid fund. Studies have shown that the return on total assets is not so good.

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

)   What are sources of long term financing on Nepal Telecom?

)   If assets utilization in Nepal Telecom is efficient?

)   What is the position of Nepal Telecom to meet the current obligations?

)   Is the company providing fair rate of return?

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

1.3   Objective of the Study

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

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

1.4   Focus of the Study

Although, Nepal Telecom has better performance than other state owned enterprise of Nepal , in the sense that it is such a state owned enterprise which is operating under the net profit margin since the establishment of NTC, coming days are not so easy as earlier because it has to face stiff competition in the future. Financial statement show that the Gross Revenue as well as Net Profit has increased to a tune of higher rate before 1998 but after that the increasing rate is lower in comparison to earlier years. Profitability alone could not show the overall financial position of the organization and to make the assessment of the organizational strength and weakness, ups and downs, opportunities and challenges financial performance analysis could be very important tool. Different financial indicator shows the capability of the organization to meet the various expectations of stakeholders of the company. The present study primarily focuses on the financial performance aspect of company in terms of its capacity on meeting financial

obligation, generating rate of return, capital investment and internal revenue generation. The study confines to the problem of financial operation in Nepal Telecom on the basis of primary information and latest available secondary data. It will light upon the past financial strength and weakness faced by the company and will provide the guideline to improve the financial health.

1.5   Significance of the study

Analysis of financial performance is a crucial part of financial decision making process of business enterprise. Poor financial management affects adversely on liquidity, turnover and profitability. It is required to measure the financial position of the enterprise periodically in order to ensure smooth function of an enterprise. Financial analysis assists in identifying the major strengths and weakness of a business enterprise. It indicates whether a firm has enough funds to meet the obligation, a reasonable accounts receivable collection period, an efficient inventory management policy, sufficient plant property and equipment and adequate capital structure, all of which are necessary if a firm is to achieve the goal of maximizing shareholder's wealth. Financial analysis can also be used to assess a firm's viability as an ongoing enterprise and to determine whether a satisfactory return on investment is being earned for the risks taken.

Nepal Telecom is an enterprise of great national concern. It has to face stiff competition in near future as private players are already entered and there is open door to further enter. The government is going to participate to the private sector in its ownership. So the concerned parties are looking over its performance with keen interest. As a state owned

enterprise it has the obligation of socio economic development with its profitability concern. So the insight over financial position of Nepal Telecom; leading telecommunication service provider in the nation will be useful to provide information to stakeholders and draw attention of concerned management regarding what can be done for further strengthening the financial position. Further it will be important for the following groups and individuals.

- Present and prospective investors
- Policy making authority
- Further researchers
- Government
- Other based companies

1.6   Limitation of the study

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

- This study is based on the 5 years financial reports.
- Only the financial aspect and financial structure analysis shall be made with bird's eyes view, the other area such as Marketing, Human Resource, Research and Development aspects are also the combined input to measure the overall efficiency.
- Secondary data are collected from annual reports of the concerned enterprises, so the study suffers from all those limitations that are associated with these reports.
- The study makes the analysis of financial performance of Nepal Telecom; it may not be applicable to any other enterprise.
- Primary data are collected from Telephone enquires
- There is time and budget limitation

1.7   Organization of the study

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

Chapter I   :   Introduction

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

Chapter II   :   Review of Literature

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

Chapter III   :   Research Methodology

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

Chapter IV   :   Presentation and Analysis of Data

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

Chapter V   :   Summary, Conclusion and recommendations

This chapter consists of summary, conclusion, and recommendation of the study.

CHAPTER-II

REVIEW OF LITERATURE

The review of literature basically highlights the existing literature and research work related to the present research being conducted with the view of finding out what had been already explained by the authors and researchers and how the current research adds further benefits to the field of research. This review of literature had been classified into three subgroups as follow.

- Theoretical review
- Review of related articles/journal/booklets
- Review of related dissertations

2.1   Theoretical review

Finance is concerned with those activities related to money. Previously finance was limited for procurement of long term fund. Due to industrialization, technological innovations and intense competition, there has been a vast change in the philosophy of management. Likewise the discipline of financial management has undergone an unprecedented change. "Financial management is that managerial activity which is concerned with planning and controlling of the firm's financial resources (Pandey; 2004:31).

Evaluation of financial performance is a study of overall financial position of any organization. It is closely related to the decision making. In the modern context, it give vital support for the investment decisions, financing decisions and dividend decisions. Financial performance analysis is undergone with the help of periodically made financial statements of the firm.

2.1.1 Financial statements

The Financial Statements are the means of presentation of a firm's financial condition and basically consist of two types of statements - The Balance Sheet & Income Statement. These are prepared to report the overall business activities as well as financial status of the firm for a specified period to its stakeholders. These contain summary of information regarding financial affairs that is organized systematically. The top management is responsible for preparing these statements. "The basic objective of financial statements is to assist in decision making. The analysis and interpretation of financial statements depend on the nature and type of information available there in". (Panday; 2004: 31)

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

A) Balance Sheet

Balance sheet is one of the basic financial statements of an enterprise. It is also called the fundamental accounting report. As the name suggests, the balance sheet provide information about financial standing or a position of a firm at a particular point of time usually end of the financial year. It can be visualized as a snapshot of the financial status of a company (Panday; 2004: 31)

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

B) Income Statement

Income statement is designed to portray the performance of the business firm for specific period of time i.e. for a year or month or quarter. The business revenues and expenses resulting from the accomplishment of the firms operation are shown in the income statements. It is the "Scoreboard" of the firm's performance during particular period of time. It shows the summary of revenues, expenses and net income or loss of a firm for a particular period of time. Income statement also serves as a true measure of the firm's profitability**. ((Panday; 2004:15).

2.1.2 Financial Analysis

Financial analysis is the process of determining financial strengths and weaknesses of a company by establishing strategic relationship between the components of a balance sheet and profit and loss statement and other operative data (Pandey; 2004:96)

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

"Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account. (Pandey; 2004:560). Analyzing financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of a firm's position and performance. (Van Horne; 1996:56)

In the words of Van Horne, "Financial statement analysis allows managers, investors

and creditors as well as potential investors and creditors to teach conclusion about the recent and current status of a corporation" The checking of financial performance in a business deserves much attention in carrying out the financial position. It also requires to retrospective analysis for the purpose of evaluating the wisdom and efficiency of financial planning. Analyzing of what has happened should be o*f* great value in improving the standards, techniques and procedures of financial control involved in carrying out finance function.

The four basic statements contained in the annual report are the balance sheet, the income statement the statement of the retained earnings and the statement of cash flows. Investors use the information contained in these statements to form expectations about the future levels of earnings and dividends and about the risks of these expected values. Financial statement analysis generally begins with the calculation of a set of a financial ratios designed to reveal the relative strength and weakness of a company as compared to other companies in the same industry, and to show whether the firm's position bas been improving or deteriorating over time. (Weston; 1996:306) Financial analysis is that sort of calculation which is done with the help of annual report. And the annual report would contain the essentials for such analysis. So the data retrieved from the annual report is indispensable for the financial analysis.

It is both an analytical and judgmental process that helps answer questions that have been properly posed. Therefore, it is means to end. Apart from the specific analytical answer, the solutions to financial problems and issues depend significantly on the views of the parties involved, the related importance of the issue and on the nature and reliability of the information available.

Financial appraisal is a scientific evaluation of profitability and financial strength of any business concern. Financial appraisal is the process of scientifically making a proper, critical and comparative evaluation of the profitability and financial health of a given concern through the application of the techniques of financial statement analysis. A complete financial analysis and interpretation of financial statement involves the assessment of past business performance, an evaluation of the present condition of the business and the predictions about the future potential for achieving expected or desired results. (Van Horne; 1996:56)

The analysis and interpretation of financial statement depicts the actual position of a firm regarding the objectives of that firm within a specified period of time. "Financial appraisal is a process of synthesis and summarization of financial and operative data with a view to get an insight into the operative activities of a business enterprise. It is a technique of X-raying the financial position as well as progress of a concern" as observed by Robert H. Wessel.

According to Man Mohan "The main function of financial analysis is the pinpointing of the strengths and weakness of a business undertaking by regrouping and analysis of figures contained in financial statements by making comparison of various components and by examining their contents. This can be used by financial managers as the basis to plan future financial requirement by means of forecasting and budgeting procedures."

"Financial statement analysis involves a comparison of firm's performance with that of
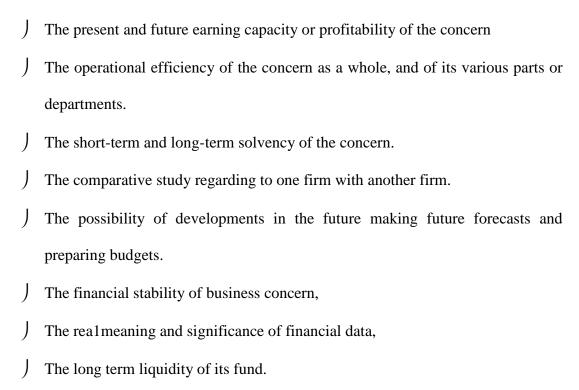
other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify its current strengths and weakness and to suggest actions that might enable the firm to take advantage of the strengths and correct its weaknesses."(Weston; 1996:78)

"Financial analysis is used primarily to gain insight into operating and financial problems confronting the firms with respect to these problems. We must be careful to distinguish between the cause of problem and symptom of it. It is thus an attempt to direct the financial statements into their components on the basis of purpose in the one hand and establish relationships between these components and between individual components and totals of these items on the other. Along with this, a study of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization."(Weston; 1996:78)

Thus, Jain says "Much can be learnt about business performance and financial position through appraisal of financial statements, the appraisal or analysis of financial statements spotlights the significant facts and relationship concerning managerial performance, corporate efficiency, financial strength and weakness and credit worthiness that would have otherwise been buried in a maze of details."(Weston; 1996:78)

2.1.3 Objectives of Financial Analysis

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

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

2.1.4 Need of Financial Analysis/ Financial Statement Analysis

The need for the analysis of financial statement arises in order to address the following questions. (Weston; 1996:78)

- How was the firm doing in the past? Was there any problem? If so, in what Area?
- How it is doing at present? Is it doing better compared to the past performance, competitors and industry average? Is there any problem at present? If so, in what

areas?

) What about the future? Is there any likely problem on the way in the future? What will its position be in the future?

) What corrective actions can be taken now to solve the problems and improve the performance? How will the recommendation of any course of actions or changes in the policy or practice help solve problems and improve the company's position?

) What are the expected results of recommendations? Are there any improvements?

2.1.5 Significance of Financial Analysis

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

Such analysis leads management of an enterprise to take crucial decisions regarding operative policies, investment value of the firm, internal financial control system and bargaining strategy for funds from external sources. ."(Weston; 1996:582)

The parties that are benefited by the results or conclusion drawn from the analysis of financial performance can be numerated as ."(Weston; 1996)

) Top Management

⟩ Creditors

⟩ Shareholders

⟩ Economists

⟩ Labor Unions

A) Top Management

The responsibility of the top management is to evaluate:

⟩ Are the resources of the firm has been used effectively and efficiently?

⟩ Is the financial condition of the firm sound enough?

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

B) Creditors

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

C) Shareholders

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

D. Economists

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

E. Labor Unions

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

2.1.6 Process of Financial Analysis

Financial analysis basically financial statement analysis, is a technique of answering various questions regarding the performance of a firm in the past, present and the future on the basis of past performance. The analysis recommends the steps to be taken by financial managers while undergoing the assessment of financial position.

The questions, that as elucidated above create the need to follow certain steps such as first identification and analysis of problem in order to come up with appropriate recommendations, and then to project the expected results and examine them if there are improvements before implementing such recommendations. The following chart presents the process to be followed in the analysis of financial statements.

2.1.7 Types of Financial Analysis

In the words of Man Mohan "The nature of financial analysis differs according to the purpose of the analyst. A distinction may be drawn between various types of financial analysis either on the basis of material used for the same or according to the modus operandi of the analysis"

A.)According to material used

1. External Analysis

It is made by those who do not have access to the detailed records of the company. This group, which has to depend almost entirely on published financial statements, includes investors, credit agencies and governmental agencies regulating a business in a nominal way.

2. Internal Analysis

The internal analysis is accomplished by those who have access to the books of accounts and all other information related to the business. While conducting this analysis, the analyst is a part of the enterprise he is analyzing. Analysis for managerial purpose is the internal type of analysis and is conducted by executives and employee of the enterprise as well as governmental and court agencies which may have major regulatory and other jurisdiction over the business.

B. According to Modus Operandi Analysis

1. Horizontal Analysis

When financial statements for a number of years are reviewed and analyzed, the analysis is called horizontal analysis. As it is based on data from year to year, rather than on one date or period of times as a whole, this is also known as dynamic analysis.

2. Vertical Analysis

It is frequently used for referring to ratios developed for one date or for one accounting period. It is also called static analysis.

Besides, the types of financial analysis on the basis of material used and modus operandi, ."(Weston; 1996). have categorized on the basis of objective of the study.

C.)According to Objective

1. Long Term Analysis

This is made in order to study the long term financial stability, solvency and liquidity as well as profitability and earning capacity of a business concern. For the long run success of a business concern, this analysis helps in the long term financial planning.

2. Short Term-Analysis

This is made to determine the short-term solvency, stability and liquidity as well as earning capacity of the business. This analysis is helpful for short term financial planning.

2.1. 8 Techniques of Financial (Statement) Analysis

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

a. Ratio Analysis

b. Du Pont System of Financial Statement Analysis

c. Common Size Analysis

d. Funds Fl0w Analysis

e. Cash Flow Analysis

a. Ratio Analysis:

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

Types of Ratios

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

a) Liquidity ratios

b) Capital structure/leverage ratios

c) Activity ratios

d) Profitability ratios

a)   Liquidity ratio

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

b) Capital structure/leverage ratios

The Capital Structure/Leverage Ratio is associated with the long -term solvency of an enterprise. The long -term creditors would judge the soundness of a firm on the basis of long term financial strength measured in terms its ability to pay the interest regularly as well as repay the installment of principal due to dates or in one lump sum at the time of maturity. Leverage Ratios show how much of an enterprise's fund are financed by debt & equity. These Ratios also show the prospects for future financing.

The Capital Structure Ratio indicates the soundness of capital structure of an enterprise. It can be calculated on two ways. The first approach is to examine what proportion of

borrowed capital occupies the capital structure i.e. calculated the Debt to Total Capital Ratio. The second approach is to examine the number of times the interest earned covered by earnings and to calculate the fixed charges covered by earnings.

c) Activity ratio

An Activity Ratio may be defined as the test of relationship between sales and various types of Activity Ratios. Activity Ratios are employed to evaluate the efficiencies with which the firm manages and utilizes its assets. These Ratios are also called Turnover Ratios because they indicate the speed with which the assets are being covered or turned over into sales. So Activity Ratios presume that there exists an appropriate relationship between sales and various assets. The more important Activity Ratios for general - purpose analysis are Inventory Turnover Ratio, Total Assets Turnover Ratio, Fixed Assets Turnover Ratio, Capital Employed Turnover Ratio etc.

d) Profitability ratio

Profitability is very important aspect of management of any enterprise. It shows the overall performance of an enterprise. The Profitability Ratios are calculated to measure the operative effectiveness of an enterprise. Besides management of the company, creditors and owners are interested in the Profitability Ratios of the firm. Profitability Ratios can be calculated on the basis of either sales or investment. The important Profitability Ratios, calculated in relation to sales are Net Profit Margin, Gross Profit Margin, and Operating Expenses Ratio etc. Similarly, the important Profitability Ratios, calculated in relation to investment are Return on Shareholders' Equity, Return on

Capital Employed, and Return on Fixed Assets etc. Together these Ratios indicate the firm's efficiency of operation. (Panday; 2004:33).

c. Common Size Analysis

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

The common size analysis is carried out for a period of one or more. The income statement items are divided by sales and expressed as a percentage of sales. The balance sheets items are divided by total assets and expressed as percentage of total assets. These percentages for a company are compared with the standard measures such as percentages calculated in the same manner industry and the competitors.

Thus, the comparison shows the company's performance relative to competitors as well as compared to it own past record.

d. Funds Flow Analysis

Funds flow analysis is the statement of changes in financial position of any organization that determines only the sources and used of fund between two dates of balance sheet. It

is prepared to uncover the information that financial statements fail to describe clearly. It describes the sources from which funds were derived and used to which these funds were put.

The statement is prepared to summarize the changes in assets and liabilities resulting from financial and investment transactions during the period as well as those changes occurred due to the changes in owner's equity. It also uncovers the way of using financial resources during the period by the firm.

Method of preparing funds flow statement depends essentially upon the sense in which the term 'fund" is used. There are three concept of fund: cash concept, total resources concept and working capital concept. According to cash concept, the word fund is synonymous with cash. Total resources concept refers total assets and resources as fund. The term' fund" represents only to working capital on the stated last concept However, working capital concept of fund has gained wide acceptance as compared to the other concepts. Therefore any transaction that increases the amount of working capital is taken as source of fund while conducting funds flow analysis. Any transaction that decreases working capital is treated as application. But, any transaction that affects current liabilities or current assets without resulting any changes in working capital is not taken as sources or use.

e. Cash Flow Analysis

This statement is carried out to know clearly the various items of inflow outflow of

cash. It is different from funds flow analysis in the sense, the analysis relates to the movement of cash rather than the inflow and outflow of working capital.

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

2.1.8 Limitations of Financial Analysis

Financial performance analysis is of great significance for investor, creditor, management, economist, and other parties having interest in business. It helps management to evaluate its efficiency in past performance and takes decision relating to the future. (Jain, 1989-33) However, it is not free from drawbacks. Its limitations are listed below.

(a) Historical nature of financial statements:

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

(b) No subject for judgment:

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

(c) Reliability of figures:

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

(d) Single year analysis is not much valuable:

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

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

(t) Change in accounting methods:

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

(g) Pitfall in inter-firm comparison:

When different firms are adopting different procedures, records, objectives, policies and different items under similar heading, comparison will be more difficult. If done, it will not provide reliable basis to assess the performance, efficiency, profitability and financial condition of the firm as compared to the whole industry.

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

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

(i) Selection of appropriate tool

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

2.2 Review from Articles \ Journal

Acharya (1999), in his article '*Present status of NTC and privatization*', suggested to utilize its fund rather that accept 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.. In another article, again has suggested utilizing its internal resources. He concluded, "It has become possible to maximize profit utilizing internal resources with minimum cost. On the 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."

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

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

-) There is no clear cut strategies and vision to recover bad debt in time.

-) There is lack of inter office coordination to collect receivables.

-) It has seen that there delay payment by government offices which has enhanced others to make delay payment or remain unpaid.

-) There is lack of motivation to employees as they feel recovery of bad debt is a risky job.

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

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

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

study thus pointed that there was poor current assets management and management of resources in PEs of Nepal thereby causing poor financial performance.

Shrestha, (2001) "*Analysis of capital structure of selected enterprises*" pointed out that majority of corporations in our country had large amount of government investment and they possess huge amount of assets. He also pointed out that the existing assets were not fully utilized in many corporations. As for example, according to him, it was found that there had been large amount of construction materials remaining without use in NTC, underutilized assets and holding of useless assets by NTC and so on. It's the fund concept as effective system of conversion was what out corporate managers must think to change their traditional view of funds as "cash to cash" transaction

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

total assets. He projects the future five years financial performance of NTC by using regression analysis, judgmental approach. According to his projection growth rate on return will remain around 4.69%.

2.3   Review of Related Dissertations

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

Adhikari (2009), on his Master thesis "*An Evaluation of financial Position of Nepal Telecommunications Corporation*" the main objectives of the study are: -

- ﹚ To highlight the different aspects of NTC.
- ﹚ To analyze, examine and interpret the financial position of NTC by using various techniques.
- ﹚ To give workable recommendation, if there are weaknesses inherent in the corporation.

The Main Findings were

Liquidity position

There is no serious liquidity problem in NTC. The current Ratio of NTC is 1.15 times. The current assets of NTC are greater than current liabilities in each fiscal year. It shows the better liquidity position of NTC. But it does not mean that there is not any liquidity problem in NTC. The current Ratio is affected by the huge amount of sundry debtors. The coefficient of correlation between current assets and current liabilities is 0.9904 and the probable error of the correlation is .0089. This means that both the variables are positively correlated and the corporation has been following a uniform policy to finance current assets and current liabilities.

Utilization of Fixed Assets

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

Utilization of Total Assets

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

Receivables Management

From the analysis of financial statement, we know that sundry debtors are the most sensitive sector for the management of NTC. In an average, the collection period is 132 days. Only in two fiscal years, the collection period is below the average debt collection period and in other three years the collection period is highly greater than the standard debt collection period. Because the receivables are taking long period to be collected, there is very low debtor's turnover ratio. Therefore, it can be inferred that the firm is not adopting proper receivables management policy. When referred to NTC management, it has set 90 days as standard collection period.

Return on Total Assets

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

Adhikari shows major issues and gaps as follows:

⌡ There is no effective utilization of assets in NTC.

) NTC has been seriously facing the problem of outstanding debt collection. In each fiscal year, the collection period is too long in comparison to the allowed collection period.

) Profit earned by NTC is not sufficient to make it self-reliance in its activities.

) Increment of cost in each fiscal year is another important issue of NTC. It is not adopting the cost control tools and techniques.

) NTC is not able to fulfill the requirement of funds from the successful operation of the corporation's activities. It has been taking considerable amount of loan to fulfill the requirement of funds.

) Another hottest issue is that NTC is not conducted under the business principle. The idea of privatization is coming into the telecommunication sectors boost. But NTC is not in a position to meet the competition with the private sectors.

Karki (2010), has submitted the Thesis entitled "*Working Capital Management in Nepal Telecommunication Corporation*"

Objectives of the study were;

) To appraise working capital of NTC with respect to cash, receivable and inventory management.

) To know how far NTC is being able to utilize its current assets properly.

) To evaluate the credit policy of NTC and its effectiveness.

) To study the relationship between sales and different variables of working capital

) To shed light on creation and mobilization of fund in NTC.

The Major findings were.

) NTC kept its large portion of profit as retained earning. There are no systematic techniques used for managing the cash in NTC.

) The fund collected from different sources is used mainly to purchase of fixed assets. Large portion for purchase or current assets and in repayment of current liabilities some amount is used in purchasing marketable securities.

) The size of current assets were increasing rapidly than the fixed assets. Which indicates the conservative policy in current assets. Size of working capital in NTC is far greater than the industry average.

) Cash and bank balance constitute the most important and largest element of working capital in NTC. About 36% of current assets is held as cash during the study period.

) The growth trend of current assets is highly increasing than the total assets and net sales. The increasing trend of receivable seems to be consistent with the increase in net sales. But the size of cash has been increased in an inconsistent manner, which is the main cause of rapid increase in current assets.

) NTC kept excess amount of working capital. The volume of sales seems to be increasing every year. But rate of growth in working capital is higher than that of sales. Therefore, the turnover ratios are continuously decreasing every year

) There has been excess liquidity position in NTC. The relationship between liquidity and profitability ratio does not follow any regular trend during that period. There is no correlation between liquidity and profitability. This condition

does not meet the proposition that 'Higher the liquidity lower the profitability'. Calculation of t-statistic shows that there is no significance difference between liquidity and profitability in NTC.

⟩ There is no comprehensive long\mid term planning or control system of account receivable in the corporation. Larger amount is still due from many a last years and the amount of doubtful debt covers a significant portion of the account receivable.

The Recommendations were as follows.

⟩ Optimize liquidity position

⟩ Concentrate on collection of outstanding bills. As credit terms and standard are to much liberal in NTC. NTC should make appropriate decision regarding credit terms, credit standard and policy.

⟩ Apply cash management techniques so as to invest excess fund in marketable securities.

⟩ It would be better to pay off long term loan by using internal fund as NTC has large amount of internal fund lying idle on one hand and a significant portion of total fund is provided by high interest bearing loan on other.

⟩ The financial position should be timely assessed through financial experts in order to know the financial strengths and weakness.

⟩ Long term and mid term planning and control system of account receivable and cash budget should be prepared.

Neupane, (2001) had make study on the topic "*A Study on Profit Planning in Nepal Telecommunications Corporation*". 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, etc.

The Main findings were as follows:

) Budgets are prepared for the formalities.

) The corporation has no skilled planners

) NTC has not adequately considered controllable and non - controllable variables affecting the organization.

) Actual sales line trends are always below the budgeted sales lines.

) Net Profit of NTC is in increasing trend.

) Huge amount of cash is remaining idle.

) There is no clear-cut criterion to separate cost into fixed and variable.

) Turnover Ratio is not so good even it enjoys monopoly market.

The Recommendations were as follows:

) NTC must restructure its capital structure.

) Long term objectives should be reformulated.

) Estimation of fund is needed.

) CVP relationship should be considered while formulating profit plan.

) There should be timely address of the weakness shown by the evaluation.

) A separate Profit Planning department must be established.

CHAPTER - III

RESEARCH METHODOLOGY

Introduction

The basic objective of the study is to appraise the true picture of the financial performance of Nepal Telecom and to recommend necessary suggestions for the improvements. Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing the relationships between capital and assets of the organization. Financial analysis plays an important role in finding the real picture of financial performance of any organization. It provides an idea to the management while adopting the financial policies.

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

A human nature is so curious and always wants to do something new and different. For this, several questions raises in his mind and to get the answers, he should gather information from different sources and analyze them to get the result. The researcher for gaining the knowledge about method of goal achievement, when we desire, is know as research methodology (Joshi; 2001:12-13). Research

methodology is the way to solve systematically about the research problem. (Kothati;1990:39)

3.1   Research Design

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

3.2 Population and sample

As the study concerns to the financial position of Nepal Telecom, the study tries to draw conclusion by analyzing yearly financial statement of the organization. Thus the entire fiscal years are considered as the population and the five years from 2005/006 to 2009/10 are taken as sample.

3.3 Types and sources of data

The main source of data for the purpose of this study is the published financial statements of Nepal Telecom. The study is thus mainly based on the secondary data. However a good effort has been made to draw the vital information by gathering and analyzing primary source of information. It constitutes mostly the annual reports, which comprises balance sheet and profit and loss account statement. Information has also been supplemented from various publication of Nepal Telecom. All other available published and unpublished material concerning the study as well as some journal abstracts will also be used in the study. The data has been processed through editing, coding and classification of the collected data. Present data have been analyzed using various analytical as well as descriptive financial and statistical tools. The reliability of the study and its findings depends upon the mainly on secondary data and partially on primary information.

The major sources of data and information are as follows:

- ➢ Website of Nepal Telecom: http://www.ntc.net.np
- ➢ Annual Reports and other published documents of Nepal Telecom.
- ➢ Various Planning Documents, National Planning Commission
- ➢ Telephone inquiries
- ➢ Materials published in paper and magazines.
- ➢ Various Research Studies, Dissertations and articles related to the subject.
- ➢ Various journals related with finance companies.
- ➢ Other related books and booklets.

3.4 Data Collection Procedure

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

3.5 Data processing

The balance sheet, income statements and the profit and loss accounts of the company for 5 years create since 2005/2006 to 2009/10 are collected for the convenience of the study. Then all the raw data are processed and presented in tabular form with the help of simple arithmatic rules. Entire raw data are converted into approximate and condensed in the form of consolidated balance sheet and income statement. Most of the data have been compiled in one form and processed and interpreted as per the need of the study. The secondary type of data is presented for the analytical purpose after the tabulation of data. This type of data processing will help to present the clear situation of financial position of Nepal Telecom.

3.6 Analytical Tools Used in the Study

Since the study is concentrated on Financial Performance of Nepal Telecom some important financial as well as statistical tools and techniques are used for the analysis. The major tool employed for the analysis of this study is the ratio analysis that establishes the quantitative relationship of two variables of the financial

statements. Ratio Analysis is the basic tool used for the study and is considered to be the powerful tool of financial analysis. Beside ratio analysis, various other financial tools and statistical tools have been studied.

3.6.1 Ratio Analysis

Ratio Analysis Ratio analysis is a widely used tool of financial analysis. Ratio analysis is a powerful and important tool of financial analysis, which helps in identifying the health of the organization. In other words, Ratio analysis helps the analyst make qualitative judgment on the firm's financial position as well as performance.

It presents the actual situation of the organization. It provides guideline especially in spotting trend towards better or poor performance. Since financial efficiency is vital element to achieve the goal, the management should be aware of the current financial position. If present condition can be assessed correctly, then the management can predict the future position, and take corrective actions to improve the financial position. So it is very important for any organization to analyze its financial position with the help of ratio analysis.

Ratio analysis helps in identifying the strengths & weaknesses of the organization. Through Ratio analysis, one can meaningfully summarize the large quantities of financial data to make qualitative judgment about the firm's financial performance as well as financial position. The financial Ratio is simply the relationship between two figures taken mainly from the financial statements of a business firm. Mathematically, Ratio refers to the numerical or quantitative quotient between

two variables. A Ratio is calculated by dividing one item of the financial statement with other. The primary purpose of Ratio is to point out areas of further investigation. Ratio analysis is used as a major tool in interpreting and evaluating financial statements.

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

3.6.1.2 Types of Ratio Used

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

A) Liquidity Ratio

B) Turnover Ratio/Assets Management Ratio / Activity Ratio

C) Profitability Ratio

D)Leverage/ Solvency Ratio/ Debt Management Ratio

A. Liquidity Ratio

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

II. Current Ratio

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

Current Ratio = Currents/ Current Liabilities

II. Quick Ratio

The Quick Ratio is calculated by deducting inventories from current assets and dividing the remainder by current liabilities. Generally, quick assets mean those types of assets that can be converted into cash quickly without any loss in value. So cash is considered the most liquid or quick asset and other quick assets include sundry debtors, bills receivables, marketable securities etc. Inventories are typically the least liquid of the firm's current assets and the assets on which losses are most likely to occur in the event of liquidation. Therefore, the measure of the firm's ability to pay off short term obligation without relying on the sale of inventories is important.

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

OR

Quick Raio = Quick Assets / Current Liabilities

B. Activity Ratios

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

I. Inventory Turn Over Ratio

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

Inventory Turnover = Cost of Good Sold / Average Inventory

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

Inventory Turn Over Rato = Sales / Inventor

Where, Average inventory is the closing balance of inventory.

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

Average Age of Inventory = 360 / Inventory Turnover Ratio

II. Debtors (Account Receivable) Turn Over Ratio

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

Debtors Turnover Ratio = Credit Sales / Average Debtors

OR

Debtors Turnover Ratio = Sales / Debtors

III. Average Collection Period (ACP)

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

ACP = Debtors / Average Credit Sales Per Day

OR

ACP = Debtors*360 / Credit Sales

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

ACP = Debtors/ Average Sales Per Day

Or

ACP = Debtors*360 / Sales

IV. Assets Turnover Ratios

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

V. Working Capital Turnover Ratio

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

Working Capital Turnover = Sales / Net Working Capital

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

C. Profitability Ratios

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

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

Profitability Ratios Related To sales:

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

I. Net Profit Margin

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

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

Some Scholars does not consider interest charges as the expenses of the firm in computing Net Profit Margin. To exclude the effect of financing charges on

profitability, they used the following alternative formula for computing Net Profit Margin Ratio:

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

II. Operating Expenses Ratio

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

Operating Expenses Ratio = Operating Expenses / Sales

Profitability Ratios Related To Investments:

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

- Return on Assets
- Return on Capital Employed
- Return on Shareholders' Equity.

III. Return on Assets (ROA)

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

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

V. Return on Equity (ROE)

Common or ordinary shareholders are entitled to the residual profits. "While the ROCE expresses the profitability of a firm in relation to the funds supplied by the creditors and owners taken together, the Return on Shareholders' Equity measures exclusively the return on the owners' fund."(Khan, 3Ed: 4). A Return on Shareholders' Equity is calculated to see the profitability of owners' investment. The shareholders' equity or net worth will include paid - up share capital, share premium and reserves and surplus less accumulated losses. Net worth can also be found by subtracting total liabilities from total assets. It is computed as net profit after taxes divided by shareholders' equity.

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

D. Leverage Ratios

Leverage Ratios measure the firm's ability to meet its long - term obligations. These also indicate how much levered the firm is. In other words, from Leverage

Ratios, one can easily know, how much long - term debt is being used in the company and whether the company will be able to pay the debt or not when due. The Leverage Ratios are the main concern of long - term outside creditors such as debenture holders, banks, and financial institutions etc. "The short term creditors like bankers and suppliers of raw materials are more concerned with the firm's current debt paying ability. On the other hand, long term creditors, like debenture holders, financial institutions, etc. are more concerned with the firm's long term financial strength."(Pandey, 7Ed: 211) So Leverage Ratios are calculated to judge the long-term financial position of the firm. Some basic types of Leverage Ratios are:

I. Debt Ratio

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

Debt Ratio = Total Debt/ Total Assets

II. Debt Equity Ratio

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

Debt Equity Ratio = Total Debt / Net Worth

3.6.2 Statistical Analysis

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

⎰ **Correlation Analysis**

3.6.2.1Correlation Analysis

Correlation Analysis intends to measure the relationship between two variables. This analysis describes not only the magnitude of relationship but also its direction. Regression Analysis intends to use the relationship between the known variables and the unknown variables to estimate and predict the values of unknown one. Correlation & Regression analysis of Gross Domestic Product (GDP) and Sales Revenue; Investment (Total Asset) and Profit; Sales Revenue and Cost; Investment (Total Asset) and Sales Revenue are presented in this study.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

This chapter highlights the financial position of Nepal Telecom. The tools used for the purpose of analysis have been discussed in detail in research methodology. Some financial and statistical tools have been used to evaluate the financial position of NT. The financial tool include ratio analysis between various variables whereas the statistical tools include Correlation analysis of the variables. The measure variables like assets, liabilities, sales, debt, equity are taken for the analysis. Moreover the variables affecting to the financial performance are also considered in the study. The analysis is made through the data presentation and various financial ratios reflecting the relationship among variables affecting financial performance.

4.2. Financial Analysis

The main objective of this study is to examine the financial position/performance of NTC. To meet this objective, it is essential to present, analyze and interpret data contained in annual reports of NTC. The annual reports include balance sheet and Income statement along with their supporting schedules. Analysis and interpretation of data is an attempt to find - out the implications and the significance of past activities/decisions in the light of present position and future prospect and to make suggestion for future action. In this study, the data are

presented, analyzed and interpreted on the basis of research questions. The analysis part begins with a brief overview of financial position/performance indicators of the firm.

The different types of tools and techniques that have been used to analyze the data are as follows:

➤ **Ratio Analysis**

➤ **Correlation Analysis**

RATIO ANALYSIS

Ratio Analysis will help us to analyse the financial position and financial performance of Nepal Telecom. The rationale of Ratio Analysis lies in the fact that it makes related information comparable. A single figure by itself has no meaning but when expressed in terms of a related figure, it yields significant inferences. Following are some of the ratios that will help us to analysis the financial position of Nepal Telecom.

4.2.1 Liquidity Ratio:

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

4.2.1.1 Current Ratio (CR)

The relationship between current assets and current liabilities is expressed by Current Ratio. Current Ratio is supposed to be around 2:1 but this standard should not be used rigidly. A higher Ratio here would imply that the company maintains a sound liquidity position from the short-term lenders' viewpoint and from the Corporation's own viewpoint. But a very high Ratio would indicate that a high amount of idle fund being invested in current assets or higher proportion of financing the current assets by dearer permanent sources.

Current Ratio (CR) = Current Assets / Current Liabilities

Table 1

Calculation of current ratio

(in thousand)

Year Order	Fiscal Year	Current Assets	Current Liabilities	Current Ratio
1	2005/06	20925639	4090353	5.116
2	2006/07	20598353	3858484	5.338
3	2007/08	22526522	4475753	5.033
4	2008/09	26370699	5712295	4.613
5	2009/10	27234800	7915501	3.440
Average current ratio				**4.708**

The table1 shows that the average Current Ratio is 4.708 times during the study period. The Ratio 4.708 on an average indicates that the Organization has current assets of Rs 4.708 for each rupee of current liabilities. As current liabilities are paid by the current assets, it seems that NTC will be able to pay its current liabilities at the time of requirement. It ranges between a highest of 5.338 times in F/Y 2006/07 AD and a lowest of 3.440 times in F/Y 2009/10. While comparing with the average, one finds that in F/Ys 2005/06 to 2007/08 AD the Ratio is higher than the average and for F/Ys 2008/09, 2009/10AD the Ratio is lower than the average.

4.2.1.2 Quick Ratio/ Acid Test Ratio

One defect of Current Ratio is that it fails to convey any information on the composition of the current assets of a firm. Quick Ratio is a measure of liquidity designed to overcome the defect of Current Ratio. The term quick refers to current assets which can be converted into cash immediately or at a short notice without diminution of value. The current assets excluded from this category are inventory and prepaid expenses. So, while calculating Quick Ratio for NTC, inventory is deducted from total current assets and divided by total current liabilities. Quick

Ratio is supposed to be around 1:1 but this standard also should be defined by the nature of the organization.

Quick ratio = Quick assets/Current liabilities

Table 2

Calculation of quick ratio

(Rs. in thousand)

Year Order	Fiscal Year	Current Liabilities	Quick Assets	Quick Ratio
1	2005/06	4090353	20624330	5.04
2	2006/07	3858484	20288496	5.26
3	2007/08	4475753	22197207	4.96
4	2008/09	5712295	26043015	4.56

	2009/ 10	7915501	26818376	3.39
5				
Average Quick Ratio				**4.642**

Source: Annual Reports of NTC

The table 2 shows that the average Quick Ratio is 4.642 times during the study period. The Ratio of 4.642, on an average, indicates that the Organization has quick assets of Rs 4.642 for each rupee of current liabilities. As average Current Ratio is 4.708 throughout the study period, we can see a little difference between these two Ratios (just about 0.066). It means that the least liquid item among the current assets, the inventory, has occupied a very nominal place as part of the total current assets of NTC. In this respect, NTC can be said to have a good liquidity position to fulfill its current obligations when they become due.

The table shows that the Ratio ranges between a highest of 5.26 times in F/Y2006/07 AD and a lowest of 3.39 times in F/Y 2009/10AD. While comparing with the average, one finds that in F/Ys 2005/06 to 2007/08AD the Ratio is higher than the average and in F/Ys 2008/09 and 2009/10 AD the Ratio is lower than the average.

4.2.2 TURNOVER RATIO / ACTIVITY RATIO

Funds of creditors and owners are invested in various assets to generate sales and profits. The better the management of assets, the larger will be the amount of sale. Activity Ratios are employed to evaluate the efficiency with which the firm

manages and utilizes its assets. These Ratios are also called Turnover Ratios because they indicate the speed with which assets are being converted or turned over into sales. So, it involves a relationship between sales and assets reflecting whether assets are managed well. Several Activity Ratios can be calculated to judge the effectiveness of assets utilization.

4.2.2.1 INVENTORY TURNOVER RATIO (ITR)

The Inventory Turnover Ratio (ITR) is the relation between the sales and the inventory of a firm. It indicates the efficiency with which the firm is able to use its inventory to generate sales revenues. Generally, the higher a firm's Inventory Turnover, the more efficient its inventory management is supposed to be. The Inventory Turnover is calculated by dividing sales by closing inventory.

Inventory Turnover Ratio = Sales/Inventory

Table 3

Calculation of inventory turnover ratio

(Rs.in thousand*)*

Year	Fiscal Year	Net Sales	Inventory	Inventory

Order				Turnover
1	2005/06	6070423	301309	20.23
2	2006/07	8584144	309857	27.71
3	2007/08	10413655	329315	31.62
4	2008/09	13524658	327684	41.27
5	2009/10	16788360	416424	40.23
Average Inventory Turnover Ratio				**32.23**

Source: Annual Reports of NTC

Table 3 shows that the average of the Inventory Turnover Ratio of NTC for the past five years is 32.23 times. The average Ratio of 32.23 indicates that each rupee of inventory is generating sales of Rs. 32.23. It ranges between a highest of 41.27 times in F/Y 2008/2009AD and a lowest of 20.23 times in F/Y2005/06 A.D . But for the last years, the Ratio is increasing continuously. And since a high Ratio is good from the view point of inventory utilization, the increasing Ratio seems favorable for NTC.

4.2.2.2 Average Age of Inventory

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

Average age of inventory = 360 / inventory turnover ratio

Table 4

Calculation of Average Age of Inventory (days)

Fiscal Year	Inventory Turnover	Average Age of Inventory
2005/06	20.23	18
2006/07	27.71	13
2007/08	31.62	12
2008/09	41.27	9
2009/10	40.23	9
Average		12

Source: Annual Reports of NTC

Table 4 shows that the Average Age of Inventory of NTC for the study period is 12 days. The average value of 12 indicates that an item of inventory purchased by the firm remains in the gowdam for 12 days before being released for sale or service to its customers (i.e. a typical item of inventory in the store is replaced every 21th day. The Average Age ranges between a highest of 18 days in F/Y 2005/06 AD and a lowest of 9days in F/Y 2008/2009AD.& 2009/10. we can find that the Average

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

4.2.2.3 Debtors Turnover Ratio (DTR)

The Debtors Turnover Ratio (DTR) is the relation between the sales and the receivables of a firm. The analysis of Debtors Turnover Ratio supplements the information regarding the liquidity of one item of current assets of the firm. It indicates the efficiency with which the firm is able to turn its credit sales into cash. Generally, the higher a firm's Debtors Turnover, the more efficient its credit management is supposed to be and vice versa. The Debtors Turnover is calculated by dividing sales by closing sundry debtors. **Debtors Turnover Ratio= Sales / Debtors**

Table 5

Calculation of Debtors Turnover Ratio   (Rs. in thousands)

Year Order	Fiscal Year	Sales	Debtors	Debtors Turnover
1	2005/06	6070423	2610352	2.33
2	2006/07	8584144	2825943	3.04
3	2007/08	10413655	3099496	3.36
4	2008/09	13524368	3455512	3.91
5	2009/10	16788360	3482610	4.82

Source: Annual Reports of NTC

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Table 5 shows that the average DTR of NTC for the past five years is 3.49 times. The average Ratio of 3.49 indicates that each rupee of investment in receivables is generating sales of Rs. 3.49. It ranges between a highest of 4.82 times in F/Y 2009/2010AD and a lowest of 2.33 times in F/Y 2005/06AD. The overall trend of the Ratio does not show any specific direction. The Ratio seems to be mildly volatile over time but it has shown marked improvements over the most recent years of the study period which, if maintained, can be a very good sign for the credit collection of the NTC. While comparing with the average, one finds that from F/Y 2008/09, 2009/10, the Ratio is higher than the average and for F/Ys 2005/06 to 20007/08 AD the Ratio is lower than the average.

4.2.2.4 Average Collection Period (ACP)

The average number of days through which debtors remains outstanding is called Average Collection Period. Average Collection Period is just an alternate method of expressing the turnover efficiency of the receivables. Lesser the time the receivables remains due, better it is supposed to be. The Average Collection Period is calculated by dividing 360 by Debtors Turnover Ratio.

Average Collection Period(ACP) = Debtors*360 /Sales

Table 6

Calculation of Average Collection Period

(Rs. in thousand**)**

Year Order	Fiscal Year	Sales	Debtors	ACP (Days)
1	2005/06	6070423	2610352	155
2	2006/07	8584144	2825943	119
3	2007/08	10413655	3099496	108
4	2008/09	13524368	3455512	92
5	2009/10	16788360	3482610	75
5-Yearly Average				*102*

Source: Annual Reports of NTC

Table 6 shows that the Average Collection Period of NTC over the five years of study period is 102 days. The average value of102 indicates that an invoice of credit receivable remains outstanding for 102 days before being collected from the customers (i.e. a typical debtor of NTC pays his/her dues 102 days after the purchase of goods/consumption of service). The ACP ranges between a highest of 155 days in F/Y 2006/2007 and a lowest of 75 days in F/Y 2009/2010 A D. While comparing with the average, one finds that from F/Y 2005/06 to 2006/07 and 2007/08, the values are higher than the average and for F/Ys 2008/09 and 2009/10; the values are lower than the average.. And since a lower value is good from the view point of collection efficiency, the decreasing value may be a good indication for NTC in coming years.

4.2.2.5 Total Assets Turnover Ratio

The Total Assets Turnover (TATR) is the relation between the sales and the total assets of a firm. It indicates the efficiency with which the firm is able to use all its assets to generate sales revenues. Generally, the higher a firm's Total Assets Turnover, the more efficiently its assets said to be. The Total Assets Turnover is calculated by dividing sales by total assets.

Total Assets Turnover Ratio (TATA) = Sales / Total assets

Table 7

Calculation of Total Assets Turnover Ratio

Year Order	Fiscal Year	Total Sales	Total Assets	TA Turnover
1	2005/06	6070423	20591636	0.294
2	2006/07	8584144	20850094	0.411
3	2007/08	10413655	23686026	0.439
4	2008/09	13524368	29485961	0.458
5	2009/10	16788360	35343894	0.475
Average of Total Assets Turnover				**0.4154**

Source: Annual Reports of NTC

Where, Total Assets = Current Assets + Total fixed Assets

Table 7 shows that the average of the TATR Ratio of NTC for past five years is 0..4154

times which is lower then the general standard average of at least 1.00 times for this line of business.. The average Ratio of 0.4154 indicates that each rupee of investment in assets is generating sales of Rs. 0.4154. Though the Inventory Turnover Ratio is mildly volatile over time, but for the last 3-4 years, the Ratio is increasing continuously which should be the good cause of concern for the NTC.

4.2.2.7 Working Capital Turnover Ratio (WCT)

The Working Capital Turnover (WCT) Ratio measures the efficiency with which the firm has been using its net current assets (revolving assets) to generate sales. This Ratio shows the relation between sales and net current assets of a firm. Generally, higher turnover is preferred because it reflects greater efficiency in the utilization of net current assets. Working capital here means only that part of current assets which is financed by the long term sources. The Working Capital Turnover is calculated by dividing the firm's sales by its net working capital.

Working Capital Turnover Ratio(WCT) = Sales / Net working capital

Table 8

Calculation of Working Capital Turnover ratio

(Rs. in thousands)

Year Order	Fiscal Year	Operating Sales	Net WC	WC Turnover
1	2005/06	6070423	16835286	0.36
2	2006/07	8584144	16739869	0.51
3	2007/08	10413655	18050769	0.58
4	2008/09	13524658	20330720	0.67
5	2009/10	16788360	18902875	0.89
Average of Working Capital (WC) Turnover				**0.60**

Source: Annual Reports of NTC

Table 8 shows that the average of the WCT Ratio of NTC for past five years is 0.60 times. The ratio seems to be increasing as it ranges The average Ratio of 0.60 indicates that each rupee of investment in working capital is generating sales of Rs. 0.60. It means that for the 5 years, the Ratio is increasing continuously which should be the real cause of concern for the NTC. Unless the firm generates sufficient volume the further investment in current assets will not be justified.

4.2.3 Leverage Ratios

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

4.2.3.1 Total Debt Ratio (TDR)

The relationship between creditors' funds and total assets is known as proprietary Ratio. This Ratio measures the proportion of total assets financed by owners' funds. This Ratio intends to show the long-term financial composition/strength of the company. Higher Ratio means high financial risk and lower Ratio means not-proper utilization of leverage benefit. So, an average position between the two extremes is favourable .It is calculated by dividing total liabilities by total assets..

Total Debt Ratio = Total debt / Total assets

Total Debt = Current liabilities + Long term debt

Table 9

Calculation of Total Debt Ratio

(Rs. in thousand)

Year Order	Fiscal Year	Total Debt	Total Assets	Total Debt Ratio
1	2005/06	6810458	20591636	0.330
2	2006/07	8354409	20850094	0.400
3	2007/08	10371127	23686026	0.437
4	2008/09	12640965	29485961	0.428
5	2009/10	14746917	35343894	0.417
Average of Total Debt Ratio				**0.4024**

Source: Annual Reports of NTC

Table 9 Shows Total Debt to Total Asset Ratio of NTC from F/Y 2005/06 to F/Y 2009/10 AD is presented. Baring the F/Y 2005/06, the actual value of the ratio during each of the successive years of the period seems to be increasing. The

average ratio for the five t-year period indicates that the creditors have contributed just around 40 % of the fund requirement of the business. It seems that in recent years the Corporation, recognizing the risk and utilising the surplus profit, has increased the debt.

4.2.4 Profitability Ratio

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

Profit is the difference between revenues and expenses over a period of time. Profit is the ultimate 'output' of a company, and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of the company in terms of profits. The profitability Ratio is calculated to measure the operating efficiency of the company. Creditors and

owners both are interested in the profitability of the firm. If company is making profits regularly, creditors will also be assured of getting their dues on time.

4.2.4.1 Net Profit Margin (NPM)

The Net Profit Margin measures the relationship between profit and sales and indicates management's efficiency in manufacturing, administering and selling the product. This Ratio is the overall measure of the firm's ability to turn each rupee sales into net profit. A high Net Profit Margin would ensure adequate return to the owners as well as enable the firm to withstand adverse economic conditions. A low Net Profit Margin has the opposite implications. However, a firm with low Net Profit Margin can earn a high rate of return on investment if it has a higher Inventory Turnover. The Net Profit Margin is measured by dividing profit after taxes by sales.

Net Profit Margin = Net Profit after Tax / Sales

Table 10

Calculation of net profit margin ratio

(Rs. in thousand)

Year Order	Fiscal Year	NPAT	Total Sales	NP Margin %
1	2005/06	2247301	6070423	37.07
2	2006/07	3542461	8584144	41.3
3	2007/08	4936647	10413655	47.4

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4	2008/09	5652689	13524658	41.08
5	2009/10	7942902	16788360	47.31
Average of Net Profit Margin Ratio				**42.40**

Source: Annual Reports of NTC

Table10 shows that the average of the NPM Ratio of NTC for past five years is 42.40%. The Ratio seems to be stable barring over the study period. The average Ratio of 0.4240 times indicates that each rupee sales is contributing 0.4240 paisa for rewarding the owners. The overall Ratio Trend shows a small swing in either direction of the Ratio within the range of 37.07% to 47.31% over the five year period. The computations show that the Net Profit Margin upon sales is favorable. With the low Turnover Ratio, further decline in NPM is sure to have a negative impact on the equity holders' return.

4.2.4.3 Operating Expenses Ratio (OE)

Operating expenses constitute service/product costs, administrative costs and selling costs. The Operating Expenses Ratio indicates the average aggregate variation in expense. In general, higher Operating Expenses Ratio means inefficiency due to higher operating cost relative to Sales. A lower Operating Expenses Ratio is favorable since it will leave a higher amount of operating income to meet interest, taxes, bonus, dividend and plough back of profit in the firm. It is measured by dividing operating expenses by sales.

Operating Expenses Ratio(OE) = Operating Expenses / Sales

Table 11

Calculation of operating expenses ratio

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Year Order	Fiscal Year	Opt. Expenses	Total Sales	Opt Exp. Ratio
1	2005/06	3302767	6070423	0.5453
2	2006/07	4272768	8584144	0.4978
3	2007/08	4215188	10413655	0.4048
4	2008/09	6153251	13524658	0.4550
5	2009/10	7017854	16788360	0.4180
Average of Operating Expenses Ratio				**0.46418**

Source: Annual Reports of NTC

Table 11 shows that the average OE Ratio of NTC for past five years is 46.41% which is lower than the general standard average of around 50% for this line of business. . The average Ratio of 46.41 indicates that the firm incurs a cost of 46.41 paisa for each rupee of sales it generates. Barring F/Y 2005/06, the Ratio is increasing on year to year basis.. Though the operating expense Ratio is relatively stable over time, but for the last 3-4 years, the Ratio is increasing continuously which should be the real cause of concern for the NTC. Unless the firm takes measures to tame the operating expenses, the situation may go out of control.

4.2.4.4 Return on Assets Ratio (ROI)

Here the profitability is measured in terms of profit and the assets. The ROA is also called return on investment (ROI). The conventional approach of calculating ROA/ ROI is to divide NPAT by investment/assets. Assets represent pool of funds

supplied by shareholders and lenders, while NPAT represents residue income of the owners. Therefore, it is conceptually unsound to use NPAT in the calculation of ROA. Secondly, NPAT is affected by the capital structure. It is therefore more appropriate to use the following formula to compute the ROA/ROI.

Return on Assets = NPAT / Total assets

NPAT = Net profit after tax

<div align="center">

Table 12

Calculation of Return on Asset

(Rs. in thousand)

</div>

Year Order	Fiscal Year	NPAT	Total Assets	ROA %
1	2005/06	2247301	20591636	6.89
2	2006/07	3542461	20850094	9.96
3	2007/08	4936647	23686026	12.55
4	2008/09	5652689	29485961	19.17
5	2009/10	7942902	35343894	22.47
Average of Return on Assets				**14.21**

Source: Annual Reports of NTC

Table 12 shows that the average ROA of NTC for the study period is 14.21%. The average Ratio of 14.21% indicates that each 100 rupees of investment in assets is generating a profit of Rs. 14.21..

4.2.4.6 Return on Equity (ROE)

The Return on Shareholders' Equity (ROSE) {or simply Return on Equity (ROE)} indicates how well the company's management is able to provide return to its owners. The return on common stock is not fixed. The residue of the earnings, on which the stockholders have claim, may be distributed to them or retained in the business. Nevertheless, the net profit after taxes represents their return. The shareholders' equity includes the total of equity capital, reserve & surplus minus deferred expenditure. ROE is regarded as an important measure because it reflects the productivity of shareholders' capitals well as the operational efficiency of management. We use the following formula to calculate ROE.

Return on Equity (ROE) = Net profit after tax (NPAT) / Net worth

Table 13

Calculation of return on equity ratio

(Rs. in thousands)

Year Order	Fiscal Year	NPAT	NET WORTH	ROE %
1	2005/06	2247301	20757100	10.84
2	2006/07	3542461	20580387	17.21
3	2007/08	4936647	23686027	20.84
4	2008/09	5652689	28294280	19.98

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5	2009/10	7942902	35343849	22.47
Average of Return on Equity (ROE) Ratio				**18.27**

Source: Annual Reports of NTC

The table 13 shows the ROE of NTC for past 5 years. The average Ratio for the 5-year period is around 18.27% which indicates that the equity holders of NTC earned 18.27 paisa of return on their investment of Re. 1.00 over the last 5 years, on average. It is obvious from the table that after the initial 2 years of the study period the average ROE for the final of the 3 years has been satisfactory movement toward positive. NTC has to take measures to make the Ratio more stable in future which should increase the confidence of the owners.

4.3 Statistical Analysis

4.3.1 Correlation Analysis

Correlation Analysis intends to measure the relationship between two variables. This analysis describes not only the magnitude of relationship but also its direction.. Correlation analysis of Gross Domestic Product (GDP) and Sales Revenue; Investment (Total Asset) and Profit; Sales Revenue and Cost; Investment (Total Asset) and Sales Revenue are presented in this study.

4.3.1.1 Correlation analysis of Gross Domestic Product (GDP) and Sales Revenue

The relationship between Gross Domestic Product (GDP) and Sales Revenue is measured and tested by Karl Pearson's Co-efficient of Correlation. A positive Correlation here would imply that the company maintains a stable growth in its revenue with the growth in the economy as a whole. Insignificant or negative value would point out the weakness of management to expand and grow the Organization in the tune of the economic growth. The Regression Equation would develop a function using which we can predict what the likely Sales Revenue will be in the coming years with a given GDP estimates.

Table 14

Computation of Correlation Co - efficients from

the variables GDP and Sales Revenue

(in ten millions of Rs.)

Fiscal Year	GDP Rs (X)	Sales Rs (Y)
2005/06	39.4052	60.70423
2006/07	40.6138	85.84144
2007/08	43.7546	104.13655
2008/09	47.4919	135.24658
2009/10	50.8651	167.88360

	Σ	222.1306	379.075

Summary of Computations

r **=** 0..96331

The value of r is found to be 0.96 which means that there exists a high degree of positive Correlation between GDP and Sales Volume i.e. the two variables increase/decrease strongly in the same direction..

4.3.1.1 Correlation Analysis of Investments (Total Assets) and Profit

The relationship between Investment and Profit is measured and tested by Karl Pearson's Co-efficient of Correlation. A positive Correlation here would imply that the Corporation maintains a stable growth (or decline) in its Profit in line with its Investment increase (or decrease). Insignificant or negative value would point out the weakness of management to keep the Profit in line with the Investments i.e. it points to the fact that the Corporation's expansion may not be giving desirable results. The Regression Equation would develop a function using which we can predict what the size of profit would be in the coming years with a planned additional investment in Assets.

Table 15

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

(Thousands)

Fiscal Year	Investments (X)	Profit (Y)
2005/06	20591636	2247301
2006/07	20850094	3542461
2007/08	23686026	4936647
2008/09	29485961	5652689
2009/10	35343894	7942902
Σ		

Source: Annual Reports of NTC

Summary of Computations

r   = . **0.9545251**

The value of r is found to be 0.95 which implies that there exists a high degree of positive Correlation between Total Investments and Total Profit. This means the two variables move in the same direction; i.e. if Total Investment increases then Total Profit also increase and vice-versa. means that there is significant degree of positive Correlation between the variables i.e. the value of r is significant. Hence, the relationship between Total Investments and Total Profit is that of a cause and effect one.

4.3.1.2 Correlation Analysis of sales revenue and Total Cost

The relationship between Sales Revenue and Cost is measured and tested by Karl Pearson's Co-efficient of Correlation. A positive Correlation here would imply that most of the Costs of NTC are of variable nature. A low positive Correlation would imply that the average Cost would go down as the volume expands. A negative Correlation, which is highly unlikely, would point out that Cost of NTC decreases with the increase in Sales Volume and vice versa. The Regression Equation would develop a function, with the help of which, we can predict what the amount of Cost would be in the coming years with various predicted Sales Levels.

Table 16

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

(In ten million of Rs.)

Fiscal	Total Sales Revenue	Total Costs (Y)

Year	(X)	
2005/06	60.70423	36.46651
2006/07	85.84144	40.88062
2007/08	104.13655	45.81502
2008/09	135.24658	55.64917
2009/10	167.88360	56.51836
Σ		**235.32968**

(Data source: Audited financial Reports of NTC)

SUMMARY OF COMPUTATIONS

r = 0.969257

The value of r is found to be 0.97 which implies that there exists a high degree of positive Correlation between Sales Revenue and Cost. This means the two variables move in the same direction; i.e. if Sales Revenue increases then Cost also increases, and vice-versa means that there is significant degree of positive Correlation between the variables i.e. the value of r is significant. Hence, the relationship between Total Costs and Total Sales Revenue is that of a cause and affect one.

4.4 Major Findings

) There is no serious liquidity problem in NTC. The Average current Ratio of NTC is 4.708 times. The current assets of NTC are greater than current

liabilities in each fiscal year. It shows the better liquidity position of NTC. But it does not mean that there is not any liquidity problem in NTC.

) The Quick Ratio of NTC is 4.642 times. The quick assets of NTC are greater than current liabilities in each fiscal year. It also shows the better liquidity position of NTC.

) Average Age of Inventory is showing decreasing tendency over time,. So NTC has better efficiency of inventory utilization.

) The Total Assets Turnover (TATR) is the relation between the sales and the total assets of a firm. Ratio is increasing continuously which should be the good cause of concern for the NTC. It indicates the efficiency with which the firm is able to use all its assets to generate sales revenue.

) Average Collection period is showing decreasing tendency over the study period. So NTC has good collection efficiency.

) Average Inventory Turnover Ratio of NTC for the past five years is 32.23 times. The average Ratio of 32.23 indicates that each rupee of inventory is generating sales of Rs. 32.23. Ratio is increasing continuously. High Ratio is good from the view point of inventory utilization, the increasing Ratio seems favorable for NTC.

) Working capital turnover ratio is increasing continuously which should be the real cause of concern for the NTC. higher turnover is preferred because it reflects greater efficiency in the utilization of net current assets.

- Total Debt Ratio (TDR) is increasing continuously, It shows the long-term financial composition/strength of the company. It means NTC has high financial risk.

- This research has used Profitability Ratios to judge the overall effectiveness of the firm. The first three Ratios use sales as a base to measure performance, while the other three use investment/capital as a base to measure performance. The profitability position shown by the first type of Ratios seems good. The profit margin are good, operating costs proportion are decreasing., the situation may go control.

- GDP and sales indicate the relationship of volume with that of the expansion of economy. Correlation between GDP & Sales is 0.96 The higher degree of Correlation between GDP and sales points out to the fact that the volume of NTC is going to be up as the nation become more and more affluent..

- Correlation between total investment & Total profit is 0 .95 which is high degree positive correlation which means two variable move in same direction, ie total investment increase than total profit also increase.

- Correlation between total investment and total Sales is 0.97 which is high degree positive correlation which means two variable move in same direction It means that an increase in investment would definitely increase sales.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Telecommunication is an inevitable infrastructure of development to all countries. It is considered as prerequisite for he other dimension of development. In Nepal the need of telecommunication services are primarily fulfilled by Nepal Telecom.

Introduction of liberalized economic policy in Nepal gradually facilitated the private sector investment as a result multinational companies also showed their presence. Further more public enterprises started to be privatized. Such trend couldn't also remain intact without influencing Nepal Telecommunications Corporation. Hence Nepal Telecommunications Corporation has been changed to Nepal Doorsanchar Company limited in 2061 BS under the company act. It's popularly known commercial name is "Nepal Telecom". Although Nepal Telecom has been recently established under the company act and its 100% ownership has been held by Nepal Government by receiving the entire investment from government.

As financial health is the key indicator of the success and failure of the organization. Different financial indicator show to what extent would the organization is capable to meet the expectations of various stakeholders of the company. In the light of this main issue of the study has focused to evaluate the financial performance of Nepal Telecom on the basis of latest available information. Financial Analysis and planning function is not a decision- making in itself rather it is an ancillary service, which helps in planning for those two

decisions and evaluating the outcome of those two decisions and recommending necessary rectifying measures.

To make the study significant, ratio analysis and trend analysis, income and expense analysis, correlation analysis have been carried out regarding the major variables of NTC. Before the analysis of such financial and statistical tools the details of the same has been explained in the chapter namely literature review and for the mathematical calculations research methodology has been carried out. On basis of the analysis we will conclude our findings and try to provide some relevant recommendations to the management of NTC so that they can apply those recommendations if they deem appropriate.

Nepal Telecom as a state owned enterprise has involved in providing the cost effective and people friendly telecom services in the nation since long time. The organization has enjoyed monopoly in the telecom market and got policy privilege during long period. Even thought, with the up coming of private sectors telecom, Nepal Telecom has been able to maintain its profit growth. Nepal Telecom is financially performing well. It has able to use its assets in an effective manner providing a huge return to the government.

5.2 Conclusion

Nepal Telecom has better performance than other state owned enterprise of Nepal, in the sense that it is such a state owned enterprise, which is operating under the net profit margin since the establishment of NTC. Financial statement of the company shows that the Gross Revenue as well as Net Profit has increased to a tune of higher rate. The overall short-term solvency position of NTC is satisfactory. Perhaps, because of the service nature of its operation, NTC has maintained low level of inventory compared with other current assets components.

There seems to be laxity in management in efficiently mobilizing the working capital. Fixed Assets Turnover/utilization seems to be improving over time. But it is still far below 1.00 which should make management not to be complacent. The performance of current assets in terms of volume generation was so poor over time that the improvement in performance of fixed assets could not compensate it. That's why the Total Assets Turnover is poor and fluctuating.

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

Solvency position, short-term as well as long -term, is good and the direction of the Ratios which indicate these positions is positive particularly from the viewpoint of the lenders. But when it comes to resource employment position, it can be safely said that the turnovers generated by the assets are not satisfactory.

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

The relation between the Investment and profit indicates the profitability on investment. High and significant Correlation between investment and profit points to the fact that additional investment, on aggregate; by rupee 1 will lead to increase in profit by just 10 paisa. So, a typical investment project, NTC is expected to initiate, can expect to earn around 10% Return on Investment, approximately equal to the 5 years average ROI.

Overall the company is able to perform well. The general faith of people on the government telecom will drive the profit of the business in upward trend. Because of its low price of calls, and effective reach it will prove to be one of the best

earning company for the government. If the management is managed properly, this company should and will provide a huge return to the government and its shareholders (once the company go public).

5.3 Recommendations

The following recommendations are in order NTC's management on improving its financial position and performance addressed by this study.

⟩ NT being a service oriented firm, does not need s higher liquidity position. Thus company should stabiles its current ratio near 1:1. Large amount of fund tied up in current assets may bypass the opportunity cost so it is better to invest such excess amount in fixed assets to increase its capacity.

⟩ Average collection period of NTC is very poor.. On average, it takes more than 4 months to collect a typical account, so the collection effort needed to be intensified by providing attractive packages to the customers, providing more authority and accountability to the concerned officers so that ACP can be reduced to more manageable level.

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

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

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

) Though Fixed Assets Turnover is increasing over time, it is still far below 1.00 times barrier. So, NTC management should be careful in future not to undertake capital intensive investment projects if they fail to generate sufficient volume. And the Fixed assets Turnover could be increased to some extent if the company runs in installed capacity of the equipment as far as possible.

) Given the high risk perception on most part of the countryside where the key communication towers and related structures are situated, NTC should buy enough insurance for all of these structures. So that it does not

suffer from huge losses even if the facilities/structures are destroyed. The past experience of the management of not buying enough insurance for those valuable structures should have taught a good lesson to them.

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

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

∫ The Organization should impart professional management on its top hierarchy. Given the tough competition emanating from the private sector, the Organization should resist unnecessary political interferences in managing its day to day operations. It should seek freedom to decide on its own under the broad guidelines given by the government.

∫ The delay of Share distribution to the public may cause that the organization would not face stiff competition in future due to government

intervention in decision making. So the organization should issue share timely. As the organization have largest issued capital in the amount yet not distributed by any single company in Nepal. The proper regulation and procedure should be followed so as to avoid speculation and wrong interest of any party

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http://www.ntc.net.np

http//www.edunepal.com.np

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

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

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

$$r = \frac{5 * 25397.39 - 222.130 * 553.8107}{[\sqrt{5 * 995944.63 - (222.13)^2}] * [\sqrt{5 * 68375.88 - (553.81)^2}]}$$

r = 0.96331

APPENDIX 2: Co-efficient of Correlation of Total Assets and Profit:

$$\text{N}\sum\text{XY} - \sum\text{X}\sum\text{Y}$$

r = -------------------------

$$\sqrt{} \; [\text{N}\sum\text{X}^2 - (\sum\text{X})^2] \; [\text{N}\sum\text{Y}^2 - (\sum\text{Y})^2]$$

$$5 * 6844.73 - 1299.5 * 243.19$$

r=--

$$[\sqrt{}5*3588.109345-(1299.5)^2]*[\sqrt{}5*1370.1243-(243.19)^2]$$

r = 0.9545

APPENDIX 3: Co-efficient of Correlation of Sales Revenue and Total Cost:

$$N\sum XY - \sum X\sum Y$$

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

$$r = \frac{5 * 27508.80 - 553.81 * 235.329}{[\sqrt{5*68375.80-(553.38)^2} * \sqrt{5 *11391.1999 - (235.329)^2}]}$$

r = 0.969257