

**FINANCIAL ANALYSIS OF PUBLIC COMPANY AND ITS  
CONTRIBUTION TO NEPALESE ECONOMY: A CASE STUDY OF  
NEPAL TELECOM**

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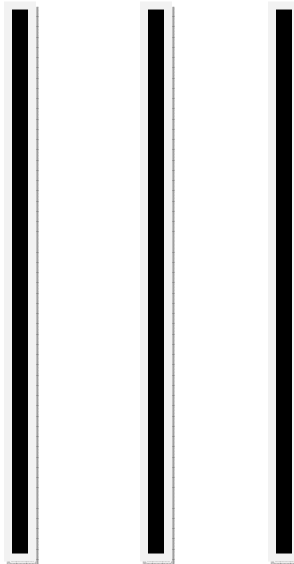
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## **1. INTRODUCTION**

### **1.1. Background of the Study**

Nepal Telecom has always put its endeavors in providing its valued customers a quality service since its inception. To achieve this goal, technologies best meeting the interest of its customers have always been selected. The nationwide reach of the organization, from urban areas to the economically nonviable most remote locations, is the result of all these efforts that makes this organization different from others.

In Nepal, operating any form of telecommunication service dates back to B.S. 1973. But formally telecom service was provided mainly after the establishment of MOHAN AKASHWANI in B.S. 2005. Later as per the plan formulated in First National Five year plan (2012-2017), Telecommunication Department was established in B.S. 2016. To modernize the telecommunications services and to expand the services, during third five-year plan (2023-2028), Telecommunication Department was converted into Telecommunications Development Board in B.S. 2026. After the enactment of Communications Corporation Act 2028, it was formally established as a fully owned Government Corporation called Nepal Telecommunications Corporation in B.S. 2032 for the purpose of providing telecommunications services. After serving the nation for 29 years with great pride and a sense of accomplishment, Nepal Telecommunication Corporation was transformed into Nepal Doorsanchar Company Limited (NDCL) from Baisakh 1, 2061. Nepal Doorsanchar company Limited is a company registered under the Company Act 2053. However, the company is known to the general public by the brand name "Nepal Telecom" as its registered trademark.

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

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

Converting Nepal Telecom from a government owned monopoly to a business oriented, customer focused company in the competitive environment, Nepal Telecom invites all the shareholders in the sacred work of nation building.

## **1.2. Statement of the Problem**

Nepal telecom is one of the major public enterprises in Nepal. It has an immense role in the infrastructure development of the overall country. But currently the company is mired in fee burden and loss of revenue. It is also facing the brunt of soaring cost and changes in the tax regimen.

Nepal Telecom saw its net profit tumble 42 percent year-on-year for the fiscal year 2018-19 ended July 16, which it attributed to a steep license fee, foreign exchange losses, and falling revenues caused by changing consumer tastes and preferences.

A consolidated interim financial report released by the state-owned telecom shows that the net profit plunged to Rs10.20 billion in fiscal 2018-19 from Rs17.48 billion in fiscal 2017-18 after it was obligated to shell out Rs4.02 billion for the second renewal of its license which had expired in 2014. Things are not looking bright for the state-owned utility as it still has to pay around Rs16 billion in pending license fees to the regulator, the Nepal Telecommunications Authority. And as the second renewal has also expired in May, there is uncertainty over fees for a third renewal.

The state-owned telecom operator had received approval to sell GSM services in 1999. At the time, no fixed charges were set for approval and renewal fees, and the telecom company had agreed to pay the amount which would be paid by other service providers in the future.

The decline in net profit is also attributed to a fall in revenue as the telecom operator recorded Rs36.78 billion in total income in the last fiscal, a drop of Rs2.24 billion compared to revenues of Rs39.02 billion in the fiscal year 2017-18.

The decline, despite a growth in subscriptions, has been attributed to growing use of over-the-top messaging services like WhatsApp and Facebook Messenger over long distance and domestic voice calls, and slow growth of labour migration in key employment destinations. Earlier, long distance voice calls contributed a major chunk of

its revenue. But times have changed. In recent years, due to the popularity of over-the-top services, the interconnection business was negatively affected, and the result of which is seen in the company's revenue from that service," said Nepal Telecom while stating that it had taken measures to offset the impact of over-the-top services with new revenue sources. There is an industry-wide slowdown in revenues from long distance calls, which used to be a major source of income, mainly because of over-the-top services," Dilli Ram Adhikari, managing director of Nepal Telecom, recently told the Post. "To offset the impact of over-the-top services, we are expanding our 4G network, particularly focusing on rural areas to meet mobile data needs, and replacing ADSL lines with fibre to the home connection."

In the aftermath of dwindling profits, the company's earnings per share has fallen to Rs68.05 per share from Rs116.56 per share in a year. The company, mired in fee burden and loss of revenue, is also facing the brunt of soaring costs and changes in the tax regimen.

In 2018-19, Nepal Telecom's depreciation cost rose by nearly half a billion and it disgorged an additional Rs901.29 million in current tax expenses compared to previous fiscals as the corporate tax rate was increased to 30 percent from 25 percent, leading to a fall in tax adjusted profit. And the company also suffered a foreign exchange loss of Rs153.79 million in the fiscal year 2018-19 against a gain of Rs635.55 million in foreign exchange in 2017-18.

This study seeks to measure these mainstream problems in light of significance. This study however seeks to answer the following question

1. What if the actual financial condition of the Nepal Telecom and its impact in national development

### **1.3. Objective of the Study**

This study mainly concentrates on the financial performance of Nepal. Therefore, the study has been carried out keeping in view the following objectives.

1. To analyze the financial performance of the company for the past ten years
2. To determine whether the financial performance is satisfactory or not
3. Providing suggestions for improvement of the financial status
4. To analyze the contribution of NTC in the economy of Nepal

### **2. Review of the Literature**

This chapter refers with conceptual framework, review of related research articles and reviews of related studies and also draws the gap in the research.

Mr. Bhola Nepal has submitted thesis on topic "Financial performance of Nepal Telecom". The main objectives of the study are, to highlight the NTC in different aspects, to analyze, examine & interpret the financial position of NTC by using various tools & technique, to give workable recommendation, if there are weakness inherent in the corporation and the main findings were .there is no serious liquidity problem in NTC. 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 mean that there is not any liquidity problem in NTC. The corporation has been following a uniform policy to finance current assets & current liabilities.

Mr Dipendra Kr. Nuepane has submitted thesis on the topic " A study on profit planning in Nepal Telecom." The general objective of the study were 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 & variances of NTC etc .The main findings were The

corporation has no skilled planners, Budgets are prepared just for the formalities and NTC has not adequately considered controllable and non controllable variables affecting the organization.

Mr. Rajendra Kumar Pokharel has conducted the research on topic "Traffic Structure of Nepal Telecommunication in Nepal." The main objectives of the study were to examine the present traffic structure of telecommunication in Nepal with reference to its target population current efficiency & future development of services. to recommend valuable measure to upgrade the services with reference to restructure of tariff system. The major findings of his research were the tariff rates for local telephone STD, ISD & other service are reasonable, time constraint is necessary but three minutes allotted at the presented time is not sufficient, The interest rates provided by NTC for the amount of deposit by its subscriber is relatively low in comparison to the rate of interest provided by the banks, NTC takes differential tariff for the use of telecommunication facilities during the day, evening & night time. It helps for the proper distribution of traffic load with respect to time, improves the grade of service & encourages the low income group to get benefit from the services.

Ms Beena Bajracharya has conducted a research in "An evaluation Study of Telecommunication Development in Nepal." The main objectives of the research were concerning the evaluation of telecommunication development in Nepal to examine the present & expected future utilization of telecommunication facilities and to analyze the pattern of telecommunication development in Nepal with reference to its past trend, present performance & future prospects. The conclusions are the government of Nepal has also stressed the development of telecommunication by giving high priority in each & every development plans. But the telecommunication facilities in Nepal are very low in comparison with the development countries. the main problems of telecommunication development of Nepal are lack of financial resources, lack of technical knowledge & problem of management & administration etc. In the process of development of Nepal Telecommunication sector, foreign aid has played a significant role. International

telecommunication union has contributed to the establishment of a training institute to train the telecommunication technicians of Nepal."<sup>10</sup>

### **3. Proposed Research Framework**

Many studies have been conducted on financial performance of Nepal telecom. This thesis includes the findings of a few of these studies. Besides all the effort there is still more research that needs to be done. This study will serve as a valuable effort for further study on this topic.

### **4. Research Methodology**

This chapter concerns with research methodology adopted for study and includes the site selection, research design, population and sample, nature and sources of data such as primary data and secondary data, method of data collection, data analysis tools, analysis model, means of preparation and presentation of the data and tools of analysis and limitation of the methodology.

#### **4.1. Research Design**

Research design is the plan. Structure and strategy of investigation conceived to obtain answers to research questions and objective of this study. This study is conducted by the descriptive and analytical method of research design. The necessary job of this task is collecting important data and information from different reliable source. The data and information gathered were analyzed carefully and present them in systematic way.

#### **4.2. Nature and Source of Data**

There are mainly two source of data collection i.e. Primary and Secondary Source of Data. In this study, Secondary data were collected rather than primary data. The major



sources of data are form major sites of NTC,UTL, search engines like Google, Wikipedia, etc.

### **4.3. Population and Sampling Technique**

In this study, data has been collected through secondary sources. The data which are related with Nepal Telecom are collected through the sampling of statistical data. There are so many data about related studies but only required data has been collected, tabulated, categorized, and interpreted according to the sampling method of data collection. In order to achieve the good grasp of Nepal telecom data from 2008/09 to 2018/19 has been considered in the study. For this, data are mostly collected from Nepal telecom website.

### **4.4. Methods of Analysis**

All the data are from secondary sources in this paper. The major sources of data are the major sites of NTC and search engines like Google, Wikipedia .According to research planning and design, the data are represented systematically either the help of table, excel, graphs and figures. to make the report more clear and scientific data are analyzed with the comparative analysis of financial ratios of 10 years trend analysis.

### **4.5. Limitations of the Study**

This study has been carried out with an aim to analyze the financial status of Nepal Telecom. This study constitutes certain limitations.

- The required time period to complete this study was limited
- The research is unable to cover all the financial aspects
- Unable to interview with top level management
- Due to the secrecy of the performance evaluation of Nepal telecom, the exact data is not available, while shorting out the quarterly based data

analysis were based on the unedited financial statement published by Nepal telecom.

- most of the information were extracted from website, magazines and articles published so the accuracy depend upon the sources.

## **5. Organization of the study**

This thesis is organized into five chapters. The first chapter is the introductory. This chapter includes background of the study, introduction, statement of the problem, objective of the study, significant of the study and organization of the study. Similarly second chapter deals with review of the literature. In this chapter, review of conceptual, review of related empirical studies, and concluding remarks are included. Third chapter depicts research methodology of the study. It includes the research design, types of research design, nature and source of data, population and sample, respondent profile, methods of analysis and limitation of the study. Fourth chapter deals with the presentation and analysis of data. Likewise, the last chapter consist the summary, conclusion and recommendations of the study. Finally, bibliography has been included at the end of the study.

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## **Reports and Web Link**

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