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### Ratio Analysis of Telecom Sector

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#### I. Introduction

The study “Equity Analysis of Telecom Sector” was carried out in during 1<sup>st</sup> June 2013 to 31<sup>st</sup> July 2013. These two months were not only limited to learning and devoting time towards equity research but it also provided an insight on efforts to analyze such sectors. The reason behind choosing this study is that it provides hands on experience with what goes on in the stock market on a day-to-day basis. Some value investors only look at present assets/earnings and don't place any value on future growth. Other value investors base strategies completely around the estimation of future growth and cash flows. Despite the different methodologies, it all comes back to trying to buy something for less than its worth.

#### II. Objectives

To carry out the comparative ratio analysis of the selected companies and to suggest whether they are a viable investment option.

#### III. Research Methodology

Research Design of the study is analytical in nature with quantitative data. The actual figures are referred from the annual reports of the companies. Sample Size Determination is limited to five telecom companies. Sample and sampling Technique used is Non-Probability Sampling and Purposive Sampling Technique. The study is based on Secondary Data. Tools & Techniques to be used for Data Analysis is done using ratio analysis – Debt Equity Ratio, Earning Per Share, Dividend Payout Ratio, Dividend Yield and Total Assets Turnover Ratio. Analysis is done using Microsoft Office Excel.

#### IV. Limitations

The scope of this project is limited to only one sector i.e. telecom (service provider) sector. This project is concerned with only one sector of companies in the stock market. The project does not extend its scope to any other sector of companies.

Also, the project is concerned with only five companies from among the major players in the Telecom sector i.e. Bharti Airtel Limited, Idea Cellular, Mahanagar Telecom Nigam Limited, Reliance Communication, TATA Communication.

#### V. Data Analysis & Interpretation

##### Debt Equity Ratio:

TABLE 1. Debt Equity Ratio

Company	2009	2010	2011	2012	2013
Airtel	0.47	0.26	1.16	1.36	1.45
IDEA	0.67	0.69	0.99	0.86	0.81
MTNL	0	0	1.13	3.81	0
Reliance	0.93	0.69	0.96	0.97	0.91
TATA	1.31	1.61	2.36	4.63	7.21

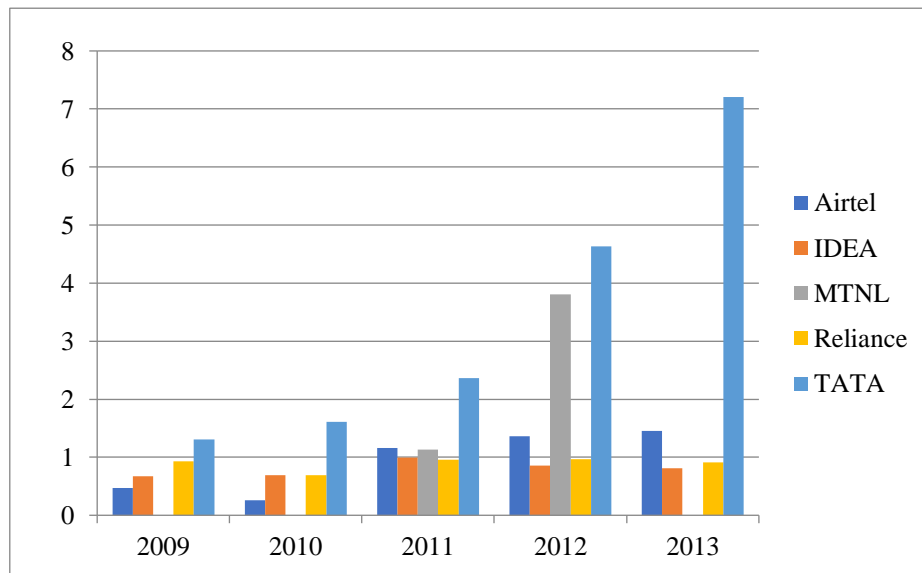


FIGURE 1. Debt Equity Ratio

**Formula:** Total Liabilities / Shareholders' Equity

This Ratio indicates the relationship between loan funds and net worth of the company, which is known as 'Gearing.' If the proportion of debt to equity is low, a company is said to be low-g geared, and vice versa. Tata communication has performed well from 2009 to 2013 as compared with others. Additionally, followed by TATA, MTNL debt equity ratio is better in the year 2011 and 2012.

**Earning Per Share:**

TABLE 2. Earning Per Share

Company	2009	2010	2011	2012	2013
Airtel	31.55	6.6	10.85	21.68	34.22
IDEA	3.96	2.84	2.89	2.72	2.19
MTNL	3.27	-48.62	-44.4	-65.15	-84.48
Reliance	32.91	30.27	23.15	7.3	4.79
TATA	6.74	-18.91	-17.08	-27.51	-22.84

**Formula:** Net Profit After Tax and Preference Dividend / No. Of equity Shares

EPS is one of the most important ratios which measures the net profit earned per share. EPS is one of the major factors affecting the dividend policy of the firm and the market prices of the company. Growth in EPS is more relevant for pricing of shares from absolute EPS. A steady growth in EPS year after year indicates good track of profitability. EPS of Airtel, Reliance shown a growth every year and they were highest among all the companies. Whereas, MTNL Shows fall in EPS every year.

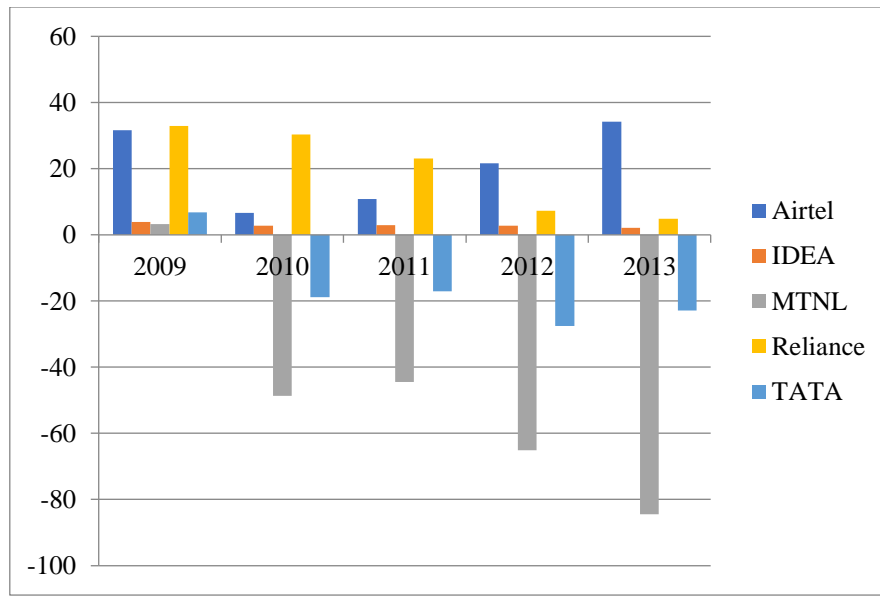


FIGURE 2. Earning Per Share

**Dividend Payout Ratio:**

TABLE 3. Dividend Payout Ratio

Company	2009	2010	2011	2012	2013
Airtel	5.65	4.84	6.15	19.9	19.59
IDEA	0	0	0	0	0
MTNL	35.78	0	0	0	0
Reliance	3.35	3.19	4.39	8.94	6.46
TATA	47.51	0	0	0	0

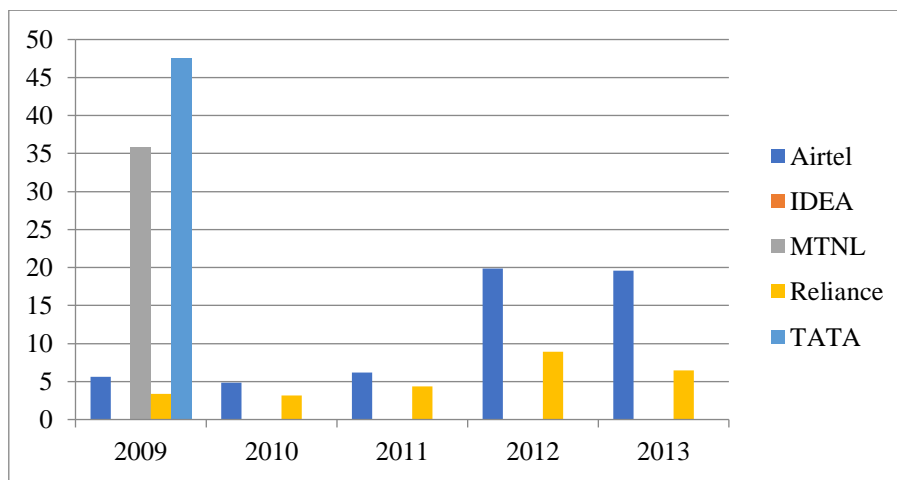


FIGURE 3. Dividend Payout Ratio

**Formula:** Dividend Per Share / Earning Per Share

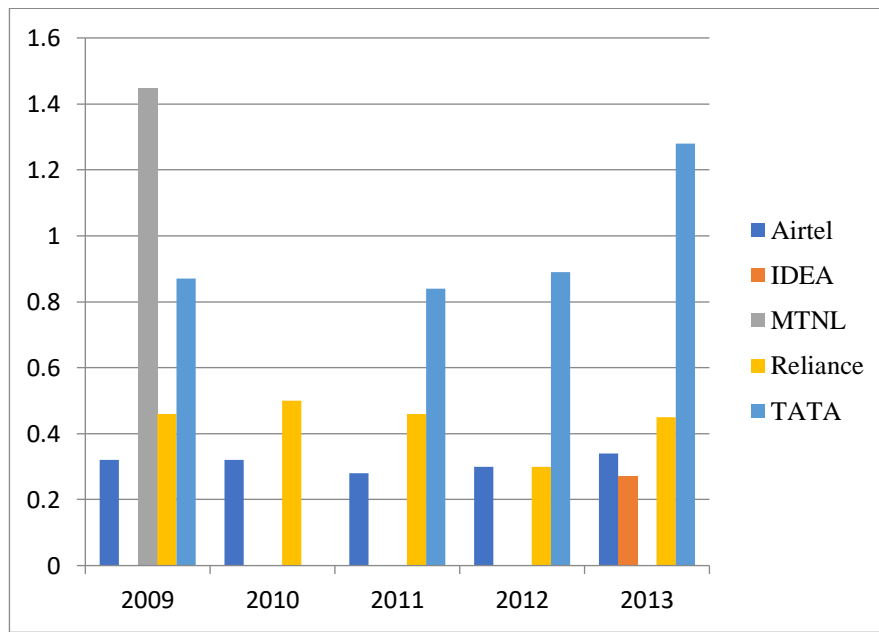
Dividend payout ratio is the dividend per share divided by the earning per share. Dividend payout indicates the extent of the net profit distributed to the shareholders as dividend. A high payout signifies a liberal distribution policy and a low payout reflects conservative distribution policy. Idea doesn't distribute the dividend in last five

years so as MTNL except in 2009. TATA shows a high Dividend payout ratio in 2009. Airtel shows a growth in Dividend payout ratio every year.

#### Dividend Yield:

**TABLE 4.** Dividend Yield

Company	2009	2010	2011	2012	2013
Airtel	0.32	0.32	0.28	0.3	0.34
IDEA	0	0	0	0	0.27
MTNL	1.45	0	0	0	0
Reliance	0.46	0.5	0.46	0.3	0.45
TATA	0.87	0	0.84	0.89	1.28



**FIGURE 4.** Dividend Yield

#### Formula: Dividend Per Share / Market Price

This ratio reflects the percentage yield that an investor receives on this investment at the current market price of the shares. This measure is useful for investor who are interested in yield per share rather than capital appreciation. TATA shows a growth in dividend yield every year except 2010. MTNL shows highest dividend yield in 2009. Airtel was Consistent.

#### Total Assets Turnover Ratio:

**TABLE 5.** Total Assets Turnover Ratio

Company	2009	2010	2011	2012	2013
Airtel	0.92	0.85	1.34	1.27	1.36
IDEA	0.81	0.58	0.76	0.63	1.12
MTNL	0.34	-8.44	0.81	1.03	6.39
Reliance	0.42	0.44	0.49	0.3	0.44
TATA	0.9	0.99	0.98	1.23	1.67



**FIGURE 5.** Total Assets Turnover Ratio

**Formula:** Sales / Total Assets

This ratio indicates the number of times total assets are being turned over in a year. The higher the ratio indicates overtrading of total assets, while a low ratio indicates idle capacity. MTNL was highest in 2013 and recorded lowest in 2010. Airtel shows a growth every year.

## VI. Conclusions

Strong growth in subscriber base, increasing non voice revenues and lowering fixed cost per unit, the Indian telecom service sector is set to report buoyant growth in revenues and profitability in the short to medium term. There are two key drivers for the growth in this business. First, the enhanced capability of the Company to deliver services on a global basis is attracting new customers and opening up new markets. Second, there is significant growth in the existing customers' businesses globally. IDEA Cellular shows Growth in P/E Ratio every, an investor can make a rational decision to invest in IDEA Cellular. Return On Equity is also shows less fluctuations. An investor can invest in IDEA Cellular for gaining maximum and stable profits. Bharti Airtel have the maximum market share and Return on equity is highest among all companies and its P/E Ratio is more than other companies except IDEA Cellular. An investor can invest in Bharti Airtel for gaining profits. MTNL, a company striving to make its presence felt in domestic as well as international market is lagging behind in the race against the new players. The reason behind this is the inability of the company to operate efficiently due to the large number of its subsidiaries, because of which there is no direct access to its end customers.

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