

PROFITABILITY ANALYSIS OF BHARTI AIRTEL LTD – AN EMPIRICAL STUDY

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Abstract

Telecommunication industry is one of the key industries in India. Bharti Airtel Ltd. is the biggest private telecommunication company in India and it is the market leader in providing mobile phone services in terms of subscriber base. Investors of the company could get return by way of dividend and capital appreciation only when the company earns good and continues profit. Hence the researchers have made an attempt to analyse profitability of Bharti Airtel Ltd. in terms of various profitability ratios. The study found that both total income and net profit of the company increased rapidly during the study period. But the growth rate of total income is more than the growth rate of net profit; it shows that the rate of growth of expenses of the company is more than the growth rate of income. It was also evidenced that operating efficiency of Bharti Airtel Ltd. is good, since operating profit ratio of the company was more than net profit ratio during 10 years out 12 years of the study period. Return on investment of the company was good up to 2010-11, but latter it was not good. Earnings per share of the company seem to be low during the study period.

Key words: profitability, operating profit, expenses, ratio and telecommunication.

Introduction

Communication is essential in the life of any human being. Communication has come across many developments from gesture to the latest technologies. Oral communication is most likely mode of communication by people since the communicator can express their feelings and actually what are in their mind to communicate. In Indian telephone and mobile phone communication is becoming popular and penetration of using mobile phone is very

high. Both government and private companies are providing mobile phone services in India. Now mobile phone service providers give services of voice call, short message services (SMS), internet and other add-on services. The industry has severe competition among the companies. Bharti Airtel Ltd is the leading company in India providing mobile phone services with highest market share than other companies in the industry. Bharti Airtel Limited was established on July 07, 1995 as a public Limited company. It is a leading global telecommunications company with operations in 20 countries across Asia and Africa. It's headquarter is at New Delhi, India. The company ranks amongst the top 4 mobile service providers globally in terms of subscribers. In India, the company's product offerings include 2G, 3G, and 4G wireless service, high speed DSL broadband, IPTV, DTH, enterprise services including national and international long distance services to carriers. Objective of any business organisation is profit. Earning sufficient profit will help a company for long survival and will increase shareholders wealth. Hence the researchers have aimed to study profitability analysis of Bharti Airtel Ltd.

Review of Literature

Rajput Vijay M and Rich (2015) in their study analysed financial performance of BSNL and Idea Cellular Ltd. The study found that performance of IDEA Cellular Ltd. was better than BSNL. Further it has been observed from the analysis that BSNL has made continuous loss during the study period which was the main reason of weak financial position of BSNL. Ponnam Gautama Sharma and Risham Preet Kaur (2015) undertook a study on "Working Capital Management and its Impact on Profitability: A Study of Bharti Airtel Telecom Company". For this purpose the study selected Bharti Airtel Ltd. The study evidenced significant improvement in liquidity performance of the company during the study period. The study also found significant negative relationship between liquidity and profitability, which indicates that Bharti Airtel had maintained post optimal level of liquidity during the period. Vijayalakshmi B and Sailasa M N (2013) found in their study that the financial health of BSNL, Airtel and Reliance communication were poor. In spite of having a well established infrastructural capacity, the public sector giant BSNL is still suffering to cope-up with the competition from private net work operators like Airtel and Reliance communication. God Fred Yaw Kio Akrofi (2013) evidenced that revenue of the telecommunication industry increased five times, total assets and net assets increased by four times, net profit increased considerably and subscriber base (SB) increased 13 times during the study period. John Thomas and Ramesh Damarla (2012) in their study diagnosed

financial performance of BSNL for the period of ten years from 2002-03 to 2010-11. The researchers found that strong liquidity position was existed during the study period. The study also found that profitability of BSNL was highly fluctuating during the study period. Its net profit ratio was good during the first seven years of the study period, during the last two years net profit ratio of BSNL was negative.

Statement of the problem

Telecommunication industry is one of the key industries in India. Recent developments in the industry have given a big revaluation in communication. Especially mobile phone services and their add-on services like internet services and so on let communication easy and low cost. Bharti Airtel Ltd. is the biggest private telecommunication company in India and it is the market leader in providing mobile phone services in terms of subscriber base. The share of the company is also one of the actively traded shares in stock markets and it has been included in both the top indices namely Sensex of Bombay Stock Exchange (BSE) and Nifty of National Stock Exchange (NSE). Investors could get return by way of dividend and capital appreciation only when the company earns good and continues profit. So profitability is standing as a factor expressing overall performance of a company. Hence the researchers have made an attempt to analyse profitability of Bharti Airtel Ltd. in terms of various profitability ratios.

Objective

The study has been done with the following objective.

1. To study profitability of Bharti Airtel Limited.

Methodology

The study has analysed the profitability of Bharti Airtel Limited. For this purpose accounting data were required. They were collected from annual reports of Bharti Airtel Limited for the period of twelve years from 2004-05 to 2015-16. The researcher used means, standard deviation (SD), and co-efficient of variation (CV), compounded annual growth rate (CAGR) and trend analysis as statistical tools and used ratio analysis as financial tool.

Results and Discussion

The study has been carried out to analyse profitability of Bharti Airtel Ltd for the period of 12 years from 2004-05 to 2015-16. Table 1 presents the results of total income, net profit, their trend, mean, standard deviation, co-efficient of variation and compounded annual growth rate.

Table 1: Trend of Total Income and Net profit

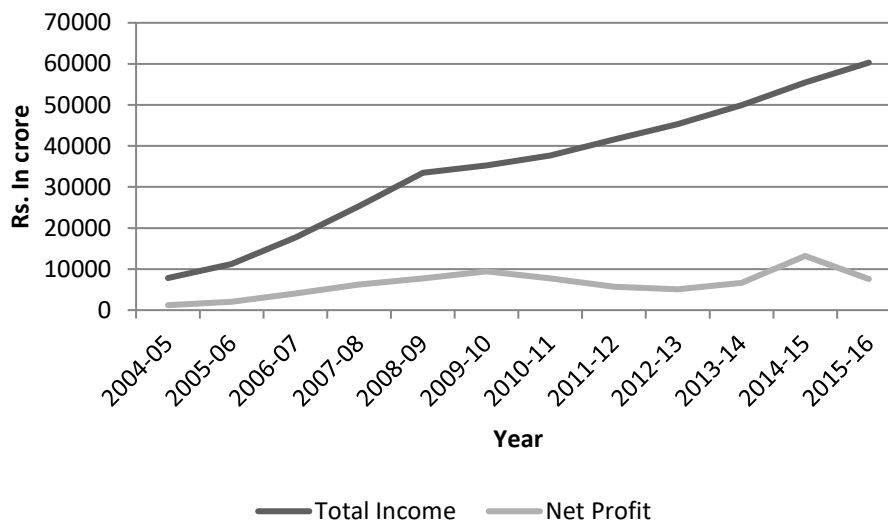
Year	Total Income		Net Profit	
	Rs.	Change (%)	Rs.	Change (%)
2004-05	7817.93		1210.67	
2005-06	11217.47	43.48	2012.08	66.19
2006-07	17674.65	57.56	4033.23	100.45
2007-08	25343.60	43.39	6244.19	54.82
2008-09	33489.16	32.14	7743.84	24.02
2009-10	35232.16	5.20	9426.15	21.72
2010-11	37692.80	6.98	7716.90	-18.13
2011-12	41603.80	10.38	5730.00	-25.75
2012-13	45350.90	9.01	5096.30	-11.06
2013-14	49918.50	10.07	6600.20	29.51
2014-15	55496.40	11.17	13200.50	100.00
2015-16	60300.20	8.66	7546.50	-42.83
Mean	35094.80		6380.05	
SD	16897.77		3222.81	
CV	48.15		50.51	
CAGR	18.56		16.47	

Source: Computed from Annual Reports.

It could be known from table1 that total income of Bharti Airtel Ltd increased drastically during the study period. It increased from Rs.7817.93 crore in 2004-05 to Rs.60, 300.20 crore in 2015-16, it accounted seven times increase over the study period. Income of the company increased at high rates during 2005-06 to 2008-09. In rest of the years the growth rate of total income was at considerable level. The results of mean standard deviation and co-efficient of variation of total income of the company showed moderate level of deviation from its mean value. The result CAGR showed rapid growth in total income of the company during the study period. Net profit of the company also increased during the study period with fluctuations in some years. Net profit of the company increased from Rs.1, 210.67 crore in 2004-05 to Rs. 7,546.50 crore in 2015-16, this increase accounted 6 times during the study period. Net profit of the company doubled during 2006-07 and 2014-

15 over previous years. During 2005-06 and 2007-08, net profit of Bharti Airtel increased at high rate over the previous years. There were continuous decreases in net profit during 2010-11 to 2012-13 over the previous years and during 2015-16, net profit of the company decreased drastically by 42.83 per cent. Mean, SD and CV of net profit of the company showed moderate level of deviation from its mean value. The results of CAGR of net profit indicates high rate of growth in net profit of Bharti Airtel Ltd during the study period. It was observed that CAGR of total income was more than the CAGR of the net profit, it shows high growth rate of expenditure of the company than income. The trends of operating income and net profit of the company are presented in figure 1.

Figure 1: Trend of Total Income and Net Profit



The researchers have calculated Net Profit Ratio, Operating Profit Ratio, Earnings Per Share and Return on Investment of Bharti Airtel Ltd in order to analyse profitability of the company and the results are presented in table 2.

Table: 2 Profitability Ratios of Bharti Airtel Ltd.

Year	NPR (%)	OPR (%)	EPS (Rs.)	ROI (%)
2004-05	15.49	18.10	6.53	9.66
2005-06	17.94	19.40	10.62	12.52
2006-07	22.82	23.74	21.27	18.01
2007-08	24.64	25.62	32.90	19.08
2008-09	23.12	27.97	40.79	19.51
2009-10	26.75	24.07	24.82	20.77
2010-11	20.47	20.52	20.32	13.08
2011-12	13.77	15.63	15.09	9.37

2012-13	11.24	11.65	13.42	7.44
2013-14	13.22	14.19	16.51	8.34
2014-15	23.79	16.97	33.02	12.77
2015-16	12.51	15.95	18.88	5.63
Mean	18.81	19.48	21.18	13.01
SD	5.43	5.00	10.12	5.19
CV	28.88	25.65	47.78	39.88

Source: Computed from Annual Reports

It is observed from table 2 that net profit ratio of Bharti Airtel Ltd. ranged from 11.24 to 26.75 percent during the study period. Net profit ratio was more than 20 per cent during 2006-07 to 2010-11 and during 2014-15. During other years it was more than 10 per cent. The mean value of net profit ratio was 18.81 per cent, it seems to be high and therefore net profit of the company is high during the study period. The results of SD and CV show low level of deviation in the net profit ratio from its mean value. Operating profit ratio of the company was found to be high during the study period. It ranged between 11.24 and 26.75 percent. During the period from 2006-07 to 2010-11, operating profit of the company was high with more than 20 per cent. In no years it was less than 10 percent. It was also observed that during all the years of the study period except during 2009-10 and 2014-15, the operating profit ratio was more than net profit ratio, since operating income of the company is more; it indicates good operating efficiency of the company, it also indicates that the company had more non-operating expenses than non-operating incomes during the years. The result of mean (19.48 percent) of operating profit ratio is also considered high. There was low level of deviation in the ratio as shown by the results of SD and CV.

Earning per share of Bharti Airtel Ltd. was fluctuating during the study period. It ranged from Rs.6.53 to Rs.40.79 per share. High EPS were found during 2007-08, 2008-09 and 2014-15. EPS was found to be low during 2004-05. Mean value of EPS is also found to be low. Moderate level of deviation was found in EPS as per the results of SD and CV. Return on investment of the company ranged from 5.63 to 20.77 percent during the study period. Return on investment was increasing up to the year 2009-10 and latter it was fluctuating. Return on investment of the company was found to be high during 2005-06 to 2010-11 and during 2014-15. During other years it was less than 10 per cent. Less than 10% of RIO considered low and they are found in 2011-12 to 2013-14 and 2015-16. The results of SD and CV revealed moderate level of deviation in the ratio. Two ways of increasing profit of a concern is either to increase revenue or to decrease expenses. Hence analysing expenses

is important in profitability analysis. Access charges, licence fee and spectrum charges, depreciation, rent, power and fuel expenses, and employees benefit expenses are identified as major expenses of telecommunication companies. Table 3 gives the results of total and above mentioned expenses ratio of Bharti Airtel Ltd for the study period.

Table: 3 Expenses Ratios of Bharti Airtel Ltd.

(Percentage)

Year	Total Expenses	Access Charges	Licence Fee & Spectrum Charges	Employees Benefit Expenses	Power and Fuel	Rent	Depreciation
2004-05	84.51	21.53	9.76	6.45	1.84	1.24	13.04
2005-06	82.06	19.18	9.62	6.91	2.67	1.49	12.77
2006-07	77.18	17.52	9.27	6.37	3.50	1.53	13.31
2007-08	75.36	15.94	10.20	5.26	3.89	3.20	12.49
2008-09	76.88	15.54	10.70	4.28	4.82	8.58	9.57
2009-10	73.25	12.59	10.66	4.08	6.22	10.17	11.04
2010-11	79.53	13.23	13.24	3.85	6.48	11.14	11.13
2011-12	86.23	13.96	11.28	3.34	7.15	11.47	14.22
2012-13	88.76	16.36	10.76	3.33	7.87	11.52	15.05
2013-14	86.78	14.63	10.95	3.30	8.35	11.40	14.49
2014-15	76.21	14.34	12.08	3.05	7.42	10.77	13.62
2015-16	87.49	13.31	11.72	3.10	6.70	10.85	15.83
Mean	81.19	15.68	10.85	4.44	5.57	7.78	13.05
SD	5.43	2.65	1.12	1.43	2.16	4.46	1.80
CV	6.69	16.93	10.34	32.19	38.79	57.38	13.82

Source: Computed from Annual Reports

It could be observed from table 3 that total expenses ratio of Bharti Airtel Ltd. ranged from 73.25 to 88.76 percent. The mean value of the ratio is 81.19 per cent; it shows high profit of the company. Very low level of deviation was found in total expenses ratio from its mean value as shown by the results of SD and CV. Access charges are found to be a major expense of Bharti Airtel ltd. It is the charges to be paid to use network of an operator. The ratio ranges between 12.59 and 21.53 percent, mean value of the ratio is 15.68 per cent, it shows that access charges occupy one sixth of total income of the company and it occupies around twenty percent of total expenses of the company. Low level of deviation was found in the ratio from its mean value. It is necessary to get licence by every telecom company and they should pay spectrum charges. This expense is identified as one of the major expenses of

Bharti Airtel Ltd. The ratio of licence fee and spectrum charges ranged from 9.27 to 13.24 percent. It is too high during 2010-11 and during other years it is in and around 10 percent of total income of the company. Telecommunication companies have more machinery; hence a depreciation expense is also considered one of the major expenses of Bharti Airtel Ltd. This ratio ranged between 9.5 and 15.83 per cent, it was more than 10 percent during all the years of the study period except during 2008-09. The results of SD and CV showed low level of deviation in the ratio. Power and fuel expenses ratio of the company ranged from 1.84 to 8.35 percent. This ratio is in increasing trend during the study period. Power and fuel expenses are increasing every year except during 2015-16. Moderate level of deviation was found in the ratio as shown by SD and CV. Telecommunication companies have their office all in major cities and towns and they have their own tower, hence these companies should pay rent, some companies pay rent to get tower facilities. Hence rent is considered as a major expense of telecom companies. Rent expenses ratio of Bharti Airtel Ltd ranged from 1.24 to 11.52 percent and rent expenses related to total income is increasing during the study period. The results of SD and CV should moderate level of deviation in the ratio from its mean value. Employee's expenses ratio of the company ranged between 3.05 and 6.91 percent during the study period. This ratio is decreasing over the study period; it was because growth rates of total income of the company are more than the growth rate of employees' expenses of the company. Moderate level of deviation was found in the ratio from its mean value as shown by SD and CV.

Conclusion

Telecommunication industry is one of the developing industries in India, since communication has become a part of life every human in the world. After introduction of mobile phones, communication has become easy and cheap mode of communication. Both government and private companies are providing mobile phone services in India. Bharti Airtel Ltd. is the biggest private telecommunication company in India. It is the market leader in providing telecom services with the market share of 24.32 per cent of total subscribers as per TRAI report in October 2016. Hence the researcher has made the study to analyse profitability of Bharti Airtel Ltd. The study found that both total income and net profit of the company increased rapidly during the study period. But the growth rate of total income is more than the growth rate of net profit; it shows that the rate of growth of expenses of the company is more than the growth rate of income. It was also evidenced that operating efficiency of Bharti Airtel Ltd is good, since operating profit ratio of the company was more

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