



Journal Homepage: - [www.journalijar.com](http://www.journalijar.com)

## INTERNATIONAL JOURNAL OF ADVANCED RESEARCH (IJAR)

Article DOI: 10.21474/IJAR01/14978

DOI URL: <http://dx.doi.org/10.21474/IJAR01/14978>



### RESEARCH ARTICLE

#### ANALYZING FINANCIAL SOUNDNESS OF TATA COMMUNICATIONS

Aatish Joseph<sup>1</sup> and Dr. John Benedict<sup>2</sup>

1. Student, Department of Commerce, Loyola College, Chennai, Tamil Nadu, India.
2. Assistant Professor, Department of Commerce, Loyola College, Chennai, Tamil Nadu, India.

#### Manuscript Info

##### Manuscript History

Received: 28 April 2022  
Final Accepted: 31 May 2022  
Published: June 2022

##### Key words:-

Financial Analysis, Financial Statement,  
Tata Communications, Ideal Ratios

#### Abstract

The analysis of a company's financial situation or its financial soundness represents one of the main problems within organizations. The risk of Bankruptcy has determined many financial analysts to develop analytical models in order to eliminate or minimize this risk. Financial ratio analysis is considered as a process of reviewing the financial position of the company. Ratio analysis is extensively used by firms as a technique to forecast the financial soundness of the company to build future growth. This study aims at analysing the financial performance of Tata communications by using financial ratios as a tool. The primary objective of this study is to evaluate the performance of Tata Communications during the last decade. The reference period taken for study is 5 years starting from 2017 to 2021.

Copy Right, IJAR, 2022,. All rights reserved.

#### Introduction:-

The Indian Telecommunication Industry is the third largest in the world and the second largest among the emerging economies of Asia. The telecommunication sector especially the mobile phone sector in India is one of the fastest growing business segments of the country which provides a lot of value addition to the society (Dr. A. Muthusamy). Tata communications, formerly known as Videsh Sanchar Nigam limited was owned by the government-owned-telecommunications service provider and under the ownership of department of telecommunications, ministry of communications, Government of India. It was sold to the Tata group under the Atal Bihari Bajpayee government. Now at present it is owned by the Tata group.

Tata communications is a digital ecosystem enabler that powers today's fast-growing digital economy. The company's sole purpose is to deliver a new world of communications unleashing new growth opportunities in the present world with latest technological innovations for customers while they make a positive and tangible impact on the wider society. As the competition in the telecom sector is increasing and it is vital for companies to analyse their financial position and the analyst by analysing the company's financial strength and its weakness by which they can formulate policies to avoid the risk of bankruptcy. Thus, using ratio analysis as a tool will help the analyst in finding out the above mentioned.

#### Objectives Of The Study:-

The analysis has been done to accomplish the following objectives: -

1. To analyse the financial soundness of Tata communications
2. To compare its financial performance over the past 5 years (2017-2021)

**Corresponding Author:- Aatish Joseph**

Address:- Student, Department of Commerce, Loyola College, Chennai, Tamil Nadu, India.

**Methodology:-**

The analysis done is empirical in nature and is executed using the data published by bseindia.com and screener.com. and also referring the annual reports of the company over the past 5 years (2017-2021)

**Need Of The Study**

As already stated, the financial analysis using Ratios as an analysis tool helps in analysing the financial soundness of the company and its financial position. The financial data obtained or collected by the financial analyst for analysing the financial position of the company also helps in finding out the strength and weakness of the company and also helps us in predicting or forecasting the financial needs of the company and also in formulating budgets to avoid the risk of bankruptcy.

**Review Of Literature:-**

**Dr. A. Muthusamy** (12<sup>th</sup> august) in their study “Financial analysis of selected Telecommunication companies in India” have mentioned the dramatic change in the structure of ownership from the government to private companies and the rapid development in the mobile and the internet industry. The emerging competition among the different telecom companies and the rise of new companies have created a competitive pressure and the existing companies require analytical tools to gain information about how the companies are performing financially and find out their strength and weakness to ascertain their financial soundness.

**Research Methodology:-****Data Collection:**

The data to analyse and conduct the study are collected from the financial statements of Tata communications for the years 2017, 2018, 2019, 2020, 2021. The study has been conducted using secondary data and these financial statements have been obtained from the official BSE website ([www.bseindia.com](http://www.bseindia.com)) and Screener ([www.screener.in](http://www.screener.in))

**Tools of Analysis:**

Ratio Analysis Tool has been used to conduct the study, this tool helps us to study and compare the financial performance of Tata communications for 5 years that is during the time period 2017-2021. The Ratios which have been used for analysing and conducting the study are:

1. Current Ratio
2. Fixed asset turnover ratio
3. Debt to asset
4. Debt to equity
5. Inventory turnover ratio
6. Return on capital employed
7. Accounts receivable
8. Gross profit
9. Accounts payable
10. Operating profit margin ratio
11. Return on Investment
12. Interest coverage ratio
13. Price to earnings
14. Earnings per share
15. Price to sales

**The Ratio Analysis Data**

Particulars	2017	2018	2019	2020	2021
1) Current ratio	<b>0.617932</b>	<b>0.540427</b>	<b>0.561433</b>	<b>0.522593</b>	<b>0.751572</b>
2) Operating profit margin ratio	<b>139.78</b>	<b>115.04</b>	<b>122.88</b>	<b>134.69</b>	<b>130.95</b>
3) Gross profit ratio	<b>160.0033</b>	<b>136.8571</b>	<b>143.9271</b>	<b>142.519</b>	<b>137.1386</b>
4) Debt Equity ratio	<b>68.39</b>	<b>67.01</b>	<b>70.83</b>	<b>82.22</b>	<b>74.35</b>

5) Debt to asset ratio	0.128908	0.391639	0.634231	0.410002	0.459427
6) Return on capital employed.	1.937796	1.86148	1.922793	2.13029	1.650538
7) Interest coverage ratio	-42.3918	-62.4429	-73.5695	-65.1219	-58.1625
8) Accounts receivable	2.865517	2.503629	2.040551	1.97531	1.756182
9) Return on investments	0.025269	0.021483	0.017037	0.023923	0.078903
10) Price to sales	0.016175	0.016993	0.017247	0.016698	0.016667
11) Earnings per share	1.870982	1.477649	1.196351	1.860246	5.906211
12) Accounts payable ratio	-2.955852	-1.78496	-2.01376	-1.92759	-1.80374
13) Inventory turnover ratio	-473.887	-272.891	-140.174	-97.053	-118.252
14) Price to earnings	177612.6	224891	277769.7	178637.7	56264.5
15) Fixed asset ratio	1.03	1.20	1.21	1.24	1.30

**Interpretation:**

Below are the interpretations of the 15 ratios used as an analysis tool to analyse and assess the financial soundness of Tata communications.

**1) Current ratio:**

**Current ratio = current assets / current liabilities**

Current ratio is a liquidity ratio that measures whether a firm has enough resources to meet its short-term obligations.

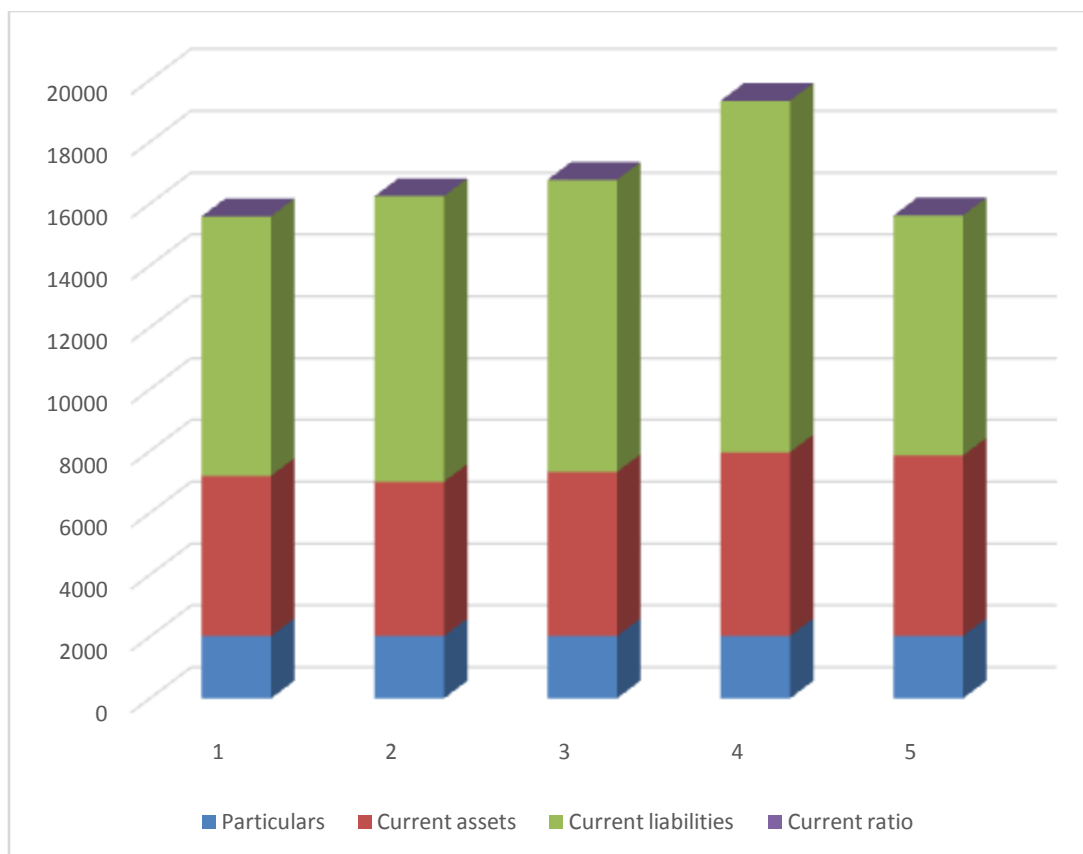
Particulars	In crores (Rs)				
	2017	2018	2019	2020	2021
Current assets	5,185.79	4,992.16	5,306.95	5,942.11	5,837.14
Current liabilities	8,392.17	9,237.43	9,452.51	11,370.43	7,766.57
<b>Current ratio</b>	<b>0.617932</b>	<b>0.540427</b>	<b>0.561433</b>	<b>0.522593</b>	<b>0.751572</b>

	1.05 (2017)	1.00 (2018)	1.23 (2019)	1.25 (2020)	1.61 (2021)
--	----------------	----------------	----------------	----------------	----------------

Ideal ratios

1) Current ratio	0.61	0.54	0.56	0.52	0.75
------------------	------	------	------	------	------

- ❖ The current ratios of the company are not satisfying or matching up with the ideal ratio and hence will not be able to meet its short-term liabilities.

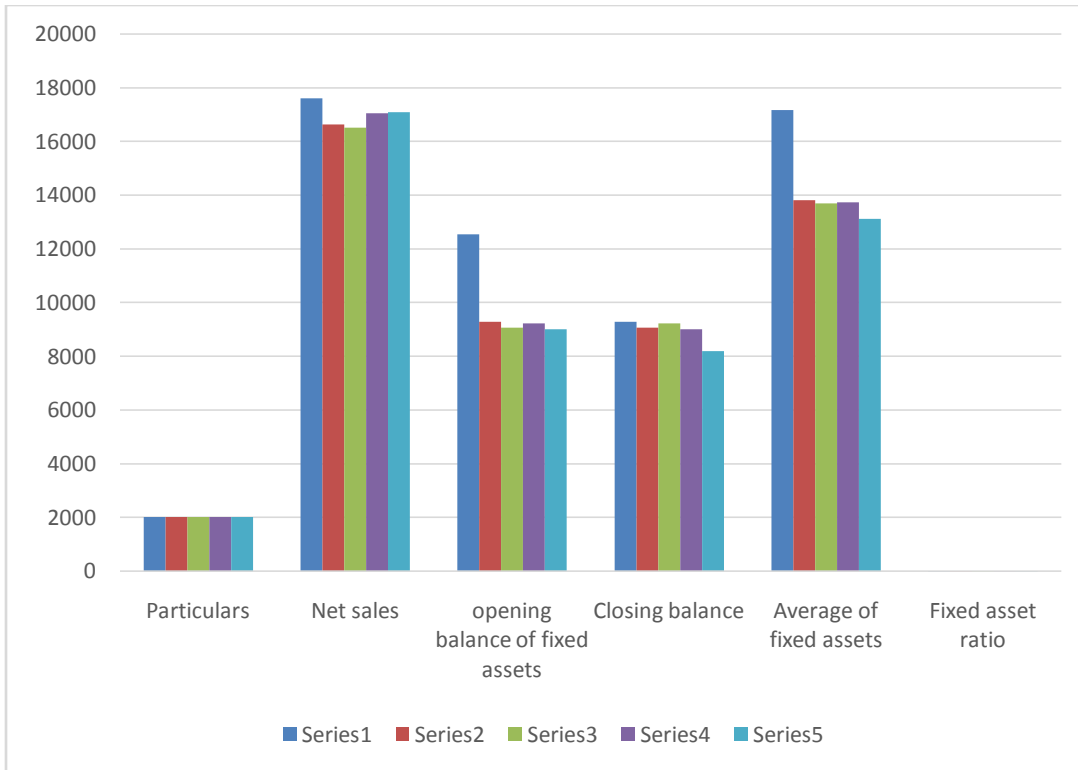


## 2) Fixed asset turnover ratio:

**Fixed asset turnover ratio** = net sales / Average fixed asset

Particulars	in crores (Rs)				
	2017	2018	2019	2020	2021
Net sales	17,619.73	16,650.84	16,524.95	17,067.99	17,100.10
opening balance of fixed assets	12,543.39	9,292.69	9,074.98	9,241.49	9,021.91
Closing balance	9,292.69	9,074.98	9,241.49	9,021.91	8,209.78
Average of fixed assets	17189.74	13830.18	13695.73	13752.45	13126.8
<b>Fixed asset ratio</b>	<b>1.03</b>	<b>1.20</b>	<b>1.21</b>	<b>1.24</b>	<b>1.30</b>

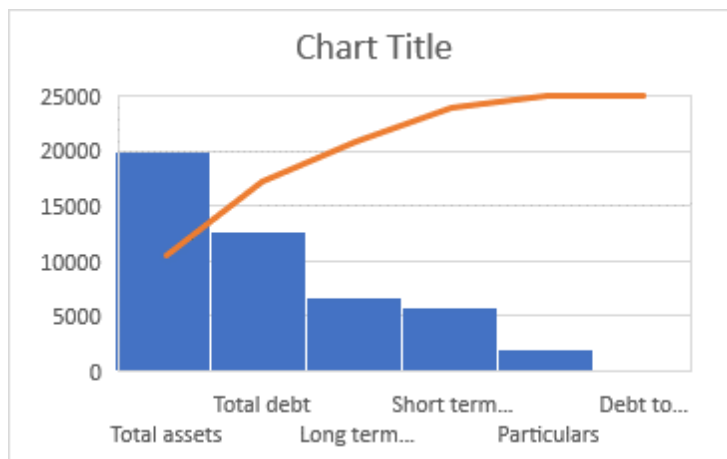
- ❖ An ideal ratio of fixed asset turnover ratio is 2.5 or more. It indicates how well the company is using its resources to generate sales and the company's ideal ratio varies from 1.03-1.30. the reason for not meeting the ideal point is because the company had made large number of asset purchases during the year 2017-2021



**3) Debt to asset**

**Debt to asset ratio = Total Debt / Total Assets.**

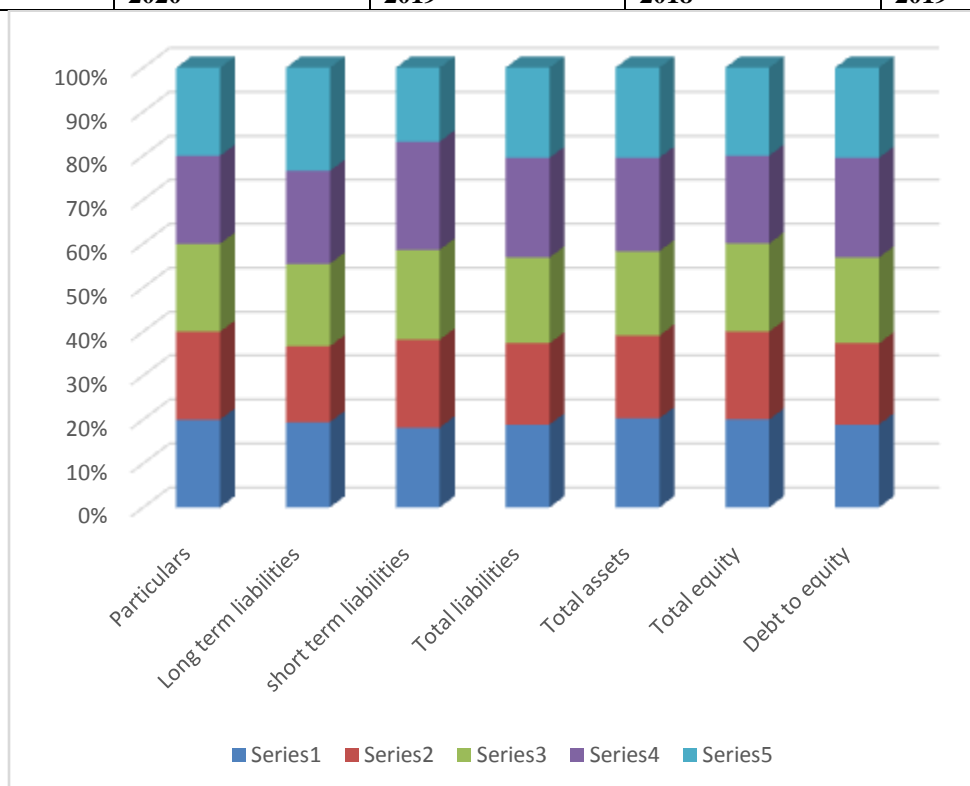
Particulars	In crores(Rs)				
	2017	2018	2019	2020	2021
Short term debt	968.41	1,778.89	5,898.31	2,288.46	914.75
Long term debt	1,751.85	5,898.31	6,794.41	6,797.78	8,886.39
<b>Total debt</b>	<b>2,720.26</b>	<b>7,677.20</b>	<b>12,692.72</b>	<b>9,086.24</b>	<b>9,801.14</b>
Total assets	21,102.29	19,602.76	20,012.76	22,161.47	21,333.41
<b>Debt to asset</b>	<b>0.128908</b>	<b>0.391639</b>	<b>0.634231</b>	<b>0.410002</b>	<b>0.459427</b>



An ideal debt to asset ratio is 0.4-40% lower. The company's ideal ratio for the past 5 years is satisfying the ideal ratios and hence it indicates it has a Decent financial structure.

## 4) Debt to equity

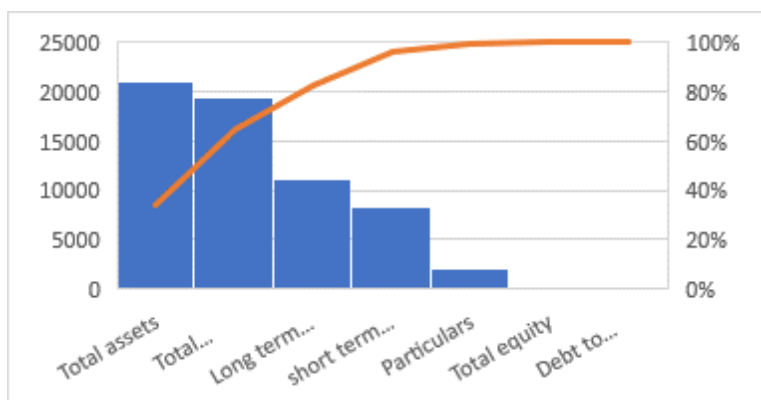
Debt to equity ratio = Total liability/ total shareholder 's equity					
Particulars	In crore (Rs)				
	2017	2018	2019	2020	2021
Long term liabilities	11,099.85	9,861.53	10,736.30	12,064.65	13,423.21
short term liabilities	8,392.17	9,237.43	9,452.51	11,370.43	7,766.57
<b>Total liabilities</b>	<b>19,492.02</b>	<b>19,098.96</b>	<b>20,188.81</b>	<b>23,435.08</b>	<b>21,189.78</b>
Total assets	21,102.29	19,602.76	20,012.76	22,161.47	21,333.41
Total equity	285	285	285	285	285
<b>Debt to equity</b>	<b>68.39</b>	<b>67.01</b>	<b>70.83</b>	<b>82.22</b>	<b>74.35</b>
1.23 <b>2021</b>	1.28 <b>2020</b>	1.43 <b>2019</b>	1.09 <b>2018</b>	1.08 <b>2019</b>	



The company has met the ideal ratio requirements for the past 5 years which shows that they have managed the financial capabilities carefully.

## 5) Inventory turnover ratio

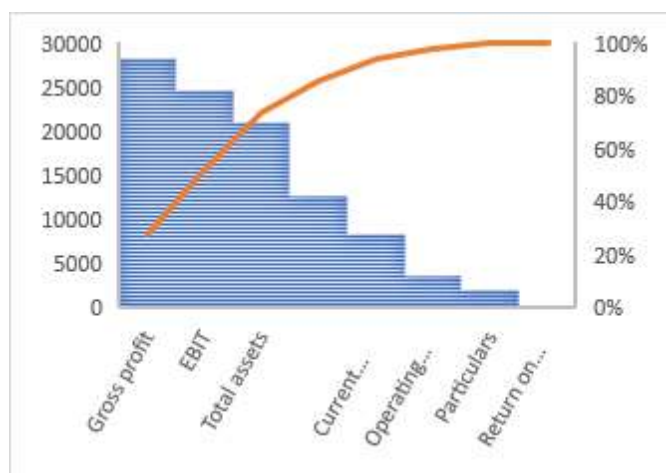
Inventory turnover ratio = Cost of goods sold / average inventory					
Particulars	2017	2018	2019	2020	2021
Opening inventory	25.42	19.2	26.99	76.58	72.97
Purchases	-10,578.64	-6,294.62	-7,209.34	-7,260.75	-6,389.26
Closing stock	19.2	26.99	76.58	72.97	34.44
Cost of goods sold	-10,572.42	-6,302.41	-7,258.93	-7,257.14	-6,350.73
Total inventory	44.62	46.19	103.57	149.55	107.41
Average inventory	22.31	23.095	51.785	74.775	53.705
<b>Inventory turnover ratio</b>	<b>-473.887</b>	<b>-272.891</b>	<b>-140.174</b>	<b>-97.053</b>	<b>-118.252</b>



The ideal ratio varies between 5 and 10 and in the above data it is showed that the ratios of the past 5 years are matching or satisfying the ideal ratio which implies that there is underutilisation of resources.

#### 6) Return on capital employed:

Particulars	In crores(Rs)				
	2017	2018	2019	2020	2021
Gross profit	28,192.15	22,953.25	23,783.88	24,325.13	23,450.83
Operating expenses	3,562.53	3,658.40	3,478.71	1,337.09	1,058.25
<b>EBIT</b>	<b>24,629.62</b>	<b>19,294.85</b>	<b>20,305.17</b>	<b>22,988.04</b>	<b>22,392.58</b>
Total assets	21,102.29	19,602.76	20,012.76	22,161.47	21,333.41
Current liabilities	8,392.17	9,237.43	9,452.51	11,370.43	7,766.57
	12,710.12	10,365.33	10,560.25	10,791.04	13,566.84
<b>Return on capital employed</b>	<b>1.937796</b>	<b>1.86148</b>	<b>1.922793</b>	<b>2.13029</b>	<b>1.650538</b>



ROCE is a financial ratio that can used to assess a company's profitability and capital efficiency. The ratios have been constant for 2017 and 2019 and low during 2021 and the highest in 2020. This depicts that the profitability rate hasn't been consistent over the past five years and is fluctuating.

#### 7) Accounts receivable

**Accounts Receivable Turnover Ratio = Net Credit Sales / Average Accounts Receivable**

particulars	In Crores (Rs)				
	2017	2018	2019	2020	2021

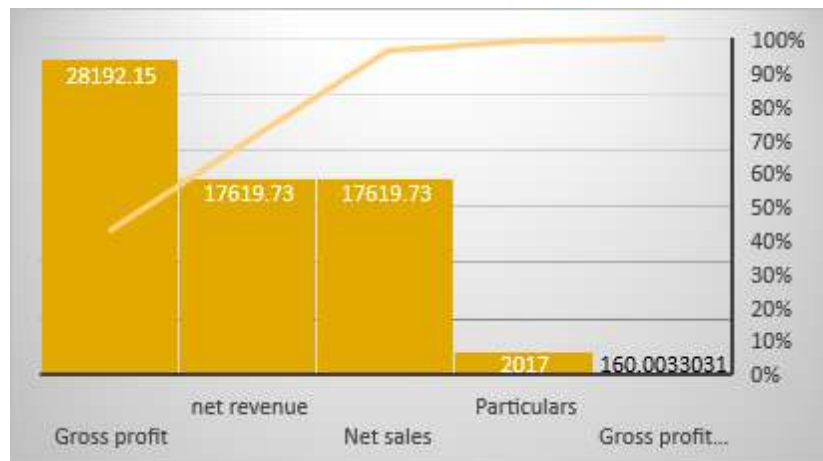
Net credit sales	3,581.38	3,471.57	3,688.52	3,844.99	3,239.47
Opening	846.33	806.98	1,159.27	1,296.68	1,299.69
Closing	806.98	1,159.27	1,296.68	1,299.69	1,089.84
Average accounts receivable	1249.82	1386.615	1807.61	1946.525	1844.61
Accounts Receivable Turnover Ratio	2.865517	2.503629	2.040551	1.97531	1.756182



The receiving turnover ratio depicts how much the company collects the money back and the ideal ratio is between 0.5-10 and the company depicts a decent financial position.

**8) Gross profit margin**

Particulars	In crores (Rs)				
	2017	2018	2019	2020	2021
net revenue	17,619.73	16,650.84	16,524.95	17,067.99	17,100.10
Cost of goods sold	-10,572.42	-6,302.41	-7,258.93	-7,257.14	-6,350.73
Gross profit	28,192.15	22,953.25	23,783.88	24,325.13	23,450.83
Net sales	17,619.73	16,771.69	16,524.95	17,067.99	17,100.10
<b>Gross profit margin ratio</b>	<b>160.0033</b>	<b>136.8571</b>	<b>143.9271</b>	<b>142.519</b>	<b>137.1386</b>

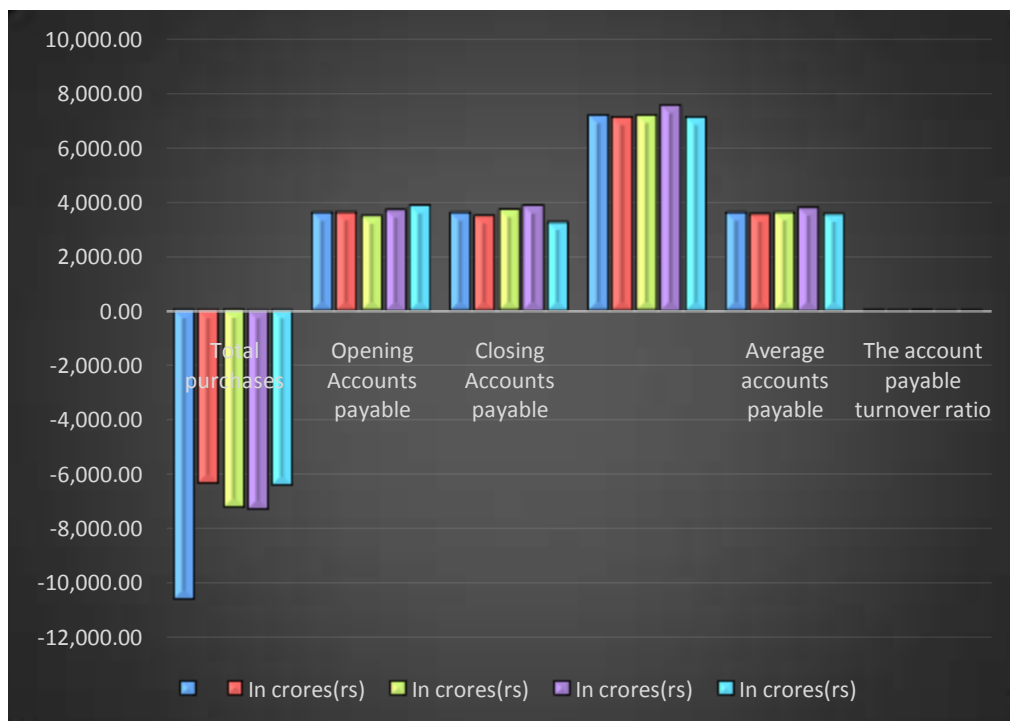


1. Gross profit is nothing but excess of sales value over the cost of the firm gross profit is the profit earned before deduction of operating expenses.
2. The gross profit for the last 5 years has been fluctuating and is decreasing yearly which shows their profit earning capacity is decreasing rapidly year by year.

### 9) Accounts payable turnover ratio

The accounts payable turnover ratio = total purchases/accounts payable

particulars	In crores (Rs)				
	2017	2018	2019	2020	2021
Total purchases	-10,578.64	-6,294.62	-7,209.34	-7,260.75	-6,389.26
Opening Accounts payable	3,576.38	3,581.38	3,471.57	3,688.52	3,844.99
Closing Accounts payable	3,581.38	3,471.57	3,688.52	3,844.99	3,239.47
	7,157.76	7,052.95	7,160.09	7,533.51	7,084.46
<b>Average accounts payable</b>	<b>3578.88</b>	<b>3526.475</b>	<b>3580.045</b>	<b>3766.755</b>	<b>3542.23</b>
<b>The account payable turnover ratio</b>	<b>2.955852</b>	<b>-1.78496</b>	<b>-2.01376</b>	<b>-1.92759</b>	<b>1.80374</b>



The idea ratios of the company for the past 5 years except for 2017, hasn't been in a good position and this implies that the company isn't capable to pay of its credit purchases.

### 10) Operating profit margin ratio

Operating profit margin ratio = Operating profit / net sales\* 100

Particulars	2017	2018	2019	2020	2021
Operating profit	24,629.62	19,294.85	20,305.17	22,988.04	22,392.58
Net sales	17,619.73	16,771.69	16,524.95	17,067.99	17,100.10
<b>Operating profit margin ratio</b>	<b>139.78</b>	<b>115.04</b>	<b>122.88</b>	<b>134.69</b>	<b>130.95</b>

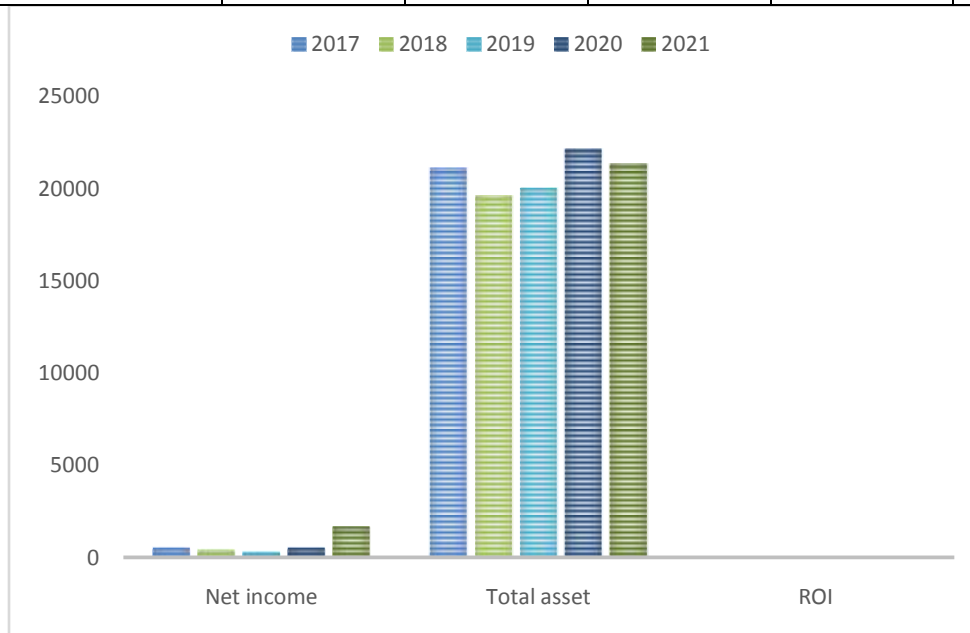


The operating profit ratio for Tata communications is more than the ideal ratio for the past 5 years which means the company is able to meet their associated cost and their also able to manage and maintain their business. A good ideal ratio is considered to be more than 15%.

**11) ROI**

**ROI = Net income/ Total asset**

Particulars	In crores (Rs)				
	2017	2018	2019	2020	2021
Net income	533.23	421.13	340.96	530.17	1,683.27
Total asset	21,102.29	19,602.76	20,012.76	22,161.47	21,333.41
<b>ROI</b>	<b>0.025269</b>	<b>0.021483</b>	<b>0.017037</b>	<b>0.023923</b>	<b>0.078903</b>

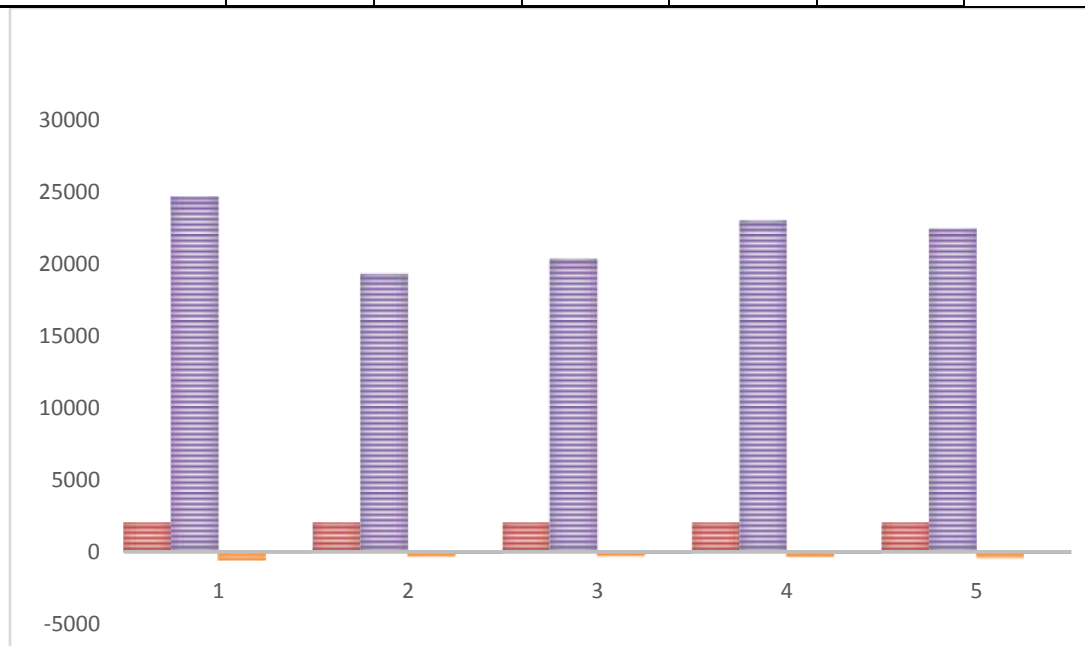


The ideal ratio for the company is less than the ideal ratio except for the year 2021. This implies that the previous 4 years the company hasn't performed well financially.

### 12) Interest coverage ratio

**Interest coverage ratio** = Earnings before interest and tax/ interest expense

Particulars	In crores(Rs)				
	2017	2018	2019	2020	2021
EBIT	24,629.62	19,294.85	20,305.17	22,988.04	22,392.58
Interest expense	-581	-309	-276	-353	-385
<b>Interest coverage ratio</b>	<b>-42.3918</b>	<b>-62.4429</b>	<b>-73.5695</b>	<b>-65.1219</b>	<b>-58.1625</b>

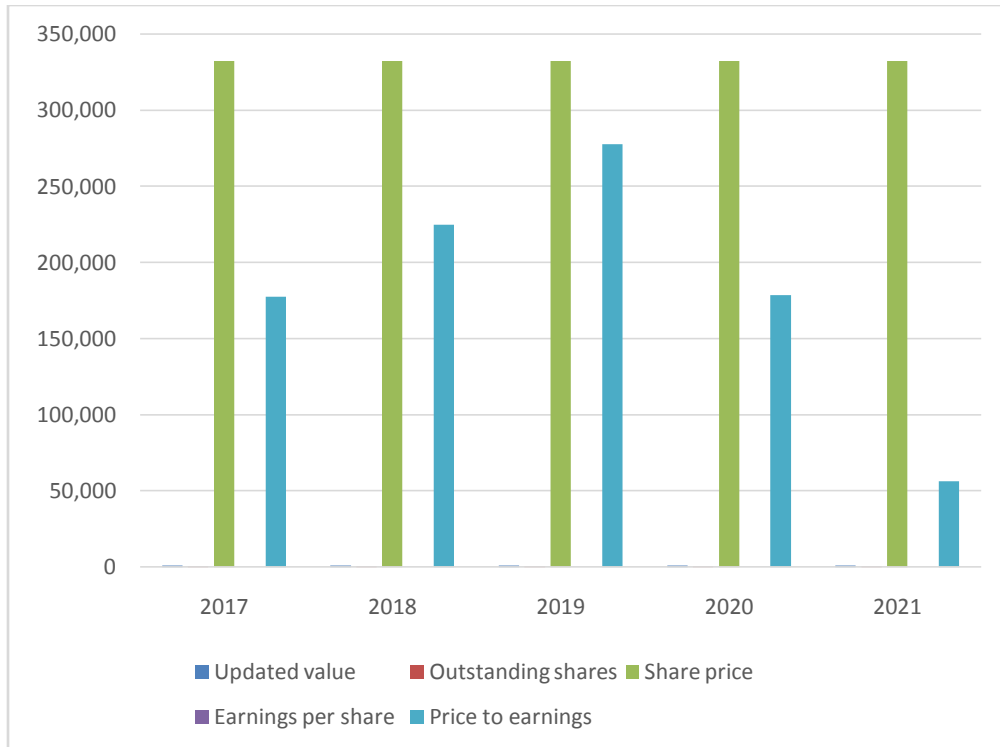


The ideal interest coverage ratio varies from 10-15 and the company hasn't met the requirements and this ratio is done to analyse whether the company is capable of handling its outstanding liabilities.

### 13) Price to earnings

**Price to earnings ratio** = share price/ earnings per share

Particulars	In crores(Rs)				
	2017	2018	2019	2020	2021
Updated value	1,166	1,166	1,166	1,166	1,166
Outstanding shares	285	285	285	285	285
Share price	332310	332310	332310	332310	332310
Earnings per share	1.870982	1.477649	1.196351	1.860246	5.906211
<b>Price to earnings</b>	<b>177612.6</b> <b>17.7</b>	<b>224891</b> <b>22.4</b>	<b>277769.7</b> <b>27.7</b>	<b>178637.7</b> <b>17.8</b>	<b>56264.5</b> <b>56.2</b>

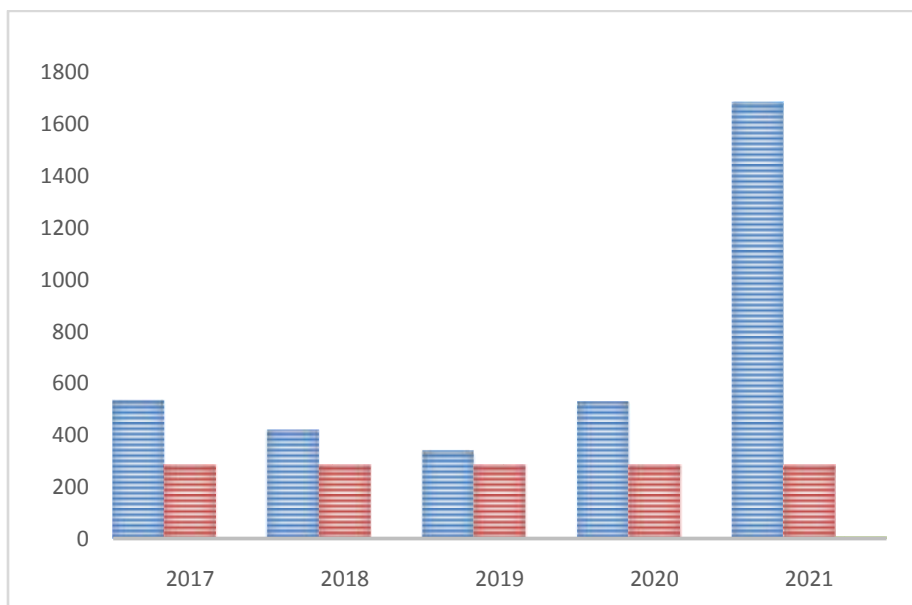


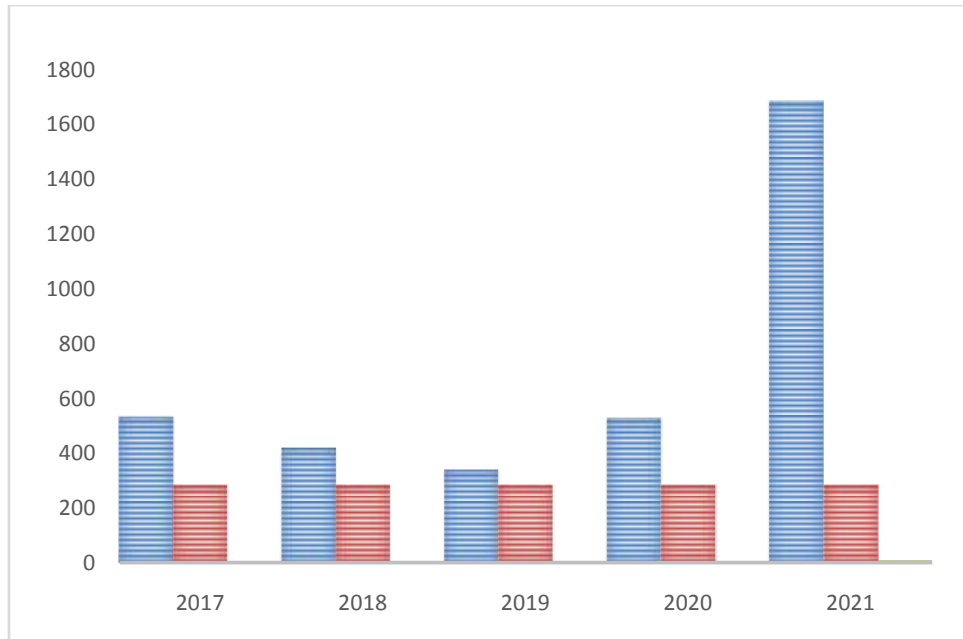
A good price earnings below 20 provides more investing opportunities and the ideal ratios of the company are satisfying the requirements.

**14)Earnings per share**

**Earnings per share= Total earnings / outstanding shares**

Particulars	In crores(Rs)				
	2017	2018	2019	2020	2021
Total earnings	533.23	421.13	340.96	530.17	1,683.27
Outstanding shares	285	285	285	285	285
<b>Earnings per share</b>	<b>1.870982</b>	<b>1.477649</b>	<b>1.196351</b>	<b>1.860246</b>	<b>5.906211</b>



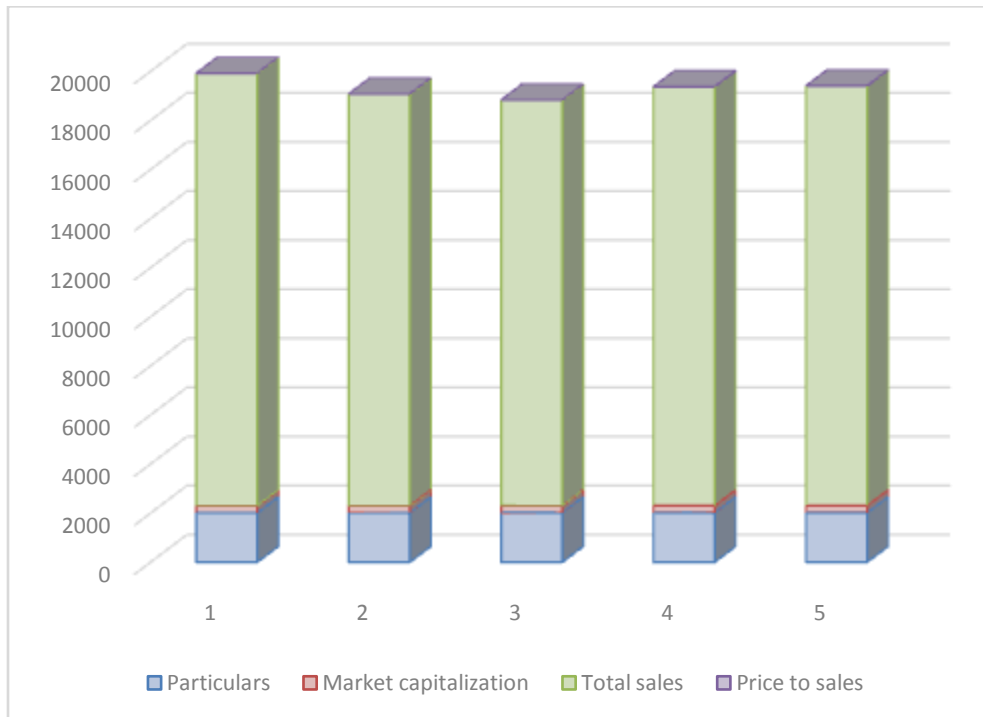


There has been a downfall in the company’s earnings per share from 2017-2019 and a slight increase due to the pandemic and work from home scenario which spike to 5.9 by 2021.

**15)Price to sales**

**Price to sales =market capitalization /total sales**

Particulars	In crores(Rs)				
	2017	2018	2019	2020	2021
Market capitalization	285	285	285	285	285
Total sales	17,619.73	16,771.69	16,524.95	17,067.99	17,100.10
<b>Price to sales</b>	<b>0.016175</b>	<b>0.016993</b>	<b>0.017247</b>	<b>0.016698</b>	<b>0.016667</b>



A PSR of 0.7-1 is considered to a good ideal ratio and it is done for companies that will not show an actual profit and the ideal ratios of Tata communications are not meeting the requirements and is consistent for all the 5 years except for the year 2017.

**Conclusion:-**

The research paper was all about examining and analysing the company's financial performance by using Ratio analysis as an analytical tool. It was all about scrutinizing the company's Tata communications from a financial point of view. By using various ratios as mentioned we were able to find out where the company stood in terms of its credit paying capacity and the returns it makes on investment and also the underutilization of its resources. And the covid pandemic had slightly spiked up the financial performance of the company in a very few cases but the company has the risk of bankruptcy and is not completely financially sound to meet its shareholder requirements if there is any.

**References:-**

A Financial Analysis Of Selected  
Telecommunication Companies In India

1. **Dr. A. Muthusamy** -A financial analysis on the selected telecommunication companies in India
2. **Asha Sharma** – cost of capital and profitability analysis (A case study of telecommunication industry).