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# **Analyzing the Financial performance of the Company: A case study of Nepal Telecom**

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## **Thesis abstract**

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This thesis provides a comprehensive examination of Nepal Telecom's financial performance for last ten years, using a combination of quantitative and qualitative research method. Thorough examination of important financial metrics, like the mean price-earnings ratio and return on total assets, provides a comprehensive viewpoint on the stability, difficulties, and strategic measures of the organization.

Semi-structured interview with representatives of management at Nepal Telecom provide qualitative perspectives on the organization's financial health, global engagements, and adaptive strategies in response to market movement.

The study highlights significant variations in liquidity, changes in consumer behavior, and the complex effects of global operations on financial results. Targeted recommendations are provided in the study's conclusion to solve liquidity issues, improve global competitiveness, and secure long-term financial stability in the constantly changing telecoms sector. This comprehensive exploration contributes invaluable information to the understanding of Nepal Telecom's financial environment and strategic positioning.

<sup>1</sup> Keywords: Financial Analysis, Nepal Telecom, Case study

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## Terms and Abbreviations

<b>NTC</b>	Nepal Telecom Company
<b>PE Ratio</b>	Price-Earnings Ratio
<b>ROA</b>	Return on Total Assets
<b>NFRS</b>	Nepal Financial Reporting Standards
<b>4G</b>	Fourth Generation
<b>FTTH</b>	Fiber-to-the-Home
<b>IPTV</b>	Internet Protocol Television
<b>ARPO</b>	Average Revenue per Order
<b>EBITDA</b>	Earnings Before Interest, taxes, Depreciation and Amortization
<b>ROI</b>	Return on Investment
<b>ROCE</b>	Return on Capital Employed
<b>ROE</b>	Return on Equity
<b>BVPS</b>	Book Value per Share
<b>EPS</b>	Earnings Per Share
<b>GSM</b>	Global System for Mobile Communications
<b>ITU</b>	International Telecommunication Union
<b>OTT</b>	Over-the-Top
<b>NDPC</b>	Nepal Digital payments Company

# 1 INTRODUCTION

## 1.1 Background of the thesis

According to Ravinder and Anitha (2013) financial analysis is the process of determining a company's financial strengths and weaknesses by correctly creating relationships between various financial statement components. A financial statement is a logically and conceptually, structured collection of organized facts. consistent accounting practices. Its goal is to help readers grasp some of a business firm's financial components.

Financial analysis of Nepal Telecom includes evaluating its financial statements to determine its strengths and weaknesses as well as the actual position in the market. This study will give a concise, accurate picture of the business's state and operational performance. Determine the liquidity situation, long-term solvency, financial viability, and profitability of a corporation by analyzing and interpreting its financial statements. Ratio analysis reveals if the firm has been becoming better or worse over the previous few years. Additionally, this allows for effective comparison of all the businesses' various elements.

According to Baran et al (2016) the system of financial indicators, which must be in order and created to reflect all the crucial components of the financial condition, announces the review of the company's financial situation. Therefore, the ratio indicators are utilised to describe the financial status. The ratio indicators make it possible to compare the company to other businesses or to relevant industry statistics. We'll give a total of ratio indicators that can be thought of as a total of representative indicators. These will be the traits of the financial condition that are most frequently indicated. However, hundreds of indications are utilised in addition to the practical application, making it impossible to list them all here.

According to Baran et. al (2016) the business's financial status is a complicated result of their overall performance. The ratio indicators of activity, profitability, liquidity, indebtedness, and market value are used to display this result. These indicators, which show how difficult it is to assess the performance of a business issue, are based on the synthetic indicators of financial accounting.



Joshi (2020) found financial analysis's primary goals are to convey the company's assets and financial situation and to prepare the necessary data for internal management decision-making. Complexity and continuous execution are the essential requirements of financial analysis.

Banerji (2020) found growing industry in this world of globalization, privatization and digitalization are that of the telecommunication industry. Like several other industries across the world, the telecommunication industry is also being subject to growing challenges and fields of opportunities for its increasing transformation in recent days and the years to come. The initiation of these opportunities arises because globally the mobile data traffic has been on a rise along with which the demand for smartphones and data exhaustive appliances. A new ecosystem of digitalization has resulted in the change in the existing framework of this industry. Evolving means of communication through the formation of apps, wireless communication requires a new structure to adjust and fit into. The contribution made by the telecommunication industry towards the economic sector has been immense. There has been a rise of 10% tele density worldwide as has been reported by the World Bank. Further, there has been a 6% growth in the Gross Domestic Product worldwide.

According to UC Berkeley (2019) a company's international activities may differ greatly in size & scope & can include agreements & collaborations with foreign partner institutions & organizations. This policy guides you to consider & manage potential risks when you undertake foreign activities, lays out guiding principles, & makes approval levels clear.

Quain (2018) found that international activity involves a wide range of activities across national borders. There are four main categories that draw people to this field. First, there is import/export, in which businesses exchange goods and services with other countries. Because it requires less capital, it is frequently used as a gateway into the global corporate world. Profiting from proprietary technology through licensing enables inventors to enjoy the benefits without having to produce their own goods. Investing in facilities is a requirement of foreign direct investment, especially in nations with cheaper labor costs and less regulation. Finally, joint ventures and strategic alliances entail collaborations on initiatives with overseas businesses, either through resource pooling or the creation of new jointly owned enterprises. Within the field of international business, each of these types presents certain opportunities as well as difficulties.

## 1.2 Profile of Nepal Telecom Limited

Telecommunications services in Nepal were first established in (B.S. 1973). However, official telecom service was only offered following the founding of MOHAN AKASHWANI in 1948 (B.S. 2005) (Nepal Telecom, n.d.). The Department of Telecommunication was founded in 1959 A.D. in accordance with the plan outlined in the First National Five-year Plan (2012–2017) (B.S. 2016). Under the third five-year plan (2023–2028), the Telecom Department was renamed the Telecommunications Development Board in 1969 A.D. to expand and modernize the telecommunications services. (B.S. 2026).

In 1975 A.D. (B.S. 2032), Nepal Telecommunications Corporation was formally established as a fully owned government corporation with the objective of providing telecommunications services following the adoption of the Communications Corporation Act 2028 (Nepal Telecom, n.d.). Nepal Telecommunication Corporation was renamed as Nepal Doorsanchar Company Limited (NDCL) on April 13, 2004 (Baisakh 1, 2061) after serving the country for 29 years with a strong sense of pride and success. The Company Act of 2053 governs the registration of Nepal Doorsanchar Company Limited. Nevertheless, "Nepal Telecom" is the company's registered trademark and is how the public knows it. 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.

Since the company's founding, Nepal Telecom has tried to offer its valued customers high-quality service (Nepal Telecom, n.d.). Technologies that best suit the needs of the company's customers have always been used to accomplish this goal. The accumulation of all these efforts that sets this organisation apart from others is its nationwide reach, spanning from urban regions to the most distant and economically unviable locations.

From its beginnings to its status as Nepal Doorsanchar Company Limited, Nepal Telecom's incredible journey displays its adaptability and development in a changing telecommunications environment (Nepal Telecom, n.d.). The company's dedication to modernization and customer-focused service is demonstrated by this change. The government-owned monopoly's transformation into a business-focused company demonstrates initiative in surviving a competitive

market. Nepal Telecom's extensive national reach, which includes even the most isolated districts, emphasizes the vital role it plays in tying together dissimilar regions and advancing socioeconomic development. Taking everything into account, it is an emblem of national pride and an essential component of the country's development, advancing the goals of nation-building.

### **1.3 Statement of the Problem**

Nepal Telecom (NTC) is the biggest and most well-known telecommunications provider in the nation, offering its citizens a wide range of essential services. Being a government-owned business, NTC not only offers outstanding telecom services but also makes a major economic contribution to the country. The company provides internet access, data communication solutions, and landline and mobile phone services, facilitating communication and connectivity across Nepal, including some of the country's most remote and difficult landscapes. One of the most important factors in improving digital connections and closing the digital divide in Nepal is NTC's huge network infrastructure.

Nepal Telecom, despite its essential function in linking the country, has several challenges, such as the requirement for continuous technological innovation to satisfy the changing demands of its customers and maintain its competitiveness in a telecommunications market that is changing quickly. General weaknesses in a government organization such as bureaucratic structure, risk management, national culture and the competition from private telecom providers and the trend of consumers favoring mobile applications for communication are other issues that NTC is facing. NTC, however, continues to be a pillar of Nepal's telecom industry, playing a major role in the country's infrastructure growth, economic development, and efforts to keep its citizens linked in an increasingly digital world.

Additionally, it provides many jobs, which significantly aids in the government's efforts to lower the unemployment rate. Therefore, increased profitability for this business is related to national economies and society rather than the business itself. Nepal Telecom is one of the country's largest public companies. It plays a huge part in the nation's overall infrastructure development. However, the company's current challenges include a heavy fee burden and revenue loss.

Furthermore, Nepal Telecom has been facing intense competition, particularly from Ncell, a strong competitor. To stay in business, they have had to reduce their prices and provide new,

improved services to compete. Additionally, Nepal Telecom faced the COVID-19 pandemic's challenges, much like many other businesses did throughout the world. Due to the pandemic, more individuals are working from home and consuming more data, which has changed how people use the internet and the workplace. All these things together have made Nepal Telecom think hard about how they can adapt and make good decisions in this changing world of phones and communication. As a result, the actual profit of Nepal Telecom has decreased by 7.76% from the previous year because of sales and revenue declines.

This study aims to measure these mainstream problems, considering their significance. However, the purpose of this study is to respond to the following query:

- What is Nepal Telecom's actual financial situation?
- How does Nepal Telecom involve in international activities?

#### **1.4 Objectives of the Study**

The primary objectives of this study revolve around Nepal Telecom's financial performance, its impact on the country's economy and involve in international activities. The specific objectives are as follows:

- To analyze the financial performance of the company for the past ten years.
- To investigate and understand the involvement of Nepal Telecom in international activities.

#### **1.5 Significance of the Study**

The reason this study is significant is because it provides an understanding of Nepal Telecom's financial situation. The study will show us how much this company contributes to Nepal's overall economic growth and where is the company stand in total industry of the country. Even in higher education, not many people have given this important organisation an in-depth examination. Even being an important organization, there has been conducted very limited studies. Therefore, this study will be one of the guiding tasks to fulfill such lacks in telecommunication service sectors. Furthermore, it explores and clarifies Nepal Telecom's international activities, which can offer important insights into its connections and influence on a worldwide scale.

## **1.6 Limitations of the study**

Limitations on the size of the interview sample and any response biases may affect the objectivity and representativeness of the results.

The results may only apply to Nepal Telecom, which would limit their applicability to other telecom providers or different economic environments.

The study might not sufficiently represent crises and changes in the economy that take place outside of its ten-year timeframe.

The examination of exchange rate fluctuations and their impact on financial indicators may lack depth.

Due to the potential for differing respondent perspectives and interpretations, the qualitative component introduces subjectivity into the analysis.

Financial statements covering a ten-year period may not allow for a comprehensive examination of every relevant detail due to time and resource limitations.

## **1.7 Organisation of the study**

There are five chapters to this study. The introduction is included in the first chapter. This chapter contains the background of the study, a profile of Nepal Doorsanchar Company Limited (Nepal Telecom), a problem statement, the objective of the study, its significance, its limitations, and its organisation. The second chapter covers the introduction, theoretical framework, literature review, and concluding thoughts in the same way. The third chapter presents the study's methodology. It covers the research design, nature and source of data, population, and sample, defining the variables, and methods of analysis. Data analysis and presentation are covered in the fourth chapter. Similarly, the study's summary, conclusion, and recommendations are included in the last chapter. Lastly, a bibliography will be provided at the conclusion of the research.

## 2 Literature Review

This chapter includes the literature review of financial analysis and its contribution to Nepalese economy: A case study of Nepal Telecom.

Over the past few decades, there has been a significant revolution in the telecommunications business, which is widely acknowledged as a major contributor to economic growth. This literature review provides a comprehensive overview of the telecom industry's role in developing economic development, with a specific focus on Nepal Telecom's financial performance and its international activities.

A literature review is a compass that guides research and helps to understand what others have said, done, and written about financial analysis. It's like reading a map before a journey. The literature review isn't about new experiments; it's about summarizing existing knowledge from academic sources like journals, articles, and books. This chapter forms the foundation of research, emphasizing the creation of a conceptual framework, a review of related empirical studies, and the final insights drawn from past research.

### 2.1 Introduction

Financial analysis is the process of examining the financial data of an entity to assess its performance (Tothefinance, n.d.). A company's financial analysis is used to establish financial strategies and evaluate economic trends. A company's performance is evaluated by comparing the results to those from the previous year or the industry average, using financial data to compute various ratios. Financial statements, such as the cash flow statement, statement of financial position, and income statement, are carefully analyzed by financial analysts to determine an entity's position.

The main objective is to analyze the performance of a company. The purpose of financial analysis is to forecast an organization's profitability, solvency, liquidity, and stability. Understanding the patterns in a company's financial performance is essential for establishing financial policies and creating long-term business goals.

Financial statements describe a company's investment, finance, and operations (Peterson & Abbozzi, 1999, p.25). When it comes to loan decisions, investment decisions, and other business affairs, creditors and investors should find information from financial statements useful. These statements are useful for evaluating, analyzing, and projecting the amount, timing, and unpredictability of future cash flows to creditors and investors. In other words, financial statements provide the information needed to assess a company's potential earnings and, by extension, the projected cash flows from those earnings.

According to Harrison and Horngren (2008, p. 686), financial statement analysis (FSA) is the process of analyzing a company's financial statements to obtain relevant data for making decisions. Besides management, financial statement analysis is also performed by external stakeholders for various objectives. Management and external stakeholders employ a variety of techniques for financial statement analysis. The most popular methods of financial statement analysis are here:

According to Harrison and Horngren (2008, p. 686), horizontal analysis calculates the amount and percentage changes in financial figures from one period to another period. In other words, it compares financial data for at least two years/months/quarters/periods. The objective is to find out the change in financial figures and the direction of such change.

According to Harrison and Horngren (2008, p. 686), vertical analysis is one of the financial statement analysis methods. It is also known as the common-size financial statement analysis. A common-size financial statement expresses every item in the financial statement as a percentage of one convenient base parameter. The base item for the common size balance sheet is taken as the total assets (for the assets side) and total liabilities (for the liabilities side). While for the common size income statement (profit and loss statement), the base parameter is taken as sales or revenue.

Harrison and Horngren (2008, p. 686) found that it shows the relationship of a financial-statement item to its base, which is the 100% figure. All items on the statement are reported as a percentage of the base. For the income statement, total revenue is usually the base. Suppose under normal conditions a company's net income is 8% of revenue. A drop to 6% may cause the company's stock price to fall.

According to Goel (2016, p. 4), ratio analysis is a technique for evaluating financial statements or, to say, for detailed analysis of the financial statements presented by the firm. The analysis or evaluation is done to form an opinion about the various aspects of the organization, like profitability, short and long-term liquidity, efficiency, potential, etc. Moreover, this analysis is done and utilized by both internal and external stakeholders. Ratios are classified into the following types:

According to Goel (2016, p. 4), the purpose of these ratios is to see if a business is being efficient with its expenditures to create products that can be sold at reasonable prices. Profitability ratios help in determining the overall effectiveness of management regarding returns generated on sales and investments. Profitability ratios are used to determine the profit capacity of the firm at different levels. Common examples of profitability measures include Gross margin, EBITDA margin, EBIT margin, Net profit margin.

Goel (2016, p. 4) found that the efficiency ratios or asset turnover ratios indicate how efficiently the firm utilizes its assets. Two commonly used asset turnover ratios are receivables turnover and inventory turnover. High rates of turnover for receivables and inventory indicate that a company is maximizing its use of cash by having minimal assets outstanding in these areas. Important activity/ efficiency/turnover ratios are Inventory turnover ratio, Receivables turnover ratio, Fixed assets turnover ratio, Total asset turnover ratio, Payables turnover ratio, Working capital turnover ratio.

According to Goel (2016, p. 4) liquidity ratios provide information about a firm's ability to meet its short-term financial obligations. They are of immense use to those extending short-term credit to the firm. These ratios are calculated to find out the liquidity position of an organization in the short term. The main purpose of liquidity ratios is to see if a business has enough assets that can be easily converted into cash to meet its current obligations. The important liquidity ratios are: Current ratio, Acid-test ratio, Quick ratio, etc.

According to Goel (2016, p. 4) solvency ratios or financial leverage ratios indicate the long-term soundness of the firm. The relative debt load of a business is its "leverage." Financial leverage ratios measure the extent to which the firm is employing long-term debt and what is the degree of financial risk of the firm? A high degree of solvency indicates that a company's cash flows are consistent enough to make periodic interest and principal payments on its debt.



In practice, bankers often include leverage ratios as debt covenants in contract agreements. It involves: Debt-equity ratio, Debt-asset ratio, etc.

Valuation ratios or market value ratios mainly help to analyze the worth of stock in the share market or the value of a company (Goel, 2016, p. 5). Valuation ratios include Price-to-earnings ratio, Dividend yield, Market value to book value, etc.

**Trend Analysis:** Trend Analysis is a statistical tool that helps to determine the future movements of a variable based on its historical trends (Financemanagement, n. d.). In simple words, it predicts future behavior based on past data. Under this method, a researcher collects information from multiple time periods and plots the information on a horizontal line to get some meaningful information. There is no specific amount of time for a movement to become a trend. However, the longer the movement, the better it is.

**Cashflow Statement Analysis:** Net cash flow means the amount of cash generated by an operating business over a period, say one year, six months, or nine months (Financemanagement, n.d.). A business generates or invests cash in three main activities, which are: (1) Operating Activities, (2) Investing Activities, and (3) Financing Activities. Net cash flow is the aggregate of cash inflows and outflows from these three activities. It is nothing but the difference between cash inflows and outflows of a business. We also know it as an increase/decrease in cash and cash equivalents. Cash equivalents are those assets that are highly liquid and can be swiftly converted into cash and therefore are termed as good as cash many times. It is a good metric to analyze the liquidity of a business.

**Cost Volume Profit Analysis:** Cost Volume Profit Analysis explains the behavior of profits in response to a change in cost and volume (Financemanagement, n.d.). In other words, it is an analysis presenting the impact of cost and volume on profits. Commonly called CVP Analysis, a manager can find out the level of sales where the company will be in a no-profit-no-loss situation with this analysis. This situation is called the break-even point. Similarly, CVP analysis can also explain the no. of units of sales required to achieve a particular targeted operating income.

**Dupont Analysis:** (Financemanagement, n.d.) Dupont Analysis is an approach which breaks the Return on Equity (ROE) into more detailed expression, thereby overcoming the shortcomings or loopholes of conventional ROE.

It is an approach for computing return on equity (ROE) encompassing a broad level of indicators leading to this return (FinanceManagement, n.d.). DuPont analysis calculator calculates this ROE using three different factors. These factors include operating efficiency, the efficiency of assets in generating revenues, and the efficiency of assets in earning for shareholders' funds. So, it is a combination of Operating performance, resource utilization (assets use), and deployment of funds.

Return on equity (ROE) is a measure to determine the efficiency of a company in earning returns on the money invested by the equity shareholders (Financemanagement, n.d.). An investor will always be willing to invest in a company that commands a higher return on equity.

**Rates of Return:** At the end of the day, investors, lenders, and finance professionals, in general, are focused on what type of risk-adjusted rate of return they can earn on their money (Financemanagement, n.d.). As such, assessing rates of return on investment (ROI) is critical in the industry. Common examples of rates of return measures include Return on Equity (ROE), Return on Assets (ROA), Return on invested capital (ROIC), Dividend Yield, Capital Gain, Accounting rate of return (ARR), Internal Rate of Return (IRR).

**Growth Rates:** Analyzing historical growth rates and projecting future ones are a big part of any financial analyst's job (Financemanagement, n.d.). Common examples of analyzing growth include Year-over-year, Regression analysis, Bottom-up analysis (starting with individual drivers of revenue in the business), Top-down analysis (starting with market size and market share), Other forecasting methods.

The analysis of financial statements is an important part of making well-informed company decisions (Inspired Economist, 2023). By evaluating a company's profitability, solvency, liquidity, and stability, this essential financial instrument helps determine its sustainability. Corporations and individuals can make informed financial and investment decisions by comparing past data with current performance and projecting the future.

(Inspired Economist, 2023) by carefully analyzing a company's financial accounts, executives can spot trends and patterns, assess overall performance, and develop development and success plans.

## 2.2 Review of Research Articles:

According to Rao (2021) the Literature review of this study will emphasis on the related studies on comparing and analyzing financial statements. This part of the thesis explains all term and objectives connected with financial analysis and the ways how the analysis can be done. The theory helps us to understand the importance of financial analysis for the company as well as the external users.

Rao (2021) found financial analysis is the analysis of financial statements. It's a method of evaluating the connections between financial statement elements to gain a deeper comprehension of the status and performance of the company. The terms "position" and "performance" denote the firm's financial and operational positions, respectively. When we talk about "analysis," we mean the methodical classification of the financial statements' data. To facilitate analysis, the data provided in the financial statements should be reduced in complexity. Conclusions are drawn once the data is simplified for interpretation. As a result, interpretation, and analysis work best together. With these two words together, management may employ a thorough analysis.

According to Myers, J. (1969, p.35), "Financial statement analysis is largely a study of the relationship among the various financial factors in a business as disclosed by a single set of statements and a study of the trend of these factors as shown in a series of statements".

Rao (2021) examined there are three steps involved in the analysis of financial statements. They are selection, classification, and interpretation. Selection of data related to the purpose of analysis of financial statements. Classification is the methodical segregation and arrangement of the data. In- perpetration is the drawing of inferences and conclusions.

Rao (2021) states that the financial data available to the analyst should be re-arranged so that he can work on it to get the results. The data should be reduced to a standard form of his choice.

Rao (2021) found coordination among the different data should be made with the help of tools and techniques of analysis such as ratios, trends, common size, cash flow and funds flows.

According to Rao (2021), the financial data and its results should be interpreted, and the various inter-connected figures must be compared with each other in a simple and understandable manner. This comparison is popularly termed as Ratio Analysis. The usefulness of this financial data is explained for decision-making purposes to suit the internal policies. The summary of findings and interpretations is communicated to the respective management.

According to Singh and Cabrilo, (2007, pp. 27–44) the aim of the research is a selection of minimum indicators of financial analysis required to certain analysts can draw conclusions on the operation and future of the reporting company and decide to go with him to enter business relations. Depending on the interest of analysts are defined the objectives of the analysis. From a comprehensive analysis of the owners and shareholders are more interested in an analysis of assets and their sources, analysis of profit and its distribution, and business partners (creditors and customers) and financiers (banks) interested in the creditworthiness of the company and its short-term and long-term liquidity, as security to settle liabilities arising from operations. Tax authorities want to establish the right base for taxation, and the state to assess which economic policy measures could accelerate a certain production and thus increase budget revenues in the future. Managers at all decision-making levels use financial statements to plan, organize and control the production process to cover all operating costs, including salaries of all employees, and to generate profits for owners and shareholders.

Omolaja et al. (2012, pp. 19–26) explain that the main sources of information based on which key business decisions are made are the financial statements of a given company. The main purpose of the financial statements is to help in analyzing and evaluating the business results of the company's management. The main reason is that these modern organizations have grown to very complex levels and information plays a vital role in the smooth functioning and management of organizations even at the global level.

According to Andjelic and Vesic (2017, p.13) expected future results will influence the adoption of business management decisions, related to whether to lend money to a business partner or to invest in each company. The main analytical technique of investment business-financial microanalysis used in the consideration of different sectors and the field of economy, should indicate how the management, respectively, the owners of the company should work and achieve results in different domains of economic activity.

According to Andjelic and Vesic (2017, p.11), however, the information arising from this analysis is not comprehensive and does not ensure the consideration of the entity's business operations. Namely, this analysis provides only financial information, which, although important for management, is not comprehensive. The analysis of the financial statements deals with the quantification and research of the relationships that exist between the balance sheet items, the income statement and the cash flow statement to enable a proper assessment of the financial position, performance, and liquidity of operations.

Gautam and Sharma (2020) say public enterprise in Nepal plays vital role in generating revenue in Nepal. The top-performing public company in Nepal with a significant revenue contribution is Nepal Telecom (NT). This study's primary goal is to investigate how various taxes from the NT contribute to Nepal's revenue.

According to Ravinder and Anitha, (2013, p. 10) financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectivities being or has been accomplished. It is the process of measuring the results of firm's policies and operations in monetary terms. It is used to measure firms over all financial health over a given period.

According to Nižníková et al. (2020) In the present unstable competitive environment, the financial analysis is an essential part of monitoring the business subject and is an important tool to support the decision making of various stakeholder groups. Additionally, it offers an overview or input regarding the overall state of business subjects, their advancement, and the state of specific operation sectors. This research can determine which elements have the biggest impact on the business subject and have led to unfavorable outcomes. Business subjects can forecast their future growth and potential bankruptcy possibility by using financial-economic prediction models.

Maneejuk and Yamaka (2020) found that these days, economic growth, globalization, and the trans nationalization of trade and communications are all significantly influenced by innovations and advances in telecommunications technology. It is becoming a common occurrence in people's daily lives and is not just beneficial to the economy. The development of telecommunications systems can improve the velocity of data transmission, thereby disseminating more information among people. Undoubtedly, telecommunications and information technology play a significant role in providing direct and indirect benefits to a variety of economic sectors. This is

to say, the faster information access, the higher the comparative advantage of the country. However, there are regional differences in telecommunications innovation and technology, which contributes to social, educational, and economic inequality.

Gautam and Sharma (2020, pp. 33–34) explain Nepal Telecom (NT) is the leading and high revenue contributing public enterprise in Nepal. Government acquisition of goods and services intended to create future benefits, such as resilient infrastructure investment or research spending in various sectors, is categorized as government investment (government gross capital formation). These two types of government spending, on final consumption and on gross capital formation, together constitute one of the major components of gross domestic product of a nation in the world. Economic growth of the country has not improved substantially over time.

According to Abend (2008, pp. 173–199) theories are formulated to explain, predict, and understand phenomena and, in many cases, to challenge and extend existing knowledge within the limits of critical bounded assumptions or predictions of behavior. The theoretical framework is the structure that can hold or support a theory of a research study. The theoretical framework encompasses not just the theory but the narrative explanation about how the researcher engages in using the theory and its underlying assumptions to investigate the research problem. A theoretical framework consists of concepts and, together with their definitions and reference to relevant scholarly literature, existing theory that is used for the study. The theoretical framework must demonstrate an understanding of theories and concepts that are relevant to the topic of research paper and that relate to the broader areas of knowledge being considered.

In this Literature review part there are many reviews about the financial analysis for better understanding of financial analysis process, but there will not use all of them, because there are few numbers of indicators which are relevant for this study.

### **2.3 Theoretical Framework**

According to Abend (2008, pp. 173–199) the theoretical framework is most often not something readily found within the literature. Their study review course readings and pertinent research studies for theories and analytic models that are relevant to the research problem you are investigating. The selection of a theory should depend on its appropriateness, ease of application, and explanatory power. The theoretical framework strengthens the study are, an explicit

statement of theoretical assumptions permits the reader to evaluate them critically. The theoretical framework connects the researcher to existing knowledge. Guided by a relevant theory, you are given a basis for your hypotheses and choice of research methods. Articulating the theoretical assumptions of a research study forces you to address questions of why and how. It permits you to intellectually transition from simply describing a phenomenon you have observed to generalizing about various aspects of that phenomenon. Having a theory helps to identify the limits to those generalizations. A theoretical framework specifies which key variables influence a phenomenon of interest and highlights the need to examine how those key variables might differ and under what circumstances. By virtue of its applicative nature, good theory in the social sciences is of value precisely because it fulfills one primary purpose: to explain the meaning, nature, and challenges associated with a phenomenon, often experienced but unexplained in the world in which we live, so that we may use that knowledge and understanding to act in more informed and effective ways.

According to the below theoretical framework figure, a company's financial analysis can be performed by comparing its past financial statements to its current financial statements. The specifics regarding the financial aspects must be included while creating the comparative statement of balance sheet. Extracted historical financial data from the balance sheets is the second most crucial component in the creation of the comparative balance sheet. The next most important requirement to have an effective comparison with the past financial data is current year information extracted from the balance sheet of the company. The financial data related to different time periods can now be obtained and compared to figure out the extent of the company's financial position's growth or decline. To determine the level of increase or decrease in financial position, the percentage analysis is carried out in between them.

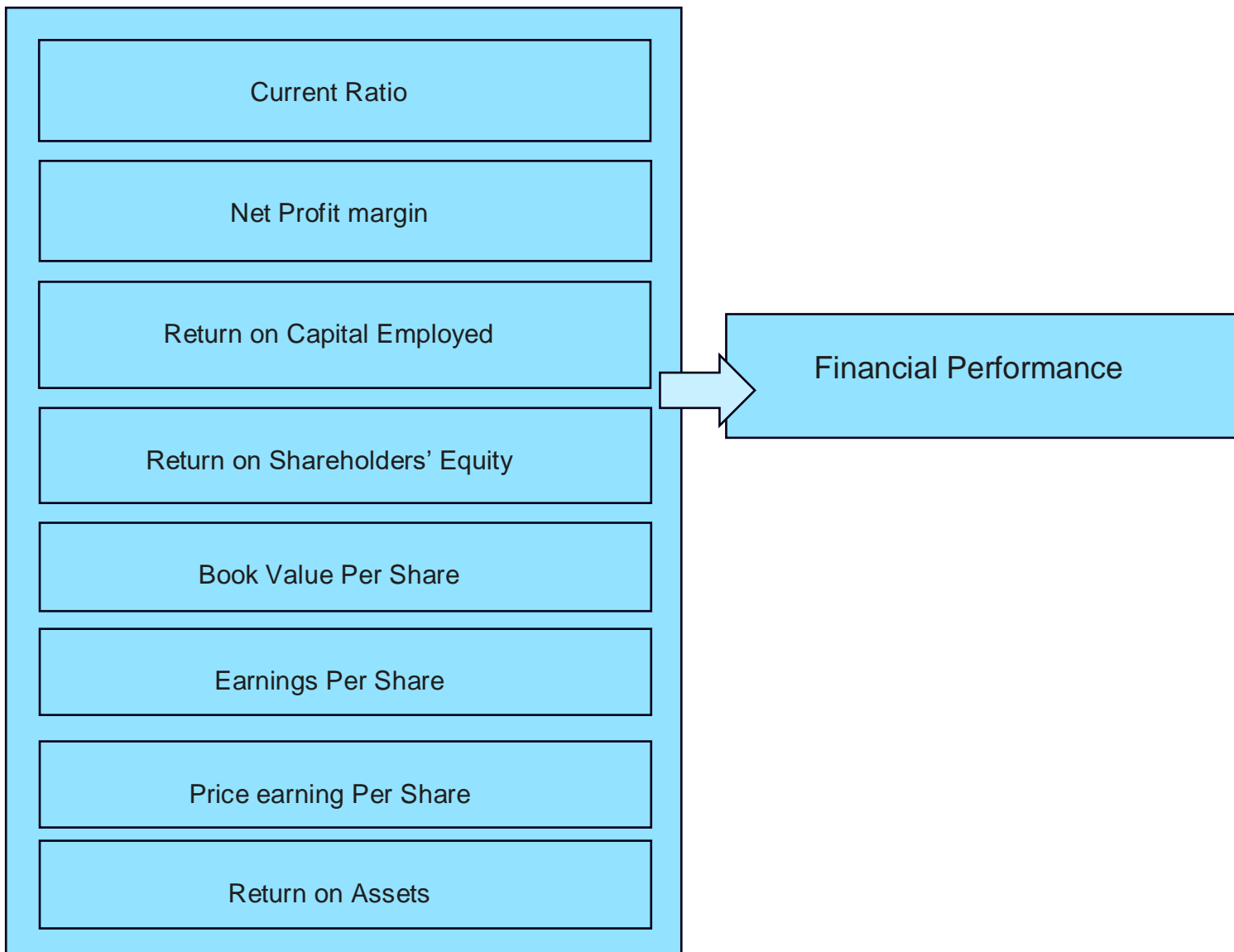


Figure 1. The given figure represents the financial analysis of the company.

Reviewing the earlier studies revealed that most of the businesses weren't operating efficiently. Most of the researchers also studied other businesses. However, few researchers had conducted research on Nepal telecommunication. But their primary concerns were with the profit planning and management mechanism of Nepal Telecom. In the same way, they discovered that Nepal Telecommunication lacked an appropriate planning and control mechanism. Similarly, other researchers used surface or aggregate applications of financial analysis methods. Financial analysis of Nepal Telecommunication shows the actual position of the Nepal telecom in Nepalese market.



### **3 Research Methodology**

This study employs a mixed-methods approach, combining qualitative and quantitative techniques to gain a comprehensive understanding of Nepal Telecom's financial performance and its international activities.

#### **3.1 Qualitative Method: Interview**

To investigate and understand Nepal Telecom's involvement in international activities, a semi-structured interview protocol was developed. The interview protocol included open-ended questions designed to elicit insights into Nepal Telecom's international partnerships, market presence, & global influence. Purposive sampling was used to select a sample of key informants with expertise in Nepal Telecom's international operations. The interviews were conducted face-to-face, & the responses were transcribed verbatim for analysis.

#### **3.2 Quantitative Method: Secondary Data Analysis**

The execution of a secondary data analysis for a financial study of Nepal Telecom encompassed gathering diverse data sources. Annual reports spanning the last ten years provided crucial insights into the company's financial standing, featuring comprehensive balance sheets, income statements, and cash flow reports. Additionally, historical stock market data, government publications detailing industry trends & regulations, & academic research articles were utilized. Through meticulous review of financial statements, including balance sheets, income, & cash flow statements, key financial indicators were analyzed. Ratios assessing liquidity, profitability, leverage, & efficiency were calculated to gauge the company's performance. Comparative analyses against industry peers were conducted, identifying trends & patterns over the years. This in-depth analysis aimed to interpret the company's financial performance & its significant role in bolstering the Nepalese economy through technological advancement & market contribution. Challenges such as ensuring data accuracy & addressing regulatory changes were encountered & managed throughout the process.

### **3.3 Research Design**

The plan or approach for carrying out a research study is referred to as research design. It describes the aims and objectives of the study as well as the methods and techniques that will be followed to gather and process data. Because it directs the entire research process and ensures that the study is carried out in a methodical and exacting manner, research design is important.

Hassan (2023) emphasizes that the case study research design is used to investigate a single case or a small number of cases in depth. It includes collecting information through various methods, such as interviews, observations, and document analysis. The purpose of case study research is to offer an in-depth understanding of a specific case or circumstance.

According to George (2022) a semi-structured interview is a data collection method that relies on asking questions within a predetermined thematic framework. The questions are not predetermined in terms of sequence or wording, though, Semi-structured interviews are frequently qualitative in character when used in research. They are generally used as an exploratory tool in marketing, social science, survey methodology, and other research fields.

#### **3.3.1 Data Collection**

In this thesis in the first phase, financial data from all the annual reports from 2013-2023 from the Nepal Telecom Limited will be collected to perform the financial analysis.

In the second phase, the data will be collected from a semi-structured interview with Nepal Telecom's Management Staffs.

#### **3.3.2 Population and Sampling Technique**

According to Shukla (2020) generally, inferential statistics are typically used in quantitative educational, psychological, and social studies. To do that, a specific sample is used for the research, and the findings can be projected to a significant or full target population. Population in research refers to such a group. Before beginning any research, the investigator must de-

termine and precisely characterize the population. A well-defined population aids the researcher in choosing an appropriate sample size that accurately reflects the population. Success of research and reliability of results mostly depend upon the sample.

### 3.4 Definitions of the Variables

#### 3.4.1 Current Ratio

The current ratio is a financial ratio that measures whether a firm has enough resources to pay its debts over the next 12 months. Current assets and current liabilities of a company are compared. A company's market liquidity and capacity to satisfy creditors' demands are shown by its current ratio. Industry-specific acceptable current ratios range from 1.5 to 3, with healthy enterprises typically falling within this range. If a company's current ratio is in this range, then it generally indicates good short-term financial strength. An excessively high current ratio could indicate that the business is not making the best use of its short-term financing facilities or current assets. This also be a sign of issues with managing working capital.

Current Ratio calculated by using this formula:

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

#### 3.4.2 Net profit Margin

The percentage of revenue that remains after all costs have been deducted from sales is known as the net profit margin. The indicator shows how much profit a company can make from all its sales. The net sales part of the equation is gross sales minus all sales deductions, such as sales allowances. Net profit margin calculated by using this formula:

$$\text{Net profit Margin} = \frac{\text{Net profits} \times 100}{\text{Net Sales}}$$

### 3.4.3 Returns on Capital Employed

A financial measure called return on capital employed (ROCE) can be used to evaluate the profitability and capital efficiency of a business. In other words, the ratio can be used to determine the extent to which a business is making a return on its investment. Financial managers, stakeholders, and possible investors can use several profitability ratios, including the ROCE ratio, to evaluate a company before making an investment. ROCE is a metric for analyzing profitability, and potentially comparing profitability levels across companies in terms of capital. Earnings before interest and taxes and capital employed are the two elements needed to compute return on capital employed. It is calculated by using this formula:

$$\text{ROCE} = \frac{\text{EBIT}}{\text{Capital Employed}}$$

Where, EBIT = Earnings Before Interest and Tax

Capital Employed = Total Asset- Current liabilities

### 3.4.4 Book Value Per Share

Book value per share (BVPS) is a method to calculate the per-share book value of a company based on common shareholders' equity. A company's book value is not its market value per share, but rather the difference between its total assets and total liabilities. It is calculated by using this formula:

$$\text{BVPS} = \frac{\text{Total Shareholder's Equity} - \text{Preferred Equity}}{\text{Total outstanding Shares}}$$

### 3.4.5 Earnings Per Share

The amount of a company's profit allotted to each outstanding share of its common stock is known as earnings per share (EPS). It is calculated by taking the difference between a company's net income and dividends paid for preferred stock and then dividing that figure by the

average number of shares outstanding. Net income, sometimes referred to as profits or earnings, is computed by dividing the total number of shares that are available by the earnings per share value. A more complicated calculation modifies the numerator and denominator to account for shares that may be issued through warrants, convertible debt, or options. The numerator of the equation is also more relevant if it is adjusted for continuing operations.

$$\text{EPS} = \frac{\text{Net Income} - \text{Preferred Dividend}}{\text{End of period common shares outstanding}}$$

### 3.4.6 Price Earnings Ratio

The Price earnings ratio (P/E ratio) is one of the most popular methods for stock analysis that investors and analysts use to determine the value of stocks. In addition to showing whether a company's stock price is overvalued or undervalued, the P/E can reveal how a stock's valuation compares to its industry group. It can be calculated as below:

$$\text{P/E ratio} = \frac{\text{Stock Price Per Share}}{\text{Earnings Per Share}}$$

### 3.4.7 Return on Asset

A measure of a company's profitability in relation to its total assets is called return on assets, or ROA. ROA provides insight into how well a company's management uses its assets to generate earnings, which is useful information for managers, investors, and analysts. The percentage representation of return on assets is shown.

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

### 3.4.8 Mean

According to Taylor (2023) in both math and statistics, the concept of mean is important. In a group of numbers, the mean is the average or most common value. It is a statistic

used to measure a probability distribution's central tendency along its median and mode. Another name for it is an expected value. This statistical idea is very important to the finance industry. The concept is used across various financial areas, including but not limited to portfolio management and business valuation. Arithmetic mean is the total of the sum of all values in a collection of numbers divided by the number of numbers in a collection. It is calculated in the following way:

$$\text{Mean } (\bar{x}) = \frac{(\sum x)}{n}$$

Where,

$(\bar{x})$  = mean.

$\sum x$  = Sum of X Variables

N = Number of frequencies

### 3.4.9 Standard Deviations

The standard deviation is an indicator that indicates the degree of variation (dispersion, spread, etc.) from the mean (BYJUS, n.d.) A "typical" variation from the mean is indicated by the standard deviation. Because it goes back to the data set's initial units of measurement, it is a well-liked measure of variability. Like variance, there is a modest variation if the data points are near the mean and a large variance if the data points are far dispersed from the mean. The standard deviation determines how far the numbers deviate from the average. The most popular way to assess dispersion is via the standard deviation, which is based on all values. As a result, the standard deviation figure is impacted by even a small change in one value. It is independent of origin but not of scale. Additionally, it helps with some complex statistical issues.

$$S.D(\sigma) = \frac{\sqrt{\sum (X - \bar{x})^2}}{N}$$

Where,

$\sigma$  = population standard deviation

$\Sigma$  = sum of x

X= each

Value

$\bar{x}$  = population mean

N = number of values in the population

### 3.4.10 Variance

The degree to which a set of data is noticeably dispersed is called its variance. It is indicated that there is zero variation if every data value is the same (BYJUS, n.d.). Variances that are not zero are all regarded as positive. A small variance shows that the data points are near the mean and one another, whereas a large variance is indicated by the data points being widely separated from the mean and from one another. The variance can be simply defined as the squared average of the distances between each point and the mean. It is calculated in the following way:

$$\sigma^2 = \frac{\Sigma (X - \bar{x})^2}{N}$$

Where,

$\sigma^2$  = population variance

$\Sigma$  = sum of...

X = each value

$\bar{x}$  = population mean

N = number of values in the population

## 4 Presentation and Analysis

### 4.1 Introduction

This chapter represents presenting and analyzing data to achieve the created objectives. This is the main body of the chapter for the study. This chapter is divided into several headings, including return on total asset, book value per share, earnings per share, net profit margin price earnings ratio, returns on capital employed, and returns on shareholders' equity. It is illustrated as follows.

#### 4.1.1 Current ratio of Nepal Telecom Limited

Nepal Telecommunication is a government-owned business that is doing well in the nation's service sector. The current ratio evaluates the company's capacity to meet short-term obligations. A higher ratio indicates a company's greater capacity to pay off its debt. The current ratio for Nepal Telecommunication during a ten-year period is shown in the following table.

Table 1. Current ratio of NTC (In Times) *F/Y 2011/12 to 2020/21.*

Year	Current Ratio (Times)
2011/12	2.70
2012/13	2.54
2013/14	3.19
2014/15	2.94
2015/16	3.88
2016/17	4.22
2017/18	4.99
2018/19	3.04
2019/20	1.66
2020/21	1.64

The above table represents the current ratios of financial statement of NTC for past ten years from FY 2011/12-2020/21. The company's current ratio, which shows how liquid its short-term assets are, showed improvement over time, rising from 2.70 in 2011–12 to a peak of 4.99 in 2017–18. But a following drop to 1.66 in 2019–20 and a slight reduction to 1.64 in 2020–2021 suggest that there might be a liquidity issue. This fluctuation highlights the significance of closely examining the company's financial management strategies and operational effectiveness at these times to understand the elements impacting the noted fluctuations.



#### 4.1.2 Net profit Margin of Nepal Telecom

The net profit position of Nepal Telecom is shown by the net profit margin. The profit is occurred only when revenue exceeds the total cost. The company's primary goal is to produce a profit to sustain itself over the long run and pursue expansion. Net profit margin helps shareholders determine if a company's management is generating enough profit from its sales and how operating costs and overhead costs are being contained. The net profit margin for Nepal Telecom during a ten-year period is shown below.

Table 2. Net Profit Margin Ratio of NTC (%) *F/Y 2011/12 to 2020/2.*

Year	Net Profit Margin Ratio of NTC (%)
2011/12	31.27
2012/13	29.08
2013/14	29.11
2014/15	34.12
2015/16	30.64
2016/17	34.47
2017/18	38.62
2018/19	22.26
2019/20	16.88
2020/21	19.00

This table shows the net profit margin ratio of NTC for the last ten years. Over the course of the analysis period, NTC's Net Profit Margin Ratio showed fluctuations, peaking at 38.62% in 2017–18 and falling to 16.88% in 2019–20. The ratio shows how profitable the business is; larger percentages signify better cost control. The company's ability to turn a profit in relation to its revenue may have fluctuated, as seen by the fall in 2018–19 and the rebound that followed in 2019–20 and 2020–21. To give a thorough picture of NTC's profitability trends, a succinct analysis should explore the variables behind these variations, considering market dynamics, cost management strategies, and operational effectiveness.

#### 4.1.3 Return on Capital Employed of Nepal Telecom Limited

The financial measure known as return on capital employed, or ROCE, is used to evaluate the profitability and capital efficiency of a business. This ratio helps in determining how successfully a business is turning a profit on its capital. The following illustrates Nepal Telecom's capital return over the previous ten years.

Table 3. Return on Capital Employed of NTC (%) *F/Y 2011/12 to 2020/21*.

Year	Return on Capital Employed (%)
2011/12	15.52
2012/13	14.55
2013/14	14.49
2014/15	15.21
2015/16	13.88
2016/17	14.43
2017/18	15.22
2018/19	8.54
2019/20	13.35
2020/21	9.58

The above table shows the return on Capital Employed of Nepal Telecom during last ten years. From 8.54% in 2018/19 to a peak of 15.52% in 2011/12, the company's Return on Capital Employed (ROCE) showed variations. The declining pattern seen in 2018–19 points to a possible reduction in capital efficiency. Even if there was a rebound in the years that followed, the ROCE was still below previous levels. Finding the causes of the variable ROCE, as well as looking at capital allocation plans, market dynamics, and operational effectiveness, should be the main goals of the investigation. This gives important information about the company's capacity to recoup its capital expenditures and influences strategic choices for the best possible use of capital.

#### 4.1.4 Return on Shareholder's Equity of Nepal Telecom

One easy statistic to use when assessing investment returns is Returns on Shareholders Equity, or ROE. A company's competitive advantage can be identified by comparing its return on equity (ROE) to the industry average. ROE gives information about how the management of the company is utilizing its finances to expand the company. The previous ten years' Return on Shareholder Equity is displayed in the following figure.

Table 4. Return on Shareholder's Equity of NTC(Times) *F/Y 2011/12 to 2020/21.*

Year	Shareholder's Equity of NTC(Times)
2011/12	23.54
2012/13	21.07
2013/14	20.10
2014/15	17.18
2015/16	16.26
2016/17	16.83
2017/18	17.54
2018/19	10.62
2019/20	7.93
2020/21	8.85

This table shows the shareholder's equity of NTC for the last ten years. NTC's shareholder equity has been trending downward, falling from 23.54 in 2011–12 to 8.85 in 2020–21. This ongoing decrease suggests that sustaining and expanding the company's stock basis may provide difficulties. The significant decline in 2018–19 raises questions and points to a crucial juncture in equity management. Identifying the causes of this decline, investigating financial choices and market circumstances that might have affected shareholder equity, and formulating plans for strengthening and stabilizing the company's equity position should be the main objectives of a brief analysis.

#### 4.1.5 Book Value Per Share

The ratio of a company's common equity to the total number of outstanding shares is called book value per share, or BVPS. A company's net asset value is basically indicated by its book value of equity per share. A stock that is undervalued will have a higher book value per share than its market price at the time of purchase. Stock investors mostly use the metric to assess a company's stock price. This is the BVPS over a ten-year period.

Table 5. Book Value per Share (Times) F/Y F/Y 2011/12 to 2020/21.

Year	Book Value per Share (Times)
2011/12	330.19
2012/13	357.57
2013/14	383.18
2014/15	539.99
2015/16	555.83
2016/17	608.86
2017/18	664.43
2018/19	692.74
2019/20	599
2020/21	529.15

The above table shows the NTC's ten years book value per share. The company's book value per share has fluctuated over time, peaking at 692.74 in 2018/19, then falling to 529.15 in 2020/21. It began at 330.19 in 2011/12. Although the company's net value per share increased gradually until 2018–19, the following decline raises the possibility of a decline. A concise examination of the variables impacting these swings should consider financial choices, market dynamics, and asset appraisal techniques to inform strategies for preserving and growing shareholder value.

#### 4.1.6 Earnings Per Share of Nepal Telecom Limited

Earnings per share or EPS is a key financial metric which indicates the profitability of a company. It is computed by dividing net income by the total number of outstanding shares of the corporation. The amount of a company's profit allocated to each individual individual's stock is known as earnings per share, or EPS. It is a term that is of much importance to investors and people who trade in the stock market. Better profitability is shown by a company's higher earnings per share. The Earning Per Share (EPS) for Nepal Telecom over the last ten years is provided below.

Table 6. Earnings Per Share (EPS)(Times) *F/Y 2011/12 to 2020/21.*

Year	Earnings Per Share (EPS)(Times)
2011/12	77.73
2012/13	75.33
2013/14	77.03
2014/15	97.04
2015/16	90.36
2016/17	103.49
2017/18	116.56
2018/19	65.05
2019/20	47.5
2020/21	47.06

#### 4.1.7 Price Earnings Ratio of Nepal Telecom Limited

P/E ratios, or price-to-earnings ratios, are among the most popular stock analysis methods used by analysts and investors to assess the value of stocks. The P/E ratio can illustrate how a firm's valuation compares to its industry group in addition to indicating if a company's stock price is overvalued or undervalued. By comparing a stock's market value to its earnings, investors can make informed decisions by using the P/E ratio. The ten-year P/E ratio for Nepal Telecom is shown below.

Table 7. Price earnings Ratio of NTC (%) *F/Y 2011/12 to 2020/21.*

Year	Price Earnings Ratio of NTC (%)
2011/12	6.47
2012/13	7.91
2013/14	8.51
2014/15	6.55
2015/16	7.62
2016/17	6.6
2017/18	6.18
2018/19	10.65
2019/20	26.44
2020/21	18.88

The above table shows the Price earnings ratios of NTC for ten years. From 6.47 in 2011/12 to a high of 26.44 in 2019/20, NTC's Price-Earnings Ratio (P/E) has fluctuated, indicating changes in investor mood and earnings expectations. The ensuing fall to 18.88 in 2020–2021 raises the possibility of a change in consumer perception. To inform well-informed investment

decisions and corporate strategies, a practical analysis should investigate the factors influencing these changes, considering changes in earnings, market dynamics, and industry trends.

#### 4.1.8 Return on Assets of Nepal Telecom Limited

Return on Assets (ROA) indicates how well a company utilizes its assets, by determining how profitable a company is relative to its total assets. Simply put, return on assets (ROA) indicates how much was earned on capital that was invested. The ROA of Nepal Telecom over a ten-year period is presented in the table below.

Table 8. Return on Assets of NTC (%) *F/Y 2011/12 to 2020/21.*

Year	Return on Total Assets of NTC (%)
2011/12	11
2012/13	9.89
2013/14	10.97
2014/15	13.07
2015/16	11.93
2016/17	12.63
2017/18	13.25
2018/19	7.17
2019/20	4.81
2020/21	5.31

The above table shows the last ten years' return on assets of NTC. The Return on Total Assets (ROTA) of NTC showed fluctuations between 11% in 2011/12 and 5.31% in 2020/21, suggesting fluctuations in the company's profitability generated from its total assets. The decrease from 2017–18 to 2019–20 could indicate difficulties or inefficiencies in the use of assets, which would affect profitability. To direct efforts towards optimizing asset performance for increased returns, a practical analysis should investigate the variables behind these fluctuations, including operational effectiveness, modifications to market conditions, and managerial strategies.

## 4.2 Descriptive Statistics

### 4.2.1 Descriptive of Current Ratio of NTC

Calculation of Mean, Standard deviation and Variance of current ratio is given below.

Table 9. Descriptive of Current ratio of NTC.

Year	Current Ratio	$X - \bar{x}$	$(X - \bar{x})^2$
2011/12	2.70	-0.38	0.14
2012/13	2.54	-0.54	0.29
2013/14	3.19	0.11	0.01
2014/15	3.94	0.86	0.74
2015/16	3.88	0.80	0.64
2016/17	4.22	1.14	1.30
2017/18	4.99	1.91	3.65
2018/19	3.04	-0.04	0.0016
2019/20	1.66	-1.42	2.02
2020/21	1.64	-1.44	2.07
	$\Sigma x=30.8$		$\Sigma (X - \bar{x})^2 = 10.86$

$$(\bar{x}) = (\Sigma x) / n$$

$$= 30.8/10$$

$$= 3.08$$

$$\sigma = \sqrt{\frac{\Sigma (X - \bar{x})^2}{N}}$$

$$= \sqrt{\frac{10.86}{10}}$$

$$= 1.042$$

$$\sigma^2 = \frac{\Sigma (X - \bar{x})^2}{N}$$

$$= (1.042)^2$$

$$= 1.086$$

With a mean of 3.08, NTC's current ratio analysis indicates a relatively stable financial condition. Moderate variability is shown by the standard deviation of 1.042, and consistent financial performance is supported by the variance of 1.086. Significantly contributing to the fluctuation are the years 2017/18 and 2016/17, which highlights the necessity for management attention to preserve stability in short-term liquidity.

#### 4.2.2 Descriptive Statistics of Net profit margin of Nepal Telecom

The following explains the descriptive statistics of the Net profit Margin of Nepal telecom of ten years.

The calculation of Mean, Standard deviation and Variance of Net Profit Margin of Nepal Telecom is given below:

Table 10. Descriptive Statistics of Net Profit Margin of NTC.

Year	Net profit Margin of NTC	$X - \bar{x}$	$(X - \bar{x})^2$
2011/12	31.27	2.72	7.40
2012/13	29.08	0.53	0.28
2013/14	29.11	0.56	0.31
2014/15	34.12	5.57	31.02
2015/16	30.64	2.09	4.37
2016/17	34.47	5.92	35.35
2017/18	38.62	10.07	101.40
2018/19	22.26	-6.29	39.56
2019/20	16.88	-11.67	136.19
2020/21	19.00	-9.55	91.20
	$\Sigma x = 285.45$		$\Sigma (X - \bar{x})^2 = 446.79$

$$(\bar{x}) = (\Sigma x) / n$$



$$= 285.45/10$$

$$= 28.54$$

$$\sigma = \sqrt{\frac{\sum (X - \bar{x})^2}{N}}$$

$$= \sqrt{\frac{446.79}{10}}$$

$$= 6.68$$

$$\sigma^2 = \frac{\sum (X - \bar{x})^2}{N}$$

$$= (6.68)^2$$

$$= 44.65$$

The mean Net Profit Margin of Nepal Telecom over ten years is 28.54%. With a standard deviation of 6.68%, the variability around the mean is modest. With a variance of 44.65, the profitability appears to be constant but not uniform. NTC's net profit margin is 28.54% on average, with significant variation.

#### 4.2.3 Descriptive statistic of Capital Employed of Nepal Telecom

The following explains the descriptive statistics of the Capital Employed of Nepal telecom of ten years.

Calculation of Mean, Standard deviation and Variance of Capital Employed is given below:

Table 11. Descriptive statistic of capital Employed of NTC.

Year	Capital Employed of Nepal Telecom	$X - \bar{x}$	$(X - \bar{x})^2$
2011/12	15.52	2.04	4.16
2012/13	14.55	1.07	1.14
2013/14	14.49	1.01	1.02
2014/15	15.21	1.73	2.99
2015/16	13.88	0.4	0.16
2016/17	14.43	0.95	0.90
2017/18	15.22	1.74	3.03
2018/19	8.54	-4.9	24.40
2019/20	13.35	-0.1	0.02
2020/21	9.58	-3.9	15.21
	$\Sigma x = 134.77$		$\Sigma (X - \bar{x})^2 = 53.04$

$$(\bar{x}) = (\Sigma x) / n$$

$$= 134.77/10$$

$$= 13.477$$

$$\sigma = \frac{\sqrt{\Sigma (X - \bar{x})^2}}{N}$$

$$= \sqrt{\frac{53.04}{10}}$$

$$= 2.31$$

$$\sigma^2 = \frac{\Sigma (X - \bar{x})^2}{N}$$

$$N$$

$$= (2.31)^2$$

$$= 5.32$$

Over a ten-year period, Nepal Telecom's mean capital employed is 13.477. With a standard deviation of 2.31, the variability around the mean is moderate. The variance of 5.32 indicates a capital utilization that is consistent but not uniform. NTC's Capital Employed indicates a 13.477 average overall, with some variation.

#### 4.2.4 Descriptive statistic of Returns on Shareholders Equity of Nepal Telecom

The following explains the descriptive statistics of the Return of shareholders equity of Nepaltelecom of ten years.

Calculation of Mean, Standard deviation and Variance of Return on Shareholders' Equity is given below:

Table 12. Descriptive of Return on Shareholders' Equity of NTC.

Year	Returns on Shareholders Equity of Nepal Telecom	$X - \bar{x}$	$(X - \bar{x})^2$
2011/12	23.54	7.55	57.00
2012/13	21.07	5.08	25.81
2013/14	20.10	4.11	16.89
2014/15	17.18	1.19	1.42
2015/16	16.26	0.27	0.07
2016/17	16.83	0.84	0.71
2017/18	17.54	1.55	2.40
2018/19	10.62	-5.37	28.84
2019/20	7.93	-8.06	64.96
2020/21	8.85	-7.14	50.98
	$\Sigma x = 159.92$		$\Sigma (X - \bar{x})^2 = 249.08$

$$(\bar{x}) = (\Sigma x) / n$$

$$= 159.92/10$$

$$= 15.92$$

$$\sigma = \sqrt{\frac{\Sigma (X - \bar{x})^2}{N}}$$

$$= \sqrt{\frac{249.08}{10}}$$

$$= 4.99$$

$$\sigma^2 = \frac{\Sigma (X - \bar{x})^2}{N}$$

$$= (4.99)^2$$

$$= 24.90$$

#### 4.2.5 Descriptive statistic of Book Value Per share of Nepal Telecom

The following explains the descriptive statistics of the Book Value per Share of Nepal telecom often years.

Calculation of Mean, Standard deviation and Variance of Book Value Per Share is given below:

Table 13. Descriptive statistic of Book value per Share of NTC.

Year	Book Value Per share of Nepal Tele- com	$X - \bar{x}$	$(X - \bar{x})^2$
2011/12	330.19	-195.90	38376.81
2012/13	357.57	-168.52	28398.99
2013/14	383.18	-142.91	20423.27
2014/15	539.99	13.90	193.21
2015/16	555.83	29.74	884.47
2016/17	608.86	82.77	6850.87
2017/18	664.43	138.34	19137.96
2018/19	692.74	166.65	27772.22
2019/20	599	72.91	5315.87
2020/21	529.15	3.06	9.36
	$\Sigma x = 5260.94$		$\Sigma (X - \bar{x})^2 = 147363.03$

$$(\bar{x}) = (\Sigma x) / n$$

$$= 5260.94/10$$

$$= 526.09$$

$$\sigma = \sqrt{\frac{\Sigma (X - \bar{x})^2}{N}}$$

$$= \sqrt{\frac{147363.03}{10}}$$

$$\sigma^2 = \frac{\Sigma (X - \bar{x})^2}{N}$$

$$= (121.39)^2$$

$$= 14735,92$$

For a ten-year period, Nepal Telecom's mean return on shareholders' equity is 15.92%. With a standard deviation of 4.99, the variability around the mean is moderate. The variance, which stands at 24.90, indicates that shareholder returns were generated with consistent but uneven performance. With some fluctuations, NTC's overall Return on Shareholders' Equity displays an average of 15.92%.

#### 4.2.6 Descriptive statistic of Price Earnings Ratio of Nepal Telecom

The following explains the descriptive statistics of the Price Earnings Ratio of Nepal telecom of ten years.

Calculation of Mean, Standard deviation and Variance of Price Earnings Ratio of Nepal Telecom is given below:

Table 14. Descriptive Statistic of Price Earnings Ratio of NTC.

Year	Price Earnings Ratio of Nepal Telecom	$X - \bar{x}$	$(X - \bar{x})^2$
2011/12	6.47	-4.11	16.89
2012/13	7.91	-2.67	7.13
2013/14	8.51	-2.07	4.28
2014/15	6.55	-4.03	16.24
2015/16	7.62	-2.96	8.76
2016/17	6.6	-3.98	15.84
2017/18	6.18	-4.4	19.36
2018/19	10.65	0.07	0.00
2019/20	26.44	15.86	251.54
2020/21	18.88	8.3	68.89
	$\Sigma x = 105.81$		$\Sigma (X - \bar{x})^2 = 408.94$

$$(\bar{x}) = (\Sigma x) / n$$

$$= 105.81/10$$

$$= 10.58$$

$$\sigma = \sqrt{\frac{\sum (X - \bar{x})^2}{N}}$$

$$= \sqrt{\frac{408.94}{10}}$$

$$= 6.39$$

$$\sigma^2 = \frac{\sum (X - \bar{x})^2}{N}$$

$$= (6.39)^2$$

$$= 40.86$$

Over a ten-year period, Nepal Telecom's Mean price-earnings ratio is 10.58. With a standard deviation of 6.39, the variability around the mean is moderate. The variance, which stands at 40.86, indicates that market valuation is stable but not uniform. With considerable variation, NTC's Price-Earnings Ratio displays an average of 10.58 overall.

#### 4.2.7 Descriptive statistic of Return on Total Assets of Nepal telecom

The following explains the descriptive statistics of the Return on Total Assets of Nepal telecom of ten years.

Calculation of Mean, Standard deviation and Variance of the Return on Total Assets of Nepal Telecom is given below:

Table 15. Descriptive Statistic of Return on Total Assets of NTC.

Year	Return on Total Assets of Nepal telecom	$X - \bar{x}$	$(X - \bar{x})^2$
2011/12	11	1	1.00
2012/13	9.89	-0.11	0.01
2013/14	10.97	0.97	0.94
2014/15	13.07	3.07	9.42
2015/16	11.93	1.93	3.72
2016/17	12.63	2.63	6.92
2017/18	13.25	3.25	10.56
2018/19	7.17	-2.83	8.01
2019/20	4.81	-5.19	26.94
2020/21	5.31	-4.69	22.00
	$\Sigma x = 100.03$		$\Sigma (X - \bar{x})^2 = 89.52$

$$(\bar{x}) = (\Sigma x) / n$$

$$= 100.03/10$$

$$= 10.003$$

$$\sigma = \sqrt{\frac{\Sigma (X - \bar{x})^2}{N}}$$

$$= \sqrt{\frac{89.52}{10}}$$

$$= 2.99$$



$$\sigma^2 = \frac{\sum (X - \bar{x})^2}{N}$$

$$= (2.99)^2$$

$$= 8.94$$

For Nepal Telecom, the average Return on Total Assets for a ten-year period is 10.003%. With a standard deviation of 2.99, the variability around the mean is moderate. The variation is 8.94, indicating a continuous but uneven level of efficiency in the return generation from the total assets. With some variation, NTC's Return on Total Assets displays an average of 10.003% overall.

### 4.3 Qualitative Method: Interview

#### 4.3.1 Nepal Telecom's financial performance over the past decade

Our Major Shareholder is our Nepal Government. Our Nepal Telecom is Nepal's first telecommunication company. The final performance of our Nepal Telecom for the time being is satisfactory. Because the Telecom business is technology related, with technology advancement it will soon be obsolete. We have been managing this financial sector since past few years. If you look at the trend of revenue now, now Nepal Telecom's revenue seems to have decreased a little than previously & now we are trying to manage it. Due to the customer behavioral changes some kind of services are lost nowadays like transition from data to voice. There is shift of revenue generated by voice to revenue generated by data. Nepal Telecom is still only company providing landline service in Nepal. Other company also provide data so maintaining competition is a bit challenging now. Our revenue is now in a slightly declining trend now.

But if you look at it in the international market now, you will understand that tele communication is revenue declining a little. Just as Shubha ma'am said, Nepal Telecom's is either understood to be a phone service rather than Nepal Telecom but at the same time we have now shifted to data services. It is also our responsibility to uplift Nepal in telecommunication sector. On the other h&, along with the telecommunication service, we have also added new services. For example, we added IPTV Recently. Similarly, now we are looking at other streams which will

also maintain our financial times or uplift it. At the same time, we are going together to solve not only our finance entry but also the social performance.

#### **4.3.2 Revenue profits & expenditures changes over this time**

Some of the answers are already given in before question like Due to the customer behavioral changes some kind of services are lost nowadays like transition from data to voice. There is shift of revenue generated by voice to revenue generated by data. Likewise, previously we had the internet service “ADSL” a copper-based network, but now there is migration to My Fiber Network. what we had the internet service we used to call ADSL earlier, have been called FTTH fiber-to-the-home, now the new service runs there is shift of revenue to this service. Similarly, earlier we used to run the 2G 3G network. When we expanded to 4G the data revenue is higher. The expenditure, fixed cost being constant, it becomes difficult to manage it. Our revenue being slightly in declining trend now, it is also affecting profit. In this decade, due to restructuring, employee cost is kind of huge. & we are looking for streams to observe fixed cost.

#### **4.3.3 Nepal Telecom's key financial challenges or succeeds in recent years.**

Speaking of challenges, in this global recession where the financial crises that are seen are also making impact in our telecommunications sector. Due to financial crises, customers purchasing power is in declining trend, so telecom services use are also declining which is directly impacting our revenue. In the same way as previously said Due to the customer behavioral changes some kind of services are lost nowadays like transition from data to voice. There is shift of revenue generated by voice to revenue generated by data. Now we have shifted to NFRS, so compliance with NFRS although not being major challenge but it is also a practical challenge. Being a big organization, there is difficulty in timely accounting some things are going missing. Saying about market competition, now in the telecom sector like ours, there are many ISPs (Internet service providers) in Nepal as well. So, it is difficult for us to maintain the competition. On other h&, in customer behavior shifting, earlier there used to be “Pay as you go” which will constitute similar kind of payment. Due to shift of customer to package subscription, according to telecom perspective, packages are having to give at economical rates. So, the rates declined but the consumption was not seen to that similar extent. Also, our active users like youth now have trend to go abroad.

Talking about success in recent years, it is mainly NFRS. Nepal telecom is the first to adopt NFRS as a government entity. NFRS was adopted in 2071/2072 B.S. The 4G service has successfully been expanded in all 77 districts of Nepal. Also, the FTTH service has been expanded to 74 out of 77 districts. & also, to track the customers behavior, IPTV has been initiated. & we are also providing T.V services too. In addition to this, NTC is the highest tax paying company in Nepal & also, we have been providing good dividend to shareholder & shareholder satisfaction is maintained through good amount of dividend.

#### **4.3.4 Major financial measures or indicators to assess its financial health.**

Nepal telecom, liquidity wise is stable, so there is no debt capital & we have our own equity & internal fund, so we don't to look for these. Things we currently we look upon are current assets ratio which also has been seen positive. & another thing we look upon is return on capital employed & return on shareholder response. EBITDA margin is used as major financial measure, so we observe EBITDA margin to take decision like what was the last year EBITDA margin compared to now. Also, in telecom sector, ARPO, Average Revenue per Order is the major indicator to be considered & look upon. Like, we observe how each user is contributing to our total revenue. ARPO is usually only used in Telecom Sector.

#### **4.3.5 Financial measurements evolved over time & what do they reveal about the company's stability.**

We don't have debt till now which is the utmost positive thing for us. Our internal funds are turned over by our own revenue. Liquidity is also maintained & we look upon how is EBITDA & in each sector of service we look upon their ARPO. For example, how is voice ARPO, is it increasing or decreasing & how is the data ARPO. We analyze these one to one. Since the declination is going on worldwide but the declination is aligning with the global & not that drastic & we are maintaining. Recently, EBITA declined by 1.5% & it is within the margin. We are putting up effort to increase the revenue & decreasing the sources of expenditure & the alarming stage hasn't come till now.

#### **4.3.6 Investments or expansion initiatives undertaken by Nepal Telecom in the recent decade.**

Talking about recent decades, our major investment recently is 4G expansion. We have expanded 4G services to total 77 districts & around Rs. 22 Arab has been invested which is the major project & we are in the final stage. Another investment as previously answered, old copper-based network has been replaced to fiber network. Some of our operational investment like internal investment are done due to technological advancement dem&. In addition to this, vertical investment like another sector investment is going on. For example, it might be 3 years ago, we have invested at Nepal Digital Payments Company (NDPC) & also in wallet services which is also our subsidiary company. We have also invested in electricity, hydropower, these are the sector associated with us, but it compliments us for foreseeable future. We have invested at Upper Tamakoshi & in addition to the liquid fund which remains have been invested in mutual funds & debentures too. But these aren't that major investment. Major investment in 5G, namaste pay (our wallet company) & Upper Tamakoshi.

#### **4.3.7 Impact of these actions on the company's financial condition & growth**

This 4G service due to time dem& was a compulsion, due to technology advancement. Also, this 4G service after certain time being will be obsolete. We are testing 5G in our current phase. These are the things for substantiality & also for the financial growth & to be sustained in the competition. Like vertical investment & other investment might help for future availability of resources like investing in hydropower companies. The need of electricity in future prospect & considering social factors we have done investment. Wallet service through our own subsidiary there is benefit cost wise which impacts are seen currently.

#### **4.3.8 Cost management**

Previously answered. We are trying to manage restricting & employee cost. The assets, infrastructure we have through sharing we are trying to manage. In addition to this, resources have been given to third party to generate income & we are observing fixed costs. Although the lack of material, the fixed costs are being observed. Also, we are moving forward to build tower upon our I& so that rental charges will be minimized & to reduce fixed costs to minimum.

#### **4.3.9 Nepal Telecom participation in international activities/partnerships**

It is the company that provides services limited to Nepal only. Currently, we haven't done any international investment. The only international activities are roaming, interconnection, international lease, bandwidth purchase & network sharing. The bandwidth purchase is done internationally it is not like partnership rather through supplier. So, only for the services, interconnection the connection is made internationally.

#### **4.3.10 Strategic relationships/cooperation with international entities that have had an impact on Nepal Telecom's operations.**

In this context, there are like trainings conducted, field visits & we are also member of GSM, ITU & Asia Pacific Alliance involvement & there is no strong partnership kind of thing. There is not much of the international activities.

#### **4.3.11 Challenges has Nepal Telecom faced in its international operations.**

Not much from international operations but due to global financial crisis, we had to face some challenges. For example, the current war between Ukraine & Russia has also impacted & caused supply chain disruption. Another challenge might be due to COVID-19, increment in OTT services has also caused decline in our revenue. Fraud cases might be aroused during these international operations.

#### **4.3.12 Specific prospects or areas of growth on a global scale**

Currently we have no strategies regarding on global scale as being limited to Nepal only. In case of future when it comes to sustainability, we might have certain prospects. We are currently on the international trend as the key followers. Now, whatever comes globally, we will adapt as soon as possible in Nepal. Like our major strategy now, we have not taken our own initiative, as the technology wise Nepal is still backwards. But in future we might think regarding the possibility of global scale.

#### 4.4 Major Findings from the Study

- Variations in Nepal Telecom's current ratio over the course of the last ten years, which reach 2.70 to 4.99, suggest shifts in the company's short-term liquidity. A drop to 1.64 in 2020–2021 raises the possibility of liquidity problems, which need to be addressed to maintain financial stability.
- Changes in profitability are shown in the net profit margin, which varied from 38.62% in 2017–18 to 16.88% in 2019–20. which indicates that NTC must bear more cost than profit from its sales.
- Variations in capital efficiency are indicated by a ROCE of 8.54% to 15.52%. Due to the decrease in 2018–19, This indicates NTC is unable to generate more profit from the utilization of its assets and it is necessary to reevaluate capital allocation techniques and look at the elements that affect ROCE.
- The reduction in ROE from 23.54 in 2011/12 to 8.85 in 2020/21 highlights some issues related to equity management. This indicates disability of company to provide greater return to the shareholders.
- Analysis of contributing components is necessary due to BVPS fluctuations, which peaked at 692.74 (2018/19) and dropped to 529.15 (2020/21) but compared to market price it is less which means Share price of NTC is overvalued.
- The EPS has fluctuated over the past ten years, reaching a high of 116.56 in 2017–18 and a low of 47.06 in 2020–21, suggesting possible difficulties in maintaining strong profitability. The lowest net profit Margin which indicates that NTC must bear more cost than profit from its sales.
- The variations in ROA between 11% (2011/12) and 5.31% (2020/21) suggest possible difficulties or inefficiencies in the use of assets. The decline from 2017–18 to 2019–20 calls for a more thorough examination of asset utilization optimization.
- Descriptive analysis of current ratio of NTC shows that the company is fairly using its current assets as per the available current liabilities.
- Descriptive analysis of Net profit Margin ratio and price earnings ratio of NTC indicates a somewhat stable but uneven level of profitability. The management of NTC

should make efficient decisions to increase its profit.

- A mean capital employed used of 13.477 indicates a consistent, although the company is not efficiently utilizing its available capital to generate better return so, use of efficiency is essential, as indicated by the moderate fluctuation around the mean.
- A mean return on equity of 15.92% for shareholders suggests performance that is both consistent and inconsistent. The necessity of strategic equity management is highlighted by moderate variability around the mean.
- Descriptive analysis of Book value per share and Earning Per Share of NTC show that company should make efficient strategic plans to generate more return. Effective financial planning requires careful observation of the variables affecting BVPS and EPS volatility.
- The trend in revenue is somewhat falling, which is explained by customers are moving from phone to data services.
- By introducing new services like IPTV and looking into alternative revenue sources, the company is actively adapting to market developments.
- Changes in internet services, such as switching from ADSL to FTTH, can have an impact on revenue when you go from data to voice.
- Problems include the global recession and shifting consumer behavior, which have an impact on purchasing power and the general use of telecom services.
- The adoption of the Nepal Financial Reporting Standards (NFRS) was successful, and notable advancements in 4G and FTTH expansion have been made.
- The telecom industry is being impacted by the global recession, which is also hurting customer purchasing power and creating obstacles to market competition.
- Change from "Pay as you go" to package subscriptions, which will affect usage and pricing.
- Stable liquidity with no debt capital, dependent on equity and internal funds.
- Pay particular attention to the current asset's ratio, return on capital utilized, and return on shareholder response as key financial indicators.
- Significant financial commitments to the replacement of the fibre network, the development of 4G, and vertical investments in companies such as Nepal Digital Payments Company (NDPC).
- Hydropower and mutual fund investments to supplement the availability of future resources.
- Minimal foreign investments with an emphasis on services such as network sharing,

roaming, interconnection, international leasing, and bandwidth purchase.

- Involvement in international organizations like GSM, ITU, and Asia Pacific Alliance without strong partnerships.
- challenges brought on by international financial crises, interruptions in the supply chain brought on by geopolitical developments, and the effects of COVID-19 on revenue.
- Difficulties include operations being impacted by geopolitical problems, supply chain interruptions, and declining revenue because of greater use of over-the-top (OTT) services.
- No specific worldwide strategies in place now, but the company will open to exploring sustainable options in the future.
- Willingness to adapt to global trends and technology advancements in the future.



## 5 Conclusions and Recommendations

### 5.1 Conclusions

Finally, it can be said that throughout the last ten years, Nepal Telecom's financial performance changed significantly. The company has effectively accepted new technology, such as the development of 4G services and the implementation of Nepal Financial Reporting Standards (NFRS), despite obstacles including declining revenue trends and changes in client behavior. Problems with cost control, asset utilization efficiency, and volatility in liquidity are revealed by the analysis.

Variations can be seen in financial indicators such as the current ratio, net profit margin, and return on capital used, indicating that market dynamics and cost management techniques require detailed examination.

International activities such as roaming, connecting, and purchasing bandwidth add another level of complexity and demand a proactive strategy to reduce risks associated with geopolitical unrest and outside disruptions. The business currently focuses on Nepal with its limited outside activities, but for long-term survival, it could be worthwhile to investigate an expanded strategy that considers international trends and possible collaborations.

### 5.2 Recommendations

- Implement strategies to fix fluctuations in liquidity, focusing on the noted fall in the current ratio in 2020–2021, to ensure sustained financial stability.
- Should conduct a detailed analysis of market dynamics to understand shifts in customer behavior and formulate adaptive strategies to effectively respond to changes in the telecommunications sector.
- To enhance Return on Capital Employed (ROCE) and solve issues with asset utilization efficiency, review capital allocation strategies.

- To improve global competitiveness, consider forming strategic international relationships while acknowledging the difficulties brought on by political instability and the effects of COVID-19.
- Continue investing in coming technologies, like the ongoing testing of 5G, to stay ahead of the curve and ensure sustainability in a rapidly evolving industry.
- Expand on achievements like the implementation of NFRS and the launch of new services like IPTV by investigating additional revenue stream diversification.
- Maintain a strong focus on commitment to financial reporting standards to ensure transparency and build investor confidence.
- To proactively manage any issues that may arise from overseas activity, keep a close eye on geopolitical and global economic trends.
- Assess and plan to mitigate the observed Return on Equity (ROE) variations, guaranteeing stable and profitable returns for shareholders.
- NTC should implement tactics aimed at adjusting for the decrease in profits.
- To deal with the competitive environment, NTC should priorities effective and comprehensive planning.
- To examine the market, NTC should also assemble a reliable research team.
- Although the cost of telecommunications is declining globally, it remains high in Nepal. To remain competitive with other telecom service providers, Nepal Telecom needs to lower its rates for calls, internet, data, and other services.

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APPENDIX

