In looking into firm level financial performance, generally analysis is concerned with two sets of performance measures. One based on capital market valuation of a firm and the other set based on accounting measures of profitability and financial performance.

Our method is to approach the issue from a stakeholder’s point of view. Stakeholders in BSNL are: Government of India, Customers, Regulatory Agencies, Suppliers and the General Public. The traditional way of defining Stakeholders also does not seem to hold valid for BSNL because the objectives of the Government (as the only investor) is far beyond the short-term goals of financial returns of value maximization.

With the opening up of the Telecommunications sector in India, the Consumers as a stakeholder acquires a different meaning, and it becomes the focus of all marketing and innovation of all operators in the sector. The same could be said of the suppliers and the peripheral equipment vendors. We can then argue that the most important stakeholders in BSNL are in fact its own Employees. Our attempt will then try to focus on an assessment of the Company’s performance that views financial performance from the perspective of the Employees. At the same time we wish to point out that it cannot offer a complete perspective because employees have much more at stake than just financial issues before them.

Justification of the Topic
In the era of Globalization, Liberalization and Privatization the challenges faced by the Public Sector Telecom Operators in India is unique. The challenges are multi faceted related to Marketing, Finance, Human Resources Management etc. The Profits are under severe pressure. The Telecom Industry has contributed to the all-round growth of the Economy and there is no gainsaying the contribution of the Public Sector role. BSNL in the Telecom industry is inevitable as “coexistence” of both private and public is the spirit of Indian Political Economy. Hence, the continued viability of BSNL is of strategic concern for the government and industry.

Objectives of the Study
This study has the following objectives:
- To study the significance of profitability by selecting a few important parameters such as Operating Profit (EBIT), Net Profit, Return on Investment (ROI), Return on Capital Employed (ROCE), EPS, and P/E and some other crucial turnover, liquidity and capital structure ratios.
- To examine the liquidity capacity based on acid test and current ratio with certain presumptions applicable.
- To make an assessment of the critical factors which affect the profitability of BSNL.
- To give some suggestions for the betterment of the earnings on the basis of findings of the study.

Company Profile
The Company took over the business of providing telecom services and network management throughout the country except the metro cities of Delhi and Mumbai from Department of Telecom Services and Telecom Operations w.e.f. 01.10.2000 pursuant to an MoU signed between the BSNL and Government of India. BSNL is a Government Company under the Sec. 617 of the Companies Act, 1956. The entire share capital—both equity and preference—is held by the Government of India. Being GoI holding 100% equity share capital, BSNL is an unlisted company. Its Paid-up value of Equity share capital is Rs. 5,000 crores and Rs. 7,500 crores preference share capital. The vision of the BSNL is to become the largest telecom service provider in South East Asia. Its Mission is to provide world class state of art technology telecom services on demand at affordable price and to provide world class telecom infrastructure to develop country’s economy.


**Limitations of the Study**

The following are the limitations of the study:

1. The study covers only 9 years’ period, i.e. 2002-03 to 2010-11, for the financial analysis of the BSNL.
2. The secondary data used in this study have been taken from published annual reports only.
3. As per the requirement and necessity some data have been grouped and sub-grouped.

**Research Methodology and Study**

In this study of sample company named BSNL has been taken for analysis of financial position in general and liquidity in specific. Present study is based on secondary data, i.e. Published annual reports of the company. These financial data is classified, tabulated and edited as per the requirement of the profitability analysis of the company. This study has covered 9 years’ data from 2002-03 to 2010-11 for analysis of financial position of BSNL.

**Hypothesis of the Study**

This study is based on the following hypothesis:

- The earning capacity of the BSNL is similar during the study period.
- The earning capacity depends on total investment.
- Performance is measured through Profitability and turnover ratios.

The financial and liquidity position of BSNL have been analyzed by the financial techniques of Ratio Analysis.

The collected data have been analyzed with the help of the following financial ratios:

- Operating Profit Ratio
- Earning per share
- Price Earning Ratio
- Dividend Payout Ratio
- Return on Investment
- Debt-Equity Ratio
- Fixed Assets to Net Worth Ratio
- Current Assets to Net Worth Ratio
- Fixed Assets Turnover Ratio
- Working Capital Turnover Ratio
- Debtors Turnover Ratio
- Creditors Turnover Ratio
- Gross Analysis from stakeholders’ point of view.

### Analysis of BSNL Financial Ratios for intra firm comparison from FY 2002-03 TO 2010-11.

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<td>Liquidity Ratio</td>
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<td>3.08</td>
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<td>Net Profit Ratio %</td>
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<td>Operating Profit Ratio %</td>
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<td>26.52</td>
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<td>20.53</td>
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<td>3.55</td>
<td>-6.86</td>
<td>-22.16</td>
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<td>5</td>
<td>Earnings Per share (Rs.)</td>
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<td>11.95</td>
<td>18.83</td>
<td>15.28</td>
<td>14.03</td>
<td>4.44</td>
<td>1.15</td>
<td>-3.65</td>
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<td>P.E. Ratio (Say Price Rs.100)</td>
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<td>8.37</td>
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<td>6.54</td>
<td>7.13</td>
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<td>7</td>
<td>Dividend Payout Ratio %</td>
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<td>4.71</td>
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<td>13.14</td>
<td>15.05</td>
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<td>8</td>
<td>Return on Investment %</td>
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<td>Fixed Assets to Net Worth</td>
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<td>Working Capital Turnover Ratio</td>
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<td>2.27</td>
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<td>2.19</td>
<td>1.73</td>
<td>0.75</td>
<td>1.35</td>
<td>1.90</td>
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**Source:** Annual reports of BSNL from 2002-03 to 2010-11.

**1. Current Ratio:** It is a measure of general liquidity and is most widely used to make the analysis for short term financial position or liquidity of a firm. It is calculated by dividing the total of the current assets by total of the current liabilities.

Current ratio may be defined as the relationship between current assets and current liabilities. This ratio is also known as “working capital ratio”. It is a measure...
of general liquidity and is most widely used to make the analysis for short term financial position or liquidity of a firm. It is calculated by dividing the total of the current assets by total of the current liabilities.

\[
\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}
\]

Current Asstets to Current Liabilities Bar Diagram from 2003 to 2011 (Fig. in Lakhs of Rs.)

Source : Compiled from BSNL annual Reports

**Stakeholders view**: Current ratio should be around 1.5 : 1, which means current assets are more than current liabilities. In case of BSNL its current ratio during the past 9 years is good and on par with industry standards. The average current ratio of BSNL is 2.15:1. BSNL has the ability to manage its current liabilities without liquidating any of its long term assets. Looking at the profitability ratios we can see that there is no immediate payments crisis developing and the company can confidently meet its short term obligations.

2. **Liquidity Ratio**: Liquid ratio is also termed as “Liquidity Ratio”, “Acid Test Ratio” or “Quick Ratio”. It is the ratio of liquid assets to current liabilities. The true liquidity refers to the ability of a firm to pay its short term obligations as and when they become due.

The two components of liquid ratio (acid test ratio or quick ratio) are liquid assets and liquid liabilities. Liquid assets normally include cash, bank, sundry debtors, bills receivable and marketable securities or temporary investments. In other words, they are current assets minus inventories (stock). Inventories cannot be termed as liquid assets because it cannot be converted into cash immediately without a loss of value.

\[
\text{Liquid Ratio} = \frac{(\text{Current Assets}-\text{Inventories})}{\text{Current Liabilities}}
\]

**Stakeholders’ view**: General ideal ratio of liquidity is 1 : 1, in this regard high liquidity during the past. In the year 2010-11 the ratio is 1.02 : 1 and its highly liquid components of current assets have been more than the illiquid items. This gives confidence to both the insiders who deal with the company on day-to-day basis and the vendors and suppliers.

3. **Net Profit Ratio**: Net profit ratio is the ratio of net profit (after taxes) to sales. It is expressed as percentage. The two basic components of the net profit ratio are the net profit and sales. The net profits are obtained after deducting income-tax.

Net Profit ratio is used to measure the overall profitability and hence it is very useful to proprietors. The ratio is very useful as if the net profit is not sufficient, the firm shall not be able to achieve a satisfactory return on its investment.

This ratio also indicates the firm’s capacity to face adverse economic conditions such as price competition, low demand, etc. Obviously, higher the ratio the better is the profitability. But while interpreting the ratio it should be kept in mind that the performance of profits also be seen in relation to investments or capital of the firm and not only in relation to sales.

**Stakeholders view**: BSNL is having growth in profitability up to 2004-05 (i.e. 28.22%) and started declining from 2005-06 and reached to negative level by 2010-11. Decline in the total revenue figure over the past led to negative Profit after tax. Revenue fall is due to various reasons like fall of voice call charges to near Zero level, unrestricted entry in to the telecom sector in India, falling landline connections, lack of marketing skills to render service to the customers. The average Net Profit of BSNL is 8.4%. The profit position has been strongly maintained over the years despite disruptive market forces. It is only during the last two years that it has declined somewhat. It can be seen that the Net worth of the company has not been affected substantially due to this, and the long terms average is good.

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Analysis of BSNL Financial Ratios for intra firm comparison from FY 2002-03 To 2010-11.
4. Operating Profit Ratio: Operating Profit Ratio shows the percentage of profit earned on every rupee of revenue earned.

Operating Ratio is calculated as: PBIT/Total Revenue * 100

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5. Earning Per Share: Earnings per share is generally considered to be the single most important variable in determining a share’s price. It is also a major component used to calculate the price-to-earnings valuation ratio. An important aspect of EPS that’s often ignored is the capital that is required to generate the earnings (net income) in the calculation. Two companies could generate the same EPS number, but one could do so with less equity (investment)—that company would be more efficient at using its capital to generate income and, all other things being equal, would be a “better” company. Investors also need to be aware of earnings manipulation that will affect the quality of the earnings number. It is important not to rely on any one financial measure, but to use it in conjunction with statement analysis and other measures.

Formula for calculating EPS = Profits available to Equity Shareholders/No.of Equity Shares.

BSNL is having its paid up capital of Rs. 5,000 crore divided in 500 crore equity shares of Rs. 10/- each.

Earnings Per share for BSNL 2003-2011 (Figures in whole rupees.)

Stakeholders’ view: The average Earnings per share in BSNL is Rs. 5.79 during the past 9 years which means the owners are earning not less than 50% of their investment in equity during all the years so far. This indicates its potential so far and future is to be designed accordingly. Governments returns on investment in telecom consists not only of the actual financial but also the social and developmental linkages that it involves. Considered in this perspective the long term returns are good. However, with impeding wave of reforms in this sector the shortfalls during the last two years might be a temporary dip.
6. Price Earning Ratio: Price earnings ratio (P/E ratio) is the ratio between market price per equity share and earning per share. The ratio is calculated to make an estimate of appreciation in the value of a share of a company and is widely used by investors to decide whether or not to buy shares in a particular company. It helps the investor in deciding whether to buy or not to buy the shares of a particular company at a particular market price. Generally, higher the price earning ratio the better it is. If the P/E ratio falls, the management should look into the causes that have resulted into the fall of this ratio.

Price Earnings Ratio = Market price per equity share / Earnings per share

Price-Earnings Ratio of BSNL from 2003-2009

Stakeholders’ view: In case of BSNL as it is not listed company the market price per share is assumed as Rs. 100/- per every equity share of Rs. 10/- each. The average price earning ratio of BSNL is Rs. 15.33. It means that to earn a rupee, 15.33 rupees need to be invested. Normally it is considered high side by the potential investors. The authors feel that an issue ESOP to the employees at par at this juncture may be successful.

7. Dividend Pay-out Ratio: Dividend pay-out ratio is calculated to find the extent to which earnings per share have been used for paying dividend and to know what portion of earnings has been retained in the business. It is an important ratio because ploughing back of profits enables a company to grow and pay more dividends in future.

Dividend Payout Ratio = Dividend per Equity Share / Earnings per Share

Stakeholders’ view: Dividend payout ratio in the initial years is high where the earnings of the company is good. Since 2008-09 its profits reached Zero level and no dividend is paid till 2010-11. Unless the company gets profits in the future the point of payment of dividend may not arise. The average dividend pay out ratio of BSNL is Rs. 12.40. Retained Earnings are very high percentage of nearly 88% for BSNL, which augurs well for the future of the company.

8. Return on Investment: It is the ratio of net profit to shareholder’s investment. It is the relationship between net profit (after interest and tax) and shareholder’s/proprietor’s fund. This ratio establishes the profitability from the shareholders’ point of view. The ratio is generally calculated in percentage.

Return on shareholder’s investment = Profit after Tax / Equity. Share holder’s fund × 100

Return on Investments in BSNL 2003-2011 (Fig. in Percentage)

Stakeholders’ view: The return on investment is highest in the year 2004-05. The return figure is positive up to 2008-09 later it becomes negative. The average return on investment is 4.45% which is less than the average inflation rate of Indian economy during the period of study. Here again this ratio might not be adequate to represent the expected returns from investments in a public sector company. Social economic factors also need to be given due weight age.

<table>
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<th>Analysis of BSNL Financial Ratios for intra firm comparison from FY 2002-03 To 2010-11.</th>
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9. Debt-Equity Ratio: Debt-to-Equity ratio indicates the relationship between the external equities or outsiders funds and the internal equities or shareholders funds. It is also known as external internal equity ratio. It is determined to ascertain soundness of the long term financial policies of the company.

Debt to Equity Ratio = Total Long Term Debts/Total Long Term Funds


Proportion of External Debts to Equity Shareholders Funds in BSNL for 2003-2011 (Fig. in lakhs. of Rs.)

Source: calculated from Annual Reports

Stakeholders’ view: Debt to equity ratio indicates the proportionate claims of owners and the outsiders against the firm’s assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. However, the interpretation of the ratio depends upon the financial and business policy of the company. The owners want to do the business with maximum of outsider’s funds in order to take lesser risk of their investment and to increase their earnings (per share) by paying a lower fixed rate of interest to outsiders. The outsiders (creditors) on the other hand, want that shareholders (owners) should invest and risk their share of proportionate investments. A ratio of 1:1 is usually considered to be satisfactory ratio although there cannot be rule of thumb or standard norm for all types of businesses. Theoretically, if the owner’s interests are greater than that of creditors, the financial position is highly solvent. In analysis of the long-term financial position it enjoys the same importance as the current ratio in the analysis of the short-term financial position.

In this regard BSNL is having very good ratio as its debts to equity on an average is 0.2:1. This appears to be a good financial management by the company because of the volatility in the early years of competition and entry of private players into the market. A high borrowing level would have been difficult to service due to the uncertainty in the returns.

10. Fixed Assets to Net Worth: Fixed assets to net worth ratio establishes the relationship between fixed assets and shareholders funds. The purpose of this ratio is to indicate the percentage of the owner's funds invested in fixed assets.

Stakeholders’ view: The ratio of fixed assets to net worth indicates the extent to which shareholder's funds are sunk into the fixed assets. Generally, the purchase of fixed assets should be financed by shareholder’s equity including reserves, surpluses and retained earnings. If the ratio is less than 1, it implies that owner’s funds are more than fixed assets and a part of the working capital is provided by the shareholders. When the ratio is more than the 1, it implies that owner’s funds are not sufficient to finance the fixed assets and the firm has to depend upon outsiders to finance the fixed assets. On an average, BSNL is financing its fixed assets out of its own funds as the ratio is 0.89 and the balance of own funds to the tune of 0.11 are used for working capital also. Hence, the stakeholders in this regard appreciate the composition of financing the assets.

This is a happy situation from the employee point of view, because the real assets created by the company purely out of internal accruals and surpluses, will bring in considerable appreciation in the market value of these assets. Thereby the company will be in a good position to tide over any extreme, though unlikely, situation at a future date.

11. Current Assets to Net Worth: Current assets to net worth ratio establishes the relationship between Current assets and shareholders funds. The purpose of this ratio is to indicate the percentage of the owner's funds invested in Current assets.

Stakeholders view: In this regard BSNL is having its current assets as 52% of its Net worth. Hence the stakeholder is perhaps happy with the optimum composition of existing net worth.

Analysis of BSNL Financial Ratios for intra firm comparison from FY 2002-03 To 2010-11.

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12. Fixed Assets Turnover Ratio: Fixed assets turnover ratio is also known as sales to fixed assets ratio. This ratio measures the efficiency and profit earning capacity of the concern. Higher the ratio, greater is the intensive utilization of fixed assets. Lower ratio means under-utilization of fixed assets. The ratio is calculated by using following formula:

\[
\text{Fixed Assets Turnover Ratio} = \frac{\text{Total Revenue}}{\text{Total Fixed Assets}}
\]

Source: calculated from Annual Reports

Stakeholders’ view: The average Fixed Assets turnover ratio in BSNL is just 0.53 which means the assets are not used even to the value of 1 time. The under-utilization of fixed assets is clear. The management should find ways and means to use the existing asset base to its fullest value.

13. Working Capital Turnover Ratio: Working capital turnover ratio indicates the velocity of the utilization of net working capital. This ratio represents the number of times the working capital is turned over in the course of year and is calculated as:

\[
\text{Working Capital Turnover Ratio} = \frac{\text{Cost of Sales}}{\text{Net Working Capital}}
\]

Stakeholders' view: This ratio is volatile with respect to BSNL is concerned 2003-04 and 2009-10 it is having optimum ratio i.e. 5.01 and 4.84 times, respectively.

14. Debtors’ Turnover Ratio: Debtors’ turnover ratio or accounts receivable turnover ratio indicates the velocity of debt collection of a firm. In simple words, it indicates the number of times average debtors (receivable) are turned over during a year.

\[
\text{Debtors' Turnover Ratio} = \frac{\text{Credit Purchase}}{\text{Average Trade Creditors}}
\]

Stakeholders’ view: As per the table above the average is 6.83 times (say 7) in a financial year which is considered good for a company with annual turnover ranging from 30,000 crore to 40,000 crore.

15. Creditors Turnover Ratio: This ratio is similar to the debtors’ turnover ratio. It compares creditors with the total credit purchases. It signifies the credit period enjoyed by the firm in paying creditors. Accounts payable include both sundry creditors and bills payable. Same as debtors’ turnover ratio, creditors’ turnover ratio can be calculated in two forms, creditors’ turnover ratio and average payment period.

\[
\text{Creditors' Turnover Ratio} = \frac{\text{Credit Purchase}}{\text{Average Trade Creditors}}
\]

Stakeholders’ view: The average payment period ratio represents the number of days by the firm to pay its creditors. A high creditors’ turnover ratio or a lower credit period ratio signifies that the creditors are being paid promptly. This situation enhances the credit-worthiness of the company. However, a very favorable ratio to this effect also shows that the business is not taking the full advantage of credit facilities allowed by the creditors. When compared to the Debtors’ Turnover Ratio, Creditors’ Turnover Ratio is 3 times lower which can be positive side of working capital management in BSNL.

Analysis of BSNL Financial Ratios for intra firm comparison from FY 2002-03 To 2010-11.

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<tbody>
<tr>
<td>12</td>
<td>Fixed Assets Turnover Ratio</td>
<td>0.36</td>
<td>0.49</td>
<td>0.54</td>
<td>0.63</td>
<td>0.66</td>
<td>0.68</td>
<td>0.60</td>
<td>0.40</td>
<td>0.39</td>
<td>0.53</td>
</tr>
<tr>
<td>13</td>
<td>Working Capital Turnover Ratio</td>
<td>-5.81</td>
<td>5.01</td>
<td>2.19</td>
<td>1.64</td>
<td>1.24</td>
<td>1.10</td>
<td>1.12</td>
<td>4.84</td>
<td>-14.17</td>
<td>-0.32</td>
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<tr>
<td>14</td>
<td>Debtors’ Turnover Ratio</td>
<td>8.79</td>
<td>8.52</td>
<td>5.44</td>
<td>6.38</td>
<td>6.37</td>
<td>6.96</td>
<td>7.59</td>
<td>6.75</td>
<td>4.69</td>
<td>6.83</td>
</tr>
</tbody>
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(contd. to page 568)