Telecommunications case study solution

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Short Description
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Description
Telecommunications

Telecommunications is one of the fastest growing service industries in the world. The accent of
growth is on the value added services, such as e-mail, cellular phones, etc. This sector plays a crucial
role in spurring growth, especially industrial services, in the Indian economy. Multinational
companies are investing in India because of huge latent demand .Telecommunications in India has
been a state initiated and controlled sector. The last two decades have witnessed a restructuring of the
entire sector due to Liberalization, Privatization and Globalization. This has triggered an influx of
foreign capital and technology. India's 21.59 million-line telephone networks is one of the largest in
the world and the third largest among emerging economies (after China and Republic of Korea).
Given the low telephone penetration rate 2.2 per 100 people of population, which is much below the
global average, India offers vast scope for growth. It is therefore, not surprising that India

has on of
the fastest growing telecommunication systems in the world with system size (total connections)
growing at an average of more than 20% over the last 4 years. The industry is considered as having
the highest potential for investment in India. The growth in demand for telecom services is not limited
to basic telephone services but has witnessed rapid growth in cellular, radio paging, value-added
services, Internet and global mobile communication by satellite (GMPCS) services. This demand is
expected to soar in the next few years.
The Telestar Company Ltd (TCL) was formed in 1985 as a public sector undertaking. Till 1986, it was the only telecom service provider in India. It played a role beyond that of a service
provider by acting as a policy maker, planner, developer as well as an implementation body. In spite
of being profitable, its non-corporate entity status ensured that it did not have to pay taxes. In 1998,
the company having a total asset value of Rs 630 billion turned corporate u/s 619 of Companies Act
1956. Although, the company still continued to have a 100% government owned equity, it planned to
disinvest this in the next 5 years. As on date, the company enjoyed a sales of Rs. 1,160 billion and
had an authorized capital base of Rs 1,000 billion Telestar being a government department was
initially laden with several social obligations, which burdened it with several financially unviable
connections. The company therefore, faced a number of shortcomings due to its bureaucratic setup. It
was used to a monopolistic environment, which resulted in hardened attitudes, limited skills
resistance to change, lack of flexibility in decision-making, low level of motivation of its employees
and a total lack of cost benefit accounting system. Telestar had its operations in all the states in India
with a large network of 25 circles. The company therefore, enjoyed the benefits of economies of
scale. It was in a sector, which required a large amount of infrastructure facilities. Fixed costs
therefore, formed the major cost component. The approximate cost of landline was

twenty seven
thousand for a new rural connection and eighteen thousand for a connection in an urban area. The
Uttar Pradesh Circle had 43 Basic Administrative Units .In U.P. the company faced competition
from two major players namely, Telenet and Express Net Pvt. Ltd. These companies had recently
entered the telecom industry with a wide range of services and were highly price competitive.
These companies were providing competition to Telestar and seeking market penetration by
price-cutting with technologically superior products. Telestar initially offered landline services and
wireless service in U.P. However, due to the increased competition in the recent years it had
introduced a number of value added services, like voice mail services, intelligent networking services,
advanced roaming services and others .Although, the company's Lucknow unit had been recording
profits for the year ending 2001 ,it did not have a systematic costing system. For example, the
investment decisions of the company were made by comparing the estimated revenue generated with
the estimated cost of the project. The estimated revenue was calculated on the basis of revenue
generated in the neighbouring circle. TSL had been following a traditional method of accounting and

practically no costing system existed. V.K. Gupta, General Manager Finance, Lucknow Unit was
thinking of revamping the accounting system. He was trying to devise an online, real time, vibrant
accounting system that would enable him to generate information required for decision-making. He
hoped to have an accounting system which would provide data in the area of costing, pricing,
investment decisions, tax planning and controllable and non controllable costs.

1. Evaluate the company's ability to sustain its performance in the present scenario.
2. Suggest the possible costing techniques which can help V.K. Gupta its decision-making (Illustrate using examples).

3. Conduct a financial analysis of the company of the company and comment its financial performance?

4. Suggest the various funding patterns that may be adopted by the company in light of the company's capital structure.

END OF SECTION B

Details

1. Case study solved answers

2. pdf/word in 24-48 hrs

3. Fully Solved with answers