A STUDY ON THE RELATIONSHIP BETWEEN LEVERAGE AND PROFITABILITY OF TELECOMMUNICATION COMPANY LISTED IN MUSCAT SECURITY MARKET

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Abstract
The socioeconomic wealth resulting from oil and gas revenues has formed the financial basis of the GCC's modern-day societies. The decline in global oil prices since summer 2014 has deeply affected the GCC economies by slashing government revenue. Progress in the privatization in various sectors such as utilities, telecommunication, and others was given lesser priority during this period. This study aimed to analyse the effect of leverage and the size of a company to its profitability during the period of crisis. Data were obtained from the financial statements of Telecommunication companies listed in Muscat security market in the period of 2010-2016. Leverage is the key decision area in financial management. This paper concentrates on leverage and its relationship between profitability in Telecommunication company. In this present research paper, an attempt is made to analyse the performance of Telecommunication company, to analyse the leverage analysis in Telecommunication company and to study the relationship between leverage and profitability in Telecommunication company. The exploratory research design is adopted in this study, which employs secondary data. The financial statements of Telecommunication Company have been collected over a period of 7 years (2010 to 2016). The data collected is analysed by the percentages, averages, ratios and Correlation analysis tools reveals that the research evidence of the study indicates that, that degree of operating leverage is statistically significant positive correlation with the ROI. It is observed that degree of financial leverage is positively correlated with the ROI. It means that degree of financial leverage of Telecommunication company was not at optimum level. It is suggested to Telecommunication Company to revise its capital structure which should include the optimum blend of equity and borrowed funds so that it has positive impact on Return on Investment. More over degree of combined leverage is positively correlated with ROI of Telecommunication company. The financial performance of the Telecommunication Company is satisfactory. The Telecommunication Company is employing less debt funds so it can't get the financial leverage benefits. Therefore, the Telecommunication Company has to revise its capital structure so that financial leverage will help to maximize the shareholders' wealth.

Introduction

Leverage refers to the extent to which firms make use of their money borrowings (debts financing) to increase profitability and is measured by total liabilities to equity. For development and growth of the business must finance the purchase of assets by borrowed money. Using of owner funds or equity also its away to purchase assets. Calculate the Debt-Equity ratio is one way to determine leverage, showing how much of the assets of the business are financed by debt and how much equity. So leverage means the increase in force gained by using a lever or influence and power used to achieve a desired result. Leverage are neither good nor bad. They tend to magnify the effect of something and that can be good or bad depending on how it's used. If the company has too much borrowing, it may not be able to pay back all of its debts. So leverage is risky from finance, costlier and complex. But leverage is not necessarily a bad thing. debt is a source of funding that can help a business grow more quickly. Leverage finance is even more powerful, increases available money and can produce higher shareholder profit. The main objectives of the study what we hope to achieve are to analyze the financial performance of Telecommunication Company, to examine the leverage of Telecommunication Company and to study the relationship between leverage and profitability of Telecommunication Company. Hypotheses of our study what we expect are there is significant positive correlation between operating leverage and profitability of Telecommunication Company, there is significant positive correlation between financial leverage and profitability of Telecommunication Company and there is significant positive correlation between combined leverage and profitability of Telecommunication Company. Our study will be in Muscat Security Market area (Ruwi) and we plan to accomplish our goal of project work by using all possible ratio (profitability ratio – liquidity ratio – leverage ratio) are used to analyze the financial performance of Telecommunication Company for the period 2010 to 2016. In addition, examine the leverage analysis in Telecommunication Company and operating leverage, financial leverage and combine leverage are calculated.

Rationale of the Study

The GCC economies are mainly dependent on the hydrocarbon sector. It is considered as the main export and source of revenues. However, through economic diversification policies, the local governments aimed at reducing their dependence on the oil sector. The current scenario of low oil prices affected all GCC countries. In which, Oman and Bahrain are the most affected, whereas Saudi Arabia, UAE, Kuwait and Qatar are less impacted. The more resilient economies benefit from strong macroeconomic fundamentals, such as more diversification, solid financial buffers and greater integration with world trade. The developed manufacturing and service industries in these markets allow less dependence on oil revenues.

In the mid-1990s Oman became the first country in the region to allow private companies to establish generation and desalination plants. The sultanate then privatized some existing public facilities in the mid-2000s, and in 2013 the government announced another major drive to privatize stakes in around 65 state-owned firms. The services sector dominated by non-oil GDP, accounting for 40.7% of total economic activity, followed by industry with 18.1%, and agriculture and fishing with 1.3%, according to CBO data.

The government's strategy for economic growth is based around a series of five-year development plans, the key elements of the eighth plan is to diversify the economy, the development of labour-intensive economic sectors to stimulate employment, and encouraging the growth of SMEs. The government created development plan in 1995 and viewed a long term perspective of the nation depicted in Vision 2020. The aim of the plan was diversification and developing the private sector, as well as creation of new industrial estates and investments in utilities and infrastructure. The most recent major privatization to have occurred was the government's sale of a 19% stake

in telecoms provider Omantel in early 2014, leaving it with a 51% share. The study aimed to investigate the effect of leverage and profitability on telecommunication company's value as a long term strategic analysis that helps the analyst in predicting future company's value.

Significance of the Study

There a need to know the relationship between leverage and profitability of Telecommunication Company (Omantel and Ooreedo) and how there affect to the company. To know how it is important for Telecommunication Company to use the leverage to improve and develop the performance of company and increase the return of the company.

An investor who wants to make investment activity has to assess a lot of information about past performance and the expected future performance of the Telecommunication Company before taking the investment decision. In addition, we need to know all possible ratio (profitability ratio – liquidity ratio – leverage ratio) are used to analyze the financial performance of Telecommunication Company for the period 2011 to 2016 and for examine the leverage analysis in Telecommunication Company and operating leverage, financial leverage and combine leverage are calculated.

Scope of the Study

The study aims to provide possible and realistic outcomes that will be useful for future researchers in Oman to take guidance in order to get the clear picture. Examining the leverage analysis in Telecommunication company (Omantel and Oordeeo Company), operating leverage, financial leverage and combine leverage are calculated. In addition, collect possible ratio such as (profitability ratio, liquidity ratio and leverage ratio) are used to analyze the financial performance of Telecommunication company limited for the period 2011 to 2016. The study concerned with analyzes of leverage position of the company.

Review of Literature

Leverage means to have fixed expenses for a business. In a business, there may be two kinds of leverage, operating leverage and financial leverage. If a business has fixed expenses it has said to have an operating leverage and if a business bears the cost of funds in terms of interest it's said to have a financial leverage. Where in operating leverage measures the impact of percentage change in earnings before interest and taxes due to percentage change in Sales, Degree of financial leverage is a measure of percentage change in earning per share due to percentage change in the earnings before interest and taxes.

Scholars in varied industries have extensively researched Leverage and profitability. These have motivated the corporate to identify and improvise upon their financial performance.

1. Edwin, Sawa Wabwile, et all (2014), the result of study indicates that there is a negative correlation between debt asset ratio and (ROAC) and return on capital employed (ROCEC) though not significant. That is as the debt ratio increases, it means the banks' most assets are being financed by both long-term and short-term liabilities and hence the return on such assets as well as that on capital employed is reduced to cater for the outstanding liabilities. There is positive correlation between the debt asset ratio and the Earnings per share(EPS) though not significant. There is a negative correlation between debt ratio and the price to book value ratio (PBV) though not significant.
2. Haque A. (2014), studied that how corporate investment of Pakistani firms affected by financial leverage. The study analyzed the panel data of 400 non - financial firms belonging to different sectors ranging from 1998 – 2011. The study concluded the negative relationship between corporate investment and leverage which highlighted that managers are restricted to overinvest in Pakistani firm if the leverage is increased.
3. Shabnam Yasemia, F. M. (2014) conducted a study to examine the relationship of firm's growth and financial leverage. Systematic elimination method was used on a sample of 40 listed companies from different sectors in Tehran Stock Exchange. There was no significant relationship found between firms' growth and leverage, but a negative relationship was found with strength.
4. Srivastava, Namita (2014), she studied about the variable determining the leverage and risk of cement companies operating in India. The study concluded that profitability, size and liquidity is negatively correlated with leverage whereas, tangibility has positive impact on leverage or capital structure of the company. The results also reveal that growth plays very insignificant role in defining capital structure of the company.
5. Khushbakht, Tayyaba (2013) in his study they are concluded that there is positive correlation between Return on assets(ROA) and Degree of financial leverage(DFL) while there is negative correlation between Return on assets(ROA) and Degree of operating leverage(DOL).Degree of financial leverage(DFL) and ROI have inverse relationship and similarly Degree of operating leverage(DOL) and ROI also have inverse relationship. There is positive correlation between Degree of financial leverage(DFL) and EPS while there is negative correlation between Degree of operating leverage(DOL) and Earning Per Share(EPS). These results do not affect significantly. So there is no significant effect of Degree of financial leverage(DFL) and Degree of operating leverage (DOL) on Return on assets (ROA), Return on equity (ROE),Return on investment(ROI) and Earning Per Share (EPS).
6. Elangkumaran.P, (2013), investigated what impact does leverage create on share price and earnings. Linear regression and correlation coefficient was applied on a sample of 20 listed companies on Colombo Stock Exchange (CSE) Sri Lanka. The result showed that there is no relationship of Earning Per Share(EPS) with Degree of Combined Leverage(DCL), Degree of financial leverage (DFL) and Degree of operating leverage(DOL) and it can be explained by only 4 percent of earnings.
7. Georgeta, Vintilla et al (2012), The empirical finding indicates that high debt level cause significant positive impact on Return on equity(ROE). Debt is used by many companies to leverage their capital and profit.

8. Peswani, Shilpa (2011) in her study has analysed the impact of leverage on profitability of two best companies ofFast-moving consumer goods(FMCG) sector i.e. Britannia Industries Ltd and Marico Industries. It was studied through analysis that Marico Industries Ltd was a high leveraged firm than Britannia Industries Ltd. A high leveraged firm was capable of providing high return on equity to its shareholders but the profitability of both the companies was similar.
9. Chandra kumaramanglam and Govindasamy (2010) have examined the impact of leverage on the profitability of selected cement companies in India. It explained the relationship between debt equity ratio & earning per share and how effectively the firm uses debt financing. Its results of the study suggested that leverage, profitability and growth are positively related and leverage had impact on profitability of firm.
10. Zhang and Li (2008) discussed that increase in leverage decrease the agency cost. The results of the study explain that increase in the leverage may reduce the agency cost. In this study they also stated that if the leverage is increased from the optimal level then those results in the opposite put effect on the agency cost of free cash flow. They discussed that sometimes increase in the debt causes bankruptcy cost. They said that the increase in the debt level reduces the agency cost but increases the bankruptcy cost.

Research Objectives

The main objective is to conduct this research to identify the impact and relationship between leverage and profitability of Telecommunication Company listed in Muscat security market.

- To analyze the financial performance of Telecommunication Company.
- To examine the leverage of Telecommunication Company.
- To study the relationship between leverage and profitability of Telecommunication Company.
- To understand and evaluate the leverage and liquidity effects of the selected telecommunication companies.
- To find out the leverages namely: a) operating leverage) financial leverage, c) Combined Leverage
- To study the impact of leverage on Earning per share.(EPS).

Methodology

The researcher used analytical type of research. The research design used for the study is exploratory research that often relies on secondary research. The secondary data collected from various sources like articles, newspapers, journals, books and internet. The study conducted for Telecommunication companies listed in Muscat Securities Market namely Omantel Company and Ooreedo Company. The financial statement from MSM website for the period of 6 years from 2011-2016. The data analyzed using Leverage Ratio such as Degree of Operating Leverage (DOL), Degree of Financial Leverage (DFL) and Degree of Combined Leverage (DCL).

Results and Discussion

Table 1: Degree of Operating Leverage

Oreedoo Company				Omantel Company		
Year	**% EBIT**	**% Sales**	**DOL**	**% EBIT**	**% Sales**	**DOL**
2011	41.91	5.127	8.17	9.103	(8.64)	1.053
2012	10.76	39.23	0.274	(23.858)	(1.3864)	17.208
2013	(1.395)	45.32	0.019	1.137	(0.8684)	1.309
2014	13.6	62.90	0.216	(2.5)	(3.9663)	0.6303
2015	(0.47)	34.44	0.013	(623.68)	73.1096	8.530
2016	12.72	45.23	0.218	89.369	(208.946)	0.4277

The degree of operating leverage of the firm was in mixed trend during the study period from 2011 to 2016. The average of leverage ratio maintained by the OREEDOO Company is 1.5075 and OMANTEL Company is 4.859. A low level or moderate operating leverage is good for the firm. It is suggested to the firm to maintain low operating leverage to moderate operating leverage which optimizes the percentage increase in sales than the percentage increase in the EBIT.

Table 2: Degree of Financial Leverage

Oreedoo Company				Omantel Company		
Year	**% EBIT**	**% Sales**	**DOL**	**% EBIT**	**% Sales**	**DOL**
2011	25.86	41.91	0.617	(6.67)	9.103	0.732
2012	(1.72)	10.76	0.159	(15.71)	(23.858)	0.658
2013	(12.06)	(1.395)	8.645	1.85	1.137	1.627
2014	0	13.60	0	0	(2.5)	0
2015	(13.79)	(0.47)	29.34	71.069	(623.68)	0.11395
2016	0	12.72	0	0	89.369	0

The financial leverage of the firm was in mixed trend during the study period from2011 to 2016. The average financial leverage ratio maintained by the OREEDOO COMPANY is6.469 andfor OMANTEL COMPANY is 0.521. A moderate financial leverage is good for the

firm. It is suggested to the firm to maintain moderate financial leverage which optimizes high percentage in EPS than the percentage change in EBIT.

Table 3: Degree of combined Leverage (DCL)

Oreedoo company				Omantel company		
Year	**DOL**	**DFL**	**DCL= DOL*DFL**	**DOL**	**DFL**	**DCL= DOL*DFL**
2011	8.17	0.617	5.040	1.053	0.732	0.7707
2012	0.274	0.159	0.043	17.208	0.658	11.322
2013	0.091	8.645	0.786	1.309	1.627	2.129
2014	0.216	0	0	0.6303	0	0
2015	0.013	29.34	0.381	8.530	0.11395	0.97
2016	0.281	0	0	0.4277	0	0

The degree of combined leverage of the firm was in mixed trend during the study period from 2011to 2016. The average degree of combined leverage maintained by the OREEDOO COMPANY is1.041 and for OMANTEL COMPANY is 2.531. A moderate financial leverage and low operating leverage is desirable the firm. It is suggested to the firm to maintain moderate combined leverage which optimizes high percentage increase in sales than the percentage increase in EPS.

Table 4: Debt- Equity Ratio

Oreedoo company				Omantel company		
Year	**Total debt (Rs.Cr)**	**Net Worth (Rs.Cr)**	**Debt-Equity Ratio**	**Total debt (Rs.Cr)**	**Net Worth (Rs.Cr)**	**Debt-Equity Ratio**
2011	55166	77023	0.716	13231	108280	0.122
2012	56514	85472	0.661	11045	100000	0.110
2013	43036	86792	0.495	11732	100000	0.117
2014	22721	86792	0.261	8943	100000	0.089
2015	30038	86792	0.346	13667	100000	0.136
2016	17000	86792	0.195	13667	100000	0.136

The debt equity ratio of the firm was in mixed trend during the study period from 2011 to 2016. The average of debt equity ratio maintained by the OREEDOO COMPANY is 0.513 and OMANTEL COMPANY is 0.105. Therefore, the firm will not get the leverage benefits. It is suggested to the firm to revise the capital structure by employing sufficient debt funds so that it has positive impact on the shareholder's wealth.

Table 5: Return on Investment

Year	Oreedoo Company	Omantel Company
	ROI (%)	**ROI (%)**
2011	72.989	139.948
2012	56.804	162.43
2013	50.906	163.808
2014	58.201	158.744
2015	63.958	80.385
2016	19.528	125.3

The firm's Return on Investment was in mixed trend during the study from2011 to 2016. The ROI is used for measuring the overall efficiency of a firm. As the primary objective of business is to maximize its earnings; this ratio indicates the extent to which this primary objective of business is being achieved. This ratio is of great importance to the present and prospective shareholders as well as the management of the firm. The average ROI maintained by OREEDOO COMPANY was 57.023% during the study period from 2011 TO 2016..The average ROI maintained by OMANTEL COMPANY was 140.0%. The firm's overall efficiency is satisfactory as an Industry leader. Therefore, it is suggested to the firm to continue it in future also and try to enhance it by controlling expenses simultaneously enhancing the sales.

Findings of the Study

The OMANTEL AND OREEDOO COMPANY is the best telecommunication companies in Oman. The leverage analysis indicates the long term financial performance. The research study concentrates on relationship between leverage and profitability has reveals that the

average of leverage ratio maintained by the OREEDOO COMPANY is 1.5075 and OMANTEL COMPANY is 4.859. Therefore, it is observed that the firm is not maintaining optimum operating leverage. The average financial leverage ratio maintained by the OREEDOO COMPANY is 6.469 and OMANTEL COMPANY is 0.521. Therefore, it is observed that the firm is not maintaining optimum financial leverage. The average degree of combined leverage maintained by the OREEDOO COMPANY is 1.041 and OMANTEL COMPANY is 2.531. Therefore; it is observed that the firm is not maintaining optimum level of combined leverage. A moderate financial leverage and low operating leverage is desirable the firm. Moreover, the average of debt equity ratio maintained by the OREEDOO COMPANY is 0.513 and OMANTEL COMPANY is 0.105. It is observed that OREEDOO AND OMANTEL COMPANIES used less debt capital than the equity funds and hence the firm can't get leverage benefits.

With regard to Profitability performance, the average ROI maintained by OREEDOO COMPANY is 57.023% and OMANTEL COMPANY is 140% during the study period from 2010 to 2016. The firm's overall efficiency is satisfactory as an Industry leader.With regard to profitability and leverage relationship analysis, it is observed that degree of operating leverage is significant positively correlated with the ROI. It means that degree of operating leverage of OREEDOO AND OMANTEL COMPANIES were at good position. The degree of financial leverage is positively correlated with the ROI and statistically not significant. It means that degree of financial leverage of OREEDOO AND OMANTEL COMPIES were not at optimum level. It is found that degree of combined leverage is positively correlated with the ROI but not significant statistically. It means that degree of combined effect of leverage of OREEDOO AND OMANTEL COMPANY were not at optimum level. It is suggested to OREEDOO AND OMANTEL COMPANIES to revise its capital structure which should include the optimum blend of equity and borrowed funds so that it has positive impact on Return on Investment. With regard to profitability performance, the performance of OREEDOO AND OMANTEL COMPANIES are satisfactory but not with leverage as leverage is not maintained at optimum level.

Recommendations for the Study

- The first recommendation of our study is that it is observed that the firms is not maintaining optimum operating leverage. So, there should focus on them sales and enhancing. Also, OMANTEL AND OREEDOO COMPANIES should maintain optimum financial leverage.
- Therefore, it is observed that the liquidity position of the OREEDOO AND OMANTEL COMPANY is not satisfactory so the firm cannot meet its short term obligations effectively, so there should be arise the liquidity position.
- The firms to get leverage benefits, there should use more debt capital than the equity funds.
- It is suggested to OREEDOO AND OMANTEL COMPANIES to revise its capital structure which should include the optimum blend of equity and borrowed funds so that it has positive impact on Return on Investment.
- With regard to profitability performance, the performance of OREEDOO AND OMANTEL COMPANIES are satisfactory but not with leverage as leverage is not maintained at optimum level. So there should maintained it at optimum level.

Conclusion

According to the study on the impact of the relationship between leverage and profitability of Telecommunication Company listed in Muscat security market. We can conclude that leverage are neither good nor bad. They tend to magnify the effect of something and that can be good or bad depending on how it's used. If the company has too much borrowing, it may not be able to pay back all of its debts. So leverage is risky from finance, costlier and complex. But leverage is not necessarily a bad thing. debt is a source of funding that can help a business grow more quickly. So according to our study in OREEDOO COMPANY and OMANTEL COMPANY the leverage analysis indicates the long term financial performance. The research study concentrates on relationship between leverage and profitability has reveals that the average of leverage ratio maintained by the OREEDOO COMPANY is 1.5075 and OMANTEL COMPANY is 4.859. Therefore, it is observed that the firm is not maintaining optimum operating leverage. Also, the average financial leverage ratio maintained by the OREEDOO COMPANY is 6.469 and OMANTEL COMPANY is 0.521. Therefore, it is observed that the firm is not maintaining optimum financial leverage.

Moreover, the average of Quick ratio maintained by the OREEDOO COMPANY is 0.358 and OMANTEL COMPANY is 0.935. Therefore; it is observed that the liquidity position of the OREEDOO AND OMANTEL COMPANIES is not satisfactory so the firm cannot meet its short term obligations effectively. finally, the degree of financial leverage is positively correlated with the ROI and statistically not significant. It means that degree of financial leverage of OREEDOO AND OMANTEL COMPIES were not at optimum level. It is found that degree of combined leverage is positively correlated with the ROI but not significant statistically. It means that degree of combined effect of leverage of OREEDOO AND OMANTEL COMPANY were not at optimum level.

Limitations for the Study

- Various limitations may exist in this study. The primary limitation of this study is the time. The research topic needs sufficient duration to justify all objectives of the research.
- Secondly, limitations, collection of data from various reliable sources is difficult due to transportation problems and appointments with key stakeholder of the project.
- The study relies on secondary data, the relationship between leverage and profitability of telecommunication company listed in Muscat security market, which may not be hundred percent reliable.
- The data collected form MSM may not be reliable or incomplete to form a suitable opinion of the future prospects.
- The scope of the study is limited to only two telecommunication companies in Oman, which may not be descriptive sample of the entire population.

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