ASSESSMENT OF FINANCIAL PERFORMANCE OF TELECOMMUNICATION COMPANY IN RWANDA: A CASE STUDY OF MTN RWANDA

BY

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THESIS SUBMITTED TO THE SCHOOL OF POST GRADUATE STUDIES IN PARTIAL FULFULMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY

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DECLARATION

I, Modeste Ihoridukiza, declare that this thesis has never been submitted for a degree award in this university or any other institution of higher learning.

Signature_______________________________________

Date 12/04/2010

APPROVAL

This work has been done under my supervision as a University supervisor and submitted with my approval.

Signed____

Professor Sunday O. Nicholas

Supervisor

Date 12/4/10

DEDICATION

This Research Study is dedicated to my parents who have been a source of inspiration, encouragement, love and support. Because of their encouragement and prayers, I have managed to complete this study and also the whole course.

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I wish to acknowledge with great thanks everybody who is not particularly mentioned here below, for the support and help however small, extended to me during the research and up this thesis. I offer great thanks to Almighty God who gave me all efforts invested in carrying out my thesis. I am heavily indebted to my parents who provided me with love, care, moral support, guidance and tolerance that I will cherish.

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Last but not least, my thanks go to my classmates as well as friends and relatives.

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LIST OF ABREVIATIONS

EAT: Earning After Taxes

EBIT: Earning before interest and tax

KIU: Kampala International University

MTN: Mobile Telephone Network

ROE: Return on Equity

ROI: Return on Investment

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ABSTRACT

This research report entitled "Assessment of financial performance of Telecommunication Company in Rwanda" is a result of research carried out in MTN Rwanda. The major objective of the study was to examine the role of financial analysis on financial performance in MTN Rwanda, with reference to tools such as ratios as benchmark for measuring the benefit of the firms. The other objectives were to analyze short-term solvency and long-term solvency of MTN Rwanda; to analyze profitability of MTN Rwanda; to analyze asset utilization or efficiency of MTN Rwanda and to employ comparative statements analysis, common-size and trend analysis in assessing the strengths and weaknesses of MTN Rwanda. In this study, the research design used is analytical method. Analytical method allowed analyzing the data in order to identify the problems and get conclusions. MTN Rwanda is leading company in Rwandan telecommunication industry; it has saved significant growth, this research findings revealed better performance.

The research indicated that the financial evaluation techniques play a vital role in assessing the financial performance of any organisation. Hence gives a base for decision making especially in the areas of financing, investment and asset management.

Furthermore, MTN Rwanda is recommended to evaluate their financial strategy since it is shown by the research that MTN Rwanda depends largely on short-term loans and credits. This increased the burden of interest on loan to MTN Rwanda.

CHAPTER ONE

INTRODUCTION

1.1. Background of the study

Financial statement analysis consists of applying analytical tools and techniques to financial statements and other relevant data to obtain useful information. This information reveals significant relationships between data and trends in those data that assess the company's past performance and current financial position. The information shows the results or consequences of prior management decisions. In addition, analysts use the information to make predictions that may have a direct effect on decisions made by users of financial statements (Chandra, 2002).

The first step of financial statement analyst is to select the information relevant to the decision under consideration from total information contained in financial statement.

The second step involved in the financial statement analysis is to arrange information in a way that will allow the financial analyst to identify a significant relationship between different items in the financial statement. And the last step is the interpretation and making conclusions (Belverd and Mariam, 2004).

In this world of competition, all business entities need to evaluate their performance by way of preparing, analyzing and presenting financial statements. Analysis of financial statements enables different stakeholders in the business to make good decisions which may lead them to success of their investments. Investors need to analyze financial statements of the company in which they want to invest their money in order to make sure that their investments are secured likewise managers analyze financial statements in order to know the performance of their business various stakeholders in the business requires analysis of financial statements in order to predict future prospects and risks for the purpose of making business decisions.

Financial statements analysis provides quality information which may assist different stakeholders to make sound decisions for any business to survive in today's competition, Financial statements analysis is of paramount importance if managers need to achieve and maintain a sustainable competitive advantage in this world of tough competition.

The researcher aspires to conduct financial statements analysis research project due to interests derived from the course of financial management especially the chapter related to application of ratio analysis as a tool of financial statements analysis, so the researcher wishes to apply knowledge acquired in ratio analysis on MTN Rwanda's financial statements in order to evaluate its performance and financial position over the 5 years of the business in Rwanda.

Furthermore, MTN Rwanda which is the leading telecommunication company in Rwanda that witnessed significant growth over the past years, motivated the researcher to investigate and analyze its profitability, solvency, asset utilization and activity position over the last 5 years of business however this will enable different stakeholders in MTN Rwanda to get quality information as far as future prospects and risks are concerned, and this will enable them to make sound decisions hence preserve their future returns.

The researcher analyzed and interpreted the financial statements of MTN Rwanda in order to assess its strengths and weaknesses thus showing areas that need improvements.

1.2. Statement of the problem

Financial analysis is the process of identifying the financial strengths and weaknesses of the company by properly establishing relationships between the items of the balance sheet and profit and loss account. Financial analysis is essential because absolute information presented in financial statements can be misleading in decisions making. Financial analysis enhances the usefulness of published financial statements in making decisions about a company. Financial statements analysis is very crucial in today's management of businesses. MTN Rwanda is one of major telecommunication companies operating in Rwanda over many years of business. The researcher was interested in applying financial statements analysis tools notably ratio analysis to MTN Rwanda in order to evaluate its profitability, asset utilization, solvency and efficiency of the company in order to identify its prospects and risks that it is likely to face in future.

1.3. Purpose

The purpose of this study is to examine the role of financial analysis on financial performance in MTN Rwanda, with reference to tools such as ratios as benchmark for measuring the benefit of the firms.

1.4. Research objectives

I. To analyze short-term solvency and long-term solvency of MTN Rwanda during 2004-2008.

II. To analyze profitability of MTN Rwanda during 2004-2008.

III. To analyze asset utilization or efficiency of MTN Rwanda during 2004-2008.

IV. To employ comparative statements analysis, common-size and trend analysis in assessing the strengths and weaknesses of MTN Rwanda.

1.5. Research questions

I. What is the short term solvency and long term solvency of MTN Rwanda during 2004-2008?

II. What is the profitability of MTN Rwanda during 2004-2008?

III. Has MTN Rwanda been efficient during 2004-2008?

IV. How can employ comparative statements analysis, common size and index analysis in assessing the strengths and weaknesses of MTN Rwanda?

1.6. Scope

This study focused on examining the influence of financial analysis on financial performance in telecommunication companies in Rwanda. A case of MTN Rwanda

This analysis emphasized on 5 financial years from 2004 to 2008.

Under this analysis study, the financial statements of the company mainly balance sheets, and income statements of 5 financial years were considered to determine the financial position of MTN Rwanda.

1.7. Significance of the study

The findings of the study will benefit different groups. The following are among of them.

The study will be of use for improving financial performance in the company.

The study will add on the existing literature on financial analysis and financial performance and will also help future researchers. MTN Rwanda will use this study to improve performance through financial statement analysis and make necessary adjustment in balance sheet, income statement and statement of cash flows so as to increase solvency and profitability.

1.8. Operational Definitions

Financial statements

According to Edmonds (2003), financial statements are the primary means of communicating important accounting information about a business to those who have an interest in the business. It is helpful to think of these statements as models of the business enterprise because they show the business in financial terms.

Financial analysis

According to Kakuru (2007) financial analysis is the process of the critical examinations of the financial information contained in the financial statements in order to understand and make decision regarding the operations of the firm. The complex figures are broken down into simple and valuable elements. This process of dissection, establishing relationship and interpretation which is to understand the working and financial position of the firm is called analysis of financial performance. Thus the analysis of financial statement is the process of establishing and identifying the financial strength and weakness of the firm.

Performance

The concept of performance results from the former French word **"performance"** which means **"completion"**. Thus, the meaning of the term "performance" could be closer to the idea of success, to arrive to the end of something or to achieve a goal.

Thus, it is possible to define the term **"performance"** as being the result obtained within the framework of the realization of given mission. It is thus used in reference to a particular framework of a mission. Being the result of mission, the performance requires to be appreciated. Then it raises the questions such as: Is this performance satisfactory? Is it good or bad? And so on. The whole of these questions reveals certain fundamental characteristics of the concept of performance (Charreaux 1997).

Ratios analysis

According to Libby, Libby & Short (2001), ratios analysis is a powerful tool of financial analysis. A ratio is defined as the indicated quotient of two mathematical expressions and as the relationship between two or more things.

Trend analysis

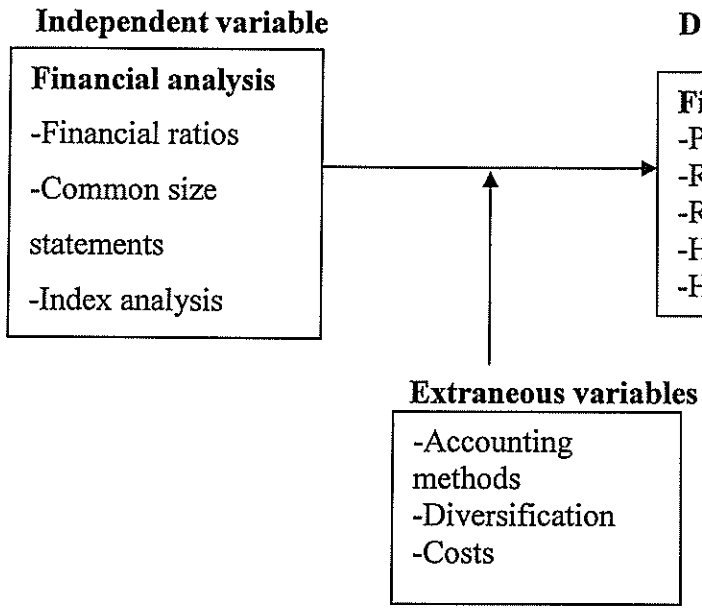
Trend analysis results in a much more meaningful comparison because even though the data used in the ratio may have been developed under different financial accounting alternatives, internal consistency within each of the trends will permit useful trend comparisons (Marshall, McManus & Viele 2002).

1.9. Theoretical framework

According to Jane (2003), financial performance is measuring the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment, return on assets and value added. According to Weetman (2006), management of a business is a primary a function requiring stewardship, meaning careful use of resources for the benefit of the owners. Financial statements contain information relating to the performance of business and the status of assets and liabilities. This information is not easily understood by every one because they are prepared by using accounting terms therefore there is a need for further financial analysis.

According to Pandey (2005), financial analysis is a process of identifying financial strengthens and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the income statement. Belverd and Marian (2004) state financial performance evaluation, also called financial statements analysis, comprises all the techniques users of financial statements employ to show important relationships in an organization's financial statements and to relate them to important financial objectives.

1.10. Conceptual framework



Source: Author 2010

Financial performance evaluation, also called financial statements analysis, comprises all the techniques users of financial statements employ to show important relationships in an organization's financial statements and to relate them to important financial objectives.

Business objectives	Links to financial performance
Liquidity	Ability to pay bills when due and to meet unexpected needs for cash.
Profitability	Ability to earn a satisfactory net income
Long-term solvency	Ability to survive for many years

Management's main responsibility is to put into action and to carry out its plan to achieve the financial performance objectives. Management must constantly monitor key financial performance measures; determine the cause of any deviations in long-term trend analysis.

CHAPTER TWO

LITERATURE REVIEW

2.0. Overview

The main purpose of this chapter is to review the contributions of different scholars in the area of assessing the role of financial analysis on financial performance of a company. The researcher has set out a conceptual framework, which enables us to understand the interplay between financial analysis and financial performance, and to identify the key variables in this research. A theoretical framework based on the theory of financial analysis will be discussed in this chapter.

There is a vast academic literature focusing on the types of financial statements, objectives of financial statements analysis and the users of financial statements.

The chapter reviews the standards, tools and techniques of financial analysis.

2.1. Financial statements

According to Jane (2003), there are four financial statements a company uses to report its financial condition:

2.1.1. Balance sheet

A balance sheet describes the financial situation of a company at a specific point in time. A balance sheet has three parts:

Assets are things of value owned by a business. Cash and equipments are common assets.

Liabilities are amounts the business owes to others outside the business, those who have loaned money to the company and have not yet been fully repaid for their loan.

The claims of the owner are called 'owner's equity'. Stockholders equity and shareholders equity are other names for the claims of the owners.

2.1.2. Income statement

The most well-known financial statement is the income statement, also known as the statement of earnings, or the statement of operations, or the profit and loss statement. The income statement is a summary of all the revenues (income from sales or services) a company earns minus all the expenses (costs incurred in the earning process) associated with earning that revenue. It describes the performance of a company during a specific period, which called a fiscal period.

2.1.3. Statement of changes in owners' equity

The statement is usually called the statement of changes in shareholders equity. The statement starts with the beginning amount of contributed capital and shows all changes during the accounting period. Then the statement shows the beginning balance in retained earnings with its changes.

2.1.4. Statement of cash flows

The statement of cash flows is needed to form a complete picture of the financial position of a company. It is simply a list of the cash that has come into a business; its cash receipts and all the cash that has gone out of the business; its disbursements during a specific period. In other words, it shows all the cash inflows and all the cash outflows for a fiscal period. The statement of cash flows is divided into three sections:

Cash from operating activities are cash transactions that relate to the everyday, routine transactions needed to run a business.

Cash from investing activities are transactions involving the sale and purchase of long-term assets used in the business.

Cash from financing activities are transactions related to how a business is financed.

2.2. Objectives of financial analysis

Different types of investors expect different types of returns. Equity investors expect both dividends and an increase in the value of the stock they hold. Creditors however, expect to receive interest and the return of their loan principal. Although the types of returns they expect are different, equity investors and creditors both risk not receiving those returns. Therefore, both types of investors use financial statement analysis to predict their expected returns and assess the risks associated with those returns.

Creditors mainly want to know about short-term liquidity and long-term solvency.

Financial statement analysis helps creditors and equity investors because past performance is often a good indicator of future performance. Trends in past sales, operating expenses, and net income often continue, so financial statement analysis of past performance gives clues to future returns. (Charles, Gary and William 2002)

2.3. Financial performance evaluation

Belverd and Marian (2004) state financial performance evaluation, also called financial statements analysis, comprises all the techniques users of financial statements employ to show important relationships in an organization's financial statements and to relate them to important financial objectives. Users of financial statements who perform financial performance evaluations fall into two categories: internal users and external users. Both groups have a strong interest in financial performance. Internal users include top managers, who set and strive to achieve financial performance objectives; middle-level manages of business processes, and employee stockholders. External users are creditors and investors who want to assess management's accomplishment of financial objectives, as well as customers who have cooperative agreements with the company.

Internal users

Setting financial performance objectives is a major function of management's plan to achieve the company's strategic goals. All strategic and operating plans established by management must eventually be stated in terms of financial objectives. A primary objective of management is to increase the wealth of the owners or stockholders of the business, but this objective must be divided into categories. A complete financial plan should have balanced financial performance objectives in all the following categories:

Business objectives	**Links to financial performance**
Liquidity	Ability to pay bills when due and to meet unexpected needs for cash.
Profitability	Ability to earn a satisfactory net income
Long-term solvency	Ability to survive for many years
Cash flow adequacy	Ability to generate sufficient cash through operating, investing, and financing activities.
Market strength	Ability to increase the wealth of owners

Management's main responsibility is to put into action and to carry out its plan to achieve the financial performance objectives. Management must constantly monitor key financial performance measures; determine the cause of any deviations in long-term trend analysis. Management develops monthly, quarterly, and annual reports that compare actual performance with objectives for key financial measure in each of the above categories (Hermanson & Edwards, 1998)

External users

Creditors make loans in the form of trade accounts, notes, or bonds. They expect them to be repaid according to specified terms and to receive interest on the notes and bonds payable. Investors buy capital stock, from which they hope to receive dividends and an increase in value. Both groups face risks. The creditor faces the risk that the debtor will fail to pay back the loan. The investor faces the risks that dividends will be reduced or not paid and that the market price of the stock will drop. It is in making those individual decisions that financial performance evaluation is most useful. Creditors and investors use financial performance evaluation in two ways: to judge past performance and current position, and to judge future potential and the risk connected with that potential (Hermanson & Edwards, 1998).

2.4. Standards for financial statements analysis.

When analyzing financial statements, decision makers must judge whether the relationships they find are favourable or unfavourable. According to Jerry Donald and Paul (2004), there are three standards:

2.4.1. Rule-of-thumb measures

Many financial analysts, investors, and lenders employ general standards, or rule-of-thumb measures, for key financial ratios. For example, most analysts today agree that a current ratio of 2:1 is acceptable.

2.4.2. Past performance of the company

An improvement over rule-of-thumb measures is the comparison of financial measure or ratios of the same company over time. Such a comparison gives the analyst some basis for judging whether the measure or ratio is getting better or worse. It may also be helpful in showing possible future trends.

2.4.3. Industry norms

Such norms show how a company compares with others in the same industry.

2.5. Tools and techniques of financial analysis

According to Weygandt, Kieso & Kell (1996), there are four measurements for financial performance:

2.5.1. Sustainable income

Sustainable income is the most likely level of income to be obtained in the future. Sustainable income differs from actual net income by the amount of irregular revenues, expenses, gains, and losses in this year's net income. As an aid in determining sustainable income, irregular items are identified by type on the income statement.

2.5.2. Comparative analysis

In assessing the financial performance of a company, investors are interested in the core of sustainable earnings of a company. We will rely on the three types of comparisons to improve the decisions usefulness of financial information.

Intracompany basis. Comparisons within a company are often useful to detect changes in financial relationships and significant trends.

Intercompany basis. Comparisons with other companies provide insight into a company's competitive position.

Industry averages. Comparisons with industry averages provide information about a company's relative position within the industry.

Three basic tools are used in financial statements analysis to highlight the significance of financial statements data:

Horizontal analysis, also known as **trend analysis**, is a technique for evaluating a series of financial statement data over a period of time. Its purpose is to determine the increase or decrease that has taken place, expressed as either an amount or a percentage.

Vertical analysis, also called **common-size analysis,** is a technique for evaluating financial statement data that expresses each item in a financial statement as percent of a base amount.

Ratio analysis expresses the relationship among selected items of financial statement data.

2.6. Limitations of financial analysis

According to Porter & Norton (1999), financial analysis is a power mechanism which helps in ascertaining the strength and weaknesses in the operations and financial position of an enterprise. This analysis has the following limitations:

1) **Financial analysis is only means**

   It is a means to an end and not the end itself. The analysis should be used as a starting point and the conclusion should be drawn not in isolation but keeping in view the overall picture and the prevailing economical and political.

2) **Ignores price level changes**

   Financial statements are normally prepared on the concept of historical costs. They do not reflect values in terms of current costs. Thus the financial analysis based on such financial statement or accounting figures would not portray the effects of price level changes over the period.

3) **Concepts and conventions**

   Financial statements are prepared on the basis of certain accounting concepts and conventions. On account of this reason the financial position as disclosed by these statement may not be realistic for example fixed assets in the balance sheet are shown on the basis of on going concern concept. This means that value placed on fixed assets may not be the same which may be realized on their sale. On account of conventions of conservatism the income statement may not disclosure true income of the business since probable income are ignore.

4) Financial statements are essentially interim report

The profit shown by profit and loss and financial position as depicted by the balance sheet is not exact. The exact position can be known only when the business is closed down.

2.7. Ratio analysis

Ratios are useful for financial analysis by investors because ratios capture critical dimensions of the economic performance of the entity. Ratios are a tool that managers use to guide, measure, and reward workers.

2.7.1. Types of financial ratios

Liquidity ratios

Liquidity ratios measure the firm's ability to meet current obligations. In fact liquidity ratios by establishing a relationship between cash and current assets to current obligations, provide a quick measure of liquidity. However a firm should make sure that it does not suffer from lack of liquidity and also that it does not have excess liquidity, (PANDEY, 2005).

1. Current ratio

The current ratio is calculated by dividing current assets by current liabilities

Current ratio is calculated as follows

$$Current\,ratio = \frac{Current\,assets}{Current\,liabilities}$$

Current assets include cash and those assets which can be converted into cash within a year. Such as marketable securities, debtors and inventories, prepaid expenses are also included in current assets as they represent payments that will not be made by the firm. Assets representing economic resources are the valuable possessions owned by the firm and these possessions should be capable of being measured in monetary terms.

As a conventional rule, a current ratio of 2 to 1 or more is considered satisfactory .the current ratio represent a margin of safety for creditors the higher the current ratio, the greater the margin of safety, the larger the amount of current assets in relation to current liabilities, the more the firm's ability to meet its current obligations.

2. Quick ratio

Quick ratio, also called acid-test ratio, establishes a relationship between quick or liquid, assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid.

Generally a quick ratio of 1 to1 is considered to represent a satisfactory current financial condition.

$$Quick\,ratio = \frac{Current\,assets - Inventories}{Current\,liabilities}$$

3. Cash ratio

Since the cash is the most liquid, a financial analyst may examine cash ratio and its equivalent to current liabilities. Trade investment or marketable securities are equivalent of cash; therefore, they may be included in the computation of cash ratio:

$$Cash\ ratio = \frac{Current\ assets + Marketable\,\sec urities}{Current\,liabilities}$$

4. Net working capital ratio

The difference between current assets and current liabilities excluding short term borrowings is called ***net working capital*** (NWC) OR Net current assets and net working capital is sometimes used as a measure of a firm's liquidity.

NWC ratio is calculated as follows

$$NWC = \frac{Net\,working\,capital}{Net\,assets}$$

5. Interval measure

Another ratio which assesses a firm's ability to meet its regular cash expenses is interval measure. Interval measure relates liquid assets to average daily operating cash outflows The daily operating expenses will be equal to cost of goods sold plus selling, Administrative and general expenses minus depreciation (and other non-cash expenditures) divide by number days in the year (360).

$$Interval\ measure\ ratio = \frac{Current\ assets - Inventory}{Average\ daily\ operating\ expenses}$$

Leverage Ratios/Solvency Ratios

Solvency ratios measure the ability of the enterprise to survive over a long period of time. Long-terms creditors and stockholders are interested in a company's long-run solvency, particularly its ability to pay interest as it comes due and to repay the face value of the debt at maturity. (Weygandt, Kieso & Kell 1996).

1. Debt to equity ratio

It is an indicator of the extent to which borrowed funds are covered by owners' funds.

$$Debt\ to\ equity\ ratio = \frac{Total\ debt}{Total\ equity}$$

2. Debt to total assets measures the extent to which the firm's assets have been financed using borrowed funds.

$$Debt\ to\ total\ assets = \frac{Long - term\ debt}{Total\ assets}$$

3. Times interest earned ratio measures the extent to which the earnings of the firm in a given period can actually cover the fixed financial obligations such as interest.

$$Times\ interest\ earned\ ratio = \frac{Net\ profit\ before\ interest\ and\ tax}{Interest\ charge}$$

Activity/Efficiency Ratio

These indicate how efficiently management uses its resources to generate revenue or incomes in terms of sales for the business. They show the extent to which assets have contributed to the generation of sales/revenue of the firm; they are referred to as turnover ratios.

i) **Use of inventory ratio** to assess whether management is controlling inventory efficiently. The more frequent the conversion of inventory into sales, the more efficient the management of these resources is.

$$Rate\ of\ inventory\ turnover = \frac{Cost\ of\ sales}{Average\ inventory}$$

$$Inventory\ turnover\ period = \frac{Average\ inventory}{Cost\ of\ sales} \times Number\ of\ days\ per\ year$$

The purpose of management is to minimize the turnover period.

ii) **Debtors turnover** indicates how efficiently funds invested in clients or debtors are being managed.

$$Rate\ of\ debtors\ turnover = \frac{Credit\ sales}{Average\ debtors}$$

Debtors' turnover period shows how long it takes before cash is collected from debtors and is determined as below;

$$Turnover\ period = \frac{Average\ debtors}{Credit\ sales} \times Number\ of\ days\ per\ year$$

Creditors' turnover indicates in the number of times a firm pays its suppliers and the period it takes to pay suppliers.

$$Rate\ of\ creditors\ turnover = \frac{Credit\ purchases}{Average\ creditors}$$

iii) Asset turnover is concerned with how the firm's capacity is used to generate returns.

$$Fixed\ asset\ turnover = \frac{Sales}{Fixed\ assets}$$

Fixed asset turnover ratio shows how the fixed assets capacity is used to generate or contribute to revenue.

Total asset turnover is an indicator of how the asset both current and fixed has been used in generating returns.

$$Total\ asset\ turnover = \frac{Sales}{Total\ assets}$$

Profitability Analysis

Liquidity analysis and solvency analysis deal with management's ability to repay short and long-term creditors. Creditors are concerned with a company's profitability because a profitable company is more likely to be able to make principal and interest payments. Of course, stockholders care about a company's profitability because it affects the market price of the stock and the ability of the company to pay dividends. Various measures of profitability indicate how well management is using the resources at it disposal to earn a return on the funds invested by various groups. (Porter & Norton1999)

Therefore profitability is assessed using the following ratios;

a) $Net\ profit\ margin = \frac{Earnings\ after\ tax}{Total\ sales}$

It shows a return on every unit of sales, after taking into account both cost of sales and expenses.

b) $Return\ on\ investment = \frac{Earnings\ after\ tax}{Investiment}$

It is important to define what is mean by investment. An investment would refer to any of the following; total assets employed, net assets employed, ordinary share capital (equity) or preference share capital.

i) $\text{Re}\,turn\,on\,total\,asset = \dfrac{Earnings\ after\ tax}{Total\ asset}$

ii) $\text{Re}\,turn\,on\,fixed\,assets = \dfrac{Earnings\ after\ tax}{Fixed\ asset}$

iii) $\text{Re}\,turn\,on\,equity = \dfrac{Earnings\ after\ tax}{Equity}$

2.7.2. Role of Ratios Analysis

The role of ratio analysis lies in the fact it presents facts on comparative basis and enables the drawing of inferences regarding the performance of a firm. Ratio analysis is relevant in assessing the performance of a firm in respect of the following aspects; Simplifies financial statements, facilitates intra-firm comparison and trend analysis, makes intra-firm comparison possible, helps in planning, liquidity position, long-term solvency, operating efficiency and over-all profitability. (Libby, Libby & Short, 2001)

1. Simplifies financial statements

Ratio analysis simplifies the comprehensive of financial statements. Ratios tell the whole story of changes in the financial condition of the business.

2. Facilitates intra-firm comparison

Ratio analysis provides data for intra-firm comparison. Ratios highlight the factors associated with successful and unsuccessful firms. They also reveal strong firms and weak firms, over-valued and undervalued firms. Ratio analysis not only throws light on the financial position of a firm but also serves as a stepping-stone to remedial measures. This is made possible due to inter-firm comparison/comparison with industry averages. A single figure of particular ratio is meaningless unless it is related to some standard or norm.

3. Trend analysis

Ratio analysis enables the firm to take the time dimension into account. In other words, it enables us to know whether the financial position of a firm is improving or deteriorating over the years. This is made possible by the use of trend analysis. The significance of trend analysis of ratios lies in the fact that the analysts can know the direction of movement that is whether the moment is favourable or unfavourable

4. Makes intra-firm comparison possible

Ratio analysis also makes possible comparison of the performance of the different divisions of the firm. The ratios are helpful in deciding about their efficiency or otherwise in the past and likely performance in the future.

5. Helps in planning

Ratios analysis helps in planning and forecasting. Over a period of time a firm or industry develops certain norms that may indicate future success or failure. If relationship changes in firm's data over different time periods, the ratios may provide clues on trends and future problems. Thus, 'ratios can assist management in its basic function of forecasting, planning, coordination, control and communication.''

6. Liquidity position

With the help of ratio analysis conclusions can be drawn regarding the liquidity position of the firm. The liquidity position of the firm would be satisfactory if it is able to meet its current obligations when they become due. A firm can be said to have the ability to meet its short-term if it has sufficient liquid funds to pay the interest on its short-term maturing debt usually within a year as well as to repay the principal.

This ability is reflected in the liquidity ratios of a firm. The liquidity ratios are particularly useful in credit analysis by banks and other suppliers of short-term loans.

7. Long- Term solvency.

Ratio analysis is equally useful for assessing the long term viability of a firm. This aspect of the financial position of borrower is of a concern to long-term creditors, security analysts and the present potential owner a business. The long term solvency is measured by the leverage/ capital structure and profitability ratios which focus on earning power and operating efficiency.

2.7.3. Limitations of ratio analysis

According to Pandey (2005), the ratio analysis is a widely used technique to evaluate the financial position and performance of a business. But there are certain problems in using ratios. The following are some of the limitations of the ratio analysis:

- It is difficult to decide on the proper basis comparison.
- The comparison is rendered difficult because of differences in situations of two companies or of one company over years.
- The price level changes make the interpretations of ratios invalid.
- The differences in the definitions of items in the balance sheet and the profit and loss statement make the interpretation of ratios difficult.
- The ratios calculated at a point of time are less informative and defective as they suffer from short-term changes.
- The ratios are generally calculated from past financial statements and, thus are no indicators of future.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Overview

This chapter deals with how the study had been conducted. It indicates where the data had been got from, research design, and justification of research study, methods that had been used to collect data. Again this chapter considered quality control during and after data collection.

It helps in decision making, it facilitates the process of analyzing, evaluating, and interpreting the data obtained from the field, it provides a basis for innovation.

Research refers to the system or method consisting of enunciating the problem, collecting data, analyzing them and rendering certain conclusions either in the form of solutions towards the concerned problem (Bailey, 1978).

3.2 Research Design

A research design is the arrangement of conditions for collections and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, the research design is the conceptual structure within which research is conducted. (Kothari, 1990). In this study, the research design used is analytical method. Analytical method allowed analyzing the data in order to identify the problems and get conclusions.

3.3 Population of Study

Once the researcher has formulated the problem and develops a research design she has to decide whether the information is to be collected all the people comprising the population or not. The population of this study consisted of 2 telecommunication companies operating in Rwanda such as Rwandatel and MTN Rwanda.

A sample of one (1) Telecommunication Company was selected on judgmental basis, which means that it was based on convenience.

3.4 Sampling Design

This refers to the identification of institutions, individuals or households that can be reached using mails, telephone, or in person that have the needed information.

The sample chosen as a case study is MTN Rwanda. The reason for choosing this sample as a representative is because it is significantly large and mainly its business is the service telecommunication which is today booming in Rwanda as source of income.

Also the reason that made me choose this sample was that it is among the best examples of big organizations with large spending on community activities such as sports sponsorship and tax payment and in 2006 was ranking number four according to Rwanda Revenue Authority.

MTN Rwanda is selected among other telecommunication companies because it is the prominent company in telecommunication rendering services companies in Rwanda.

The researcher used judgmental sampling in which MTN Rwanda is selected because it is expected that it is a representative of the population of interest. Information is generally based on preference that will give better indications of future patterns of performance.

Further, this company plays a vital role in economic development of Rwanda through paying taxes to government hence revenue to it. This revenue is used in the welfare of the citizens like construction of roads, building of schools and hospitals. To private individuals MTN Rwanda provides telecommunication services to their clients and this helps them in their daily business.

3.5 Data Collection methods and instruments

In this research the source of data is secondary data information.

3.5.1 Methods

Secondary Data Collection

Secondary data are those ones which are already collected by someone else and which have already been passed through the statistical process.

Secondary data under this had been obtained by referring to various literatures available in libraries as well as the internet. Other data was obtained directly from the sampled company with relevant permission from the company's authorities.

The financial statements of MTN Rwanda had been analyzed based on the annual reports of five years from 2004 to 2008.

3.5.2 Instruments

Documentary technique

In this study the researcher read documents related to financial accounting, some notions like the meaning of financial analysis have been highlighted referring to different authors. Across this study the investigator analyzed annual reports and financial statements of MTN Rwanda in order to get the information required for my study.

3.5.3 Procedures

The researcher had got a research introductory letter from the faculty of Business and Management and had presented it to the Chief Executive Officer of MTN Rwanda in order to be issued financial reports. The financial reports had been analyzed, interpreted and conclusions had been drawn.

3.6 Data Analysis

The data, after collection, had to be processed and analyzed in accordance with the outline laid down for the purpose at the time of developing the research plan.

To get easily interpreted and understandable information the following techniques of analyzing data had been used.

1. **Comparative statements analysis**

This is one of the techniques had been used to evaluate and interpret the financial statements of MTN Rwanda.

2. **Common-size**

Common-size financial statements are those in which figures reported are converted into percentages to some common base.

3. **Index analysis**

This is another technique that had been used to evaluate financial statements of MTN Rwanda. Under this method, it involved calculation of % age relationship that each item bears to the same item in the base year.

4. **Ratio Analysis**

Ratio analysis is one of the techniques of financial analysis where ratios are used as a yardstick for evaluating the financial condition and performance of MTN Rwanda. Analysis and interpretation of various ratios gave a skilled and experienced analyst a better understanding of the financial condition and performance of MTN Rwanda.

3.7. Ethical Consideration

There is need for the researcher to use professional and ethical standards to plan, collect and process data. The researcher ensured that she had been objective and had used objective methods in data collection. The researcher made sure that any element of individual bias had been subdued in favour of well-accepted systematic and objectives measures.

The methodology chosen for the research was selected on the basis of the research objectives and not for other reasons.

The research also ensured that data had been interpreted according to general methodological standards and not in line with the researcher's fancy. The researcher made sure that elements that were irrelevant to data interpretation are excluded from the report.

The researcher made sure that she collected data according to accepted research standards, ensuring that she did not mislead those who read the research report.

The researcher kept all the information given to her very confidential and uses it only for purposes indicated as the justification of the study.

3.8. Limitations of the study

In course of this research, the researcher met some problems. However, these limitations were minimized so that their effects couldn't act as a hindrance to the success of this research. Here are few of them and how they were controlled:

Time and financial limitations, this acted as a blockage in carrying out research in more than one company about the performance of private companies in Rwanda. However, the researcher managed to conduct this research in one company that is MTN Rwanda with the help of friends and relatives who provided financial assistance and through the researcher's overworking.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Overview

Data collected from the study is evaluated and interpreted under this chapter, in order to make conclusions on the objectives of the study; the data collected is presented in different forms that are tables containing mathematical explanations of percentages and ratios.

In the exercise of measuring the financial performance analytically of MTN Rwanda different techniques were used in evaluation of financial information to know the importance of the data presented and evaluate the position of MTN Rwanda. Generally, these techniques were mentioned in chapter two, but some were used in relation to the available data. These include; common- size evaluation, comparative evaluation, index analysis and ratios evaluation.

The information obtained from these types of evaluation was the base to determine the overall financial position of MTN Rwanda. Therefore, since there was no one type of evaluation that is sufficient to support the overall findings; conclusions regarding MTN Rwanda financial performance were drawn based on comparative evaluation and ratios evaluation. As the findings were based on financial statements evaluation, which is judgmental process, comparative evaluation for the period was five (5) years (2004-2008) helped in the identification of major changes and to investigate the reasons underlying those changes. Thus a judgmental processes aid management to take corrective measures depending on direction.

MTN RWANDA BALANCE SHEET FOR THE FINANCIAL YEARS 2004 TO 2008

The balance sheet shows the financial position of the company, its assets and liabilities over the five years period.

Table 4.1: MTN Rwanda balance sheet (in Rwf)

Particulars	**2004 (000)**	**2005 (000)**	**2006 (000)**	**2007 (000)**	**2008 (000)**
Assets					
Current assets					
Deferred expenditure	109,563	84,188	76,581	57,723	53,594
Stock	444,420	347,184	253,597	234,678	272,591
Debtors & prepayment	2,506,259	3,914,748	6,491,037	7,753,491	9,372,953
Cash and bank balance	856,354	5,716,386	17,160,168	17,888,322	18,398,371
Total current assets	3,916,596	10,062,506	23,981,383	25,934,214	28,097,509
Total fixed assets	12,084,899	12,316,526	23,447,540	22,782,749	41,152,611
Total assets	16,001,495	22,379,032	47,428,923	48,716,963	69,250,120
Liabilities and Equity					
Current liabilities					

Bank loan	1,052,090	1,121,923	1,302,112	1,543,217	5,379,374
Creditors and accruals	3,561,325	7,596,246	10,592,597	10,103,223	19,820,968
Total current liabilities	4,613,415	8,718,169	11,894,709	11,646,440	25,200,342
Long-term liabilities	3,683,353	3,505,587	2,913,414	3,455,255	3,386,166
Total capital and Reserves	7,704,727	10,155,276	32,620,800	33,615,268	40,663,612
Total liabilities & equity	**16,001,495**	**22,379,032**	**47,428,923**	**48,716,963**	**69,250,120**

Source: MTN Rwanda's annual financial report

Current assets are assets that are expected to be converted to cash or used up by the business within one year. Current assets are deferred expenditure, debtors and prepayment, stock and cash and bank balance.

Fixed assets are generally investments in stocks and bonds of other corporations that are normally held for many years. Fixed assets are also classified into tangible and intangible fixed assets. Tangible fixed assets include property, plant and equipment.

Intangible fixed assets include patents, copyrights, or trade names.

Current liabilities are obligations that are to be paid within the coming year. These are bank loans payable and creditors and accruals.

Long term liabilities are obligations expected to be paid after one year. Liabilities in this category include long-term debt, deferred credits and others liabilities.

Stockholders' equity includes total capital and reserves.

4.2 MTN Rwanda ratios analysis

4.2.1 Liquidity ratios

Liquidity ratios measure the firm's ability to meet current obligations. In fact liquidity ratios by establishing a relationship between cash and current assets to current obligations, provide a quick measure of liquidity. However a firm should make sure that it does not suffer from lack of liquidity and also that it does not have excess liquidity, (PANDEY, 2005). The researcher calculated liquidity ratios to assess short term solvency of MTN Rwanda.

1. Current ratio

Pandey (2005) states that the current ratio is calculated by dividing current assets by current liabilities:

$$Current\ ratio = \frac{Current\ assets}{Current\ liabilities}$$

Current assets include cash and those assets which can be converted into cash within a year. Such as marketable securities, debtors and inventories, prepaid expenses are also included in current assets as they represent payments that will not be made by the firm.

Current liabilities include creditors, bills payable, accrued expenses, short-term bank loan, income-tax liability and long-term debt maturing in the current year.

Table 4.2: MTN Rwanda current ratios

Years	Ratio
2004	0.85 times
2005	1.15 times
2006	2.02 times
2007	2.23 times
2008	1.11 times

Source: Researcher's evaluation from secondary data

MTN Rwanda had current ratio of 0.85:1 in 2004; it had current ratio of 1.15:1 in 2005 and it had 1.11:1 in 2008; therefore it may be interpreted to be insufficiently liquid. MTN Rwanda had current ratios of 2.02:1 in 2006 and 2.23:1 in 2007 this means that MTN Rwanda was performing satisfactory. This indicates that the company has not maintained its liquidity position· This is not in agreement with Pandey (2005), who affirms as conventional rule, a current of 2 to 1 or more is considered satisfactory. The higher the current ratio, the greater the margin of safety; the larger the amount of current assets in relation to current liabilities, the more the company has ability to meet its current obligations.

2. Quick ratio or acid-test ratio

According to Pandey (2005), quick ratio, also called acid-test ratio, establishes a relationship between quick or liquid, assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid. Other assets that are considered to be relatively liquid and included in quick assets are debtors and bills receivables and marketable securities. Inventories are considered to be less liquid. Inventories require some time for realizing into cash; their value also has a tendency to fluctuate. The quick ratio is found out by dividing quick assets by current liabilities.

$$Quick\,ratio = \frac{Current\ assets - Inventories}{Current\ liabilities}$$

Generally a quick ratio of 1 to1 is considered to represent a satisfactory current financial condition.

Table 4. 3: MTN Rwanda quick ratios

Years	Ratio
2004	0.75 times
2005	1.11 times
2006	1.99 times
2007	2.2 times
2008	1.1 times

Source: Researcher's evaluation from secondary data

The acid-test ratios of MTN Rwanda for the period 2005, 2006 and 2007 and 2008 show that MTN Rwanda has a high acid-test ratios than of current ratios. In the financial year 2004 MTN Rwanda had quick ratio, which was below normal ratio.

This information helped in determining that MTN Rwanda had liquid enough to pay off its short-term obligations out of its quickly realizable assets without any difficult. This concurs with Pandey (2005), who states as generally, a quick ratio of 1 to 1 is considered to represent a satisfactory current financial condition.

4.2.2 Solvency ratios

Solvency ratios measure the ability of the enterprise to survive over a long period of time. The researcher calculated solvency ratios to assess long-term solvency of MTN Rwanda, which means to assess whether the firm has adequate resources to meet its long-term funds requirements, whether MTN Rwanda has used an appropriate debt-equity mix to raise long-term funds.

1. Debt to equity ratio

$$Debt\ to\ equity\ ratio = \frac{Total\ debt}{Total\ equity}$$

Table 4.4: MTN Rwanda debt to equity ratio

Years	Ratio
2004	0.47 times
2005	0.34 times
2006	0.089 times
2007	0.1 times
2008	0.008 times

Source: Researcher's evaluation from secondary data

According to the above table, debt-equity ratio was 0.47 in 2004 and 0.34 in 2005, and then decreased to 0.089 in 2006, 0.1 in 2007, and 0.008 in 2008. Generally debt-equity ratios were good. This concurs with Weetman (2006), who affirms that a low debt-equity ratio indicates a low exposure to financial risk because it means that there will be little difficulty in paying loan interest and repaying the loans as they fall due.

2. Debt to total assets

$$Debt\ to\, total\ assets = \frac{Long - term\, debt}{Total\ assets}$$

Table 4.5: MTN Rwanda long-term debt to total assets

Years	Ratio in percentage
2004	0.23 times
2005	0.15 times
2006	0.06 times
2007	0.07 times
2008	0.04 times

Source: Researcher's evaluation from secondary data

The long-term debt to total assets ratios were 0.23, 0.15, and 0.06, 0.07and 0.04 for the financial years of 2004, 2005, 2006, 2007 and 2008 respectively. Generally debt to total assets ratios were good because borrowed funds covered by its assets. This agrees with Jane (2003), who states that long-term debt to total assets ratio shows the extent to which debt financing has been used in the business.

3. Total liabilities to total assets

$$\textit{Total liabilities to total assets} = \frac{\textit{Total liabilities}}{\textit{Total assets}}$$

Table4. 6: MTN Rwanda total liabilities to total assets

Years	Ratio
2004	0.52 times
2005	0.55 times
2006	0.31 times
2007	0.3 times
2008	0.41 times

Source: Researcher's evaluation from secondary data

According to the above table, total liabilities to total assets was 0.52 in 2004 and 0.55 in 2005, and then decreased to 0.31 in 2006, 0.3in 2007, 0.41 in 2008. Generally total liabilities to total assets ratios were good because the proportion of total funds; short and long-term provided by outsiders covered by total assets. This agrees with Jane (2003), who states that long-term debt to total assets ratio shows the extent to which debt financing has been used in the business.

MTN Rwanda's income statement from 2004 to 2008

Income statement show the financial performance of the firm .it shows various items such as sales, cost of sales and operating expenses and finally the profit earned by the firm. The below income statement shows the profit earned by MTN for the five year period from

2004 to 2008. It explains what has happened to a business as a result of business operations, it matches revenues and costs incurred in the process of earning revenues and finally shows net profit earned or loss suffered during a particular period.

Table 4.7: MTN Rwanda income statement

Particulars	2004 **(000'Rwf)**	2005 **(000'Rwf)**	2006 **(000'Rwf)**	2007 **(000'Rwf)**	2008 **(000'Rwf)**
Revenue	15,840,553	21,428,391	34,543,360	44,188,967	65,218,503
Cost of sales	3,455,323	4,261,070	5,337,495	8,032,902	12,250,529
Gross profit	12,385,230	17,167,321	29,205,865	36,156,065	52,967,974
Operating expenses	5,357,078	6,054,499	8,396,097	10,606,795	17,015,633
Other expenses + taxes	4,539,986	5,812,272	8,934,537	10,570,279	13,832,773
Net profit for the year	**2,488,166**	**5,300,550**	**11,875,231**	**14,978,991**	**22,119,569**

Sources: MTN Rwanda's annual financial reports

4.2.3 Profitability ratios

Various measures of profitability indicate how well management is using the resources at it disposal to earn a return on the funds invested by various groups. (Porter & Norton1999)

The researcher calculated profitability ratios to analyse the overall profitability of MTN Rwanda and find out future prospects the company is likely to experience in future.

1. Gross profit margin

It is calculated by dividing the gross profit by sales:

$$Gross\ profit\ ratio = \frac{Gross\ profit}{Sales}$$

The gross profit margin reflects the efficiency with which management produces each unit of product. This ratio indicates the average spread between the cost of goods sold and sales revenue.

Table 4.8: MTN Rwanda gross profit ratio

Years	Ratio in percentage
2004	78.18%
2005	80.11%
2006	84.54%
2007	81.82%
2008	81.21%

Source: Researcher's evaluation from secondary data

The gross profit ratios of 78.18%, 80.11%, 84.54%, 81.82% and 81.21% for the financial years of 2004, 2005, 2006, 2007 and 2008 respectively. These ratios indicate that MTN Rwanda profitability is satisfactory. Hence this adequate profitability of MTN Rwanda will give good image for long-term survival to the investors and other stakeholders, and shows that MTN Rwanda has good management.

This is in agreement with Pandey (2005), who notes that a high gross profit margin ratio is a sign of good management.

2. Net profit margin

Net profit is obtained when operating expenses, interest and taxes are subtracted from the gross profit. It is measured by dividing profit after tax by sales.

$$Net\ profit\ margin = \frac{Earnings\ after\ tax}{Sales}$$

Table 4. 9: MTN Rwanda net profit margin

Years	Ratio in percentage
2004	15.7%
2005	24.74%
2006	34.77%
2007	33.89%
2008	33.91%

Source: Researcher's evaluation from secondary data

From the above table computed ratios shows that there was an increase in the ability of MTN Rwanda a year after a year. An increase in net profit ratio a year after a year is an indication of improving working conditions. These ratios also indicate MTN Rwanda's capacity to withstand adverse economic conditions. This concurs with Pandey (2005), who states that a firm with a high net margin ratio would be in advantageous position to survive in the face of falling selling prices, rising costs of production or declining demand for the product.

3. Operating expenses ratio

The operating expense ratio is computed by dividing operating expenses by sales:

$$Operating\ expenses\ ratio = \frac{Operating\ expenses}{Sales}$$

Table 4.10: MTN Rwanda operating expenses ratio

Years	Ratio in percentage
2004	55.63%
2005	48.14%
2006	39.75%
2007	42.18%
2008	44.87%

Source: Researcher's evaluation from secondary data

The trend of operating expenses ratio of MTN Rwanda is as follows; 55.63%, 48.14%, 39.75%, 42.18% and 44.87% for the financial periods of 2004, 2005, 2006, 2007 and 2008 respectively. It indicates that in 2004 operating ratio was high in this year with decrease of 7.5% in 2005 than 2004, for 2006, 2007 and 2008 operating ratio shows a reduction of 8.2%, 6% and 3% respectively compared to 2005. Hence, in the financial years 2006, 2007 and 2008 MTN Rwanda had a higher margin for net profit margin compared to 2004 and 2005. According to Pandey (2005), a lower operating expenses ratio is favourable since it will leave a big amount of operating income to meet interest and dividends.

4. Return on total assets

$$\text{Return on total asset} = \frac{EAT}{\text{Total asset}}$$

Table 4. 11: MTN Rwanda return on total assets

Years	Ratio in percentage
2004	15.54%
2005	23.68%
2006	25%
2007	30.74%
2008	31.94%

Source: Researcher's evaluation from secondary data

Return on total assets ratios indicate an increase from 15.54%, 23.68%, 25%, 30.74% and 31.94% for the financial years 2004, 2005, 2006, 2007 and 2008 respectively. This shows that MTN Rwanda has used its total assets effectively to earn high return. This concurs with Belverd & Mariam (2004), affirm that return on total assets indicates how well a company has used its fixed and current assets to generate net profit.

5. Return on fixed assets

$$\text{Re}\,turn\,on\,fixed\,assets = \frac{EAT}{Fixed\,asset}$$

Table 4. 12: MTN Rwanda return on fixed assets

Years	Ratio in percentage
2004	20.58%
2005	43%
2006	50.64%
2007	52.12%
2008	53.75%

Source: Researcher's evaluation from secondary data

Return on fixed assets ratios indicate an increase from 20.58%, 43%, 50.64%, 52.12% and 53.75% for the financial years 2004, 2005, 2006, 2007 and 2008 respectively. These ratios indicate that MTN Rwanda has used its total assets effectively to earn high return.

This concurs with Belverd & Mariam (2004), affirm that return on total assets ratio indicates how well a company has used its fixed assets to generate net profit.

5. Return on equity (ROE)

ROE indicates how well the firm has used the resources of owners. ROE is net profit after taxes divided by shareholders' equity:

$$ROE = \frac{EAT}{Equity}$$

Table 4. 13: MTN Rwanda return on equity

Years	Ratio in percentage
2004	32.29%
2005	52.19%
2006	36.4%
2007	44.56%
2008	54.39%

Source: Researcher's evaluation from secondary data

The return on investment for the year 2004 has been 32.29% and increased to 52.19% for the financial year 2005 and then decreased to 36.4% in the year 2006 and later increased to 44.56% for the financial year 2007 and increased to 54.39%. This study helped in assessing that MTN Rwanda had used the resources of owners effectively. This concurs with Pandey (2005), who states that the earning of a satisfactory return is the most desirable objective of a business. The ratio of net profit to owners' equity reflects the extent to which this objective has been accomplished.

4.2.4 Activity/Efficiency Ratios

These indicate how efficiently management uses its resources to generate revenue or incomes in terms of sales for the business. They show the extent to which assets have contributed to the generation of sales/revenue of the firm; they are referred to as turnover ratios. (Kakuru 2007).

The researcher calculated turnover ratios to investigate more on efficiency with which assets have been used to generate revenue of MTN Rwanda.

1. Inventory turnover

The inventory turnover show how rapidly the inventory is turning into receivable through sales. It is calculated by dividing the cost of sales by the average inventory.

$$Rate\ of\ inventory\ turnover = \frac{Cost\ of\ sales}{Average\ inventory}$$

Table 4. 14: MTN Rwanda inventory turnover ratios

Years	Ratio
2004	7.77 times
2005	10.76 times
2006	17.77 times
2007	32.9 times
2008	48.29 times

Source: Researcher's evaluation from secondary data

The study established that was an increase of inventory turnovers, it was 7.77 times in 2004 and 10.76 times in 2005. It was 17.77 times in 2006 and it increased to 32.9 times in 2007 and increased to 48.29 times for the year 2008. Therefore this indicated a good inventory management of MTN Rwanda. This indicates that inventory turnovers have been satisfactory. It was an indication of efficiency with which the inventory was turned out into sales. This is an agreement with Pandey (2005), who affirms that a high inventory turnover is indicative of good inventory management.

2. Debtors turnover rate

The debtors turnover shows the number of times cash collections are made in a given period. It can be calculated by dividing total sales by the year-end balance of debtors:

$$Debtors\,turnover = \frac{Sales}{Average\,debtors}$$

Table 4.15: MTN Rwanda debtors turnover ratios

Years	Ratio
2004	6.32 times
2005	6.67 times
2006	6.64 times
2007	6.2 times
2008	7.62 times

Source: Researcher's evaluation from secondary data

MTN Rwanda are made an average of 6.32 times, 6.67 times, 6.64 times, 6.2 times and 7.62 times in financial years 2004, 2005, 2006, 2007 and 2008. MTN Rwanda maximized the number of times of debt collections, which is an indicator that debtor's management is efficient. This concurs with Kakuru (2007), who notes that the higher the value of debtors turnover, the more efficient is the management of credit.

3. Rate of creditors turnover

Creditors' turnover is indicated in the number of times a company pays its suppliers and the period it takes to pay suppliers.

$$Rate\,of\,creditors\,turnover = \frac{Purchases}{Average\,creditors}$$

Table 4.16: MTN Rwanda creditors turnover ratios

Years	Ratio
2004	1.09 times
2005	0.75 times
2006	0.57 times
2007	0.77 times
2008	0.82 times

Source: Researcher's evaluation from secondary data

Purchases = cost of sales + closing stock – opening stock

MTN Rwanda are made an average of 1.09 times, 0.75 times, 0.57 times, 0.77 times and 0.82 times and in years 2004, 2005, 2006, 2007 and 2008. MTN had taken a long period to pay its suppliers.

4. Fixed asset turnover

Fixed assets turnover ratio shows how the fixed assets capacity is used to generate or contribute to revenue

$$Fixed\ asset\ turnover = \frac{Sales}{Fixed\ assets}$$

Table 4. 17: MTN Rwanda fixed asset turnover ratios

Years	Ratio
2004	1.31 times
2005	1.73 times
2006	1.47 times
2007	1.93 times
2008	1.58 times

Source: Researcher's evaluation from secondary data

Fixed assets turnover ratios show that every franc investment in fixed assets generates 1.31 times in year 2004, 1.73 in 2005, 1.47 times in 2006, 1.93 in 2007 and 1.58 in 2008 as much as in sales. These ratios were favourable.

6. Total asset turnover

Total assets turnover is an indicator of how the assets both current and fixed have been used in generating returns.

$$Total\ asset\ turnover = \frac{Sales}{Total\ assets}$$

Table 4. 18: MTN Rwanda total asset turnover ratios

Years	Ratio
2004	0.99 times
2005	0.96 times
2006	0.73 times
2007	0.91 times
2008	0.94 times

Source: Researcher's evaluation from secondary data

It can be evidenced from the above table that the total asset turnover ratios were 0.99 times in 2004, 0.96 times in 2005, 0.73 times in 2006; 0.91 times in 2007 and 0.94 times in 2008. Therefore this shows that management of MTN Rwanda had not ability in generating sales from all financial resources committed to total assets. This is not in agreement with KAKURU (2007) who notes that a firm should manage its assets efficiently to maximise sales.

4.3 Comparative financial statements evaluation

This is one of the techniques used to evaluate and interpret the financial statements of MTN Rwanda. In this evaluation, figures for two or more periods are placed side by side to facilitate comparison based on comparative evaluation of absolute figures (in 000 FRW), the financial performance of MTN Rwanda was evaluated comparatively based on these absolute and percentages variances (income statements and balance sheets over the period of 2004-2008 can be prepared in a form of comparative financial statements).

Table 4.19: MTN Rwanda comparative income statement

	ABSOLUTE INCREASE				**INCREASE IN PERCENTAGE**			
Particulars	2005 (000)	2006 (000)	2007 (000)	2008 (000)	2005 (000)	2006 (000)	2007 (000)	2008 (000)
Revenue	5,587,838	13,114,969	9,645,607	21,029,536	35.2	61.2	27.9	47.7
Cost of sales	805,747	1,076,425	2,695,407	4,217,627	23.3	25.2	50	52.5
Gross profit	4,781,091	12,038,544	6,950,200	16,811,909	47.9	70.1	23.7	46.5
Operating expenses	697,421	2,341,598	2,210,698	6,408,838	13	38.6	26.3	60.6
Other expenses + taxes	1,272,286	3,122,265	1,635,742	3,262,494	28	53.7	18.3	30.9
Net profit for the year	2,812,384	6,574,681	3,103,760	7,140,578	113	124	26.1	47.7

Source: Researcher's evaluation from secondary data

Revenue in absolute figures was increasing, revenue in the financial year 2005 the percentage increase in revenue was 35.2% .The percentage increase in revenues in the following year however was increasing at increasing rate of 61.2%.

In the financial year 2007 the percentages increase in revenue increased rate of 27.9% and rate of 47.7% in financial year 2008.

In general, the revenues for MTN Rwanda show a positive trend. Again the high percentage increase in revenue of 61.2% in the financial year 2006 can be attributable to a relatively lower percentage of cost of sales in the same year.

Although the gross profit of MTN Rwanda was on an increase in all the financial years, there has been a percentage increase of only 23.7% in the financial year 2007 compared to other years which registered an increase of 47.9%, 70.1% and 46.5% in the year 2005, 2006 and 2008 respectively. This was as a result of high increase in cost of sales in the same year. MTN Rwanda has shown a positive net profit in all five (5) years under study. However the profit trend has shown an increasing of 113%, 124%, 26.1% and 47.7% in the year 2005, 2006, 2007 and 2008 respectively.

Table 4.20: MTN Rwanda comparative balance sheet

	ABSOLUTE INCREASE/DECREASE				INCREASE/DECREASE IN %			
Particulars	2005 (000)	2006 (000)	2007 (000)	2008 (000)	2005 (000)	2006 (000)	2007 (000)	2008 (000)
Total current assets	6,145,910	13,918,877	1,952,831	2,163,295	156.9	138.3	8.14	8.3
Total fixed assets	231,627	11,131,014	(664,971)	18,369,862	1.9	90.4	(2.8)	80.6
Total assets	6,377,537	25,049,891	1,288,040	20,533,157	39.8	111.9	2.7	29.6
Total current liabilities	4,104,754	3,176,540	(248,269)	13,553,902	88.9	36.4	(2)	116.3
Long term debt	(177,766)	592,173	541,841	(69,089)	(4.8)	16.9	18.6	(1.9)
Total capital and Reserves	2,450,549	22,465,524	994,468	7,048,344	31.8	221.2	3	20.9
Total liabilities & equity	6,377,537	25,049,891	1,288,040	20,533,157	39.8	111.9	2.7	29.6

Source: Researcher's evaluation from secondary data

According to the table of analysis above, it is seen that the value of current assets increased in the financial years 2005, 2006, 2007 and 2008 by 156.9%, 138.3%, 8.14% and 8.34%. In the financial year 2005, the value of current assets increased by 156.91%, again this was due high to value of uncollected debts and increased prepayments.

The comparative analysis evaluated fixed assets of MTN Rwanda showed a positive trend, whereby investment in non-current assets was increasing 1.9% in year 2005, 90.4% in year 2006, 80.6% in year 2008 but at a decreasing rate of 1.92% in year 2007.

The decrease in current liabilities in the year 2007 was with at the rate 2%.

There was an increase in current liabilities in the financial year 2005 mainly because there was increase in creditors and accruals in that year and debt repayment was also on an increase.

In the financial years 2006 and 2008 current liabilities increased much by 36.4% and 116.3%; this increase is due to an increase in all liabilities as shown in the table above. Non-current liabilities of MTN Rwanda increased in the financial years 2006 and 2007 and the decreased in years 2005 and 2008. From the comparative statement above, it can be said that MTN Rwanda's capital structure and reserves was increasing in all financial years 2004. That is owner's equity dominated external liabilities.

4.4 Common-size analysis

Common-size analysis, also called vertical analysis, is technique for evaluating financial statement data that expresses each item in a financial statement as a percent of a base amount. Common-size financial statements are those in which figures reported are converted into percentages to some common base. In the income statement the net sales figures is assumed to be 100 and all figures are expressed as a percentage of this total. In the balance sheet various items are expressed of total assets. (Weygandt, Kieso & Kell 1996)

Therefore common-size statements is also another technique used to interpret MTN Rwanda financial statements, this is because it makes more meaningful when the figures are brought to common base percentage. Common-size financial statements evaluation has been used to evaluate the financial statements of MTN Rwanda for the financial years from 2004 to 2008.

Table 4. 21: MTN Rwanda common size income statement (in Rwf)

Particulars	2004 (000)	2005 (000)	2006 (000)	2007 (000)	2008 (000)
Revenue	100	100	100	100	100
Cost of sales	21.8	19.9	15.5	18.2	18.9
Gross profit	78.2	80.1	84.6	81.8	81.2
Operating expenses	33.8	28.3	24.3	24	26.1
Other expenses + taxes	28.3	27.1	25.9	23.9	21.2
Net profit for the year	15.7	24.7	34.4	33.9	33.9

Source: Researcher's evaluation from secondary data

The cost of sales percentages are decreasing every year, just like the operating expenses and other expenses. This has led to increase in net profit year after year. The net profit was 15.71 % in financial year 2004, 24.73 % in financial year 2005, 34.38 % in financial year 2006, 33.9 % in financial year 2007 and 33.92 % in financial year 2008.

Table 4. 22: MTN Rwanda common-size balance sheet

Particulars	2004 (000'Rwf)	2005 (000'Rwf)	2006 (000'Rwf)	2007 (000'Rwf)	2008 (000'Rwf)
Total current assets	24.48	44.96	50.56	53.23	40.57
Total fixed assets	75.52	55.04	49.44	46.77	59.43
Total assets	**100**	**100**	**100**	**100**	**100**
Total current liabilities	28.83	38.96	25.08	23.91	36.39
Long term debt	23.02	15.66	6.14	7.09	4.89
Total capital and Reserves	48.15	45.38	68.78	69	58.72
Total liabilities & equity	**100**	**100**	**100**	**100**	**100**

Source: Researcher's evaluation from secondary data

In the financial years 2004, 2005 and 2008; the fixed assets form a big portion of the company's total assets. The smaller portions of the current assets may not be enough to cover the current liabilities. And for the financial years 2006 and 2007, the big portions of the current assets covered the current liabilities.

Long-term liabilities form the smaller proportion of the total liabilities. This suggests that the company depends more on its owners' equity to finance its activities. The proportion of total capital and reserves was 48.15% in financial year 2004, 45.38 % in financial year 2005, 68.78 % in financial year 2006, 69 % in financial year 2007 and 58.72 % in financial 2008.

4.5 Trend percentages evaluation or index analysis

This is another technique used to evaluate financial statements of MTN Rwanda.

The base year is usually the earliest year for the case of MTN Rwanda the base is the financial year 2004.

Trend evaluation also was used to evaluate the financial performance of MTN Rwanda by the use of financial statements (balance sheet and income statement) for the five financial years that is for 2004 to 2008.

Table 4.23: MTN Rwanda's indexed income statement

Particulars	2004 **(000'Rwf)**	2005 **(000'Rwf)**	2006 **(000'Rwf)**	2007 **(000'Rwf)**	2008 **(000'Rwf)**
Revenue	100	135.3	218	278.9	411.7
Cost of sales	100	123.3	154.4	232.5	354.5
Gross profit	100	138.6	235.8	291.1	427.7
Operating expenses	100	113	156.7	197.9	317.6
Other expenses + taxes	100	128	196.8	232.8	304.7
Net profit for The year	100	213	477.3	602	888.9

Source: Researcher's evaluation from secondary data

The indexed income statement shows that the sales are increasing at a higher rate than the cost of sales, operating expenses, and other expenses.

The net profits are also increasingly better off. The net profit was 213 % in year 2005, 477.3 % in year 2006, 602 % in year 2007 and 888.9 % in year 2008.

In general, the results of index income statement analysis are in agreement with those of the common size statement.

Table 4. 24: MTN Rwanda's indexed balance sheet

Particulars	**2004 (000'Rwf)**	**2005 (000'Rwf)**	**2006 (000'Rwf)**	**2007 (000'Rwf)**	**2008 (000'Rwf)**
Total current assets	100	256.91	612.3	663.2	717.4
Total fixed assets	100	101.9	194	188.5	340.5
Total assets	**100**	**139.8**	**296.4**	**304.4**	**432.8**
Total current liabilities	100	188.9	257.8	252.4	546.3
Long term debt	100	95.2	79	93.8	91.9
Total capital and Reserves	100	131.8	423.4	436.3	527.8
Total liabilities & equity	**100**	**139.8**	**296.4**	**404.4**	**432.8**

Source: Researcher's evaluation from secondary data

The indexed balance sheet shows an increase in both fixed and current assets. This is a healthy position because it means an increased capacity of MTN Rwanda to earn income using its assets. The owner's equity shows an increasingly better position when compared to the base year. This due to the gains realized by MTN Rwanda from 2005 to 2008.

CHAPTER FIVE

SUMMARY OF MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Overview

This chapter provides the summary of findings, conclusions and offers recommendations for the improvement of the company's financial performance.

5.2 Summary of major findings

The major purpose of this research is to assess the role of financial analysis on financial performance in MTN Rwanda, with reference tools of ratios as benchmark for measuring the benefit of the firms.

MTN Rwanda was used as a case study of this research because it is one of the prominent companies in the telecommunication sector in Rwanda, hence acts as a representative of other companies in that sector. The followings are major findings:

The liquidity position of MTN Rwanda as shown by current ratios was not favourable the company could not meet its short term obligations. However the liquidity position as shown by quick ratio for the periods 2005 to 2008 indicated that MTN Rwanda had high level of liquidity than that of current ratio. Generally MTN Rwanda had enough assets to pay its short-term obligations out its quick realizable assets without any difficult and this is because its liquidity ratio is above normal ratio.

The other objective of this research was to examine whether the company has adequate resources to meet its long term obligations, this research revealed that the company was able to meet its long term obligations. As it has been revealed by debt-equity ratio was 0.47 in 2004 and 0.34 in 2005, and then decreased to 0.089 in 2006, 0.1 in 2007, 0.008 in 2008 this implies that in the first two years, the proportion of debt was high compared to equity that implied that the company was exposed to financial risk, this would reduce profits and consequently affect the dividend payable to shareholders.

Whereas for the years 2006, 2007 and 2008 the proportion of debt to equity reduced to 0.089, 0.1 and 0.008 this means that the company used less debt to equity. Generally debt-equity ratio was good for the years 2006, 2007 and 2008 because borrowed funds covered by owners' funds. Furthermore, the research also revealed that total liabilities to total assets ratios were good because the proportion of total funds; short and long-term provided by outsiders covered by total assets.

MTN Rwanda has favourable short solvency and high long term as shown by its liquidity and its leverage ratios.

The profitability of MTN Rwanda is generally high as shown by trend of gross profit ratios for periods 2004 to 2008 as evidenced by percentage increase of 78.18%, 80.11%, 84.54%, 81.82%, and 81.21% respectively.

These ratios indicate that MTN Rwanda's profitability is satisfactory since its above costs incurred during 2004 to 2008 hence this adequate profitability of MTN Rwanda will give good image for long term survival to investors and other stakeholders.

The profitability of MTN Rwanda as shown by its net sales is to be high for periods 2004 to 2008. It means therefore that MTN Rwanda's profitability is high due to increase in its net sales. And its profitability can make it survive for long periods of time.

The third objective of this research was to examine the state of utilization assets. Assets are responsible for sales. However some ratios calculated shown that the business was managed efficiently;

Inventory turnover indicated a better management of inventory for the last three years of business, this ratio was 17.7 times in 2006 and it increased to 32.9 times for the financial year 2007 and later increased to 48.29 times for the financial year 2008. This implied that MTN Rwanda's inventory was managed efficient.

The rate of debtor's turnover and rate of creditors' turnover show that MTN Rwanda had to pay its suppliers after it collected cash from debtors.

The trend analysis of MTN Rwanda shows that its current assets from 256.91%, 612.3%, 663.2% to717.4% for the years 2005, 2006, 2007 to 2008 respectively.

Again the trend showed that MTN Rwanda's total fixed assets are increasing from 101.9%, 194%, and 188.5% to 340.5% in the years of evaluation. Generally MTN Rwanda shows positive trend in all its assets and liabilities because its assets increase with decrease in liabilities.

5.3 General conclusions

Since the main aim of this study was on analysis study on the financial performance of MTN Rwanda, it was found out that MTN Rwanda have performed better financially.

Despite some areas of weaknesses as identified in previous chapter, however the conclusions were drawn basing on analysis and conventional rule of thumb because there is no industry computed ratios which otherwise would have made it appropriate to draw a better conclusions. Lacking of industry computed ratios made it impossible to identify whether MTN Rwanda financially performed highly or at a low rate compared to other companies in the same industry. But available data were used to determine the direction of performance hence indicating the strength and weaknesses depending on direction of performance. The performance of MTN Rwanda does not totally depend on financial analysis, but also on other factors like good management, lack of strong competition in the mobile communication for more than six years and good decisions made by the management on the operational activities.

5.4 Recommendations

The research indicated that the financial evaluation techniques play a vital role in assessing the financial performance of any organisation. Hence gives a base for decision making especially in the areas of financing, investment and asset management. Therefore it is recommended that MTN Rwanda should change its accounting and reporting period from yearly to quarterly or monthly to make it possible identify and evaluate financial deviations at an early stage and take corrective action before the situation worsens.

MTN Rwanda should endeavour to find out the average ratios of the industry so that their ratios do not greatly vary from the average ratios of the industry that it is under. This will help them to evaluate their financial performance in a comparison with other companies in the same industry.

Ratio evaluation reveals that MTN Rwanda total assets turnover ratio was not stable, therefore MTN Rwanda, management are recommended to take into account those variations and try to bring stability in effective utilisation of company's total assets.

Furthermore, MTN Rwanda is recommended to evaluate their financing strategy since it is shown by the research that MTN Rwanda depends largely on short-term loans and credits. This increases the burden of interest on loan to MTN Rwanda. MTN Rwanda is recommended to maintain its liquidity position because it makes it to pay its obligations and to survive for long periods

MTN Rwanda is recommended to look for more areas of investment due to stiff competition from other telecommunication companies of east African community.

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APPENDICES

APPENDIX A: LETTER TO THE CHIEF EXECUTIVE OFFICER OF MTN-RWANDA

IHORIDUKIZA Modeste
School of Post Graduate Studies
Kampala International University
Mobile: 0788509218
KAMPALA, December 8th, 2009

To the Chief Executive Officer
MTN-RWANDA

RE: Permission to carry out a research in your company

Dear Sir,

I hereby humbly request for your permission to conduct my study in your company.

I am a student in the above mentioned University pursuing master's degree in Business Administration (Finance and accounting) and currently I am conducting a research about **"Assessment of Financial performance of Telecommunication Company in Rwanda: A case study of MTN Rwanda".**

A copy of specific issues to investigate upon is attached.

I am hoping a positive response to my request.

Yours faithfully,

IHORIDUKIZA Modeste

Assessment of Financial Performance of Telecommunication Company in Rwanda: A Case Study of MTN Rwanda".

ISSUES TO INVESTIGATE UPON

1. Income statements from the year 2004 to 2008
2. Balance sheets from the year 2004 to 2008

APPENDIX B: MTN RWANDA INCOME STATEMENT

Particulars	2004 (**000'Rwf**)	2005 (**000'Rwf**)	2006 (**000'Rwf**)	2007 (**000'Rwf**)	2008 (**000'Rwf**)
Revenue	15,840,553	21,428,391	34,543,360	44,188,967	65,218,503
Cost of sales	3,455,323	4,261,070	5,337,495	8,032,902	12,250,529
Gross profit	12,385,230	17,167,321	29,205,865	36,156,065	52,967,974
Operating expenses	5,357,078	6,054,499	8,396,097	10,606,795	17,015,633
Other expenses + taxes	4,539,986	5,812,272	8,934,537	10,570,279	13,832,773
Net profit for the year	**2,488,166**	**5,300,550**	**11,875,231**	**14,978,991**	**22,119,569**

Source: MTN Rwanda's annual financial reports

APPENDIX C: MTN RWANDA BALANCE SHEET (IN RWF)

Particulars	**2004 (000)**	**2005 (000)**	**2006 (000)**	**2007 (000)**	**2008 (000)**
Assets					
Current assets					
Deferred expenditure	109,563	84,188	76,581	57,723	53,594
Stock	444,420	347,184	253,597	234,678	272,591
Debtors & prepayment	2,506,259	3,914,748	6,491,037	7,753,491	9,372,953
Cash and bank balance	856,354	5,716,386	17,160,168	17,888,322	18,398,371
Total current assets	3,916,596	10,062,506	23,981,383	25,934,214	28,097,509
Total fixed assets	12,084,899	12,316,526	23,447,540	22,782,749	41,152,611
Total assets	**16,001,495**	**22,379,032**	47,428,923	48,716,963	**69,250,120**
Liabilities and Equity					
Current liabilities					
Bank loan	1,052,090	1,121,923	1,302,112	1,543,217	5,379,374
Creditors and accruals	3,561,325	7,596,246	10,592,597	10,103,223	19,820,968

Total current liabilities	4,613,415	8,718,169	11,894,709	11,646,440	25,200,342
Total non current liabilities	3,683,353	3,505,587	2,913,414	3,455,255	3,386,166
Total capital and Reserves	7,704,727	10,155,276	32,620,800	33,615,268	40,663,612
Total liabilities & equity	**16,001,495**	**22,379,032**	**47,428,923**	**48,716,963**	**69,250,120**

Source: MTN Rwanda's annual financial reports