

A COMPARATIVE STUDY ON FIXED ASSETS MANAGEMENT OF INDIAN MEDIA & ENTERTAINMENT COMPANIES

Dr. Vivek Sharma

Director, C. Rajagopalachari Institute of Management, U.T.D.,
Barkatullah University, Bhopal.

MS. Prerna Sharma

Research Scholar, Department of Commerce, U.T.D.,
Barkatullah University,

Abstract

This paper is an attempt to analyze and examine the management of fixed assets in case of three Indian Media & Entertainment Companies. The procurement and management of fixed assets can said to be a reflector of the managerial as well as financial capabilities of any business. Adequacy of depreciation and proportion of fixed assets in total assets pool is also been a keen question to be answered. Test of significance of correlation has been used in the study to check the accuracy of the assumptions drawn.

Key words: Assets, depreciation, ratio, correlation,

Introduction:

Undoubtedly, fixed assets are an inevitable property of any business whether big or small to retain the continuity of work and identify their value. The management of fixed assets affects directly or indirectly to the liquidity, profitability and surely contributes to the value of the firm.

Fixed asset analysis determines if fixed assets are sufficiently maintained to ensure current and future earning power as well as the relative profitability contributed by fixed assets and fixed asset acquisitions. A decrease in operational efficiency and productivity results from the improper or inadequate maintenance of malfunctioning and inefficient assets as well as from the failure to replace obsolete and irreparable assets. Asset analysis examines the age and condition of each major asset category, as well as the costs of replacing old assets to determine the output levels, downtime, and temporary discontinuances.

The objectivity behind analysis of fixed assets is to check the investment strategy of the company in its long term tangible as well as intangible assets, ensuring their valuation system and to investigate the sufficiency of depreciation. Efficacy of the assets will only be proven if the company has natively detained

them and utilized them to the fullest.

Company Profiles:

The study is based on the examination of fixed assets of media and entertainment companies. These following three companies are taken in the sample for ratio analysis:

I. SUN TV Networks Ltd.- Sun TV Network Limited (Sun TV) is engaged in producing and broadcasting satellite television and radio software programming in the regional languages of South India. Sun TV operates in a single segment Broadcasting. The Company operating satellite television channels across four languages of Tamil, Telugu, Kannada and Malayalam.

The Company's flagship channel is Sun TV. The other major satellite channels of the Company are Surya TV, Gemini TV and Udaya TV. It is also into the business of FM Radio broadcasting at Chennai, Coimbatore and Tirunelveli. In October 2012, the Company bought the Hyderabad franchise of the Indian Premier League (IPL).

Zee Entertainment Enterprises: Zee Entertainment Enterprises Limited (Zee) is an integrated media and entertainment company engaged primarily in broadcasting and content development, production and its delivery via satellite. It has 22 channels serving Indian content across 168 countries. The Company's sports offerings include five channels : TEN Cricket, TEN Action, TEN Sports, TEN Golf and TEN HD. Zee Cafe, Zee Studio and Zee Trendz are Company's English language offerings. Zing, the music and lifestyle offering of the Company, showcases popular Bollywood oriented properties. The Company derives revenue mainly from advertisements and subscription. The Group also generates revenue through sale of television programs and movie distributions.

UTV Software Communications: UTV Software Communications Ltd. or 'UTV' is an Indian media and entertainment company owned by Sharan Walker

& DISNEY - BUENA VISTA INDIA, a subsidiary of Disney Brothers Enterprise & Companies, INC. The entire UTV focus is on creating, aggregating and disseminating outstanding content - we are a creatively led company which believes in setting not following trends. UTV is a diversified media and entertainment company with content creation abilities across platforms and genres. In the past five years the company has achieved the set targets with distinction in performance. Not only in the segment of television, UTV has stepped and succeeded in broadcasting, interactive and more recently, games content.

Objectives of the Study:

The following are the objectives of the study:

- i. To examine the assets structure of the three companies under study.
- ii. To check adequacy of depreciation in the companies.
- iii. To test the influence of assets composition on the capital structure.

Hypothesis of the Study:

The above stated objectives are to be achieved with the help of testing the following null hypothesis:-

1. H01: The capital structure is not influenced by the assets composition in the companies.
2. H02: The fixed assets of the companies have not been financed through long term funds.

Methodology of the Study:

The study is purely based on the reliance of secondary data derived from the published annual reports of the companies. The data is related to a tenure of five years i.e. 2007-2011 and has been analyzed through various ratios relating to capital structure analysis. For further hypothesis testing of the sample data, correlation analysis and t test for testing the significance of data has been applied.

Results & Discussions

A. Analysis of Depreciation:

Every industry has its own depreciation policy and for this media and entertainment has its own. Under the study of fixed assets it becomes essential to investigate about the adequacy of depreciation allowed by the companies. Excessive or moderate depreciation can be tested by various ways. In this study, we are comparing the index values of gross block, depreciation and net block for each company, along with that coefficient of correlation has been calculated between gross block and depreciation to test the adequacy. The increase and decrease trends will indicate the adequacy of depreciation charged. Furthermore, if the coefficient of correlation between

gross block and depreciation was calculated to see their inter relationship.

Table 1 can be referred to see the index values and judge about the adequacy and relation of depreciation to its gross block. In case of SUN TV, It is evident that index of gross block is showing an increasing trend which is not in case of index of depreciation. The uneven trend of depreciation index indicates that the depreciation policy of the company is questionable. The index of net block is more as compared to that of gross block which means that depreciation was not excessively charged but may be charged at a higher rate. The coefficient of correlation between the index values of gross block and depreciation is very low at 0.13 which shows that any increase in the gross block is followed by the depreciation but not in the same proportion. This metric is not related to the test of adequacy of depreciation.

For Zee TV, The table evidently showing that correlation between index of gross block and depreciation is negative which shows that both any increase and decrease in the gross block is not followed by the depreciation. The index of depreciation is more than that of the gross block which shows that there is some loophole in the depreciation charged by the company. This negative relationship between them arise the first question mark on adequate depreciation provision. The index values of depreciation is more as compared to that of gross block which proves that excessive depreciation is being charged on fixed assets, which is further proved by the fact that the index of net block is less than that of gross block.

The index of gross block, net block and depreciation of UTV depicted in table 1 indicates that the index of gross block is showing an increasing trend, that means UTV has constantly investing in fixed assets irrespective of the proportion. The index of depreciation is also showing an increasing trend and the coefficient of correlation between index values of gross block and depreciation is 0.87 which is an indication that both the items are moving in same direction with almost same pace. This is the first indication of adequate depreciation. Further, it can be seen from the above table that the index values of net block is more than that of gross block which means that the company has charged adequate depreciation. Overall, it can be said that for all the five years, UTV has used an adequate depreciation policy for its assets.

B. Ratio Analysis:

The data has been analysed through ratio analysis and the following ratios have been used to check and examine the fixed assets management competence of the three companies, viz. SUN TV, Zee TV, and UTV. The calculated ratios are exhibited in table 2.

I. Fixed Assets Turnover Ratio: The efficiency with which the company is utilizing its fixed assets is generally measured through fixed assets turnover ratio. It is a relational study of net sales and fixed assets. Generally a high fixed assets turnover ratio indicates better efficiency of fixed assets in generating sales, while a low ratio indicates inefficient management and utilization of fixed assets.

SUN TV Networks Ltd.: The ratio was found at the highest in the first year and thereafter it showed a mixed trend. In year 2007, the ratio was at 2.62 times which dropped by 1.02 times in the next year. For the next three years the ratio ranged between 1.28 to 1.69 and thus showed a satisfactory position of fixed assets utilization.

Zee Entertainment Enterprises: The ratio of sales and fixed assets (net) of Zee TV is showing a decreasing trend in the first four years of the study which is not a favorable indication of their asset management. On an average the ratio was 1.69 times in the study period.

UTV Software Communications Ltd.: The ratio showed a fluctuating trend where the metric ranged from 1.38 to be the lowest to 4.08 as the highest in all five years. In the last year 2011, the company managed to be cover up and the metric was noted at 2.04.

Inter Company Analysis: The metric of all three companies is compared on the basis of the coefficient of variance of them. The inefficient management of assets in case of Zee TV was already evident from the depreciation adequacy test done before. The fluctuation in the metric was highest of Zee TV at 68%. The fluctuation in case of UTV was 50% and SUN TV managed to be firm in the study tenure and thus its coefficient of variance is least of all at only 28.60%.

II. Fixed Assets to Funded Debt Ratio: This fraction is a relational metric of the fixed assets and long term debts of the company. The ratio helps to analyze that to what extent the company's long term assets have been financed through long term loans and what amount in proportion has been left over for the working capital purpose.

SUN TV Networks Ltd.: The metric is showing an ascending trend which indicates that the company

more relying on its own to finance its assets. In the year 2007, the ratio was at 2.99 times which increased by 8.39 times in next two years. But a sudden jump in the ratio was noticed for the last two years i.e. 2010 and 2011. The ratio was 6412.79 and 8532.64 times in years 2010 and 2011 respectively.

Zee Entertainment Enterprises: In case of Zee TV, the ratio showed a mixed tendency throughout. In 2007 where the ratio was 4.53 times and ranged between 3.03 till 2009. In year 2010, the ratio jumped to 15.48 times. The increased ratio can be due to the decreased value of long term debts of the company in 2011.

UTV Software Communications Ltd.: The relation between net block and long term debt for UTV showed a mixed fashion in all five years. In 2007, the ratio was 0.53 which reduced to 0.39 in next year. But the next year 2009, the ratio reached the highest of all at 0.93 times when the net block increased at a higher growth rate. The ratio came down by 0.45 times in 2010 and in year 2011 the ratio was at 0.51 times.

Inter Company Analysis: In comparison of all three companies, UTV managed smartly well to finance its assets as well as working capital. Less reliance on outer debt in case of SUN TV increased the burden on equity. Such high values of ratio in the last two years denotes that the company may be having sufficient equity pool to manage its financing and daily routine jobs also. In case of Zee TV also, the metric is more than one. It indicates that the company has insufficient outer funds to finance its assets and has staked its short term funds also for financing its fixed assets.

III. Fixed Assets to Networth Ratio: Fixed assets to networth ratio measures the extent to which the owner's invested capital is blocked in non-liquid, permanent, depreciable assets. Indirectly, it measures the amount of capital that remains for investment in short term fund requirements. Thus, it is a check to the solvency of the company.

SUN TV Networks Ltd: Depicted in table 1 that in the very first year the soundness in terms of funds management of the company was best and the metric was 0.22 times. In the next year the ratio increased to 0.38 which for the next two years showed an increasing trend. In the last year the metric was 0.53 times.

Zee Entertainment Enterprises: The trend for this ratio in case of Zee TV was declining. The decline trend in the ratio of Zee TV is ensuring that the company is continuously improving its funds

management with a proper apportionment of availed funds in fixed assets as well as working capital requirements.

UTV Software Communications Ltd.: The ratio for UTV was at 0.48 in 2007. Then a sudden decline was traced in the next year where the ratio slipped down to 0.23 times and an increase was noticed for the next two years where the ratio reached to 0.59 times in year 2010. In the very last year, 2011, the metric was 0.49 times.

Inter Company Analysis: There is of course, an extent to which the company can reach in deciding the proportion which in this case is around 75%. It was observed that all the three companies were under this limit and thus the lower ratio keeping in mind the solvency factor was ranked first. SUN TV showed an increasing trend whereas Zee TV decreasing trend. In case of UTV, the metric was at a mixed fashion. The fluctuations in the ratio were not that much but SUN TV showed the least variations in all five years.

IV. Ratio of Depreciation to Sales: The ratio of depreciation to sales is a measure to examine the operational efficiency of any company for a time being and indicated the amount of sales consumed by the depreciation charged on the assets.

SUN TV Networks Ltd: The ratio of depreciation to sales for SUN TV showed a mixed trend. The metric stood at 0.52 times in 2007 which ranged to around 50% in the next year also. This high proportion of depreciation to sales puts a question mark on the depreciation policy of the company. In 2009, the company managed to trim down this metric to 0.23 times which remained at this range till 2011.

Zee Entertainment Enterprises: In case of Zee TV, the variation in the ratio is very low as the metric ranged between 0.06 and 0.07 for all the five years. The lower ratio with consistency is a good indication of the operational efficiency of the company.

UTV Software Communications Ltd.: The ratio of depreciation to sales for UTV ranged from 2007 to 2011. In the first year the metric was 0.07 times and dropped down to 0.03 times in 2008 which remained almost firm for the entire period of the study.

Inter Company Analysis: The ratio of depreciation to sales of the three companies revealed that SUN TV lacked behind because of very high metric value and higher variation in the five years tenure. As compared, the other two companies viz. Zee TV and UTV showed a lower metric and high consistency throughout indicating improved effectiveness.

V. Fixed Assets to Capital Employed Ratio: Fixed Assets to capital employed ratio indicate the extent to which the long term funds are sunk in fixed assets which are supplied by creditors and owners of the firm. Capital employed in this term is an

addition of the long term funds borrowed from lenders and invested by the owners too. A high ratio indicates high investment in fixed assets and insufficient working capital.

SUN TV Networks Ltd: The ratio in 2007 was 0.20 times which increased to 0.36 in the next year. With a constant growth the highest metric value was noted down in year 2011 was 0.53.

Zee Entertainment Enterprises: In 2007 the involvement was around 50% which reduced to 0.46 in 2008. The ratio was showing a declining trend and the value of the ratio in 2011 was 0.26 times.

UTV Software Communications Ltd.: UTV showed a low indulgence of funds (long term) in the fixed assets and more in working to ensure good solvency. In 2007 the ratio stood at 0.25 times. But in 2008, the ratio was at very low value i.e. 15%. For the next years till 2011, the metric ranged between 0.24 to 0.26 times.

Inter Company Analysis: The performance all the three companies in context of this ratio can be said to be satisfactory. As the requirements of long term assets varies from company to company it can be said that these companies have smartly financed their assets within the limit of caution.

VI. Net Profit to Fixed Assets Ratio: The ratio of net profit after tax to fixed assets is used as a measure of profitability, which judges the returns on fixed assets. The main interest of the owners is to earn a good amount of profit i.e. to receive a satisfactory return on their investment. The metric can be used to show the efficiency of fixed assets as a whole. The higher is the ratio better would be the effectiveness of the invested money in assets.

SUN TV Networks Ltd: In the very first year 2007, the company took out highest returns at 95% but a deep downfall was registered and the ratio dropped down to 0.57 times. The reason traced for lower metric value in the mid period of study was that the company did not receive that much proportionate return as per the growth in assets. An improvement in the efficiency was noticed in the last two years.

Zee Entertainment Enterprises: In year 2007 the lowest metric in all five years was 0.17 times but it increased to 0.28 times in 2008 and this growth leads till the end. After getting 33% returns in 2010, the company showed tremendous growth in 2011 when the metric reached to 0.78 times. This trend is an indication of good asset management and efficiency of the firm.

UTV Software Communications Ltd.: The returns in the years 2007 and 2008 were 0.55 times and 0.73 times which is satisfactory but a sudden downfall in the ratio in next two years arose a question mark on the efficiency. In 2011, the company managed to

increase its returns and the ratio reached to 0.30 times.

Inter Company Analysis: If we compare the returns of fixed assets investments of the companies, it can be said that there is somewhere a mixed trend indicating the fluctuations in returns. But as the returns are at good pace it seems to be acceptable in terms of companies' profitability indication.

Hypothesis Testing

The paper assumes two hypotheses in relation to the financing of assets and the influence of assets structure on capital pool. In table 3 correlation coefficient has been calculated between the relative variables and the statistical significance of the relationship has been tested through 't' test.

❖ **Test of influence of assets composition on the capital structure:** In this hypothesis, an attempt has been made to check whether the assets composition is an important factor in deciding the capital structure or not. Thus for the purpose, correlation coefficient between debt equity ratio and fixed assets to total assets ratio is found. This statistical significance of correlation is tested and verified through t test.

H01: The capital structure is not influenced by the assets composition in the companies.

Ha1: The capital structure is influenced by the assets composition in the companies.

Result : The correlation between the two variables for SUN TV is 0.47, Zee TV is 0.36 and UTV is 0.90. The calculated t values are less than the critical value in case of SUN TV and Zee TV, which means that the relationship between capital structure and assets composition is not statistically significant. Whereas in case of UTV, the calculated t value is more than the critical value, which indicates the statistical significance of relationship. Thus for SUN TV and Zee TV, the hypothesis that the capital structure is not influenced by assets composition is tested and proved. In case of UTV, the hypothesis that the capital structure is influenced by the assets composition is tested and proven.

❖ **Test of financing of fixed assets:** In this hypothesis, the financing pattern of fixed assets has been checked. For the purpose, the correlation coefficient between fixed assets and long term funds is calculated. This statistical significance of correlation is tested and verified through t test.

H02: The fixed assets of the companies have not been financed through long term funds.

Ha2: The fixed assets of the companies have been financed through long term funds.

Result of t test: The correlation coefficient

between fixed assets and long term funds of SUN TV, Zee TV and UTV is 0.99, 0.71 & 0.98 respectively. The calculated t value in case of SUN TV and UTV exceeds the critical value which means there is a significant relationship between fixed assets and long term funds whereas for Zee TV the calculated value is less than the critical value. Thus, for SUN TV and UTV the hypothesis that the fixed assets have been financed through long term funds is tested and proved. In case of Zee TV, the null hypothesis is accepted and proved true.

Conclusion

The composition of fixed assets and its financing is a major issue under any business concern. The status of long term assets financing should be well dealt as it directly and indirectly affects the position of the company. In the media and entertainment industry, the requirements of long term fixed assets may vary as per its segmental performance but it has been keenly observed that though the companies may vary in assets composition, the adequate depreciation has also been tested. Various metric shows different facets of its financial performance.

References:

- Agarwal M.P. (1981). Analysis of financial statements (New Delhi Natural Publishing House
- Bhalla, V.K. (1997). Financial Management and Policy, Anmol Publication Pvt. Ltd. New Delhi
- Bhalla, V.K. (2001). Working Capital Management (Test and Cases), Anmol Publications, New Delhi
- Bhattacharyya, Ashish K. (2007). "Financial Accounting for Business Managers", Prentice Hall of India Private Limited, Connaught Circus, New Delhi.
- Chandra, Prasanna (2001). "Financial Management" 5th edition, Tata McGraw Hill, New Delhi.
- Dinkar Pagare (2001). Principal of Management Published by Sultan Chand & Sons, New Delhi
- Foster G. (1978). Financial Statement Analysis, New Delhi, Prentice Hall of India (P) Ltd.
- Horne Wwachonicz, J.R. Bhaduri (2005). Fundamentals and Financial management, 12th edition, Pearson publisher.
- Jain S.P. and Narang K.L. (1999). Advanced Accountancy, Kalyani Publishers, New Delhi
- Kothari, C.R., (2009). Research Methodology, Methods & Techniques, 2nd ed., New Delhi, New Age International (P) Limited Publishers.
- Poulke, Roy A. (1972). "Practical Financial Statement Analysis", Tata McGraw Hill Publishing Co. Ltd., New Delhi, Edition.
- Sharma, R.K., and Gupta, Shashi K., (1996). Management Accounting, Principles & Practice, 6th ed., New Delhi, Kalyani Publishers.
- Van Horn, (2002). Financial Management and Policy, 12th edition, Publisher Dorling Kindersley India ltd.

Table 1: Index of Gross Block, Depreciation & Net Block

Ratio in Times

Year	SUN TV			Zee TV			UTV		
	Gross Block	Depreciation	Net Block	Gross Block	Depreciation	Net Block	Gross Block	Depreciation	Net Block
2007	100	100	100	100	100	100	100	100	100
2008	167	135	210	103	115	102	122	113	123
2009	174	69	315	121	139	119	471	184	509
2010	201	94	347	127	138	126	499	253	532
2011	261	114	461	62	155	55	507	338	529
Coefficient of correlation between gross block & depreciation									
	0.13			-0.26			0.87		

Table 2: Statement of Analytical Ratios

Ratio in Times

	FATR			FAFDR			FANR		
	SUN TV	Zee TV	UTV	SUN TV	Zee TV	UTV	SUN TV	Zee TV	UTV
2007	2.62	1.60	1.28	2.99	7.84	11.38	0.22	0.38	0.49
2008	1.62	1.69	1.04	6412.79	8532.64	4.53	0.48	0.53	0.56
2009	1.22	1.25	1.19	3.88	3.03	15.48	0.52	0.51	0.48
2010	3.74	2.03	4.08	482.89	0.53	0.39	0.26	0.48	0.23
2011	1.38	1.45	2.04	0.93	0.48	0.51	0.32	0.59	0.49

Table 2: Statement of Analytical Ratios

Ratio in Times

	RDTS			FACER			NPFAR		
	SUN TV	Zee TV	UTV	SUN TV	Zee TV	UTV	SUN TV	Zee TV	UTV
2007	0.52	0.54	0.23	0.20	0.36	0.46	0.95	0.57	0.42
2008	0.28	0.20	0.07	0.48	0.53	0.50	0.56	0.64	0.17
2009	0.07	0.06	0.07	0.46	0.44	0.47	0.28	0.30	0.33
2010	0.06	0.07	0.03	0.26	0.25	0.15	0.78	0.55	0.73
2011	0.03	0.04	0.04	0.24	0.26	0.25	0.11	0.15	0.30

FATR= Fixed Assets Turnover Ratio, FAFDR= Fixed Assets to Funded Debt Ratio,
 FANR= Fixed Assets to Networth Ratio, RDTS= Ratio of depreciation to sales, FACER= Fixed Assets to Capital Employed ratio, NPFAR= Net Profit to Fixed Assets Ratio

Table 3: Correlation Coefficient & 't' Test

	Fixed Assets & Long Term Funds			Debt Equity Ratio & FATAR		
Value of 'r'	0.99	0.71	0.98	0.47	0.36	0.9
Calculated 't'	12.21	1.73	8.47	0.92	0.66	3.55
Critical 't'	3.18	3.18	3.18	3.18	3.18	3.18
Comparison	$t > t_{0.05}$	$t < t_{0.05}$	$t > t_{0.05}$	$t < t_{0.05}$	$t < t_{0.05}$	$t > t_{0.05}$
Statistical Significance of 'r'	Yes	No	Yes	No	No	Yes
Hypothesis	Rejected	Accepted	Rejected	Accepted	Accepted	Rejected