

# Investment Diversification of Nepal Telecom

*(Author's Photo)*

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## **Introduction**

There are possibilities and challenges in every business and it keeps changing according to time and situation. The companies that prepare a policy to address the market changes before it occurs and implement, it can move ahead or else they will collapse. Moving ahead is way forward to open the door for solution and collapse means the end of identity and not contributing to the development.

Looking at Nepal, 65 public corporation that was operating during the establishment of the multiparty political system in 1989 has been collapsing one by one and remained to 36 by now. Different study and report have expressed that not only Nepali politics and the government's policy is the reason behind the collapse of the public corporation but management and workers trade union working in the company are also equally responsible for it.

In this regard, there are facts that the trend exists in many countries globally. The decline in the number of Government's Corporation has majorly started from the 1980s with World Bank/IMF's Structural Adjustment Program and Deregulation of Corporation. Despite finding the reason for SAP coming to Nepal we started selling corporation without any thought. Due to policy level weakness, politically biased management (management should always be professional), lawlessness inside trade union, poor thinking about trade and investment

diversification, politically motivated direct appointment of staff, and poor production capacity/quality for market competition the government corporation has turned into a white elephant. The public corporation was established to contribute economically and social development in the sector that has not been able to attract investment from the private sector. But public corporation rather being helpful to the public and the government has become a financial burden to the government. The role, priority, and working area of public corporations should have changed but that too has not happened. While public corporation does not seem to step ahead for financial strengthen by identifying the alternative source and as a result, many corporations are on the verge of closing. In this regard, I have tried to discuss the investment diversification issue among other different problems.

### **About Investment Diversification**

The major concentration of any company should be fulfilling the main objective of the company by spending all capital and labor. This is the right policy. Investing in the sector where expertise has gained and imagining the development of the company from its development is normal. However, the past trade experience says that financial ups and downs in every business in a certain period is normal in her life. If any company does not survive in up and down it will disappear gradually. This ups and downs are called the trade cycle and if economic depression occurs in this cycle then it is called economic recession. This economic recession occurs in every sector in a certain time-period like in the industrial (automobile) area, banking, investment of real estate, credit sector, telecom, etc. One of the major steps to save company/business from the economic recession is implementing investment diversification policy. Investment diversification helps in saving the company from a possible economic recession.

## **Investment Diversification and World Incidents**

Enron, a US-based multinational energy company went into crisis due to economic recession in the energy sector around seven, eight years ago. The economy has not been able to revive due to the economic recession that occurred in the US and Europe around two years ago (majorly in the real estate sector). Automobile and banking sector is in crisis due to economic depression in real estate. Till now General Motor Company including around 116 banks in the US has been collapsed. The situation is not good in Europe as well. Many people have lost their jobs. But in such economic depression also many companies like Toyota Motor-Japan, Reliance Group-India, Mittal Group-Germany/America, Google Group-America, Cell Company Netherland, etc. are surviving in the global market. Some are surviving due to quality product, production diversity while many are due to investment diversification and has been able to lower the impact of economic recession and saving the company.

## **Investment Diversification and Nepal Telecom**

Let's talk about Nepal Telecom in this regard. In the context of Nepal, Nepal Telecom is a powerful company that makes a huge profit and is of the major revenue contributor. It seems that the economic boom (high growth in the expansion) in the telecom sector might not face the depression but the reality is different. In the decade 1980s, it used to cost up to NRs. 180 per minute while calling internationally in Europe and the US but now where the government rate has become NRs. 6 and NRs. 1 per minute in private rate, the inter-country calling cost that used to cost NRs. 18 per minute has declined to NRs. 2.50. It is almost sure that that international calling will cost as same as local call soon in the future. The outgoing call cost in mobile has declined to around NRs. 1 from NRs. 6 while an incoming call is free at present. So soon in the

future, the telephone across the country will be similar to local. This is due to the rapid change in technology and stiff competition. After not being able to operate or due to stiff competition, many telephone operating companies in other countries globally have started going for the merger or are in the process. Merger process has increased at a fast pace in India.

Analyzing the situation, one cannot say that the telecom sector will not be impacted by the global economic recession. If this reality is understood seriously in the present economically comfortable position, then it will be appropriate that certain percent of profit (not more than 10 percent) should be invested annually in profit-oriented other business. This investment can support Nepal Telecom from the probable economic recession that may occur in future in the telecom sector. While saying this, one should take precaution that the management and staff of Nepal Telecom should not involve in the business other than telecom's objective. However, we should not involve in day to day operation of the invested company in the lead role forgetting the main responsibility of the telecom business.

### **Nepal Telecom Investing in Energy Sector, Under Investment Diversification Policy**

Recently, Nepal Telecom and Nepal Electricity Authority have jointly agreed for the investment in two hydropower projects. The agreement has moved ahead for Tamakoshi project of NRs. 6 billion in the loan (investing during 5 years), NRs. 600 million primary share investment and around NRs. 90 million from Telecom's staff investing in primary share. Similarly, in Trisuli III B hydropower project, an agreement has been made that 80 percent share will be invested by the Telecom (5 percent staff share) and Authority beside 10 percent share to locals and 10 percent to the general public. IRR of these projects is more than 19 percent and it seems that a minimum of 25 percent of profit dividend can be distributed from the first years of electricity production from

the projects. The profit amount will increase annually with the decline in bank loan which seems that investors will get good profit. In this way, the profit that will be earned in minimum for 30 to 50 years is certain to minimize the impact of economic recession.

## **Conclusion**

Investment diversification issue is not only a political party-specific or union issue; it is a issue of making company financially powerful through managerial agreement. If the corporation such has Nepal Airlines Service Corporation, Nepal Oil Corporation, Nepal Food Corporation, etc, would have implemented the investment diversification policy on time when they were operating in profit then they would not have sunk in the bank loan now. So it is appropriate to diversify the investment in other sectors while there is a positive cash surplus in the corporation without ignoring corporation's major objectives. Since, Nepal Telecom has huge cash surplus at present it is an opportunity for Nepal Telecom to implement investment diversification policy. In a context when another public corporation has to depend on loan or grants to invest as per their objective, Nepal Telecom tried investing in the energy sector from positive cash surplus as well as in a new potential area that is appropriate to invest. Nepal Telecom that has public investment share is normal to expect a profit by the investors. Investment diversification is a mandatory condition to run the company comfortably from possible economic ups and downs permanently in the telecom sector.

Having sufficient water resource and huge electricity energy potential, in the lack of investment, not much achievement has been gained in hydro power energy production and this is a bare fact. Electricity is the most essential infrastructure to run telecommunication equipment. On a pretext where huge expenses have to be made for solar energy and diesel energy (generator) in shortage

of electricity, the investment in essential electricity infrastructure to operate the equipment is unavoidable. To reduce the high cost in energy and load shedding it is wise to invest in energy sector from the surplus cash. The result also can be seen in public dailies and contribute positively to the national economy. The investment diversification in the energy sector in the present situation has the following strong points.

- Management of positive liquidity
- Ease in fulfilling the supply of electricity for the operation of telecom equipments
- Sufficient potential for investment
- High-profit possibility
- Contributing to the dailies of public and national life
- Helping Telecom from the risky situation that can occur in telecommunication service in the long term
- Assuring the investment of investors and assurance of additional profit
- Development of machine that can reduce load shedding

Looking at the above situation, it would be appropriate to invest in other secure sectors but investment should limit to a maximum of 10 percent from company's profit. In this way, cash surplus will mobilize the source appropriately and expand the area of income source. The financial strengthening of the company is the foremost interests of all employees and the management therefore, they should be more responsible and accountable to company's interest.