

CHAPTER VIII ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

ITI Limited

8.1 Introduction

Indian Telephone Industries Limited, Bangalore, was incorporated in January 1950 as a Company and was renamed as ITI Limited in January 1994. The Company has production units located at Bangalore, Palakkad, Naini, Raibareli, Mankapur and Srinagar. The products manufactured by the Company are mainly classified into switching (OCB 283, C-DOT exchanges etc.), transmission (microwave radio equipment, line equipment, digital MCPC VSAT, IDR equipment, PDH, SDH etc.), access equipment (GSM and CDMA WLL) and telephone instruments. Bharat Sanchar Nigam Limited (BSNL) has been the major customer of the Company over the years and other customers included Mahanagar Telephone Nigam Limited (MTNL), Defence Services, Railways, Power, Steel and Oil sectors.

8.2 Organisational setup

The administrative and overall functional control of the Company is vested with the Board of Directors headed by the Chairman and Managing Director (CMD) who is assisted in day-to-day management of the Company by two functional Directors (Finance and Bangalore Plant) and Company Secretary. Besides, there are six Additional Directors in charge of Human Resources Development, Personnel and Administration, Quality Assurance, Marketing and Export, Production Planning and Business Transformation Group and Operations, respectively. The units other than Bangalore Plant are headed by General Managers/Additional General Managers.

8.3 Investment and Returns

Against the authorised share capital of Rs 500 crore, the paid-up capital, as on 31 March 2004, was Rs 388 crore, consisting of Rs 88 crore as equity and Rs 300 crore as cumulative redeemable preference shares. The investment by Government of India was Rs 67.47 crore towards the equity capital. The return on the above investment in the form of dividend paid by ITI was 6 per cent (1998-99 and 1999-2000) and 5 per cent (2000-01 and 2001-02). Since the Company was incurring loss since 2002-03, no dividend was paid for the years 2002-03 and 2003-04.

8.4.1 Physical Performance

The physical performance of ITI Limited as at the end of each of the last five years ended 31 March 2004 is given in Appendix-29. It was seen that:

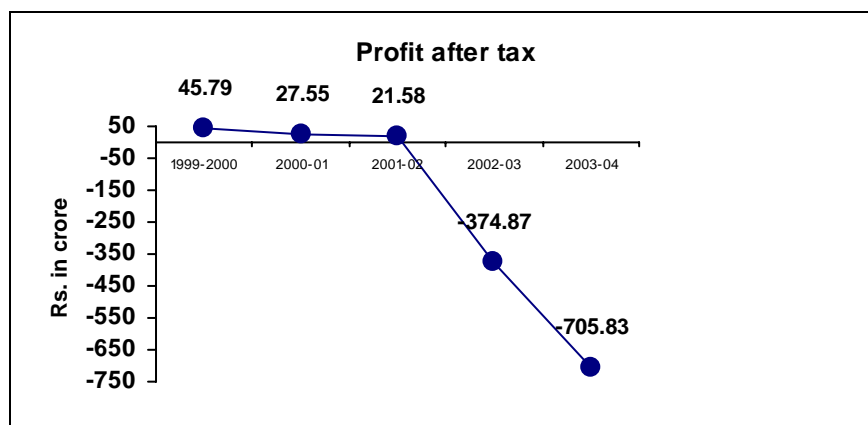
- (i) In respect of switching products though the installed capacity was almost fully utilised upto 2000-01, it declined sharply to 70 per cent in 2001-02, 34 per cent in 2002-03 and 19 per cent in 2003-04.
- (ii) In respect of transmission products, in all the years there was underutilisation of installed capacity ranging from 13 per cent to 96 per cent. The percentage of capacity utilisation achieved compared to target ranged from 31 per cent to 118 per cent.
- (iii) In respect of terminal equipment the utilisation of installed capacity ranged from 26 per cent to 100 per cent. The target capacity was achieved only in 2000-01.

8.4.2 Financial Performance

The financial results of the Company for the last five years ending 31 March 2004 were as follows:

(Rs in crore)

Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
Sales including services (excluding Excise Duty)	1846.83	1926.38	2121.98	1701.11	1197.86
Other Income	58.96	114.37	70.62	38.21	52.94
Interest earned	1.17	1.36	0.42	0.22	6.09
Transfers from Grant-in-aid	35.07	34.97	110.80	28.42	(52.74)
Expenditure (excluding interest and prior period adjustments)	1769.32	1886.59	2107.18	1985.83	1729.98
Interest	152.88	160.70	171.26	156.02	157.97
Profit before tax and prior period adjustments	19.83	29.79	25.38	(373.89)	(683.80)
Prior period adjustments	25.96	(2.24)	(2.00)	(2.78)	(22.03)
Profit before tax	45.79	27.55	23.38	(376.67)	(705.83)
Tax provision	--	--	--	--	--
Deferred tax	--	--	1.80	(1.80)	--
Profit after tax	45.79	27.55	21.58	(374.87)	(705.83)
Proposed dividend	5.28	4.40	4.40	NIL	NIL



The profit before tax which stood at Rs 45.79 crore in 1999-2000 started declining from 2000-01 onwards. It declined by 40 *per cent* in 2000-01 and 49 *per cent* in 2001-02 as compared to 1999-2000. However, the profit of 1999-2000 had to be viewed in the light of withdrawal of liability no longer required amounting to Rs 20.26 crore. The Company incurred huge losses of Rs 374.87 crore and Rs 705.83 crore during 2002-03 and 2003-04, which was mainly due to poor sales performance and high expenditure constituting 117 and 144 *per cent* of sales, respectively during those years.

8.5 Outstanding dues

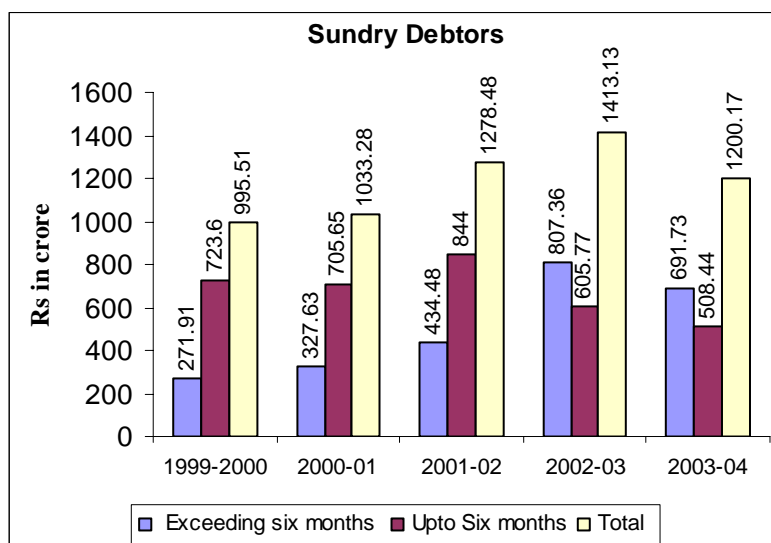
The major customers of the Company are Government companies, viz., BSNL and MTNL. The Company has not laid down any credit policy so far (September 2004).

The position of sundry debtors as at the end of each of five years ended 31 March 2004 was as under:

(Rs in crore)

Sl. No	Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
1.	Total sales including services (excluding Excise Duty)	1846.83	1926.38	2121.98	1701.11	1197.86
2.	Total Sundry Debtors					
	(a) Exceeding six months	271.91 (27)*	327.63 (32)*	434.48 (34)*	807.36 (57)*	691.73 (58)*
	(b) Upto six months	723.60	705.65	844.00	605.77	508.44
	(c) Total (a+b)	995.51	1033.28	1278.48	1413.13	1200.17
3.	Percentage of total Sundry Debtors to Sales	54	54	60	83	100
4.	Doubtful debts	6.40	5.69	5.71	8.61	11.02

*Figures in brackets indicate percentage of debtors exceeding six months to total debtors. i.e., $(2a/2c) \times 100$.



It could be seen from the above that debtors ranging from 54 to 100 per cent of sales remained in arrears at the end of last five years upto 2003-04. Percentage of debtors exceeding six months also showed increasing trend from 34 per cent as at the end of March 2002 to 57 per cent as at the end of March 2003 and to 58 per cent as at the end of March 2004.

Position of unbilled debtors included in total debtors during the period from 1999-2000 to 2003-04 was as under:

(Rs in crore)

Year	Total debtors as at the year end (net of provision)	Sundry debtors for the year	Billed	Unbilled	Percentage of unbilled debtors to total debtors for the year
1999-2000	989.11	803.27	288.34	514.93	64.10
2000-01	1027.59	849.25	307.35	541.90	63.80
2001-02	1272.77	1079.00	193.00	886.00	82.11
2002-03	1404.52	1024.00	592.00	432.00	42.19
2003-04	1189.15	631.56	328.44	303.12	47.99

The percentage of unbilled debtors at the end of each year upto March 2002 showed increasing trend ranging from 64 per cent to 82 per cent, but declined to 42 per cent and 48 per cent as at the end of March 2003 and March 2004, respectively.

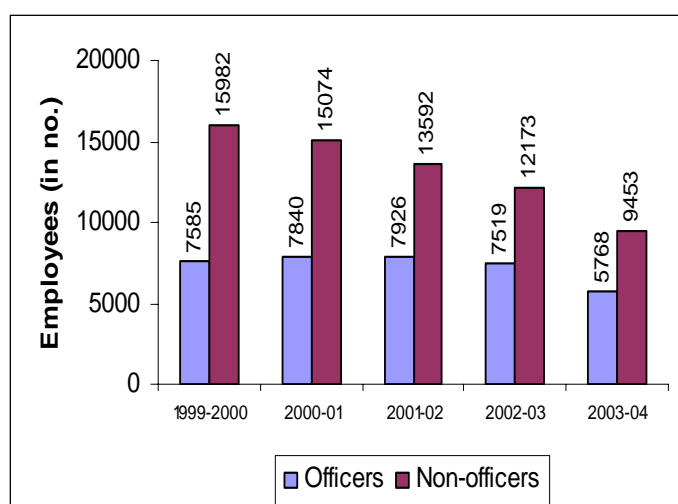
Though there were debts outstanding for more than five years, the Company had not obtained confirmation from the debtors during any of the years. The Statutory Auditors had also repeatedly commented about the Company not obtaining confirmation from the Sundry Debtors.

8.6 Manpower

The total manpower strength of the Company as at the end of each of the last five years ended 31 March 2004 was as given below:

Year	Group A	Group B	Group C	Group D	Total Manpower
1999-2000	2408	5177	15553	429	23567
2000-01	2354	5486	14732	342	22914
2001-02	2169	5757	13292	300	21518
2002-03	2034	5485	11875	298	19692
2003-04	1639	4129	9396	57	15221

It would be seen that there has been 35 *per cent* reduction in overall manpower during the last five years. The breakup of officers and non-officers for the last five years was as follows:



Year	Officers	Non-officers
1999-2000	7585	15982
2000-01	7840	15074
2001-02	7926	13592
2002-03	7519	12173
2003-04	5768	9453

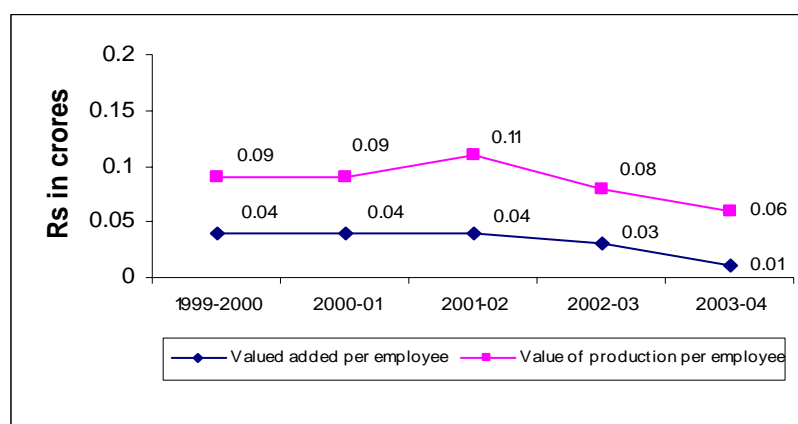
The reduction in overall manpower was mainly due to retirement of employees under voluntary retirement scheme. Though the strength of non-officers has decreased by 41 *per cent*, reduction in the strength of officers was only 24 *per cent*.

8.7 Productivity

The productivity of employees of the Company in terms of value added and value of production for the last five years ended 31 March 2004 was as follows:

(Rs in crore)

Year	Valued added per employee	Value of production per employee
1999-2000	0.04	0.09
2000-01	0.04	0.09
2001-02	0.04	0.11
2002-03	0.03	0.08
2003-04	0.01	0.06



The value of production and value added per employee has been showing a continuous decline since the year 2001-02.