

## **BHARAT SANCHAR NIGAM LIMITED**

### **CHAPTER I ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT**

#### **1.1 Introduction**

In pursuance of the New Telecom Policy 1999, the Government of India decided to corporatise the service provision functions of the Department of Telecommunications (DoT). Accordingly, Bharat Sanchar Nigam Limited (Company) was incorporated on 15 September 2000 as a wholly owned Central Government Company under the Companies Act, 1956, with its registered and corporate office located in New Delhi. The business of providing telecommunication services in the country, entrusted to the Department of Telecom Services (DTS) and the Department of Telecom Operations (DTO), was transferred to the newly formed Company, with effect from 1 October 2000. However, the functions of policy formulation, licencing, wireless spectrum management, administrative control of Public Sector Undertakings (PSUs), standardisation and validation of equipment and research and development (R&D) were retained by the Government under the responsibility of the Department of Telecommunications (DoT) and the Telecom Commission.

The Company is carrying out the duties and responsibilities relating to establishment, maintenance and working of all types of telecommunication services in the country in accordance with and under the terms and conditions of the licence granted by the Central Government under the Indian Telegraph Act, 1885 and other directions being given by the Central Government from time to time.

#### **1.2 Organisational setup**

The administrative and overall functional control is vested with the Board of Directors headed by the Chairman and Managing Director (CMD), who is assisted by five functional Directors (Finance, Commercial and Marketing, Operations, Human Resource Development and Planning and New Services).

The operations of the Company are managed by 24 telecom circles excluding the project and maintenance circles. In addition, seven telecom factories at Alipore and Gopalpur in Kolkata, Bhilai, Kharagpur, Mumbai, Richhai and Wright Town in Jabalpur, are also managed by the Company. These factories manufacture various types of ancillary equipment such as microwave towers, modems, sockets, pay phones, cable termination boxes, etc.

### **1.3 Investment and Returns**

Against the authorised equity share capital of Rs 10,000 crore and preference share capital of Rs 7,500 crore, the paid-up equity share capital and preference share capital as on 31 March 2005 were Rs 5,000 crore and Rs 7,500 crore, respectively.

In consideration of taking over the business of the erstwhile DTO and DTS with effect from 1 October 2000 along with all the assets, liabilities and other contractual obligations, the Company's total paid-up equity capital of Rs 5,000 crore and preference share capital of Rs 7,500 crore were treated as investment by the Government of India. In addition, another amount of Rs 7,500 crore had been treated as loan to the Company from the Government.

The Company was exempted from payment of dividend on preference share capital up to 31 March 2004. The Company was also exempted from payment of dividend on equity share capital up to 31 March 2002 and enjoyed 50 per cent and 25 per cent waiver on dividend due on equity share capital for the years 2002-03 and 2003-04, respectively. The Company proposed a dividend of Rs 1337.88 crore for the year ending 31 March 2005. The Government did not receive any interest or repayment of the principal amount on the loan of Rs 7,500 crore, as the Company had a moratorium on repayment of principal and interest thereon up to 31 March 2005. No interest accrued on this loan up to 31 March 2005.

DoT, while approving a package of measures in the form of financial/fiscal relief for the Company, decided (June 2002) that the Company would be liable to pay licence fees and spectrum charges in full and would also be allowed reimbursement of losses incurred by it on rural telephony operations and other socially desirable projects. The amount of reimbursement was to be decided annually by DoT in consultation with the Ministry of Finance. Accordingly, the Company has been paying the due amounts of licence fees and spectrum charges to DoT every year. In turn, DoT, in consultation with the Ministry of Finance, has been annually reimbursing the amount of losses incurred by the Company on rural telephony operations and other socially desirable projects. During the year ending 31 March 2005 the reimbursement of the licence fee was restricted to 2/3<sup>rd</sup> of licence fee excluding Universal Service Fund (USF) levy and an amount of Rs 1,765.90 crore was reimbursed to the Company by the Government on this account.

The Company also received Rs 310.25 crore and Rs 1,117.07 crore for the years ended 31 March 2004 and 2005, respectively from the USF towards reimbursement for maintenance of Village Public Telephones (VPTs).

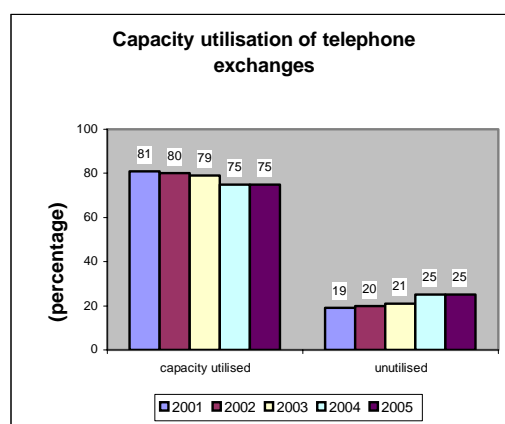
## 1.4 Physical and Financial Performance

### 1.4.1 Physical performance

Since DTS was corporatised as the Company, the complete network of telecommunications of DTS came under the control of the Company with effect from 1 October 2000. The physical performance of the Company as at the end of each of the last five years ending 31 March 2005 is given below:

Telephone Network	As on 31 March 2001	As on 31 March 2002	As on 31 March 2003	As on 31 March 2004	As on 31 March 2005
❖ No. of telephone exchanges	31589	34592	36136	36618	37040
❖ Total equipped capacity of direct exchange lines (DELs) including WLL (in lakh)	347.93	415.90	457.35*	485.60	498.20
❖ No. of telephone connections (DELs) including WLL (in lakh)	281.09 (81%)	334.01 (80%)	359.33 (79%)	363.94 (75%)	374.88 (75%)
❖ No. of persons on the waiting list (in lakh)	28.71	16.49	18.07	18.14*	17.16
❖ No. of cellular mobile telephone connections (in lakh)	Nil	*1.78	22.56	52.54	94.47
❖ No. of village public telephones (in lakh)	4.09	*4.68	5.05	5.10	5.19
❖ No. of stations linked with STD	25677	*29673	36027*	36646*	37035

- As seen from the table, in spite of increase in the equipped capacity of direct exchange lines (DELs), the overall capacity utilisation of telephone exchanges went down from 81 per cent in 2000-01 to 75 per cent in 2004-05.



- Despite the availability of equipped capacity, persons were still on the waiting list during each of the years 2000-01 to 2004-05; the reasons for which were the presence of large 'technically not feasible' (TNF) areas, enhancement in equipped capacity towards the year-end leading to release of connections in subsequent years, etc.
- The number of cellular mobile telephone connections increased from 1.78 lakh in 2001-02 to 94.47 lakh in 2004-05

- The number of village public telephones increased from 4.09 lakh in 2000-01 to 5.19 lakh in 2004-05.

### 1.4.2 Financial performance

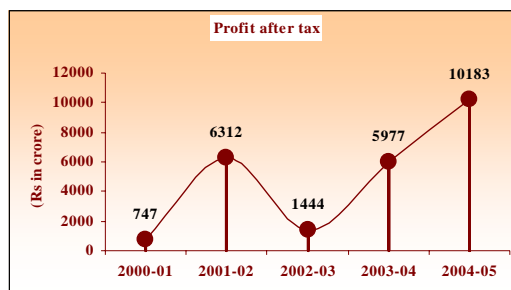
The financial results of the Company for the last five years ending 31 March 2005 were as follows:

Particulars	(Rs in crore)				
	2000-01 (15 September 2000 to 31 March 2001)	2001-02 <sup>@</sup>	2002-03 <sup>@</sup>	2003-04	2004-05
Income from services	11596.66	24297.21	25293.15	31399.34	33450.04
Other income	102.81	384.49	599.45	2519.25	2640.05
Expenditure (excluding interest and prior period adjustments)	10395.13	19993.49	24714.42	27075.29	29372.24
Interest	274.29	468.21	364.55	88.24	29.29
Profit before tax and prior period adjustments	1030.05	4219.99	813.63	6755.07	6688.56
Prior period adjustments	Nil	332.19	(455.72)*	(58.90)	(534.38)
Profit before tax & extraordinary items of income	1030.05	4552.18	357.91*	6696.17	6154.18
Extraordinary items of income (reimbursement by Govt. of losses incurred on rural telephony operations)	Nil	2300.00	2300.00	2300.00	1765.90
Profit before tax	1030.05	6852.18	2657.91*	8996.17	7920.08
Tax provision	283.00	540.01	1213.46*	3019.64	(2263.21)
Profit after tax	747.05	6312.17	1444.45	5976.53*	10183.29
Proposed dividend	#	#	250.00	318.01*	1337.88

# BSNL was exempted from payment of dividend on equity share capital up to 31 March 2002 and on preference share capital up to 31 March 2004.

@ The figures of the year 2002-03 have been recast in the certified annual accounts for the year 2003-04.

\* These figures have been recast by the Management.



It may be seen that there was an almost twofold increase in profit after tax for the year ending 31 March 2005 compared to the previous year's profit, mainly on account of increase in income from Wireless-in-Local Loop

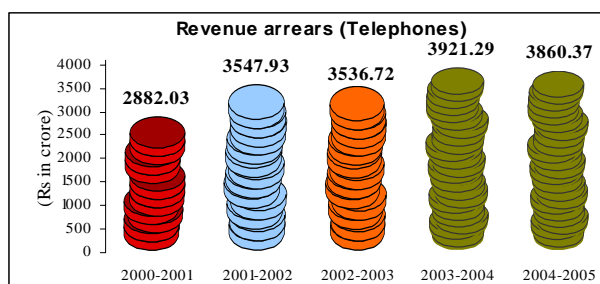
(WLL) services, cellular services, interconnection usage charges from basic and cellular service providers and access deficit charges, besides write back of excess provision of income tax on account of availing of the benefit under Section 80 IA of the Income Tax Act, 1961.

### 1.5 Revenue Arrears\*

1.5.1 The position of demand raised, amount collected and arrears for telephone services (excluding revenue details of value added services like cellular mobile services, private basic service operators, etc.) for the five years ending March 2005 is given in the table below:

(Rs in crore)

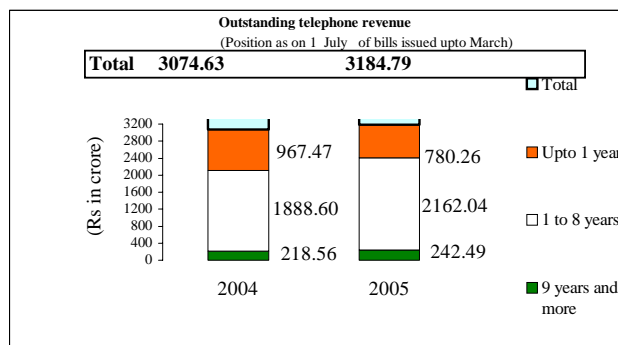
Year	Arrears as on 1 April	Demand raised during the year	Total Demand (2+3)	Amount collected during the year	Arrears at the close of 31 March (4-5)
1	2	3	4	5	6
2000-2001	2472.45	18873.75	21346.20	18464.17	2882.03
2001-2002	2882.03	21966.29	24848.32	21300.39	3547.93
2002-2003	3547.93	22102.30	25650.23	22113.51	3536.72
2003-2004	3536.72	23995.97	27532.69	23611.40	3921.29
2004-2005	3921.29	22794.08	26715.37	22855.00	3860.37



At the end of March 2005, the revenue arrears on account of telephone services increased to Rs 3,860.37 crore as compared to Rs 2,882.03 crore at the end of March 2001. In fact, the increase in arrears over the five

years 2000-2005 (33.95 per cent) outstripped the increase in demand raised (20.77 per cent) during the period. The percentage of collection of revenue to the total demand per year, however, remained more or less at the same level (97 % to 100 %) during these years.

1.5.2 The arrears of telephone revenue of Rs 3,860.37 crore came down to Rs 3,184.79 crore at the end of June 2005 for bills issued up to March 2005. Age-wise break up of the amount outstanding on 1 July 2005 as compared to the previous year is given in the adjacent chart. An amount of Rs 2,404.53 crore (as of 1 July 2005) was outstanding for one or more years, which



\* figures for all the years had been revised by the management due to reconciling the differences in the balances between the subsidiary records and control accounts at the circles. The point was also qualified by the Statutory Auditors in their report since 2002-03.

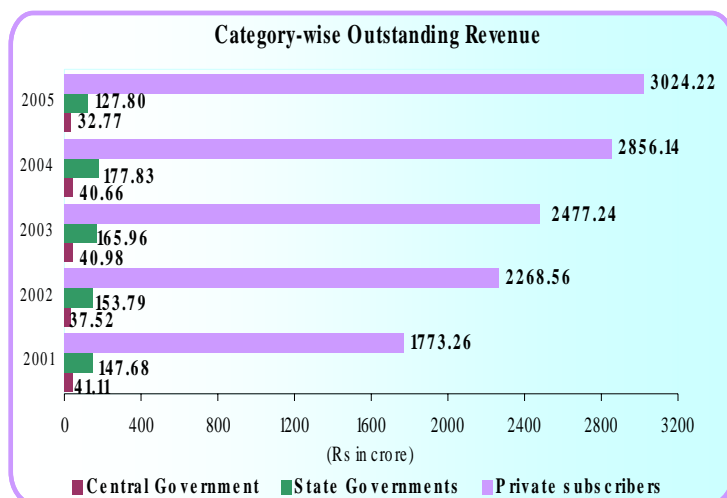
constituted 75.50 per cent of the total outstanding revenue.

**1.5.3 Category-wise break up of total telephone dues between June 2001 and June 2005 was as under:**

(Rs in crore)

Year	Central Government		State Governments		Private subscribers	
	Amount	Percentage of total outstanding	Amount	Percentage of total outstanding	Amount	Percentage of total outstanding
2000-2001	41.11	2.09	147.68	7.53	1773.26	90.38
2001-2002	37.52	1.52	153.79	6.25	2268.56	92.23
2002-2003	40.98	1.53	165.96	6.18	2477.24	92.29
2003-2004	40.66	1.32	177.83	5.78	2856.14	92.89
2004-2005	32.77	1.03	127.80	4.01	3024.22	94.96

An amount of Rs 3,184.79 crore was outstanding against various categories of



telephone subscribers at the end of June 2005. Out of the total outstanding amount, 94.96 per cent was outstanding against private subscribers, 1.03 per cent against Central Government departments and 4.01 per cent against various State Governments. The amount as well as the proportion of outstanding bills

against private subscribers was persistently increasing every year and in the last one year alone, the outstanding amount against this category had increased by Rs 168.08 crore.

**1.5.4 Arrears of rent on telegraph, teleprinter and telephone circuits and telex/intelex charges**

The position of arrears of revenue on renting of telegraph, teleprinter and telephone circuits and telex/intelex connections to the various categories of

subscribers is indicated below:

**Telephones, telegraph, telex/intelex etc.**

**(Rs in crore)**

Year	Arrears as on 1 April	Demand raised during the year	Total demand (2+3)	Amount collected during the year	Arrears as on 31 March (4-5)
1	2	3	4	5	6
<b>Circuits (telephones and telegraph)</b>					
2000-2001	165.91	280.43	446.34	258.03	188.31
2001-2002	188.31	324.57	512.88	309.81	203.07
2002-2003	203.07	514.48	717.55	428.41	289.14
2003-2004	289.14	583.28	872.42	502.43	369.99
2004-2005	369.99	567.76	937.75	538.30	399.45
<b>Telex/intelex charges</b>					
2000-2001	14.79	20.25	35.04	21.25	13.79
2001-2002	13.79	11.53	25.32	11.55	13.77
2002-2003	13.77	7.04	20.81	8.10	12.71
2003-2004	12.71	4.02	16.73	4.32	12.41
2004-2005	12.41	0.59	13.00	1.46	11.54

The revenue arrears for collection in respect of circuits had gone up from Rs 188.31 crore in 2000-01 to Rs 399.45 crore in 2004-05, while those in respect of telex/intelex charges reduced marginally from Rs 13.79 crore to Rs 11.54 crore during the same period. Thus the total outstanding revenue on account of circuits/telex/intelex worked out to Rs 410.99 crore, which was subsequently reduced to Rs 328.11 crore as on 1 July 2005 as shown in paragraph 1.5.5.

**1.5.5** The arrears of outstanding dues in respect of circuits and telex/intelex charges reduced to Rs 328.11 crore at the end of June 2005 for bills issued up to March 2005. Break up of the outstanding dues as on 1 July 2005 is given below:-

**(Rs in crore)**

Period	Rent for circuits	Telex/intelex charges	Total
Upto 1995-96	28.84	3.32	32.16
1996-97 to 2003-04	193.92	7.71	201.63
2004-05	94.18	0.14	94.32
<b>Total</b>	<b>316.94</b>	<b>11.17</b>	<b>328.11</b>

**1.5.6** Total arrears of revenue of over Rs 3,512.90 crore (telephone: Rs 3,184.79 crore and circuits/telex/intelex : Rs 328.11 crore) at the end of June 2005 in respect of telephone, telegraph, teleprinter services, etc, would have a serious adverse impact on the financial health of a commercial undertaking.

## 1.6 Manpower

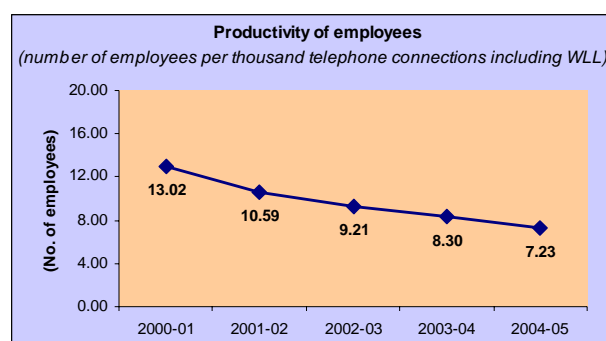
The total manpower of the Company at the end of each of the last five years ending 31 March 2005 is given below:

Year	Group A	Group B	Group C	Group D	Industrial workers	Total manpower	Daily Rated Mazdoors
2000-01	7600	44126	241379	64974	7970	<b>366049</b>	6103
2001-02*	7071	44662	236705	63997	3237	<b>355672</b>	5211
2002-03	7026	46797	231656	63189 <sup>@</sup>	3112 <sup>@</sup>	<b>351780<sup>@</sup></b>	4974
2003-04	7889	49158	238042	47090	3673	<b>345822</b>	3899
2004-05	6947	51242	230556	47525	3583	<b>339853</b>	3867

There was an overall decrease in the manpower during 2004-05 compared to the previous year except in the Group 'B' and Group 'D' categories, under which manpower increased to the extent of almost four *per cent* and one *per cent*, respectively.

## 1.7 Productivity

The productivity per thousand telephone connections including WLL and cellular mobile telephone connections (i.e. the ratio of employees per thousand telephone connections) of the Company for the year 2000-01 was 13.02, which improved to 7.23 during 2004-05.



\* The figures for the year 2001-02 have been recast by the Management.

<sup>@</sup> Figures resubmitted by the Management