

MAHANAGAR TELEPHONE NIGAM LIMITED

CHAPTER V ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

5.1 Introduction

Mahanagar Telephone Nigam Limited (Company), with its registered and corporate office located in New Delhi, was incorporated in February 1986 under the Companies Act 1956 and commenced its operations by taking over the management, operations and control of the telephone network (except public telegraph services) of the erstwhile Union Territory of Delhi and three Municipal Corporations of Mumbai (namely Mumbai Municipal Corporation, Navi Mumbai Municipal Corporation and Thane Municipal Corporation) from the Department of Telecommunications (DoT). Mahanagar Telephone Nigam Limited, Delhi and Mahanagar Telephone Nigam Limited, Mumbai, through their networks, provide basic services of telephone, telex, etc., and value added services such as Integrated Service Digital Network (ISDN), voice mail, internet telephony, Wireless in Local Loop (WLL), cellular mobile services, etc.

5.2 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 by three functional Directors in charge of Technical, Finance and Human Resources departments and a Company Secretary. The Delhi and Mumbai units of the Company and the Mobile Services unit at Delhi are headed by Executive Directors.

5.3 Investment and Returns

Against the authorised equity share capital of Rs 800 crore, the paid-up capital, as on 31 March 2005, was Rs 630 crore, of which the Government of India had invested Rs 354.37 crore. The return on this investment (Rs 630 crore) by way of dividend paid by the Company was 45 *per cent* for each of the years 2000-01 to 2004-05, as can be seen from the table at sub-paragraph 4.2.

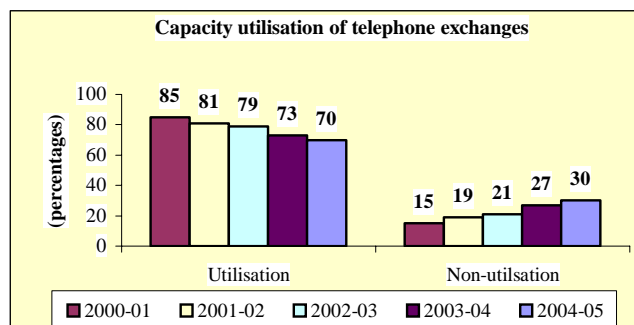
5.4 Physical and Financial Performance

5.4.1 Physical performance

The physical performance of the Company as at the end of each of the five years ending 31 March 2005 is given in Appendix-XXII.

A review of the same revealed the following:

- The overall capacity utilisation of telephone exchanges went down from 85 per cent in 2000-01 to 70 per cent in 2004-05 mainly due to mismatch between capacity created and demand.



- There was a 341 per cent increase in the number of cellular mobile telephone connections from 2.00 lakh in 2001-02 to 8.82 lakh in 2004-05.
- The number of public telephones increased more than double from 1.34 lakh in 2000-01 to 2.79 lakh in 2004-05.

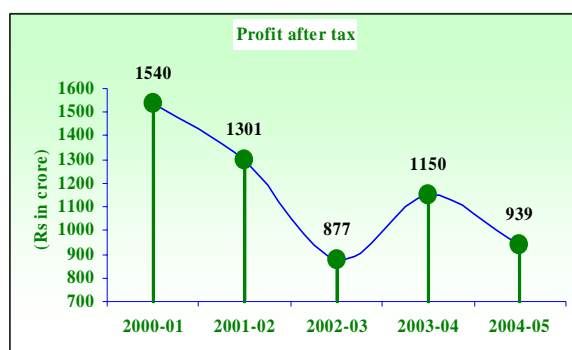
5.4.2 Financial performance

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

(Rs in crore)

Particulars	2000-01	2001-02	2002-03	2003-04	2004-05
Income from services	5784.58	6143.72	5806.53	6369.60	5592.38
Other income	318.02	248.35	* 223.69	314.33	491.72
Expenditure (excluding interest and prior period adjustments)	4374.08	* 4560.92	* 4737.64	4963.36	4832.62
Interest	8.30	* 28.83	32.82	34.62	35.81
Profit before tax and prior period adjustments	1720.22	1802.32	1259.76	1685.95	1215.67
Prior period adjustments	(-) 17.04	(-) 7.88	(-) 22.57	(-) 84.12	(-) 9.45
Profit before tax	1703.18	1794.44	1237.19	1601.83	1206.22
Tax provision	163.00	493.76	360.03	451.35	267.24
Profit after tax	1540.18	1300.68	877.16	1150.48	938.98
Proposed dividend including tax	<u>312.42</u>	<u>283.50</u>	<u>319.82</u>	<u>319.82</u>	<u>322.78</u>
➤ Final dividend	283.50	283.50	283.50	283.50	283.50
➤ Tax on dividend	28.92	0.00	36.32	36.32	39.28

* The figures have been recast during the years 2002-03 and 2003-04 by the Management



As seen from the table given above, the profit after tax for the two consecutive years ending 31 March 2003 showed a continuous downward trend mainly on account of increase in expenditure (including prior period expenditure). In addition, there was a three-fold increase in provision for tax in 2001-02 and decrease in income from services

(including other income) by more than 5 per cent in 2002-03, which also contributed to this continuous decrease in profit after tax. However, the profit after tax increased by 31 per cent in 2003-04 compared to the previous year mainly on account of increase in income (including other income) by 11 per cent over the last year's income, although the expenditure increased by 5 per cent in 2003-04 over the previous year's expenditure. During 2004-05, the profit after tax decreased by 18 per cent in 2004-05 compared to the previous year mainly on account of decrease in income from services by 12 per cent over the last year's income, although the expenditure also decreased by 3 per cent over the previous year's expenditure.

5.5 Revenue Arrears

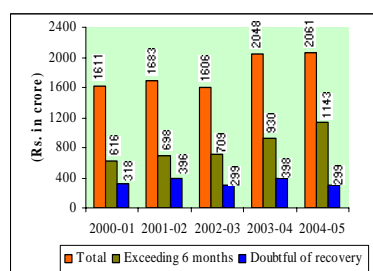
Income due from regular customers on account of telecommunication services provided to them, for which bills could not be raised up to 31 March every year, were shown as 'Other current assets' by the Management of the Company and were not categorised as 'Sundry Debtors' in its Annual Accounts up to the year ended 31 March 2003. After this was pointed out by Audit, the Management took the unrealised revenue income as 'Sundry Debtors' in their annual accounts for the year 2003-04. The position of revenue arrears during the last five years up to 31 March 2005 was as under:

(Rs in crore)

Sl. no.	Particulars	2000-01	2001-02	2002-03	2003-04	2004-05
1.	Total revenue income	5784.58	6143.72	5806.53	6369.60	5592.38
2.	Total Sundry Debtors					
	(a) Exceeding 6 months	615.90 (38%)*	698.41@ (41%)*	709.03@ (44%)*	930.30@ (45%)*	1142.79 (55%)
	(b) Upto 6 months	309.43	433.79@	339.69@	1117.75@	917.77
	(c) Total (a + b)	925.33	1132.20@	1048.72	2048.05@	2060.56
3.	Income accrued from services incorrectly shown under other current assets upto 2002-03	685.38	551.00@	557.29@	-----	-----
4.	Total revenue arrears [2(c)+3]	1610.71	1683.20@	1606.01@	2048.05@	2060.56
5.	Percentage of total revenue arrears to total revenue income [Sl. no. (4 / 1) X 100]	28	27	28	32	37
6.	Revenue arrears considered doubtful of recovery	317.97	396.05@	299.02@	397.85	299.41
7.	Percentage of doubtful revenue arrears to total revenue arrears [Sl. no. (6 / 4) X 100]	20	24@	19	19	15

* Figures in brackets indicate percentage of Debtors (revenue arrears) exceeding six months to total revenue arrears [Sl. no. 2(a) / 4 X 100]

@ These previous year figures have been recast in the annual accounts of the Company for the years 2002-03, 2003-04 and 2004-05.



It may be seen that there was a downward trend in the ratio of total revenue arrears to total revenue income from 28 per cent in 2000-01 to 27 per cent in 2001-02. But it showed an upward trend from 27 per cent in 2001-02 to 37 per cent in 2004-05. Of this

yearly unrealised revenue, the revenue which remained in arrears for more than six months also showed an increasing trend. It increased from 38 *per cent* as on 31 March 2001 to 55 *per cent* as on 31 March 2005. The unrealised revenue which was considered doubtful of recovery increased from 20 *per cent* at the end of March 2001 to 24 *per cent* at the end of March 2002, but at the end of March 2003, it decreased to 19 *per cent* and remained at 19 *per cent* at the end of March 2004. It further decreased to 15 *per cent* at the end of March 2005. The main reasons for revenue arrears, as observed in Audit, were delays in payments by customers, customers not being traceable, billing for disconnected connections due to delays in receipt of closing advice notes in billing sections, wrong billing, disputed bills etc. The continuous increase in this unrealised income over the years indicated that the Company needed to exercise greater control over the management of debtors as well as in extending credit to customers.

5.6 Manpower

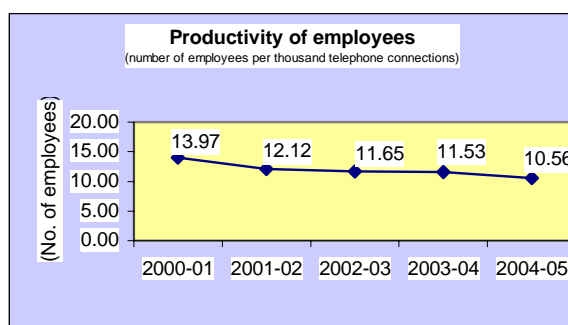
The total manpower strength of the Company as at the end of each of the last five years ending on 31 March 2005 is given below:

Year	Group A	Group B	Group C	Group D	Total manpower	Daily Rated Mazdoors
2000-01	1065	5862	35222	18409	60558	188
2001-02	1083	5967	33943	16534	57527	100
2002-03	1128	6429	33901	16526	57984	88
2003-04	1083	6042	33083	15552	55760	82
2004-05	1390	5916	32004	15089	54399	82

As may be seen from the above table, the overall manpower decreased by 10 *per cent* over the last five years, although there was an increase of 31 *per cent* in the manpower strength in Group A officers cadre. In addition to the overall decrease, the number of daily rated mazdoors also showed a downward trend from 188 in March 2001 to 82 by March 2005.

5.7 Productivity

The productivity* of the Company's employees (i.e. ratio of the number of employees per thousand telephone connections or DELs including cellular mobile connections) for each of the last five years up to 31



* The productivity figures have been recast by the management for the years 2001-02 and 2002-03.

March 2005 showed a gradual improvement. As indicated in the chart, the number of employees per thousand telephone connections (including cellular mobile connections) decreased from 13.97 in 2000-01 to 10.56 in 2004-05.