

ITI LIMITED

CHAPTER VI ORGANISATIONAL SET UP AND FINANCIAL MANAGEMENT

6.1 Introduction

Indian Telephone Industries Limited, Bangalore was incorporated in January 1950 as a Company and was renamed as ITI Limited (Company) 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 include Mahanagar Telephone Nigam Limited (MTNL), Defence Services, Railways and Power, Steel and Oil sectors.

6.2 Organisational Set up

The administrative and over all functional control of the Company is vested with the Board of Directors headed by the Chairman cum Managing Director (CMD) who is assisted in day-to-day management of the Company by four functional Directors (Finance, Marketing, Production and Human Resources Development) and Company Secretary. The units are headed by General Managers.

6.3 Investment and Returns

Against the authorised share capital of Rs 700 crore, the paid-up capital, as on 31 March 2007, was Rs 588 crore, consisting of Rs 288 crore as equity and Rs 300 crore as cumulative redeemable preference shares. The investment by Government of India was Rs 267.47 crore towards the equity capital. Since the Company was incurring loss since 2002-03, no dividend was paid for the years 2002-03 to 2006-07.

6.4 Physical Performance

The physical performance of the Company as at the end of each of the last five years ending 31 March 2007 is given in **Appendix - XXIII**. It was seen that:

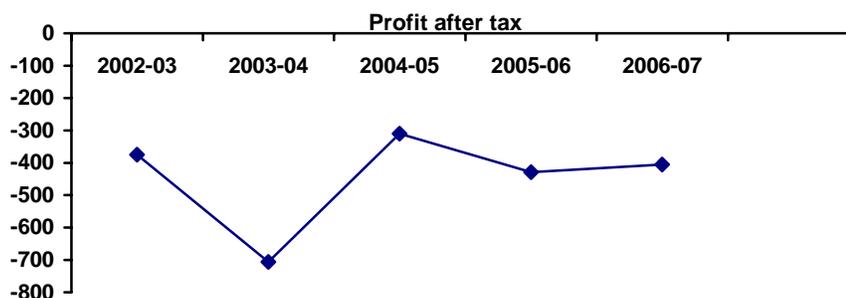
(i) In respect of switching products (except C-DOT exchanges), there was a decline in utilization of installed capacity from 34 *per cent* in 2002-03 to 26 *per cent* in 2003-04. However it increased to 47 *per cent* during 2004-05 and again declined to 46 *per cent* and 31 *per cent* during 2005-06 and 2006-07, respectively.

(ii) In respect of transmission products, the utilization of installed capacity ranged between 40 *per cent* (2002-03) and 96 *per cent* (2006-07).

(iii) In respect of terminal equipment the utilization of installed capacity ranged from 26 *per cent* to 91 *per cent* during the years 2002-03 to 2004-05. However during 2006-07, the utilization of installed capacity was about 26 *per cent*.

6.4.1 Financial Performance

The financial results of the Company for the last five years ended 31 March 2007 were as follows:



(Rs in crore)

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
Sales including Services (excl. Excise Duty)	1701.11	1197.86	1317.87	1660.74	1762.63
Other Income	38.21	52.94	56.30	102.90	109.27
Interest earned	0.22	6.09	0.27	7.82	2.08
Transfers from Grant-in-aid	28.42	(52.74)	447.78	27.87	61.32
Expenditure (excluding interest and prior period adjustments)	1985.83	1729.98	1931.14	2022.58	2098.28
Interest	156.02	157.97	187.15	202.11	201.71
Profit before tax and prior period adjustments	(373.89)	(683.80)	(296.07)	(425.36)	(364.69)
Prior period adjustments	(2.78)	(22.03)	(13.75)	(2.19)	(40.01)

Profit before tax	(376.67)	(705.83)	(309.82)	(427.55)	(404.70)
Tax provision (Fringe Benefit Tax)	--	--	-	1.21	0.56
Deferred Tax	(1.80)	--	-	--	--
Profit after tax	(374.87)	(705.83)	(309.82)	(428.76)	(405.26)
Proposed dividend	NIL	NIL	NIL	NIL	NIL

The Company incurred huge losses of Rs 376.67 crore, Rs 705.83 crore during the years 2002-03 and 2003-04, respectively mainly due to poor sales performance and high expenditure during those years. The loss during the year 2004-05 came down to Rs 309.82 crore mainly on account of receipt of grant in aid of Rs 447.78 crore from Government of India. The losses of Rs 427.55 crore and Rs 404.70 crore respectively during 2005-06 and 2006-07 were due to increase in cost of sales.

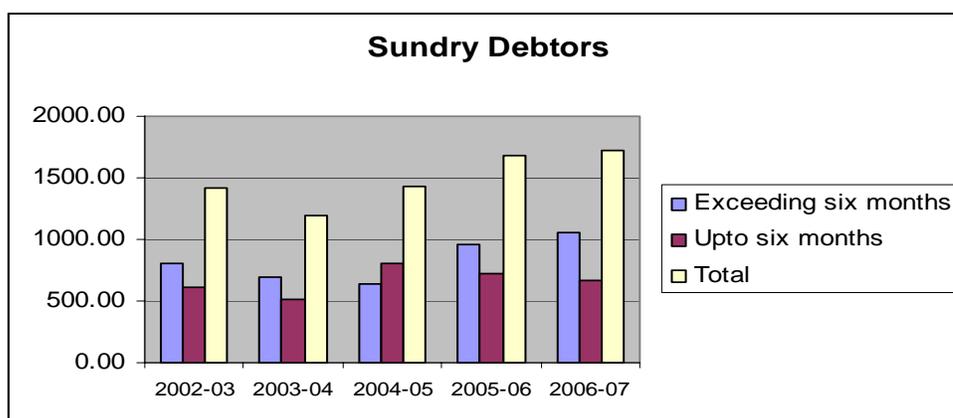
6.5 Outstanding Dues

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 2007).

The position of sundry debtors as at the end of each of five years ended 31 March 2007 was as under:

		(Rs in crore)				
Sl. No	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
1.	Total sales including services (incl. excise duty)	1794.65	1256.57	1389.01	1749.38	1818.33
2.	Total sundry debtors					
	(a) Exceeding six months	807.36	691.73	632.05	954.75	1053.22
		(57)*	(58)*	(44)*	(57)*	(61)*
	(b) Upto six months	605.77	508.44	803.69	724.24	670.88
	(c) Total (a+b)	1413.13	1200.17	1435.74	1678.99	1724.10
3.	Percentage of total Sundry debtors to sales	79	96	103	96	95
4.	Doubtful debts	8.61	11.02	15.52	16.53	16.47

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



It could be seen from the above that the debtors showed an increasing trend during 2003-04 to 2006-07. The figure of debtors remained almost at par with the sales figure in these years (debtors to sales ratio ranged between 95 per cent and 103 per cent).

Position of unbilled debtors included in debtors for the year during the period from 2002-03 to 2006-07 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
2002-03	1404.52	1023.09	591.09	432.00	42.22
2003-04	1189.15	632.57	328.44	303.13	47.92
2004-05	1420.21	853.32	786.24	67.09	7.86
2005-06	1662.46	824.57	716.79	107.78	13.07
2006-07	1707.63	998.00	777.00	221.00	22.14

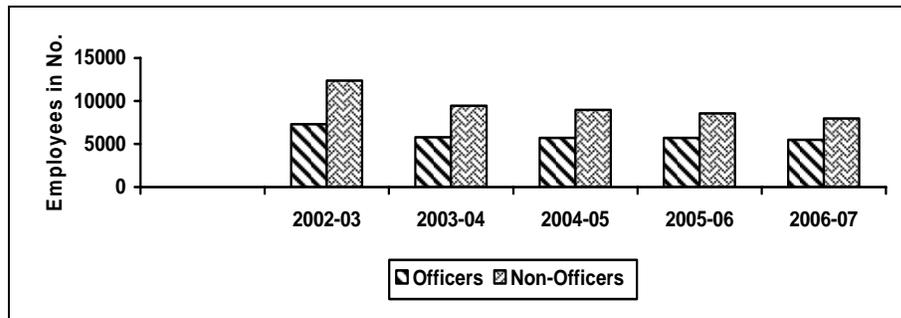
Though there were debts outstanding for more than five years, the Company had not obtained confirmation from the debtors during any of the years. The Statutory Auditors also repeatedly commented about the Company not obtaining confirmation from the Sundry Debtors.

6.6 Manpower

The total manpower strength of the Company as at the end of each of the five years ending 31 March 2007 was as given below:

Year	Group A	Group B	Group C	Group D	Total Manpower
2002-03	2034	5485	11875	298	19692
2003-04	1639	4129	9396	57	15221
2004-05	1480	4194	8920	41	14635
2005-06	1464	4254	8516	23	14257
2006-07	1645	3821	7943	6	13415

It would be seen that there has been 32% percent reduction in overall manpower during the five years upto 2006-07. The breakup of officers and non-officers for the last five years was as follows:

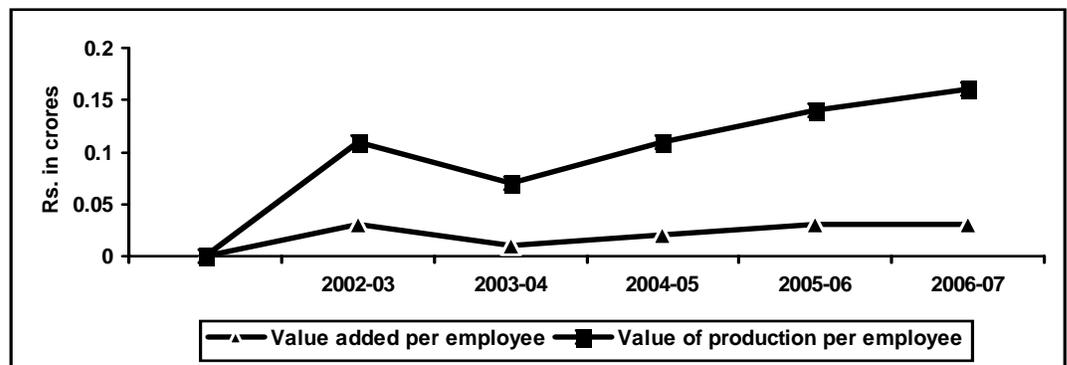


Year	Officers	Non-officers
2002-03	7519	12173
2003-04	5768	9453
2004-05	5674	8961
2005-06	5718	8539
2006-07	5466	7949

The reduction in overall manpower was mainly due to retirement of employees under the voluntary retirement scheme.

6.7 Productivity

The productivity of employees of the Company in terms of value added and value of production during five years ended 31 March 2007 was as follows:



(Rs in crore)

Year	Valued added per employee	Value of production per employee
2002-03	0.03	0.08
2003-04	0.01	0.06
2004-05	0.01	0.09
2005-06	0.03	0.11
2006-07	0.03	0.13