

MAHANAGAR TELEPHONE NIGAM LIMITED

CHAPTER IV ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

4.1 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, through its network, provides basic telephone services including various value added services such as Integrated Service Digital Network (ISDN), Voice Mail, Internet Telephony, Wireless in Local Loop (WLL) and Cellular Mobile Services, etc. in Delhi and Mumbai.

4.2 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 are headed by Executive Directors.

4.3 Investment and Returns

Against the authorised equity share capital of Rs 800 crore, the paid-up capital as on 31 March 2007, 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 from 2002-03 to 2004-05, which came down to 40 *per cent* for the years 2005-06 and 2006-07 as can be seen from the table at sub-paragraph 1.4.2.

4.4 Physical and Financial Performance

4.4.1 Physical performance

The physical performance of the Company as at the end of each of the five years ending 31 March 2007 was as under:

Telephone Network	As on 31 March 2003	As on 31 March 2004	As on 31 March 2005	As on 31 March 2006	As on 31 March 2007
No. of telephone exchanges	493	514	526	529	538
Total equipped capacity of direct exchange lines (DELs) including WLL (in lakh)	59.03	61.03	61.46	66.87	67.52
No. of telephone connections (DELs) including WLL (in lakh)	46.87 *(79%)	44.74 (73%)	42.72 (70%)	39.83 (60%)	39.20 (58%)
No. of persons on the waiting list (in lakh)	NIL	NIL	NIL	NIL	NIL
No. of cellular mobile telephone connections (in lakh)	2.92	3.60	8.82	19.41	27.47
No. of public telephones, both local and STD (in lakh)	2.04	2.40	2.79	2.79	2.60

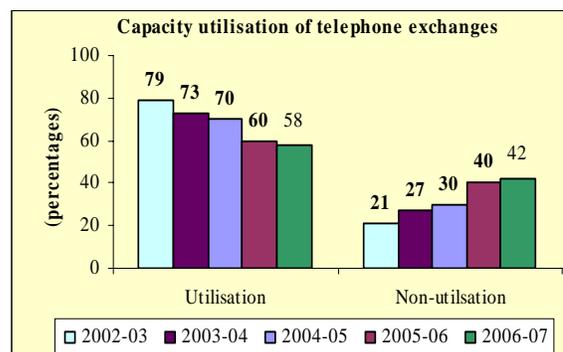
* figures in brackets indicate percentage of capacity utilization

A review of the same revealed the following:

➤ The overall capacity utilisation of telephone exchanges went down from 79 per cent in 2002-03 to 58 per cent in 2006-07 mainly due to lack of demand.

➤ The number of cellular mobile telephones had increased from 2.92 lakh in 2002-03 to 27.47 lakh in 2006-07.

➤ The number of public telephones had increased from 2.04 lakh in 2002-03 to 2.79 lakh in 2005-06, however it decreased by seven per cent in 2006-07.



4.4.2 Financial performance

The financial result of the Company for the five years ending 31 March 2007 were reported as under:

Particulars	(Rs in crore)				
	2002-03	2003-04	2004-05	2005-06	2006-07
Income from services	5806.53	6369.60	5582.07	5562.99	4909.32
Other income	223.69	314.33	491.72	528.01	673.53
Expenditure (excluding interest and prior period adjustments)	4737.64	4963.36	4822.30	5395.20	4788.15
Interest	32.82	34.62	35.81	24.44	2.01
Profit before tax and prior period adjustments	1259.76	1685.95	1215.67	671.36	792.68
Prior period adjustments	(-) 22.57	(-) 84.12	(-) 9.45	2.63	215.70
Profit before tax	1237.19	1601.83	1206.22	673.99	1008.38
Tax provision	360.03	451.35	267.24	93.70	326.65
Profit after tax	877.16	1150.48	938.98	580.29	681.73
Paid up capital	630.00	630.00	630.00	630.00	630.00

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
Proposed dividend including tax	319.82	319.82	322.78	287.34	289.21
➤ Final dividend	283.50	283.50	283.50	252.00	252.00
➤ Tax on dividend	36.32	36.32	39.28	35.34	37.21
Percentage of dividend to paid up capital	45	45	45	40	40

Profit after tax which had decreased over the period from 2003-04 to 2005-06, increased by 17 *per cent* during 2006-07 as compared to previous year. However, income from services had decreased by 12 *per cent* compared to the previous year. The decrease in income was mainly on account of downward revision in tariff for different services.

4.4.3 Findings of Audit under Section 619 of the Companies Act, 1956

Based on the supplementary audit conducted by CAG subsequent to the audit of the financial statements for the year 2006-07 by Statutory Auditors, comments were issued on the accounts of the Company. Certain issues were also marked to DoT/Company for improvement. One major issue related to non-provision of liability of Rs 988.75 crore on account of post retirement medical benefits of the employees on adhoc basis. The comment was not issued because the benefit was withdrawn by the company before the issue of comments. The matter was marked to the Ministry in August 2007 for a decision on whether or not to continue with the ad-hoc scheme; its reply was awaited (November 2007).

4.5 Revenue Arrears

The position of revenue arrears during the five years up to 31 March 2007 was as under:

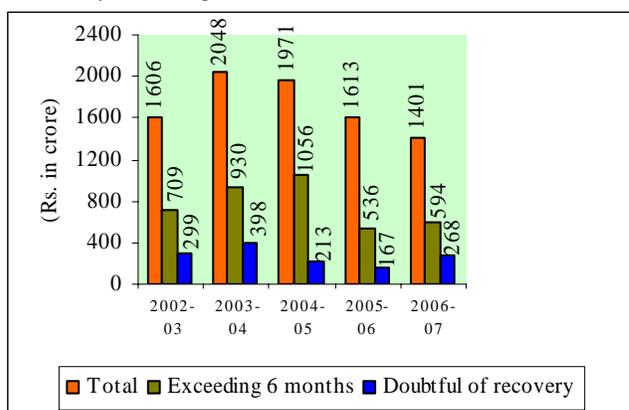
(Rs in crore)

Sl. no.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
1.	Revenue income	5806.53	6369.60	5582.07@	5562.99	4909.32
2.	Sundry Debtors					
	(a) Exceeding 6 months	709.03 (44%)*	930.30 (45%)*	1056.23@ (54%)*	536.22 (33%)*	594.41 (42%)*
	(b) Up to 6 months	339.69	1117.75	915.23@	1077.12	806.79
	(c) Total (a + b)	1048.72	2048.05	1971.45@	1613.34	1401.20
3.	Income accrued from services incorrectly shown under other current assets up to 2002-03 \$	557.29	-----	-----	-----	-----
4.	Revenue arrears [2(c)+3]	1606.01	2048.05	1971.45@	1613.34	1401.20
5.	Percentage of revenue arrears to revenue income [sl. no. (4 / 1) X 100]	28	32	35	29	28
6.	Revenue arrears considered doubtful of recovery	299.02	397.85	213.42@	179.91	293.96
7.	Percentage of doubtful revenue arrears to total revenue arrears [sl. no. (6 / 4) X 100]	19	19	11	11	21

* 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 year 2005-06.

\$ The figure indicates income due from regular customers on account of telecommunication services, for which bills could not be raised up to 31 March 2003, incorrectly shown as 'Other current assets' by the Management.



It may be seen that the percentage of revenue arrears to revenue income which was 29 per cent for the year 2005-06 came down to 28 per cent in 2006-07 thereby showing a marginal improvement over the previous year. Revenue arrears decreased by Rs 212.14 crore in 2006-07. The percentage of doubtful

revenue arrears to total revenue arrears which was 11 per cent for the year 2005-06 had increased to 21 per cent for the year 2006-07.

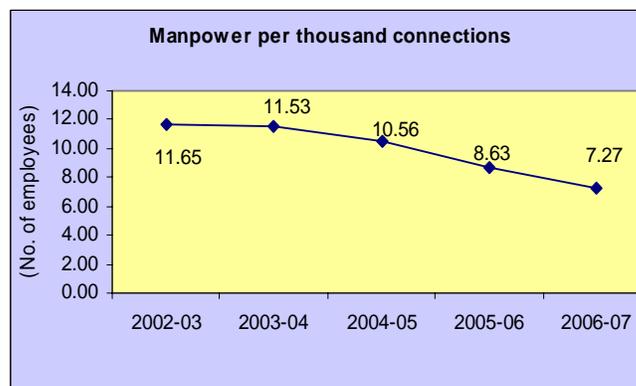
4.6 Manpower

The total manpower strength of MTNL as at the end of each of the five years ended 31 March 2007 is given in the table below:

Year	Group A	Group B	Group C	Group D	Total manpower	Daily Rated Mazdoors
2002-03	1128	6429	33901	16526	57984	88
2003-04	1083	6042	33083	15552	55760	82
2004-05	1390	5916	32004	15089	54399	82
2005-06	1130	6658	29834	13511	51133	79
2006-07	1232	5523	28878	12821	48454	75

As may be seen from the above table, the overall manpower had decreased over the last five years.

4.7 Productivity



The productivity of MTNL employees (i.e. ratio of the number of employees per thousand telephone connections or DELs including cellular mobile connections) for each of the five years up to 31 March 2007 showed a gradual improvement.