

CHAPTER I ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

Bharat Sanchar Nigam Limited

1.1 Introduction

In pursuance of the New Telecom Policy 1999, the Government of India decided to corporatise the service provision functions of Department of Telecommunications (DoT). Accordingly, Bharat Sanchar Nigam Limited (BSNL) was incorporated on 15 September 2000 as a wholly owned Central Government Company under the Companies Act, 1956, with its registered and corporate offices 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, BSNL, with effect from 1 October 2000. However, the functions of policy formulation, licensing, 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.

BSNL 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 such other directions as may be 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). Consequent upon the retirement of the CMD with effect from 31 December 2003, the Director (Planning and New Services) held the additional charge of CMD from 1 January 2004 to 15 September 2004 and thereafter, the regular CMD was appointed by the Government.

The operations of BSNL are managed in 24 telecom circles excluding the project and maintenance circles. In addition, seven telecom factories at Mumbai, Alipore and Gopalpur in Kolkata, Wright Town and Richhai in Jabalpur, Bhilai and Kharagpur are also managed by BSNL. 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 2004 were Rs 5,000 crore and Rs 7,500 crore, respectively.

In consideration of taking over the business of the erstwhile Department of Telecom Operations and Department of Telecom Services with effect from 1 October 2000 along with all the assets, liabilities and other contractual obligations, BSNL'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 has been treated as a loan to BSNL from the Government.

BSNL has been exempted from payment of dividend on preference share capital up to 31 March 2004. Besides, BSNL has also been 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. Accordingly, BSNL proposed dividend of Rs 281.25 crore for the year ending 31 March 2004. The Government will not receive any interest or repayment of principal amount on the loan of Rs 7,500 crore, as BSNL has a moratorium on repayment of principal and interest thereon up to 31 March 2004. Even interest will not accrue on this loan up to 31 March 2004.

DoT, while approving a package of measures in the form of financial/fiscal relief for BSNL, decided (June 2002) that BSNL would be liable to pay licence fees and spectrum charges in full and BSNL would also be allowed reimbursement of losses incurred by it on rural telephony operations and other socially desirable projects. It was also decided that the amount of reimbursement to BSNL was to be decided annually by DoT in consultation with the Ministry of Finance. Accordingly, BSNL has been paying the due amounts of licence fees and spectrum charges to DoT annually. In turn, DoT, in consultation with the Ministry of Finance, has been annually reimbursing the amount of losses incurred by BSNL on rural telephony operations and other socially desirable projects. During the year ending 31 March 2004, an amount of Rs 2,300 crore was reimbursed by the Government on this account.

BSNL also received Rs 230.20 crore and Rs 310.25 crore for the years ended 31 March 2003 and 2004, respectively, from the Universal Service Fund towards reimbursement for maintenance of village public telephones (VPTs).

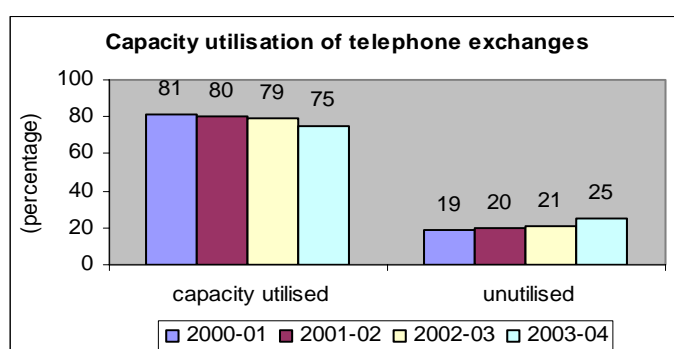
During the year, BSNL redeemed its bonds worth Rs 510 crore with interest.

1.4 Physical and Financial Performance

1.4.1 Physical performance

Since the Department of Telecom Services (DTS) was corporatised as BSNL, the complete network of telecommunications of DTS came under the control of BSNL with effect from 1 October 2000. The physical performance of BSNL as at the end of each of the last four years ended 31 March 2004 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
❖ No. of telephone exchanges	31589	34592	36136	36618
❖ Total equipped capacity of direct exchange lines (DELs) including WLL (in lakh)	347.93	415.90	457.66	485.60
❖ No. of telephone connections (DELs) including WLL (in lakh)	281.09 (81%)	334.01 (80%)	359.33 (79%)	363.94 (75%)
❖ No. of persons on the waiting list (in lakh)	28.71	16.49	18.07	18.15
❖ No. of Cellular Mobile telephone connections (in lakh)	Nil	*1.78	22.56	52.54
❖ No. of village public telephones (in lakh)	4.09	*4.68	5.05	5.10
❖ No. of stations linked with STD	25677	*29673	31371	31667



➤ As seen from the table, in spite of increase in 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 2003-04.

- Despite availability of equipped capacity, persons were still on the waiting list during each of the years 2000-01 to 2003-04; the reasons for which could be 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 52.54 lakh in 2003-04.
- The number of village public telephones increased from 4.09 lakh in 2000-01 to 5.10 lakh in 2003-04.

* These figures have been recast by the Management.

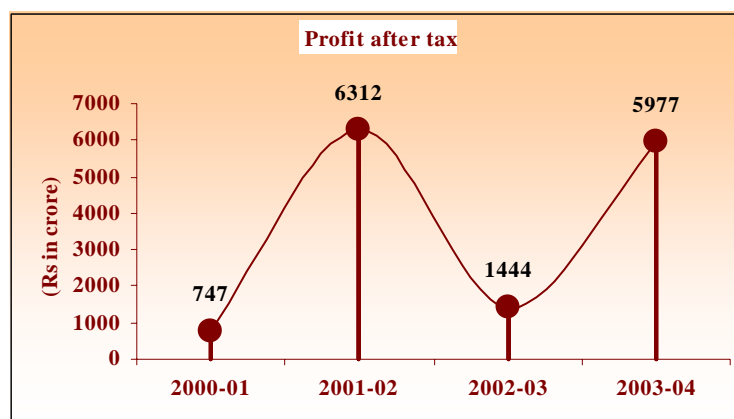
1.4.2 Financial performance

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

Particulars	(Rs in crore)			
	2000-01 (15 September 2000 to 31 March 2001)	2001-02 [@]	2002-03 [@]	2003-04
Income from services	11596.66	24297.21	25293.15	31399.34
Other income	102.81	384.49	599.45	2519.25
Expenditure (excluding interest and prior period adjustments)	10395.13	19993.49	24714.42	27075.29
Interest	274.29	468.21	364.55	88.24
Profit before tax and prior period adjustments	1030.05	4219.99	813.63	6755.07
Prior period adjustments	Nil	332.19	(455.73)	(58.90)
Profit before tax & extraordinary items of income	1030.05	4552.18	357.90	6696.17
Extraordinary items of income (reimbursement by Govt. of losses incurred on rural telephony operations)	Nil	2300.00	2300.00	2300.00
Profit before tax	1030.05	6852.18	2657.90	8996.16
Tax provision	283.00	540.01	1213.45	3019.64
Profit after tax	747.05	6312.17	1444.45	5976.52
Proposed dividend	*	*	250.00	281.25

* 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 2001-02 have been recast in the certified annual accounts for the year 2002-03.



It may be seen that there was a fourfold increase in profit after tax for the year ended 31 March 2004 compared to the previous year's profit, mainly on account of increase in income from

cellular services, other income, Interconnection Usage Charges (IUC) and Wireless-in-Local Loop (WLL). Although there was a rise in overall expenditure by 8 per cent over the previous year's expenditure, the increase of 24 per cent income in 2003-04 offset the said increase in expenditure.

As BSNL is in the telecom sector, the tax provision shown in the above table for the years 2000-01 to 2002-03 had been arrived at after claiming 100 per cent deduction of its profit and gains for the purpose of income tax under Section 80-IA of the Income Tax Act, 1961 and consequently liability for

Minimum Alternate Tax at the rate of 7.5 *per cent* of the book profits (after availing of eligible adjustments) under Section 115 JB of the Income Tax Act, 1961 had been provided. For the year 2003-04, BSNL had provided the normal tax liability at the rate of 35 *per cent* of its profit under the Income Tax Act, 1961 due to misinterpretation of the amendment in Section 80-IA of the Income Tax Act, 1961 made in the Finance Act, 2004, presuming that BSNL would not be eligible for tax benefit under Section 80-IA of the Act. However, based on subsequent clarifications received from the Finance Ministry that BSNL was eligible for tax benefits under Section 80-IA of the Act, the income tax return for the financial year 2003-04 has been filed by BSNL after claiming income tax benefit under Section 80 IA of the Act.

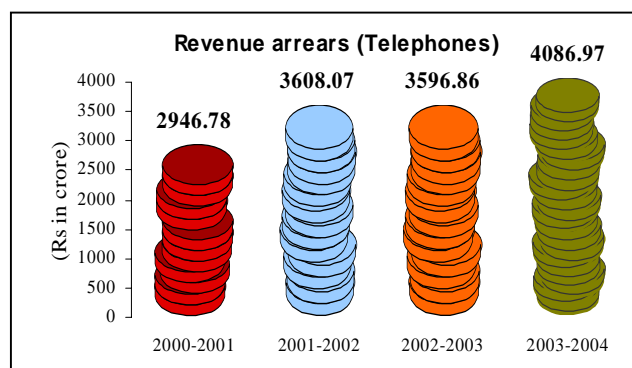
1.5 Revenue Arrears

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 four years ending March 2004 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	2456.24	18954.71	21410.95	18464.17	2946.78
2001-2002	2946.78	21979.94	24926.72	21318.65	3608.07
2002-2003	3608.07	22102.30	25710.37	22113.51	3596.86
2003-2004	3596.86	24101.51	27698.37	23611.40	4086.97

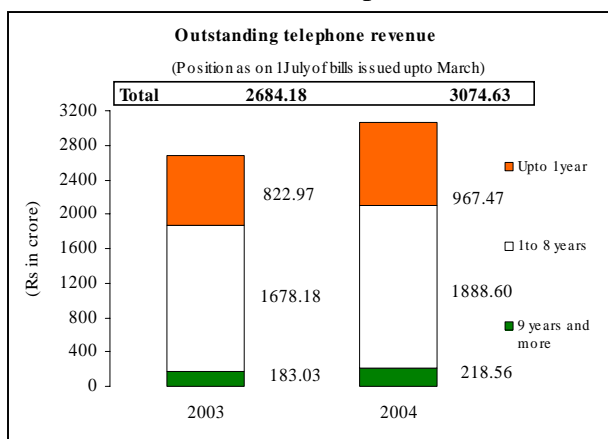
At the end of March 2004, the revenue arrears on account of telephone services increased to Rs 4,086.97 crore as compared to Rs 2,946.78 crore at



the end of March 2001. In fact, the increase in arrears over the four years 2000-2004 (39 *per cent*) outstripped the increase in demand (27 *per cent*) during the period. The percentage of collection of revenue to the total demand, however, remained more or less at

the same level from year to year.

1.5.2 The arrears of telephone revenue of Rs 4,086.97 crore came down to



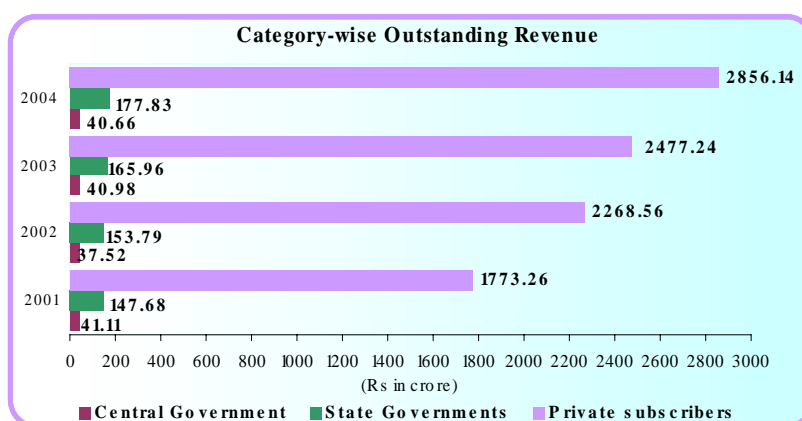
Rs 3,074.63 crore at the end of June 2004 for the bills issued up to March 2004. Age-wise break up of the amount outstanding on 1 July 2004 as compared to the previous year is given in the adjacent chart. An amount of Rs 2,107.15 crore (as of 1 July 2004) was outstanding for one or more years which constituted 68.53 per cent of the total outstanding revenue.

The main reasons for outstanding dues, 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 the billing sections; wrong billing; disputed bills etc. The continuous increase in this unrealised income over the years indicated that BSNL needed to exercise greater control over the management of debtors as well as in extending credit to customers.

1.5.3 Category-wise break up of total telephone dues between June 2001 and June 2004 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
2000-01	41.11	2.09	147.68	7.53	1773.26	90.38
2001-02	37.52	1.52	153.79	6.25	2268.56	92.23
2002-03	40.98	1.53	165.96	6.18	2477.24	92.29
2003-04	40.66	1.32	177.83	5.78	2856.14	92.90



An amount of Rs 3,074.63 crore was outstanding against various categories of telephone subscribers at the end of June 2004. Of the total outstanding amount, 92.90 per cent was outstanding against private subscribers,

1.32 per cent against Central Government departments and 5.78 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 378.90 crore. BSNL should make concerted efforts to recover the huge outstanding amount from the private subscribers.

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:

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
Circuits (telephones and telegraph)					
2000-01	159.56	280.43	439.99	259.77	180.22
2001-02	180.22	326.96	507.18	310.69	196.49
2002-03	196.49	514.45	710.94	428.42	282.52
2003-04	282.52	585.70	868.22	512.36	355.86
Telex/intelex charges					
2000-01	19.30	16.92	36.22	17.92	18.30
2001-02	18.30	11.53	29.83	11.55	18.28
2002-03	18.28	7.03	25.31	8.10	17.21
2003-04	17.21	4.03	21.24	4.32	16.92

The revenue arrears for collection in respect of circuits had gone up from Rs 180.22 crore in 2000-2001 to Rs 355.86 crore in 2003-04, while those in respect of telex/intelex charges decreased marginally from Rs 18.30 crore to Rs 16.92 crore during the same period. Thus the total outstanding revenue on account of circuits/telex/intelex worked out to Rs 372.78 crore, which was subsequently reduced to Rs 312.92 crore as on 1 July 2004 as shown below:

1.5.5 The arrears of outstanding dues in respect of circuits and telex/intelex charges decreased to Rs 312.92 crore at the end of June 2004 for the bills issued up to March 2004. Break-up of the outstanding dues as on 1 July 2004 is as follows:

(Rs in crore)

Period	Rent for communication circuits	Telex/intelex charges	Total
Upto 1994-95	28.45	3.07	31.52
1995-96 to 2002-03	164.62	8.31	172.93
2003-04	107.85	0.62	108.47
Total	300.92	12	312.92

1.5.6 The total arrears of revenue of over Rs 3,387.55 crore (telephone: Rs 3,074.63 crore and circuits/telex/intelex : Rs 312.92 crore) at the end of June 2004 in respect of telephone, telegraph, teleprinter services etc., would have a serious adverse impact on the financial health of a commercial undertaking like BSNL.

1.6 Manpower

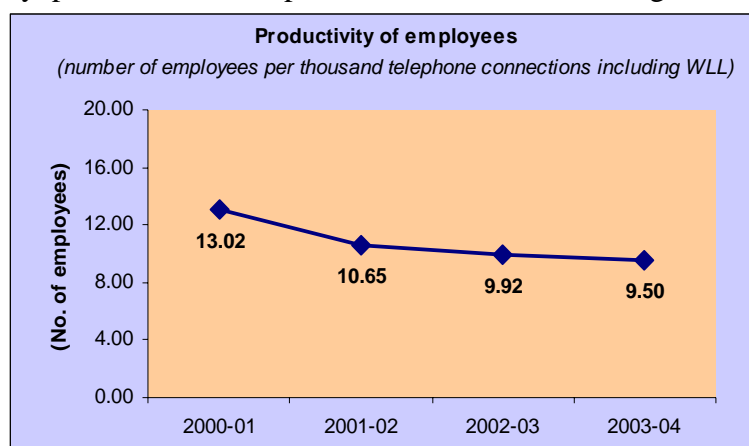
The total manpower strength of BSNL at the end of each of the last four years ended 31 March 2004 is given below:

Year	Group A	Group B	Group C	Group D	Industrial workers	Total manpower	Daily Rated Mazdoors
2000-01	7600	44126	241379	64974	7970	366049	6103
2001-02*	7071	44662	236705	63997	3237	355672	5211
2002-03	7026	46797	231656	66301	4632	356412	4435
2003-04	7889	49158	238042	47090	3673	345822	3899

There was an overall decrease in the manpower during 2003-04 compared to the previous year except in categories of Group 'A', Group 'B' and , Group 'C', under which manpower increased to the extent of almost 12 *per cent*, 5 *per cent* and 3 *per cent*, respectively.

1.7 Productivity

The employees' productivity per thousand telephone connections including WLL (i.e., ratio of employees per thousand telephone connections) of BSNL for the year 2000-01 was 13.02 which improved to 9.50 during 2003-04.



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