CHAPTER V
ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

Mahanagar Telephone Nigam Limited

5.1 Introduction

Mahanagar Telephone Nigam Limited (MTNL), 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). MTNL, Delhi and 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 is vested with the Board of Directors headed by the Chairman and Managing Director (CMD) who is assisted by three functional Directors (Technical, Finance and Human Resources) and a Company Secretary. The Director (Finance), who was also officiating as CMD of the Company with effect from 1 November 2003, was appointed as the regular CMD with effect from 10 August 2004. The post of Director (Finance) was lying vacant since then. The Delhi and Mumbai units of MTNL and the Mobile Services unit at Delhi are headed by the respective 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 2004, was Rs 630 crore, of which Rs 354.37 crore had been invested by the Government of India. The return on this investment (Rs 630 crore) by way of dividend paid by MTNL increased from 30 *per cent* for the year 1999-2000 to 45 *per cent* for each of the years 2000-01 to 2003-04, as can also be seen from the table at sub-paragraph 5.4.2.

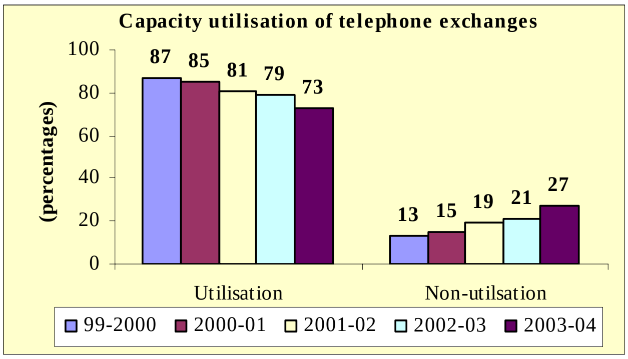
5.4 Physical and Financial Performance

5.4.1 Physical performance

The physical performance of MTNL as at the end of each of the five years ended 31 March 2004 is given in Appendix-22.

A review of the same revealed the following:

- The overall capacity utilisation of telephone exchanges went down from 87 *per cent* in 1999-2000 to 73 *per cent* in 2003-04 mainly due to lack of demand.



- There was 80 *per cent* increase in the number of cellular mobile telephone connections from 2.00 lakh in 2001-02 to 3.60 lakh in 2003-04.
- The number of public telephones more than doubled from 1.09 lakh in 1999-2000 to 2.40 lakh in 2003-04.

5.4.2 Financial performance

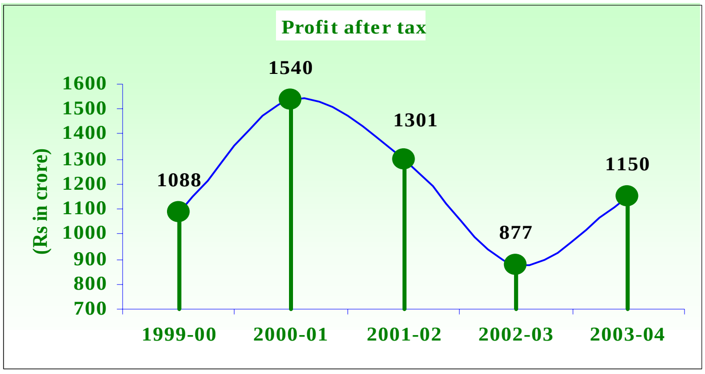
The financial results of MTNL for the five years ending 31 March 2004 were as follows:

(Rs in crore)

Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
Income from services	5182.20	5784.58	6143.72	5806.53	6369.60
Other income	174.70	318.02	248.35	* 223.69	314.33
Expenditure (excluding interest and prior period adjustments)	3948.53	4374.08	* 4560.92	* 4737.64	4963.36
Interest	8.42	8.30	* 28.83	32.82	34.62
Profit before tax and prior period adjustments	1399.95	1720.22	1802.32	1259.76	1685.95
Prior period adjustments	(-)149.10	(-) 17.04	(-) 7.88	(-) 22.57	(-) 84.12
Profit before tax	1250.85	1703.18	1794.44	1237.19	1601.83
Tax provision	163.00	163.00	493.76	360.03	451.35
Profit after tax	1087.85	1540.18	1300.68	877.16	1150.48
Proposed dividend including tax	216.72	312.42	283.50	319.82	319.82
➢ Final dividend	189.00	283.50	283.50	283.50	283.50
➢ Tax on dividend	27.72	28.92	0.00	36.32	36.32

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

As seen from the table, in the year 2000-01, profit after tax increased substantially by 42 *per cent* over the earlier year, primarily due to (a) increase in income (including other income) by 14 *per cent* as well as (b) decrease in the net prior period expenditure by almost 89 *per cent* over the earlier year.



However, the profit after tax for the next 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 downfall of 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.

The tax provision shown in the table included provisions towards income tax, wealth tax and deferred tax liabilities. The amounts of income tax provision included in the tax provision were Rs 162.00 crore, Rs 162.00 crore, Rs 489.00 crore, Rs 301.10 crore and Rs 374.91 crore for the years 1999-2000 to 2003-04, respectively. As MTNL is in the telecom sector, the above tax provisions 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.

5.5 Revenue Arrears

Income due from regular customers on account of telecommunication services provided to them, for which bills could not be raised upto 31 March every year, were shown as 'Other current assets' by the Management of MTNL 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 upto 31 March 2004 was as under:

(Rs in crore)

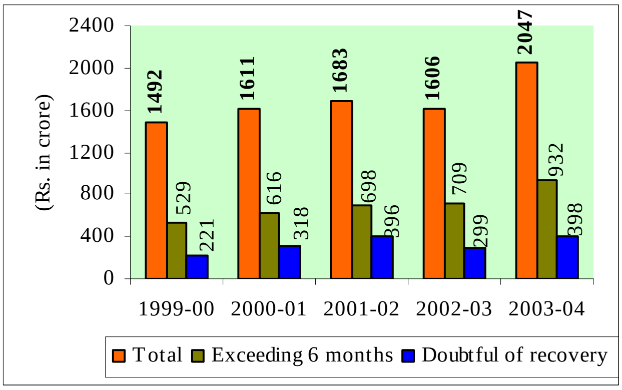
Sl. no.	Particulars	1999-00	2000-01	2001-02	2002-03	2003-04
1.	Total revenue income	5182.20	5784.58	6143.72	5806.53	6369.60
2.	Total Sundry Debtors					
	(a) Exceeding 6 months	529.03 (35%)*	615.90 (38%)*	698.41@ (41%)*	709.03@ (44%)*	932.33 (46%)*
	(b) Upto 6 months	342.65	309.43	433.79@	339.69@	1114.98
	(c) Total (a + b)	**871.68**	**925.33**	**1132.20@**	**1048.72**	**2047.31**

Sl. no.	Particulars	1999-00	2000-01	2001-02	2002-03	2003-04
3.	Income accrued from services incorrectly shown under other current assets upto 2002-03	620.19	685.38	551.00@	557.29@	-----
4.	Total revenue arrears [2(c)+3]	1491.87	1610.71	1683.20@	1606.01@	2047.31
5.	Percentage of total revenue arrears to total revenue income [sl. no. (4 / 1) X 100]	29	28	27	28	32
6.	Revenue arrears considered doubtful of recovery	221.46	317.97	396.05@	299.02@	397.85
7.	Percentage of doubtful revenue arrears to total revenue arrears [sl. no. (6 / 4) X 100]	15	20	24@	19	19

* *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 MTNL for the years 2002-03 and 2003-04.*

It may be seen that there was a downward trend in the ratio of total revenue arrears to total revenue income from 29 *per cent* in 1999-2000 to 27 *per cent* in 2001-02. But the ratio of total revenue arrears to total revenue income showed an upward trend from 27 *per cent* in 2001-02 to 32 *per cent* in 2003-04. Of this yearly unrealised revenue, the revenue which remained in arrears for more than six months also showed an increasing trend. It increased from 35 *per cent* as at 31 March 2000 to 46 *per cent* as at 31 March 2004. The unrealised revenue which was considered doubtful of recovery increased from 15 *per cent* at the end of March 2000 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 31 March 2004. 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 MTNL needed to exercise greater control over the management of debtors as well as in extending credit to customers.



5.6 Manpower

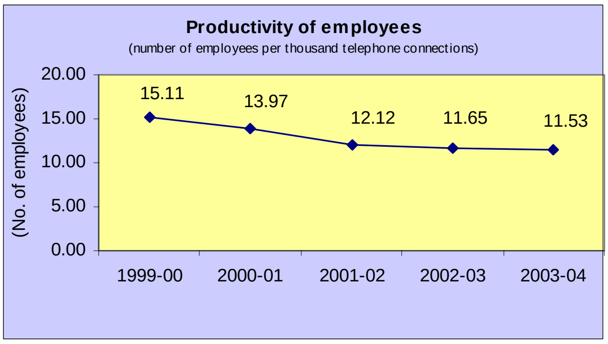
The total manpower strength of MTNL as at the end of each of the last five years ended on 31 March 2004 is given below:

Year	Group A	Group B	Group C	Group D	Total manpower	Daily Rated Mazdoors
1999-2000	1045	5978	34814	19071	**60908**	196
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

As could be seen from the above table, the overall manpower decreased by 8 *per cent* over the last five years. In addition to the overall decrease, the number of daily rated mazdoors also showed a downward trend from 196 in March 2000 to 82 by March 2004.

5.7 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 last five years up to 31 March 2004 showed a gradual improvement during the last five years. As indicated in the chart, the number of employees per thousand telephone connections (including cellular mobile connections) decreased from 15.11 in 1999-2000 to 11.53 in 2003-04.



* *The productivity figures have been recast for the years 2001-02 and 2002-03 due to change in data.*