

## ITI LIMITED

### CHAPTER VII ORGANISATIONAL SET UP AND FINANCIAL MANAGEMENT

#### 7.1 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 included Mahanagar Telephone Nigam Limited (MTNL), Defence Services, Railways, Power, Steel and Oil sectors.

#### 7.2 Organisational Set up

The administrative and over all functional control of the Company is vested with the Board of Directors headed by the Chairman and Managing Director (CMD) who is assisted in day-to-day management of the Company by three functional Directors (Finance, Marketing and Production) and Company Secretary. Besides there are three Additional Directors in charge of Human Resources Development, Projects and Planning and Internal Audit. The units are headed by Additional General Managers/ General Managers.

#### 7.3 Investment and Returns

Against the authorised share capital of Rs700 crore, the paid-up capital, as on 31 March 2005, was Rs 588 crore, consisting of Rs 288 crore as equity and Rs 300 crore as cumulative redeemable preference shares. The investment by the Government of India was Rs 267.47 crore towards the equity capital. The return on the above investment in the form of dividend paid by the Company was six *per cent* (1998-99 and 1999-2000) and five *per cent* (2000-01 and 2001-02). Since the Company was incurring loss since 2002-03, no dividend was paid for the years 2002-03, 2003-04 and 2004-05.

## 7.4 Physical Performance

The physical performance of the Company as at the end of each of the last five years ending 31 March 2005 is given in Appendix-XXIII. It was seen that:

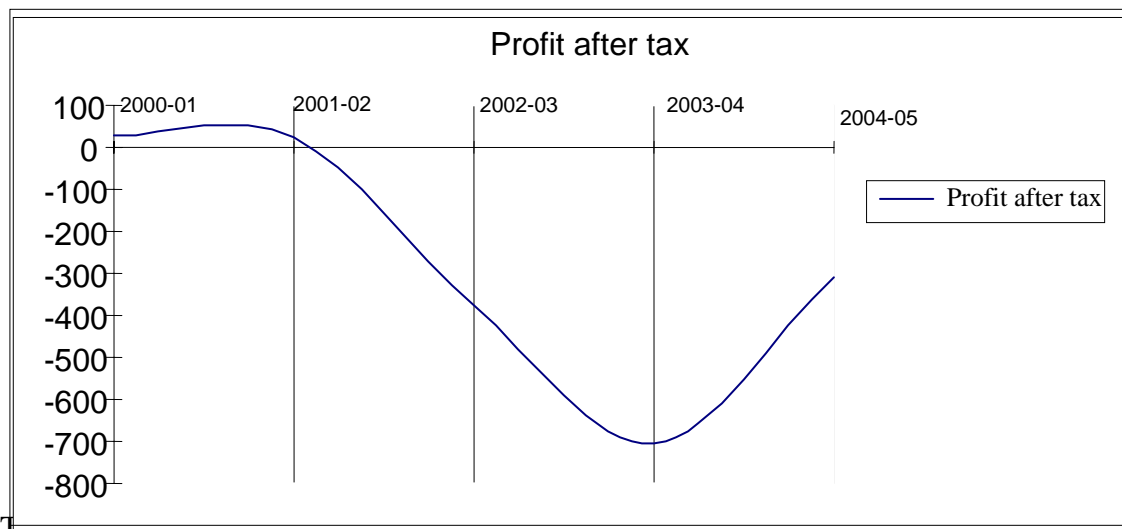
- (i) In respect of switching products though the installed capacity was almost fully utilized upto 2000-01, it declined sharply to 70 per cent in 2001-02, 34 per cent in 2002-03 and 19 per cent in 2003-04 but improved to 47 per cent in 2004-05.
- (ii) In respect of transmission products, there was underutilization of installed capacity ranging from 13 per cent (2001-02) to 64 per cent (2000-01).
- (iii) In respect of terminal equipment, the utilization of installed capacity ranged from 26 per cent to 100 per cent during the years 2000-01 to 2004-05. The target capacity was achieved only in 2000-01.

### 7.4.1 Financial Performance

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

(Rs in crore)

Particulars	2000-01	2001-02	2002-03	2003-04	2004-05
Sales including Services (excluding Excise Duty)	1926.38	2121.98	1701.11	1197.86	1317.87
Other Income	114.37	70.62	38.21	52.94	56.30
Interest earned	1.36	0.42	0.22	6.09	0.27
Transfers from Grant-in-aid	34.97	110.80	28.42	(52.74)	447.78
Expenditure (excluding interest and prior period adjustments)	1886.59	2107.18	1985.83	1729.98	1931.14
Interest	160.70	171.26	156.02	157.97	187.15
Profit before tax and prior period adjustments	29.79	25.38	(373.89)	(683.80)	(296.07)
Prior period adjustments	( 2.24)	( 2.00)	(2.78)	(22.03)	(13.75)
Profit before tax	27.55	23.38	(376.67)	(705.83)	(309.82)
Tax provision	--	--	--	--	--
Deferred Tax	--	1.80	(1.80)	--	--
Profit after tax	27.55	21.58	(374.87)	(705.83)	(309.82)
<b>Proposed dividend</b>	<b>4.40</b>	<b>4.40</b>	<b>NIL</b>	<b>NIL</b>	<b>NIL</b>



The Company started incurring huge losses of Rs 37.07 crore, Rs 70.85 crore during 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 due to a grant in aid of Rs 447.78 crore received from the Government of India.

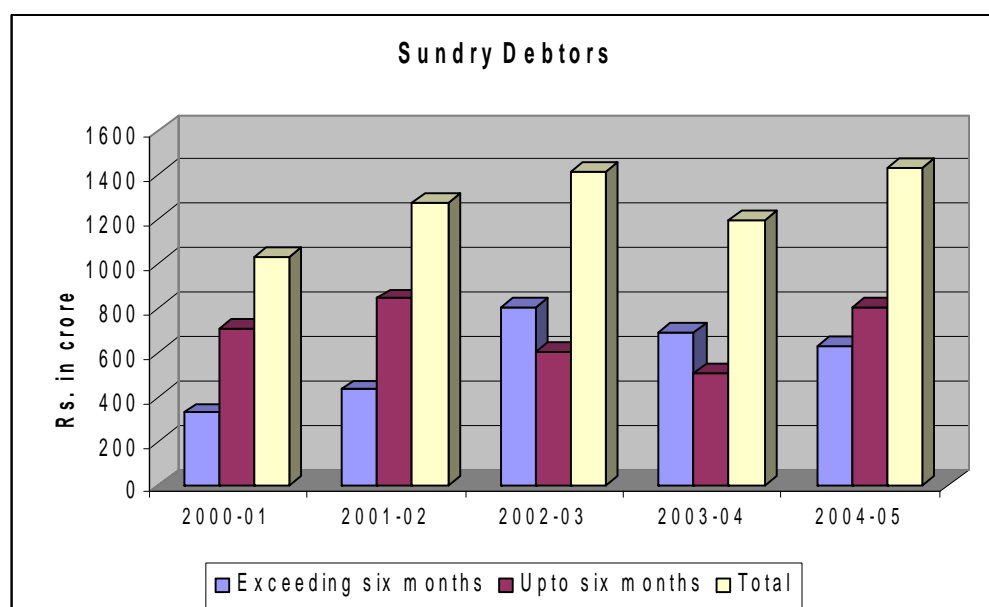
### 7.5 Outstanding Dues

The major customers of the Company are Government Companies, viz., BSNL and MTNL. The Company has not laid down any credit policy so far (November 2005).

The position of sundry debtors as at the end of each of the five years ending 31 March 2005 was as under:

		(Rs in crore)				
Sl. No	Particulars	2000-01	2001-02	2002-03	2003-04	2004-05
1.	Total sales including services (Including excise duty)	2144.20	2317.17	1794.65	1256.57	1389.01
2.	Total sundry debtors					
	(a) Exceeding six months	327.63 (32)*	434.48 (34)*	807.36 (57)*	691.73 (58)*	632.05 (44)*
	(b) Upto six months	705.65	844.00	605.77	508.44	803.69
	(c) Total (a+b)	1033.28	1278.48	1413.13	1200.17	1435.74
3.	Percentage of total Sundry debtors to sales	48	55	79	96	103
4.	Doubtful debts	5.69	5.71	8.61	11.02	15.52

\* 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 chart that debtors ranging from 48 *per cent* to 103 *per cent* remained in arrears at the end of the last five years up to 2004-05. Debtors exceeding six months showed increasing trend from 34 *per cent* as at the end of March 2002 to 58 *per cent* as at the end of March 2004, but reduced slightly to 44 *per cent* as at end of March 2005.

Position of unbilled debtors included in total debtors during the period from 2000-01 to 2004-05 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
2000-01	1027.59	849.25	307.35	541.90	63.80
2001-02	1272.77	1079.00	193.00	886.00	82.11
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

\* Modified based on verification of the reply to ATN

The percentage of unbilled debtors increased from 64 *per cent* as at the end of March 2001 to 82 *per cent* as at the end of March 2002, but declined to 42 *per cent*, 48 *per cent* and 8 *per cent* as at the end of March 2003, March 2004 and March 2005, respectively. The decline in the trend of unbilled debtors during 2004-05 was mainly due to the shift in Company's business portfolio from manufacture of equipment and supply to turnkey projects.

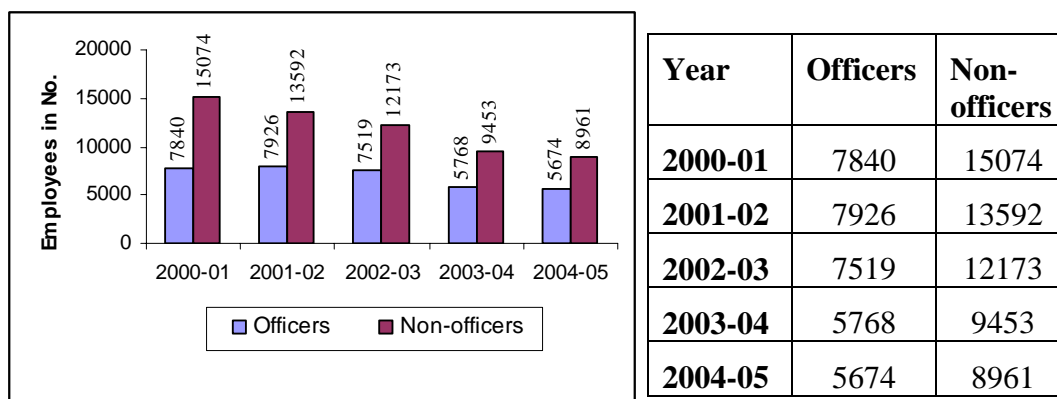
Though there were debts outstanding for more than five years, the Company had not obtained confirmation from the debtors during any of the years. The Statutory Auditors had also repeatedly commented about the Company not obtaining confirmation from the Sundry Debtors.

## 7.6 Manpower

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

Year	Group A	Group B	Group C	Group D	Total Manpower
2000-01	2354	5486	14732	342	22914
2001-02	2169	5757	13292	300	21518
2002-03	2034	5485	11875	298	19692
2003-04	1639	4129	9396	57	15221
2004-05	1480	4194	8920	41	14635

It would be seen that there was 36 *per cent* reduction in total manpower during the last five years. The breakup of officers and non-officers for the last five years was as follows:



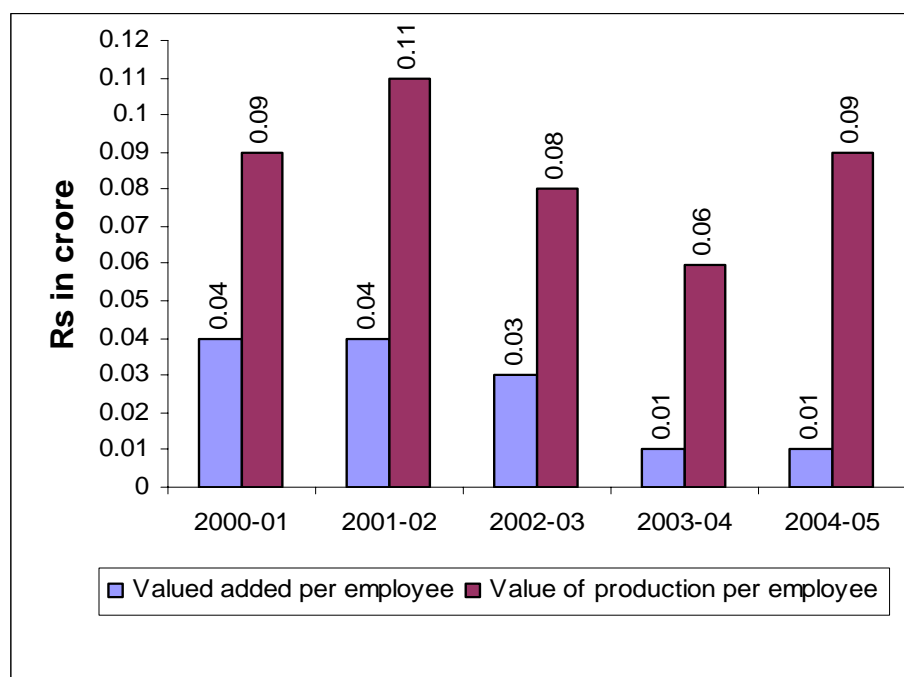
The reduction in total manpower was mainly due to retirement of employees under voluntary retirement scheme. Though the strength of non-officers decreased by 41 *per cent*, reduction in the strength of officers was only 28 *per cent* from 2000-01 to 2004-05.

## 7.7 Productivity

The productivity of employees of the Company in terms of value added and value of production during the last five years ending 31 March 2005 was as follows:

(Rs in crore)

Year	Valued added per employee	Value of production per employee
2000-01	0.04	0.09
2001-02	0.04	0.11
2002-03	0.03	0.08
2003-04	0.01	0.06
2004-05	0.01	0.09



Though the value of production and value added per employee showed a continuous decline since the year 2001-02, there was a marginal increase in 2004-05.