

BHARAT SANCHAR NIGAM LIMITED

CHAPTER I ORGANISATIONAL SETUP AND FINANCIAL MANAGEMENT

1.1 Introduction

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

The Company 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 other directions being given by the Central Government from time to time.

1.2 Organisational setup

The administrative and overall functional control is vested in the Board of Directors headed by the Chairman and Managing Director, who is assisted by five functional Directors (Finance, Commercial and Marketing, Operations, Human Resource Development and Planning and New Services).

The operations of the Company are managed by 24 telecom circles and two telecom districts (Chennai and Kolkata) excluding the project and maintenance circles. In addition, seven telecom factories at Alipore and Gopalpur in Kolkata,

Bhilai, Kharagpur, Mumbai, Richhai and Wright Town in Jabalpur are also managed by the Company. 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 2006 were Rs 5,000 crore and Rs 7,500 crore respectively.

In consideration of taking over the business of the erstwhile DTO and DTS with effect from 1 October 2000 along with all the assets, liabilities and other contractual obligations, the Company'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 had been treated as loan to the Company from the Government. The Government did not receive any interest or repayment of the principal amount on the loan of Rs 7,500 crore, as the Company had a moratorium on repayment of principal and interest thereon up to 31 March 2005. As of 31 March 2006, the principal amount of the loan was Rs 5,500 crore as the Company repaid Rs 2,000 crore during the year 2005-06. Further, as at the end of 31 March 2006, a sum of Rs 1,063.33 crore was provided in the annual accounts of the Company towards interest [*@ 14.5 per cent as fixed by DoT*] on the outstanding loan.

The Company was exempted from payment of dividend on preference share capital up to 31 March 2004. The Company was also 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. However, for the year ending 31 March 2005 and 2006, the Company proposed a dividend of Rs 975 crore and Rs 800 crore, respectively.

DoT, while approving a package of measures in the form of financial relief for the Company, decided (June 2002) that the Company would be liable to pay licence fees and spectrum charges in full and would also be allowed reimbursement of losses incurred by it on rural telephony operations and other socially desirable projects. The amount of reimbursement was to be decided annually by DoT in consultation with the Ministry of Finance. During the year ending 31 March 2006, the reimbursement of the licence fee was restricted to $1/3^{\text{rd}}$ of licence fee excluding Universal Service Fund (USF) levy and an amount of Rs 582.96 crore was reimbursed to the Company by the Government on this account.

The Company also received Rs 1,117.07 crore and Rs 1,765.75 crore for the years ended 31 March 2005 and 2006 respectively from the USF towards reimbursement for maintenance of Village Public Telephones (VPTs).

1.4 Physical and Financial Performance

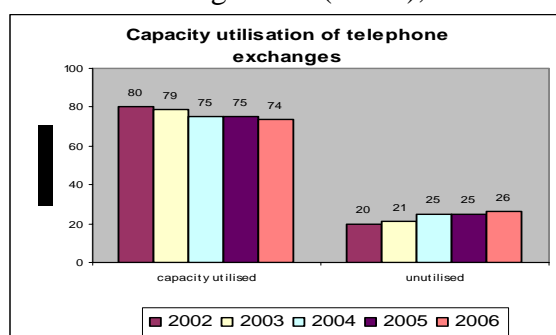
1.4.1 Physical performance

The physical performance of the Company as at the end of each of the last five years ending 31 March 2006 is given below:

Telephone Network	As on 31 March 2002	As on 31 March 2003	As on 31 March 2004	As on 31 March 2005	As on 31 March 2006
❖ No. of telephone exchanges	34592	36136	36618	37040	37382
❖ Total equipped capacity of direct exchange lines (DELs) including WLL (in lakh)	415.90	457.35	485.60	498.20	513.93
❖ No. of telephone connections (DELs) including WLL (in lakh)	334.01 *(80%)	359.33 (79%)	363.94 (75%)	374.88 (75%)	379.95 (74%)
❖ No. of persons on the waiting list (in lakh)	16.49	18.07	18.14	17.16	13.32
❖ No. of cellular mobile telephone connections (in lakh)	1.78	22.56	52.54	94.47	171.64
❖ No. of village public telephones (in lakh)	4.68	5.05	5.10	5.19	5.35
❖ No. of stations linked with STD	29673	36027	36646	37035	All cities

*Figures in brackets indicate percentage of capacity utilisation

➤ As seen from the table, in spite of increase in the equipped capacity of direct exchange lines (DELs), the overall capacity utilisation of telephone exchanges went down from 80 per cent in 2001-02 to 74 per cent in 2005-06.



➤ Despite the availability of equipped capacity, persons were still on the waiting list during each of the years 2001-

02 to 2005-06; the reasons for which were 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 22.56 lakh in 2002-03 to 171.64 lakh in 2005-06.
- The number of village public telephones increased from 4.68 lakh in 2001-02 to 5.35 lakh in 2005-06.

1.4.2 Financial performance

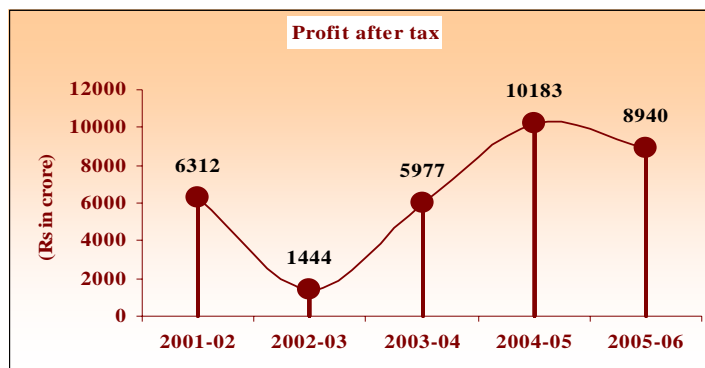
The financial results of the Company for the last five years ending 31 March 2006 were as follows:

(Rs in crore)

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
Income from services	24297.21	25293.15	31399.34	33450.04	36138.94
Other income	384.49	599.45	2519.25	2640.05	4037.64
Expenditure (excluding interest and prior period adjustments)	19993.49	24714.42	27075.29	29372.24	30817.26
Interest	468.21	364.55	88.24	29.29	1089.80
Profit before tax and prior period adjustments	4219.99	813.63	6755.07	6688.56	8269.52
Prior period adjustments	332.19	(455.72)	(58.90)	(534.38)	(405.50)
Profit before tax & extraordinary items of income	4552.18	357.91	6696.17	6154.18	7864.02
Extraordinary items of income (reimbursement by Govt. of losses incurred on rural telephony operations)	2300.00	2300.00	2300.00	1765.90	582.96
Profit before tax	6852.18	2657.91	8996.17	7920.08	8446.98
Tax provision	540.01	1213.46	3019.64	(2263.21)*	(492.71)*
Profit after tax	6312.17	1444.45	5976.53	10183.29	8939.69
Dividend	*	250.00	318.01	1337.88	1339.79

* Figures in brackets denote excess tax provisions written back during these years

* 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.

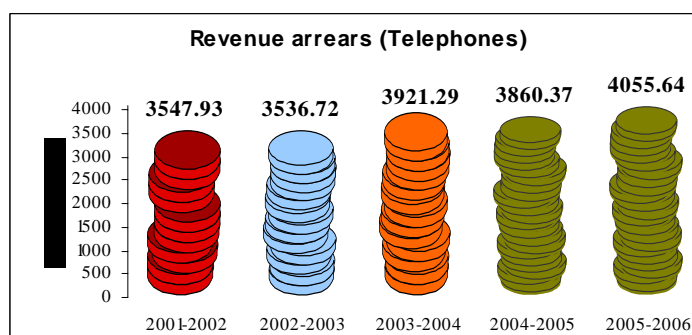


It may be seen that there was a decrease in profit after tax for the year ending 31 March 2006 compared to the previous year's profit, mainly on account of increase in expenditure and payment of interest.

1.5 Revenue Arrears

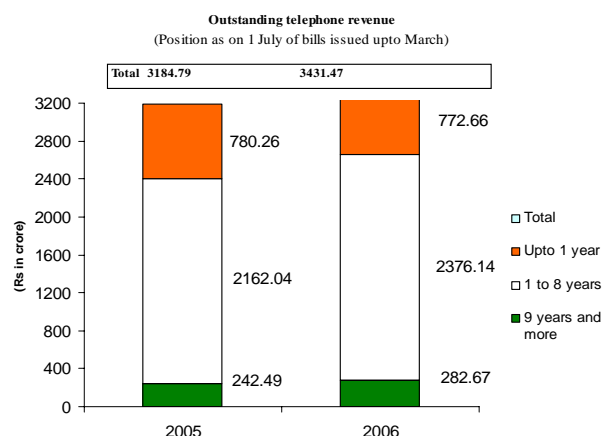
1.5.1 The position of demand raised, amount collected and arrears for telephone services (excluding revenue details of value added services like cellular mobile services, private basic service operators, etc.) for the five years ending March 2006 is given in the table below:

(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
2001-2002	2882.03	21966.29	24848.32	21300.39	3547.93
2002-2003	3547.93	22102.30	25650.23	22113.51	3536.72
2003-2004	3536.72	23995.97	27532.69	23611.40	3921.29
2004-2005	3921.29	22794.08	26715.37	22855.00	3860.37
2005-2006	3860.37	21526.72	25387.09	21331.45	4055.64



At the end of March 2006, the revenue arrears on account of telephone services increased to Rs 4,055.64 crore as compared to Rs 3,547.93 crore at the end of March 2002. In fact, the arrears over the five years 2001-2006 increased by 14.31 per cent, but demand raised had decreased by two per cent. The amount collected also declined from Rs 23,611.40 crore to Rs 21,331.45 crore during the year 2003-04 to 2005-06.

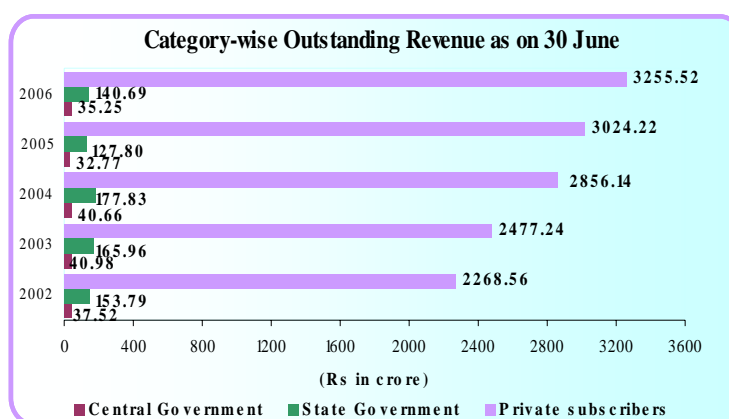
1.5.2 The arrears of telephone revenue of Rs 4055.64 crore came down to Rs 3,431.47 crore at the end of June 2006 for bills issued up to March 2006. Age-wise break up of the amount outstanding on 1 July 2006 as compared to the previous year is given in the adjacent chart. An amount of Rs 2,658.81 crore (as of 1 July 2006) was outstanding for one year or more and constituted 77.48 per cent of the total outstanding revenue.



1.5.3 Category-wise break up of total telephone dues between June 2001 and June 2006 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
2001-2002	37.52	1.52	153.79	6.25	2268.56	92.23
2002-2003	40.98	1.53	165.96	6.18	2477.24	92.29
2003-2004	40.66	1.32	177.83	5.78	2856.14	92.89
2004-2005	32.77	1.03	127.80	4.01	3024.22	94.96
2005-2006	35.25	1.03	140.69	4.10	3255.52	94.87



An amount of Rs 3,431.47 crore was outstanding against various categories of telephone subscribers at the end of June 2006. Out of the total outstanding amount, 94.87 per cent was outstanding against private subscribers, 1.03 per cent against Central Government departments and 4.10 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 July 2005 to June 2006 alone, the outstanding amount against this category increased by Rs 231.30 crore.

1.5.4 Arrears of rent on telegraph, teleprinter and telephone circuits and telex/intelelex charges

The position of arrears of revenue on renting of telegraph, teleprinter and telephone circuits and telex/intelelex connections to various categories of subscribers is indicated below:

Telephones, telegraph, telex/intelelex 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)					
2002-2003	203.07	514.48	717.55	428.41	289.14
2003-2004	289.14	583.28	872.42	502.43	369.99
2004-2005	369.99	567.76	937.75	538.30	399.45
2005-2006	399.45	464.60	864.05	474.07	389.98
Telex/intelelex charges					
2002-2003	13.77	7.04	20.81	8.10	12.71
2003-2004	12.71	4.02	16.73	4.32	12.41
2004-2005	12.41	0.59	13.00	1.46	11.54
2005-2006	11.54	(-)1.41	10.13	0.42	9.71

The revenue arrears for collection in respect of circuits had gone up from Rs 289.14 crore in 2002-03 to Rs 389.98 crore in 2005-06, while those in respect of telex/intelelex charges reduced marginally from Rs 12.71 crore to Rs 9.71 crore during the same period. Thus the total outstanding revenue on account of circuits/telex/intelelex worked out to Rs 399.69 crore, which was subsequently reduced to Rs 365.95 crore as on 1 July 2006 as shown in paragraph 1.5.5.

1.5.5 The arrears of outstanding dues in respect of circuits and telex/intelelex charges increased to Rs 365.95 crore at the end of June 2006 for bills issued up to March 2006. Break up of the outstanding dues as on 1 July 2006 is given below:-

(Rs in crore)

Period	Rent for circuits	Telex/intelelex charges	Total
Upto 1996-97	52.50	3.67	56.17
1997-98 to 2004-05	202.94	5.65	208.59
2005-06	101.16	0.03	101.19
Total	356.60	9.35	365.95

1.5.6 Total arrears of revenue of over Rs 3,797.42 crore (telephone: Rs 3,431.47 crore and circuits/telex/intelelex : Rs 365.95 crore) at the

end of June 2006 in respect of telephone, telegraph, teleprinter services, etc, would have a serious adverse impact on the financial health of BSNL.

1.6 Manpower

The total manpower of the Company at the end of each of the last five years ending 31 March 2006 is given below:

Year	Group A	Group B	Group C	Group D	Industrial workers	Total manpower	Daily Rated Mazdoors
2001-02	7071	44662	236705	63997	3237	355672	5211
2002-03	7026	46797	231656	63189	3112	351780	4974
2003-04	7889	49158	238042	47090	3673	345822	3899
2004-05	6947	51242	230556	47525	3583	339853	3867
2005-06	7156	53293	210680	47315	3411	321855	3648

There was an overall decrease in the manpower during 2005-06 compared to the previous year except in the Group 'A' and Group 'B' categories, under which manpower increased by almost 3.01 *per cent* and four *per cent*, respectively.

1.7 Productivity

The productivity per thousand telephone connections (employees per thousand telephone connections) including WLL and cellular mobile telephone connections of the Company for the year 2001-02 was 10.59, which improved to 5.84 during 2005-06.

