

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 providing 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 in 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 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).

The Company is organized into 24 telecom territorial circles and 19 non-territorial circles covering the whole country, besides two Metro Telecom Districts at Chennai and Kolkata. The metropolitan cities of Mumbai and Delhi and their adjoining areas are served by Mahanagar Telephone Nigam Limited. The territorial circles are further divided into Secondary Switching Areas (SSAs), which are the basic management units of the Company. The non-territorial circles such as Telecom Stores, Telecom Factories, Quality

Assurance, Training, Projects and Maintenance are responsible for specialized activities.

1.3 Investment and Returns

Against the authorised equity share capital of Rs 10,000 crore and 9 *per cent* preference share capital of Rs 7,500 crore, the paid-up equity share capital and preference share capital, as on 31 March 2007, 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, an amount of Rs 7,500 crore had been treated as loan to the Company from the Government. This loan carried a moratorium on repayment of principal and interest up to 31 March 2005 and carried interest at the rate of 14.5 *per cent* per annum from April 2005. The Company repaid the principal amount of Rs 2000 crore and Rs 2500 crore during the years 2005-06 and 2006-07, respectively. As of 31 March 2007, the principal amount of loan and the interest accrued and due was Rs 3000 crore and Rs 1823.09 crore, respectively.

The Company was exempted from payment of dividend on 9 *per cent* preference share capital up to 31 March 2004 and 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. For the years ended 31 March 2006 and 2007, the Company paid a dividend of Rs 500 crore each at the rate of 10 *per cent* on Equity and Rs 675 crore each on Preference share capital.

As part of financial/fiscal relief the Company was liable to pay licence fees and spectrum charges in full and at the same time, could claim reimbursement of licence fee for 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. Accordingly, the Company has been paying the due amounts of licence fees and spectrum charges to DoT every year. In turn, DoT, in consultation with the Ministry of Finance, has been annually reimbursing the amount of losses incurred by the Company on rural telephony operations and other socially desirable projects. An amount of Rs 582.96 crore was reimbursed to the Company in 2005-06. However, no such reimbursement had been received by the Company for the financial year ended 31 March 2007.

The Company also received/accounted for Rs 1,765.75 crore and Rs 1,719.15 crore for the years ended 31 March 2006 and 2007, respectively from the Universal Service Obligation Fund towards reimbursement for provision, operation & maintenance of Village Public Telephones (VPTs) and rural household connection.

1.4 Physical and Financial Performance

1.4.1 Physical performance

The physical performance of the Company at the end of each of the five years ending 31 March 2007 is given below:

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	36136	36618	37040	37382	37808
❖ Total equipped capacity of direct exchange lines (DELS) including WLL (in lakh)	457.65	485.60	498.20	513.93	526.75
❖ No. of telephone connections (DELS) including WLL (in lakh)	359.33 *(79%)	363.94 (75%)	374.88 (75%)	379.95 (74%)	372.95 (71%)
❖ No. of persons on the waiting list (in lakh)	18.07	17.55	16.20	12.10	8.97
❖ No. of cellular mobile telephone connections (in lakh)	22.56	52.54	94.47	171.64	274.29
❖ No. of village public telephones (in lakh)	5.05	5.10	5.19	5.35	5.53

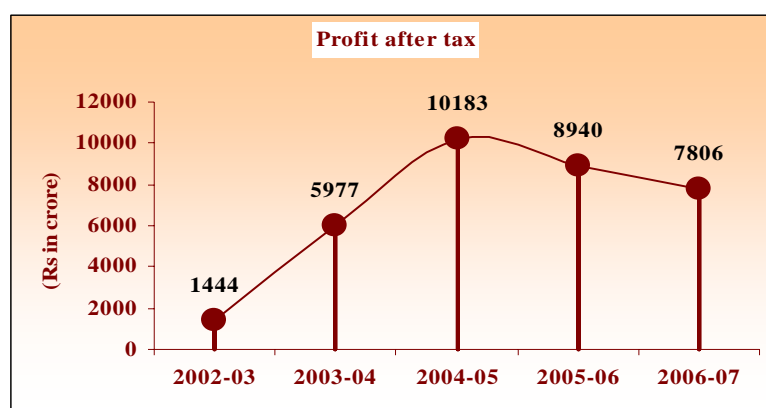
*figures in brackets indicate percentage of capacity utilization.

- As seen from the table, inspite of increase in the equipped capacity of direct exchange lines (DELS), the overall capacity utilisation of telephone exchanges steadily went down from 79 *per cent* in 2002-03 to 71 *per cent* in 2006-07.
- Despite availability of equipped capacity, persons were still on the waiting list during each of the years 2002-03 to 2006-07; 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 274.29 lakh in 2006-07.
- The number of village public telephones increased from 5.05 lakh in 2002-03 to 5.53 lakh in 2006-07.

1.4.2 Financial performance

The financial results of the Company for the last five years ending 31 March 2007 were as follows:

(Rs in crore)					
Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
Income from services	25293.15	31399.34	33450.04	36138.94	34616.21
Other income	599.45	2519.25	2640.05	4037.64	5098.90
Expenditure (excluding interest and prior period adjustments)	24714.42	27075.29	29372.24	30817.26	30686.25
Interest	364.55	88.24	29.29	1089.80	779.41
Profit before tax and prior period adjustments	813.63	6755.07	6688.56	8269.52	8249.45
Prior period adjustments	(455.72)	(58.90)	(534.38)	(405.50)	(95.64)
Profit before tax & extraordinary items of income	357.91	6696.17	6154.18	7864.02	8153.81
Extraordinary items of income (reimbursement by Govt. of losses incurred on rural telephony operations)	2300.00	2300.00	1765.90	582.96	--
Profit before tax	2657.91	8996.17	7920.08	8446.99	8153.81
Tax provision	1213.46	3019.64	(2263.21)*	(492.71)*	347.94
Profit after tax	1444.45	5976.53	10183.29	8939.69	7805.87
Dividend (inclusive of tax)	250.00	318.01	1337.88	1339.79	1359.84



It would be seen that there was a decrease in profit after tax for the year ending 31 March 2007 compared to the previous year's profit, mainly on account of

decrease in Income from services and Extraordinary income.

* Figures in brackets denote excess tax provisions written back

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

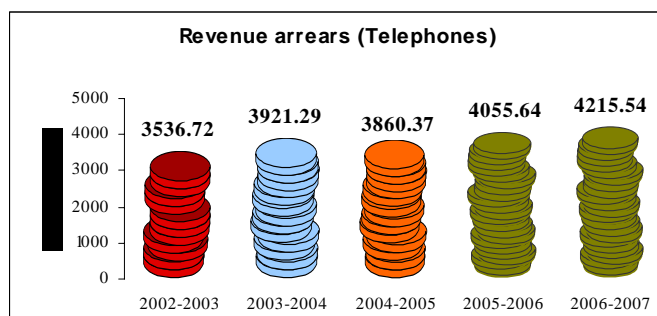
Based on the supplementary audit conducted by CAG subsequent to the audit of the financial statements for the year 2006-07 by Statutory Auditors, comments were issued on accounts of the Company. The company had overstated its Profit for the year by Rs 905.36 crore. It was also observed that no appreciable action was taken by the Company on the following persistent irregularities despite repeatedly being commented by the Statutory Auditors since the first account of the Company for the year 2000-01:

- No confirmation on the ownership and value of net assets (including contingent liabilities) taken over from DoT as on 1st October 2000.
- No confirmation on DoT balances on current account recoverable/payable shown in the accounts had been produced.
- Non-preparation of bank reconciliation statements by some units.
- Verification of fixed assets and other items of inventory was not being carried out or not being properly documented in a significant number of circles.

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 2007 is given in the following table:

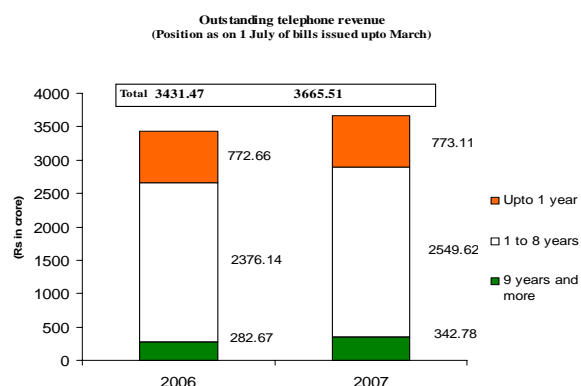
(Rs in crore)						
Year	Arrears as on 1 April	Demand raised during the year	Total Demand (2+3)	Amount collected during the year	Arrears as on 31 March (4-5)	Arrears in percentage (6/4)
1	2	3	4	5	6	7
2002-03	3547.93	22102.30	25650.23	22113.51	3536.72	13.79
2003-04	3536.72	23995.97	27532.69	23611.40	3921.29	14.25
2004-05	3921.29	22794.08	26715.37	22855.00	3860.37	14.45
2005-06	3860.37	21526.72	25387.09	21331.45	4055.64	15.98
2006-07	4055.64	18189.59	22245.23	18029.69	4215.54	18.95



At the end of March 2007, the revenue arrears on account of telephone services increased to Rs 4215.54 crore (18.95 per cent) as compared to Rs 3536.72 crore (13.79 per cent) at the end of March 2003. In fact, the

arrears over the five years 2002-2007 increased by 19.19 per cent, but demand raised had decreased by 17.70 per cent. The amount collected also declined from Rs 22113.51 crore to Rs 18029.69 crore during the years 2002-2007.

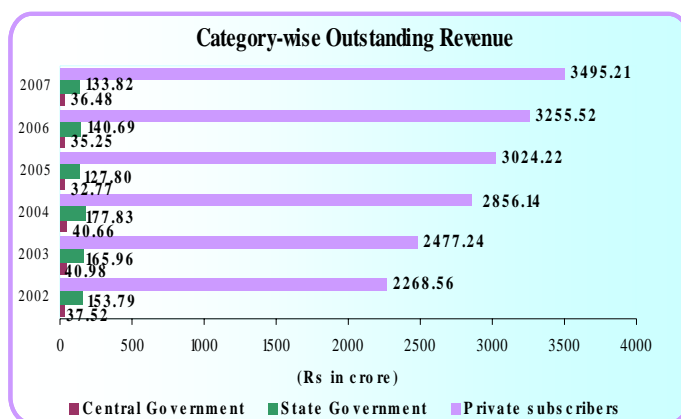
1.5.2 The arrears of telephone revenue of Rs 4215.54 crore came down to Rs 3665.51 crore at the end of June 2007 for the bills issued upto March 2007. Age-wise break up of the outstanding amount is given in the adjacent chart. An amount of Rs 2892.40 crore (as of 1 July 2007) was outstanding for one or more years which constituted 78.91 per cent of the total outstanding revenue.



1.5.3 Category-wise break up of total telephone dues between June 2002 and June 2007 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
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
2006-2007	36.48	1.00	133.82	3.65	3495.21	95.35



An amount of Rs 3665.51 crore was outstanding against various categories of telephone subscribers at the end of June 2007. Out of the total outstanding amount, 95.35 per cent was outstanding against private subscribers, 1.00 per cent against Central Government departments and 3.65 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 239.69 crore. BSNL should make concerted efforts to recover the huge outstanding amount from the private subscribers.

1.5.4 Arrears of rent on telephone and telegraph circuits

The position of arrears of revenue on renting of telephone and telegraph circuits to the various categories of subscribers is indicated in the following table:

Circuits (telephones and telegraph)						
						(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)	Arrears in terms of percentage (6/4)
1	2	3	4	5	6	7
2002-03	203.07	514.48	717.55	428.41	289.14	40.30
2003-04	289.14	583.28	872.42	502.43	369.99	42.41
2004-05	369.99	567.76	937.75	538.30	399.45	42.60
2005-06	399.45	464.60	864.05	474.07	389.98	45.13
2006-07	389.98	636.08	1026.06	568.92	457.14	44.55

The revenue arrears for collection in respect of circuits had gone up from Rs 289.14 crore in 2002-03 to Rs 457.14 crore in 2006-07. However, there is marginal improvement in the recovery of revenue arrears during 2006-07 as compared to previous year. This is due to the fact that there has been substantial increase in the demand raised during the year 2006-07 as compared to 2005-06.

The arrears of telephone revenue of Rs 457.14 crore in respect of circuits came down to Rs 365.00 crore at the end of June 2007 for the bills issued upto March 2007.

1.5.5 Age-wise break up of the amount outstanding in respect of circuits on 1 July 2007 as compared to the previous year is given in the following table. An amount of Rs 257.12 crore (as of 1 July 2007) was outstanding for one or more years which constituted 70.44 *per cent* of the total outstanding revenue.

Rent for communication circuits		
Period	2005-06	2006-07
Upto 1997-98	52.50	36.37
1998-99 to 2005-06	208.59	220.75
2006-07	101.16	107.88
Total	356.60	365.00

1.5.6 Total arrears of revenue of over Rs 4030.51 crore (telephone: Rs 3665.51 crore and circuits: Rs 365.00 crore) at the end of June 2007 in respect of telephone and telegraph services have an adverse impact on the financial health of a commercial undertaking like BSNL.

1.6 Manpower

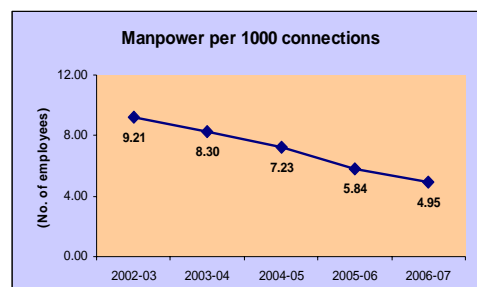
The total manpower of the Company at the end of each of the five years ending 31 March 2007 is given in the following table:

Year	Group A	Group B	Group C	Group D	Industrial workers	Total manpower	Daily Rated Mazdoors
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*	7600	54257	213054	48319	3718	326948	3648
2006-07	7533	52109	211822	45259	3783	320506	3423

There was a marginal decrease in the manpower during 2006-07 compared to the previous year except in case of industrial workers, under which manpower increased to the extent of 1.75 per cent.

1.7 Productivity

The productivity per thousand telephone connections including WLL and cellular mobile telephone connections (i.e. the ratio of employees per thousand telephone connections) of the Company for the year 2002-03 was 9.21, which improved to 4.95 during 2006-07.



* Figures have been recasted by the Management.