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BSNL - the undoing of a giant

By Kunal Kumar Kundu

State-owned Bharat Sanchar Nigam Ltd (BSNL), India's largest telecommunications company and its third-largest mobile-phone operator, is showing all the signs of going the way of struggling government-run Air India, which has had to crawl cap in hand for a state bailout to survive.

The signs of sickness are all too obvious, led by bloated payroll costs. BSNL's salaries now account for about 25% of revenue, compared with rival Bharti Airtel's 5%, after rising at an annual compounded rate of 21.5% per annum between the financial years ending March '02 and March '08. That far outpaces revenue gains, which in the same period increased at a compounded 5.53% per annum. The figure masks a decline in revenue from March '06 until a turnaround in the 12 months to last March.

The disparity between BSNL's revenue and salary cost echoes a mismatch at Air India, which is seeking a US\$2 billion government bail out after years of letting its total salary cost spiral out of control.

BSNL has managed to produce a decent profit thanks to income from outside its main business - amounting to more than 65% of net profit in the 12 months to March '07 and keeping the company out of the red the following year.

BSNL, by keeping about 400 billion rupees (US\$8.3 billion) cash idle in bank deposits, earned interest income 40 billion rupees in 2007-08. Profit after tax was only 30 billion rupees.

The company's finances deteriorated even further in the year to March '09. Revenue increased marginally to 350 billion rupees, but net profit tumbled to 5.75 billion rupees, even after interest income jumped to 39 billion rupees.

Available information suggests that, in the current year, even interest income will not be sufficient to keep the company in profit, with analysts forecasting a loss of 45 billion to 50 billion rupees as salary cost jumps by about 25 billion rupees.

The company, once regarded as one of the government's crown jewels, is now one of the top candidates for disinvestment this year.

Rival private sector players are showing what can be done with their enviable growth rates. As of June, India's total mobile subscriber base was 315.78 million. Bharti, which has signed up just under one-third of these, with 102.37 million subscribers, reported a net income of 25.2 billion rupees in the three months to June 30, 24% up on a year earlier, on revenue of 99.4 billion rupees.

BSNL, with about 49 million subscribers, or a 15.5% share, trails Vodafone Essar's 24.2% share, and is being strongly challenged by Idea Cellular, which has a 14.9% share and made 3 billion rupees profit after tax in the three months to June 30.

Bharti is also in the running for a \$2 billion loan, but in this case for expansion rather than as a bailout. The company wants the loan from State Bank of India to pursue a merger with South Africa's MTN Group.

Bharti plans to spend as much as \$3.5 billion this year on extending its reach, Akhil Gupta, deputy chief executive officer of parent Bharti Enterprises Ltd said last month, Bloomberg reported.

BSNL's potential is also enormous, but it has consistently lost [market share](#) in its fixed-line business as well as in the mobile sector. An abominable quality of service and increased options from the private sector have led to a drastic fall in the company's landline subscriptions, which had dropped to below 29 million by June from 35.1 million in 2006.

BSNL's revenues from landline connections has crashed by more than 45% in five years - to 115.05 billion rupees in 2008-09 from 228.14 billion rupees in 2004-05.

In the mobile sector, Bharti continues to gain market share while BSNL lost its second ranking position after 2003.

BSNL is being held back by continuous political interference. Former IT and telecom minister Dayanidhi Maran, aware of the challenge mobile telephony was presenting fixed-line business, sought to tender 45 million mobile lines three years ago, which would have opened up some opportunities for the state operator. Soon after finalization of the order, Maran was replaced by A Raja, who scrapped the order.

A later tender process then fell apart after a rejected vendor took BSNL to court questioning the rejection on technical grounds. While BSNL's expansion plans got bogged down by litigation, new private players entered the mobile market, creating yet more competition.

More recently, the company's efforts to develop a WiMax wide-range broadband mobile service fell flat after five of the bidders for the tender turned out to be fake. According to the Joint Forum of BSNL Associations, the needle of suspicion points towards a senior government official.

As its rivals expand, BSNL has issued no new major contracts for mobile networks and equipment during the past two years, although their existing networks are running at near full capacity.

This again echoes Air India's plight, which had to wait for over a decade to expand its fleet as successive governments dragged their feet on giving the go-ahead for the necessary financing.

The performance audit report (Report No. PA 27 of 2009-10) on BSNL submitted by the Comptroller & Auditor General (CAG) further brings out the company's deficiencies.

The audit observed systemic deficiencies in planning, procurement of equipment and stores, quality of telephone services, and execution and monitoring of long-distance projects. It also found compliance deficiencies, which undermined the overall performance.

Some of the observations merit closer examination.

Creation of huge transmission media capacity without demand: Transmission Media Planning guidelines issued in March 2005 by the company provided for assessing demand for media requirement based on three times the actual number of connections as of December 2004. This resulted in tripling of media capacity by December 2007.

Actual demand for telephone connections did increase but only by about 53%, to about 69 million by December 2007 from 45 million. Even then, provision was made for a further increase of transmission media under new planning guidelines covering 2008-2010, to meet a forecast capacity of 191 million telephone connections by December 2010.

BSNL claimed that the transmission network was built keeping in mind long-term demand, yet auditors found a decline in basic telephone connections and no appreciable increase in broadband connections, which stood at 2.03 million connections as of 31 March 2008.

Inadequate forecast of demand for taking up new projects: An audit scrutiny of records revealed that new projects were identified without reviewing utilization of existing capacity. Details of capacity utilization of completed projects were also not available with the respective deputy general managers. Thus, the major requirement of assessment of existing facilities while formulating project plans had not been complied with.

Inadequate control mechanism and management information systems (MIS): Audit checks revealed that no consolidated database/MIS of projects planned, in progress, or completed was maintained for planning and monitoring projects.

Execution of work without inviting tenders: In case of a particular project, open tenders were not invited for the work to ensure competitive rates. Instead, the work was done irregularly by contractors working on other sites.

Non-completion of projects due to delayed procurement of equipment: Procurement of major telecom equipment was carried out centrally by headquarters, based on consolidated demand put up by the a state or a metropolitan center as laid down by the procurement manual.

Audit scrutiny of the material management and planning wings of headquarters revealed that during 2003-04 to 2007-08, requirements for 5,224 pieces of equipment of various categories were placed and finalized. Against this, 3,653 pieces of equipment were approved and only 1,603 were actually procured during 2003-08.

Actual procurement of equipment by headquarters was only 31% of demand. These delayed procurements resulted in non-completion of 66 projects (out of 153 projects selected by audit), having a total outlay of 1.75 billion rupees, which were sanctioned during 2003-04 to 2007-08 pertaining to a few selected regions.

Lack of budgetary control: Audit scrutiny found numerous examples of unbudgeted and unallocated expenses.

Loss of estimated revenue due to delays in execution of projects: Audit scrutiny of records pertaining to execution of various projects revealed that commencement, completion and commissioning of 294 projects during 1999-00 to 2007-08 were delayed for periods ranging from one month to seven years resulting in loss of estimated revenue of 6.33 billion rupees.

Delay in commissioning these projects was attributable mainly to delayed/non-receipt of equipment, non-allocation of satellite frequency, delays in obtaining permission from different authorities and lack of coordination.

The above observations clearly demonstrate the inability of BSNL to flourish in a competitive environment, hobbled by its own inefficiencies and external interference. The very fact that the newly appointed IT and Communication Minister A Raja was forced down the throat of the government by one of its coalition partners, despite the minister having a very poor performance record in the previous cabinet, exemplifies the extent of political interference the company has to bear.

BSNL's race toward the bottom, therefore, does not come as a surprise.

Kunal Kumar Kundu, a former senior economist with a leading bilateral chamber of commerce in India, now works with the Knowledge Service Division of Infosys BPO Ltd. He has a Masters in Economics with specialization in econometrics from the University of Calcutta. The author here is expressing his personal views.

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