

Corporate Planning & Monitoring Cell,  
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**भारत संचार निगम लिमिटेड**  
(भारत सरकार का उपक्रम)  
**BHARAT SANCHAR NIGAM LIMITED**  
(A Govt. of India Enterprise)

No: 1-207/2010/CP&M/

Dt: 22/03/2011

To,

All BUs Head - Director (CM) / Director (CFA) / Director (Enterprise) / ED (NB)  
Director (HR) / ED (Finance) / ED (CN)  
PGM (Regulation)

**Sub: Compliance to the Minutes of 86<sup>th</sup> meeting of the Board for Reconstruction of Public Sector Enterprise (BRPSE) held on 21.12.2010**

**Ref:** This office Letter No 1-207/2010/CP&M/31 Dated 27/12/2010 (Copy available on Intranet)

1. Kind attention is invited to the letter under Reference whereby it was indicated that the review meeting of BSNL's physical and financial performance along with projected performance for 2011-12 was carried out by Board for reconstruction of Public Sector Enterprise (BRPSE) on 21.12.2010.
2. The meeting focused on discussion on key challenges faced by BSNL and major initiatives taken by BSNL to turn around the company. In this regard, a presentation was given by BSNL. In the end it was indicated that *"With these initiatives of increasing revenues and reducing cost, it is expected that BSNL will turnaround in next two years"*
3. The key points discussed in the meeting along with follow up action to be done by respective Business units was communicated vide letter under Reference. It is constrained to note that even after lapse of around three months, no feedback has been received from any of the business units.
4. The minutes of the said meeting has now been issued by BRPSE and same is placed at **Annexure - I**.
5. The key recommendations made by BRPSE along with units responsible for its compliances are given below.

**4.1 Recommendation 1 (Para 2.10 and Para 2.18 (iii)):** *"The Board therefore, felt that the company has to take drastic steps like rationalization of manpower through VRS, roll back of superannuation age to 58 years, below Board level, freeing /reducing allowances, outsourcing, to reduce the manpower so that its costs are commensurate to the present trends in the telecom industry in order to survive in the market and to make operations profitable"*

**Action By:.....Director (HR) / GM (Corp. Rest.) / Sr GM (Estt.) / Sr GM (Personnel)**

**4.2 Recommendation 2 (Para 2.11 Part 1):** *“The Board further observed that the greatest weakness of the Company i.e. vast wireline infrastructure spanned across the country can also be viewed as its greatest strength and can be leveraged by the company as an opportunity to its advantage to augment revenue in different forms, with value added services by focusing on broadband”*

**Action By:...** Director (CFA) / Sr GM (NWP-BB) /Sr GM (NWP-CFA)/ Sr GM(BP-CFA)

**4.3 Recommendation 3 (Para 2.11 Part 2):** *“The Board felt that the company should, in this direction, expedite its efforts in modernizing its conventional infrastructure to next generation network, to improve its revenue”*

**Action by:.....** Director (CFA) / Sr GM (NWP-CFA)

**4.4 Recommendation 4 (Para 2.12):** *“The Board observed that there is “inadequacy/deficiency of management” in the company in (i) transforming / re-orienting the organization, (ii) assessing its capabilities, (iii) identifying the market opportunities, (iv) pro-activeness to adapt to market changes, be it in business model, technology, tariff / price , consumer needs / service, new products & plans, which need to be addressed immediately. The company also needs to develop appropriate commercial / business strategy / acumen to compete in the changed environment.”*

**Action By:.....**All BUs Head / BP-CM / BP-CFA / BP-Enterprise

**4.5 Recommendation 5 (Para 2.13):** *“The Board noted that there is general perception of deficiency in quality of service among the consumers. While private players have improved customer service by redressing grievances, the mechanism for redressal of customer grievances in BSNL is inadequate and tedious. The Board also noted the steps being taken by BSNL but observed that these are to be implemented on priority to restore customer confidence in the services of BSNL, which is vital for retaining customers and enhancing numbers”*

**Action By: .....**Director (CM) /Director (CFA)/Director (Enterprise) / Sr GM (NWO-CFA) / Sr GM (NWP-BB) / Sr GM (NWO-CM) / Sr GM (NWO-CDMA/WiMAX) / Sr GM (EB-I) / Sr GM (EB-II) / Sr GM(LC)

**4.6 Recommendation 6 (Para 2.14 wrongly numbered as 6.14):** *“BSNL should immediately market 3G services, as it has pan India presence which its competitors did not have”*

**Action By: .....** Director (CM) / Sr GM(NWP-GSM-I) / Sr GM (BP-CM)

**4.7 Recommendation 7 (Para 2.15):** *“.....BSNL is also fulfilling the country’s strategic needs to provide a reliable network/ telecommunications to remote and other sensitive areas. The cost of providing these strategic needs could partially be borne by Government of India to the extent of un-recovered costs for provisions of such services in strategic and sensitive areas”*

**Action By:.....** ED (Finance) / PGM (Regulation)

**4.8 Recommendation 8 (Para 2.18 (ii)):** *“The Board advised D/o Telecom and BSNL to submit a cogent revival / restructuring plan for BSNL within a period of 4 months for the consideration of the BRRPSE,*

*incorporating business plan as well as strategy for sustainable growth of the company, taking into account the above suggestions and observations of the Board. The plan should be based on the SWOT analysis of the Company and, inter-alia include the merger of MTNL and BSNL”*

**Action By:..... All BUs Head / ED (F) / PGM (CP&M)**

**4.9 Recommendation 9 (Para 2.18 (iii)):** *“Steps may also be taken to reduce the cost on maintenance of infrastructure and capitalize its surplus assets including land and building”*

**Action By:..... All BUs Head / PGM (Electrical) / PGM (Civil)**

**4.10 Recommendation 10 (Para 2.18 (iv)):** *“BSNL may divide its activities into strategic and non-strategic. D/o Telecom may seek Government support to fund strategic non-recoverable cost to ensure sustainable growth of BSNL.”*

**Action By: ..... All BUs Head / ED (F) / PGM (CP&M)**

**4.11 Recommendation 11 (Para 2.18 (v)):** *“The Board further advised the D/o Telecom / BSNL to prepare timelines for the implementation of the various measures enumerated by CMD, BSNL for improving its performance. The plan translating into financial numbers should lay down the milestones, with accountability and responsibility at suitable levels, in order to complete them in the prescribed time frame”*

**Action By:..... All BUs Head**

**4.12 Other Recommendations:** In addition, BRPSE has also recommended on various policy matters such as “... Taking over of ITI.....” vide Para 2.16 & Para 2.18 (i) and “....merger of the both entities i.e. BSNL & MTNL (at the earliest)....” Vide Para 2.17..

**Action By: .....DOT**

**5 All concerned are requested to provide a Action Taken Report on the various recommendations made by BRPSE on priority positively by 31/03/2011..**

**Encl:** As above (Minutes of the 86<sup>th</sup> meeting of BRPSE)

*R.N.Padukone*

**(R.N.PADUKONE)**

**Pr. General Manager (Corporate Planning & Monitoring)**

**Copy To:**

[1] CMD BSNL for information please

[2] ED(CA) for information please

[2] All PGMs / Sr GMs of Corporate Office for necessary action please - PGM (Regulation) / Sr GM (BP-Ent) / Sr GM (BP-CM) / Sr GM (BP-CFA) / Sr GM (CMTS – Infra) / Sr GM (BFC&I) / Sr GM (CA) / Sr GM (BBF) / GM (EB – I) / GM (EB – II) / Sr GM (CNP) / Sr GM (CNO) / Sr GM (LC) / Sr GM (NWP-GSM-I) / Sr GM(NWP-CDMA/Wi-Max) / Sr GM (NWO-CM) / Sr GM (NWO-CDMA/Wi-Max) / Sr GM (NWP-BB) / Sr GM (NWO-CFA) / Sr GM (NWP-CFA) / Sr GM(NWP-IT-CFA) / GM (CIT) / Sr GM(Trg) / Sr GM (Estt.) / GM (Corporate Restructuring) / GM(SR) / GM (Infra-Sales) / PGM (Civil) / PGM (Electrical)

प्रधान संचारव्यवस्थापक (सी.पी.ए. एवं एम.)

Principal G. M. (C P & M)

डा. सं./Dy. No. 196

दिनांक/Date 07-3-2011

File No: 10-16/2010-SU.I

B. S. N. L. Co., New Delhi

Government of India

Ministry of Communications & IT  
Department of Telecommunications  
PSU Division

**IMMEDIATE**



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Sanchar Bhavan, New Delhi  
Dated 1<sup>st</sup> March 2011

To,

✓ The CMD,  
Bharat Sanchar Nigam Limited (BSNL),  
Corporate Office,  
Janpath, New Delhi.

Subject: 86<sup>th</sup> Meeting of the Board for Reconstruction of Public Sector Enterprises (BRPSE) to review the present status of performance and financial position of Bharat Sanchar Nigam Limited (BSNL) held on 21.12.2010-Forwarding of Minutes of the Meeting- regarding.

Sir,

I am directed to enclose herewith a copy of O.M. No. BRPSE/2 (86)/2010-dated 11.01.2011 the subject mentioned above for necessary action. It is further intimated by BRPSE vide O.M. No. BRPSE/2 (86)/2010-dated 15.02.2011 (copy enclosed) that extract of the minutes of the 86<sup>th</sup> meeting held on 21.12.2010 in respect of BSNL issued vide aforesaid O.M. dated 11.01.2011 has been confirmed by the Board in its 87<sup>th</sup> meeting held on 27.01.2011.

2. You are requested to take further necessary action and intimate periodically the progress made in the matter for apprising to BRPSE.

Yours faithfully

*[Signature]*  
(Sanjeev Gupta)  
Director (PSU-I)

Tele: 23036019/23372494.

Encl.: As above.

Copy (along with a copy of aforesaid O.M. dated 11.01.2011 and 15.02.2011) to:

Member (Finance), Telecom Commission

Encl.: As above.

*Progress Report?*

*7/3*

*Addl Gm (CP&M)*

*As discussed with Addl Gm. Sh. Arvind Bajaj meeting will be attended by you. Please any help is required, P.I. discussion 9.1.11*

*Urgent) Time bound -*

*J.R. Meena,*  
*Sh. Ravi Shankar*

*P.I. & prepare the progress report.*

*And*  
*09/02/11*

*Addl. Gm (CP&M)*

*Important for n/a on 'A'*  
*PGM (CP&M)*

*7/3*

*ED/CA*  
*Please put up action plan on the recommendations of the Board*

*[Signature]*  
*5/3*

**Extracts of the Minutes of the 86<sup>th</sup> meeting of the Board for Reconstruction of Public Sector Enterprises (BRPSE) held at 11.30 AM on 21.12.2010 (Tuesday) in Board Room, ITDC Ltd., Core-8, 6<sup>th</sup> Floor, 7, SCOPE Complex, Lodhi Road, New Delhi**

**Present:** from the BRPSE:

1	Dr. Nitish Sengupta	Chairman
2	Dr. T.S. Vijayaraghavan	Member
3	Shri Bhaskar Chatterjee	Ex-officio Member & Secretary, D/o Public Enterprises
4	Smt. Kalpana Mittal Baruah	Joint Secretary, D/o Disinvestment representing Ex-officio Member & Secretary, D/o Disinvestment
5	Shri U. Chatterjee	Deputy Secretary, D/o Expenditure representing Ex-officio Member & Secretary, D/o Expenditure
6	Shri Malay Srivastava	Joint Secretary, D/o Telecommunication, representing Special Invitee & Secretary, D/o Telecommunication
7	Mrs. Stuti Kacker	Secretary, BRPSE

**Also present:**

1	Smt. Vijayalakshmy K. Gupta	Member (Finance), D/o Telecommunication
2	Shri V.K. Jindal	Director, Deptt. of Public Enterprises
3	Shri P Samba Siva Rao	Deputy Director, Deptt. of Public Enterprises
4	Shri Gopal Das	CMD, Bharat Sanchar Nigam Ltd.(BSNL)
5	Shri R. Wadhwa	Director(Consumer Fixed Access),BSNL
6	Shri R. K. Agarwal	Director(Consumer Mobility & Enterprise),BSNL

Chairman, BRPSE welcomed the members and initiated discussion on the agenda items.

**2. Agenda Item No.5: Review of the present status of the performance and financial position of Bharat Sanchar Nigam Ltd.(BSNL) and its future outlook.**

2.1 The Board considered the status Note on the present status of performance and financial position of Bharat Sanchar Nigam Ltd. (BSNL) and future outlook as submitted by BSNL, vide its letter dated 9.12.2010. Shri Gopal Das, CMD, BSNL made a presentation before the Board. The details of deliberations are given below:

2.2 CMD, BSNL informed the Board that BSNL was formed in October, 2000 by corporatisation of the erstwhile Department of Telecom Services and entrusting its function of providing telecom services across India, excluding Delhi & Mumbai. BSNL is an integrated telecom service provider which provides services in the areas of landline, broadband, mobility, data circuits & managed services in the form of voice, data and video. CMD further informed that as on 31.10.2010, BSNL has a customer base of 106.78 million (26.04 mn landline, 75.02 mn GSM, 5.72 mn WLL) and 8.53 mn broadband customers. It has 38,330 digital exchanges and 6.55 lakh route of optical fibre across the country. He also informed that BSNL has a significant presence in rural areas with 13.7 mn rural landline & WLL customers; 96% villages are covered with VPTs; 65% villages are covered with mobility services; 28% with broadband. BSNL has also deployed its Wi-Max in rural India (7500 BTS).

2.3 CMD, BSNL stated that the Indian telecom market scenario is characterized by (i) significant shift from fixed to mobile, voice becoming a commodity with massive price erosion, (ii) severe competition with around a dozen operators with international players, (iii) severe price competition leading to falling of tariffs, (iv) transition from technology led business to consumer business. He further stated that future growth of Indian telecom industry lies in data based services. He further apprised that BSNL stood 2<sup>nd</sup>, on the basis of gross revenue and has a market share of 17.22% as on 30.9.2010. It has a market share of 73.51 % in wired line (1<sup>st</sup> position) with 26.04 mn no. of telephones and 11.42 % in wireless segment (5<sup>th</sup> position) with 80.74 mn no. of telephones.

## 2.4 Financial performance of BSNL during the last 5 years and projected performance

### 2.4.1 Segment wise revenue of BSNL

(Rs. in crores)

	2005-06	2006-07	2007-08	2008-09	2009-10	CAGR% (2009-10 over 2005- 06)	CAGR% (2009-10 over 2007- 08)
Telephones(excl WLL)	14527	12098	10109	8049	7518	-15	-14
PCO	5894	4507	2559	1125	750	-40	-46
Operators receipts	7045	6146	5656	4305	2978	-19	-27
Cellular	6434	9265	10530	9828	9761	11	-4
Wireless in Local Loop(WLL)	482	568	618	636	575	5	-4
Broadband income	162	514	916	1756	2485	98	65
Leased line	530	513	757	960	1064	19	19
Other operating income-USO receipts	1766	1719	467	2075	2665	11	139
Miscellaneous services	1065	1006	1230	1535	118	-42	-69
Total income from services	37905	36336	32842	30269	27913	-7	-8

### 2.4.2 Financial performance of BSNL during the last 5 years and projected performance

(Rs. in crores)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11			2011-12
						MoU target	Actual upto 30.9.2010	expected	projected
Operating income	36139#	34616#	32360#	30269	27913	35500	13824	30338	35500
Other income	4038	5099	5694	5543	4133	3472	659	1400	1069
<b>Total income</b>	<b>40177</b>	<b>39715</b>	<b>38053</b>	<b>35812</b>	<b>32046</b>	<b>38972</b>	<b>14483</b>	<b>31738</b>	<b>36569</b>
Administrative, operating and other expenses	10497	10916	11117	11378	10199	12168	4521	8798	9355
Salaries & wages	7421	7309	8809	11364	13455	12759	6441	13113	14454
Other expenses	3523	3312	3151	2646	876	2545	1109	2400	2520
<b>Gross margin (PBDIT)</b>	<b>18736</b>	<b>18178</b>	<b>14976</b>	<b>10424</b>	<b>7516</b>	<b>11500</b>	<b>2412</b>	<b>7427</b>	<b>10240</b>
Depreciation	9377	9149	9696	8523	9197	8600	4822	9800	10025
<b>Gross profit (PBIT)</b>	<b>9359</b>	<b>9029</b>	<b>5280</b>	<b>1901</b>	<b>-1681</b>	<b>2900</b>	<b>-2410</b>	<b>-2373</b>	<b>215</b>
Interest	1090	779	864	444	351	501	129	227	838
<b>Expenses</b>	<b>31907</b>	<b>31466</b>	<b>33637</b>	<b>34355</b>	<b>34078</b>	<b>36573</b>	<b>17022</b>	<b>34338</b>	<b>37192</b>
Prior period adj.	-406	-95	35	-186	-166	0	18	0	
Extraordinary items(net)	583								
<b>PBT</b>	<b>8447</b>	<b>8154</b>	<b>4451</b>	<b>1271</b>	<b>-2198</b>	<b>-2399</b>	<b>-2521</b>	<b>-2600</b>	<b>-623</b>
Taxes	-493	348	1442	696	-375	905	0	125	0
<b>Net profit</b>	<b>8940*</b>	<b>7806*</b>	<b>3009</b>	<b>575</b>	<b>-1823</b>	<b>1494</b>	<b>-2521</b>	<b>-2725</b>	<b>-623</b>
No. of employees	326948	320506	308086	299840	292100	278437	286897	282294	271002

\*Excluding profit on sale of assets

# Excluding USO receipts

2.5 CMD, BSNL explained the performance of the Company and stated that gross sales have fallen 22.76% over 5 years from Rs.36139 crores in 2005-06 to Rs.27913 crores in 2009-10 and gross profit which was at Rs.9359 crores in 2005-06 has turned into gross loss of Rs.1681 crores in 2009-10. Consequently, the Company has incurred net loss of Rs.1823 crores in 2009-10, as against the net profit of Rs.575 crores in 2008-09. As per projections made, the Company is expected to incur losses till 2011-12. He informed the Board that the reasons for fall in sales revenue were (i) decline in land line revenue from Rs.20421 crores in 2005-06 to Rs.8268 crores in 2009-10, due to substitution of fixed lines with mobile by consumers and fall in tariff, (ii) stiff competition in mobile segment leading to limited /lack of growth, (iii) removal of subsidies, compensation like withdrawal of Access Deficit Charge, Universal Service Obligation fund contribution, reimbursement of licence fee. He further stated that the expenditure on the other hand had not come

down, mainly due to high manpower cost which is 42% of revenue as against industry average of 5-6%. He also stated that service in rural areas is as social obligation, even if economically un-viable and maintenance of legacy telegraph system have adversely affected the performance of the Company. He further informed that there was an outgo of Rs.18501 crores towards payment for 3G and BWA spectrum charges.

2.6 CMD, BSNL explained to the Board that BSNL has manpower of 2, 87,749 employees, with average age of 48.62 years, as against 3, 97,000 employees at the time of its creation. The manpower comprises of (i) 8015 in management cadre (3%), (ii) 48,420 in executive cadre (17%), (iii) 1, 86,290 in non-executive-Technical cadre (65%), (iv) 40,529 non-executive-support cadre (14%), and (v) 2495 in Industrial cadre (1%). He further apprised the Board that with the change in the technology and shift from fixed to mobile a large portion of manpower of BSNL has become irrelevant to the current requirements. The skills of majority of the manpower have also become outdated. However, BSNL, being a Government Company, has to maintain them on its roll. The age profile of manpower is given below:

#### Age profile of manpower of BSNL

Age group	<=24	25-29	30-34	35-39	40-44	45-49	50-54	55-58	59-60
% of manpower	1	3	4	4	9	26	30	19	4

2.7 CMD, BSNL informed the Board that to face competition/increase the market share, reduce cost and improve service efficiency, a number of steps have been initiated such as (i) redesigned organisation structure based on new verticals-consumer mobility, consumer fixed access, enterprise business & new businesses with emphasis on sales & distribution, marketing, IT enablement, customer care and after sales service, (ii) modernize the fixed line infrastructure to next generation network so as to provide (a) multiple access technologies, (b) migrating to IP network, (c) converge fixed and mobile with thrust on broadband penetration, through - DSL, 3G, Wi-Max, FTTH and EvDO technologies, to neutralize ongoing decline in landline revenue, (iii) leasing of bandwidth to other operators to reduce their total cost of ownership, (iv) focus on enterprise customers, (v) leasing of passive infrastructure (towers) to generate additional revenue, (vi) focus on data centre business by establishing 10 locations with capacity of 65000sq ft on revenue sharing model to provide managed services, web hosting, web collocation, cloud hosting to create new revenue streams, (vii) shift in business model from upfront CAPEX model to revenue sharing model, (viii) implementation of ERP, etc. He further stated that BSNL with its extensive pan India OPC network is well placed to execute the Government's proposed National Broadband Plan's envisaged creation of OFC network at national and state level to reach out to villages. He summed up that with these initiatives of increasing revenues and reducing cost, BSNL is expected to turnaround in next two years.

2.8 Member (Finance), D/o Telecommunication clarified that Government is reimbursing the USO charges to BSNL.

2.9 The Board noted that the operating income had fallen by 22.76% and manpower cost had increased by 81.31% during the last 5 years. The Board observed, that BSNL is one of the iconic CPSEs of the Government of India which had pioneered the spread of telecom services in the country. The Board expressed its serious concern over the declining performance, losses and its expectation to post losses till 2011-12. The Board noted that the drastic fall in total operating income of BSNL since 2005-06 and disproportionate increase in expenditure over the years had culminated into net loss in 2009-10. The Board observed that the gross profit of the Company was in fact negative in 2007-08, had there not been "other income" which is predominantly non-operating income in the form of interest on deposits.

2.10 The Board noted that the no. of wire line telephone connections have fallen from 354.23 lacs on 31.3.2006 to 278.31 lacs by 31.3.2010 and the no. of wire less telephone connections have increased from 197.36 lacs to 6954.50 lacs in the same period. The Board observed that while the revenue of the Company has been falling continuously due to change in technology, shift in

demand from fixed line to mobile, falling tariff, severe competition particularly in mobile segment, which rendered its principal infrastructure and manpower either underutilized or redundant. The Board also observed, that the Company is not only over headed with huge manpower, but also that the skill set of these employees (skewed towards conventional services, whose requirement is not only falling drastically) are also not suited to current requirement resulting in low productivity and high employee cost. The manpower cost constitutes 42% of the revenue of the Company, as against the industry average of 5-6%. The Board therefore, felt that the Company has to take drastic steps like rationalisation of manpower through VRS, roll back of superannuation age to 58 years, below Board level, freeing/reducing allowances, outsourcing, to reduce the manpower so that its costs are commensurate to the present trends in the telecom industry in order to survive in the market and to make operations profitable.

2.11 The Board further observed that the greatest weakness of the Company i.e. vast wire line infrastructure spanned across the country can also be viewed as its greatest strength and can be leveraged by the Company as an opportunity to its advantage to augment revenue in different forms, with value added services by focusing on broadband. The Board felt that the Company should, in this direction, expedite its efforts in modernising its conventional infrastructure to next generation network, to improve its revenue. This measure could go a long way in arresting the declining trend in landline revenue/ connections. The Company needs to re-orient its functioning to customer centric, to survive in the industry as the telecom sector transforms into consumer business.

2.12 The Board also observed the dichotomy in the organisation, that while key posts, 3 out of 6 posts including the post of CMD, have remained vacant at Board level, there has been surplus manpower below the board level. The Board observed that there is "inadequacy/deficiency of management" in the Company in (i) transforming/re-orienting the organisation, (ii) assessing its capabilities, (iii) identifying market opportunities, (iv) pro-activeness to adapt to market changes, be it in business model, technology, tariff/price, consumer needs/service, new products & plans, which need to be addressed immediately. The Company also needs to develop appropriate commercial/business strategy/acumen to compete in the changed environment. Failing which, the Company will, no doubt, fall in a vicious circle of falling revenue, low productivity, high cost, insufficient fund generation, shortage of working capital, perpetual losses. The Board also felt that BSNL could not take the advantage of First Mover of Roll Out of 3G services.

2.13 The Board noted that there is general perception of deficiency in quality of services among the consumers. While private players have improved customer service by redressing grievances, the mechanism for redressal of customer grievances in BSNL is inadequate and tedious. The Board also noted the steps being taken by BSNL but observed that these are to be implemented on priority to restore customer confidence in the services of BSNL, which is vital for retaining customers and enhancing numbers.

6.14 Regarding the payment of 3G spectrum charges, the Board noted that BSNL had itself agreed to match the highest bidder fee for the Circles. Further, it had been given First Mover Advantage but has not been able to en-cash it successfully. BSNL should immediately market 3G services, as it has pan India presence which its competitors did not have.

2.15 The Board also noted that Telecom is a strategic sector and strong PSU in this sector is must. BSNL is also fulfilling the country's strategic needs to provide a reliable network/telecommunications to remote and other sensitive areas. The cost of providing these strategic needs could partially be borne by Government of India to the extent of un-recovered costs for provisions of such services in strategic and sensitive areas.

2.16 The Board further noted that another manufacturing company Viz. ITI Ltd. is supplying its products to BSNL/MTNL and other government agencies. BSNL may consider taking over ITI, after freeing it from all liabilities, as a part of vertical integration process and may either merge it with itself or allow it as a separate subsidiary. BSNL may also take advantage of the accumulated losses of ITI Ltd. and obtain tax benefits.



2.17 The Board also observed that MTNL, operating only in two cities, was initially started to initiate the process of corporatization of government telecom services in the country. As total telecom service of the Government has now been corporatised, there is not any need to continue two separate entities for the same services in the country. The Board therefore felt the merger of the both entities i.e. BSNL & MTNL( at the earliest) would help leverage their capacities, reduce the fixed cost, duplication of facilities, better utilisation of infrastructure, enhance the competence, etc.

#### 2.18 Recommendations of the Board

2.18.1 The Board discussed the present status of the performance and financial position of BSNL and its future outlook submitted by the CMD, BSNL. The Board, while appreciating the efforts made by D/o Telecom/BSNL to improve the performance of BSNL, after taking into account all the relevant factors, recommended the following:

- (i) The Board strongly recommends the merger of ITI Ltd. with BSNL or its takeover by the BSNL as a separate subsidiary thereby ensuring strategic vertical integration. This should enable BSNL to combine service providing with manufacture of the products and thus emerge as a leading global player as some of the Chinese companies have done in recent times. ITI's product mix could be appropriately changed to enable it to produce mobile telephones and other products by bringing in the latest foreign technologies. ITI's accumulated losses may also help the BSNL to gain tax advantages. Similarly, there is no reason for the MTNL to continue as a separate entity. This could also be brought under BSNL as a subsidiary.
- (ii) The Board advised D/o Telecom and BSNL to submit a cogent revival/restructuring plan for BSNL, within a period of 4 months for the consideration of BRPSE, incorporating business plan as well as strategy for sustainable growth of the Company, taking into account the above suggestions and observations of the Board. The plan should be based on the SWOT Analysis of the Company and, inter alia, include the merger of MTNL and BSNL. The plan could also be appraised by independent consultant for greater clarity. PAM  
CPRM
- (iii) BSNL may include VRS plan to rationalize the manpower at worker and management level and also sources for funding its VRS plan. Steps may also be taken to reduce the cost on maintenance of infrastructure and capitalize its surplus assets including land and buildings. GM (Etho)  
HR.
- (iv) BSNL may divide its activities into strategic and non-strategic. D/o Telecom may seek Government support to fund strategic non-recoverable cost to ensure sustainable growth of BSNL. Dir. CFA/  
CM/EB
- (v) The Board further advised the D/o Telecom/BSNL to prepare timelines for the implementation of the various measures enumerated by CMD, BSNL for improving its performance. The plan translating into financial numbers should lay down the milestones, with accountability and responsibility at suitable levels, in order to complete them in the prescribed time frame. GM (Rec)  
CFA/CM/  
EB/
- (vi) The Board advised D/o Telecom and the Board of BSNL to closely monitor the performance of BSNL regularly so as to take timely corrective measure, for ensuring its continued growth.

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