Indian govt must define new role for BSNL, MTNL

Summary: *Once again, there is talk of merging the two struggling public sector telecom behemoths to revive their fortunes. But benefits won't begin to show till the government spells out a new role for them.*

By Swati Prasad for Inside India | May 10, 2013 -- 06:21 GMT (11:51 IST)

The Department of Telecom (DoT) has reinitiated the move to merge state-owned telcos Bharat Sanchar Nigam (BSNL) and Mahanagar Telephone Nigam (MTNL), in a bid to streamline operations and improve their profitability.

In a note prepared for the consideration of the Empowered Group of Ministers (EGoM) headed by Finance Minister P. Chidambaram, the DoT has said that both public sector undertakings (PSUs) faced stiff competition from pan-India private operators. The private players were in a position to extend benefits especially to enterprise and business customers, while the two PSU telco were not in a position to do the same.

"Merger of BSNL and MTNL into a national telecom service company may be considered for strategic and operational synergies," the DoT note to the EGoM said. This is part of the telecom ministry's plans to revive the two telecom companies (http://www.zdnet.com/in/is-it-too-late-to-privatize-mtnl-and-bsnl-7000014863/) .

Financial results for 2012-13 indicate BSNL would make a loss of 82 billion rupees (US$1.5 billon), while MTNL recorded a loss of 33.3 billion rupees (US$610 million) for the year up to December 31, 2012.

MTNL's net worth is likely to be eroded completely in the first quarter of 2012-13, while BSNL's net worth is in excess of 500 billion rupees (US$9.17 billion), most of which is locked in fixed assets.

Will a merger save state-owned telcos BSNL and MTNL?

DoT backs voluntary retirement schemes

One of the key problems facing the two PSUs is the rising employee costs. "Employee cost as a percentage of revenue is over 103 percent for MTNL and 49 percent for BSNL against the industry average of less than 5 per cent," the DoT note said.

The DoT has proposed short-term and long-term strategies to help the two PSUs fight competition from the private players. This includes making a one-time payment of 59.25 billion rupees (US$1.08 billion) to MTNL towards settling its pension liabilities. Pension contributes 86 percent of the salary costs at present and is expected to exceed salary costs by 2014-15. DoT has also backed BSNL's Voluntary Retirement Scheme (VRS) (http://www.zdnet.com/sharps-early-retirement-program-becomes-oversubscribed-7000007650/) to reduce the workforce by 100,000.

DoT said the VRS can be funded through various options, including from the money generated by selling land owned by the company or through interest-free loans by the government. The department has also suggested that government institutions and employees should be asked to use telecom services only from the two PSUs.

Need for clear action plan

This is not the first time the DoT is talking about reviving BSNL and MTNL. The proposal to merge the two companies was floated back in 2004. In 2007, it was put on the back burner after issues related to de-listing of MTNL shares and employee parity were raised.

Back in 2004, Sam Pitroda, currently advisor to the Prime Minister on Public Information Infrastructure and Innovations, had said the divestment of the government's stake was the only solution and asked the government to give them more autonomy by lowering its stake to below 51 percent. "Merger [of BSNL and MTNL] is not the only solution. You have to make them more independent. You have to sell the bigger piece to the public," he had said.

Apart from many other reasons, one of the biggest reason behind the financial mess (http://www.zdnet.com/in/stop-passing-the-buck-for-indias-telecom-mess-7000013505/) of the two PSUs is inefficiency. Both the PSUs have an outstanding arrears of 62.15 billion rupees (US$1.14 billion).

In fact, in 2010, a committee headed by Pitroda, had suggested a number of steps that could revive BSNL. This

included getting the best professionals from the market (at market rates), changing the board of BSNL, changing the procurement process, divesting 30 percent government stake, enhancing rural communications (http://www.zdnet.com/in/indian-govt-builds-mobile-towers-in-left-wing-extremist-blackspots-7000015122/) , hiving off tower-related infrastructure (http://www.zdnet.com/in/reliances-new-telecom-towers-may-double-as-street-lights-7000009758/) , hiving off the real estate assets and providing 30 million high speed broadband connections in the next three years.

Even today, these recommendations hold immense value for both the PSUs. What is even more important than merging the two PSUs is to spell out a new role for the merged entity. It's important to see how the merged entity will help the consumer, and in what ways can it service the consumer (http://www.zdnet.com/in/servion-telcos-now-focused-on-retaining-premium-customers-7000011615/) . The need clearly is of increasing broadband penetration in rural India.

It's high time the government had a concrete roadmap for the two companies. There is a need for political will. The more time the country wastes in taking action, the more damage we will cause to these two government-owned telcos.

*Topics: Telcos, Government, Networking, India*

About Swati Prasad

Swati Prasad is a New Delhi-based freelance journalist who spent much of the mid-1990s and 2000s covering brick-and-mortar industries for some of India's leading publications. Seven years back when she took to freelancing, India was at the peak of its "outsourcing hub" glory and the world of Indian IT, telecom and Internet fascinated her. A self-proclaimed technophobic, Swati loves to report on anything that's remotely alien to her--be it cloud computing, telecom, BPOs, social media, e-government or software and hardware, and also how high-tech sectors impact the Indian economy.

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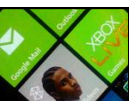
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