

MERGER OF MTNL & BSNL

Background :-

Mahanagar Telephone Nigam Limited (MTNL) was created on 1st.April,1986 with DOT's telecom network and services existed in the Delhi Telephones and Mumbai Telephones of the then DOT. Both the areas were very lucrative from the point view of the prospect of both growth and business when it was a part of PAN India telecom network and service in erstwhile DOT set up. MTNL was cash rich by birth but devoid of remaining part of PAN India network and service anymore. Thus by birth, MTNL was ill-born

Can any one imagine that a company in the Banking sector or Oil sector or Insurance sector or Aviation sector is restricted to operate only in two metro cities at the same time it survives effectively in the competition with its competitors that operate on PAN India basis ? Thus MTNL, as it was, was almost destined to die in course of time.

So long as there was enough fund inherited from the previous regime, neither DOT nor Government did care to think about the inevitable fate of MTNL .They were busy with using (or misusing ?) funds. Problem was perceived only when "water in the bowl touches the bottom."

BSNL was created on September 15, 2000 with DOT's telecom services of all over India barring Delhi and Mumbai. Thus mistake was repeated and this time, it is for BSNL.

DOT's telecom services were not restructured into the form of two separate CPSUs simultaneously. At first MTNL was created, then after almost 14 years BSNL was created. This was a fatal mistake to create two truncated entities i.e., MTNL and BSNL and in an undue phased manner.

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Thus both MTNL and BSNL are destined to live a sick life for some time and ultimately to die. It is a different matter that BSNL's breathing time will be longer than that of MTNL's, - true to the proverbial statement that dying time of an elephant is more than that of a sparrow even when sick.

Present scenario :

Both MTNL & BSNL are pulling on ill-health. One is more and the other is less. But both are moving almost in the same direction of desperate struggle to survive somehow. "Window-dressed" balance sheet can earn deceptive "profit profile" and invite clapping but it can not suppress the hard truth for long.

PROPOSAL FOR MERGER OF MTNL & BSNL CAME ON FORTH UNDER THIS BACKGROUND.THERE IS A GROWING REALISATION THAT IN THE REGIME OF CUT THROAT COMPETITION WITH ALL INDIA PRIVATE OPERATORS, GOVERNMENT OWNED OPERATORS ALSO NEED TO BE PAN INDIA IN ITS OPERATION AND MARKETING. THEY ALSO NEED TO HAVE ALL INDIA SEEMLESS NETWORK AND UNIFORM MARKETING STRATEGY ALL OVER. THIS IS NOT POSSIBLE IF INDIA IS DIVIDED INTO TWO AREAS AND OFFERED TO TWO DIFFERENT ENTITIES TO OPERATE IN THEIR RESPECTIVE AREA ONLY.

Efforts for Course Corrections:

The proposal for merger of these two state-owned telecom service providers as an attempt to course correction has been taken on hand by the successive Governments in the past. But ultimately it did not reach to the logical end yet thanks to the pressure lobby of the vested interests and for extraneous reasons.

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Again, under the regime of the present Government, the proposal is taken for consideration. **The present Government is mostly believed to be more keen to take prompt decision. In the language of Hon'ble Prime Minister "We don't defer, we decide to fix the problem"**. But despite this, the dateline set out by DOT this time in this respect has been allowed to lapse.

In the process of considering the proposal, IIM-Bangalore was entrusted to study and recommend measures for reviving both BSNL and MTNL. **IIM-Bangalore has opined that MTNL, in its present condition, can not survive beyond 2 years or even less.**

IIM-Bangaluru has recommended a number of options for DOT/Government to take a call for reviving of both MTNL and BSNL, and so as to achieve much needed synergy in the operation and marketing of services on PAN India basis for the Govt. owned company as well.

Options before DOT/Government :-

MTNL is in debt-trap. MTNL presently is to borrow fresh loan to meet the interest liability of old loans (approx. of Rs 16,500 Crores). There is no cash outflow for repayment of loan let alone fresh investment for maintaining and upgrading service. The growth rate in all items of services ,i.e., Basic Fixed line service, Cellular service and Broadband service is negligible. Spectrum purchased is lying idle as there is no fund to put it in use. Most conservative estimate of immediate need of investment of around Rs 1500 Crores to keep MTNL survive in an ICU situation is not available in any foreseeable future. In short, MTNL is breathing heavy on the verge of breathing last.

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Therefore, the option before DOT/Government, according to our view, is not that whether MTNL in its present form of entity will survive or not survive. The option is whether DoT/Government, in its best wisdom, wants to keep its strategic control of telecom services in Delhi and Mumbai in this strategic security situation as well as to keep checks and balance provision with it. Strategic Sale is no option as this is neither in the interest of the country nor in the interest of customers. Then what is that real option left ?

The hard reality is, the infusion of blood from time to time will not help to revive the terminally ill MTNL. Concrete course correction measure needs to be taken for getting rid of basic malady with which MTNL (also BSNL) was allowed to be born.

Our Suggestions :-

Our considered opinion is, the desired end purpose can be achieved only by straightway merger of MTNL and BSNL and for this, whatever interventions of DOT/Government are required on administrative and financial front, that must be done boldly and decisively. **THIS IS THE ONLY VIABLE OPTION FOR DOT/GOVERNMENT.** The other suggestions whatever are there before DOT/Government, are frivolous, ineffective and purposeless interim measures. This will simply prolong the issue.

Fall out issues :

DOT's taking over of the responsibility of MTNL pension has paved the way for such merger.

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BSNL is still 100% owned by the Government whereas MTNL is listed. There is some apprehension in BSNL on this account. In MTNL Less than 15% is individual holding. This may be acquired by the Government without much hassles. This requires one time investment by the Government of not even Rs 800 Crores. Thus delisting can be ensured.

The liability of debt of MTNL is insignificant in view of the size of operations and turn over of BSNL. This is totally outweighed when operational and marketing benefit followed by synergy of operation on PAN India basis is considered.

Another issue that is projected as a point of hindrance, is the discrepancy in some pay scales between MTNL and BSNL. This can be sorted out now with the intervention of DOT and helpful recommendations by the 3rd.PRC. The 3rd. PRC is presently in session. This matter can very well be taken with 3rd PRC by DOT and other stakeholders.

Concluding Para :-

Thus it is apparent that if DOT/Government wants, course correction in form of a merger is definitely possible without much hassle. The kind of interest and benefit that will cause to the Government owned company for its effective and competitive operation and thereby protecting the interests of both industry as well as individual customers must be understood and appreciated first. The other issues are important but certainly not as important as to be poised as pre-condition of merger. **The responsible quarters must realize that opposing the merger will only help the private operators in the field by way of eliminating checks and balance.** The private operators will have a "free run" as it was in the period prior to launching of mobile telephone service (GSM) by MTNL.