

A STUDY OF FINANCIAL HEALTH OF BHARAT SANCHAR NIGAM LIMITED – SURVIVAL OR SHUT DOWN

Krishna Kumar Kanoujiya

Research Scholar

Department of Commerce, University of Lucknow,
Lucknow

Dr. Sunita Srivastava

Research Guide & Assistant Professor

Department of Commerce, University of Lucknow,
Lucknow

Abstract

At present the Telecom sector is going through with very high competitive fluctuations. Cut throat competition has been seen in the market in last 4 to 5 years. There are four four major players in the market – Airtel, Vodafone – Idea, Reliance Jio, (private sector companies) BSNL MTNL (Government owned companies). Introduction of Reliance Jio with 4 G spectrum created keen competition in the market by providing free 4G data and call services in the introduction year. The intention of Reliance Jio was clear to wipe out the other players and create monopoly in the market which lead to shut down the business of other small companies such as Aircel, R.com etc. BSNL is also facing very tough time for its survival. This study focuses on the future of BSNL – Shut down or Revival. The company is incurring loss since last 9 to 10 years and loss has increased rapidly in last four years. Almost all major players posses 4G spectrum but BSNL does not which is one of the reason of increasing the loss in last in last 4 years. The loss of the company has reached to Rs. 7992 cr in FY 2017-18. The subscriber base and revenue share in the market has fallen drastically. The salary of BSNL employees for the month of Feb 2019 was delayed by 15 days which shows the company is facing poor financial health. Most of the fringe benefits have been stopped by the top management. Even the reimbursement of Medical bill and TA Bill have got delayed by 3 to 4 months. As per recent news in media, the government is looking all options such as shutdown, closure, privatization, revival etc. BSNL being a government owned company has the responsibility to make available Telecom Infrastructure thought the country. The company has done it successfully. There are various reasons behind the continuous loss such as very high employee benefit expenses to operation from revenue ratio, Not granting 4G spectrum by government, imprudent procurement of inventory, long delay in completing the projects, operating the loss making exchanges in remote areas etc. The revival of the BSNL is significant to ensure the continuous availability of Telecom infrastructure to the people. The private players are not obligated to provide connectivity in remote areas as the business at these places are not profitable. To ensure the social justice, It is the responsibility of the government to provide Telecom Infrastructure to every citizen which can be insured by a government company (BSNL) only. Defence, Foreign policy, and communication are three important factors for a nation. The security of the nation may be compromised if the defence communication is given in the hand of private sector. In natural calamities the communication becomes very significant, BSNL has saved many lives by restoring the services in time which are not obligatory by a private operator. BSNL ensures the competitiveness in the market. If BSNL may get shutdown and private operators may create a cartel and may provide services at very high rate which may not be afforded all class of people. People were charged by private operators for both incoming and outgoing calls for mobile services up to 2002 before the introduction BSNL mobile services. The recent merger of Vodafone and idea is only the glimpse of the future. BSNL has great potential in employment generation. The country is facing low employment rate. Its more than 60 percent employees going to retire in next 4 to 5 years. It can provide employment on large scale. The policies of governments has also lead towards the loss. Not granting 4G spectrum in time to BSNL is not justifiable as this sector is all about technology and fast data speed. How BSNL can compete with 3G to other private players who posses 4G spectrum technology. The government should recapitalize to BSNL and should grant 4G spectrum immediately to revive the BSNL.

Introduction

Communication is an important factor for the development of any country. It shrinks the distances and bring together people. At war time information is everything, and information can be traced by means of

communication which ultimately becomes the deciding factor in win or loose of a war. The important sectors of an economy such as Banking, insurance etc. are heavily dependent upon the telecommunication. Capital be transferred from one place to another through wires

using banking services which only possible due to telecommunication sector. The use of Internet in Administration has made significant contribution to bring the Sushasan in governance. It is called E- Shasan. It provides quick access to the remote areas of the country.

The Telegraph services was introduced in the year 1851 in India with which laid the foundation of present telecom sector. After independence in the year 1985 Department of Telecommunication (DOT) was formed under the ministry of communication. Bharat Sanchar Nigam Ltd. was incorporated on 15th September 2000 . It took over the business of providing of telecom services and network management from the erstwhile Central Government Departments of Telecom Services (DTS) and Telecom Operations (DTO), with effect from 1st October‘ 2000 on going concern basis. It is one of the largest & leading public sector units providing comprehensive range of telecom services in India.

In last two decades keen competition has been seen in Telecom sector. The sector was opened for private players after the economic reforms of 1991. Many private players such as Airtel, Idea Vodafone etc. including foreign companies have successfully entered Indian Telecom sector

Literature Review

Chhaya P.Patel, Asst.Professor & Smt .K. K. Patel (2014) concluded in their Research Article on the —study on Performance Appraisal System in BSNL‘ that practically there was no appraisal in the organization. To be an effective tool, it has to be on the continuous basis as in the absence of continuity, it becomes a redundant exercise. The very concept of performance appraisal should be marketed throughout the organization. Unless this is done, people would not accept it, be it how important to the organization.

Dr. Papori Baruah & Rashmi Baruah (2014) concluded in their Research Article —Telecom Sector in India: Past, Present and Future‘ that the growth and development of Telecom sector of India has made it a key contributor in India’s economic and social up gradation. Every functional division and service provider of Telecom Sector of the country is trying to provide world class telecom infrastructure in its area of operation

to give services to its customers and so, helping the country to progress in the global scenario.

Ms.Pritish, Dr.Taruna Saxena (2015) in their Research Article on —An Analysis of the Indian Telecom Industry‘ concluded that the Indian Telecom Industry contributes significantly to the overall socioeconomic development of India. It is an essential tool for the growth of the nation and the various telecom service providers offer voice and data services to the customers across different regions of the country including both urban and rural areas thereby facilitating the growth of this industry.

Anshu Gupta (2015) in his Research Article — Financial Performance Evaluation of Telecommunication with special reference to BSNL‘ concluded that the BSNL follows aggressive policy of managing liquidity & company has sufficient liquidity assets to satisfy its short term liabilities. After overhauling the five years balance sheets of BSNL and all conditions, the author concluded that BSNL is facing the capital problem because of which financial position of BSNL are affected. Financial position of BSNL was good in 2004 comparative to present year. Working process of BSNL takes long time because of which BSNL is not being able to progress. The earned profits were more in the year 2005 but year by year company is in a situation of downward profits. The profits of the company are decreasing year by year due to maintaining high liquidity.

An interim report by Prof. Rekha Jain , Prof. Vishal Gupta and Prof. Ajay Pandey, IIM A (published in Jan 2019) on ‘Revival or Restructuring of BSNL’ has analysed the financial health of BSNL on the following aspects – what should be the role of BSNL in the sector, on allocation of 4 G spectrum, challenges necessary to be addressed for revival/ restructuring of BSNL and steps to be taken for revival/restructuring of BSNL. The report has analysed the revenue, subscriber, technological trend . The report has given the recommendation for revival of BSNL by allocating 4 G spectrum, reduction of retirement age to 58 years implementation of VRS scheme which will reduce operational cost, Accelerating the assets transfer from DOT to BSNL, etc

Objective of the study :

- Role of BSNL in Indian Economy .
- To find out the reasons behind continuous loss to the BSNL.
- Revival or Shut down of the BSNL

(%)

Company	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Reliance Jio	-	-	-	-	-	-	-	-	12	18
Bharti Airtel	33	33	33	32	33	33	35	35	31	30
Vodafone	24	26	27	26	26	27	28	27	23	22
BSNL	28	25	23	21	21	18	14	14	13	12
Idea	15	16	18	20	21	22	24	24	21	19
Total	100	100	100	100	100	100	100	100	100	100

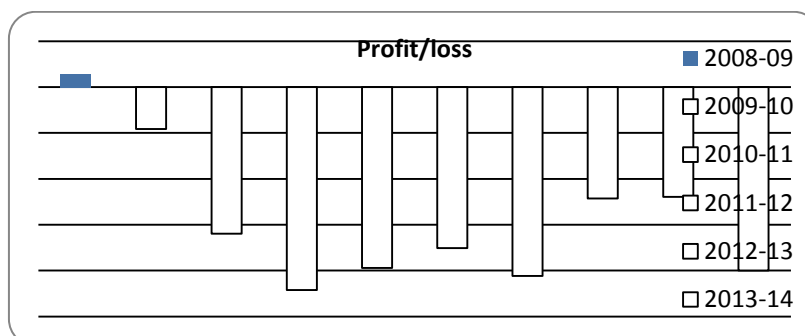
Table : Showing the subscriber market share by operation on 31st march.

The table shows that the market share of the BSNL has continuously decreased since 2008-09

BSNL being a state owned company has the responsibility to provide telecom services to the every individual of the country including remote areas. The company is incurring loss since last 7 to 8 years due to its high operating cost and competition in the market. More than 60 percent of its revenue is being spent on employees benefit expenses. The loss for the financial year 2017-18 has reached to Rs. **799,285 lakh**.

Table of Profit/ Loss since 2008-09(All figures in crore)

Year	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Profit/loss	575	-1823	-6384	-8850	-7884	-7019	-8234	-4859	-4793	-7992



It can clearly be seen that the company had earned last profit in 2008-09 and after that incurring loss.

Research Methodology

The efforts have been made to analyse the financial health of the BSNL which is based on secondary data. The data has been collected from Various websites and annual reports published by DOT, TRAI, BSNL etc.

Role Of the BSNL in Indian Economy

The state owned company has played very important role in the development of Telecom services in India. The access of its services is very wide from Jammu & Kashmir to Kanyakumari. Its wire line services covers whole country, which is not covered by any other private company. The company has ensured the Telecom infrastructure all over the country including remote and Left wing extremism areas to secure the social justice. The company has played very important role in tackling natural disaster in the country. To restore

the normal condition in disaster affected areas Communication becomes very important which has been ensured by BSNL. In recent years, BSNL played very important role in tackling the flood situation in Jammu & Kashmir and Kerala state. The company restored the telecom infrastructure very soon which no other private sector company could do, saved many lives. The company provided free services in those affected areas till the normal condition is established.

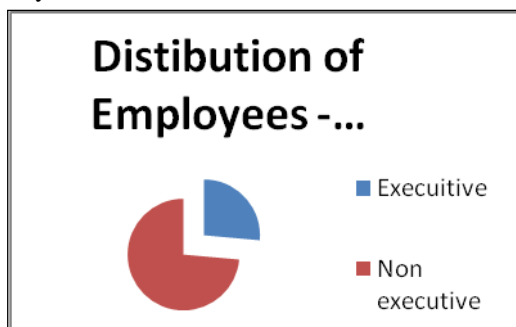
The company is playing an important role in implementing Digital India program- an ambitious program to connect the grampanchayats to broadband. The company is also playing very important role in implementing a defence project named – “Network For Spectrum” (NFS) which aims to connect the all army offices in India through fiber. The company has completed Astha Mangal Project for improving the

connectivity of North-East Region. These are only few examples.

Reasons for continuous loss to BSNL :

After incorporation , almost up to 8 years the business of the company was profitable. After that the market share has continuously declined form 28 % to 12 % and revenue share of the company has also declined. At present the revenue share of the company in access services is only 8 % for the FY 2017-18. The following reasons may be considered for the decline of the company-

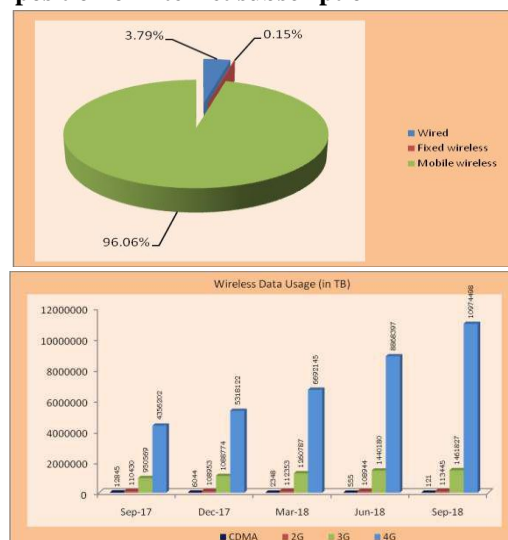
1. **Very high Employee benefit expenses due to Excessive Manpower :** As per Annual result of 2017-18 of BSNL holds total 183522 employees. Out of total 183522 employees, the number of executive employees are 48455 (26.40 % of total employees) and non executive employees (Group C and Group D) are 135067 (73.60 percent of total employees). On average the staff of BSNL is above 55 years . The employee benefit expenses is Rs. 1483724 lakh against total revenue from operations Rs. 2266778 lakh (BSNL Annual Report 2017-18) . The ratio of employee benefit expenses to Revenue from operation is 65.46 percent . It shows that 65 percent out of total revenue from operations is being spent on Employee benefit expenses which is very high. Due to old age the staff is not very efficient to satisfy the customers.

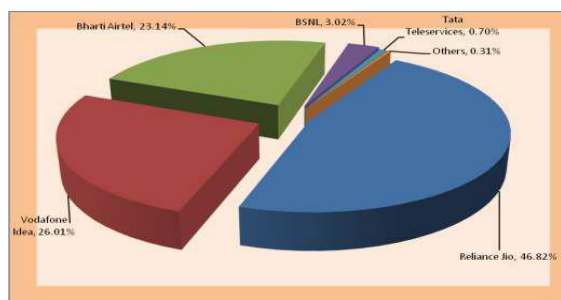


2. **Delay in Project completion :** There is delay in completion of OFC projects due to various reasons. The projects have not commissioned in time which leads to blockage of huge amount of capital and loss of potential revenue which could be earned, by completing the project in time. The delay in completion of project due to several reasons such as - the contractors take work but do not complete the project in time, it shows the failure of management in dealing with contractors, non availability of equipment in time another reason shows the poor planning of procurement of inventory.

3. **Delay in decision making :** The ancestral of BSNL is Department of Telecommunication of Government of India. Though BSNL has become a corporate entity, but Decision making culture is in legacy. There are many issues such as transfer of assets form DOT to BSNL are still pending. These all contributes to delay in making decision which ultimately affects the business of BSNL.
4. **Running of Loss making Exchanges:** Being a PSU which wholly owned by government of India is responsible to provide Telecom services to all citizens of India to ensure social justice.(Social justice in all ways is an important feature of constitution of India which has also been mentioned in the preamble.) Here the social justice in terms of Telecom Services. These exchanges are located in remote areas and left wing extremism (LWE) affected areas of the country where there is very few consumer the cost of maintenance of towers are very high. The calls rates are kept low in these areas so that it could be afforded by consumers, so how profit can be expected from these areas.
5. **Not Granting 4G Spectrum to BSNL by Government :**The government yet did not grant 4 G spectrum to BSNL. As Per report of TRAI the composition of Internet subscription of mobile wireless is more than 96 percent and technology trend of wireless internet services has rapidly changed to LTE/ FW_LTE (4 G). It shows the BSNL is lagging behind due to not having 4 G technological. The advance technology has changed the subscriber's behavior . BSNL Will not able to survive with old technology . This issue has ultimately lead to the loss of potential revenue to the company.

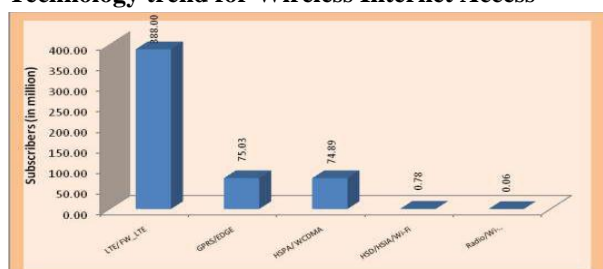
Composition of internet subscription





Source- TRAI Report Quarter ending Sep 2018

Technology trend for Wireless Internet Access



Predatory Pricing by Reliance Jio :

The predatory pricing by Reliance Jio has badly affected the financial health of other players in telecommunication sector. With the introduction of Reliance Jio 4 G services in sep 2016, The company adopted predatory pricing policy to capture the market. The purpose was clear to end the competition in the sector. Smaller telecom companies like Airtel, Tata Teleservices, Anil Ambani led Reliance Infocomm, Telenor, etc., have either closed down, or have got merged with bigger companies. Vodafone, a multinational giant, is unable to run its business in India and has got merged with Kumarmangalam Birla's Idea. The merged entity is now called Vodafone Idea. The business of BSNL has also been adversely affected due to not having 4 G spectrum.

Revival or Shut Down

Due to continuous loss to the company, the question has arisen before the government for revival or shut down of the company. NITI ayog has indicated towards shut down the company. But the government has not yet taken any decision on the issue. The government has asked to IIM Ahmedabad to give suggestions on the issue. The interim report submitted by the IIM Ahmedabad has given the indication of revival of the BSNL for initial five years. The revival of the BSNL is important to ensure the competitiveness in the market. At present there are three major private in the market Airtel, Vodafone – Idea and Reliance Jio. The example of Reliance has been seen, How it wants to

remove the competition from the market. With its introduction in sep 2016, It has wipe out the many small players such as Airtel etc. from the market and compel for merger of two giant companies Idea and Vodafone. What happens if BSNL is shut down by the government and there are only three- Airtel, Vodafone – Idea and Reliance Jio or only one company (Reliance Jio) is there in the market. Being the private companies, They can deny to provide services in remote areas, or services in natural disaster as the private companies is run wealth maximization. These companies may create cartel and may increase the call and data rates. It will create hindrance in accessing Telecom services for many people of India as the more than 65 percent of the population living in rural areas and high call rates can not be afforded by this population. As per report published in the news paper The HINDU, 74 percent of wealth is concentrated with the only 1 percent population which shows the highly unequal distribution of the income. So revival and existence of BSNL is very important for keep connecting to the people of India to the world.

For continuous availability of telecom Infra structure for all people, the existence of BSNL is important. The physical feature of India is very wide and complex. It has the area of minus temperature, High altitudes etc. BSNL provides variety range of services such as Wimax, Leased line FTTH etc. These areas can not be covered by the private players, only a government company can do it.

A secure communication for the defence of any country is very important. The private players can not be relied upon. The coverage of strategic areas becomes very important for the security of a nation. The private players can not play this role as they do not established their infrastructure in such areas because of no profit.

Conclusion

After Studying the above, the survival of BSNL is very important for Indian telecom Sector. Not granting 4 G spectrum to the company shows the government attitude towards the BSNL. The prime minister is doing advertisement of a private company which is the example of crony capitalism. It is also the policy drawback of the government which has turned company into losses. The BSNL provides employment to the 1.76 lakh people, though the 70 percent of staff is old an going retire in next 5 to 6 years, It will provide further employment in future in the country and reduce the un employment in the country. The shut down of the company will end the employment of 1.76 lakh people and will cease employment generation in future also.

The company has great potential for survival and existence and government should recapitalize BSNL to ensure the social justice of Telecom services to all class of people of India.

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