

job titles have been given different job designations.

- iv. **Shutting down of small exchanges** – There are a lot of exchanges that are unviable due to low number of connection but are still being maintained/operated by BSNL. There is no clear policy/decision being taken by the headquarters about shutting down of these unviable exchanges.
  
- e. **Lack of Customer Orientation** – There is tremendous demotivation in the BSNL workforce due to the poor performance of the PSU, ill-thought policies, lack of commitment of the leadership, aging workforce, non-implementation of 3<sup>rd</sup> PRC and suspension of staff amenities and other dues like the reimbursement of medical bills, LTC, etc. This lack of enthusiasm has transferred into poor customer service leading to a reduction in customer connections over time.

#### **Part D: Suggestions for Revival /Restructuring of BSNL**

While not completely within the purview of the IIMA MOU for this project, our analysis suggests that the government and DoT need a more refined policy on the sector structure and mergers in the sector. This is more relevant when number of effective operators reduce from 4 to 3. Other key initiatives include review of MTNL and its relationship to BSNL and articulating the role of a public telecommunication service provider in the current context.

Based on our analysis, below we identify the key areas for transformation of BSNL.

1. **Accelerate Asset Transfers:** DoT should work closely with BSNL to identify all lands and buildings that have not yet been transferred to BSNL. Though the land valuation as has been done so far and given in Exhibit 13 as in 2015 was around Rs 6000 crores (may be 7000-8000 crores at most), the land and real estate not required by BSNL-MTNL for telecom operations need to be not only monetized to finance revival of BSNL but also will put this real estate for more efficient usage. This needs to be done within a six month period. Maximizing value of the released real estate may not only require support from the Government for land use change but also an independent entity specializing in real estate development. The amount assessed as of now, however, does not look significant enough to help finance BSNL revival completely.
  
2. **Accelerate the Operation of BSNL Tower Corporation Limited (BTCL).** This company is not totally operational as BSNL has not transferred all the towers to it. While having a separate company will bring in the required efficiencies, it also gives BSNL an opportunity to do a variety of projects under it. Since this is an infrastructure company, it is not subject to the 8% revenue share charges. This is a flexibility that could be easily exploited by BSNL. We recommend BSNL should complete the transfer of towers from BSNL to BTCL within six months.
  
3. **Create a Separate Fibre Infrastructure Division:** This should be a part of the BTCL,

given that in spirit it is a network infrastructure company. There could be a rationale for setting up this as a separate company, but given the time it would take to set up the company, for the short term, we are suggesting, creation of a Fibre Infrastructure Division under BTCL. Given the projected growth of Broadband, optical fibre network is a valuable asset for any telecom service company. Increasingly, FTTH is an important source of new services, as homes start to use mobile broadband, smart TVs and other devices. However, BSNL has not been able to leverage this asset to its full potential. In order to release this potential, BSNL should create a separate fibre infrastructure division. This should be done with focus and efficiently and not allowed to languish as was the case for the tower company. This division, like the tower company should work with third parties, including state governments. This should be done over a time frame of six months..

4. **Create a Project Division:** This should be a part of the BTCL. There could be a rationale for setting up this as a separate company, but given the time it would take to set up the company, for the short term, we are suggesting, creation of a This organization should undertake projects of strategic importance to the nation such as deploying rural services, creating a network for armed forces, connecting hilly areas. The projects would be funded by the organizations that require such services. Relevant staff from BSNL should be transferred to this division. This will further bring down the human resource costs to BSNL. Having a separate division will bring in the transparency of efficiencies in project execution, costs and outputs. This would also allow BSNL project bids to be more competitive as the projects under this division would not be subject to the 8% revenue share.
5. **Facilitate 4G Spectrum Allocation:** 5MHz of 2100 MHz band as 4G spectrum should be allocated to BSNL immediately but only for a limited 5-year period. This may require around Rs 1875 crores of license fee payment for 5 years. This can be financed by either equity injection from the Government or by borrowing the same with guarantee from the Government given financial condition of BSNL. Also, the Government should pose the following conditions on the BSNL while allocating the spectrum:
  - i. i. BSNL should get into aggressive tower sharing and leasing agreements with other telecom service providers. This will reduce the expenditure of rolling out 4G services by BSNL. Instead of Rs 11,000 crores asked for by BSNL to roll-out 4G services, BSNL might be asked to re-examine the proposed capital expenditure with tower-sharing and managed-services model.
  - ii. ii. The spectrum should be allotted circle-wise for 5 years. Each circle of BSNL and BSNL as a whole must be given a strict mandate to become operationally self-sustaining (should be able to meet at least all operational expenses) from the third-year post the allotment of 4G spectrum.
  - iii. iii. The 4G allocation should be conditional on circles preparing a business plan, including identification of only core and relevant human resources for

BSNL's continued operation, policies for greater professionalization, increased devolution of decision making to the circle heads, improved IT systems etc.

- iv. iv. BSNL and DoT must come up with a plan within six months of allocation of 4G spectrum as to how it can best utilize its resources including human resources. The latter may require offering/negotiation at various levels with BSNL, possibility of VRS or reduction of superannuation age along with discussion on business plan and pay-revision and transfer of employees to different proposed infrastructure and project organizations of BSNL and programs such as Digital India, Solar mission, Smart Cities etc. The details of the impact of reducing the retirement age and introduction of VRS are presented in point 6.
- v. v. Future allotment of other spectrum bands (4G, 5G, etc.) will be conditional upon BSNL's (and each circle's) performance as monitored from the third-year post 4G allotment.

6. **Organizational Restructuring:** including design for challenges highlighted in Part C and reduction in superannuation age by 2 years.

- a. **Reduction of Retirement Age:** We recommend the reduction of retirement age to 58 years. The average age of BSNL workforce is above 55 years. As can be seen from **Exhibit 12**, if the retirement age is brought down to 58 years, the reduction of workforce that may be achieved will be about **33,568 employees** (17142+16426).

The employee benefits expense of BSNL in 2016-17 was about Rs. 15,715 Cr (**Exhibit 14**). The employee strength of BSNL in the same year was **1,96,448** (from BSNL annual report 2016-17). This implies the per employee cost is about **Rs. 8 lakhs** (as per 2016-17 figures).

As shown in Exhibit 12, the total saving due to reduction of retirement age to 58 years over the next six years will be about **Rs 13,895.44 Cr**.

Even if the reduction of retirement age has to be done at the cost of implementing the 7<sup>th</sup> CPC recommendations (or 3<sup>rd</sup> PRC of BSNL), the saving will be about **Rs 7,505 Cr** (assuming a 15% rise in employee cost due to the implementation of 3<sup>rd</sup> PRC).

- b. **VRS scheme: A VRS scheme** should be brought in for all employees in the **age group of 50 or more years**.

The scheme will be modelled on the following lines (as per DPE guidelines and the 'Gujarat Model'):

- i. An ex-gratia amount of salary (pay & dearness allowance) of 35 days for every completed year of service and 25 days for the balance of service left until superannuation (of up to 58 years) shall be paid to the employee.
- ii. All normal pensionary benefits under Rule 37A of the CCS Pension Rules in

addition to the ex-gratia benefits would be available to the employee who has been given VRS.

**Expected Cost of VRS Scheme:** The cost components of VRS are as follows: Ex-Gratia, Gratuity, Pre-ponement of Pension, Pension Commutation, Leave Encashment.

The number of employees who will retire through VRS will be **20,883 (assuming 25% of [16158+15882+13582+11698+9059+7163+5264+4537])** (refer Exhibit 12). The employee cost that BSNL will likely save due to the VRS will be **20,883 \* 8 lakhs = Rs. 1,670.56 Cr per year** (without implementing 3<sup>rd</sup> PRC) **and 20,883\*9.2 lakhs = Rs. 1921,24 Cr per year** (after implementing 3<sup>rd</sup> PRC).

As of now, we do not have exact data of VRS components.. However, given the experience of MTNL (estimated cost was Rs. 5953 Cr. for 9527 employees of MTNL<sup>2</sup>), we estimate the **cost of VRS** will be about **Rs 13,048.86 Cr.**

- c. BSNL Leadership and Board of Directors: The Board of Directors should also include professionals who have had experience of running large businesses. The board should not have only civil servants and academicians as Independent Directors who have not been associated with running of business. Academicians for top-ranked Indian management institutes or foreign institutes may be opted for board positions. However, the number of academicians should not be more than 1 at any time. Also, the top managerial positions should not be left vacant for a period of more than 3 months.
  - d. Implementing a performance-driven culture: All employees should be evaluated on a well established performance criteria. A merit-based culture should be created in the organization. All appointments (recruitments and promotions) should be based strictly on merit. The top leadership of BSNL should be evaluated by DoT and should be made accountable for the profits and health of the organization. We even suggest that the top leader (CMD) should be a professional who has had experience of running business rather than a government servant who is appointed on a fixed-tenure by the government.
  - e. Details of other changes in BSNL that will be required for a turnaround will be provided in the Final Draft Report. The above is indicative of the major changes necessary at the top level only.
7. **Provide Contingent Liquidity Support for BSNL:** Given its financial condition, BSNL may require financial support for it to be revived in future. BSNL has already asked for authorization to take loans for 50% of its operating expenses for next 2 years. While from an accounting point of view, asking for letter of comfort (a contingent liability) is not same as budgetary support, economically both are

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<sup>2</sup> As per details shared with us about VRS scheme for MTNL by DoT

equivalent. Instead of providing an ad-hoc support as asked for, BSNL needs to be provided this much needed support based on circle-wise business plans and its continuation/enhancement should be based on key milestones to be achieved going forward.

8. **Postpone Listing of BSNL:** While there is a possibility of listing of BSNL to bring in financial efficiencies, given BSNL's current financial situation and the market sentiments with regard to performance of government entities, we do not think this is an opportune time for this. ("Most IPOs of the government companies in the past two years have not been fruitful to investors. Share prices of companies – including Garden Reach Shipbuilders & Engineers Limited, Ircon International Limited, The New India Assurance Company, General Insurance Corporation of India – which were listed on the stock exchanges are trading much below the issue price. This has resulted in steep losses to the IPO investors and dented demand for shares of government companies coming up for listing."  
(<https://indianexpress.com/article/business/railtel-wapcos-among-6-cpses-to-issue-ipo-listing-schedule-to-follow-5514366/> accessed on January 4, 2019)

After five years, if BSNL is able to implement critical suggestions to improve its financial and organizational situation, then at that point, BSNL should be considered for privatization, either through a listing or a strategic role.

9. **Create an Independent Review Mechanism:** Simultaneously in working out the steps identified above, the government must set up an independent on-going review mechanism for assessing the efficacy of BSNL's board decisions. This mechanism should have a very low representation from the government. Since continuation of BSNL would be contingent upon it taking several steps, including those mentioned above, and some of these are difficult and transformational, such a mechanism will strengthen the Board processes and provide visibility to BSNL's efforts.