August marked an important transition at Bharat Sanchar Nigam Limited (BSNL). Gopal Das took over as chairman and managing director (CMD) of the state-run, integrated telecom service provider, following the retirement of former CMD Kuldeep Goyal. His appointment is being looked upon with much anticipation as a lot rides on him. The once-coveted telecom operator has been on a downward spiral and Das will need to dip into every resource and skill he has acquired during his 35-year-long telecom career to turn the company around.

In spite of operating in the world's fastest growing telecom market and having held a leadership position in this space till 2008, BSNL has over the past two years been struggling to hold its own in the face of fierce competition from nimbler private sector operators.

BSNL's sliding performance has become a cause of concern for its management and the government, which has 100 per cent stake in the company. Pushed to the fifth position in the mobile telephony pecking order, BSNL had 73.78 million subscribers as of July 2010, against Bharti Airtel's 139.22 million, Reliance Communications' (RCOM) 113.31 million, Vodafone Essar's 111.46 million and Tata Teleservices' 74.84 million subscribers.

BSNL's mainstay – its landline business from which it still derives 63 per cent of its revenue and in which it has nearly 80 per cent market share – has also been giving way over the years. Subscribers are less and less interested in fixed line phones. In 2009, the company lost as many as 1.1 million wireline subscribers. And the slide is expected to continue. Recently, the IT and communications minister, Sachin Pilot, stated that BSNL's studies to ascertain the reasons for the mass surrender of connections would help the company assess and optimise the future growth potential.

Once a serious contender for the top slot in the country's booming mobile industry, the company has, in the past few years, been facing a debilitating capacity crunch. Its last major network expansion was undertaken in 2005. Thereafter, every effort to procure equipment was either thwarted or got mired in controversy, leading to delays. Moreover, frequent tariff cuts, unrelenting competition, discontinuation of the licence fee reimbursement, bureaucratic delays, long tendering processes and governmental interference all added to the operator's difficulties.

Today, most of BSNL's businesses, excluding rural telephony, broadband and internet, are under severe pressure. To cap it all, BSNL has, for the first time since its corporatisation in 2000, suffered a loss of Rs 36 billion for fiscal year 2009-10. Its gross revenue declined to Rs 335.47 billion for the year ended March 31, 2010 as against Rs 339.83 billion in the previous fiscal year.

While the management blames this decline on higher wage expenditure and lower landline revenue, it perhaps realises that the company needs a complete transformation and realignment to get back on track.

**Need for overhaul**

Concerned that BSNL may go the way of Air India or other loss-making public utilities, early in the year, the company decided to bring in Sam Pitroda to draft a recovery road map. The review panel headed by Pitroda submitted a 15-point report to the Department of Telecommunications (DoT), suggesting options for reviving the company. These included a strategic stake sale of 30 per cent; pruning staff by a third; splitting the fixed line business from the more rapidly growing mobile business and thereafter listing the latter on the stock exchange. The panel also suggested hiring outside professionals for key management positions.

However, though remedies had been sought, they were rejected as BSNL's highly unionised workforce made the implementation of any changes difficult. There was, for instance, no way that the 300,000 employees would agree to the voluntary retirement of over 100,000 workers. While, the move would have made the operator leaner and would have helped in cutting back the massive employee expenditure, the employees were up in arms. The management faced strike threats and protests, and the unions could be pacified only when communications minister, A. Raja, stepped in and assured them that a specially constituted group of ministers would look into the matter and that no decision would be taken without proper consultations with the employee unions.

The same has been the case with the disinvestment attempts. The government had been pushing for BSNL's listing since 2008. In fact, it would have been a feather in the cap of the Congress-led UPA government, as a 10 per cent stake sale (agreed to by the BSNL board) would have earned it over Rs 450 billion as the company at the time was valued at an estimated Rs 4,500 billion. However, the labour unions opposed it, and they continue to do so.

According to industry experts the listing is now expected only in late 2011. Before that, DoT and the BSNL board are keen to prop up the company's enterprise value, which has dropped considerably in the past two years owing to the operator's poor performance. BSNL is now gearing up to effect fundamental changes to rebuild the company's image. To begin with, it is looking to hive off its tower business into a separate entity. It is also looking to spin off its land assets into a separate company for which deeds are being transferred to BSNL.

**Advantage BSNL**

While BSNL's fortunes have no doubt been taking a hit, it is still among the country's top service providers. It has the largest fixed line network in the country and an extensive mobile network. It has 600,000 route km of optic fibre and is the only player with widespread rural coverage and last mile connectivity. "BSNL is an incumbent with muscle, reach and massive resources. It is broader than most of its competitors and its networks are technically as high on quality as any other," says Mahesh Uppal, director, ComFirst.

The company has cash reserves in excess of Rs 350 billion and net fixed assets valued at Rs 543 billion. While BSNL does not have access to lucrative markets like Delhi and Mumbai, the brand is visible in the remotest corner of India. Building on that, the management is confident that the company will return to profits and earn revenues of Rs 340 billion in the coming year.

**Attempts at revival**

Lately there have been signs of change as attempts are being made at revival. Soon after the blanket ban on the import of Chinese equipment was lifted, BSNL placed a Rs 3 billion contract with ZTE Corporation for the supply of Wi-Max systems for its broadband rollout.

Leveraging its massive communications infrastructure, BSNL also entered into an agreement with RailTel to execute various telecom-related projects. The three-year MoU envisages the implementation of projects of national importance such as defence, the National Knowledge Base Network, etc. through sharing of communications infrastructure. As a first step, sharing of resources such as dark fibres and bandwidth between BSNL and RailTel is being taken up.

To enhance its mobile network, the company has selected ITI for supplying equipment for 2G and 3G telephony networks. The contract, divided into two parts of Rs 366.8 million and Rs 2.3 billion, requires ITI to complete deliveries by the first quarter of 2011.

For the current fiscal year, BSNL is focusing on the broadband segment. Given that the company's broadband business has shown an impressive 33 per cent growth in the previous fiscal year, the company is looking to cash in on this segment. It plans to add 3 million broadband subscribers this year and take its broadband subscriber base to 7.5 million. It has already started making innovative changes to its marketing strategy. It has tied up with various mobile stores for promoting broadband services and is training 10,000 salespeople specifically for this purpose.

The company is also sprucing up its 3G service offerings before competition from private operators starts picking up by the end of the year. Although it has not made much headway in this area so far, it is looking to augment its 3G services like high speed internet access and mobile TV, with which it has had some success of late and added high-ARPU subscribers. Its 3G ARPU is 40 per cent higher than its 2G ARPU. The company is focusing on 3G and Wi-Max (using the franchise model to reduce financial risks) as the vehicle for future growth.

Competitively pitted against other operators, BSNL's other thrust area is value-added services (VAS), which contribute nearly 20 per cent of its total revenues. Further, in an attempt to boost its fixed line and mobile telephony business, it has introduced several innovative and regional tariff plans recently. It is also making a special effort to enhance its customer care services. BSNL has tied up with major service providers for infrastructure sharing, which will help the organisation monetise its towers and reduce opex.

**Expert speak**

BSNL is undoubtedly trying to put its house in order. There are, however, a few pointers that analysts feel the PSU would do well to look into. For instance, industry experts say that one of the key impediments in BSNL's growth is the long delays in equipment procurement. The tendering process is tardy, time consuming and open to controversy. BSNL needs to change this if it wants to catch up with competition. To an extent, BSNL is already doing that. It has, for instance, been placing orders directly with some vendors.

Analysts believe that apart from upgrading its base transceiver stations to increase its coverage and spread, BSNL should capitalise on its first-mover advantage in 3G. “BSNL should quickly release contracts for network expansion to support new-end technologies,” says Uppal.

In order to raise finances to invest in future growth, most analysts favour the Pitroda panel recommendation of a 30 per cent strategic stake sale. They are also in agreement that BSNL ought to unlock the full value of its infrastructure assets as successfully as other private operators have in the industry. However, while pushing for infrastructure sharing, the company needs to offer lower costs and make its rules more flexible in order to attract operators. It would particularly help in the 3G rollout of other operators, while opening up a rich revenue stream for BSNL.

In fact, as a revenue potential, analysts say that the operator should consider the sale or lease of excess network infrastructure like signal towers, transmission links, real estate assets and optic fibre links. On the business restructuring front, most experts feel that outsourcing network handling to equipment makers would work well for BSNL, especially in the case of 3G, as it would help in faster service rollout and cut investment costs.

BSNL also needs to change its PSU image so as to enhance its speed to market and decision-making. For this, there is a serious need to restructure the organisation. BSNL’s huge workforce, often slow and not very market focused, “wants higher salaries but doesn’t want to work and cannot make customers stay with BSNL”, observes a senior company official. Nevertheless, if it wants to streamline its operations, it will have to balance a huge financial outgo on voluntary retirement schemes, etc.

Currently, the operator is undergoing an organisational restructuring with the help of the Boston Consulting Group. Project Shikhar, as it has been named, is an attempt to arrest the company’s financial decline and restructure the business to make it profitable. As part of this exercise, BSNL’s organisational structure is being redesigned along different business verticals to provide an end-to-end focus on key growth segments and to clearly define accountability for different businesses and functions at all levels.

Analysts feel there is a need to induct more dynamic professionals in sales, technology and customer services. They also point out that it is important to empower the CMD. Governmental

interference has often stalled the decision-maker from executing a proposal. “The idea should be to arm the CMD to make independent decisions while still retaining control. It is critical for faster decision-making,” notes Kunal Bajaj, director, Analysys Mason India.

**Future signposts**

Going forward, the mobile, broadband and enterprise segments will be the key thrust areas for BSNL. A separate vertical has been created to focus on their growth. The company has lined up a capex of Rs 14.8 billion for 2010-11.

Being the only company in the country to have committed to the Wi-Max technology standard for wireless broadband services, BSNL has decided to have a back-up plan in case all other operators opt for the upcoming long term evolution (LTE) technology platform. BSNL, which recently awarded contracts to four companies – Teracom, Take Solutions, Adishwar India and Ampoules – to roll out Wi-Max-based broadband services on a franchise basis, has introduced a clause in their contracts mandating them to shift to the LTE technology standard if this were to emerge as the successful technology platform in India.

On the 3G front, BSNL is looking for a franchisee to roll out and manage its 3G network efficiently and cost effectively. “We expect 5 per cent of our total user base to come from 3G. This figure might go up to 10-15 per cent of our mobile base in the coming time,” says a senior company official. Currently, 3G subscribers form a minuscule part of BSNL’s total user base. The company has set a target of achieving 4 million 3G users by March 2011, up from 1.4 million at present. It plans to take its 3G mobile services from 450 cities currently to 750 cities by the end of the year. BSNL is also working on various value-added services such as mobile banking and movie downloads at a higher speed for its 3G subscribers.

Meanwhile, the company continues to expand its reach to the remotest parts of the country where none of the private operators has managed a presence. It is setting up 500 base stations in Bihar, Chhattisgarh and Jharkhand. A total of 31 districts will be covered under this plan, including some of the most backward areas in terms of telecom development. Chhattisgarh, for instance, has a teledensity of only 5 per cent. Some of the areas to be covered are badly affected by extremist activity.

BSNL is the only service provider in the country with manufacturing facilities. However, its factories are in a state of disarray and they lack the technology to compete with global hardware majors. To revive the fortunes of these manufacturing units and obtain the required expertise, BSNL is exploring the potential of a technology tie-up. Its seven factories, located at Jabalpur, Richhai, Bhilai, Kolkata, Gopalpur, Kharagpur and Mumbai, are involved in manufacturing a range of telecom products including SIM cards, telecom towers, telecom poles, modems, pay phones and accessories such as joining kits and SS drop wire.

With so much at stake, high hopes are pinned on Das. To his credit, he took the initial initiative to appoint the Boston Consulting Group in December 2008 to develop a strategy and transformation plan for the company. For BSNL to regain its lost market share, what it needs is aggressive marketing, sales promotions, innovative products and adequate network capacity, backed, of course, by strong leadership.

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