Company Stories, October 04, 2013

In June this year, as the monsoons ravaged Uttarakhand, Bharat Sanchar Nigam Limited (BSNL) was the only telecom service provider whose network was still operational in the state. In fact, its connectivity in remote areas enabled it to launch a special service to track the last location of its users who went missing in the wake of the flash floods.

The state-owned operator's biggest strength indeed is its extensive infrastructure. BSNL has about 650,000 km of optic fibre cable (OFC) network across the country, which is significantly larger than any other pan-Indian player's. It also has a wide network of copper wires and tower sites that covers almost all populated villages in the country through village public telephones. Its GSM services are available in over 350,000 villages. BSNL offers connectivity in remote areas like the Siachen Glacier as well as inaccessible areas in Madhya Pradesh, Himachal Pradesh and the Northeast.

Incorporated in 2000, BSNL became the largest mobile operator in the country after launching these services in 2002. By 2006, it had a mobile customer base of 26 million and a market share of 18 per cent.

However, competition from private players, a capacity crunch, the PSU burden, political interference, and the inability to keep pace with change in one of the world's most vibrant telecom markets started telling on the company's performance. Today, the operator is under pressure in all its business segments (excluding internet and broadband, and rural telephony).

In addition, operational issues, depleting reserves on account of spectrum outgo, dwindling wireline revenues, and growing manpower costs led to BSNL's losses quadrupling from Rs 18.23 billion in 2009-10 to Rs 88.51 billion in 2011-12. During the nine-month period ended December 2012, the company reported a total loss of Rs 65.36 billion.

Therefore, reviving BSNL has become a priority for the government. In April 2013, Kapil Sibal, minister for communications and IT, requested Prime Minister Manmohan Singh to form a committee for recommending revival strategies for the state-run operator. In his letter, Sibal stated that BSNL's loss is estimated to have reached Rs 100 billion during 2012-13.

Subsequently, a group of ministers (GoM) headed by P. Chidambaram was constituted, which is considering a Rs 150 billion bailout package for BSNL. This would include taking over the company's debt, waiving licence fees and spectrum charges for three financial years, and allowing BSNL to surrender its broadband wireless access (BWA) spectrum in six circles and refunding the amount to the operator.

BSNL is optimistic about a turnaround after 2018 if it receives the financial assistance. While industry experts are not sure about this, it could be the operator's only shot at changing its course.

"BSNL is a large communications services provider in India across the fixed and mobile telephony segments. However, it is no longer profitable. The company has faced stiff competition on two fronts – the consumer shift from fixed line to mobile telephony and price wars in the mobile space. The company has not been able to address these issues and has, therefore, accumulated losses year after year," says Harish Bijoor brand expert and chief executive officer, Harish Bijoor Consults, Inc.

Market position

An integrated telecom operator, BSNL offers a range of services including wireline, CDMA mobile, GSM mobile, internet and broadband, carrier services, MPLS-VPN, VSAT, VoIP and fibre-to-the-home (FTTH).

Today, it is ranked fifth in the mobile segment with 97.99 million subscribers as of June 2013, after Bharti Airtel (190.91 million users), Vodafone India (155.03 million), Reliance Communications (125.73 million) and Idea Cellular (124.97 million).

BSNL has been losing subscribers in both the wireless and wireline segments. The wireline subscriber loss has had a bigger impact on the operator as this business was its mainstay for years. As of June 2013, BSNL's wireline user base stood at 19.89 million as compared to 40 million three years ago. The income from wireline telephony dropped from Rs 126.68 billion in 2007-08 to Rs 56.53 billion in 2011-12. That said, BSNL still holds over 65 per cent share in this

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Moreover, the company has not been able to capitalise on the 3G opportunity despite having the first-mover advantage in this space. It has a presence in about 1,300 cities, but accounts for only 3 million of the total 15 million 3G users in India.

The operator, however, has a comfortable lead in the broadband segment with a 65.6 per cent market share as of June 2013. It has set up a world-class, multi-gigabit, multiprotocol convergent IP infrastructure that supports convergent services like voice, data and video.

BSNL is also the third largest mobile tower operator with a portfolio of about 60,000 towers.

Challenges

Faced with declining revenues and high costs, operational restructuring is an imperative for BSNL. It needs to revisit its strategies and look for new avenues of operational and revenue growth. BSNL's financial deterioration is a result of poor management. In 2010, a committee headed by Sam Pitroda, currently adviser to the prime minister, had suggested a number of steps to improve the operator's performance. These include hiring the best professionals from the market (at market rates), divesting 30 per cent government stake, enhancing rural communications, hiving off tower-related infrastructure and real estate assets and providing 30 million high speed broadband connections over the next three years. However, these recommendations have been on the back burner.

Analysts say that there is an urgent need to reduce the company's salary burden as rising employee costs is one of its biggest challenges. The operator has over 260,000 employees and the outgo on salaries/wages accounts for around 50 per cent of the total revenues. As compared to this, private operators spend only 5-10 per cent of their total revenues on employee wages and benefits. To address this issue, the Department of Telecommunications (DoT) has supported BSNL's voluntary retirement scheme (VRS) to reduce the workforce by 100,000.

Also, market experts have been recommending the establishment of separate subsidiaries for telecom network infrastructure and land development. While BSNL can continue to operate as a services and marketing company, the infrastructure firm can take over operations related to towers, networks and technology. Likewise, the land development arm can manage and monetise land assets in phases. This would enable BSNL to establish a leaner organisation and focus on its core competencies as a telecom service provider. Currently, the GoM is considering the proposal for trifurcation of BSNL.

The company also missed out on several opportunities due to its complacency, political interference and bureaucratic set-up. BSNL lagged behind in the mobile segment as it was not able to expand capacity to meet the growing demand. Its successive expansion plans have also been unsuccessful. Further, BSNL's inability to upgrade technology and provide efficient customer service has cost it profitable corporate and other high-ARPU businesses.

Poor customer relationship management and quality of service (QoS) are among the key factors impacting its performance. The operator, unlike its private peers, had not focused much on the sales and marketing aspect of the business.

Dr Mahesh Uppal, director, ComFirst, says, "The company has to improve its QoS and overall customer experience. It needs to reach out to its customers and enhance existing services such as billing. BSNL should dispel the myth that it has failed to keep up with the launch of new technologies and services when the fact is that its network is as good as any private operator's."

BSNL also needs to leverage its vast wireline network across the country. Although the company has been operating a strong fibre network for years, it only recently started providing high speed broadband services through this infrastructure.

"BSNL was a leading telecom service provider a few years ago, but other operators have now taken the lead. BSNL owns a large fibre-based network covering every block and headquarter at the gram panchayat level across villages. In addition, unlike other players, the operator has access to right of way (RoW) for rolling out telecom services covering major parts of the country. BSNL, therefore, needs to focus on its strong infrastructure and make it available to private operators on a commercial basis for offering telecom services," says Uppal.

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A renewed focus on both the wireline and wireless telephony segments could help the company regain lost ground. "The first key task for the operator would be to ensure competitiveness in the mobile telephony space. Also, a complete reinvention of its landline business and portfolio is required," says Bijoor.

Attempts to plug the gaps

BSNL has sought a refund of Rs 67.25 billion for surrendering its BWA licence in select circles. The request, though approved by GoM, is awaiting cabinet approval. Service provider has also sought Rs 80.45 billion from the government for a VRS that will be offered to over 70,000 employees.

Other plans include investments in networks and services. BSNL is taking steps to revive its landline business and leverage its wireline network to provide value-added services such as broadband, IPTV and videoconferencing. The landline network is being upgraded and modernised through the introduction of new IP-based next-generation network switches, and integration of the customer care and billing platforms.

There is also a focus on 3G/broadband services. BSNL has deployed FTTH technology in urban areas which allow households, businesses and corporate customers to avail of services such as voice, high speed internet and gaming, IPTV and video-on-demand.

The company's presence in the rural broadband space will increase with the operationalisation of the National Optical Fibre Network in 2015. In the mobile broadband space, BSNL is working towards increasing the reach and improving the quality of 3G services.

BSNL has the largest network and infrastructure in the country. Sharing this with private operators can offer a major revenue opportunity for the operator. Besides towers, the private sector is interested in leasing BSNL's ubiquitous fibre infrastructure. With the growing data demand, fibre will be the way forward for the industry and all private operators are looking to deploy fibre networks. However, high RoW charges impede fibre deployment by private operators. Therefore, leasing BSNL's fibre network in cities will be a win-win situation for both parties. Further, the operator can monetise its idle land assets by renting/ leasing them.

Enterprise services have also emerged as a key focus area. The operator's internal enterprise resource planning (ERP) project is an important initiative in this segment. Also, BSNL has launched commercial cloud computing services from its managed cloud platform-hosted internet data centre (IDC) at Ahmedabad. IDCs are also being set up in Mumbai, Faridabad, Jaipur, Ludhiana and Ghaziabad. BSNL earned about Rs 40 billion in revenues from the enterprise segment in 2012-13 and is expecting a growth of 25 per cent in the current fiscal.

In its presentation to the GoM in August 2013, BSNL has estimated an investment requirement of Rs 400 billion for the next five years. The company expects its total income to grow to above Rs 440 billion by 2017-18 from Rs 263.96 billion in 2011-12. Further, BSNL expects to add 40 million lines to strengthen its internet business and generate around Rs 25 billion by monetisisng its land and building assets and hiving off some real estate assets. It expects to generate Rs 2.5 billion in 2013-14 through the sale of land, and Rs 2.5 billion annually through rentals from its assets starting 2016-17. The firm has land assets in Mumbai, Noida, Gurgaon, Kolkata, Hyderabad, Chennai, Thiruvananthapuram, etc.

Further the company is devising ways and means to hive off its tower business. It is also leasing out capacity at its Mumbai, Jabalpur, Bhilai, Kolkata, Gopalpur and Kharagpur factories to the private sector. These facilities manufacture microwave towers, SIM cards, etc.

A long way to go

The government's efforts to provide the telecom PSU a new lease of life offer some hope for the company. Besides the bailout package, the government has been considering the privatisation of Mahanagar Telephone Nigam Limited (MTNL) and BSNL. While the current industry scenario is marked by falling ARPUs, rising debt levels and declining profits, the recent relaxation of foreign direct investment norms will increase investor interest in the sector in the future. A merger of MTNL and BSNL has also been on the cards for several years now. This may result in greater operational efficiencies.

However, to achieve long-term business sustainability, the operator needs to revise its strategies and plans. Although it has already taken steps in this direction, it would be interesting to see whether the incumbent would be successful in its attempt to "reconnect" India.

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