Capacity constraints, bureaucratic delays, excessive manpower, and red-tapism – state-owned Bharat Sanchar Nigam Limited's (BSNL) litany of woes seems endless. Once a profit-making venture, BSNL registered its first loss, of over Rs 18.23 billion, in 2009-10. The losses have since tripled to about Rs 60 billion in 2010-11. Its position in the wireless market has also plunged from the second spot to the fifth.

A capacity crunch has rendered the company incapable of benefiting from the mobile revolution (during 2007-11) and its fate now hinges on how well it performs in the broadband space, where the next level of telecom growth is expected to take place. The National Broadband Plan targets 75 million connections by 2012 and 160 million by 2014, and BSNL intends to retain its current market leadership position in this space.

With an internet and broadband subscriber base of 11.32 million, BSNL accounts for over 60 per cent of the country's broadband and internet market as of March 2011. Its broadband subscriber base has increased by over 100 per cent in the past year. The company is way ahead of competitors like Mahanagar Telephone Nigam Limited, Bharti Airtel and Tata Communications, which have 2.46 million, 1.27 million and 0.65 million internet and broadband subscribers respectively.

This is currently one of the most promising revenue generating streams for the operator, which is under severe financial pressure. BSNL's revenues from the internet and broadband segment have also been increasing over the past few years. The state-owned operator's revenues from the internet and broadband segment increased by over 200 per cent (albeit on a small subscriber base) from Rs 9.9 billion in 2007-08 to Rs 25.1 billion in 2009-10.

BSNL's range of broadband services includes Wi-Fi, VPNs, web hosting, co-location, games-on-demand and web conferencing. It has also tied up with Hungama Mobile to offer its broadband users an entertainment portal for downloading music and video content.

BWA woes

BSNL's attempts to use its broadband wireless access (BWA) airwaves over the past three years have not been without controversy. Being awarded spectrum well ahead of its peers worked against the company, which had no prior experience in providing these advanced broadband services.

In 2009, it was forced to cancel its tender for awarding Wi-Max franchises after its investigations revealed that five of the six shortlisted companies – WiExpert Communications, SV Telecom Systems, Digitelco Communications, Spectrus Communications and Technotial Infoways – were acting as "fronts" for certain individuals.

It was found that these companies shared the same corporate details, notaries, auditors and dates of incorporation; even their last annual general body meeting had been held on the same day. BSNL also came under pressure from its labour unions to cancel the tender, following reports of wide-scale corruption in the methodologies adopted to shortlist successful bidders.

BSNL subsequently awarded contracts to four companies – Teracom, Take Solutions, Adishwar India and Ampoules – after a retendering process, but these companies have made little progress in launching full-fledged services.

However, in the past one year, the dynamics have changed, leaving BSNL as the only company in India committed to the Wi-Max technology standard for the rollout of wireless broadband services. All other players that were awarded these airwaves much later in 2010 have switched to the upcoming long term evolution (LTE) technology platform for their 4G broadband offerings. Being the only BWA licensee adopting Wi-Max technology, BSNL is confronted with the possibility of isolation in terms of interoperability and roaming. Besides, if BSNL were to offer 4G services on the LTE platform in the future as a natural evolution for its existing customers, it would be left with a redundant Wi-Max network.

Aware of the difficult road ahead, BSNL has recently offered to surrender its broadband wireless airwaves to the government. However, even if the company now decides to change its technology path, it is in possession of spectrum in the 2.6 GHz band, which is unsuitable for TDD LTE but potentially suitable for FDD LTE. While there are concerns that the public sector unit (PSU) would lose out on 4G technologies if it surrenders its broadband spectrum, BSNL is not overly worried. Instead, it intends to focus on consolidating its existing business and in expanding its 3G network. The cash-strapped company hopes to use the funds recovered from returning BWA spectrum to strengthen its position in the 3G and broadband space.

As far as its Wi-Max commitments are concerned, in 2010, BSNL had wanted to scale down the government-led Wi-Max project for connecting 62,000 common service centres that serve rural villages, unless the government increased its financial support for the project. Today, the company plans to continue the project as part of its social obligation. BSNL has already set up 1,000 base stations for this project, and plans to increase this to 6,000 by end-2011. For Wi-Max deployment in the urban areas, BSNL has opted for the franchise model, where it works with partners who deploy the access infrastructure, and market and provision the services.

Taking the wireline route

Faced with severe financial constraints, BSNL is not in a position to invest in new networks. Therefore, it makes more business sense for the company to leverage its existing infrastructure. BSNL has 614,755 route km of optic fibre cable, the largest in the country. More than 90 per cent of its existing broadband users are on digital subscriber line (DSL) networks.

The broadband outreach in the country is still at a nascent stage, with connectivity speeds in kbps and not Mbps. Using its widespread, high speed optic fibre cable (OFC) network is one of BSNL's strategies to attract users who need high speed connections.

Beginning with Pune, BSNL launched its fibre-to-the-home (FTTH) service in October 2011. The telecom operator plans to expand the reach of its FTTH service to nearly 1,000 customers in the city over the next three months. The service will be provided through its fibre cables using the gigabit-capable passive optical network. Its subscribers can access services such as voice over internet protocol, IPTV, cable TV, video-on-demand and gaming via FTTH.

In order to strengthen its OFC network, BSNL has recently awarded a Rs 1.14 billion contract to power transmission solutions provider Sterlite Technologies for putting together a central office broadband system in the company's 20 telecom circles. The firm will install and commission the network by March 2013. Once completed, the project will have the capacity to handle about 1.6 million broadband connections. Sterlite will also manage the system for the first seven years of operation.

In yet another strategy to leverage its capability of delivering broadband on multiple technology forms, BSNL is planning to bundle its 3G data cards with its landline broadband. This implies that users can access broadband through BSNL's DSL connection while at home and migrate to its 3G network while travelling. Users can receive a single bill for the broadband service.

Other initiatives

To give a push to its broadband business, BSNL reformulated its post-paid broadband tariff structure in February 2011. With the implementation of new tariffs, the entry threshold has come down from Rs 2,150 to Rs 850, translating into a reduction of over 60 per cent. The operator has also reduced download charges from Re 0.50-Re 0.60 per MB to Re 0.20 per MB for up to 5 GB, and Re 0.10 per MB thereafter. This nearly 75 per cent reduction in tariffs is applicable for customers availing of plans ranging from Rs 250 to Rs 700.

In February 2009, BSNL tied up with Google to launch a Google Internet bus, which is a free mobile cyber café. So far, it has covered over 43,000 km, passing through 120 towns in 11 states. According to Google estimates, 1.6 million people have been offered their first online experience through this initiative. Of these, 100,000 have signed up for an internet connection of their own.

The road ahead

According to the TRAI, of the 75 million broadband connections that India is likely to have by end-2012, 17 million will be over copper, 30 million over cable and 28 million over wireless. Given that the highest number of users is expected to be on cable, BSNL's FTTH strategy may become a game changer for the company. However, it needs to be cautious about getting into situations like its controversial 45 million GSM line tender delays and cancellation, which severely impacted its growth in the wireless telephony space.

In all, the company does seem to be getting its act together in the broadband space. In its favour is its ubiquitous reach. BSNL has the largest fixed line network in the country and is also the only player with widespread rural coverage and last mile connectivity.

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