



Fall of MTNL in post reform period: An analysis

Poonam Mittal

Associate Professor, Dr. Bhim Rao Ambedkar College University of Delhi, Delhi, India

Abstract

Mahanagar Telephone Nigam Limited (MTNL) was incorporated on February 28, 1986, under the Companies Act as a wholly-owned Govt.(1) According to P. Mittal and S. Ashraf (2006), MTNL commenced its operations with the main objectives to upgrade the quality of telecom services to the international level, raising necessary financial resources for the developmental needs of telecom services and investing in human resource development to fulfil the needs of increasingly technologically- oriented services. (2)

The objective of this paper is to analyse the impact of reforms on Public Sector Enterprise, MTNL, with the help of its performance parameters. It also concluded the reasons for its downfall even after reforms. Closure of public sector units even after disinvestment left a big question mark on Government policies.

The analysis of the study is based on secondary data with 5 variables- Number of Employees, Direct Exchange Lines, Expenditure and Subscribers base is taken as Dependent and Total Income as the Independent variable during the period (2018-2021) to analyse the difference and relationship between them by using Paired T-test and Pearson Correlation respectively. No parameter showed a significant impact on income.

Keywords: disinvestment, MTNL, voluntary retirement scheme

Introduction

Mahanagar Telephone Nigam Limited (MTNL) was incorporated on February 28, 1986, under the Companies Act as a wholly-owned Govt. Company and on 15 April 1986, assumed responsibility for the control, management, and operation of the telecommunications services in the two Metropolitan Cities of Delhi and Mumbai ^[1]. The jurisdiction of the Company comprises the city of Delhi and the areas falling under the Mumbai Municipal Corporation, New Mumbai Corporation and Thane Municipal Corporation for providing fixed-line and WLL-based limited mobility services. However, for Cellular services the company has the license to provide services in Delhi including NCR (towns of Ghaziabad, Faridabad, Noida and Gurgaon) and in Mumbai including Navi Mumbai, Kalyan & Dombivali. MTNL is a complete telecom solution provider, providing the following wide range of services to its customers: Basic Telephone Service, Cellular Mobile Service (both 2G / 3G GSM, FTTH, ISDN, Broadband, Leased Circuits, IN Services, Wi-Fi hotspots, Data Center Services. (Annual Report of Department of Telecommunication) ^[1].

In addition, MTNL provides a host of value-added services to its wireline & wireless customers. VAS is normally a third-party item and is provided on a franchise model on a revenue share basis as & when available.

^[1] According to P.Mittal and S.Ashraf (2006), MTNL commenced its operations with the main objectives to upgrade the quality of telecom services to the international level, raising necessary financial resources for the developmental needs of telecom services and investing in human resource development to fulfil the needs of increasingly technologically- oriented services.

The Government of India decided to disinvest MTNL to attract private and foreign investors. The objective was to pass on the equity to the public, through stock exchanges in the country ^[2].

Shareholding Pattern of MTNL ^[1]

Table 1

	September'21	September'20	September'19
Govt. of India	56.25%	56.25%	56.25%
Indian Public	25.32%	24.86%	20.58%
MF's, UTI, Banks, FIs,	16.59%	17.12%	21.43%
Insurance Cos., Corporate, Trust,			
Clearing member HUF			
FIIS, NRI	0.72%	0.65%	0.63%
ADR/ GDRs	1.12%	1.12%	1.11%

Annual Report of Department of Telecom ^[1]

In the post-reform period, MTNL, offered a variety of new services to meet the needs of its valued customers and to face competition from private operators and created a consumer-friendly environment so that it continues to be a premier Indian Telecom company. ^[2]

As state-owned Mahanagar Telephone Nigam (MTNL), which provides telecom services in Delhi and Mumbai circles, continues to struggle with declining revenues and mounting losses in a fiercely competitive market, the government is finally exploring the option of shutting down the debt-laden firm and monetise its land, buildings and tower business. ^[3]

In 2019, there was a worry about the future of the public sector entities, including a merger of BSNL and MTNL. The return on capital employed for the two PSUs has been consistently negative, and manpower costs account for 60 and 80 per cent of their revenues respectively, compared to about 5 per cent for private operators. ^[4] The other components of the rescue package include raising sovereign bonds, monetising land assets and a voluntary retirement scheme for employees. The government has also promised allocation of 4G spectrum at 2016 prices. Two reasons were put forward for direct public sector service provision by the government — market failure and employment. The market failure argument can not be justified now. The cost of continuing the loss-making enterprise is higher than shutting it down. Shutting down may make economic sense. But laying off two lakh employees, even if continuing operations is a more expensive form of social protection, needs to be carefully planned. ^[4]

Section 2: Review of Literature

According to Bandgar Dnyanesh (2015), MTNL has a state-of-the-art infrastructure to improve its performance. It should focus on service quality so that customer satisfaction with services will increase. MTNL should aggressively market its services so that customers will get aware of these services and offers. It is suggested that front desk employees in the offices should be given an attractive uniform. Apart from that formal training should be provided to customer service employees in respect of customer handling and solving their problems. There should be a focus on solving customer complaints. A quick response from the customer service employees will improve the satisfaction of the customers. This will help in improving the satisfaction and thus loyalty of the customers. ^[5]

The natural monopoly character of telecommunications has been decidedly undermined by wireless technology. Accordingly, ownership is no longer the best way to achieve multiple government objectives if ever it was. There is evidence from India and the world that suggests development and distributional objectives are better achieved through independent regulation and the law of contract. ^[4]

The arrival of independent regulation in 1997 in the form of the Telecom Regulatory Authority of India (TRAI) and private sector participation meant the government could easily dilute its ownership without ignoring its development objectives. The government incorporated BSNL in 2000 to supply services in India except for Delhi and Mumbai, which have been served by the MTNL since 1986. The change formally created a PSU in telecom but functioning, process and culture were largely inherited from the parent department. ^[4]

Private entrants had long argued for a level playing field with the public sector, but public sectors were not in a position to compete with highly efficient private sectors. ⁽⁴⁾ Both were right from their standpoints, but asymmetric policy in favour of the public sector was hard to maintain. Thus, the public sector was persuaded to pay licence fees and for spectrum. In 2016, the entry of Reliance Jio coincided with intense tariff competition, and subsequently, a sharp fall in interconnection user charges (IUC) affected the entire telecom industry. ^[4]

Employee cost of MTNL is at an unsustainable level of close to 100% of its revenues. Its losses are more than its revenue, According to The Financial Express (2018), “Because of high leverage and heavy repayment schedule of loans as well as interest payment to banks and financial institutions in the coming years, there is a possible risk of liquidity crunch in near future, which will be a great threat to MTNL to keep it as an ongoing concern in near future”. The company has already conveyed to the department of telecommunications its inability to provide over Rs 11,000 crore by April next year to pay for one-time spectrum charges and other fees to the government to renew its 2G licences. ^[3]

Section 3: Objectives

The study focuses on the evolution and policy matters in MTNL. The study analyzes the impact of reforms on Public Sector Enterprise, MTNL, with the help of its performance parameters. It also concluded the reasons for its downfall even after reforms.

Section 4: Research Methodology

The analysis of the study is based on secondary data with 5 variables- Number of Employees, Direct Exchange Lines, Expenditure and Subscribers base is taken as Dependent and Total Income as the Independent variable during the period (2018-2021) to analyse the difference and relationship between them by using Paired T-test and Pearson Correlation respectively.

Null Hypothesis

1. There is no significant relationship between the number of employees and income.
2. There is no significant relationship between direct exchange lines and income.

3. There is no significant relationship between subscriber base and income.
4. There is no significant relationship between expenditure and income.

Alternative Hypothesis

1. There is a significant relationship between the number of employees and income.
2. There is a significant relationship between direct exchange lines and income.
3. There is a significant relationship between subscriber base and income.
4. There is a significant relationship between expenditure and income.

According to Annual Reports of the Department of Telecommunication (2021), the revival of BSNL and MTNL was approved by the Cabinet in 2019. The comprehensive revival plan consists of several measures including reduction of staff cost through Voluntary Retirement Scheme (VRS), allotment of spectrum for 4G services, monetization of land/ building, tower and fibre assets of BSNL/MTNL, debt restructuring through sovereign guarantee bonds and in-principle approval of the merger of BSNL and MTNL. (1) The Voluntary Retirement Scheme (VRS) was implemented successfully. A total of 92,956 employees of both PSUs (BSNL – 78569 and MTNL – 14387) who opted for VRS have retired on 31.01.2020. The salary expenditure in BSNL and MTNL has been reduced by around 50% (approx. Rs. 600 crores per month) and 75% (approx. Rs 140 crores per month) respectively. EBITDA (Earnings Before Interests, Taxes, Depreciation and Amortisation) have become positive in the first half of FY 2020-21 in both BSNL and MTNL. The process for spectrum allocation for 4G services to BSNL on a pan-India basis including Delhi and Mumbai has been initiated and funds have been provisioned in FY 2020-21. A sovereign guarantee of Rs 15,000 crores has been extended to BSNL/MTNL. ^[1]

Following are the major steps taken in this direction

- a. a) Reduction in the employee cost by offering VRS on the Gujarat model to the employees of age 50 years and above.
- b. b) Debt Restructuring: Sovereign Guarantee Bonds of Rs 6500 Cr of tenure of 10 years to be raised and serviced by MTNL.
- c. c) Monetization of Core and Non-Core Assets to offset the Debt burden.
- d. d) Allotment of spectrum for 4G services through capital infusion by the Govt.
- e. e) Merger of BSNL and MTNL. MTNL to be made a subsidiary of BSNL to derive the synergy in network operations and sales. (1)

As per the news of Economic Times (April 7, 2022) “Government has approved the revival plan of BSNL and MTNL on October 23, 2019, which inter-alia includes in-principle approval for the merger of MTNL and BSNL. Due to financial reasons including high debt of MTNL, the merger of MTNL with BSNL is deferred”. ^[6]

Section 5: analysis

Table 1: MTNL Performance Data

Variables	2018-19	2019-20	2020-21	TOTAL
No. of employees (in no)	20143	3899	3794	27836
Direct Exchange line (in no)	54692	16191	187491	258374
Subscriber Base (in no)(mobile+Fixed)	6554537	6336150	6050803	18941490
Expenditure (CR)	5996.91	5922.7	4332.87	16252.48
Income (CR)	2606.71	2272.02	1872.87	6751.6

Table 2: Descriptive Statistics of Variables

Variables	Mean	Median	Standard deviation	Standard error mean
No. of employees (in no)	9 278.666667	3899	9408.94	5432.51
Direct Exchange line (in no)	8 6124.666667	54692	89871.75	51887.481
Subscriber Base (in no)	6313830	6336150	252607.65	145843.092
Expenditure (CR)	4750.83	5922.7	940.04	634.193
Income (CR)	2 250.533333	2272.02	367.39	212.1136

Table 3: Paired T-Test

Variables	T-value	P-p- value (1 (1-tailed)	P-value (2-tailed)
N No. of Employees (in no.) with Income	1.2927	0.13285	0.2 657
Direct Exchange line (in no.) with Income	11.62	0.90652	0.181303
Subscriber Base (in no.) with Income	43.28	<.01 & <.05	<.01 & <.05
Expenditure (CR) with Income	5.43	0.002781	.002781

Table 4: Pearson Correlation Matrix (Sig. 1 tailed)

		Correlations				
		EMPLOYEES	DEL	SB	EXP	INCOME
EMPLOYEES	Pearson Correlation	1	-.308	.828	.981	.843
	Sig. (1-tailed)		.400	.189	.062	.181
DEL	Pearson Correlation	-.308	1	-.788	-.120	-.772
	Sig. (1-tailed)	.400		.211	.462	.219
SB	Pearson Correlation	.828	-.788	1	.705	1.000**
	Sig. (1-tailed)	.189	.211		.251	.008
EXP	Pearson Correlation	.981	-.120	.705	1	.723
	Sig. (1-tailed)	.062	.462	.251		.243
INCOME	Pearson Correlation	.843	-.772	1.000**	.723	1
	Sig. (1-tailed)	.181	.219	.008	.243	

** . Correlation is significant at the 0.01 level (1-tailed).

Table 5: Pearson Correlation Matrix (sig. 2-tailed)

		Correlations				
		EMPLOYEES	DEL	SB	EXP	INCOME
EMPLOYEES	Pearson Correlation	1	-.308	.828	.981	.843
	Sig. (2-tailed)		.801	.379	.123	.362
DEL	Pearson Correlation	-.308	1	-.788	-.120	-.772
	Sig. (2-tailed)	.801		.422	.924	.439
SB	Pearson Correlation	.828	-.788	1	.705	1.000*
	Sig. (2-tailed)	.379	.422		.502	.017
EXP	Pearson Correlation	.981	-.120	.705	1	.723
	Sig. (2-tailed)	.123	.924	.502		.485
INCOME	Pearson Correlation	.843	-.772	1.000*	.723	1
	Sig. (2-tailed)	.362	.439	.017	.485	

*. Correlation is significant at the 0.05 level (2-tailed).

Discussion

According to Table 1, the MTNL performance data has shown 5 variables and Table 2 shows Descriptive Statistics considering the standard deviation for them as- Number of Employees (in no.) has std. dev. (9408.94) which is seen lower due to the implementation of a voluntary retirement scheme by MTNL in the year 2020. The Direct Exchange Line (in no.) has std. dev. (89871.75) seen higher due to a comprehensive revival plan of MTNL consisting of expansion of networks. The Subscriber base (in no.) has std. dev. (252607) which is increasing due to the value-added services and 4G network offered by MTNL. The Expenditure (in crores) has std. dev.(940.04) is seen lower due to reduced staff strength. The Income (in crores) has std. dev. (367.39) due to policy failure and aggressive competition by private players.

In Table 3, Paired T-test shows the significant difference among the variables with income as seen the highest with Subscriber base (43.28) and significant at $p < .01$ and $< .05$ due to the provision of mobile services in Delhi including NCR and Mumbai including Navi Mumbai, Kalyan and Dombivali. The t-value in expenditure has been less (5.43) due to the acceptance of the VRS scheme by 88% of eligible employees. Due to reduced staff cost, even EBITDA became positive after a period of more than 5 years.

According to Table 4.1, Pearson Correlation Matrix (Sig-1-tailed) shows a higher positive relationship with Subscriber Base and Income (3) due to its network expansion in Navi Mumbai and NCR. The Direct Exchange Line with Income shows a negative relationship as (-.772) due to fewer exchange lines and less network expansion by MTNL in 2020. The data shows that all the other variables are significant at the 0.01 level.

In Table 4.2, Pearson Correlation Matrix (Sig-2 tailed) shows the dependency of income on employee's strength which indicates that all the variables are significant at a 0.05 level.

The null hypothesis is accepted in showing the result which is not significant at $p < .01$ and $p < .05$ for the number of employees and income as well as for the direct exchange line with income.

The null hypothesis is rejected with subscriber base and income as well as an expenditure with income due at $p < .01$ and $p < .05$ due to an increase in value-added services, and mobile services in some more regions with

Delhi and Mumbai indicating that the increased subscriber base and increased expenditure for the growth of the company marginally help in increasing the income of MTNL.

It is observed that no parameter is showing a significant relationship with Income except subscriber base of 2019..

Section 6: Conclusion

Mahanagar Telephone Nigam Limited (MTNL) was incorporated on February 28, 1986, under the Companies Act as a wholly-owned Govt. Company and on 15 April 1986, assumed responsibility for the control, management, and operation of the telecommunications services in the two Metropolitan Cities of Delhi and Mumbai. (1) With the large objective of bringing efficiency and quality in its services and upgrading its services to international standards, the Government of India decided to disinvest the public sector unit in the year 1991. In the year 2021, the Government approved 100% FDI in the Telecom sector through an automatic route. Even after reforms, the performance of MTNL didn't show positive outcomes. The biggest reason is the competition with big giants like Jio and Airtel. Large-size firms made huge investments in this sector. Attractive offers by Jio like unlimited free calls, a 5G network, and the easily accessible network increased its subscribers base and made Jio a profit-making unit. On the other hand, MTNL suffered a setback due to its obsolete policies like any other public sector unit. In the year 2019 only, the Government decided to revive MTNL by merging it with BSNL which was later deferred due to financial constraints, according to ET News of April 2022.

The study analysed five performance parameters of MTNL during the period 2018-2021. It is concluded that the huge loss of MTNL, a public sector unit, was due to its high staff cost. To reduce this cost MTNL implemented a Voluntary Retirement Scheme. A total of 92,956 employees of both PSUs (BSNL – 78569 and MTNL – 14387) who opted for VRS have retired on 31.01.2020. The salary expenditure in BSNL and MTNL has been reduced by around 50% (approx. Rs. 600 crores per month) and 75% (approx. Rs 140 crores per month) respectively. (1) Laying off staff is not considered as a good option for the revival of any company. In economics, a reduction in cost is not considered a good way for any company to survive. After achieving the minimum cost or optimum point, any business has to focus on increasing cost or expenditure to increase its output. Profit cannot be made without increasing developmental expenditure. But for public-sector units like MTNL employees are not an asset but a burden. The company is making efforts to increase its subscriber base. To increase its subscriber base, the company will have to lay down more Direct exchange lines and have to expand modernised networks. But with huge loans and high spectrum fees, it is not possible for MTNL to survive in this market. Closure of public sector units even after disinvestment left a big question mark on Government policies.

MTNL should focus on its world-class services as promised by the company itself. To survive in this competitive environment the company will have to focus on efficiency and quality in the provision of its diversified services. MTNL has to modernise its Network by adopting modern technology and a customer-friendly approach.

"With Rs 26,000 crore debt, even if God comes to earth and tries to address its problems, the company cannot be revived. It is a fact of life; we have to accept it," according to MTNL CMD. [6]

References

1. <https://dot.gov.in/reports-statistic/2471-2018-19,2019-20,2020-21,2021-22>
2. Mittal Poonam and Asraf Shahid. Competition Privatisation and Reforms: The Indian Telecom Industry. Academic Excellence, 2006.
3. <https://www.financialexpress.com/industry/mtnl-is-winding-up-finally-heres-why/1141900/>
4. <https://indianexpress.com/article/opinion/columns/wrong-number-mtnl-bsnl-telecommunications-6121988/>
5. <http://210.212.169.38/xmlui/bitstream/handle/123456789/1887/Thesis%20%28P-479%29.pdf?sequence=1&isAllowed=y>
6. <https://m.economictimes.com/industry/telecom/telecom-news/government-defers-proposal-to-merge-bsnl-mtnl-due-to-financial-reasons/articleshow/90688358.cms>