Demand for Grants 2019-20 Analysis

Telecommunications

The Department of Telecommunications, Ministry of Communications is responsible for policy, licensing, monitoring, regulation, research and international cooperation in the field of telecommunications. The Department operates several Public Sector Undertakings involved in providing telecommunication services, consultancy and equipment manufacturing. This note presents the trends in expenditure and discusses some of the issues in the sector.

Overview of Finances

Expenditure\(^1\)\(^2\)

In 2019-20, the Department has been allocated Rs 27,338 crore, a 27% increase over the revised estimates of 2018-19. Revenue expenditure comprises 82% of the budget and the capital expenditure is at 18%. As seen in Table 1, capital expenditure and revenue expenditure have increased by 45% and 23% over the revised estimates of 2018-19 respectively.

Table 1: Expenditure Budget-Department of Telecommunications (in Rs crore) (2019-20)

<table>
<thead>
<tr>
<th></th>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>19,594</td>
<td>18,120</td>
<td>22,344</td>
<td>23%</td>
</tr>
<tr>
<td>Capital</td>
<td>4,206</td>
<td>3,457</td>
<td>4,995</td>
<td>45%</td>
</tr>
<tr>
<td>Total</td>
<td>23,800</td>
<td>21,576</td>
<td>27,338</td>
<td>27%</td>
</tr>
</tbody>
</table>

Source: Union Budget, 2019-20; PRS.
Note: RE: Revised Estimates; BE: Budget Estimates.

Figure 1 depicts the trend in actual expenditure during the period 2010-20. There has been a general increase in actual expenditure during this period. The expenditure during the period saw a Compounded Annual Growth Rate (CAGR) of 14%. CAGR is the annual growth rate over a certain period. The expenditure during the period 2015-20 has seen a significant jump compared to 2010-15. The revenue expenditure and capital expenditure during the period 2010-20 saw a CAGR of 12% and 49% respectively. The significant increase in capital expenditure is owing to expenditure toward the Optical Fibre Network for Defence Services scheme.

As seen in Figure 2, funds allocated to the Department has been underutilised in general, except for 2015-16 and 2016-17, where actual expenditure exceeded budget estimates by 52% and 29% respectively. Increased expenditure in 2015-16 was largely due to the increased financial support provided to PSUs and additional transfer to Universal Service Obligation Fund. As per the revised estimates of 2018-19, 77% of the allotted funds have been utilised.

Figure 1: Expenditure-Department of Telecommunications (in Rs crore) (2010-20)

![Figure 1: Expenditure-Department of Telecommunications (in Rs crore) (2010-20)](image)

Sources: Union Budget 2010-20; PRS.

Figure 2: Fund Utilisation-Department of Telecommunications (In Rs crore) (2010-19)

![Figure 2: Fund Utilisation-Department of Telecommunications (In Rs crore) (2010-19)](image)

Sources: Union Budget 2010-19; PRS.
Note: BE: Budget Estimates; Revised Estimates used for 2018-19.

Major Expenditure Heads

Expenditure on pensions continues to be a high proportion of the Department’s expenditure. For example, in 2019-20, the highest allocation is toward pension at 45% of the total expenditure (Rs 12,210 crore). Contribution toward Universal Services Obligation Fund (USOF) is 31% of the total
expenditure (Rs 8,350 crore). The funds from USOF are being used to finance BharatNet, the flagship scheme of the Department. Under the expenditure head “Compensation to Telecom Service Providers”, funds from USOF are also being used to finance several small as well as large scale schemes for creation and augmentation of telecom infrastructure and services in rural and remote areas.

Figure 3: Composition of Expenditure

![Figure 3: Composition of Expenditure]

Source: Union Budget, 2019-20; PRS.

Table 2: Major Expenditure Heads-Department of Telecommunications (in Rs crore) (2019-20)

<table>
<thead>
<tr>
<th>Expenditure Head</th>
<th>2017-18 Actuals</th>
<th>2018-19 BE</th>
<th>2019-20 RE</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension</td>
<td>10,901</td>
<td>11,676</td>
<td>12,210</td>
<td>5%</td>
</tr>
<tr>
<td>BharatNet</td>
<td>6,146</td>
<td>4,000</td>
<td>6,000</td>
<td>50%</td>
</tr>
<tr>
<td>Network for Defence Services</td>
<td>3,755</td>
<td>2,500</td>
<td>4,725</td>
<td>89%</td>
</tr>
<tr>
<td>Compensation to TSPs</td>
<td>853</td>
<td>1,000</td>
<td>2,350</td>
<td>135%</td>
</tr>
<tr>
<td>Total Support to PSUs</td>
<td>1,090</td>
<td>1,190</td>
<td>789</td>
<td>-34%</td>
</tr>
<tr>
<td>Others</td>
<td>1,056</td>
<td>1,211</td>
<td>1,265</td>
<td>5%</td>
</tr>
<tr>
<td>Total</td>
<td>23,800</td>
<td>21,576</td>
<td>27,338</td>
<td>27%</td>
</tr>
</tbody>
</table>

Source: Union Budget, 2019-20; PRS.


Universal Service Obligation Fund

The Universal Service Obligation Fund was established to provide widespread, non-discriminatory and affordable access to quality Information and Communication Technology services to people in rural and remote areas. The resources for the fund are raised through a Universal Access Levy (UAL) which is 5% of the Adjusted Gross Revenue (AGR) earned by all the operators under various licenses currently. Adjusted Gross Revenue is the value of gross revenue after deduction of taxes and roaming/PSTN charges from Gross Revenue. UAL is first credited to the Consolidated Fund of India and then disbursed to USOF as per the budgetary proposal of the Department. A total expenditure of Rs 8,350 crore from this fund has been planned for 2019-20. This is an increase of 67% over the revised estimates of 2018-19. The period 2010-20 has seen a general increase in the actual expenditure under USOF. Between 2010 and 2019, the expenditure under USOF has grown at a CAGR of 6%.

Figure 4: Expenditure from USOF (in Rs crore) (2010-20)

![Figure 4: Expenditure from USOF (in Rs crore) (2010-20)]

Sources: Union Budget 2010-20; PRS.


Over the last five years, the allocation toward USOF has generally been less than the demand by the Department. As seen in Table 3, in the year 2014-15, Rs 3,537 crore (24%) was allocated in budget estimates against the demand of Rs 14,790 crore. Similarly, only Rs 2,400 crore (19%) was allocated against the demand of Rs 12,600 crore in budget estimates of 2016-17.

Table 3: Demand vs Allocation-USOF (in Rs crore) (2014-19)

<table>
<thead>
<tr>
<th>Year</th>
<th>Demand</th>
<th>BE</th>
<th>RE</th>
<th>Actuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>14,790</td>
<td>3,537</td>
<td>2,087</td>
<td>2,087</td>
</tr>
<tr>
<td>2015-16</td>
<td>12,600</td>
<td>2,400</td>
<td>3,100</td>
<td>3,100</td>
</tr>
<tr>
<td>2016-17</td>
<td>7,350</td>
<td>2,755</td>
<td>7,226</td>
<td>0</td>
</tr>
<tr>
<td>2017-18</td>
<td>13,938</td>
<td>11,636</td>
<td>7,000</td>
<td>7,000</td>
</tr>
<tr>
<td>2018-19</td>
<td>10,450</td>
<td>10,000</td>
<td>5,000</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Report No 47, Standing Committee on Information Technology; PRS.

Note: Revised Estimates used for 2018-19.

Figure 5 depicts the trend in fund utilisation under USOF during 2010-2019. The fund utilisation has been less in the last two years. In the years 2017-18 and 2018-19, only 60% and 50% of the allocation were utilised respectively.
Balance of Funds under USOF

In its audit report of the Ministry of Communications for the FY 2017-18, Comptroller and Auditor General of India (CAG) has observed that a large amount earned as Universal Access Levy (UAL) is yet to be transferred to Universal Service Obligation Fund (USOF).\(^4\) At the end of 2018-19, a total of Rs 50,554 crore is yet to be transferred to USOF by the central government.\(^5\) The disbursal to USOF has been only a small fraction of UAL over the years. A total of Rs 74,308 crore has been earned as UAL between 2009 and 2018 out of which only Rs 34,177 crore has been disbursed (46%).\(^5\)

As seen in Figure 6, the gap between disbursal and UAL has been high over the years, which has led to a rise in balance. In January 2015, the Telecom Regulatory Authority of India (TRAI) had observed that the Department has not been able to devise enough schemes to utilise the earnings of UAL.\(^6\) However, the situation has improved in recent years. For instance, in 2016-17 and 2017-18, the disbursal has better matched the UAL of that year. In March 2018, the Standing Committee on Information Technology noted that with increasing outlay on schemes including BharatNet, Mobile Towers in Left Wing Extremism Affected Areas Phase-II and Comprehensive Telecom Development Plan for the North-East, the situation will improve further.\(^3\)

BharatNet

BharatNet aims to create a network to connect all the Gram Panchayats (approx. 2.5 lakh GPs) by broadband by laying around 6.5 lakh km of optical fibre. It seeks to provide non-discriminatory access to the network to all the telecom service providers. These service providers include mobile operators, Internet Service Providers (ISPs), Cable TV operators, content providers. Bharat Broadband Network Limited (BBNL) is a special purpose vehicle to create, operate, maintain and manage the BharatNet infrastructure. The project is financed through the USOF. The estimated total cost of the project is Rs 42,068 crore.\(^3\)

BharatNet is divided into three phases. Phase-I to connect 1.2 lakh GPs was completed in December 2017. The phase-II to connect the remaining GPs is underway. The phase-III is earmarked for future purposes. The scheme also aims to provide last mile connectivity through Wi-Fi by creating 5 access points per GP (12.5 lakh Wi-Fi hotspots).\(^7\)

As seen in Table 4, In 2019-20, the budget allocation of the scheme has increased by 50% over the revised estimates of the previous year. However, the revised estimates of the 2018-19 for the scheme was reduced by 51% over the budget estimates of that year.

<table>
<thead>
<tr>
<th>Year</th>
<th>Actuals</th>
<th>Revised Estimates</th>
<th>Budget Estimates</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017-18</td>
<td>6,146</td>
<td>4,000</td>
<td>6,000</td>
<td>50%</td>
</tr>
</tbody>
</table>

Source: Union Budget, 2019-20; PRS.
Note: RE: Revised Estimates; BE: Budget Estimates.

Fund utilisation constantly exceeded the budget estimates between 2014-15 and 2016-17. The fund utilisation during the period 2017-2019 has been poor. Only 44% and 49% of the budgeted amount were utilised in 2017-18 and 2018-19 respectively. This may be due to completion of phase-I by December 2017 and possible delay in kickstart of phase-II.
Analysis

Delay in Completion

In March 2018, the Standing Committee on Information Technology noted that although approved in 2011, the initial target of BharatNet had to be revised in 2014 due to inadequate planning and design, and unpreparedness to address the issues.\(^8\) Under the revised deadline, the phase-I was due by March 2017 but could be completed by December 2017.\(^8\) The phase-II which was to be completed by March 2019, is not near completion and the target has been revised to March 2020.\(^3\)\(^8\)\(^9\) As on June 20, 2019, out of about 6.5 lakh km, a total of 3.4 lakh km (52%) of the optical fibre network has been laid.\(^10\) Out of 2.5 lakh GPs, a total of 1.3 lakh GPs (52%) have been covered; out of which, 1.2 lakh GPs (48%) are service-ready under the overall project.\(^10\) As on June 24, 2019, out of 2.5 lakh GPs, installation of Wi-Fi is complete in 0.4 lakh GPs (16%) and hotspots are operational in 0.1 lakh GPs (4%).\(^11\)

Underutilization of BharatNet

In August 2018, the Standing Committee on Information Technology observed that the status of utilization of BharatNet is still very low and more concrete efforts are required to achieve full potential.\(^3\) In April 2019, BharatNet had 11,92,966 users; who consumed 78,538.7 GB data during that month.\(^11\) This implies that average data consumption per user per day in April 2019 was 2.2 MB.

Optical Fibre Cable based Network for Defence Services

This project aims to provide a dedicated Pan-India optical fibre cable-based network for use by defence services. The original total sanctioned cost of the project is Rs 13,334 crore.\(^3\) In May 2018, the central government announced that the budget of the project has been increased to Rs 24,664 crore.\(^12\) BSNL is the implementing agency for the project. A total of 60,000 km of the optical fibre network is to be laid under this project. In 2019-20, the allocation to the scheme has increased by 89% over the revised estimates of the previous year. The revised estimates of the 2018-19 for the scheme was 44% lower than the budget estimates of that year.

Table 5: Budget Estimates—Network for Defence Services (in Rs crore) (2019-20)

<table>
<thead>
<tr>
<th></th>
<th>2017-18 Actuals</th>
<th>2018-19 RE</th>
<th>2019-20 BE</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>3,755</td>
<td>2,500</td>
<td>4,725</td>
<td>89%</td>
</tr>
</tbody>
</table>

Source: Union Budget, 2019-20; PRS.
Note: RE: Revised Estimates; BE: Budget Estimates.

Figure 8 depicts the trend in fund utilisation under this scheme during 2014-19. Only 12% of the allotted fund was utilised in 2014-15. In 2017-18 and 2018-19, actuals exceeded the budget estimates by 19% and 25% respectively. As per the revised estimates of 2018-19, only 56% of the allotted fund was utilised.

Analysis

Delay in completion

The project was to be completed by July 2015.\(^3\) As of June 2019, 56,400 km (94%) of the optical fibre network has been laid.\(^13\) In May 2018, the central government announced that the project will be completed by May 2020.\(^13\) In March 2018, the Standing Committee on Information Technology observed that delay in the implementation of the project has led to cost overrun.\(^3\)

Receipts\(^14\),\(^15\)

One of the major sources of receipts of the Department is non-tax revenue. The non-tax revenue of the Department includes receipts from spectrum auctions, one-time fee from new operators and recurring license fees and spectrum charges from telecom service providers which is a percentage share of the Adjusted Gross Revenue (AGR) of the operators.

Non-Tax Revenue

Department of Telecommunications is one of the largest contributors to the non-tax revenue of the Government of India. It was the largest contributor.
in 2016-17 accounting for 26% of the non-tax revenue. The projected non-tax revenue of the Department for 2019-20 at Rs 50,520 crore is 29% higher than the revised estimates of 2018-19 (Rs 39,245 crore). The revised estimates of 2018-19 has been reduced by 19% from the budget estimates. The actual revenue of 2017-18 was only 62% of the budget estimates.

### Table 6: Non-Tax Revenue-Department of Telecommunications (in Rs crore) (2019-20)

<table>
<thead>
<tr>
<th>Duration (In Years)</th>
<th>Actuals</th>
<th>RE</th>
<th>BE</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017-18</td>
<td>32,066</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018-19</td>
<td>39,245</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019-20</td>
<td>50,520</td>
<td></td>
<td></td>
<td>29%</td>
</tr>
<tr>
<td>Total</td>
<td>57,872</td>
<td></td>
<td></td>
<td>30%</td>
</tr>
</tbody>
</table>

Source: Union Budget, 2019-20; PRS.
Note: RE: Revised Estimates; BE: Budget Estimates.

As shown in Figure 9, in 2017-18 and 2018-19, there was a decline in non-tax revenue compared to earlier years. There was a decrease in the revenue of the telecom sector owing to stiff competition and aggressive pricing war. As the non-tax revenue of the Department is proportional to the revenue of the telecom sector, the effect of the decline in the latter can be seen in the former. As per the budget estimates of 2019-20, the revenue is expected to show an upward trend.

### Figure 9: Non-Tax Revenue-Department of Telecommunications (In Rs crore) (2010-20)

Source: Union Budget, 2009-10 to 2019-20; PRS.

The arrears of non-tax revenue of the Department are 29.9% of the total arrears of non-tax revenue of the central government. Of the arrears overdue by 0-2 years, the arrears of the department comprise of a major portion of the total arrears of the central government (>50%).

### Table 7: Arrears of Non-Tax Revenue-Department of Telecommunications (in Rs crore) (2019-20)

<table>
<thead>
<tr>
<th>Duration (In Years)</th>
<th>Arrears-DoT</th>
<th>Arrears-GoI</th>
<th>%Share*</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-1</td>
<td>14,700</td>
<td>26,938</td>
<td>55%</td>
</tr>
<tr>
<td>1-2</td>
<td>35,516</td>
<td>51,798</td>
<td>69%</td>
</tr>
<tr>
<td>2-3</td>
<td>3,498</td>
<td>16,966</td>
<td>21%</td>
</tr>
<tr>
<td>3-5</td>
<td>3,172</td>
<td>25,294</td>
<td>13%</td>
</tr>
<tr>
<td>&gt;5</td>
<td>996</td>
<td>72,316</td>
<td>1%</td>
</tr>
<tr>
<td>Total</td>
<td>57,872</td>
<td>1,93,313</td>
<td>30%</td>
</tr>
</tbody>
</table>

Source: Union Budget, 2019-20; PRS.
* %Share indicates the share of Department of Telecommunications in arrears of Government of India.
Note: DoT: Department of Telecommunications; GoI: Government of India.

### Issues for Consideration

#### State of Finances of Telecom Sector

In March 2018, the Standing Committee on Information Technology observed that after entry of a new private player in 2016, the sector has seen stiff competition and aggressive pricing war. This has led to reduced tariffs and a notable decline in revenue. In the aftermath, the weaker players have exited the market and consolidation among other companies is ensuing. The telecom sector has large capital expenditure requirements. The near-term implication has been a serious drop in profitability and a problem of high debt.

With the introduction of 4G, the telecom sector has shifted from the “voice-centric” to “data-centric” market. Between the fourth quarter of 2016 and the fourth quarter of 2018, the total number of internet subscribers has increased from 39.1 crore to 60.4 crore. Between the fourth quarter of 2016 and the fourth quarter of 2018, the price of per GB data has gone down from Rs 163.8 to Rs 10.5. The data consumption per user per month during the same period has grown from 878.6 MB to 8.7 GB.

At the end of 2018, the total internet subscribers per 100 population are 46.1 in India. The total urban Internet subscribers per 100 population are 93.9 whereas the total rural Internet subscribers per 100 population are 23.9 in India. As per the International Telecommunications Union report, in 2017, the number of Internet users per 100 inhabitants was 48.0 in the world, 79.6 in Europe, 65.9 in Americas and 43.9 in Asia-Pacific.

Even though consumption has increased manifold and the subscriber base continues to grow, due to a steep reduction in tariffs, the gross revenue of the telecom sector has seen an adverse effect. The gross revenue of the sector grew at a CAGR of 7.4% during 2009-2016. Between 2016 and 2018, the gross revenue declined at a CAGR of 7.9%. The Adjusted Gross Revenue fell by 18.9% between 2016 and 2017 and by 10.2% between 2017 and 2018. Adjusted Gross Revenue is the value after deduction...
of taxes and roaming/PSTN charges from Gross Revenue.

**Figure 10: Gross Revenue and Adjusted Gross Revenue of Telecom Sector (In Rs crore) (2009-18)**

Source: TRAI Performance Indicator Reports, 2009-18; PRS.

Figure 11 shows the trend in Average Revenue Per Year between 2009 and 2018. The average revenue per user (ARPU) has been seeing a decline. In the first quarter of 2009, ARPU was Rs 205.0 whereas, in the last quarter of 2018, ARPU was Rs 72.8, a decrease of 64.9%.

19, 21 The ARPU decreased by 33.0% between 2016 and 2017. 22, 23 Between 2017 and 2018, it decreased by 15.0%.

**Figure 11: Average Revenue per User (ARPU) (In Rs) (2009-18)**

Source: TRAI Performance Indicator Reports, 2009-18; PRS.

As of March 2018, the total debt of the telecom sector stood at Rs 7.9 lakh crore. 3 This included Rs 2.6 lakh crore of total borrowings out of which Rs 1.8 lakh crore was domestic borrowing. 3 This also included deferred liability worth Rs 3.0 lakh crore to the Department of telecommunications on account of spectrum fees. 3 This is more than three times the Annual Gross Revenue of the sector.

In July 2017, the Inter-Ministerial Group on Stressed Assets noted that some operators are facing financial stress due to low operating cash flows, inadequate equity infusion and unsustainable debt. 3

During 2010-2019, the telecom sector has been the third largest recipient sector of FDI equity inflow. 24 The FDI equity inflow in the Financial Year 2017-18 was Rs 39,748 crore whereas the FDI equity inflow in the Financial Year 2018-19 was Rs 18,337 crore, a decrease of 54%. 24, 25

The Economic Survey of India (2017-18) had observed that-
The total NPA of the telecom sector reduced from Rs 3,465 crore in 2015-16 to Rs 2,335 crore in 2016-17. 26 However, the share of NPAs of telecom sector in total NPAs of infrastructure sector increased to 8.7% in 2016-17 from 5.0% in 2015-16. Power and telecom sectors have aggravated the Twin Balance Sheet problem of the banking sector. 26 Twin balance sheet problem refers to the stress on balance sheets of banks due to NPAs or bad loans on one hand, and heavily indebted corporates on the other. The banking system as well as the government to whom the telecom sector owes a variety of fees, both are exposed due to this situation. 26

**Spectrum Fees and Taxes**

The Economic Survey of India (2017-18) had noted that the telecom sector is facing an issue of higher spectrum charges. 26 It opined that lower spectrum charges will augment the spread of telecommunication services and will help in socio-economic transformation. 27

In January 2015, Telecom Regulatory Authority of India (TRAI) in its report observed that the total effective rate of the license-related levy has gone up significantly in the recent past and that spectrum prices in the country are amongst the highest in the world. 6 The total taxes and levies are as high as 30% of the revenue of an operator. 6 This adversely impacts the need to continue a low tariff regime in the country. It had recommended that the license fee should be reduced from 8% to 6% by reducing Universal Access Levy from 5% to 3%. 6 As of June 2019, the license fee is 8%. 28

In 2017, TRAI, as well as the Department of Telecommunications, had recommended lowering General Service Tax (GST) from 18% to 5% and 12% respectively for the telecom sector. 29

**Spectrum Management**

One of the key functions of the Department of Telecommunications is to allocate, monitor and manage spectrum. The Comptroller and Auditor General of India (CAG) in its audit report for FY 2017-18 had noted that. 4

The National Frequency Register was not being properly maintained and was not the correct reflection of spectrum assignments. National Frequency Register (NFR) is the basic record for all frequency assignments and is referred to identify assignable frequency for any new applicant. 30

A substantial amount of spectrum identified for commercial use was allotted to Railways and
Defence. Due to limited use by these departments, it had left such spectrum unused and its commercial potential unutilised.  

There were serious deficiencies in the effective monitoring of the spectrum. The updated database of wireless licenses was not being provided to monitoring stations thereby reducing the whole monitoring process in an ineffective exercise. There was inattention toward maintenance of monitoring equipment. Ineffective monitoring could lead to unauthorised uses or misuse of the spectrum by undesirable entities.

5G Readiness

5G is the next technology frontier in the telecom sector. According to the High-Level Forum of the Department on 5G, 5G is predicted to create a cumulative economic impact of USD one trillion in India by 2035. As of June 2019, 5G services are being rolled out on a commercial basis in countries like South Korea, USA, Spain and Italy, although on a limited scale.

TRAI has observed that spectrum availability is one of the most important issues in full realization of the potential of 5G. In August 2018, the High-Level Forum of the Department on 5G recommended that fresh spectrum should be allocated for 5G services. As of June 2016, the auction of spectrum for 5G is yet to be completed.

As per TRAI’s white paper on 5G, an additional investment of 4.0-4.5 lakh crore rupees will be required by the telecom sector to seamlessly implement 5G networks. 3.5 GHz spectrum band is likely to be the first band to be globally used for 5G deployment. The Department is yet to auction spectrum in that band. The telecom service providers are likely to incur initially an additional investment while launching 5G services on account of spectrum cost.

State of PSUs

Telecom Service Providers

BSNL and MTNL are the public sector undertakings (PSUs) engaged in providing telecommunication services in the country. BSNL and MTNL have been incurring losses continuously since FY 2009-10. As per the Department of Public Enterprises guidelines, both these PSUs have been declared as “Incipient Sick”. A PSU is considered “Incipient Sick” if its net worth is less than 50% of its paid-up capital in any financial year, or if it had incurred losses for three consecutive years. Consequently, the Department has initiated actions for reviving both the companies. The problem of losses has been aggravated by an industry-wide downturn since 2016-17.

Amidst the problem of high debt in the telecom sector, the debt burden of BSNL is 1.2% (Rs 9,000 crore) of that of the sector. It is the least indebted company in the sector. In comparison, as of December 2017, the total outstanding debt of MTNL was Rs 16,870 crore. The outstanding debt of MTNL was more than five times the projected total income of MTNL in 2018-19 (Rs 2,952 crore).

The market share of PSU operators in the number of total subscribers as well as revenue share has seen a decline. The market share of PSU operators in total subscribers was 15.4% during the fourth quarter of 2010. It came down to 10.2% during the fourth quarter of 2016. However, it has increased to 11.0% during the fourth quarter of 2018. The share of PSU operators in the gross revenue of the telecom sector was 15.9% during the fourth quarter of 2010. It came down to 10.5% during the fourth quarter of 2016. It has further reduced to 8.3% during the fourth quarter of 2018.

As the telecom sector has become data-centric, the absence of 4G spectrum with BSNL (except few circles) and MTNL has only compounded the problem of declining market share as well as revenue.

BSNL and MTNL spend a significant share of their income on staff salaries. As of June 2019, the employee cost for BSNL and MTNL was 75% and 87% of the total income respectively. In comparison, the employee cost for private telecom service providers varied between 2% to 6% of the total income.

In March 2018, the Standing Committee on Information Technology noted that there has been continuous under-performance by telecom PSUs in meeting Internal and External Budgetary Resources (IEBR) targets. IEBR is an important revenue source for implementing various schemes of the PSUs and it constitutes the resources raised by PSUs through profits, loans and equity. The shrinking revenue has hampered their capabilities to generate resources. Only 26.6%, 39.0% and 24.1% of the IEBR target was met in 2014-15, 2015-16 and 2016-17 respectively.

The Department of Telecommunications had to provide financial support to BSNL and MTNL over the years. For instance, loan of value Rs 983 crore and interest of value Rs 428 crore were waived in 2018-19 in case of BSNL.

Indian Telephone Industries Limited (ITIL)

Indian Telephone Industries Limited is involved in telecom equipment manufacturing. Rs 4,157 crore package was approved for ITIL as part of a revival plan in 2014. ITIL has seen a consistent increase in its turnover since 2015-16. Its total income has increased from Rs 620 crore in 2014-15 to Rs 1,611 crore in 2016-17. The company has not incurred loss since 2015-16.

In March 2018, the Standing Committee on Information Technology observed that ITIL’s turnover is mainly coming from government business and recommended that it should work toward increasing its share in private business.
Demand for Grants 2019-20 Analysis: Telecommunications

5 “Statement showing the balance of UAL amount available as potential fund under USO as on 31.03.2019”, Website as accessed on July 1, 2019. http://www.usof.gov.in/usof-cms/usof-fund-status-table.jsp
7 “Telecom at a Glance”, Department of Telecommunications Website as accessed on July 1, 2019. http://164.100.47.193/hscommittee/Information%20Technology/16_Information_Technology_47.pdf

29 Unstarred Question No 1509, Lok Sabha, Ministry of Communications, June 27, 2017. https://sparlib.nic.in/bitstream/123456789/765718/1/AU1509_13_07062017_0.pdf

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