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भारत संचार निगम लिमिटेड
(भारत सरकार का उद्यम)
BHARAT SANCHAR NIGAM LTD.
(A Government of India Enterprises)

अनुपम श्रीवास्तव
अध्यक्ष एवं प्रबन्ध निदेशक
ANUPAM SHRIVASTAVA
Chairman & Managing Director

No. BSNL/38-2/SR/2016
Dated: 14.03.2017

To

The Secretary to the Govt. of India,
Ministry of Communications,
Department of Telecommunications,
Sanchar Bhawan,
20 Ashoka Road,
New Delhi-110 001.

Subject:- 3rd PRC Recommendations on the revision of the salary and allowances of the Executives of Bharat Sanchar Nigam Limited (BSNL) – Comments thereon.

Ref: DoT letter F.No 47-63/2015-Pen(T) (pt) dated 28.02.2017

Sir,

Kindly refer to the letter under reference seeking comments of BSNL on the recommendations of 3rd Pay Revision Committee (PRC). The PRC recommendations have been perused from the perspective of BSNL and it is seen that:

1. IMPORTANT RECOMMENDATIONS OF THE 3rd PRC

1.1. The 3rd Pay Revision Committee had taken note of the salient objectives stated in the Govt. of India's Resolution for setting up the 3rd Pay Revision Committee for revision of the salary and allowances of the Board and below Board level Executives of the CPSEs. The objective, *inter alia,* stated that, in the prevailing business environment in the Country and the world in which the CPSEs operate their employees have to be provided with **suitable working conditions, emoluments and incentives to motivate them** to strive for further growth, productivity and profitability of their enterprises,.."

पंजीकृत एवं निगमित कार्यालय : भारत संचार भवन, हरीश चन्द्र माथुर लेन, जनपथ, नई दिल्ली-110001
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Corporate Identity Number (CIN) : U74899DL2000GOI107739
Website : www.bsnl.co.in

1.2. The Committee has for the purpose of implementation of the revision of salary and allowances, classified the CPSEs in three classes viz (i) profit making (ii) Sick and (iii) incipient sick and weak.

1.3. The Committee in its recommendations has provided for 15% fitment benefit implementation by the CPSEs based upon affordability i.e. PBT (Profit Before Tax) for the last three years. For sick CPSEs it provided that the implementation of pay revision should be in accordance with their approved revival package(s).

1.4. As regards the incipient sick CPSEs, which are in "high priority" or "priority" category, the Committee has neither made any specific recommendation nor denied implementation. By mentioning the DPE's OM dated 29.10.2015 read with the 14th Finance Commission recommendations, the 3rd PRC, seems to have acknowledged the desirability of revision of salary and allowances of the Board and below Board level Executives of incipient sick CPSEs, which are categorized as "High priority" or "Priority" by the 14th Finance Commission.

1.5. The Committee, at Para 1.5.8, while discussing the role of administrative ministry for formulating revival road map etc., has not given any specific recommendations for implementation in incipient sick CPSE. *The aforesaid* DPE's *OM, with regard to revival measures to be taken for the incipient sick CPSEs reads as follows:-"Keeping the business environment other relevant facts in mind, a CPSE may be categorised as a 'High priority' or 'priority' CPSE to meet the strategic interest of the country. For this purpose, a report of the 14th Finance Commission may also be referred to"*.

1.6. The 3rd PRC does not seem to have specifically made any recommendation for the CPSEs falling in the category of "Priority and are incipient sick", whose turnaround initiatives are in progress like BSNL.

1.7. The strategic importance of telecommunication in public sector has also been acknowledged by 3rd PRC in its para 1.3.3 of the repot. BSNL is a leading public sector Telecom Service provider. In the aforesaid OM of DPE read with 14th Finance Commission Report, it may please be seen that BSNL, though an incipient sick CPSE, has been identified as **Priority Sector** (at S.No. 13 in the list of 25 CPSEs given by 14th Finance Commission).Various initiatives for its turnaround are underway viz, hiving off of the Tower infra assets to a separate wholly owned Subsidiary Company, creation of additional revenue streams through new businesses, renting out vacant built up spaces etc.

2. THE AFFORDABILITY FACTOR:

2.1. The views of the 3rd PRC are forward looking and they have the best interest of the CPSEs in mind. But their good intentions have not been converted to effective implementation methods in CPSEs like BSNL, mostly on account of not taking a wider concept of affordability but limiting it to the narrow constraints of profitability. The intentions and aspirations of the 3rd PRC is seriously impeded and limited by linking the affordability clause with PBT. The affordability clause needs to be relooked specifically in the context of the "Priority Sector CPSEs which are incipient sick" whose turnaround initiatives are underway and which are working in the fiercest competitive market dominated by large private sector Companies.

2.2. The Committee has noted in Para 1.6.2, *'one size fits all'* approach to economic planning is obsolete as it cannot make India competitive in today's global economy. The same analogy holds true to certain extent for CPSEs as well who are operating in diversified sectors across the country with different level of complexities, technology, varied performance, profitability, strategic importance etc.

2.3. Further, the Committee itself had acknowledged in Para 3.2.5 as follows: *The duration of a business cycles is linked to the nature of the industry as well as the global outlook and macroeconomics; and as per general understanding, the business cycle may vary starting from one / two years to ten / twelve years. Thus, mere profitability of 1st year is not viewed to be an appropriate measure on which the affordability of pay revision can be determined.*

2.4. The PRC recommends in para 3.22.6 that review of compensation and benefit structure of CPSE executives should happen in line with the periodicity as decided for Central Government employees but it should not be later than 10 years. If the revision is linked simply to profitability the same may never be feasible in certain PSEs.

2.5. In para 3.2.7 (vi) it is mentioned that the CPSEs which are currently following the pay revision package as was effective for the period prior to 1.1.2007 (i.e. effective from year 1997, 1992, etc.) shall continue to be guided by the relevant DPE guidelines for the pertinent period; and these CPSEs will have option to adopt the higher pay-scales / package of the subsequent pay-revision period. This Committee's recommendation on the revised pay-package shall be directly applicable only to those CPSEs which have adopted the pay-scales of 1.1.2007. But at the same time the condition of affordability has been so recommended by linking the same with PBT that fitment benefit will not be possible to most of the CPSEs except a very few which are in profit. So final recommendations and the observations of the committee are not consistent.

2.6. It is ensured under the 7th CPC that no stagnation takes place, the 3rd Pay Revision Committee also holds the view that employees in their normal career span should not suffer on account of stagnation. But the profitability factor will again stand in the way of these stagnating employees.

2.7. The report has addressed the revision of only the profitable PSUs and has given specific guidelines. It has given general guidelines for sick PSUs whereby it can be inferred that the cost of pay revision is to be a part of restructuring package. It has not given any guidelines for PSUs already on the revival path which do not aspire for any restructuring package but intends to fund the revision themselves by raising resources.

3. RELOOK OF THE AFFORDABILITY CLAUSE:

3.1. Affordability is not a synonym for profitability. Whereas some portion of the financial implication should definitely be linked to profitability, the management of the company should be given the freedom on deciding on the basic pay revision i.e. the pay scale revision subject to the circumstances of the company and limited to the highest percentage of fitment (15%) recommended by the PRC. It should not be that all loss making companies be given a 0% fitment since situations will differ from company to company. As regards the perks, their revision could be linked to profitability. PRP may definitely be linked to profitability.

3.2. Whether a presently loss making company can afford the basic pay revision and to what extent will depend on the business plan and revival efforts put in by the company which is to bear fruits only in the future years. Waiting for actual profitability to happen for effecting a revision would act as a dampener on the revival measures itself. The major issue is to arrange for resources whether internal or external. Therefore instead of linking the basic pay revision with profitability, it should be linked to the ability to meet the same from the resources to be mobilized by respective CPSEs, the decision of the percentage of fitment to be given should be left to the Board of the CPSE. The low debt CPSEs may even be allowed to leverage their debt/equity ratio.

4. BSNL IS A UNIQUE CPSE:

4.1. EMPLOYEES:

4.1.1. BSNL a Priority sector CPSE has a unique position in the comity of CPSEs. BSNL was formed ON 15.09.2000, to take over the business of providing telecom services and Network operations from the erstwhile Central Government Departments i.e. DTS and DTO which were carved out of the DoT, Ministry of Communications. It took over the business of these departments on going concern basis along with all assets and liabilities with effect from 1.10.2000.All the employees of these departments were *en masse* transferred to BSNL on as is where is basis with service condition remaining the same. Thus approx 3.75 lakhs of employees were absorbed in BSNL. It is a matter of record that this large number of employees took absorption in BSNL based upon **the various assurances given by the government** including protection of their career and financial interests, like special pay scale in IDA scales of pay (E9A), combined service pension etc. Needless to say that employees in such large number were persuaded by Govt. to get absorbed in BSNL, which was/is very high in comparison to the industry standards. It is also important to note that those Govt. employees in such large number were neither taken for any functional requirement nor BSNL had any option to select required number of persons having required skill sets. BSNL had to absorb *en masse* whosoever opted for absorption based upon the offer given by the Govt. As a result, BSNL had been bearing huge expenditure on account of their salaries, pension contribution etc. affecting its profitability significantly. Moreover, this workforce was experienced in wire-line business, which has been replaced significantly by wireless technology. The wireless technology needs highly skilled technical work force. To meet this changed requirement, BSNL had to recruit about 30,000 graduate/diploma Engineers and Graduates possessing qualification in telecom/finance discipline, whose pay and allowances and other service conditions are in line with CPSE employees. To retain this trained and technologically sound young work force, their salary and allowances have to be remain comparable with other CPSEs.

4.1.2. As far as possible the legacy manpower was retrained, redeployed in various other works/operations. Now even after 16 years, BSNL ranks <u>1st in providing employment</u> amongst all the Public Sector Enterprises in India as per Public Enterprises Survey 2014-15. According to the 3rd PRC Report there are total 12.91 lakhs of employees out of which almost 2.00 lakhs employees i.e. 16% of the total are in BSNL. The interest of this biggest group of PSU employees should be kept in mind.

4.1.3. Out of total of approximately 2 lakhs employees working at present in BSNL, approx 1.70 lakhs no of employees are absorbed employees who were transferred *en-masse* to BSNL on corporatisation of erstwhile DTS & DTO. They were previously Central Govt. Servants who took absorption in BSNL based upon the offer and assurances given by the Govt. Had they continued in DoT, they would have been eligible to 7th CPC benefits.

4.1.4. Apart from pay revision affecting approx. 2 lakhs of working employees in BSNL, there are approx. equal no of retirees whose pension revision is linked with this pay revision.

4.1.5. For payment of pension, BSNL pays Pension Contribution to the Government of India at the maximum of the scale for each absorbed employee every year, though the pension contribution should have been at actual pay instead of maximum of the pays cale which is putting avoidable extra burden on BSNL finances and affecting its profitability adversely.

4.2 COMPETING WITH LARGE PRIVATE OPERATORS IN MARKET DRIVEN TARIFF:

4.2.1 The telecom sector is highly technology intensive, where technologies are evolving at much faster pace, whereas BSNL's larger part of the workforce was traditionally trained/experienced in wireline business. The wireless technology on the other hand has also made it imperative to make lean and mean organisation manned by highly skilled technical work force.

4.2.2 No other sector of the economy has experienced and witnessed such "cut throat" competition which is being faced by Telecom Sector. The stiff competition, rapid technological changes together with legacy issues, which are not directly attributable to the performance of the CPSE had significantly impacted the profitability of BSNL.

4.2.3 Of late, launching of Reliance Jio has set fiercest ever competition in Telecom sector and the rates are rock bottom; one of the cheapest in the world. The competition is so tough that even the profit of the private operators have been badly hit which is evidenced by the recent moves towards consolidation by private operators.

4.3 AS TARIFF BALANCER IN THE PRIVATE OPERATOR DOMINATED VITAL SEGMENT

4.3.1 By the time BSNL entered the mobile segment [October 2002], major private service providers had established their operations and market. Despite being a late entrant, the entry of BSNL itself brought down the tariffs from a whopping Rs.16 per minute to Rs.2 per minute.

4.3.2 Hence, BSNL has been playing a significant role as **'tariff balancer'** aiming to provide affordable communication services to the common man of the country, in line with the stated policy of the Government and discharges its duty as state instrumentality in ensuring socio-economic balance.

4.3.3 Though because of predatory pricing of the new entrant, the rates have been hit rock bottom, they are not sustainable and are bound to rise after the market stabilizes. Hence, BSNL will continue to act as a **counter-veiling force** to safeguard the interest of the common masses of the country by ensuring that the subscribers are able to avail telecom services at affordable cost.

4.3.4 Apart from setting right the market imperfections (including geographical) in highly competitive market, BSNL serves as a reliable reference point for the Sectoral Regulator as well as the Licensor.

4.4 EXECUTING KEY GOVERNMENT PROJECTS OF STRATEGIC IMPORTANCE:

BSNL, being the largest pan India Central Public Sector telecom service provider is actively engaged in the nation building exercise with the Government of India. The following key projects of the Government are under implementation: -

a) **Bharat Net:-** As part of this ambitious Ditigal India plan, BSNL is implementing the target of laying of OF cable for 70,000 Gram Panchayats across the country, of which, 26,000 Gram Panchayats have already been covered, which is very vital for various E-governance services like E-Health, E-Education etc.

b) **Network for Spectrum (NFS):-** BSNL is laying the OF Cable for Defense Network. 10,000 RKMs of OFC has already been laid across the country. This is to facilitate Defence Services to release spectrum by migrating traffic to OFC. This released spectrum will be used for commercial purpose.

c) **Left Wing Extremism affected areas(LWE):-** As part of Government of India initiative to provide connectivity to the LWE affected areas, 655 BTSs have already been installed at the strategic locations of LWE areas out of the proposed 1836 BTSs. The Govt has asked BSNL to install more no of BTS.

d) **Development of communication networks of NE Region:-**To ensure a comprehensive telecom transmission network development in the North Eastern Region of the Country, BSNL is laying 3218 KMs of OF Cable. An international gateway for ILD has been provided at Agartala initially at 10GBPS internet bandwidth, upgradable to 40 GBPS for Enhanced Internet/Broadband performance to overcome the drop of linkage and speed related issues.

e) BSNL is leveraging its existing infrastructure contributing thereby to nation building by facilitating the execution of programs and initiatives viz. NOFN, NFS etc. There may be other strategic consideration like having control over the telecom infrastructure for mobilization of resources against any threat to country's sovereignty.

4.5 BSNL'S SOCIAL RELEVANCE

Post-liberalization, telecommunication has been the star performer *in* India. It has been the key driver of **socio-economic development** and has a greater role to play in providing the necessary infrastructure for E-governance services and fulfilling the vision of the Government of transforming India into a digitally empowered society and knowledge economy. Conscious of this responsibility, BSNL has been playing an important role in providing the services in Far flung rural areas, hilly and difficult terrains, left wing extremist (LWE) infested areas, North East region (NER), A&N, Lakshadweep islands, during special occasions like Amarnath Yatra etc. These are the areas where provisioning of service is uneconomical.

4.6 BSNL'S ROLE DURING NATURAL DISASTERS AND CALAMITIES:

More importantly, BSNL has always been in the forefront during the hours of need across the country. During calamities and natural disasters, in the past decade, role of BSNL in fast restoration and maintaining telecom services has been widely acknowledged, especially during :

- Devastating tsunami that struck the shores of the southern parts;

- Catastrophic floods of Uttarakhand;
- Devastating showers and resultant floods of Chennai, J&K, Mumbai;
- Cyclones in the coastal districts of AP, Telengana & Orissa etc.

To carry out the relief operations during and after disasters, when thousands of lives are at stake the importance of communication system is very crucial and need no emphasis. BSNL has performed at its best in such conditions whereas the limited or no role played by the private operators, when telecommunication services were needed the most for rescue and restoration, is a common knowledge. Thus in larger public interest presence of BSNL is necessary from strategic consideration, to cater to market imperfection and for socio-economic development of rural and remote part of the country.

5. BSNL, A RECOVERING INCIPIENT SICK CPSE

5.1 BSNL has taken many turnaround / revival measures. As a result the downslide of turnover was arrested and BSNL has been able to increase the turnover slowly and steadily despite rising competition as shown below – (Revenue –Rs. in Crores)

FY	2011-12	2012-13	2013-14	2014-15	2015-16
From Operation	25,982	25,654	26,153	27,242	28,449
Total Revenue	27,933	27,127	27,996	28.645	32,918

5.2 <u>EBITDA (in Crores) for the last three years is as follows:</u>

2013-14	2014-15	2015-16
(-)691	**+672**	**+3856**

6. NECESSITY OF A 15% PAY REVISION IN BSNL:

BSNL needs to revise the pay of its employees by giving the highest fitment for reasons of its uniqueness as elaborated in para 4 above and further following is submitted:

6.1 The losses of BSNL are because of provisioning of services in commercially not viable areas, fiercest ever competition in Telecom sector etc. It is a fact that no other sector, today, has seen such a high level of competition than India's Telecom Sector and day by day it is going higher and higher. It is also fact that there is a linkage between pay and the performance. Therefore, the concept of PRP is advocated. No organisation can survive in such a highly competitive atmosphere unless the employees are kept motivated and they perform well.

6.2 Surviving through this difficult time and improving financial and physical performance required a lot of commitment on the part of employees. The fact that efforts required for making turn-around of a non-profitable organisation carry, no way, less weightage than an organisation already running in profit makes it imperative to find ways to maintain relativity and equity in compensation management across different Govt CPSEs working in different sectors, particularly BSNL which is on the recovery path consistently in the cut-throat competitive conditions. It is to be appreciated that compensation in terms of variable pay alone is a reasonable difference among the CPSE based on profitability. Revision of fixed component of pay is a reasonable compensation or a kind of relief in the face of inflation and should not be linked with profit.

6.3 There are approx. 2 lakh retirees whose pension revision is also directly linked with this revision apart from pay revision of equal no. of working employees in BSNL.

6.4 As discussed in para 2.4 above, the PRC also recommends that review of compensation and benefit structure of CPSE executives should happen in line with the periodicity as decided for Central Government employees but it should not be later than 10 years, hence if pay revision does not happen w.e.f. 01.01.2017, expectation would be severely crumpled and the 3rd PRC's recommendations would be contrary to its own assessment . Pay-revision is a historical event which occurs after every 10 years in the career of an employee and is a legitimate expectation on the basis of ongoing trend of pay revision in different sectors.

6.5 According to the 3rd PRC Report there are total 12.91 lakhs of employees out of which thus 16% of the total PSU employees are in BSNL. BSNLranks 1st in providing the employment in all the Public Sector Enterprises in India as per Public Enterprises Survey 2014-15. The 3rd PRC recommendation does not address the interest of this biggest group of PSU employees should be kept in mind.

6.6 Out of total of 1.95 lakhs of employees working in BSNL, approx 1.70 lakhs no of employees are absorbed employees who were transferred *en-masse* to BSNL on corporatisation of DTS & DTO. They were previously, Central Govt. Servants and had they continued in DoT they would have been eligible to 7th CPC benefits. They all gave their option for BSNL believing that BSNL would provide a better if not similar future had they continued in the Govt and this makes BSNL a unique case.

6.7 It is ensured under the 7th CPC that no stagnation takes place, the 3rd Pay Revision Committee also holds the view that employees in their normal career span should not suffer on accent of stagnation. However, in BSNL even after 2nd PRC the problem of stagnation continues and as many as 24,925 (approx.) employees suffer on account of stagnation all these years. Thus the pay revision is necessary so as to apply the scales recommended in 3rd PRC to end the stagnation.

6.8 Another important point to be considered is that apart from the legacy manpower, BSNL has more than 14,000 young employees working in new technology areas and are playing a crucial role in the growth of the Company. These young qualified and trained employees with critical skill provide competitive advantage. Non implementation of Pay Revision based on 3rd PRC recommendation may lead to mass exodus of this talent which will adversely impact BSNLs competitive edge. As stated earlier, BSNL is operating in the fiercest ever competition. Therefore, to retain and attract the best talent and to maintain its competitive edge, pay revision is a necessity. Attracting and retaining key talent starts with having a salary and compensation system that actually makes this young qualified and trained workforce feel valued.

6.9 It needs to be appreciated that Pay structure if not matching with the others, will fail to attract bright young talent in future recruitments.

6.10 As per the resolution and terms of reference to 3rd PRC (discussed in para-1 above) the PRC would recommend suitable working conditions, emoluments and incentives to motivate them to strive for further growth, productivity and profitability of their enterprises. BSNL employees contribute to the society keeping the socio-economic objectives in mind and unmindful of profitability of such works as mentioned in para 4.5 and 4.6 above. At the time of pay revision non-recognition of such works of the employees which are important from social and strategic point of view but do not contribute to profitability, will be discouraging to them. This goes against para 1 and 2.2.5 of the resolution/terms of reference to 3rd PRC and the observations of the 3rd PRC itself made in para 1.2.4, 1.2.5 of the report. It is apprehended that the pay revision without fitment may disturb Industrial harmony.

6.11 BSNL has taken many steps consistently to augment its top line year by year as discussed above and also by generating additional streams of revenue and cost cutting measures. Considering the unique background of BSNL employees, their improved performance in such a highly competitive atmosphere and their contribution to the society, pay revision and fitment benefit should be given without linking the same with the profitability alone so that the employees are kept motivated; they continue to perform well and further improve service delivery. This will not only serve the larger public interest but also increase the profitability of BSNL.

7. **PENSION CONTRIBUTION**: The issue of pension contribution may be resolved and in all fairness the same should be taken on actuals and not on the maximum of the scale specially after restoration of the pay scale structure in the 7th CPC as well as expected revision of pay scales in 3rd PRC where the maximum has been made quite high.

To be precise, well before the DPE OM's recommendations on incipient sick CPSEs, BSNL was on the path of recovery with positive EBIDTA figures. Therefore, the case of BSNL is required to be considered in a different context i.e. *the incipient sick CPSE with positive EBIDTA figures.*

It may kindly be appreciated that turnaround of a mammoth organization like BSNL cannot happen in one or two years. It requires much more time especially in a sector which is highly competitive and dominated by large private sector service providers. Thus, linking the entire revision to affordability may not be in the interest of BSNL.

In view of the aforesaid facts and to ensure sustainability of BSNL operations while maintaining industrial harmony we would like to propose, pay revision with 15% fitment benefit on Basic +DA, without any other benefits on the revised pay i.e. maintaining perks, allowances at the present level. The revised allowances may be considered in future when the financial position further improves. The resource mobilisation for this purpose may be left to the Board of Directors for its implementation.

Yours faithfully,

(Anupam Shrivastava)
Chairman and Managing Director

Copy to :

1. Member (Services) Deptt of Telecom with reference to discussion had in the meeting held in DOT on 10th March 2017.

2. DDG (Estt) Deptt of Telecom.