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**STANDING COMMITTEE ON
INFORMATION TECHNOLOGY
(2015-16)**

SIXTEENTH LOK SABHA

**MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY
(DEPARTMENT OF TELECOMMUNICATIONS)**

**[Action Taken by the Government on the Observations/Recommendations of
the Committee contained in their Ninth Report (Sixteenth Lok Sabha) on
'Revival of Indian Telephone Industries (ITI) Limited']**

TWENTY-SEVENTH



**LOK SABHA SECRETARIAT
NEW DELHI**

August, 2016/Shravana, 1938 (Saka)

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'Revival of Indian Telephone Industries (ITI) Limited']**

Presented to Lok Sabha on 11.08.2016

Laid in Rajya Sabha on 11.08.2016



**LOK SABHA SECRETARIAT
NEW DELHI**

August, 2016/Shravana, 1938 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON INFORMATION TECHNOLOGY (2015-16)

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2. Shri Y. M. Kandpal - Director
3. Dr. Sagarika Dash - Deputy Secretary
4. Shri Shangreiso Zimik - Under Secretary

* Nominated to the Committee w.e.f. 20.05.2016 vide Bulletin Part-II dated 23.05.2016.

Shri Vijay Jawaharlal Darda, M.P. and Shri Salim Ansari, M.P. retired from Rajya Sabha w.e.f. 01.07.2016 and 04.07.2016 respectively.

@ Ms. Mehbooba Mufti, M.P. resigned from Lok Sabha w.e.f. 04.07.2016 vide Bulletin Part-II dated 05.07.2016.

** Nominated to the Committee w.e.f. 28.07.2016 vide Bulletin Part-II dated 28.07.2016.

INTRODUCTION

I, the Chairperson, Standing Committee on Information Technology (2015-2016), having been authorised by the Committee, do present the Twenty-seventh Report on Action Taken by the Government on the Observations/Recommendations of the Committee contained in their Ninth Report (Sixteenth Lok Sabha) on 'Revival of Indian Telephone Industries (ITI) Limited' of the Ministry of Communications and Information Technology (Department of Telecommunications).

2. The Ninth Report was presented to Lok Sabha/laid on the Table of Rajya Sabha on 7th August, 2015. The Department of Telecommunications furnished their Action Taken Notes on the Observations/Recommendations contained in the Ninth Report on 9th March, 2016.

3. The Report was considered and adopted by the Committee at their sitting held on 8th August, 2016.

4. For facility of reference and convenience, Observations/Recommendations of the Committee have been printed in bold in Chapter-I of the Report.

5. An analysis of Action Taken by the Government on the Observations/Recommendations contained in the Ninth Report of the Committee is given at Appendix-II.

**New Delhi;
08 August, 2016
17 Shravana, 1938 (Saka)**

**ANURAG SINGH THAKUR,
Chairperson,
Standing Committee on
Information Technology.**

CHAPTER I

REPORT

This Report of the Standing Committee on Information Technology deals with the action taken by the Government on the Observations/Recommendations of the Committee contained in their Ninth Report (Sixteenth Lok Sabha) on 'Revival of Indian Telephone Industries (ITI) Limited' relating to the Ministry of Communications and Information Technology (Department of Telecommunications).

2. The Ninth Report was presented to Lok Sabha/laid in Rajya Sabha on the 7th August, 2015. It contained 19 Observations/ Recommendations.

3. Action Taken Notes in respect of all the Observations/Recommendations contained in the Report have been received from the Department of Telecommunications and are categorized as under:-

(i) Observations/Recommendations which have been accepted by the Government

Recommendation Nos.:- 1,2,3,4, 5, 6, 8,9, 12, 13, 14, 15,16, 17 and 19

(ii) Observations/Recommendations which the Committee do not desire to pursue in view of the replies of the Government

Recommendation No.: NIL

(iii) Observations/Recommendations in respect of which replies of the Government have not been accepted by the Committee and require reiteration

Recommendation No.: 7

(iv) Observations/Recommendations in respect of which the reply of the Government are of interim nature

Recommendation Nos: 10, 11 &18

4. **The Committee in their Ninth Report (Sixteenth Lok Sabha) had undertaken a comprehensive examination of the subject 'Revival of Indian Telephone Industries (ITI) Limited'. Established in 1948, ITI was the first Public Sector Undertaking (PSU) of the country to assist the Government in the sensitive and strategic telecommunications field. The Committee had observed that ITI being the sole telecom equipment manufacturer during the pre-liberalization period was a**

profit earning entity for more than 40 years. However, after liberalization, the manufacturing infrastructure of ITI which was set up for fixed line telephone almost became redundant and it borrowed heavily from Banks/Institutions for expansion leading to further losses over the years. As the net worth of ITI got completely eroded in 2003-04, the Company was referred to BIFR and was declared a 'Sick' Company on 31st March, 2004. Even after receiving Rs.4566.77 crore assistance during the period from 2004 to 2013, the Company could not be revived mainly because the Capex infusion was limited to only Rs.150 crore which was grossly inadequate for plant upgradation for GSM/CDMA technology. A renewed effort for the revival of ITI was initiated and numerous agencies, such as BIFR, SBI, DoT, BRPSE etc. were involved in preparation of the Revival Plan before it was finally approved by the CCEA on 12th February, 2014. However, the pace of revival process had been extremely slow and it took more than 9 years before being finally approved by the Cabinet. As per the proposal approved by CCEA, ITI's revival has to be supported through financial restructuring by final infusion of Rs.4156.79 crore, consisting of Rs.2264 crore as capital grant for upgradation of manufacturing infrastructure at its various units and the balance amount of Rs.1892.79 crore as financial assistance in the form of grants-in-aid for clearing statutory liabilities and meeting other commitments made by ITI.

The Committee, in their Ninth Report, had recommended for requisite allocation of funds for ITI to enable Department of Telecommunications to adhere to the disbursement schedule approved by the Cabinet, focusing on bringing the Company back to profitability mode, expanding its customer base and addressing the business requirements of the Private Sector as well, acquiring the state-of-the-art technology and striving for transfer of technology for major products. The Committee had also emphasized on attracting strategic partners to go for joint venture, recruiting fresh personnel to absorb new technology, reducing social overheads by taking employees and trade unions on board, taking advantage of business opportunities offered by projects like 'Make in India', 'Digital India' and 'Smart Cities' etc. The Committee had suggested that granting of Defence PSU status to ITI would help in revival of the Company.

5. The Committee, while furnishing their comments on some of the recommendations which have already been accepted by the Government for action, trust that utmost importance will be given to implementation of all the Observations/Recommendations. The Committee further desire that Action Taken Notes on the Observations/Recommendations contained in Chapter-I and final action taken replies to the Observations/Recommendations contained in Chapter-V of this Report should be furnished to them at an early date.

6. The Committee will now deal with action taken by the Government on some of their recommendations.

(Recommendations Sl. Nos. 4 & 5)

7. The Committee had recommended as under:-

“As per the Revival Plan approved by CCEA, the disbursement of funds has to be done in two stages. In the first stage, an amount of Rs.1455.79 crore consisting of Rs.460 crore for projects which required immediate assistance and Rs.995.79 crore for payment of liabilities had to be disbursed. In the second stage, an amount of Rs.2701 crore consisting of Rs.1804 crore for projects and Rs.897 crore for clearing liabilities was to be disbursed based on the progress of the projects covered in the first stage. During the year 2014-15, a request had accordingly been sent by DoT to the Ministry of Finance to make a provision of Rs.460 crore under Plan head and Rs.1892.79 crore under non-Plan head in the General Budget 2014-15 regarding the Revival Plan of ITI. However, an amount of Rs.460 crore only was allocated at BE stage under the Plan head, and no fund was allocated under the non-Plan head. The Committee note that after persistent efforts made by the Department, the Ministry of Finance allocated Rs.165 crore for payment of 1997 wage revision arrears to the ITI employees in November, 2014, Rs.200 crore as soft loan in September, 2014 and Rs.100 crore as loan in March, 2015 for making payment of salaries to its employees. As a result of delayed allocation of matching funds under grants-in-aid for making payment towards statutory liabilities, Rs.460 crore allocated under Plan head for project implementation could not be utilized as Planned. The first tranche of Capex amounting to Rs.192 crore was released to ITI as late as February, 2015. The Committee observe that owing to the delay in approval of the revival proposal and late release of funds by the Ministry of Finance, the implementation of the revival Plan will now come into effect from 2015-16, i.e. deferred by one year. Another tranche of Rs.50 crore for Capex infusion and further Rs.150 crore as grants-in-aid for making payment of salaries to the employees of ITI have been allotted in the General Budget 2015-16. Since the Revival Plan is to be

implemented in two stages, the Committee desire the Ministry of Finance to ensure requisite allocation of funds to enable DoT to adhere to the disbursement schedule approved by the Cabinet so that implementation of the Revival Plan is not hampered further due to lack of funds. The Committee stress that DoT should constantly coordinate with the Ministry of Finance for timely release of funds as provided for in the financial package to facilitate execution of the Revival Plan.”

(Recommendation Sl. No. 4)

“The Revival Plan of ITI envisages improvement of its core competency in electronic/telecom equipment manufacturing by upgrading the manufacturing infrastructure at all its manufacturing units and to simultaneously diversify into Service Projects (National Population Register, Data Centre, Optical Fibre Laying Projects, AMC business, etc.), Smart Card manufacturing, Battery Manufacturing and LED products manufacturing to make each unit of ITI a separate profit centre and sustain their profitability independently. 18 projects have been identified by ITI for execution under the Revival Plan. The Committee note that out of Rs.460 crore earmarked for projects in the first stage, capital investment planned by ITI were spread over two phases in the Financial Year (FY) 2014-15. Phase-I related to activities/projects to be completed in FY 2014-15 while Phase – II related to the projects for which infrastructure upgradation was to be started in 2014-15 so that the orders against these projects could be executed in 2015-16. With capital investment of Rs.460 crore planned in Phase-I and Phase-II in the six units, viz. Bengaluru (Rs.197 crore), Naini (Rs.79 crore), Palakkad (Rs.117 crore), Mankapur (Rs.29 crore), Rae Bareli (Rs.33 crore) and Srinagar (Rs.5 crore), turnover of the order of Rs.524 crore and Rs.1271.50 crore was estimated during the year 2014-15 and 2015-16, respectively. However, out of Rs.242 crore released so far, Rs.79.61 crore has been utilized by only three plants of ITI, viz. Bengaluru (Rs.46 crore), Palakkad (Rs.26.48 crore) and Rae Bareli (Rs.7.13 crore) for procurement of machinery and equipment. Obviously, the turnover from the Capex cannot be achieved as planned and ITI’s expectation for the same to materialize during 2015-16 also appear unattainable.

A review of the 1st stage implementation of the Revival Plan shows that there is a shortfall in allocation to the tune of Rs.118 crore towards capital investment and Rs.380.79 crore under grant-in-aid for meeting liabilities. Evidently, the 1st stage implementation is lagging far behind owing to belated allocation of funds by the Ministry of Finance, coupled with the slow pace of utilization of available funds by ITI. Consequently, the 2nd stage implementation, which is based on the progress of the projects covered in the first stage where ITI planned Capex investment of the remaining amount, i.e. Rs.1804 crore, will be delayed. In the given situation, the Committee are constrained to conclude that the targets

set for estimated turnover, garnering operating profit and likely turnaround of manufacturing plants are not going to be realized as envisaged in the projected performance. Now, since the entire business plan for revival stands deferred and needs to be restructured with revised Capex plans, the roadmap for restructuring needs to be carefully worked out. The Committee emphasize that the thrust of execution of the Revival Plan should be to bring ITI into profitability immediately so as to create a platform on which the Company can be built up. Once the Company is profitable, it would be in a position to acquire technologies to move to the 2nd stage. The Committee, therefore, recommend that ITI should strive for optimal and efficient utilization of available funds to accomplish activities/projects planned for different phases in the 1st stage of implementation and secure release of funds to step up activities in phase III in the 2nd stage of implementation. The corporate office of ITI should take quick decisions in its investment plans for all the six plants and ensure speedy release of funds for procurement of machinery and equipment required for upgradation of manufacturing infrastructure in these units. The Committee would like to be apprised of the progress made in this direction. They would also like to be informed about the renewed Capex plans and estimated turnover and the time by which ITI will be brought to profit mode.”

(Recommendations Sl. No. 5)

8. The Department of Telecommunications, in the action taken note, have stated as under:-

“DoT has been actively pursuing with Ministry of Finance (MoF) for timely release of funds for smooth implementation of the Revival Plan approved by CCEA. However, till date MoF has released only Rs. 507 crore against the approval of Rs. 4,156.79 crore. This comprises of an amount of Rs. 192 crore to meet capex requirements Rs. 165 crore for payment of 39 months’ pay revision arrears, as per 1997 pay revision, to employees of ITI and Rs 150 crore to meet the establishment cost.

The status of revival efforts of M/s ITI Limited was reviewed by Committee of Secretaries (CoS) on 6th July 2015. It was decided by CoS that the revival plan of ITI may be funded from Universal Service Obligation Fund (USOF). Thereafter in a meeting taken by Secretary DPE and Secretary BRPSE on 14th August 2015, it was decided that the Department (i.e. DoT) may examine the project funding for those goods and services in the production profile of ITI which have use for penetration of telephone network in rural and remote areas from USOF and accordingly, funding of the business and operational plan for the revival of ITI may be taken up. Hence, the matter was discussed with USOF and a committee has been constituted comprising of officers from USOF, DoT, ITI and BBNL. The committee with representatives from

officers from USOF, DoT, ITI and BBNL is in the process of finalizing the projects and activities related to USOF that ITI can undertake.”

(Reply to Recommendation Sl. No. 4)

“Infrastructure up-gradation for implementation of projects is a long process. Considering that the technology is fast changing, the business plan needs to be done taking into consideration the current market scenario and, accordingly, the detailed project reports are required to be prepared. These reports are then submitted to ITI Board and Apex Committee for approval. The infrastructure required for each project is to be finalized and action needs to be taken for tendering, ordering, procurement, installation, commissioning etc. As the revival plan of ITI was approved in February 2014 itself, ITI had initiated proactive action on the infrastructure up-gradation and most of the project activities had been brought up to the level of ordering for equipment at the time of release of funds by the Government.

Out of Rs. 2264 Crores sanctioned by CCEA as equity for capital investments under revival plan, Government had released Rs. 192 Crores, during February 2015, as first phase disbursement to the company. This amount is planned for implementing various projects under Defence business, SCADA, MLLN, Smart cards, HDPE Pipe manufacturing, SMPS, Component screening, Vehicle Tracking System (VTS), 3D printing, Contract manufacturing, Business with PSUs etc. Sixteen projects have been identified under this capex plan. The infrastructure up-gradation for implementation of these projects has almost been completed in various plants of ITI. Out of Rs.192 crore, company has drawn around Rs 151.35 crore as on 31st October 2015.

In BE 2015-16, Government has approved Rs.50 crore for ITI under plan expenditure. The business plan for utilization of Rs. 46 crore under this allocation has already been approved by ITI Board and the Apex Committee and they are part of two projects which are currently under implementation. This amount will be utilized during 3rd/ 4th quarter of 2015-16 after complete utilization of Rs. 192 crore already released. The plan for utilization of balance Rs. 4 crore has also been made. However, ITI has drawn plans for implementation of many more projects during the current year/next year and has requested for allocation of more funds under plan head towards these new projects. These projects include manufacturing of telecom products like Wi-Fi, NGN, LTE and GPON, manufacturing optical fiber, augmentation of manufacturing of HDPE pipe, expansion of ITI's Data Centre etc. An additional capex of appx. Rs. 270 crore has been estimated for these projects and ITI has requested DoT to kindly consider allocation of this fund, in addition to the already allocated amount of Rs. 50 crore, towards capex during 2015-16. Based on the allocation of funds during 2015-16 and 2016-17,

ITI shall prepare detailed project reports and submit to DoT and the Apex Committee.”

(Reply to recommendation Sl. No. 5)

9. As per the Revival Plan for ITI approved by CCEA, an amount of Rs.4156.79 crore consisting of Rs.1892.79 crore as Grants-in-Aid for payment of statutory liabilities and Rs.2264 crore as capex in the form of equity infusion were to be released in two phases by the year 2015-16. Observing that due to delay in approval of the revival proposal and late release of funds by the Ministry of Finance (MoF), the implementation of the Revival Plan had been deferred by one year, i.e., by 2015-16, the Committee in their original Report had desired that the Department should impress upon MoF to ensure requisite allocation of funds to enable DoT to adhere to the disbursement schedule and also recommended that ITI should strive for optimal and efficient utilization of available funds to accomplish activities/proposals planned. From the Action Taken Note furnished by the Department, the Committee note that allocation and utilization of funds is still a critical issue. As per the disbursement schedule, the total amount of Rs.4156.79 crore was to be released to ITI by the end of 2016. However, till date, MoF has released only Rs.507 crore, comprising of Rs.192 crore under Plan, Rs.165 crore for payment of 39 months’ pay revision arrears as per 1997 pay revision and Rs.150 crore to meet the establishment cost.

With regard to capital investment under Revival Plan, the Department have informed that out of Rs.192 crore released, the Company had drawn around Rs.151.35 crore as on 31.10.2015. Business Plan for utilization of Rs.46 crore out of Rs.50 crore allocated under Plan at BE 2015-16 had been approved by ITI Board and Apex Committee and the amount will be utilized after complete utilization of Rs.192 crore already released. The Department have also informed that the Plan for utilization of Rs.4 crore has also been made and ITI has drawn up plans for implementation of many more projects during the current year/next year and has requested for allocation of more funds under plan head towards some new projects. An additional capex of approx. Rs.270 crore has been estimated for these

projects and ITI has requested DoT to consider allocation of this fund, in addition to the already allocated amount of Rs. 50 crore, towards capex during 2015-16.

The Committee also note that as per the decision of the Committee of Secretaries (CoS) following a review meeting on 6th July, 2015, the Revival Plan of ITI may be now funded from USOF. Thereafter in a meeting taken by Secretary DPE and Secretary BRPSE on 14th August, 2015, it was decided that DoT may examine the project funding for those goods and services in the production profile of ITI which have use for penetration of telephone network in rural and remote areas from USOF and accordingly, funding of the business and operational plan for the revival of ITI may be taken up. After discussing the matter with USOF, a Committee was constituted with the representatives from officers from USOF, DoT, ITI and BBNL and this Committee are stated to be in the process of finalizing the projects and activities related to USOF that ITI can undertake. The Committee note that the basic purpose of USOF is to provide telecommunication services to people residing in rural and remote areas of the country at affordable price. Considering the higher capital cost of providing telecom services in rural and remote areas, the Committee are of the view that USOF should be exclusively utilized for the stated aims of expanding telecom services in such areas. The Committee hope that projects and activities related to USOF, that ITI can undertake must have been finalized by now by the Committee constituted for the purpose.

With regard to the status of utilization of fund especially under Plan, the Committee observe that the implementation of Revival Plan of ITI as approved by CCEA is far from reality. If ITI is to be revived as approved by the CCEA, there is a need to strictly adhere to its disbursement schedule and no piecemeal infusion of fund as done currently would be sufficient for revival of ITI. Considering that status of manufacturing of telecom equipment in the country is extremely low and ITI can play major role in meeting the telecom equipment requirement in the country, the Committee desire that earnest efforts be made by the Department at the highest level and impress upon the Ministry of Finance with the detailed plan for expeditious release of funds so that ITI can upgrade the manufacturing infrastructure for its various plants.

(Recommendations Sl. No. 7)

10. The Committee had recommended as under:-

“The Committee note that ITI has core competency in encryption, network projects, multi-layer PCB manufacturing, dedicated network system unit, ASCON, CDMA and GSM network installation and maintenance. ITI is also the only Company in the country where BTS system for GSM network is made. The major customers of ITI are BSNL, MTNL, BBNL, Defence, Railways, Banks, State Governments, Ministry of Home Affairs, Ministry of Rural Development, Vikram Sarabhai space Centre, etc. ITI has plans to implement projects such as the National ID Card manufacturing for NPR Project, Tablet PC manufacturing, solar project, defence projects, data Center and IT projects, G-PON (Gigabit Passive Optical Network), Carrier Ethernet, Software defined Radio (SDR), ADSL-CPEs, Long Term Evaluation (LTE), SMPs and SCADA, and LED based lighting products. The Committee further note that 18 projects had been approved in the Revival Plan and out of these, priority projects based on current requirement have been identified and the implementation of infrastructure upgradation for manufacturing is under progress. The Committee have been informed that the total estimated market in the country of 16 identified projects, to name a few: Defence, NPR, GSM, Data Centre and IT projects, LTE, etc. is Rs.91000 crore and in this, the market share of ITI is projected to be Rs.22610 crore. As per the ITI business portfolio, out of 27 products, 21 products have relevance at present and out of these there is high business potential for 10 products. The Committee, however, find that ITI has high competence for manufacturing of 5 products which are relevant now and have high business potential for products, viz. NGN, encryptors, software defined radios, smart cards and solar products. As of now, ITI has no major products/solutions which are being supplied to the Private Sector and in order to address the Private Sector, ITI is strengthening its R&D and focusing on marketing. The Committee recognize that there exists a huge market for various products identified under the ITI Revival Plan. Considering that ITI has high competence for manufacturing 5 specific products, the Committee find it essential for ITI to strengthen and increase its core competency so that it can take advantage of the opportunity available in the market for various products. The committee are of the view that apart from catering to the needs and requirements of Government Departments/Organizations greater efforts should also be made by ITI to expand its customer base and address the business requirement of the Private Sector as well.”

11. The Department of Telecommunications, in the action taken note, have stated as under:-

“ITI is putting all out efforts to maximize the revenues from the products mentioned above. ITI Bangalore plant has successfully executed the purchase order for NGN products received from BSNL worth Rs. 47.72 Crores during 2014-15. Further, Advance Purchase Order (APO) from BSNL to the tune of Rs. 120 Crores is available for execution during 2015-16, which is likely to be converted into a PO this year. ITI is also pursuing to get an order for supply of NGN equipments to BSNL for upgrading their C-DOT based switching systems

ITI is a leader in encryptor business with Defence. Considering that encryption products for the Indian Defence are being procured only from three PSUs, viz., BEL, ITI and ECIL, ITI has the largest share of supplying in-house developed encryption products to Indian Army. The major communication network of Indian Army, ASCON, has been set up by ITI. ITI's R&D mainly focuses on encryption technology and currently new products have been developed for high speed IP communication with the allocation of major share of the capex under Rs. 192 Crore plan. ITI has participated in the major tenders of ASCON Phase IV Encryption and Encryptors for Network For Spectrum (NFS) of Indian Defence and is hopeful of getting orders.

Software Defined Radio (SDR) is latest product in wireless communication which has wide use, especially for the Defence forces. ITI has taken proactive role in identifying a Indian technology partner more than two years back. These products have been demonstrated to Defence Units and have been found to be compliant to the requirements. ITI is expecting an immediate major tender from Indian Defence for SDR and hopeful of getting good orders in future.

Smart Card is already a project in ITI for more than 12 years. Palakkad plant of ITI started smart card business with the supply of SIM cards to BSNL and MTNL. It diverted into manufacturing secured personal Identity cards based on National Population Register (NPR) data. It has supplied such cards to Home Ministry as well as to Ministry of Fisheries. However, the opportunities for smart cards is very high considering the opportunities in the areas of Driving License, Motor Registration Card, Unorganized Workers' Identification Card etc. Hence, the company is augmenting the infrastructure to address diversified smart card markets.

With respect to solar project, ITI's Naini plant has already infrastructure to manufacture solar panels up to a capacity of 300Wp with an annual capacity up to 5 MWp. This capacity is further augmented with the funding support under the revival plan. The plant has already executed some orders for supplying solar power products to BSNL and UP Police.

Thus, ITI has major plans to market the products indicated in the Report of the Standing Committee on IT and it is hoped that these products would enable the company to earn good part of its revenue in the coming years."

12. Recognizing that there exists a huge market for various products identified under the ITI Revival Plan, the Committee had recommended that apart from catering to the needs and requirements of Government Departments/Organisations greater efforts should also be made by ITI to expand its customer base and address the business requirement of the private sector as well. From the Action Taken Note furnished by the Department, the Committee note that ITI is putting all out efforts to maximize the revenues from the various products identified under the Revival Plan. However, the focus of revenue generation be it participation in ASCON Phase IV Encryption and Encryptors for Network for Spectrum (NFS), Software Defined Radio (SDR), manufacturing of Smart card, Solar project, etc. are still largely based on the requirements of Government Departments/Organisations like Defence, BSNL, etc. The Committee note that the reply of the Government is completely silent on the recommendation of the Committee to expand ITI's customer base and address the business requirement of the Private sector as well. The Committee also note that ITI has no major products/solutions which are being supplied to the Private sector and in order to address the Private sector, ITI is strengthening its R&D and focussing on marketing. To take advantage of the opportunity available in the market for its various products, the Committee once again reiterate their earlier recommendation that apart from catering to the needs and requirement of Government Departments/Organisations greater efforts should also be made by ITI to expand its customer base and address the business requirement of the Private sector.

(Recommendations Sl. No. 12)

13. The Committee had recommended as under:-

“The Committee note that ITI is to recruit fresh personnel to absorb the new technologies proposed in the revival proposal as per requirement. The proposal for the barest minimum fresh induction of hands to meet the essential requirements of various initiatives is to be considered with due concurrence of the Apex Committee. At present, ITI is in the process of implementation of 16 projects and has identified R&D projects where fresh personnel can be inducted. The proposal for recruitment of 31 engineers and 10 diploma holders was prepared for submission to the Apex Committee. Considering the fact that lack of in-house R&D to deliver fruitful results, non recruitment of fresh permanent Engineers for two decades, lack of skilled and experienced manpower in all the Units to take up new technology products, etc. have been largely responsible for hindering the performance of ITI, the Committee recommend that the proposal for induction of fresh personnel need to be approved at the earliest so that the process of such induction could be started for the larger benefit of the Company.”

14. The Department of Telecommunications, in the action taken note, have stated as under:-

“The proposal for recruitment of fresh Engineering graduates & Diploma-holders needs to be approved in the APEX Committee. ITI is in the process of firming up its requirement and is expected to take up this issue in the next meeting of the Apex Committee.”

- 15. While observing that ITI are in the process of implementation of 16 projects and has identified R&D projects where fresh personnel can be inducted and for this a proposal for recruitment of 31 Engineers and 10 diploma holders had been prepared for submission to Apex Committee, the Committee in their original Report had recommended that the proposal for induction of fresh personnel need to be approved at the earliest so that the process of induction of fresh personnel could be started for the larger benefit of the Company. The Committee, however, note that the proposal for recruitment of fresh Engineering Graduates and Diploma holders had still not been approved by the Apex Committee. The Committee are of the view that it is essential for ITI to recruit fresh personnel to absorb the new technologies proposed in the revival proposal. Considering that lack of in-house R&D, non-recruitment of fresh personnel, Engineers, lack of skilled and experienced manpower to take up new technology products, etc. have largely**

hindered the performance of ITI, the Committee are of the view that any further delay in the recruitment of fresh personnel would only lead to further delay in successful implementation of the Revival Plan. The Committee, therefore, desire that ITI should firm up its requirements so that the proposal for induction of fresh personnel may be approved at the earliest and induction starts without any delay.

(Recommendations Sl. No. 16)

16. The Committee had recommended as under:-

“The Committee note that ITI has been playing a significant role in meeting the requirement of the country’s Defence needs. The Committee have been given to understand that encryptors are the forte of ITI and at one point of time ITI was the only Company supplying encryptors to Defence. ITI has implemented the Army Static Communication Network (ASCON) 1, 2 and 3 projects and is likely to get ASCON-4 also. According to the Department, 70 percent of the encryption equipment deployed and working in the Defence sector is from the Bangaluru Unit of ITI. A study was reportedly conducted by the Ministry of Defence in 2013 which suggested that ITI has got all the capabilities of producing electronics and telecommunications equipment for Defence. The report recommended that ITI could be classified as a Defence PSU. The Defence Research and Development Organization (DRDO) had also carried out a study and given the clearance that ITI has got all the capabilities to meet their requirements. However, the proposal to confer Defence status to ITI was not agreed to by the Department of Defence Production as the Committee constituted for considering the proposal felt that conferring DPSU status to ITI would not in any way facilitate ITI to get Defence orders in view of the fact that as per provisions in the Defence Procurement Policy, DPSUs have to compete with the private industry for getting Defence orders. The Committee note that in order to enhance product portfolio in Defence, ITI is planning to introduce products such as Satellite Trans Receiver and Access equipment, Radars and allied equipment, Weapon Control System, Navigation system and Equipment, Missile Systems and Equipment, Electronic Fuzes for Gun, High Grade Bullet Proof Jackets, etc. The Committee have also been informed that Command and Control Technologies and Solutions, Intelligent Robotic Platforms, Radio Communication Units, Satcom terminals etc. have been identified by DRDO for production by ITI and approval given for formation of Strategic

Business Unit(SBU) for their electronic products. The proposal is under finalization and MoU has to be signed between DoT and DRDO. In view of the foregoing initiatives and considering the strength of ITI in the field of encryption, the Committee feel that according the status of Defence PSU to ITI will increase its prospects to get more work orders. In the opinion of the Committee, seeking the Defence PSU status for ITI need to be favourably considered in view of the inherent strengths of the domestic telecom PSUs. With the implementation of the ongoing revival package, the Defence PSU status will boost the morale of the company, besides giving a competitive edge to the company vis-à-vis other Defence PSUs. The Committee, therefore, recommend the Department to take up the matter once again and impress upon the Department of Defence Production for such status to be given to them. The Committee also recommend that efforts should be made to upgrade necessary infrastructure of ITI so that it can also participate in many opportunities reserved for Defence PSUs. The Committee further stress the need for early finalization of the proposal for signing of MoU with DRDO for formation of SBU.”

17. The Department of Telecommunications, in the action taken note, have stated as under:-

“ITI has been a supplier of telecom equipments and encryption products for secured communication of Defence for more than three decades. ITI has a major share in the Indian Army’s communication network and encryption products for such network have been supplied with in-house design. All the three phases of Indian Army’s communication network – ASCON – has been set up by ITI. Currently, Defence has floated a major tender for ASCON Phase IV. ITI has already participated in one part of the tender for the supply of encryption products. ITI is also preparing for participating in the communication network part of the tender. In addition, ITI has also participated in another major tender for supply of encryption products for the prestigious Network For Spectrum (NFS) tender. ITI is already part of the execution of the NFS project, wherein ITI has bagged two major orders for laying optical fiber for appx. 13,000 kms, for the NFS project in the eastern and north eastern states of the country. ITI has also participated in the Phase II tender for the Army Wide Area Network.

In addition to the above, ITI has tied up for technology transfer for Software Defined Radio and High Frequency Radio Handsets. ITI is also looking for partners for more defence projects, like, Radars.

ITI wanted a tie-up with DRDO to work as its partner in the development process and, accordingly, formation of Strategic Business Units of DRDO had been mooted. This would have helped ITI not only for the supplies to DRDO during the development phase, but also for bulk supplies of the new products to Defence. Even though DRDO team had visited ITI's plants in Bangalore and Raebareli and had been convinced of ITI's capabilities, DRDO has turned down the proposal for SBU formation in ITI which was communicated vide letter no. DRDO/CCR&D(SI)/ DI2TM/07/20/15 dated 13th August 2015, indicating that DRDO is a R&D organization and production in numbers does not fall under DRDO's charter and therefore there is no need to establish the SBU."

18. The Department had informed the Committee that ITI had been playing a significant role in meeting the requirement of the country's Defence needs. Encryptors being the forte of ITI, at one point of time, ITI was the only Company supplying encryptors to Defence and 70 per cent of the encryption equipment deployed and working in the Defence sector is from the Bengaluru Unit of ITI. A study conducted by the Ministry of Defence in 2013 had suggested that ITI could be classified as Defence PSU. Even the study conducted by DRDO had given the clearance that ITI has got all the capabilities to meet their requirements. While observing that the proposal to confer Defence status to ITI was not agreed to by the Department of Defence Production (DDP) as the Committee constituted for considering the proposal felt that conferring DPSU status to ITI would not in any way facilitate ITI to get Defence orders in view of the fact that as per provisions in the Defence Procurement Policy, DPSUs have to compete with the private industry for getting Defence orders, the Committee had recommended the Department to take up the matter once again and impress upon the DDP for granting of Defence PSU status to ITI.

The Department, in their Action Taken Note, have furnished details about the status of participation of ITI in various tenders floated for Defence projects like ASCON Phase-IV, Network for Spectrum (NFS), tie up for technology transfer for Software Defined Radio and High Frequency Radio Handsets, etc. ITI is also looking for partners for more defence projects like Radars. With regard to formation of Strategic Business Units with DRDO, the Department have stated that the proposal

has been turned down by DRDO on the ground that DRDO is a R&D organization and production in number does not fall under DRDO's Charter and therefore there is no need to establish the SBU. The Action Taken Note is, however, completely silent on the recommendation of the Committee for taking up the matter with DPP for granting of Defence PSU status to ITI and upgradation of necessary infrastructure of ITI to participate in many opportunities reserved for Defence PSUs. It appears that no follow up action has been taken by the Department on this recommendation of the Committee. Considering that both the studies conducted by the Ministry of Defence and DRDO had found ITI capable of meeting their requirements, the Committee are of the view that proposal for granting of Defence PSU status to ITI needs to be favourably considered which will also further increase its prospect to get more work orders. The Committee desire that the Department should once again impress the Department of Defence Production for granting of DPSU status to ITI and also upgrade the necessary infrastructure so that apart from taking up projects like ASCON, NFS, Radars, etc. it may also be able to participate in various other projects reserved for Defence PSUs.

Besides, the Committee understand that there is a huge Defence related need in the country and most of the Defence PSUs, whether it is Bharat Electronics Limited or Bharat Dynamics Limited or Hindustan Aeronautical Limited, are over-flooded with the demand, the Committee, therefore, desire that efforts should also be made by the Department/ITI to collaborate with these Defence PSUs to extract some work from them. The Department may keep the Committee apprised of the action taken in the above matters.

CHAPTER-II

RECOMMENDATIONS / OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

(Recommendations Sl. No. 1)

The Indian Telephone Industries (ITI) Limited was established in 1948 and was incorporated on 25th January, 1950 under the then Mysore Companies Act, 1938 and later converted as the first Public Sector Undertaking (PSU) of the country to assist the Government in the sensitive and strategic telecommunications field. ITI started its operations in Bengaluru in 1948, which were further extended to other areas by setting up manufacturing plants at Srinagar in Jammu and Kashmir (1968); Naini (1971), Rae Bareilly (1973) and Mankapur (1984) all in Uttar Pradesh; and Palakkad (1976) in Kerala. Apart from these manufacturing plants, ITI has a dedicated Network System Unit (NSU) for executing turnkey projects and installation and maintenance support of all products supplied by it. ITI was the sole telecom equipment manufacturer to cater to the needs of the entire country during the post-Independence and pre-liberalization period. Initially, the technology used was predominantly fixed line technology based on electromechanical switching systems. From electromechanical systems, ITI had a smooth migration to the electronics systems as the sole manufacturer for P&T. Based on the needs of the nation, the entire range of telecommunications equipment was designed, developed, manufactured, supplied and maintained by ITI. ITI contributed to the total communications infrastructure as well as the telephone instrument requirements of the country for nearly five decades. ITI was a profit earning entity for more than 40 years. The Committee, however, note that after the liberalization of the telecom market in the early nineties, the performance of ITI started going down and over a period of time, it became a chronic loss making company. In the succeeding paragraphs, the Committee seek to review the developments and factors that adversely affected the performance of ITI in the post-liberalization period, efficacy of financial support extended to the Company by the Government in the intervening phase and progress of implementation of its revival plan approved by the Cabinet Committee on Economic Affairs (CCEA) in February, 2014.

Reply of the Government

Introductory Para of the Report. No action required

(Ministry of Communications & IT, Department of Telecommunications O.M. No. 20-56/2015-Fac-II Dated: 9th March, 2016)

(Recommendations Sl. No.2)

The Committee observe that in order to improve tele-density, under the liberalization policy, the Government had opened up the telecom sector to global private players, thus exposing ITI to a highly competitive market for the first time. With this sudden change in its business environment, including loss of its monopoly after liberalization and the advent of mobile phone technology, ITI was not ready to face the new challenges as it did not have the requisite technology base. Consequent upon shifting of technology from fixed line to mobile technology like GSM and CDMA, the manufacturing infra of ITI which was set up for fixed line telephone almost became redundant. Manufacturing in ITI became a matter of grave concern since virtually no product was available for manufacturing due to the emerging changes in the fast growing technology. The Committee further note that ITI, with a small equity base of about Rs.30 crore, went on expanding by opening up six large manufacturing units and employed 33000 personnel during its peak period. In order to expand, instead of equity infusion from the Government, ITI borrowed heavily from Banks/Institutions. With change of market dynamics, ITI could not bear the burden of large borrowings, manpower cost, and cost of maintaining huge infrastructure, leading to continuous losses over the years. Even the manpower, whose expertise was in fixed line telephony became surplus.

Analysis of the financial performance of ITI during the last two decades indicates that the Company had incurred losses for the first time during the period 1994-97. It again went into losses in 2002-03 and has not been able to generate any profit since then. As the net worth of ITI got completely eroded in the year 2003-04, the Company was referred to the Board for Industrial and Financial Reconstruction (BIFR) and was declared a 'sick company' on 31st March, 2004. The BIFR was engaged in formulating a rehabilitation scheme for ITI. Since then, though efforts have been made to revive the Company through various measures the PSU could not come to the profit mode. It is disquieting to note that even after receiving Rs.4556.77 crore as financial assistance from the Government during the period from 2004 to 2013, the PSU could not be revived and its accumulated losses continued to increase and the net worth got eroded. As a consequence, the accumulated losses and net worth of the company stood at Rs.5166 crore and Rs. (-) 1648 crore, respectively, at the end of March, 2015. The Committee find that the major component of financial support of the Government was meant for clearing of liabilities and statutory dues. The Capex infusion was limited to only Rs.150 crore which was found grossly inadequate for plant upgradation for GSM/CDMA technology that resulted in time and cost overrun in implementation of new projects accentuating accumulated losses. The Company did not succeed in reestablishing itself in the market. In hindsight, the Committee view that with the change of market dynamics, the major focus of the

Government's financial support to ITI should have been oriented towards structured capital investment for R&D improvement, upgradation of manufacturing infrastructure, recruitment of fresh personnel, enabling the PSU to acquire and absorb technology to sustain competition and gain market share.

(Reply of the Government)

The Cabinet Committee on Economic Affairs (CCEA) approved the proposal for providing financial assistance for revival of M/s ITI Limited on 12th February 2014. The Revival Plan of M/s ITI Ltd. is based upon improvement of its core competency in electronic/telecom equipment manufacturing by up-grading the manufacturing infrastructure at all its manufacturing units and to simultaneously diversify into Service projects (National Population Register, Data Centre, Optical Fiber Laying projects, AMC business etc.), Smart Card manufacturing, Solar panel manufacturing, Battery manufacturing and LED product manufacturing to make each unit of ITI a separate profit centre and sustain their profitability independently.

The thrust of the revival plan approved by CCEA on 12.02.2014 is on providing financial support to ITI for enabling capital investment for upgradation of ITI's manufacturing infrastructure, recruitment of fresh personnel, enabling the PSU to acquire and absorb technology to sustain competition and gain market share.

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(Recommendations Sl. No. 3)

The Committee note that the BIFR had appointed the State Bank of India (SBI) as the Operating Agency (OA) for preparation of a Draft rehabilitation scheme (DRS) for ITI, which was received in DOT in April, 2011. However, keeping in view the directions of BIFR, a Revival Plan finalized by a core group in DoT was submitted to BIFR on 30th January, 2012. The DRS was revised by the OA to take into account the Revival Plan prepared by DoT and the finalized DRS was cleared by BIFR on 27th November, 2012. The Revival Plan was then submitted to the Board for Reconstruction of Public Sector Enterprises (BRPSE) on 8th March, 2013. In its meeting held on 19th July, 2013, BRPSE reviewed and recommended ITI's Revival Plan comprising of financial assistance of Rs.4156.79 crore. Based on the recommendations of BRPSE, the Cabinet Committee on Economic Affairs (CCEA) approved the proposal for providing financial assistance for revival of ITI on 12th February, 2014. As per proposal approved by CCEA, ITI's revival has to be supported through financial restructuring by fund infusion of Rs.4156.79 crore. The capital grant of Rs.2264 crore was to be given in the form of equity for project implementation (Capex) for upgrading the manufacturing infrastructure at its various units for new projects and the balance amount of Rs.1892.79 crore to be

financial assistance in the form of grant-in-aid for clearing statutory liabilities and meeting other commitments made by ITI. Considering the fact that telecommunications is an important area of concern for national security and ITI has played a major role in development of telecommunications in the country, it needs to be strengthened to regain its past glory. The Committee, therefore, support this Revival Plan. The present revival package will provide a breathing space to this Company so as to work out a strategy to regain its original status and the Committee appreciate the move of the Government in this direction. The Committee, however, observe that the pace of revival process had been extremely slow and took near about 9 years before being finally approved by the Cabinet. In view of the precarious state of affairs of the Company, greater effort could have been put in by the agencies concerned for expeditious finalization of the Revival Plan. The Committee are inclined to conclude that the delay in finalization of the Revival Plan has resulted in further deterioration of the financial health of the Company, including loss of precious time critical to its resurgence.

(Reply of the Government)

During the period from 2004 to 2013, i.e. after the Company was declared sick and before the approval of Revival Plan of ITI, Government had provided financial assistance of Rs. 4,556.77 Crore to ITI **(Annexure)**. This consisted of a Revival Plan of Rs. 2,820 Crore which was approved by CCEA in February 2009. However, the thrust of this Revival Plan was on cleaning of balance sheet of the Company. As a result of this help ITI was able to bring down the interest cost from 2009-10 onwards, due to which its losses came down from a high of Rs. 688 Crore in 2008-09 to Rs. 350 Cr. from 2010-11 onwards. However, the Company's accumulated losses kept on increasing and its network remained negative due to lack of new technology products.

These aspects have been addressed to a large extent in the Revival Plan approved during 2013-14, which is based upon improvement of ITI's core competency in electronic/telecom equipment manufacturing by up-grading the manufacturing infrastructure at all its manufacturing units and to simultaneously diversify into Service projects (National Population Register, Data Centre, Optical Fiber Laying projects, AMC business etc.), Smart Card manufacturing, Solar panel manufacturing, Battery manufacturing and LED product manufacturing to make each unit of ITI a separate profit centre and sustain their profitability independently.

Annexure

Period	Amount (Rs. Cr.)	Utilization
Dec. 2004 – Mar. 2005	150.00	Plant up-gradation for GSM/CDMA technology
	458.00	Reimbursement of VRS cost in 2003-04 (Rs. 338 Cr.) and in 2004-05 (Rs. 120 Cr.)
	200.00	Enhancing Equity Base
	93.10	PF and other statutory dues
	23.67	Waiver of interest on Govt. loan
Oct. 2006	25.00	Salary of employees
Sep. 2007	100.00	VRS cost reimbursement
	252.00	Payment of statutory dues
Mar. 2009	125.00	Salary of employees
Aug. 2009	2,820.00	Clearing of all liabilities of ITI: <ul style="list-style-type: none"> • Term Loan Guaranteed by Gol : Rs. 403 Cr. • Short Term Loans : Rs. 300 Cr. • Floating Rate Bonds : Rs. 390 Cr. • Credit Limit (exhausted) : Rs. 893 Cr. • Letter of Credit (utilized) : Rs. 523 Cr. • PF/Gratuity/Others : Rs. 199 Cr. • Interest Liabilities on Cash Credits and Bonds : Rs. 112 Cr.
Mar. 2011	180.00	Working margin
Jan. 2013	130.00	Salary of employees
Total	4,556.77	

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(Recommendations Sl. No. 4)

As per the Revival Plan approved by CCEA, the disbursement of funds has to be done in two stages. In the first stage, an amount of Rs.1455.79 crore consisting of Rs.460 crore for projects which required immediate assistance and Rs.995.79 crore

for payment of liabilities had to be disbursed. In the second stage, an amount of Rs.2701 crore consisting of Rs.1804 crore for projects and Rs.897 crore for clearing liabilities was to be disbursed based on the progress of the projects covered in the first stage. During the year 2014-15, a request had accordingly been sent by DoT to the Ministry of Finance to make a provision of Rs.460 crore under Plan head and Rs.1892.79 crore under non-Plan head in the General Budget 2014-15 regarding the Revival Plan of ITI. However, an amount of Rs.460 crore only was allocated at BE stage under the Plan head, and no fund was allocated under the non-Plan head. The Committee note that after persistent efforts made by the Department, the Ministry of Finance allocated Rs.165 crore for payment of 1997 wage revision arrears to the ITI employees in November, 2014, Rs.200 crore as soft loan in September, 2014 and Rs.100 crore as loan in March, 2015 for making payment of salaries to its employees. As a result of delayed allocation of matching funds under grants-in-aid for making payment towards statutory liabilities, Rs.460 crore allocated under Plan head for project implementation could not be utilized as Planned. The first tranche of Capex amounting to Rs.192 crore was released to ITI as late as February, 2015. The Committee observe that owing to the delay in approval of the revival proposal and late release of funds by the Ministry of Finance, the implementation of the revival Plan will now come into effect from 2015-16, i.e. deferred by one year. Another tranche of Rs.50 crore for Capex infusion and further Rs.150 crore as grants-in-aid for making payment of salaries to the employees of ITI have been allotted in the General Budget 2015-16. Since the Revival Plan is to be implemented in two stages, the Committee desire the Ministry of Finance to ensure requisite allocation of funds to enable DoT to adhere to the disbursement schedule approved by the Cabinet so that implementation of the Revival Plan is not hampered further due to lack of funds. The Committee stress that DoT should constantly coordinate with the Ministry of Finance for timely release of funds as provided for in the financial package to facilitate execution of the Revival Plan.

(Reply of the Government)

DoT has been actively pursuing with Ministry of Finance (MoF) for timely release of funds for smooth implementation of the Revival Plan approved by CCEA. However, till date MoF has released only Rs. 507 Crore against the approval of Rs. 4,156.79 Crore. This comprises of an amount of Rs 192 Crore to meet capex requirements Rs. 165 crore for payment of 39 months' pay revision arrears, as per 1997 pay revision, to employees of ITI and Rs 150 crore to meet the establishment cost.

The status of revival efforts of M/s ITI Limited was reviewed by Committee of Secretaries (CoS) on 6th July 2015. It was decided by CoS that the revival plan of ITI

may be funded from Universal Service Obligation Fund (USOF). Thereafter in a meeting taken by Secretary DPE and Secretary BRPSE on 14th August 2015, it was decided that the Department (i.e. DoT) may examine the project funding for those goods and services in the production profile of ITI which have use for penetration of telephone network in rural and remote areas from USOF and accordingly, funding of the business and operational plan for the revival of ITI may be taken up. Hence, the matter was discussed with USOF and a committee has been constituted comprising of officers from USOF, DoT, ITI and BBNL. The committee with representatives from officers from USOF, DoT, ITI and BBNL is in the process of finalizing the projects and activities related to USOF that ITI can undertake.

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Comments of the Committee
(Please see Para No. 9 of Chapter I)

(Recommendations Sl. No. 5)

The Revival Plan of ITI envisages improvement of its core competency in electronic/telecom equipment manufacturing by upgrading the manufacturing infrastructure at all its manufacturing units and to simultaneously diversify into Service Projects (National Population Register, Data Centre, Optical Fibre Laying Projects, AMC business, etc.), Smart Card manufacturing, Battery Manufacturing and LED products manufacturing to make each unit of ITI a separate profit centre and sustain their profitability independently. 18 projects have been identified by ITI for execution under the Revival Plan. The Committee note that out of Rs.460 crore earmarked for projects in the first stage, capital investment planned by ITI were spread over two phases in the Financial Year (FY) 2014-15. Phase-I related to activities/projects to be completed in FY 2014-15 while Phase – II related to the projects for which infrastructure upgradation was to be started in 2014-15 so that the orders against these projects could be executed in 2015-16. With capital investment of Rs.460 crore planned in Phase-I and Phase-II in the six units, viz. Bengaluru (Rs.197 crore), Naini (Rs.79 crore), Palakkad (Rs.117 crore), Mankapur (Rs.29 crore), Rae Bareli (Rs.33 crore) and Srinagar (Rs.5 crore), turnover of the order of Rs.524 crore and Rs.1271.50 crore was estimated during the year 2014-15 and 2015-16, respectively. However, out of Rs.242 crore released so far, Rs.79.61 crore has been utilized by only three plants of ITI, viz. Bengaluru (Rs.46 crore), Palakkad (Rs.26.48 crore) and Rae Bareli (Rs.7.13 crore) for procurement of machinery and equipment. Obviously, the turnover from the Capex cannot be achieved as planned

and ITI's expectation for the same to materialize during 2015-16 also appear unattainable.

A review of the 1st stage implementation of the Revival Plan shows that there is a shortfall in allocation the tune of Rs.118 crore towards capital investment and Rs.380.79 crore under grant-in-aid for meeting liabilities. Evidently, the 1st stage implementation is lagging far behind owing to belated allocation of funds by the Ministry of Finance, coupled with the slow pace of utilization of available funds by ITI. Consequently, the 2nd stage implementation, which is based on the progress of the projects covered in the first stage where ITI planned Capex investment of the remaining amount, i.e. Rs.1804 crore, will be delayed. In the given situation, the Committee are constrained to conclude that the targets set for estimated turnover, garnering operating profit and likely turnaround of manufacturing plants are not going to be realized as envisaged in the projected performance. Now, since the entire business plan for revival stands deferred and needs to be restructured with revised Capex plans, the roadmap for restructuring needs to be carefully worked out. The Committee emphasize that the thrust of execution of the Revival Plan should be to bring ITI into profitability immediately so as to create a platform on which the Company can be built up. Once the Company is profitable, it would be in a position to acquire technologies to move to the 2nd stage. The Committee, therefore, recommend that ITI should strive for optimal and efficient utilization of available funds to accomplish activities/projects planned for different phases in the 1st stage if implementation and secure release of funds to step up activities in phase III in the 2nd stage of implementation. The corporate office of ITI should take quick decisions in its investment plans for all the six plants and ensure speedy release of funds for procurement of machinery and equipment required for upgradation of manufacturing infrastructure in these units. The Committee would like to be apprised of the progress made in this direction. They would also like to be informed about the renewed Capex plans and estimated turnover and the time by which ITI will be brought to profit mode.

(Reply of the Government)

Infrastructure up-gradation for implementation of projects is a long process. Considering that the technology is fast changing, the business plan needs to be done taking into consideration the current market scenario and, accordingly, the detailed project reports are required to be prepared. These reports are then submitted to ITI Board and Apex Committee for approval. The infrastructure required for each project is to be finalized and action needs to be taken for tendering, ordering, procurement, installation, commissioning etc. As the revival plan of ITI was approved in February 2014 itself, ITI had initiated proactive action on the infrastructure up-gradation and

most of the project activities had been brought up to the level of ordering for equipments at the time of release of funds by the Government.

Out of Rs. 2264 Crores sanctioned by CCEA as equity for capital investments under revival plan, Government had released Rs. 192 Crores, during February 2015, as first phase disbursement to the company. This amount is planned for implementing various projects under Defence business, SCADA, MLLN, Smart cards, HDPE Pipe manufacturing, SMPS, Component screening, Vehicle Tracking System (VTS), 3D printing, Contract manufacturing, Business with PSUs etc. Sixteen projects have been identified under this capex plan. (List of projects and the capex plan for these projects is shown in **Annexure 1**). The infrastructure up-gradation for implementation of these projects has almost been completed in various plants of ITI. Out of Rs 192 Crores, company has drawn around Rs 151.35 Crores as on 31st October 2015.

In BE 2015-16, Government has approved Rs. 50 Crores for ITI under plan expenditure. The business plan for utilization of Rs. 46 Crores under this allocation has already been approved by ITI Board and the Apex Committee and they are part of two projects which are currently under implementation. This amount will be utilized during 3rd/ 4th quarter of 2015-16 after complete utilization of Rs. 192 Crores already released. The plan for utilization of balance Rs. 4 Crores has also been made. However, ITI has drawn plans for implementation of many more projects during the current year/next year and has requested for allocation of more funds under plan head towards these new projects. These projects include manufacturing of telecom products like Wi-Fi, NGN, LTE and GPON, manufacturing optical fiber, augmentation of manufacturing of HDPE pipe, expansion of ITI's Data Centre etc. An additional capex of appx. Rs. 270 Crores has been estimated for these projects and ITI has requested DoT to kindly consider allocation of this fund, in addition to the already allocated amount of Rs. 50 Crores, towards capex during 2015-16. The list of projects under this capex plan is shown at **Annexure 2**. Based on the allocation of funds during 2015-16 and 2016-17, ITI shall prepare detailed project reports and submit to DoT and the Apex Committee.

Annexure 1

Projects under Phase 1 (with a Capex Plan of Rs. 192 Cr.)

Sl No.	Plant	Project	Capex (Rs. Cr.)
1	Bangalore	Legacy Secrecy Equipments	38.00

2		1 GB Ethernet Secrecy Equipments	26.00
3		Multi-Channel Encryption Equipments	44.00
4		SCADA, MUX and Telephones	7.00
5		SaaS based Data Centre projects	5.00
6		Business with PSUs	18.00
7	Raebareli	HDPE Pipe Manufacturing	3.00
8		Vehicle Tracking System	3.00
9		Contract Manufacturing with ALIMCO	1.00
10		Contract Manufacturing for other PSUs	1.50
11		3D Printing project	4.50
12		Switched Mode Power Supply	3.00
13	Palakkad	Managed Leased Line Network project	25.00
14		Component Screening project with VSSC	2.00
15		Smart Card project	8.00
16	Naini	Solar project	3.00
TOTAL			192.00

Annexure 2

Projects and Capex Plan for 2015-16 (Plan Beyond Rs. 192 Cr.)

SI No	Project	Capex (Rs. Cr.)
1	Business with PSUs (HDPE pipe mfg, Fiber cable mfg, MAX NGN mfg, Component Screening etc.)	98.00

2	Wi-Fi Solutions for Broadband project	12.00
3	Carrier Ethernet	20.00
4	Data Center and IT Solutions (IOT Solutions)	23.00
5	Defence projects	30.00
6	GPON	10.00
7	Li-ion Batteries for GSM project	12.00
8	NPR/Smart Cards	25.00
9	Solar Panel Manufacturing	30.00
10	Others	10.00
	Total	270.00

(Ministry of Communications & IT, Department of Telecommunications O.M. No. 20-56/2015-Fac-II Dated: 9th March, 2016)

Comments of the Committee
(Please see Para No. 9 of Chapter I)

(Recommendations Sl. No. 6)

The revival proposal has been prepared after considering the strength of each of the six plants. As far as productivity and financial viability is concerned while the Palakkad and Bengaluru Units are having maximum potential, the Raibareli Unit has medium potential and Mankapur and Naini have lower potential. The Committee also note that basic infrastructure is available in all the Units which is being upgraded for capacity building. As per the projected performance under the Revival Plan, with Capex investment of Rs.2264 crore, the estimated market share and the value addition of ITI units, including Network System Unit (NSUs) and Regional Offices (ROs), in the next five years, where projected to be Rs.17727 crore and Rs.2624, crore respectively. The Unit with maximum market share was to be Raebareli with Rs.3500 crore followed by Mankapur with Rs.3252 crore, Bengaluru with Rs.3210 crore, Palakkad with Rs.2970 crore, Naini with Rs.2555 crore and Srinagar with Rs.50 crore. With regard to NSU and ROs, the estimated market share was to be of the order of Rs.440 and Rs.1750 crore, respectively. In respect of value addition, the Bengaluru Unit was likely to achieve maximum value addition with

Rs.646 crore, followed by Palakkad with Rs.575 crore, Raibareli with Rs.536 crore, Mankapur with Rs.354 crore, Naini with Rs.201 crore and Srinagar with Rs.5 crore. With regard to NSU and ROs, the value addition was to be to the tune of Rs.176 crore and Rs.131 crore respectively. The Committee observe that the Revival Plan is based on certain assumptions and expectations. The projected market share will be largely dependent upon competition, acquisition of technology, likely competitive scenario fall all its products and the ability of the PSU to compete in the market as electronic items are at zero duty and telecom items are falling to zero duty except some items. As of now, when the execution of ITI's Revival Plan is at its early stages, the Committee are not inclined to share the optimism generated to achieve gross sale of complex products in a volatile market. To attain these goals, the PSU has to successfully go through different phases of transition set out for the purpose and progressively achieve the milestones envisaged in the revival Plan. The primary focus of ITI should be directed towards bringing the Company back to profitability as early as possible with prudent investment in different manufacturing plants.

(Reply of the Government)

ITI's revival plan is based on the report prepared in the year 2011. ITI is a manufacturing firm in the electronics/ communication sector where the technology is changing very fast. Hence, the company's business plan for its turnaround is primarily based on the market dynamics. However, considering the significant initiatives of the Government towards "Make in India", "Digital India" and "Smart Cities" and also the policies like Preferential Market Access, the company is hopeful of getting good market opportunities on certain sectors. Accordingly, the company is drawing plans for implementation of new projects. With these market opportunities and the Government's funding support in one side and with reducing manpower in the company through VRS and also through normal retirement process, the company is confident of turning around within two or three years.

(Ministry of Communications & IT, Department of Telecommunications O.M. No. 20-56/2015-Fac-II Dated: 9th March, 2016)

(Recommendations Sl. No. 8)

The revival Plan approved by the Cabinet envisaged the institution of a comprehensive monitoring mechanism. In pursuance thereof, appropriate Committees have been constituted at Corporate and Unit level of ITI for regular monitoring of the implementation of the Revival Plan. An Apex Committee under the Chairmanship of Secretary, DoT with representatives from the Department of Public Enterprises (DPE) and Department of Expenditure (DoE), has also been constituted. The mandate of the Apex Committee is to review the monitoring of

implementation of the Revival Plan; to review the viability of Units and to identify and reorganize the unviable Units; to finalize an elaborate plan to reduce social overheads to be submitted by ITI; and to consider induction of barest minimum fresh personnel to meet the essential requirements of various initiatives. The Committee note that review meetings are planned to be held weekly at Unit level, fortnightly at mentor/Corporate level and quarterly at Apex level. So far, meetings of the apex Committee have been held on 27th August, 2014, 5th December, 2014 and 15th May, 2015. In the review meetings held with ITI on 19th March, 2014, 9th April, 2014 23rd April, 2014 and 17th July, 2014, PERT Charts have been finalized and performance of the manufacturing Units was monitored through these Charts. The Committee further note that it has been decided to run each Unit of ITI as a separate profit centre for which functional Directors of ITI have taken up additional responsibilities as mentor of ITI Units. Taking note of the elaborate monitoring mechanism put in place from Unit to Ministry level for monitoring of the progress of the ITI Revival Plan, the Committee stress that meetings at various levels should be held at regular intervals so that any difficulty encountered during project implementation may be addressed with promptitude and proactive intervention at the appropriate level. Recognizing that the Apex Committee holds the onerous responsibility of finalizing proposals regarding some of the key components of the Revival Plan like reducing social overheads, materializing VRS, induction of fresh hands, roll back of retirement age for continuance of expert manpower, etc., the Committee desire that these need to be addressed on a purposive manner for early clearance. It is all the more necessary on the part of the Apex Committee to ensure that implementation of the Revival Plan does not suffer from extensive procedural formalities.

(Reply of the Government)

Proper mechanism has been put for reviewing and monitoring the implementation of the revival plan. Periodic review meetings are held at various levels, i.e., at unit level, Mentor (corporate) level, DoT level (with Member (Services)) and at the Apex Committee level. Approval of the Apex Committee is taken for each of the activities and no procedural delay has been seen at any time.

(Ministry of Communications & IT, Department of Telecommunications, O.M. No. 20-56/2015-Fac-II Dated: 9th March, 2016)

(Recommendations Sl. No. 9)

The Committee note that acquisition of new technology is one of the essential ingredients of the Revival Plan. With regard to technology ownership, ITI has in-house technologies for five products and Transfer of Technology (ToT) is in place for two projects. As part of the Revival Plan, technology tie-ups with leaders in telecom

technologies have been planned by the Company to bring in indigenous manufacturing capabilities for major telecom products. The Company have since identified technology partners for eight telecom/defence products and the process of identifying partners for seven telecom/IT projects is in progress. The Committee have been informed that the ITI has since signed MoU for NGN with M/s UT Starcom, Hybrid MW with M/s SIAE, CCU with M/s CDAC and vehicle tracking system with M/s Sway Techno Solutions. Expression of Interests (EoIs) have also been floated for Wi-Fi systems, satellite terminals and Lithium-Ion battery. The Committee are given to understand that to address the need of the latest technology and in line with the 'Make in India' initiative of GoI, ITI has floated advertisement inviting India and Overseas Telecom/Defence/Electronics Equipment Manufacturers to join ITI, Observing that technology tie-up is a long drawn out process to evolve into commercial business, the Committee stress that products should be competitive and the technology the latest; otherwise the proposed business strategy will not help ITI break into the market. Another important area is technology change factor which should be carefully factored in the revival strategy; or else, technology change would make the entire investment infructuous and the fortunes of the Company will again dip within a short time. The Committee, therefore, recommend that ITI should acquire state-of-the-art technology for products to operate in the high-tech telecom market so as to withstand competition from private and multinational players. ITI should also endeavour for ToT for major products to expand technology ownership. The Committee would like to be informed about the achievements of technology tie-ups, including status of ToT.

(Reply of the Government)

As stated under para 6 above, ITI is selecting such projects which are having good market potential in today's scenario. ITI is striving to get technology of state-of-the-art products in telecom domain for manufacturing in ITI. Broadband products (like Carrier Ethernet, DWDM, GPON), Wi-Fi, NGN, LTE etc. are such technologies where ITI has been trying to find partners.

ITI has in-house technology for encryption products for secured communication of Defence. ITI has also manufacturing technology for solar power modules, smart cards etc. As far as technology tie-ups are concerned, the current status is as follows:

- NGN technology with UTStarcom, USA and C-DOT, India
- GPON technology with C-DOT
- Charge Control Unit – CDAC
- Software Defined Radio (SDR) – Uurmi Systems, Hyderabad
- HF Radio Handsets – Codan, Australia

- Vehicle Tracking System – Sway Telecom, Pune
- Temperature Loggers (E-SafeT) – CDAC
- GSM Passive Monitoring – Halpern International, USA
- Public Alert Systems – NGIT, Hyderabad
- E-Banking – Transaction Analysts, Bangalore
- E-Tendering – Antares Systems, Bangalore

In addition to the above, ITI is in the process of finding technology partners for the following:

- Carrier Ethernet
- LTE
- Wi-Fi
- Set Top Box
- Fiber based Intrusion Detection System
- CCTV based surveillance systems
- Night Vision Devices
- Aadhaar based Authentication Solutions
- Weather Radars

(Ministry of Communications & IT, Department of Telecommunications, O.M. No. 20-56/2015-Fac-II Dated: 9th March, 2016)

(Recommendations Sl. No. 12)

The Committee note that ITI is to recruit fresh personnel to absorb the new technologies proposed in the revival proposal as per requirement. The proposal for the barest minimum fresh induction of hands to meet the essential requirements of various initiatives is to be considered with due concurrence of the Apex Committee. At present, ITI is in the process of implementation of 16 projects and has identified R&D projects where fresh personnel can be inducted. The proposal for recruitment of 31 engineers and 10 diploma holders was prepared for submission to the Apex Committee. Considering the fact that lack of in-house R&D to deliver fruitful results, non recruitment of fresh permanent Engineers for two decades, lack of skilled and experienced manpower in all the Units to take up new technology products, etc. have been largely responsible for hindering the performance of ITI, the Committee recommend that the proposal for induction of fresh personnel need to be approved at the earliest so that the process of such induction could be started for the larger benefit of the Company.

(Reply of the Government)

The proposal for recruitment of fresh Engineering graduates & Diploma-holders needs to be approved in the APEX Committee. ITI is in the process of firming

up its requirement and is expected to take up this issue in the next meeting of the Apex Committee.

(Ministry of Communications & IT, Department of Telecommunications, O.M. No. 20-56/2015-Fac-II Dated: 9th March, 2016)

Comments of the Committee
(Please see Para No. 15 of Chapter I)

(Recommendations Sl. No. 13)

The Committee note that ITI has to reduce social overheads for which an elaborate plan with clear monitorable targets is to be submitted to the Apex Committee before release of financial assistance to ITI. The social overheads incurred are mainly related to maintenance of township for employees, transport facilities, hospital, canteen, school, etc. as most of the ITI Units were established in remote/under developed areas. As per the proposal approved by CCEA, the projected reduction in social overheads is estimated to be around 10 per cent over a period of 03 years through restructuring and rationalisation of expenses after receipt of the revival package. As part of the endeavour to reduce social cost, M/s. Indian Oil Corporation Ltd. (IOCL) has evinced interest to the request of ITI to adopt the special school run by ITI at Bengaluru. This would reduce the burden of the Company to the extent of Rs. 10 lakh per annum. Under transportation, effective from December 2014, IT Corporate Office, NSU and Rae Bareli have already reduced the transport facility by 25 per cent, thereby achieving saving of Rs. 65 lakh annually. In respect of Bengaluru, Naini and Palakkad Units, the Management plans to initially increase the rates of the food being served in the canteen and finally to run the canteen at Bengaluru on cost basis. With regard to Medical head, instructions have been issued to the Unit Heads to curtail referrals to outside hospitals and to run the hospitals with reduced or without any financial help. It was also suggested to explore the possibilities of providing medical facility through Medical/health Insurance Companies. The Committee recognize that the aforesaid measures are expected to bring down the expenditure of the Company considerably and reducing social cost may not lead to absolute cut in benefits to its employees as the Company is trying to regulate the facility in such a way that the employees continue to get the existing facilities in that form or in better form. While observing that reduction of social cost is a contentious issue and there has been resistance by employees and trade unions against reducing the social cost, the Committee recommend that attempts must be made by the Management to take employees and trade unions on board to arrive at amicable resolution of the issue.

(Reply of the Government)

The main Social Overheads that ITI is incurring are Maintenance of township for Employees, Transport Facilities, Hospital, Canteen & School. The reduction in cost in these areas are planned to be achieved by:

- Restructuring & rationalization of Units.
- Adoption of special School at Bangalore by M/s IOCL & this would reduce burden to extent of Rs.10 Lakhs /Annum.
- Rationalization of transport facilities provided to employees. While involving the Trade Unions ITI could reduce the Transportation cost at Corporate Office, Bangalore Plant, Raebareli and Naini Plants and efforts are on by ITI to still continue to reduce it further at other locations.
- Canteen Facility:
 - At all plant locations ITI has advised its Units to initiate the process of outsourcing of canteen while involving the committee members of Trade Unions. Already in ITI Mankapur, Naini, Raebareli, the subsidy for the canteen has been reduced. However, in ITI Bangalore and Palakkad, the discussions are on for the same.
- Medical Plan
 - to reduce referrals to outside Hospitals.
 - to run Hospitals with reduced expenses or without any financial help
 - Exercising option for cashless Mediclaims through Medical/Health Insurance Companies

All the above proposals and implementations have been done by ITI in consultations /discussions with the recognized Trade Unions/Associations

(Ministry of Communications & IT, Department of Telecommunications, O.M. No. 20-56/2015-Fac-II Dated: 9th March, 2016)

(Recommendations Sl. No. 14)

The Committee note that in the wake of the policy announcements by the Government for 'Make in India' and 'Digital India', all the Ministries/Departments have been advised to give preference to electronic products from domestic manufacturers. Further, the Government have recently drawn up a roadmap for developing 100 'Smart Cities' in the country by 2020. The Committee have been

given to understand that ITI can be a major player for domestic manufacturing of electronic products in India and can play an effective role in this field. The Committee have further been informed that ITI can also play the role of system integrator/solution provider for requirements of 'Smart Cities' projects and most of the equipment required for 'Smart Cities' are available with ITI. ITI is reportedly in the process of consultation with the Universal Obligation Fund 9USOF0 and Bharat Sanchar Nigam Ltd.(BSNIO for the National Optical Fiber Network (NOFN) project which is part of the 'Digital India' endeavour. The Committee visualize that the ITI can play a very important role in 'Make in India', 'Digital India' and 'Smart Cities' projects of the Government. In view of the tremendous opportunities being opened up by these projects and the recent policy of the Government supporting procurement of electronic products from domestic manufacturers, the Committee desire that concerted efforts must be made by ITI to take advantage of business opportunities by actively participating in these projects. In order to play an effective role in these projects, ITI need to successfully execute the Revival Plan that focuses on strengthening R&D, induction of fresh talent and more importantly a building, through upgradation of manufacturing infrastructure.

(Reply of the Government)

ITI is relying on the opportunities arising out of the new initiatives of the Government, viz., Make in India, Digital India and Smart Cities and also the new policies, like Preferential Market Access, National Telecom Policy, National Policy on Electronics and Defence Off-set Policy. ITI's approach for revival is to go for large scale manufacturing of state-of-the-art telecom products, like, LTE, Wi-Fi, Broadband communication equipments etc. and also the products for the emerging solar and smart card markets. ITI has been putting efforts to get indigenous/global partners to transfer technologies for these products for manufacturing in ITI. Strengthening R & D, induction of fresh talent and infrastructure up-gradation are part of the revival plan agenda.

(Ministry of Communications & IT, Department of Telecommunications, O.M. No. 20-56/2015-Fac-II Dated: 9th March, 2016)

(Recommendations Sl. No. 15)

The Committee note that the Indian telecom equipment demand is expected to grow from US \$ 13 billion in 2012-13 to about US \$ 30 billion by 2019-20. However, the domestic value addition in telecom equipment manufacturing is extremely low. The Committee recognize that ITI would be capable of manufacturing most of the telecom equipment being imported now with the absorption of

technology from the global Original Equipment Manufacturers (OEMs), infusion of fresh talent and upgradation of infrastructure for which the required resources have already been included in the Revival Plan. The Committee need hardly emphasis the urgent need to promote domestic manufacturing of telecom equipment. They hope that with the strengthening of domestic design houses like C-DoT and the R&D of ITI in the major areas of telecommunications, the country can move towards achieving self reliance in the telecom field. Stressing that ITI can play a pivotal role in making the country self reliant in the telecom sector, the Committee recommend that the various policy initiatives taken in the direction of promoting indigenous manufacturing should support the endeavour of ITI by way of some preferential treatment enabling it to operate in the highly competitive telecom market.

(Reply of the Government)

In order to upgrade and assimilate new technology ITI is already looking out for technology partners. ITI has already secured technology tie-ups for some area like Software Defined Radio, HF Radio Handsets and is in the process of finalizing partners for Carrier Ethernet, LTE and Wi-Fi. DoT is also trying to work out and promote synergy amongst ITI, BSNL, MTNL and C-DOT. In this regard ITI has taken into account the requirements of BSNL, MTNL and BBNL in its production plans. C-DoT is expected to develop technological solutions that ITI can utilize for manufacturing telecom equipment for BSNL, MTNL and BBNL. Besides ITI is also taking proactive action to develop end to end Smart-city / IoT solutions to serve the industry. It has planned to manufacture the key components of smart-city solutions like sensors, RFIDs, NFC tags, embedded boards etc. Thus ITI is expected to play an important role in 'Make-in-India' and 'Digital India' programs of the Government.

DoT has also sent a draft Note for Cabinet Committee on Economic Affairs for inter-Ministerial consultation for continuation of reserving a quota in procurements planned by BSNL, MTNL and BBNL for ITI Limited.

A Committee with DoT is also exploring the possibility of giving some projects related to provision of telecom services in remote and rural areas to ITI on preferential / nomination basis with fund support from USOF.

(Ministry of Communications & IT, Department of Telecommunications, O.M. No. 20-56/2015-Fac-II Dated: 9th March, 2016)

(Recommendations Sl. No. 16)

The Committee note that ITI has been playing a significant role in meeting the requirement of the country's Defence needs. The Committee have been given to understand that encryptors are the forte of ITI and at one point of time ITI was the

only Company supplying encryptors to Defence. ITI has implemented the Army Static Communication Network (ASCON) 1, 2 and 3 projects and is likely to get ASCON-4 also. According to the Department, 70 percent of the encryption equipment deployed and working in the Defence sector is from the Bangaluru Unit of ITI. A study was reportedly conducted by the Ministry of Defence in 2013 which suggested that ITI has got all the capabilities of producing electronics and telecommunications equipment for Defence. The report recommended that ITI could be classified as a Defence PSU. The Defence Research and Development Organization (DRDO) had also carried out a study and given the clearance that ITI has got all the capabilities to meet their requirements. However, the proposal to confer Defence status to ITI was not agreed to by the Department of Defence Production as the Committee constituted for considering the proposal felt that conferring DPSU status to ITI would not in any way facilitate ITI to get Defence orders in view of the fact that as per provisions in the Defence Procurement Policy, DPSUs have to compete with the private industry for getting Defence orders. The Committee note that in order to enhance product portfolio in Defence, ITI is planning to introduce products such as Satellite Trans Receiver and Access equipment, Radars and allied equipment, Weapon Control System, Navigation system and Equipment, Missile Systems and Equipment, Electronic Fuzes for Gun, High Grade Bullet Proof Jackets, etc. The Committee have also been informed that Command and Control Technologies and Solutions, Intelligent Robotic Platforms, Radio Communication Units, Satcom terminals etc. have been identified by DRDO for production by ITI and approval given for formation of Strategic Business Unit(SBU) for their electronic products. The proposal is under finalization and MoU has to be signed between DoT and DRDO. In view of the foregoing initiatives and considering the strength of ITI in the field of encryption, the Committee feel that according the status of Defence PSU to ITI will increase its prospects to get more work orders. In the opinion of the Committee, seeking the Defence PSU status for ITI need to be favourably considered in view of the inherent strengths of the domestic telecom PSUs. With the implementation of the ongoing revival package, the Defence PSU status will boost the morale of the company, besides giving a competitive edge to the company vis-à-vis to other Defence PSUs. The Committee, therefore recommend that the Department to take up the matter once again and impress upon the Department of Defence Production for such status to be given to them. The Committee also recommend that efforts should be made to upgrade necessary infrastructure of ITI so that it can also participate in many opportunities reserved for Defence PSUs. The Committee further stress the need for early finalization of the proposal for signing of MoU with DRDO for formation of SBU.

(Reply of the Government)

ITI has been a supplier of telecom equipments and encryption products for secured communication of Defence for more than three decades. ITI has a major share in the Indian Army's communication network and encryption products for such network have been supplied with in-house design. All the three phases of Indian Army's communication network – ASCON – has been set up by ITI. Currently, Defence has floated a major tender for ASCON Phase IV. ITI has already participated in one part of the tender for the supply of encryption products. ITI is also preparing for participating in the communication network part of the tender. In addition, ITI has also participated in another major tender for supply of encryption products for the prestigious Network For Spectrum (NFS) tender. ITI is already part of the execution of the NFS project, wherein ITI has bagged two major orders for laying optical fiber for appx. 13,000 kms, for the NFS project in the eastern and north eastern states of the country. ITI has also participated in the Phase II tender for the Army Wide Area Network.

In addition to the above, ITI has tied up for technology transfer for Software Defined Radio and High Frequency Radio Handsets. ITI is also looking for partners for more defence projects, like, Radars.

ITI wanted a tie-up with DRDO to work as its partner in the development process and, accordingly, formation of Strategic Business Units of DRDO had been mooted. This would have helped ITI not only for the supplies to DRDO during the development phase, but also for bulk supplies of the new products to Defence. Even though DRDO team had visited ITI's plants in Bangalore and Raebareli and had been convinced of ITI's capabilities, DRDO has turned down the proposal for SBU formation in ITI which was communicated vide letter no. DRDO/CCR&D(SI)/DI2TM/07/20/15 dated 13th August 2015, indicating that DRDO is a R&D organization and production in numbers does not fall under DRDO's charter and therefore there is no need to establish the SBU.

(Ministry of Communications & IT, Department of Telecommunications, O.M. No. 20-56/2015-Fac-II Dated: 9th March, 2016)

Comments of the Committee ***(Please see Para No. 18 of Chapter I)***

(Recommendations Sl. No. 17)

The Committee note that a total of 1349.706 acres of land are available with ITI, of which 775.07 acres have been utilized for townships and 531.07 acres for building factories while 74.89 acres have been spared to other organizations and 93

acres have been earmarked for projects. The Bengaluru Unit has the maximum land with 459.10 acres, followed by 352.03 acres in Mankapur, 308.21 acres in Rae Bareli, 177.73 acres in Naini and 57.973 acres in Palakkad. The Committee are given to understand that there is much scope for commercial development of ITI land available at Bengaluru. In Doorvaninagar, out of 63 acres, 52 acres of land has been converted from industrial to commercial use and in view of its prime location, there is scope for establishment of SEZ/Software and IT Companies. According to ITI, the land/building at Electronic city in Bengaluru is best suited for setting up of telecom/Electronic Parks or SEZ which will attract FDI and fetch good revenue to the Company. Since huge opportunities for commercial development of land is available at Doorvaninagar and Electronic City in Bengaluru, the Committee recommend that ITI should explore various options for commercial development/use of the available land for generation of additional revenue. With progressive downsizing of manpower, ITI would have surplus infra in township areas which may be utilized for earning revenues. The Committee would like to be apprised of the efforts made in this regard.

(Reply of the Government)

ITI is exploring following options in respect of gainfully utilizing its land at Bengaluru:-

- Utilization of Land for Commercial purpose for setting up of SEZ /Software& IT Companies.
- M/s NBCC is also being involved to explore the option towards utilization of Land.
- Proposal of M/s Aeronautical Development Agency, Bengaluru is also under review for consideration of Lease/Rent of ITI Building /hangers to accommodate their Labs, Test Facilities, R&D Units with 2000 No. of Manpower.

ITI has also proposed to dispose of its unutilized residential Flats at Naini.

(Ministry of Communications & IT, Department of Telecommunications, O.M. No. 20-56/2015-Fac-II Dated: 9th March, 2016)

(Recommendations Sl. No. 19)

To sum up, the Revival Plan for ITI is at an early stage of implementation and its success will largely depend upon the timely allocation of funds by the Ministry of Finance as per CCEA approval, capacity building through upgradation of manufacturing infrastructure at different plants of ITI, reduction of statutory

liabilities and establishment cost support, acquisition of new technology coupled with effective ToT deals, skill upgradation as well as cost reduction through efficient HR planning, progressive reduction of social overheads, etc. With constant monitoring and workable business plan assume greater significance during the course of execution of projects for sustainable revival of the Company. The primary focus of the Revival Plan centres round converting each Unit of ITI into a separate profit centre and sustain their profitability independently. In this context, the viability of each Unit is required to be reviewed after assessing the effect of the upgradation of manufacturing facilities. The Committee desire that the assessment should be completed in a time-bound manner so that unviable Units identified in the process can be reorganised or even considered for closing down facilitating consolidation of the manufacturing facilities of ITI. They recommend that there needs to be continuity in top management of the company so that responsibility and accountability can be fixed by DoT for achieving the targets for ultimate turnaround of the PSU. The Committee emphasize that ITI should take maximum advantage of the revival package to turn its fortunes and be in a position to bear the establishment cost and other recurring liabilities because dependence on continued Government support with taxpayer's money is not a viable proposition at all. The Committee support the vision 2020 of ITI that looks forward to turn around the Company to a manufacturing hub for strategic electronics and telecom products, excel in turnkey solutions for Information Communication Technology, assume the role of a leader in secured communication products and achieve turnover of about Rs.5000 crore. Further, the Committee emphasize that ITI has tremendous potential to be an integral part of the 'Make in India' and 'Digital India' endeavours.

(Reply of the Government)

In order to review the status of implementation of Revival efforts and in order to take stock of the current position of the Company, officers of DoT undertook field visits to ITI's manufacturing plants at Palakkad, Bengaluru, Naini, Raebareli and Mankapur. During the visit comprehensive discussions were carried out with the Management, Associations, Unions and Employees. Through these discussions the Projects / Products where ITI needs to concentrate its efforts in order to turn around each one of its manufacturing unit were identified and various modalities required for implementing these projects were also discussed. Based upon these discussions detailed plans for each unit of ITI has been drawn.

The monitoring of Revival Plan is being done by an Apex Committee under the Chairmanship of Secretary, DoT with representatives from the Department of Public Enterprises (DPE) and Department of Expenditure (DoE). Further, for implementation of the Revival Plan, it has been decided to run each Unit of ITI as a separate profit

centre for which functional Directors of ITI have taken up additional responsibilities as mentors of individual ITI Units. In this context, it is proposed that while considering the proposal(s) for any extension of the tenure of the top management their performance in achieving the targets for ultimate turnaround of the PSU as envisaged in the Revival Plan will be taken into account.

(Ministry of Communications & IT, Department of Telecommunications, O.M. No. 20-56/2015-Fac-II Dated: 9th March, 2016)

CHAPTER –III

RECOMMENDATION / OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE REPLIES OF THE GOVERNMENT

-NIL-

CHAPTER –IV

RECOMMENDATION / OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

(Recommendations Sl. No. 7)

The Committee note that ITI has core competency in encryption, network projects, multi-layer PCB manufacturing, dedicated network system unit, ASCON, CDMA and GSM network installation and maintenance. ITI is also the only Company in the country where BTS system for GSM network is made. The major customers of ITI are BSNL, MTNL, BBNL, Defence, Railways, Banks, State Governments, Ministry of Home Affairs, Ministry of Rural Development, Vikram Sarabhai space Centre, etc. ITI has plans to implement projects such as the National ID Card manufacturing for NPR Project, Tablet PC manufacturing, solar project, defence projects, data Center and IT projects, G-PON (Gigabit Passive Optical Network), Carrier Ethernet, Software defined Radio (SDR), ADSL-CPEs, Long Term Evaluation (LTE), SMPs and SCADA, and LED based lighting products. The Committee further note that 18 projects had been approved in the Revival Plan and out of these, priority projects based on current requirement have been identified and the implementation of infrastructure upgradation for manufacturing is under progress. The Committee have been informed that the total estimated market in the country of 16 identified projects, to name a few: Defence, NPR, GSM, Data Centre and IT projects, LTE, etc. is Rs.91000 crore and in this, the market share of ITI is projected to be Rs.22610 crore. As per the ITI business portfolio, out of 27 products, 21 products have relevance at present and out of these there is high business potential for 10 products. The Committee, however, find that ITI has high competence for manufacturing of 5 products which are relevant now and have high business potential for products, viz. NGN, encryptors, software defined radios, smart cards and solar products. As of now, ITI has no major products/solutions which are being supplied to the Private Sector and in order to address the Private Sector, ITI is strengthening its R&D and focusing on marketing. The Committee recognize that there exists a huge market for various products identified under the ITI Revival Plan. Considering that ITI has high competence for manufacturing 5 specific products, the Committee find it essential for ITI to strengthen and increase its core competency so that it can take advantage of the opportunity available in the market for various products. The committee are of the view that apart from catering to the needs and requirements of Government Departments/Organizations greater efforts should also be made by ITI to expand its customer base and address the business requirement of the Private Sector as well.

(Reply of the Government)

ITI is putting all out efforts to maximize the revenues from the products mentioned above. ITI Bangalore plant has successfully executed the purchase order for NGN products received from BSNL worth Rs. 47.72 Crores during 2014-15. Further, Advance Purchase Order (APO) from BSNL to the tune of Rs. 120 Crores is available for execution during 2015-16, which is likely to be converted into a PO this year. ITI is also pursuing to get an order for supply of NGN equipments to BSNL for upgrading their C-DOT based switching systems

ITI is a leader in encryptor business with Defence. Considering that encryption products for the Indian Defence are being procured only from three PSUs, viz., BEL, ITI and ECIL, ITI has the largest share of supplying in-house developed encryption products to Indian Army. The major communication network of Indian Army, ASCON, has been set up by ITI. ITI's R&D mainly focuses on encryption technology and currently new products have been developed for high speed IP communication with the allocation of major share of the capex under Rs. 192 Crore plan. ITI has participated in the major tenders of ASCON Phase IV Encryption and Encryptors for Network For Spectrum (NFS) of Indian Defence and is hopeful of getting orders.

Software Defined Radio (SDR) is latest product in wireless communication which has wide use, especially for the Defence forces. ITI has taken proactive role in identifying a Indian technology partner more than two years back. These products have been demonstrated to Defence Units and have been found to be compliant to the requirements. ITI is expecting an immediate major tender from Indian Defence for SDR and hopeful of getting good orders in future.

Smart Card is already a project in ITI for more than 12 years. Palakkad plant of ITI started smart card business with the supply of SIM cards to BSNL and MTNL. It diverted into manufacturing secured personal Identity cards based on National Population Register (NPR) data. It has supplied such cards to Home Ministry as well as to Ministry of Fisheries. However, the opportunities for smart cards is very high considering the opportunities in the areas of Driving License, Motor Registration Card, Unorganized Workers' Identification Card etc. Hence, the company is augmenting the infrastructure to address diversified smart card markets.

With respect to solar project, ITI's Naini plant has already infrastructure to manufacture solar panels up to a capacity of 300Wp with an annual capacity up to 5 MWp. This capacity is further augmented with the funding support under the revival plan. The plant has already executed some orders for supplying solar power products to BSNL and UP Police.

Thus, ITI has major plans to market the products indicated in the Report of the Standing Committee on IT and it is hoped that these products would enable the company to earn good part of its revenue in the coming years.

(Ministry of Communications & IT, Department of Telecommunications O.M. No. 20-56/2015-Fac-II Dated: 9th March, 2016)

Comments of the Committee
(Please see Para No. 12 of Chapter I)

CHAPTER –V

RECOMMENDATION / OBSERVATIONS IN RESPECT OF WHICH REPLIES ARE OF INTERIM IN NATURE

(Recommendations Sl. No. 10)

The Committee are of the opinion that ITI should take advantage of the Foreign Direct Investment (FDI) Policy to get one or more multinationals to transfer the latest technology to the company and invest shares in ITI so that the company becomes a joint venture. The committee are aware that similar efforts made by ITI in 2009-10 did not fructify. But now, with equity infusion of Rs.2264 crore under the Revival Plan, ITI, over a period of time, would be a viable and stable unit attracting strategic partners to go for joint venture. The Committee, therefore, recommend that DoT should consider a proposal for approval with the objective to make ITI a joint venture Company. The Committee visualise that once ITI becomes a joint venture Company, it will have added advantages which can be capitalised gainfully to turn around the fortunes of the PSU. The Committee would like to be apprised of the efforts made in this direction.

(Reply of the Government)

Formation of ITI's Joint Venture companies had been approved earlier by CCEA in 2009. The proposal included formation of JVs in Bangalore, Raebareli and Naini plants for IP Core Systems, GPON/GEAPON Systems and Wi-Max Systems respectively. In spite of several attempts, there were no offers to this proposal. Considering the approval for significant equity infusion under the current revival plan and also considering the thrust towards local manufacturing under the initiatives, like, Make in India and Digital India, it is now felt that ITI can try formation of Joint Ventures once again. This was discussed in the periodic review meeting on the revival plan of ITI at DoT on 13th August 2015 chaired by Member (S), DoT.

The following products, which have a huge market potential, are proposed for JVs.

- (i) Smart Phone manufacturing
- (ii) LED Display panel manufacturing
- (iii) Li-Ion Battery manufacturing and
- (iv) LTE and Broadband products.

The proposal of setting up of Joint venture companies by ITI was put up for "in principle" approval of the ITI Board in the Board meeting held on 23rd September 2015 and the same has been accorded by ITI's Board.

DoT has sought detailed proposals from ITI to obtain the necessary Government approvals.

(Recommendations Sl. No. 11)

The Committee note that CCEA had approved the proposal for reduction of manpower strength through VRS for which a provision of Rs. 155 crore had been made in the Revival Plan. The Cabinet had also accorded 'in-principle' approval for roll back of retirement age from 58 to 60 years for continuance of expert manpower in the company. As per proposal placed before the Cabinet, manpower reduction through VRS was estimated to be 1500, with the VRS to be completed within one year from the date of approval of the Revival Plan. The Committee have been assured that reduction in manpower would not affect the productivity of the Company since the VRS route will be restricted to aged, redundant and unskilled manpower. With regard to implementation of VRS, the Committee find that a detailed proposal for VRS was submitted to DoT in February 2015 followed by a presentation in March, 2015. However, the approval of DoT on the Company's proposal for introduction of VRS was awaited. In respect of roll back of retirement age, ITI was required to submit a detailed proposal in the format required by BRPSE and based thereof DoT would seek concurrence of DPE and DoE separately before implementing the proposal. However, no action had been initiated so far in this direction. Since 47.65 per cent of the ITI employees are in the age group of 51-55 years and 30.91 percent are 56 years and above, timely finalization of VRS will bring down operational costs of the Company. The Committee recommended that the Apex Committee should finalise the proposal at the earliest for successful implementation of VRS. Since implementation of rollback of retirement age involves concurrence of several authorities, early action should be taken to pilot the proposal by DoT/ITI in order to facilitate smooth implementation of the Revival Plan by way of continuance of expert manpower. The Committee would like to be informed of the progress made in this direction.

(Reply of the Government)

ITI's Board has approved a VRS proposal which is based upon the scheme already approved by Department of Public Enterprises (DPE). The matter was examined in DoT and some clarifications sought from ITI, which ITI had replied in September 2015. The VRS proposal is now under examination of DoT's Finance Wing. Meanwhile, a request has also been sent to Ministry of Finance to allot the amount of Rs. 155 Crore approved by CCEA for meeting VRS expenses.

ITI had sent a proposal for roll back of retirement age from 58 years to 60 years to DoT. After examination of the proposal some clarifications and additional information had been sought from ITI, which the Company has supplied on 28.10.2015. The proposal is presently under examination before sending it for concurrence of DPE and Department of Expenditure.

(Recommendations Sl. No. 18)

The Committee note that ITI has been engaged in projects funded by the Government and are gearing up for capacity building through upgradation of manufacturing infrastructure under the revival package. It has successfully executed projects for BSNL and Defence services. The present policy of the Government is in support of encouraging indigenous manufacture of telecom and electronic products. The Committee recommend that reservation quota policy for ITI should be revived which will allow the PSU to get work orders for Government projects. This will enable the Company to avail of opportunities to compete with private players in the field and grow its business prospects, thereby supporting the Government's effort to make the country self-reliant in the telecommunication products.

(Reply of the Government)

DoT has sent a draft Note for inter-Ministerial consultation for seeking the approval of Cabinet Committee on Economic Affairs (CCEA) for continuance of Reservation Quota policy for M/s ITI Ltd. by reserving i) 30% of the procurement orders placed by BSNL, MTNL and BBNL for M/s ITI Ltd. for the products manufactured by it and for 20% of the orders for the turn key projects (like GSM network roll-out, etc. of BSNL & MTNL and NOFN network roll-out, etc. of BBNL).

(Ministry of Communications & IT, Department of Telecommunications, O.M. No. 20-56/2015-Fac-II Dated: 9th March, 2016)

**New Delhi;
08 August, 2016
17 Shravana, 1938 (Saka)**

**ANURAG SINGH THAKUR,
Chairperson,
Standing Committee on
Information Technology.**

**MINUTES OF THE TWELFTH SITTING OF THE STANDING COMMITTEE ON
INFORMATION TECHNOLOGY (2015-16) HELD ON 8TH AUGUST, 2016**

The Committee sat on Monday, the 8th August, 2016, from 1600 hours to 1640 hours in Committee Room 'D', Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Shri Anurag Singh Thakur- Chairperson

MEMBERS

Lok Sabha

2. Shri Prasun Banerjee
3. Dr. Sunil Baliram Gaikwad
4. Shri Hemant Tukaram Godse
5. Shri P. Karunakaran
6. Shri Virender Kashyap
7. Smt. Hema Malini
8. Shri Keshav Prasad Maurya
9. Dr. K.C. Patel
10. Shri Raosaheb Danve Patil
11. Shri D.K. Suresh
12. Shri Ramdas C. Tadas
13. Smt. R. Vanaroja

Rajya Sabha

14. Shri Suresh Gopi
15. Shri Meghraj Jain
16. Shri Santiuse Kujur
17. Dr. Prabhakar Kore
18. Shri Derek O'Brien
19. Mahant Shambhuprasadji Tundiya

SECRETARIAT

- | | | | |
|----|-----------------------|---|----------------------|
| 1. | Shri R.S. Kambo | - | Additional Secretary |
| 2. | Shri Y.M. Kandpal | - | Director |
| 3. | Dr. Sagarika Dash | - | Deputy Secretary |
| 4. | Shri Shangreiso Zimik | - | Under Secretary |

2. At the outset, the Chairperson welcomed the Members to the sitting of the Committee convened to consider and adopt the following three Draft Action Taken Reports:-

- I. Action Taken Report on the Ninth Report on the subject 'Revival of Indian Telephone Industries (ITI) Limited';
- II.XXXXX.....XXXXX.....XXXXX.....XXXXX.....XXXXX.....XXXXX.....XXXXX.....XXXXX....; and
- III.XXXXX.....XXXXX.....XXXXX.....XXXXX.....XXXXX.....XXXXX.....XXXXX.....XXXXX.....

3. The Committee, thereafter, took up for consideration the above Reports and after due deliberation adopted the same without any modification.

4. The Committee, then, authorised the Chairperson to present the Action Taken Reports to the House during the current session of Parliament.

The Committee, then, adjourned

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.....xxxxx Matter not related to the Report.

**ANALYSIS OF ACTION TAKEN BY THE GOVERNMENT ON THE
OBSERVATIONS/ RECOMMENDATIONS
CONTAINED IN THEIR NINTH REPORT
(SIXTEENTH LOK SABHA)**

[Vide Paragraph No. 5 of Introduction]

- (i) Recommendations/Observations which have been accepted by the Government

Recommendation Nos.:- 1,2,3,4, 5, 6, 8,9, 12, 13, 14, 15,16, 17 and 19

Total 15

Percentage 78.95

- (ii) Recommendations/Observations which the Committee do not desire to pursue in view of the replies of the Government

Rec. Sl. No.: NIL

Total 00

Percentage 00

- (iii) Recommendations/Observations in respect of which replies of the government have not been accepted by the Committee and require reiteration

Rec. Sl. No.: 7

Total 01

Percentage 5.26

- (iv) Recommendations/Observations in respect of the reply which is of interim nature

Rec. Sl. NoS.:- 10,11 & 18

Total 03

Percentage 15.79