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STANDING COMMITTEE ON INFORMATION TECHNOLOGY

(2014-15)

SIXTEENTH LOK SABHA

MINISTRY OF COMMUNICATIONS & INFORMATION TECHNOLOGY
(DEPARTMENT OF TELECOMMUNICATIONS)

REVIVAL OF INDIAN TELEPHONE INDUSTRIES (ITI) LIMITED

NINTH REPORT

LOK SABHA SECRETARIAT

NEW DELHI

August, 2015/Shravana, 1937 (Saka)

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Presented to Lok Sabha on 7 August, 2015

Laid in Rajya Sabha on 7 August 2015

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*Minutes not appended with the Cyclostyled copy.

COMPOSITION OF THE STANDING COMMITTEE ON INFORMATION TECHNOLOGY (2014-15)

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@21. Shri Raosaheb Danve Patil

Rajya Sabha

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29. Shri Sachin Ramesh Tendulkar
30. Mahant Shambhuprasadji Tundiya

31. Shri Meghraj Jain

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1.	Shri K. Vijayakrishnan	Additional Secretary
2.	Shri J. M. Baisakh	Director
3.	Dr. Sagarika Dash	Deputy Secretary
4.	Shri Shangreiso Zimik	Under Secretary

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* Nominated to the Committee w.e.f. 11.09.2014 *vice* Shri Feroze Varun Gandhi, M.P., *vide* Bulletin Part – II w.e.f. 11.09.2014.

@ Nominated to the Committee w.e.f 15.07.2015 vide Bulletin Part-II dated 17.07.2015

Nominated to the Committee w.e.f. 14.01.2015 *vide* Bulletin Part – II dated 16.01.2015.

ABBREVIATIONS

ADSL	Asymmetrical Digital Subscriber Line
AMC	Annual Maintenance Contract
ASCON	Army Static Communication Network
BEL	Bharat Electrical Limited
BIFR	Board for Industrial and Financial Reconstruction
BRPSE	Board for Reconstruction of Public Sector Enterprises
BSNL	Bharat Sanchar Nigam Limited
Capex	Capital expenditure
CCEA	Cabinet Committee on Economic Affairs
CDMA	Code Division Multiple Access
C-DoT	Centre for Development of Telematics
CMD	Chief Managing Director
CPE	Consumer Premises Equipment
DoE	Department of Expenditure
DoT	Department of Telecommunications
DPE	Department of Public Enterprises
DRDO	Defence Research and Development Organisation
DRS	Draft Rehabilitation Scheme
DSLAM	Digital Subscriber Line Access Multiplexer
DWDM	Dense Wavelength Division Multiplexing
G-PON	Gigabit Passive Optical Network
GSM	Global System for Mobile Communication
ITI Ltd	Indian Telephone Industries Limited
HOCL	Hindustan Oil Corporation Limited
JVC	Joint Venture Companies
LED	Light Emitting Diode
LTE	Long Term Evaluation
MLLN	Managed Leased Line Network
MNCs	Multi National Companies
MOC&IT	Ministry of Communications and Information Technology
MoF	Ministry of Finance
MTNL	Mahanagar Telephone Nigam Limited
NFS	Network for Spectrum
NGN	Next Generation Network
NMS	Network Management System
NOFN	National Optical Fiber Network
NPR	National Population Register
NSU	Network System Unit
OA	Operating Agency

OCB	Outgoing Call Barring
P&T	Posts & Telegraphs
PRC	Pay Revision Committee
PSU	Public Sector Undertaking
R&D	Research & Development
RO	Regional Office
RQ	Reservation Quota
SCADA	Supervisory Control and Data Acquisition System
SDR	Software Defined Ratio
SECC	Socio Economic and Caste Census
SEZ	Special Economic Zone
SICA	Sick Industries Companies (Special Provision) Act
SIM	Subscribers Identification Module
SMPS	Switched Mode Power supply
STM	Synchronous Transport module
TEVS	Techno-Economic Viability Study
VRS	Voluntary Retirement Scheme
VSSC	Vikram Sarabhai Space Center

INTRODUCTION

I, the Chairperson, Standing Committee on Information Technology (2014-2015), having been authorised by the Committee, do present the Ninth Report on the subject 'Revival of Indian Telephone Industries (ITI) Limited' relating to the Ministry of Communications and Information Technology (Department of Telecommunications).

2. The Committee took evidence of the representatives of the Ministry of Communications and Information Technology (Department of Telecommunications) and Indian Telephone Industries (ITI) Limited on 27th October, 2014. The Committee also undertook a Study Visit to ITI Unit, Bengaluru on 12th February, 2015 in connection with the examination of the subject.

3. The Committee wish to express their thanks to the representatives of DoT and ITI for appearing before the Committee for evidence and furnishing information desired by the Committee in connection with the issues relating to the subject.

4. The Report was considered and adopted by the Committee at their sitting held on 5th August, 2015.

5. The Committee also place on record their appreciation for the valuable assistance rendered to them by the Officials of Lok Sabha Secretariat attached to the Committee.

6. For facility of reference and convenience, the Observations/Recommendations of the Committee have been printed in bold letters in Part-II of the Report.

New Delhi;
5 August, 2015
14 Shravana, 1937 (Saka)

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

REPORT

PART-I

I. <u>Introductory</u>

M/s ITI Limited, earlier known as Indian Telephone Industries Limited (hereinafter referred to as either ITI or the Company), was established in 1948 and was incorporated on 25-01-1950 under the then Mysore Companies Act, 1938 and later converted as the first PSU of the country to assist the Government in the sensitive and strategic telecommunications field. The Government of India holds majority equity stake in the Company.

2. The Company, headquartered at Bengaluru, has six manufacturing units at Bengaluru (Karnataka), Raebareli, Naini and Mankapur (all in Uttar Pradesh), Palakkad (Kerala) and Srinagar (Jammu & Kashmir). It has 8 Regional Offices and 23 Area Offices across the country. It has also got Network System Unit for implementation of turnkey projects and carrying out AMC support. The Company, as on 01-04-2015 has a total employee strength of 6,098, comprising of 3,054 officials and 3,044 non-officials.

3. ITI has contributed substantially in assisting the Government towards realizing the sensitive and strategic telecommunications needs of the country. ITI was the sole telecom equipment manufacturer created by the then P&T Department to cater to the needs of the entire country during the post-Independence period. The Company has single handedly supported the Posts & Telegraphs (P&T) in its obligation to provide communication services, including sensitive and strategic telecom needs of the entire country. Initially, the technology was predominantly fixed line technology based on electromechanical switching systems. The infrastructure in ITI was created for manufacturing of this technology product. 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, an entire range of telecommunications equipment was designed, developed, manufactured, supplied and maintained by ITI. The Company contributed to the total telecommunications infrastructure as well as the telephone instrument requirements of the country for nearly five decades.

II. Challenges of Liberalization and its impact on ITI Ltd. during the early 90s

4. ITI Limited, the sole equipment supplier to the then Communication Service provider, Department of Telecommunications (DoT), saw its performance going down after the liberalization of the telecom market in the early nineties.

5. When the Committee desired to know the challenges of liberalization which ITI could not cope with and the areas where the PSU was found lacking to sustain competition from private players in the changed market scenario, the Department, in a written note, stated that all the six manufacturing units of ITI were established for manufacturing fixed line exchanges/telephones and supplying the entire fixed line network requirement of the country single handedly up to 1991. To improve the teledensity, Government opened up the telecom sector to global private players also under the liberalization policy, thus exposing ITI to the competitive market for the first time. Further, new players started entering to provide telecom services which was a monopoly of DoT till then. Later on, the Mahanagar Telephone Nigam Limited (MTNL) and Bharat Sanchar Nigam Limited (BSNL) were carved out of DoT and took over the role of providing telecom services. Further, the technology shifted from fixed line to mobile technology like GSM and CDMA. This shift was very fast, and tremendous growth was witnessed. The manufacturing infra of ITI which was set up for fixed line telephone became redundant. Even the manpower which had expertise in fixed line telephony became surplus. ITI faced the following major challenges which directly impacted its sustained growth and survival:

- Liberalization Policy of Government in the early nineties resulted in paradigm shift for ITI from protected market environment to a highly global competitive telecom market.
- Revolutionary evolution of mobile technologies completely pushed back the demand for fixed line altogether, as new wireless telephone connections were available virtually on demand.
- Inability of in-house R&D to deliver fruitful results on account of:
  - ✓ Withdrawal of R&D expenditure reimbursement facility from 1990 & shortage of funds for R&D projects.
  - ✓ Fast changing technology in telecom sector.
  - ✓ Brain drain due to outside opportunities & no fresh recruitment of permanent engineers for almost two decades.
  - ✓ DoT setting up separate R&D unit – C-DOT, which resulted in many of the ITI's talented scientists/engineers to join C-DOT.

- ITI, with a small equity base of about Rs.30 crore, went on expanding by opening 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 the 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.
- The available manufacturing infrastructure has not been upgraded to address present telecom market due to fund constraints.
- Lack of policy support for indigenous manufacturing in the past unlike New Telecom Policy, 2012/New Electronic Policy, 2012/Make in India Mission.
- Manufacturing in ITI became irrelevant and virtually no products were available for manufacturing due to emerging changes in technology.
- Corporatization of telecom sector – from DoT to BSNL/MTNL, resulting in stoppage of procurement from ITI on nomination basis.
- Policies of procurement by DoT Vs. procurement by BSNL/MTNL (being PSUs) are different – switch over from cost plus system to L-1 rates of tenders.
- DoT as a policy was keeping 30% of total requirement of both BSNL and MTNL as reservation quota (RQ) to ITI. However, these orders are required to be executed at L-1 prices of tenders. Entry of MNCs, particularly Chinese vendors, resulted in heavy drop in prices. The steep drop in L-1 prices has further reduced the available margins resulting in negative cash flow.
- ITI was depending solely on Business from Government PSUs like BSNL and MTNL. In view of entry of Private Telecom Service Providers, the market share of BSNL and MTNL fell drastically. Hence, off late, BSL/MTNL, to a large extent, reduced their telecom infrastructure procurement for capacity enhancement and also upgradation. This resulted in less tenders and corresponding possible Reservation Quota (RQ) business to ITI.
- Ageing manpower (average age around 54 years) mainly due to ban on recruitment and the skill set not in tune with the changing technology.
- Acute shortage of working capital.

III. Capital Structure and Financial Performance of ITI Ltd.

6. The Authorized Share Capital of the Company as on 31.03.2015 is Rs.800 crore. The issued Share Capital and subscribe and fully paid-up capital as on that date is Rs.288 crore and Rs. 288 crore respectively. ITI Limited saw its performance going down after the liberalization of the telecom market in the early nineties. The Company incurred losses for the first time during the period 1994-1997 and earned marginal profit for the next five years. But, it again went into losses in 2002-03 and has not been able to come to profit since then. The

financial performance figures of the Company since 1992-93 are given in **Annexure-I**.

7. The financial performance of the Company for the past two decades indicates that the loss figures since 2002-03 varied between Rs.182 crore (2012-13) and Rs.706 crore (2003-04) and the figure for 2013-14 was Rs.344 crore. When asked about the reasons for losses and the variation in the figures of losses, the Department, in a written note, stated that during the period from 2002-03 to 2013-14, the minimum loss of the company was Rs. 182 crore (during 2012-13) which was after taking a grant of Rs. 177 crore. The actual loss of the Company was Rs. 359 crore without considering the grant. The turnover of the Company during 2005-06 and 2006-07 was better and suffered losses of around Rs. 400 crore per annum. However, during 2003-04, 2004-05 and 2007-08, the turnover of the Company was not good and therefore the losses were more. During 2004-05, the loss as per the accounts was Rs. 310 crore, but in case the grant-in aid of Rs. 575 crore given by the Government was eliminated, the losses would have been Rs. 855 crore. Similarly, during 2007-08 also, the loss was Rs. 358 crore as per the accounts of the Company and if the grant-in aid of Rs. 350 crore given by the Government was eliminated, the losses would have been Rs. 710 crore. However, during 2008-09 and 2009-10, even though the turnover was good, ITI could not bring down the losses due to less contribution, which has happened because of turnover consisting of trading business. Further, Government of India had given an amount of Rs. 2820 crore during August, 2009 and this has helped ITI to bring down the interest cost from 2009-10 onwards, due to which losses have come down to Rs. 350 crore from 2010-11 onwards. On the reasons for losses, the Department further stated that due to stiff competition from the MNCs, the prices of the equipment have come down substantially thereby reducing the margin available to ITI, which has also caused these losses. Further, the demand for the products being manufactured by ITI has come down substantially due to change in technology from fixed line to mobile technology, which has also caused increase in the losses of ITI Ltd.

IV. <u>Financial assistance given to ITI by the Government</u>

8. An amount of Rs. 4556.77 crore has been given to ITI during the period from 2004 to 2013 and almost the entire amount has been utilized for the purpose for which financial assistance was meant. The details of financial

assistance given by the Government to ITI and its purpose/utilization are given at **Annexure-II.** In spite of receiving this much of financial assistance, ITI could not be revived. Its accumulated looses continued to increase and net worth got eroded. Explaining the reasons for such a situation, the Department in a note stated that ITI could not be revived even after receipt of Rs 4556.77 Crs as only Rs 150 Crs was given towards capital investment and rest for clearing of liabilities and statutory dues. ITI was referred to BIFR in 2004. However, the first interim report could be finalized during 2008 by Operating Agency (SBI), based on the report submitted by M/s. Deloitte. As per this report, a revival package with assistance of Rs.4950 crore was sought during 2008. Against this, Rs.2820 crore only was released to ITI in August, 2009 for clearing the liabilities and no fund was allocated to capital up-gradation. This resulted in time and cost overrun for implementation of new projects which further added to accumulated losses. The accumulated loss as on 31st March, 2015 is Rs.5166 crore and the networth of the Company on the same date is Rs.(-)1648 crore.

V. Reference to Board for Industrial and Financial Reconstruction (BIFR)

9. As the net worth of ITI got completely eroded in the year 2003-04, the Company was referred to BIFR in 2004-05. The Company was declared 'sick', w.e.f. 31st March, 2004. BIFR appointed the State Bank of India (SBI) as the Operating Agency (OA) for preparation of a Draft Rehabilitation Scheme (DRS), 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 30.01.2012. Thereafter, as per the directions of BIFR, the DRS was revised by OA to take into account the Revival Plan prepared by DoT. The DRS, thus finalized by OA, was cleared by BIFR in its hearing on 27.11.2012 and the approved scheme was circulated to the Ministries concerned on 08.01.2013.

10. The Committee enquired about the reasons for the delay in finalization/approval of the revival proposal for ITI, which took almost 8 years. In reply, the Department have provided the chronological events on the approval of ITI's revival plan as under:-

- 03-10-2005: First hearing of BIFR – SBI was appointed as Operating Agency (OA).
- 20-12-2005: Considering the financial support of Rs. 925 crore during 2004-05, ITI requested BIFR to allow to submit its rehabilitation scheme under section 17(2) of the SICA Act to revive the company through its own efforts.

- 07-02-2006: Considering ITI's request, BIFR passed an order absolving SBI from performing the duties of OA with a direction to the Company to submit its rehabilitation scheme under section 17(2) of the SICA Act within one month.
- 21-04-2006: Company submitted its revival plan to BIFR under section 17(2) of the Act.
- 29-07-2006: ITI requested BIFR to accord its approval for utilization of surplus land for revenue generation as envisaged in the revival plan already submitted. Parallely, Ministry's approval was sought for the proposed sale of vacant land.
- August 2006 – December 2007: Company explored various possibilities of revenue generation, including leasing / sale of surplus land and sought BIFR / Ministry approval in this regard.
- 05-12-2007: BIFR directed the Company to first obtain approval of the administrative Ministry and secured creditors regarding sale of land.
- 18-03-2008: Since Company continued to incur losses and sale of land could not be materialized, BIFR appointed SBI as the OA and directed the OA to get techno-economic viability study (TEVS).
- Oct. 2008: SBI got TEVS study conducted by Deloitte and prepared Draft Rehabilitation Scheme of ITI. This DRS was revised several times based on observations of OA/BIFR.
- Feb. 2009: CCEA approved an interim package to ITI consisting of Rs. 2820 crore for clearing of ITI's balance sheet and also Rs. 180 crore as working margin out of recommended total assistance of Rs. 4950 crore
- Oct. 2009-March 2010: ITI tried to get Joint Venture partners for three major projects as recommended by CCEA. However, this was not successful.
- 07-04-2011: BIFR directed the Government to finalize ITI's revival plan and core group was constituted in the Ministry to devise the revival plan of ITI.
- 30-01-2012: The Report of core Committee was submitted to BIFR which included a financial package of Rs. 4156.79 crore. The Committee also recommended that the Ministry of Defence may put ITI on their preferred PSU list at par with BEL.
- ITI pursued DoT and Ministry of Defence to consider ITI as defence PSU as recommended by the core committee
- 31-05-2012: ITI's DRS, prepared by OA, was submitted to BIFR.
- 27-11-2012: BIFR approved ITI's DRS.
- 08-03-2013: The revival proposal was thereafter circulated to Ministries concerned, i.e., Department of Expenditure, Department of Public Enterprises (DPE), Law Ministry and Planning Commission for comments. After compilation of comments of different Ministries the proposal was submitted to Board for Reconstruction of Public Sector Enterprises (BRPSE) on 8th March 2013.
- 04-06-2013: BRPSE raised some queries on the revival proposal which were replied.
- 19-07-2013: BRPSE considered the Revival Plan of ITI Ltd. in its meeting on 19th July 2013.
- 06-09-2013: BRPSE communicated its recommendation vide O.M. Nos. BRPSE/2(112)/2013 dated 24.07.2013 & 06.09.2013.

VI. Recommendations of Board for Reconstruction of Public Sector Enterprises (BRPSE)

11. The BRPSE in its 112^{th} meeting held on 19-07-2013, reviewed and recommended ITI's Revival Plan comprising of financial assistance of Rs. 4156.79 crore. The salient points in the recommendations of BRPSE are as under:-

i. The proposed financial assistance of Rs. 4156.79 crore comprises of two parts, viz., i) financial assistance of Rs. 1892.79 crore towards meeting of Company's liabilities and ii) financial assistance of Rs. 2264 crore for new projects / products in the form of equity infusion with stipulation that these funds may be transferred in separate "Escrow" accounts opened for each purpose and the interest earned on such accounts should be utilized for the same purpose.

ii. A proper business plan for sustainable revival of the Company with a clear roadmap for its acquisition of the latest technology be attached to the proposal to be submitted to CCEA.

iii. Voluntary Retirement Scheme (VRS) should be completed in the 1st year itself instead of being stretched for 3 years.

iv. DoT should also consider closing down some units of ITI to make it more viable and reduce fixed expenditure on sustainable basis.

v. ITI should submit action plan to DoT to reduce social overheads which should be appended to CCEA note.

vi. DoT should fix responsibility and accountability for achieving the targets and should review the progress on monthly basis.

vii. The present CMD, ITI Ltd., who is involved in the preparation of revival process/ plan of ITI should be continued at least for 3 years' from the date of approval subject to achieving the targets so as to have continuity in Top Management and he should be responsible and accountable for turning around the Company. The extension should be reviewed yearly.

VII. Approval of Revival Plan for ITI by Cabinet Committee on Economic Affairs (CCEA)

12. Based upon the recommendations of BRPSE, DoT submitted a note to CCEA on 12.02.2014 for approval of the Company's revival proposal. The Cabinet approved the proposal for providing financial assistance for revival of ITI Limited on 12.02.2014. The details of financial assistance as per revival plan approved by the Cabinet are as follows:-

Sl. No.	Utilization (Head of Account)	Amount (Rs. crore)
1	Redemption of preferential share capital of BSNL/MTNL	300.00
2	Arrears due to 1997 pay revision (39 months)	165.00
3	Reimbursement of VRS expenditure	155.00
4	Overdue statutory payments (Provident Fund Rs. 88 crore, Gratuity Rs. 266 crore, Excise Duty Rs. 6 crore) up to 31-03-12	360.00
5	Establishment cost during the implementation of revival plan	612.00
6	Pending loan to ITI given during March 2009 for salary disbursement	125.00
7	Adjustment of payment towards disbursement of salary for 4 months paid in January 2013	130.00
8	Waiver of Government Guarantee fee	45.79
Total for Statutory Liabilities to be provided as grant-in-aid		**1,892.79**
Financial Assistance for Project Implementation (CAPEX) to be given in the form of equity infusion		**2,264.00**
GRAND TOTAL		**4,156.79**

13. The Committee have been informed that 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.

14. The details of proposals approved by CCEA are as follows:-

i. ITI's revival to be supported through financial restructuring by fund infusion of Rs. 4156.79 crore. The capital grant of Rs. 2264 crore to be given in the form of equity for project implementation (CAPEX) for up-grading the manufacturing infrastructure at its various units and for new projects and the balance amount of Rs. 1892.79 crore to be financial assistance in the form of grant-in-aid for statutory liabilities and other commitments made by ITI.

ii. The Funds to be transferred in separate Escrow accounts opened for each purpose and the interest earned on such accounts to be utilized for the purpose of revival of Company.

iii. Regular Monitoring of the implementation of the Revival Plan to be done by suitable committees to be constituted at Corporate level and unit level in ITI and by an Apex Committee to be chaired by Secretary (T), DoT.

iv. Reduction of manpower strength to be achieved through VRS which is to be completed within one year from the date of approval of revival plan.

v. The viability of the unit to be reviewed after assessing the effect of the upgradation of manufacturing facilities in each unit as envisaged in revival plan and the unviable units to be identified and reorganized as per the recommendations of Apex Committee.

vi. ITI to reduce the social overheads. However, an elaborate plan with clear monitorable targets to be submitted to Apex Committee before release of financial assistance to ITI Ltd.

vii. The proposal for barest minimum fresh induction of hands to meet the essential requirements of various initiatives to be considered with due concurrence of Apex Committee.

viii. In order to facilitate smooth implementation of revival plan by way of continuance of expert manpower, 'in principle' approval may be given for roll back of retirement age from 58 to 60 years with the condition that ITI will submit a detailed proposal in format required by BRPSE and based thereon DoT will seek concurrence of DPE and DoE separately before implementing this proposal. Nevertheless, the wage revision with effect from 01.01.2007, as per Pay Revision Committee (PRC) 2007, may be considered by Management of ITI as per DPE guidelines with the successful implementation of revival plan.

ix. A provision of Rs. 360 crore towards overdue statutory payments has been included in the Revival Plan. This amount reflects the statutory liabilities as on 31.03.2012. However, these have increased to Rs. 422.61 crore as on 30.09.2013. DoT may, therefore, be authorized to reimburse statutory dues included in the revival package, to M/s ITI Ltd. with the condition that any additional expenditure over and above Rs. 360 crore is to be incurred with the specific concurrence of Ministry of Finance.

15. The Committee specifically desired to know as to how the nature of the financial assistance amounting to Rs.4556.77 crore received earlier by ITI from the Government was different from the financial assistance which has now been provided in the revival package. The Department submitted that earlier assistances given were mainly to clear the liabilities and statutory dues and no amount was sanctioned for capital investments except Rs 150 crore. As a result, ITI could not upgrade the manufacturing infrastructure in any of its manufacturing plants and take up new projects. However, in the present

approval Government has sanctioned Rs. 2264 crore as equity for capital investment.

VIII. Implementation of the Revival Plan

(a) Status of allocation/utilization of funds

16. The disbursement schedule of financial package as approved by the Cabinet under the Revival Plan is provided at **Annexure-III.** During the year 2014-15, a request was sent by the Department of Telecommunications to the Ministry of Finance to make, *inter-alia*, a provision of Rs. 460 crore under Plan Head and Rs. 1892.79 crore under Non-Plan Head in the General Budget 2014-15 against the approval of CCEA regarding revival plan of ITI Limited.

17. The requirement of Rs. 460 crore under Plan head was against the approval of Rs. 2264 crore for implementing new projects in Phase-I during 2014-15.The requirement of Rs. 1892.79 crore under Non - Plan head was against the approval of grant-in-aid to address existing statutory liabilities. This included the component of Rs. 165 crore towards 39 months arrears of pay revision from year 01-01-1997 to 31.03.2000, which is also related to the Hon'ble Supreme Court Civil Appeal No. 610/2006.However, the Ministry of Finance has only included the requirement of Rs. 460 crore under the Plan head in the Demand for Grants 2014-15. The requirement of Rs. 1892.79 crore under the Non-Plan head had not been included at all.

18. On being asked about the reasons due to which Ministry of Finance (MoF) did not allocate any fund under non-plan heads at BE 2014-15 even after same had been approved by CCEA, the Department, in a written note, stated that Budget Estimates 2014-15 had been submitted to Ministry of Finance in the month of October 2013 whereas the Cabinet had approved the revival package to ITI Ltd. on 12th February, 2014. Hence, funds could not be allocated by the Ministry of Finance in the Vote on Accounts presented in February 2014. In May 2014, a request was sent by DoT to Ministry of Finance (MoF) to make, inter-alia, a provision of Rs. 460 Crore under Plan-head and Rs. 1892.79 Crore under Non-Plan head in the General Budget 2014-15 against the approval of CCEA regarding revival plan of ITI Limited. Hon'ble MoC&IT had also written a D.O. No. 1-14/2013-B(Pt.) dated 19th June 2014 to Hon'ble Finance Minister requesting the allotment of above funds. The Ministry of Finance in response communicated that any additionality will be considered during the course of the

year depending on the pace of expenditure. The requirement under non plan side will be examined and considered in phases depending on the availability of resources with the Government.

19. On being asked about the efforts made for release of funds, the Committee were informed that as ITI was finding it difficult to pay salaries to its employees, Secretary (T), DoT vide his D.O. No.20-39/2014-Fac-II dated 29th August 2014 requested Secretary, Department of Expenditure for allotment at least Rs. 575 crore (as per following details), as an immediate measure, from Contingency Fund of India so that the amount of Rs. 460 crore given under Plan head could be gainfully utilized by ITI Limited. Details of funds required from Contingency Fund were as under:-

Sl. No.	**Details of funds required from Contingency Fund of India**	**Amount (Rs. crore)**
1.	Arrears due to 1997 pay revision (39 months) against CCEA approval dated 12.02.2014 as CA 610/2006 is pending in Hon'ble Supreme Court	165.00
2.	Establishment cost during the implementation of revival plan for the period July 2014 – March 2015 against CCEA approval dated 12.02.2014	306.00
3.	Balance amount of Rs. 104 crore (=Rs. 200 crore – 96 crore given earlier) against the CCEA approval dated 28.02.2014 for extending interim financial assistance @ Rs. 32 crore per month from 1st January 2014 – 30th June 2014 for payment of salaries	104.00
Total		**575.00**

20. The details of allocation of Plan and Non-Plan funds made for ITI during 2014-15 are as under:-

(Rs. in crore)

	BE 2014-15	RE 2014-15
ITI (Revival Plan) **PLAN (Equity)**	460.00	192.00
ITI (Financial relief) Soft Loan to ITI **Non-Plan**	96.00	200.00

ITI (Financial relief) Loan to ITI **Non-Plan**		100.00
Financial relief to ITI **(Non-Plan) Charged**		165.00*

*Rs. 165 crore towards payment of arrears of pay revision for 39 months from year 01.01.1997 to 31.03.2000 consequent upon order passed by Hon'ble Supreme Court on 29.08.2014.

21. The Committee have been informed that additional amount of Rs. 104 crore was allotted in September 2014 as loan for payment of salaries. An amount of Rs. 165 crore was allotted in November 2014. Further, an amount of Rs. 100 crore was allotted as loan for salary in March 2015. The amount of Rs. 200 crore provided to ITI as Soft Loan as well as the amount of Rs. 100 crore provided as Loan has been utilized by ITI for making payment of salaries to its employees.

22. The Committee have further been informed that an amount of Rs. 50 crore has been allotted in General Budget 2015-16 to ITI Ltd under plan head for meeting the Capex requirements of the company and expedite the implementation of different projects for revival of ITI. Against the approval of Rs. 612 Crore towards meeting establishment cost during the implementation of revival Plan, an amount of Rs. 150 Crore has been released to ITI under Non-Plan head for making payment of salary to the employees of ITI Ltd from January, 2015 onwards.

(b) <u>Capex Plans, Estimated Turnover and likely turnaround of ITI Units</u>

23. Capex Plans and Estimated Turnover for various Plans after implementation of Revival Plan as finalized by ITI was as follows:-

Unit	Capex (in Rs. crore)					Estimated Turnover (in Rs. crore)		
	Ph. I	Ph. II	2014-15 Total for Ph. I + Ph. II	2015-16 Ph. III	TOTAL	2014-15	2015-16	TOTAL
Bengaluru	90	107	197	467	664	251	530	781
Naini	37	42	79	166	245	30	270	300
Palakkad	61	56	117	271	388	125	175	300
Mankapur	6	23	29	278	307	116	177	293
Raebareli	3	30	33	622	655	0	113	113
Srinagar	5	0	5	0	5	2	6.5	8.5
TOTAL	**202**	**258**	**460**	**1804**	**2264**	**524**	**1271.5**	**1795.5**

Ph. I refers to activities / Projects to be completed in FY 2014-15. Ph. II refers to the projects for which infrastructure upgradation has to be started in 2014-15 so that the orders against these projects can be executed in FY 2015-16. Ph. III refers to Capex plans that need to be taken up in 2015-16 only.

24. Explaining the reasons for not achieving the estimated turnover of Rs. 524 crore during 2014-15, DoT, in a written note, stated that with the infusion of Rs. 460 crore as Capex it was expected to achieve an additional turnover of Rs. 524 crore. In place of Rs. 460 crore, an amount of Rs. 192 crore was released to ITI in Feb 2015. Due to this, the turnover from this Capex will be achieved only during the year 2015-16.

25. The unit-wise projects, proposed investment, estimated market share and the value addition in the next five years as mentioned in the Cabinet note are shown at **Annexure-IV.** The Committee have been informed that the Revival Proposal has been prepared after considering the strength of each of the plants (experience in handling various products, infrastructure, manpower, etc.). As per the likely date for turnaround of units as approved by CCEA all ITI units are expected to turnaround within the third or fourth year of implementation of the Revival Plan. The unit in Srinagar is expected to turnaround within five to six years.

26. The details about likely date of turnaround of each unit proposed in the Cabinet note are shown in the following table:-

Sl. No.	Unit	Capex (Rs. Cr.)			Details of Upgrading of Infrastructure	Turnaround expected by (based on operating profit)
		Phase I	Phase II	Phase III		
1.	Bengaluru	47	225	475	Up-gradation of electronics and mechanical manufacturing infrastructure, Printed Circuit Board manufacturing, R&D infrastructure. Projects identified: Encryption solutions, SDR, HF Radio Handsets, Other Defence projects, Data Centre and IT projects, SCADA, Business with PSUs, Tablet PC	2014-15
2.	Raebareli	50	270	315	Up-gradation of electronics and mechanical manufacturing infrastructure, Printed Circuit Board manufacturing. Projects identified:	2015-16

					GPON, SMPS, Defence projects with DRDO, Data Centre, Tablet PC, Broadband project.	
3.	Naini	40	175	35	Up-gradation of electronics manufacturing infrastructure and Solar photovoltaic product manufacturing infrastructure. Projects identified: Network Transport equipments like STMs, Carrier Ethernet, DWDM etc., DSLAM, Solar Photovoltaic products, Tablet PC	2015-16
4.	Mankapur	35	52	220	Up-gradation of electronics manufacturing infrastructure and LED lighting product manufacturing infrastructure. Projects identified: GSM, NGN products, LTE, ADSL CPE, LED Lighting products, Tablet PC	2016-17
5.	Palakkad	200	115	10	Up-gradation of smart card manufacturing infrastructure, setting up of lithium ion battery manufacturing infrastructure. Products identified: National Population Register, Managed leased line network products, Li-Ion battery, business with other PSUs	Already in profit
6.	Srinagar*	--	--	--	Service support for solar products and other miscellaneous products of other plants of ITI	Within five to six years
7.	Network System Unit					Already in Profit
8.	Regional Offices				Many of the ROs are already in profit and all are expected to be in profit in 2014-16	

* The manpower skill set in Srinagar unit is low and manpower strength is also less. However, considering the profitability of other units, the cost of this plant can be absorbed.

27. The projected profit and Loss (P&L) statement under revival plan as was mentioned in the Cabinet note, are as follows:-

Particulars	Y1	Y2	Y3	Y4	Y5
(Figures in Rs. Crores)	2013/14	2014/15	2015/16	2016/17	2017/18
	(Proj.)	(Proj.)	(Proj.)	(Proj.)	(Proj.)
Gross Sales	**1,728**	**3,541**	**4,169**	**4,295**	**4,564**
Less: Excise Duty	46	152	268	264	299
Service Tax	126	212	165	180	173
Net Sales [A]	**1,556**	**3,177**	**3,736**	**3,851**	**4,092**
Total Direct Expenses [B]	**1,333**	**2,702**	**3,127**	**3,134**	**3,339**
Contribution [C = A-B]	**223**	**475**	**609**	**717**	**753**
Personnel Costs [D]	**404**	**371**	**328**	**320**	**294**
Operating Expenses [E]	**83**	**89**	**92**	**94**	**98**
Manufacturing Expenses	42	45	47	48	50
Administration Expenses	39	41	42	43	45
Selling Expenses	2	3	3	3	3
Operating Profit [F = C - D - E]	**(264)**	**15**	**189**	**303**	**361**
Add: Other Income [G]	**676**	**593**	**129**	**25**	**25**
Other Income	44	25	25	25	25
Transfer from Grant-in-Aid - existing	5	5	2	-	-
Transfer from Revenue Grant 2012-13 onwards	627	563	102	-	-
Less Other Expenses [H]	**165**	**155**	**-**	**-**	**-**
Voluntary Retirement Scheme cost	-	155	-	-	-
Wage Revision Arrears	165	-	-	-	-
Guarantee Fees/penalty	-	-	-	-	-
Prior period adjustments					
PBDIT [I = F + G - H]	**247**	**453**	**318**	**328**	**386**
Depreciation [J]	21	103	191	237	235
Financial Charges [K1]	4	5	5	6	6
Interest Expenses [K2]	105	78	67	47	27

Financial Charges Total [K]	109	83	72	53	33
PBT [L = I - J - K]	**117**	**267**	**55**	**38**	**118**
Tax [M]	**-**	**-**	**-**	**-**	**-**
PAT [N = L - M]	**117**	**267**	**55**	**38**	**118**

28. On the status of upgradation of infrastructure in respect of six units under Phase I and II of revival plan, the Committee have been informed that after release of Rs.192 crore by the Government, various manufacturing plants of ITI have already released purchase orders for procurement of machineries and equipment required for upgradation of manufacturing infrastructure to take up implementation of different projects under revival plan. Out of Rs. 192 crore, Rs.138 crore, Rs.35 crore and Rs. 10.50 crore have been sanctioned to Bengaluru, Palakkad and Raebareli plants respectively. In addition to above, further sanction of Rs. 5.5 crore to Raebareli and Rs. 3 crore to Naini plant is under process in the ITI corporate office. An amount of Rs. 79.61 crore have already been drawn by three units viz. Bengaluru (Rs. 46 crore),Palakkad (Rs. 26.48 crore) and Raebareli(Rs. 7.13 crore) for the purpose.

29. According to DoT, with delay in approval of revival proposal and late release of first tranche of Capex, the revival plan implementation is being done during 2015-16 onwards. However, the revival plan will be implemented in full subject to receipt of funds as approved by CCEA in the revival plan for achieving the results as per the projections of revival plan.

(c) <u>ITI products, estimated market share and its core competence</u>

30. ITI has plans to implement projects such as 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, LED based lighting products.

31. Enquired about the status of the above projects, the Committee were informed that out of the 18 projects approved in the revival plan, the priority projects based on current requirement have been identified and the implementation of infrastructure upgradation for manufacturing is under progress. When the Committee desired to know about the ability of ITI to implement these ambitious projects and also produce the products at

internationally competitive cost and standards, the Department/ITI informed that ITI will be able to implement projects under revival plan subject to timely release of funds as per CCEA approval. However, for that matter, ITI also expect Govt. support for conducive environment for indigenous manufacturing. The present product profile and new products envisaged in the revival plan of all the manufacturing plants and their manpower strength is given as under:-

Unit	Existing Products/Projects	New Projects identified under Revival Plan	Strength as on 01-04-2015
Bengaluru	• Secrecy • NGN • SCADA • Data Centre • Radio Modem • Microwave • Satellite	• Defence Projects a) Gigabit encryptors b) Multichannel encryptors • Business with PSUs • SaaS model projects under Data Centre • Own Data Centre • SDR • Tablet PC	608
Raebareli	• GSM BTS • GPON • SMPS • National Population Register • NFS Cable Laying	• Business with PSUs • HDPE Pipe manufacturing • Vehicle Tracking system • Manufacturing ALIMCO products • Contract Manufacturing for PSUs • 3-D printing • Defence products • DR for Data Centre	2054
Naini	• SDH products • SPV manufacturing • National Population Register	• Carrier Ethernet • DWDM • DSLAM	589
Mankapur	• GSM BTS manufacturing • LED Lighting products • Bank mechanization • NFS Cable Laying • C-DOT exchange repair services	• Next Gen. Network (NGN) • LTE • ADSL CPE	1564
Palakkad	• National Population Register (NPR)	• Business with PSUs • Component Screening for VSSC • Li-ION Battery manufacturing	484

	• Socio Economic Caste Census (SECC) • SIM / Smart Cards • MLLN • Signaling Transfer Point • Business with PSUs		
Srinagar	• Telephones • Exchange maintenance support	• SPV solutions	130
Network System Unit	• AMC for ASCON project • AMC for OCB switches of BSNL and MTNL • Turnkey projects	• Optic Fiber Cable Laying services	224
Regional Offices	• SWAN projects for State Govts. • CCTNS project for Nagaland • RAPDRP project for Tamil Nadu and Pondicherry • E-Tendering	• IT solution for Construction workers • Nano Tags for Identification • IT Services	350

32. The Committee have been informed that considering the productivity and financial viability, Palakkad and Banglore units are holding maximum potential, Rae Bareli Unit is holding medium potential and Manakpur and Naini are holding lower potential. The Committee desired to know about the specific problem being confronted by each unit with regard to infrastructure, manpower, capacity building, marketing, etc. DoT in a note stated that basic infrastructure is available in all units, however the same needs to be upgraded. There is surplus manpower at RaeBareli, Naini and Mankapur units. Average age is approx. 54 years. Present man power in all the units is not skilled and experienced to take up new technology products. To meet this gap recruitment of fresh manpower is required. With the upgradation and addition of the infrastructure , all the plants will be geared up for optimum capacity.

33. The estimated market potential and estimated ITI's market share for the projects under revival plan are shown below:-

Project	Estimated Market in the country (Rs. crore)	Estimated ITI's Market Share (Rs. crore)
NPR Project	13000	4000
GPON	5000	850
ADSL CPE	2000	800
LTE	8500	1850
GSM	10000	5000
Carrier Ethernet	5000	1000
Solar Project	5000	1000
SDR	1000	300
Defence Projects	20000	3000
SMPS	300	100
MLLN	1500	750
DSLAM	1500	550
SCADA	200	100
Data Center and IT Projects	10000	1000
LED Project	3000	310
Tablet PC	5000	2000

34. In the meeting of BRPSE held on 19th July 2013,it was presented that ITI has capabilities in R&D, manufacturing and service. It has core competency in Encryption, network projects, multi-layer PCB manufacturing, dedicated network system unit, ASCON, CDMA & GSM network installation and maintenance. It was also stated that ITI is the only company in the country where BTS system for GSM network is made.

35. With regard to efforts made to capitalize on its core competence, the Committee have been informed that ITI is manufacturing and supplying Secrecy (encryption) products to Defence as on date and also it is doing AMC work for these supplies. ITI has successfully executed and is maintaining turnkey projects like GSM, CDMA, MLLN, etc. for BSNL/MTNL, ASCON project for Defence. Network System Unit is carrying out AMC service of ASCON and also OCB switches to BSNL as on date.

36. About the demand of various products made by ITI in the market, DoT, in a note, stated as under:

> "ITI has indigenously developed Encryption products to cater to Defence needs. Further, there is good demand of Secrecy products from Army and Navy as part of NFS project. ITI is already addressing the tenders floated by BSNL for NFS project. There is also scope for maintenance of the networks like GSM, MLLN, ASCON which ITI is already executing. We are executing NFS OFC cable laying project for Army. ITI has rich experience in OFC cable laying and would like to take up OFC cable laying for NOFN project also. In addition, we are currently executing/maintaining IT related network projects and in the process of addressing the tenders."

37. The Committee have been informed that 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 Center.

38. Being the only company in the country making BTS for GSM network, the Committee enquired as to what extent ITI has been able to meet the demand. In reply, DoT stated that ITI is manufacturing BTS of M/s Alcatel Lucent technology. Service providers in India are deploying BTS which are specific to technology (like Ericsson, Huawei, ZTE, etc). ITI is manufacturing/supplying BTS of Alcatel Lucent technology to BSNL/MTNL networks.

39. The detailed information relating to ITI business portfolio is given at **Annexure-V.**

40. The Committee specifically desired to know whether ITI propose to remain as supplier of Telecom equipment to Government Sector only or there are any plans to diversify and extend it to the private sector as well. To this, the Department, in a note, stated that ITI has been catering to the telecom requirements for Govt. sector since its inception. In view of decline in demand from its major customers, ITI is extending its focus to private sector also in future and is gearing up by upgrading its manufacturing infrastructure to meet the current requirement of the market.

41. The Committee also desired to know about the quantum of telecom equipment / electronic products of ITI being procured by the private sector. In reply, DoT stated that as of now, ITI has no major products/solutions which is being supplied to the private sector. However, the Company is strengthening its R&D and focusing on marketing to address the private sector also.

(d) Status for Technology Tie-ups

42. As part of the revival plan, ITI needed possession of state of-the-art technology to sustain competition from private players. In the Cabinet note, it was mentioned that ITI had already identified technology partners for eight telecom/defence products and the process of identifying partners for seven telecom/IT projects is in progress. Besides, ITI has in-house technologies for five products. Technology partners for other projects were planned to be identified during implementation of revival plan. Giving the latest position, it has been stated that ITI has since signed MOU with M/s UTStarcom for NGN, Hybrid MW with M/s SIAE, CCU with M/s CDAC and Vehicle tracking system with M/s Sway Techno Solutions. Already, EOIs have been floated for Wi-Fi systems, satellite terminals and Lithium-Ion battery. It has further been stated that ITI is always on the look out for tie-ups for latest technology. To address the need of latest technology and in line with "Make in India" initiative of GoI, ITI has floated an advertisement in newspapers during November 2014, inviting Indian and Overseas Telecom / Defence / Electronics Equipment Manufacturers to join ITI.

43. BRPSE, in their recommendation, had underscored the need to possess the required technology in telecom, if necessary, by entering into collaboration with one or more foreign parties for sustainable revival of the company. The Committee desired to know the efforts made in this direction. Since the idea of making ITI as a Joint Venture Company (JVC) was not mooted in the Cabinet note, the Committee enquired whether it is possible to make it a JVC at this stage. DoT emphasized that ITI would certainly like to have Joint Venture set ups with multi-national companies. This had been tried during 2009-10 when ITI had been given an interim package by the Government. Based on the Government approval, ITI had floated three separate EoI's for Joint Venture for Strategic Partners with major stake from strategic partners, up to 74% holding, for manufacturing of new product lines to address the initiative of Government of India of "Mission Broad band for all". Even after extending the dates of EoI and relaxing some of the terms and conditions, no bidder has addressed the EoI resulting in the failure of the JV attempt by ITI. Even though ITI is interested for formation of JV, ITI has not initiated any action in this direction considering that the same has not been mentioned in the CCEA approval.

(e) Voluntary Retirement Scheme (VRS)

44. As per the proposal approved by CCEA, reduction of manpower strength through VRS is to be completed within one year. Manpower reduction through VRS was estimated to be 1500. An amount of Rs.155 crore has been approved by the Cabinet for VRS expenditure.

45. On being enquired about the average age of the employees of ITI, the Department have provided the average age mix of the employees of ITI as on 1st April, 2015 as under:-

AGE Mix Profile as on 01-04-2015				
Age Group	**Officer**	**Non-Officer**	**Total**	**%**
Upto 25 Yrs	29	47	76	1.25
26-30 Yrs	34	6	40	0.66
31-35 Yrs	38	8	46	0.75
36-40 Yrs	30	21	51	0.84
41-45 Yrs	65	62	127	2.08
46-50 Yrs	393	574	967	15.86
51-55 yrs	1385	1521	2906	47.65
56 & above	1080	805	1885	30.91
Grand Total	3054	3044	**6098**	100.00

46. The Committee have been informed that manpower cost of ITI were Rs. 393 crore, Rs. 337 crore and Rs. 330 crore (estimated) respectively during the past three years (2012-13 to 2014-15). Asked as to whether downsizing staff through measures such as VRS will not adversely affect the productivity of the Company, the Department stated that downsizing the staff will not affect the productivity of the Company. Reduction of manpower through VRS route will be restricted to aged, redundant and unskilled manpower. This will also help the Company to reduce its salary bill as well on other welfare cost front. Under the

Revival Plan, ITI has several projects where barest minimum fresh manpower for R&D activities are required to be inducted. Proposal is ready and will be submitted to the APEX Committee for its approval.

47. To a query about progress made in successful implementation of VRS, the ITI stated that a detailed proposal was submitted to DoT in February 2015 followed by a presentation in March 2015. DoT's approval on the Company's proposal for introduction of VRS is awaited.

(f) Recruitment of fresh personnel

48. As per Revival Plan approved by CCEA, there is a proposal for barest minimum fresh induction of hands to meet the essential requirements of various initiatives to be considered with due concurrence of Apex Committee. On being enquired about the initiatives taken to identify the areas for induction of fresh hands, DoT, in a written note, stated:

> "As per the approval for plan outlay of Rs. 192 crore for ITI in the Government of India Budget RE 2014-15, ITI is in the process of implementation of 16 projects in its various plants with this funding support. Some of the feasibility reports for these projects also call for positioning of manpower both in the areas of R&D and production. Many new R&D projects have been identified in the field of encryption of communications for Defence and also for SCADA development for Water and Power management. Currently, action has been initiated for recruitment of fresh manpower in this regard for R&D requirement. (For e.g., Multi-Channel Encryption project for which the requirement for R&D is 31 Engineers and 10 Diploma Holders)."

49. The Committee have been informed that the proposal for recruitment of manpower for R&D is ready and will be put up to Apex Committee for its approval.

(g) Reduction of social overheads

50. As per Cabinet decision, ITI has to reduce the social overheads and accordingly an elaborate plan with clear monitorable targets was to be submitted to the Apex Committee. According to ITI, the social overheads incurred are mainly related to maintenance of township for employees, transport facilities, hospital, canteen, school, etc. as most ITI units were established in remote/under developed areas. The broad action plan for further reduction on the cost towards social overheads as put up in the Cabinet note is as under:

a. "Reduce cost under medical head by exploring ways to transfer the medical services to other agencies, like National Rural Health Mission or Mediclaim (shown as part of the social overheads in the Annual Report).

b. Reduce cost under transportation head through further rationalization of employees' bus routes (shown as part of the social overheads in the Annual Report).

c. Reduce cost on canteen subsidy through mutual dialogue with concerned groups (shown as part of the social overheads in the Annual Report).

d. Explore reduction in the cost towards the grant being given to run the schools by ITI.

Some of the above proposals may need discussions with the trade unions before implementation and this will be discussed as part of the benefits being given when the revival package is approved, like payment of wage arrears.

Projected reduction in social overheads is estimated to be around 10% over a period of three years through restructuring and rationalization of expenses after receipt of revival package:

SL.NO	YEAR	AMOUNT(Rs.Crs)
1	2012-13	36.78 (Actuals)
2	2013-14	35.31 (Projected)
3	2014-15	34.25 (Projected)
4	2015-16	33.22 (Projected)

"

51. On the status of consultation with the trade unions, the Department have submitted that the Unit Heads have discussed the issue with their respective trade unions. However, due to delay in payment of salary to the employees, the Unions are not ready to discuss Management's proposals for reduction of social overheads at the unit level. Once the issue of payment of salary is regularized, the Unions will understand and agree for reductions considering financial condition of the Company. The Management is confident of reducing the social overheads in the areas as detailed in the CCEA's approval.

52. The Committee have been informed that the Company has detailed plans for reduction of social overheads and the same is a continuous endeavor, which involves discussion with the Unions at regular intervals. In this regard, the Company had requested a few Maharatna and Navaratna PSUs to utilize their CSR budget by adopting Special School being run by ITI. Responding to the request, M/s IOCL has evinced interest to adopt the Special School at Bengaluru,

as part of their CSR objective and the same is in the final stage. This would reduce the burden on the Company to the extent of Rs.10 lakh per annum.

53. The other sacrifices where the Company has already planned to reduce the social cost are transport, medical and canteen are as follows:

Transport - Under the head transportation, it is stated that effective from Dec. '14, ITI Corporate & NS Unit and Raebareli Plant have already reduced the transport facility by 25%. Through rationalization of routes, the number of buses has been reduced; thereby, a saving of Rs.65 lakh annually has been achieved. The Company is making all out efforts to bring down the expenditure towards transport in other Units, where subsidized transport facility is given.

Canteen - For reducing cost under canteen, it is stated that with the continued interaction with the Unions, the Company has been successful in running the canteen facilities presently offered to the employees of Raebareli and Mankapur Units on cost basis without any financial burden to the Company. In respect of Bengaluru, Naini and Palakkad Units, where the canteen facilities are offered with subsidized rates, this issue is being discussed often with the Unions at the unit level and the Management has plans to initially increase the rates of the food being served in the Canteen and finally to run the Canteen on cost basis at Bengaluru. The expenditure on Canteen will be reduced in the current fiscal.

Medical - Under medical head, instructions have been issued to the Unit Heads to curtail referrals to outside Hospitals and also to make plans to run the hospitals without any financial help/with reduced financial help. Alternatively, it was also suggested to explore the possibilities of providing this facility through Medical/Health Insurance Companies. This is expected to bring down the expenditure considerably.

54. On the issue of cutting down on social overheads, the CMD, ITI stated during evidence as under:-

> "We are not trying to cut down any benefits to the employee. We are trying to replace the facility in a way that the employee continue to get those types of facilities in that form or in a better form, but the financial burden of the Company is reduced to a great extent."

(h) <u>Monitoring of the Revival Plan</u>

55. The Department have informed that in pursuance of the approval of CCEA, an Apex Committee under the Chairmanship of Secretary (T), DoT has been constituted. The mandate of the Apex Committee as per the approved Cabinet note is as follows:

i. The detailed work plan unit-wise and activity-wise for proper implementation of revival plan and monitoring is to be reviewed by Apex Committee before release of financial assistance by DoT.

ii. Fund disbursal for revival plan is to be done in two stages. The financial assistance for second stage is to be disbursed based upon the progress of the projects covered in the first stage (to be monitored by Apex Committee).

iii. The viability of the unit is to be reviewed after assessing the effect of the upgradation of manufacturing facilities in each unit as envisaged in revival plan and the unviable units to be identified and reorganized as per the recommendations of Apex Committee.

iv. As per CCEA approval, ITI is to reduce its social overheads. An elaborate plan with clear monitorable targets is to be submitted by ITI to Apex Committee before release of any financial assistance to ITI Ltd.

v. The proposal for barest minimum fresh induction of hands to meet the essential requirements of various initiatives is to be considered with due concurrence of Apex Committee.

56. Elaborating further on the mechanism put in place for regular monitoring of the implementation of the Revival Plan, DoT stated that suitable Committees have been constituted at Corporate level, unit level in ITI and Ministry level. First meeting of the Apex Committee was held on 27th August 2014. Review Meetings have also been held with ITI on 19.03.2014, 09.04.2014, 23.04.2014 and 17.07.2014. In these Review Meetings, PERT charts for various projects have been finalized unit-wise. Progress of activities of manufacturing units is being monitored against these PERT charts.

57. The Committee have also been informed that each unit of ITI is required to be run as a separate Profit Centre. Functional Directors of ITI Ltd. have taken up additional responsibilities as Mentors of Profit Centres.

(a) Role of ITI in 'Make In India', 'Digital India' Campaign and Smart Cities Project

58. Recently, Government of India have launched 'Make in India' and 'Digital India' Campaign. All the Ministries have reportedly been advised to give preference to electronic products from domestic manufacturers. Government of India have already announced developing 100 'Smart Cities' in the country by 2020. In this context, the Committee enquired as to how ITI can take advantage of business opportunities flowing from these policies of the Government. According to DoT, ITI can be a major player for domestic manufacturing of electronics products in India. To play an effective role, ITI requires support for R&D, induction of fresh & talented manpower and up-gradation of existing infrastructure. ITI can play the role of manufacturing hub for all the requirements of Telecommunications & Electronics equipment in the Digital India and Smart Cities projects. It has vast experience of executing turnkey projects for defence as well as civilians networks. It has pan India presence with skilled manpower. ITI can also play the role of System Integrator/ Solution Provider for IT requirements of Smart Cities. Most of the equipments required for smart city are available with ITI.

59. The Committee have also been informed that ITI is discussing with USOF and BSNL for the NOFN project which is part of the Digital India project. ITI is also exploring other projects which could be taken up in cooperation with BSNL.

(b) Role of ITI in Telecom Equipment Manufacturing

60. In the Cabinet note, it was stated that the Indian telecom equipment demand was 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. ITI with upgraded infrastructure can contribute in the efforts of the Government to reduce this gap.

61. On the ability to manufacture those imported telecom equipment by ITI, the Committee have been informed that ITI can domestically manufacture most of the telecom equipment being imported now with the absorption of Technology from global OEMs and Infusion of fresh talent, upgradation of Infrastructure. The required resources are already included in revival plan.

62. Highlighting the role that can be played by ITI in making the country self-reliant in telecom equipment manufacturing, it has further been stated that till

the early nineties, ITI was the major supplier of telecom products in India contributing to around 70% of the landline network being deployed by the then P&T Department. After liberalization initiative of the Govt., opening up the telecom sector to MNCs, ITI with the huge social overheads could not compete with the MNCs. Also there were no domestic technologies for wireless networks. With strengthening of domestic design houses like C-DoT or the R&D of ITI in the major areas of telecommunications, the country can move forward towards self-reliance in telecom. With the policy initiatives and Government support for R&D and also upgradation of infrastructure, ITI can play a major role in making country self-reliant in the telecom area.

(c) <u>Defence related requirement and the Role of ITI</u>

63. The Committee have been informed 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, their order book is overflowing. They are not in a position to complete the supplies in the period of three-four years.

64. On the challenges involved to take advantage of the Defence need, the Department have stated that since beginning, ITI is catering to the needs of Defence. ITI is the leading supplier of Encryption products to Defence and already executed many Defence communications projects. It is already gearing up to meet the Defence needs of the country and a major portion of revival package is allocated for this sector. However, to get the full advantage, ITI may be made a Defence PSU or given reservation for electronics and communications requirements of Defence.

65. The Committee have been informed that encryptors are the forte of ITI. At one point of time, ITI was the only body which was supplying encryptors to Defence. Not only this, they have implemented ASCON-1, ASCON-2 and ASCON-3 and they are likely to get ASCON-4. Now they are one of the three PSUs which have been supplying encryptors to the Ministry of Defence.

66. Explaining the capabilities and strengths of ITI in the field of encryption, DoT stated that the Bengaluru Plant of ITI has 33 SAG (Scientific Analysis Group) approvals to its credit for the algorithms developed in the field of encryption. 70% of the encryption equipment deployed and working in the

Defence is from Bengaluru. ITI is already in the process of identifying/inducting fresh talent to strengthen R&D in the Encryption area.

67. The Committee have been informed that ASCON (Army Static Communication Network) Phase IV project is a turnkey project for the Defence sector comprising of equipment for IP/MPLS, DWDM, secrecy for voice/ data/video, NMS, microwave and satellite equipment, supply & laying of OFC, including synchronization of network and audit. ITI has full capability in the crypto sector with technology partners in the other fields. ITI is the system integrator. To get this project, the RFI has been addressed twice by ITI once in 2010 and again in 2012. The RFI is yet to be converted to RFP.

68. The Committee have been informed that M/s ITI Limited, M/s Bharat Electronics Limited, (BEL) M/s Electronic Corporation of India Limited (ECIL) are the three suppliers of encryption equipment. In-house design, development and manufacture are the steps to meet the competition from the other two PSUs.

69. In evidence, the Committee have been informed that as far as Defence capabilities are concerned, a study was conducted in 2013 by the Ministry of Defence (Department of Defence Production). They went and studied the capabilities of all the plants and submitted a report saying that ITI has got all the capabilities of producing electronics and telecommunications equipment for the Defence. They recommended that it can be classified as a Defence PSU also. In addition to that, DRDO, which is an R&D organisation, have also carried out a study and given the clearance that ITI has got all the capabilities to meet their requirement. Giving the update in this regard, DoT, in a note, stated:

> "Core Committee of DoT in its report on Revival Package recommended for a preferential status on par with BEL for Defence procurement. A committee was constituted by MoD to examine the feasibility of giving a Defence PSU status to ITI. The required information was provided to the committee and the issue was taken up at the level of Hon'ble Raksha Mantriji. ITI has been following up with DRDO and DoT for signing of the MoU with DRDO. Committee has been identified for drafting the MoU from DoT and ITI. The draft MoU has been submitted to DRDO for approval and awaiting clearance from them."

70. Explaining the hindrances in declaring ITI as a Defence PSU, DoT further stated:

> "DoT Core Group, which had been set up to prepare ITI's revival plan while recommending financial package of Rs. 4156.79 crore for

the revival of ITI, had also recommended to consider ITI at par with Bharat Electronics Limited for getting defence orders. Accordingly, in December 2011, the then Hon'ble MoSC&IT had written to the then Hon'ble Defence Minister to consider making ITI a Defence PSU. Subsequently, a meeting had been held with Secretary, Defence Production, Ministry of Defence, to confer Defence PSU status to ITI and a committee was set up in the Defence Ministry to look into the possibility of making ITI as a Defence PSU. However, as per the letter received in July 2014 from Jt. Secretary (ES), Department of Defence Production, Ministry of Defence has not agreed on the proposal to confer Defence PSU status to ITI as the committee constituted for considering the proposal to include ITI as a Defence PSU (DPSU) 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."

71. To a query about business opportunities likely to enhance for ITI and its growth perspective, DoT elaborated that the challenges for ITI, if it is declared as a Defence PSU, are:

- Assimilation of the products designed by DRDO
- Upgradation of infrastructure for manufacturing Defence products
- Induction of fresh skilled manpower
- Strategically, it is advantageous to have minimum number of solution providers for providing security in voice and data communication requirements of Defence and ITI, being a leader in security solutions, stands good chance to garner orders for these projects of Defence.
- Business opportunities will be in the sector of encryption products like multi channel, gigabit encryptors from MoD. In addition, the current tenders of projects on NFS like satellite terminals, hybrid microwave broadband radio links, etc. are being addressed by Bengaluru Plant."

72. To enhance product portfolio in Defence segments, ITI is planning to introduce more products for Defence, some of which are Satellite Trans-Receiver and Access equipment, RADARs and Allied Equipment, Weapon Control Systems, Navigation Systems and Equipment, Missile systems and Equipment, Electronic Fuzes for Guns, High Grade Bullet Proof Jacket, etc.

73. The Department have also informed the Committee that the list of products/technology to be productionised has been identified by DRDO in their draft agreement. They are Cyber security solutions, Command and control technologies and solutions, Intelligent robotic platforms, Radio communication units, Satcom terminals, etc.

74. The Department have also informed the Committee that providing the status of Defence PSU will help ITI revive faster. On this important issue, the secretary submitted during evidence as under:-

> "The importance of ITI is basically paramount in the sector of the defence because whatever components we want to make for the defence should be tamper proof. If you are saying whether we will be in a position to compete completely in the open market, that may be difficult in many of the areas. But where our importance will come is basically supplying to the needs of the defence sector, supplying to the needs of the strategic core area sector and supplying to the needs of our telecom sector. In those areas we feel that our component should be such that they are basically tamper proof and free from espionage activities. So, that is the core area which we feel will be our basic backbone, which will be our basic strength for working."

(d) Status of utilization of Land

75. The Department have furnished the following information relating to the total land available with ITI in each Unit indicating the status of utilization made so far:

[Area in Acres]

Sl. No	Location	Total land [A+B+C]	Town ship [A]	Factory [B]	Spared to Other organization [C]	Ear marked for Projects	Remarks
1	Doorvaninagar, Bengaluru	438.85	281.107	106.06	51.683	62	Rented to SITAR, BMTC, & other Govt. Agencies
	Electronic City, Bengaluru	55.48	--	23.208	23.208	31	Rented to C-DOT & 1.2 Acres acquired by NHAI
	Magrath Road, Bengaluru	0.77	Nil	--	--	--	Rented to M/s HOSMAT Hospital
2	Raebareli	308.21	183.05	125.16	Nil	--	Part of land and buildings given on rent to NIFT, RGIPT

3	Naini	177.73	27.09	150.21	Nil	--	[A] is inclusive of land of ADA Flats
4	Mankapur	352.30	252.30	100.00	Nil	--	--
5	Palkkad	57.973	31.53	26.44	Nil	--	--

76. On the issue of land, CMD, ITI informed the Committee during evidence as under:

> "As far as the land is concerned, most of the lands are acquired by the State Governments and given to ITI on lease basis for setting up the manufacturing facilities. One chunk of 55 acres of land in Bengaluru, we purchased from the Government which is irrespective of whatever use we put it to. Our total land bank is 1,415 acres which includes 666 acres for factories and 749 acres for township. Out of 1415 acres of total area, 55 acres have been purchased by us and balance has been acquired by the respective State Governments for setting up the factories. The larger chunk of the land is in Bengaluru followed by Mankapur. In Bengaluru we have got close to about 440 acres of land. In Mankapur in Uttar Pradesh we have got 352 acres of land. Out of that, 252 acres of land has been utilised for the purpose of township. In Raebareli we have got 308 acres of land. Naini has got 174 acres of land. Palakkad has 135 acres of land."

77. On the value of land, the Committee have been informed that the valuation of the Property was done through Registered Valuer and the value of the properties is as under:

Sl. No.	**Location**	**Total land in Acres**	**Year of Valuation**	**Value [Rs. in Crs]**
1	Doorvaninagar, Bengaluru	400.463	2013	5193.98
	Magrath Road.	0.770	2013	78.91
	Electronic City	55.480	2013	761.63

2	Mankapur	352.300	2006	332.04
3	Raebareli	308.212	2006	293.16
4	Naini	174.600	2006	146.63
5	Palakkad	57.973	2006	42.57

78. To a query on the commercial development of the available land, the Department informed that there is much scope for commercial development of ITI's land available at Bengaluru, brief details of which are as under:

(a) **Doorvani Nagar, Bengaluru**: Out of 63 Acres land earmarked for projects, 52 acres of land is converted from Industrial use to Commercial use. The present land is in the prime locality in the city and adjacent to old Madras Highway and Whitefield area where most of the software/IT companies are existing. The available land is in green belt and environment friendly. It is well connected with rail, road and the metro network of city. Considering the present trend of business in Bengaluru and the type of local and skilled manpower available in the city, it is felt that SEZ / Software & IT companies can be established on this land.

(b) **Electronic City, Bengaluru:** Electronic City is known as IT Hub of Bengaluru. Many IT Companies namely Infosys, Siemens, HP, Wipro, Biocon, Educational Institutes, NTTF are doing business from this locality and this too is well connected from Bengaluru city. This location is also proposed to be connected with Metro network. This land/ Building can be best suited for setting up of Telecom/ Electronics Park or SEZ and this will attract FDI & fetch good revenue to the Company.

79. During the course of evidence, CMD, ITI informed the Committee that there is an issue relating to land in the Palakkad unit. The land belongs to ITI. However, as the land was not in use for a long time, the Government took away some portion of the land for construction of a Medical college, leaving the other portion for ITI to add a manufacturing facility there. He further added:

> "There was an undertaking that we will utilize the land over a period of 10 years; since we were not having money, we were not in a position to utilize the land. So, the Government of Kerala has taken some portion of the land back from us for setting up a medical college. The balance land they are giving. We have taken up the matter at the level of the Ministry also. They are giving it back with the condition that we would utilize the land at the earliest."

(e) <u>Government Funded Projects</u>

80. As per information furnished by the Department/ITI, Palakkad is the only unit making profit. The maximum turnover is also at Palakkad with Rs. 449 crore of the Rs. 992 crore of 2012-13 having come from their products which include SIM cards, support to the National Population Register, and switching products. It has also been informed that the Palakkad Unit is doing a job of Ministry of Rural Development called SECC, and NPR for the Ministry of Home Affairs.

81. On the plans of ITI to get more Government funded projects, the Department have informed that ITI has already bagged the NFS cable laying PO from BSNL for North East region of the country and being executed. It is implementing NPR project for RGI under MoHRD. It is also addressing MoD projects like ASCON and Railway Projects. ITI plans to actively participate in 'Make in India' campaign launched by GoI and Smart City projects initiated by the new Government.

82. The Committee have been informed that the Company could not make contribution even on supplies made in 30% reservation quota extended to it by BSNL. When the Committee enquired about the current status of meeting the quota, the Department, in a written note, have stated that the reservation quota policy of ITI has expired on 20.9.2014 and as such there is no reservation quota policy for ITI as on date. The request of ITI for extending the RQ policy is pending with Ministry. No other PSUs /Departments have extended reservation quota to ITI.

83. During Study Visit of the Committee, representatives of ITI expressed that the Company needs to be provided work orders for Government funded projects like National Optical Fibre Network (NOFN), Network for Spectrum (NFS) from BSNL, Army Static Communication Network (ASCON-4), Defence Secrecy Project called E3-CR, Supervisory Control and Data Acquisition System (SCADA) for Indian Railway, etc.

84. On the efforts made to participate on the aforesaid projects, it is stated that ITI has capability to participate in these projects. ITI participated in NOFN project for nationwide Turnkey solution for GPON during September, 2015 and stood as L2 bidder in the tender issued by BBNL. However in view of the fact that the price quoted by L1 was very low and the business was

commercially/economically not viable to ITI, as such it could not accept the project. ITI has participated in the NFS OFC cable laying project (Army) and stood L1 in two packages (Pkg F and G) worth of Rs. 2111 crore. ITI has already executed ASCON phase I, II & III and the network is maintained by ITI as on date. With this experience, ITI can take up ASCON phase IV project.

85. Regarding secrecy products which are designed and manufactured by ITI, ITI are regularly supplying these to the Defence network. Further, ITI have submitted Bid for NFS Secrecy project for Army recently and are fully geared to develop and manufacture this product at ITI. Further, ITI are also expecting another such secrecy project from Navy soon which will also be addressed by ITI.

(f) <u>Vision 2020 for ITI</u>

86. In the vision 2020, ITI envisages turning ITI to a manufacturing hub for strategic electronics & telecom products, excel in turnkey socialism in ICT, to be a leader in secured communication products and achieve turnover of about Rs.5000crore.

PART-II

OBSERVATONS/RECOMMENDATIONS

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 Bareli (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.

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 continous losses over the years. Even the manpower, whose expertise was in fixed line telephony became surplus.

An 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 re-establishing 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.

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.

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. 2707 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.

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 appears 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.180 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.

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, were projected to be Rs. 17,727 crore and Rs. 2624, crore respectively. The Unit with maximum market share was to be Raibareli 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 crore 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 for 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.

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. 91,000 crore and in this, the market share of ITI is projected to be Rs. 22,610 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 recognise 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.

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 finalise 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 in 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.

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 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.

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.

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 thereon 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 per cent are 56 years and above, timely finalization of VRS will bring down operational costs of the Company. The Committee recommend 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.

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.

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 rationalization of

expenses after receipt of the revival package. As part of the endeavour to reduce social cost, M/s Indian Oil Corporation Limited (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, ITI 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 a 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.

14. The Committee note that in the wake of 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 manufactures. 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 Service Obligation Fund (USOF) and Bharat Sanchar Nigam Ltd. (BSNL) 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 capacity building, through upgradation of manufacturing infrastructure.

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 recognise 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 emphasise 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.

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 per cent of the encryption equipment deployed and working in the Defence sector is from the Bengaluru 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 Organisation (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 PSU 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 PSU. With the implementation of the ongoing revival package, the Defence PSU status

will boost the morale of company, besides giving a competitive edge to the company vis-à-vis the 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 finalisation of the proposal for signing of MoU with DRDO for formation of SBU.

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 495.10 acres, followed by 352.03 acres in Mankapur, 308.21 acres in Raebareli, 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 Dooravaninagar, 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 Dooravaninagar 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.

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.

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 taxpayers' 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.

New Delhi;
<u>5 August, 2015</u>
14 Shravana, 1937 (Saka)

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

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Appendix-I

Financial Performance of ITI Limited during the last two decades

(Rs. in crore)

Year	Turnover	Profit / (Loss)
1992-93	1484	86
1993-94	1527	84
1994-95	1037	(82)
1995-96	783	(284)
1996-97	1021	(51)
1997-98	1263	15
1998-99	1539	27
1999-00	2085	46
2000-01	2144	28
2001-02	2317	22
2002-03	1795	(375)
2003-04	1257	(706)
2004-05	1389	(310)
2005-06	1749	(429)
2006-07	1818	(405)
2007-08	1210	(358)
2008-09	1741	(668)
2009-10	4660	(459)
2010-11	2139	(358)
2011-12	922	(370)
2012-13	921	(182)
2013-14	770	(344)

Note: The Profit/ (Loss) figures are shown after taking into account the grant from Government.

Appendix -II

Details of financial assistance given by the Government to ITI and its purpose/utilization

Period	Amount (Rs. crore)	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 crore) and in 2004-05 (Rs. 120 crore)
	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	2820.00	Clearing of all liabilities of ITI: Term Loan Guaranteed by GoI : Rs. 403 crore Short Term Loans : Rs. 300 crore Floating Rate Bonds : Rs. 390 crore Credit Limit (exhausted) : Rs. 893 crore Letter of Credit (utilized) : Rs. 523 crore PF/Gratuity/Others : Rs. 199 crore Interest Liabilities on Cash Credits and Bonds : Rs. 112 crore
Mar. 2011	180.00	Working margin
Jan. 2013	130.00#	Salary of employees
TOTAL	4556.77	

This provision for payment of salary for a period of four months is a part of the Revival Plan being submitted through this Note for approval of CCEA. However, this amount has already been disbursed in pursuance of approval of CCEA given in its meeting on 4th October 2012.

Appendix -III

Disbursement Schedule of Financial Package

1st Stage:

- Projects which require immediate assistance – Rs. 460 crore.
- Liabilities which require immediate assistance – Rs. 995.79 crore
- **Total Financial Assistance- 1st Stage – Rs. 1455.79 crore**

2nd Stage:

Based on the progress of the projects covered in the 1st Stage (to be monitored by a Apex Committee), further Financial Assistance to be disbursed as follows:

- Financial Assistance to Projects – Rs. 1804 crore
- Financial Assistance for Liabilities – Rs. 897 crore
- **Total Financial Assistance- 2nd Stage – Rs. 2701 crore**

However, the disbursal of 2nd stage to be done over a period of two years 2014-15 and 2015-16 as follows:

In F.Y. 2014-15

- Financial Assistance to Projects – Rs. 837 crore
- Financial Assistance for Liabilities – Rs. 897 crore

Total Financial Assistance- 2014-15 – Rs.1734 crore

In F.Y. 2015-16

Financial Assistance for Projects – Rs. 967 crore

Appendix -IV

Unit-wise projects, proposed investments, estimated market share and value addition in the next five years

Unit	Unit-wise products	Investment (Rs. Cr.)	5 year period (Rs. Cr.)	
			Revenue	Value Addition
Mankapur	GSM (West Zone & South Zone)	75	500	75
	NGN/LTE	100	1360	182
	LED Based Products	12	167	15
	Tablet PC	40	275	25
	Broad Band for Rural Panchayat (NOFN)	0	575	35
	NFS (Cable laying)	0	375	22
	Sub-Total	**227**	**3252**	**354**
Raebareli	G - PoN / GE - PoN	80	800	71
	Tablet PC	40	275	25
	Misc. - SMPS, GSM Franchise etc.	5	240	17
	Broad Band for Rural Panchayat (NOFN)	10	575	35
	Data Centre	150	235	69
	Defence projects	200	1000	296
	NFS (Cable laying)	0	375	23
	Sub-Total	**485**	**3500**	**536**
Naini	Transmission equipments like DWDM, STMs, Carrier Ethernet etc.	80	870	70
	DSLAM	20	210	14
	Solar Panel	100	750	67
	NFS (supply of Equipment)	15	450	25
	Tablet PC	40	275	25
	Sub-Total	**255**	**2555**	**201**
Bengaluru	ADSL - CPE	70	220	20
	Defence Communication Products including Encryption Products	430	1375	407
	Data Centre & IT Products	250	300	87
	Business with PSUs /Contract Manufacturing	100	300	60
	Tablet PC	90	275	25
	SCADA and other miscellaneous projects	12	240	17
	NFS (supply of Equipment)	0	500	30
	Sub-Total	**952**	**3210**	**646**
Palakkad	NPR/MNID	250	2550	510
	MLLN	25	280	37

	Business with PSUs /Contract Manufacturing	70	140	28
	Sub-Total	**345**	**2970**	**575**
Srinagar	Solar project and support services	0	50	5
	Sub-Total	**0**	**50**	**5**
NSU	AMC business of NSU	0	440	176
	Sub-Total	**0**	**440**	**176**
ROs	Business through ROs	0	1750	131
	Sub-Total	**0**	**1750**	**131**
Grand Total		**2264**	**17727**	**2624**

Appendix -V

ITI BUSINESS PORTFOLIO

Products	Business Segment	Relevance		Business Potential	Competence
		Earlier	Now		
Telephones	Fixed Line	✓	x	Low	High
Fixed Line Exchanges	Fixed Line	✓	x	Low	High
FWT	Fixed Line	✓	x	Low	Low
MLLN	Fixed Line	✓	✓	Average	High
DLC	BB/Fixed Line	✓	x	Low	Low
GPON	BB/Fixed Line	✓	✓	High	Medium
NGN	BB/Fixed Line	x	✓	High	High
DSLAM	BB/Fixed Line	x	✓	Average	Average
Wi-Fi	BB/ Wireless	x	✓	High	Average
Encryptors	Fixed/Wirelss	✓	✓	High	High
Software Defined Radio	Wireless	x	✓	High	High
HF Radios H/S	Wireless	x	✓	Average	Low
SATCOM	Defence/Wireless	✓	✓	Average	Medium
WLL CDMA	Wireless	✓	x	Low	Low
GSM BTS	Wireless	✓	✓	Average	High
Radio Modems	Wireless	x	✓	Average	Medium
Digital Microwave	Wireless	x	✓	Average	Medium
LTE	Wireless	x	✓	High	Low
OPTIMUX	Transmission Eqpt.	✓	x	Low	High
DWDM	Transmission Eqpt.	✓	✓	High	Low
STM	Transmission Eqpt.	✓	✓	Low	Low
SSTP	Signalling	✓	✓	Average	Medium
Smart Cards	IT	x	✓	High	High
SCADA	IT	x	✓	Average	High
Networking Equipment	IT	x	✓	High	Low
Solar Products	Green Energy	x	✓	High	High
Banking Products		x	✓	Medium	High

Annexure-I

MINUTES OF THE SIXTH SITTING OF THE STANDING COMMITTEE ON INFORMATION TECHNOLOGY (2014-15) HELD ON 27TH OCTOBER, 2014

The Committee sat on Monday, the 27th October, 2014 from 1100 hours to 1315 hours in Committee Room 'C', Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Shri Anurag Singh Thakur - Chairperson

MEMBERS

Lok Sabha

2. Shri L.K. Advani
3. Shri Prasun Banerjee
4. Dr. Sunil Baliram Gaikwad
5. Dr. K.C. Patel
6. Dr. Anupam Hazra
7. Dr. J. Jayavardhan
8. Shri P. Karunakaran
9. Shri Virender Kashyap
10. Shri Keshav Prasad Maurya
11. Shri Paresh Rawal
12. Dr. (Smt.) Bharatiben Dhirubhai Shiyal
13. Shri D.K. Suresh
14. Shri Ramdas C. Tadas
15. Smt. R. Vanaroja

Rajya Sabha

16. Shri Mohammed Adeeb
17. Shi Salim Ansari
18. Smt. Jaya Bachchan
19. Shri Vijay Jawaharlal Darda
20. Shri Santiuse Kujur
21. Dr. K.V.P. Ramachandra Rao
22. Mahant Shambhuprasadji Tundiya

SECRETARIAT

1.	Shri K. Vijayakrishnan	-	Additional Secretary
2.	Shri J.M. Baisakh	-	Director
3.	Shri Ajay Kumar Garg	-	Additional Director
4.	Dr. Sagarika Dash	-	Deputy Secretary
5.	Shri Shangreiso Zimik	-	Under Secretary

<u>Representatives of the Ministry of Communications and Information Technology (Department of Telecommunications) and Indian Telephone Industries (ITI) Limited</u>

	Name	**Designation**
1.	Shri Rakesh Garg	Secretary, DoT
2.	Smt. Annie Moraes	Member (F)
3.	Shri Rajeev Agrawal	Member (S)/Advisor (O)
4.	Ms. Rita Teaotia	Addl. Secy. (T)
5.	Shri Ravinder Kumar Mishra	DDG(SU)
6.	Smt. Darshana M. Dabral	DDG(TPF)
7.	Shri K.L. Dhingra	CMD(ITI)

2. At the outset, the Chairperson welcomed the Members to the sitting of the Committee. Thereafter, the representatives of the Ministry of Communications and Information Technology (Department of Telecommunications) and Indian Telephone Industries (ITI) Limited were called in and the Committee took their evidence in connection with examination of the subject 'Revival of Indian Telephone Industries (ITI) Limited'.

3. Before tendering evidence, the Department of Telecommunications (DoT) made a power-point presentation before the Committee covering various issues related to the subject viz. overview/profile of ITI and its units, capability of ITI, financial performance of the company including turnover, profit and loss and net worth of the company, causes for its decline, components of Revival Plan, its approval and monitoring, up-gradation of manufacturing infrastructure, technology ownerships and business plan, manpower strategies, Vision 2020 and impact of revival efforts, etc.

4. The Members then sought clarifications on various issues to which the representatives of DoT and ITI Limited responded. The Chairperson directed the Administrative Ministry and ITI to furnish the requisite written information to the Committee in respect of points on which information was not readily available with the witnesses.

5. The Chairperson, then, thanked the representatives of DoT and ITI Limited for deposing before the Committee.

The witnesses then withdrew.

Verbatim Proceedings of the sitting has been kept on record.

The Committee, then, adjourned.