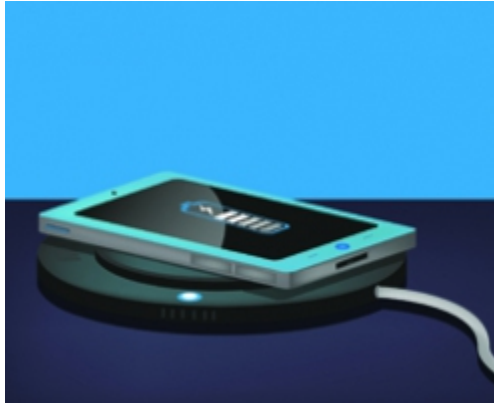


BSNL Recharged: New strategies keep it firmly in the race

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Bharat Sanchar Nigam Limited (BSNL), which has long been under the weather, may finally be moving towards a much-awaited turnaround. That, at least, is what the company's financial and operational metrics indicate. According to Anupam Srivastava, chairman and managing director, BSNL, the PSU is likely to post operating profits for the third consecutive year in 2016-17. Revenue from operations is expected to be Rs 287 billion, a marginal increase from the Rs 284 billion recorded in 2015-16. BSNL is currently computing its accounts for 2016-17. It has also managed to fend off any significant subscriber erosion threat following Reliance Jio Infocomm Limited's (RJIL) entry into the sector last year. Interestingly, in August 2017, BSNL reported much higher subscriber additions than Bharti

Airtel, Vodafone India and Idea Cellular. In fact, data traffic on BSNL has grown at a remarkable pace.

With its new-found confidence, the telecom PSU is taking on the increased competition in the sector to stay in the telecom race. To this end, it has announced a slew of initiatives and partnerships across the consumer mobility, broadband, enterprise, infrastructure, 5G and internet of things (IoT) segments over the past few months. A player that has often received scathing criticism for its lax approach, BSNL has been countering the disruptive plans of RJIL and other private operators with its own lucrative tariffs. It has also joined hands with domestic handset manufacturers to come up with affordable 4G smartphones.

Road to profitability

By 2018-19, BSNL hopes to return to a profitable state, riding on the growing data demand. It is also looking to venture into new business segments to improve its top line, monetise its infrastructure assets to boost its capital and significantly cut its costs. Further, it is planning to invest Rs 60 billion in the installation of 40,000 base transceiver stations (a mix of 2G, 3G and 4G) over the next two years.

- **Asset monetisation:** Despite its various shortcomings, BSNL's infrastructural strength cannot be questioned. Of the 442,000 telecom towers installed in the country, 66,000 (around 15 per cent) belong to BSNL. The operator also has the largest fibre footprint in the country. Over the past two years, the company has made concerted efforts to monetise its unused or underutilised resources, and has engaged with several operators for sharing its towers, fibre and spectrum through active/passive infrastructure sharing agreements and intra-circle roaming (ICR) deals.

"We believe in collaborative competition and that revenue sharing arrangements will benefit all operators," says Srivastava. This strategy, which he calls "co-opetition", is helping the operator generate additional revenues. In 2016-17, BSNL earned Rs 15 billion through active and passive telecom infrastructure sharing. It aims to double this figure to Rs 30 billion in 2017-18.

The union cabinet recently gave its approval to create an independent company dedicated to managing BSNL's mobile towers. This will help improve the monetising potential of the towers. Operators such as Airtel and Reliance Communications have resorted to this strategy in the past. The move is expected to increase external tenancies and consequentially bring in higher revenues for BSNL's tower subsidiary.

Besides, BSNL has plans to unlock the potential of its non-core assets to generate additional capital. It owns about 15,000 land parcels valued at Rs 650 billion in cities such as Ahmedabad, Jaipur, Lucknow, Pune, Chennai, Kolkata, Mumbai and Delhi. Currently, KPMG is evaluating some of these for leasing out purposes.

- **Expanding its play in the enterprise space:** In the face of declining voice revenues and insignificant data profits, the enterprise segment has emerged as a key growth area for operators. Enterprises today are adopting digitisation in a big way, and are looking to partner with companies in the information and communication technology space for the deployment of solutions such as big data, cloud and IoT. Operators are striving to meet these requirements and become end-to-end communications providers for enterprises. BSNL too is strengthening

its enterprise presence and expects this vertical to contribute at least 30 per cent of its overall revenues in 2017-18, up from 25 per cent at present. The operator already caters to over 20,000 business customers including some large PSUs.

Over the past two months, BSNL has entered into collaborations with several vendors for foraying into the IoT space and charting the path to 5G. It has entered into a partnership with Aeris to offer the latter's stack of end-to-end IoT solutions to its enterprise customers. As per Deloitte, IoT is going to be the next big thing for operators in India with the segment's market value expected to reach \$9 billion by 2020. BSNL has also signed an MoU with Coriant for leveraging the 5G and IoT opportunity in India. The two companies will work together to develop 5G and IoT use cases such as rural connectivity, connected health care, industrial automation, public safety, video surveillance, energy and agriculture. In addition, it has signed agreements with ZTE and Nokia to bring 5G technology to India.

- Exploring new business opportunities: In addition to its core business of offering telecom services to users, BSNL is now exploring a host of related business opportunities to drive home additional revenues and diversify its risks. BSNL has identified the mobile virtual network operator (MVNO) business as a key potential area. The MVNO business allows operators to offer voice minutes and data bandwidth to retailers in bulk for reselling. With the help of its MVNO partners, BSNL can put its underutilised network in semi-urban and rural regions to use.

Meanwhile, BSNL has collaborated with Inmarsat for offering satellite phone services. By 2018, the operator is likely to commercially launch satellite services for private companies and individuals, and offer internet services in aircraft and ships. The operator is also participating in several tenders for smart city projects. Further, it is engaging with the state governments for rolling out Wi-Fi networks. For instance, it will install 2,266 Wi-Fi hotspots in Kerala as part of the state government's initiative to provide free internet service in public places.

In August 2017, BSNL launched its mobile wallet, developed by MobiKwik, marking its entry into the digital payments space. The service is only available to BSNL users, who can use the wallet to make bill payments and transact on e-commerce platforms. The wallet currently claims to have over 1.5 million merchants on its network.

Recently, BSNL signed an MoU with China-based FiberHome to jointly manufacture telecom equipment and optical fibre cable at BSNL's facilities. The agreement will bring telecom manufacturing technology and expertise to India, and enable BSNL-FiberHome to export telecom equipment to the Asia-Pacific region.

Not a smooth ride

Given the current level of activity, BSNL is clearly making aggressive attempts to turn the corner. But to say that it will emerge as one of the leading operators in the industry may be an overstatement. BSNL accounts for only 9 per cent of India's telecom subscriber market as of end-August 2017, while about 57 per cent is held by Airtel, RJIL, Vodafone and Idea. The ongoing consolidation in the sector will result in the creation of even bigger telecom giants leaving little room for other players. Further, these companies will be more agile and dynamic than their state-run counterpart. As such, BSNL is likely to hold the fourth position in the telecom game.

So does India need a BSNL? The answer is a resounding yes, for the operator has single-handedly enabled telecom connectivity in rural and remote areas. It has undertaken several unprofitable but strategic projects of national importance such as BharatNet and telecom connectivity in left-wing extremist areas. Naxalite areas, for instance, which are solely served by BSNL, have a data consumption of around 400 GB per day. "The industry must have a PSU as it plays a balancing role in the sector. BSNL is present in every nook and corner of the country including remote areas and areas where the private sector may not be ready to enter. During natural calamities too, only BSNL's network has worked," adds Srivastava.

But BSNL's bureaucratic approach has been a nagging problem that has contributed to making it a laggard in the fast-changing telecom environment. Moreover, BSNL has not been able to tap users in the two most lucrative circles in the country – Delhi and Mumbai – with its merger talks with Mahanagar Telecom Nigam Limited remaining in limbo. The proposed merger would also allow BSNL to get listed indirectly, in turn allowing the government to divest its stake and privatise the PSU at a later stage.

Another area of concern is the state-run operator's diminishing wireline base. Not very long ago, BSNL enjoyed a significant market presence in the wireline broadband segment. It used to provide as little as 2 GB of monthly data through its fixed broadband plans for around Rs 500. The market, however, has turned fiercely competitive with wireless data tariffs touching a new low. Private players are offering free voice calls and about 30 GB of high speed data per month for just Rs 150, a strong enough reason for users to migrate to wireless data. Consequently, BSNL has lost several thousand fixed line subscribers. In July 2017 alone, around 160,000 landline users surrendered their connections. And in August 2017, the company lost 60,000 wired broadband connections. This will have a serious bearing on its revenues as an average mobile customer generates only Rs 100-Rs 150 per month while a landline customer generates about Rs 800.

Betting on 4G, low-cost smartphones and Wi-Fi

4G features as the centrepiece of BSNL's future growth strategy. The operator will upgrade its existing 3G services to 4G from January 2018. While it was earlier relying on its Wi-Fi network to deliver 4G speeds, it has now decided to offer these services by utilising the spectrum that it currently uses for 3G services. The company may also offer 4G services through the broadband spectrum it acquired in 2010. Further, the operator has partnered with local handset-maker Micromax to launch a 4G voice over long term evolution (VoLTE) feature phone, Bharat One. The phone runs on an open source version of Android and has Micromax's own browser and entertainment services such as live TV, music and videos developed in partnership with Zenga. It is priced at Rs 2,200 (a little higher than the Rs 1,500 JioPhone), and comes bundled with a Rs 97 monthly plan from BSNL under which users get unlimited voice calls and data. However, BSNL does not have 4G-VoLTE services live as yet.

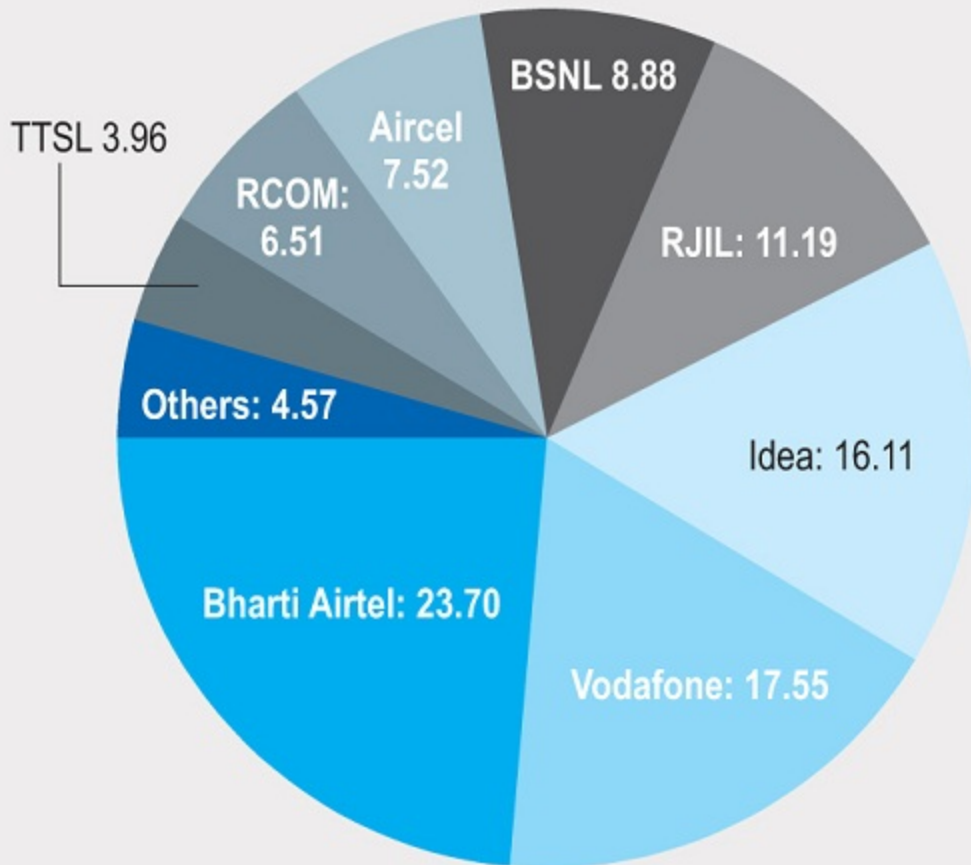
Meanwhile, the operator is betting big on Wi-Fi to meet the growing data demand. To this end, it will set up 100,000 Wi-Fi hotspots across India by March 2019, including 25,000 hotspots in rural areas. The operator will invest about Rs 18 billion in setting up 70,000 Wi-Fi hotspots while another 5,000 Wi-Fi hotspots will be set up on a revenue sharing basis, wherein BSNL will not invest any capital but will provide only bandwidth. The deployment of the remaining 25,000 hotspots, which will require funds worth Rs 9 billion, will be financed by the Universal Service Obligation Fund.

Outlook

BSNL's new-found enthusiasm is encouraging. Its data focus, early 5G initiatives and strategic collaborations reflect the new energy in the company. Its immediate tasks, however, are to maintain its market share amidst stiff competition and to turn profitable by 2018-19.



Market share of operators as of August 2017 (%)



Source: Telecom Regulatory Authority of India

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