

BSNL-MTNL Merger: Department of Telecom weighing options

By [Kalyan Parbat](#), ET Bureau | 15 Sep, 2014, 04.00AM IST

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KOLKATA: The telecom department (DoT) is considering either de-listing Mahanagar Telephone Nigam (MTNL) and then merging it into Bharat Sanchar Nigam (BSNL), or listing the latter and finalising a merger swap ratio based on the valuation of the two state-run telecom companies, with the first being the more likely option, top government officials told ET.

Indications are that consultant [KPMG](#) may be involved in preparing the merger roadmap and also doing an independent thirdparty assessment of "employee mood in both [MTNL](#) and [BSNL](#)", especially since the merger proposal has been in limbo for three years amid resistance from unions, one of the persons quoted above said. KPMG did not reply to ET's queries on the issue. ET had recently reported on DoT's presentation to Prime Minister [Narendra Modi](#) where the department had said it hoped to secure Cabinet approval for the merger of the two financially struggling state-run telcos by June next year.



Department of telecom may first delist MTNL or list BSNL and finalise a merger swap ratio based on the valuation of the two state-run telcos

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MTNL- listed in FY 1991-92 - runs telecom services in Delhi and Mumbai while [BSNL](#) offers telecom coverage in the rest of the country. A possible delisting of MTNL in the run-up to a merger with BSNL may eventually be the favoured option as listing BSNL could prove to be a challenge, given the telco's poor financial status. "With accumulated losses upwards of Rs 30,000 crore, it may be tough to get a decent valuation for BSNL under current [market conditions](#), which would impact any listing plans," said a third government official aware of the merger talks. But DoT's immediate challenge is dealing with MTNL's mammoth Rs 14,600 crore-plus debt, especially since struggling BSNL is averse to taking on MTNL's dues in its books, post-merger.

MTNL had taken loans from several banks for buying 3G and broadband wireless access (BWA) spectrum four years ago. It is understood that DoT is weighing a host of options, including a possible restructuring of MTNL's debt by converting its loans into equity or even extending a soft loan to the merged entity. DoT is likely to take a call after it receives inputs from working groups comprising top BSNL and MTNL officials that are looking into business re-organisation, finance and regulatory issues.

However, MTNL's debt is likely to see a partial dip to roughly Rs 11,000 crore (including interest component) later this year as it will shortly receive a Rs 4,534 -crore refund from DoT for its surrendered 4G airwaves. It has recently proposed to also surrender its CDMA airwaves in the 800 MHz band provided it receives an auction determined price. Senior officials at BSNL and MTNL do not foresee any major HR challenges to the proposed merger since the government has agreed to ring in parity in the pay scales of BSNL and MTNL employees. At present, MTNL employees get more than BSNL by being a navaratna public sector undertaking. Cabinet approval to pension payout to MTNL employees is also likely to reduce resistance to the proposed merger, said a top company official.

In the immediate term, DoT is exploring ways to reduce tax payout of both the struggling telcos by persuading both companies to use their existing infrastructure-sharing pact for providing joint enterprise business solutions to companies. Under the pact, BSNL and MTNL share buildings, mobile masts and international long-distance phone networks to serve enterprise customers.

However, a top MTNL official said, "Actual reduction in taxes payout would only come post-merger." DoT was solely responsible for running telecom services across India till 1985. In 1986, MTNL was carved out of the department to handle telecom services in Mumbai and Delhi. DoT's operations wing was corporatised and rechristened BSNL in September 2000. BSNL started operating telecom services across India, excluding Mumbai and Delhi circles, from October 1 that year. At present, the government owns 56.25% of MTNL, and fully owns BSNL. DoT's plans to merge BSNL and MTNL come at a time when the Centre is exploring several ways to revive them. Both state-owned telcos continue to reel under huge losses.

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