

Rising from the ashes



Gopu: unflinching commitment

After being in the ICU for more than a decade Indian Telephone Industries is showing signs of revival

We are literally rising from our own ashes," this was the statement of S. Gopu, CMD, Indian Telephone Industries (ITI). Quite a dramatic expression! But then a much relaxed ITI boss does have the liberty to indulge in such expressions. The government-owned telecom equipment manufacturing entity – the first PSU to be formed after independence – is showing strong signs of revival after being in the ICU for more than a decade.

Simply put, ITI is quite a story with several interesting sub-plots. In a nutshell, it is the story of a colossus which collapsed somewhere along its journey and when everybody concluded there was no life left in it, ITI is surprising everybody by sending signals of a turnaround. And while

a hefty package of over ₹4,000 crore doled out by the government is helping its revival process, the top management is also showing agility and going beyond its core while reemerging in a new avatar by aligning with new age businesses.

What went wrong?

For more than four decades since its formation in 1948 with the specific mandate to spread the telecom network in the country, ITI had a field day with nobody in the race. For the dial phone generation, ITI with its critical offering of fixed line instruments was as familiar a name between 1950 and 1990 as any other popular brand. At that time even having a telephone connection was almost a luxury! But the decisive punch which ITI had in

its armour was installing the telephone exchanges. And ITI was able to skip several generations with technological advancement. "Our major revenue those days did not come from manufacturing fixed line telephone sets but from establishing the telephone exchanges and their maintenance," says Gopu, while adding that 70 per cent of exchanges in the country are still maintained by it. ITI in that spell also had taken a lead by introducing modern exchanges in collaboration with Alcatel. Being a PSU, it also had the privilege of getting contracts from the defence forces for laying their communication network and then their maintenance since it was a restricted domain.

But along with the privileges and monopolistic opportunities which it enjoyed as a PSU, came truckloads of burdens. "The basic premise behind ITI was to serve the country by expanding the telecom network. Somehow, during the early decades of its journey, decisions were taken to locate the plants in remote areas to provide a fillip for their development. The company had to put in a huge amount of investments in setting up those units and creating facilities for the employees. And this ultimately shot up our operational costs," Gopu points out.

This pinched ITI a lot when the market was opened up in the mid-1990s ushering in a telecom revolution with new players appearing on the horizon also in the hardware space. Gopu points out that from a monopolistic position, the company saw its fortunes falling apart (it was profitable till 1995 registering a topline of around ₹2,000 crore then) as there was no level playing field with ITI still carrying its social mandate. Industry insiders also whisper about the favouritism shown to a select list of private players even as they did not have the adequate expertise or experience. A research

paper published in the *Economic and Political Weekly* (Impact of Deregulation on a Public Sector Firm) published in 2004 clearly mentions, "ITI's experience shows that the government's market-oriented reform programme ended up creating anything but a level-playing field for public enterprises. On the one hand, by eliminating its monopoly privileges but not the constraints flowing from state ownership, and on the other hand, by imposing new market-related constraints, deregulation had an extremely destabilising effect on the operations of ITI."

There started a consistent fall for ITI since then which was further accentuated by a government's decision to shift the R&D of its data centre to C-DoT (Center for Development of Telematics), another government promoted entity for telecom technological research. "They did not shut down our data centre. They stopped its funding which was a major setback since we had a huge R&D wing," recalls K. Alagesan, director (production), ITI, an old-timer with the company. As a former senior employee (preferring to remain anonymous) of the company points out, the company at one stage had completely lost its way which led it to be referred to the Board for Industrial & Financial Reconstruction (BIFR). "The government had lost interest in it and that reflected in the functioning of the top rungs. There have been instances wherein a former CMD joined a rival private firm immediately after retirement. There have been salary delay issues resulting in the exodus of many talented people to other companies since the market was expanding," he says.

Triggers for turnaround

The cumulative impact of its continuing troubles were reflected during the early part of the decade, when for three straight years, the company's sales figure dwindled to the sub-₹1,000 crore level. It also had to suspend operations in its three plants in North India, including the huge set-up in Rae Bareilly. Things were looking extremely bleak for the company when the government decided to extend a lifeline

Financials				
	(In ₹ Crores)			
	2016-2017	2015-16	2014-15	2013-14
OPERATING RESULTS				
Sales Including Services	1,903	1,253	620	770
Financing Expenses	—	157	157	122
Profit After Tax	305	251	(297)	(344)
FINANCIAL POSITION				
Equity	—	288	288	288
Net worth without considering DRE not written off and Revaluation Reserve	—	(1,569)	(1,647)	(1,555)

SOURCE: ANNUAL REPORT

for its survival with a ₹4,100 crore revival package in 2014. According to Gopu, while half the money was meant to wipe off its losses, another 50 per cent was meant to be infused in the infrastructure upgradation (a significant portion of the committed bailout package since then has been released in several tranches).

The package and a more committed management have the company on a serious comeback trail. There have been a spate of positive developments in the recent past. For instance, the company registered a total income of ₹1,903 crore in 2016-17 with its profit increasing by 21 per cent to ₹305 crore. It's a dramatic change since 2014-15 when the company's total income was around ₹700 crore. On the operational side, the company notched a major distinction recently when it contributed to the launch of ISRO's prestigious GSLV MkIII by providing electronic packages to the project. The plants that it had to shut down earlier are being revived again and the company has taken some strategic decisions to diversify its operational portfolio aligned with the swift changes happening around. Its Rae Bareilly plant where it has put in a fresh investment of ₹100 crore is now churning out optic fibre cable which is aligned with the Bharat Net programme, supported by the Prime Minister Narendra Modi; its target is to connect over 2.5 lakh gram panchayats in the country with optical fibre cable network in the next two years. "We are convinced that

this is going to be a big business and, therefore, we are trying to position ourselves strongly in this segment," says Alagesan. For this, the company has also upgraded another two plants in north India with a further investment of ₹65 crore. According to Gopu, all five major plants of the company are now operating at full throttle with its Bengaluru unit manufacturing defence products, transmission equipment, devices for IoT business, PCB manufacturing, 3D printing devices. Its Palakkad plant is churning out smart cards and HDPE pipes while the Rae Bareilly plant is mainly engaged in the manufacturing of GPON products serving the optical fibre cable network project.

The company has surprised analysts in the marketplace with its decision to align with the Internet of Things (IoT) requirements – clearly the next big technological revolution round the corner. As a preliminary move, it has recently started the manufacturing and installation of feedback devices in public toilets in 12 states – namely, from Karnataka to Odisha to Rajasthan and Haryana. For its IoT specific initiative, the company has joined hands with some IT startups as collaborating partners. "With its expertise in laying the telecom infrastructure platform, ITI is making right moves in this vertical. It can meaningfully contribute to smart city projects which the ministry of urban development is spearheading," says Prof N.K. Goyal, chairman emeritus, TEMA (Telecom Equipment



Manufacturers Association). And to ensure that its GPON devices function smoothly at gram panchayat levels as power shortages are a serious issue, the company has also ventured out in solar panel manufacturing (at Naini Plant) – a low key initiative with an investment of ₹25 crore. But questions do arise whether this is the best use of resources and whether it may simply be cheaper to buy them in the market.

Unflinching commitment

Simultaneously, there is a drive to trim the size of the organisation and fill it with new blood aligned with current technological churnings. “At our peak, we had 6,000 employees which have now come down to 3,500. It will further go down by 400 before

we start recruiting some fresh talent,” says Gopu. Considering its improving financial performance, the government has already given its nod for disinvestment in the company, but according to Gopu, a final decision will be taken in the next two-three months as the company is toying with other options too. Incidentally, market observers have begun giving credit to Gopu and his team for showing unflinching commitment in the company’s turnaround. “He was previously heading the HR department of the company. He knows the company inside out and seems to be taking the right decisions. He also has the full support of the telecom ministry. This is helping in writing a new script for ITI,” points out Goyal.

Just last fortnight, ITI probably

received its best news in the last several years when the commercial tender of phase IV of the Indian army’s ASCON project (Army Static Switches Communication Network) was opened and ITI’s bid was found to be the lowest. Billed at around ₹7,000 crore and to be implemented in the next five-six years, the first three phases of the project were executed by ITI which makes it the hot favourite to ink the deal. “We are very excited with this development. It will help us a great deal in reaching our topline target of over ₹4,000 crore at the end of 2018-19. By then, we will wipe out our entire losses,” he said. The market will definitely wait and watch to see how he delivers on his promises.

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