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A STUDY ON FINANCIAL RATIOS OF PUBLIC SECTOR ENTERPRISES IN INDIA

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ABSTRACT

Before independence, there was almost no 'Public Sector' in the Indian economy. The only instances worthy of mention were the Railways, the Posts and Telegraphs, the Port Trust, the Ordnance and the Aircraft factories and few Government managed undertakings like the Government salt factories, quinine factories etc. After independence and with the advent of planning, India opted for the dominance of the Public Sector, firmly believing that political independence without economic self-reliance was not good for the country. The passage of Industrial Policy Resolution of 1956 and adoption of the socialist pattern of the society led to a deliberate enlargement of our Public Sector. The paper attempt to study the financial ratios of public sector enterprise in India. Result It has been observed that it was reached highest ratio i.e., 28.26 in 04-05, after that it is showing fluctuating trend. It, however, increased marginally i.e., from 23.26 in 2009-2010 to 23.97 in 2010-2011.

KEY WORDS: Performance, Disinvestment, CPSE, Financial Ratios, Profitability.

INTRODUCTION

After independence and with the advent of planning, India opted for the dominance of the Public Sector, firmly believing that political independence without economic self-reliance was not good for the country. The passage of Industrial Policy Resolution of 1956 and adoption of the socialist pattern of the society led to a deliberate enlargement of our Public Sector. The paper attempt to study the financial ratios of public sector enterprise in India. Result It has been observed that it was reached highest ratio i.e., 28.26 in 04-05, after that it is showing fluctuating trend. It, however, increased marginally i.e., from 23.26 in 2009-2010 to 23.97 in 2010-2011.

PUBLIC SECTOR ENTERPRISES IN INDIA

In 1947, when the country became independent there were various socio-economic problems confronting the country which needed to be dealt with in a planned and systematic manner. India at that time was an agrarian economy with a weak industrial base, low level of savings, inadequate investments and lack of infrastructure facilities. There existed considerable inequalities in income and levels of employment, glaring regional imbalances in economic development and lack of trained manpower. As such, state's intervention in all the sectors of the economy was inevitable since private sector neither had necessary resources, the managerial and scientific skill, nor the will to

undertake risks associated with large long-gestation investments. Among the imperatives before the Government were the removal of poverty, equitable distribution of income, generation of employment opportunities, removal of regional imbalances, accelerated growth of agricultural and industrial production, better utilization of natural resources and a wider ownership of economic manpower to prevent its concentration in a few hands. Given the type and range of problems faced by the country on the economic, social and strategic fronts, it became a pragmatic compulsion to use the public sector as an instrument for self-reliant economic growth.

The dominant consideration for the continued large investments in public sector enterprises was to accelerate the growth of core sectors of economy, to serve the equipment needs of strategically important sectors like Railways, Telecommunications, Nuclear Power, Defence etc. and to provide a springboard for the economy to achieve a significant degree of self-sufficiency in the critical sectors. The rationale for setting up public enterprises was to ensure easier availability of vital articles of mass consumption, to introduce check on prices of important products, help promote emerging areas like tourism, etc. A large number of enterprises were created out of "Sick Units" taken over from the private sector inter alia, to protect the interest of workers. A number of public enterprises were created to operate in national and international trade, consultancy, contract and construction services, inland and overseas communications, etc. The overall profits of public sector enterprises in India is, thus, a heterogeneous conglomeration of basic and infrastructure industries, industries producing consumer goods, industries engaged in trade and services etc.

DISINVESTMENT IN INDIA

Balance of Payment position and increasing fiscal deficit led to adoption of a new approach towards the public sector in 1991. Disinvestment of Public Sector Undertakings (PSUs) is one of the policy measures adopted by the Government of India for providing financial discipline and improve the performance of this sector in tune with the new economic policy of Liberalization, Privatization and Globalization, (LPG) through the 1991 Industrial Policy Statement. The aims of disinvestments policy are rising of resources to meet fiscal deficit, encouraging wider public participation including that of workers penetrating market discipline within public enterprises and improving performance. The process of restructuring public sector enterprises owned by the central Government in India has undergone quite a few changes since it began in 1991-92. Accordingly, it was decided to offer 20

percent of Government equity in selected CPSEs to mutual funds and public sector financial institutions and banks. Minority Government shares from quite a few CPSEs were sold off during 1991 and 1992. Subsequently, in the following years, further minority Government shares were sold through the auction method. The range of buyers was steadily expanded to include private companies, brokers, foreign institutional investors (FIIs), non-resident Indians (NRIs) and overseas corporate bodies (OCBs). However, from 1998-99 onward, disinvestment policy underwent a substantive change with the emphasis shifting to selling of large chunks of Government shares in CPSEs through strategic sale, with transfer of management control. From 2004-05, the disinvestment policy again underwent a major shift. The union budget for 2004-05 announced "as long as Government retains control over the PSE, and its public sector character is not affected, Government may dilute its equity and raise resources to meet the social needs of the people."

REVIEW OF LITERATURE

There are considerable number of books on Public Sector Enterprises and their role in economy. There are numerous articles published in various journals and daily newspapers of repute. A little research leading to doctoral degree or its equivalent is also being carried on by various people. An effort is being made here to present some of the important contributions made in this field of study.

Amitendu Palit¹ has done a study on policy objectives of disinvestment, contentious strategic sale and distinct perceptions that have influenced the process of disinvestment in the country. ology and skilled manpower requirements." Bhagwati Jagdish³ in his book, 'In defense of globalization,' argues that economic globalization is the favored target of many of the critics of globalization because they see globalization as the extension of capitalism throughout the world and present economic globalization has caused many social ills today, like poverty, increased in child labor, erosion of unions, labors rights, democratic deficits, harming of women, culture and environment.

Bhagwati and Desai⁴ in fact, as noted by them, In a situation where domestic prices are distorted by a variety of endogenous and policy-imposed factors, the observed rates of return cannot be taken to give a proper ranking of the social profitability of alternative investments. Bhole L. M.⁵ has argued in his paper that there is a need to change our outlook on the role, importance and working of the capital market, particularly the stock exchanges, in India. The stock market is only one among many channels for the flow of funds, and, therefore, it is an error to overemphasize its role. Bimal Jalan⁶

according to him, political interference is unavoidable in public corporations and is a major cause of decline in operational efficiency. "Such political decision-making reflects itself in the less than optimal choice of technology or location, overstaffing, inefficient use of input, and purchase or price preferences for certain suppliers." Most governments also impose non-economic objectives on public enterprises.

NEED FOR THE STUDY

The concept of public sector enterprises germinated around 'Great Depression' and came in full bloom by the Second World War. When the countries headed by the Soviet Union formed the communist bloc, thereby giving birth to the centrally planned economy. The rapid shrinking of colonial rule at almost the same time helped the emergence of the concept of mixed economy. This concept helped in supporting newly freed country like India by helping her in the noble cause. In 1948, immediately after Independence, Government of India introduced the Industrial Policy Resolution. This outlined the approach to industrial growth and development. It emphasized the importance to the economy of securing a continuous increase in production and ensuring its equitable distribution. After the adoption of the Constitution and the socio-economic goals, the Industrial Policy was comprehensively revised and adopted in 1956. To meet new challenges, from time to time, it was modified through statements in 1973, 1977 and 1980. India suffered a major economic crisis in 1991. In the case of selected enterprises, part of Government holdings in the equity share capital of these enterprises will be disinvested in order to provide further market discipline to the performance of public enterprises. There are a large number of chronically sick public enterprises incurring heavy losses, operating in a competitive market and serve little or no public purpose. These need to be attended to. The country must be proud of the public sector that it owns and it must operate in the public interest. The current global financial crisis, America and Britain, the birth-place of modern privatization, nationalized much of its banking industry. The books, articles and research studies review above clearly shows that there are no studies on the whole process of disinvestment in India. In view of this it is felt that there is need for the study on "Disinvestment of Public Sector Enterprises in India."

OBJECTIVES OF THE STUDY

The objectives of the study are:

1. To study the financial ratios of public sector enterprise in India.
2. To give appropriate suggestions to select divested Public Sector Enterprises.

METHODOLOGY

To achieve these objectives, data has been collected from both the primary and secondary sources. The primary data has been collected by discussions and interviews with the executives of the disinvested companies, economists, political, public administration specialists and stock market analysts to elicit their opinions on various matters relating to disinvestment. A part from this in order to know the attitude of investors on disinvestment, a questionnaire is designed and administered to investors. The secondary data and information are collected from the office records of companies, Bureau of Public Enterprises, Ministry of Finance, Five Year Plans of Government of India, Economic Surveys, Department of Disinvestment, Industrial Policy Resolutions, Disinvestment Commission Reports, The Major Stock Exchanges, Company Annual Reports, Journals, Magazines, Dailies like Business Line and Economic Times and official websites like SEBI, NSE, and BSE etc.,

SAMPLING

There are as many as 45 Central Public Sector Enterprises (CPSE) listed and traded on the Stock Exchanges of India as on 31.3.2011. The following are the Central Public Sector Enterprises (CPSE) listed on The Stock Exchanges of India.

In the above given companies Engineering, Petroleum, Electricity and Steel are significant and core sectors. Hence, these four sectors are selected for study. Bharat Heavy Electricals Limited (BHEL), Hindustan Petroleum Corporation Limited (HPCL), National Thermal Power Corporation (NTPC) and Steel Authority of India Limited (SAIL) are largest companies in these selected sectors. Hence, these four companies are selected for performance analysis.

In order to ascertain the attitude of the investors, the state of Andhra Pradesh has been selected as it is truly cosmopolitan in its nature. The state of Andhra Pradesh is divided in to three geographical regions, viz., Costal Andhra, Rayalaseema and Telangana. Rayalseema is geographically and demographically most important region of Andhra Pradesh. Anantapur district and Kurnool district possesses almost all the characteristics of other districts of Rayalaseema region. A Sample of 300 investors is taken for the study from Anantapur and Kurnool districts on the basis of convenience sampling. While selecting the investors, care has been taken to select them from Urban (District Head Quarters) and Semi-Urban (Other Areas) areas. A sample of 150 investors from urban area i.e. Anantapur and kurnool, 150 investors from semi-urban i.e. Guntakal, Dharmavaram, Adoni and Nandayala is taken for the study.

METHODS OF ANALYSIS

The data collected from different sources will be properly classified, tabulated and analyzed using appropriate statistical tools to draw meaningful conclusions. Simple statistical techniques such as ratios, percentages and averages are used for the study. Besides, these various statistical tools and techniques have applied for analysis and interpretation of data.

PERIOD OF THE STUDY

The disinvestment had started in 1991-92. Hence, the process of disinvestment has been studied from 1991-92 to 2010-11. Macroview of public sector enterprises and the performances of selected companies are studied over the period of ten years from 2001-02 to 2010-11.

SCOPE OF THE STUDY

The study covered the genesis, objectives and performance of public sector enterprises, modus operandi, policy and procedures of disinvestment. The study also covered market capitalization of CPSEs listed on domestic stock exchanges. The study of disinvestment has been aimed at reference to the disinvestment process and its associate factors. The study has not aimed to cover any particular Public Sector Unit neither is it going to present the focus on statistical features. Study is aimed to cover stepwise analysis of entire vision and mission of disinvestment concept. The study will also project to the various strategies and measures adopt by different governments from 1990-91 onwards 2011-12.

LIMITATIONS OF THE STUDY

A research study of this nature could not be carried out without any limitations. The study is limited to a period of ten years (i.e., from 2001-02 to 2010-11) because these Public sector enterprise have been started in different years and so they have not been considered since their inception. Validity of this study depends on the reliability of the data being made available in the form of Annual Reports, Economic Surveys, Commission Reports, and Industrial Policy Resolution etc., However to overcome these limitations, great care has been taken

at every stage to make it more pragmatic and comprehensive. In, primary data the major limitation of the study is that it is restricted to the state of Andhra Pradesh only and the size is also limited. However an effort is being made to minimize the impact of this limitation by selecting maximum number of investors from Anantapur district and Kurnool District. As this study is based on the responses of the investors there is a possibility of personal bias. Care has taken to bring down the impact by asking cross reference questions. Some of the investors could not relate themselves to the disinvestment programme as they were new entrants to the market. The investment activity is the outcome of innumerable factors. Where as in this study only a limited number of factors are considered. With all these limitations all the efforts are made to evaluate the situation as accurately and objectively as possible.

There were 48 CPSEs listed on the stock exchanges of India as on 31.03.2011; Three CPSEs were, however, not being traded during 2010-11. Coal India Ltd. and Satluj Jal Vidyut Nigam Ltd. were listed during the year 2010-11. There are stocks of 45 CPSEs, which were being traded on the stock exchanges of India as on 31.3.2011. This chapter attempts to understand the performance of selected divested companies. For this purpose as already mentioned a sample of four companies is taken from listed CPSEs on the stock exchanges of India.

FINANCIAL RATIOS OF CENTRAL PUBLIC SECTOR ENTERPRISES

Table 1 below shows the different financial ratios vis-à-vis the aggregate performance of CPSEs, for the last ten years. A perusal of profit related ratios shows a general improvement in profitability of CPSEs over the years. In comparison to 2009-10, however, the profitability ratios in terms of net profit to turn over and net profit to net worth declined in 2010-11, whereas PBITEP to capital employed and dividend payout increased during the year.

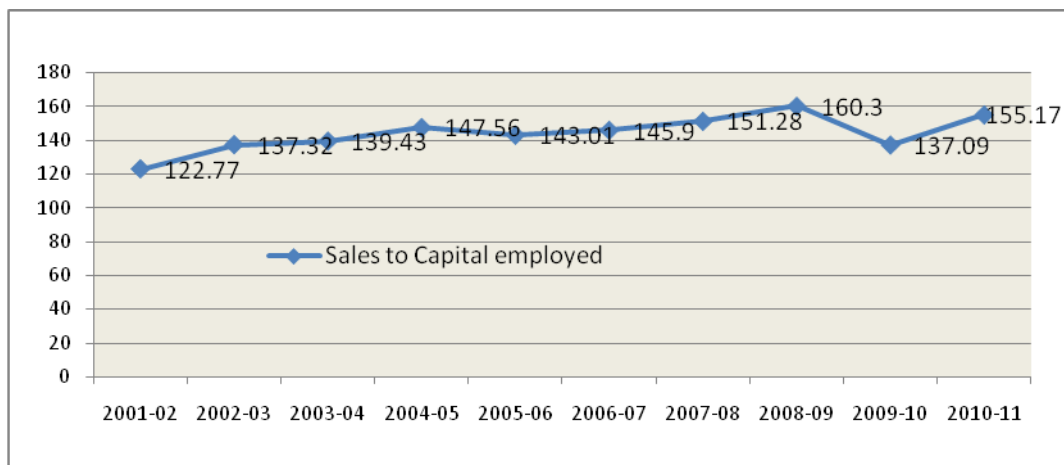
Table- 1: Financial Ratios of Public Sector Enterprises (2001-02 TO 2010-11)*(In per cent)*

Particulars	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11
Sales to Capital employed	122.77	137.32	139.43	147.56	143.01	145.90	151.28	160.30	137.09	155.17
PBDITEP to capital employed	22.97	24.38	28.15	28.26	25.66	26.91	26.91	23.55	23.26	23.97
PBTEP to Net worth	16.96	20.10	24.38	25.04	22.83	24.56	23.12	17.55	18.98	18.41
PBDITEP to turnover	18.71	17.75	20.19	19.15	17.95	18.45	17.79	14.67	16.97	15.45
PBITEP to Capital employed	16.21	17.39	21.01	21.49	19.54	21.02	21.05	17.95	17.62	17.97
PBITEP to Turnover	13.20	12.66	15.07	14.57	13.67	14.41	13.92	11.18	12.85	11.58
PBTEP to Turnover	7.99	8.49	11.28	11.49	10.83	11.56	10.99	8.09	9.96	8.93
Net Profit to Turnover	5.43	5.65	8.40	8.73	8.30	8.40	7.41	6.59	7.41	6.25
Net profit to Capital Employed	6.66	7.75	11.17	12.88	11.88	12.26	11.21	10.57	10.15	9.70
Net profit to Net Worth	11.52	13.37	18.16	19.02	17.50	17.85	15.60	14.28	14.12	12.88
Dividend Payout	31.06	42.57	28.85	31.89	32.91	33.09	35.33	31.06	35.87	38.81
Tax provision to PBTEP	32.05	35.99	31.11	25.32	26.86	30.80	33.83	32.81	32.28	34.42
Interest to Gross Profit	27.87	23.52	18.72	16.04	15.78	19.77	21.06	27.60	22.54	22.86

Source: Government of India, Public Enterprises Survey, (2010-11).

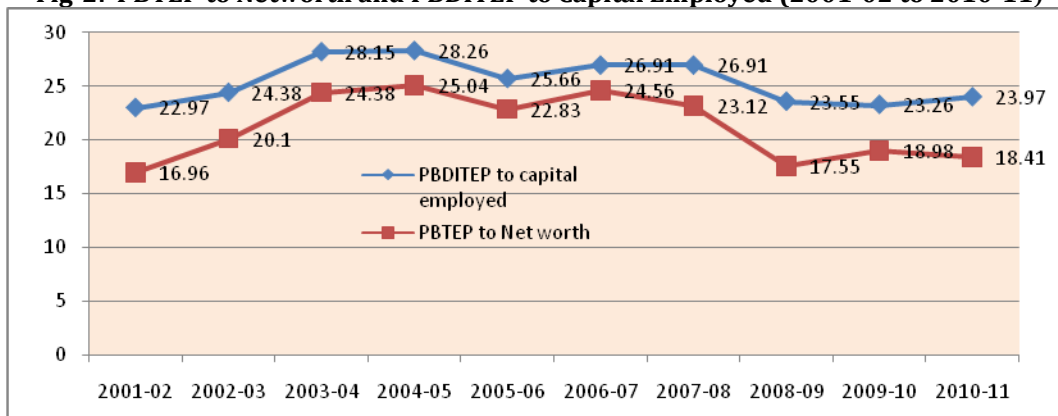
The CPSEs revenues are consistently increasing it shows that the CPSEs are able to utilize the outsiders' funds effectively. Over all returns on the capital employed is substantially increasing for the decade. It has been observed that the ratio is increased from 122.77 in 2001-2002 to 155.17 in 2010-2011. The performance of the CPSEs for the

past decade is satisfactory. Aggregate performance of CPSE's for the past 10 years is considerably good with respect to the sales to Capital employed (Fig 1).

Fig - 1: Sales to Capital Employed (2001-02 to 2010-11)

CPSEs, PBDITEP to capital employed during the period is considerably good. During the period of study the CPSE's PBDITEP to Capital employed ratio is little bit fluctuating but overall performance of the CPSE's for the decade is significantly good. It has been observed that it was

reached highest ratio i.e., 28.26 in 04-05, after that it is showing fluctuating trend. It, however, increased marginally i.e., from 23.26 in 2009-2010 to 23.97 in 2010-2011. During the period of study the CPSE's PBDITEP to Capital employed significantly good (Fig 2).

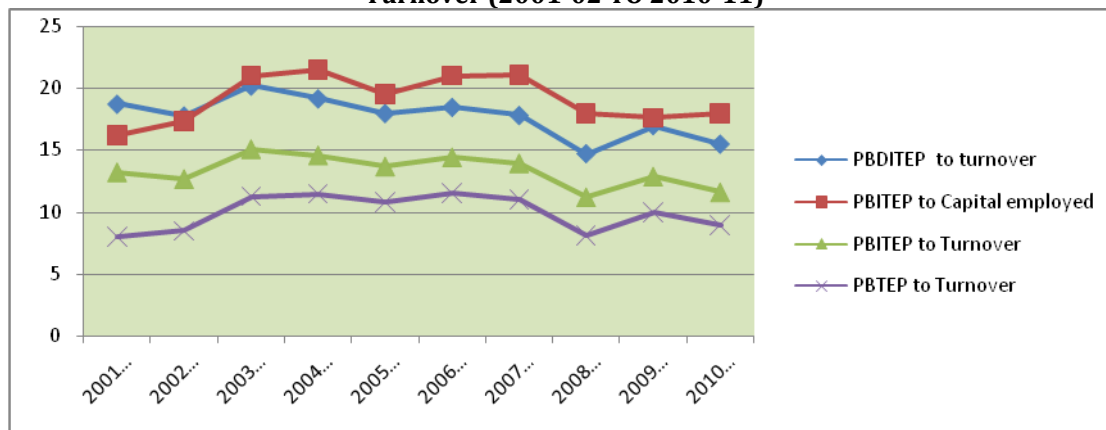
Fig-2: PBTEP to Networth and PBDITEP to Capital Employed (2001-02 to 2010-11)

The CPSE's PBTEP to Net worth during the decade is showing fluctuating trend. It was reached peak point i.e., 25.04 in 04-05. It had been increased from 16.96 in 2001-02 to 18.41 in 2010-2011. Even though in recession period, the CPSEs are showing good performance for the years of 07-08 (23.12) and 08-09 (17.55). During the decade the CPSE's PBTEP to net worth is satisfactory (Fig 6.7).

The CPSE's PBDITEP to turnover is showing a little up and down trends. It was observed that this ratio has been slightly slowdown from 18.71 in 2001-2002 to 15.45 in 2010-2011. But overall

performance of the CPSE's is considerably good (Fig 6.8). The PBITEP to Capital employed for the CPSE's is showing Positive trends during the decade. It was observed that the PBITEP to capital employed is increased from 16.21 in 2001-2002 to 17.97 in 2010-2011. It was showing constant growth from 08-09 onwards. It was reached to 17.97 in 10-11 from 17.95 in 2008-2009. The overall performance of the CPSE is significantly good (Fig 3).

Fig- 3: PBDITEP to Turnover.PBITEP to Capital Employed, PBITEP to Turnover and PBTEP to Turnover (2001-02 TO 2010-11)



The CPSE's PBITEP to turnover is showing up and down trends for the entire decade. It was reached its highest point at 15.07 in 03-04, after wards in 10-11 it, is at 11.58. Even the world economic slowdown in 07-08 and 08-09 but CPSEs are showing good performance as the PBITEP to turnover ratios were 13.92, 11.18 respectively. The overall Performance of the CPSEs are significantly good (Fig 6.8). PBTEP to Turnover of the CPSEs is showing increasing trend for the decade. The CPSEs PBTEP to turnover ratio had been showing down trend during period of world economic crisis. During the period of study the CPSEs profitability with respect to the PBTEP to Turnover is significantly good (Fig 3).

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