

# Financial Ratios of Public Sector Enterprises

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## ABSTRACT

The market capitalization of the listed CPSUs accounts for about 25.90 % of the total market capitalization of BSE as on 30 June, 2012. Of the total market capitalization of the PSUs, the largest chunk, 26.69% is accounted by the oil and gas companies, followed by finance (24.34%) and Metal and Metal products and Mining (23.64%). Other sectors represented in the PSU index include Power, Capital Goods, Transport Services, Agriculture, Telecom, and Miscellaneous. 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 .

**Key Words :** Capitalization, PSU, Revenue, Performance

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## INTRODUCTION

Generally, though not universally, the starting point till May, 2004 was study of the target CPSE by the Disinvestment Commission. In June, 1997, the Government decided that the recommendations of the Disinvestment Commission would be processed by the Department of Economic Affairs (Ministry of Finance) through a Core Group of Secretaries on Disinvestment (CGD), chaired by the Cabinet Secretary, for obtaining the decision of the Cabinet thereon. At that time, it was also decided that for disinvestment transactions exceeding ` 500 crore, CGD would directly supervise the implementation of the Cabinet decision through an inter- ministerial operational group. This group consisted of Joint Secretaries from Ministry of Finance, Department of Public Enterprises, the administrative ministry concerned and the CMD of the CPSE concerned. In all the cases, where CGD was to directly supervise the disinvestment, CGD would recommend the timing, pricing and extent of disinvestment etc., based upon the advice of inter- ministerial operational group, to the Finance Minister, Industry Minister and the Minister of the administrative ministry for approval. For disinvestment transactions below ` 500 crore, the administrative ministry concerned would be responsible for implementing Cabinet decisions, though they were to be monitored by CGD. The administrative ministries concerned would be provided appropriate technical assistance by the Department of Public Enterprises and Ministry of Finance.

## 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 Palit<sup>1</sup> 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 Jagdish<sup>3</sup> 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 Desai<sup>4</sup> 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.<sup>5</sup> 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 Jalan<sup>6</sup> 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 .

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