

# Performance of Central Public Sector Enterprises

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## ABSTRACT

There are inherent advantages in listing of shares of profitable CPSEs on the stock exchanges as it leads to multilayered oversight mechanism and provides a level playing field to CPSEs with the private sector vis-à-vis accessing resources through the capital market. Total turnover of all 220 operating CPSEs stood at Rs.14,73,319 crore as compared to Rs. 4,78,731 crore in the year 2001-02. During the period of the study (2001-02 to 2010-11) the turnover increased compound annual growth rate (CAGR) of 11.89%. The analysis of the Table (1) shows that during this period, Capital employed had been showing a continuously increasing trend. Capital employed increased from Rs. 389934 in 2001-02 crore to Rs. 949499 crore in 2010-11 with a compound annual growth rate of 9.31 %. Capital employed approximately tripled during this period.

**Key Words:** CPSEs, Turnover, Capital, profitable

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## 1. INTRODUCTION

### Macro View of Performance of Central Public Sector Enterprises

Public sector enterprises have been set up to serve the broad macro-economic objectives of higher economic growth, self-sufficiency in production of goods and services, long term equilibrium in balance of payments and low and stable prices. While there were only five Central Public Sector Enterprises (CPSEs) with a total investment of Rs. 29.00 crore at the time of the First Five Year Plan, there were as many 248 CPSEs (excluding 7 Insurance Companies) with a total investment of Rs.6,66,848 crore as on 31<sup>st</sup> March, 2011. With economic liberalization, post-1991, sectors that were exclusive preserve of the public sector enterprises were opened to the private sector. The CPSEs, therefore, are faced with competition from both domestic private sector companies (some of which have grown very fast) and the large multi-national corporations (MNCs). The CPSEs play a critical role in the Indian economy. They influence the growth in the economy and are affected by the overall growth in the economy. As against the nominal GDP growth of 18.80 per cent (at current market price) in 2010-11, the gross value addition by all the CPSEs (exclusive of under-recoveries) grew by 10.03 per cent during the year (if however, 'the under recoveries' are added, then the gross value addition by all CPSEs during the year increased by 13.40 per cent). The turnover of petroleum (Refinery & Marketing), services (Trading & Marketing), electricity (Generation), heavy engineering, minerals & metals and coal & lignite showed a significant increase during the year. Profits/ losses of the different CPSEs did not necessarily correspond to increase or decrease in turnover, as several factors came into play like higher input.

## 2. LITERATURE REVIEW

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 optional 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 Performance of central public sector Enterprises.
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.

**Table- 1: Macro View of Performance of Central Public Sector Enterprises (2001-02 TO 2010-11)**

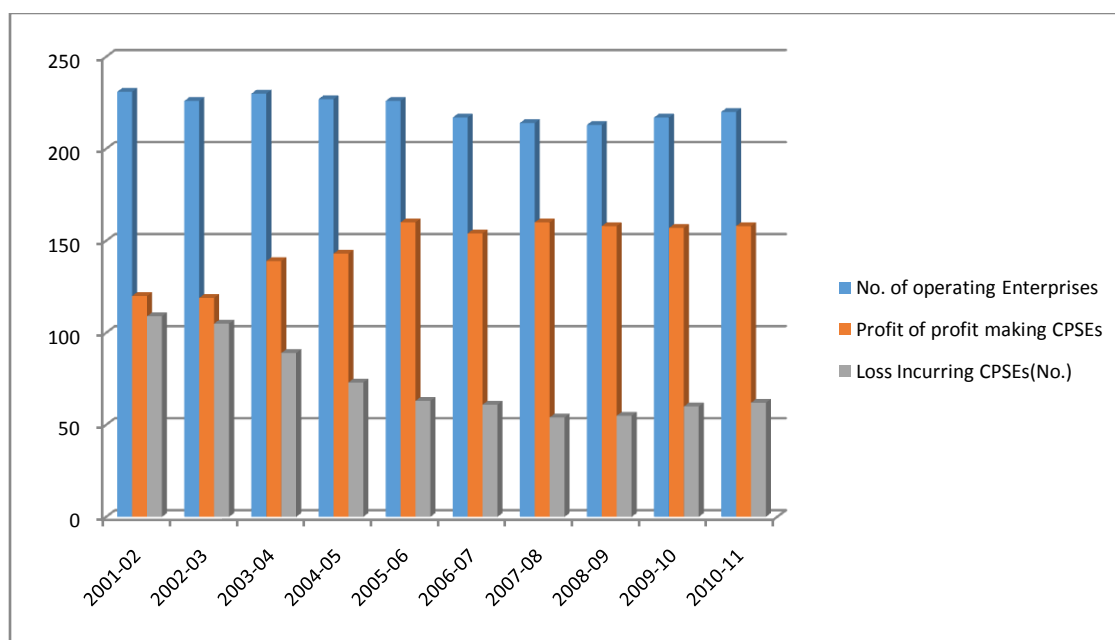
Particulars	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	LGR	CGR
No. of Operating Enterprises	231	226	230	227	226	217	214	213	217	220	-----	-----
Capital Employed	389934	417160	452336	504407	585484	661338	724009	792232	908007	949499	55956.5	9.307595
Turn over	478731	572833	630704	744307	837295	964890	1096308	1271529	1244805	1473319	99458.8	11.89754
Total income	498315	548912	613706	734944	829873	970356	1102772	1309639	1272219	1497903	99958.8	11.63438
Net worth	225472	241846	291828	311595	397275	454134	518485	583144	652993	715084	48961.2	12.23452
PBDITEP	89550	101691	127320	142554	150282	177990	195049	186836	211184	227636	13808.6	9.778561
Depreciation	26360	28247	31251	33147	34848	33141	36668	36780	41603	43003	1664.3	5.015967
Dre/prel.Ex ps. Written off		905	1025	986	992	5841	5802	7661	9565	14009	1400.9	-----
PBITEP	63190	72539	95039	108420	114422	139008	152579	142395	160017	170625	10743.5	10.44331
Interest	24957	23921	23835	22869	23708	27481	32126	39300	36060	38998	1404.1	4.564676
PBTEP	38233	48618	71144	85550	90714	111527	120453	103095	123957	131627	9339.4	13.15941
Tax provisions	12255	17499	22134	21662	24370	34352	40749	33828	40018	45303	3304.8	13.96759
Net profit before EP	25978	31119	49010	63889	66344	77175	79704	69267	83939	86324	6034.6	12.75936
Net extra ord. items & prior period adj.	0	-1225	-3933	-1075	-3192	-3880	-1570	-14600	-8254	-5753	-575.3	-----
Profit of profit making CPSEs	36432	43316	61606	74432	76382	89581	91577	98488	108434	113770	7733.8	12.061
Loss of Loss incurring CPSEs	10454	10972	8522	9003	6845	8526	10303	14621	16231	21693	1123.9	7.573107
Profit making CPSEs (No.)	120	119	139	143	160	154	160	158	157	158	3.8	2.789223
Loss incurring CPSEs (No.)	109	105	89	73	63	61	54	55	60	62	-4.7	-5.48592
CPSEs Making no profit / loss	2	2	2		1	1					-0.2	-----

Operating CPSEs not furnished inf (No.)	0				2	1				2	0.2	-----
Dividend	8068	13769	15288	20718	22886	26819	28123	25501	33223	35681	2761.3	16.02915
Dividend tax	8	1193	1961	2852	3215	4107	4722	4132	5151	5394	538.6	91.81479
Retained profit	17902	17382	35835	41394	43435	50129	48429	54233	53820	51002	3310	11.03722

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

There were altogether 248 CPSEs under the administrative control of various ministries/departments as on 31 March 2011. Out of these, 220 were in operation and 28 were under construction (Table 1). In 2010-11, 158 profit making enterprises earned a total profit of about ` 1,13,770 crore and only 62 loss making enterprises incurred a total loss of ` 21693 crore. During the period from 2001-02 to 2010-11 Number of operating Enterprises decreased from 231 to 220. Number of Profit making CPSEs increased from 120 to 158 and where as number of Loss Incurring CPSEs decreased from 109 to 62 (Fig 1).

**Fig- 1: No of Operating Cpses, Profit Making Cpses and Loss Making Cpses (2001-02 to 2010-11)**



Total turnover of all 220 operating CPSEs stood at ` 14,73,319 crore as compared to ` 4,78,731 crore in the year 2001-02. During the period of the study (2001-02 to 2010-11) the turnover increased compound annual growth rate (CAGR) of 11.89%. The analysis of the Table (1) shows that during this period, Capital employed had been showing a continuously increasing trend. Capital employed increased from ` 389934 in 2001-02 crore to ` 949499 crore in 2010-11 with a compound annual growth rate of 9.31 %. Capital employed approximately tripled during this period.

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