FINANCIAL PERFORMANCE OF NAVRATNA COMPANIES IN INDIA – CENTRAL PUBLIC SECTOR ENTERPRISES

Dr.R.Menaka

Assistant Professor, Department of Management Studies (DDE)

Madurai Kamaraj University,Madurai - 21

Abstract

In India, public sector undertaking (PSU) is a term used for a government-owned corporation or a company in the public sector. The term is used to refer to companies in which either the Union Government or state governments or both own a majority (51 percent or more) of the company equity. The government-owned corporations are termed as Public Sector Undertakings (PSUs) in India. In a PSU majority (51% or more) of the paid up share capital is held by central government or by any state government or partly by the central governments and partly by one or more state governments. Public sector undertakings (PSUs) are corporations that are owned and operated by a local, state, or national government. The term itself is often used in India, referring to the range of government-owned corporations that are in operation within that country. In other areas of the world, businesses of this type may also be known as PSUs or simply referred to as companies in the public sector. The range of public sector undertakings can include just about any type of business. It is not unusual for a government to own utility companies that supply electricity or telecommunication services to specific areas within the nation. Another common example of a company in the public sector involves mining operations, especially those that supply coal or other essentials in the production process of other PSUs owned by that same government. In some cases, public sector undertakings are focused less on the production of goods and more on managing the delivery of those goods to the general public or commercial consumers. This means that a transportation network may be owned and operated by a government, including rail lines or even air-based courier services. A PSU may also be involved in the allocation of goods and services to other government entities, using guidelines provided by the government itself. Hence, the present study gives an overview of List of Navratna Companies in India and its financial performance. Study is based on Secondary sources.

Key words: Government-Owned Corporation, Own A Majority, Paid Up Share Capital, Operation Within The Country, Utility Companies, General Public Or Commercial Consumers And PSU.

INTRODUCTION

In India a Public Sector Undertaking (PSU) is a government-owned corporation. These companies are owned by the Federal Government of India, or one of the many State or Territorial Governments or both. The Company equity needs to be majority owned by the government to be PSU. An alternative title for a PSU is a Public Sector Enterprise, where federally owned PSUs are termed Central Public Sector Enterprises (CPSEs) and are administered by the Ministry of Heavy Industries and Public Enterprises. There are 251 PSU companies in India as of 2012.Depending on exactly how public sector undertakings are structured, they may or may not be required to earn a profit each year, another factor that sets this type of business operation apart from privately held corporations. In many instances, the reason for the PSU is to help stimulate commerce among other types of businesses by providing something that encourages participation by others in the nation's economy. For example, a postal system provides a much needed service that may or may not post a profit in any given year, while still giving individuals and businesses a means of communication that can be used to create jobs and help generate activity within the economy.

While it is not unusual for many governments to hold some interest in different kinds of businesses, one of the defining characteristics of public sector undertakings is the amount of interest that the government holds. In most cases, a company cannot truly be considered a PSU unless a government entity holds at least 51% ownership in that business. Should the government agency or entity hold less than a controlling interest in the company, it normally does not fit the pattern and is not subject to any tax or other operational regulations that specifically apply to government-owned entities.

OBJECTIVES OF THE STUDY

The present study has been conducted with the following objectives:

1. To know about financial autonomy of India
2. To know the eligibility criteria and benefits of Financial Autonomy
3. To know about the Navratna in India
4. To analyse the financial performance of Navratna companies (Central Public Sector Enterprises) in India

FINANCIAL AUTONOMY

Various PSUs have been awarded additional financial autonomy. These companies are "public sector companies that have comparative advantages", giving them greater autonomy to compete in the global market so as to "support [them] in their drive to become global giants". The level of financial autonomy is currently divided into three categories:

- Maharatna
- Navratna
- Miniratna CPSEs (itself divided into Category I & Category II)

As on 21 July, 2014 there are 7 Maharatna, 17 Navratna and 72 Miniratna CPSE's.

ELIGIBILITY CRITERIA AND BENEFITS OF FINANCIAL AUTONOMY

There are multiple factors and criteria for granting 'ratna' status. Awarding of this status entitles the company boards to perform investments up to a limit (depending on the status) without seeking government permission. Major criteria of awarding status are as follows:

	Maharatna	**Navratna**	**Miniratna Category-I**	**Miniratna Category-II**
Eligibility	Three years with an average annual net profit of over Rs. 2500 crore (earlier was 5,000 Cr), OR Average annual Net worth of Rs. 10,000 crore for 3 years (earlier was 15,000 Cr), OR Average annual Turnover of Rs. 20,000 crore for 3 years (earlier was 25,000 Cr)	A score of 60 (out of 100), based on six parameters which include net profit, net worth, total manpower cost, total cost of production, cost of services, PBDIT (Profit Before Depreciation, Interest and Taxes), capital employed, etc., AND A company must first be a Miniratna and have 4 independent directors on its board before it can be made a Navratna.	Have made profits continuously for the last three years or earned a net profit of Rs. 30 crore or more in one of the three years	Have made profits continuously for the last three years and should have a positive net worth.
Benefits for investment	Rs. 1,000 crore - Rs. 5,000 crore, or free to decide on investments up to 15% of their net worth in a project	up to Rs. 1,000 crore or 15% of their net worth on a single project or 30% of their net worth in the whole year (not exceeding Rs. 1,000 crores).	up to Rs. 500 crore or equal to their net worth, whichever is lower.	up to Rs. 300 crore or up to 50% of their net worth, whichever is lower.

HISTORY OF FINANCIAL AUTONOMY STATUS

Financial autonomy was initially awarded to 9 PSUs as Navratna status in 1997. In 2010, the government established the Maharatna status, which raises a company's investment ceiling from Rs. 1,000 crore to Rs. 5,000 crore. The Maharatna firms can now decide on investments of up to 15 per cent of their net worth in a project; the Navaratna companies could invest up to Rs 1,000 crore without explicit government approval.

NAVRATNA IN INDIA

The Navratna status is offered to PSEs, which gives a company enhanced financial and operational autonomy and empowers it to invest up to Rs. 1000 crore or 15% of their net worth on a single project without seeking government approval. In a year, these companies can spend up to 30% of their net worth not exceeding Rs. 1000 cr. They will also have the freedom to enter joint ventures, form alliances and float subsidiaries abroad. Navratna was the title given originally to nine Public Sector Enterprises (PSEs), identified by the Government of India in 1997 as having comparative advantages, which allowed them greater autonomy to compete in the global market. Presently, there are 16 Central Public Sector Enterprises (CPSEs) which have been granted Navratna status.

Navaratnas or Nauratan was a term applied to a group of nine extraordinary people in a king's court in India. Some well-known groups are in the Raaj Sabha (court) of King Janaka, Vikramaditya and in Akbar's darbar. In today's Modern India Navarantnas titles were given originally to nine Public Sector Enterprises (PSEs), identified by the Government of India in 1997 as its most prestigious, which allowed them greater autonomy to compete in the global market. The number of PSEs having Navratna status has been raised to 16.

CRITERIA FOR NAVRATNA

Navratna status is conferred by Department of Public Enterprises. To be qualified as a Navratna, the company must obtain a score of 60 (out of 100). The score is based on six parameters which include net profit to net worth, total manpower cost to total cost of production or cost of services, PBDIT (Profit Before Depreciation, Interest and Taxes) to capital employed, PBDIT to turnover, EPS (Earning Per Share) and inter-sectoral performance. Additionally, a company must first be a Miniratna and have four independent directors on its board before it can be made a Navratna.

The Navratna status is offered to PSEs, which gives a company enhanced financial and operational autonomy and empowers it to invest up to Rs. 1000 crore or 15% of their net worth on a single project without seeking government approval. In a year, these companies can spend up to

30% of their net worth not exceeding Rs. 1000 cr. They will also have the freedom to enter joint ventures, form alliances and float subsidiaries abroad. Navratna status is conferred by Department of Public Enterprises. To be qualified as a Navratna, the company must obtain a score of 60 (out of 100). The score is based on six parameters which include net profit to net worth, total manpower cost to total cost of production or cost of services, PBDIT (Profit Before Depreciation, Interest and Taxes) to capital employed, PBDIT to turnover, EPS (Earning Per Share) and inter-sectoral performance. Additionally, a company must first be a Miniratna and have four independent directors on its board before it can be made a Navratna.

1 Bharat Electronics Limited

2 Bharat Heavy Electricals Limited

3 Bharat Petroleum Corporation Limited

4 Coal India Limited

5 GAIL (India) Limited

6 Hindustan Aeronautics Limited

7 Hindustan Petroleum Corporation Limited

8 Mahanagar Telephone Nigam Limited

9 National Aluminium Company Limited

10 NMDC Limited

11 Oil India Limited

12 Power Finance Corporation Limited

13 Power Grid Corporation of India Limited

14 Rashtriya Ispat Nigam Limited

15 Rural Electrification Corporation Limited

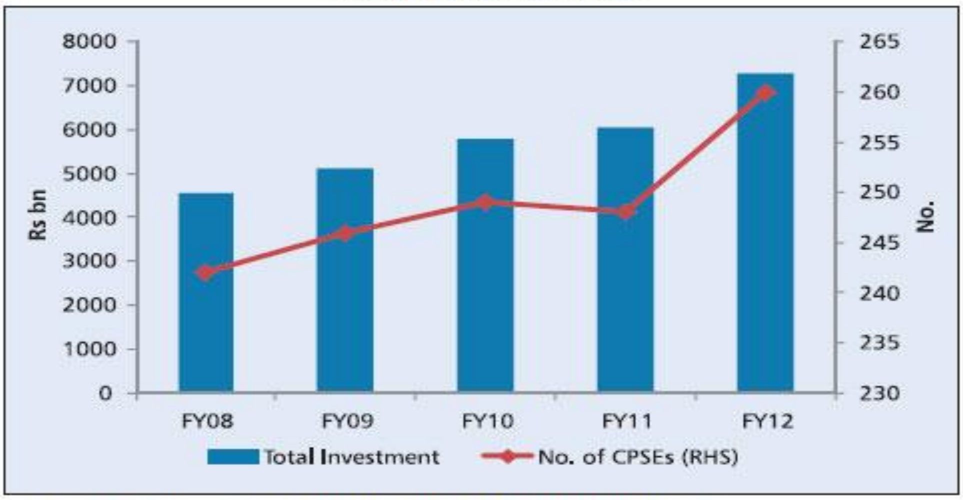
16 Shipping Corporation of India Limited

FINANCIAL PERFORMANCE OF NAVRATNA COMPANIES

Central and State Public Sector Undertakings (PSUs) played an integral role in the country's economic development and industrialisation in the pre-independence as well as the post-independence period. PSUs have been set up with the aim to achieve higher GDP growth, self-reliance in production of goods and services, long-term equilibrium in balance of payments, and low and stable prices. After the economic reforms and liberalisation in 1991, the government opened the sectors exclusively reserved for PSUs to the private sector, leading to increased competition from both domestic private companies and large MNCs. Over the years, the government has taken initiatives to bring Central Public Sector Enterprises (CPSEs) on par with the domestic private companies.

During the first five-year plan (1950-51 to 1955-56), there were only five CPSEs in the country with a financial investment of ` 290 mn (including paid-up share capital, share application money pending allotment, money received against share warrants and long-term loans). Since then they have grown to 260 CPSEs with a financial investment of `7,292.3 bn as on Mar 31, 2012 (including 225 operating and excluding seven insurance companies). Greenfield project based CPSEs have increased in number subsequent to the various initiatives under taken during the five-year plans. The growth in the number of CPSEs reflects the significant increase in investments. The financial investment in CPSEs has grown at 12% CAGR from ` 4,555.5 bn in FY08 to `7,292.3 bn in FY12. Enhanced scale of operations along with latest technology adoption to counter stiff competition has led to increased financial investments in CPSEs.

Growth of CPSEs in India



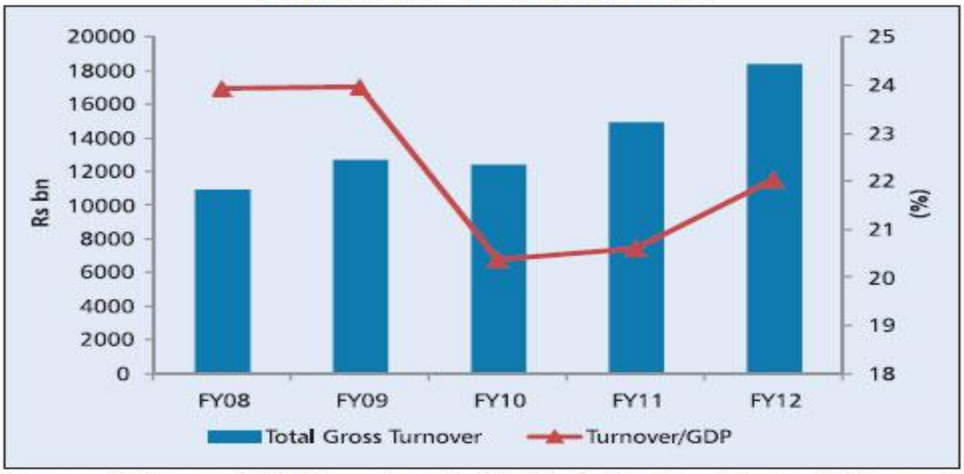
Source: PE Survey 2012, Department of Public Enterprises

During FY12, the financial investment in CPSEs witnessed 20.7% Y-o-Y growth. Sector wise, CPSEs in the services sector had the maximum share of ~49.8% in the total financial investments as on Mar 31, 2012, followed by the electricity sector with 25.9% share, manufacturing sector with 15.8% share, and mining sector with 6.6% share. The total real investments in CPSEs in terms of gross block witnessed 11% Y-o-Y growth during FY12 to ` 13,735.3 bn from ` 12,370.5 bn in FY11. Sector wise, the CPSEs in the manufacturing sector had the highest share of the gross block at 28.3%, followed by electricity with 25.6% share, mining with 23.5%, and services with 21.5% share. Sector wise, the electricity sector witnessed 13.9% Y-o-Y growth in investment in terms of gross block, manufacturing sector recorded 13.2% growth, mining sector recorded 11.8% growth, and services sector registered 2.9% growth.

CPSES HAVE A TURNOVER EQUIVALENT TO 20% OF INDIA'S GDP

The contribution of CPSEs in terms of total turnover as a percentage of GDP has ranged 20%-24% during FY08-FY12, with the highest contribution of 24% recorded in FY09. CPSEs witnessed a decline in turnover in FY10 primarily due to reduction in sale of refined petroleum, steel, fertilizer, and telecom sectors, which led to a decline in contribution to GDP in FY10 post a superior growth period witnessed in FY09. In FY12, the contribution of CPSEs to GDP has grown to 22.1% due to superior growth in turnover in comparison to the GDP growth.

Contribution of CPSEs in India's GDP

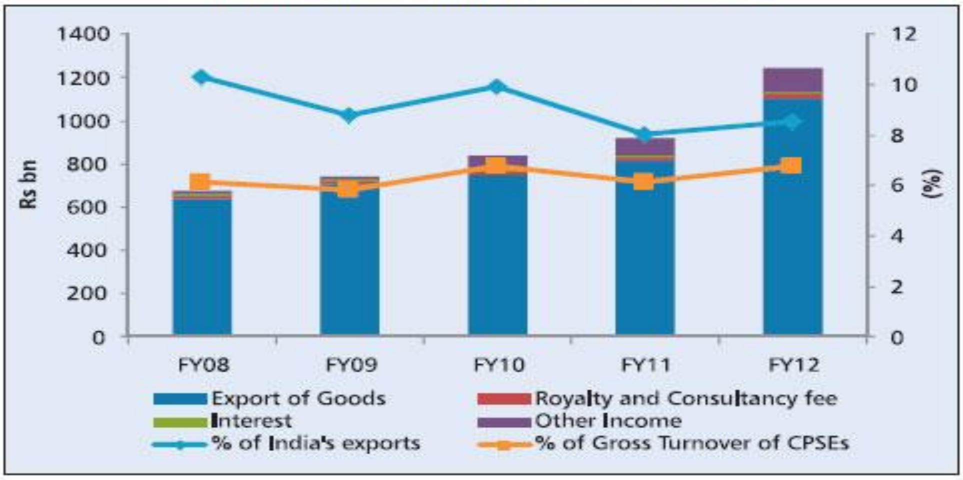


Source: PE Survey 2012, Department of Public Enterprises; Economic Survey 2012-13

CPSES' FOREX EARNINGS CONTRIBUTE 9% OF INDIA'S TOTAL EXPORT EARNINGS

PSUs are increasingly focusing on international trade in goods and services, which directly has a bearing on the foreign exchange earnings of the country. CPSEs' foreign exchange earnings primarily through export of goods and merchandise, income from royalty and consultancy services, and interest earnings have grown substantially at 16.5% CAGR from ` 676.8 bn in FY08 to ` 1,244.9 bn in FY12. In FY12, 34 CPSEs were net foreign exchange earners. The CPSEs' Forex earnings on an average accounted for 9% of the total export earnings of the country during FY08-FY12. However, the share of CPSEs' forex earnings to total export earnings of the country has declined from 10.3% in FY08 to 8.5% in FY12.

Foreign Exchange Earnings Break-up of CPSEs



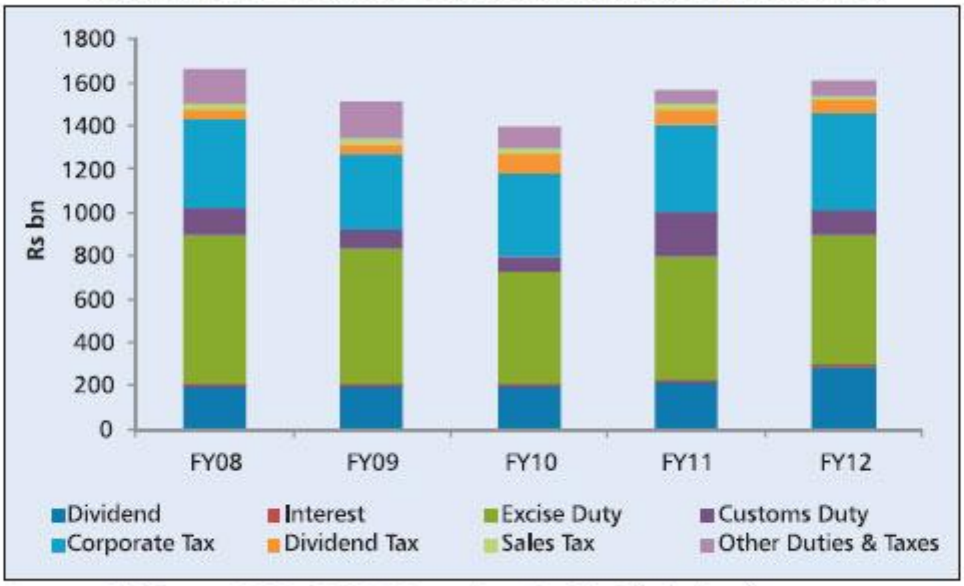
Source: PE Survey 2009 - 2012, Department of Public Enterprises; RBI

The share of CPSEs' forex earnings to overall turnover of the CPSEs has averaged 6% during FY08-FY12 and stood at ~6.8% in FY12. In FY11, the CPSEs' foreign exchange earnings witnessed 8.9% decelerated growth and stood at ` 917.7 bn in FY11. During FY12, CPSEs foreign exchange earnings grew 35.7% Y-o-Y to ` 1,244.9 bn. Export of goods and merchandise was the major source of foreign exchange earnings for CPSEs during FY08- FY12, with an average of ~ 90% share in their total foreign exchange earnings.

CENTRAL EXCHEQUER SOURCES' MAJORITY (65%) OF THE REVENUE FROM CPSES THROUGH PAYMENT OF EXCISE DUTY AND CORPORATE TAXES

CPSEs offer a source of income to Central Exchequer in two ways i) through investments in CPSEs such as payment of dividend, interest on government loans and ii) payment of taxes and duties. In FY12, the total contribution of CPSEs to the Central Exchequer grew 2.6% from ` 1,567.5 bn in FY11 to ` 1,608 bn in FY12 because of the increase in contribution towards corporate tax (27.6%) and excise duty (38%), and dividend on investments made by the central government (17.7%). However, there was a decline in custom duty, other duties and taxes, and dividend tax in FY12. The total contribution from CPSEs to Central Exchequer reflects a negative growth of 0.8% CAGR during FY08–FY12.This is primarily due to a decline in contribution during FY09 and FY10 mainly due to the global recession and the slowdown of Indian economy during the same period. Further, during FY09-FY10, the contribution towards customs duty declined from ` 133.9 bn in FY08 to ` 68.9 bn in FY10 and that of excise duty declined from ` 689.3 bn in FY08 to ` 526.3 bn in FY10.

Contribution of CPSEs to Central Exchequer during FY08-FY12



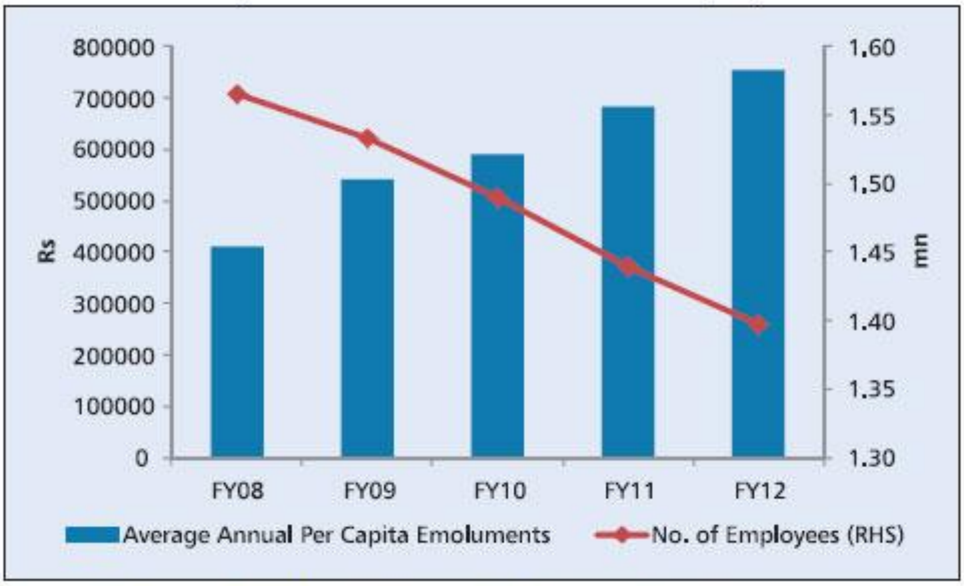
Source: PE Survey 2009 - 2012, Department of Public Enterprises

The Central Exchequer sources majority of the revenue from CPSEs through various taxes and duties. On an average, payment of excise duty and corporate taxes accounted for ~40% and ~25% of the contribution to Central Exchequer respectively over FY08-FY12. However, contribution from excise duty has decreased from 41.5% in FY08 to 38% in FY12 and that of customs duty has decreased from 8.1% in FY08 to 7.2% in FY12. On the other hand, contribution from payment towards dividend on investments made by the government, payment of corporate and dividend taxes has increased over FY08-FY12. Interest paid to Central Exchequer also declined from ` 7.5 bn in FY08 to ` 2.8 bn in FY12. During FY08-FY12, dividend payment on government loans and payment of dividend tax were the fastest growing sources of revenue for the Central Exchequer recording 10.1% and 8.3% CAGR respectively.

CPSEs CONTRIBUTE ~5% TOWARDS EMPLOYMENT GENERATION IN THE ORGANISED SECTOR

PSUs have been integral for the country in generating employment opportunities. They have contributed to ~5% of the employment generation in the organised sector during FY08-FY11, making them one of the largest employers in the country. In FY12, CPSEs employed 1.4 mn people (excluding casual and daily rated workers), of which 25% belonged to the managerial and supervisory cadre, indicating that CPSEs have a high percentage of skilled workforces. The total number of employees in CPSEs has witnessed a declining trend from FY08–FY12 at -2.8% CAGR. In FY12, number of employees declined 2.9% from 1.44 mn employees in FY11.

Per capita emoluments and Number of employees



Source: PE Survey 2012, Department of Public Enterprises

Despite the decline in the number of employees, average annual per capita emoluments have increased from ` 410,898 in FY08 to ` 753,984 in FY12 at 16.4% CAGR. Further, the total emoluments have registered 13.1% CAGR from ` 643.1 bn in FY08 to ` 1,054.1 bn in FY12.

PERFORMANCE OF CPSEs

The government has accorded the status of 'Maharatna', 'Navratna', 'Miniratna – Category I' and 'Miniratna – Category II' to certain CPSEs based on their evaluation on select criteria. These CPSEs have been empowered with operational and financial autonomy to equip themselves to react proactively to market forces. As on Feb 2013, there are 7 Maharatna CPSEs, 14 Navratna CPSEs, 53 Miniratna – Category I CPSEs and 16 Miniratna – Category II CPSEs.

CPSEs ACCOUNT FOR OVER 20% OF BSE'S MARKET CAPITALIZATION

Out of the 260 CPSEs and subsidiaries of CPSEs, 50 were listed as on Apr 30, 2013, of which 46 were listed at the BSE, accounting for 18% of the total market capitalisation of all 5,004 companies listed at the BSE. Further, 28 Public Sector Banks (PSBs) with their subsidiaries and six State Level Public Enterprises (SLPEs) accounted for another 5% of the total market capitalisation at the BSE. All PSUs collectively accounted for 23.2% of the total market capitalization at the BSE or ~ ` 15,430 bn as on Apr 30, 2013. The PSU with the highest market capitalisation is Oil and Natural Gas Corporation Ltd (ONGC) at ` 2,797.2 bn listed on the BSE as on Apr 30, 2013. During FY12, market capitalisation of the BSE Sensex declined 6.2% along with 6.9% and 10.7% decline of the BSE

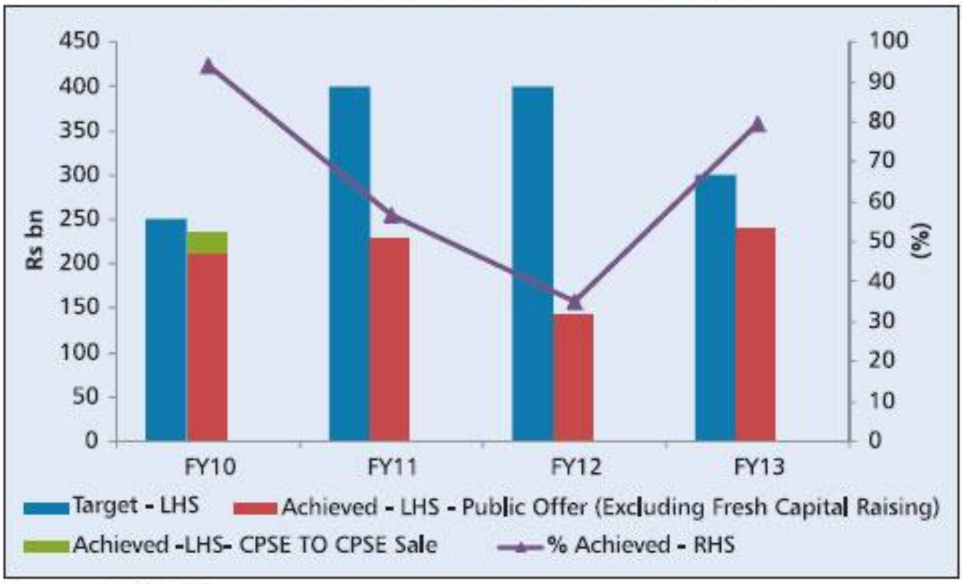
Teck and BSE Bankex. The market capitalisation of BSE PSU after witnessing 12.4% growth in FY11 declined the most by 17.7% from ` 19,485.6 bn in FY11 to ` 16,030.9 bn in FY12, largely impacted by the Eurozone crisis and the slowdown in major economies. However, in absolute terms BSE PSU has the highest market capitalisation of ` 16,030.9 bn, followed by BSE Bankex at ` 3,906.1 bn, and BSE Teck at ` 3,459.6 bn in FY12.

POST CRISIS PERIOD, CPSEs SEE RENEWED THRUST ON DISINVESTMENTS IN FY13

The disinvestment of government equity in PSUs started in 1991-92, with divestment of 31 selected PSUs for ` 30.4 bn. Since then, several changes have unfolded over the years in terms of approach and policies to better the divestment process. The broad aim of divestment has been to raise resources, encourage wider public participation, and ensure greater market accountability. In recent years, to enhance the competitiveness of the CPSEs, divestments have assumed importance, as it is difficult for the PSUs to operate profitably given the stiff competitive market. Currently, divestment policy aims to enhance people's ownership of CPSEs by way of sharing wealth and prosperity while making sure that the government equity is not less than 51% and that the government has management control. The disinvestment process happens through many ways such as strategic sale to private entities, public offer through an IPO or FPO, and auction to private entities among others.

During 1991-92 to 2000-01, against a divestment target of ` 543 bn, the government managed to raise ` 200.8 bn (less than 50%) mainly by way of sale of minority stakes. During 2001-02 to 2003-04, disinvestments took place by way of strategic sales to a private entity or an offer for sale to the public. During this period, against an aggregate target of ` 385 bn, the government achieved to raise ` 211.6 bn with maximum disinvestment of ` 155.5 bn in FY04. During 2004-05 to 2008-09, the disinvestment process stagnated with total receipts of only ` 85.2 bn with no disinvestment transaction during FY07 and FY09.

Disinvestment: Achievement against Target



Source: BSE-PSU

Note: Achieved - Excludes other receipts of the government from CPSE disinvestment*

In 2009-2013, with better market conditions there has been a renewed thrust on disinvestment. Government sold stakes through public offers during this period. In FY10, PSUs achieved more than 90% of the disinvestment target with total receipt of ` 235.5 bn primarily by way of public offer and the balance through CPSE-to-CPSE sale. In FY11 and FY12, disinvestment activity witnessed a slowdown, as for the target of ` 800 bn the government was able to raise only ` 367.9 bn. The receipts of disinvestments had witnessed a 38% decline in FY12 over the previous year. Consequently, the percentage of disinvestment target achieved declined from 57% in FY11 to 35% in FY12, largely due to the recurrence of global financial crisis, economic slowdown of major economies, and Eurozone crisis leading to India's economic slowdown. During FY13, divestment activity picked up again, as 79.5% of the PSU divestment target of ` 300 bn was achieved with total receipt of ` 238.6 bn. During FY14, the target for PSUs through disinvestment stands at ` 540 bn as per the Union Budget 2013-14.

Around two-thirds of the MoU signing CPSEs have an 'Excellent' or 'Very Good' rating, indicating a healthy performance

In order to supervise overall performance of the CPSEs for better results, to ensure accountability, and grant greater autonomy to PSUs, a Memorandum of Understanding (MoU), a mutually negotiated document is signed annually at the start of the financial year between the management of the PSU and the administrative ministry in the government. As per the MoU, the management decides the performance targets to be accomplished and the government agrees on the support to be given during the year. At the end of the financial year, performance assessment is done where the achievements are measured against the targets. This is based on both financial and non-financial parameters with specific weights allotted to each parameter using a five-point scale varying from "Poor" to "Excellent". This is how the respective CPSEs are rated and a composite score is calculated. The financial parameters are both in the form of absolute value such as gross profit and turnover and in the form of ratios. The non-financial parameters are classified as i) dynamic parameters such as project implementation, quality of products and services, customer satisfaction etc., ii) sector-specific parameters related to macroeconomic factors such as change in demand and supply, price fluctuations, variation in interest rates etc., and iii) enterprise specific parameters related to issues such as safety and pollution etc. The number of CPSUs that signed such MOUs increased from four in 1986-87 (when the MoU system commenced) to 195 CPSEs in FY13.

Summary of the Performance of MoU Signing CPSEs (FY08-FY12)

Rating	FY08	% Share	FY09	% Share	FY10	% Share	FY11	% Share	FY12	% Share
Excellent	55	49.1%	47	37.9%	74	51.0%	67	41.6%	76	43.4%
Very Good	34	30.4%	34	27.4%	30	20.7%	44	27.3%	39	22.3%
Good	15	13.4%	25	20.2%	20	13.8%	24	14.9%	33	18.9%
Fair	8	7.1%	17	13.7%	20	13.8%	24	14.9%	25	14.3%
Poor	0	0.0%	1	0.8%	1	0.7%	2	1.2%	2	1.1%
Total	112	100.0%	124	100.0%	145	100.0%	161	100.0%	175	100.0%

Source: PE Survey 2012, Department of Public Enterprises

During FY08-FY12, over 65% of the MoU signing CPSEs received a performance rating of either 'Excellent' or 'Very Good', indicating the healthy state of CPSEs. However, the share of MoU signing CPSEs with an 'Excellent' and 'Very Good' rating went down from 49% and 30% in FY08 to 43.4% and 22.3% respectively in FY12. The share of CPSEs with a 'Good' rating has risen from 13.4% in FY08 to 18.9% in FY12. The share of CPSEs in the 'Fair' rating category witnessed the highest growth from 7.1% in FY08 to 14.3% in FY12.

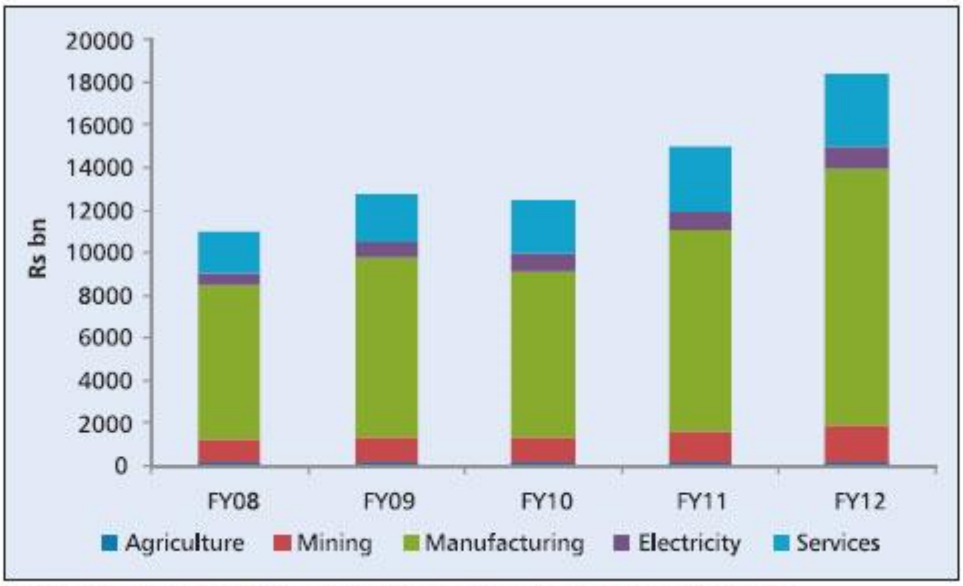
FINANCIAL PERFORMANCE OF CPSEs

CPSEs post the highest growth in turnover in past five years (FY08-FY12)

CPSEs showed robust performance in FY11 and FY12. The turnover of the CPSEs during FY12 grew from ` 14,980.2 bn in FY11 to ` 18,419.2 bn in FY12. The turnover of the CPSEs during FY12 witnessed accelerated growth of 23% Y-o-Y (highest during FY08-FY12). Sector wise, the manufacturing sector which accounts for more than two thirds of the total turnover witnessed the highest Y-o-Y growth of 27.7% in turnover in FY12, as against 21.7% growth in FY11, followed by the mining sector with 17.7% growth in FY12, as against 16.1% growth in FY11. The electricity sector witnessed 16.2% growth in FY12, as against decelerated growth of 8.3% in FY11. The services sector's turnover grew 12.8% in FY12 compared with 22% in FY11. The agriculture sector registered the lowest growth of 8.3% in FY12, as against the accelerated growth of 23.2% in FY11.

The turnover of CPSEs has grown at 13.9% CAGR during FY08-FY12. During FY11, CPSEs witnessed accelerated growth of 20%, as against 2.1% decline in FY10. In FY09, CPSEs recorded Y-o-Y growth of 16% against 13.4% in FY08. The performance of CPSEs varies from industry to industry. The sector witnessed the highest CAGR of 29.5% during FY08-FY12, followed by the electricity sector with 17.4% CAGR.

Trend in Sector wise Turnover

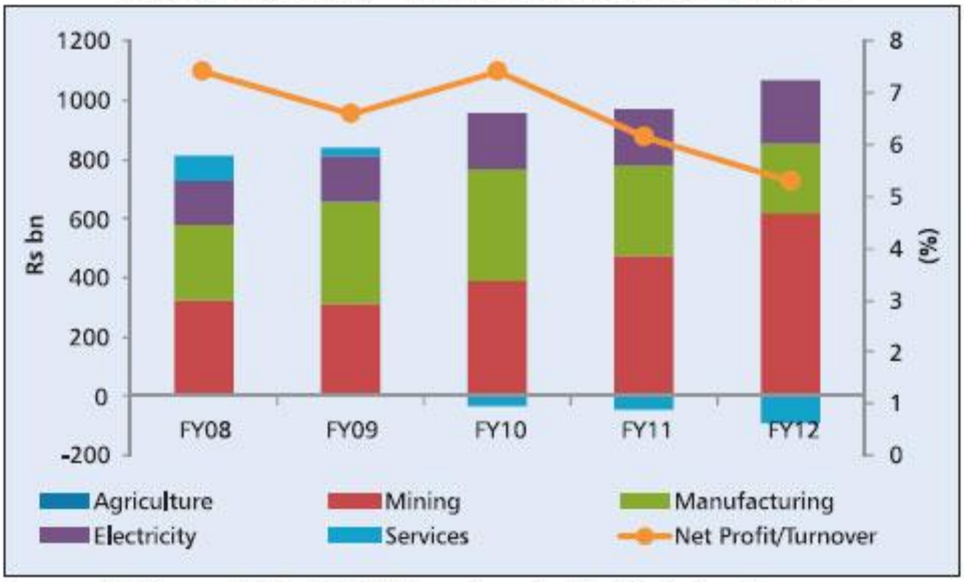


Source: PE Survey 2009 - 2012, Department of Public Enterprises

Net Profit to Turnover ratio witnesses a declining trend indicating pressure on profits

The net profit of CPSEs in FY12 registered 5.9% Y-o-Y growth, as against 0.08% decline witnessed in FY11. During the past five years, CPSEs have shown the highest profit growth in FY10 of 9.9% Y-o-Y. Sectors that reported profits in FY12 included the mining sector with highest profit growth of 29%, followed by electricity at 13%. Services sector made losses, which increased from ` 49 bn in FY11 to ` 90.1 bna in FY12. Profits of the manufacturing sector declined 23% y-o-y in FY12. Agriculture sector suffered losses of ` 0.01 bn in FY12, as against profit of ` 0.4 bn in FY11. During FY08-FY12, net profit has grown at 5%CAGR. The mining sector witnessed the highest CAGR growth at 17.1% during FY08-FY12 and contributed to 63.2% of the aggregate profit of CPSEs in FY12 and the contribution of the sector has risen from 40.3% in FY08. Electricity sector witnessed 9.8% CAGR during FY08-FY12 and contributed to 21.8% of aggregate profits in FY12, which has grown from 17.9% in FY08. The share of the manufacturing sector has declined from 31.4% in FY08 to 24.3% in FY12. Despite the accelerated bottom-line growth in FY12, as against a decline in profit witnessed in FY11, net profit to turnover ratio has witnessed a declining trend in the past three years from 7.4% in FY10 to 6.2% in FY11, dropping further to 5.3% in FY12, indicating pressure on profits.

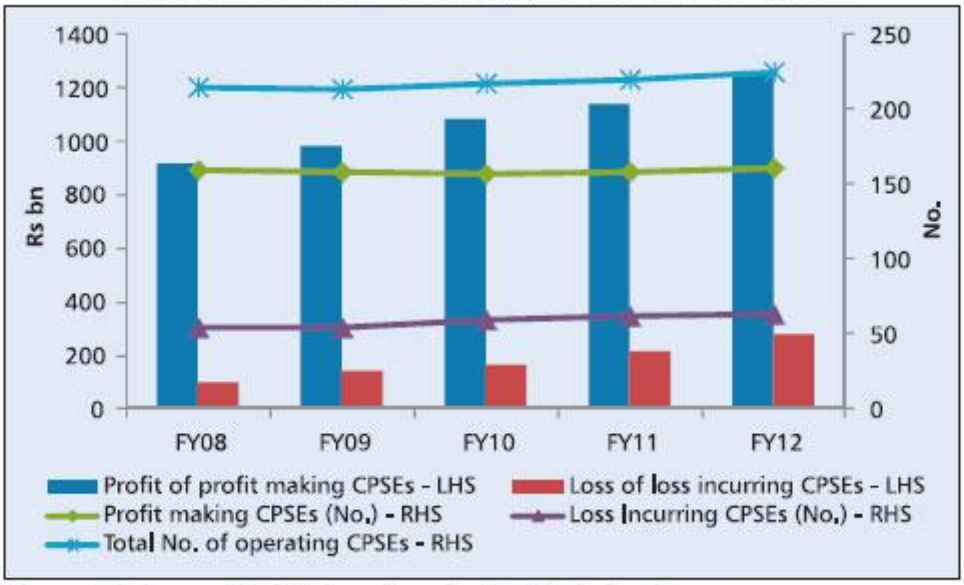
Trend in Profitability – Sector wise Net Profit/Loss of PSUs



Source: PE Survey 2009 - 2012, Department of Public Enterprises

Of the 225 operating CPSEs in FY12, a majority i.e. 161 CPSEs (72%) were profit making and 63 CPSEs incurred losses. The number of profit making CPSEs marginally increased from 160 in FY08 to 161 in FY12. The profit of these profit making CPSEs increased from ` 915.7 bn in FY08 to ` 1,251.2 bn in FY12, registering 8.1% CAGR during this period, led by robust performance of mining companies and electricity/power companies. However, the number of loss making CPSEs has also grown from 54 in FY08 to 63 in FY12 and the loss of these loss-making CPSEs has increased from ` 103.3 bn in FY08 to ` 276 bn in FY12.

Number of Profit/Loss making CPSEs and their Profit/Loss



Source: PE Survey 2012, Department of Public Enterprises

KEY HIGHLIGHTS

- As on Mar 31, 2012, there were 260 CPSEs (excluding 7 insurance companies), out of which 225 were operating CPSEs and 35 CPSEs were yet to commence commercial operations.
- The number of profit making CPSEs increased from 143 CPSEs in FY05 to 160 CPSEs in FY08 and stood at 161 CPSEs in FY12 with a total profit of ` 1,251.2 bn.
- The share of 'gross value addition' in CPSEs (net value addition + depreciation) to GDP (at current market price) stood at 5.67% in FY12 against 5.44% in FY11.
- The dividend declared by PSUs for FY12 stood at ` 426.3 bn, registering a 19.4% Y-o-Y growth as compared to ` 357 bn in FY11.
- As on Feb 2013, out of 260 CPSEs, there are 7 Maharatna CPSEs, 14 Navratna CPSEs, 53 Miniratna – Category I CPSEs and 16 Miniratna – Category II CPSEs.

CONCLUSION

Over the years, PSUs have expanded their presence in diverse sectors such as manufacturing, engineering, steel, heavy machinery, machine tools, mining, fertilizers, drugs, textiles, pharmaceuticals, petro-chemicals, extraction and refining of crude oil, services in telecom, trade, warehouse, and consulting among others. Due to enhanced empowerment and autonomy of the CPSEs by the government, CPSEs, in terms of gross value addition, currently contribute ~6 – 7% to India's GDP making them a vital part of the economic growth. The turnover and net profit of CPSEs have increased at 13.9% and 5% CAGR respectively during FY08-FY12. Post liberalisation and with increased globalisation in the recent times, PSUs are facing stiff competition. However, the government over the years has made several investments to build a robust public sector with expanded capacities to remain globally competitive. To enhance the scale of operations, CPSEs have been expanding in other geographies, as there are many such opportunities to explore untapped areas. However, India's growth is expected to revive at a slow pace in the coming years. Dun & Bradstreet estimates India to record an average growth of 6.5% in FY14, which would boost and act as a catalyst for growth of Indian CPSEs in the way ahead along with government reform measures.

REFERENCES

- List of Maharatna, Navratna and Miniratna CPSEs
- "Eligibility Criteria for Grant of Maharatna, Navratna and Miniratna Status to CPSEs" Press Information Bureau. 21 July 2014. Retrieved 21 July 2014
- "Maharatna status for mega PSUs gets nod". *The Times of India*. 25 December 2009. Retrieved 29 December 2009
- http://dpe.nic.in/publications/list_of_maharatna_navratna-and_miniratna
- http://india.wikia.com/wiki/Navratnas
- Wikipedia and government official website
- Public Sector Enterprises in India: The Impact of Disinvestment and Self Obligation on Financial Performance By Pramod Kumar Jain, Seema Gupta, Surendra S. Yadav