PUBLIC SECTOR

Evolution, Reforms and Performance

Public sector units in India are wholly or partly owned and controlled by the government. In a public sector enterprise, the majority of equity shares is owned by the government directly or indirectly through governmental institutions and the government has decision making control .Public sector enterprise normally has forms of organisational structure like departmental undertakings(Railways etc);statutory corporations ;companies registered under the Companies Act 1956 mainly Departmental undertakings are not formed by or with the consent of the legislative authority. These are set up by the executive actions of government bodies and are charged with the duty of carrying out specially defined functions. These undertakings are not independent entities. They are subject to budgetary, audit and other controls of the government and are managed by civil servants. They are financed by annual budgets which also receives their revenues(CFI). A departmental undertaking is best suited where the main purpose of the enterprise is to collect revenue for the state and to provide public utilities and services at fair prices in larger public interest. Some examples of departmental undertakings are the Railway, Postal Department etc.

Statutory corporations are enterprises normally engaged in economic or manufacturing activities and are set up by act of legislature. These corporations are legal entities separate from the government and also the persons who conduct their affairs. ONGC , LIC are some examples. Shares of such corporations are in the name of the government and these are thus owned and controlled by the government. Statutory corporations enjoy extensive legal autonomy, and their rules, objectives, functions and duties are defined and specified in the act. Financing statutory corporations is not part of the Budget and therefore, they can retain their revenues, and also spend as per the rules laid down by the statute.

Control Boards are set up to manage government projects- for example, the river valley projects. Bhakra Management Board.

PSE can be in the form of cooperative society to support cooperative movement- Indian Farmers Fertilizer Cooperative Ltd(IFFCO) , Krishi Bharati Cooperative Ltd (KRIBHCO) etc. They are registered under Multi State Cooperative Societies Act. Over 65% of the capital of the units is held by the Central Government

Government Company is one where the government owns 51% or more of the paid up capital, according to Section 617 of the Companies Act 1956.

In India, we have all these types of PSEs.

Since the beginning of socio-economic planning after the Independence, public sector played a preeminent role in India. Commanding heights of the economy were to be in the hands of the public sector – basically infrastructure and basic industries like heavy engineering, power, metals etc. PSEs dominated the Industrial Policy Statement 1948 and IP Resolution 1956. They were opted for by the Government partly as the Government wanted to steer the economy towards planning goals rapidly and also because of pragmatic compulsions like the presence of the private sector in manufacturing was negligible and they were not willing to take up the unprofitable work of investing in infrastructure.

The objectives of the PSUs are

- To build a self reliant economy
- To prevent/reduce concentration of private economic power
- Establish sound economic infrastructure
- Set up industries in the backward regions and thus help bring about balanced regional development
- Assist in ancillarization and thus spread the benefits of industrialization
- Create sufficient levels of employment and set standards in labour welfare
- Selling goods and services at reasonable prices so as to serve consumer , keep prices affordable and help non inflationary growth process .
- Invest in areas where the private sector would not invest like in roads , transport and so on .

Since planning began in 1951, the public sector has been the main engine of inclusive growth as can be seen below

- There are about 240 Central PSUs today (excluding insurance , finance and other companies) providing the country with infrastructure in steel , cement , transport , communication , power and so on .
- The record of the PSUs in supplying many goods and services like coal , ,transport ,power , irrigation and so on is commendable
- The PSUs are a model employer providing various facilities like education , housing and so on .
- Establishing industries in MP , Rajasthan , Bihar and so on , the efforts of the PSUs to reduce regional economic imbalances are not insignificant
- Non-inflationary growth process is facilitated because of the PSEs as prices of their goods and services can be administered.
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While considering the performance of the PSUs it must be recognised that most of them had locational disadvantage ; sold the product at administered prices ; did not have access to the best of technology ; had excess of manpower ; operated in areas not meant for profit making like FCI ; were subject to multiple controls and excess of accountability and so on. Even while sick PSEs are reducing in number, the problems are compounded by : resource crunch, erosion of net-worth due to continuous losses incurred by the PSUs, reluctance of financial institutions to provide funds for revival of PSUs, heavy interest burden, old and obsolete plant and machinery, outdated technology, low capacity utilisation, excess manpower, weak marketing strategy, etc. Inadequate autonomy is one reason. Populism and the absence of rational pricing of goods and services is another reason for the low levels of efficiency in PSUs.

Public Sector and Economic reforms

Economic reforms were, made necessary to post higher growth rates for poverty alleviation on a war footing. Public sector was in need of competition to unlock its value. Therefore, domestic and foreign capital was invited to force the PSEs to compete and perform. Government recognized the need for PSE reform during the 7th FYP(1985-1990).

The New Industrial Policy 1991 made significant changes like dereserving many areas with only 3 areas being reserved today ; equity disinvestment ; managerial revamp with greater autonomy; refering a sick PSU to the Board of Industrial and Financial Reconstruction (BIFR) and so on.

List of industries reserved for the public sector

1. Atomic Energy
2. Minerals specified in the Schedule to the Atomic Energy (Control of Production and Use) Order, 1953
3. Railway passenger transport.

The period since 1991 when reforms were launched saw many reforms in the way PSEs should function

- Dereservation
- withdraw them from commercial and other areas like hotels, bakery, cycles etc
- disinvest a portion of the PSU equity for a variety of purposes
- strategic sale where a PSE is sold over to a strategic partner who buys majority equity and takes over management and may extend ownership further in course of time
- Increasingly they are being subject to market discipline primarily by listing on the stock exchanges which is the direct outcome of divestment
- Globalization - liberal FDI norms and import of capital goods , compel the PSUs to perform .
- The MOU system is being improved with greater weightage being given to the criterion of financial performance
- Navaratnas (1997) are granted financial and managerial autonomy for global competitiveness (14 today, 2014).
- mini –ratnas were taken up for similar reforms (72 today, 2014)
- Maharatnas have been recognized since 2011(7 today, 2014)
- professionalization of boards

As mentioned above, the reforms have paid off and the performance is improved.

PSEs 2014

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. 29.00crore at the time of the First Five Year Plan, there are as many 248 CPSEs (excluding 7 Insurance Companies) with a total investment of Rs. 6,66,848 crore today(2012).

A large number of CPSEs have been set up as Greenfield projects consequent to the initiatives taken during the Five Year Plans. CPSEs such as National Textile Corporation, Coal India Ltd.(and its subsidiaries) have, however, been taken over from the private sector consequent to their 'nationalization'. Industrial companies such as Indian Petrochemicals Corporation Ltd., Modern Food Industries Ltd., Hindustan Zinc Ltd., Bharat Aluminium Company and Maruti Udyog Ltd., on the other hand, which were CPSEs earlier, ceased to be CPSEs after their 'privatization'.

Along with other public sector majors such as State Bank of India in the banking sector, Life Insurance Corporation in the insurance sector and Indian Railways in transportation, the CPSEs are leading companies of India with significant market-shares in sectors such as petroleum, (e.g. Coal India Ltd. and NMDC), power generation (e.g. NTPC and NHPC), power transmission (e.g. Power Grid Corporation of India Ltd.), heavy engineering (e.g. BHEL), aviation industry (eg. Hindustan Aeronautics Ltd. and Air India Ltd.) storage and public distribution system (eg. Food Corporation of India and Central Warehousing

Corporation), shipping and trading (eg. Shipping Corporation of India Ltd. and State Trading Corporation Ltd.) and telecommunication (eg. BSNL and MTNL).

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 corporation (MNCs).

Performance of CPSEs

The turnover of all 220 operating CPSEs stood at Rs. 14,73,319 crore as compared to Rs. 12,44,805 crore in the previous year. During the year 2010-11, the CPSEs earned foreign exchange equal to Rs. 97,004 crore as compared to Rs. 84,224crore in 2009-10. The foreign exchange outgo on imports and royalty, know-how, consultancy, interest and other expenditure, on the other hand, increased from Rs. 4,24,207crore in 2009-10 to Rs. 5,22,577 crore in 2010-11 showing an increase of 23.19%. The total employee strength in CPSEs was 14.44 lakh (excluding casual labours) in 2010-11 as compared to 14.90 lakh in 2009-10. The total strength of the employees in CPSEs has gone down by 45,981 persons due to superannuation, voluntary retirement etc. The salary and wages in all the CPSEs went up from Rs. 87,792 crore in 2009-10 to Rs. 96.210 crore in 2010-11, showing a growth of 9.58%.

Gross sales/turnover of CPSEs has been robust during 2010-11. The turnover of CPSEs (at the aggregate level) increased by 18.36 per cent in 2010-11 over 2009-10 against decline of 2.10 per cent in 2009-10 over 2008-09. There was, moreover, much variation from industry to industry. There was significant decline in turnover of CPSEs belonging to industries like medium & light engineering, transportation equipment and telecommunications services.

The profit of profit making CPSEs stood at Rs. 1,13,770 crore in 2010-11 compared to Rs. 1,08,434 crore in 2009-10. The loss of loss making CPSEs, on the other hand, was Rs. 21,693 crore in 2010-11 compared to Rs. 16,231 crore in 2009-10. At the aggregate level, the net profit of all CPSEs (aggregate net profit- aggregate net loss) stood at Rs. 92,077 crore in 2010-11 compared to Rs. 92,203 crore during 2009-10.
The best results were achieved by the 'mining' sector with 22.32 per cent growth in profit over the previous year. This was followed by 12.97 per cent growth in profits achieved by electricity sector. The 'services' sector suffered a loss of Rs. 7,639 crore during 2010-11, which was higher than the loss of Rs. 3,279 crore in 2009-10. This was mainly due to the loss suffered by Air India Ltd. in both these years. In the other industry groups, CPSEs belonging to transport services, telecommunication services and consumer goods were equally under stress, and their losses increased during 2010-11. Under the manufacturing sector, steel petroleum and textile showed a decline in profits. CPSEs belonging to medium and light engineering industries, suffered losses during the year in comparison to profit in the previous year. CPSEs in the chemicals & pharmaceuticals sectors, on the other hand, reduced their losses during 2010-11.

Oil & Natural Gas Corporation Ltd., NTPC Ltd., and Indian Oil Corporation Ltd have ranked first, second and third CPSEs respectively amongst the top ten profit making CPSEs. They are followed by NMDC Ltd., Bharat Heavy Electricals Ltd., Steel Authority of India Ltd., Coal India Ltd., GAIL(India) Ltd., Oil India Ltd. and Power Grid Corporation of India Ltd. All the top ten profit making companies are, more or less same in 2010-11 as in

2009-10 (with ranking slightly changed) except for Power Grid Corporation that has replaced the Power Finance Corporation.

Amongst the loss making companies, Air India Ltd., Bharat Sanchar Nigam Ltd. and Mahanagar Telephone Nigam Ltd. were the top three loss making enterprises during 2010-11. They are followed by Hindustan Photo Films Manufacturing Co. Ltd., Indian Drugs & Pharmaceuticals Ltd., Hindustan Cables Ltd., Fertilizer Corporation of India Ltd., Air India Charters Ltd., Hindustan Fertilizer Corporation Ltd. and ITI Ltd. The top ten loss making Companies covered nearly 92.55% of the total loss made by all the (62) CPSEs during the year. The top three CPSEs namely Air India Ltd., BSNL and MTNL alone have incurred a loss equal to 74% of the total loss of all CPSEs in 2010-11. Intense price war and cut-throat competition from new entrants, increase in salary & wages and increase in operating cost as well as increase in interest cost contributed to greater losses during the year. While the loss of Air India and MTNL have gone up by 24% and 54% respectively, the loss of BSNL increased by 145% in 2010-11 over 2009-10.

The share of 'gross value addition' in CPSEs (net value addition + depreciation) in Gross Domestic Product (at current market price) stood at 5.96 per cent in 2010-11 against a share of 6.44 per cent in 2009-10.

CPSEs contribute to the Central Exchequer by way of dividend payment, interest on government loans and payment of taxes and duties. There was, however, a significant increase in the total contribution of CPSEs to the central Exchequer during the year, which increased from Rs. 1,39,918 crore in 2009-10 to Rs. 1,56,124 crore in 2010-11. This was, furthermore, primarily due to increase in contribution towards 'customs duty' and 'excise duty' which increased from Rs. 6,896 crore and Rs. 52,627 crore in 2009-10 to Rs. 14,151crore and Rs. 62,713 crore respectively in 2010-11. There was a significant increase in contribution from corporate taxes as well, which went up from Rs. 38,134 crore in 2009-10 to Rs. 43,369 crore in 2010-11.

Disinvestment and Privatization

The New Industrial Policy 1991 , as mentioned above, talked of disinvestment and the Finance Minister's Budget Speech in 1999-2000 talked of privatization for the first time.

Definitions are important.

Disinvestment is the sale of shares of the Government to the retail public or employees or mutual funds or the FIIs. In other words, in disinvestment(divestment), there is no change in the management from public to private hands because either the government holds majority equity(51%) or even if the government holds less than 51% of equity, rest of it is sold to various individuals and institutions none of whom holds enough to take over management. It is essentially money-raising exercise with some accompanying benefits.

If the Government sells chunk of equity to a single buyer- 26% or 51% or more- to whom the management is also handed over, it is called strategic sale and the buyer is called strategic partner. It is a case of privatization. The buyer is one who has presence in the sector and can add value to the unit. For example, IPCL being sold to Reliance Industries Ltd(RIL) and Balco is sold to Sterlite.

Government may also sell off a unit to a strategic buyer- entire equity.

Strategic buyer is one who not only buys the chunk of entire equity- in one tranche or more- but also takes over management. That is the `strategic' part of the sale. It is unlike disinvestment where sale of shares is unaccompanied by management control transfer. The strategic partner gives higher price for the shares as he gets management control along with it(management premium). Also, running of the unit improves.
Privatization and strategic sale are the same.

As mentioned above , disinvestment can be for less than 50% stake sale in which case the company remains a Government company.

The advantages with strategic sale (privatization) are that it gets investment; the strategic partner with management control will invest further for diversification and technological improvement; market perception will improve as it is no longer a government company; and shareholder value will increase. With the improvement of the functioning of the company , workers' protection will also be guaranteed.

Corporatization is a related term. It means: government units are reorganized along business lines. Typically they are required to pay taxes, raise capital from the market (with no government backing, explicit or implicit), and operate according to commercial principles. Government corporations focus on maximizing profits and achieving a favorable return on investment. They have to operate in a level playing field along with the private sector without any special advantages, more or less.

Advantages of Disinvestment/Privatization

- it raises finances for the government that can be spent on restructuring the PSEs
- makes additional finances available for the social sector priorities
- exposes the enterprises to market discipline, thereby forcing them to become more efficient and survive on their own financial and economic strength
- when units become more professionalized and profitable , budgetary support for them can be minimized freeing resources for social and infrastructural needs
- results in wider distribution of wealth through offering of shares to small investors and employees.
- beneficial effect on the capital market; the increase in floating stock would give the market more depth and liquidity and facilitate raising of funds by the PSEs for their projects or expansion, in future.
- Opening up the public sector to appropriate private investment would increase economic activity and benefits the economy, employment and tax revenues in the medium to long term.
- Reducing the public debt that is threatening to assume unmanageable proportions
- Releasing other tangible and intangible resources, such as, large government manpower currently locked up in managing the PSEs, and their time and energy, for redeployment in high priority social sectors that are short of such resources

In many areas, e.g., the telecom sector, the end of public sector monopoly brought relief to consumers by way of more choices, and cheaper and better quality of products and services. Competition made them perform better as outlined above.

Criticism of Divestment

While the advantages are convincing, the criticism is not to be dismissed wither.

- They constitute family silver and should not be liquidated

- PSEs check the private sector in the wider market place and so are crucial to economy. For example, if PSEs are not there, private enterprises may cartelise etc
- PSEs contribute by way of dividends and profits and thus are important sources of public finance
- The exercise is essentially meant to garner resources for filling the revenue deficit

A prudent middle path needs to be adopted by way of extent of divestment; unit chosen; pace of the process; method adopted – IPO, strategic sale etc; valuation debate etc.

By 2014, Rs.1.5 lakh crores were raised totally since 1992, approximately.

Divestment Policy
Elements of the policy since 2009 are

- List all unlisted public sector enterprises and sell a minimum of 10 percent of equity to the public, the survey stated.
- It also called for completing the process of offloading 5-10 percent equity in previously identified profit making non-Navratna companies.
- According to the survey, the targeted revenue generation from divestment should be Rs.25,000 crore annually.
- Auction all loss making PSUs that cannot be revived, it added

Valuation of shares
Fixing the price of shares for PSEs is done on the basis of the discounted cash flow (DCF) model. The DCF model is a method of valuing a business today based on the stream of its future profits or cash flows. It is said to be the best of the given methods.
Net asset valuation is not adopted as it applies only to the units that are being wound up and not for running businesses.

Details of the disinvestment proceeds till 2012are given at the end.

Government Policy on Disinvestment /Privatization
As a part of reforming the PSEs, Government's policy on disinvestment and privatization is evolving since the beginning of the reforms in 1991.
Its main elements are: -

- Divest to raise money and other advantages
- Profit-making PSUs will not be privatized
- List the unlisted companies
- Making shares available to a wider section of the public
- Restructure and revive potentially viable PSUs;
- Close down PSUs which cannot be revived;
- Fully protect the interests of workers.

Strategic & Non-strategic Classification
Government classified the Public Sector Enterprises into strategic and non-strategic areas for the purpose of disinvestment. It was decided that the Strategic Public Sector Enterprises would be those in the areas of:

- Arms and ammunitions and the allied items of defence equipment, defence aircrafts and warships;

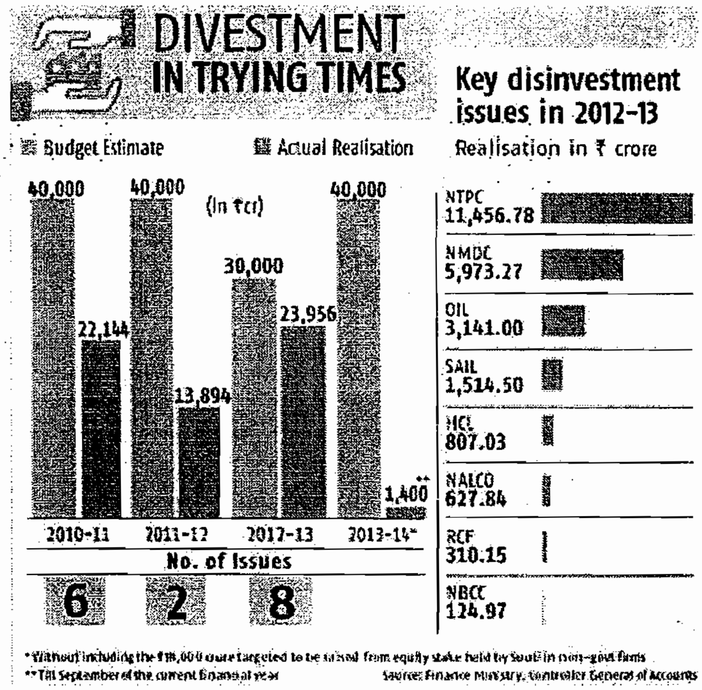
- Atomic energy (except in the areas related to the generation of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine and non-strategic industries);
- Railway transport.
- All other Public Sector Enterprises were to be considered non-strategic.

Disinvestment 2013-14

Budget target of raising Rs 40,000 crore through disinvestment this year may be difficult .However, Indian Oil Corporation (IOC) and Coal India Ltd (CIL), Powergrid and others are being divested.

The government raised Rs 23,920 crore in 2012-13. All options — ETFs, offer for sale (OFS) etc — are available. Specified Undertaking of Unit Trust of India (Suuti), through which the government holds stakes in ITC, L&T and Axis Bank, was dismantled after a Cabinet decision in March 2013. It was decided that the Rs 40,000-crore assets would be transferred to an asset management company (AMC), which would leverage the assets to raise resources for the government.

Now, the government wants to revive Suuti so that it can sell stakes in these private companies because a Cabinet clearance is required each time shares held by the proposed AMC are to be sold.



Buyback and cross holdings

Cash rich companies buy back their own shares from the secondary market to help shareholders and share market. So far PSEs have not don buyback. But in 2012, GOI gave active consideration to the idea. Government in 2012 permitted public sector companies sitting on cash to buy back their own shares, a move that is expected to help the Centre raise more funds in the coming months. Public sector companies have the option of using their cash for investment and capex or buyback their own shares- in this case from the government, the promoter. The buyback route is useful for the government to meet its target for disinvestment.Under the buyback mode, the government can raise money by selling its equity in the company to the PSU itself.

To facilitate the disinvestment process, the Sebi Board in January 2012 had relaxed the norms for buyback of shares. It would help the companies to complete the process of selling shares within 1-1.5 months , as against the normal process which can take months.

Cross holdings

State-owned companies like Coal India, NTPC and NHPC, have significant cash on their balance sheets. It.can be used by them to buy shares of one another as the companies are related and have synergies. Similarly, oil companies. When they buy shares of one another in bulk, the can guide each other and work with a common purpose. Government benefits as such purchase is done from the promoter.

ETF

GOI is also considering exchange traded fund (ETF) route for selling shares of state-owned firms as part of steps to meet the disinvestment target. Divested shares can make up an ETF that can be listed on the exchange and can be traded upon by those who have the shares related to the ETF.

Board for Reconstruction of Public Sector Enterprises (BRPSE)

Government is committed to a strong and effective public sector; undertake measures for strengthening, modernizing, reviving, and restructuring of public sector enterprises; and in pursuit of the above, decided to establish a Board for Reconstruction of Public Sector Enterprises (BRPSE) to address the above mentioned tasks and advise the Government on strategies, measures and schemes related to them.

The Board was set up in 2004

Following are the terms of reference to the Board:

- To advise the Government on ways and means for strengthening public sector enterprises in general and making them more autonomous and professional;
- To consider restructuring - financial, organizational and business (including diversification, joint ventures, seeking strategic partners, merger and acquisition) - of CPSEs and suggest ways and means for funding such schemes;
- To advise the Government on disinvestment/closure/sale, in full or part, in respect of chronically sick/loss making companies which cannot be revived. In respect of such unviable companies the Board would also advise the Government about sources of fund including sale of surplus
- assets of the enterprise for the payment of all legitimate dues and compensation to workers and other costs of closure;
- To monitor incipient sickness (incurring loss for two consecutive years) in CPSEs; and
- To make recommendations and advise the Government on such other matters as may be assigned to it from time to time.

All sick CPSEs will be referred to the Board for revival/ restructuring. The recommendations of the Board are advisory in nature. BRPSE which is an advisory body to advise the Government on the strategies, measures and schemes related to strengthening, modernizing, reviving and restructuring of public sector enterprises, comprises of a Chairman, three Non-official Members, three Official Members and three Permanent Invitees.Dr. Nitish Sengupta has been appointed as Chairman in the rank of Minister of State.

Navaratna and Miniratna Companies

Navaratnas

Economic reforms subject PSEs to market competition. Gloablization makes the competition more intense. To perform in such conditions, PSEs need a level playing field with the private players. Hence, the Navaratna package that gives autonomy to PSEs.

Government introduced the navaratna concept in 1997. It granted enhanced autonomy to nine selected PSEs referred to as "Navaratnas". These were IOC, IPCL, ONGC, BPCL, HPCL, NTPC, SAIL, VSNL and BHEL. IPCL and VSNL were strategically sold to Reliance and Tatas respectively. Many more CPSEs were made navaratnas since then. Totally, there are 14 (2014)

1. Bharat Electronics Limited
2. Bharat Petroleum Corporation Limited
3. Hindustan Aeronautics Limited
4. Hindustan Petroleum Corporation Limited
5. Mahanagar Telephone Nigam Limited
6. National Aluminium Company Limited
7. National Mineral Development Corporation Limited
8. Neyveli Lignite Corporation Limited
9. Oil India Limited
10. Power Finance Corporation Limited
11. Power Grid Corporation of India Limited
12. Rashtriya Ispat Nigam Limited (Vizag Steel)
13. Rural Electrification Corporation Limited
14. Shipping Corporation of India Limited

The government is likely to accord the coveted status to Engineers India Limited, which is under consideration.

A new company Rashtriya Ispat Nigam Limited (RINL) in Visakhapatnam was formed in 1982. Visakhapatnam Steel Plant was separated from SAIL and RINL was made the corporate entity of Visakhapatnam Steel Plant in April 1982.

The government has a quantitative system to confer the status of "Navarathna" on PSE. According to the system, every PSE is rated on the following 6 parameters:

- Net Profit to Net Worth
- Total Manpower Cost as a Percentage of Total cost of Production
- Profit before Depreciation ,Interest and Taxes (PBDIT) on Capital Employed
- PBDIT on turnover
- Earning per Share &
- Inter-sectoral performance

To gain Navarathna status, a PSE must score atleast 60 out of 100 based on these 6 parameters.

Additionally,a company must first be a miniratna and must have four independent directors on its board before it can be made a navaratna

These navaratnas , subject to certain guidelines, now have freedom to

- incur capital expenditure
- decide upon joint ventures
- set up subsidiaries/offices abroad
- enter into technological and strategic alliances
- raise funds from capital markets (international and domestic)
- enjoy substantial operational and managerial autonomy
- Boards of these PSEs have been broad-based with induction of nonofficial part-time professional directors.

For example, 'Navaratna' status empowers it to invest up to Rs. 1000 cr or 15% of their net worth on a single project without seeking government approval. The overall ceiling on such investment in all projects put together is 30% of the networth of the company.

Miniratna companies

There are two types of miniratna companies: Type 1 and 2.Together there are 72 such companies.

Miniratnas can also enter into joint ventures, set subsidiary companies and overseas offices but with certain conditions.

Category I Miniratna

- They are PSEs that have made profits continuously for the last three years and earned a net profit of Rs 30 crores or more in one of the three years. These miniratnas are granted certain autonomy like incurring capital expenditure without government approval up to Rs. 500 crores or equal to their net worth, whichever is lower. There are 48 miniratnas. Bridge & Roof Company (India) Limited was added late in 2010.

Category II Miniratna

This category include those PSEs which have made profits for the last three years continuously and should have a positive net worth. Category II miniratnas have autonomy to incurring the capital expenditure without government approval up to Rs. 300 crores or up to 50% of their net worth whichever is lower. There are 14 such miniratnas: Bharat Pumps & Compressors Limited was added late in 2010.

Maharatnas

The category of PSEs was created in 2011.

<u>Maharatna CPSEs</u>

1. Bharat Heavy Electricals Limited
2. Coal India Limited
3. GAIL (India) Limited
4. Indian Oil Corporation Limited
5. NTPC Limited
6. Oil & Natural Gas Corporation Limited

Steel Authority of India Limited

To be eligible for the grant of the Maharatna status, the company should have an average turnover of over Rs 25,000 crore, average annual net worth of more than Rs 15,000 crore and average annual net profit of over Rs 5,000 crore during the last three years.

Besides, it should be a Navratna firm, should be listed on the Indian Stock Exchange with minimum prescribed public shareholding under the SEBI regulations and have global presence.

Once a company gets the Maharatna status, its board would not be required to take the government's permission for investments up to Rs 5,000 crore in a joint venture project or wholly-owned subsidiary.For the Navratna companies, the limit is Rs 1,000 crore.

The main objective of the Maharatna scheme is to empower mega-Central public sector enterprises to expand their operations and emerge as global giants.

Ad-hoc Group of Experts (AGE) Report

The Report on Empowerment of Central Public Sector Enterprises, prepared by a group of experts headed by Arjun Sengupta, recommended

- greater autonomy for Public Sector Units
- central PSUs to have truly independent boards. It has recommended empowering the PSU boards to take decisions about mergers, joint ventures, pricing, exports, appointments, selection of dealers, promotion and transfer of employees, and so on. The ministry concerned should not review the PSU more than twice a year. Supervision should be done by sector specific supervisory boards.
- ministries should not interfere with the functioning of the PSUs under them. Their managements should be accountable to the board and not to the ministry
- government should be given flexibility to divest its stake in PSUs. As long as the government's stake remains above 51 per cent, it should not require Parliament's permission to divest its shares — even in navratnas, mininavatnas, and consistently profit-making PSUs. This can be done through a board decision..
- supplementary audit by the Comptroller and Auditor General of India of the PSEs should be an exception rather than rule, as it delays the publishing of audited accounts as required by SEBI.
- reworking of the accountability of the PSEs to Parliament so that the questions raised on their functioning do not compromise sensitive trade data and work as an impediment in functioning as commercial enterprises.

The Government accepted some of the recommendations of AGE relating to enhancement of financial powers of Navratna, Miniratna and other profit-making CPSEs. The remaining recommendations relating to ownership issues, audit of Government companies, Article 12 of the Constitution. Parliamentary accountability, vigilance, management in CPSEs, etc. are under examination.

MOU

The beginning of the policy of Memorandum of Understanding can be traced to the report of the Arjun Sengupta Committee in mid eighties. One of the recommendations of this committee was for the introduction of the system of MOU for measurement of performance of public enterprises. The MOU system was introduced on an experimental basis in 1987-88. It was based on the French system. From 1989-90 the signaling system was adopted and it remains in vogue till the present.

One of the most important differences between the French system and the signaling system relates to the possibility of making an overall judgement on the enterprise's performance in the latter system. In performance contracts belonging to the French system, it was possible to only point out whether a particular target was met or not. This created great difficulty for making an overall judgement regarding enterprise's performance. The signalling system overcomes this problem by adopting the system of "five point scale" and "criteria weight" which ultimately result in calculation of "composite score" or an index of the performance of the enterprise

The MOU system has been adopted as it was felt that PSEs are unable to perform at efficient levels because of multi-point accountability. Also, there was no clarity of objectives . Absence of functional autonomy also hampered their performance
MOU is a freely negotiated agreement between the public enterprise and the administrative ministry. Under the agreement, the enterprises undertake to achieve the targets set in the agreement at the beginning of the year. The MOU covers both financial performance as well as non-financial performance. Under this system performance of the company is categorized into five categories namely: excellent,very good, good, fair, and poor.

The objectives of the MOU system are to improve the performance of public enterprises by increasing autonomy and accountability of the management;remove the fuzziness in the goals and objectives the enterprise is to pursue through clearly laid down performance targets at the beginning of the year;enable the evaluation of managerial performance through objective criteria and provide a mechanism to reward good performance through performance incentives to stimulate improved performance.

Some recent initiatives in restructuring the PSEs

- BRPSE is set up as an advisory body
- National Investment Fund is set up
- more companies given navaratna and mini ratna status to improve their performance in the global competitive environment
- infusion of equity and debt capital in PSEs to turn them around and strengthen them

NIF

Original **Objectives of NIF are**

- The proceeds from disinvestment of CPSUs will be channelised into NIF, which is to be maintained outside the Consolidated Fund of India.
- NIF will be professionally managed to provide sustainable returns to the Government, without depleting the corpus. Selected Public Sector Mutual Funds will be entrusted with the management of the corpus of NIF.
- 75% of the annual income of NIF will be used to finance selected social sector schemes, which promote education, health and employment. The residual 25% of the annual income of the Fund will be used to meet the capital investment requirements of profitable and revivable CPSUs that yield adequate returns, in order to enlarge their capital base to finance expansion/diversification.

Use of Disinvestment Proceeds

The income from the Fund is to be used for the following broad investment objectives:

- 75% to finance selected social sector schemes, which promote education, health and employment
- 25% to meet the capital investment requirements of profitable and revivable CPSEs that yield adequate returns, in order to enlarge their capital base to finance expansion/diversification

However, in view of the difficult economic situation caused by the global slowdown of 2008-09 and a severe drought in 2009, GOI decided to give a one-time exemption to utilization of proceeds from disinvestment of CPSEs for a period of three years, till 2012 – i.e. disinvestment proceeds during this period would be available in full for meeting the capital expenditure requirements of selected social sector programmes decided by the Planning Commission/Department of Expenditure. It has been further extended to 2014.

Accordingly disinvestment proceeds are being routed through NIF to be used in full for funding capital expenditure under the following social sector programmes of the Government:-

- Mahatma Gandhi National Rural Employment Guarantee Scheme
- Indira Awas Yojana
- Rajiv Gandhi Gramin Vidyutikaran Yojana
- Jawaharlal Nehru National Urban Renewal Mission
- Accelerated Irrigation Benefits Programme
- Accelerated Power Development Reform Programme

NIF Chief Executive Officer (CEO), who is administratively attached to the Department of Disinvestment under the Finance Ministry, would formulate the investment strategy.

The Government in 2013 approved restructuring of the National Investment Fund (NIF) and decided that the disinvestment proceeds with effect from the fiscal year 2013-14 will be credited to the existing 'Public Account' under the head NIF and they would remain there until withdrawn/invested for the approved purpose. It was decided that the NIF would be utilized for the following purposes: investment in railways; uranium corporation , Equity infusion in various Metro projects etc.

Autonomy for PSEs

Managerial and financial autonomy is important for the PSEs to function well in a market economy where there is severe competition and the companies are also listed on the stock exchanges. Steps for rendering autonomy to the PSEs are essentially two

- Maharatnas
- Navaratna and miniratna status
- MOU

(Given above in detail)

Professionalisation of PSU Boards

- MOU
- outside professionals should be inducted in the boards of PSU in the form of non-official Directors whose number should be at least 1/3 of the Actual strength of the Board
- Under the Navratna/Miniratna package, the board of select PSUs have been professionalised by inducting a minimum of 4 non-official Directors in case of Navratnas and 3 in case of Miniratnas.
- number of Government Directors on the Board should not be more than two

Problems and Prospects of PSU restructuring

Tenure of the CEO and Board of Directors

The managerial problems in the PSU begin with the tenure of CEO and the Board of Directors. The selection, service conditions and the tenure of the Board of Directors is subject to the Government rules and regulations. Unlike the private sector where CEO have almost a decade to nurture the company, in PSU the rules with respect to superannuation tends to focus attention on short term strategies-co-terminus with CEO's tenure. There is, hence a need to provide continuity in the management by appointing CEO and other members in the Board of Directors for longer tenure with representation of shareholders other than GoI Shareholders.

Multiple-Audit

The business decision in PSUs gets influenced by presence of a number of controlling agencies, such as the Ministry, parliamentary committees, CAG, CVC etc. The end result of this is recourse to a risk- averse approach to business. For example, there is a decision related purchase of second hand equipment where on the spot decision is required and transparent processes such as global bid are not available. It helps the company to save if it can take quick decisions. In some cases there could be loss which needs to be out of the purview of CVC as otherwise it will dampen the decision making process in commercial matters.

Role of administrative Ministry

It needs to change. Like a shareholder of any other company, the Ministry's role should be limited to contributing as shareholder in AGM/EGM of the companies, and providing it the requisite support. The role of Ministry in day-to-day management through correspondence should be avoided.

Non Commercial Activities

PSUs are expected to function on commercial consideration but are burdened with takeover of some sick/potentially sick unit.

Investment in newer units is based on socio-political consideration. This results in non-flexibility of to the company to reorganise its own business. Regularisation of contract labour under article 12 of the Constitution forces PSUs to absorb extra labour without any consideration to the existing manpower strength. PSUs are unable to spin-of loss making units or close operations in those units, which have become operationally unviable.

Purchase Preference Policy

Government gives purchase preference in supply of goods and services to the Government Departments, Autonomous bodies and other PSEs if the price quoted by the supplying CPSE is within 10% of the lowest valid bid price, other things being equal. It helps support the PSEs.

CPSEs listed on the BSE/NSE(2014)

1. OIL & NATURAL GAS CORP.LTD.
2. COAL INDIA LTD.
3. NTPC LTD.
4. MMTC LTD.
5. BHARAT HEAVY ELECTRICALS LTD.
6. NMDC LTD.
7. INDIAN OIL CORP.LTD.
8. STEEL AUTHORITY OF INDIA LTD.
9. GAIL (INDIA) LTD.
10. POWER GRID CORP.OF INDIA LTD.
11. POWER FINANCE CORP.LTD.
12. NHPC LTD.
13. OIL INDIA LTD.
14. HINDUSTAN COPPER LTD.
15. RURAL ELECTRIFICATION CORP.LTD.

16.NATIONAL ALUMINIUM CO.LTD.
17.BHARAT PETROLEUM CORP.LTD.
18.NEYVELI LIGNITE CORP.LTD.
19.CONTAINER CORP.OF INDIA LTD.
20.BHARAT ELECTRONICS LTD.
21.HINDUSTAN PETROLEUM CORP.LTD.
22.MANGALORE REFINERY & PETROCHEMICALS LTD.
23.ENGINEERS INDIA LTD.
24.SJVN LTD.
25.MOIL LTD.
26.RASHTRIYA CHEMICALS & FERTILIZERS LTD.
27.NATIONAL FERTILIZERS LTD.
28.SHIPPING CORP.OF INDIA LTD.,THE
29.HMT LTD.
30.BEML LTD.
31.CHENNAI PETROLEUM CORP.LTD.
32.FERTILIZERS & CHEMICALS TRAVANCORE LTD.
33.MAHANAGAR TELEPHONE NIGAM LTD.
34.STATE TRADING CORP.OF INDIA LTD.,THE
35.DREDGING CORP.OF INDIA LTD.
36.ITI LTD.
37.ANDREW YULE & CO.LTD.
38.BALMER LAWRIE & CO.LTD.
39.INDIA TOURISM DEVELOPMENT CORP.LTD.
40.MAHARASHTRA ELEKTROSMELT LTD.
41.HINDUSTAN PHOTO FILMS MFG.CO.LTD.
42.BALMER LAWRIE INVESTMENTS LTD.
43.HINDUSTAN ORGANIC CHEMICALS LTD.
44.MADRAS FERTILIZERS LTD.
45.IRCON INTERNATIONAL LTD.
46.SCOOTERS INDIA LTD.
47.BHARAT IMMUNOLOGICALS & BIOLOGICALS CORP.LTD.
48.HINDUSTAN FLUOROCARBONS LTD.
49.KIOCL LTD.
50. HINDUSTAN CABLES LTD.

CPSE-ETF

The Finance Ministry is expected to launch Central Public Sector Enterprises Exchange Traded Fund (CPSE ETF) .Cabinet Committee on Economic Affairs approved setting up of the fund.

This instrument will comprise listed CPSE stocks, each with a fixed weightage in the basket. The instrument aims to minimise market disruptions seen in public offerings of listed CPSEs. It will also increase the Government's ability to monetise partial stakes in listed CPSEs, some of which have low liquidity and free float. It will broad base retail participation of shares of CPSEs, and also help deepen the market for equity-based products. It is also considered beneficial to the Government from a pricing perspective, as part of the discounts could be back-ended. ETF is a trading instrument like shares on stock exchanges.

At present, there are 33 ETFs with assets under management of over Rs 11,500 crore, held by 6.2 lakh investors. Gold ETFs dominate the market in the country, as of now.