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CPSU Disinvestment, A weapon to Economic Reform

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Introduction

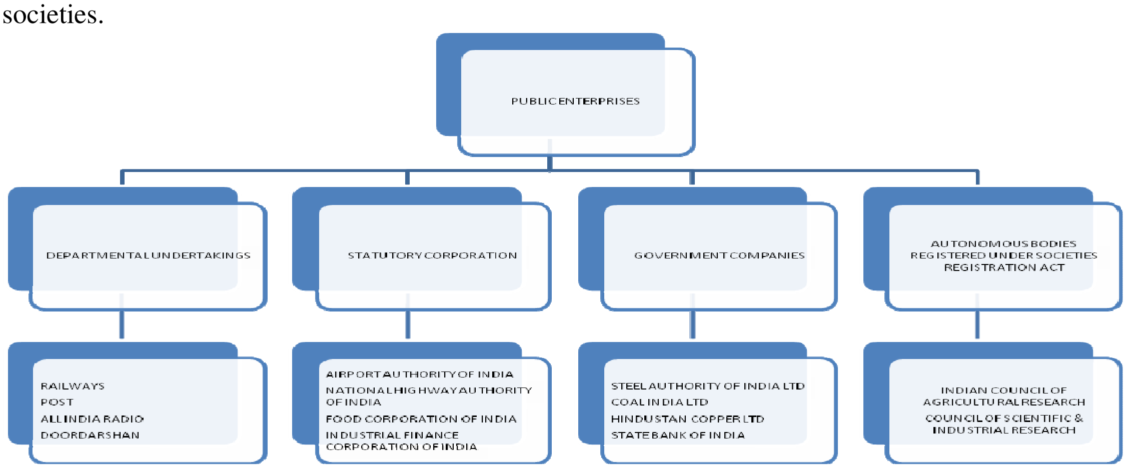
Since independence, the Indian government made sustained efforts to bring about balanced development by setting up public sector enterprises. The role of these PSEs was earlier limited to basic, heavy and core industries. Furthermore the government had to setup huge PSEs for the development of the nation.

The public sector banks which have played an important role in shaping up the Indian economy since the pre-independence period until now continue to dominate the Indian banking industry, accounting for more than 70% share of total banking business in India.

With the introduction of new economic policy the government of India adapted a more open economy with greater reliance on market forces and a larger role of the private sector including foreign investment. To sustain in this competitive era PSEs have undertaken several steps such as focusing on improving productivity, giving performance related pay, offering additional welfare facilities and increasing marketing efforts.

STRUCTURE OF PSEs IN INDIA:

The PSEs in India are basically categorized under four broad types based on their ownership structure. These include: departmental undertakings, statutory corporation, government companies, autonomous bodies set up as registered societies.



- **Departmental undertakings:** Departmental Undertakings are primarily meant to provide essential services such as railways. They function under the control of the respective ministries of govt. of India.
- **Statutory corporations:** These are public enterprises that came in to existence by a special Act of parliament. The Act defines the powers and functions, roles and regulations governing the employees and the relationship of the corporation with government departments.
- **Government owned companies:** These are the companies in which 51% or more of the paid up capital is held by the central or any state government (partly or wholly by both). It is registered under the Indian companies Act.
- **Autonomous bodies:** Autonomous bodies are to set up whenever it is felt that certain functions need to be discharged outside the governmental set up with some amount of independence and flexibility without day-to-day interference from the government machinery.

CPSEs ROLE IN ECONOMY:

The CPSEs investment has a multiplier effect on economy. During the first five-year plan (1950-51 to 1955-56) there were only five CPSEs whereas in financial year 2011, there were 248 CPSEs with a

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total financial investment of 6668.5 bn as on Mar 31 2011. The financial investment registered 15% growth during financial year 2011. In terms of sector-wise share in their total financial investment, the CPSEs in the electricity sector had the maximum share of around 37.3% as on Mar 31, 2011. This was followed by service sector with 36.1%, manufacturing with 17.9% and mining with 7.3%.

FINANCIAL PERFORMANCE OF CPSEs

Particulars	**FY-10(Rs. In Bn.)**	**FY-10(Rs. In Bn.)**	**Growth**
Financial investment in CPSEs	5807.8	6668.5	14.8%
Investment in terms of gross block	11299.8	12636.7	11.8%

Sourse DPE

Similarly, the overall investments of CPSEs in terms of gross block increased at 11.8% during FY11. The share of CPSEs in the manufacturing sector in terms of gross block was the highest with 27.8%, followed by electricity with 25.2%, services with 23.2% and mining with 23%. From the sector-wise growth in investment in terms of gross block, the manufacturing sector recorded the maximum growth of 14.8%, followed by mining with 13%, electricity with 12.3% and services with 5.7%.

CPSEs CONTRIBUTION TO FOREIGN EXCHANGE:

Foreign exchange revenues contribution to overall CPSEs turnover stood at around 7%. During the year FY11, the CPSEs foreign exchange earnings stood at ` 970 bn as compared to 842.2 bn in FY10, growing by around 15% during this period. Export of goods and merchandise was their major source of earnings during both FY10 and FY11 with over 85% share in their total foreign exchange earnings. Interest and dividend income source recorded the fastest growth at 30.1% among other sources such as royalty, consultancy fees, goods exports and others. However, as compared to their foreign exchange revenues their foreign exchange expenditure was higher during both the period of FY10 and FY11. Their foreign exchange outgo stood at ` 5,225.8 bn in FY11 as compared to 4,242.1 bn in FY10, growing at a superior rate of around 23% as compared to foreign earnings. This resulted in making CPSEs forex negative at net level. The major items driving the growth in foreign exchange expenditure were import of stores, spares & components, capital goods and raw materials/crude oil registering a growth of about 48%, 36% and 20% respectively during FY11 as compared to FY10.

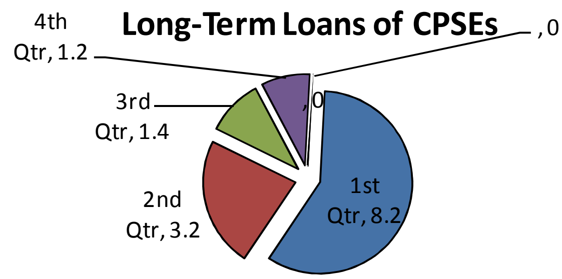
CPSEs play a crucial role in employment generation

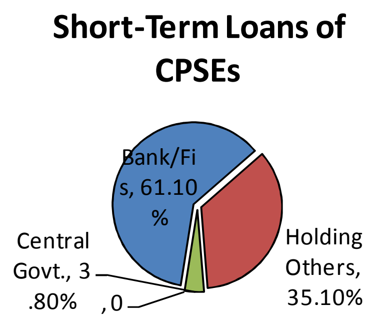
CPSEs have been playing a positive role in creating employment opportunities. Over the past several years, they have not only created several job opportunities but have also helped in addressing the unemployment problem in the country. As per government estimates CPSEs account for around 6% of the total employment in the organized sector of India. They have assisted in the uplift of the poor and in promoting equality and offering welfare facilities.

As on FY11, CPSEs employed around 1.4 mn people compared with 1.6 mn people as of FY07.

MAJORITY OF THE LOANS WERE SOURCED FROM BANKS/FINANCIAL INSTITUTIONS

In FY11, total long-term loans of all CPSEs stood at 5,094.5 bn compared with their FY10 level of 4,306.7 bn, registering a growth of more than 18%, which is higher than 15% during FY07 to
FY11. During FY11, more than 25% of the long-term loans were sourced from banks/financial institutions.





Short-term loans comprised 27% of the total loans during FY11. Even in case of short-term loans, majority or over 60% of the loans was sourced from banks/financial institutions and the rest was sourced from holding others and the central government. The loans raised abroad by CPSEs declined 33% in FY11 compared with FY10. In line with this, the combined interest outgo of CPSEs also registered a around 9% during FY07 to FY11. The interest expense noted a decline of 8.2% in FY10 compared with more than 22% growth in FY09. In FY11, it went up again by around 8%. The interest-to-gross-profit ratio, which shows the interest burden, showed a decline up to FY06. Subsequently, it showed an upward trend up to FY09 and stood at 27.6%. However, it declined again in FY10 to 22.5% and increased marginally in FY11 to 22.7%.

CONCLUSION

When several private and foreign MNCs operate on lower profit or loss during the recession period CPSEs will continue to play an important role in the development of the Indian economy. However many CPSEs showed resilience during the slump due to their conservative approach and strict management practices. In order to face the upcoming competition these CPSEs are undertaking several expansion projects and operational reforms. Now a day CPSEs are chasing unexplored territories and expanding their presence globally. The ability to continuously reform and further build upon these will hold the key to their sustained development.

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