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ROLE OF MAHARATNA COMPANIES IN INDIAN ECONOMY

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ABSTRACT

The Central public sector enterprises (CPSEs) have played a key and vital role in developing the nation on the global map. In 1996-1997, it was decided by Government of India that public sector companies having comparative advantages should be supported in terms of grant of autonomy in their drive to become global giants by giving the navaratna status. Seeing the performance of Navaratna companies, government decided to introduce Maharatna scheme to empower mega CPSEs to expand their operations as global giants on 4th Feb '2010. As of 31st July' 2013, 07 CPSEs have been given Maharatna status. This paper will focus on the journey of Maharatna CPSEs towards nation building due to economic reforms and fluctuating market conditions in the way to become global giants.

KEYWORDS

maharatna companies, Indian economy.

INTRODUCTION

The importance of Central public sector enterprises (CPSEs) in Indian economy can never be over emphasized. A number of CPSEs also serve critical functions of furthering the socio economic objectives of the nation and ensuring stability in prices of key products. Since inception, the Central Public Sector Enterprises (CPSEs) have been the mainstay of the Indian economy. CPSEs were set up with the mandate to serve the broad macro-economic objectives of higher economic growth, to achieve self-sufficiency in production of goods/ services to facilitate long term equilibrium in balance of payments and to ensure stability in prices and create benchmarks for prices of essential items.

With the onset of economic reforms in 1991, the Government of India initiated a systemic shift to a more open economy with greater reliance upon market forces and a larger role of the private sector including foreign direct investment. Subsequently, CPSEs were exposed to competition from domestic private sector companies as well as large multi-national corporations. Given the competitive environment, the CPSEs undertook significant initiatives for up scaling technologies and capacities in order to operate at par with the private counterparts in the liberalized and globalized economy. With continued focused efforts towards achieving excellence, several of the CPSEs have become self reliant and are playing a vital role in building the Indian economy. Giving Navratna and Maharatna status to CPSEs was just a step to make companies self reliant.

Coal India Limited, ONGC, IOCL, SAIL, BHEL, GAIL and NTPC Limited are among the seven Maharatnas of the country's Central Public Sector Enterprises. The government of India has accorded the status of 'Maharatna' to Steel Authority of India (SAIL), Indian Oil Corporation (IOCL), Oil & Natural Gas Corporation (ONGC) and NTPC Limited through a office memorandum No. 22(1)/2009-GM-GL-101 dated 19th May, 2010. Subsequently, government of India has accorded the status of 'Maharatna' to Bharat Heavy Electricals Limited, GAIL (India) Limited and Coal India Limited through a office memorandum No. 22(1)/2009-GM dated 1st February, 2013 and 22(1)/2009-GM dated 11th April, 2011 respectively. The objective is to give more autonomy to the company so that they can take on global competition.

In the year 2010, the government announced a new policy under which select top performing central public sector units would be delegated substantially more financial and managerial powers than what they already have. The policy approved by the Cabinet seeks to provide further incentives to public sector enterprises that are in the category of Navratnas and already enjoy a substantial measure of operational and investment freedom.

LITERATURE REVIEW

As per Deloitte study, Roopen Roy (2010) states that Singapore Airlines is a PSU. It is profitable, efficient and well performing. The largest shareholder in Volkswagen is the state of Lower Saxony in Germany. The case of Pohang Iron and Steel Company (Posco) is even more startling. The World Bank rejected the loan application of the Korean government for setting up a steel plant in Pohang — then a fishing village. No wonder, Korea neither had deposits of iron ore nor coking coal. The Korean government took the help of a consortium of Japanese bankers and set up Posco as a State Owned Enterprise (SOE). It is now the third largest producer of steel and doubtlessly one of the most efficient. It was only in 2000 that the company was fully privatized. There is little difference between Singapore Airlines and Air-

India in their ownership structures. The difference lies in the governance, style of management, empowerment, attitude to customer service and results produced by its leadership teams.

Niranjan Kumar (2011) explained fulfillment of Maharatna eligibility criteria set by SAIL given by the Department of Public Enterprises (DPE), Government of India for achievement of Maharatna status.

Ankita (2013) has calculated the revenue factor for SAIL which shows that despite of the decline in the number of employees i.e. from 137496 employees (2002-03) to 110794 employees (2010-11), the revenue per employee shows an increasing trend throughout the study period except in 2005-06. This rising revenue factor is due to the fact that SAIL considers its human resources as its most valuable asset and has been continuously investing in this asset through systematic and well-planned programmes to make it current with latest technologies and processes. Niranjan (2012) has made the Comparison of Strategic decision taken by SAIL . & Tata Steel and co-related the strategy with the performance of the company.

As per the research of Debasish (2013), the average risk associated with the business operations of NTPC Ltd. was lower in the post-liberalization period as compared to that in the pre-liberalization period. a growth in the business risk associated with NTPC Ltd. During the pre-liberalization period whereas that in the post-

Liberalization period it reflects a negative growth and the slopes of the trend lines were found to be statistically significant at 0.01 level. It also confirms that although there was a clear upward trend in the business risk associated with NTPC Ltd. during the pre-liberalization period, a strong evidence of negative trend in it during the post liberalization period was noticed.

Ukey (2012) has explained that there has been a paradigm shift in the perceptions, mind set and way of working, of not only the top management but in general all the employees of the CPSEs. It appears the whole culture has changed for the better. This transformation is owing to the changes in the philosophy, policy and the changed market scenario in National as well as Global economy. Post 1991 the CPSEs got exposed to the competition and free and borderless market forces. The CPSEs had to face multiple challenges internally from domestic market and externally from the MNC and global players. As a result for survival either they had to shape up or ship out. With very limited options, withdrawal of budgetary support and shrinking demand they had to adopt professional approach, increase productivity, adhere to the best management and financial practices. This shift is very clearly visible in the annual reports of CPSEs which are akin to the performance reports of employees.

OBJECTIVES OF THE STUDY

- 1) To find out the market capitalization of Maharatna CPSEs
- 2) To examine the time taken by Navaratna CPSEs to get Maharatna status
- 3) Strategy Analysis of the companies which has taken highest and lowest time in getting the Maharatna status.
- 4) To find out the profit after tax of Maharatna CPSEs in 2012-13
- 5) To compare the annual turnover of Maharatna CPSEs in 2012-13
- 6) To find out the domestic share of Maharatna companies in nation growth

RESEARCH METHODOLOGY

DATA COLLECTION

The entire data used for the present study have been obtained from the secondary sources.

Sources of data collection are

- 1) Annual Reports of all seven Maharatnas companies obtained from their respective websites
- 2) Reports of department of public enterprise, government of India accessed from the website www.dpe.nic.in

TYPES OF DATA COLLECTED

- 1) Annual Turnover and profit after tax of all maharatna companies in year 2012-2013
- 2) Year of establishment, Dates of getting Maharatna and Navaratna status of all maharatna companies.
- 3) Domestic share of Maharatna companies

ANALYSIS & DISCUSSION

The information obtained as a result of the study has been compiled in a database formed in table 1.

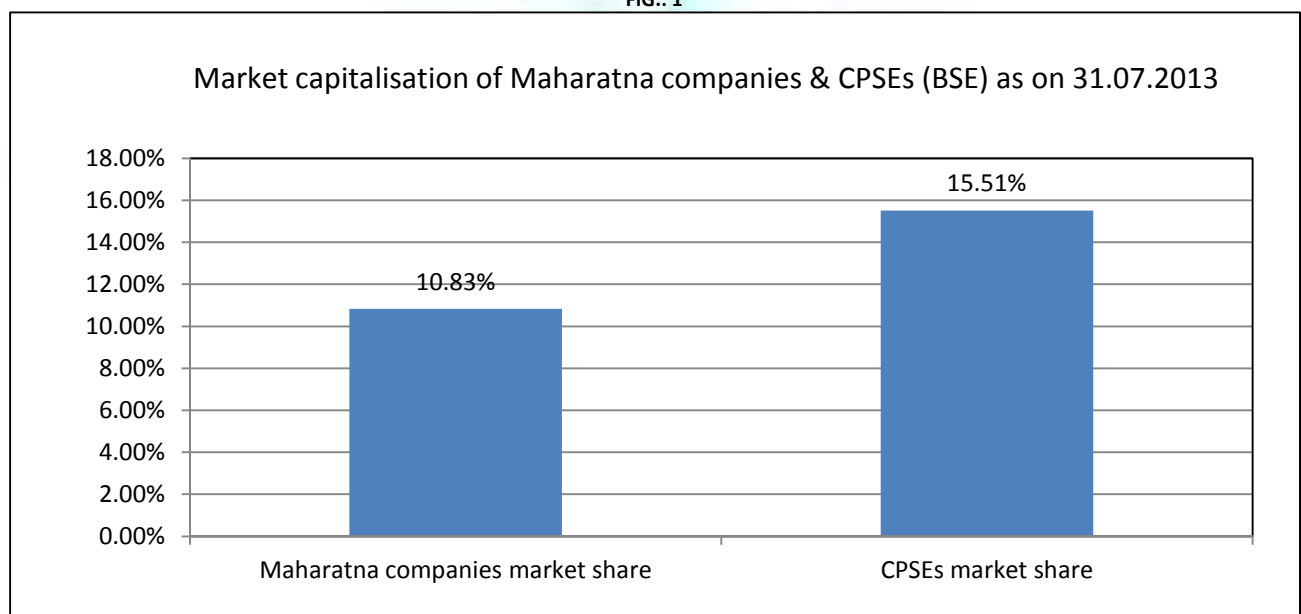
TABLE 1: DESCRIPTIVE STATISTICS OF MAHARATNA COMPANIES

Name of the CPSEs	Year of Establishment	Date of Maharatna status	Date of Navaratna status	Time taken to get Maharatna status from Navaratna	Turnover (2012-13) in crores	Profit After Tax(2012-13) in crores	% Profit (2012-13)
Bharat Heavy Electricals Limited	JAN, 1964	01.02.2013	22.07.1997	15 years 7 months	50156	6615	13.19
Coal India Limited	01.11.1975	11.04.2011	24.10.2008	2 years 6 months	88281	17356	19.66
GAIL (India) Limited	16.08.1984	01.02.2013	11.11.1997	15 years 3 months	47333	4022	8.50
Indian Oil Corporation Limited	01.09.1964	19.05.2010	22.07.1997	12 years 10 months	447096	5005.17	1.12
NTPC Limited	07.11.1975	19.05.2010	22.07.1997	12 years 10 months	67930.81	12619	18.58
Oil & Natural Gas Corporation Limited	14.08.1956	19.05.2010	22.07.1997	12 years 10 months	82552	20926	25.35
Steel Authority of India Limited	24.01.1973	19.05.2010	22.07.1997	12 years 10 months	49350	2170.35	4.40

Source: Annual reports (2012-2013) of the company accessed from company website

1) MARKET CAPITALIZATION OF MAHARATNA CPSEs

FIG.: 1

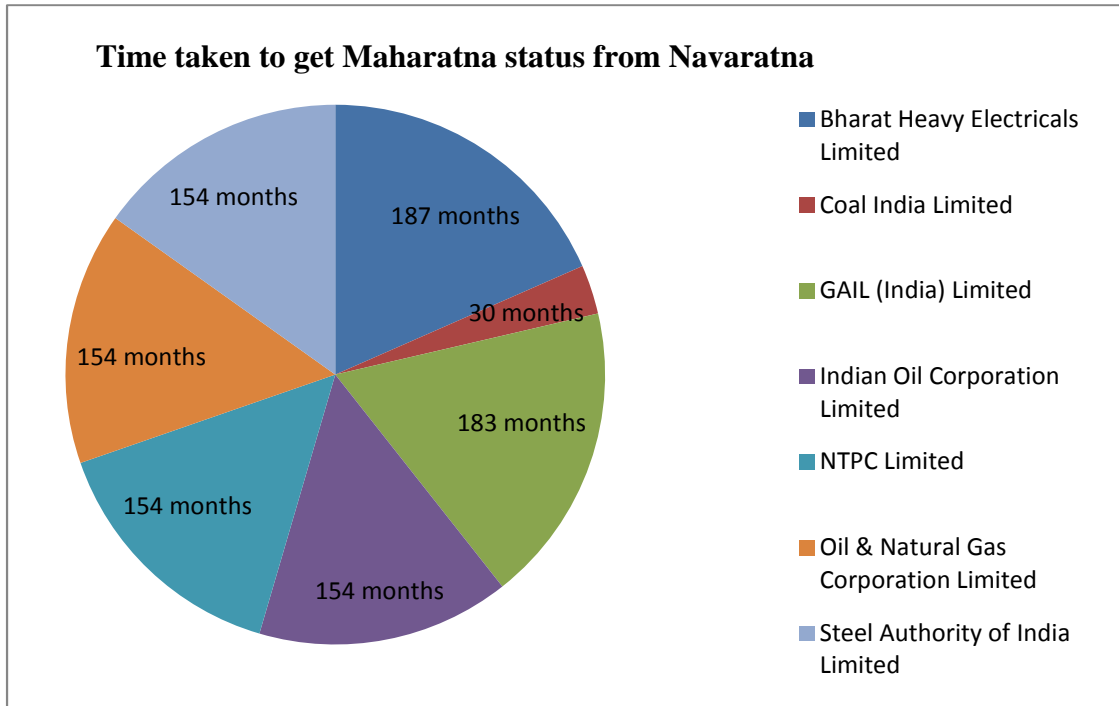


Source: http://divest.gov.in/Market_Capitalisation.asp?ord=comp_name accessed on 27.08.2013

Central public sector enterprises (CPSEs) play a vital role in the development of the country in global arena having a 15.51 % of market capitalization as on 31.07.2013 wherein Maharatna companies contributes 10.83 % market share as shown in fig.1. It reveals the strategic importance of Maharatna companies in nation growth and becoming the global players.

2) TIME TAKEN BY NAVARATNA CPSEs TO GET MAHARATNA STATUS

FIG.: 2



Source: http://dpe.nic.in/important_links/dpe_guidelines/maharatna_navratna accessed on 26.08.2013

FIG. 3: TIME SERIES PLOT FOR GRANT OF MAHARATNA STATUS

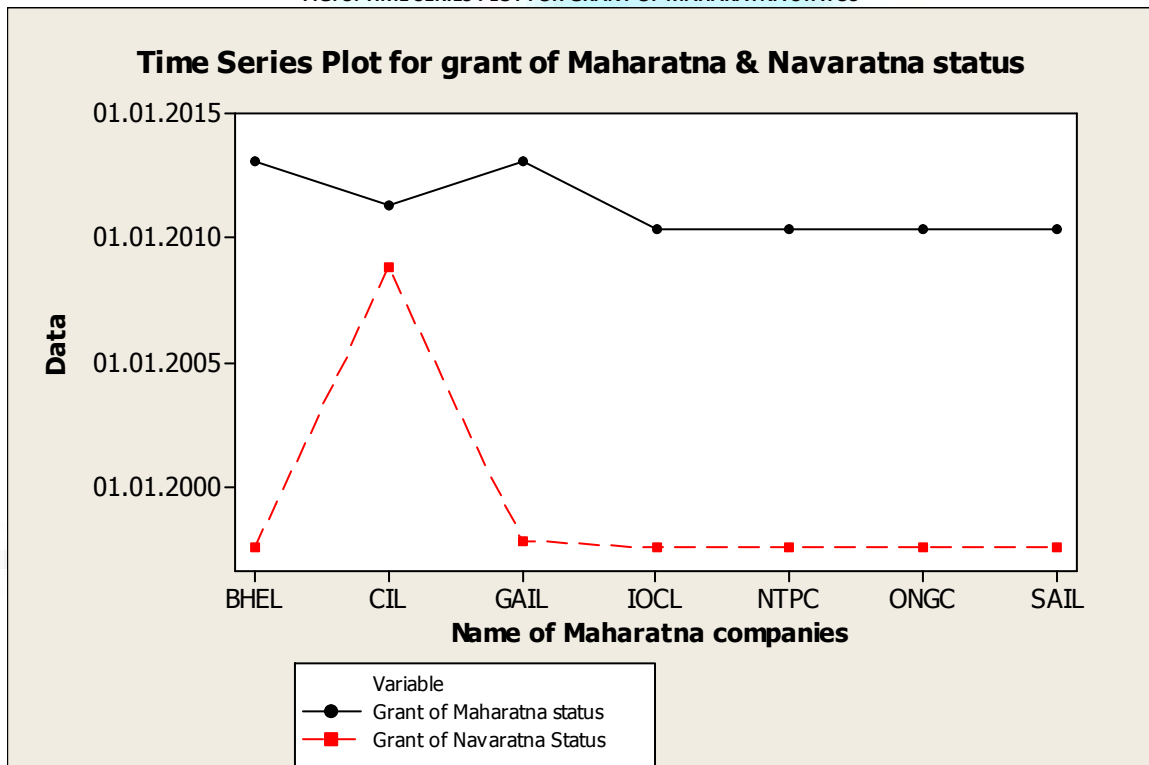


Fig.2 & 3 shows the time taken by the navaratna companies to get maharatna status. It is observed that Coal India Limited has taken least time i.e 30 months only to get the Maharatna status. Highest time is taken by BHEL.

3) STRATEGIC ANALYSIS OF THE COMPANIES WHICH HAS TAKEN HIGHEST & LOWEST TIME IN GETTING THE MAHARATNA STATUS

As a single largest coal producer in the world, Coal India Limited enjoys monopoly in domestic market.

TABLE 2: SWOT ANALYSIS OF COAL INDIA LIMITED

<p>Strength</p> <ol style="list-style-type: none"> 1) Single largest coal producer in the world well positioned to capitalize on the high demand for coal in India for various projects. 2) Well established track record of growth and cost efficient operations as well as financial performance. 3) Strong capabilities for exploration, mine planning, research and development. 	<p>Weakness</p> <ol style="list-style-type: none"> 1) Poor infrastructure facilities. 2) Mining technology is outdated. 3) Coal mining in India is associated with poor employee productivity. 4) High cost of production in underground coal mines rendering them largely loss making. 5) High rate of illegal mining.
<p>Opportunities</p> <ol style="list-style-type: none"> 1) Strong economic growth in India and resultant demand for energy opens huge growth opportunities for CIL. 2) Coal is cheapest source of energy and thus demand will continue to remain strong, comparative to alternate energy sources available in India. 3) Increased business opportunity through the use of imported coal by blending the same with domestic coal to remove mismatch in quantity and quality. 	<p>Threats</p> <ol style="list-style-type: none"> 1) Most of the coal reserves are under forest and tribal inhabited areas, increasingly making it difficult to excavate. 2) Large coal bearing areas in India is in disturbed areas, thus prone to operational disruptions. 3) Change in policies/ regulations governing the sector e.g. private participation may negatively impact CIL's performance.

Table no. 2 shows the SWOT analysis of Coal India Limited which indicates that in spite of having severe weakness, company utilized the financial and decision autonomy given by Government of India as a Navaratna company in such a way that it took smallest time to get Maharatna status by implementing following business strategy:-

- a) Increasing production and capitalize on the significant demand-supply gap.
- b) Improve realizations through E-Auction sales.
- c) Enhancing pricing mechanisms
- d) Enhance profitability and maintain competitiveness by improving operating and cost efficiencies
- e) Acquiring strategic international resources or mining rights and identifying joint development opportunities in foreign countries.
- f) Focusing on developing environmentally and socially sustainable operations.

TABLE 3: SWOT ANALYSIS OF BHEL

<p>Strength</p> <ol style="list-style-type: none"> 1) Good engineering base and ability to demonstrate 2) Stable industrial relationship 3) Access to contemporary technologies with the support from renowned collaborators. 4) Ability to set up power plants on turnkey basis, Strong knowledge base for manufacture of entire equipment is available with the company. 5) Services and spares are not easily available for non- BHEL products and if they are, price charged are very high. 	<p>Weakness</p> <ol style="list-style-type: none"> 1) Product delivery and desired sequence of supplies 2) Large delivery cycles in comparison with international suppliers of similar equipment. 3) Inability to provide supplier's credit, soft loans and financing of power projects. 4) Liquidity position of BHEL is not satisfactory because of poor financial position of state electricity boards, which are the major customers of BHEL.
<p>Opportunities</p> <ol style="list-style-type: none"> 1) Demand for power and plant equipment is expected to grow. 2) Private sector power plants to offer expanded market as utilities suffers resource crunch. 3) Life expansion program for old power stations. 4) Export opportunities. 5) Financial and operational autonomy 	<p>Threats</p> <ol style="list-style-type: none"> 1) Increased competition from national and MNCs. 2) Multilateral agencies reluctant to lend to power sector because of poor financial management of State Electricity Board 3) Private players in power sectors 4) Level playing ground not available, foreign companies spending much more on business promotion tactics.

As per Sudheer Pal (2013), BHEL imported components account for up to 30 per cent of the total production cost. The rupee's devaluation is adding to weak order inflows. The depreciation has eroded gains that could be accrued from the rise in import duty on power equipment to 21 per cent announced last year. BHEL's new strategies also stem from the increasing competition in the domestic market. Analysts say recently, the company lost a few local orders that created new lower pricing benchmarks. It also refrained from bidding for an order by Reliance Industries for nine circulating fluidized bed combustion (CFBC) boiler sets. Table no. 2 shows the SWOT analysis of BHEL which indicates that due to its financial weaknesses, it took longest time to get the Maharatna status. The business strategies adopted by BHEL to overcome the weaknesses and threats are:-

- a) Reducing dependency on imports through enhanced localization and optimizing designs
- b) Focusing on domestic manufacturing of components that have hitherto been imported
- c) The rupee's devaluation is adding to weak order inflows and strengthening competition in the local market, its traditional stronghold.
- d) Widening of its vendor base and reduce cost of procuring key materials.

TABLE 4: COMPARISON OF STRATEGIC DECISION TAKEN BY COAL INDIA LTD. & BHEL

Basic Competitive Strategic Options (A company's first strategic option)	
Coal India Ltd. Best Cost Provider, Monopoly	BHEL Focused Differentiation
Complementary Strategic Options (A company's second set of strategic choices)	
Coal India Ltd. Joint Ventures Licensing, Acquisition, Expansion, Modernization	BHEL Use of Internet as a Distribution channel Joint Ventures Outsourcing of Value chain activities Acquisition, Expansion, Modernization, Diversification
Functional Area Strategies to support the above strategic choices (A company's third set of strategic choices)	
Coal India Ltd. Production, Marketing	BHEL R&D, Production, Human Resource, Marketing
Timing a Company Strategic Moves in the Marketplaces (A company's fourth set of strategic choices)	
Coal India Ltd Late Mover	BHEL Fast Follower

4) PROFIT AFTER TAX OF MAHARATNA CPSEs in 2012-13

FIG. 4: DATA SOURCE: 2012-13 ANNUAL REPORTS OF BHEL, CIL, GAIL, IOCL, NTPC, ONGC & SAIL

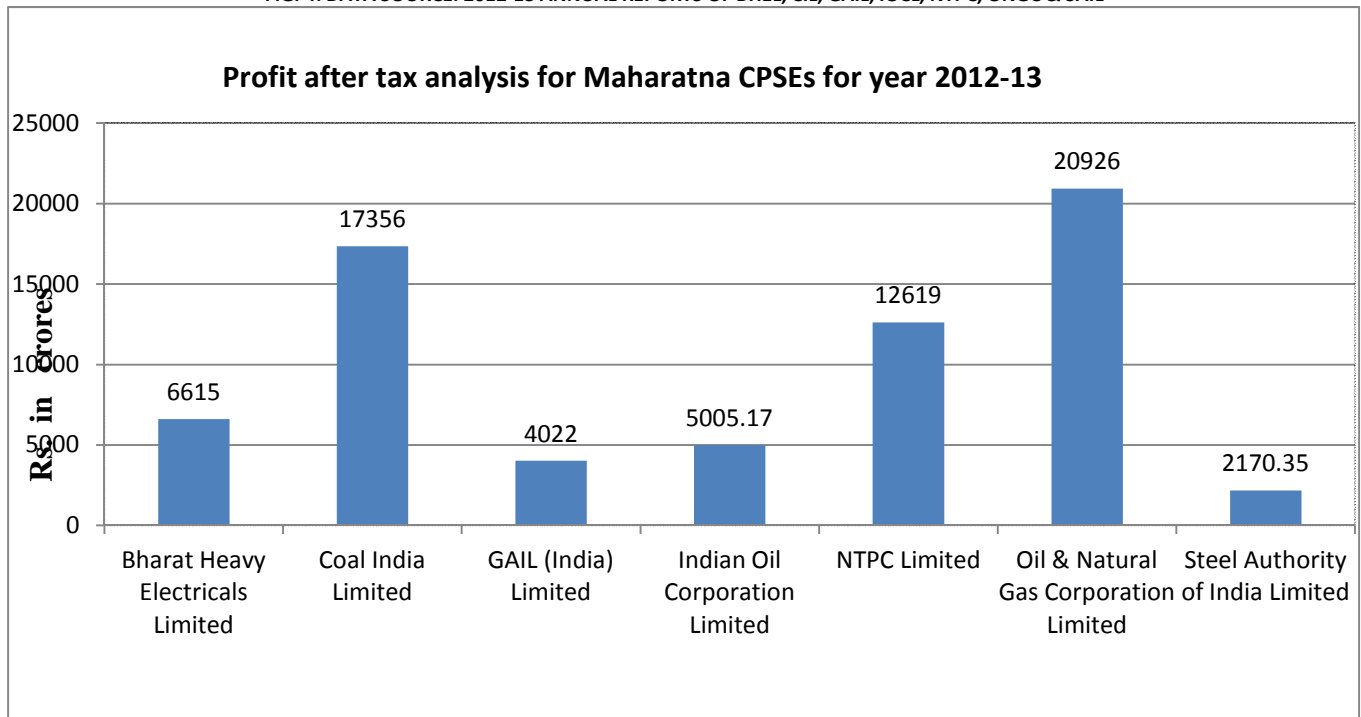


Fig.3 shows the profit after tax analysis of maharatna companies. It indicates that ONGC earns highest profit and SAIL earns smallest profit among maharatna companies.

5) ANNUAL TURNOVER COMPARISON OF MAHARATNA CPSEs IN 2012-13

FIG. 5: DATA SOURCE: 2012-13 ANNUAL REPORTS OF BHEL, CIL, GAIL, IOCL, NTPC, ONGC & SAIL

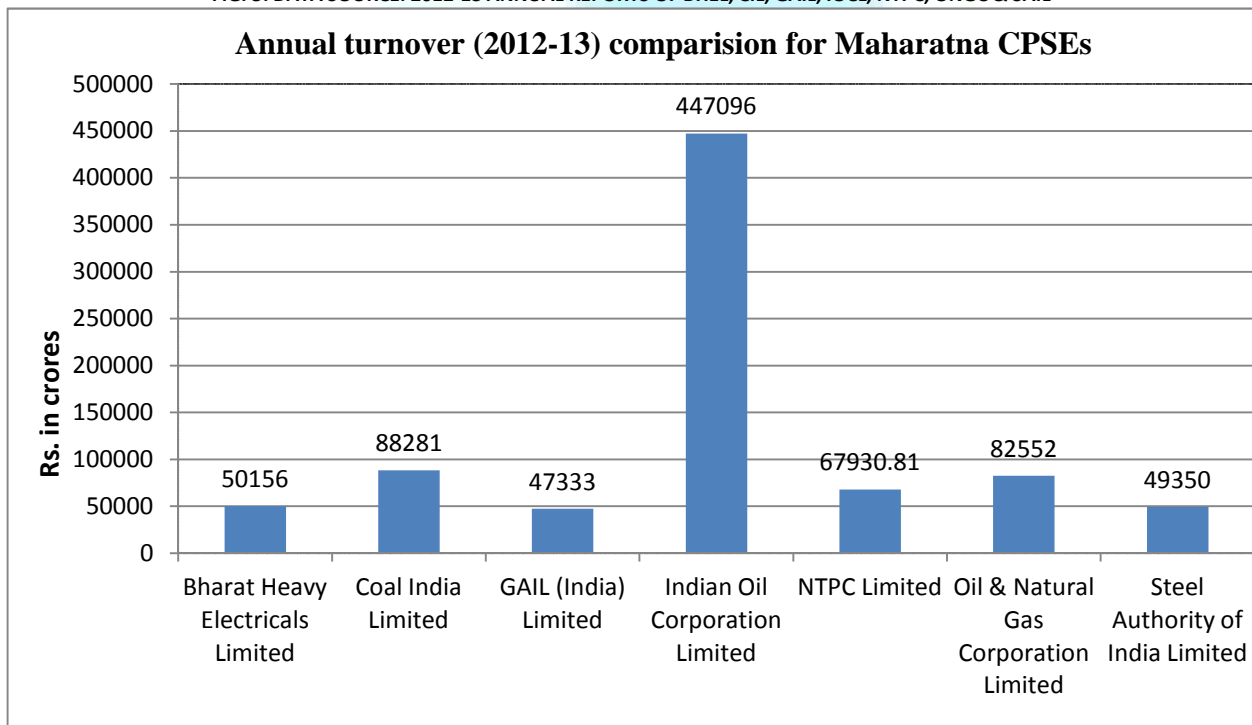


Fig.4 shows that Indian Oil Corporation Limited has posted highest turnover among maharatna CPSEs and GAIL posted lowest turnover.

6) DOMESTIC SHARE OF MAHARATNA COMPANIES IN NATION GROWTH

TABLE 5: DOMESTIC SHARE OF MAHARATNA CPSES

S.No.	Name of the Company	Sector	Domestic share
1	Coal India Limited	Hard Coal & Coking Coal	80%
2	ONGC	Crude Oil	74%
3	GAIL	Natural Gas Transmission	82 %
4	Indian Oil Corporation Ltd.	Supply of Petrol & Diesel	46%
5	SAIL	Production of crude and finished steel	33%
6	NTPC	Thermal Power generation	41.3%

Source of data for S.No. 1 to 5: Table no. 1.10, page no.17, Public Enterprises Survey 2011-12: Vol-I accessed from http://dpe.nic.in/sites/upload_files/dpe/files/survey1112/survey01/Overview.pdf on 19.01.2014

Source of data for S.No. 6: sl.no.4.1.3, Page no.22 accessed from http://www.circ.in/pdf/Public_Sector_Enterprises.pdf on 19.01.2014

Table no.5 shows the strategic importance of Maharatna companies as a domestic share for the growth of nation in the basic area like electricity oil, steel etc. In the coal segment, coal india is having highest domestic share i.e. 80% and SAIL is with least domestic share i.e.33% in steel sector.

CONCLUSION

A company qualifying for the maharstna status should have an average annual turnover of Rs 20,000 crore during the last three years against Rs 25,000 crore prescribed earlier. The average annual net worth of the company should be Rs 10,000 crore.

The Maharatna status empowers mega CPSEs to expand their operations and emerge as global giants. The coveted status empowers the boards of firms to take investment decisions up to Rs 5,000 crore as against the present Rs 1,000 crore limit without seeking government approval. The Maharatna firms would now be free to decide on investments up to 15% of their net worth in a project, limited to an absolute ceiling of Rs 5,000 crore. As a result of it, maharatna companies have 10.83% of market capitalization having a domestic share of more than 30% in the basic area like electricity oil, steel etc.

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