CHAPTER – VI

CONCLUSIONS

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CHAPTER – VI

CONCLUSIONS

6.0 INTRODUCTION

The concept of financial management for private corporate sector and the State owned enterprises does not differ. The principles, the techniques and the postulation adopted by private corporate sector are also adopted by State Owned Enterprises but there are some distinctive features for managing State Owned Enterprises and the private corporate sector because the constitution of State Owned Enterprises differs from the private corporate sector viz. firstly State Owned Enterprises are very large in size and secondly the objectives of State Owned Enterprises are not only the maximization of profit but also they are established for the social gains, development of backward areas, provision of employment which may conflict with the primary objective of private enterprise i.e. wealth maximization of their own

The objectives of developing State owned enterprises in terms of social gains of strategic value especially with regard to development of backward areas and provision of employment are in conflict with the primary objectives of any industrial organization, i.e. profit and resource generation.

6.1 SUMMARY

- Liquidity of GNFC fluctuating as per cash flow. In the year 1996-97, cash generated from operating activity is negative to the tune of Rs.52 crore.

- Gujarat State Fertilizer and Chemicals Limited is an exceptional case where 57 percent increase in number of employees has brought 40 percent reduction in production per employee.

- As per financial statement of Gujarat State Fertilizer and Chemicals Limited, loss of Rs.228 crore for the year 2002-03 was recovered and profit of Rs.42 crore was achieved for the year 2003-04. This indicates profit earning capacity of GSFC Rs. 270 crore in a year which is unprecedent from 1981-82.

- Gujarat State Financial Corporation has a shocking performance in its prime objectives of advancing loans. GSFC gives loans to total five categories of loan seekers and these all has tremendously negative and consistently declining in working performance during the study period from 1994-95 to 2003-04 Gujarat State Financial Corporation has stopped financing from the year 2003-04.

- Gujarat State Financial Corporation has not declared the dividend since 2000-01 till now and its retained earnings are negative from the 2000-01. It is worth noting that profit after tax for the year 2002-03 is negative amounting to Rs.391 crore (Loss) and suddenly it grows to positive Rs.174 crore (Profit) in the year 2003-04. Apparently during 12 months from 2002-03 company has earned the profit after tax amounting to Rs.565 crore, which is beyond imaginations.

- Gujarat State Financial Corporation till 1999-00 whatever figures of profits are shown clearly indicates that GSFC-Fin-written off it's bad loans and charge to P&L account therefore, sudden fall of profit after tax for the year 1999-00 amounting to Rs.10 crore which falls by Rs.87 crore only in one year. From end of 1999-00 to 2001-02 the figures indicate Rs.146 crore of loss within 24 months.

- Gujarat State Financial Corporation from year 2001-02 to 2003-04, has not paid any dividend to its equity shareholders.

- An amount of Rs.75.00 crore was received by Gujarat State Financial Corporation from State Government in October 1996 as "Loan in lieu of Share Capital against provisioning for Non-Performing Assets". The Corporation has accounted this Capital receipt as a Revenue grant which has resulted in understatement of State Government loan pending for conversion to share capital and also overstatement of Reserve and Surplus.[1]

- Overall observation of the production table of GMDC reveals that there is no consistency in the production or excavation.

- The GMDC Lignite project mined ore, Panandhro is unevenly increased up to 2002-03 by 39 percent and immediately in the next year it declined in 2003-04 by 62 percent.

[1] Results of Audit by CAG of India (CAG March 1999 – page no. 13

- As per annual reports of GMDC, sales for the year 2001-02 is Rs.252.6 crore whereas direct taxes paid Rs.344 crore, it is a mismatch between the sales and the direct taxes paid. Similarly the trade receivables received in the year 2001-02 show a mismatch for entire ten years, required to be thoroughly investigated.

- Highest dividend payer State Owned Enterprise is GMDC among selected five State owned enterprises, GMDC has paid 50 percent benchmark dividend in the year 1998-99 and for four years the rate of dividend was 45 percent which is the highest dividend among the selected State owned enterprises.

- Profit before depreciation, interest and tax of GMDC has grown by 43 percent, during these ten years. It is the only company, which has insignificant of financial charges. Profit after tax has grown only by 11 percent during these ten years, which is insignificant, a negligible growth in the company like GMDC. The company has distributed the dividend regularly to its shareholders during all these years.

- Audit revealed the borrowing rate under cash credit arrangement with bank, then prevalent was 17.25 percent per annum whereas the Company agreed to consider the rate of 15 percent per annum as a result of which it could get discount at the rate of 10.5 percent per annum instead of 12.75 percent per annum (17.25 percent minus 4.50 percent). Thus, Gujarat Mineral Development Corporation Limited lost Rs.40.98 lakh by way of lesser discount by ignoring prevalent bank rate of 17.25 percent. Though the Company agreed to premature repayment of loan, it did not bargain with advantage particularly knowing that M/s. Takraf had their compulsion due to their imminent winding up. [2]

- The fact remains that incorrect estimation of the cost of production of calcined bauxite as well as the failure to cover some of the items of input under the price escalation clause of the agreement had entailed an excess cost to Gujarat Mineral Development Corporation ranging from Rs.211 to Rs.1,632 PMT (after considering price escalation recovered) over the sales price. Consequently, the Company suffered a loss of revenue of Rs.3.52 crore on 69,693 MTs of calcined

[2] Page no. 87, CAG March 1997 - GMDC

bauxite sold to the firm at the rate of rs.2,275 PMT during the period from September 1999 to March 2002. [3]

- GNFC has positive EPS throughout ten years Rs.4 42 to Rs 7.98 with the average of Rs.5.77 at standard deviation 1.1 indicates consistency in EPS whereas the EPS of GSFC is highly fluctuating having range of EPS between (-) Rs.49 to (+) Rs.30.95 which is proved by standard deviation of 25.72 and the average of Rs.5.90, during ten years there are negative EPS for three years. Gujarat State Financial Corporation has also five years negative EPS with average of ten years negative EPS Rs.3.79 with standard deviation 22.92. GACL has negative EPS for four years out of ten years and the average of Rs.2.51 with standard deviation 11.61. GMDC for all ten years has positive EPS averaging to Rs.26.73 with standard deviation 11.92.

- Only two companies GNFC and GMDC have payout ratios for all ten years but there is no consistency in the payout ratio. The highest payout ratio is 97% of GMDC for the year 1995-96 and the lowest payout ratio is 1% of Gujarat State Financial Corporation in the year 1994-95

- None of the State owned Enterprises satisfy the requirement as the average current ratio of GNFC, GSFC, GACL, and GMDC is less than ideal current ratio. GMDC's current ratio for the year 2000-01 is extra ordinarily high with 553 percent, it indicates that the fund management of GMDC is weak, lot of funds are blocked up in the current assets which are not remunerative whereas the current ratio of GMDC for the year 2002-03 is less than 100.
- Operating Expenses Ratio: - The operating expenses ratio for Gujarat State Fertilizer & Chemicals Limited indicates that there is no chance to make profit because operating expense is 94 percent leaving a little margin of profit 6 percent. The operating expenses ratio of Gujarat Narmada Valley Fertilizer Corporation is 81 percent and Gujarat Alkalies and Chemicals Limited is 80 percent also having a small margin of profit of 19 and 20 percent respectively. The operating expenses ratio of Gujarat Minerals Development Corporation is very favourable because it

[3] CAG Report, March 2002, page no. 76

is having 51 percent with a large gap of profit margin 49 percent throughout ten years keeping a room for higher profits.

- ❖ Fixed Assets Turnover Ratio: The Fixed Assets Turnover ratios of all four SOEs GNFC – 190.82, GSFC – 114.14, GACL 158.96 and GMDC 147.71 None of the selected State owned enterprises fixed assets turnover ratio is satisfactory. All ten years ratios indicate that the State Owned Enterprises have not used their fixed assets efficiently. Satisfactory fixed assets turnover ratio traditionally identified as four times, here nowhere it is observed more than two times.

- ❖ Current Assets Turnover ratio: Fluctuations are observed in the GNFC in current assets turnover ratio; it ranges from 1.61 times to 26.34 times during these ten years. Whereas Gujarat State Fertilizers Corporation shows consistent current asset turnover ratio ranging between 1.29 times to 1.84 times during the ten years. Similar is the situation of GACL, the highest current assets turnover ratio is 3.30 times, lowest is 1.81 times, whereas GMDC has very low current assets turnover ratio which is less than 0.8 times for all ten years.

- ❖ Return on equity: - The return on equity for GNFC and GACL are having a rising trend with averaging 83 percent and 135 percent whereas GSFC (Fertilizer) shows fluctuations averaging it at 100 percent for ten years. Gujarat State Financial Corporation is only SOEs which gives negative return on equity and GMDC, lowest return on equity throughout ten years.

- ❖ Dividend:- The rate of dividend paid to shareholders is an important factor to decide on the financial performance of SOEs. GNFC and GMDC are two SOEs, paying a reasonably good average dividend at 24 percent and 39 percent with consistency during ten years. GSFC (Fertilizer), GSFC (Finance) and GACL are such SOEs, which failed to pay dividends for 3 years to 6 years.

- ❖ The net profit ratio of GNFC show declining trend till the year 2001-02 and then it is marginally increasing keeping average net profit for ten years at 7.37 percent. The net profit ratio of Gujarat State Fertilizer & Chemicals, Gujarat State Financial Corporation and Gujarat Alkalies and Chemicals Limited are continuously declining to the negative stage. Gujarat Minerals & Development

Corporation's net profit is continuously fluctuating during all these ten years. Except GMDC none of the selected State Owned Enterprises are in a position to make net profit in last five years of the study, they are not the viable enterprises atleast in case of net profit

- There is 57 percent increase in number of employees of GSFC (Finance) during ten years. Conversely the sales per employee have reduced by 10 percent. There is a negative effect of rise in employment. Increase in the number of employees brought a decrease in sales per employee.

- Reduction of 700 employees by GMDC has not affected the production. In case of GNFC and GACL reduction in number of employees has brought increase in production per employee, it means that total production may remain unchanged but production per employee is rising. Gujarat State Fertilizer & Chemicals is once again an exceptional case where 57 percent increase in number of employees has brought 40 percent reduction in production per employee.

- An analysis by Audit of GSFC (Finance) about non payment of the dues in 155 cases (outstanding: Rs.28.83 crore) settled by the Committee at Head office revealed that most of the cases were not even subjected to recovery under Section 29 of the SFCs Act. Four cases (outstanding: Rs.40.15 lakh) were settled only for one rupee each. [4]

- There is an extra ordinary figure of Rs.170 crore as cost of sale for the year 1995-96 of GMDC. Increase in the cost of sales from Rs.79 crore in the year 1994-95 to the year 1995-96, during one year the turnover has grown by 35 percent and cost of sale increased by 61 percent, this uneven increase in cost of sale which does not match with the turnover.

- For the year 1996-97, GNFC has provision for taxes at Rs.22 crore. In a year it increased by 550 percent, except in the year 1999-00 the tax provision was Rs.9.57 crore, for the remaining years it consistently rose upto Rs.73.64 crore in the year 2003-04.

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[4] CAG Report, March 95, page 67

❖ In manufacturing industry rise in Profit after tax by 27 percent from 1994-95 to 2003-04 does not match in current competitive world. In private company the rise may be more than 25 percent in a quarter of a year, whereas GNFC is showing 27 percent rise in ten years.

❖ The profit before depreciation, interest and tax of GSFC (Fertilizer) during ten years fluctuates from Rs.65 crore losses to Rs 460 crore profits. For the year 2002-03, the profit before depreciation, interest and tax is Rs.65 crore and in the year 2003-04 there is profit of Rs.465 crore The rise is Rs.529 crore in 12 months which is unprecedented. It can be imagined that window dressing in profit and loss account for such a fluctuation of Rs.529 crore in 12 months. For other 8 years also the profit before depreciation, interest and taxes has shown volatility between Rs.120 crore to Rs.445 crore, thus profit before depreciation, interest and taxes figures are uncommon.

❖ In case of GSFC (Fertilizer) higher financial charges Rs 205 crore compared to Rs.120 crore of profit and Rs 183 crore financial charges compared to negative profit of Rs.65 crore for the year 2000-01 and 2002-03 respectively. For remaining years nearly 40 to 60 percent of the profit is eaten up by financial charges (lease rent and interest).

❖ In the year 1995-96 the Profit and Loss account of GSFC (Fertilizer) has been debited for tax provision of Rs 1 lakh then for the year 1996-97 it rises to Rs.31 crore. During 12 months the tax provision increased by 1540 percent then after it is declining and for three consecutive years 2001, 2002 and 2003 March it is Rs.2 lakh only.

❖ The GSFC (Fertilizer) has not declared any dividend since 2000-01 and its retained earnings are negative from the 2000-01. Profit after tax for the year 2002-03 is negative amounting to Rs.391 crore (Loss) and suddenly it grows to positive Rs.174 crore (Profit) in the year 2003-04. During 12 months from 2002-03 company has earned the profit after tax amounting to Rs 565 crore, once again uncommon.

- The loss incurred by Gujarat State Financial Corporation 22 percent. Andhra Pradesh Financial Corporation has incurred average 30 percent of loss, 2 percent by Kerala Financial Corporation, 15 percent West Bengal Financial Corporation and 19 percent by Hariyana Financial Corporation. So none of the State Financial Corporations are viable and it looks that no revival is possible for them as they are incurring heavy losses continuously in the past few years.

- Debt service charges of GACL from 1998-99 to 2001-02 have eaten up the major portion of profit. For example in the year 1999-00, the profit stood at Rs.131 crore and interest paid Rs.129 crore, leaving only Rs.2 crore for depreciation and taxation and the dividend.

- In case of GMDC the excavation expenses have more growth rate than that of sales growth. The excavation expenses have increased by 65 percent during ten years. There is a decline in the sales from Rs.256 crore for the year 1998-99 to Rs.214 crore in the year 1999-00. So how decline in the sales volume will give rise to the excavation expenses by almost 85 percent is a big question.

- Very high amount of revenue has been spent under the heading "other expenses" by GMDC, Rs.34 crore in the year 1994-95 to Rs.85 crore for the year 2003-04.

- The average PBDIT is 29 percent, 24 percent and 53 percent to average total income of Kerala, Tamil Nadu and Gujarat Minerals Development Corporation Ltd. respectively. The average profit after tax is 15 percent, 11 percent and 26 percent of the total income for Kerala, Tamil Nadu and Gujarat Mineral Development Corporations. GMDC is better than both.

- Average gross profit of Gujarat Narmada Valley Fertilizers & Chemicals Company Ltd. for ten years is 33 percent of sales. GNFC has incurred nearly 13 percent on selling, distribution and other expenses making total cost nearly 80 percent of the sales, keeping PBDIT at 20 percent. The Debt service charges are averaged at 6.72 percent and depreciation at 4.75 percent. The tax provisions are at 2.21 percent leaving average profit after tax for 6.84 percent to the sales.

- In case of GMDC the highest cash flow from operations is Rs.460 crore for the year 2001-02 and lowest Rs.8 crore in the year 1999-00. Extraordinary payment of interests, dividends and taxes found in the year 2001-02 amounting to Rs.346 crore and it is surprising to know the interest, dividend and tax payment were never more than Rs.4.5 crore till the year 1999-00.

- When sales for the year 2001-02 is Rs.252.6 crore, then how can direct taxes paid be Rs.344 crore as indicated in Cash Flow Statement of GMDC, Similarly the trade receivables received in the year 2001-02 were uncommon for the entire ten years.

- The low gross profit of GSFC (Fertlizer) and GACL that is 5.39 percent and 7.57 percent respectively indicates the higher cost of goods sold due to higher cost of production, or low selling price, these two companies should lower down the cost of goods sold maintaining selling price constant or increase the sales of those goods have higher gross margin. The above explanation for Gujarat State Fertilizer & Chemicals and Gujarat State Financial Corporation indicates the high cost of sales or companies' inability to purchase raw material at lower cost, underutilization of plant and machinery.

- From the available data of 24 States reflect that on an average the rate of return on investment in SOEs is 0.69 percent against which State Governments are spending 11.29 percent interest on their borrowings which results in the ultimate outcome of negative return on 10.6 percent per annum erosion and investment. This loss of 10.6 percent on investment is getting accumulated for number of years, hence State Governments have to pump the money in SOEs regularly to keep them alive. Costly support to SOEs diverts scarce resources away from the Government's health and education budgets and undermines future prosperity of the citizens.

- 1/3rd of investment in State Owned Enterprises of the Government of Gujarat Rs.1010 crore is in a loss making State Owned Enterprises as per the report of the Comptroller and Auditor General of India as on 31st March 2003 and their accumulated losses amounts to Rs.9200 crore.

- Government of Gujarat has invested nearly 11 percent compare to all over India investment in State Owned Enterprises, the lowest is of Mizoram that is Rs.10.98 crore.

- Out of 21 loss making government of Gujarat companies, 14 companies had accumulated losses aggregating to Rs.1146.89 crore which had far exceeded their aggregate paid up capital of Rs.74.14 crore.[5]

- Out of the five Corporations, Gujarat State Road Transport Corporation incurred loss of Rs.207.66 crore for the year 1997. -98 as compared to loss of Rs.72.74 crore for 1996-97. In the year 1998-99 State Government extended financial support of Rs.85.15 crore (equity – Rs.35 crore, loan – Rs.1.52 crore and subsidy – Rs.48.63 crore) to GSRTC [6]

- As on 31 March 2004, Government had invested Rs.11220 crore in Statutory Corporations, Joint Stock Companies and Co-operatives. Government's return on this investment was not only meager (less than one percent) but also significantly declined to 0.27 percent during 2003-04 as indicated below:

Table 6.1: Return on Investment

Rs. in crore

Year	Investment at the end of the year	Return	Percentage of Return	Average Rate of Interest paid by the State
1999-00	3772	27.03	0.72	9.97
2000-01	4707	26.07	0.55	8.75
2001-02	4978	27.52	0.55	9.86
2002-03	5014	42.02	0.84	10.11
2003-04	11220*	29.89	0.27	10.17

* The total investment of Rs 4417 crore booked under SSNNL escaped depiction in respective years, which is included in the year 2003-04.[7]

Four Statutory Corporations and 23 Government Companies with an aggregate investment of Rs.1039 crore upto 2003-04 were incurring losses and their accumulated losses amounted to Rs.8802 crore as per the accounts furnished by these companies.

[5] CAG March 1999 – page no. 10
[6] CAG March 1999 – page no. 11
[7] CAG Report (Civil) March 2004, page 16

- Summation of the squares of deviation taken from mean of profit after tax calculated for the selected state owned enterprises shows heavy fluctuations in three out of five that is GSFC (Fertilizer), GSFC (Finance) and GACL. The standard deviation of profit after tax for these three selected SOEs is 199, 93 and 50 respectively, remaining two also gives high standard deviation that is 18.

- In interstate comparison of Financial Corporations of Gujarat, Andhra Pradesh, Kerala, West Bengal and Hariyana, Gujarat State Financial Corporation observed highest average income earner and highest average interest income amounting to Rs.269 Crore and Rs.205 Crore respectively The lowest one is West Bengal Financial Corporation earning Rs.38 crore as total income. Gujarat State Financial Corporation spent 64 percent of its income on interest and other expenses whereas Andhra Pradesh Financial Corporation spent 103 percent that is more than income earned , Kerala Financial Corporation spent 92 percent, West Bengal 102 percent and Hariyana 109 percent. So Gujarat State Financial Corporation spent less than other four financial corporations.

- Interstate Alkalies & Chemical Companies: The total expense of Punjab Alkalies nearly consumes the entire revenue whereas the expenses of Gujarat Alkalies are 78 percent of total revenue leaving nearly 21 percent PBDIT of total revenue. Both Punjab and Gujarat Alkalies are spending 11 percent of their sales on financial charges. PBDT, PBT and PAT of Punjab Alkalies are increasingly negative, average profit after tax of Punjab Alkalies is negative that is 7.5 percent whereas profit after tax for Gujarat Alkalies is average 1.36 percent. Average loss 8 percent to sales for Punjab Alkalies and average profit is 1 percent to sales for Gujarat Alkalies, obviously both the companies are not earning expected returns neither on investment nor on their asset.

- With respect of total expenses incurred for earning the revenue, Gujarat Mineral Development Corporation appears ideal because only 46 percent of total income the manufacturing, selling and distribution expenses are incurred, whereas Kerala and Tamil Nadu Mineral Development Corporations have incurred more than 70 percent of total expenses to the total income. The average PBDIT is 29 percent, 24 percent and 53 percent to average total income of Kerala, Tamil Nadu and Gujarat Minerals Development Corporation Ltd. respectively. The average profit after tax is 15 percent, 11 percent and 26 percent of the total income for Kerala, Tamil Nadu and Gujarat Mineral Development Corporations.

- Bombay Stock Exchange PSU Index which is a composite value of the shares of 34 SOEs rose from 988 in January 2002 to 3,812 on February 20, 2004 – a rise by 386 percent. This implies that Rs.100 invested in PSU stocks in January 2002 would have become Rs.386 on February 20, 2004. In that sense, the SOEs have become machines which create wealth very rapidly.
- Other parameters also indicated that the SOEs in the states were a big drain on the revenues of the State governments For instance, total investment in State SOEs increase from Rs.77,760 crore in 1990-91 to Rs.1,97,105 crore in 1998-99, while the net worth increased from 14563 crore to Rs.53,579 crore during the same period. However, net worth was about Rs.1,49,727 crore short of capital employed in 1998-99. This indicates a heavy erosion of the capital base which is a cause for serious concern.

- The contribution to GDP of the state owned enterprises in 1998-99 was 4.5 percent and of the private corporate sector 4.2 percent. Going 5 years back (that is 1993-94), it was 4.0 percent for the state owned enterprises and 3.8 percent for the private corporate sector, still higher for the state owned enterprises"[8]

- Upto 20 percent of government equity in selected state owned enterprises was disinvested through mutual funds.

- The State Finance Commission has suggested the Reform Programme called "Public Sector Resource Management Programme" under which the focus is on privatization, divestment and restructuring of 23 State Owned Enterprises. The State owned enterprises reform programme in Gujarat is the first comprehensive attempt towards privatization.

- According to the Ministry of Disinvestment, estimated total investment in State Level Public Enterprises was of the order of Rs.1,62,063 crore as on 31 March 2000. Six states, viz. Gujarat, Maharashtra, Karnataka, Uttar Pradesh, West

[8] Mohnot S.R. (2001), Reinventing the Public Sector, pp 11-12.

Bengal and Punjab accounted for a total investment of Rs.1,03,084 crore, accounting for 63.6 percent of total investment in all SLPEs

- ❖ Disinvestment has also been undertaken in States. As per information compiled by Institute of Public Enterprises, Hyderabad, out of 222 State Level Public Enterprises (SLPEs) identified for disinvestment / winding up / Restructuring, the process of disinvestment / privatisation has been initiated in 124 enterprises, 30 SLPEs have been privatised and 68 SLPEs have been closed down, as per information available at the Website of Ministry of Disinvestment upto 25.12.2002.

- ❖ **Table:6.2 Earning per Share of selected State Owned Enterprises for the year 1994-95 to 2003-04**

Sr. No.	Selected State owned Enterprises	AVG	SD
1	Gujarat Narmada Valley Fertilizer Company Ltd.	5 77	1.21
2	Gujarat State Fertilizer & Chemicals Limited	5.19	25.72
3	Gujarat State Financial Corporation	-3.79	22.92
4	Gujarat Alkalies & Chemicals Ltd.	2.51	11.61
5	Gujarat Minerals & Development Corporation	26.73	11.92

- ❖ **Table 6.3: Proportion of different expenses to turnover of selected state owned enterprises in Gujarat.**

Figures in %

Particulars	GNFC	GSFC (Fertilizer)	GSFC (Finance)	GACL	GMDC
Manufacturing Expenses	67	75	64	74	22
Selling, Distribution and Other expenses	12	10	10	5	25
Interest	7	8	23	11	1
Depreciation	5	5	0.5	8	9
Tax	2	0.5	1	1	17
Dividend	3	0.75	1.5	0.5	5
Retained Earnings	4	0.75	-	0.5	21
Turnover	100	100	100	100	100
Gross Profit	33	25	36	26	78
PAT	6.84	1.7	-22	1.36	26.12

(Source: Annual Reports)

Above figures are drawn from profit and loss accounts for ten years average that is 1993-94 to 2003-04. Lowest manufacturing expenses and highest gross profit of GMDC that is 22 percent and 78 percent respectively. If Gujarat State Finance

Corporation results are ignored GSFC (Fertilizer) and GACL are falling in the similar line for gross profit and manufacturing expenses that is 25 percent and 75 percent respectively. Distributable profit of GMDC is highest at 26 percent for every sale of Rs.100, the second highest is GNFC nearly Rs. 7 of Distributable profit for every Rs.100 sale.

6.2 CONCLUSIONS

- Except GMDC none of the selected State Owned Enterprises are in a position to make net profit atleast in the last five years of the study, they are not the viable enterprises atleast in case of net profit.

- Overall claim of outsiders on the assets of the GNFC is greater than that of owners, in other words the fixed obligations of the company are more and they have to depend on the outsiders for the financial requirement.

- Every state owned enterprises selected; have experienced the increase in the gross fixed assets during 23 years starting from 1981-82 to 2003-04

- In all selected state owned enterprises depreciation provided is observed to be very low. Under provision of depreciation inflate the profit in selected state owned enterprises The rate of depreciation is kept very low to inflate the profit.

- In case of GNFC, profit after tax. increase doesn't match with increase in Turnover volume.

- Low fixed asset turnover ratio· None of the selected State owned enterprises fixed assets turnover ratio is satisfactory. All ten years ratios indicate that the State Owned Enterprises have not used their fixed assets efficiently. Satisfactory fixed assets turnover ratio traditionally identified, as four times, here we observe that nowhere it is more than two times.

- The net profit ratio of Gujarat State Fertilizer & Chemicals, Gujarat State Financial Corporation and Gujarat Alkalies and Chemicals Limited are continuously not only fluctuating but also abnormally declining to the negative stage.

❖ Normally increase in capital employed adds to profit after tax. This is not observed in the present analysis. Conversely in three state owned enterprises that is GNFC, GSFC (Finance) and GACL, there is negative correlation which indicates rise in capital employed has reduced the profit. In case of GSFC (Fertilizer) and GMDC, the correlation is positive but degree of correlation is insignificant. This can be interpreted as huge increase in capital employed will bring marginal rise in profit.

❖ Wealth maximization is the prime objective of financial management. The financial goals may be maximising the profits and minimising the risk.

❖ State Owned Enterprises are the destiny of political assignment ignoring merits which suffer from the lack of business interest. Comprehensive attempts are being made by government towards privatization and restructuring of State Owned Enterprises in Gujarat to strengthen the fiscal position of the State.[9] The continuous deficit in the budget and move to reject subsidies by WTO, has forced the Government to privatize and restructure the loss making State Owned Enterprises.

❖ State ownership often produces poor performance. (Moore, 1972) Political preferences and pressures govern key project parameters such as plant location, capacity planning, implementation time frame, employment and product/service pricing. Apart from the above, while bad SOEs are rewarded through subsidies, relatively better SOEs are penalized through restricted access to capital compared to other competitive private enterprises.[10]

❖ In a business, every businessman continues the activity of business so long he earns the normal profit or normal rate of return on his investment. Obviously, this normal rate of return on investment is bound to be more than rate of interest paid by the Banks on deposits. Once the rate of return on investment in business declines less than rate of interest on deposits in Banks, he may prefers to close down his business. State Governments are continuing their businesses in SOEs by

[9] The State Finance Commission headed by Ex Finance Minister Mr. Sanatkumar Mehta and Ex Chief Secretary – Gujarat Mr S.K. Shelat submitted report on 'state fiscal position'

[10] International Perspectives on Privatisation of State-Owned Enterprises, Narendar V Rao, Northeastern Illinois University, C. Bhaktavatsala Rao, Ashok Leyland Ltd , Steve Dunphy, Northeastern Illinois University

earning negligible return like less than 1 percent or no return or negative returns and that's why it can be derived that State Government should disinvest these State Owned Enterprises

- Unfortunately the rate of return on the investment in SOEs is either very low or negative. It is less than the rate of interest on saving deposits. One positive aspect was observed that the State owned enterprises provide higher employment to the people of Gujarat but as the financial results are negative, further increase in employment has been stopped by State owned enterprises. Conversely, they are retrenching the employees who are presntly in the employment. So this second positive aspect has also become negative.

- SOEs lack a system of economic incentives. They do not have an effective **'reward and punishment'** system. Their employees and managers enjoy a safety tenure. They have a poor system of fixing responsibility for mistakes or negligence of individual functionaries; and there is no worthwhile system of rewarding hard work, efficiency and integrity.

- Public enterprises are subject to political intervention and exploitation. This breeds corruption, and creates problems of overstaffing, inefficiency and lack of cost and quality control. It is now widely recognized that decision makers in the government are guided more by their own interest than that of the economy. Some enterprises may be forced to procure their inputs from specified sources only

- SOEs are deprived of professional management and entrepreneurial skill They are not able to take timely and appropriate decisions in many fields like changing the quantum, quality and design of the product, or altering the marketing strategy etc.

- SOEs, instead of becoming a buoyant source of resource generation for the government, have become a burden on it.

- A serious charge against the operation of public enterprises is that they were used for private purposes deliberately ignoring the objectives for which they were established.[11]

- "There are reasons to believe that some top level decision – makers in the government have also used the SOEs to further their own interested. Imports provide one such opportunity. Foreign manufacturers are naturally interested in pushing their products into India. Reportedly it is quite common for them to bribe influential persons to secure the order. Once this is realized it may not be difficult to understand why the capabilities of SOEs were often not recognized or further developed, why indigenous efforts were often opposed and imports were preferred" [12]

- The Indian public sector (generally termed as SOEs) shares the feature of low and erratic profitability of SOEs worldwide. A study of finances of 236 SOEs owned by the Government of India (1990-91) indicates that the net profitability of the firms is only 2 percent of gross sales. In fact, 109 out of 236 SOEs incurred losses. The reasons for the poor performance of SOEs are well documented and not surprisingly, bear a uniform pattern, globally.[13]

- Andhra Pradesh SOEs reforms have generated a revenue of Rs.485.50 crore from the process completed in respect of 54 enterprises.[14]

- Alarmingly, a survey by the World Bank in 1988 revealed that in 25 developing countries the median contribution of the SOEs to the overall public sector deficit was 48 percent (Cavendish, 1992). Cowan (1990) states that the budgetary costs of SOEs in terms of GDP, were 11 percent in Sri Lanka and 10 percent in Zimbabwe.[15]

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[11] Sudip Chaudhari has documented this charge by quoting a number of decisions and studies

[12] Sudip Chaudhari, Public Enterprises and Private Purposes, Economic and Political Weekly, Vol XXIX, No. 22, May 28, 1994, p. 1345

[13] International Perspectives on Privatisation of State-Owned Enterprises, Narendar V. Rao, Northeastern Illinois University, C Bhaktavatsala Rao, Ashok Leyland Ltd., Steve Dunphy, Northeastern Illinois University) Ch. 2

[14] Privatization - A success story in Andhra Pradesh - Implementation Secretariat - Public Enterprises Department, Government of Andhra Pradesh

[15] Performance of Privatized Enterprises: Planatation Sector in Sri Lanka, Executive Summary of DBA Research Proposal by Suren Peter, Sri Lanka - MSM - DBA Proposal Defense

- Publicly owned enterprises in competitive environment would not perform better than privately owned companies in the same circumstances in terms of profitability and may perform worse. In general, increases in profitability are not equivalent to increases in efficiency. This will only be true in a competitive environment. Privatization has a negative effect on employment in the short run, a positive effect in the medium and long run. [16]
- Mr. R. Ganapati, former Chairman of the Board for Industrial and Financial Reconstruction (BIFR) thinks "if more managements are divested of control of their companies and workers' co-operatives set up in their place, promoters may be galvanized into curing their sick units"
- In view of the historical background of state owned enterprises in India, it is inconceivable that privatisation in this country will be accepted by the society as an end in itself, since there is no consensus in favour of market solutions.[17]
- In regression analysis the R^2 of GSFC (Fertilizer), GSFC (Finance), 30 percent and 19 percent respectively proves the hypothesis that 'gross profit does not depend upon turnover' is accepted which is against the principle that every change in turnover will bring the change in gross profit.
- Similarly in regression analysis the R^2 of GSFC (Fertilizer), GSFC (Finance) and GACL is 10 percent, 18 percent and 2 percent respectively. The net profit as an dependent variable does not depend on independent variable turnover has been provided which is against the simple principle of increase in turnover will bring increase net profit.
- Prior period adjustments are identified in almost profit and loss account, which are influencing the profit of state owned enterprises. These prior period adjustments do not allow gross profit or net profit to behave proportionately with the turnover.

6.3 SUGGESTIONS

- GSFC (Finance) has non-performing assets of 23.8 percent for 2000-01, 46.93 percent for 20001-02 and 24.73 percent for 2002-03 and 22.1 percent for 2003-04.

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[16] Privatization and its benefits: Theory and evidence by Eytan Sheshinski and Luis F. Lopez-Calva, CESifo Economic Studies, Vol.49, 3/2003, 429-459, October 1997, A Handbook Prepared for the Treasury

[17] Ramanadham V.V., Privatisation in Developing Countries (1990), Routledge, London, pp.86-87

Such non-performing assets to the total advances are not tolerable; therefore, Gujarat SFC should be closed down at an earliest.

- There is no need to disinvest GMDC as it earns 78 percent of gross profit and 26 percent of net profit based on average of last 10 ears There should be control of on selling, distribution and other expenses, these heads of expenses consumes more than manufacturing expenses, 21 percent of the profit retained by GMDC which is added to networth.
- GNFC, GSFC (Fertilizer) and GACL are showing recovery during recent past. Improvement in the corporate governance may improve financial performance of these three companies, they may be given the opportunity to improve as the projections are improving
- An enterprise operating in a competitive market should be left to its own devices without a budgetary guarantee to meet its losses. If its losses persist, it may even be closed down.
- SOEs should be confined to a limited and selective set of activities; and its goals should be clearly and objectively defined
- The SOEs may also withdraw from areas where no public purpose is served by its presence. The SOEs should come in where the investment is essential for preservation and augmentation of basic resources of the country like land, forest, water and ecology, science and technology.
- Releasing the large amount of public resources locked up in non-strategic SOEs, for redeployment in areas that are much higher on the social priority, such as basic health, family welfare, primary education and social and economic infrastructure;
- Stemming further outflow of these scarce public resources for sustaining the unviable non-strategic SOEs;
- Reducing the public debt that is threatening to assume unmanageable proportions;
- Transferring the commercial risk to the private sector wherever the private sector is willing and able to step in; and

- Releasing other tangible and intangible resources.
- State owned enterprises are in need of proper theory or concept of performance evaluation.
- There is need of integrating the existing accounting system with the current economic and sociological concepts.
- The price policy of state owned enterprises should be rationalized.
- The importance of better system of material management will be apparent from the burden of the avoidable heavy inventories that many state owned enterprises are carrying at present.
- In order to achieve full utilization of capacity, state owned enterprises must explore possibilities.
- Improvement is required in the field of project planning and implementation.
- For the effective working of state owned enterprises, political consideration should not come in there way.
- Competitive dualism should be introduced in most of sectors of the economy.
- "Prime Minister Rajiv Gandhi in his first broadcast to the nation in 1984 to declare in unambiguous terms; The SOEs has spread into "too many areas where it should not be. We will be developing our SOEs to undertake jobs that the private sector cannot do. But we will be opening up more to the private sector so that it can expand and the economy can grow more freely."
- As Mr. Arun Shourie wrote in his book, "The way to reform this system is not to tinker with this procedure or institution; but to just jettison the function, to hack away the limb wherever that is possible".[18]
- The Rangarajan Committee emphasized the need for substantial disinvestment. It stated that the percentage of equity to be divested could be up to 49 percent for industries explicitly reserved for the SOEs. It recommended that in exceptional

[18] Privatisation is a spark that went out in India, by Andy Mukherjee, Bloomberg News, 09.11 2004

cases, such as the enterprises, which had a dominant market share or where separate identity had to be maintained for strategic reasons, the target public ownership level could be kept at 26 percent, that is, disinvestment could take place to the extent of 74 percent. In all other cases, it recommended 100 percent disinvestment of Government Stake Holding of 51 percent or more equity by the Government was recommended only for 6 Schedule industries, namely:)i) Coal and Lignite; (ii) Mineral oils; (iii) Arms, Ammunition and defence equipment; (iv) Atomic energy; (v) Radioactive minerals; and (vi) Railway transport.

6.4 FURTHER SCOPE OF STUDY:

- Interpolation and Extrapolation analysis can be done for parameters, gross profit, net profit, turnover, cost of sales so that the future trend of the said variables can be predicted, based on which government can take the decision about disinvestment.
- The figures of prior period adjustment should be tabulated for all the years to analyse the effect of the prior period adjustments on the profit of respective years.
- Gujarat Electricity Board, Gujarat State Road Transport Corporation and Sardar Sarovar Narmada Nigam Limtied should be studied in detailed to test the return on investment of Government of Gujarat.
- The analysis of non commercial state owned enterprises should be made based on their service to the society in uplifting the standard of living of people of Gujarat as they are found loss making state owned enterprises.