

## CHAPTER 2 RETURN ON INVESTMENT

### 2.1 Dividend Policy

2.1.1 The guidelines issued by the Ministry of Finance in 1995 and 1996 envisaged that all profit-making PSUs that were essentially commercial enterprises would declare a minimum dividend of 20 per cent either on equity or on post-tax profit, whichever was higher. Minimum dividend payable by PSUs in Oil, Petroleum, Chemical and other infrastructure sectors was desired at 30 per cent of post-tax profit. The Ministry had further emphasized that the objective of the Government was to achieve minimum return of five per cent on overall investment in all PSUs across the board as against 1.82 per cent achieved in 1993-94.

### 2.2 Return on Investment

2.2.1 Details of return on investment in Government Companies and Corporations are given in Appendix I indicating their aggregate position with regard to accumulated loss, net worth, Sales/Turnover, Profit/Loss before and after depreciation, interest, provision for tax, dividend, etc. Details of percentage of net worth to paid-up capital, cash loss, percentage of dividend to paid-up capital, export sales as percentage of net sales and percentage of sales subject to price control during 2002-03 to 2004-05 are indicated in Appendix - VI. In the last two years, the overall percentage of net worth to paid up capital in PSUs under all Ministries and Departments increased from 201.77 in 2003-04 to 227.45 in 2004-05 and cash loss decreased from Rs.5602.02 crore in 2003-04 to Rs.2714.78 crore in 2004-05 (i.e. by 51.54 per cent).

### 2.3 Profitability Analysis

2.3.1 Company-wise profitability analysis of 276 Central Government companies and corporations indicating correlation of profit after tax to net worth and capital employed, profit before depreciation, interest and tax to net sale, net assets and capital employed and dividend to equity is given at Appendix – VII. This revealed that the ratios declined in 2004-05 over the previous year in 120 companies. A further analysis revealed that there were negative variations (more than 20 per cent) as compared to the previous year in the profit before depreciation, interest and tax to sale in 49 PSUs, profit before depreciation, interest and tax to net asset in 43 PSUs, profit before depreciation, interest and tax to capital employed in 59 PSUs, profit after tax to net worth in 71 PSUs and profit after tax to capital employed in 67 PSUs. A summary table indicating the trend of these ratios over a period of three years is given in next page:

	2002-03	2003-04	2004-05
--	---------	---------	---------

		Rs. in crore		
1.	*Profit before depreciation, interest and tax	103180.96	132785.16	146441.08
2.	Profit before interest and tax	74458.10	100864.69	112988.90
3.	Profit before tax	51304.59	77899.82	91323.27
4.	Profit after tax	31980.28	55668.67	66544.92
5.	Net Worth <sup>⊗</sup>	273579.02	272831.87	322622.77
6.	Capital Employed <sup>♦</sup>	435729.40	455780.14	490514.49
7.	Dividend	13802.31	15374.20	20689.47
8.	Paid Up Capital	124178.58	135220.66	141843.24
		Ratio		
9.	Profit before depreciation, interest and tax to Net Worth	0.38	0.49	0.45
10.	Profit before interest and tax to Net Worth	0.27	0.37	0.35
11.	Profit before tax to Net Worth	0.19	0.29	0.28
12.	Profit after tax to Net Worth	0.12	0.20	0.21
13.	Profit before depreciation, interest and tax to Capital Employed	0.24	0.29	0.30
14.	Profit after tax to Capital Employed	0.07	0.12	0.14
15.	Dividend to Equity	0.11	0.11	0.15

2.3.2 On the basis of the data for the year 2004-05 furnished by the individual PSUs, the following ten PSUs have been ranked in terms of ratio of net profit before interest and tax to capital employed and net profit before tax to net worth which help to measure profitability is given below. For this purpose PSUs which have declared dividend besides having paid-up capital of Rs.100 crore and above have been considered.

#### A. Ranking in terms of ratio of net profit before interest and tax to capital employed

Rank	Name of the PSU	Ratio
1	South Eastern Coalfields Limited	23.51
2	National Thermal Power Corporation Limited	2.72
3	Nuclear Power Corporation Limited	2.08
4	Bongaigaon Refinery and Petrochemicals Limited	0.87
5	Western Coalfields Limited	0.61
6	Kudremukh Iron Ore Company Limited	0.60
7	Mahanadi Coalfields Limited	0.59
8	Hindustan Aeronautics Limited	0.53
9	Steel Authority of India Limited	0.52
10	National Mineral Development Corporation Limited	0.49

#### B. Ranking in terms of ratio of net profit before tax to net worth

\* Represents net of losses in respect of 276 PSUs.

⊗ Net Worth represents paid up capital, share premium and free reserves & surplus less accumulated losses and miscellaneous expenditure not written off.

♦ Capital Employed means sum of net fixed assets and working capital (current assets less current liabilities).

Rank	Name of the PSU	Ratio
1	Housing and Urban Development Corporation Limited	21.41
2	South Eastern Coalfields Limited	2.96
3	National Thermal Power Corporation Limited	1.46
4	ONGC Videsh Limited	1.01
5	Steel Authority of India Limited	0.99
6	Hindustan Aeronautics Limited	0.95
7	Bongaigaon Refinery and Petrochemicals Limited	0.90
8	Mangalore Refinery and Petrochemicals Limited	0.68
9	Kudremukh Iron Ore Company Limited	0.60
10	Mahanadi Coalfields Limited	0.58

## 2.4 Profit-earning PSUs

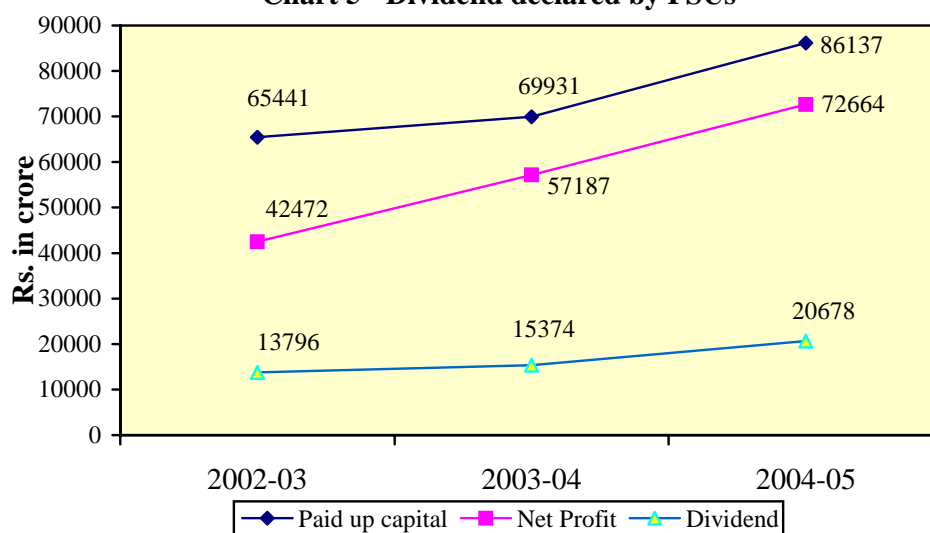
2.4.1 The table below indicates that the number of PSUs earning profits increased and the number of PSUs that had declared / paid dividend during the last three years ended 31 March 2005 also increased from 135 in 2002-03 to 164 in 2004-05. However, dividend declared as a percentage of net profit earned by these PSUs decreased from 32.48 per cent in 2002-03 to 28.46 per cent in 2004-05. In absolute terms, the dividend declared by the PSUs in 2004-05 increased by Rs.5303.81 crore (34.50 per cent) i.e. from Rs. 15374.20 crore in 2003-04 to Rs. 20677.73 crore in 2004-05 (See Chart 5) which excludes Rs. 11.74 crore declared by one PSU out of reserves. However, 59 PSUs which earned an aggregate profit of Rs. 3569.04 crore in the current year did not declare any dividend.

### PROFIT EARNING PSUs

(Rs. in crore)

Year	No. of PSUs earning Profit	PSUs which declared/paid Dividend					PSUs which did not declare Dividend		
		No.	Paid up Capital	Net Profit	Dividend	Percent-age of Dividend to Net Profit	No.	Paid up Capital	Net Profit
1	2	3	4	5	6	7	8	9	10
2002-03	135	91	65440.83	42471.83	13796.31	32.48	44	22900.41	1487.42
2003-04	157	98	69930.53	57187.49	15373.92	26.88	59	35498.22	7559.67
2004-05	164	105	86137.08	72663.78	20677.73 <sup>⊕</sup>	28.46	59	28187.14	3569.04
Total profit earned by 164 PSUs during 2004-05 was Rs. 76,232.82 crore.(Col 5+ Col 10)									

<sup>⊕</sup> Excludes dividend of Rs.11.74 crore paid by one PSU partly out of reserves.

**Chart 5 - Dividend declared by PSUs**

2.4.2 Out of the total profit of Rs. 76232.82 crore earned by 164 PSUs, as much as 83.45 per cent (Rs.63,617.94 crore) was contributed by only 44 PSUs under five sectors viz., Petroleum, Telecommunication Services, Power, Steel and Coal & Lignite in which the product prices are administratively determined or regulated to varying degrees. The sector-wise breakup of these 44 PSUs is given in the following table:

Sector	No. of Profit earning PSUs	Net Profit earned (Rs. in crore)	Net Profit as a percentage of total profit
1. Petroleum	14	26765.12	35.11
2. Telecommunication Services	3	11141.82	14.61
3. Power	12	10181.24	13.36
4. Steel	8	8963.36	11.76
5. Coal & Lignite	7	6566.40	8.61
<b>Total</b>	<b>44</b>	<b>63617.94</b>	<b>83.45</b>

2.4.3 During the year 2004-05, only New India Assurance Company Limited proposed fully paid bonus shares amounting to Rs.50 crore. Although the total net worth of six PSUs under four Ministries / Departments\* had exceeded their paid up capital twice over, they had neither declared dividend nor issued any bonus shares.

## 2.5 Dividend Declaration

2.5.1 In the current year, out of total dividend of Rs. 20689.47<sup>⊕</sup> crore declared/ paid by 105 Public Sector Undertakings, dividend received/receivable by Government of India amounted to Rs.14881.15 crore. The return on aggregate investment of Rs. 74826.34 crore made by the Government of India in equity capital of 78 PSUs<sup>∞</sup> was 19.89 per cent. Similarly, the Central Government companies received Rs.3172.86 crore as dividend on their investment of

\* Ministry/Department of Commerce, Heavy Industry & Public Enterprises, Information Technology (Department of Electronics) and Power.

<sup>⊕</sup> Includes dividend of Rs.11.74 crore paid by one PSU partly out of reserves.

<sup>∞</sup> Excludes 27 subsidiaries with no direct Government investment.

Rs. 5402.50 crore in the equity of various subsidiaries (also Government Companies) and thus earned a return of 58.73 per cent.

2.5.2 While 105 PSUs under 26 Ministries/Departments declared dividend in the current year, no dividend was declared by 59 PSUs under 25 Ministries/Departments. The return on net worth of Rs.322622.77 crore in all PSUs was 6.41 per cent only. The return on the total investment of Rs.113476.36 crore made by the Government of India in all the PSUs was Rs.14,881.15 crore, i.e. 13.11 per cent. This rate of return was higher than the prescribed benchmark of five per cent on overall investment, but less than 30 per cent of post tax profit. This is despite the fact that 105 out of 164 profit-making PSUs declared dividend. The average payout of dividend was more than 13.5 per cent (the rate of interest chargeable on Government Loans) in 23 Ministries/Departments. However, 68 PSUs declared/paid dividend of more than 15 per cent individually, 14 PSUs declared/paid dividend at rates ranging from six to 15 per cent and 23 PSUs declared/paid dividend at less than six per cent of the paid up capital.

2.5.3 The PSUs under the Ministry of Petroleum and Natural Gas contributed 49.67 per cent (Rs. 10276.87 crore) of the total dividend (Rs. 20689.47 crore) declared by various PSUs in 2004-05.

2.5.4 Details of PSUs which did not comply with the Government's directive on declaration of dividend mentioned in para 2.1.1 above, are given in Appendix VIII. From the details it is evident that 29 PSUs under 16 Ministries did not comply with the Government directive in the payment of dividend. The total shortfall on this account was Rs. 3392.96 crore during the year 2004-05.

2.5.5 The top ten dividend paying PSUs are as under:

Rank	Name of the PSU	Amount of Dividend (Rs. in crore)
1	Oil and Natural Gas Corporation Limited	5703.74
2	National Thermal Power Corporation Limited	1978.92
3	Indian Oil Corporation Limited	1693.62
4	Steel Authority of India Limited	1363.03
5	Bharat Sanchar Nigam Limited	1175.00
6	Gas Authority of India Limited	676.52
7	Hindustan Petroleum Corporation Limited	509.00
8	Northern Coalfields Limited	459.51
9	South Eastern Coalfields Limited	424.45
10	Mahanadi Coalfields Limited	405.20

## 2.6 Loss-making PSUs

2.6.1 The number of PSUs that suffered loss at the close of the last three years ending 31 March 2005 are given in the following table:

### LOSS MAKING PSUs

(Rs. in crore)

Year	No of PSUs suffering loss	Paid-up Capital	Net Loss for the year
2002-03	121	27925.43	11979.16
2003-04	105	27060.78	9077.63
2004-05	101	24654.97	9688.03

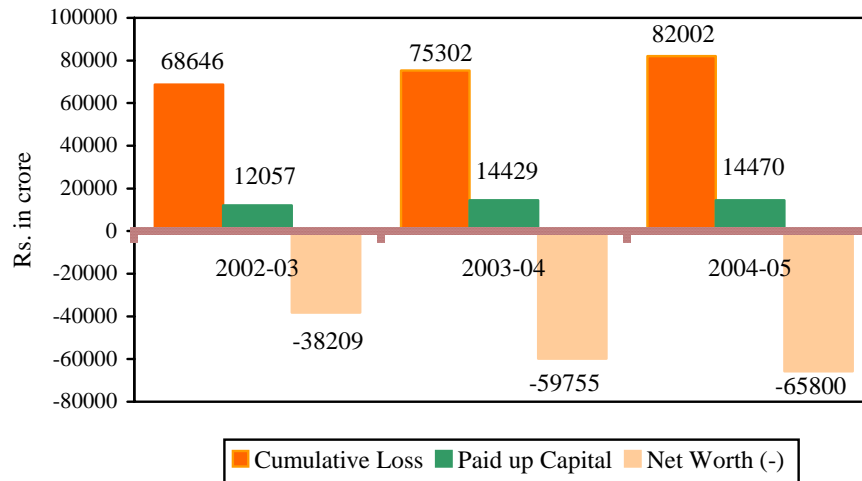
2.6.2 Loss in most of the PSUs included in the above table has been accumulating over the years. Due to the changes brought about by the liberalisation of economy, a large number of PSUs which had grown exponentially over the years in a virtually non-competitive environment, started facing increasingly severe competition. While many of the PSUs were learning to survive and grow by adapting themselves to the new situation, a large group of PSUs, significant both in number and investment, are today beset with serious problems like slow growth, low productivity, inefficient management, inadequate emphasis on research and development, inadequate or unfocussed marketing, shortage of working capital, etc. The challenges facing these PSUs were to cut costs, increase productivity, market their products and services aggressively, increase profitability and to generate surplus. All these parameters ultimately hinged upon the degree of asset utilisation, technological innovations and human resource management. PSUs which could not rise to these challenges continued to incur losses.

2.6.3 Accumulated losses of PSUs increased by Rs. 3571.29 crore (4.37 per cent), i.e. from Rs.81786.38 crore in 2003-04 (132 PSUs) to Rs.85357.67 crore in 2004-05 (125 PSUs).

## 2.7 Capital Erosion

2.7.1 The equity capital of 88 Companies under 20 Ministries / Departments (See Appendix-IX) had been completely eroded. Their accumulated losses were Rs.82,001.65 crore against investment of Rs.14,469.59 crore as on 31 March 2005 making their net worth negative (See also Chart 6). As such the recovery of loans given by the Government of India to 58 companies and other agencies has become doubtful. Of these 88 companies, 31 are under the Ministry of Heavy Industry and Public Enterprises, 16 are under the Ministry of Textiles, 6 are under the Ministry of Chemicals and Fertilizers, 5 are under the Ministry of Steel and 5 under the Ministry of Tourism. The total Central Government loans outstanding against 58 Companies as on 31 March 2005 amounted to Rs. 34295.01 crore. The total loans remaining unpaid on due dates amounted to Rs.7957.69 crore (28 PSUs) as on 31 March 2005. Further, interest overdue on the outstanding loans was Rs.10913.36 crore (28 PSUs) and penal interest leviable for non-payment of loans on due dates amounted to Rs.8378.29 crore (18 PSUs).

**Chart 6**  
**Erosion of Equity Capital by Cumulative Loss**



## 2.8 Companies referred to BIFR

2.8.1. Of these 88 Companies, 52 have been referred to the BIFR as indicated in Appendix - VIII. Out of the companies referred to BIFR, 19 have been recommended for closure / winding up/ sale. Revival package has been approved in respect of 14 companies. Nineteen cases are under various stages of processing.

2.8.2 The Companies referred to above included 40 companies (Appendix - VIII) having share capital exceeding Rs.50 crore (which had been fully eroded) as on 31 March 2005.