CHAPTER ONE
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INTRODUCTION

1.1 Importance of the study:

Public sector plays a leading role in the economy of the country functioning in key areas of industries such as coal, steel, minerals and metals, heavy equipment, power etc. Public Sector also operates service enterprises in the field of foreign trade, shipping, transportation, construction, consultancy, tourism, development of small industries etc. They have been assigned a very important role in the economic development of the country under the mixed economy concept. The philosophy of establishing public enterprises in India is to fulfil certain socially desired objectives, such as to provide equal opportunity for all, to have a share in industrial production and to build a balanced regional development. In developing countries, much of the public enterprises is largely a necessity and not a matter of choice.\(^1\) Therefore, public enterprise is of growing significance not only in India but all over the world. In Britain, public ownership and management encompasses coal, gas, electricity, airline, road, transport, railways and broadcasting. In France, both coal and petroleum have been nationalised\(^2\). In all socialistic countries public enterprises have played a vital role in their development plans. There are reasons to believe that the public sector has been and could be in the years to come highly instrumental in contributing to the economic welfare of the country with social and distributive justice\(^3\).

The Government of India promulgated the first Industrial Policy Resolution (IPR) in 1948. The first category included industry which were solely reserved for public sector. In the second category were industries which had to be progressively nationalised though they were marked with the presence of both public and private sectors, the third category constituted industries where private sector dominated but the entry of public sector was not ruled out. The fourth category of industries was solely left to the private sector. It is, therefore, obvious that the public sector has now come to stay as an integral part of Indian Economy\(^4\).
The First Five Year Plan (1951-56) indicated the need for rapid expansion of the economic and social responsibilities of the state. The Parliament reconsidered the industrial policy in December, 1954 and accepted the objective of the Government to establish “a socialistic pattern of society”5. The Industrial Policy Resolution (IPR) 1956, where the scope of public sector widened the adoption of socialistic pattern of society as the national objective as well as the need for planned and rapid development required that all industries of basic and strategic importance or in the nature of public utility services should be in the public sector. The state has, therefore, “to assume direct responsibility for the future development of industries over a wider area”6. The Industrial Policy Resolution, 1956 besides emphasising and widening the scope of state participation in industrial development also stressed the need to run public sector units as commercially viable units.

In the early 50s, the role of the public sector was confined to develop infrastructure and social overhead facilities so that industrial activities could be given a boost. Later it was found that the private sector was not protecting the interests of consumers. The Government, therefore, decided to diversify its activities into other fields. Today, a sick or a mismanaged unit, whether it is a textile mill or a spiritual home at Aureville can be brought under its over expanding domain. Public sector has a unique place in the Indian Economy. Several of its enterprises enjoy a virtual monopoly in the production of basic raw materials such as steel, coal, minerals and metals, petroleum, fertilizers, pharmaceuticals, heavy engineering goods and electricity.

In many western capitalist countries public sector undertakings earn a reasonable surplus and generate internal resources for growth, diversification, research and development. Public sector holding companies in Italy, France and Sweden operate and conduct their affairs on the basis of accepted sound commercial and industrial practices. The planned development in India has given public enterprises a leading role. Recent trends like rapid scientific and technical advancements, ever-expanding computerisation and information technology, policies of liberalisation and globalisation of economy etc. have drastically transformed the sphere of activity of business organisations and corporate houses the world over8.
Our present study centred around profitability of public sector steel plants in India. Per capita consumption of steel is considered as an important index for the industrial prosperity of a nation. After independence, the industrial policy statement of 1956, placed iron and steel in Schedule A. Steel to Nehru was a symbol of the strength of economy and a portrait of the glory of India of the future. Steel plants account for nearly 1/3rd (33%) of the total investment of industries in India. Steel is used as a basic material in the manufacturing of metal products, electricity machinery, transport equipment, textiles and other machineries. Without steel, modern civilization cannot survive.

1.2 Objective of the study:

This study is undertaken to critically examine and analyze the profitability of the public sector steel plants in general and that of the Rourkela Steel Plant in particular. After the passing of Public Sector Steel Companies Restructuring and Miscellaneous Provisions Act, in May 1978, all the steel manufacturing companies in public sector have come under Steel Authority of India Limited (SAIL) as its separate divisions in the annual report of SAIL, the accounting data relating to these steel manufacturing companies are clubbed and published together. So far as the steel industry is concerned ‘SAIL’ represents the entire public sector and Rourkela Steel Plant is one of its six units.

The specific objectives of the present study are as follows: -

i. To critically examine and analyze the performance of Rourkela Steel Plant and other units of SAIL namely - Bhilai, Durgapur, Bokaro, Alloy (Durgapur) and Salem Steel plants.

ii. To make a comparative study between Rourkela Steel Plant and other units of SAIL and with a private company, TISCO.

iii. To evaluate the performance of Rourkela Steel Plant and other units of SAIL with the reasons thereof followed by the steps to be taken for their improvement.

iv. To assess the contribution of Rourkela Steel Plant to SAIL.

v. To ascertain the profitable units of SAIL.
This study aims at providing valuable suggestions for the improvement of performance of the public sector steel plants in general and Rourkela Steel Plant in particular.

1.3 Scope of the study:

The study covers not only the Rourkela Steel Plant but also steel plants like, Bhilai, Durgapur, Bokaro, Alloy, Salem and the major private sector unit, i.e., Tata Iron and Steel Company (TISCO). The data relating to all these units are collected and analysed in order to ascertain the profitability of the public sector steel plants in relation to the private sector steel plant and that of the Rourkela Steel Plant with others within the public sector.

1.4 Methodology:

We propose to carry on our study of comparison of financial performance for 25 years from 1978-79 to 2002-03 of different steel plants of the public sector as well as Tata Iron and Steel Company (TISCO) in the private sector using the popular technique of profitability analysis like Ratio, Trend analysis, Common size statements, coefficient of correlation and tables etc.

Profitability is a measure of efficiency and the search for it provides an incentive to achieve efficiency. Profitability also indicates public acceptance of the product. Moreover, profits provide the money for repaying the debt incurred to finance the business and the resources for further expansion. The profitability of a firm can be measured by its profitability ratio.

Ratio analysis is the process of determining and interpreting numerical relationships based on financial statements. A ratio is a statistical yardstick that provides a measure of the relationship between two variable and figures. This relationship can be expressed as percent. Profitability ratios can be determined on the basis of either sales or investments. The profitability ratios in relation to sales are (a)
profit margin (gross and net) (b) expenses ratio or operating ratio. Profitability in relation to investment is measured by (a) return on assets, (b) return on capital, (c) return on shareholders' equity. Of course, return on shareholders' equity ratio is not necessary on public enterprises as in these companies issue of shares to the public is restricted. Analysis and interpretation financial statements are also an attempt to determine the profitability position of a firm. It studies the relationship among various financial factors in a business as disclosed by profit and loss account and balance sheet. The analysis of financial statements consists of a study of relationships and trends to determine whether or not the financial position and results of operations as well as the financial progress of the company are satisfactory. The other methods generally used for financial analysis related to profitability are (1) trend analysis (2) common size (percentage) statements.

(1) Trend Analysis :

This method of analysis involves computation of the percentage relationship that each statement item bears to the same item in the 'base year' which may be the earliest year involved in the comparison or the latest year or any intervening year. It shows the relative changes in the financial data resulting with the passage of time.

(2) Common size (Percentage) statements :

Common size expense statement has been prepared to know the percentage spent on individual item of expenditure out of total expenditure of different firms to know the efficiency of individual firms in spending. On the other hand, common size (percentage) income statements show the percentage of net sales that has been absorbed by each individual cost or expense item. The statistical tools like, coefficient of correlation and tables are used in this study. The degree of relationship between two variables under consideration is measured through the correlation analysis. The measure of correlation called the correlation coefficient or correlation index summarizes in one figure the
directions and degree of correlation. The correlation analysis refers to the technique in measuring the closeness of the relationship between the variables.

1.5 Hypotheses for the study:

The following hypotheses are tested in the study:

1. Increased sales lead to increased profits.
2. Increase in operating expenses generally reduce the profits.
3. Increased capital employed does not necessarily lead to increased net profits.
4. Increased profits generally give high return on investments.
5. The performance of the public sector steel plants is not as encouraging as that of the private sector.

1.6 Plan of the study:

The study has been sub-divided into seven chapters as detailed below:

The first chapter deals with the introduction, importance, purpose, methodology, hypotheses and limitations of the study. An attempt has been made in this chapter to explain the significance and the procedure of the study.

The second chapter provides a brief introduction on the public enterprises of India and their financial performance.

In the third chapter a detailed picture of the steel industries of India is explained.

The fourth chapter deals with the measurement of profitability.

The fifth chapter contains a brief introduction on Rourkela Steel Plant.

In the sixth chapter profitability of all the steel plants in the public sector particularly Rourkela Steel Plant and other units of Steel Authority of India Ltd.; i.e., Bhilai, Bokaro, Durgapur, Alloy (Durgapur) and Salem Steel Plants in one hand and
Tata Iron and Steel Company (TISCO) in the private sector on the other hand are analysed and compared with the help of data for twenty five years (1978-79 to 2002-03).

This chapter provides a comparative analysis of TISCO, SAIL and its units. It clearly depicts the performance appraisal of both public sector steel plants, SAIL and its units as well as private sector, TISCO and its relative superiority over public sector units.

Chapter seven, the last chapter, deals with the summary of the findings and conclusions.

1.7 Limitations of the study:

The analysis is based upon the audited annual reports of Steel Authority of India Limited (SAIL), limited access to the records and files and personal discussion with the executives of the SAIL, its different units and TISCO.

The profitability analysis from the view point of investors could not be made as the issue of shares to the general public is restricted. Moreover, shares are issued by the Steel Authority of India Limited (SAIL) and not by the individual steel plants; i.e., Rourkela Steel Plant and others.

It is felt that accounting profit as a measure of performance can explain very little as it is much sensitive to accounting techniques and external factors beyond the control of the plant like inflation, depression etc. Moreover, profit based ratios will not be available in the years of loss which is a common feature of public sector units.
References:


