CHAPTER V

CONCLUSIONS AND FINDINGS
In the preceding chapter, the organisation and working of Coal India Limited has been analysed with the help of some parameters. The financial structure of the company has also been examined. It is found that the financial structure of the company is quite alarming in the sense that the company is incurring huge losses. It is all due to some lacunae in its overall working. In the present chapter, an attempt has been made to present the conclusions and findings of the study. Some suggestions have also been made for better functioning of the public sector enterprises in general and Coal India Limited in particular with reference to their financial structure.

Public sector has emerged as a major tool for industrial development of our country. The countries which were the champions of the Laissez Faire policy have realised the importance of state intervention in the economic affairs of the nation. Public sector's presence has been felt in other developing countries in the Third world and the developing countries of the World also. Public sector is operating and working in the developing countries such as in Somalia, Zambia, Bangla Desh, etc. Public sector is also found in industrially developed countries like France, Germany, Japan, the U.K., Italy, Canada, the U.S.A. etc.
After the attainment of independence, the Government of India paid much attention towards the expansion and development of industries of the country and special emphasis was given to the development of public sector.

The basic objective for which a public enterprise is set up is social benefit rather than profit. In India, the twin primary objectives of public enterprises are the augmentation of production and mobilisation of resources for further economic development. The public sector has thus become an essential feature and dynamic instrument for achieving socialism. The socialistic pattern of society which has been accepted as a national goal and which promises an equitable standard of living for the vast majority of masses, has to serve fully and justly the cause of economic progress. While there may be still many flaws in the functioning of the public sector, there is sufficient evidence to prove that without the public sector, it may not have been possible to build the versatile infrastructure in different spheres of national life which we witness today. If poverty is to be banished and if each citizen is to have and enjoy a basket of minimum essentials of life i.e. food, shelter, clothing etc. there is an urgent need to set up production of goods and services relevant to the needs of the masses.
The development strategy of the public sector in the country started after the launching of the five year plans. In 1950, there were only 5 Central public enterprises of industrial and commercial sector other than departmental undertakings and financial undertakings with a modest investment of Rs.29 crores. The expansion and development of public sector enterprise was started after the launching of the Second Five Year Plan. In the Second Five Year Plan, the plan outlay for the public sector was 59.74 percent of the total plan outlay and in the Seventh Five Year Plan it reached to Rs.1,80,000 crores which was 51.70 percent of the total plan outlay. The total contribution from public enterprises in the Seventh Five year Plan at 1984-85 price was Rs.35,485 crores in which Railways contributed Rs.4,225 crores and other Central enterprises Rs.31,500 crores and the state enterprise contributed only 15 crores. This shows that the contribution of the public sector enterprise in the Seventh Plan was much higher in comparison to other sectors of economy.

On the production side, public sector enterprise contribute a lot to the economy of the country. Today, apart from the entire core sector, most of the basic and strategic industries considered so vital for economic security and national self-reliance are in the public
sector. Equipment needs of sectors like Railways, Telecommunication, Nuclear power, Defence etc. have also been entrusted to the public sector. Public sector accounts for nearly 100 percent of lignite production, 100 percent of copper and lead, 100 percent telephones and teleprinters, 98 percent of coal, 85 percent of zinc, 46 percent of nitrogenous, 40 percent of saleable steel, 30 percent of phosphatic fertilizers and 25 percent of aluminium. The production of raw coal during the year 1958-59 was less than 10 million tonnes in the public sector which secured to 3.98 million tonnes in 1968-69, Now the production of coal under public sector reached to 178.59 million tonnes in the year 1989-90. The production of nitrogenous fertilizer was 3.91 lakh tonnes in the year 1968-69, it jumped to 18.45 lakh tonnes in 1984-85 whereas it was only less than one lakh tonnes in 1958-59. During the year 1984-85 the highest production under public sector was reported from aluminium of 87,358 tonnes. It is noticeable that till 1968-69, there were no production of aluminium under public sector. The increasing trend also witnessed by zinc metals by the production of 50,795 tonnes in 1984-85 whereas it was 13,670 tonnes in 1968-69. The production of copper metal was reported at 41,021 tonnes in 1984-85 but till 1968-69 there were no copper metal production under public sector.
During the year 1985-86, the cumulative production of 33 manufacturing public sector units was valued at Rs.3846.25 crores as against Rs.3274.29 crores in the previous year. This was 95 percent of the target of Rs.4041.78 crores which recorded a growth rate of 18 percent during 1985-86. The production during 1986-87 amounted to Rs.4,782 crores as against the target of Rs.4,797 crores. The value of production of public sector enterprises aggregated Rs.65,034 crores in 1986-87 of this Rs.45,520.66 crores (70 percent) was accounted for, by the manufacturing enterprises and Rs.19,514.09 crores (30 percent ) by the service enterprises. The value of production represented an increase of 16.3 percent compound per annum /1977-78. During the year 1987-88, the production of lignite, petroleum, copper, primary lead and teleprinters was 100 percent in public sector. The contribution of public sector in the national production of steel Ingot and Aluminium was 60.18 percent and 41.93 percent respectively in the year 1987-88. The production of 33 manufacturing enterprises has achieved Rs.6,568 crores in 1988-89 which was 18 percent higher than the production of Rs.5553 crores in the previous year. The Annual Report of the department of heavy industries for the year 1990-91 said that the 33 undertakings recorded
Rs.8346 crores production during the year and the production was expected to touch Rs.10,093 crores in 1991-92. Now the government is giving much emphasis to increase the production of public sector units and introduce new production items in the public sector enterprises. It is being noticed that the unit cost of production in India is much higher as compared to the unit cost of production for developed countries of the World. The managers of the public sector enterprises have to exert themselves with a great deal of sense of adventure, managerial integrity and competence to fulfil these obligations of producing goods and services at competitive price and try their best to bring down the cost of production.

The financial structure of public sector enterprises is predominantly determined by the form of their funding by the government. There is a budgetary link between the government and the public enterprises such as a link should be widely appreciated in its proper perspective for an appraisal of the lackluster financial performance of these enterprises and for suggesting the means of improving it. The government provides funds to public enterprises in the form of equity, loans and grants. Each form has got different budgetary effects and implication for both. Equity
represents the risk capital on which a dividend is declared at the management's discretion. On loan, interest is to be paid at the stipulated rate. Interest, therefore, becomes a cost of enterprise and has been borne with the consequent impact on its product price which are generally administered. Consequently its cash flow and profit position are effected as its production has got a long gestation period. This normally happens in the public sector. Its fixed interest obligation becomes onerous and impairs its ability to win new business.

As far as the financial performance and structure of public sector enterprises are concerned, we have seen in previous chapters that the investment in the public sector has grown preferably over the years from a figure of Rs.29 crores in the year 1950-51 to Rs.61643 crores in 1986-87. The investment in top ten public sector enterprises during the year was Rs.34294.74 crores in which the investment of SAIL was Rs.6415.76 crores, CIL Rs.6275.21 crores and NTPC Rs.6147.79 crores and stood 1st, 2nd and 3rd in terms of investment respectively.

In the year 1988-89, the investment of the public sector enterprises jumped to Rs.85,564 crores. The highest investment of Rs.9384.34 crores was reported from NTPC followed by CIL of Rs.8183.76 crores and SAIL
of Rs.7120.09 crores. As per the latest information available for the year 1990, there were 248 public sector undertakings with a total investment of Rs.1,30,000 crores. The Finance Minister in his budget speech for the year 1991-92 announced that the government may disinvest upto 20 percent of its equity in 47 profit making public sector undertakings in favour of mutual funds and financial or investment institutions in the public sector. Later on, with the change of the government in the Centre the idea for disinvestment of 20 percent of government equity holding in selected public sector undertakings to bring in Rs.2560 crores of non-credit capital into the budget may be deferred. The government has taken into consideration the foreign investment upto 51 percent equity which may be allowed in public sector undertakings.

The government may also allow, private equity participation in public sector undertakings. As per the statement of the Union Minister of Industry that in the present circumstances, it would not be able to pump in more funds into 200 odd public sector units where in it had already invested Rs.1,00,000 crores. Despite this huge investment, it was ironical that many of these units failed to generate either wealth or surpluses. This has created the worst financial crises ever for the
country since independence. The government preferred a pragmatic approach and was considering to allow equity in public sector units by financial institutions and Industrial Houses. This would help generate capital for the development of the units.

The generation of internal resources by the public sector has greater importance because the financing of the expansion and development activities of the Central public enterprises have to depend to generate internal resources. The gross internal resources generated during the plan period was Rs.287 crores in the Third plan, Rs.1260 crores in the Fourth plan, Rs.3439 crores in the Fifth plan. The quantum of gross internal resources generated by the public sector enterprise was Rs.5067.95 crores in 1985-86, which increased to Rs.8898.83 crores in 1988-89. The resources available to public sector enterprises were Rs.93352.29 crores in March 1987 in which the share of loan was Rs.33285.77 crores which went up to Rs.39318.54 crores in 1988 and Rs.50877.18 crores in 1989. The public sector enterprises utilised the resources of Rs.39901.45 crores for plant and machinery which was the highest for the year 1987-88. The working capital was 20.17 percent in 1987 whereas it was 20.28 percent in 1988. The capital—work-in-progress and unallocation
expenditure got Second place in terms of resources utilised in 1989. The contribution of public sector enterprises to Central Exchequer amounted to Rs.16331 crores in 1988-89 as against Rs.2887 crores in 1979-80. In both the years the share of Excise duty was highest which represented 40.68 percent and 60.82 percent respectively. The amount paid as dividends in the year 1978-79 was Rs. 72 crores which reached to Rs. 84 crores in 1980-81 which represented 10.52 percent increase from the previous year. During the year 1988-89, public sector enterprises' contribution to the Central Exchequer was Rs.16331 crores in which the highest share of 40.68 percent was from Excise duty followed by 34.30 percent from custom duty, 8.56 percent from corporate tax provision, 2.16 percent from dividend declared and 14.28 percent from other duties.

The role of pricing is also important in the financial performance of public sector. The pricing policy as a measure to monitor the performance of the public sector enterprises assumes greater significance. Various principles are followed in the pricing of the products of public enterprises depending on the nature of the goods and the objective the government may keep in view. After independence the no-profit-no-loss principle was followed by most of the public enterprises
in our country but the government soon realised its deficiencies and revised the pricing principle of no-profit-no-loss.

To know a bit more about the performance of any enterprise it is necessary to evaluate the profitability of these enterprises that these enterprises should be capable of earning a reasonable amount of profit but the profitability of the public sector enterprises is quite poor. These enterprises are incurring huge losses. In 1959-60, the rate of profit on capital was worked out at 3.5 percent for the industrial enterprises roughly similar to the figure 3.4 percent in 1958-59. In the year 1960-61 it was 4.1 percent in case of the commercial enterprises. It was 3.1 percent in 1959-60 and 1.5 percent in 1960-61. On the whole, a profit of Rs.8.13 crores was earned in 1959-60 on a capital outlay of Rs.358 crores by 37 public enterprises. During the year 1970-71 the Central Government enterprises incurred a loss of Rs.3 crores whereas the net profit as percentage of sales was -0.1 percent for the first time. The public sector enterprises recorded a net profit of Rs.18 crores in 1972-73 which increased to 240 crores in 1976-77 but in 1977-78 these enterprises incurred a net loss of Rs.91 crores. The biggest loss making
enterprises in 1978-79 were CIL Rs.212 crores, Shiping Corporation of India Rs.33 crores, and HEC Rs.27.4 crores. In the year 1979-80, there were 169 enterprises in operation that incurred a loss of Rs.74.29 crores.

During the year 1980-81, the public sector enterprises incurred a loss of Rs.128.68 crores and in 1981-82 these enterprises earned a profit to the tune of Rs.618 crores which was higher by 38.6 percent or 172 crores as compared to 1981-82. From 1960-61 to 1980-81 these undertakings sustained a total loss of Rs.520 crores during the 12 years and earned profit of Rs.490 crores over the other eight years. During 1985-86, public sector enterprises have achieved highest quantum of overall net profits of Rs.1199.35 crores. This is after adjusting the losses incurred by some enterprises, especially the sick nationalised units which alone account for a net loss of Rs.257.42 crores. During 1984-85 among the top ten profit making enterprises were ONGC, NHPC, SAIL, the Shiping Corporation of India Limited.

Further, though the public enterprises had earned a net profit equal to Rs.1172.44 crores in 1985-86. The gross profit of these enterprises jumped to Rs.7112.56 crores in the year 1987-88 as against Rs.6521.13 crores
in 1986-87. In the year 1988-89 the net profit after interest payment and taxes worked out to Rs.2980.96 crores -- a clear 50 percent jump from the previous year and in fact this was the highest ever over all net profits earned by Central public sector enterprises. The top ten profit making public sector enterprises during the year 1988-89 were ONGC, IOC and SAIL that earned Rs.2094.58 crores, Rs.676.41 crores and Rs.358.40 crores respectively and got 1st, 2nd and 3rd place respectively in terms of their profitability. On the other hand, out of the 103 loss making enterprises, the Fertilizer Corporation of India Ltd, stood first in terms of top ten loss making enterprises by incurring the loss of Rs.191.23 crores, followed by Hindustan Fertilizer Corp. Ltd. of Rs.156.38 crores and Indian Iron and steel company Ltd, of Rs.119.55 crores.

The net profit earned by 233 operating public sector enterprises during 1989-90 amounting to Rs.3,781.73 crores worked out to 4.06 percent of the investment. The highest profit was earned by ONGC of Rs.1625 crores followed by Indian Oil Corp. of Rs.521 crores and NTPC Rs.405 crores. In the year 1990-91, the net profit of these enterprises reached to Rs.2730.27 crores. It was, however, Rs.1,017 crores less as compared to the previous year. The main reason for this
was that wages were increased substantially during the year and thus led to a decline of net profit by about Rs.100 crores.

So far as the financial structure of Coal India Limited is concerned, it is a fact that the prices of Coal are fixed on the recommendation of various committees constituted by the government. CIL does not have the authority either to negotiate wages in the coal industry or to fix or change coal price. Although 60 percent of the cost of production of coal is due to labour, the fixation of wages in Coal industry and its price revision have never been simultaneous with an usual time lag of 1-3 years during the year 1975-76. The prices of coal secured were Rs.64.92 per tonne whereas the cost of Coal per tonne was Rs.75.66, Rs.10.74 more than the price of Coal. The prices of Coal jumped to Rs.101.18 per tonne in the year 1980-81 whereas the cost of production was Rs.123.45 per tonnes. The difference between the cost of production and the prices was Rs.22.27 crores. In the year 1985-86, the cost of coal increased by Rs.17.44 per tonne and the price of coal remained the same as that was in 1984-85 Rs.183.00 per tonne. During the year 1988-89, the prices of coal increased by 13.69 percent from 1987-88
whereas the prices were fixed of Rs.249.00 per tonne. The cost of coal increased by 7.84 percent in the year 1989-90 as against the cost which was Rs.244.35 per tonne in 1988-89.

The profitability is the main concern of the CIL because it is incurring huge losses. These losses continued till 1980-81 but in 1981-82 CIL as a whole earned a profit of Rs.5.63 crores. This profit remained for a single year and in 1982-83, CIL incurred a loss of Rs.5.34 crores. The increasing and decreasing trends of losses for CIL continued till 1988-89 but in the year 1989-90, CIL earned a profit of Rs.80.13 crores. This was after the seven years of losses. All the subsidiaries of CIL made profits during the year 1989-90 except WCL and SECL. The losses of these subsidiaries were Rs.30.94 crores and Rs.32.32 crores respectively. As per the latest information, CIL made a profit of Rs.563 crores during the year 1990-91.

The financial structure of the company is much better in comparison to other loss making concerns. For its running, the Central government provides finances by way of budgeting support. The budgeting support from the government for capital expenditure has declined sharply from 96 percent in 1987-88 to 73 percent in
1989-90 and it is lowest at 31 percent during 1990-91. The equity of the CIL was Rs.377.41 crores in the year 1975-76. CIL holds the loans from the government of India including over due interest which was Rs.343.01 crores. The debt equity ratio of the company was 0.91. It jumped to 1.20 in 1980 whereas the equity of the company was Rs.803.16 crores. The equity of the company reached to Rs.1286.89 crores in 1982. The loans from government of India including over due interest was Rs.1453.45 crores as against Rs.964.88 crores in 1980. The total loans of CIL for the year 1982 was Rs.1453.45 crores. The equity ratio of the CIL calculated was 1.13, the net worth: equity was 0.43, ratio of current asset to current liabilities was 1.66.

In the year 1985-86, the capital structure of the company showed that the debt equity ratio of the company was 0.84:1 whereas it was 0.85:1 in 1984-85. The reserves and surplus (Rs.411.67 lakhs) amounted to (a) 0.068 percent of the total liabilities in 1985-86 as against 0.002 percent in 1984-85 (b) 0.137 percent of equity capital (Rs.3,01,231.11) in 1985-86 as against 0.005 percent in 1984-85. The share capital of CIL as on 31.3.1986 was Rs.294269.55 lakhs. The reserves and surpluses for the year 1985-86 were Rs.411.67 lakhs in
which Rs.18.65 lakh was the funds received during the year. The total funds employed for the year was Rs.593212.06 lakhs which jumped to Rs.10,31,095.50 lakhs in the year 1989-90. The authorised capital of the company was Rs.6,00,000 lakhs. On the borrowing side of the company, secured loans were Rs.41716.86 lakhs. The share of State Bank of India, Punjab National Bank, Union Bank of India and Canara bank was Rs.20140.22 lakhs, Rs.2966.42 lakhs, Rs.1403.55 lakhs and Rs.0.24 lakhs respectively. The term loan from ONGC (secured against guarantee given by the government of India) was Rs.10,000.00 lakhs. Terms loan from Punjab National Bank (secured against fixed deposit) was Rs.7000.00 lakh of the interest accrued and due was Rs.206.43 lakhs. The unsecured loans amounted to Rs 466647.47 lakhs in which the long term loan from government of India was Rs.374459.58 lakhs. Short term loan from Neyveli Lingite Corporation Ltd. was of the order of Rs 2500.00 lakhs. (13 percent Non-convertible secured Bonds Rs.5000.00 lakh). 9 percent Non-convertable (tax-free) secured Bonds of Rs.15000.00 lakhs (both to be secured by equitable mortgage/hypothecation of fixed Assets Northern Coalfields Ltd.). Public deposits of Rs 1098.12 lakhs and interest accrued and due on government loan was Rs 68589.77 lakhs. The debt equity ratio of the
company was 0.71:1 in 1989-90 as against 0.07:1 in 1988-89.

An analysis of the Public sector enterprises with special reference to CIL revealed unsatisfactory long-term financial strength. The proportion of net worth was very low as compared to proportion of long-term borrowings. This was the result of the losses suffered by these units. A comparison of proportion of net worth and fixed assets shows that on the whole, the majority of fixed assets had been financed by borrowed funds. This confirms the conclusion that long-term financial strength of CIL was found unsatisfactory during the course of our study. A comparison of current assets and current liabilities reveals an unsatisfactory short-term financial strength. The debt equity ratio and most of the public sector enterprises was lower. There is a considerable scope for improving the situation. CIL should try to reduce its losses and try to build up its own funds so as to improve the proportion of net worth. It should also try to reduce the burden of long-term borrowings. As far as possible, it should finance its fixed assets from its resources. This will also reduce the proportion of inventories. This reduction of the proportion of inventories on the one hand and reduction in the amount of borrowings on
the other, will effect the profitability of the Coal India Limited positively.

It is suggested that the CIL may safely try to decrease the quantum of working capital to some extent. The company obtained funds from long term borrowings while its profit generating capacity on the whole did not support the use of long-term borrowings as a source of funds. The company should try to obtain funds through issue of share capital rather than borrowings and generate sufficient funds preferably through internal sources or from issue of share capital. It is found that the Government of India and management of CIL is trying its best for the financial viability and sound financial position of the company. Recently the company has issued bonds and thrown fixed deposit schemes to the general public. All these are efforts in the right direction.

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