

SECTORAL PERFORMANCE OF STATE LEVEL PUBLIC ENTERPRISES IN ANDHRA PRADESH

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ABSTRACT

During last 50 years the State Level Public Enterprises (SLPEs) in Andhra Pradesh have been making significant contributions in various sectors in the economy. Currently Andhra Pradesh stands in second position in terms of its industrialization. The enterprises operate in manufacturing, promotional, financial, trading and service, utility and welfare sectors. Their performance impacts the budgetary position of the state government in ways more than one. A robust financial performance results in increasing non-tax revenue and reducing the fiscal deficits through reduced subsidization. Historically these enterprises have had a mixed performance. As on date 38 SLPEs are working and 18 are not working in the state of Andhra Pradesh. The current study is to analyze the sectoral performance of the SLPEs in Andhra Pradesh.

Keywords: Public, Enterprises, performance, sectoral, Andhra Pradesh

INTRODUCTION

The State Level Public Enterprises (SLPEs) constitute an important segment of the economy of the Andhra Pradesh. There are 54 enterprises in the state, having total investment of Rs. 33914 crore in 2004-05. The total investment comprised of Rs.8346 crore of equity and Rs. 25567 crore of debt. State equity has increased at a compound rate of 23.70 per cent during the 1990s, as a result of that the share of state equity in total equity increased from 76 percent in 1990-91 to 83 percent in 1999-00. However, the share of the share debt has declined from 40 per cent to 23 percent over the corresponding period. There has been a significant improvement in the debt-equity ratio of these enterprises during 1990-91, from 6.15 in 1990.91 to 4.43 in 1999-00. The enterprises incurred a net loss of Rs. 393 crore. The accumulated loss of these enterprises was of the order of Rs. 2215 crore as on the same date. These enterprises received budgetary support of Rs. 4957 crore during 2004-05.

Total revenue earned by these enterprises amounted to Rs. 22775.42 crore while their accumulated loss was Rs. 1689.37 crore in 1999-00. Accumulated losses as a percentage of capital employed have not shown any consistent trend, however it recorded 6 percent in 1999-00. Similarly, there has been no clear trend in the rate of return earned by these enterprises. After reaching a peak of 9.23 per cent in 1997-98, the rate of return yielded by

these enterprises has declined to 6.2 per cent in 1999-00. Six of the 40 enterprises have been consistent net profit makers where as seven enterprises have been consistent loss makers.

After five decades of independence, the country is examining afresh the tenets of economic thinking which have guided its economic management. The whole effort is to evolve a more sustainable approach to economic development in the light of the changing national and international economic situation. Against this scenario an intensive debate has started on the role that the State should play in stepping up the rate of economic development by involving itself directly in the various economic activities. There is a view that the role of the states should undergo a shift from the producer state to the facilitator state. The proponents of this argument believe that such a proposition will maximize the rate of economic development by creating a favorable environment for stimulating the individual initiatives. The most recent works on entrepreneurship and its role in the process of economic development have observed a high degree of inter-dependency between the growth of entrepreneurship and the rate of economic efficiency

The Arjun Sen. Gupta Committee Report on the Review of Policy on Public Enterprises submitted to the expected level of performance. The report draws attention to the inadequacy of the requisite managerial personnel in PEs and the Government. There is need, therefore, being selective in setting up these enterprises instead of encouraging the spread of their operations.

Financial Performance of SLPEs

In recent years, their financial performance of the SLPEs has touched the rock bottom. The growth of these enterprises has reached a stage where the policy-makers would like to know as to how far they have been able to fulfill their role as instruments of public policy, and in what way their role could be redefined in the present economic and political environment wherein economy in expenditure on the SLPEs has become a necessity. The following table depicts the financial performance of the SLPEs in Andhra Pradesh.

The financial performance of SLPEs of AP turned from a profit making one during the first three years i.e. 1998-99 to 2000-01 to loss making one in 2001-02. The number of non-working SLPEs increased from 12 to 15 during this period. It is a high time to undertake measures to restructure the SLPEs. In view of the enormous resources crunch that State Government is facing and the rising criticism of the performance of SLPEs, the issue cannot be postponed further. One way of restructuring the SLPEs in AP is to examine each enterprise case by case with reference to three factors.

1. The purpose served by the SLPEs;
2. The extent of resources mobilized from outside the state budget by the SLPEs and
3. The financial performance of the SLPEs.

(Rs. In Crores)

Years Items	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
1. Total no. of SLPEs	41	48	51	51	52	51	54
2. No. of Working SLPEs	29	34	37	36	34	34	36
3. No. of Non-Working SLPEs	12	14	14	15	18	17	18
(i) Under Liquidation	1	1	6	6	9	9	10
(ii) Under Closure	11	7	5	5	5	4	4
(iii) Under Merger		2	1	1	1	1	1
(iv) Others		4	2	3	3	3	3
4. Total Equity (Rs. In crores)	1850.28	3670.66	5224.74	7426.66	7486	8162	8346
5. Total Debt (Rs. In crores)	3774.87	11289.39	12169.65	13211.63	19754	22679	25567
6. Total Investment (Rs. In crores)	5625.15	14960.05	17394.39	20638.29	27240	30841	33914
7.No. of Profit making enterprises	14	15	15	15	13	23	24
8. No. of Loss making enterprises	22	22	23	25	21	21	20
9. Net Profit/Loss (Rs. In crores)	52.32	79.53	235.82	-193.59	-187	-346	-393
10. Accumulated Loss (-)/ Profit (+) (Rs. In crores)	-1505.6	-1422.71	-1082.96	-1739.28	-1758	-2872	-2215

Source: Reports of the Comptroller and Auditor General of India (Commercial), on Andhra Pradesh for 2002-03 to 2004-05

Classification of SLPEs in Andhra Pradesh-2001-02

Sl No.	Category	No. Of Enterprises
1	Manufacturing	28
2	Financial	5
3	Trade & Services	5
4	Promotional	13
5	Welfare	1
6	Utility	8
7	Total	54

Source: Classified from the list of enterprises given in reports of the Comptroller and Auditor General of India (Commercial), on Andhra Pradesh for 2001-02

The State enterprises operate in production/manufacturing-28, promotional/development-12, trading/marketing-5, utility/services-8, financial services-5 and welfare-1 sectors. In 1999-00 the bulk of the investment in public enterprises was in the utilities (65 per cent) and

manufacturing (28 per cent). However, manufacturing enterprises accounted for around 68 per cent of the accumulated losses while for utilities the corresponding figure was 18.5 per cent. During 1990-91 to 1993-94 dividends were given only by financial enterprises. Since 1994-95, dividend have been declared by manufacturing enterprises only, with one enterprises from trading and services category giving dividends in 1999-00.

Budgetary Support to SLPEs in Andhra Pradesh

Particulars	2002-03				2004-05			
	Companies		Corp.		Companies		Corp.	
	No.	Amt (Rs. In crores)	N o.	Amt (Rs. In crores)	No.	Amt (Rs. In crores)	N o.	Amt (Rs. In crores)
Equity Capital Support from budget	4	18.80	-	-	8	189.61	1	2.50
Loans given from budget	14	2165.62	-	-	9	927.81	1	106.00
Grants	0	0	-	-	-	-	-	-
Subsidy towards Project/Programmes/Schemes	11	247.15 2093.81			10	981.94 258.81	-	-
Other Subsidy	10		2	100.55	7		1	167.50
Total Subsidy	16	2340.96	2	100.55	15	3563.75	1	167.50
Total Support		4525.38		100.55	19	4681.17	2	276.00

The above table shows that, the government had guaranteed loans aggregating Rs. 2466.53 crore obtained by five working government companies (Rs. 2291.53 crore) and two Statutory corporations (Rs. 175 crore). At the end of the year, guarantees of Rs. 20564.66 crore against 13 working Government companies (Rs. 20120.47) and two working statutory corporations (Rs. 444.19 Crore) were outstanding. The government had Rs. 5.25 crore by way of interest waiver in respect of two companies and allowed moratorium on loan repayment of Rs. 728.42 crore to six companies during the year.

Compound Growth Rate for the different sectors of the SLPEs in different Aspects viz. total debt, total investment, surplus reserves, net worth, net profit etc.

Promotional							
	Total Debt	Total Investment	Surplus reserves	Accumulated Losses	Net Worth	Capital Employed	Net Profit
1997-98	43.03	73.71	10.48	5.27	38.02	57.66	5.19
1998-99	50.27	80.95	14.78	7.37	42.32	72.96	5.11
1999-00	58.46	89.14	20.37	10.21	47.91	90.93	6.4
2000-01	48.85	82.00	37.07	15.62	67.61	90.59	3.95
2001-02	42.23	75.38	39.69	17.62	70.22	93.26	3.47
2002-03	42.23	75.38	41.23	15.62	71.76	95.03	2.36
CGR	-0.37	0.44	31.51	24.27	13.54	10.50	-14.58

Trading							
Financial Year	Total Debt	Total Investment	Surplus reserves	Accumulated Losses	Net Worth	Capital Employed	Net Profit
1997-98	34.74	41.04	66.54	16.09	78.27	59.91	3.01
1998-99	33.66	45.39	66.12	21.09	78.61	81.81	3.73
1999-00	33.06	44.79	74.21	34.09	86.67	102.82	8.71
2000-01	41.19	52.92	93.79	37.06	106.23	183.07	14.36
2001-02	33.06	44.79	107.99	37.06	121.8	154.52	25.54
2002-03	34.27	46	105.81	37.06	119.8	183.08	1043
CGR	-0.27	2.30	9.72	18.15	8.88	25.03	222.06
Welfare							
Financial Year	Total Debt	Total Investment	Surplus reserves	Accumulated Losses	Net Worth	Capital Employed	Net Profit
1997-98	2.5	28.7	0.37	-3.76	25.32	25.35	-0.18
1998-99	6.75	45.55	0.46	-4.04	41.97	40.97	-0.28
1999-00	9.34	52.15	0.51	-4.8	47.85	47.85	-0.94
2000-01	10.21	55.66	0.61	-5.9	50.37	50.37	-1.09
2001-02	8.01	66.46	0.7	-7.52	59.63	59.63	-1.62
2002-03	6.61	79.07	0.8	-9.1	70.75	70.75	-1.57
CGR	21.46	22.46	16.67	19.33	22.81	22.78	54.21
Financial							
Financial Year	Total Debt	Total Investment	Surplus reserves	Accumulated Losses	Net Worth	Capital Employed	Net Profit
1997-98	904.1	1119.54	72.1	-90.87	287.56	964.85	3.01
1998-99	874.54	1143.98	72.1	-107.9	282.86	1019.39	2.76
1999-00	1028.73	1244.17	63.45	-111.16	143.39	1038.27	-6.35
2000-01	1201.83	1415.49	65.48	-122.83	131.98	1168.29	-4.21
2001-02	1281.92	1495.52	60.79	-135.95	109.66	1230.47	-5.67
2002-03	1339.06	1552.66	77.9	-133.6	126.34	1304.28	5.09
CGR	8.17	6.75	1.55	8.01	-15.16	6.21	11.07
Manufacturing							
Financial Year	Total Debt	Total Investment	Surplus reserves	Accumulated Losses	Net Worth	Capital Employed	Net Profit
1997-98	3050.57	4671.9	80.03	-1564.66	119.67	3729.69	75.49
1998-99	3240.5	5026.1	92.22	-1489.25	383.21	3430.4	113.78
1999-00	3536.65	5403.39	103.41	-1319.41	647.17	4255.92	325.65
2000-01	3749.35	5746.65	116.94	-1274.76	826.2	3459.29	278.02

2001-02	3819.1	5823.87	83.17	-1073.57	905.89	3297.99	251.38
2002-03	3718.41	5680.68	175.88	-992.87	1170.17	3544.01	380.37
CGR	4.03	3.98	17.05	-8.69	57.78	-1.01	38.18
Utility							
Financial Year	Total Debt	Total Investment	Surplus reserves	Accumulated Losses	Net Worth	Capital Employed	Net Profit
1997-98	7203.68	9146.74	378.71	-255.56	2115.28	13804.09	-210.99
1998-99	15158.33	17787.61	670.96	-418.19	3107.52	13804.09	-210.99
1999-00	15905.33	18233.5	676.43	-566.69	2910.19	12386.5	-412.67
2000-01	11072.52	14029.07	676.11	-975.98	3143.13	12417.69	-359.05
2001-02	11898.24	14378.52	676.11	-1085.49	3046.85	11064.26	-305.27
2002-03	12009.78	14405.82	676.11	-1223.91	3004.74	11454.93	-251.11
CGR	10.76	9.51	12.29	36.78	7.27	-3.66	3.54
Compound Growth Rate for Different Sector from 1997-98 to 2002-03							
Sector/Year	Total Debt	Total Investment	Surplus reserves	Accumulated Losses	Net Worth	Capital Employed	Net Profit
Promotional	-0.37	0.44	31.51	24.27	13.54	10.50	-14.58
Trading	-0.27	2.30	9.72	18.15	8.88	25.03	222.06
Welfare	21.46	22.46	16.67	19.33	22.81	22.78	54.21
Financial	8.17	6.75	1.55	8.01	-15.16	6.21	11.07
Manufacturing	4.03	3.98	17.05	-8.69	57.78	-1.01	38.18
Utility	10.76	9.51	12.29	36.78	7.27	-3.66	3.54

Source: Reports of the Comptroller and Auditor General of India (Commercial), on Andhra Pradesh for the period 1998-99 to 2001-02)

Sector wise t test values = (2.1682) (0.8230) (-3.2381) (0.6503) (-1.9324) (2.3615)

Sector wise Standard Errors $S_e =$ (25.644) (0.0950) (0.0118) (0.1308) (0.5062) (0.1062)

CONCLUSION

In SLPEs the greatest bottleneck is delays in implementation of projects, leading both cost and time overruns. Therefore in appraising the performance of the enterprises, these issues relating to proper execution of projects or capital expenditure, need special attention. At

macro level in the financial restructuring, the capital structure is to be reviewed seriously. It is known that, government investments in public enterprises, not only comprise of equity capital but also an equal amount of interest bearing long term loans. Since interest is treated as a cost in the profit and loss account, it affects the quantum of profit/loss. Normally in the case of sick companies, the interest burden is major cost, which contributes for the losses. If substantial reduction in the interest burden is possible, and if it would have a long term effect, in improving the overall financial performance, conversion of long term loans in to equity is considered as an important relief in the case of public enterprises.

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