Sick PSEs in the Coal and Steel Sector

An Analysis of Sick PSEs and Recommendations for Revival

Central and State Public Sector Enterprises (PSEs) have played a pivotal role in shaping the economy and industrial landscape of the country since independence. Substantial investment in the public sector formed a core component of the initial Five-year Plans and Industrial Policy Resolutions adopted by the Government of India with the objective of ensuring planned development to serve the common good. However, as part of the economic liberalization, post-1991, sectors that were exclusive preserve of the public sector enterprises were opened to the private sector. As a result, some of the CPSEs faced with competition from both domestic private sector companies have accumulated significant losses over the years and have even been recommended for closure. The GoI has set up institutional mechanisms as well as constituted committees for streamlining the revival of loss making CPSEs. This report presents the overall situation of CPSEs in the country and also highlights the condition of CPSEs under the Ministry of Coal and Ministry of Steel. Furthermore, it also looks at the existing mechanism in the form of Board for Reconstruction of Public Sector Enterprises (BRPSE) for restructuring and revival of sick CPSEs.

Central Public Sector Enterprises in India – *At a Glance*

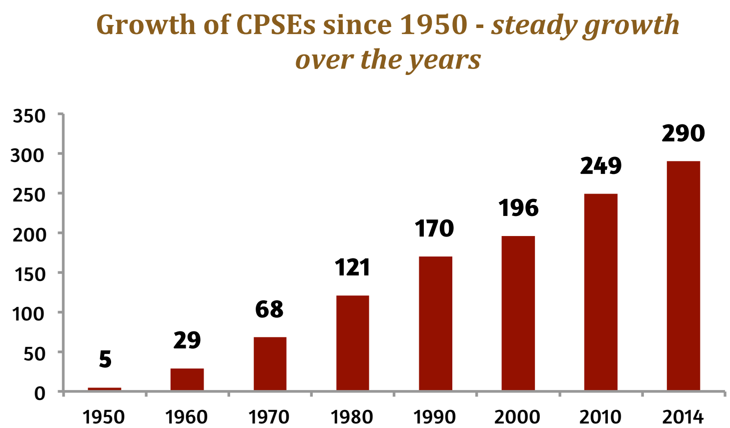
Section 2(45) of the Companies Act, 2013 defines a Government company as *"any company in which not less than fifty-one percent of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company".* These government companies include Central Public Sector Enterprises (CPSEs), State Public Sector Undertakings as well as Statutory Corporations, which are public enterprises brought into existence by a Special Act of the Parliament/Legislative Assembly. The Department of Public Enterprises (DPE), currently under the M/o Heavy Industries and Public Enterprises acts as the nodal agency for all CPSEs. The DPE is responsible for providing policy and overall guidance to PSEs, as suggested in the 52nd Report of the Estimates Committee of the 3rd Lok Sabha. Thereby, it undertakes policy formulation pertaining to the role of PSEs in the economy as well as coming up with policy guidelines specifying standards for performance improvement and evaluation, financial accounting, personnel management and other related areas.

Furthermore, in line with the recommendations of the Estimates Committee, in their 73rd Annual Report (1959-60), the DPE also releases an annual survey of CPSEs, indicating the Government's appraisal of the working of PSEs and this report is known as the Public Enterprises Survey (PES), which is tabled in both the Houses of Parliament. As per the information available in the PES 2013-14, there are a total of 290 Central PSEs (CPSEs) in India (*as of 31.03.2014*), up from 5 CPSEs in 1951; this number includes 121 subsidiaries, up from 50 in 2000. Of the 290 CPSEs, 234 CPSEs are operational whereas the other 56 are under construction; also, there are 71 loss making CPSEs. These 71 loss making CPSEs incurred a net loss amounting to INR 20,055 crores in 2013-14 whereas the other 163 CPSEs posted a net profit of INR 1,49, 164 crore in the same financial year. Also, as per the eligibility criteria specified by the Government of India for granting status of Maharatna, Navratna or Miniratna to CPSEs, there are 7 Maharatna CPSEs, 17 Navratna CPSEs and 73 Miniratna CPSEs[i] (*as of 26.10.2014*). A snapshot of CPSEs has been presented in Figure I.

Sick Central Public Sector Enterprises

As per the Department of Public Enterprises Resolution dated 6.12.2004, a company is considered 'sick' if it has accumulated losses in any financial year equal to 50 percent or more of its average net worth during 4 years immediately preceding such financial year, and it is a company within the meaning of the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA). Many CPSEs have been incurring losses over the years and as per the defined provisions in the DPE resolution, there were 58 sick units registered with the Board for Reconstruction of Public Sector Enterprises (BRPSE) in 2013-14. The distribution of these 58 sick CPSEs according to the Department/Ministry that has administrative control over them is given in Figure II.

Figure I: A snapshot of CPSEs

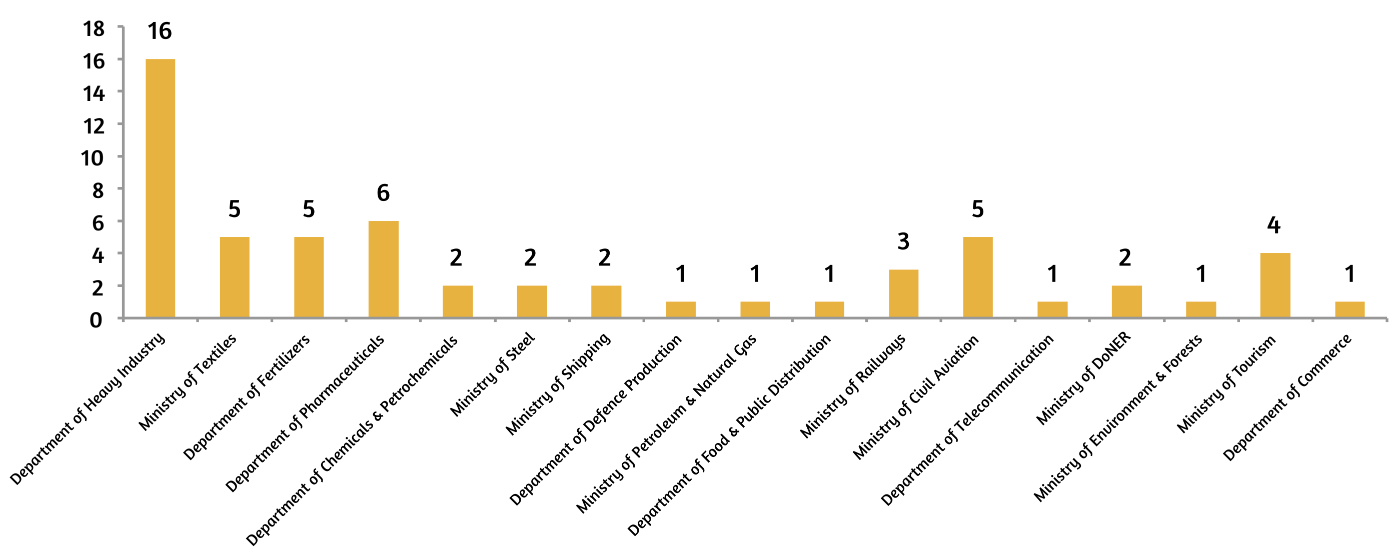


The 234 CPSEs in operation employ a total of 16,84,738 people (includes contract workers). The 56 CPSEs under construction employ 6,003 people.

The net profit of all the CPSEs is INR 1,29,089 crore. However, only 10 CPSEs accounted for approx. 57 percent of the net profit.

There are a total of 58 Sick CPSEs as of 31.03.2014 and 16 of these sick units are under the Dept. of Heavy Industries. 10 sick CPSEs have registered office in WB.

Figure II: Departments/Ministries having administrative control over the Sick PSEs (as of 31.03.2014)



Sick Central Public Sector Enterprises in the Coal and Steel Sector

Coal and Steel are two of the eight core industries that contribute 38 percent of the weight of items included in the Index of Industrial Production (IIP) and are an important segment of the Indian economy. Moreover, the importance of coal can not be stressed enough and as a bench headed by ex-Chief Justice of India, Mr. R.M. Lodha rightly pointed out *"it is the most important indigenous energy resource and remains the dominant fuel for power generation and many industrial applications"*. As of 31.03.2014, there are 10 CPSEs under the Ministry of Coal and 14 CPSEs under the Ministry of Steel. Collectively, these CPSEs employ a total of 6.52 lakh people and posted a net profit of INR 41,358.51 crore. The 24 CPSEs also include some of the most profitable units in the country with three of them, Coal India Limited (CIL), South Eastern Coalfields Limited (SECL) and National Mineral Development Corporation Limited (NMDC) figuring among the top ten most profitable CPSEs in 2013-14. Also, there are no sick CPSEs under the M/o Coal whereas there are two sick units under the M/o Steel, namely, J&K Mineral Development Corporation Limited and Hindustan Steelworks Construction Limited. Table I and Table II provides details of the CPSEs under the two ministries.

Table 1: List of CPSEs under the Ministry of Coal

Name of Enterprise	Number of Employees	Net Profit/Loss (INR in crore)	Category	Status of CPSE
Bharat Coking Coal Ltd	58960	1714.35	Coal-based Industries	Miniratna Category – I
Central Coalfields Ltd	53995	1671.76	Coal-based Industries	Miniratna Category – I
Central Mine Planning & Design Institute Ltd	3892	19.57	Industrial Development & Tech. Consultancy Services	Miniratna Category – II
Coal India Ltd	5147	15008.54	Coal-based Industries	Maharatna
Eastern Coalfields Ltd	71826	872.23	Coal-based Industries	None
Mahanadi Coalfields Ltd	22278	3642.30	Coal-based Industries	Miniratna Category – I
Neyveli Lignite Corpn. Ltd	31543	1501.88	Power Generation	Navratna
Northern Coalfields Ltd	16741	2008.02	Coal-based Industries	Miniratna Category – I
South Eastern Coalfields Ltd.	70910	4772.30	Coal-based Industries	Miniratna Category – I
Western Coalfields Ltd	52485	223.58	Coal-based Industries	Miniratna Category – I

It is also important to specify here that Central Coalfields Limited, Eastern Coalfields Limited, Mahanadi Coalfields Limited, Northern Coalfields Limited, South Eastern Coalfields Limited, Western Coalfields Limited, Bharat Coking Coal Limited and Central Mine Planning & Design Institute Limited are fully owned subsidiaries of Coal India Limited.

Table II: List of CPSEs under the Ministry of Steel

Name of Enterprise	Turnover (INR in crore)	Net Profit/Loss (INR in crore)	Category	Status of CPSE
Ferro Scrap Nigam Limited	1010	8.42	Steel-based Industries	Miniratna Category – II
Rashtriya Ispat Nigam Limited	34029	366.45	Steel-based Industries	Navratna
SAIL Refractory Company Limited	1272	15.42	Steel-based Industries	None
Steel Authority of India Limited	193743	2616.48	Steel-based Industries	Maharatna
Eastern Investment Limited	1	0.09	Other Minerals & Metals	None (erstwhile Bird & Company)

Hindustan Steelworks Construction Limited	200	-18.67	Contract & Construction Services	None
J&K Mineral Development Corporation Limited	5	-0.74	Other Minerals & Metals	None
Kudremukh Iron Ore Company Limited (KIOCL)	1473	39.94	Other Minerals & Metals	Miniratna Category – I
MSTC Limited	318	-70.03	Trading and Marketing	Miniratna Category – I
MECON Limited	1673	49.48	Industrial Development & Tech. Consultancy Services	None
MOIL Limited	6473	509.56	Other Minerals & Metals	None
NMDC Limited	22814	6420.08	Other Minerals & Metals	Navratna
Orissa Mineral Development Company Limited	641	6.26	Other Minerals & Metals	None (erstwhile Bird & Company)
The Bisra Stone Lime Company Limited	1053	-18.76	Other Minerals & Metals	None (erstwhile Bird & Company)

The two sick units, J&K Mineral Development Corporation Limited and Hindustan Steelworks Construction Limited have their registered office in Jammu and Kolkata respectively.

J&K Mineral Development Corporation Limited (J&KMDC): A subsidiary of NMDC (74 percent equity share), the J&KMDC was set up in 1989 and is under the administrative control of the M/o Steel. It falls under the category of Other Minerals and Metal and is an unscheduled CPSE. The J&KMDC posted a net loss of INR 0.74 crore in 2013-14, up approximately 16 percent since 2011-12 and has 5 employees on its payroll.

Hindustan Steelworks Construction Limited (HSCL): Set up in 1964 to undertake construction of modern steel plants in the public sector, HSCL is a wholly owned government company under the administrative control of the M/o Steel. A Schedule – B CPSE, HSCL has reported an increase of 16 percent in turnover from INR 1208 crore in 2011-12 to INR 1410.21 crore in 2013-14. Furthermore, it has managed to cut losses from INR 28.08 crore in FY 11-12 to INR 18.67 crore in 2013-14. Data from the M/o Steel shows that it has incurred losses of INR 9.44 crore in FY 14-15 till Jan'15. It has also secured orders worth INR 2649 crore during FY 13-14 and the roads sector contributes 45 percent of the total worth of orders. As per the MoU signed between HSCL and the M/o Steel, one of the key objectives highlighted is to achieve post-restructuring turnover of INR 2,400 crore with an operational profit of INR 180 crore (up from INR 99.80 crore currently) by FY 2019-20. The GoI has also made a provision for subsidy of INR 44.11 crore for HSCL for payment of interest on loans raised from Banks for implementation of VRS in the Union Budget 2015-16.

Table III: Human Capital and Financial Analysis of HSCL (Source: HSCL Annual Report 2013-14 and PES 2013-14)

Group	Number of Employees *(as of 31.03.2014)*
Group A	78
Group B	3
Group C	109
Group D	10
Total	200

Item	FY 12 (INR in crore)	FY 13 (INR in crore)	FY 14 (INR in crore)
Turnover	1208.16	1278.85	1410.21
Operational Profit/Loss	86.64	90.08	99.80
Net Profit/Loss	-28.08.	-19.81	-18.67
Net Worth	-1371.98	-1391.79	-1410.46

Restructuring and Revival of Sick CPSEs

The Government of India, recognizing the importance of a strong and effective public sector has taken various initiatives to provide an impetus to sick or underperforming CPSEs. The idea is to leverage the existing infrastructure, land bank and human capital at the disposal of loss making CPSEs and undertake revival, restructuring or closure plans as is feasible and necessary.

One of the key initiatives was the establishing of the Board for Reconstruction of Public Sector Enterprises (BRPSE) in 2004 as an advisory body to advise the government on measures, strategies and schemes for the task of strengthening, modernizing, reviving, and restructuring sick CPSEs. Since the inception of BRPSE, the DPE has received 68 proposals from different administrative departments/ministries for reference to the BRPSE. As of 31.09.2015, the BRPSE has given its recommendation in 64 cases while 4 cases have been remitted to the concerned administrative department/ ministry. It has recommended revival plans in 58 cases and has recommended the closure in 6 other cases[ii]. The approval plans have tended to include strategies such as financial restructuring, business restructuring and manpower rationalization. The GoI has approved the revival plan in 48 of the 58 cases, amounting to a total assistance of INR 40,936.61 crore. As part of the approved revival plan, the GoI provides cash as well as non-cash assistance to the CPSEs. The Cash assistance involves budgetary support through equity/loan/grants whereas the non-cash assistance involves waiver of interest, penal interest, GoI loan, guarantee fee, conversion of loan into equity/debentures etc. Based on the implementation of the approved revival plans, certain CPSEs have also been categorised as turnaround CPSEs i.e. "*a CPSE on the list of sick CPSEs of BRPSE that has shown Profit Before Tax in each of the three preceding accounting years and has a positive net worth after implementation of the revival package*".

Also, it is important to highlight that the BRPSE has received 5 proposals from the M/o Coal and M/o Steel and these are listed below *(Source: Lok Sabha Unstarred Question No.3262 on 17.3.2015)*:

Name of CPSE	Recommendation of BRPSE	Government Approval Status	Total Govt. Assistance to CPSE (INR in crore)	Current Status
Eastern Coalfields Ltd.	Revival by Holding Company (CIL) as PSE	Yes	2470.77	Negative net worth but has posted profit
Bharat Coking Coal Ltd.	Revival by Holding Company (CIL) as PSE	Yes	4778.55	Turnaround PSE
MECON Ltd.	Revival as a PSE	Yes	116.08	Turnaround PSE
Bharat Refractories Ltd.	Revival through financial restructuring & merger with SAIL	Yes	479.16	Merged with SAIL
HSCL	Revival as a PSE	No	N.A.	Sick PSE

Moreover, the GoI appointed a committee headed by Shri Arup Roy Chowdhury, Chairman & Managing Director of the National Thermal Power Corporation (NTPC) to study the proposal to set up a separate company to revive sick PSUs. The terms of reference of the committee included studying the feasibility of setting up of a separate company to nurse ailing PSUs back to health, identifying sources from which funds may be raised for the proposed entity as equity capital and recommending organisational structure of the proposed entity and its interface with the Ministries. The Committee Report, submitted to the M/o Heavy Industries and Public Enterprises in October 2014 suggested the formation of a company funded by seed equity from Maharatnas and other cash-rich CPSEs to administer and manage the revival of sick CPSEs[1]. Moreover, a Committee of Secretaries headed by ex-Cabinet Secretary Shri Ajit Seth had approved new parameters for revival of sick CPSEs taking into consideration factors such as bankability and sustainability as well as if it is operational in a strategic area.

[1] Lok Sabha Starred Question No.16 dated 24.11.2014 referred to Ministry of Heavy Industries and Public Enterprises

State Public Sector Undertakings in West Bengal – *A Snapshot*

Section 139 (5) of the Companies Act, 2013 mandates the Comptroller & Auditor General of India (C&AG) to conduct an audit of Government companies whereas the audit of Statutory Corporations is governed by their respective legislations. According to the Report of the C&AG on PSUs for the year ended March 2013, which was laid on the table of the West Bengal Legislative Assembly on 10th July 2014, there exists a total of 91 State PSUs in West Bengal. These State PSUs comprise of 81 Government Companies and 10 Statutory Corporations (S.Corps). The 10 Statutory Corporations are: *Calcutta State Transport Corporation (CSTC), North Bengal State Transport Corporation (NBSTC), South Bengal State Transport Corporation (SBSTC), West Bengal Backward Classes Development and Finance Corporation (WBBCD&FC), Great Eastern Hotel Authority, West Bengal Financial Corporation (WBFC), West Bengal Industrial Infrastructure Development Corporation (WBIIDC), West Bengal Minorities Development and Finance Corporation (WBMD&FC), West Bengal Scheduled Castes and Scheduled Tribes Development and Finance Corporation and Finance Corporation (WBSCSTD&FC) and West Bengal State Warehousing Corporation (WBSWC)*. Out of the 10 S.Corps, C&AG is the sole auditor for seven i.e. CSTC, NBSTC, SBSTC, WBBCD&FC, WBIIDC, WBMD&FC and WBSCSTD&FC whereas it conducts supplementary audit of WBSWC and WBFC and compliance audit of Great Eastern Hotel Authority.

According to the C&AG Report, there were 74 working PSUs (65 government companies and 9 S.Corps) and 17 non-working PSUs (16 government companies and 1 S.Corp) in West Bengal and these units employed 0.65 lakh people. Moreover, 31 working PSUs in the state had finalized financial account for the FY 2012-13 and posted a turnover of INR 36,755.18 crore, which translates into 6.37 percent of the state GDP. These 31 PSUs, which includes 30 government companies and 1 S.Corp, posted a net loss of INR 542.96 crore (19 government companies aggregated profit of INR 688.28 crore and 11 PSUs aggregated loss of INR 1231.24 crore). Also, only four PSUs (listed in Table IV) contributed 88 percent of the profit posted by the 19 profit-making PSUs. In the case of the other 43 working SLPEs, the report highlighted an arrear of 1-5 years in finalization of accounts.

Table IV: The Top 4 Profit-making and Loss-making PSUs in 2012-13

Name of PSU	Net Profit for FY 13 (INR in crore)
WB State Electricity Transmission Co. Ltd.	333.02
WB Power Development Corp. Ltd.	131.66
WB State Electricity Distribution Co. Ltd.	81.72
WB Housing Infrastructure Development Corp. Ltd	62.36
Total Profits of 19 Profit-making PSUs	688.28

Name of PSU	Net Loss for FY 13 (INR in crore)
Haldia Petrochemicals Ltd	960.11
Calcutta Tramways Company	137.02
Durgapur Projects Limited	68.03
Durgapur Chemicals Limited	20.91
Total Losses of the 11 Loss-making PSUs	1231.24

[i] A government company having Navratna status, is listed on Indian stock exchange with minimum prescribed public shareholding under SEBI regulations, has an average annual turnover of more than INR 25,000 crore, during the last 3 years, average annual net worth of more than INR 15,000 crore, during the last 3 years, Average annual net profit after tax of more than INR 5,000 crore, during the last 3 years and that has significant global presence/international operations qualifies for the Maharatna tag. In order to be eligible for the Navratna tag, the Miniratna Category – I and Schedule 'A' CPSEs, which have obtained 'excellent' or 'very good' rating under the MoU system in three of the last five years, and have composite score of 60 or above in the six selected performance parameters, namely, net profit to net worth, manpower cost to total cost of production/services, profit before depreciation, interest and taxes to capital employed, profit before interest and taxes to turnover, earning per share and inter-sectoral performance. Finally, the CPSEs that have made profits in the last three years continuously and have positive net worth are eligible to be considered for grant of Miniratna status.

[ii] The 6 cases recommended for closure are: Bharat Ophthalmic Glass Ltd., Bharat Yantra Nigam Ltd., Hindustan Photo Films Manufacturing Company Ltd., Biecco Lawrie Ltd., Spices Trading Corporation Ltd., and breakfast food unit of Hindustan Vegetable Oils Corporation Limited. Approved in highlighted cases.