

A Study on Production Performance of Restructured or Revived SLPEs in Kerala

Haseena Jasmine C K

Research Scholar, Research & Development Centre, Bharathiar University, Coimbatore, Tamil Nadu, India

ABSTRACT

This paper is an attempt to see whether there has been any significant change in the production performance of the selected State Level Public Enterprises subsequent to the implementation of the revival and restructuring package. The analysis mainly involves the comparison of the performance prior to and post revival with the help of Production Performance Analysis. Three public sector enterprises located in the state of Kerala were selected and their financial soundness is assessed with the help of Production Performance Analysis. The conclusions drawn could provide effective guidelines to the management of selected public sector enterprises in Kerala and their stakeholders.

Keywords : Public Sector Enterprises, Production Performance analysis, Value of production, Closing Stock, Opening Stock and Finished Goods

I. INTRODUCTION

The Public Sector Enterprises have played a significant role in the economic and social development of our country since independence. In pursuit of these objectives, massive investment has been made over the past five decades to build a strong Public Sector. Besides acting as a wheel of economic development, Public Enterprises are entrusted with the task of contributing to ensure social justice, poverty eradication, employment generation, achieving balanced regional development and accelerating the growth of agriculture and industry.

The performance of Public Sector Enterprises during the past decades reveals a wide gap between the aims and achievements. The poor performance of the Public Sector Enterprises has been a great concern to the society in general and for planners and policy makers in particular.

The aim of industrial and economic development cannot be achieved by merely having an ideological bias. It has to be supplemented with concrete and

positive performance. Unfortunately most of the Public Sector Undertakings have failed in developing positive image in terms of financial performance. Some of them have even turned 'sick'. The sick firms are either closed down or rehabilitated. Many Public sector enterprises have been restructured or revived pumping in large sums of public money. Such rehabilitation programmes have often been made on non-economic grounds. Since tax payers' and state financial institution's money is spent on such revival programmes, it merits a bit of research to analyse the objectives of such revival and restructuring programmes and how much these have actually been met.

II. METHODS AND MATERIAL

Statement of the Problem

The Government of Kerala has spent large amounts of money year after year on rehabilitating or restructuring state public sector enterprises. Such programmes have been implemented at the cost of new enterprises or welfare spending. It is in public interest to evaluate the outcomes of such large

spending from the state's exchequer, often justified on saving hundreds of jobs.

It is required to look into the objectives of such state spending and how much of it has helped in reviving the enterprises involved. If it has not served the purpose, why the effort and money went waste? Whether such revival or restructuring programmes need any monitoring in the future?

The study will attempt to find answers to a few important questions like: whether such state spending could have been saved? Does the revival or restructuring meet the objectives set for such revival or restructuring?

Objectives of study

The study centers on the following objectives.

1. To assess the Production Performance of the selected public sector enterprises.
2. To compare the Production Performance before and after implementation of revival and restructuring package.
3. To suggest appropriate measures for improving the performance of the selected public sector enterprises and restore them to sound health.

Methodology

The study is designed as a descriptive one based on secondary data. It primarily covers state enterprises engaged in the manufacturing and marketing activities. There are 104 state enterprises in Kerala

of which nine are statutory corporations. Of the remaining, 63 are working under Industries Department out of which 17 are closed down for long periods. The study identified the list of state public sector enterprises which were restructured in the past ten years to evaluate the effectiveness of such interventions. For the purpose of the study, three companies were selected about which data were available.

The secondary data required for the study were collected from the rehabilitated or restructured state public sector enterprises in Kerala and from the Industries Department of the state and also from various journals, magazines and related websites etc. To understand the veracity of data, Production Performance Analysis was used.

III. RESULT AND DISCUSSION

Production Performance analysis of First Enterprise

The company is engaged in the production of a variety of steel products such as Mild, Medium Carbon and Spring Steel billets of 100 mm. As part of the revival package, it undertook an expansion scheme by adding the third electric arc furnace in 2008 by which the production capacity was raised to 55000 tonnes per annum. The production performances are given below.

Table 1
The Value of Production of First Enterprise

(Rs. Lakh)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Sales	1727.57	990.83	1735.05	730.49	491.20	435.26	835.05	2061.09	3591.57
Add CS of FG	272.13	170.41	193.59	193.47	298.35	368.63	446.26	271.23	1224.52
Less OS of FG	468.98	272.13	170.41	193.59	193.47	298.35	368.63	446.26	271.23
VP	1530.72	889.11	1757.23	730.37	596.08	505.54	912.68	1886.06	4544.86
% of VP to TA	24.54	12.86	26.51	11.39	8.58	7.10	12.06	24.48	58.19

Source: Annual Reports of First Enterprise

VP=Value of production, CS=Closing Stock, OS=Opening Stock, FG=Finished Goods, TA=Total Assets, NW=Net Worth

Table 1 indicates that during the initial years prior to implementation of revival and restructuring package, the value of production was showing a declining trend. The value of production in 2006 was Rs. 505.54 lakh which has increased to Rs. 4544.86 lakh by 2009. From this, it can be inferred that there has been a big change in production of the company after implementation of expansion scheme.

Production Performance Analysis of Second Enterprise

The company is engaged in the production of a variety of alloy steel, super alloys, aluminium and titanium. After the implementation of revival package, its diverse product mix caters to a wide range of sectors. These include complex and high precision aerospace forgings, specialised forgings for defence, heavy forgings for commercial vehicle, railways and other components for automobile etc.

Table 2

The Value of Production of Second Enterprise

(Rs. Lakh)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
Sales	995.30	820.95	948.86	1382.92	1704.90	1544.39	1505.41	1542.77	1522.47
Add CS of FG	146.10	158.26	122.48	125.94	160.22	187.36	210.37	338.90	333.32
Less OS of FG	134.16	146.10	158.26	122.48	125.94	126.7	187.36	210.37	338.90
VP	967.24	833.11	913.08	1386.38	1739.18	1604.99	1528.42	1671.30	1516.89
% of VP to TA	36.72	30.20	30.3	43.45	68.40	72.65	75.41	76.17	68.44

Source: Annual Reports of Second Enterprise

From Table 2 the percentage of value of production to total assets was Rs.36.72 lakh in 1991-92 and after the implementation of revival package in 1994-95, it increased to Rs.68.44 lakh in 1999-00. This shows a marked improvement in the value of production of the revival package was implemented in the company after the implementation of revival package. during the year 2007-08.

Production Performance Analysis of Third Enterprise

Table 3

The Value of Production of Third Enterprise

(Rs. Lakh)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Sales	5130.67	4302.62	4314.85	3630.80	3623.57	3545.55	3694.92	3723.07	3161.68
Add CS of FG	378.45	403.68	517.80	296.93	242.70	411.37	462.36	273.66	223.80
Less OS of FG	363.44	378.45	403.68	517.80	296.93	242.70	411.37	462.36	273.66
VP	5145.68	4327.85	4428.27	3409.92	3569.34	3714.22	3745.91	3534.37	3111.82
% of VP to TA	102.74	81.95	76.35	51.85	47.97	49.50	45.85	43.33	33.47

Source: Annual reports of Third Enterprise.

VP=Value of production, CS=Closing Stock, OS=Opening Stock, FG=Finished Goods, TA=Total Assets, NW=Net Worth

The Table 3 shows that during the years prior to implementation of revival and restructuring package, the value of production was showing a fluctuating trend. The value of production in 2003-04 was Rs. 3409.92 lakh which marginally increased to Rs. 3534.37 lakh by 2007-08. This is due to the improvement in production of the company after implementation of revival package in the year 2007-

08. After that the value of production decreased in 2008-09. Hence, there is no permanent improvement in the value of production.

Cost Trends of First Enterprise

The particulars of sales, cost of sales and percentage of cost of sales to sales for the nine years up to 2009-10 are tabulated below.

Table 4
Cost Trends of First Enterprise

(Rs. Lakh)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Sales	990.83	1734.05	730.49	491.2	435.26	835.05	2061.09	3165.	3150.91
Less Profit / Add loss	500.05	286.33	333.03	263.17	157.55	131.53	27.98	163.80	-5768.66
Cost of sales	1490.88	2020.38	1063.52	7554.37	592.81	966.58	2089.07	3328.8	-
% of cost of sales to sales	150.47	116.51	145.59	155.58	136.2	115.75	101.36	105.18	-

Source: Annual Reports of First Enterprise

From Table 4, it can be observed that percentage of Cost of sales to sales for the period 2001-02 to 2008-09 is more than 100%. After implementation of revival package in 2007-08, the percentage of cost of sales to sales has decreased in 2009-10. From this, it can be inferred that the implementation of revival

and restructuring package is successful. But, the trend must continue to confirm revival.

Cost Trends of Second Enterprise

The particulars of sales, cost of sales and percentage of cost of sales to sales for the nine years up to 1999-2000 are tabulated below.

Table 4.38
Cost Trends of Second Enterprise

(Rs. Lakh)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
Sales	955.3	820.95	948.86	1382.92	1704.9	1544.39	1505.41	1542.77	1522.47
Less Profit / Add loss	190.91	212.97	294.95	-8.74	-98.52	-195.04	-183.4	-131.56	13.37
Cost of sales	1146.21	1033.92	1243.81	1374.18	1606.38	1349.35	1322.01	1411.21	1535.84
% of cost of sales to sales	119.98	125.9	131.08	99.37	94.22	87.37	87.82	91.47	100.88

Source: Annual Reports of Second Enterprise

The Table 4.38 shows an increasing trend in the percentage of cost of sales to sales up to 1993 - 94. After implementation of revival package during the

year 1994-05, the percentage of cost of sales to sales has decreased in 1997 - 98. But from the year 1998 - 99 the cost of sales of the company shows an increasing trend. From this, it can be inferred that the

implementation of revival and restructuring package was not successful up to 1999 - 2000. But, at present, company started a new unit.

Cost Trends of Third Enterprise

The particulars of sales, cost of sales and percentage of cost of sales to sales for the ten years up to 2009-10 are tabulated below.

Table 4.39
Cost Trends of Third Enterprise

	(Rs. Lakh)									
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Sales	5130.67	4302.62	4314.85	3630.80	3623.57	3545.55	3694.92	3723.07	3161.68	4124.39
Less profit /Add loss	115.31	629.69	569.46	1168.37	324.94	191.36	-83.04	370.54	483.18	-48.35
Cost of sales	5245.98	4932.31	4884.31	4799.17	3948.51	3736.91	3611.88	4093.61	3644.86	4076.04
% of cost of sales to Sales	102.25	114.64	113.20	132.18	108.97	105.39	97.75	109.95	115.28	98.83

Source: Annual reports of KSTC Ltd.

From Table 4.39, it can be observed that percentage of cost of sales to sales for the period 2000 - 01 to 2005 - 06 is more than 100%. In 2006 - 07 the company made profit of Rs. 83.04 lakh. The revival package was implemented on 31st March 2007, but in the next two years again the company went into loss. After that, the percentage of cost of sales to sales has decreased to 98.83% in 2009 - 10. From this, it can be inferred that the implementation of revival and restructuring package is successful. But, the trend must continue to confirm revival.

Suggestions

To increase the effectiveness of the revival package a few suggestions are made on the bases of forgoing study.

- The state has to review its policy on revival or restructuring of public enterprises.
- A detailed study is required to set the state's policy on revival or restructuring.
- The analysis of sales performance shows improvement in sales health of the companies under the study except Third Enterprise. How much of that is due to fresh capital infusion, how much due to debt write off etc. have not been analysed due to non-availability of data. Along with finance, appropriate management

talent must also be made available to these companies so that the revival is long-standing in nature.

IV. CONCLUSION

The sales analysis of the selected firms reveals a mixed result after the implementation of the revival and restructuring programme. In First Enterprise, all the above analyse shows that there is improvement in the performance of the company after the implementation of revival package in 2007-08. In Second Enterprise, it has been able to write off its losses with the help of the revival package. In 2010 it started a new unit of the company. Now the company is earning profits and it is hoped that it can stand on its own in future. In Third Enterprise, It has not been able to control its losses through the implementation of revival and restructuring package.

In short most of the units have improved their performance after implementation of the revival package. The sales analysis of the selected public sector enterprises shows a creeping improvement after the implementation of the revival programme.

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