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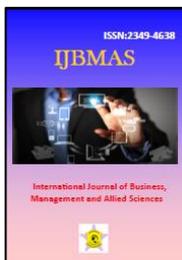
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### A STRATEGIC ANALYSIS ON FINANCIAL MANAGEMENT IN GOVERNMENT INDUSTRIES

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#### ABSTRACT

Strategic management analysis consists of setting end goals, then analyzing ways to reach those goals. Strategic management focuses on long-term success and "tactical" management relates to short-term positioning. In order to pull out the economy from the dismal state of affairs as prevailing in the pre-independence era, both the Central and the State Governments launched ambitious plans for developing the Public Sector on massive scale under the different five year plans from its beginning. Despite its spectacular growth and achievements, the government sector in India is often criticized heavily for its poor performance particularly from the financial point of view. In the study current study, author stated that government enterprises occupy a pivotal position in the economy of India. The companies selected had been **IPCL** (Indian Petrochemicals Corporation Limited), **RCFL** (Rashtriya Chemicals Fertilizers Limited) and Cement Corporation of India Limited (**CCI**) all in the homogeneous group of Chemicals, Fertilizers and cements as described in the Annual Reports published by the Bureau of Public Enterprises. Financial management study reveals that the selected organisations of finance function in general, and of Public Sector Undertakings in particular, reveals that in an operating enterprise, generation and maintenance of flow of fund becomes the vital concern of financial management for the attainment of its ultimate goal. Public Sector Undertakings in India came into being as a part of national policy to follow a path of socialistic pattern of growth in the future planned development of economy.

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Strategic analysis is a tool that businesses use to map out their current positions before they develop strategic plans for future direction and growth. There are many ways to perform a strategic analysis. Strategic analysis is a process that involves researching an organization's business environment within which it operates. Strategic analysis is essential to formulate strategic planning for decision making and smooth working of that organization. With the help of strategic planning, the objective or goals that are set by the organization can be fulfilled. The analysis of the strengths of the company should be oriented to the market, focusing on the client. The strengths only make sense when they help the company to fulfill client's needs. When doing an internal strategic analysis one should also know the weaknesses and limitations that a company faces existentially or in

the future. Strategic analysis allows you to have clarity of the internal positive attributes of the organization that are under control. By knowing these positive attributes an organization can focus on the factors that lead to positive performance and can replicate the strategy wherever applicable.

Strategic decision-making belongs to the one of the most important areas of current management and plays a crucial role in achieving success and survival of the company. In this connection, many researches are pointing out two important areas: the role of top management (Balta et al., 2009; Mussoa & Francioni, 2012) and the process of making strategic decisions (Rajagopalan et al., 1993). There is always an interest to improve strategic decision-making among both managers and researchers. Interest in improving the strategic decision-making is related to changes in current environment and to the difficulty that managers have to face in decision-making nowadays. The environment is constantly changing and is much more dynamic and less predictable than in the past. Changes in the environment have an exponential trend. In the past, changes were slower and much less marked by the dynamics. Today, changes are much faster and bring trends, which previous generations of entrepreneurs and managers did not know about. We can look at the tempo of innovation, tempo of globalization, ongoing changes in legislation, in culture and in other parts of environment. These changes can bring new opportunities for companies' development, but also at the same time, they mean threats.

Government intervention in the economic system for social and economic reasons is now clearly accepted and has come to stay. Meaning of the term "public enterprise" continues to remain vague and varying. It is rightly said that Public Enterprises "is a neat label for a very untidy concept" (Sharma, G. D, 1978)" Governments all over the world, particularly in developing countries, have gone far beyond the indicative planning to price, wage, and numerous other controls and to state entrepreneurship. It is important to remember, that much of the losses and short comings of Public Enterprises are really overheads of national economic development which get reflected in the books of many Public Enterprises. It is worth considering whether the cost of "national gestation" be treated differently instead of being debited to Public Enterprises.

Role of Public Sector Enterprises in Industrializing India As highlighted by Sharma (1978), contributing an estimated 11.12 % of Gross Domestic Product at market prices in 2005-06, the Central Public Sector Enterprises (CPSEs) continued to be engaged in the production and supply of a wide range of products and services including basic goods like steel cement and chemicals, capital goods like pressure vessels, boilers and drilling rigs and intermediate goods like electricity and gas. They also rendered a large number of services like telecommunications, tourism and warehousing.

Financial management of resources in terms of profitability constitutes, by far, the most important aspect of operational efficiency of an enterprise. A public sector enterprise can discharge its social obligations better if it operates in a profitable manner. This paper presents an analysis of the profitability of central PSEs. The analysis seeks to answer the questions as to whether the profits earned by the PSEs are adequate and whether the rates of return earned by them are satisfactory. For the purpose of the study, the data have been taken from primary as well as secondary sources, while the secondary data relate to 3 PSEs for a period.

#### REVIEW OF LITERATURE

There are number of careful research studies using data from United States firms that provide various methods to identify failing firms. But in a developing country like India, the research in this context is very limited. Vijayakumar (1998), has examined the determinants of corporate size, growth and profitability - the Indian experience. To meet the objectives of the study, Indian public sector industries were selected. The data relating to size, growth and profitability were collected from their annual reports published by the Bureau of Public Enterprises (BPE), Government of India. The study covers the period from 1980-81 to 1995-96. The technique of average, correlation and linear and linear and multiple regression analysis has been used in this study. Inter - industry analysis reveals that the growth is positively and significantly associated with the size in all the industry groups except textiles. Gupta (1999) attempted a refinement of Beaver's method with the objective of predicting the business failure. Siddharth Mahajan and Mainak Sarkar (2007) made an attempt to compare the financial performance of three Indian companies, namely, Tata motors, Maruti and Mahindra and Mahindra with two MNCs, Honda and Hyundai. The study indicated that the MNCs are more efficient in utilizing their assets to generate profits. However, the return on equity of the Indian companies was about ten

times than that of the MNCs. Regarding the solvency ratios, the debt-equity ratio of the Indian companies were about one-and-half times than that of the MNCs. This was because the Indian Companies used much less equity capital than that of MNCs. According to the news published in the Lokmat Daily New paper, there is a significant increase in the sick companies in Maharashtra state. According to the data supplied by BIFR, after every two sick companies that filed their case to BIFR one is from Maharashtra state. In the year 2009 to 2012 total 116 companies have registered their case with BIFR. Out of the total 24 companies are from Maharashtra state only. In the year 2009, in Maharashtra only 4 companies were sick, where as in 2011 seven companies and in 2012 there are 11 companies are declared as sick companies.

#### **Profile of Selected companies**

**Indian Petrochemicals Corp (IPCL)** was set up in 1969 and is a leading petrochemicals company in India. The Indian Petrochemicals Corp. Ltd. was established with the aim of encouraging promoting the use of plastic in India.

Indian Petrochemicals Corp's business includes fiber intermediaries, polymers, catalysts, polyesters, synthetic fiber, solvents, industrial chemicals, and surfactants. The Indian Petrochemicals Corp Company has 3 complexes for petrochemicals manufacture - a naphtha-based complex in Vadodara, and gas-based complexes at Nagothane and at Dahej. At Vadodara, the Indian Petrochemicals Corp. also operates a manufacturing unit for catalysts. The Petrochemicals Indian Corp. had a production capacity of 66,000 tons when it was set up but the manufacturing capacity of the company's units has since been upgraded as a result of adopting the latest technologies. As a result, the production capacity has been increased to more than 1 million tons. The company also has centers for technology management, research, products application, and customer relations. All these centers have helped the Indian Petrochemicals Corp. to continuously improve its products and processes. Indian Petrochemicals Corp. has grown by a large margin its inception. This has been possible due to the fact that it has strictly maintained the high quality of its products and thus has been able to sustain and increase its customer base.

#### **Rashtriya Chemicals Fertilizers Limited**

Established in 1978, Rashtriya Chemicals and Fertilizers Limited (RCF) have a diversified product portfolio comprising urea (~70% of overall sales), complex fertilisers (15%), traded fertilisers (5%) and industrial chemicals (10%). The company's industrial chemicals portfolio comprises 15 products such as ammonium nitrate, nitric acid and methylamines. RCF has two plants in Maharashtra—at Trombay and Thal. The Thal unit is primarily engaged in the production of urea (capacity of 2.00 mmtpa) besides a few industrial chemicals. The Trombay unit is engaged in manufacturing a wide range of industrial products, complex fertilisers (capacity of 0.66 mmtpa) and urea (capacity 0.33 mmtpa).

**Cement Corporation of India Limited (CCI)** was incorporated as a Company wholly owned by Government of India on 18th January 1965 with the principal objective of achieving self-sufficiency in cement production. Implementing third five year plan was a step to achieve that grand objective. Later, during 1970 and 1990, eleven cement plants were set up by the CCI Ltd. in socially and economically backward regions of our country to produce enough cement for meeting the growing demand in the market for this “developmental commodity (Standing committee on Revival and restructuring of CCI Ltd., 2011). CCI Ltd. manufactures various types of cements like Portland Pozzolana Cement (PPC), Portland Slag Cement (PSC) & Ordinary Portland Cement (OPC) of varying grades viz., 33, 43, 53 grades under strict quality control with the brand name of CCI Cement. The Corporation is introducing new product range such as 53-S Grade, special cement for manufacturing Railway sleepers and also introducing cement brand names Maha shakti (43 Grade), Param shakti (53 Grade), Poorna shakti (33 Grade) and Jal shakti (33 Grade PPC) for better brand image.

#### **Research Objectives**

- To evaluate the overall financial performance of public sector companies like RCL, CCI and IPCL in terms of liquidity, solvency, efficiency and profitability.
- To observe the area of weakness of the selected companies and make some suggestions for improvement of the performance of the selected companies.
- To evaluate the financial health and viability of the selected CPSEs.

### Limitations of the Study

- The study is confined to only manufacturing sector and only three CPSEs were selected.
- The study is based on secondary data and that is collected from the published documents submitted by the CPSEs.
- The present study covers only three years (2009-10 to 2011-12) data.

### Hypotheses of the Study

In the light of objectives the hypotheses of the study are as follows:

H<sub>1</sub>: there is no significant impact of sales on liquidity position of RCL, CCI and IPCL

H<sub>2</sub>: there is no significant impact of sales on profitability position of RCL, CCI and IPCL

H<sub>3</sub>: there is no significant impact of sales on solvency position of RCL, CCI and IPCL

### Research Methodology

**Sample of the Study:** The present study is purely based on the evaluation of financial performance of RCL, CCI and IPCL

**Nature of Data:** The data used for the present study is secondary in nature.

**Sources of Data:** The secondary data has been taken from the published annual reports of RCL, CCI and IPCL as well as the official websites of corresponding websites, Money control website financial, published papers, reports and other sources.

**Tenure of the Study:** The data for the study is taken for three years i.e. 2009-10 to 2011-12.

**Tools used for the Study:** In order to evaluate the financial performance of Cement Corporation of India, a number of financial and statistical tools have been applied. Financial tools include liquidity, profitability and solvency ratios have been applied.

**Table 1 List of Selected Government Industries or Central Public Sector Enterprises (CPSEs) in India.**

| Sr.No. | Name of CPSE                                 | Category       |
|--------|--|----------------|
| 1      | Indian Petrochemicals Corp (IPCL)            | Petrochemicals |
| 2      | Cement Corporation of India Limited (CCI)    | Construction   |
| 3      | Rashtriya Chemicals & Fertilizers Ltd. (RCF) | Agriculture    |

Edward Altaman (1968) developed a model 'Altaman Z Score' which was the most renowned model in predicting company bankruptcy using financial ratios. Altaman set critical values between companies based on survivability indicator. Altaman showed that companies with a Z Score of less than 1.81 (distress zone) are highly risky and likely to go bankruptcy; companies with a Z Score more than 2.99 (safe zone) are healthy and stable company where bankruptcy is unlikely to occur. Companies that have a Z Score between 1.81 to 2.99 are in the gray zone with uncertain result and bankruptcy is not easily predicted one way or the other.(Altaman E.I., 1968)

The original Altaman Z Score (1968) is as follow:

$$Z = 0.012(F_1) + 0.014 (F_2) + 0.033 (F_3) + 0.006(F_4) + 0.999(F_5)$$

Where,

F<sub>1</sub> = working capital/total assets F<sub>2</sub> = retained earnings/total assets

F<sub>3</sub> = earning before interest and taxes/total assets F<sub>4</sub> = market value of equity/book value of total debt F<sub>5</sub> = sales/total assets

F<sub>1</sub> Working Capital/Total Assets

This ratio is a measure of the net liquid assets of the firm relative to the total assets of the company. A company which experiences repeated operating losses generally suffers a reduction in the working capital relative to total assets.

F<sub>2</sub> Retained Earnings/Total Assets: This component of Z score provides information on the extent to which a company has been able to reinvest its earnings in the business. In addition it measures the leverage of a company. Those companies with high retained earnings relative to total assets have financed their assets through retention of profits and have not utilized as much debt. An older company has time to accumulate earnings and the measurement creates a positive bias towards older companies.

F<sub>3</sub> Earnings Before Interest and Taxes/Total Assets: This ratio measures the true productivity of the firm's assets, independent of any tax or leverage factors. Since a company's existence is based on the earning power

of its assets. This information allows measuring the effectiveness of company in utilization of its assets. This ratio focuses on the corporate failure.

F<sub>4</sub> Market Value of Equity/Book Value of Total Debt (liabilities): This ratio gives an indication of how much a company's assets can decline in value before debts may exceeds assets and the company become insolvent.

F<sub>5</sub> Sales/Total Assets: This ratio measures the ability of the company's assets to generate sales. It measures the management's capacity in dealing with competitive conditions.

#### Data Analysis and Interpretation

A corporate undertaking in the Public Sector, as a business entity, can survive without subsidization from national exchequer, even if the question of growth is ignored, provided there is no erosion of capital base because of snags in the scheme of its capitalization. For, it must not the ignored that assets are acquired by an enterprise only in exchange of finance and as such the counterparts of financial capital are the assets into which financial capital of a firm remains committed. It will be recalled that for explaining the differences in the operational results of the companies under a homogeneous group selected for the present study, investigations were proposed in the area of financial management with reference to the capital structure, among others. It will also be recalled that the sample companies for the present study had been Indian Petrochemicals Corporation Limited (IPCL), Rashtriya Chemicals & Fertilisers Limited (RCFL) and Cement Corporation of India Limited (CCLL), all in the homogeneous group of chemicals Fertilizer and Petrochemicals under the ownership and control of Central Government.

Table 2: Analysis of Financial Performance and efficiency of Selected CPSEs

| CPSEs | IPCL    |           |         | CCI     |           |         | RCFL    |           |         |
|-------|---------|-----------|---------|---------|-----------|---------|---------|-----------|---------|
|       | 2009-10 | 2010-2011 | 2011-12 | 2009-10 | 2010-2011 | 2011-12 | 2009-10 | 2010-2011 | 2011-12 |
| F1    | 0.044   | 0.031     | 0.014   | 0.348   | 0.396     | 0.434   | 0.206   | 0.215     | 0.257   |
| F2    | 0.001   | 0         | 0.075   | 0.178   | 0.199     | 0.221   | 0       | 0         | 0       |
| F3    | 0.196   | 0.152     | 0.127   | 0.077   | 0.081     | 0.085   | 0.079   | 0.067     | 0.067   |
| F4    | 0.001   | 0         | 1.874   | 0       | 0         | 1.24    | 0       | 0         | 0.61    |
| F5    | 0.663   | 0.673     | 0.564   | 0.404   | 0.435     | 0.457   | 1.194   | 1.235     | 1.226   |

Table 3 Calculation of Z score of the Selected CPSEs

| IPCL    |           |         | CCIL    |           |         | RCFL    |           |         |
|---------|-----------|---------|---------|-----------|---------|---------|-----------|---------|
| 2009-10 | 2010-2011 | 2011-12 | 2009-10 | 2010-2011 | 2011-12 | 2009-10 | 2010-2011 | 2011-12 |
| 1.386   | 1.208     | 2.195   | 1.323   | 1.46      | 2.31    | 1.701   | 1.712     | 2.121   |

From the table 2 it is observed from the Net Working Capital to Total Assets (F1) this ratio shows the liquidity position of the company. The table shows that IPCL is ranging from 0.044 to 0.0114, 0.348 to 0.434 for CCI and 0.206 to 0.257 for RCF. During the period all the selected CPSEs has shown a decline trend except RCF. It indicates that during 2009-10 to 2011-12 these companies have invested more in current assets, which shows that too much if its funds are blocked in short term investments. It also shows the poor working capital management in all the selected CPSEs.

The Retained Earnings to Total Assets (F2) indicates that higher the ratio greater the financial stability of the company at the time of low profitability. From the table 2 it is observed that 0.0001 to 0.075 of the total assets of IPCL, 0.075 to 0.199 for CCI are financed by its retained earnings. However, in case of RCF the financing of its total from its retained earnings is zero during the study period. This shows that these CPSEs have been utilizing more debt rather than retained earnings. The decreasing trend of retained earnings for RCF, NTPC, CCI during the study period indicates that the unstable growth. And this situation continues it may affect the profitability and performance.

In Table 2 the earnings before Interest and Tax to Total Assets (F3) shows the earning power of its assets. The operating efficiency of all the CPSEs is very low. CCI and RCF is very poor in operation of assets.

Market Value of Equity/Book Value of Total Debt (liabilities) (F4) is observed from the table 2 that all the selected CPSEs the equity portion is increased in the year 2011-2012. This shows that the financial health of all CPSEs is becoming good when compare to other and provide margin to its creditors in bankruptcy. It is also observed that the CPSEs are rely on the debt financing.

From the table 2 it is observed that the Sales to Total Assets (F5) ratio for IPCL it is ranging from 0.663 to 0.564, 0.404 to 0.457 for CCI and 1.194 to 1.226 for RCF during the study period. In the selected CPSEs the performance of RCF is good as compare to the other CPSEs. RCF is using its assets effectively to generate sales or revenue.

The table 3 shows that the Z score of the selected CPSEs. The financial health of all the CPSEs is in increasing except SAIL. In the year 2011-2012 the Z score of CCI, IPCL and RCF is 2.19, 2.31 and 2.121 respectively. These companies are in gray zone, where the solvency level is medium and the prediction of bankruptcy is uncertain. It will also be observed that the Debt-Equity Ratio in I.P.C.L., R.C.F.L. and CCIL had been within the norm, viz., 1:1, prescribed by the Government. What is more interesting is that though those three companies were operating successfully and as such could have possibly more of debt-capital in their capital-mix, the trend in Debt-Equity Ratio does not reflect any such man oeuvre on the part of these companies. Nevertheless, the capital structure management in them could be said effective as they were capable of maintaining 1:1 ratio between debt and equity as prescribed by the Government.

### Conclusion

Decision-making in the dynamic and rapidly evolving world is a challenge, especially on the strategic level. In the article, we discussed some of the approaches and important aspects of strategic decision-making. In our research we were studied and examine behavior and approaches of managers in strategic decision-making process especially from the view of their thinking and types of information and factors they are incorporating into strategic analysis. In the end of our research we also summarized the main problematic areas of strategic decision making. Some of the problems are connected with narrow view of environment analysis, with selection and procession of data and information, with limitations caused by centralization or politics in the organization. The study reveals that the financial ratios are the important tools for measuring the financial performance and efficiency of the companies. The selected CPSEs have invested more funds in the current assets which results in blockage of funds and creates the pressure on the earnings and the utilization of assets. IPCL and CCI is very poor in generating the returns on the total assets. However, RCF is good in case of sales to total assets as compare the other CPSEs. It is recommended that financial ratios should be regularly calculated to and used as a performance measurement tool of the CPSEs in India. The effective use of this information on the financial health should be used as a warning signal to sensitize the development of the CPSEs. The CPSEs are assigned very important role in the development of Indian economy. The failure of any CPSEs may affect the socio economic balance of the country.

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