

Evaluating PSUs: A glance at the crown jewels

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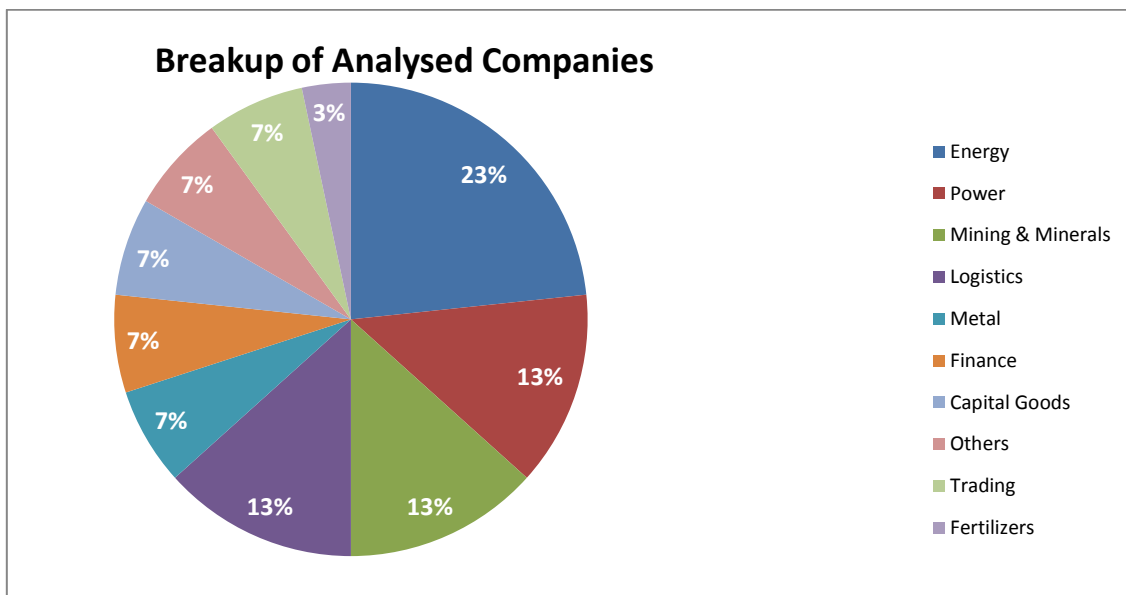
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Public Sector Undertakings were established in pre-globalized India as drivers of economic and industrial growth. It was only after 1991 that the Government of India decided to divest their stakes in selected PSUs. The report holds significance given the recent thrust from the Union Government to raise funds by divestment of PSUs and a comparison is drawn with their counterparts in the private sector on certain critical parameters.

We have analysed 30 Public Sector Undertakings across industries such as energy, mining and metals, power, finance, logistics, capital goods, real estate, fertilizers, airlines, trading etc. The study examines these sectors/companies on parameters like revenue growth, EBITD, employee costs and net profit over the last 5 years and compares them with their peers in the private sector. This provides insights on their financial and operational efficiency.

Highlights

- Revenue growth especially across sectors like trading, aviation, shipping and capital goods has been slower compared with their private peers.
- For companies like SAIL, BHEL and RCF, which operate in capital intensive sectors, lower revenue growth has led to reduced operating margins over the years in comparison with their private peers.
- The biggest differentiator between PSUs and the private companies has been their employee cost. The cost difference was sizable in labour intensive sectors like mining, mineral & metals, capital goods and shipping.
- Finance sector PSUs (REC, PFC) have near monopolistic business and the definitive backing provided by Union Government gives them an edge over other companies in similar sectors.
- Interest cost has not been significant and at comfortable levels across companies barring the case of Air India and Steel Authority of India limited. All other PSUs covered under this report have an interest coverage ratio greater than 1.



*Other Sectors includes Real Estate and airlines

Revenue:

- Revenue of the 30 PSUs analysed in this report contracted by CAGR of 0.3% during 2012-17. If revenues of energy companies (Oil and Gas) are excluded, revenue of remaining companies grew by CAGR of 0.5%.
- Out of the 11 sectors covered in this report, 5 reported higher 5-year CAGR revenue growth during 2012-17 (of which two were lower negative growth), in comparison with their private peer set. Real estate, power and mining & mineral sector PSUs reported better revenue growth during this period (Table 1a).

High revenue growth companies:

The top-5 companies which reported highest 5 years CAGR in revenue are PGCIL (19.2%), NBCC (18.4%), REC (14.6%), PFC (11.5%) and NLC (11.6%). Out of the 30 companies, only 7 companies have reported a revenue growth of over 10%. (Table 1b)

Table 1(a) Revenue Growth (% CAGR 2012-17)

	PSU	Private peer-set
Oil & Gas (E&P)	-1.6%	-6.4%
Oil & Gas (Mkg. & Refg)	-0.4%	-7.5%
Airlines	7.6%	11.4%
Capital Goods	-8%	2%
Fertilizer	0.6%	7%
Metals Steel	-0.1%	3%
Aluminium	2.3%	5.7%
Mining and Mineral	4.7%	-1%
Power	5%	0.3%
Real Estate	18.4%	2.5%
Shipping Logistics & Services	1.1%	3.8%
Trading	-20%	1.5%

MMTC (-20%), STCI (-20%) and BHEL (-11.7%) reported the highest CAGR fall in revenues during the same 5 year period.

Table 1(b) Revenue Growth Categories

Revenue growth%	Number	Company name
15-25	2	NBCC, PGCIL
5-15	9	Air India, SJVN, NHPC, REC, PFC, CONCOR, NLC, CIL, BEL
0-5	7	BPCL, GAIL, HPCL, MOIL, NALCO, NTPC, RCF
Negative	12	STCI, MMTC, ONGC, OIL, IOCL, MRPL, BHEL, BEML, NMDC, SAIL, SCI, Dred Corp

Employee Cost:

Out of the 11 sectors, PSUs in 6 sectors reported higher employee costs in comparison to their private peers. Sectors like “mining & minerals”, “metals”, “shipping logistics & services” and “capital goods” and oil exploration reported employee cost to revenue percentage that was higher than the private peer numbers by a broad margin. (Table 2.a) Power companies also reported higher employee costs than their private peers.

Table 2 (a) Comparison of Employee Cost to Revenue (%)

	PSU	Private peer-set
Oil & Gas (E&P)	15%	11%
Oil & Gas (Mkg. & Refg)	1.7%	1.7%
Airlines	11.7%	12.7%
Capital Goods	18.2%	10%
Fertilizer	7%	4%
Metals		
Steel	18.2%	4.7%
Aluminium	19.2%	8.3%
Mining and Mineral	36%	11%
Power	6.7%	6.3%
Real Estate	3.8%	6.2%
Shipping Logistics & Services	8%	5%
Trading	1.5%	2.3%

Employee cost to revenue could be considered as one factor affecting the financials of the PSUs significantly. (Table 2.b)

Table 2 (b) Employee Cost to Revenue level

%	Number	Company name
>25	4	BEML, CIL, MOIL, NLC
15-25	7	NHPC, NALCO, SAIL, BHEL, OIL, BEL, Dredging Corp
5-15	7	Air India, ONGC, SCI, NMDC, RCF, NTPC, PGCIL
Less than 5	12	IOCL, BPCL, HPCL, MRPL, GAIL, MMTC, STCI, REC, PFC, CONCOR, NBCC, SJVN.

Operating profit margin:

With the exception of Aluminium companies under metal sector, all other sectors reported lower operating margins compared with their private peers in FY17. Steel, oil-marketing companies, real estate and trading sectors with a significant difference in OPM% followed by oil refineries, mining and mineral etc. reported lower operating margins than their private peers. (Table 3.a)

Table 3(a) Operating Profit Margin (% 2017)

	PSU	Private peer-set
Oil & Gas (E&P)	39%	51%
Oil & Gas (Mkg. & Refinery)	6.5%	19.6%
Airlines	12.92%	13.80%
Capital Goods	6.6%	13%
Fertilizer	5.7%	10.5%
Metals		
Steel	0.1%	16.4%
Aluminium	13.4%	9%
Mining and Mineral	19%	30%
Power	30.5%	34%
Real Estate	6.4%	26%
Shipping Logistics & Services	22%	27%
Trading	1.5%	5.3%

Air-India reported an improvement from operational loss in 2012, to operational profit in 2015 and 2016. In terms of Operating profit Margin (OPM) level, 37% companies reported OPM more than 25%. 43% companies reported OPM between 5-25%. The remaining companies had less than 5% OPM. (Table 3.b)

Table 3(b) Operating Profit margin level

OPM (%)	No of PSUs	Name of Company
>25%	11	ONGC, OIL, NMDC, NLC, MOIL, PFC, REC, PGCIL, NHPC, SJVN, NTPC,
15-25%	4	BEL, SCI, CONCOR, Dred Corp
5-15%	9	Air India, NBCC, RCF, NALCO, CIL, BEML, MRPL, GAIL, BPCL, IOCL
0-5%	5	HPCL, BHEL, SAIL, MMTTC, STCI

Net Profit margin:

Oil exploration, aluminium, mining & minerals, power and shipping-logistics sectors reported higher net profit margins than their private peers. Airline, steel and trading sectors reported net-loss during the year 2017. Among exceptions, power sector companies reported a net profit while their private peer-set reported a net-loss during the year 2017.

Table 4(a) Net Profit Margin Comparison (%2017)

	PSU	Private peer-set
Oil & Gas (E&P)	22%	3%
Oil & Gas (Mkg. & Refinery)	4%	11.9%
Airlines	-19%	6.6%
Capital Goods	5%	4%
Fertilizer	2%	4.5%
Metals Steel	-6%	-1.5%
Aluminium	8%	1.8%
Mining and Mineral	14.1%	11%
Power	15.5%	-7.4%
Real Estate	6%	7%
Shipping Logistics & Services	10.4%	5%
Trading	-0.6%	1.3%

Table 4(b) NPM Break-up (% 2017)

Net Profit Margin (%)	No of PSUs	Name of Company
>25%	7	NMDC, NLC, MOIL, REC, PGCIL, NHPC, SJVN
15-25%	4	ONGC, OIL, BEL, CONCOR
5-15%	7	NBCC, NTPC, PFC, NALCO, CIL, MRPL, BPCL
0-5%	9	IOCL, BPCL, HPCL, BHEL, BEML, SCI, Dred Corp, RCF, MMTC
<0%	3	STCI, Air India, SAIL

The table below exhibits change in Net Profit Margins (NPM) of PSUs between FY16 and FY17. Oil marketing and Refining, Capital Goods, Airlines and Steel sector reported expansion in NPM. Real Estate and Fertilizer sector reported no change in NPM. The remaining sectors reported contraction in NPM between FY16 and FY17.

Table 4 (c) Change in NPM (% 2016 vs 17)

<i>Expansion</i>	<i>No-Change</i>	<i>Contraction</i>
Oil Refining, Oil Marketing, Capital Goods, Airline, Steel	Real Estate, Fertilizer.	Mining and Mineral, Logistics and Shipping, Power, Trading, Aluminium

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Appendix: Financial Indicators and peer comparison

					Comparable Peer Data			
	Gross Revenue CAGR(12-17)	Emp. Cost (2017)	OPM% (2017)	NPM% (2017)	Gross Revenue (2012-17 CAGR)	Emp. Cost (2017)	OPM% (2017)	NPM% (2017)
<i>Oil & Gas: Refining, Marketing and Exploration</i>								
ONGC	-1.70%	14.80%	39.90%	23%				
OIL	-1.10%	17.00%	32.60%	16%	-6.40%	11%	51%	3%
Sub-total	-1.60%	15%	39%	22%				
IOCL	-1.40%	2.20%	7.10%	4%				
BPCL	0.70%	1.30%	5.10%	3%				
GAIL	0.40%	2.60%	13.10%	7%	-7.50%	1.70%	19.60%	11.90%
HPCL	0.80%	1.40%	4.90%	3%				
MRPL	-2.50%	0.60%	7.90%	6%				
Sub-total	-0.40%	1.70%	6.50%	4%				
<i>Capital Goods & industrial Equipments</i>								
BHEL	-11.70%	17.70%	2.70%	2%				
BEML	-1.40%	27.50%	7.60%	3%				
BEL	10.60%	16.90%	19.30%	17%	2%	10%	13%	4%
Sub-total	-8%	18.20%	6.60%	5%				
<i>Mining, Mineral and metals</i>								
CIL	5.40%	39.70%	14.50%	11%				
NMDC	-4.70%	10.00%	40.80%	29%				
NLC	11.60%	26.50%	39.00%	27%	-1%	11%	30%	11%
MOIL	0.40%	31.10%	29.90%	31%				
Sub-total	4.70%	36%	19%	14.10%				
NALCO	2.30%	19.10%	13.40%	8%	5.70%	8.30%	9%	1.90%
SAIL	-0.10%	18.20%	0.10%	-6%	3%	4.70%	16.40%	-1.50%
<i>Logistics, Shipping and Related Services</i>								
SCI	-4.80%	13.30%	22.30%	4%				
CONCOR	6.20%	3.30%	22.20%	15%				
Dredging Corp	-2.00%	16.20%	20.00%	1%	-3.80%	5%	27%	5%
Sub-total	1.10%	8%	22%	10.40%				
<i>Financial Institutions</i>								
PFC	11.50%	0.40%	79.50%	8%				
REC	14.60%	0.80%	93.80%	27%				
<i>Power and power Infrastructure</i>								
PGCIL	19.20%	5.40%	87.90%	29%				
NHPC	8.20%	21.70%	51.80%	38%				
SJVN	10.10%	1.90%	80.20%	63%				
NTPC	4.50%	5.50%	27.00%	12%	0.30%	6.30%	34%	-7.40%
Sub-total	5%	6.70%	30.50%	15.50%				
RCF (Fert.)	0.60%	7.00%	5.70%	2%	7.00%	4%	10.50%	4.50%
NBCC (Realty)	18.40%	3.80%	6.40%	6%	2.50%	6.20%	26%	7%
MMTC (Trading)	-20%	1.70%	0.20%	0.50%				
STCI (Trading)	-20%	1.30%	2.20%	-2.10%	1.50%	2.30%	5.30%	1.30%
Air India [§]	7.60%	11.70%	12.92%	-19%	11.40%	12.70%	13.80%	6.60%

* Comparable peer data as available from Aceequity. In case of non-availability of comparable peers, data available for the largest company in the sector has been taken into consideration. §- FY16 (Last financial data available publicly for Air India Limited)

Colours **Green** better performance than private peer-set and **red** denotes inferior performance to private peer-set.