

Kerala PSUs Make Amazing Turnaround

The Public Sector Units under the Department of Industries in Kerala have made an amazing turnaround during the year 2006-07. The state level public sector industries registered an unprecedented growth within a short span of time. It is unparalleled in the history of Kerala and became a true model even for the other States of India to emulate. The argument that PSUs would be a burden to the State and cannot be run in an efficient manner has been totally disproved. Public Sector Units can compete with private sectors and are capable of delivering if employees are motivated, management is made professional and policies are pro-active.

When the Left Democratic Front (LDF) Government assumed office in May 2006, Public sector industries were struggling hard for their sustenance and survival. Hardly 12 companies were functioning profitably by the close of fiscal 2005-06. The transition from loss to profit was dramatic. The Financial figures for the fiscal 2006-07 indicate net profits by 22 companies and also 2 companies posted operating profits.

Robust Policy Initiatives

The robust policy initiatives of the LDF Government to revive, strengthen and modernize public sector companies have yielded encouraging results. Selective and corrective intervention at department levels, regular performance monitoring at the level of the Minister, Inter-PSUs resource optimization, Strategic Cooperation with Central PSUs were salient features of the new regime. The annual statement of PSUs and report of Public Sector Restructuring and Internal Audit Board (RIAB) have substantiated it. The new Government could viably run most of the PSUs without pumping fresh resources and recruit additional staff. It reflects reversal of the policies of the former UDF Government. The LDF Government assumed office at a time when the PSUs in the State were treading from loss to liquidation. It is to be noted that the previous Government (2001-2006) had decided to give up the loss making PSUs and privatize profit making ones. The UDF Government constituted an Enterprises Reforms Committee (ERC) with an intention to either shut down or sell out loss making PSUs. Many units were closed down on the basis of the recommendations of the ERC. Large number of units was listed for sell out. Production came to a grinding halt in some of the units and thousands rendered jobless. Many of the PSUs were stopped disbursing salary. However, the previous Government failed to sell out PSUs because of stiff resistance from trade unions and Left parties.

Immediately upon assuming office the new Government decided to keep the ERC report in abeyance. The Government conducted a preliminary study to revive the potentially viable units.

Monthly Evaluation

The Minister for Industries, Sri Elamaram Kareem, convened a meeting of chief executives of the PSUs in Kochi on 21st August, 2007 to brief them about new Government's vision, policies and priorities. He asked them to make their management system professional. The Minister warned of stringent action against

mismanagement, irregularities and corruption in PSUs. A committee was constituted to monitor purchases and inter-PSU cooperation.

The Minister for Industries was keen to evaluate the performance of each PSU on a monthly basis in his presence and gave on the spot decisions for the concerned with each organization. It is a history in Kerala that a Minister himself evaluates performances of companies on a real time basis. A special mechanism of evaluation has also been put in place in the office of the Minister with a view to provide consistent support. The Chief Executives of Companies, who were appointed on political considerations, were removed. Some of the CEOs who were failed to perform at the desired level despite giving adequate Governmental supports were shunted.

The initiative of the Government to run the PSUs in a professional manner gained wide spread support from workers and their unions. They whole-heartedly supported the new initiatives of the state Government. The salary revisions due to the workmen for almost a decade to many units were revised with retrospective effect. Workers cutting across the trade unions have played a vital role in the dramatic changes that witnessed in the PSUs of the State.

There are 67 units under the Industries department. Of these, performance report of 42 units is ready with the RIAB. Eleven units were already defunct and 9 companies were closed down de jure. Excluding five non-manufacturing units 42 companies will remain. During 2006-07, the units earned net profit to the tune of 92 crore. Previous year the figure was negative and the net loss amounted to Rs.63 crore. If previous year's loss were taken in to account, the actual gain of PSUs during 2006-07 would soar to worth Rs.155 crore.

Production and Turnover go up

The total profit generated by 22 companies during 2006-07 comes to Rs.130 crore. The profit earned by 12 companies during the previous year was Rs.62 crore. The PSUs made commendable achievements in production as well as turnover. In the year 2006-07 the total turnover of the PSUs was Rs.1563 crore against Rs.1468 crores in the previous year. Total production has gone up to the tune of Rs.1998 crores in 2006-07 against the previous of 1762 crores in the previous year- i.e. an increase of 13 per cent.

30 companies were in the red during 2005-06, which was brought down to 20. The Government is confident that 10 more would generate net profit for the year 2007-08 thus bringing the number of profit making units to an all time high of 32. The projection is that PSUs would altogether register a net profit to the tune of Rs.133 crore, i.e. a hike of 40 per cent.

Government has also taken a decision that profit-making companies shall pay dividends by June 07 thus enabling the Government to pursue modernization and expansion with considerable ease. This indicates that public sector industries contribute to the State exchequer even after fulfilling their social commitments. The PSUs, which had production worth Rs.2000 crore during the year 2006-2007, have contributed significantly to the economic activities of the State since large number of

small scale industries are tied up with State PSUs for their business activities. The PSUs remitted Rs 71 crore as sales tax and Rs126 crore as excise duty. Quite a number of PSUs has achieved record turnover in production and Sales.

New Work Culture

The Kerala Minerals and Metals, Steel Complex, United Electricals, Steel and Industrial Forgings, Kerala High Tech Industries, Traco Cable, Kerala Ceramics etc have made an all time record in production during the year 2006-07.

The new initiatives, policies and programmes of the Government have brought in a new work culture and a sense of belongings among the employees that paved the way for a quantum jump in production, productivity, turnover and net profit. Employees and employers joined hands to increase the efficiency of their performance in most of the units. The Government intends to pace up the renewed effort to sustain the positive trend. The welcome trend is that the workers and their unions unanimously subscribe the view that a high rate of productivity and high quality of products is imperative to compete in the volatile market open to the entire world.

PERFORMANCE OF PSUs UNDER INDUSTRIES DEPARTMENT

| Particulars | 2004-05 | 2005-06 | 2006-07 |
|---|-------------------|-------------------|-------------------|
| No of Profit Making Units | 11 | 12 | 22 |
| Production in Rs. lakhs | 71,022.19 | 118,460.03 | 168,219.44 |
| Turnover in Rs lakhs | 63,962.77 | 85,791.01 | 127,169.78 |
| Profit in Rs. Lakhs | 6,719.05 | 6,190.08 | 12,955.07 |
| No of Loss Incurring Units | 31 | 30 | 20 |
| Production in Rs. lakhs | 94,609.13 | 57,759.83 | 31,625.89 |
| Turnover in Rs lakhs | 70,989.69 | 61,038.50 | 29,132.89 |
| Loss in Rs. Lakhs | -13,889.37 | -12,467.09 | -3,749.73 |
| Total No. of Units | 42 | 42 | 42 |
| Total Production in Rs. Lakhs | 165,631.32 | 176,219.86 | 199,845.33 |
| Total Turnover in Rs. Lakhs | 134,952.46 | 146,829.51 | 156,302.67 |
| Total Net Profit / Loss in Rs. Lakhs | -7,170.32 | -6,277.01 | 9,205.34 |
| Sales Tax Paid in Rs. lakhs | 6,270.57 | 6,541.78 | 7,104.74 |
| Excise Duty in Rs. lakhs | 13,689.78 | 14,228.60 | 12,649.87 |

United Electrical Industries

The historic achievements made by the United Electrical Industries, a state-owned enterprise based at Kollam, is a classic example of the new work culture. The UEI increased its production by eight fold within a short span of time. The UEI, which has been supplying energy meters to the Kerala State Electricity Board, is now exploring new avenues to market their products and services. What is astonishing is the fact that the UEI attained the record production without any significant changes in the inputs such as labour, fresh capital and equipment. The company, which employs around 225 persons, had been in deep red, unable to meet even the salary bills. On the other hand the KSEB, which requires one-lakh meters a month, was sourcing meters from private players to meet its demand because UEI was unable to cater to KSEB's needs during the yesteryears.

The UEI, once a pride of Kollam, was about to be closed down, as there was no viable option to turnaround the company. In the midst of such a precarious situation, the new Government has initiated a multi-pronged strategy to revive the company involving all stakeholders. As a first step, a new chief executive having proven track record in engineering and management was inducted giving full functional autonomy. Another bold initiative is the signing up of a Memorandum of Understanding among the KSEB, the Industries Department and trade unions and management of the company. The MoU stipulates procurement of entire production of the UEI by the KSEB on a rate contract, freezing of wage revision for three years and supply of one-lakh quality meters per month. The Government measures rejuvenated the confidence of the employees. The result was dramatic and productivity increased by manifold.

A model for Public Sector

The Company that suffered a loss of Rs.3.12 crore in 2005-2006 earned a profit of Rs.2.37 crore in 2006-2007. The turnover soared to an astonishing 35 crore from a paltry 4.97 crore. The production has gone up to Rs.36 crore in 2006-2007 against Rs.5.19 crore in 2005-2006. The management aims at registering a profit of Rs.8 crore in the current financial year. The switch over to mass production system, introduction of new quality control measures and above all the improved industrial relations contributed mainly to achieve a quantum leap in production, reaching 150,000 meters in March 2007. In view of such a spectacular achievements, the company has decided to extend an interim monetary relief to the workers.

Companies that Registered Profit in 2006- 07

| Sl.No. | Company | Profit / Loss (Rs. In lakhs) | | |
|--------------|-------------------------------|------------------------------|---------------|------------------|
| | | 2004-05 | 2005-06 | 2006-07 |
| 1 | KSIDC | 1,329.00 | 2,188.00 | 4,196.00 |
| 2 | Malabar Cements Ltd | -250.48 | 539.82 | 2,476.18 |
| 3 | KMML | 3,920.00 | 1,782.00 | 2,065.26 |
| 4 | KELTRON | -5,065.75 | -3,860.71 | 1,201.05 |
| 5 | TELK | 609.00 | 174.00 | 913.00 |
| 6 | KSIE | 398.65 | 388.42 | 487.00 |
| 7 | SIFL | 146.00 | 302.00 | 350.00 |
| 8 | TCC | -829.00 | 571.00 | 293.00 |
| 9 | United Electricals Ltd | -285.00 | -312.00 | 237.00 |
| 10 | Kerala Hi-tech Industries Ltd | 15.01 | 46.25 | 133.81 |
| 11 | KEL | -380.45 | -112.55 | 122.36 |
| 12 | The Kerala Ceramics Ltd | -146.30 | -96.99 | 106.48 |
| 13 | Kerala Clays & Ceramic | 115.40 | 83.83 | 94.60 |
| 14 | Travancore Sugars & | 14.10 | 66.75 | 81.78 |
| 15 | Forest Industries | 32.18 | 45.00 | 48.00 |
| 16 | KSTC | -324.94 | -191.36 | 34.07 |
| 17 | Handicrafts | -10.67 | -56.55 | 28.48 |
| 18 | SIDCO | -12.38 | -69.92 | 25.76 |
| 19 | Kerala Automobiles Ltd | 21.71 | -209.77 | 22.52 |
| 20 | Keltron Electro Ceramics Ltd | -29.02 | -89.46 | 21.29 |
| 21 | Traco Cable Company Ltd | -717.60 | -415.29 | 14.95 |
| 22 | KELPALM | -24.37 | 3.01 | 2.48 |
| TOTAL | | -1,474.91 | 775.48 | 12,955.07 |

More Companies Post Net Profit

Ten companies, viz. Keltron, Traco Cable, Kerala Automobiles, Kerala Textile Corporation, Kerala Electrical and Allied Engineering Company, Kerala Ceramics, United Electrical Industries, Electro Ceramics, SIDCO, and the Handicraft Development Corporation, have made a turnaround within a year registering profit. Another ten units are all set to register net profit in the current fiscal. In the case of 14 other companies, including Travancore Titanium Products, amount of loss has been reduced substantially. The performance of TTP is noteworthy. While the TTP suffered a loss the tune of Rs.15.5 crore in 2005-2006, the loss was reduced to just one crore in 2006-07 and the company was able to register an operating profit in the fiscal ended on March 31, 2007.

Growth in Core Sectors

The sector wise analysis indicates that the PSUs achieved commendable growth in production, turnover and profit in the core sectors such as electrical, engineering, chemical, electronics, ceramics, development and infrastructure during 2006-2007.

All the four companies, in the electrical sector registered an unprecedented growth and posted profit in the year 2006-07. The achievement is noticeable as the electrical companies had a loss of Rs.6.65 crore during 2005-06. During 2006-07 the companies recovered from the loss registering a profit of 13 crore. The achievement of Kerala Electrical and Allied Engineering Company in the electrical sector is worth mentioning. The company which was in red for more than one decade posted a net profit of 1.22 crore during 2006-07. It is an all time record for the company with regard to turnover too. The company's turnover soared to Rs.75 crore. Projection of turnover for the current fiscal is Rs.87crore. KEL has units in Mamala, Kundara, Kasargod , Palakkad and Edarikode.

The Transformers and Electricals Kerala (TELK) in Angamaly also has made significant growth in production as well as net profit. The company's profit shot up to 9.13 crore from 1.17 crore. The turnover rose to Rs.150 crore from 110 crore. The company is expected to register a profit to the tune of Rs.19 crore in 2007-2008.

OTS with Banks

The Government has allotted Rs.12.62 crore to the company for its one time settlement of bank liabilities. The company, which is basically manufacturing power transformers, has decided to enter into a joint venture with the National Thermal Power Corporation. The formalities for the Joint Venture are being finalized and it would result in doubling the production of the company. The State Government will have majority stake in the Joint Venture.

The Traco cable, which suffered a loss of Rs.4.15 crore during 2005-06, attained a profit of Rs.15 lakhs during 2006-07. The production of the company has almost doubled. While the production during 2005-06 was to a tune of Rs.35 crore, it rose to Rs.65 crore during 2006-07. The company is expected to generate a profit of nine crore in the current financial year. The turnover is expected to increase from Rs.51 crore to 125 crore.

Inter PSU Cooperation

One of the factors that contributed to the growth of most companies is the Government decision on inter-PSU cooperation, particularly for procurement. The State Electricity Board purchases energy meters from the United Electricals and cables from the Traco Cables. The Board also sources products from the KEL and the TELK. The Kerala State Drugs and Pharmaceuticals, which was in the doldrums and facing closure, is on the way of recovery thanks to the Government decision to purchase drugs that required for the Health Department from the company.

Aggregate profit from Chemical sector has gone up to Rs.45 crore during 2006-07 from Rs.2.8 crore. Out of the six units in the chemical sector, three are in the red. The Travancore Cochin Chemicals (TCC), Kerala's premier company in the chemical sector, registered substantial growth in terms of profit and turnover. Profit has shot up to Rs.14.81 crore during 2006-2007 from Rs.2.93 crore. The TCC has decided to increase the production of caustic soda from 175 tons to 225 tons. The expansion project involves capital investment of Rs.60 crore.

Ambitious Plan for KMML

The profit of the Kerala Minerals and Metals Limited (KMML) has risen from Rs.17.82 crore to Rs.20.65 crore. The KMML has entered into a tie-up with ISRO to produce Titanium sponge at the rate of 500 tonnes per annum. The Rs.95 crore project is funded by the ISRO. The Government is determined to start production of Titanium sponge within the stipulated time. The KMML has also plans to increase the capacity of the rutile pigment plant from the present 40,000 MT to one-lakh MT.

Malabar Cements

There has been a steep rise in the profit of the Malabar Cements. The most important factor that led to such a growth is the steps taken by the Government to contain corruption and financial irregularities. The rise in price of cement had also contributed to the growth. Malabar Cements, which earned a profit of hardly Rs.5.39 crore during 2005-06, posted a profit of Rs.25 crore in 2006-07. The target set for the current financial year is Rs.30 crore.

The Travancore Titanium Products (TTP) has plans to increase its production of Titanium dioxide and to commence production of rutile grade titanium dioxide. In engineering sector only two out of the seven units were operating in profit during 2005-06. In the last financial year, three companies registered profit. While the units in engineering sector suffered a loss of Rs.5.74 crore in 2005-2006, the loss could be reduced to Rs.3.1 crore in 2006-2007.

Tie-up with Defence

The profit of the Steel and Industrial Forgings increased to Rs.3.5 crore from 3 crore. The company also mooted an expansion plan of about Rs.13.41 crore. The profit earned by the Kerala Hitech Industries rose to Rs.1.33 crore from 46 lakhs. The State Government has decided to hand over Hitech Industries, which has been manufacturing equipment for ISRO, to the Defence Research and Development

Organization (DRDO). The State Government is awaiting clearance from the Ministry of Defence to formally handover the unit. All the trade unions in the company fully support the decision of the State Government to hand over the unit to the Ministry of Defence. DRDO intends to manufacture BrahMos missile and missile related critical components from Hitech.

Electronic Sector

The performance of the companies in the Electronic sector has also improved a lot. The companies altogether made a profit to the tune of Rs.10 crore in 2006-2007 against a net loss of Rs.45 crore in 2005-2006.

The Keltron which had an accumulated a loss of Rs.38 crore has marked a profit of Rs.12 crore during 2006-07. The production of KELTRON has soared to Rs.86 crore from Rs.58 crore. Of the six electronic units, only two are operating in profit.

In the development and infrastructure sector all the three companies (KSIDC, SIDCO, KSIE) have improved their performance. These three companies made a profit of Rs.47 crore in 2006-2007 against Rs.25 crore registered in the previous year. The profit of KSIDC has soared from Rs.22 crore to Rs.42 crore.

Modernisation of Textile Mills

The textile sector is yet to recover from the crisis. Among the seven units only one is operating in profit. However the margin of loss was reduced considerably from Rs.17 crore to Rs.10 crore. The trend of recovery is visible in the traditional sector too. The loss of traditional sector units could be brought down to Rs.14 crore in 2006-2007 from Rs.17 crore. During 2006-07 two companies managed to register a profit. The two timber based units are operating on profit. The profit increased to Rs.1.29 crore from Rs.1.11 crore. Both the ceramic units are also doing well. The Kerala Ceramics unit that suffered a loss of Rs.96 lakhs during 2005-06 has attained a profit of Rs.1 crore during 2006-07. The production has increased from Rs.3 crore to Rs.9.68 crore. For Kerala Ceramics, it is an all-time record. The company has plans to increase its production and produce more value added products. Kerala Clays and Ceramics, Pappinisserry, also posted increased profit in 2006-2007.

Central Policies

The results that the State-owned enterprise achieved during the last 12 months are really encouraging. The state PSUs could surmount the challenges posed by globalization and liberalization with the help of the new initiatives and policy framework provided by LDF Government. Since the Union Government is pursuing its policies of liberalization, the PSUs would find it difficult to compete with the corporate giants.

The import duty cut on titanium dioxide announced in the last budget by Sri P Chidambaram from 12.5% to 10% will badly hit Kerala Minerals and Metals Limited, which produces titanium dioxide. The import duty was reduced, at a time when Kerala government has been pleading for an increase on duty.

The LDF Government is committed to support the PSUs for its continued sustenance and growth by upgrading technology, putting in place a professional management and scientific marketing mechanism.

The UDF Government had earmarked just Rs.5 crore in the 2006-2007 budget for PSUs. The LDF Government, which assumed office in May 2006, revised the budget and provided Rs.53 crore instead of the Rs.5 crore.

At the time when LDF assumed much State owned Companies were suffering due to the accumulated liabilities with the Banks. The Banks refused to extend working capital support. The industries department and the finance department intervened many times and bank liabilities of the Public Sector Companies were settled through OTS with Government guarantee. KELTRON, Steel Complex, Autokast were the major beneficiaries of the settlement. It was assured that the liabilities to the banks would be settled in instalments by the government. By this arrangement bank liability to the tune of Rs.400 crore was settled in one go. The government has prevailed upon banks to continue to extend working capital support even after one time settlement.

Loss to Profit: Units that Improved their Performance

| Sl.No. | <u>Company</u> | Profit/Loss (Rs. In lakhs) | |
|---------------------|---|-------------------------------|-----------------|
| | | 2005-06 | 2006-07 |
| 1 | Kerala State Electronic Development Corporation | -3,860.71 | 1,201.05 |
| 2 | United Electricals Ltd | -312.00 | 237.00 |
| 3 | Kerala Electrical & Allied Engineering Company | -112.55 | 122.36 |
| 4 | The Kerala Ceramics Ltd | -96.99 | 106.48 |
| 5 | Kerala State Textile Corporation Ltd | -191.36 | 34.07 |
| 6 | Handicrafts Development Corporation | -56.55 | 28.48 |
| 7 | Kerala Small Industries Development Corporation | -69.92 | 25.76 |
| 8 | Kerala Automobiles Ltd | -209.77 | 22.52 |
| 9 | Keltron Electro Ceramics Ltd | -89.46 | 21.29 |
| 10 | Traco Cable Company Ltd | -415.29 | 14.95 |
| <u>TOTAL</u> | | -5,414.60 | 1,813.96 |

Companies that Increased their Profit

| Sl.No. | Company | Rs. In lakhs | | |
|--------------|---|-----------------|------------------|-----------------|
| | | 2005-06 | 2006-07 | Difference |
| 1 | Kerala State Industrial Development Corporation Ltd | 2,188.00 | 4,196.00 | 2,008.00 |
| 2 | Malabar Cements Ltd | 539.82 | 2,476.18 | 1,936.36 |
| 3 | Transformers and Electricals Kerala Ltd | 174.00 | 913.00 | 739.00 |
| 4 | The Kerala Minerals and Metals Ltd. | 1,782.00 | 2,065.26 | 283.26 |
| 5 | Kerala State Industrial Enterprises Ltd | 388.42 | 487.00 | 98.58 |
| 6 | Kerala Hi-tech Industries Ltd | 46.25 | 133.81 | 87.56 |
| 7 | Steel and Industrial Forgings | 302.00 | 350.00 | 48.00 |
| 8 | Travancore Sugars & Chemicals Ltd | 66.75 | 81.78 | 15.03 |
| 9 | Kerala Clays & Ceramic Products Ltd. | 83.83 | 94.60 | 10.77 |
| 10 | Forest Industries (Travancore) Ltd | 45.00 | 48.00 | 3.00 |
| Total | | 5,616.07 | 10,845.63 | 5,229.56 |

JV with Central PSUs

In order to strengthen the state public sector it has been decided to have strategic co-operation with select Central PSUs. Through protracted intervention of the State Government, Railways decided to collaborate with the Autokast and the Steel Fabrication Unit and manufacture bogies, as joint venture. The Joint Venture business tie-ups between NTPC-TELK and Hi tech- DRDO are likely to be materialized immediately. The steel complex Limited in Kozhikode is ardently pursuing for a joint venture with SAIL for its expansion programmes.

The Malabar Spinning Mills, which remained closed for years, was re opened after this government assumed office. The government is also making efforts to reopen the Thiruvananthapuram Spinning Mills. For the development of the textile sector, the Kerala State Textile Corporation has formulated a scheme costs Rs 22 crore

The government laid huge emphasis for the revival of public sector industries during 2006-07. During the current year thrust will be given for the expansion and modernization of the public sector units. The companies that have posted net profits or those potentially profitable companies are being short listed for expansion and modernization.

Companies that Reduced their Loss

| Sl.No. | Company | Profit / Loss | |
|--------------|--|------------------|------------------|
| | | 2005-06 | 2006-07 |
| 1 | The Metal Industries Ltd | -21.49 | -6.43 |
| 2 | Keltron Resistors Ltd | -65.31 | -34.42 |
| 3 | Sitaram Textiles Ltd | -171.94 | -125.03 |
| 4 | The Cannannore Co-op. Spinning Mills | -320.03 | -257.20 |
| 5 | The Malappuram Co-operative Spinning Mills Ltd | -74.83 | -11.47 |
| 6 | The Quilon Co-operative Spinning Mills | -408.88 | -314.17 |
| 7 | Steel Industrials Kerala Ltd | -393.32 | -272.51 |
| 8 | Keltron Crystals Ltd | -222.47 | -45.94 |
| 9 | Alleppey Co-operative Spinning Mills | -285.71 | -105.57 |
| 10 | Keltron Component Complex Ltd | -308.82 | -60.17 |
| 11 | Travancore Cements Ltd | -390.00 | -88.00 |
| 12 | HANTEX | -1,068.76 | -740.93 |
| 13 | Kerala State Drugs & Pharmaceuticals | -664.23 | -125.86 |
| 14 | Travancore Titanium Products Ltd | -1,552.00 | -100.00 |
| TOTAL | | -5,947.79 | -2,287.70 |