00001

MANAGEMENT PROGRAMME

Term-End Examination

December, 2015

MS-92 : MANAGEMENT OF PUBLIC ENTERPRISES

Time : 3 hours *Maximum Marks : **100***
*(Weightage **70%**)*

Note : *(i) There are **two** sections : **Section-A** and **Section-B**.*
*(ii) Attempt **any three** questions from **Section-A**, carrying **20** marks each.*
*(iii) **Section-B** is **compulsory** and carries **40** marks.*

SECTION - A

1. Briefly discuss the rationale of establishment of public enterprises and its contribution to growth and development of India.

2. Explain the role of legislative committees in enforcing legislative accountability and control over public enterprises. Also review their working.

3. Discuss and comment upon the important features of State Level Public Enterprises in India.

4. Discuss the scope of Finance Function in Public Enterprises. How are investments managed ?

5. Write short notes on **any four** of the following :
   (a) Proprietary Audit
   (b) The Small Industrial Companies Act (SICA)
   (c) Programme Evaluation and Review Technique (PERT)
   (d) Management Buy-out as a form of disinvestment.
   (e) Labour Redundancy

SECTION - B

6. Read the case given below and answer the questions given at the end of the case :

As the calendar turned to 31 March 93. The Indian Drugs and Pharmaceuticals Ltd. (IDPL) seemed to be in the red. The balance sheets of the company showed an accumulated loss of ₹ 454.97. Once one of the largest pharmaceutical companies in India - with capabilities which few of its rivals could match - IDPL today has turned into a chronically sick concern, in dire need of massive infusions of finance in order to rise from the sickbed.

Besides, the losses of IDPL's five production units at Rishikesh, Hyderabad, Gurgaon, Chennai and Muzaffarpur the company got bogged down by a workforce of 13, 000. A combination of low profit products, high wage costs and lack of corporate planning then, culminated in the PSUs present state of ill health On May 25, 1992 IDPL had been referred to the Board of Industrial and Financial Reconstruction (BIFR) which directed it to come up with a revival package in agreement with the Central Government. The revival package - massive equity injection - is to come into effect from April 1, nearly two years later. But will that resurrect IDPL ?

Revival Plan.

Many private sector pharmaceutical manufacturers are unimpressed with IDPL's plans. Industry-Watchers feel the company should work on reducing costs and improving processes for its existing products like vitamins. Failing which the revival plan may well remain unrealised unless the management improves costing at each level.

The package, which was preceded by a viability study by the Industrial Development Bank of India (IDBI) establishing that the company was both technically and commercially viable, envisages:

Conversion of outstanding Government of India (GOI) loans to equity. Amount: ₹ 149.84 crore:

Conversion of balance outstanding GOI loans to interest-free loans with a seven-year moratorium. Amount: ₹ 20.02 crore: and

Write-off/waiver of outstanding interest on GOI loans totalling ₹ 285.11 crore.

The IDBI report also says that IDPL will require additional working capital of ₹ 58.01 crore to reach a production level of ₹ 328 crore in the first year. ₹ 355 crore in the second, and ₹ 409 crore in the third year. It will be sourced from non-plan loans from the government of ₹ 40 crore between 1993-95, working capital loan from banks of ₹ 10.85 crore between 1993-96 and internal accruals of ₹ 7.16 crore in 1995-96. It will also need resuscitation through marginal capital investment of ₹ 31.06 crore over three years for debottle necking of its plant facilities for key products such as vitamins.

The package aims at ensuring within one year :

Starts making cash profits;

Repayment of the restructured debt will be made within the rehabilitation period of 10 years;

Net worth becomes positive in the fifth year;

Accumulated losses be wiped out in the ninth year;

Dependence on institutional sales be reduced;

Distribution arrangement be rationalised; and

Capacities of key bulk drugs be increased via streamlining.

Steps Taken

The total work force was brought down from 13,000 to 10,065 in October 1993. This number is to be further reduced to 6,750 in the next two years. The net loss was reduced by ₹ 44 crore (₹ 22 crore in 1992-93 and an estimated ₹ 12 crore by October 1993). Efforts are also on to reduce the wage bill from the percent 38 percent of total production costs to 14 per cent.

IDPL's board is also being restructured, and, for the first time, the company has worked out an aggressive marketing strategy, instead of depending purely on government sales. Its most popular products-Suckcee, ldisules and Cebexsci - all vitamins, will be pushed in the market.

In order to improve trade sales and speed up realisation of dues, IDPL is to appoint a special task force to prepare recommendations. The company's distribution and marketing network is also being re-organised. Sales of bulk drugs, for instance will be decentralised to the respective units, which will have more autonomy on marketing and sales decisions. For institutional sales the company is planning to appoint special agents responsible for making sales as well as realising dues.

Manufacturing processes are also to be improved and import substitutions are developed for key intermediates such as ABL and Novoldiamine. IDPL will also buy the know how for Erythromycin and complete clinical trials of a new anti-arthritic compound - IDPH 8261. In addition, the company will focus on the manufacture of value-added drugs such as Norfloxacin, Veronal Sodium, 82-5-Phosphate and Cephalexin.

Quite a few eyebrows have been raised at IDPL's decision to opt for these products as there are already many manufacturers such as Dr. Reddy's Sumitra Pharmaceuticals and Standard Organics. Girish Bhandari, joint managing director of Pfimex International; feels IDPL would be unwise to try and develop technology for such high-cost, low volume products.

Heavy Losses

Of its five units (all of which have been making losses to different degree), IDPL is trying to spin off the Chennai and Muzaffarpur units as subsidiaries, in collaboration with the Tamil Nadu and Bihar governments.

In its report, the IDBI recommended that these two units were not viable on a stand alone basis. But the state governments have not yet agreed to the proposal. The net accumulated losses of the Chennai unit as on 13-3-93 stood at ₹ 78.36 crore. It owes the government and banks ₹ 80.69 crore.

Meanwhile, the Hyderabad unit - one of the two largest (the other being the Rishikesh Plant) - has the accumulated losses of ₹ 230.97 crore as on March 31,1993. The unit with a workforce of 4.151 last made profit in 1977-78. According to the unit's general manager, Roopal Shah, its monthly wages bill works out to more than ₹ 2 crore. This is 39 percent of the production cost and according to the IDBI, exceeds desired levels by 19 percent. The losses of the other units are : Muzaffarpur ₹ 53.93 crores: Rishikesh ₹ 233.323 crore; and Gurgaon ₹ 16.52 crore.

Achievements

Despite facing such overwhelming odds. IDPL has some achievements to its credit. It is even today, the only producer of the basic raw material, Methyldopa, and Emdopa, and anti-hyper tensive drug. Also says Roopal Shah. "The entire pharmaceutical industry buys vitamin B_1 and B_2 and most of folic acid and B_6 from IDPL to make downstream formulations." In fact, pharmaceutical industry sources feel these products are the main strength of IDPL, as it has been manufacturing them for years and dominates the market.

For decades, IDPL played a vital role in the national health programmes such as family welfare. Mala-D, anti-leprosy, antitubercular, and blindness prevention. The emphasis on producing formulations to serve national needs and sale through government buying also ensured that margins for essential medicines under the purview of the Drugs Prices Control Order were relatively low.

But not much can be done until the government releases funds. Even though it has agreed to help out the ailing PSU, in view of its crucial role in the National Health Programme, IDPL is yet to receive it life-saving dose. Even if it does come out of intensive care, IDPL will have a long and slow recovery ahead.

Questions :

(a) What is the root cause of sickness of this ailing giant IDPL ?

(b) "Even as a massive revival package has been put together, IDPL will have long and slow recovery ahead." Comment.

(c) What are the other alternative courses of action to revive this ailing unit ? Evaluate.

(d) List out the experiences gained by IDPL from its operations.