doi: 10.31674/book.2022sseg.013

Impact of Covid 19 Pandemic on PSUs in India – A Study on Power Industry

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ABSTRACT

Since January 2020, the entire world has been suffering from the unprecedented threat of Covid – 19. But the most significant part is that this pandemic brought the world economy down to ground level as much as possible, and India is not an exception to that. This study examines how the pandemic affects public sector units in India's power industry, as well as how the Indian government has taken steps to improve the industry's performance. In order to do so, this study considers five Maharatna companies. The result of the study shows that almost all the reporting companies have suffered in terms of their valuation and profitability position due to the Covid – 19 pandemics. From this study, it can be stated that the pandemic had a serious negative impact on the performance of this industry.

Keywords: *PSUs; Maharatna Companies; Enterprise Value*

INTRODUCTION

Since January 2020, the entire world has been shattered by the unprecedented threat of Covid – 19 pandemics. But the most significant part is that this pandemic pushed the world economy down to the ground level as much as possible, and India is not an exception to that. From April to June 2020, India's GDP faced a drop of a massive 24.4%. During the second quarter of the financial year 2020–21, the economy contracted by a further 7.4%. The recovery in the third and fourth quarters of 2020–21 was still weak, with GDP moving up by 0.5% and 1.6%, respectively (Dhingra & Ghatak, 2021). This implies that the overall rate of contraction in India was 7.3% for the whole 2020–21 financial year.

On the other hand, the Indian power industry is considered a precious industry that contributes a substantial fraction of GDP to the Indian economy. India got the sixth rank in the world for making the most investments in clean energy at 90 billion US dollars. Besides that, as per the Economic Survey 2018-19, total FDI (Foreign Direct Investment) inflows in the energy sector reached 14.65 billion US dollars from April 2000 to December 2019 (Ministry of Finance, 2019). Furthermore, according to the International Energy Agency's key world energy statistics published in 2019, India will see a massive energy investment of around $100 billion US dollars by 2024.

A Public Sector Undertaking (PSU) is a company in which more than 50% of the stake is owned by the Government. Depending upon whether it is owned by Central Government or State Government, it can be stated as Central PSU or State PSU. On the other hand, to get a 'Maharatna' status, a PSU must fulfil the following conditions –

- Turnover exceeding INR 25000 crore for the last three years.
- Net worth exceeding INR 15000 crore for the last three years.
- Post tax net profit exceeding INR 5000 crore annually.
- The company according to the SEBI mandates of minimum prescribed public shareholding limit, must show its presence at Indian Stock Exchange.

This study therefore analyzes the pre and post lockdown financial performance of the Power Industry of India and to do so it considers NSE listed five different Maharatna Companies (PSUs) lying under this industry.

LITERATURE REVIEW

There are several studies on pandemic but there are hardly any studies describing the effect of pandemic on various sectors of an economy. Dev and Sengupta (2020) in their study found that the magnificence of the economic impact depends upon several factors like duration and harshness of the health crisis, the time-span of the lockdown and the way in which the situation unfolds when the lockdown is lifted. In their opinion, policy makers have to be prepared to scale up the response according to the events in order to minimize the impact of the shock on both the organized and unorganized sectors. Agrawal, Jamwal and Gupta (2020) in their study described that lockdown due to pandemic affected the manufacturing activities in India and majorly it affected the supply chains and economy of the country. They have also identified 18 critical barriers which affected the supply chains in India. Fernandes (2020) in his study expressed that world's GDP would be shortened to a great extent due to outbreak of such Corona Virus and Service sector would be particularly adversely affected. He also opined that countries highly dependent on foreign trade would be more negatively affected. Jamwal, Bhatnagar and Sharma (2020) in their study showed that there is a great slow-down in the global economy due to Covid-19 attack which is likely to costs around One Trillion Dollar.

The review of available literatures shows that the findings are not conclusive, and the spectrum of result is wide. Available literatures also showed that there is absolutely a negative impact of the pandemic due to Coronavirus outbreak on Indian as well as Global Economy. But neither of these studies analyzed the impact of such pandemic on the financial performance of the individual industrial sector of India. Hence this study tries to bridge the above-mentioned gap.

Objectives of the study

This study aims to achieve three specific objectives –

- To identify the status of selected Maharatna Public Sector Undertakings belonged to Power Industry in terms of financial performance during pre-lockdown and post-lockdown period.
- To make a comparative analysis among the reporting companies.
- To highlight the Government's strategies for the survival of Indian Power Industry.

METHODOLOGY

This section consists of four sub-sections which are Selection of samples, Period of Study, Sources of data and Variables considered for analysis purpose.

Sample Selection – This study is based on a sample consisting of five Mahartna Public Sector Undertakings (PSUs) lying under Power Industry. Besides that, these five companies are also included in the NSE NIFTY Index. These are mentioned below.

(a) National Thermal Power Corporation Limited (NTPC)
(b) Gas Authority of India Limited (GAIL)
(c) Indian Oil Corporation Limited (IOCL)
(d) Oil and Natural Gas Corporation (ONGC)
(e) Power Grid Corporation of India Limited (PGCIL)

Period of Study - All the data collected for the seven consecutive years ranging from 2014-15 to 2020-21.

Data Sources - All the data are collected from the sample companies' websites and other different web-links attached with the market performance of these listed companies.

Variables - Four variables on the basis of which performance of a firm can be judged have been selected for this study. These are –

(i) Enterprise Value
(ii) Return on Assets (%)
(iii) EV/EBDITA Ratio (times)
(iv) Net Profit Margin Ratio (%).

Methodology – This study is descriptive in nature. No statistical test is used for the study. For analysis purpose, some graphical measures like bar diagram, line charts are used.

RESULTS AND DISCUSSION

It is quite natural that a pandemic has a severe effect on different industrial sectors. In their study, Alsamhi *et al.* (2021) found a significant difference in total income, net sales, net profit, and earnings per share before and after the pandemic in the tourism, hospitality, and consumer sectors. Thus, this section deals with the analysis of the impact of the COVID-19 pandemic on the financial performance of the reporting companies that belong to the power industry, and this section also shows the government's intervention towards the survival of such an industry for the upcoming future days after the pandemic crisis.

Enterprise Value:

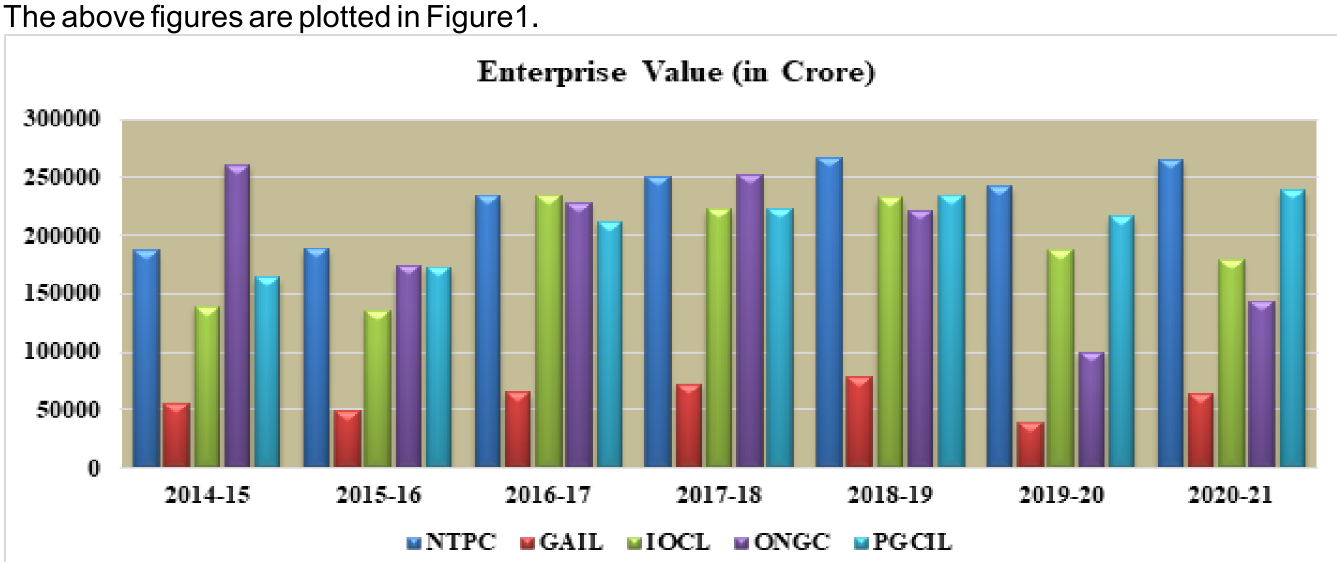
It is used as the basis of measuring the performance of a company. Higher the value, better is the performance of the company and vice-versa. Table – 1 shows the Enterprise Value of selected companies.

Table 1: Enterprise value of reporting companies

Companies	Enterprise Value (in Crores)						
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
NTPC	187150.37	188137.19	234243	251145	266980	241691	264971.95
GAIL	56231.49	49189.69	65331.7	72548.33	77974.5	39087.9	64393.24
IOCL	139020.07	135205.1	233592	222553.1	232544	187111	179194.49
ONGC	261116.29	173773.15	227969	252754.9	221808	98904.4	143227.65
PGCIL	164475.55	172557.45	212290	222664.3	234645	216209	238425.77

Source: https://www.moneycontrol.com

The above figures are plotted in Figure1.



Source: Presentation by the researcher

Figure 1: Enterprise value of reporting companies

Figure 1 depicts that the Enterprise value of the NTPC, GAIL, IOCL and PGCIL were constantly rising over the years before 2019-20 while it shows a fluctuating trend in case of ONGC. But based on the availability of data, it can be stated that there was a considerable downfall in the value of all the companies in 2019-20 but significantly it went up in 2020-21. It means that the reporting companies started well performing after the period of strict lockdown.

Return on Assets (ROA) ratio:

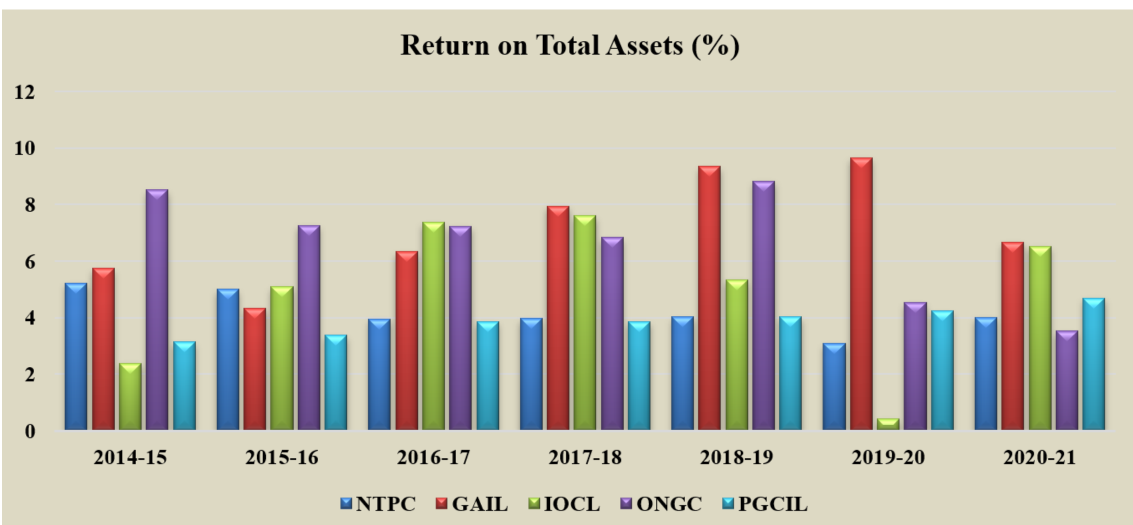
It means a financial ratio which implies how profitable a company is in connection with its total assets. Actually, ROA determines how efficiently an organization uses its assets to earn profit. A higher ROA indicates that a company is much more efficient and productive at managing its balance sheet to generate profits. Table 2 represents the ROA of reporting companies.

Table 2: ROA of reporting companies

Companies	Return on Total Assets (%)						
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
NTPC	5.22	5	3.96	3.97	4.03	3.08	4.01
GAIL	5.74	4.33	6.33	7.95	9.35	9.66	6.67
IOCL	2.39	5.09	7.37	7.6	5.35	0.42	6.53
ONGC	8.52	7.27	7.23	6.84	8.83	4.53	3.53
PGCIL	3.14	3.37	3.86	3.86	4.03	4.23	4.69

Source: https://www.moneycontrol.com

From the above table the following figure is depicted.



Source: Presentation by the researcher

Figure 2: ROA of reporting companies

Figure 2 exhibits that there was a massive drop in ROA of all the reporting companies except GAIL and PGCIL in the year 2019-20 i.e. during pandemic situation. Even in the year 2020-21, when GAIL and PGCIL faced a downturn with regard to ROA, other companies found a hope of recovery. So, it implies that pandemic had serious impact on the downfall of ROA and thereby affecting the performance of the companies.

Enterprise Value/ Earnings before Depreciation, Interest, Tax and Amortization (EV/EBDITA) ratio:

This ratio is used to measure the performance of the company. Higher the ratio, better will be the value of the company and hence represents better performance of the company too. Table – 3 mentions the EV/EBDITA Ratio of all the reporting companies.

Table 3: EV/EBDITA ratio of reporting companies

Companies	EV/EBDITA (in times)						
	2014-15	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
NTPC	10.47	9.87	10.48	10.72	10.83	8.09	7.99
GAIL	10.12	9.6	8.61	8.42	7.02	3.99	7.62
IOCL	9.72	5.79	6.49	5.17	6.29	8.37	4.21
ONGC	6.8	4.43	5.9	5.63	3.81	2.12	4.27
PGCIL	10.68	9.2	9.05	8.26	7.62	6.45	6.64

Source: https://www.moneycontrol.com

From the above table the following figure is depicted.

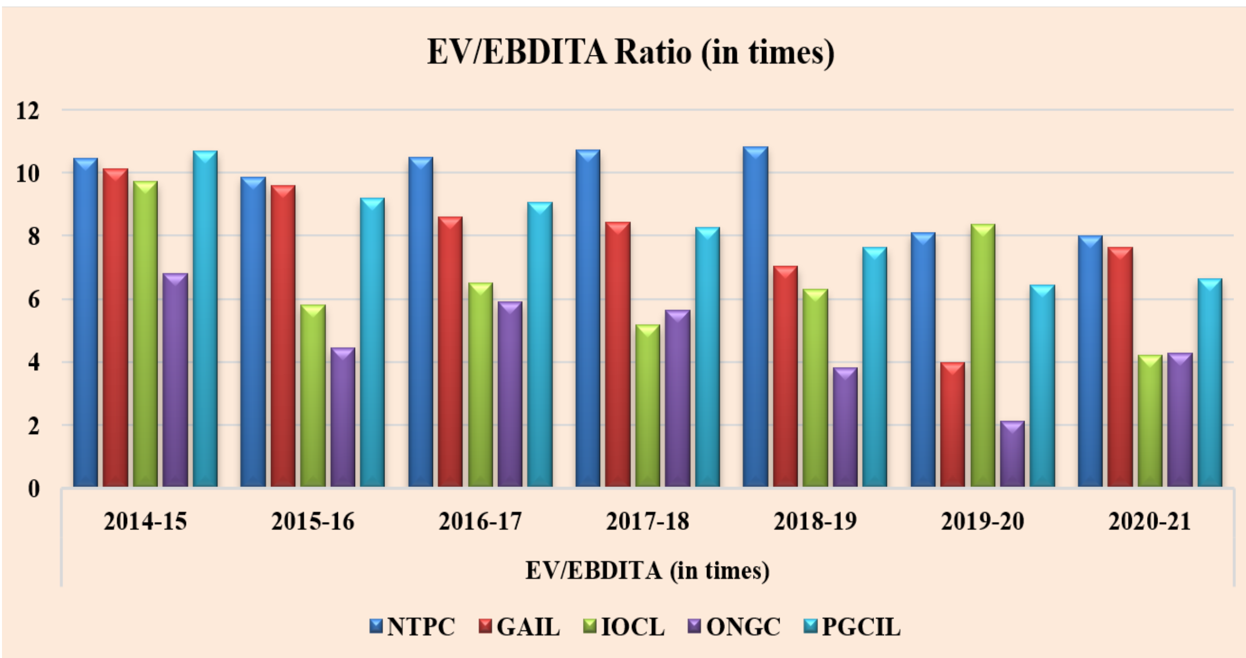


Figure 3: EV/EBDITA ratio of reporting companies

Figure 3 exhibits that the pandemic had serious impact on the EV/EBDITA Ratio of all the reporting companies except IOCL in 2019-20 as there was a drastic fall in the value of the companies. But in 2020-21 when other companies showed a hope of recovery, IOCL faced the downfall. It indicates that Covid – 19 pandemics also affected the performance of the sample companies.

Net Profit Margin (NPM) ratio:

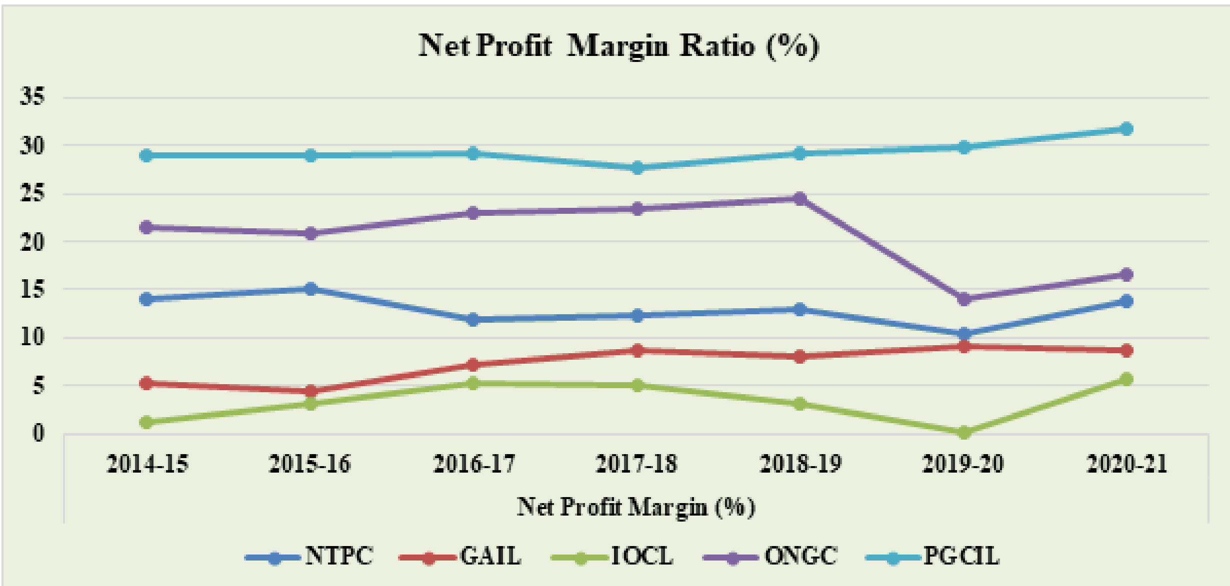
It measures how much net profit is generated by the company as a percentage of its revenue. Actually, it is the most important indicators of a company's overall financial health. Higher the value of NPM, the better will be the performance of the company and vice-versa. Table – 4 exhibits the Net Profit Margin Ratio of all the reporting companies.

Table 4: Net Profit Margin (NPM) ratio

Companies	Net Profit Margin (%)						
	2014-15	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
NTPC	14.04	15.2	11.99	12.39	13.01	10.35	13.87
GAIL	5.35	4.42	7.27	8.6	8.02	9.21	8.62
IOCL	1.2	3.23	5.3	5.03	3.2	0.27	5.77
ONGC	21.39	20.81	23.03	23.47	24.37	13.98	16.51
PGCIL	28.98	28.97	29.24	27.69	29.12	29.87	31.68

Source: https://www.moneycontrol.com

The above data is reflected in Figure 4.



Source: Presentation by the researcher

Figure 4: Net Profit Margin (NPM) ratio

Figure 4 represents that the performance of ONGC and PGCIL is quite better than other three reporting companies as far as NPM Ratio is concerned. But in the year 2019-20, due to pandemic, there was a sharp fall in such ratio faced by NTPC, IOCL and ONGC. These trio were trying to overcome the situation in 2020-21 while GAIL faced a downturn in that year. Significant fact is that pandemic had no impact on NPM of PGCIL as in both the year 2019-20 and 2020-21, there was a steady increase in NPM of such company.

Government's initiatives towards promotion of Power Industry:

There are some major initiatives that have already been taken by the Government of India with a view to restoring the damage caused by the pandemic to the Indian Power Industry. These are mentioned here.

- As per Union Budget 2021-22, the Government allocated Rs. 305984 crores (US$ 2 billion) for a revamped, reforms-based and result-linked new power distribution sector scheme over the next five years.

- According to Union Budget 2021-22, the Government has also allocated Rs. 300 crores (US$ 41.42 million) to increase capacity of the Green Energy Corridor Project, along with Rs. 1100 crore (US$ 151.90 million) for wind and Rs. 2369.13 crore (US$ 327.15 million) for social power projects.

- Indian Government is preparing a 'Rent a Roof' policy for achieving a target of generating 40 GW of power through solar rooftop projects by 2022.
- In November 2021, Govt. of India declared that it would release 5 million barrels of crude oil from its strategic petroleum reserves with a view to bringing down global crude oil prices.
- In September 2021, India and the US agreed to expand their energy collaboration by giving emphasize on emerging fuels as a part of US-India Strategic Clean Energy Partnership (SCEP).
- In July 2021, the Department for Promotion of Industry and Internal Trade (DPIIT) approved an order allowing 100% FDI under automatic route for Oil and Gas PSUs.

CONCLUSION

Based on the performance analysis of reporting companies taken as a proxy of the Indian Power Industry, it can be stated that the pandemic had a serious negative impact on the performance of this industry. But with the passing of time, the industry started gearing its performance up to a lucrative level as much as possible. Various initiatives were also undertaken by the government during and after the pandemic. The present study suffers from some limitations, such as data relating to different variables not being available. So, identification of all the data relating to those variables was not possible and therefore remained unidentified.

ACKNOWLEDGMENT

The author expresses his sincere thanks to Prof. (Dr.) Ashish Kumar Sana, Department of Commerce, University of Calcutta, for his immense support, encouragement, and guidance for doing the present study. He also expresses gratitude to Lincoln University College in Malaysia for included his piece in this prestigious book.

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