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"Solvency Snapshots: Investigating Financial Strength of Indian Public Sector Enterprises"

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Abstract:

This study presents a concise yet insightful exploration of the financial stability of selected Public Sector Enterprises (PSEs) in India through the lens of solvency ratios. By assessing the ability of these PSEs to meet long-term debt obligations, the research sheds light on their overall financial viability. The analysis employs both quantitative and qualitative approaches to unravel the complexities of solvency positions. Through a rigorous examination of solvency ratios, industry comparisons, and expert insights, the study unveils distinct financial patterns and trends within the realm of PSEs. This research not only emphasizes the criticality of solvency ratios but also highlights the unique challenges and opportunities faced by PSEs in the Indian context. The findings offer valuable insights for policymakers, stakeholders, and management, potentially paving the way for enhanced financial strategies, improved governance, and sustainable growth trajectories for these vital enterprises.

Keywords: solvency ratios, financial stability, Public Sector Enterprises, India, viability, financial strategies, sustainability, governance, growth trajectories.

1.Introduction:

Public Sector Enterprises (PSEs) are integral to India's progress, straddling economic growth and public welfare. This research focuses on solvency ratios, revealing the financial robustness of chosen Indian PSEs. Solvency ratios illuminate these entities' ability to manage long-term commitments amid intricate economic and policy landscapes. In this context, ratios become narratives of strategic acumen and adaptability, reflecting PSEs' distinct roles as public entities with commercial objectives. By deciphering these ratios, we decipher not only fiscal strength but also the convergence of governance, economics, and societal welfare. This study contributes insights vital for fostering enduring economic advancement and informed policymaking.

1.1Eligibility Criteria for grant of Maharatna status

CPSEs fulfilling the following criteria are eligible to beconsidered for grant of Maharatna status:

- Having Navratna status
- Listed on the Indian stock exchange, with a minimum prescribed public shareholding under SEBI regulations
- An average annual turnover of more than Rs. 20,000 crores during the last three years
- An average annual net worth of more than Rs.10,000 croresduring the last three years
- An average annual net profit of more than Rs. 2,500 croresduring the last 3 years

- Significant global presence or international operations

1.2 ONGC: Oil and Natural Gas Corporation Limited, 1956.

- Oil and Natural Gas Corporation Limited (ONGC) is a prominent Indian public sector enterprise specializing in oil and gas exploration, production, and distribution. Established in 1956, it plays a vital role in ensuring the nation's energy security. Headquartered in Dehradun, ONGC operates across the hydrocarbon value chain, with onshore and offshore exploration activities. The company's extensive domestic and international presence, along with diversification into renewables and petrochemicals, solidifies its status as a major contributor to India's energy landscape. ONGC's social initiatives and financial performance amplify its role as a cornerstone of India's economic growth and energy sustainability.

1.3 NTPC: National Thermal Power Corporation Limited.

- NTPC Limited, founded in 1975, is India's largest state-owned power company. Headquartered in New Delhi, NTPC specializes in power generation, transmission, and distribution. Operating diverse power plants fueled by coal, gas, hydro, solar, and wind, NTPC is a key player in India's energy landscape. The company's commitment to efficiency and sustainability is evident in its initiatives, which include research in clean technologies. NTPC's strategic locations ensure a stable power supply across India, promoting economic growth. Through community development efforts and financial achievements, NTPC plays a crucial role in advancing India's energy sector and overall development.

Debt-to-equity ratio is **solvency ratio** to take a company's total liabilities and divide them by its total shareholders' equity. The Debt Equity Ratio evaluates a company's financial leverage by comparing external debt to internal equity. It gauges risk, financial stability, and capital structure, guiding investment decisions and strategic planning.

- **Debt Equity Ratio = Total Debt / Total Equity**

The Debt Equity Ratio is an indicator of a company's financial leverage or capital structure. It shows the proportion of external debt to equity financing used by a company to support its operations and investments. This ratio provides insights into the risk associated with a company's financial obligations and its ability to handle debt repayments, impacting its financial stability and long-term sustainability.

2. Review Of Literature

Roy M. & Sabah N. (2014) used ratio analysis tools, particularly those that are related to financial statements, to analyse the performance of Oil and Natural Gas Corporation and determine the company's strengths and weaknesses as well as their position in the market using the balance sheet from 2010 to 2013.

Taqi Muhammad (2013) analyses and interprets data primarily derived from the corporation's published reports to assess the effectiveness and performance of the mineral and metal trading corporation over the years 2000–2001 to 2010–2011.

3. Research methodology

3.1 Research objectives:

1. Analyse and compare the Debt Equity Ratios of ONGC and NTPC to understand their respective reliance on debt and equity financing.

2. Evaluate the impact of varying debt equity ratios on the financial stability and risk profiles of ONGC and NTPC, providing insights for informed decision-making and potential optimization of their capital structures.

3.2 Data Collection:

This study is based on secondary data. The relevant Sources of secondary data are books, journals, magazines, newspapers, brochures and websites of select companies .All the relevant data is being collected from moneycontrol.com for year 2010-11 to year 2019-20.

3.3 Statistical Tools:

In this study statistical tools like arithmetic mean and standard deviation have been used to calculate the average of Debt equity ratio.

4. Discussion of results:

The table 4.1 shows the debt equity Ratio (%) from 2010-11 to2019-20.

Table 4.1 : D/E Ratio of selected Public Enterprises

(RS in million)

Year	ONGC	NTPC
2010-11	0.05	0.68
2011-12	0.11	0.73
2012-13	0.13	0.79
2013-14	0.26	0.87
2014-15	0.29	1.15
2015-16	0.23	1.01
2016-17	0.38	1.10
2017-18	0.50	1.19
2018-19	0.47	1.48
2019-20	0.50	1.62
Average	0.29	1.06
	Source:(Prowess)	

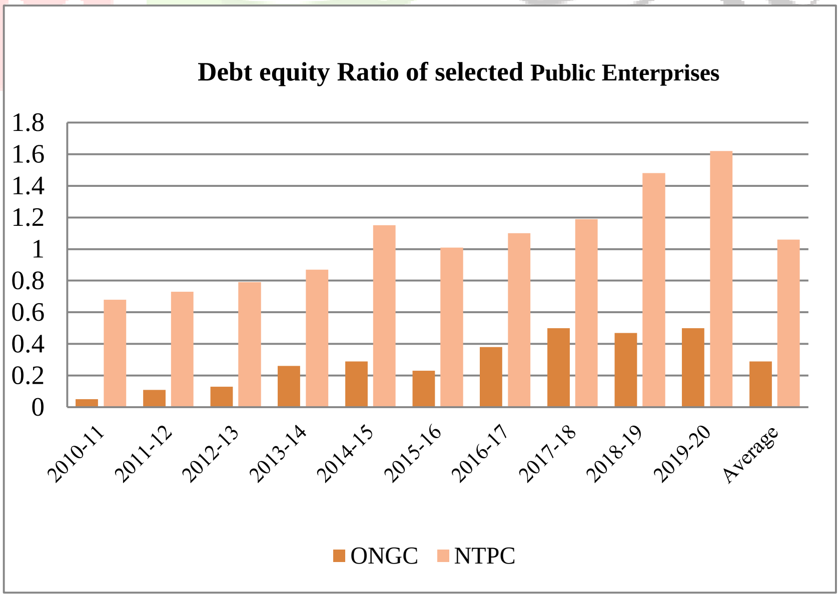

Figure 4.1 D/E Ratio of selected Public Enterprises

Table shows that:

1. D/E Ratio of ONGC was maximum ₹ 0.50 in the year 2017-18 and 2019-20 and minimum ₹ 0.05 in the year 2010-11 during the time period 2010-11 to 2019-20. There is upward trend of D/E Ratio during the time period 2010-11 to 2019-20. Average D/E Ratio of ONGC is ₹ 0.29. It was above average D/E Ratio during 2014-15, 2016-17 to 2019-20 and below average D/E Ratio during 2010-11 to 2013-14, 2015-16.
2. D/E Ratio of NTPC was maximum ₹ 1.62 in the year 2019-20 and minimum ₹ 0.68 in the year 2010-11 during the time period 2010-11 to 2019-20. There is fluctuating trend of D/E Ratio during the time period 2010-11 to 2019-20. Average D/E Ratio of NTPC is ₹ 1.06 It was above average D/E Ratio during 2014-15, 2016-17 to 2019-20 and below average D/E Ratio during 2010-11 to 2013-14 and 2015-16.

Conclusion:

In conclusion, the examination of the Debt Equity Ratios for ONGC and NTPC has shed light on their distinct financial structures and risk profiles. The comparative analysis revealed that ONGC maintains a higher debt equity ratio, indicating a relatively higher dependence on debt financing. In contrast, NTPC's lower ratio signifies a more balanced capital structure. This divergence is influenced by factors such as industry dynamics, government ownership, and strategic priorities. While ONGC's higher debt equity ratio could potentially amplify its financial risk, NTPC's approach aligns with a more cautious financial strategy. The findings underscore the importance of optimal capital structure decisions tailored to each entity's circumstances and objectives. These insights offer stakeholders valuable information for strategic decision-making, emphasizing the significance of aligning capital structures with long-term sustainability and financial resilience.

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