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ANALYSIS**

TOPIC

**PUBLIC SECTOR ENTERPRISES
IN INDIA: A DECADE OF
TRANSFORMATION**

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PUBLIC SECTOR ENTERPRISES IN INDIA: A DECADE OF TRANSFORMATION

Context

- Across the world, the **decline of centralised economic planning** has reshaped the **role of state-owned enterprises**, pushing them toward **efficiency, competitiveness, and innovation**.
- **India's experience** mirrors global trends, and reflects **unique domestic policy priorities**. It needs to examine how **Public-sector Enterprises (PSEs) in India** have evolved over the past decade.

About Public Sector Enterprises (PSEs)

- These are **government-owned corporations** or **state-owned enterprises having** majority stake (51% or more).
 - ◆ These include sectors like energy, steel, telecommunications, transportation, and finance.
 - ◆ They are categorized into:
 - Central Public Sector Enterprises (CPSEs);
 - State Level Public Enterprises (SLPEs)
- They are primarily overseen by the **Department of Public Enterprises (DPE)** under the **Ministry of Finance**.
- **Classification of CPSEs:**
 - ◆ **Maharatna:** Large, highly profitable CPSEs with significant global presence (e.g., ONGC, NTPC).
 - ◆ **Navratna:** CPSEs with operational autonomy and strong financials (e.g., BEL, HAL).
 - ◆ **Miniratna:** Smaller CPSEs with consistent profits and operational flexibility.

Why Does PSE Reforms Matter?

- **Global Context:** Globally, reforms in PSEs were driven by their **outsized influence on national economies** and the need for better service delivery.
 - ◆ Measures such as stock market listings, technology upgrades and improved corporate governance became common. More recently, PSEs have taken the **lead in low-carbon transitions**.
 - ◆ According to the **Organisation for Economic Co-operation and Development (OECD)**, public entities owned **over 25% of 2,037 listed companies** worldwide in 2023, accounting for **nearly 12% of global market capitalisation**.

Key Challenges Facing India's PSEs

- **Technology Disruption and Digital Transformation:** Many PSEs struggle with legacy IT systems and outdated processes; slower adoption of emerging technologies such as AI, automation, and data analytics; and cybersecurity risks due to increased digitisation;
- **Skill Gaps and Workforce Transition:** Key issues include mismatch between existing skills and future technology needs; slow pace of re-skilling and up-skilling programs; and rigid human resource policies limiting lateral hiring.
- **Governance and Autonomy Constraints:** Although governance has improved, challenges persist:
 - ◆ Limited operational autonomy due to bureaucratic oversight;
 - ◆ Delays in decision-making, especially in procurement and investment;
 - ◆ Political and administrative interference in some cases;
- **Capital Allocation and Return on Investment:** Capital efficiency remains uneven while CPSEs have strong balance sheets.
 - ◆ Capital expenditure decisions are sometimes policy-driven rather than commercially optimal.
 - ◆ Return on capital employed (ROCE) in several PSEs remains below private-sector benchmarks.
 - ◆ Underperforming assets continue to tie up capital

- **Research and Development (R&D) Deficit:** Compared to global peers, Indian PSEs invest relatively less in R&D.
 - ◆ Limited focus on product innovation and process upgrades.
 - ◆ Dependence on imported technology in strategic sectors.
 - ◆ Weak collaboration with academia and startups.
- **Market Competition and Pricing Pressures:** PSEs increasingly operate in competitive markets alongside private players. Challenges include:
 - ◆ Price controls or social obligations in sectors like energy and transport;
 - ◆ Lower flexibility in pricing and contracts;
 - ◆ Rising input costs affecting margins;
- **Sustainability and Climate Transition Risks:** The global shift toward low-carbon growth poses both opportunities and risks.
 - ◆ High transition costs for fossil-fuel-based PSEs;
 - ◆ Uncertainty around future regulations and carbon pricing;
 - ◆ Need for large investments in renewable energy and green technologies;
- **Global Exposure and Geopolitical Risks:** As Indian PSEs expand overseas, new vulnerabilities emerge:
 - ◆ Exposure to geopolitical instability and sanctions;
 - ◆ Currency and commodity price volatility;
 - ◆ Regulatory and compliance risks in foreign jurisdictions
- **State-Level PSE Weaknesses:** While central PSEs have improved, many state PSEs lag behind.
 - ◆ Poor transparency and weak financial discipline;
 - ◆ High dependence on state government support;
 - ◆ Limited reform momentum;

India's Policy Shift: Focus on Strategic Sectors

- **New PSE Policy (2020) under Atmanirbhar Bharat:** It classified **Central Public Sector Enterprises (CPSEs) as strategic and non-strategic.**
 - ◆ The government has **largely exited non-strategic sectors**, while **retaining a limited presence** (one to four CPSEs) **in strategic areas** such as **defence, energy and space**, encouraging private participation alongside public firms.
- **Financial Turnaround of CPSEs:** Over the last decade, CPSEs have **moved from policy paralysis and muted growth** to becoming major contributors to **financial value creation** and **capital expenditure.**
 - ◆ The number of **profit-making CPSEs** rose from **157 in FY15 to 227 in FY25**, and **loss-making CPSEs declined** from 77 to 63 during the same period.
 - ◆ Net profits of profit-making CPSEs increased 2.4 times, from Rs 1.30 lakh crore in FY15 to Rs 3.09 lakh crore in FY25.
 - ◆ Total paid-up capital expanded from Rs 2.13 lakh crore in FY15 to Rs 6.87 lakh crore by March 2025.
 - ◆ Net worth surged from Rs 9.85 lakh crore to Rs 22.33 lakh crore over the decade.
- **Contribution to the Exchequer and Markets:** CPSEs's contribution to the central exchequer increased from ₹2.00 lakh crore in FY15 to ₹4.94 lakh crore in FY25.
 - ◆ The **combined market capitalization** of 66 listed CPSEs touched ₹38.57 lakh crore in March 2025, **three times its level a decade earlier.**
- **Investment and Savings Engine: Non-financial CPSEs** have played a critical role in sustaining investment demand in core sectors.
 - ◆ **Gross capital formation** by these enterprises has grown **at nearly 12%**, making them a net saving sector that accounts for about 10% of national savings.

- **Financial Sector Revival:** Among financial CPSEs, **public-sector banks** have staged a **strong comeback** after the **twin balance-sheet crisis**.
 - ◆ **Consolidation through mergers, improved governance and rapid technology adoption** have transformed performance.
 - ◆ Net profits of banks rose sharply, and key indicators such as return on assets and return on equity turned decisively positive by FY25.
- **Exports and Global Footprint:** Reforms have boosted CPSE contributions to exports, particularly in **defence, engineering and commodities**.
 - ◆ Defence exports reached a record 23,622 crore in 2024–25. Indian oil PSUs now operate 45 overseas assets across 21 countries, with cumulative investments exceeding \$40 billion.
- **Green Transition: Indian Railways**, though **not formally a PSE**, illustrates Green Transition through **large-scale electrification, renewable energy integration and trials of hydrogen-powered coaches**, pointing towards rapid decarbonisation.

Key Recommendations for Strengthening India's PSEs

- **Deepen Governance Reforms and Board Autonomy:** Strengthen independent and professional boards with domain experts;
 - ◆ Reduce excessive administrative controls and approvals;
 - ◆ Clearly separate ownership and management functions;
- **Enhance Operational and Financial Autonomy:** Expand the scope of the Navratna and Maharatna frameworks;
 - ◆ Allow greater flexibility in capital expenditure, joint ventures, and asset monetisation;
 - ◆ Move from input-based controls to outcome-based performance monitoring;
- **Strategic Capital Allocation and Portfolio Rationalisation:** Exit or privatise non-core and chronically loss-making enterprises;
 - ◆ Focus government capital on strategic sectors such as defence, energy, and infrastructure;
 - ◆ Adopt strict return-on-capital benchmarks for new investments;
- **Invest in Technology and Digital Transformation:** Modernise legacy IT systems and operations;
 - ◆ Deploy AI, automation, data analytics, and cloud technologies;
 - ◆ Strengthen cybersecurity and digital risk management;
- **Build a Future-Ready Workforce:** Launch large-scale re-skilling and up-skilling programs;
 - ◆ Introduce flexible HR policies, including lateral hiring and performance-linked pay;
 - ◆ Encourage collaboration with startups, academia, and global firms;
- **Increase R&D and Innovation Ecosystems:** Set minimum R&D spending targets for strategic PSEs;
 - ◆ Establish innovation labs and centres of excellence;
 - ◆ Promote joint research with IITs, DRDO labs, and private innovators;
- **Align Public Service Obligations with Financial Viability:** Transparently compensate PSEs for non-commercial social obligations;
 - ◆ Replace price controls with targeted subsidies where feasible;
 - ◆ Use direct benefit transfers to reduce operational distortions;
- **Accelerate the Green and Energy Transition:** Develop time-bound decarbonisation roadmaps for high-emission PSEs;
 - ◆ Scale investments in renewables, hydrogen, and energy storage;
 - ◆ Use green bonds and blended finance to fund transition costs;
- **Strengthen Global Expansion and Risk Management:** Improve governance of overseas subsidiaries and joint ventures;

- ◆ Enhance geopolitical, currency, and commodity risk assessment;
- ◆ Build global compliance and contract management capabilities;
- **Extend Reforms to State-Level PSEs:** Introduce transparent disclosure and performance benchmarks;
 - ◆ Link state financial support to reform milestones;
 - ◆ Encourage consolidation and public–private partnerships at the state level;

Source: IE

Daily Mains Practice Question

[Q] Examine the major reforms introduced to improve efficiency, governance, and the role of Public Sector Enterprises (PSEs) in India.

