International Journal of Academic Pedagogical Research (IJAPR)
ISSN: 2643-9123
Vol. 6 Issue 10, October - 2022, Pages: 20-23

Capital Efficiency of Selected Service Industries in Indian CPSEs: An Empirical Study

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Abstract: *Capital efficiency indicates the efficiency of an organization in terms of efficient utilization of its money to generate profit. Simply defined, capital efficiency measures the quantum of investment made by an organization and the amount of return it generates from that investment. In financial management, capital efficiency is generally measured through ROCE. Thus, ROCE is a pecuniary proportion which is used to evaluate the profit rate and wealth effectiveness of an enterprise. It helps us to comprehend how fine an enterprise is generating profits from its invested capital. The CPSEs were considered to serve as an engine for fiscal intensification of the country. They make available essential goods and services and occupy a noteworthy market place in various important sectors (i.e., both manufacturing sector and service sector) of the economy. In the above context, the study attempts to scan the capital efficiency of selected service industries in Indian CPSEs during 2010-11 to 2019-20. Overall, the service industries produce confirmatory as well as cynical returns on their capital invested in the business. However, on the average, all the service industries (except telecommunication & information technology industry) display optimistic ROCE, thereby indicating that these service industries have employed their capital effectively in producing profit. However, negative ROCE on a consistent basis as observed in telecommunication & information technology industry implies that this sector is not able to compete with the private players in the market.*

Keywords: CPSEs, financial efficiency, Indian, ROCE, service industries.

1. INTRODUCTION

Capital efficiency indicates the efficiency of an organization in terms of efficient utilization of its money to generate profit. Simply defined, capital efficiency measures the quantum of investment made by an organization and the amount of return it generates from that investment. In financial management, capital efficiency is generally measured through ROCE. Thus, ROCE is a pecuniary proportion which is used to evaluate the profit rate and wealth effectiveness of an enterprise. It helps us to comprehend how fine an enterprise is generating profits from its invested capital.

The CPSEs were established to serve as an engine for fiscal intensification of the country. They make available essential goods and services and occupy a noteworthy market place in various important sectors (i.e., both manufacturing sector and service sector) of the economy.

2. REVIEW OF EARLIER STUDIES

Antony, M.T. (1992), stated that profitability of the companies could be enhanced by increasing the capability use.

Galal, A. et al. (1994), revealed an improvement in sales effectiveness and profitability.

LaPorta, R. and Lopez-De, S. (1998), observed that cutthroat markets had elevated level of profitability in comparison to the non-cutthroat markets.

Singh, G. and Paliwal, D. (2010), stated that sales and profitability of the cutthroat firms had reduced, while the monopoly firms had generated profit efficiently.

Singh, G. (2015), observed an improvement in profit recital of the CPSEs that incurred loss in the context of disinvestment.

George, E. and Vinod, R. (2016), revealed negative escalation in ROCE which showed deficient of effectiveness in the recital of the CPSEs.

Mandiratta, P. and Bhalla, G.S. (2017), observed an improvement in overall operating effectiveness. However, trivial outcomes were observed in profit situation.

Ghosh, S. (2019), found a falling tendency in ROCE and ROE. However, there were no momentous differences between their tendency standards and real standards.

Ghosh, S. (2020), concluded that there was a growing tendency in entire spending and net income after tax throughout the initial four years of the cram.

3. OBJECTIVE OF THE STUDY

The cram attempts to appraise the capital efficiency of selected service industries in Indian CPSEs.

4. METHODOLOGY

4.1 Sample

The CPSEs in India consist of seven industries, out of which three industries are chosen on the basis of random sampling method. Thus the sample industries represent 43% (approximately) of the target population in our cram. The sample service industries elected in the cram are shown below:

- ➢ Transport & Logistic Services Industry.
- ➢ Contract & Construction and Tech. Consultancy Services Industry.
- ➢ Telecommunication & Information Technology Industry.

4.2 Statistics and Study Time

Aggregate statistics forms the basis of the cram which is of secondary nature. The necessary data are acquired from the year on year information of the PSEs, Govt. of India from 2010-11 to 2019-20.

4.3 Analysis Method

ROCE is applied in the cram, as it indicates capital efficiency of an organization. ROCE of the sample service industries is computed as follows:

ROCE = [EBIT ÷ Capital Employed]

Further, average of ROCE is computed for each of the chosen service industries.

5. FINDINGS AND DISCUSSION

5.1 ROCE in Transport & Logistic Services Industry

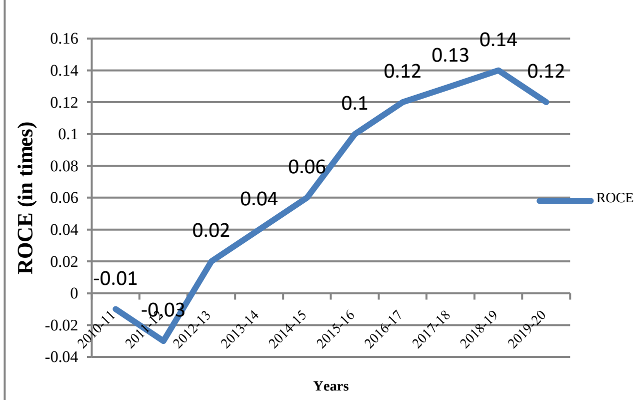
ROCE generated by Transport & Logistic Services Industry is shown in Table 1.

Table 1: ROCE in Transport & Logistic Services Industry

Year	ROCE
2010-11	-0.01
2011-12	-0.03
2012-13	0.02
2013-14	0.04
2014-15	0.06
2015-16	0.10
2016-17	0.12
2017-18	0.13
2018-19	0.14
2019-20	0.12
Average	**0.07**

Source: Author's own calculation

Figure 1: ROCE in Transport & Logistic Services Industry



From Table 1 and Figure 1, we found positive ROCE in almost all the years (except the first two years). Furthermore, there is an increasing tendency in ROCE from 2012-13 to 2018-19. The average ROCE is observed to be 0.07 with a range between -0.03 in 2011-12 and 0.14 in 2018-19.

5.2 ROCE in Contract & Construction and Tech. Consultancy Services Industry

ROCE of Contract & Construction and Tech. Consultancy Services Industry are exposed in Table 2.

Table 2: ROCE in Contract & Construction and Tech. Consultancy Services Industry

Year	ROCE
2010-11	0.10
2011-12	0.11
2012-13	0.10
2013-14	0.14
2014-15	0.12
2015-16	0.12
2016-17	0.11
2017-18	0.12
2018-19	0.13
2019-20	0.13
Average	**0.12**

Source: Author's own calculation

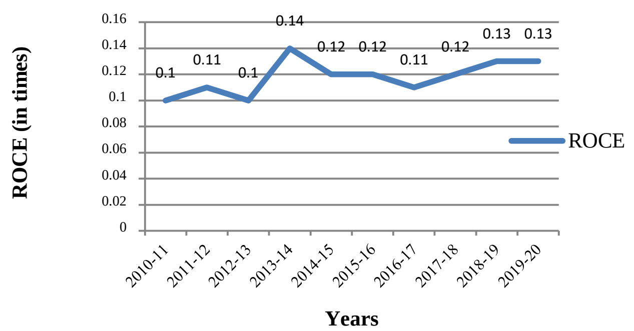


Figure 2: ROCE in Contract & Construction and Tech. Consultancy Services Industry

Table 2 and Figure 2 reveal positive ROCE in all the years under cram. This shows that contract & construction and tech. consultancy services industry have efficiently utilized their capital to generate profit during the entire time stage. Although, no specific tendency in ROCE is observed, it varies from 0.10 to 0.14 with an average of 0.12.

5.3 ROCE in Telecommunication & Information Technology Industry

ROCE of Telecommunication & Information Technology Industry is presented in Table 3.

Table 3: ROCE in Telecommunication & Information Technology Industry

Year	ROCE
2010-11	-0.08
2011-12	-0.11
2012-13	-0.12
2013-14	0.04
2014-15	-0.13
2015-16	-0.04
2016-17	-0.05
2017-18	-0.08
2018-19	-0.15
2019-20	-0.16
Average	**-0.09**

Source: Author's own calculation

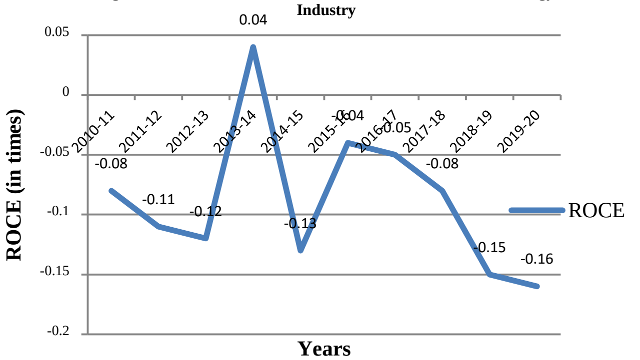


Figure 3: ROCE in Telecommunication & Information Technology Industry

Table 3 as well as Figure 3 shows negative ROCE in all the years (except the year 2013-14) under cram. The ratio moves from -0.16 to -0.04 with an average of -0.09. This indicates that the central public sector telecom companies have not been able to compete with the private players in the competitive market.

6. CONCLUSION AND SUGGESTION

The service industries chosen in the cram produce confirmatory as well as cynical returns on their capital invested in the business. However, on the average, all the service industries (except telecommunication & information technology industry) display optimistic ROCE, thereby indicating that these service industries have employed their capital effectively in producing profit. However, negative ROCE on a consistent basis as observed in telecommunication & information technology industry implies that this sector is not able to compete with the private players in the market.

The study results contribute to the existing literature. Furthermore, the study suggests taking suitable steps by the Govt., particularly in telecom industries in order to generate affirmative returns and sustain in the competitive market in the long run.

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