

## SBI Research

### The Times They Are A-Changin'...

Revisiting MAHARATNAS towards creating an Inclusive ecosystem having worthy suitors from diverse niche areas with greater autonomy can work wonders for the resurgent economy at large

31-October-2023

- ❑ 9 important CPSEs were first categorized as Navratnas in 1997, giving them financial and management autonomy in decision making as the Indian economy was opening up to forces unleashed in 1991....The tactical move was envisaged to help these corporations in forking out a global identity and brand equity, at par with the sectoral behemoths in major jurisdictions
  - A quarter century later, we revisit the evolving landscape juxtaposing the underlying assumption of creating Indian MNCs/autonomous board managed companies against the impact created while making a case for balancing the act through representation from BFSI sectoral champions whose 360° contribution supersedes most...
- ❑ Over the years, the categorization has been broadened, including entities under three distinct categories; Maharatna (Mega CPSEs), Navratnas (Large CPSEs with potential to become global players) and Miniratnas (aspirational CPSEs). As on date, there are 13 CPSEs classified under Maharatna while 16 CPSEs are placed under Navratna category. Additionally, the number of CPSEs under Miniratna I & II category stands at 57 and 11, respectively
- ❑ The benefits of such classification accrues under four distinct categories: (i) Enhanced operational and financial autonomy (ii) Autonomy in making equity investments in JVs/WoS (iii) Enhanced (market-determined) human resources management measures, and (iv) floating fresh equity, transfer assets, divest shareholding in subsidiaries, raising capital etc.
- ❑ **A bird's eye view of the list reveals that certain CPSEs, especially the market leaders from the Banking & Financial Services sector, do not form part of the classification...While, during earlier days, the Navratna tag was specifically reserved for entities from manufacturing / production sector to give them enhanced autonomy and decision-making prowess, there has been a fair representation of services sector during recent expansions...thus, the present list seems incomplete with exclusion of worthy suitors which also curtails their optimal manoeuvrability to navigate the chequered landscape as businesses undergo a tectonic transformation post covid era**
- ❑ Interestingly, the continuance of certain entities that have been a laggard in sectoral growth or fare poorly to peers from private sector along operational and financial efficiency metrics raises a question as to wholeness / appropriateness of the list in its entirety...while the entry of entities under respective 'Ratna' category is under certain qualifying criteria, **there is no periodic evaluation to test the achievements on milestone basis...Consequently, entities with low profitability and Smaller Balance sheet size get the coveted Maha/Nav Ratna tag while larger corporations stand out on date for no reasons**
- ❑ With Services sector majorly anchoring India's quest to attain incremental GDP growth vis-à-vis the manufacturing sector that despite increased focus from policy makers to make India a hub for global manufacturing, **bringing forth stalwarts from services domain to also complement the manufacturing domain seems need of the hour as we inch close to the first milestone of becoming a \$5 trillion economy....**

- ❑ India's recent ascent as a knowledge centric economy with a tech embedded trajectory as it becomes a hub for software development and exports including AI-led capabilities augurs well for banking/financial services/insurance sector's rise as twin catalysts of financialization and formalization driven consumption growth. Plus, country's rich demographic dividend harnessed by a skilled young workforce fueling innovation and entrepreneurship, and omnipresent Indian diaspora acting as a bridge for two-way exchange of capital, information and ideas globally, the integration of services sectors with global value chain should receive continued traction
  - **As an example, SBI and LIC, both market leaders in respective domain, can reach new heights with enhanced autonomy and independent, faster decision-making process thus which also raises the bar for other systemic players to adopt best practices....**
- ❑ **Both SBI and LIC are major investors/market-makers in investment grade securities, for Government and Corporate bond markets, supporting the ecosystem with sufficient liquidity that effectively ensures unbridled volatility does not seep in during periods of turbulence as being witnessed currently** ..Also, both have the proven capacity to engage with a large customer base representing diverse strata, form JVs/WoS in related areas that can attain leadership position and can be preferred vectors for partnerships by MNCs / tech big-wigs if more operational and decision making freedom is endowed.....
- ❑ India's private sector too needs a badge of recognition for its ability to rescript market practices through ushering in competitive forces that often diminish state-controlled monopolistic/oligopolistic state of affairs, lower cost, enhance efficiency and productivity while reaching nooks and corners, all in sync with changing consumer psyche in an information age...**could there be a 'Institutes of Eminence' tag for such entities at the front of innovation?**
- ❑ As India's Public Sector entities approach the point of inflection with macroeconomic, business, socio-cultural and environmental transformations sweeping the land, the nature and scale of these trends will make the coming decade a defining period for all; markets to policy makers to consumers. **Redrawing the benefits that Maha/Navratna tag accrues for select entities' benefits (in sync with a sector's evolving requirements) can make them more competitive and future-ready**
- ❑ **India's Public Sector behemoths make a compelling case of redefining market dynamics as they have incrementally aligned with changing landscape, leaning against the wind often, adopting best practices while attracting top notch talent** (*despite not being generous paymasters in competitive terms for operational constraints*) and have worked tirelessly towards bettering the ecosystem with peers from private system that ultimately benefits various stakeholders greatly, especially the consumer/customer. **Such entities need to be incentivized optimally as we take the leap of faith to leverage the unfolding Goldilocks situation**

- When a PSU/PSE achieves **Maharatna/ Navratna** status, it gets many benefits including;
  - Enhanced operational and financial autonomy, thereby increasing the power to make financial decisions. It empowers it to invest upto Rs 1,000 crore, or 15% of their net worth, on a single project, or 30% of their net worth for the entire year (not exceeding Rs 1,000 crore). The upper limit for Maharatna is Rs 5,000 crore
  - Enabled to make equity investments and undertake various financial joint ventures (JV) and wholly-owned subsidiaries, leading to mergers and acquisitions (M&A) in India as well as abroad
  - The Board can implement and modify schemes pertaining to personnel as well as human resource management and training
  - Companies could float fresh equity, transfer assets, divest shareholding in subsidiaries
  - Aids in raising capital and the proper channeling of that money, both of which can aid in establishing competitive public sector firms

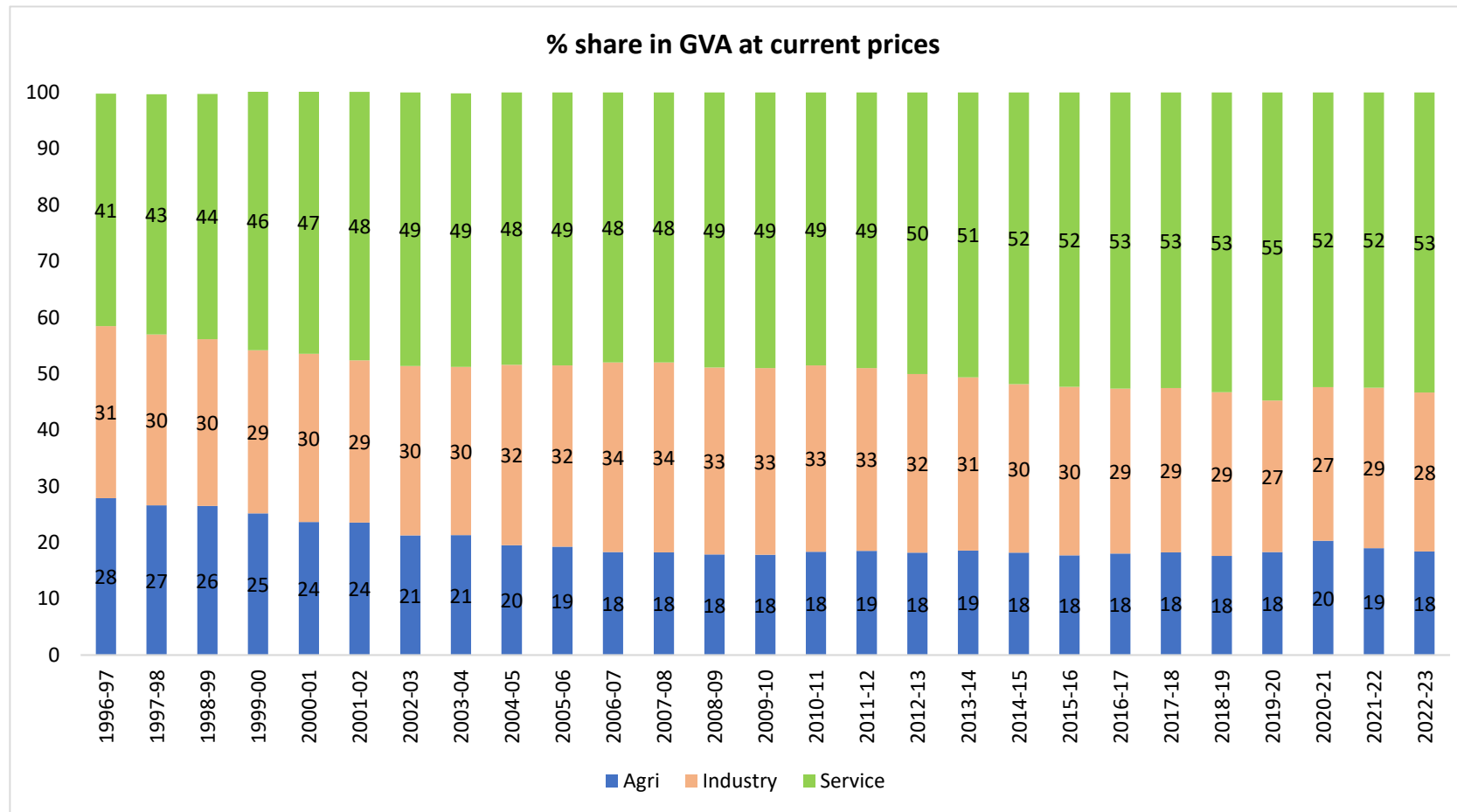
## Paradoxically, only 1 Maharatna PSEs in Top 10 Profitable Companies in FY23.....

- ❑ The report card of the top 10 profit-making companies of India Inc. in FY23 dispels the belief that Maharatnas/Navratnas are the best in terms of performance, as only one Maharatna (ONGC) features in the top 10 list
- ❑ Among the top-10 entities, there are 3 listed banks. SBI topped the list as the most profitable company in the country, efficiently and optimally blending the best of PSU traits with best market practices along various metrics/parameters
- ❑ Only two Public Sector Financial Institutions i.e. SBI and LIC are in the list of top ten most profitable companies though both remain conspicuous by their absence in **Maharatnas** list, posing a question as to the appropriateness/relevance of the composite list on date
- ❑ Inter-alia, CPSEs that are much bigger, more complex, have huge customer connect, have a healthy balance sheet with robust return to shareholders and stakeholders, enjoy market leadership in niche areas and driving innovation while also ensuring systemic stability are outside the purview that curtails their manoeuvrability in today's complex and challenging business environment even as India emerges as the quarterback driving global growth.....

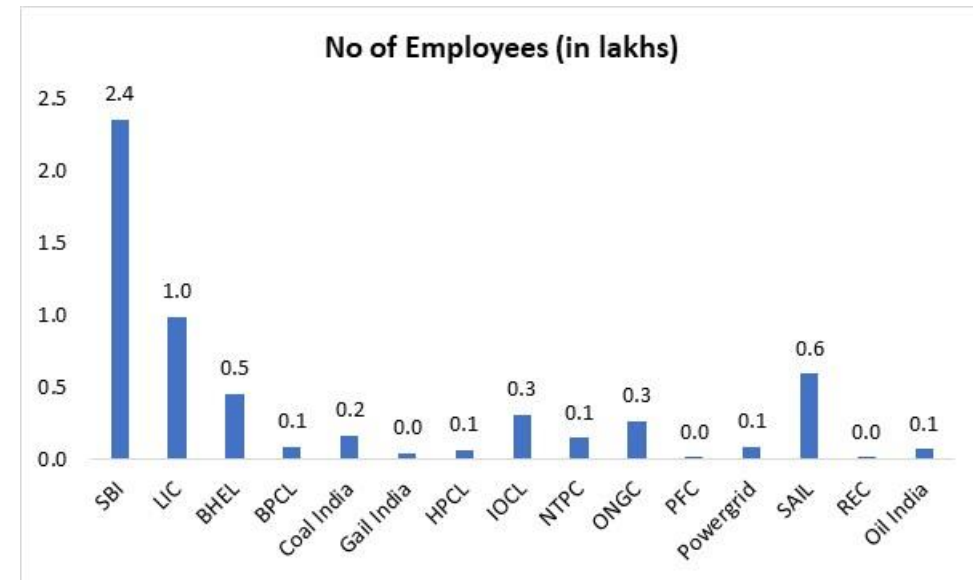
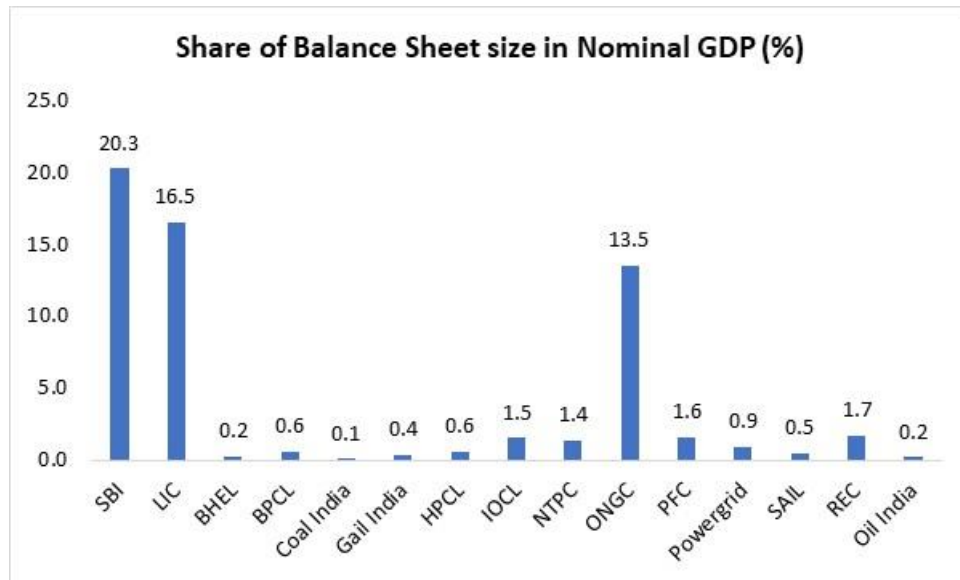
Top 10 Profitable Companies in FY23 (Rs crore)		
Company Name	Sector	Profit After Tax
State Bank of India	Banks	50232
Reliance Industries Ltd	Refineries	44205
HDFC Bank Ltd	Banks	44109
Tata Consultancy Services Ltd	IT - Software	39106
Oil & Natural Gas Corpn Ltd	Crude Oil & Natural Gas	38829
Life Insurance Corporation of India	Insurance	36397
ICICI Bank Ltd	Banks	31897
Vedanta Ltd	Mining & Mineral products	27356
Infosys Ltd	IT - Software	23268
ITC Ltd	Diversified Conglomerate	18753
Source: Cline; Standalone, SBI Research		

# Service Sector contributes majorly to the growth of the country i.e. 53% but are largely absent from the list of Maharatnas....

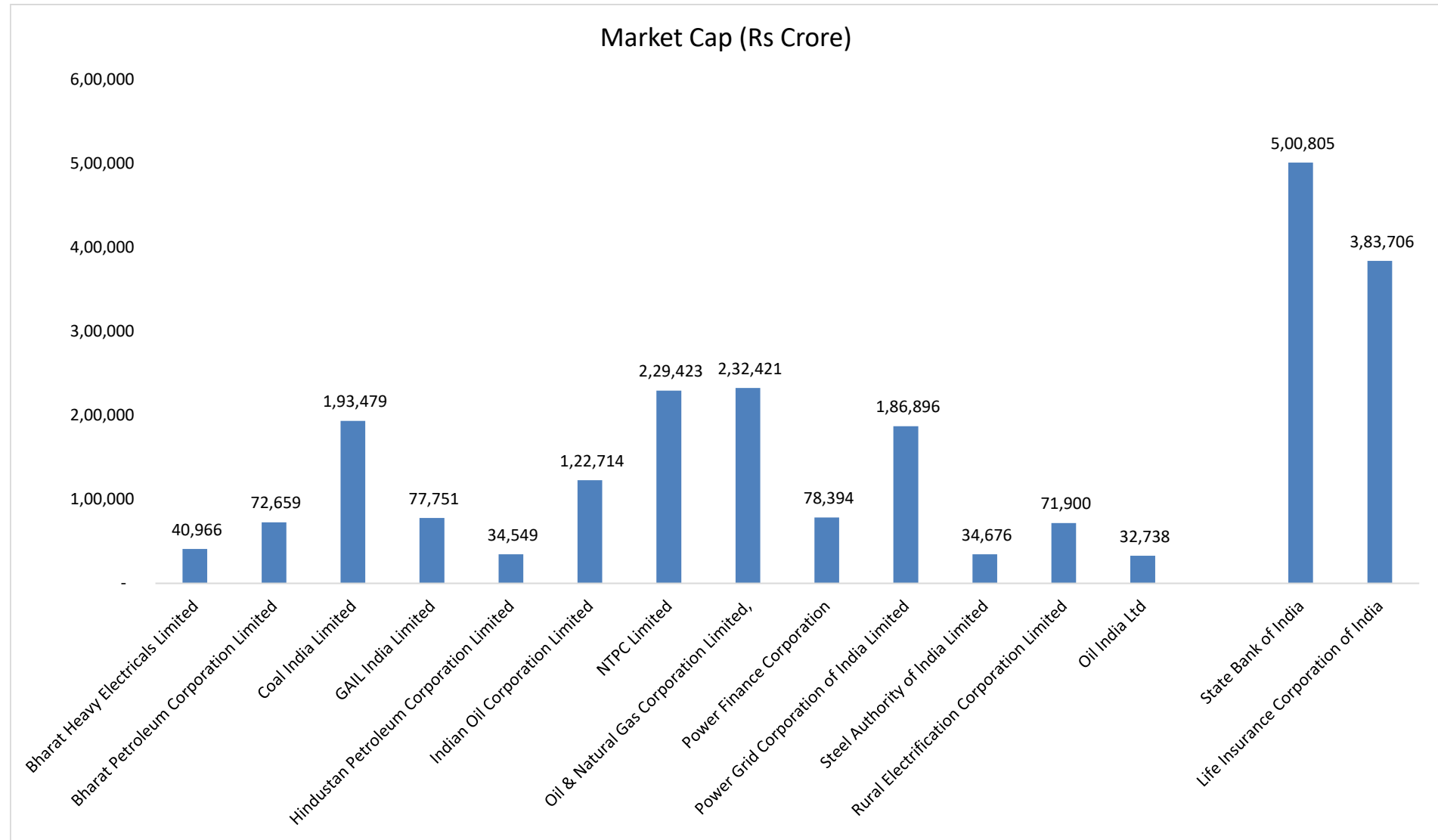
- Share of contribution grew by ~ 30% i.e. from 41% in 1997 to 53% in FY23, while the Industry share is decreased to 28%, warrant representations from Service sector in the esteemed list of Maharatnas



- ❑ SBI and LIC, the market leaders in their segments, have no Maharatna Status but they are way more than Maharatna CPSEs in terms of size of the Balance Sheet
- ❑ Out of 13 Maharatna CPSEs, only ONGC comes close enough to SBI and LIC, rests has no competition with SBI and LIC
- ❑ In terms of employment also, SBI and LIC are way more than the Maharatna CPSEs
- ❑ If the distinction of PSE be recognized on the basis of the size of their Balance Sheet, three PSEs (i) SBI, (ii) LIC, and (iii) ONGC are too big to fail for nation, and to recognize their immense contribution in nation building for Amrit Kaal, they may be even distinguished as **Amrit Ratna**



# Market Capitalisation of Maharatna CPSEs along with two financial services leaders



Source: Cline; Mcap Dt.27.10.23



**Top 10 Most Valuable Banking Brands**

#1 State Bank of India	USD\$7.3 bn -2.4%	
#2 HDFC Bank	USD\$6.8 bn -1.5%	
#3 ICICI Bank	USD\$3.4 bn -0.4%	
#4 Axis Bank	USD\$2.5 bn +28.1%	
#5 Kotak Mahindra	USD\$2 bn +24.4%	
#6 Canara Bank	USD\$1.4 bn +4.7%	
#7 Bank Of Baroda	USD\$1.3 bn +19.8%	
#8 Punjab National Bank	USD\$1.1 bn -7.8%	
#9 Union Bank of India	USD\$1.0 bn -10.4%	
#10 IndusInd Bank	USD\$ 0.9 bn -1.1%	

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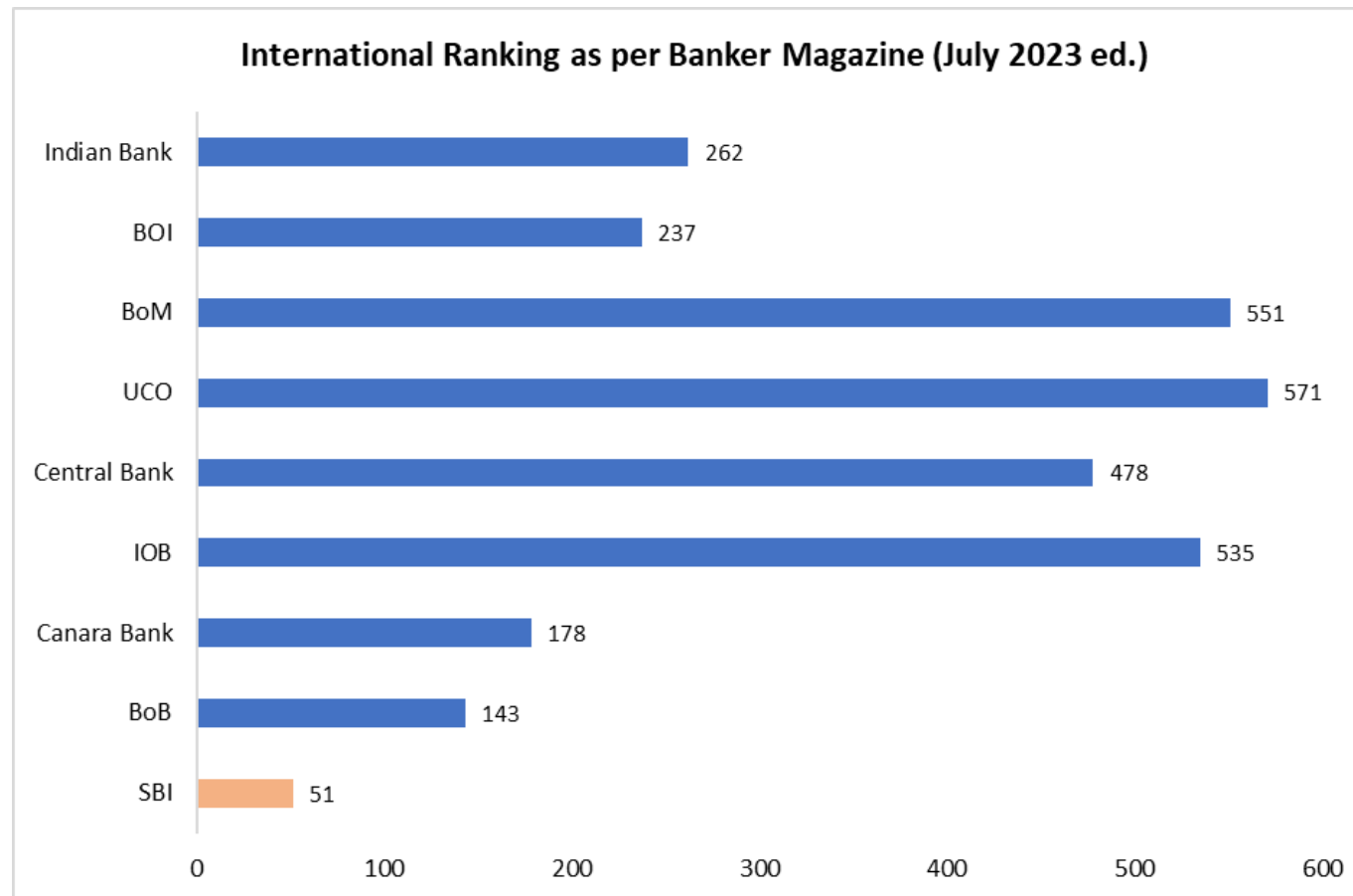
## Top 10 Most Valuable Indian Brands

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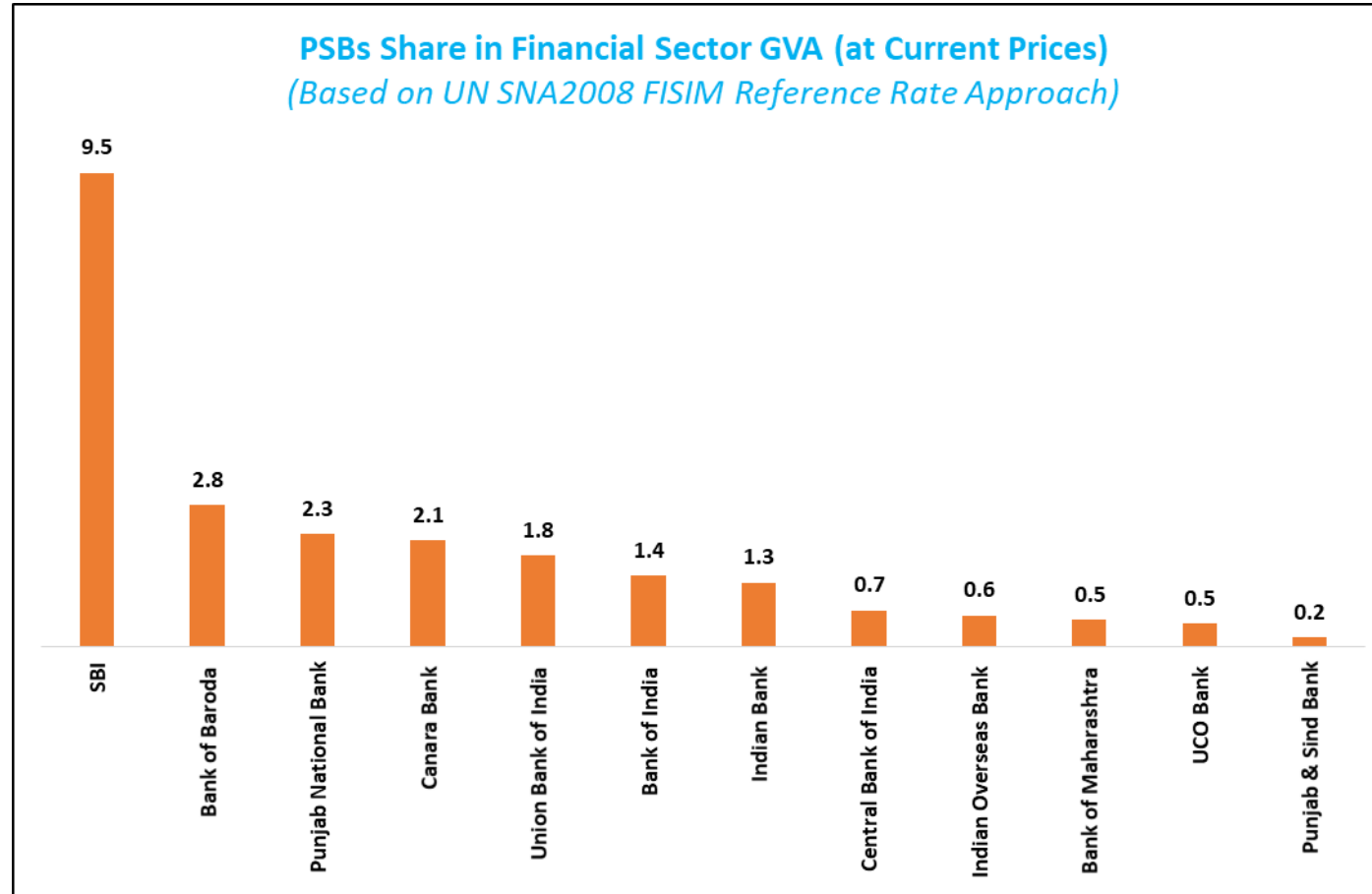
1 ← 1  <b>TATA</b> USD\$26.4 bn +10%	2 ← 2  <b>Infosys</b> USD\$13 bn +2%	3 ← 3  <b>LIC</b> भारतीय जीवन बीमा निगम LIFE INSURANCE CORPORATION OF INDIA USD\$9.8 bn -12%	4 ↑ 5  <b>airtel</b> USD\$7.5 bn -3%	5 ↓ 4  <b>Reliance</b> Industries Limited USD\$7.4 bn -14%
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6 ← 6  <b>SBI</b> USD\$7.3 bn -2%	7 ↑ 9  <b>mahindra</b> Rise USD\$7.1 bn +15%	8 ← 8  <b>wipro</b> USD\$6.9 bn +8%	9 ↓ 7  <b>HDFC BANK</b> USD\$6.8 bn -2%	10 ← 10  <b>HCLTech</b> USD\$6.5 bn +7%
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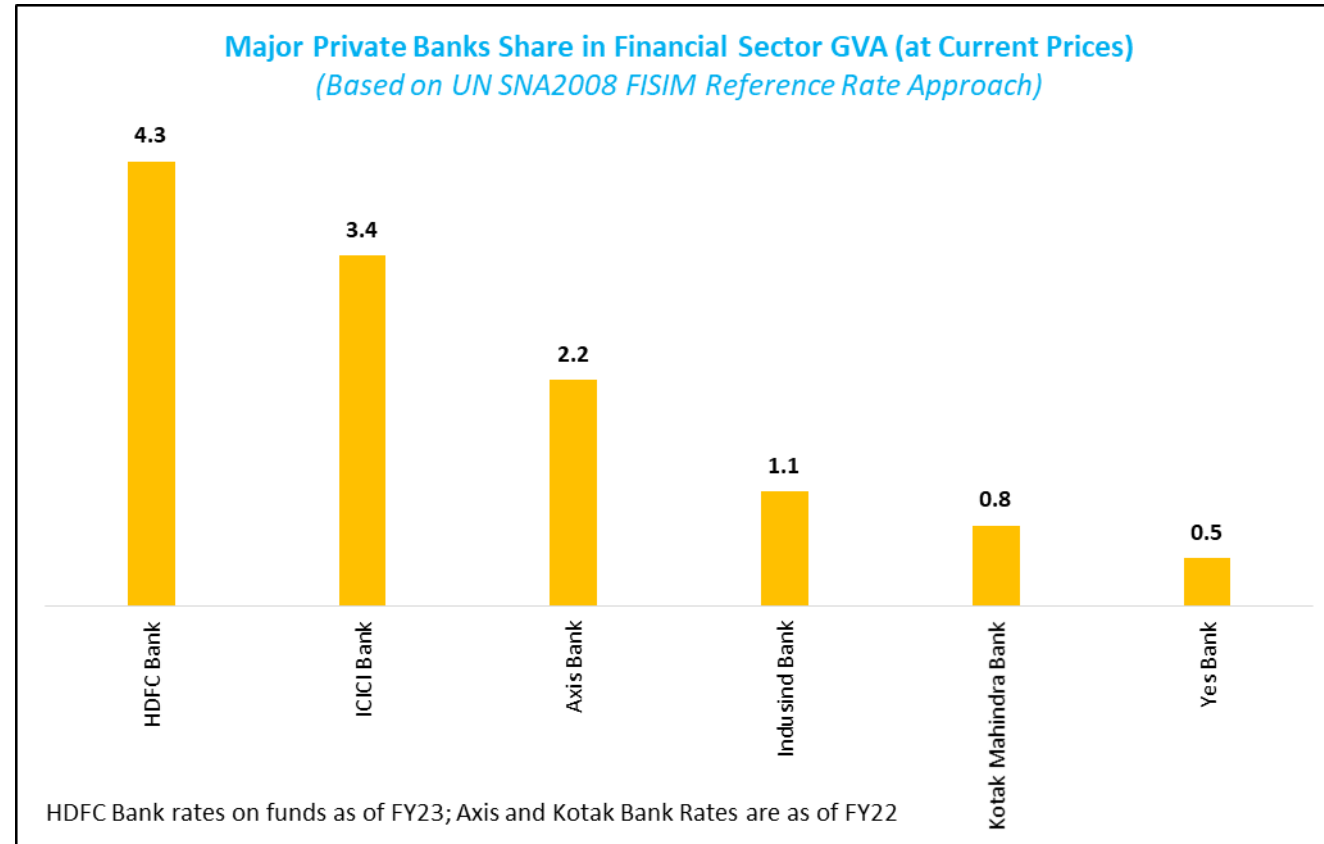
- ❑ The Banker Magazine ranked SBI at 51st position among the Top 1000 global banks in 2023, compared to 58 in 2022
- ❑ There are 27 Indian banks in the 1000 top global banks list but only 3 in the top 100 list



# Contribution to Financial Sector GVA of India



GVA is calculated based on UNSNA 2008 Financial Intermediation Services Indirectly Measured (FISIM) Reference Rate (rr) Approach (See "Report of the Sub-Committee On System of Indian National Accounts" published by MOSPI in February 2015)



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# as on 27.10.2023 (Rs in crore)

- Combined M-cap of PSBs is more than Rs 11 lakh crore
- SBI market cap alone is around Rs 5 lakh crore i.e. around 45% of all the PSBs
- SBI has been a part of both BSE Sensex and NSE Nifty ab-initio, reinforcing its ability to remain ahead of the curve while adapting & adopting continuously with changing market dynamics

KEY PARAMETERS  
TO BE CATEGORIZED  
AS A MAHARATNA

Criteria for grant of Maharatna status to CPSEs			
Sl. no.	Criteria	SBI	LIC
		3 years average	
i)	Having Navratna status		
ii)	Listed on Indian stock exchange with minimum prescribed public shareholding under SEBI regulations	Listed on both the leading Indian Stock Exchanges i.e. NSE and BSE	
iii)	An average annual turnover of more than Rs. 25,000 crore during the last 3 years	3,31,129	7,30,453
iv)	An average annual net worth of more than Rs. 15,000 crore during the last 3 years	2,87,190	20,802
v)	An average annual net profit after tax of more than Rs. 5,000 crore during the last 3 years	34,106	14,447
vi)	Should have significant global presence/international operations	Global presence through 70 oversease offices, and has become a pioneer of International Banking among the Indian PSBs with a business volume of USD 74 billion (Rs 592000 Cr)	11 Overseas Branches/subsidiaries put together issued 9,443 policies with a First Premium Income of Rs 107.68 Cr

Note: criteria as per PIB posted on 03rd Dec 2019; Annual turnover is considered as total income i.e. interest earned plus other income; net worth is calculated as capital plus reserve and surplus; Annual report; SBI= State Bak of India; LIC = Life Insurance Corporation of India



# Interestingly....both the Financial Services Industry leaders Income/Profits are significantly larger than the Maharatna CPSEs in Financial Services Sector....

Comparative numbers of SBI and LIC with Maharatna Status CPSEs				
Description	PFC	REC	SBI	LIC
<b>Capital Employed</b> <i>(Equity + Reserves)</i>	68,202	57,680	3,27,608	45,661
Total Income	39,666	38,836	3,68,719	7,88,053
Loans #	4,10,829	4,22,083	31,99,269	43,97,205
Profit before tax	14,171	13,739	67,205	36,457
Earning per share (Rs.)	43.96	42.28	56.29	57.55
No. of Employees	501	442	2,35,858	98,463
Market capitalisation	78,394	71,900	5,00,805	3,83,706
Note: SBI= State Bank of India. PFC=Power Finance Corporation, REC=Rural Electrification Corporation Ltd.; LIC = Life Insurance Corporation of India; Rs Crore; Numbers are of FY23/as of March'23; Market Cap Dt.27.10.23; Annual reports; CLIne; # LIC the number is of Asset Under Management				

- ❑ Similar type of recognition is given in higher education. Institutes of Eminence (IoE) is a recognition scheme for higher education institutes in India, set by the University Grants Commission in 2017. The plan encompasses twenty institutions, twelve of which have already been declared (12 public + 4 private)
- ❑ Both categories of institutions are granted more autonomy, both administratively (e.g., setting fees) and academically, and both will enjoy better collaboration opportunities with global universities
- ❑ In Jan'21 the Government issued further guidelines, allowing IoEs to open offshore campuses

S. No	Name of Institution	Date of Notification
<b>Public Institution</b>		
1	Indian Institute of Science, Bangalore, Karnataka	11.10.2018
2	Indian Institute of Technology, Bombay, Maharashtra	11.10.2018
3	Indian Institute of Technology, Delhi	11.10.2018
4	Indian Institute of Technology, Kharagpur, West Bengal	20.02.2020
5	Indian Institute of Technology, Madras, Tamil Nadu	17.02.2020
6	University of Delhi, Delhi	02.03.2020
7	University of Hyderabad, Hyderabad, Telangana	17.02.2020
8	Banaras Hindu University, Varanasi, Uttar Pradesh	17.02.2020
<b>Private Institutions</b>		
1	Birla Institute of Technology and Sciences, Pilani, Rajasthan	14-10-2020
2	Manipal Academy of Higher Education, Manipal, Karnataka	14-10-2020
3	OP Jindal Global Institution of Eminence Deemed to be University, Sonapat, Haryana	04.11.2020
4	Shiv Nadar Institution of Eminence Deemed to be University, Greater NOIDA, Uttar Pradesh	03.08.2022



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