



Comparative Analysis of the Performance of Privatised Companies

KEYWORDS

PSUs, Privatisation, Efficiency, Solvency, Profitability

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ABSTRACT

Improvement in efficiency becomes one of the main arguments for the privatization of publicly sector undertakings. This study examines the financial performance of privatized companies for a period of ten years, i.e. 2001-2012. Examination of 18 financial ratios of privatized companies reveals significant difference between the privatized companies. This result reveals that the financial performance of privatized companies is purely dependent on the capacity of the company. This study fails to identify the best and poor performing companies. Further studies are needed to enlighten the performance of privatized companies.

1. Introduction

Board for reconstruction of public sector enterprises (BRPSE) examine the proposals for revival, restructuring of sick/loss making PSUs for their turnaround. Further the board also advises the government on disinvestments, closure, sale in full or part, in respect of chronically sick PSUs or loss making companies which cannot be revived. Privatization refers to the transfer of business traditionally carried out by a public enterprise to private enterprises. There is an argument, which states that privatisation of public sector enterprises lead to performance improvements of privatized firms. Improvement in efficiency becomes one of the main arguments for the privatization of publicly owned business. Privatized organization takes quick decision as compared to PSUs for solving any problem and any adverse situation can be handled carefully and quickly. Further private firm does not depend on any government agency for taking any decision and free from corruption. Today privatizing PSUs become a major public policy issue. Paul (1988) states that bilateral and multilateral aid agencies are recommending privatisation of the public sector to developing countries. Further he records that international lending agencies have made privatisation a condition for their project and adjustment lending to several developing countries in some cases. Successful privatisation will lead to achieve the objectives of privatisation. Gidadhubi and Rama (1993) opine that privatisation may take a much longer period, say five-seven years to achieve the principal objectives of privatisation, namely, economic efficiency, rapid economic growth and integration with the world economies.

2. Literature Review

Prior studies compared the pre and post performance of privatized companies. The results of the previous researchers reveals mixed opinion on the improvement of efficiency after privatisation.

Trivedi (1993) reveals that in India the emphasis is on improving the performance of public enterprises. He opines that privatisation in the conventional sense of the word is only one of the many options and the preference continues to be to treat it as a policy of last resort. Further he states that privatisation is a big progress compared to a few years back when the 'P' word was unthinkable not only in public but also in private. He also suggests that those sick enterprises which are in the competitive sector, with no social objective and very little hope of being turned around, closure or sale of assets will be considered as an option of the last resort. Further he opines that those enterprises which are on the margin, i.e., they are drifting toward sickness but are not beyond redemption, efforts will be made to nurse them back to health

by restructuring them. He concludes that disinvestment will not only support the pruning and restructuring of the public sector but will contribute toward increased accountability of existing public enterprises. Roland (1994) opines that good firms would become independent of government through privatisation and face hard budget constraints while bad firms would remain under government control with strengthened controls. Further he opines that if all firms get financed through the banking system, bad firms are likely to be the rotten apples 'spoiling' the financial system. Haskel and Amparo (1995) opine that public sector firms are assumed to be social welfare maximisers and therefore, compared to private sector firms, they bargain lower effort levels since they have the interests of consumers and workers at heart. Their model predicts that under certain conditions privatisation should raise effort and so lower X-inefficiency, and that wages may increase or decrease. Majumdar and Gautam (1997) states that mass privatisation, does not appear to be feasible for most transition economies. Therefore, they opine that the issue of sequencing in privatisation acquires policy importance. Further they state that an efficiency-based logic which prioritises privatisation of enterprises likely to post largest improvements in performance can help reduce investor uncertainty, and enhance state credibility by indicating the presence of a government in control of the process. D'Souza and William (1999) compares the pre- and post privatization financial and operating performance of 85 companies from 28 industrialized countries that were privatized through public share offerings for the period from 1990 through 1996. They document significant increases in profitability, output, operating efficiency, and dividend payments and significant decreases in leverage ratios for their full sample of firms after privatization, and for most subsamples examined. Further they reveal that capital expenditures increase significantly in absolute terms, but not relative to sales. They also find insignificant decline in employment. Their findings strongly suggest that privatization yields significant performance improvements. Rao (2000) opines that the issue of privatisation and foreign participation must be approached cautiously with a 'step-by-step approach', and should be preceded by microeconomic institutional and legal reforms. Mukherji (2004) opines that acceptance global economic integration has necessitated gradual privatisation and the consequent need to regulate investment. He states that the growing importance of private investment has produced the federal market economy, which has generated growth with inequality. He also opines that good governance in the backward states is especially critical for balanced development in the context of the federal market economy. Letza et al (2004) find that the argument of privatisation as a vehicle for efficiency gains is a myth. They suggest that efficiency is not solely a matter of ownership,

but requires a complex interplay of social and commercial variables to make it possible. They call for a more inventive and flexible approach in the search for efficiency in the public sector. Ariff et al (2009) indicates significant improvements in both financial and production performance after privatization.

3. Objective of the study

The objective of the study is to examine the financial performance of privatised public sector companies in India.

4. Sources of data and Sample

The financial data is collected from PROWESS –the database of centre for Monitoring Indian Economy. For all the privatised companies financial data was collected for 10 year periods. The sample for the study was collected from the official website of Department of Public Enterprises of Government of India. The initial sample consists of sixty two companies which are recommended for privatisation. The data which was collected to carry out the study is ranges from 1st April 2001 to 31st March 2011. The companies that furnished inadequate data were eliminated.

5. Methodology of the study

Accounting ratios are used to compare the performance of privatized companies. It is used for a better understanding of the financial condition and performance of companies. Further it is used to analyse the liquidity position, long-term solvency, overall profitability and inter firm comparison. Eighteen important financial ratios are considered for analyse of the privatised companies. Variance analysis was employed for all the ratios to compare the performance of companies. Further averages of entire privatised companies are computed for comparison.

6. Performance of privatised companies in India

Sl No	Ratios	Calculated F	F-Crit	Average
1	Net Profit Ratio	5.94398	1.35482	-10884.27
2	Net Profit to Net Worth Ratio	72.187	1.3502	-845372.58
3	Net Profit to Net Working Capital Ratio	60.6436	1.3474	-4375.41
4	Net Profit to Fixed Asset Ratio	7.6385	1.351	-9.35
5	Net Profit to Total Asset Ratio	2.1754	1.3477	-0.44
6	Sales to Net worth Ratio	72.1867	1.3502	-8437.15

7	Sales to Net Working Capital Ratio	59.9825	1.3477	-4371.66
8	Sales to Inventory Ratio	3.04117	1.3608	16.40
9	Cost of Sales to Inventory Ratio	66.278	1.371	567.39
10	Current Ratio	172.1259	1.3477	2.29
11	Quick Ratio	62.4027	1.3477	3433.97
12	Inventory to Net Working Capital Ratio	59.9944	1.3477	-4373.28
13	Fixed Asset to Net worth Ratio	72.158	1.350	-8450.98
14	Current Debt to Net worth Ratio	72.2052	1.3502	-8443.43
15	Total Debt to Net worth Ratio	68.8676	1.3502	-7036.92
16	Funded Debt to Total Asset Ratio	106.755	1.3549	4.85
17	Total Debt to Total Asset Ratio	25.135	1.3471	1388.12
18	Current Debt to Inventory Ratio	3.2942	1.359	24.13

All eighteen ratios of the privatised companies reveal significant difference between the companies. The average profitability ratios are negative and differ significantly between the companies. The average current ratio and the quick ratios indicate that most of the privatised companies maintained adequate liquidity position. The significant deference between the companies reveals that all the privatised companies are not performing equally. Further the debt ratios indicate that the privatised companies are overburdened with debt. The average turnover ratios indicate the decline in sales over the period. Contrary to the argument efficiency of the privatised companies declined over the years. However, individual performance analysis of the companies will enlighten the real positions of the privatised companies. The results of the study reveal that the performance of the privatised companies depends on the efficiency the particular company.

7. Conclusion

This study examined the financial performance of privatized companies for a period of ten years, i.e. 2001-2012. Examination of 18 financial ratios of privatised companies reveals significant difference between the privatised companies. This result reveals that the financial performance of privatised companies are purely depends on the capacity of the company. This study fails to identify the best and poor performing companies. Further studies are needed to enlighten the performance of privatised companies.

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