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Disinvestment and Performance of Profit And Loss Making Central Public Sector Enterprises of India

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ABSTRACT

Economic compulsions led to the adoption of new approach towards the public sector in the early nineties. Disinvestment involves the sale of equity and bond capital invested by the government in PSUs. Disinvestment of minority shares in CPSEs has become an important source of raising resource for the Government. The main focus of the present paper is to examine the impact of disinvestment on the financial and operating performance of profit and loss making central public sector enterprises. April 2009 onwards, there are fourteen public sector enterprises in which government has undertaken disinvestment recently. After having partial disinvestment in both profit and loss making CPSEs, there has been improvement in the efficiency of the employees in the utilization of their resources. But the profitability of the profit making CPSEs has declined in the post-disinvestment period.

KEYWORDS Disinvestment, Enterprises, Liquidity, Operating, Usage.

Introduction

Public sector undertakings in India were viewed as a mechanism for structural transformation of the economy and for growth with equity and social justice. The Central Public Sector Enterprises (CPSEs) are engaged in large scale production and supply of a wide range of products and services. They Public sector enterprises have been set up to serve the broad macro-economic objectives of higher economic growth, self-sufficiency in production of goods and services, long term equilibrium in balance of payments and low and stable prices. Disinvestment is a process whereby the Government withdraws a portion or the total of its equity in public enterprises. Huge amount of public resources are blocked in several non-strategic PSEs giving meager return. Government has announced its policy that the main objective of disinvestment is to put national resources and assets to optimal use and in particular to unleash the productive potential inherent in our public sector enterprises. Disinvestment is always a part of privatization. There are 16 sectors of Indian public sector enterprises in which Government has undertaken disinvestment. The current policy on disinvestment envisages people's ownership of CPSEs while ensuring that the Government equity does not fall below 51% and Government retains management control. (Public Sector Enterprises Survey, 2011-12)

Literature Review

Rao (1985), find out that pubic enterprises significantly influence the economic development of our country. **Mathur (1993),** revealed in his study that Public Sector Enterprises (PSEs) performance is far from satisfactory. **Majumdar (1995),** while evaluating the relative performance of public, joint and private sector opined that private sector is more efficient than public and joint sector. **Nanjundappa (1998)**, concluded that the process of disinvestment can be meaningful when the test of public purpose is applied and when the manner of utilizing the proceeds of disinvestment is clearly stated to be in the national interest. **Chundawat, Bhanawat and Mehta (2005)**, study the impact of the disinvestment on the corporate performance of the public sector undertakings (PSUs).

Need And Scope of The Study

Economic compulsions led to the adoption of new approach towards the public sector in the early nineties. Disinvestment is a measure towards privatisation step by step with a view to pass on the control of the entire undertaking in the hands of the private sectors. Disinvestment of minority shares in CPSEs has become an important source of raising resource for the Government. In the present study an attempt has been made to examine the impact of disinvestment on the performance of profit and loss making Central Public Sector Enterprises. This will throw light on whether the envisaged goal of improvement in performance was in fact achieved. The present study has been confined to study the impact of disinvestment on financial and operating performance of **Oil and Natural Gas Corporation Ltd, Steel Authority of India Ltd. (Top Ten Profit Making CPSEs-2011-12), Mahanagar Telephone Nigam Ltd. and Shipping Corporation Ltd. (Top Ten Loss Making CPSEs-2011-12).**

Objectives of the Study

The following objective has been visualized for the present study:

- to study the impact of disinvestment on the financial and operating performance of profit and loss making Central Public Sector Enterprises in terms of investment, employment, financial strength and corporate liquidity and asset usage.

Hypothesis

To achieve the objective the following hypothesis has been tested:

- there is no significant change in the financial and operating performance of the profit and loss making Central Public Sector Enterprises after disinvestment.

Methodology

For the purpose of the present study, secondary data have been used. The secondary data have been collected from published reports of selected Indian public sector enterprises and records of Government of India. Statistical test has also been applied in appropriate context. Ratio analysis, mean, standard deviation, co-efficient of variation, and student 't' test are used to analyze the data.

Results and Discussion

An attempt has been made to study the impact of disinvestment in Oil and Natural Gas Corporation Ltd, Steel Authority of India Ltd., Mahanagar Telephone Nigam Ltd. and Shipping Corporation Ltd. with the help of certain identified indicators such as operating performance based on sales, investment and employment and corporate liquidity, financial strength and asset usage.

Table -1
Financial and Operating Performance of Profit Making CPSE

Ratio	Pre-disinvestment Era			Post-disinvestment Era			t-value	P
	Mean	S.D.	C.V.	Mean	S.D.	C.V.		
OPERATING PERFORMANCE BASED ON SALES								
Gross Profit Ratio	26.15	18.29	69.94	25.32	17.72	69.98	0.14	0.886
Net Profit Ratio	16.56	14.10	85.14	12.66	14.79	116.82	0.84	0.031**
Operating Profit Ratio	24.40	11.89	48.73	26.35	9.31	35.33	0.76	0.454
Material Cost/Net Sales	31.23	23.84	76.34	36.12	19.29	53.41	-0.59	0.556
Manpower Cost/Net Sales	6.52	6.48	99.39	11.40	7.88	69.12	-2.04	0.049**
R&D Expenditure/Net Sales	0.36	0.05	13.89	0.37	0.09	24.32	-0.27	0.788
Excise Duty/Net Sales	28.40	21.82	76.83	19.37	16.47	85.03	1.49	0.143
OPERATING PERFORMANCE BASED ON INVESTMENT								
Return on Total Assets	8.48	5.61	66.16	12.35	10.29	83.32	-1.40	0.169
Return on Net Capital Employed	18.01	12.73	70.68	21.74	17.11	78.70	-0.76	0.454
OPERATING PERFORMANCE BASED ON EMPLOYMENT								
Net Profit Per Employee	184.35	171.84	93.21	655.09	997.02	152.20	-1.39	0.171
Gross Profit Per Employee	277.21	229.58	82.82	1086.39	1520.94	140.00	-1.70	0.097
Net Sales Per Employee	876.74	481.36	54.90	2839.01	3212.65	113.16	-2.01	0.052
FINANCIAL STRENGTH								
Debt Equity Ratio	1.26	0.40	31.75	2.56	2.71	105.86	-1.96	0.057
Proprietary Ratio	47.07	7.25	16.51	45.97	22.72	56.20	0.61	0.547
Solvency Ratio	52.93	6.31	11.92	54.03	23.36	43.24	-0.18	0.851
Fixed Assets to Net Worth	131.77	28.12	21.34	224.16	178.69	79.72	-2.10	0.042**
Interest Coverage Ratio	8.23	9.81	119.20	51.89	124.79	240.49	-1.60	0.117
CORPORATE LIQUIDITY								
Current Ratio	1.80	0.38	21.11	1.93	0.58	30.05	-0.78	0.436
Liquid Ratio	1.21	0.57	47.11	1.28	0.66	51.56	-0.36	0.723
ASSET USAGE								
Inventory Turnover Ratio	4.06	1.32	32.51	6.85	5.65	82.48	-1.99	0.054
Inventory Conversion Ratio	100.38	34.94	34.81	92.51	62.09	67.12	0.47	0.641
Debtors Turnover Ratio	7.75	4.84	62.45	9.06	2.85	31.46	-1.07	0.291
Average Collection Period	79.38	66.76	84.10	46.15	24.45	52.98	2.20	0.034**
Fixed Assets Turnover Ratio	0.68	0.23	33.82	0.89	0.43	48.31	-1.78	0.082
Working Capital Turnover Ratio	2.93	1.23	41.98	-96.82	483.31	-499.18	0.84	0.402
Capital Turnover Ratio	78.95	25.80	32.68	90.03	35.89	39.86	-1.10	0.278

*** Significant at 0.01 level**
**** Significant at 0.05 level**
Source: Public Sector Enterprises (PSE's) Survey, Various Issues.

Table -2
Financial and Operating Performance of Loss Making CPSE

Ratio	Pre-disinvestment Era			Post-disinvestment Era			t-value	P
	Mean	S.D.	C.V.	Mean	S.D.	C.V.		
OPERATING PERFORMANCE BASED ON SALES								
Gross Profit Ratio	24.23	12.05	49.73	26.13	9.50	36.36	-0.54	0.592
Net Profit Ratio	10.78	8.38	77.74	16.83	7.75	46.05	-2.23	0.031**
Operating Profit Ratio	24.40	11.89	48.73	26.35	9.31	35.33	-0.56	0.578
Material Cost/Net Sales	2.80	0.29	10.36	2.97	0.57	19.19	-0.69	0.494
Manpower Cost/Net Sales	10.87	2.72	25.02	14.23	6.31	44.34	-1.75	0.087
R&D Expenditure/Net Sales	-	-	0.00	-	-	0.00	-	-
Excise Duty/Net Sales	-	-	0.00	-	-	0.00	-	-
OPERATING PERFORMANCE BASED ON INVESTMENT								

Return on Total Assets	9.09	2.46	27.06	10.05	3.07	30.55	-0.98	0.335
Return on Net Capital Employed	12.80	3.93	30.70	14.93	3.82	25.59	-1.62	0.114
OPERATING PERFORMANCE BASED ON EMPLOYMENT								
Net Profit Per Employee	45.68	35.20	77.06	1194.77	2829.26	236.80	-1.39	0.171
Gross Profit Per Employee	103.37	52.17	50.47	1410.80	2638.48	187.02	-1.70	0.097
Net Sales Per Employee	543.36	410.10	75.47	6309.61	9850.02	156.11	-2.01	0.052
FINANCIAL STRENGTH								
Debt Equity Ratio	5.85	4.90	83.76	2.06	1.33	64.56	3.72	0.001*
Proprietary Ratio	21.86	10.09	48.70	38.72	12.21	32.73	-4.22	0.000*
Solvency Ratio	78.14	10.21	13.07	61.28	12.95	21.13	4.09	0.000*
Fixed Assets to Net Worth	498.78	467.90	93.81	144.73	67.69	46.77	3.82	0.000*
Interest Coverage Ratio	3.29	2.20	66.87	36.59	74.24	202.90	-1.60	0.117
CORPORATE LIQUIDITY								
Current Ratio	1.84	0.87	47.28	1.90	0.61	32.11	0.22	0.829
Liquid Ratio	1.73	0.83	47.98	1.85	0.58	31.35	0.53	0.601
ASSET USAGE								
Inventory Turnover Ratio	31.82	23.76	74.67	47.80	30.44	63.68	-1.65	0.107
Inventory Conversion Ratio	24.39	19.87	81.47	13.37	10.87	81.30	2.24	0.031**
Debtors Turnover Ratio	9.18	2.44	26.58	7.23	3.06	42.32	1.98	0.054
Average Collection Period	42.67	12.29	28.80	59.08	24.38	41.27	-2.27	0.029
Fixed Assets Turnover Ratio	0.67	0.08	11.94	0.88	0.14	15.91	-4.97	0.000*
Working Capital Turnover Ratio	15.01	44.39	295.74	3.13	2.42	77.32	1.38	0.176
Capital Turnover Ratio	59.36	17.72	29.85	61.88	17.65	28.52	-0.41	0.679

*** Significant at 0.01 level**
**** Significant at 0.05 level**
Source: Public Sector Enterprises (PSE's) Survey, Various Issues.

Operating Performance (Based on Sales): It has been observed from the table that there is decline in the gross and net profit of the profit making CPSEs after disinvestment. But on the other hand, the profitability of the loss making CPSEs has improved in the post-disinvestment period as compared to the pre-disinvestment period. It shows that the management of these enterprises efficiently controlled their various expenditures after disinvestment.

Operating Performance (Based on Investment): While studying the operating performance based on investment, it has found that there is an improvement in the mean scores of return on total assets and return on capital employed of both profit and loss making CPSEs after disinvestment. It shows that the management of the selected units of both profit and loss making CPSEs utilized their resources efficiently in the post-disinvestment period.

Operating Performance (Based on Employment): It is noticed form the above table that the contribution of the employees in the net profit, gross profit and net sales of these units has shown remarkable improvement after disinvestment. It may be possible due to the increased competition in these units and make more provision for the development programmes of the employees. However the change is not significant.

Financial Strength: It is exhibit form the table that the dependence of the profit making CPSEs on outsiders' funds has increased in the post-disinvestment period. It shows that the management of these units is utilizing more debt in their various financial plans during the post-disinvestment. On the other hand there is decline in the dependence of loss making CPSEs on outsiders' funds. The change is significant at 1 percent level of significance except interest coverage ratio.

Corporate Liquidity: As far as the corporate liquidity of the profit and loss making CPSEs is concerned, it has been found that there an upward movement in the mean scores of current and liquid ratios. It shows that after partial disinvestment in profit and loss making CPSEs, the management of these enterprises is able in meet out its current obligations in time.

Asset Usage: The examination of the asset usage reveals that the efficiency of the utilization of the assets of profit making CPSEs has improved significantly during the post-disinvestment period. But the management of loss making CPSEs failed in the efficiently management of its debtors. In other words, management of these enterprises failed in the timely collection of its debts during the post-disinvestment.

After partial disinvestment in the Oil and Natural Gas Corporation Ltd, Steel Authority of India Ltd., Mahanagar Telephone Nigam Ltd. and Shipping Corporation Ltd., the profitability of the loss making CPSEs has been improved in the post-disinvestment period. But the dependence of profit making CPSEs on outsiders' funds has increased after disinvestment.

Conclusion

Public sector reforms in India are the need of the hour. The preliminary results of the disinvestment experience shows that with the movement from public to private led to improvement in the profitability of the loss making CPSEs and the contribution of the employees of all these sample units has also been increased. It is suggested that in profitable enterprises, equity should also be offered to the public and employees. This will give the disinvestment process better acceptability. Disinvestment can lead to increase the efficiency through better utilization of resources but reckless privatization may not provide the ultimate solution for longer period of time. The stress should be on making PSU's work more efficiently rather than reducing public ownership in the economy. Efficiency may also be achieved by changing the quality of management and not only by changing the ownership. Before initiating another round of disinvestment, the government should deeply consider the recommendation of Rangarajan Committee on privatization.Bottom of Form.

- The public sector units those who are sick should be closed down and their assets should be transferred to the asset management companies to get a right price for the assets.

- To compete in this global competition and to improve their efficiency in financial control, cost control, quality control, there should be more provision for the R&D and training and development programmes of the PSEs.
- Professional management and full autonomy should be given in the matter of pricing, investment and employment of the public sector enterprises.
- There should be check on the excessive use of debt/outsiders funds and central public sector enterprises should arrange the funds from their internal resources.
- The proceeds from disinvestment should be utilized partly for restructuring PSUs which can become viable and another part is to be used for investment in the social sectors like education, health, water supply and the like.

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