PERFORMANCE OF SELECT DISINVESTED PUBLIC SECTOR ENTERPRISES IN INDIA DURING THE PERIOD 2000-2010

THESIS SUBMITTED FOR THE DEGREE OF Ph.D. IN ARTS (COMMERCE) AT THE UNIVERSITY OF BURDWAN WEST BENGAL

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Synopsis

The present study is concerned with the performance of ten selected public sector enterprises in India during the period 2000-01 to 2009-10. A brief summary of the study as given in different chapters is given below:

Chapter 1 of the study is introductory in nature. It gives the definition of disinvestment, states the difference between disinvestment and privatisation, gives a brief account of public sector in India and changes in government policy towards the public sector. This chapter also consider some issues related to disinvestment such as why disinvestment, how much disinvestment, how to make disinvestment etc. Lastly it also states the objectives of the study, methodology and data sources and hypotheses of the study. The objectives of the study are as follows:

1. To consider the process of disinvestment of public enterprises from a theoretical perspective.
2. To give a brief account of reforms introduced in the public sector since 1991.
3. To consider the disinvestment scenario in India from different perspectives.
4. To consider the performance of selected disinvested public sector enterprises in India from the standpoint of profitability, liquidity and operating efficiency.
5. To judge whether the selected disinvested public sector enterprises are improving their performance or not due to disinvestment.
6. To give some suggestions and recommendations regarding how to improve the performance of disinvested companies in the public sector.
7. To give suggestions on the disinvestment policy followed by the Government of India.

A brief review of literature on disinvestment and privatisation is also given in Chapter 1.
Chapter 2 of the study is concerned with public sector reforms in India. It starts with the New Industrial Policy of 1991 introducing reforms in the public sector. It discusses proposed reforms in five areas: (a) Industrial Licensing, (b) Foreign Investment, (c) Foreign Technology Agreement, (d) Public Sector Policy and (e) MRTP Act. In each area the proposed reforms have been described. This chapter also gives decisions taken by the government through a series of measures in the area of trade policy, exchange rate management, fiscal policy, financial sector reforms and overall macroeconomic management. This chapter also discusses different types of reforms particularly reforms in the banking sector and in the insurance sector. It also gives a brief outline of reforms introduced before 1991 and reforms introduced after 1991.

Chapter 3 of the study is concerned with disinvestment scenario in India. It starts with the definition of disinvestment and discusses the rationale for disinvestment. It discusses the objectives of disinvestment in India and also the modes of disinvestment followed in India. It also gives a brief review of the Rangarajan Committee Report on disinvestment. Lastly it gives the current policy of disinvestment as announced by the Government in 2009. It makes a brief review of disinvestments made in central public sector enterprises since 1991-92. The current policy of disinvestment as announced in 2009 is as follows:

The objectives of the disinvestment policy are to develop peoples’ ownership of CPSEs and to share in their wealth and prosperity while ensuring that Government equity does not fall below 51% and Government retains the management control. Keeping in view the policy on disinvestment the following approaches have been adopted. Already listed profitable CPSEs (not meeting the mandatory share holding of 10%) are to be ‘offered for sale’ through issue of fresh shares or a combination of both existing shares and fresh shares.

1. Unlisted CPSEs with no accumulated losses and having earned net profit in 3 preceding consecutive years are to be listed.

2. Public offers would be considered in respect of profitable CPSEs having 10% or higher public ownership, taking into consideration the needs for capital investment of CPSEs, on a case to case basis, and Government
could simultaneously or independently offer a portion of its equity share holding in conjunction.

3. Disinvestment is to be considered on merits and on case to case basis since each CPSE has a different equity structure, financial strength, fund requirement, sector of operation and factors that do not permit a uniform pattern of disinvestment.

In Chapter 4 we give a brief history of selected public sector enterprises taken up for this study. We have selected ten central public sector enterprises which have been partially or fully disinvested since 1991-92. The disinvested public sector enterprises have been selected from different sectors such as oil, steel, minerals and metals, transportation services, fertilizer, medium and light engineering, heavy engineering etc. The selection of companies has been done not on the basis of random selection but on the basis of judgement sampling keeping in mind their importance in the economy. The ten selected central public sector enterprises are as follows:

1. Bharat Earth Movers Ltd. (BEML) -share divested since 1991-92, Govt. holding 60.81% and divested 39.19%.

2. Bharat Electronics Ltd. (BEL) – share divested since 1991-92, Government holdings 75.86% and divested 24.14%.

3. Steel Authority of India Ltd. (SAIL) – share divested since 1991-92, Government holdings 85.82% and divested 14.18%.

4. Bharat Heavy Electricals Ltd. (BHIEL) - share divested since 1991-92, Government holdings 67.72% and divested 32.28%.

5. Indian Telephone Industries Ltd. (ITI) – share divested since 1991-92, Government holdings 76.67% and divested 22.33%.

6. Shipping Corporation of India Ltd. (SCI) – share divested since 1991-92, Government holdings 80.12% and divested 19.88 %.

7. Oil and Natural Gas Corporation (ONGC) – share divested since 1994-95, Government holdings 74.14 % and divested 25.86%.

8. Indian Oil Corporation Ltd. (IOCL) – share divested since 1994-95, Government holdings 78.92% and divested 21.08%.
9. Gas Authority of India Ltd. (GAIL) – share divested since 1994-95, Government holdings 67.34% and divested 32.66%.

10. Container Corporation of India Ltd. (CONCOR) – share divested since 1994-95, Government holdings 63.08% and divested 36.92%.

We shall consider the performance of these enterprises in respect of profitability, liquidity and operating efficiency with the help of ratio analysis. However before we do so let us have some knowledge about the history of the selected companies. This has been given in Chapter-4. For each company we have given a brief account of disinvestment schedule, present status, objectives and activities, operations and strategic issues confronted by the selected companies.

Chapter 5 of the study is concerned with the analysis of profitability of the selected public sector enterprises. Financial statistics related to ten public sector enterprises have been collected from Public Enterprise Survey Report for the period from 2000-2010. This data are used to find four measures of profitability. The four measures are: Return on Capital Employed (ROCE), Net Profit Margin (NPM), Price Earnings Ratio (P/E) and Return on Net Worth (RONW). We have computed the values of these four ratios for ten years 2000-01 to 2009-10. This has been done for each enterprise. The movements in the ratios have been analysed through tables and also through diagrams. This has been done for all the ten enterprises separately. Then we have presented all the ten enterprises together in a single table. One such table has been constructed for one measure of profitability. In this way four tables (5.11 to 5.14) have been constructed. From each table we have found the ranks of different companies on the basis of their averages and on the basis of their CVs. All these ranks have been put together in Table 5.15 which gives combined ranking of all companies on the basis of profitability. To get an overall ranking of the ten divested public sector enterprises on the basis of all the four measures of profitability we have prepared another table (Table 5.15) where we have presented the ranking of the companies on the basis of all the four measures. We have added the four ranks of a company to get the rank total. The company having smallest rank total is now given rank 1. The company having next higher rank total is given rank 2 and so on. Proceeding in this manner we find that CONCOR is the best company having rank 1. Next in ranking is BEL having rank 2, ONGC having rank 3, BHEL having rank 4. Two companies SAIL and GAIL have the same rank total. They have been given ranks 5.5 each. Next
in ranking are BEML, SCI, IOCL and ITI in descending order. Thus from the standpoint of overall profitability CONCOR is the best company while ITI is the worst.

Table 5.15: Combined Ranking of all companies on the basis of profitability

<table>
<thead>
<tr>
<th>Ranks on the basis of average</th>
<th>BEML</th>
<th>BEL</th>
<th>SAIL</th>
<th>BHEL</th>
<th>ITI</th>
<th>SCI</th>
<th>ONGC</th>
<th>IOCL</th>
<th>GAIL</th>
<th>CONCOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROCE</td>
<td>7</td>
<td>1</td>
<td>5</td>
<td>4</td>
<td>10</td>
<td>9</td>
<td>3</td>
<td>8</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>NPM</td>
<td>8</td>
<td>4</td>
<td>7</td>
<td>6</td>
<td>10</td>
<td>3</td>
<td>1</td>
<td>9</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>P/E</td>
<td>2</td>
<td>4</td>
<td>9</td>
<td>1</td>
<td>10</td>
<td>8</td>
<td>5</td>
<td>7</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>RONW</td>
<td>9</td>
<td>2</td>
<td>1</td>
<td>6</td>
<td>10</td>
<td>8</td>
<td>4</td>
<td>7</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>RANK TOTAL</td>
<td>26</td>
<td>11</td>
<td>22</td>
<td>17</td>
<td>40</td>
<td>28</td>
<td>13</td>
<td>31</td>
<td>22</td>
<td>10</td>
</tr>
<tr>
<td>RANK</td>
<td>7</td>
<td>2</td>
<td>5.5</td>
<td>4</td>
<td>10</td>
<td>8</td>
<td>3</td>
<td>9</td>
<td>5.5</td>
<td>1</td>
</tr>
</tbody>
</table>

Chapter 6 of the present study is concerned with the analysis of the performance of the companies with respect to liquidity. Two measures of liquidity have been taken. One is the current ratio and the other is the debt-equity ratio. From theoretical analysis we know that an ideal current ratio is 2:1. Moreover as regards debt-equity ratio, in India 2:1 ratio has been prescribed by financial institutions for private sector enterprises whereas a debt-equity ratio of 1:1 has been prescribed for public sector enterprises. The performance of the ten selected public sector enterprises has been analysed keeping in view these ideal or standard values. As in the case of profitability, in the case of liquidity also we have considered all the ten enterprises separately as well as jointly. For each enterprise the current ratio and the debt-equity ratio have been computed for ten years 2000-01 to 2009-10. The average values for the ten years have also been computed. Movements in the values of the two ratios have also been shown with the help of diagrams. This has been done for all the ten enterprises. Then the figures of all the ten enterprises have been considered jointly. This has been shown in two tables (Table 6.11 and Table 6.12). Table 6.11 gives the current ratios of ten enterprises during the period 2000-2010. For each enterprise we have calculated average over the years as also CV over the years. Enterprises have been ranked in respect of average as well as in respect of CV. The same thing has been done in Table 6.12 with respect to debt-equity ratio. Finally the ranks of tables 6.11 and 6.12 have been put together in Table 6.13 to consider combined ranking of all the enterprises on the basis of liquidity.
We have obtained ranks of all companies with reference to average current ratio and average debt-equity ratio taking all the years. All these ranks are plotted in Table 6.13. For each company we get two ranks – one on the basis of average CR and the other on the basis of D/E ratio. These two ranks have been added to get rank total of all the companies. The companies are then ranked on the basis of rank total. The company having the lowest rank total is given rank 1, the company having the next higher rank total is given rank 2 and so on. In this way we prepare combined ranking of all the companies on the basis of liquidity. It is seen from Table 6.13 that SCI has the lowest rank total of 5. Its combined rank is 1. Next in ranking is BEML whose rank is 2. Then there is a tie between SAIL and ITI for the third position, both of them having the same rank total of 10. Both of them have been allotted rank 3.5. For the next position also there is a tie among four companies – BHEL, ONGC, GAIL and CONCOR – all of them having rank total of 12. All of them have been given rank 6.5. Next comes IOCL having rank 9 and BEL having rank 10. Thus from the standpoint of liquidity the first position goes to SCI while the last position goes to BEL.

In Chapter 7 we have judged the performance of the selected enterprises with respect to operating efficiency. To consider operating efficiency we have used two ratios. One is Fixed Asset Turnover Ratio (ATR) and the other is Inventory Turnover Ratio (ITR). For each enterprise we have considered the values of these two ratios over the ten-year period 2000-01 to 2009-10. Though there is no standard value of these two ratios, it has been assumed that the higher the ratios, the higher will be the operating efficiency. Movements in the values of these two ratios have been considered separately for each enterprise with the help of tables and graphs. The average of each ratio over the years has also been calculated separately for each
enterprise. Lastly we have plotted the separate results jointly in terms of Table 7.11 and Table 7.12. Table 7.11 gives the Asset Turnover Ratios of ten enterprises for ten years together. The asset turnover ratios have been averaged over the years and ranks have been prepared on the basis of averages. Ranks have also been prepared on the basis of coefficient of variation. Same thing has been done with respect to inventory turnover ratio in Table 7.12. Finally in Table 7.13 we have plotted the ranks obtained by the ten enterprises to arrive at a combined ranking.

Table 7.13: Combined Ranking of all companies on the basis of Operating Efficiency

<table>
<thead>
<tr>
<th>Ranks on the basis of average</th>
<th>BEML</th>
<th>BEL</th>
<th>SAIL</th>
<th>BHEL</th>
<th>ITI</th>
<th>SCI</th>
<th>ONGC</th>
<th>IOCL</th>
<th>GAIL</th>
<th>CONCOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>FATR</td>
<td>3</td>
<td>4</td>
<td>8</td>
<td>2</td>
<td>5</td>
<td>10</td>
<td>9</td>
<td>1</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>ITR</td>
<td>9</td>
<td>10</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>2</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Rank Total</td>
<td>12</td>
<td>14</td>
<td>14</td>
<td>9</td>
<td>13</td>
<td>12</td>
<td>13</td>
<td>6</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td>Combined Rank</td>
<td>5.5</td>
<td>9.5</td>
<td>9.5</td>
<td>3</td>
<td>7.5</td>
<td>5.5</td>
<td>7.5</td>
<td>1</td>
<td>4</td>
<td>2</td>
</tr>
</tbody>
</table>

We have obtained the ranking of 10 companies on the basis of ATR and ITR in 10 years. To arrive at a combined ranking of all the companies on the basis of both ATR and ITR we plot all the ranks on the basis of average in Table 7.13. Here for each company we get two ranks – one on the basis of ATR and another on the basis of ITR. For all companies the ranks have been added to get the rank totals. These rank totals are then used to find combined rank. The company with lowest rank total is given rank 1. The company with the next higher rank total is given rank 2 and so on. On this basis IOCL has rank 1 and CONCOR has rank 2. BHEL has rank 3 and GAIL has rank 4. Then there is a tie between BEML and SCI. Both of them have rank 5.5. Again there is a tie between ITI and ONGC. Both of them are allotted rank 7.5. Lastly, there is again a tie between BEL and SAIL, both of them getting the rank 9.5. Thus it can be said that on the basis of overall operating efficiency the best company is IOCL while the worst companies are BEL and SAIL.

We have prepared the ranking of all the ten enterprises on the basis of profitability, liquidity and operating efficiency. Let us now take all the three aspects together and see what will be the ranks of the enterprises on the basis of all the three aspects taken together. This has been done in Table 8.1.
Table 8.1: Combined Ranking of all companies on the basis of Profitability, Liquidity and Operating Efficiency

<table>
<thead>
<tr>
<th>Ranks on the basis of</th>
<th>BEML</th>
<th>BEL</th>
<th>SAIL</th>
<th>BHEL</th>
<th>ITI</th>
<th>SCI</th>
<th>ONGC</th>
<th>IOCL</th>
<th>GAIL</th>
<th>CONCOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability</td>
<td>7</td>
<td>2</td>
<td>5.5</td>
<td>4</td>
<td>10</td>
<td>8</td>
<td>3</td>
<td>9</td>
<td>5.5</td>
<td>1</td>
</tr>
<tr>
<td>Liquidity</td>
<td>2</td>
<td>10</td>
<td>3.5</td>
<td>6.5</td>
<td>3.5</td>
<td>1</td>
<td>6.5</td>
<td>9</td>
<td>6.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Operating Efficiency</td>
<td>5.5</td>
<td>9.5</td>
<td>9.5</td>
<td>3</td>
<td>7.5</td>
<td>5.5</td>
<td>7.5</td>
<td>1</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Rank Total</td>
<td>14.5</td>
<td>21.5</td>
<td>18.5</td>
<td>13.5</td>
<td>21</td>
<td>14.5</td>
<td>17</td>
<td>19</td>
<td>16</td>
<td>9.5</td>
</tr>
<tr>
<td>Combined Rank</td>
<td>3.5</td>
<td>10</td>
<td>7</td>
<td>2</td>
<td>9</td>
<td>3.5</td>
<td>6</td>
<td>8</td>
<td>5</td>
<td>1</td>
</tr>
</tbody>
</table>

In this table the ranks of the ten enterprises on the basis of profitability, liquidity and operating efficiency have been taken from the earlier tables (tables 5.15, 6.13 and 7.13). The three ranks of an enterprise have been added to get the rank total. These rank totals are then used to find the overall ranks of the enterprises. The enterprise with the lowest rank total has been given rank 1, the enterprise with the next higher rank total has been given rank 2 and so on. In this way the final ranks of the last row of Table 8.1 have been obtained.

It is seen from these ranks of Table 8.1 that the best managed enterprise from the standpoints of profitability, liquidity and operating efficiency is CONCOR which has rank 1. The next position goes to BHEL which has rank 2. There has been a tie for the third position which goes to BEML and SCI. Other enterprises in descending order are GAIL, ONGC, SAIL, IOCL, ITI and BEL respectively. Thus the worst managed enterprise on the basis of all the three criteria is BEL. However, the ranks differ in respect of each criterion. For example in the case of profitability CONCOR has rank 1 but in the case of liquidity SCI has rank 1. Again in the case of operating efficiency IOCL has rank 1. Taking all the three criteria together CONCOR has rank 1.

Before we end our discussion we can make certain observations on the performance of the selected enterprises.
Firstly, it was expected that ROCE of the divested companies will increase over time. But from Chapter 5 it is found that this has not happened for most of the enterprises. We find fluctuations in ROCE for most of the enterprises. Only in the case of BHEL we find a rising trend of the ROCE. Regarding other measures of profitability similar comments can be made. It can, therefore, be said that there is no strong evidence that disinvestment has led to increase in profitability of the disinvested enterprises.

Secondly, it was expected that disinvestment will lead to an increase in current ratio. Here also it is seen from the analysis of Chapter 6 that for most of the enterprises the current ratio fluctuated over the years rather than registering a steady increase. In the case of BEL we find that there has been a steady increase in the current ratio over the period. But for other enterprises no such steady increase is found. There are ups and downs in the ratio. A slightly increasing trend is found in the case of SAIL and SCI. So there is no strong evidence that debt-equity ratio has increased as a result of disinvestment.

Thirdly, it was expected that the P/E ratio will increase after disinvestment. Here also the evidence is inconclusive. It has been seen from the analysis of Chapter 5 that the P/E ratio fluctuated for most of the enterprises. However if we consider trend analysis of movement in the P/E ratio we find a rising trend in the case of SAIL, BHEL, ONGC, GAIL and CONCOR, though there are fluctuations in this ratio over the years. For the other enterprises there were very much fluctuations in the ratio but no rising or falling trend was noticeable. Thus we cannot support the view that disinvestment had led to increase in P/E ratio. In fact the P/E ratio is influenced more by market forces operating in the stock market than by the performance of the firms.

Fourthly, the hypothesis that the debt-equity ratio is expected to fall after disinvestment seems to have some truth in it. Here also it is seen that there are fluctuations in the D/E ratio of many firms. However a decreasing trend of the D/E ratio is visible for BEL, BHEL, SCI, GAIL and CONCOR. Thus out of the 10 firms 5 firms have exhibited decreasing D/E ratio over the study period. However for the other 5 firms no such declining trend was noticed.
Fifthly, regarding increase in operating efficiency after disinvestment the evidence is also not conclusive. Operating efficiency has been judged by two ratios – Asset Turnover Ratio (ATR) and Inventory Turnover Ratio (ITR). Increases in two ratios are taken as indicators of increase in operating efficiency. From the analysis of Chapter 7 it is found that both ATR and ITR fluctuated for most of the firms. It is also noted that both of them moved in the same direction for most of the firms. Though there are fluctuations an increasing trend is found in the case of BEML, BEL and BHEL only. For other seven firms no firm trend is evident. Moreover, the ATRs of SCI, ONGC, IOCL, GAIL and CONCOR remained more or less stationary during this period. We can, therefore, say that there is no evidence that operating efficiency has increased as a result of disinvestment of the selected enterprises.

From the above analysis we can conclude that neither profitability nor liquidity nor operating efficiency increased very much after disinvestment of the selected companies. It seems that the decision to disinvest was taken as a part of the general reform measures of the government and not on the basis of sound economic considerations from the standpoint of the enterprises concerned.

It should be noted that in all the ten enterprises the percentage of shares disinvested is less than 50%. Hence all these enterprises remain public sector enterprises even after their disinvestment. Their nature has not changed inspite of disinvestment. In order to get the desired effect disinvestment should be increased beyond 50% so that these enterprises become privatized. Then they will be run by private management and private management will be trying to improve performance. However all these enterprises considered in this sample belong to strategic enterprises and government’s policy is to hold controlling shares (more than 50%) of these enterprises. Therefore the benefits of the privatisation cannot be obtained from this disinvestment.