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Performance of disinvested public sector enterprises in India with shareholding pattern

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Keywords

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Abstract

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. While there were only five Central Public Sector Enterprises (CPSEs) with a total investment of ` 29.00 crore at the time of the First Five Year Plan, there were as many 248 CPSEs (excluding 7 Insurance Companies) with a total investment of 6,66,848 crore as on 31st March, 2011. With economic liberalization, post-1991, sectors that were exclusive preserve of the public sector enterprises were opened to the private sector.. The paper attempt To study the financial performance of disinvested in BHEL. The ROI is gradually increasing from 10.3 in 2001-02 to 20.4 in 2006-07. In 2007-08, the ROI is slightly decreases compare to previous year after that it has been increasing subsequently for the remaining years 15.08, 16.37 and 18.46 respectively.

Introduction

Disinvestment in India

Balance of Payment position and increasing fiscal deficit led to adoption of a new approach towards the public sector in 1991. Disinvestment of Public Sector Undertakings (PSUs) is one of the policy measures adopted by the Government of India for providing financial discipline and improve the performance of this sector in tune with the new economic policy of Liberalization, Privatization and Globalization, (LPG) through the 1991 Industrial Policy Statement. The aims of disinvestments policy are rising of resources to meet fiscal deficit, encouraging wider public participation including that of workers penetrating market discipline within public enterprises and improving performance. The process of restructuring public sector enterprises owned by the central Government in India has undergone quite a few changes since it began in 1991-92. Accordingly, it was decided to offer 20 percent of Government equity in selected CPSEs to mutual funds and public sector financial institutions and banks. Minority Government shares from quite a few CPSEs were sold off during 1991 and 1992. Subsequently, in the following years, further minority Government shares were sold through the auction method. The range of buyers was steadily expanded to include private companies, brokers, foreign institutional investors (FIIs), non-resident Indians (NRIs) and overseas corporate bodies (OCBs).However, from 1998-99 onward, disinvestment policy underwent a substantive change with the emphasis shifting to selling of large chunks of Government shares in CPSEs through strategic sale, with transfer of management control. From 2004-05, the disinvestment policy again underwent a major shift . the union budget for 2004-05 are announced “as long as Government retains control over the PSE, and its public sector character is not affected, Government may dilute its equity and raise resources to meet the social needs of the people.”

Review of literature

There are considerable number of books on Public Sector Enterprises and their role in economy. There are numerous articles published in various journals and daily newspapers of repute. A little research leading to doctoral degree or its equivalent is also being carried on by various people. An effort is being made here to present some of the important contributions made in this field of study.

Amitendu Palit has done a study on policy objectives of disinvestment, contentious strategic sale and distinct perceptions that have influenced the process of disinvestment in the country.

ology and skilled manpower requirements.” Bhagwati Jagdish[3] in his book, ‘In defense of globalization,’ argues that economic globalization is the favored target of many of the critics of globalization because they see globalization as the extension of capitalism throughout the world and present economic globalization has caused many social ills today, like poverty, increased in child labor, erosion of unions, labors rights, democratic deficits, harming of women, culture and environment.

Bhagwati and Desai in fact, as noted by them, In a situation where domestic prices are distorted by a variety of endogenous and policy-imposed factors, the observed rates of return cannot be taken to give a proper ranking of the social profitability of alternative investments. Bhole L. M.[5] has argued in his paper that there is a need to change our outlook on the role, importance and working of the capital market, particularly the stock exchanges, in India. The stock market is only one among many channels for the flow of funds, and, therefore, it is an error to overemphasize its role. Bimal Jalan according to him, political interference is unavoidable in public corporations and is a major cause of decline in operational efficiency. “Such political decision-making reflects itself in the less than optional choice of technology or location, overstaffing, inefficient use of input, and purchase or price preferences for certain suppliers.” Most governments also impose non-economic objectives on public enterprises.

Need for the study

The concept of public sector enterprises germinated around ‘Great Depression’ and came in full bloom by the Second World War. When the countries headed by the Soviet Union formed the communist bloc, thereby giving birth to the centrally planned economy. The rapid shrinking of colonial rule at almost the same time helped the emergence of the concept of mixed economy. This concept helped in supporting newly freed country like India by helping her in the noble cause. In 1948, immediately after Independence, Government of India introduced the Industrial Policy Resolution. This outlined the approach to industrial growth and development. It emphasized the importance to the economy of securing a continuous increase in production and ensuring its equitable distribution. After the adoption of the Constitution and the socio-economic goals, the Industrial Policy was comprehensively revised and adopted in 1956. To meet new challenges, from time to time, it was modified through statements in 1973, 1977 and 1980. India suffered a major economic crisis in 1991. In the case of selected enterprises, part of Government holdings in the equity share capital of these enterprises will be disinvested in order to provide further market discipline to the performance of public enterprises. There are a large number of chronically sick public enterprises incurring heavy losses, operating in a competitive market and serve little or no public purpose. These need to be attended to. The country must be proud of the public sector that it owns and it must operate in the public interest. The current global financial crisis, America and Britain, the birth-place of modern privatization, nationalized much of its banking industry. The books, articles and research studies review above clearly shows that there are no studies on the whole process of disinvestment in India. In view of this it is felt that there is need for the study on “Disinvestment of Public Sector Enterprises in India.”

Objectives of the study

The objectives of the study are:

1. To study the financial performance of disinvested with Shareholder Pattren.

2. To give appropriate suggestions to select divested Public Sector Enterprises.

Methodology

To achieve these objectives, data has been collected from both the primary and secondary sources. The primary data has been collected by discussions and interviews with the executives of the disinvested companies, economists, political, public administration specialists and stock market analysts to elicit their opinions on various matters relating to disinvestment. A part from this in order to know the attitude of investors on disinvestment, a questionnaire is designed and administered to investors. The secondary data and information are collected from the office records of companies, Bureau of Public Enterprises, Ministry of Finance, Five Year Plans of Government of India, Economic Surveys, Department of Disinvestment, Industrial Policy Resolutions, Disinvestment Commission Reports, The Major Stock Exchanges, Company Annual Reports, Journals, Magazines, Dailies like Business Line and Economic Times and official websites like SEBI, NSE, and BSE etc.,

Sampling

There are as many as 45 Central Public Sector Enterprises (CPSE) listed and traded on the Stock Exchanges of India as on 31.3.2011. The following are the Central Public Sector Enterprises (CPSE) listed on The Stock Exchanges of India.

In the above given companies Engineering, Petroleum, Electricity and Steel are significant and core sectors. Hence, these four sectors are selected for study. Bharat Heavy Electricals Limited (BHEL), Hindustan Petroleum Corporation Limited (HPCL), National Thermal Power Corporation (NTPC) and Steel Authority of India Limited (SAIL) are largest companies in these selected sectors. Hence, these four companies are selected for performance analysis.

In order to ascertain the attitude of the investors, the state of Andhra Pradesh has been selected as it is truly cosmopolitan in its nature. The state of Andhra Pradesh is divided in to three geographical regions, viz., Costal Andhra, Rayalaseema and Telangana. Rayalseema is geographically and demographically most important region of Andhra Pradesh. Anantapur district and Kurnool district possesses almost all the characteristics of other districts of Rayalaseema region. A Sample of 300 investors is taken for the study from Anantapur and Kurnool districts on the basis of convenience sampling. While selecting the investors, care has been taken to select them from Urban (District Head Quarters) and Semi-Urban (Other Areas) areas. A sample of 150 investors from urban area i.e. Anantapur and kurnool, 150 investors from semi-urban i.e. Guntakal, Dharmavaram, Adoni and Nandayala is taken for the study.

Methods of analysis

The data collected from different sources will be properly classified, tabulated and analyzed using appropriate statistical tools to draw meaningful conclusions. Simple statistical techniques such as ratios, percentages and averages are used for the study. Besides, these various statistical tools and techniques have applied for analysis and interpretation of data.

Period of the Study

The disinvestment had started in 1991-92. Hence, the process of disinvestment has been studied from 1991-92 to 2010-11. Macroview of public sector enterprises and the performances of selected companies are studied over the period of ten years from 2001-02 to 2010-11.

Scope of the study

The study covered the genesis, objectives and performance of public sector enterprises, modus operandi, policy and procedures of disinvestment. The study also covered market capitalization of CPSEs listed on domestic stock exchanges. The study of disinvestment has been aimed at reference to the disinvestment process and its associate factors. The study has not aimed to cover any particular Public Sector Unit neither is it going to present the focus on statistical features. Study is aimed to cover stepwise analysis of entire vision and mission of disinvestment concept. The study will also project to the various strategies and measures adopt by different governments from 1990-91 onwards 2011-12.

Limitations of the study

A research study of this nature could not be carried out without any limitations. The study is limited to a period of ten years (i.e., from 2001-02 to 2010-11) because these Public sector enterprise have been started in different years and so they have not been considered since their inception. Validity of this study depends on the reliability of the data being made available in the form of Annual Reports, Economic

Surveys, Commission Reports, and Industrial Policy Resolution etc., However to overcome these limitations, great care has been taken at every stage to make it more pragmatic and comprehensive. In, primary data the major limitation of the study is that it is restricted to the state of Andhra Pradesh only and the size is also limited. However an effort is being made to minimize the impact of this limitation by selecting maximum number of investors from Anantapur district and Kurnool District. As this study is based on the responses of the investors there is a possibility of personal bias. Care has taken to bring down the impact by asking cross reference questions. Some of the investors could not relate themselves to the disinvestment programme as they were new entrants to the market. The investment activity is the outcome of innumerable factors. Where as in this study only a limited number of factors are considered. With all these limitations all the efforts are made to evaluate the situation as accurately and objectively as possible.

There were 48 CPSEs listed on the stock exchanges of India as on 31.03.2011; Three CPSEs were, however, not being traded during 2010-11. Coal India Ltd. and Satluj Jal Vidyut Nigam Ltd. were listed during the year 2010-11. There are stocks of 45 CPSEs, which were being traded on the stock exchanges of India as on 31.3.2011. This chapter attempts to understand the performance of selected divested companies. For this purpose as already mentioned a sample of four companies is taken from listed CPSEs on the stock exchanges of India.

Analysis :

Table- 1: Shareholding pattern as on March 31ST, 2011(NTPC)

Category	Total No. of Shares	% to Equity
GOI	6,96,73,61,180	84.50
FIIs	29,12,15,634	3.53
Indian Public	16,82,87,604	2.04
Banks & FI	56,99,68,125	6.92
Private Corp. Bodies	12,20,88,117	1.48
Mutual funds	11,54,21,458	1.40
NRI/OCBs	42,65,686	0.05
Others	68,56,596	0.08
Total	8.24,54,64,400	100.00

Source: Annual report of NTPC (2010-2011)

Fig- 1: Shareholding pattern of NTPC as on 31.3.2011

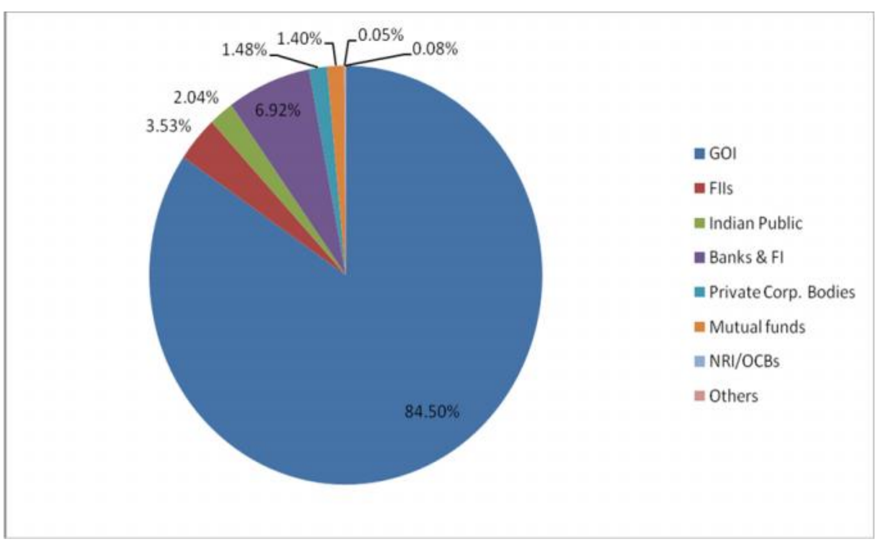

Table- 2: Selected financial information of NTPC (2001-02 to 2010-11)

(` In crore)

	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02
Operating Income	57399.49	49233.88	45299.06	40011.31	35376.67	28750.7	24917.9	24999.4	19451.1	18477.3
Profit before depreciation, interest & finance charges and tax	16684.37	15344.45	13720.17	14191.47	12842.19	9833.3	9732.1	11282.6	6274.7	5998.5
Depreciation	2485.69	2650.06	2364.48	2138.50	2075.38	2047.7	1958.4	2023.2	1529.1	1378.4
Profit before interest & finance charges and tax	14198.68	12694.39	11356.69	12052.97	10766.81	7785.6	7773.7	9259.4	4745.6	4620.1
Interest & Finance Cost	2149.08	1808.93	1996.22	1798.04	1859.38	1763.2	1695.5	3369.7	991.6	868.0
Profit before tax	12049.60	10885.46	9359.47	10254.93	8907.43	6022.4	6078.2	5889.7	3754.	3752.1
Tax (Net)	2947.01	2157.26	1158.17	2840.12	2042.71	202.2	271.2	628.9	146.5	212.5
Profit After Tax	9102.59	8728.20	8201.30	7414.81	6864.72	5820.2	5807.0	5260.8	3607.5	3539.6
Dividend	3133.27	3133.27	2968.36	2885.91	2638.55	2308.7	1979.0	1082.3	708	707.9
Retained profit	5454.55	5067.31	4731.23	4038.44	3836.53	3187.7	3560	4039.8	2860	2831.7
What is owned										
Gross fixed Assets	72755.15	66850.07	62353.04	53367.95	50727.28	46039.6	43106.2	40028.1	36610.6	32891.2
Less: Deprecation	33519.19	32088.78	29415.31	27274.28	25079.18	22950.1	20791.4	18773.6	16745.6	15213.1
Net block	39235.96	34761.29	32937.73	26093.67	25648.10	23089.5	22314.8	21254.5	19865	17678.1
Capital Work- in – progress, construction Stores & Advances	38270.63	32104.31	26404.90	22478.38	16839.20	1363.4	9928.5	7495.3	6386.3	6555
Investments	12344.84	14807.09	13983.48	15267.22	16094.33	19289.1	20797.7	17338	3667.4	4028.1
Current Assets, Loans & Advances	35396.79	30815.80	30925.30	25548.80	22182.70	15724.5	12907.3	13546.8	19413.2	16779.9
Total Net Assets	125248.22	112488.49	104251.41	89388.07	80764.33	71737.1	65948.3	59634.6	49331.9	45041.1
What is owed										
Long term Loans	43174.98	37783.63	34566.33	27177.67	24451.65	20119.5	16671.9	14941.5	12709.0	11316.1
Working Capital Loans	13.26	13.39	1.42	12.93	32.80	77.8	415.9	511.3	506.7	265.1

Current Liabilities & provisions	13072.91	10758.16	10688.60	7929.90	7026.30	6140.2	6746.7	8094.1	4585	4814.6
Total Liabilities	56261.15	48555.18	45256.35	35120.50	31510.75	26337.5	23834.5	23546.9	17800.7	16395.8
Net worth			-							
Share capital	8245.46	8245.46	8245.46	8245.46	8245.46	8245.56	8245.56	7812.5	7812.5	7812.5
Reserves & Surplus	59646.79	54191.96	49124.61	44393.15	40351.25	36713.2	33530.8	27737.6	23700.2	20840.
Net worth	67892.25	62437.42	57370.07	52638.61	48596.71	44958.7	41776.3	35550.1	31504	28645.3
Capital Employed	71374.57	69572.54	64183.42	58886.77	56433.15	52357.2	50054.0	45826.7	38634.3	35652.6
Value Added	19139.99	17331.30	14054.75	12753.79	11101.15	9748.2	8841.5	6674.9	8808.4	8088.9
No. of Shares	8245464400	8245464400	8245464400	8245464400	8245464400	8245464400	8245464400	7812549400	7812549400	78125494
No. of Employees	23797	23743	23639	23674	23602	21870	21420	20971	21408	21383
Ratios										
Return on Capital Employed (%)	14.30	13.97	14.29	14.07	13.89	12.46	12.77	12.93	10.88	11.93
Return on Net worth (%)	16.92	16.35	16.70	16.10	15.57	14.16	14.33	14.94	12.13	12.98
Book Value per share (`)	82.34	75.72	69.58	63.84	58.94	54.53	50.67	45.50	40.32	3666.58
Current Ratio	2.71	2.86	2.89	3.22	3.16	2.56	1.91	1.67	4.23	3.49
Debt to Equity	0.64	0.61	0.60	0.52	0.50	0.45	0.41	0.43	0.42	0.40
Value Added /Employee (` crore)	0.80	0.73	0.59	0.54	0.47	0.45	0.41	0.32	0.41	0.38

***Excluding JVs, Subsidiaries, BTPS (owned by NTPC w.e.f 1st June, 2006) & BALCO.**

Source: Annual reports of NTPC

Performance of NTPC

Total income of NTPC company for the year 2010-11 increased by 16.59% to ` 57399.49 crore from ` 49233.88 crore during the previous year. Net profit after tax increased to ` 9102.59 crore from ` 8728.20 crore registering a growth of 4.29% over last year. The total dividend for the year 2010-11 is ` 3.80 per equity share of ` 10 each which is equal to the amount of dividend paid last year. The total dividend payout for the year amounting to ` 3133.26 crore represents 34.42 % of the profit after tax. Operating income increased from ` 18477 crore in 2001- 02 to ` 57399 crore in 2010-11, it was tripled during the period. Profit after tax moved up from ` 3540 crore to ` 9102 crore same period, it increased more than doubled. The return on investment of NTPC during the period is gradually increasing. It is observed that the Return on investment for the current year (2010-11) is significantly good. It has been observed that the ROE is consistently showing uptrend. During the period the resources of the owners are efficiently utilizing by the firm. It is observed the Return on net worth is increased from 12.98 in 2001-02 to 16.92 in 2010-11. The current ratio over the period of study is considerably very good. It has been observed that the company liquidity position during the period is very good. The margin of safety of the creditors is significantly satisfactory and the firm is able to pay its current obligations. During the period the current ratio is decreasing from 3.49 in 2001-02 to 2.71 in 2010-11. It is a good sign that the management is efficiently utilizing the current assets. The debt to equity ratio of the NTPC from the past 10 years gradually increasing from 0.40 in 2001-02 to 0.64 in 2010-11. It indicates that the firm is aggressively utilizing the outsiders' fund. During the high demands, favourable economic conditions the firm will give hand some returns to its share holders.

The firm ability in generating sales from its financial resources during the period is significantly good. The net assets turnover over the period is increased from 41.02 in 2001-02 to 45.83 in 2010-11. It is observed that firm is producing 45.83 for one rupee of capital employed for the current year 2010-11. It is a good signal that the firm operating performance is substantially good. Retained earnings increased from 2001-02 to 2003-04 and showed downward trend in 2004-05 and 2005-06. It has been observed that the company retained earnings from the past 5 years are increased from 3836.53 in 2006-07 to 5454.55 in 2010-11. It is good sign that the company will utilize these internal funds for the prospective investments. Over the period company profitability is significantly good.

The fixed assets turnover ratio has been showing increasing trend from the past 10 years. It is observed that it is increased from 1.04 in 2001-02 to 1.46 in 2010-11. It is a good sign that the company is utilized these assets efficiently. The net profit Margin over the period has been showing decreasing trend. Even though it is decreasing over all net profit margin of the NTPC is significantly satisfactory during the period of study. It is observed that the company is distributing dividends to its share holders from the past 10 years is significantly good. It has been observed that over the period the company giving hand some returns to its share holders. It has been observed that the times, Interest-earned during the period is showing increasing trend. It is a good sign that the firm ability to meet its current obligations is significantly very good. Over the period the debt servicing capacity of the firm is increased to 6.60 in 2010-11.

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