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Financial Performance of PSEs Post-disinvestment

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Abstract

India being a developing economy has adopted the concept of mixed economy wherein both the private and public sector were allowed to industrialize the country except few restricted sectors. PSEs controlled by the government played an instrumental role in servicing the country in infrastructure and public services. Since there were lots of political intervention because of which the PSEs derailed from the profit making objective and turned to drainage of wealth which were once referred to be temples of modern India. The PSEs were also suddenly exposed to Global competition which they were not used for operating under protected environment. The level playing field and competition affected the financial performances of PSEs. The paper elucidates the various financial ratios over a period of 10 years and analyzed the performance of the PSEs resurrecting focusing on other factors of their sustainability.

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1. Introduction

The self-obligation initiated with MOU in the year 1987-88 and thereafter disinvestment exercise from 1991-1992 entirely changed the dynamics and function of PSEs. There was a great deal of uncertainty about the obligation procedure vide MOU, therefore, few PSEs opted out. Similarly, the disinvestment process was primarily focused on offloading government equity majorly of profit making PSEs. The entire idea behind the move was to resurrect the Indian economy that was continuously facing a high burden of financial debt both national as well as international. The contribution of PSEs is instrumental in country's GDP. The contribution of PSEs is 20.5% in the FY 2011.

2. Research Methods

Reddy (1988) Focuses on the need for reforms due to the fiscal crises. Due to this, the government finds it necessary to lend some urgency to reform public enterprises with an implicit admission of relatively limited liability of the

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government to inject finances unlike in the past. He emphasizes the need to examine/quantify the loss, attributable to subserve social obligations. The PSEs operate in an environment which is superfluous and tailor-made due to policy binding. They lack in control of input-output prices. Since the entire market is within the domain of PSEs, therefore, there is a serious mismatch of profit maximization goal and wealth maximization goals almost ceased to exists. Further, there is a lack of responsibility accounting which diminishes the identification of loss as well as profit making leaders. The cost-effectiveness becomes meaningless for the PSEs functioning in the regulated mechanism. The demand and supply gap, supply, and cost of input lead to inefficiency, which later on becomes a mammoth task for making PSEs financially viable.

(Narain, 1990) Has evaluated the performance of the organization; it has been judged in the light of its objectives. Unfortunately, there is no clarity about the objectives of government companies in India. Many of the objectives are vague, difficult to quantify, and, to an extent, conflicting with each other. In fact, the economic and non-economic objectives have got so inextricably mixed up in the case of public enterprises that it is not easy to judge their overall performance. A public enterprise may be located at an economically unviable place in the backward region and may adopt a technology with high employment potential which may be economically unsuitable. In the face of these constraints, its performance in financial terms (analyzed with reference to their gross profits, operating profits, and net profits) may not be up to the mark.

(Ghuman, 1999) Focused PSEs importance and their precarious role in the Economic development of India. The concept of their inception was the development of the country on all fronts through the support of PSEs which will be under huge investments. The PSEs before 1991 have played an instrumental role in the overall economic wellbeing of the country indicating healthy financial results and augmenting the national income with capital formation. Even after the dilution of equity after 1991 certain PSEs have performed even better than a pre-liberalization period. All the financial ratios have shown tremendous improvement and some of the enterprises have done remarkably well. The self-reliance and self-sustainability have forced them to improve in all aspects mandatory for their sustainable growth and long-time stability. The reduction of government's budgetary support has proved to be medicine for select PSEs. The PSEs have somehow able to learn to generate their own resources with optimum capital gearing and fixed asset utilization.

(Souza, 1998) Examine performance changes in 17 national telecommunication companies that have gone for privatization during 1981 and 1994. They find convincing indication that profitability, output, operating efficiency, capital investment spending, and the number of access lines, and average salary per employee all increase significantly after privatization. Leverage declined significantly and employment declines insignificantly.

(Cuong, 2008) Reckon about the quacks in analyzing the privatization phenomena in the developing economies. They studied in context with the privatization process of Vietnam SOEs. The authors opined that using audited financial data of post and pre-privatisation may not give the real picture of benefits of the privatization rather show only material variation. Moreover, the impact of change could be reflected during the course of time. They also analyzed the financial parameters showed mixed results with respect to profitability, turnover and financial ratios as an outcome of the privatization process. The result suggested that the impact of privatization as a reform technique in developing economies may assist policy-makers and managers to target areas of likely risk, during the process of transition from public to private ownership. They further emphasized that improved profitability could not be guaranteed by the privatization since the external forces of competitive market dynamism also play an influential role. Further, it becomes very difficult to maintain the margin of profit in the wake of limiting factors such as technological obsolescence, cost reduction, limited market potential, and scarce financial resources. This all may lead to external funding mainly fixed charge source of finance increasing financial leverage in order to overcome the above-mentioned limitations. The results of the study suggested that in spite of so much limitation/apprehension the PSEs was found more robust at least after 3 years down the line after the realm of privatization.

(Jain, 2005) Take certain service and manufacturing PSEs in their study and analyze financial performance data during the period from 1991 to 2003. They used Return on Total Assets and Return on Capital Employed as measures for financial performance and conclude that profitability as measured by ROTA is better in case of service PSEs. (Sangeetha, 2005) Using regression analysis using 'autonomy' as dummy variable examines the impact of the signing of MoU by PSEs on their profitability.

(Jain, 2014) Analyzed the 209 non-financial central public sector enterprises (PSEs) for a time span of 20 years. The study focused on 18 ratios related to profitability, efficiency, liquidity, leverage, and productivity of capital for assessing the financial performance of PSEs post-self-obligations and disinvestment. The study recommended that MoU should be mandatory for all the PSEs (instead of the current practice of its being voluntary in nature). The authors further suggested that the policy makers should rethink the strategy of the disinvestment both process and proceeds.

The unassertive size of disinvestment is not at all effective according to the study. The role of government in the decision making of top-level management regarding the operational output of PSEs should be the bare minimum and only if required as a last option.

3. Results and Analysis

Table 1

Year	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
Total Net Income/ Revenue	548912	613706	734944	829873	970356	1102772	1309639	1272219	1470569	1824627
Capital Employed	417160	452336	504407	585484	661338	724009	792232	908007	1153947	1328027
Total Gross Turnover/ Revenue	572833	630704	744304	837295	964890	1096308	1271529	1244805	1498018	1841927
Networth	241846	291828	341595	397275	454134	518485	583144	652993	709505	766439
Interest	23921	23835	22869	23708	27481	32126	39300	39060	29724	41060
Overall NetProfit/Loss	32344	52943	64963	69536	81055	81274	83867	92203	92128	97513
Profit of Profit making CPSU	43316	61606	74432	76382	89581	91577	98488	108434	113944	125116
Loss of Loss making CPSU	10972	8522	9003	6845	8526	10303	14621	16231	21817	27602
Dividend	13769	15288	20718	22886	26819	28123	25501	33223	35700	42627
EBTIDA to Capital Employed	24.38	28.15	28.26	25.66	26.91	26.91	23.55	23.26	19.04	18.86
Net Profit to Turnover /Revenue	5.65	8.4	8.73	8.3	8.4	7.41	6.59	7.41	6.15	5.29
Net profit to Capital Employed	7.75	11.71	12.88	11.88	12.26	11.21	10.57	10.15	7.98	7.34
Dividend Payout Ratio	42.57	28.85	31.89	32.91	33.09	35.33	31.06	35.87	38.75	43.71

Source: Various Public Enterprises Surve

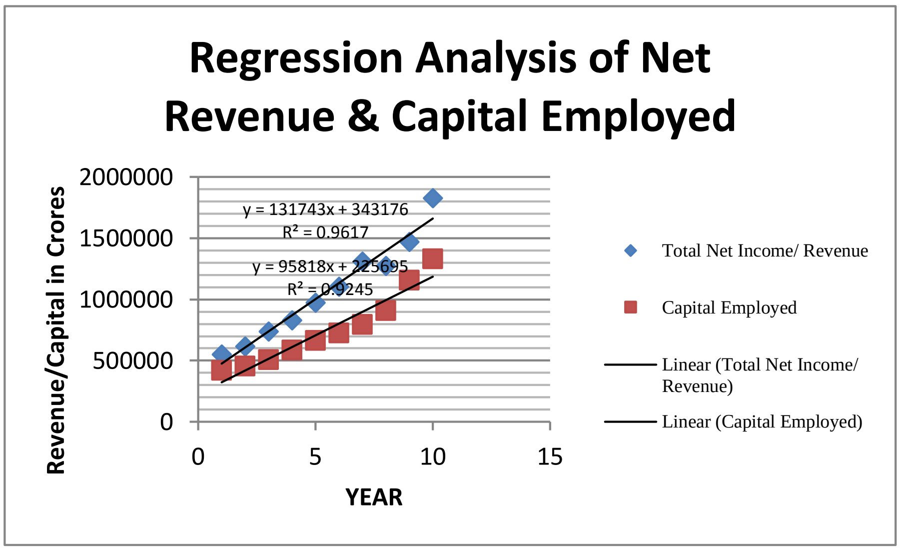

Figure 1

The above regression analysis shows a remarkable financial performance of PSE in two separate calculation of Total Net Income/Revenue and trend of capital employed. The R^2 value clearly indicated that almost each observation have fallen in line and indicates that there is 96.17% improvement in Total Net Income/Revenue and 92.45% improvement in capital employed. There has been the considerable impact of rigorous measure of self-obligation and re-ploughing back the disinvestment proceeds back for capital adequacy which is observed in the regression line of capital employed. Nonetheless the fact also remains that the majority of the disinvestment proceeds were utilized to reduce the financial burden of the country in bridging the fiscal deficit.

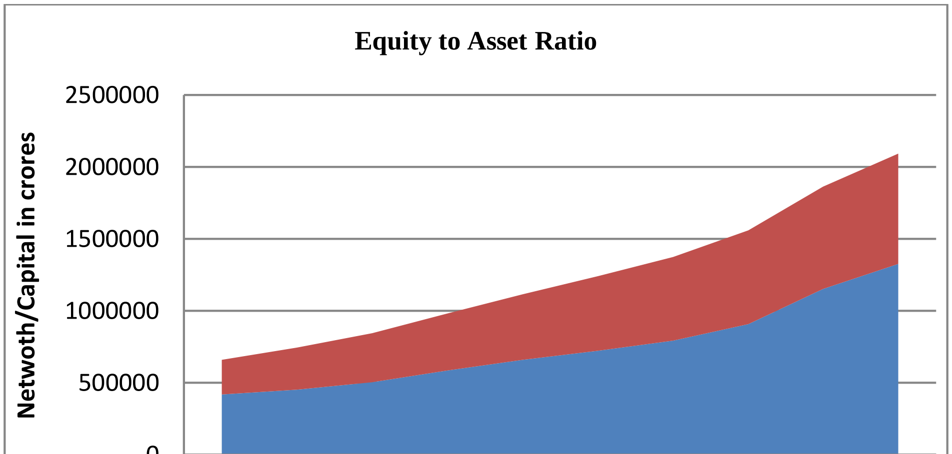

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Figure 2

The comparison of net worth and capital employed has registered a proportionate growth signifying the increase in reserve and surplus and paid-up capital. The increase in the capital employed year wises indicated increase in the capital base and change in the capital structure of PSEs.

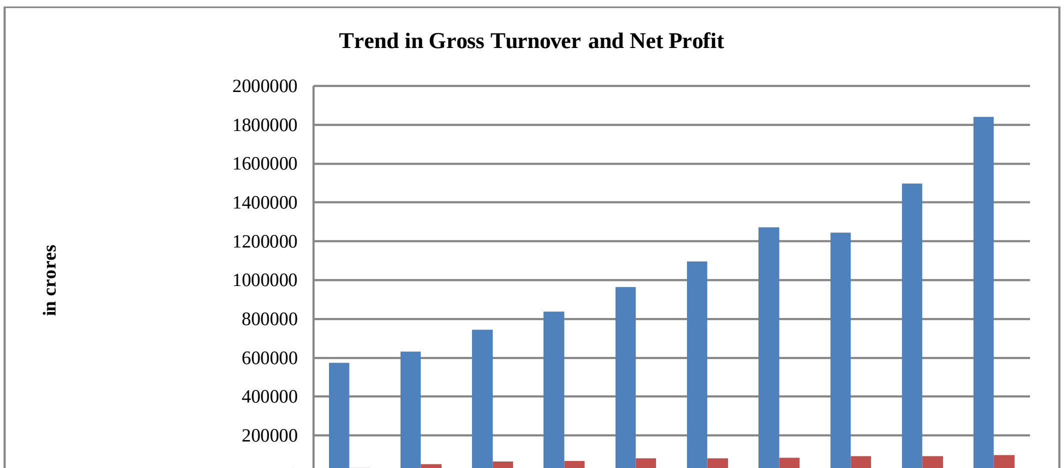

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Figure 3

The turnover of the PSEs has also registered a remarkable growth trend compared to the profitability. The PSEs operated well post disinvestment and sustain in the fair competitive environment. The sectors of different PSEs did well in spite of influence and major say of the government for political mileage. The self-obligation opted by the PSEs lead to adopting the sustainability factors relevant for the organization.

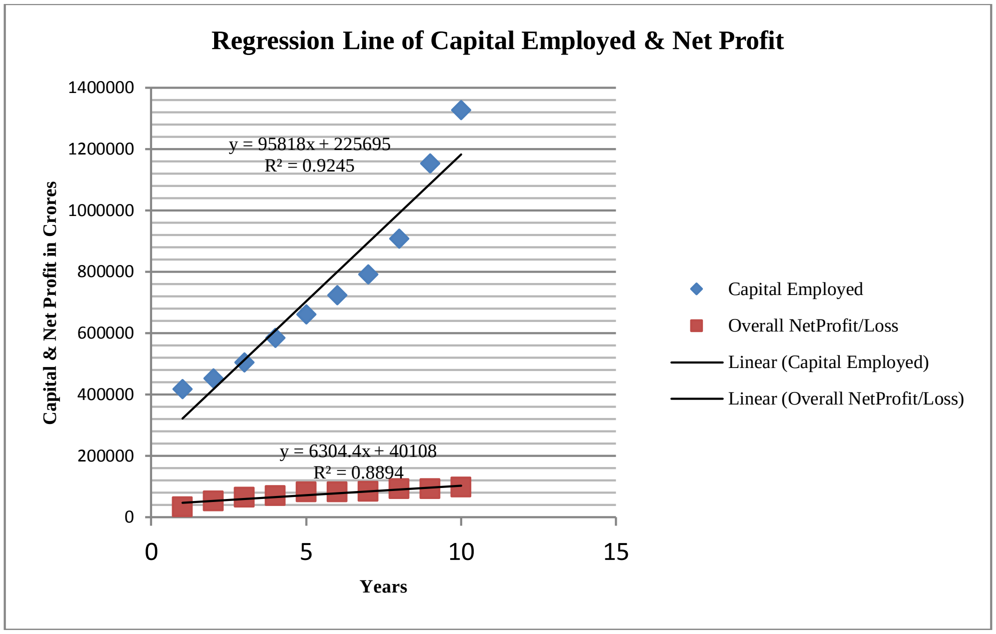
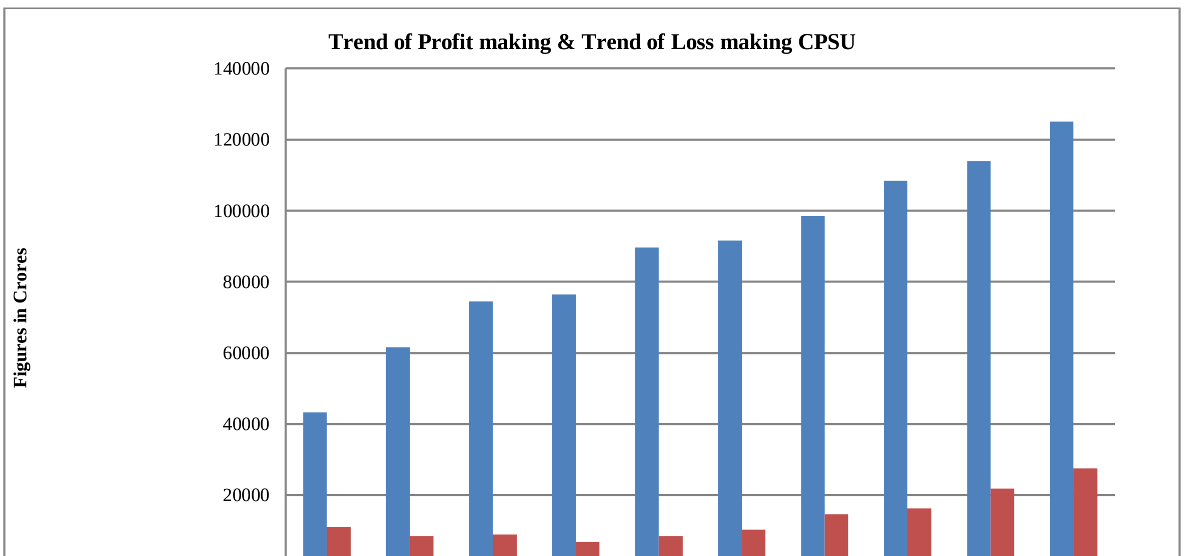


Figure 4

The above regression analysis shows a remarkable financial performance of PSE in two separate calculation of overall net profit/loss and trend of capital employed. The R^2 value clearly indicated that almost each observation have fallen in line and indicates that there is 95.82% improvement in overall net profit/loss and 92.45% improvement in capital employed. There has been the considerable impact of rigorous measure of self-obligation and re-ploughing back the disinvestment proceeds back for capital adequacy which is observed in the regression line of capital employed. Nonetheless the fact also remains that the majority of the disinvestment proceeds were utilized to reduce the financial burden of the country in bridging the fiscal deficit



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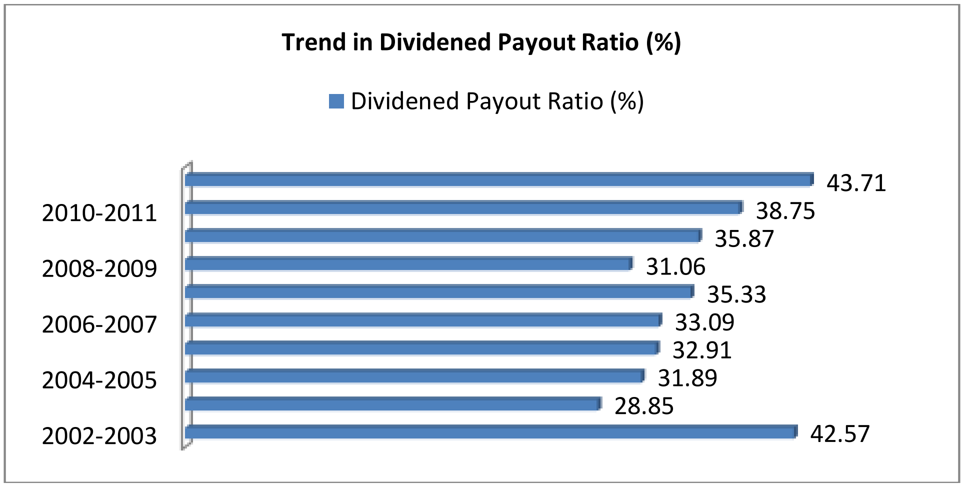

Figure 6

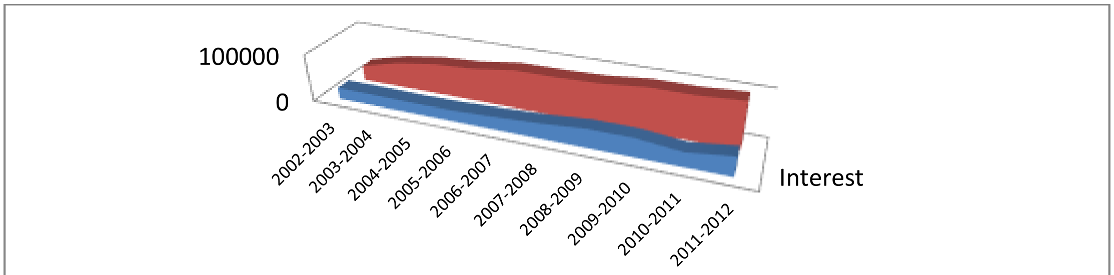

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Figure 7

The dividend payout ratio has increased to almost 44%. The interest on fixed charge has also increased which signifies that PSEs have increased their capital base by fixed charge source of finance also.

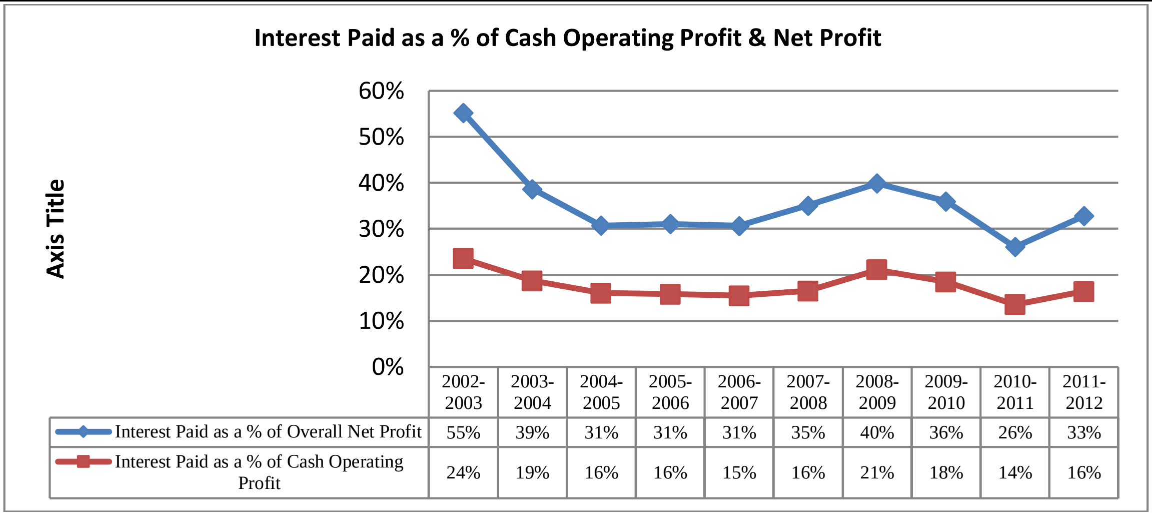

Figure 8

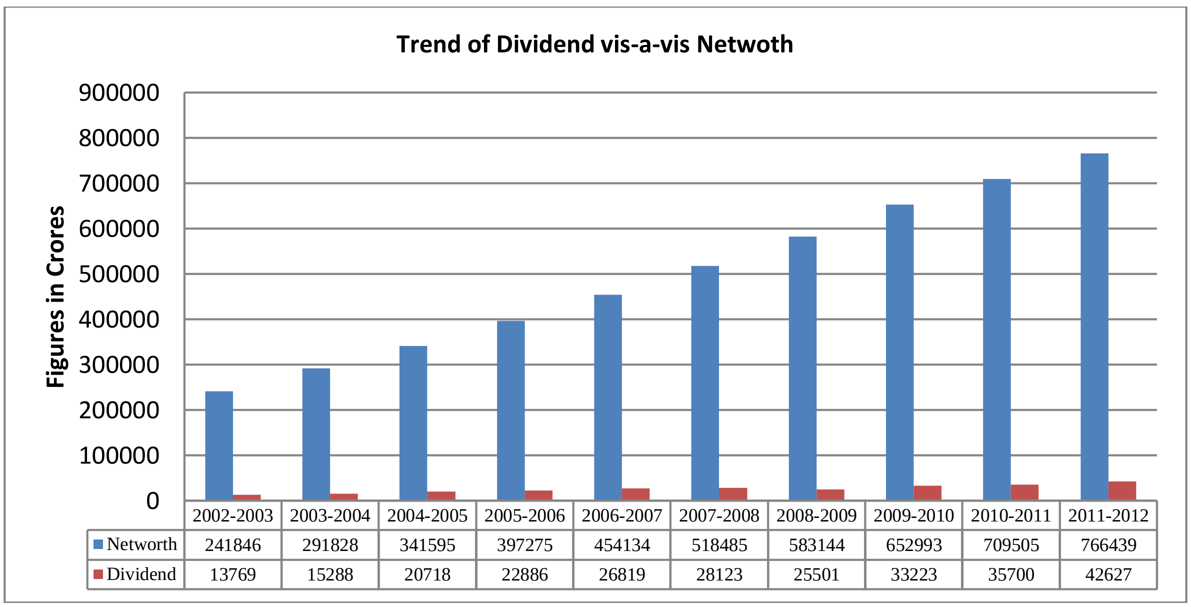

Figure 9

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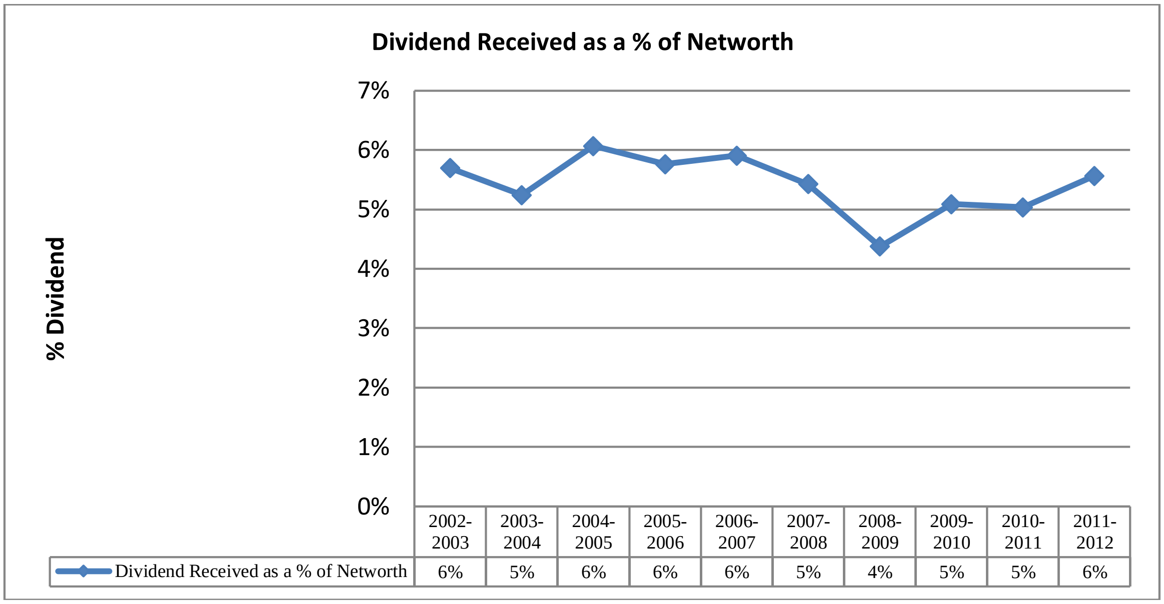

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
Dividend Received as a % of Networth	6%	5%	6%	6%	6%	5%	4%	5%	5%	6%

Figure 10

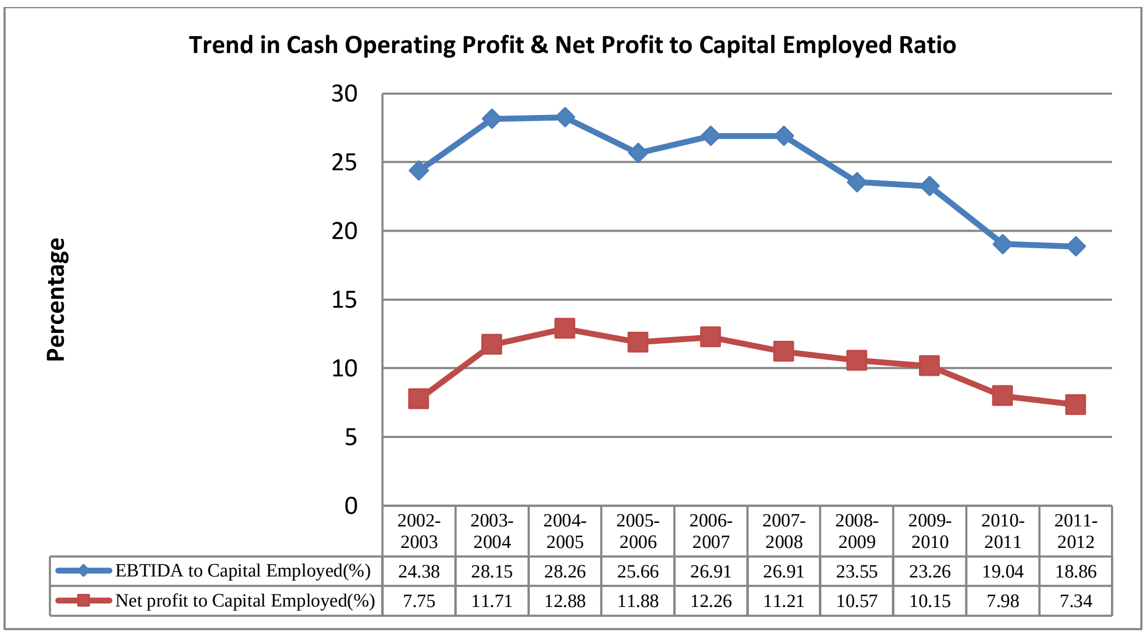

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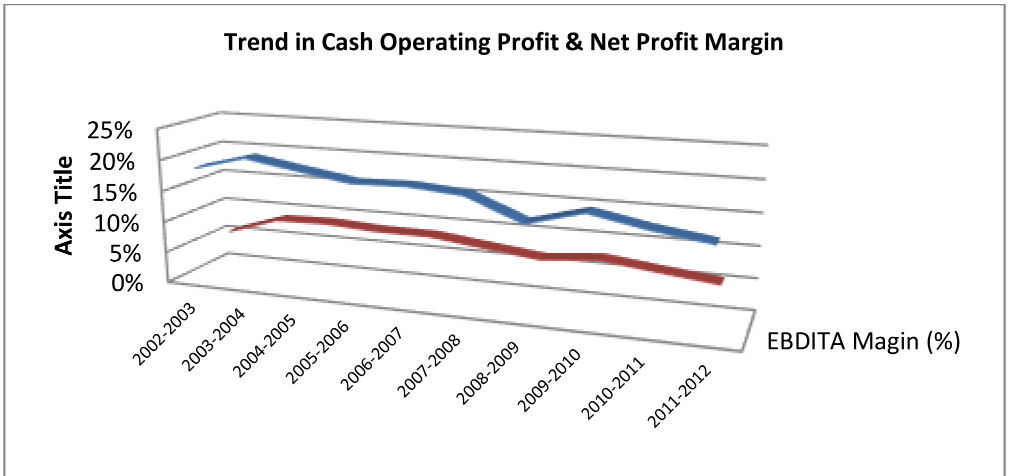
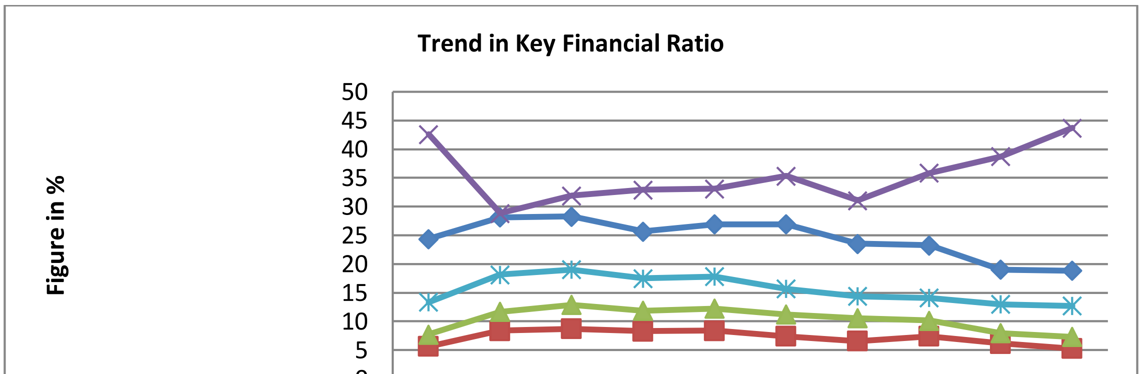
Figure 11



	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
EBDITA Margin (%)	19%	21%	19%	18%	18%	18%	14%	17%	15%	14%
Net Profit Margin (%)	6%	9%	9%	8%	8%	7%	6%	7%	6%	5%

Figure 12



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Dividened Payout Ratio (%)	42.57	28.85	31.89	32.91	33.09	35.33	31.06	35.87	38.75	43.71
Return on Equity(%)	13.37	18.14	19.02	17.50	17.85	15.68	14.38	14.12	12.98	12.72

Figure 13

4. Conclusion

The financial performances and profitability in almost each and every parameter as indicated by the figures above of disinvested PSEs is several times higher. There has been an improvement in assets turnover, productivity of capital and liquidity position considering the R2 value, which signifies better-operating efficiency in utilization of resources, productivity, and liquidity of disinvested PSEs if compared to non-disinvested companies. In addition to above the

PSEs were able to sustain the global shocks and recession after pro-market reforms. The findings of the analysis imply that the disinvestment policy focused more meeting fiscal deficit with targeted amount declared in the budget which was quite erratic due to market behavior but somehow the financial performances of PSEs were not misdirected which signify the internal operational efficiency and professionalism adopted by the Management of PSEs.

Conflict of interest statement and funding sources
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Statement of authorship
The author(s) have a responsibility for the conception and design of the study. The author(s) have approved the final article.

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