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A study on Financial Performance Pre and Post Disinvestment Period – An Empirical Analysis

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ABSTRACT

Public sector enterprises have been set up to serve the broad macroeconomic 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. The CPSEs play a critical role in the Indian economy. They influence the growth in the economy and are affected by the overall growth in the economy. Public sector undertakings have laid a strong foundation for the industrial development of the country. However, the Government of India has initiated the disinvestment process in ONGC during the year 2011-12. As such, it is proposed in this paper to analyse the operating and financial performance of the company during the pre and post disinvestment period.

Keywords: Dis-Investment; Public Sector Enterprises; Operating Performance; Financial Performance

I. INTRODUCTION

Public Sector Enterprises (PSEs) have been playing a dominant and unique role in industrial growth and development of Indian Economy. PSEs were established to dismantle the accumulated problems of unemployment, disparities of rural- urban, inter- regional and inter class disparities, technological backwardness and to setup a socialistic pattern of society in the country. Public Enterprises have become the "Temples of Modern India". The Public Sector in India is composed of a number of segments. The first government itself, the central government, state government and local governments, the second category is that of departmental enterprises which are run directly by government departments and are not separately incorporated.

Definition Of Disinvestment

The term Disinvestment is the opposite of the term 'Investment'. Investment is acquisition of earning asset with the help of money. For example if bonds are purchased or shares of companies are purchased by spending money it is known as investment. In the case of investment money is converted into earning asset to earn income. On the other hand in the case of disinvestment an earning asset is converted into liquid cash. Here we shall use the term disinvestment in a special sense. By disinvestment we mean the sale of shares of public sector undertakings by the government. If these shares are sold to get cash, then earning assets are converted into cash, hence, it is referred to as disinvestment. Disinvestment is a process whereby the Government withdraws a portion or the total of its equity in Public Sector Enterprises (PSEs). Disinvestment is actually dilution of the stake of the government in a public enterprise.

II. REVIEW OF LITERATURE

Vijayakumar and Jayachitra (2015) carried out a study to make a comparison between the pre and post disinvestment financial and operating performance of 12 CPSEs in India which were selected from 5 cognate groups belonging to the manufacturing sector, such as Fertilizer, Heavy Engineering, Medium and Light Engineering, Petroleum and Transportation Equipment. The study observed that the companies belongings to the Heavy engineering sector showed most significant improvement in majority of the performance indicators during the post disinvestment period while the performance of the companies in the Transportation Equipment was very far from satisfactory in the same period.

Singh and Paliwal (2010) examine the impact of disinvestment on the financial and operating performance of competitive and monopoly units of public sector enterprises that operating performance of competitive firms based on sales has shown decline in profitability but monopoly firms shows an improvement in their profitability during the post disinvestment and they suggested that disinvestment programmes should be so executed so as to encourage autonomy in management with accountability, broad based ownership and improved the competition.

Ravinder and Rupinder (2007) study compares the pre and post disinvestment financial and operational performance of 15 PSEs of India that experienced partial disinvestment during the period of 1991-92 to 2002. The empirical evidence supports the positive effects of privatization on PSEs performance. These privatized units have significantly improved the level of profitability, sales, operational efficiency, earnings per share and dividend payments after disinvestment.

III. OBJECTIVES OF THE STUDY

The following objectives have been visualized for the present study.

- To analyse the impact of disinvestment on the operating performance of ONGC Ltd.,
- To examine the impact of disinvestment on the financial performance of ONGC Ltd., in terms of financial strength and corporate liquidity.

Scope of the Study

In the present study an attempt has been made to examine the impact of disinvestment on the operating and financial performance of ONGC Ltd.,. This will throw light on whether the envisaged goal achieved.

Sources of Data

For the purpose of the analyses in the present study, the data has been collected from secondary source exclusively. Secondary data has been collected from ONGC published reports, articles and ONGC of Public Sector Enterprises websites.

Hypothesis

To achieve the objectives, the following hypotheses have been developed and tested by performing t-test:

- There is no significant impact of disinvestment on the operating performance.
- There is no significant impact of disinvestment on the financial performance.

IV. METHODOLOGY

The data drawn from various sources has been analyzed with the help of statistical tools and various accounting ratios. Accounting and Statistical tools like ratio analysis, mean, standard deviation, co-efficient of variation and t test are used to analyze the data.

Data Analysis

Arithmetic mean has been used to find out the average of various financial ratios of the selected Indian public sector enterprises. Standard deviation was used in order to find out the absolute dispersion in the various financial ratios, standard deviation has been applied on the data collected through various surveys of Public Sector Enterprises (PSEs). Co-efficient of variation has been used to study the fluctuation in various operating and financial ratios over the study period. T-test has been used to test the difference between the mean of financial and operating performance based on different ratios of ONGC Ltd., before and after disinvestment.

Operating Performance Of Ongc

The Disinvestment process in ONGC has been under taken by the Government of India in the year of 2011-12. For the purpose of analysis, the data relating to gross profit, net profit , manpower ratio, operating ratio, and excise duty ratio for the period of 3 years before disinvestment i.e. from 2008-09 to 2010-11 and 3 years after the disinvestment period i.e. from 2012-13 to 2014-15 is considered . The data pertaining to operating performance of ONGC during the pre and post disinvestment period of ONGC is presented in table 1.

Table No 1

Operating Performance Evaluation of ONGC during the Pre and Post Disinvestment Period

[Year of Disinvestment: 2011-12]

Ratios	Pre-Disinvestment Period			Post - Disinvestment Period			Distribution of Mean/SD/CV						T - Value
							Pre - Disinvestment Period			Post Disinvestment Period			
	2008 - 09	2009-10	2010-11	2012-13	2013-14	2014-15	Mean	SD	CV	Mean	SD	CV	
Gross Profit Ratio	29.37	34.70	35.46	30.28	30.65	25.57	33.17	2.70	8.16	28.83	2.31	8.02	0.16
Net Profit Ratio	25.36	27.95	27.69	25.21	26.34	21.40	27.00	1.16	4.32	24.31	2.11	8.70	0.19
Operating Cost Ratio	76.45	68.54	75	82.37	81.73	82.78	73.33	3.43	4.69	82.30	0.43	0.53	0.021
Manpower Ratio	1.40	1.85	1.91	2.34	2.31	2.05	1.71	0.23	13.24	2.23	0.13	5.94	0.05
Operating Profit Ratio	23.55	31.46	24.96	17.63	18.27	17.21	26.65	3.44	12.92	17.71	0.43	2.45	0.02
Excise Duty Ratio	0.55	0.36	0.45	0.37	0.37	0.27	0.46	0.08	16.58	0.34	0.05	14.16	0.13

Source: Compiled from Annual Reports of Public Sector Enterprises Survey

On examination of data analysis in table 1, it is observed that the gross profit ratio of the company found a mean of 33.17 per cent during the pre disinvestment period has been decreased to a mean of 28.83 per cent during the post disinvestment period. The mean of net profit ratio has also been decreased from 27.0 per cent to 24.31 per cent during post disinvestment period. However, the Net profit ratio stood at mean of 26.65 per cent during pre disinvestment has been declined to 17.71 per cent during post disinvestment period. It may be observed that the reason for decline in operating profit ratio may be because of increase of in manpower cost ratio which was shoot up from mean of 1.71 per cent to mean of 2.23 per cent.

However, it is observed that in spite of operating cost ratio increased from mean of 73.33 per cent to mean of 82.30 per cent, the excise duty ratio has also decreased from 0.46 to mean of 0.34 is gradual decreased. The operating profit ratio remains declined marginally due to increase in the cost per man power, and operating cost. Hence it is suggested that the company has to exercise manpower cost and operating to enable the management to increase the overall profitability.

Further, the data has been analyzed by exercising the t-test. The calculated t-value in respect of operating profit ratio, operating cost ratio at 0.02 and 0.021 respectively found significant.

Financial Performance of ONGC

Financial efficiency has been measured using its various parameters that include short term financial position ratios and long term financial position ratios have been used to evaluate the financial performance of ONGC. The results relating to efficiency and other parameters however have been discussed under the heading of evaluation of financial performance of the ONGC.

The Disinvestment process in ONGC has been under taken by the Government during the year 2011-12. The data relating to Debt Equity Ratio, Fixed Asset to Net Worth Ratio, Current Ratio, Liquid Ratio for the period of 3 years before disinvestment i.e. from 2008-09 to 2010-11 and 3 years after the disinvestment period i.e. from 2012-13 to 2014-15 has been considered for analysis.

The data pertaining to financial performance of ONGC during the pre and post disinvestment period of ONGC is presented in table 2.

Table No 2

Financial Performance Evaluation of ONGC during the Pre and Post Disinvestment Period

[Year of Disinvestment: 2011-12]

Ratios	Pre -Disinvestment Period			Post - Disinvestment Period			Distribution of Mean/SD/CV						T - Value
							Pre-Disinvestment Period			Post Disinvestment Period			
	2008-09	2009-10	2010-11	2012-13	2013-14	2014-15	Mean	SD	CV	Mean	SD	CV	
Current Ratio	1.79	1.87	1.35	1.75	1.56	1.57	1.67	0.23	13.52	1.63	0.09	5.23	0.83
Liquid Ratio	1.16	1.12	1.00	1.20	1.03	0.90	1.09	0.07	6.39	1.04	0.12	11.91	0.63
Debt Equity Ratio	0.57	0.51	0.52	0.43	0.46	0.44	0.53	0.02	4.87	0.44	0.01	3.23	0.01
Fixed Assets to Net worth Ratio	59.63	64.70	63.80	64.22	70.26	67.91	62.71	2.20	3.51	67.46	2.49	3.68	0.11

Source: Compiled from Annual Reports of Public Sector Enterprises Survey

The analyses of data in table 2 discloses that the current ratio was ranged between 1.35 and 1.87 during pre- disinvestment period and 1.56 and 1.75 during the post- disinvestment period. The mean of current ratio of the company accounted for 1.67 and 1.63 respectively during pre and post disinvestment period. The liquid ratio accounted for a minimum of 1.00 during 2010-11 and maximum of 1.16 in 2008-09 and recorded a mean of 1.09 during pre-disinvestment period. This ratio has been recorded with minimum of 0.90 during 2014-15 and maximum of 1.20 in 2012-13 with mean of 1.04 during post-disinvestment period.

The ratio of Fixed assets to net worth accounted for a minimum of 59.63 during the year 2008-09 and a maximum of 64.70 during 2009-10 with a mean of 62.71during pre disinvestment period, and during the period of post disinvestment, this ratio has been found decreased to mean of 67.46 with a minimum of 64.22 in 2012-13 and maximum of 70.26 in 2013-14.

The debt equity ratio of the company during pre-disinvestment is recorded with a minimum of 0.51 in 2009-10 and maximum of 0.57 in 2008-09 representing mean of 0.53, However during period of post-disinvestment the debt equity ratio recorded decrease at a mean 0.44 with a minimum of 0.43 in 2012-13 and maximum of 0.46 in 2013-14 during post disinvestment period.

The overall analysis financial performance of ONGC indicate that the mean of current ratio has been decreased from 1.67 to 1.63 during pre disinvestment period which is observed as an indication for poor level of liquidity position, as the ratio decreased in case of debt equity ratio from 0.53 to 0.44 during post disinvestment period.

Further the data have been analyzed the applying the t-test and it is statistically observed that t-test value in respect of debt equity ratio with 0.01is significant. However, t-value for Fixed Assets to net worth with 0.11, current ratio with 0.83 and liquid ratio with 0.63 were found statistically insignificant.

V. CONCLUSION

The operating performance of the ONGC has been decline during the post disinvestment period. The management of ONGC has also failed in the efficient utilization of their resources. Studying the financial strength of the ONGC reveals that the debt equity ratio has found a significant improvement in the mean score during the post disinvestment period.

ONGC Ltd. performed a little change in post disinvestment period as compared to pre disinvestment period on all the parameters of profitability, liquidity, and net worth. The disinvestment process of the government has not met with considerable success, but a lot of efforts to be used to improve the efficiency parameters. There should be more effort for the efficient utilization and management of their assets. In this way management of the ONGC can make effective check on the wastage of their resources. The policy makers need to understand that how resources should be allocated, and what kind of structural changes are affecting their economic development. There should be check on the excessive use of debt and outsider's funds should arrange the funds from their internal resources. To compete in this global market and improve their efficiency in financial control.

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