Disinvestment in India: An Analytical Study

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ABSTRACT:

Key Words: *Disinvestment, Public Sector, Profitability, Liquidity, Leverage*

Introduction

Public Sector has played an important role in the industrial and economic development of india especially in areas where private sector hesitates because of heavy capital requirements and risks invovved . Public Sector companies have provide defence armaments, are responsible for research & development of nuclear energy. And have been instrumental in development of vital industries of the economy steel, aluminum, copper, information technology, telephone industries, heavy industries, automobiles, ship manufacture and shipping transport, oil production & refining, petrochemicals, fertilizers, machine tools and several other items in the economic development of India. Public Sector has accelerated generation of financial resources for the development of the State. . It is the need of the hour to concentrate efforts on the enlargement of projects in the public sector in the critical areas of the economy, and not let this important sector waste its energies in consumer industries and other non critical areas of the economy

Research Methodology

A sample consisting of few major public sector industries was constituted and the following parameters were used to analyse their pre and post disinvestment performance

Profitability

A) **Return on Sales (ROS)**

i) PBDIT/Sales
(Profit before depreciation interest and tax)

ii) PAT/Sales Profit after tax/sales
Hypothesis to be tested
OS(A)>ROS(B)

Operating efficiency :

A) **Leverage**
Total Debts to Total Assets
Hypothesis to be tested
LEVA < LEVB

B) **Employment Leverage**
Total No. of Employees
Hypothesis to be tested
EMPL(A)<EMPL(B)

C) **Dividend Payout**
Cash Dividend/PAT
Hypothesis to be tested
PAYOUT(A)>PAYOUT(B)

D) **Liquidity**
Current Assets/ Current Liabilities
Hypothesis to be tested
LIQ(A)>LIQ(B)
A-After Disinvestment
B-Before Disinvestment

E) **Test of significance –**

The t test was applied to test the significance of variation in the pre and post divestment values of the above variables. The hypothesis is that there is no significant variation in their pre and post mean performance and operating efficiency. If the computed value of t is (at 5 percent level of significance for a given degree of freedom) is less than the table value of t our hypothesis is accepted.

Parameters and Hypothesis

Parameter	**Hypothesis**
PBDIT/Sales	ROS(A)>ROS(B)
PAT/Sales	ROS(A)>ROS(B)
Leverage	LEVA < LEVB
Employment Leverage	EMPL(A)<EMPL(B)
Dividend Payout	PAYOUT(A)>PAYOUT(B)
Liquidity	LIQ(A)>LIQ(B)

Rationale:

Disinvestment seemed the only option when heavy expenditure on unproductive items sucha s interest payment, wages and salaries left the government with almost no money to divert to priority areas also the debt burden was huge.

The primary objectives for privatizing the PSEs are, therefore, outlined by the Ministry of Disinvestment are as follows:

1. Releasing public resources locked up in non-strategic PSEs, for redeployment in high priority social areas such as basic health, family welfare, primary education and social and essential infrastructure;
2. Controlling further outflow of these scarce public resources for sustaining the unviable non-strategic PSEs;
3. Reducing the public debt before it is too huge to handle
4. Transferring the commercial risk to the private sector wherever the private sector is willing and able to step in
5. Releasing other tangible and intangible resources, such as, large manpower currently locked up in managing the PSEs, and their time and energy, for redeployment; in high priority social area

The other benefits expected to be derived from privatization are :

1) Introducing discipline in PSEs by reducing government interference, facilitate corporate governance and make them more efficient to survive on their own financial resources

2) Provide for wider distribution of wealth by offering shares to small investors

3) Give the capital market more depth and liquidity, give investors easier exit options, help in establishing more accurate benchmarks for valuation and pricing, and facilitate raising of funds by the privatised companies for their projects or expansion, in future.Thus increasing overall economic activity and tax revenues.

Has Disinvestment achieved the objectives desired?

Whether the disinvestment procedure has been successful or not can be gauged from the study of the achievement of its objectives. The broad objectives of disinvestment were fiscal, distributional and efficiency and can be gauged from the industrial Policy statement and budget statements.

t values for whole sample

Parameter	Mean before	Mean after	Change (after-before)	T value	Hypothesis Accepted/Rejected)
ROS					
PBDIT/Sales	1.043	1.528	-0.8902	-0.8628	A
PAT/Sales	0.242	0.022	-0.22	2.5724	R
Leverage (Debt/Assets)	2.59	0.5186	-2.0714	0.00422	A
Liquidity (CA/CL)	11.777	2.2064	-9.5713	0.9265	A
Dividend Payout	1.076	0.2456	-0.8304	0.39433	A

Concluding Remarks

The studies on Disinvestment of public sector undertakings have revealed the following conclusions:

i. There is no clear-cut framework or policy for disinvestment in India.
ii. The study of disinvestment has revealed that a very meager amount of disinvestment proceeds has been realized as against the target.

iii. The entire proceeds of disinvestment are been used to mitigate the gap fiscal deficit instead of using them for development of social sector & building infrastructure.
iv. The government has not been concentrating on the timing of disinvestment as a result most of the private sector investors are shying away form the process because of the unattractive offers made by the government.
v. There is no transparency in the entire process of disinvestment in India.
vi. The government has done a little or more so failed to attract foreign suitors for the disinvestment process in India.

Suggestions:

i. The government has to design a policy framework for the entire disinvestment process.
ii. The government should de-link the disinvestment process from the budgetary exercise.
iii. Government should stop setting up of the targets in every year annual budget and should have a long-term plan.
iv. A separate fund should be created for disinvestment and it should be kept under the control of president and the fund should be utilized for building infrastructure and developing the social sector.
v. Timing of disinvestment is crucial and the government should follow a specific method or process in order to reap more chunks.
vi. The entire exercise of disinvestment should be audited by not less than two reputed auditing firms in order to have a fair and transparent picture of the entire process.
vii. Finally, the government should have an 'Yearly Action Plan' which should spell out the activities carried out in that particular year and at the end of the year an 'Action Taken Report' has to be submitted

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