of new international airports at Hyderabad and Bangalore.

- Enhancing sector capacity and improving efficiencies through clear policy directive for greater private sector participation. Large parts of the NHDP and NMDP are to be executed through public private partnerships (PPP).

Reference:

1. http://mospi.nic.in/Mospi_New/upload/sss.html
2. http://www.tradechakra.com/indian-economy/service-sector/banking-finance/index.html
3. http://www.articlesbase.com/information-technology-articles/it-emergence-recent-trends-in-banking-industry-of-india-1981838.html
4. http://www.htrends.com/report-2652081-Indian_Insurance_Sector_Growth_and_Forecast.html
5. www.web.worldbank.org

CU Global Management Review
Volume 3, Issue 1, January-June 2014, pp. 58-77

Impact of Disinvestment on Financial Performance of Public Sector Undertaking

Pallavi Dawra
Associate Professor, PCTE
Ludhiana

Abstract

The objective of this paper is to assess the financial performance of disinvested central public sector enterprises(PSE's) in India on the basis of several dimensions on pre and post disinvestment bases of recent period(i.e from 2008-09 to 2011-12).Financial performance has been measured on the basis of profitability, efficiency, liquidity and productivity. The findings suggest that disinvestment has improved financial performance to some extent only. The performance of some PSE's has improved and some of them has not improved.

Introduction

For the first four decades after Independence, the country was pursuing a path of development in which the public sector was expected to be the engine of growth. However, the public sector overgrew itself and its shortcomings started manifesting in low capacity utilisation and low efficiency due to over manning, low work ethics, over capitalisation due to substantial time and cost over runs, inability to innovate, take quick and timely decisions, large interference in decision making process etc. Hence, a decision was taken in 1991 to follow the path of Disinvestment.

Period from 1991-92 - 2000-01

The change process in India began in the year 1991-92, with 31 selected PSUs disinvested for Rs.3,038 crore. In August 1996, the Disinvestment Commission, chaired by G V Ramakrishna was set up to advice, supervise, monitor and publicize gradual disinvestment of Indian PSUs. It submitted 13 reports covering recommendations on privatisation of 57 PSUs.Dr R.H.Patil subsequently took up the chairmanship of this Commission in July 2001.However, the Disinvestment Commission ceased to exist in May 2004.

The Department of Disinvestment was set up as a separate department in December, 1999 and was later renamed as Ministry of Disinvestment from September, 2001. From May, 2004, the Department of Disinvestment became one of the Departments under the Ministry of Finance.

Against an aggregate target of Rs. 54,300 crore to be raised from PSU disinvestment from 1991-92 to 2000-01, the Government managed to raise just Rs. 20,078.62 crore (less than half). Interestingly, the government was able to meet its annual target in only 3 (out of 10) years. In 1993-94, the proceeds from PSU disinvestment were nil over a target amount of Rs. 3,500 crore.

The reasons for such low proceeds from disinvestment against the actual target set were:

1. Unfavorable market conditions
2. Offers made by the government were not attractive for private sector investors
3. Lot of opposition on the valuation process
4. No clear-cut policy on disinvestment
5. Strong opposition from employee and trade unions
6. Lack of transparency in the process
7. Lack of political will

This was the period when disinvestment happened primarily by way of sale of minority stakes of the PSUs through domestic or international issue of shares in small tranches. The value realized through the sale of shares, even in blue chip companies like IOC, BPCL, HPCL, GAIL & VSNL, however, was low since the control still lay with the government.

Most of these offers of minority stakes during this period were picked up by the domestic financial institutions. Unit Trust of India was one such major institution.

Period from 2001-02 - 2003-04

This was the period when maximum number of disinvestments took place. These took the shape of either strategic sales (involving an effective transfer of control and management to a private entity) or an offer for sale to the public, with the government still retaining control of the management. Some of the companies which witnessed a strategic sale included:

- Bharat Aluminium Co.ltd.
- Hindustan Zinc ltd.
- HTL ltd.
- IBP Co.ltd.
- India Tourism Development Corp.ltd.(18 Hotel Properties)
- Indian Petrochemicals Corp.ltd.
- Lagan Jute Machinery Co.ltd.,
- The Maruti Suzuki India Ltd.
- Modern Food Industries (India) ltd.

The valuations realized by this route were found to be substantially higher than those from minority stake sales. During this period, against an aggregate target of Rs. 38,500 crore to be raised from PSU disinvestment, the Government managed to raise Rs. 21,163.68 crore.

Period from 2004-05 - 2008-09

The issue of PSU disinvestment remained a contentious issue through this period. As a result,

the disinvestment agenda stagnated during this period. In the 5 years from 2003-04 to 2008-09, the total receipts from disinvestments were only Rs. 8515.93 crore.

2009-10 onwards

A stable government and improved stock market conditions initially led to a renewed thrust on disinvestments. The Government started the process by selling minority stakes in listed and unlisted (profit-making) PSUs. This period saw disinvestments in companies such as NHPC Ltd., Oil India Ltd., NTPC Ltd., REC, NMDC, SJVN, EIL, CIL, MOIL, etc. through public offers.

However, from 2011 onwards, disinvestment activity has slowed down considerably. As against a target of Rs.40,000 crore for 2011-12, the Government was able to raise only Rs.14,000 crore.

KEY DISINVESTMENT CRITERIA

The considerations identified were:

* Increase in the efficiency of management.
* Reduction in the shortage of capital in the economy.
* Provision of capital increase.
* Acquisition of advanced techniques at the international level.
* Management and marketing experience.
* Acquisition of new market and preventing loss of markets.
* Recognition of the interest of foreign investors with particular regard to strategic (professional) investors.
* Promotion of acquisition of assets by employees and buy-out by managers.
* Support of acquisition of assets by domestic entrepreneurs particularly in the agriculture and food industry.
* Provision of appropriate policy for employment, competition, and environment

LITERATURE REVIEW

This section presents a brief of literature review based on national (Indian) and international experience. Omrane and Jeffrey (2011) examine a sample of 1866 privatizations from 37 countries and estimate the impact of disclosure standards and legal institutions that discipline auditors on the method chosen to divest state-owned enterprises. The agency conflict between minority and controlling shareholders can impede a government from privatizing by selling its stake to diffuse investors in the public capital market with a share-issue privatization (SIP) that typically generates important spillover economic benefits, rather than an asset sale to a small group of buyers. They find that SIPs become more likely when countries mandate strict disclosure standards, although result is sensitive to model specification. Investors value reforms that subject auditors to more severe private and public enforcement over several other legal determinants, including enhancing disclosure standards.

Trien and Jonathan (2010) suggest that both state ownership and debt have detrimental performance consequences in transition economies and the confluence of these two conditions may not be harmful. Their results confirm that while debt and state ownership each have a negative impact on firm performance when used in isolation, their interaction has a positive impact on firm performance.

Yan et al. (2010) address the question whether transparency matters among Chinese listed companies. They construct a comprehensive scorecard of 100 major Chinese listed companies and construct a Transparency Index (TI) to assess these companies during 2004–2007. It is found that market valuation is only related to 60 Financial performance of disinvested central PSEs in India… the Voluntary Disclosure Index; more profitable, overseas-listed and companies with a separate CEO and board chairman tend to disclose more on a voluntary basis.

Estrin et.al (2009) evaluate the effects of privatization from the experiences of post-communist (transition) economies. They distinguish the impact of privatization on efficiency, profitability, revenues and on other indicators. The effect of privatization is mostly positive in Central Europe, but quantitatively smaller than that to foreign owners and greater in the later than earlier transition period. In the Commonwealth of Independent States, privatization to foreign owners yields a positive or significant effect while privatization to domestic owners generates a negative or insignificant effect.

Arnold et.al. (2008) demonstrate a strong and significant empirical link between progress in services reform and productivity in manufacturing industries. They also investigate the relative contribution of reform in each of the service sectors to the productivity of manufacturing firms and find that liberalization in the banking and telecommunication sectors has the largest productivity effects on manufacturing firms over the period.

Eskil et al (2008) examine the differences in performance between private companies (POEs) and state owned enterprises (SOEs). They use a comprehensive panel covering all registered companies during the 1990s in Norway, a country where SOEs play an important role in regular markets. Return on assets as well as costs relative to sales revenue are used as measures of performance in markets where SOEs and POEs compete with each other.

Overall, POEs perform significantly better than SOEs. The study tests the hypothesis that SOE managers may learn from POE managers in environments with stronger competition, but finds only weak empirical support for such a learning mechanism.

Vadlamannati (2007) empirical results show that the correlation of disinvestment and privatization (in India) in relation to deficit variables is very feeble and weak in view of the very small sized and slow paced disinvestment and privatization program.

Gloria (2007) explains a field study and form an agency perspective, how monitoring and

incentive alignment mechanisms change to support the interests of a privatized firm's new ownership. In this case, privatization led to important changes in the board of directors and to more formal performance evaluation and compensation systems for top managers; as profitability and financial control gained relevancy with the firm ownership change. He shows that the differences in incentives management before and after privatization are due to different agency relations in the two periods and privatization framework the relation between monitoring and incentive alignment mechanisms is complex, not simply substitutive as agency theory.

Michael (2007) find that ownership concentration, the presence of foreign shareholders, the percentage of tradable shares, the type of dominant shareholder, the supervisory board and independent directors affect the earnings response coefficients and discretionary accruals.

Patnaik (2006) argues that the main rationale for disinvestment is to increase the efficiency in utilization of resources (labour and capital) of the economy. The study shows that even partial privatization, with the government retaining control, has yielded improved productivity. Disinvestment of profit-making enterprises by public offering of shares is desirable as it leads to dispersed shareholding and avoids concentration of economic power.

Michael (2006) enumerates in his results that chairman turnover is related to a firm's profitability but not to its stock returns. Turnover-performance sensitivity is higher if legal entities are major shareholders but the proportion of nonexecutive directors perversely affects it. He finds no evidence that profitability improves after a change in chairman and suggests that a firm's governance structure is ineffective as it is unable to recruit suitable replacements that can turn around its financial performance.

Mark and David (2006) examine the complexities involved in the liberalization process and distinguish liberalization policies that generally are precompetitive from corresponding anticompetitive liberalization policies.

Nagaraj (2005) opines that disinvestment is unlikely to affect economic performance since the state continues to be the dominant shareholder, whose conduct is unlikely to be influenced by share prices movements (or return on equity). Privatization can be expected to influence economic outcome provided the firm operates in a competitive environment; if not, it would be difficult to attribute changes in performance solely or mainly to the change in ownership.

Gupta and Kaur (2004) indicate that there should be closure and winding up of terminally sick PSEs and selling of their assets. Such terminally sick PSEs are mostly restricted to those which were earlier taken over from the private sector as sick units, and became a major contributory factor for the overall unsatisfactory performance of the public enterprises.

Rozelle and Johan (2004) analyze the linkages between the reform strategies in transition

countries and economic performance; they document post-reform performance in the transition countries of Asia and Europe.

Mike et al (2004) have used Chinese firms of different ownership types and suggest that ownership type can be a parsimonious and important variable that managers use to cognitively classify firms into different strategic groups. They find that state-owned enterprises (SOEs) and privately-owned enterprises (POEs) tend to adopt defender and prospector strategies, respectively, while collectively owned enterprises (COEs) and foreign-invested enterprises (FIEs) exhibit an analyzer orientation that falls between defenders and prospectors on the strategy continuum.

Ray and Maharana (2002) have attempted to examine the progress of the process of PSEs disinvestment in India during the decade of 1991 to 2001. In terms of action to the PSEs disinvestment, very little has actually materialized. They suggest that the controversies and criticisms against disinvestment can be largely avoided through a transparent process.

Asian Development Bank, ADB, (2001) describes that privatization is a process for change of ownership and control. It indicates that for successful privatization, it is essential to define the roles and powers of participants and ensure that legal, regulatory and enforcement mechanisms precede divestment. A cautious approach is dominant and tends to undermine the effectiveness of privatization.

Naik (2001) has discussed about the hurdles that existed between plans drawn up and the actual achievement in the process of reforms pertaining to privatization of PSEs since 1991. He is of the opinion that the process of reforms has not moved beyond the limited divestment of equity in select profit-making public sector undertakings (PSUs).

Megginson and Netter (2001) review the history of privatization, the theoretical and empirical evidence on the relative performance of state owned and privately owned firms, the types of privatization, the degree of privatization in non-transition and transition countries and the impact of privatization on the development of capital markets and corporate governance. They suggest that privatized firms become more efficient, more profitable, financially healthier and reward investors.

Megginson et. al. (1994); Boubakri and Cosset (1998); D'Souza and Megginson (1999), (the three studies) collectively examine 211 companies from 42 countries and 50 different industries. Of these firms, 103 are from 26 developing countries and the remaining 108 from 16 industrialized nations. All the four studies yield consistent findings regarding increase in profitability, efficiency, output, leverage and dividend payments after privatization.

LaPorta and Lopez-De-Silanes (1998) have covered 218 firms in 26 different sectors, privatized between 1983 and 1991. They found that profitability, measured by the ratio of

operating income to sales, increased by 24 percentage points. The authors have bifurcated the gains into three components: increase in prices, reduction in workers and productivity gains. They found that 57% of the gains were on account of enhanced productivity. The authors also compared competitive and non-competitive markets and found that the former had higher gains in profitability than the latter.

In the other study, Galal et.al. (1994) analyze the post-privatization performance of twelve companies in Chile, Malaysia, Mexico and UK to determine whether the transfer of ownership has increased efficiency. The authors document net welfare gains in eleven of the twelve cases. According to them, it is unfair to hold privatization accountable for all the problems of transition. In terms of financial performance, improvement in profitability, real sales, sales efficiency and dividend payout has been recorded. Leverage ratios have also shown decline.

Takano (1992) studies the privatization of Nippon Telegraph and Telephone (NTT) and has opined that the privatized NTT lowered non-operating expenses in terms of a substantial reduction in interest costs.

Sankar and Mishra (1994) contend that the divestment of PSEs shareholdings is an economic necessity. At a time when the country was on the brink of economic disaster and facing the threat of being declared insolvent by the external economic community, the Government of India rightly swung into action to initiate the divestment of shareholdings of PSEs; they pointed out that the government failed to realize not only the best value but also the other objectives of the divestment program.

Dewatripont and Roland (1993) argue that gradual resolution of uncertainty enhances the *ex-ante* feasibility of gradual privatization programs with the option to reverse reform at a low cost. They provide insights regarding the conditions under which rapid and gradual privatization dynamics respectively are optimal.

Kumar (1992) suggests that direct sale through competitive bidding is preferable as it allows high degree of transparency, comparison of offers by competing bidders and selects the buyer based not only on highest purchase price but also on the greatest compliance with various government requirements and privatization objectives. One of the principal advantages of private sale of shares is that the prospective owner is known in advance and can be evaluated on the
basis of his ability to bring in benefits such as management, technology, market access etc.

De Fraja and Delbono (1989) show that welfare may be higher when a public firm is profit-maximizer rather than welfare-maximizer and suggest that full privatization is not optimal.

Boardman and Vining (1989) classify fifty-five research results during thirty years' time span (1956 to1987) into three categories (6, 16 and 33), based upon the relationship

between ownership and performance. The first six empirical results, including Bruggink (1982); Neuberg (1977); Hirsch (1965); Pier et.al. (1974) support that public corporations are more efficient than private firms. The second sixteen empirical studies, including Becker and Sloan (1985) and Caves and Christensen (1980) indicate that no performance difference can be found between the two types of ownership. The last thirty-three research works, including De Alessi (1974); McGuire and VanCott (1984); Schlesinger and Dorwart (1984) empirically confirm the economic assertion.

Sankar and Reddy (1989) have presented the decision of divestment into a matrix form and have stated that state owned enterprises (SOEs) are considered high or low on three factors, namely, social purpose, profitability and resource mobilization. According to their model, SOEs operating in competitive markets having low social purpose and also low resource mobilization are most suitable candidates for disinvestment.

Mishra and Nandagopal (1989) discuss the feasibility of the privatization of PSEs; their turnover test ranked the nationalized industries in terms of the business performance and they advocated that privatization of the industries could maximize consumer welfare. Brittan (1986) lists five possible aims in the denationalization of public sector industry, *viz.* i) improvement of economic performance of the industries concerned, ii) resolving the difficulties of relations between government and nationalized industries, iii) revenue raising, iv) reduction of the power of the public sector unions and v) the promotion of a popular capitalism through wider share ownership. He further states that the management of nationalized industries will oppose more competition, either in the form of breaking-up existing structures or introducing a more liberal regulatory regime.

Need of study

The following study needs to be done to assess whether disinvestment has improved financial performance of public sector enterprises or not. Whether decision of government of selling stake to private players is right or not.

Scope of the study

The study would cover the pattern of disinvestment in all those public sector undertakings where disinvestment has been done recently. All those companies which are disinvested after year 2008-09 are taken for study. The period has been divided into categories pre disinvestment period and post disinvestment period.

Title of the study

Impact Of Disinvestment On Financial Performance Of Selected Public Sector Undertakings

Objectives of the study

1) To study the impact of disinvestment on liquidity position of the company
2) To study the impact of disinvestment on profitability of company

Research Methodology

Sample Size

The sample size is 10 PSU's where disinvestment has taken place after the year 2008-09.

Sampling Technique

Judgement (Non-probability sampling)

4.4 Analysis Of Data

The data will be analyzed with the help of various profitability, liquidity, productivity and efficiency parameters. These parameters before and after disinvestment will be analysed.

4.5 Limitations Of Study

1. In this study only those companies are taken where disinvestment has recently taken place. So, overall judgement cannot be made on the basis of few companies only.
2. Only secondary data is used for analyzing the financial performance of companies

Analysis of Financial Performance of Shipping Corporation of India After Disinvestment

The Shipping Corporation of India was established on October 2nd, 1961, by the amalgamation of Eastern Shipping Corporation and Western Shipping Corporation. In view of the demand from Indian trade, the SCI has diversified into a large number of areas. The SCI is today the only Indian shipping Company operating: break-bulk services, international container services, liquid/dry bulk services, offshore services, passenger services. In addition, the SCI and manages a large number of vessels mans on behalf of various government departments and organizations.

The SCI has immensely contributed to the growth of India's EXIM trade and the national exchequer, by being a net earner/saver of valuable foreign exchange. Over the years, SCI has been a lifeline for the country in times of emergency and distress, by ensuring continued and uninterrupted supply of crude oil, which drives the country's economy.

Continued profitability of the SCI is been due to a slew of innovative and timely strategies and measures adopted by the SCI management. Amongst these include, inter alia, judicious and optimal utilization of available tonnage, by deploying it in the most remunerative sectors; commencement of new services in niche markets; identification and expeditious disposal of value destroyers or non-performing assets; forging alliances with leading market players to enhance cargo; availability and apportioning of expenses; and administrative cost cutting.

Shipping Corporation of India was disinvested in year 2010. Its 9.09% stake was disinvested.

The impact of disinvestment on financial performance is analyzed as follows:

Table 5.1

Financials: Standalone						
	2012	2011	2010		2009	2008
Share Capital (Rs.Crore)	465.80	465.80	423.45	POST-DISINVESTMENT	423.45	282.30
Net worth(Rs. Crore)	6734.32	7168.13	6337.00		6208.45	5632.10
Revenues(Rs. Crore)	3867.55	3543.42	3463.12		4166.64	3726.84
PBIDT(Rs. Crore)	623.00	1470.77	1235.90		1942.17	1682.71
PAT(Rs. Crore)	-428.21	567.35	376.91		940.67	813.90
Dividend%	0.00	55.00	50.00		65.00	85.00
EPS(Rs.)	-9.19	12.18	8.90		22.21	28.83
Debt-Equity Ratio	0.82	0.66	0.43		0.40	0.26
Interest Coverage Ratio	0.04	13.47	15.03		23.61	21.90
RONW %	-6.35	7.91	5.94		15.15	14.45
PBIDTM %	-13.10	17.30	14.56		27.67	27.73
PATM%	-9.58	15.08	10.15		21.09	20.47

HIGHLIGHTS OF FINANCIAL PERFORMANCE OF SCI

- The financial performance of SCI has been adversely affected due to adverse freight markets after disinvestment.
- There has been increase in gross earnings of the company due to induction of 10 new vessels during the year even though freight rates were depressed. However the same has been offset primarily by an increase in fuel prices.
- Further the company has also reported finance cost of Rs 387.30 crore which includes Rs 296.73 crore on account of exchange loss arising out of revaluation of foreign currency loans as a result of depreciation of Indian rupee against U.S dollar.
- Company's net profits have been continuously decreasing after disinvestment. In year 2012 company incurred losses of 428 crores. Its EPS, PBIDTM and PATM all are showing negative values post-disinvestment period.

NALYSIS OF FINANCIAL PERFORMANCE OF COAL INDIA LIMITED

Coal India Limited (CIL) as an organized state owned coal mining corporate came into being in November 1975 with the government taking over private coal mines. With a modest production of 79 Million Tonnes (MTs) at the year of its inception CIL today is the single largest coal producer in the world. Operating through 81 mining areas CIL is an apex body with 7 wholly owned coal producing subsidiaries and 1 mine planning and consultancy company spread over 8 provincial states of India. CIL also fully owns a mining company in Mozambique christened

as 'Coal India Africana Limitada'. CIL also manages 200 other establishments like workshops, hospitals etc. Further, it also owns 26 technical & management training institutes and 102 Vocational Training Institutes Centres. Indian Institute of Coal Management (IICM) as a state-of-the-art Management Training 'Centre of Excellence' - the largest Corporate Training Institute in India - operates under CIL and conducts multi disciplinary management development programmes.

CIL having fulfilled the financial and other prerequisites was granted the **Maharatna** recognition in April 2011. It is a privileged status conferred by Government of India to select state owned enterprises in order to empower them to expand their operations and emerge as global giants.

Unmatched Strategic Relevance

- Produces around 81.1% of India's overall coal production
- In India where approximately 52% of primary commercial energy is coal dependent, CIL alone meets to the tune of 40% of primary commercial energy requirement
- Commands nearly 74% of the Indian coal market
- Feeds 82 out of 86 coal based thermal power plants in India
- Accounts for 76% of total thermal power generating capacity of the Utility sector
- Supplies coal at prices discounted to international prices
- Insulates Indian coal consumers against price volatility
- Makes the end user industry globally competitive

Coal India Limited was disinvested in year 2010. Its 10% stake was disinvested. The impact of disinvestment on financial performance is analyzed as follows: **Table 5.2**

Financials standalone						
	2012	2011		2010	2009	2008
Share Capital(Rs Crore)	6316.36	6316.36	POST DISINVESTMENT	6316.36	6316.36	6316.36
Net worth(Rs Crore)	19564.75	19437.38		17060.72	15237.22	13369.29
Revenues(Rs Crore)	486.56	468.81		449.21	318.89	273.01
PBIDT(Rs Crore)	8985.18	4948.52		4260.88	4133.45	3090.18
PAT(Rs Crore)	8065.10	4723.56		3779.92	3295.38	2453.80
Dividend%	100.00	39.00		35.00	27.00	27.00
EPS(Rs.)	12.77	7.48		5.98	5.22	388.48
Debt-Equity Ratio	0.06	0.07		0.09	0.12	0.11
Interest Coverage Ratio	23.71	24.48		11.59	9.11	7.06
RoNW %	41.22	24.30		22.15	21.62	18.35
PBIDTM %	-1.29	-1.70		-1.14	-3.44	-4.30
PATM%	84.73	85.35		79.59	71.76	71.24

Highlights of Financial Performance of CIL after Disinvestment

- There has been growth in all physical parameters after disinvestment. Production of raw coal has increased from 415 to 433 million tones after disinvestment.
- CIL has become largest profit-making, tax and dividend paying enterprise.
- CIL and its subsidiaries have achieved pre-tax profit of Rs 21272.66 crore in 2011-12 against pre-tax profit of Rs 16463.24 crore in 2010-11 registering growth of 29.21% over earlier year.
- Dividend of 100% declared in year 2012 as against 27% before disinvestment.
- There has been 147 ongoing projects with an ultimate capacity of 437.08 Mty, in different stages of implementation. During the terminal year of XI year plan, 85 ongoing projects contributed 211.39 Mt and 100 ongoing projects, are planned to contribute 333.87 Mt during the terminal year of XIIth five year plan i.e 2016-17.
- The company is declared as most valuable company in the country in terms of market-captilization. The company's value stood at Rs 2,51,296.

Analysis of Financial Performance of Power Grid Corporation

Power Grid Corporation of India limited (POWERGRID) was incorporated on October 23, 1989 with an authorized share capital of Rs **10,000** Crore as a Public Limited Company, wholly owned by the Government of India. POWERGRID started functioning on management basis with effect from August, 1991 and it took over transmission assets from NTPC, NHPC, NEEPCO and other Central/Joint Sector Organizations during 1992-93 in a phased manner. In addition to this, it also took over the operation of existing Regional Load Despatch Centers from CEA, in a phased manner, which have been upgraded with State of-the-art Unified Load Despatch and Communication (ULDC) schemes. According to its mandate, the Corporation, apart from providing transmission system for evacuation of central sector power, is also responsible for Establishment and Operation of Regional and National Power Grids to facilitate transfer of power within and across the Regions with Reliability, Security and Economy on sound commercial principles. Based on its performance POWERGRID was recognized as a Mini-ratna category-I Public Sector Undertaking in October 1998 and conferred the status of **"Navratna"** by the Government of India in May 2008. POWERGRID, as the Central Transmission Utility of the country, is playing a major role in Indian Power Sector and is also providing Open Access on its inter-State transmission system.

Power Grid Corporation was disinvested in year 2010. Its 9.09% stake was disinvested. The impact of disinvestment on financial performance is analyzed as follows: Table 5.3

Table 5.3

Financials Standalone						
	2012	2011		2010	2009	2008
Share Capital(Rs Crore)	4629.73	4629.73		4208.84	4208.84	4208.84
Net worth(Rs Crore)	23980.95	21209.34		15793.92	13533.98	13754.17
Revenues(Rs Crore)	10035.33	8388.70	POST DISINVESTMENT	7127.45	6579.81	4614.82
PBIDT(Rs Crore)	9132.06	7783.52		6394.93	6598.57	4718.92
PAT(Rs Crore)	3254.95	2696.89		2040.94	1690.61	1448.47
Dividend%	21.10	17.50		15.00	12.00	12.00
EPS(Rs.)	7.03	5.83		4.85	4.02	3.44
Debt-Equity Ratio	2.21	1.93		2.18	2.10	1.62
Interest Coverage Ratio	3.38	3.78		3.25	1.74	2.07
RoNW %	13.57	12.71		12.92	12.49	10.53
PBIDTM %	53.86	51.51		50.09	70.65	64.57
PATM%	30.18	29.24		26.77	23.87	28.49

Highlights of Financial Performance of Power Grid Corporation

- The company recorded an impressive financial performance after disinvestment achieving a turnover of Rs 10,785 and net profit of Rs 3,255 crore in year 2011-12.
- The credit rating agencies have assigned credit rating AAA (highest safety) and LAAA ratings for long term borrowings.
- The total dividend payout including dividend after tax accounts for 34.8% of profit after tax for company.
- Power Grid created infrastructure for electrification in 3402 villages against a target of 3100 villages, achievement of 110%.
- Six projects of power grid bagged the prestigious National Award for Meritorious performance by Government of India in year 2010-11.
- Power Grid was conferred with 'Power Line Award 2012' in category "Best Performing Transmission Company."

Analysis of Financial Performance of NTPC After Disinvestment

NTPC Limited (formerly **National Thermal Power Corporation**) is the largest Indian state-owned electric utilities company based in New Delhi, India. It is listed in Forbes Global 2000 for 2011 ranked at 348th in the world. It is an Indian public sector company listed on the Bombay Stock Exchange in which at present the Government of India holds 84.5% (after divestment of the stake by Indian government on 19 October 2009) of its equity. With an electric power generating capacity of 40,174 MW, NTPC has embarked on plans to become a 75,000 MW company by 2017. It was founded on 7 November 1975.

On May 21, 2010, NTPCL was conferred Maharatna status by the Union Government of India.

NTPC's core business is engineering, construction and operation of power generating plants and providing consultancy to power utilities in India and abroad. The total installed capacity of the company is 36,514 MW (including JVs) with 16 coal based and 7 gas based stations, located across the country. In addition under JVs (Joint Venture), 6 stations are coal-based, and another station uses naphtha/LNG as fuel. By 2017, the power generation portfolio is expected to have a diversified fuel mix with coal based capacity of around 27,535 MW, 3,955 MW through gas, 1,328 MW through Hydro generation, about 1400 MW from nuclear sources and around 1000 MW from Renewable Energy Sources. NTPC has adopted a multi-pronged growth strategy which includes capacity addition through green field projects, expansion of existing stations, joint ventures, subsidiaries and takeover of stations.

NTPC Limited was disinvested in year 2010. Its 5% stake was disinvested. The impact of disinvestment on financial performance is analyzed as follows:

Table 5.4

Financials Standalone						
	2012	2011		2010	2009	2008
Share Capital(Rs. Crore)	8245.46	8245.46		8245.50	8245.50	8245.50
Net worth(Rs. Crore)	73291.17	68384.12		63724.10	58994.90	54267.40
Revenues(Rs. Crore)	62480.88	55216.69		46623.60	42196.80	37302.40
PBIDT(Rs. Crore)	16840.92	15231.39		15338.90	13596.40	14660.60
PAT(Rs. Crore)	9223.73	9102.59		8728.20	8201.30	7414.80
Dividend%	40.00	38.00		38.00	36.00	35.00
EPS(Rs.)	11.19	11.04		10.59	9.95	8.99
Debt-Equity Ratio	0.65	0.63		0.59	0.59	0.50
Interest Coverage Ratio	8.02	10.65		12.18	11.91	10.28
RoNW %	12.58	13.31		13.69	13.90	13.66
PBIDTM %	16.88	17.69		19.87	18.06	23.44
PATM%	14.22	15.85		17.72	18.11	18.51

POST DISINVESTMENT

HIGHLIGHTS OF FINANCIAL PERFORMANCE OF NTPC LIMITED

- The performance of the Company over the past 10 years has not been very impressive.
- The company has registered good growth rates in its Net Sales from FY05, but the same has not been reflected in the EPS Growth rate, primarily because of high tax payments.
- Over the past 5 years, Sales of NTPC has grown at a CAGR of 15.47% whereas its EPS has grown at a CAGR of just 6.98%
- The Debt-to-Net profit ratio for FY11 is 4.85 and it has been above 3 for most of the years as the Company continuously requires debt for increasing its generation capacity

- The Debt-to-Net profit ratio is expected to remain high considering the Company's Plans of expanding its capacity to 75000 MW (more than double of current capacity) by 2017.

Analysis of Financial Performance of Moil

A Miniratna PSU was originally set up in the year 1896 as Central Province Prospecting Syndicate which was later renamed as Central Provinces Manganese Ore Company Limited (CPMO), a British Company incorporated in the UK. In 1962, as a result of an agreement between the Government of India and CPMO, the assets of the latter were taken over by the Government and MOIL was formed with 51% capital held between the Govt. of India and the State Governments of Maharashtra and Madhya Pradesh and the balance 49% by CPMO. It was in 1977, the balance 49% shareholding was acquired from CPMO and MOIL became a 100% Government Company under the administrative control of the Ministry of Steel.

At present, MOIL operates 10 mines, six located in the Nagpur and Bhandara districts of Maharashtra and four in the Balaghat district of Madhya Pradesh. All these mines are about a century old. Except 3, rest of the mines are worked through underground method. The Balaghat Mine is the largest mine of the Company. The mine has now reached a mining depth of 309 meters from the surface. Dongri Buzurg Mine located in the Bhandara district of Maharashtra is an opencast mine that produces manganese dioxide ore used by dry battery industry. This ore in the form of manganous oxide is used as micro-nutrient for cattle feed and fertilizers. MOIL fulfills about 50% of the total requirement of dioxide ore in India. At present, the annual production is around 1,093,363 tonnes which is expected to grow in the coming years. MOIL has set up Ferro Manganese Plant (10,000 TPY) and Electrolytic Manganese Dioxide (EMD) Plant (1000 TPY) as per its diversification plan for value addition to manganese ore. MOIL has also set up a Captive Power Plant and is further considering, expanding the capacity of ferro manganese plant and setting up a new Silico Manganese Plant by means of joint ventures entered into with Rashtriya Ispat Nigam Limited and Steel Authority of India Limited.

MOIL was disinvested in tear 2010. Its 20% stake was disinvested. The impact of disinvestment on its financial performance is as follows:

Table 5.5

Financials Standalone						
	2012	2011		2010	2009	2008
Share Capital(Rs Crore)	168	168		168	28	28
Net worth(Rs Crore)	2441.31	2128.29		1677.37	1320.87	812.68
Revenues(Rs Crore)	905.69	1146.06		971.83	1296.39	983.56
PBIDT(Rs Crore)	635.55	911.23		733.47	1031.30	757.27
PAT(Rs Crore)	410.77	588.06		466.35	663.79	479.82
Dividend%	50.00	70.00		56.00	475.00	345.00
EPS(Rs.)	24.45	35.00		27.76	2370.69	1713.63
Debt-Equity Ratio	-----	-----		----	----	----
Interest Coverage Ratio	-----	-----		490.73	----	----

POST DISINVESTMENT

Table 5.5

Financials Standalone						
	2012	2011	POST DISINVESTMENT	2010	2009	2008
RoNW %	18.00	30.9		31.1	62.2	75.3
PBIDTM %	70.3	79.7		75.4	80.3	77.2
PATM%	37.27	45.80		42.46	47.24	47.25

Highlights of Financial Performance of Moil

- MOIL has reported a year-on-year fall in PAT, EBITDA & top line (Net Sales) by 19%, 32% & 5% respectively after disinvestment. Mn ore prices have fallen by ~42-43% in Fy11.
- There was a decline in realizations due to price cut and extraction of low grade of ore. Product Mix is expected to remain tilted towards low grade of ore in next year as well.
- RoNW , EPS have fallen considerably after disinvestment.
- Increase in availability of Mn ore combined with subdued steel consumption has put pressure on the Mn ore prices. So it is facing tough times

Analysis of Financial Position of Engineers India Limited

Engineers India Limited (**EIL**) is a public-sector undertaking of the Government of India under the Ministry of Petroleum and Natural Gas. It was initially set up in 1965 to provide engineering and related technical services for petroleum refineries and other industrial projects. The current Chairman & Managing Director of the company is A K Purwaha.

EIL has its Head Office at Bhikaji Cama Place New Delhi. Apart from this EIL also has:

- R&D Complex at Gurgaon
- A branch office at Mumbai;
- Regional offices at Kolkata, Chennai, Vadodara; and
- Inspection offices at all major equipment manufacturing locations in India. It also has overseas offices at London, Abu Dhabi and Malaysia.

EIL has two wholly owned subsidiaries, EIL Asia Pacific Sdn Bhd in Malaysia, and Certification Engineers International Ltd., to undertake independent certification, and third party inspection assignments.

Tata Projects Limited (TPL) and Engineers India Ltd (EIL) signed a Memorandum of Understanding (MoU) in July 2007 to incorporate a Joint Venture Company which would undertake Engineering, Procurement and Construction (EPC) projects in India and abroad.The Joint Venture Company named TEIL PROJECTS LIMITED was incorporated on 15 July 2008 in Delhi as a Public Limited Company. EIL has secured Consultancy Services Contract from Bharat Petroleum Corporation Ltd. (BPCL) for Integrated Refinery Expansion Project (IREP), Kochi at a fee of Rs. 720 crores on July 6, 2012.

Financials Standalone						
	2012	2011	POST DISINVESTMENT	2010	2009	2008
Share Capital(Rs Crore)	168.47	168.47		56.16	56.16	56.16
Net worth(Rs Crore)	1844.05	1442.12		1114.71	1375.34	1152.05
Revenues(Rs Crore)	3898.45	2652.64		1984.10	1531.03	721.87
PBIDT(Rs Crore)	925.62	790.91		676.83	466.96	297.08
PAT(Rs Crore)	636.32	522.52		435.58	344.53	194.60
Dividend%	120.00	100.00		1060.00	185.00	110.00
EPS(Rs.)	54.73	42.80		198.50	244.91	205.15
Debt-Equity Ratio	-----	-----		-----	-----	-----
Interest Coverage Ratio	788.29	529.99		510.91	1856.36	10652.30
RoNW %	34.50	36.23		39.07	25.05	16.89
PBIDTM %	16.93	22.83		22.27	18.14	20.01
PATM%	15.46	18.71		20.14	20.43	23.89

Highlights of Financial Performance of EIL

- During financial year 2011-12, the turnover reached all time high of 3699 crore.
- After disinvestment the company diversified into fertilizers, power sector and into oil and gas exploration.
- After disinvestment 9th grass root refinery (BORL) and 10th grass root refinery (HMEL) designed and engineered by EIL dedicated to nation.
- Executed over 59 projects in India including 10 grass root projects.
- The PAT and total income has increased post-disinvestment.
- EIL is its strong order book position of Rs. 7484 cr of which 65% consists of turnkey projects, while the balance 35% are consultancy projects.
- This order book is 2.65 times its FY11 revenues and provides a good revenue visibility for EIL. In fact the company is also focusing on new segments such as water and waste management, infrastructure, nuclear, solar and city gas distribution

Analysis of Financial Position of REC Limited

Rural Electrification Corporation Limited (**REC**) is a leading public Infrastructure Finance Company in India's power sector. The company finances and promotes rural electrification projects across India, operating through a network of 13 Project Offices and 5 Zonal Offices, headquartered in New Delhi. The company provides loans to Central/ State Sector Power Utilities, State Electricity Boards, Rural Electric Cooperatives, NGOs and Private Power Developers.

REC is a Navratna Company functioning under the purview of the Ministry of Power – Government of India. The company is listed on both National Stock Exchange of India and Bombay Stock Exchange.

The company is currently among the top 500 Global Financial Services brands by UK-based plc Brand Finance (Brand Finance @ Global Banking 500 for 2010). The company is also among the Forbes Global 2000 companies for 2010.

REC's business model spans across the value chain of power infrastructure financing including
(a) Equipment finance,
(b) Technical/ financial appraisal of project,
(c) Project finance as well as short term or bridge loans for generation, intensive electrification, transmission, distribution, repair and maintenance,
(d) Support functions like project monitoring, consultancy and advisory.

The company operates autonomously as a Central Public Sector Enterprise under the Ministry of Power, Government of India and also acts as nodal agency for expansive Government of India schemes for building electricity infrastructure.
REC was disinvested in year 2010. Its 4.35% stake was disinvested. The impact of disinvestment on financial performance is analyzed as follows:

Table 5.7

Financials Standalone						
	2012	2011	POST DISINVESTMENT	2010	2009	2008
Share Capital(Rs Crore)	987.46	987.46		987.46	858.66	858.66
Net worth(Rs Crore)	14744.92	12788.62		11080.34	6190.08	5367.71
Revenues(Rs Crore)	10456.52	8466.01		6672.83	4894.12	3527.88
PBIDT(Rs Crore)	10174.93	8304.67		6527.85	4808.44	3367.01
PAT(Rs Crore)	2817.03	2569.93		2001.42	1272.07	860.15
Dividend%	75.00	75.00		65.00	45.00	30.00
EPS(Rs.)	28.53	26.03		20.27	14.81	10.02
Debt-Equity Ratio	5.36	5.47		5.05	7.26	6.39
Interest Coverage Ratio	1.60	1.72		1.68	1.67	1.64
RoNW %	19.69	19.25		17.31	20.37	16.19
PBIDTM %	95.65	96.56		95.95	95.62	90.92
PATM%	26.80	30.66		29.99	26.04	24.31

Highlights of Financial Performance of Rec After Disinvestment

- The company is fairly valued at the PE of 12.47
- Net profit margin is excellent at about 30%. NTPC, another power giant has net profit margin about 18%. In fact this is improving for last 4 years.
- The ROE is attractive at 18%.
- The company is paying dividend consistently. The average dividend payout ratio in last 5 years is excellent at 35%. The yield at current market price is about 2.57%.
- Current ratio and quick ratio are excellent.

- The revenue and profit growth are very good. Both exceed 30%.
- EPS is good but that is because of high debt on the balance sheet of the company.
- The loan given by REC is of high quality and the NPA is negligible at 0.03% in FY2012. REC's loan while safe to a large extent, are concentrated on a very small number of borrowers.

Findings & Conclusion

- From above analysis we find that financial performance of Power Grid Corporation, REC, Coal India limited, Engineers India Limited has improved after disinvestment while of SCI, MOIL and NTPC has downgraded after disinvestment.
- CIL recorded improvement in all physical and financial parameters like total production, net worth, profit after tax and EPS. CIL after disinvestment has become largest profit-making, tax and dividend paying enterprise.
- EIL after disinvestment recorded all time high turnover of 3699 cr. The company diversified into fertilizers, power sector and into oil and gas exploration. PAT and total income also increased after disinvestment.
- REC after disinvestment got NAVRATNA recognition by Government of India. Company's net worth, PAT and revenue recorded improvement after disinvestment.
- Power Grid after disinvestment was conferred with 'Power Line Award 2012' in category "Best Performing Transmission Company and recorded improvement in PAT, net worth and total revenues.
- SCI after disinvestment has been affected by adverse freight rates.Company's net profits continuously declined after disinvestment. Its EPS, PBIDTM and PATM all are showing negative values post-disinvestment period.
- MOIL has reported a year-on-year fall in PAT, EBITDA & top line (Net Sales) by 19%, 32% & 5% respectively after disinvestment. Its performance is not good after disinvestment.
- The performance of NTPC has also not improved after disinvestment. company's debt-equity ratio is increasing continuously due to the Company's Plans of expanding its capacity to 75000 MW (more than double of current capacity) by 2017

Bibliography

1.Armstrong Mark And David E.M Sappington, Regulation , *Competition And* Liberalization, Journal Of Economic Literature, 44(2), (2006), 325-366.
2.Arnold Jens, B.Javorick , Molly Lipscomb And Aditya Matto, Services Reform And Manufacturing Performance *: Evidence From India* , July 14 ,(2008).
3.Asian Development Bank, Special Evaluation Study On Privatisation Of Public Sector Enterprises : *Lessons For Developing Member Countries*, ADB Report (December, 2001).
4.Becker Edmund R. And Sloan Frank A., Hospital Ownership And Performance, *Economic Enquiry,* 23(1), 1985, 21-36.
5.Bennett John And Maw James, Privatization, Partial State Ownership, Competition, Journal Of Comparative Economics, 31(1), 2003, 58-74.

6. Bishop Matthew R. And Key Jones A, Privatization In United Kingdom : Lesson From Experiences, *World Development*, 17(5), (1989), 643-657.
7. Boardman Anthony And Vining Aidan R., Ownership And Performance In Competitive Environments : A Comparison Of The Performance Of Private, Mixed And State Owned Enterprises, *Journal Of Law And Economics* , 32(1), (1989),1-33.
8. Bruggink Thomas H, Public Versus Regulated Private Enterprise In The Municipal Water Industry : A Comparison Of Operating Costs, Quarterly Review Of Economics And Business ,22, Spring (1982),1-25
9. Brittan Samuel, Privatization: A Comment On Key And Thompson, *The Economic Journal* , 96(381), (1986), 33-38.
10. Caves Douglas And Christensen Laurits, The Relative Efficiency Of Public And Private Firms In A Competitive Environment: The Case Of Canadian Railroads, *Journal Of Political Economy,* 88, (October 1980),958-976.
11. Das D., Productivity Growth In Indian Manufacturing : An Application Of Domer Aggregation , Paper Presented At The Workshop Of Measurement Of Productivity In India, Institute Of Human Development , New Delhi ,(July 9-10, 1999)
12. De Allesi, Lousi, An Economic Analysis Of Government Ownership And Regulations: Theory And Evidence From The Electric Power Electricity, Public Choice, 19,(Fall,1974),1-42
13. Government Of India, Public Sector Enterprises, 1 (2002a), Department Of Public Enterprises ,Pp.67,New Delhi, India 2002.
14. De Fraja G. And Delbono F. Alternative Strategies Of A Public Sector Enterprise In Oligopoly , Oxford, Economic Papers, 41(2), (1989),302-311.
15. Naib Sudhir , Disinvestment In India : Policies, Procedures, Practices. Sage Publication, New Delhi, 2004.
16. Naik S.D , Decade Of Reforms : Privatization : A Dismisal Report Card , Business Line, Wednesday,(August 22, 2001).
17. Mike W. Peng, Justin Tan, And Tony W. Tong, Ownership Types And Strategic Groups In An Emerging Economy, *Journal Of Management Studies*, 41(7), (2004), 1105-1129.
18. Mishra R.K And Nandagopal R., Capital Market And Privatization Of Public Enterprises: The Case Of India, Institute Of Public Enterprises And Bobolinks Corp.,India., 123-150, 1989.
19. Nagaraj R., Privatization And Disinvestment In India Assessment And Options, Paper Prepared For The Asian Development Bank Policy Networking Project, New Delhi,(2005).
20. Kumar Suresh, Public Enterprise Policy And Reform Measures : The Indian Experience, Public Enterprise Journal, 11(4), (1994), 327-333.

CU Global Management Review
Volume 3, Issue 1, January-June 2014, pp. 78-91

Camel Analysis of performance of select Private Sector Banks

Gunjan Tripathi
Assistant Professor
Gitarattan International Business School
Rohini,New Delhi

Abstract

In this highly competitive scenario the evaluation of the performance of the banks can simply not be based on the profitability analysis of earnings alone but other aspects like managerial efficiency, capital adequacy, liquidity and risk management also need to be considered to have a holistic approach. In 1996, the Padmanabhan Committee proposed the Camel model to evaluate the performance of the banks and have a composite analysis of the performance of banks. The Bankex comprises of six private sector banks .The study has analyzed the performance of these six private sector Banks for the financial period of 2008-12.Twenty ratios related to CAMEL model were calculated in the study. For analysis and interpretation of results, the statistical tools used were arithmetic mean, F-test, One Way ANOVA. The Hypothesis for the same was that there is no significant difference in performance of the selected banks as assessed by CAMEL model. The evaluation of performance of the selected private sector banks highlighted that, the different banks have obtained different ranks with respect to CAMEL ratios. The study concluded that in overall ranking HDFC bank stood first followed with ICICI bank and Kotak Mahindra Bank. The Indusind Bank scored the sixth position. The possible reason for this was the poor performance of IndusInd in Capital Adequacy, Debt-Equity, total advances to total assets ratios .

Key words: Performance evaluation, Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, Systems & Control

Introduction

Before 1998, the Indian banks were rated by the department of supervision (DOS), which were based on the assessed 'solvency' relatively of the reported owned funds. In 1996, the Padmanabhan Committee carefully identified that this form of rating was inadequate as it did not evaluate banks on all financials and results were misleading, stating the fact that even though bank was solvent, it could have problems of operational, compliance and management which will not be reflected properly. The committee thus, recommended substitution of rating with realistic rating framework followed by supervisory authorities of USA. The committee introduced two different models for Indian Banks and foreign based banks on several rating parameters.