FINANCIAL PERFORMANCE EVALUATION OF PUBLIC SECTOR UNDERTAKINGS – A STUDY OF SELECT COMPANIES

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Abstract

Public Sector Undertakings have been playing a dominant and unique role in industrial growth and development of Indian economy. PSUs 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.

The present paper is aimed at analyzing the financial performance of select PSUs, viz., PGCIL (Power Grid Corporation of India Limited), ONGC (Oil and Natural Gas Corporation Limited), and SJVN Ltd (SatLuj Jal Vidyut Nigam Limited), for which the data pertaining to liquidity and solvency for the period of 3 years before and 3 years after the disinvestment period has been considered. The overall analysis financial performance of PGCIL indicate that the mean of current ratio has been decreased from 1.02 to 0.50 during pre-disinvestment period which is indication for poor level of liquidity position as well as ONGC also with different mean score. The overall analysis, financial performance of SJVN Ltd. indicate that the mean current ratio has been increased from 1.74 to 2.47 during pre-disinvestment period which indication for better level of liquidity position.

Key Words: *Public sector undertaking, Indian economy, disinvestment, financial performance.*

Introduction

Public Sector Enterprises (PSEs) have been playing a dominant and unique role in industrial growth and development of Indian economy. After the attainment of independence and the advent of planning, there has been a progressive expansion in the scope of the public sector. The Industrial Policy Resolution of 1956 and the adoption of the socialist pattern of society as our national goal further led to a deliberate enlargement of the role of public sector. The Industrial Policy resolutions of 1945 and 1956 demarcated the areas of operations of public sector and private sector. There were several objectives for building up the public sector.

Public sector enterprises or public-sector undertakings have come to enjoy a unique position in the Indian economy in the post-independence era. These enterprises produce diverse products such as steel, coal, aluminium, fertilizers, basic chemicals, minerals, locomotives, aircrafts, ships etc. They have been responsible for forming a strong industrial base and providing the basic infrastructure for development in the country.

Meaning of Public Sector Enterprises

As stated earlier, the business units owned, managed and controlled by the central, state or local government are termed as public-sector enterprises or public enterprises. These are also known as public sector undertakings.

"A Public-sector enterprise may be defined as any commercial or industrial undertaking owned and managed by the government with a view to maximize social welfare and uphold the public interest".

Characteristics of Public Sector Enterprises

Looking at the nature of the public-sector enterprises their basic characteristics can be summarized as follows...

- Government ownership and Management
- Public Welfare
- Public Accountability
- Financed from Government Funds

Types of Public Sector Enterprises

There are three different types of organization used for the public-sector enterprises in India. These are

1. Departmental Undertakings
2. Statutory Corporations
3. Government Company

The New Industrial Policy, 1991 envisaged disinvestment of a part of government holdings with share capital of selected Public-Sector Enterprises (PSEs) in order to provide market discipline and to improve the performance of PSEs. In November, 1992, The Government reconstituted the Committee of Disinvestment of shares of PSEs with Dr. C.Rangarajan as its Chairman , the Rangarajan Committee also submitted its recommendations on disinvestment of PSE shares.

Review of Literature

Priyanka Sharma (2016), has discussed about impact of disinvestment on financial performance of PSEs in India. This article reveals the PSEs showed better performance in the post- reform period. The better performance can be viewed in terms of rising completion that forced PSEs to improve their performance by ensuring high productivity and reducing cost of production. The process of disinvestment of PSUs has been free of criticism.

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 company's 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.

Mrs. Megha Narang (2014), A study made on pre and post disinvestment analysis: A case of oil and natural gas corporation ltd. (ONGC). In this study disinvestment of the government shareholding has been taken and pre-disinvestment mean value of financial parameters compared with post disinvestment mean value. Results showed that the disinvestment improves the profitability and liquidity position of ONGC while it has affected the efficiency position negatively. Disinvestment programmes should be executed to encourage autonomy in management with accountability, broad based ownership and improved condition.

Objectives of the Study

The present study is analysing the following objectives:

1) To analyze the liquidity position of the select companies during the pre and post disinvestment period; and
2) To examine the solvency position of select companies during pre and post disinvestment period.

Research Methodology

The present study based on the secondary data i.e. financial information from company's annual reports of PGCIL (Power Grid Corporation of India Limited), ONGC (Oil and Natural Gas Corporation

Limited) and SJVN Ltd (SatLuj Jal Vidyut Nigam Limited). These Three companies have been chosen. To achieve the objective of analysing the financial performance of selected companies, the financial performance analysis of liquidity as well as solvency ratio for 7 years has been used for the study. The financial performance of select companies for 3 years before and 3 years after the disinvestment period.

Data Analysis

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

The tables 1, 2 and 3 show the financial performance, the ratios calculated from the annual reports of the companies.

Insert tables 1, 2 and 3

The analyses of data from table 1 discloses that the current ratio was ranged between a minimum of 0.95 and maximum of 1.07 during pre- disinvestment period and 0.43 and 0.62 during post- disinvestment period. The mean current ratio of the company accounted for 1.0 and 0.50 respectively during pre and post disinvestment period. This indicates that the company is not maintaining the standard current ratio of 2:1, which leads to financial distress. The liquid ratio ranged between 0.92 and 1.02 during pre- disinvestment period and 0.39 and 0.59 during post disinvestment period. The mean of liquid ratio has been decreased from 0.97 to 0.47 during the post disinvestment period.

The return on net worth ratio accounted for a minimum of 10.53 during 2007-08 and maximum of 12.64 in 2009-10 and recovered mean of 11.52 during pre-disinvestment period. This ratio has been recorded with minimum of 13.01 during 2013-14 and maximum of 16.06 in 2012-13 with mean of 14.31 during post-disinvestment period.

The ratio of Fixed assets to net worth accounted for a minimum of 1.98 during the year 2007-08 and 2009-10 and a maximum of 2.09 during 2008-09 with a mean of 2.02 during pre-disinvestment period, and during the period of post disinvestment, this mean ratio has been found increased to 2.15 with a minimum of 2.02 in 2011-12 and maximum of 2.32 in 2012-13.

The debt equity ratio of the company during pre-disinvestment is recorded with a minimum of 1.62 in 2007-08 and maximum of 2.13 in 2009-10 representing mean of 1.89. However, during period of post-disinvestment, the debt equity ratio recorded with tremendous increase at 12.97 with a minimum of 10.61 in 2011-12 and maximum of 14.68 in 2013-14 during post disinvestment period.

The overall analysis financial performance of PGCIL indicate that the mean current ratio has been decreased from 1.02 to 0.50 during pre-disinvestment period which indication for poor level of liquidity position. The mean debt equity ratio increased from 1.89 to 12.97 during post disinvestment period. Which reflects the long-term potentiality as to repayment of long term debts.

Further, the data have been analysed by the applying the t-test and it is statistically observed that t-test value in respect of return on net worth with 0.06; Fixed assets to net worth with 0.23 are significant. However, t-value for current ratio, liquid ratio and debt equity ratio were statistically not significant.

The analyses of data in table 2 discloses that the current ratio ranged between minimum of 1.35 and maximum of 1.87 during pre- disinvestment period and minimum of 1.56 and maximum of 1.75 during post- disinvestment period. The mean current ratio of the company accounted for 1.67 and 1.63 respectively during pre and post disinvestment period. The liquid ratio ranged between 1.00 and 1.12 during pre- disinvestment period and 0.90 and 1.20 during post disinvestment period. The mean liquid ratio has been decreased from 1.09 to 1.04 during pre and post disinvestment period. As both the current ratio and liquid ratio have been slightly decreased during the post disinvestment period, the company could unable to meet its short term financial requirements. This also can be evidenced from the return on net worth being decreased from 19.82 to 15.08 during the post disinvestment period.

The return on net worth ratio accounted for a minimum of 19.40 during 2009-10 and maximum of 20.65 in 2008-09 and recovered mean of 19.82 during pre-disinvestment period. This ratio has been recorded with minimum of 12.26 during 2014-15 and maximum of 16.81 in 2012-13 with mean of 15.08 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 62.71 during pre-disinvestment period, and during the period of post disinvestment, this ratio has been found increased 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 the period of post-disinvestment, the debt equity ratio decreased 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. This reflects that the company could not maintain the minimum requirement as per the standard debt equity ratio.

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 indication for poor level of liquidity position, as the mean of debt equity ratio decreased from 0.53 to 0.44 during post disinvestment period.

Further the data have been analysed by the applying the t-test and it is statistically observed that t-test value in respect of current ratio with 0.83; liquid ratio with 0.63 and fixed assets to net worth ratio is 0.11 are significant. However, t-value for return on net worth ratio and debt equity ratio were statistically not significant.

The data analyses from table 3 shows that the current ratio ranged between minimum of 1.44 and maximum of 1.99 during pre- disinvestment period and minimum of 1.98 and maximum of 2.81 during post- disinvestment period. The mean current ratio of the company accounted for 1.74 and 2.47 respectively during pre and post disinvestment period. Which reflects that the company is maintaining the poor level of finance. The liquid ratio ranged between minimum of 2.47 and maximum of 5.69 during pre-disinvestment period. Minimum of 1.96 and maximum of 2.78 during post disinvestment period. The mean liquid ratio has been decreased from 4.18 to 2.45 during pre and post disinvestment period. The return on net worth ratio accounted for a minimum of 12.96 during 2009-10 and maximum of 16.79 in 2008-09 and recovered mean of 14.63 during pre-disinvestment period. This ratio has been recorded with minimum of 12.32 during

2013-14 and maximum of 13.66 in 2011-12 with mean of 12.83 during post-disinvestment period.

The ratio of Fixed assets to net worth accounted for a minimum of 0.92 during the year 2009-10 and a maximum of 1.36 during 2007-08 with a mean 1.16 during pre-disinvestment period, and during the period of post disinvestment, this ratio has been found decreased mean 1.16 with a minimum of 0.62 in 2013-14 and maximum of 0.79 in 2011-12.

The debt equity ratio of the company during pre-disinvestment is recorded with a minimum of 0.22 in 2009-10 and maximum of 0.37 in 2007-08 representing mean 0.32. However, during the period of post-disinvestment, the debt equity ratio recorded with increase at a mean 0.33 with a minimum of 0.31 in 2011-12 and maximum of 0.34 in 2012-13 and 2013-14 during post disinvestment period.

The overall financial performance of SJVN Ltd., indicate that the mean current ratio has been increased from 1.74 to 2.47 during disinvestment period which is indication for better level of liquidity position. However, the mean of debt equity ratio increased from 0.32 to 0.33 during post disinvestment period.

Further, the data have been analyzed by the applying the t-test and it is statistically observed that t-test value in respect of liquid ratio with 0.148: return on net worth with 0.209 and debt equity ratio with 0.806 are significant. However, t-value for fixed assets to net worth ratio and current ratio were statistically not significant.

Financial Strength

Power Grid Corporation of India Limited:

Studying the financial strength of this company reveals that the dependence on the outsider's funds has increased during the post disinvestment period. It has been recorded in this company and the examination of the Table. 1 fixed assets to net worth ratio, debt equity ratio reveals that the post disinvestment period it has been increased it means that the shareholders' funds of this company have not been sufficient in financing their fixed assets during the post disinvestment period. As far as their corporate liquidity is concerned, it has been found that there is a decline in the mean score of current ratio and liquid ratio during the post disinvestment period. It shows that the management of this company has failed in the efficient usage of current and liquid assets.

Oil and Natural Gas Corporation Ltd (ONGC):

As regards the financial strength of this company, it has been found that there is a decline in the mean score of debt equity ratio and return on net worth ratio during post disinvestment period. Debt equity ratio indicates that the company shareholder funds efficiently utilized compared to pre-disinvestment period. But the excessive use of debt in their financial plans is not been good for its long term financial position. The company should try to reduce their outsider's funds. Examination of the corporate liquidity of this sector reveals that the management of ONGC managed their liquid assets efficiently but failed in the case of current assets. The mean score of the current ratio in the post disinvestment period has been less than the pre-disinvestment period. It has not good for its short-term solvency position. In order to improve their short-term solvency position and to compete in this global competition, there should be efficient management of their working capital.

Satluj Jal Vidyut Nigam Limited (SJVN Ltd.,):

The examination of the fixed assets to net worth ratio reveals that the shareholder funds of this company has not been sufficient in financing their fixed assets during the post disinvestment period. Table.3 reveals that the financial strength of the SJVN Ltd., the debt equity ratio is normal increase in the post disinvestment period. Studying the corporate liquidity of this company reveals that the management managed their current and liquid assets with more efficiently. It shows that the management of this company is good position in liquidity.

Conclusion

Public sector Undertakings in India viewed as a mechanism for structural transformation of the economy and for growth with equity and social justice. The study examined the financial performance of PGCIL, ONGC and SJVN Ltd. The financial performance is greatly influenced by the disinvestment. The indicators used current ratio, liquid ratio, return on net worth ratio, debt equity ratio, and fixed assets to net worth ratio. The findings revealed that the post-disinvestment period the debt equity ratio recorded with tremendous increase in PGCIL. The overall analysis financial performance of PGCIL indicate that the mean of current ratio has been decreased from 1.02 to 0.50 during pre-disinvestment period which is indication for poor level of liquidity position as well as ONGC also with different mean score. The overall analysis, financial performance of SJVN Ltd. indicate that the mean current ratio has been increased from 1.74 to 2.47 during pre-disinvestment period which indication for better level of liquidity position.

There should be a check on the excessive use of debt or outsider's funds and the public sector undertakings should arrange the funds from their internal resources. More efforts have to be made for the efficient utilization and management of their assets. In this way the management of these firms can make an effective check on the wastage of their resources.

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Table – 1
Financial Performance of PGCIL during Pre and Post Disinvestment period
(Year of Disinvestment 2010-11)

Ratios	Pre-Disinvestment period			Post-Disinvestment Period			Distribution of Mean/ SD /CV						t-value
							Pre-Disinvestment period			Post-Disinvestment period			
	2007-08	2008-09	2009-10	2011-12	2012-13	2013-14	MEAN	SD	CV	MEAN	SD	CV	
Current Ratio	1.07	1.00	0.95	0.62	0.43	0.47	1.00	0.04	4.88	0.50	0.08	16.14	0.00
Liquid Ratio	1.02	0.96	0.92	0.59	0.39	0.43	0.97	0.04	4.25	0.47	0.08	18.35	0.001
Return on Net worth Ratio	10.53	11.38	12.64	13.85	16.06	13.01	11.52	0.86	7.52	14.31	1.28	8.98	0.06
Debt Equity Ratio	1.62	1.92	2.13	10.61	13.62	14.68	1.89	0.209	11.07	12.97	1.72	13.29	0.0008
Fixed Assets to Net worth Ratio	1.98	2.09	1.98	2.02	2.32	2.11	2.02	0.05	2.53	2.15	0.12	5.84	0.23

Source: Compiled from Annual Reports of Public Sector Enterprises Survey.

Table – 2
Financial Performance of ONGC during 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
Return on Net worth	20.65	19.40	19.41	16.81	16.16	12.26	19.82	0.59	2.97	15.08	2.01	13.32	0.033
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

Table – 3
Financial Performance of SJVN Ltd., during Pre and Post Disinvestment Period
(Year of Disinvestment 2010-11)

Ratios	Pre-Disinvestment period			Post-Disinvestment Period			Distribution of Mean/SD/CV						t- value
							Pre-Disinvestment Period			Post Disinvestment Period			
	2007-08	2008-09	2009-10	2011-12	2012-13	2013-14	Mean	SD	CV	Mean	SD	CV	
Current Ratio	1.44	1.80	1.99	1.98	2.81	2.62	1.74	0.22	12.89	2.47	0.36	14.46	0.072
Liquid Ratio	2.47	4.37	5.69	1.96	2.78	2.60	4.18	1.32	31.59	2.45	0.35	14.41	0.148
Return on Net worth	14.14	16.79	12.96	13.66	12.51	12.32	14.63	1.60	1.93	12.83	0.59	4.63	0.209
Debt Equity Ratio	0.37	0.35	0.22	0.31	0.34	0.34	0.32	0.07	20.92	0.33	0.01	3.66	0.806
Fixed Assets to Net worth Ratio	1.36	1.21	0.92	0.79	0.69	0.62	1.16	0.18	15.40	0.70	0.07	9.93	0.028

Source: Compiled from Annual Reports of Public Sector Enterprises Survey