A STUDY ON PERFORMANCE OF SELECTED DIVESTED COMPANIES

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ABSTRACT

Public sector enterprises have been set up to serve the broad macro-economic 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. While there were only five Central Public Sector Enterprises (CPSEs) with a total investment of ` 29.00 crore at the time of the First Five Year Plan, there were as many 248 CPSEs (excluding 7 Insurance Companies) with a total investment of Rs 6,66,848 crore as on 31st March, 2011. This paper attempts to understand the performance of selected divested companies. For this purpose as already mentioned a sample of four companies is taken from listed CPSEs on the stock exchanges of India.Objectives are (i) To study the Origin and Development of Public Sector Enterprise in India.)ii)To study the Performance of selected divested Public Sector Enterprises. Turnover of BHEL Company has quadrupled and profit has increased by six times during last six years from 2005-06 to 2010-11. Top line of the company was ` 43,337 crore, recording the strong growth of 27%. With Profit Before Tax of ` 9006 crore and Profit After Tax of ` 6011 crore, the profitability rose appreciably by 37% and 39% respectively during the year in 2010-11. Economic Value Addition (EVA) reached ` 3,793 Crore, a 42% y-o-y increase.

PUBLIC SECTOR ENTERPRISES IN INDIA

In 1947, when the country became independent there were various socio-economic problems confronting the country which needed to be dealt with in a planned and systematic manner. India at that time was an agrarian economy with a weak industrial base, low level of savings, inadequate investments and lack of infrastructure facilities. There existed considerable inequalities in income and levels of employment, glaring regional imbalances in economic development and lack of trained manpower. As such, state's intervention in all the sectors of the economy was inevitable since private sector neither had necessary resources, the managerial and scientific skill, nor the will to undertake risks associated with large long-gestation investments. Among the imperatives before the Government were the removal of poverty, equitable distribution of income, generation of employment opportunities, removal of regional imbalances, accelerated growth of agricultural and industrial production, better utilization of natural resources and a wider ownership of economic manpower to prevent its concentration in a few hands. Given the type and range of problems faced by the country on the economic, social and strategic fronts, it became a pragmatic compulsion to use the public sector as an instrument for self-reliant economic growth.

The dominant consideration for the continued large investments in public sector enterprises was to accelerate the growth of core sectors of economy, to serve the equipment needs of strategically important sectors like Railways, Telecommunications, Nuclear Power, Defence etc. and to provide a springboard for the economy to achieve a significant degree of self-sufficiency in the critical sectors. The rationale for setting up public enterprises was to ensure easier availability of vital articles of mass consumption, to introduce check on prices of important products, help promote emerging areas like tourism, etc. A large number of enterprises were created out of "Sick Units" taken over from the private sector inter alia, to protect the interest of workers. A number of public enterprises were created to operate in national and international trade, consultancy, contract and construction services, inland and overseas communications, etc. The overall profits of public sector enterprises in India is, thus, a heterogeneous conglomeration of basic and infrastructure industries, industries producing consumer goods, industries engaged in trade and services etc.

DISINVESTMENT IN INDIA

Balance of Payment position and increasing fiscal deficit led to adoption of a new approach towards the public sector in 1991. Disinvestment of Public Sector Undertakings (PSUs) is one of the policy measures adopted by the Government of India for providing financial discipline and improve the performance of this sector in tune with the new economic policy of Liberalization, Privatization and Globalization, (LPG) through the 1991 Industrial Policy Statement. The aims of disinvestments policy are rising of resources to meet fiscal deficit, encouraging wider public participation including that of workers penetrating market discipline within public enterprises and improving performance. The process of restructuring public sector enterprises owned by the central Government in India has undergone quite a few changes since it began in 1991-92. Accordingly, it was decided to offer

20 percent of Government equity in selected CPSEs to mutual funds and public sector financial institutions and banks. Minority Government shares from quite a few CPSEs were sold off during 1991 and 1992. Subsequently, in the following years, further minority Government shares were sold through the auction method. The range of buyers was steadily expanded to include private companies, brokers, foreign institutional investors (FIIs), non-resident Indians (NRIs) and overseas corporate bodies (OCBs).However, from 1998-99 onward, disinvestment policy underwent a substantive change with the emphasis shifting to selling of large chunks of Government shares in CPSEs through strategic sale, with transfer of management control. From 2004-05, the disinvestment policy again underwent a major shift .the union budget for 2004-05 are announced "as long as Government retains control over the PSE, and its public sector character is not affected, Government may dilute its equity and raise resources to meet the social needs of the people."

REVIEW OF LITERATURE

There are considerable number of books on Public Sector Enterprises and their role in economy. There are numerous articles published in various journals and daily newspapers of repute. A little research leading to doctoral degree or its equivalent is also being carried on by various people. An effort is being made here to present some of the important contributions made in this field of study.

Amitendu Palit[1] has done a study on policy objectives of disinvestment, contentious strategic sale and distinct perceptions that have influenced the process of disinvestment in the country.

ology and skilled manpower requirements." Bhagwati Jagdish[3] in his book, 'In defense of globalization,' argues that economic globalization is the favored target of many of the critics of globalization because they see globalization as the extension of capitalism throughout the world and present economic globalization has caused many social ills today, like poverty, increased in child labor, erosion of unions, labors rights, democratic deficits, harming of women, culture and environment.

Bhagwati and Desai[4] in fact, as noted by them, In a situation where domestic prices are distorted by a variety of endogenous and policy-imposed factors, the observed rates of return cannot be taken to give a proper ranking of the social profitability of alternative investments. Bhole L. M.[5] has argued in his paper that there is a need to change our outlook on the role, importance and working of the capital market, particularly the stock exchanges, in India. The stock market is only one among many channels for the flow of funds, and, therefore, it is an error to overemphasize its role. Bimal Jalan[6] according to him, political interference is unavoidable in public corporations and is a major cause of decline in operational efficiency. "Such political decision-making reflects itself in the less than optional choice of technology or location, overstaffing, inefficient use of input, and purchase or price preferences for certain suppliers." Most governments also impose non-economic objectives on public enterprises.

NEED FOR THE STUDY

The concept of public sector enterprises germinated around 'Great Depression' and came in full bloom by the Second World War. When the countries headed by the Soviet Union formed the communist bloc, thereby giving birth to the centrally planned economy. The rapid shrinking of colonial rule at almost the same time helped the emergence of the concept of mixed economy. This concept helped in supporting newly freed country like India by helping her in the noble cause. In 1948, immediately after Independence, Government of India introduced the Industrial Policy Resolution. This outlined the approach to industrial growth and development. It emphasized the importance to the economy of securing a continuous increase in production and ensuring its equitable distribution. After the adoption of the Constitution and the socio-economic goals, the Industrial Policy was comprehensively revised and adopted in 1956. To meet new challenges, from time to time, it was modified through statements in 1973, 1977 and 1980. India suffered a major economic crisis in 1991. In the case of selected enterprises, part of Government holdings in the equity share capital of these enterprises will be disinvested in order to provide further market discipline to the performance of public enterprises. There are a large number of chronically sick public enterprises incurring heavy losses, operating in a competitive market and serve little or no public purpose. These need to be attended to. The country must be proud of the public sector that it owns and it must operate in the public interest. The current global financial crisis, America and Britain, the birth-place of modern privatization, nationalized much of its banking industry. The books, articles and research studies review above clearly shows that there are no studies on the whole process of disinvestment in India. In view of this it is felt that there is need for the study on "Disinvestment of Public Sector Enterprises in India."

OBJECTIVES OF THE STUDY

The objectives of the study are:

1. To study the Origin and Development of Public Sector Enterprise in India.
2. To study the Performance of selected divested Public Sector Enterprises.

METHODOLOGY

To achieve these objectives, data has been collected from both the primary and secondary sources. The primary data has been collected by discussions and interviews with the executives of the disinvested companies, economists, political, public administration specialists and stock market analysts to elicit their opinions on various matters relating to disinvestment. A part from this in order to know the attitude of investors on disinvestment, a questionnaire is designed and administered to investors. The secondary data and information are collected from the office records of companies, Bureau of Public Enterprises, Ministry of Finance, Five Year Plans of Government of India, Economic Surveys, Department of Disinvestment, Industrial Policy Resolutions, Disinvestment Commission Reports, The Major Stock Exchanges, Company Annual Reports, Journals, Magazines, Dailies like Business Line and Economic Times and official websites like SEBI, NSE, and BSE etc.,

SAMPLING

There are as many as 45 Central Public Sector Enterprises (CPSE) listed and traded on the Stock Exchanges of India as on 31.3.2011. The following are the Central Public Sector Enterprises (CPSE) listed on The Stock Exchanges of India.

In the above given companies Engineering, Petroleum, Electricity and Steel are significant and core sectors. Hence, these four sectors are selected for study. Bharat Heavy Electricals Limited (BHEL), Hindustan Petroleum Corporation Limited (HPCL), National Thermal Power Corporation (NTPC) and Steel Authority of India Limited (SAIL) are largest companies in these selected sectors. Hence, these four companies are selected for performance analysis.

In order to ascertain the attitude of the investors, the state of Andhra Pradesh has been selected as it is truly cosmopolitan in its nature. The state of Andhra Pradesh is divided in to three geographical regions, viz., Costal Andhra, Rayalaseema and Telangana. Rayalseema is geographically and demographically most important region of Andhra Pradesh. Anantapur district and Kurnool district possesses almost all the characteristics of other districts of Rayalaseema region. A Sample of 300 investors is taken for the study from

Anantapur and Kurnool districts on the basis of convenience sampling. While selecting the investors, care has been taken to select them from Urban (District Head Quarters) and Semi-Urban (Other Areas) areas. A sample of 150 investors from urban area i.e. Anantapur and kurnool, 150 investors from semi-urban i.e. Guntakal, Dharmavaram, Adoni and Nandayala is taken for the study.

METHODS OF ANALYSIS

The data collected from different sources will be properly classified, tabulated and analyzed using appropriate statistical tools to draw meaningful conclusions. Simple statistical techniques such as ratios, percentages and averages are used for the study. Besides, these various statistical tools and techniques have applied for analysis and interpretation of data.

PERIOD OF THE STUDY

The disinvestment had started in 1991-92. Hence, the process of disinvestment has been studied from 1991-92 to 2010-11. Macroview of public sector enterprises and the performances of selected companies are studied over the period of ten years from 2001-02 to 2010-11.

SCOPE OF THE STUDY

The study covered the genesis, objectives and performance of public sector enterprises, modus operandi, policy and procedures of disinvestment. The study also covered market capitalization of CPSEs listed on domestic stock exchanges. The study of disinvestment has been aimed at reference to the disinvestment process and its associate factors. The study has not aimed to cover any particular Public Sector Unit neither is it going to present the focus on statistical features. Study is aimed to cover stepwise analysis of entire vision and mission of disinvestment concept. The study will also project to the various strategies and measures adopt by different governments from 1990-91 onwards 2011-12.

LIMITATIONS OF THE STUDY

A research study of this nature could not be carried out with out any limitations. The study is limited to a period of ten years (i.e., from 2001-02 to 2010-11) because these Public sector enterprise have been started in different years and so they have not been considered since their inception. Validity of this study depends on the reliability of the data being made available in the form of Annual Reports, Economic Surveys, Commission Reports, and

Industrial Policy Resolution etc., However to overcome these limitations, great care has been taken at every stage to make it more pragmatic and comprehensive. In, primary data the major limitation of the study is that it is restricted to the state of Andhra Pradesh only and the size is also limited. However an effort is being made to minimize the impact of this limitation by selecting maximum number of investors from Anantapur district and Kurnool District. As this study is based on the responses of the investors there is a possibility of personal bias. Care has taken to bring down the impact by asking cross reference questions. Some of the investors could not relate themselves to the disinvestment programme as they were new entrants to the market. The investment activity is the outcome of innumerable factors. Where as in this study only a limited number of factors are considered. With all these limitations all the efforts are made to evaluate the situation as accurately and objectively as possible.

There were 48 CPSEs listed on the stock exchanges of India as on 31.03.2011; Three CPSEs were, however, not being traded during 2010-11. Coal India Ltd. and Satluj Jal Vidyut Nigam Ltd. were listed during the year 2010-11. There are stocks of 45 CPSEs, which were being traded on the stock exchanges of India as on 31.3.2011. This chapter attempts to understand the performance of selected divested companies. For this purpose as already mentioned a sample of four companies is taken from listed CPSEs on the stock exchanges of India

HEAVY ENGINEERING

As on 31.3.2011, there were nine central Public Sector Enterprises in the Heavy Engineering group. The name of these enterprises along with their year of incorporation in chronological order are given below table 1

TABLE 1: HEAVY ENGINEERING CPSES

S. No.	Enterprise	Year of Incorporation
1.	Heavy Engineering Corpn. Ltd	1958
2.	Tungabhadra Steel Products Ltd.	1960
3.	Bharat Heavy Electricals Ltd	1964
4.	Triveni Structural Ltd.	1965
5.	Bharat Heavy Plate & Vessels Ltd	1966

6.	Braithwaite & Co. Ltd.	1976
7.	Burn Standard Company Ltd.	1976
8.	Bharat Wagon & Engg. Co. Ltd.	1978
9.	Bharat Bhari Udyog Nigam Ltd.	1986

Source: Government of India, Public Enterprises Survey, (2010-11).

The enterprises falling in this group are mainly engaged in producing and selling of capital goods required by Steel, Fertilizers, Petroleum, Chemicals, Mining, Power Generation companies/Complexes etc.

Turnover: The details of turnover of individual enterprises are given below table .2

TABLE- 2: TURNOVERS

(` In crore)

S. No.	Enterprise	Turnover	
		2010-11	**2009-10**
1.	Bharat Heavy Electricals Ltd	43337.00	34153.76
2.	Heavy Engineering Corpn. Ltd	689.69	538.42
3.	Braithwaite & Co. Ltd.	169.71	127.61
4.	Burn Standard Company Ltd.	151.63	222.77
5.	Bharat Heavy Plate & Vessels Ltd	136.98	104.31
6.	Bharat Wagon & Engg. Co. Ltd.	37.54	28.41
7.	Bharat Bhari Udyog Nigam Ltd.	11.51	3.97
8.	Tungabhadra Steel Products Ltd.	3.30	2.19
9.	Triveni Structural Ltd.	2.20	3.34
	Sub Total	**44539.56**	**35184.78**

Source: Government of India, Public Enterprises Survey, (2010-11).

Net Profit/Loss: The details of the enterprises, which earned net profit or sustained net loss (-) are given below table 3.

TABLE -3: NET PROFITS/LOSS

(` In crore)

S. No.	Enterprise	Turnover	
		2010-11	2009-10
1.	Bharat Heavy Electricals Ltd	6011.20	4310.65
2.	Burn Standard Company Ltd	1165.68	-136.36
3.	Heavy Engineering Corpn. Ltd	38.14	44.27
4.	Bharat Heavy Plate & Vessels Ltd	8.78	-8.60
5.	Braithwaite & Co. Ltd.	6.18	1.75
6.	Bharat Bhari Udyog Nigam Ltd.	0.02	0.41
7.	Bharat Wagon & Engg. Co. Ltd.	-9.99	-9.08
8.	Tungabhadra Steel Products Ltd.	-26.12	-25.77
9.	Triveni Structural Ltd.	-53.18	-56.22
	Sub Total	**7140.71**	**4121.05**

Source: Government of India, Public Enterprises Survey, (2010-11).

Dividend: The details of the dividend declared by the individual enterprise are given below table 4.The enterprises falling in this group are mainly engaged in producing and selling of capital goods required by Steel, Fertilizers, Petroleum, Chemicals, Mining, Power Generation companies/Complexes etc.

Dividend: The details of the dividend declared by the individual enterprise are given below table 4

TABLE - 4: DIVIDENDS

(` In crore)

S. No.	Enterprise	Turnover	
		2010-11	2009-10
1.	Bharat Heavy Electricals Ltd	1524.85	1140.58
2.	Bharat Bhari Udyog Nigam Ltd.	0.00	0.05
	Group Total	**1,524.85**	**1,140.63**

Source: Government of India, Public Enterprises Survey, (2010-11).

BHARAT HEAVY ELECTRICALS LIMITED

Bharat Heavy Electrical Ltd. (BHEL) was incorporated on 13.11.1964 with an objective to have indigenous Heavy Electrical Equipment industry in India. It is a Schedule-

A/listed Navratna CPSE in Heavy Engineering sector under the administrative control of Ministry of Heavy Industries and Public Enterprises, Department of Heavy Industries with 67.72% shareholding by the Government of India.

Industrial/Business Operations

BHEL is the largest engineering and manufacturing enterprise of India in the energy & infrastructure related sectors. BHEL is amongst world's rarest few who have the capability to manufacture entire range of power plant equipment besides establishing substantial inroads in select segment of products in Industrial sector and Railways. The company has realised the capability to deliver 15,000 MW power equipment capacity per annum and further expansion program to reach 20,000 MW p.a. by 2012 is underway. BHEL caters to core sectors of the Indian Economy viz. Power Generation and Transmission, Industry, Transportation, Renewable Energy, Defence, etc. The wide network of BHEL's, 15 manufacturing divisions, 2 repair units, 4 power sector regions, 8 service centres, 15 regional offices, 2 subsidiaries and a large number of Project Sites spread all over India and abroad enables the company to provide most suitable products, systems and services, efficiently and at competitive prices. The company has entered into seven strategic joint ventures in supercritical coal fired power plants to leverage equipment sales besides living up to the commitment for green energy initiatives. The name of these JVs are "BHEL GE Gas Turbine Services Ltd." with GEPM, Mauritius, "Power Plant Performance Improvement Ltd." with Siemens AG of Germany, "NTPC BHEL Power Projects Pvt. Ltd." with NTPC, Udangudi Power Corporation Ltd. with Tamil Nadu Electricity Board, Barak Power Pvt. Ltd. with PTC India Ltd., Raichur Power Corporation Ltd. with Karnataka Power Corporation Ltd. and Dada Dhuniwale Khandwa Power Ltd. with 50% equity held by each. BHEL's operations are organised around three business sectors, namely Power, Industry including Transmission, Transportation, Telecommunication & Renewable Energy and International Operations. The product range of the company comprises of 180 products.

Strategic Issues

To expand International footprint, BHEL would be consolidating its presence in existing international markets and also tapping opportunities in new markets. Focus would be on EPC opportunities, augmentation of EPC capabilities & gearing up the organisation accordingly.

Human Resource Management

The company employed 46748 regular employees as on 31.03.2011. The retirement age in the company is 60 years. It is following IDA 2007 pattern of remuneration.

Technology Up-gradation, Research & Development

BHEL's products and systems are technology intensive and R&D/ technology development is of strategic importance in its endeavour to become an all-inclusive engineering enterprise. A total of 91 patents and copyrights were granted during the year enhancing the intellectual capital to 1,438 patents & copyrights-31% growth in IPR capital. Significantly, BHEL was ranked as the number one company in terms of filing patents and second highest investor in R&D in India by Economic Times Intelligence Group. The company won the coveted CII-Thompson Reuters Innovation Award-2010 in the 'Hi Tech Corporate' category in recognition of its innovation and entrepreneurship in India.

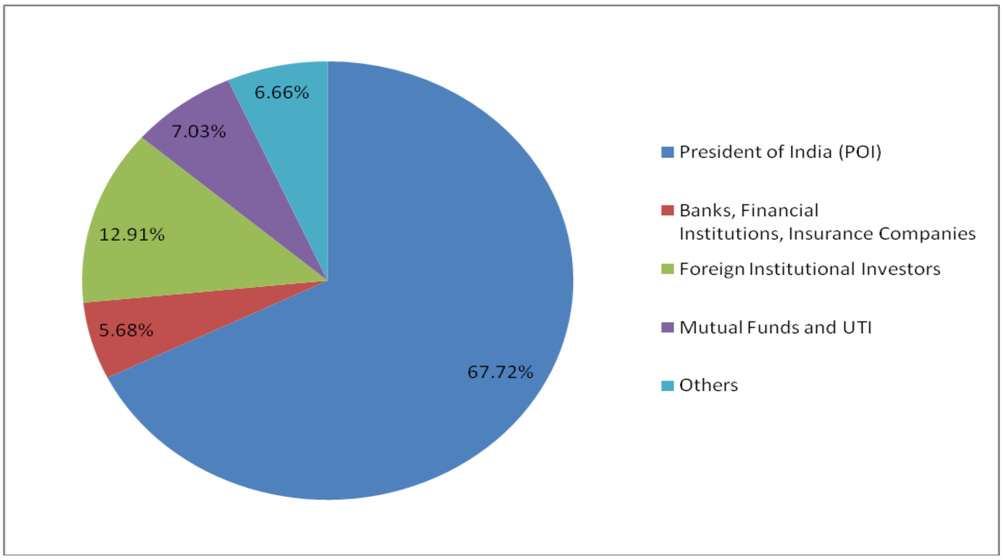
TABLE 5: SHAREHOLDING PATTERN AS ON 31ST MARCH, 2011(BHEL)

Category	2011	
	Voting Strength (%)	No. of Shares held
Promoters Holding - Indian Promoters –		
-President of India (POI)	67.72	331,510,000
-Nominees of POI	0.00	400
Total promoter holding	67.72	331,510,400
Non-promoters Holding		
Institutional Investors		
Mutual Funds and UTI	7.03	34,415,090
Banks, Financial Institutions, Insurance Companies	5.68	27,806,836
Foreign Institutional Investors	12.91	63,170,722
Others	0.00	600
Directors & Relatives	4.49	21,980,537
Private Corporate Bodies	1.87	9,152,130
Indian Public	0.00	8
Foreign Nationals	0.13	639,450
NRIs/OCBs Trust	0.03	149,967
Shares in Transit (NSDL/CDSL)	0.14	694,260

Total Non-Promoters holding	**32.28**	**158,009,600**
Grand Total	**100.00**	**489,520,000**

Source: Annual report of BHEL(2010-2011)

FIG- 1: SHAREHOLDING PATTERN OF BHEL AS ON 31.3.2011



Performance of BHEL

Turnover of BHEL Company has quadrupled and profit has increased by six times during last six years from 20050-06 to 2010-11. Top line of the company was ` 43,337 crore, recording the strong growth of 27%. With Profit Before Tax of ` 9006 crore and Profit After Tax of ` 6011 crore, the profitability rose appreciably by 37% and 39% respectively during the year 2010-11. Economic Value Addition (EVA) reached ` 3,793 Crore, a 42% y-o-y increase. EPS on the post–bonus equity capital increased to ` 122.80 against previous year's ` 88.06.

Turn over increased continuously, during the period of the study. It increased six times from 2001-02 to 2010-11. Turnover in 2001-02 was ` 7287 crore, increased to ` 43337 crore in 2010-11. Profit after tax increased constantly. In the period of the study, i.e. 2001-02 to 2010-11 Profit after tax increased more than 12 times. It increased from ` 469 crore in 2001-12 to ` 6011 crore in 2010-11. Company retained earnings are increasing showing increasing trend from the past 10 years. In the period, i.e. 2001-02 to 2010-11 retained profit increased more than ten times. As company

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