

**DIVESTMENT & DYNAMICS OF FINANCIAL
PERFORMANCE PARAMETERS : A COMPARATIVE
STUDY OF INDIAN PUBLIC ENERGY SECTOR
COMPANIES**

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ABSTRACT

The main objective of private and public ownership are 'profit maximization' and 'welfare maximization'. Therefore, a change in ownership leads to have a significant impact on its behavior and performance of an enterprise. That's why the present study is proposed to analyze the impact of change in ownership on financial performance of NTPC Ltd. and NHPC Ltd. In the present study effects of divestment of the government shareholdings has been taken into consideration. For this purpose financial data from 2005 – 2006 to 2011 - 2012, related to pre and post divestment, has been considered. The researchers concluded that in case of NTPC Ltd., divestment has significant impact on leverage and Dividend Payout but has no significant impact on Profitability and Liquidity as well. Regarding NHPC Ltd. There is no significant effect on all four selected parameters.

KEY WORDS: Public Sector Undertakings, Divestment, Analytical Research

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INTRODUCTION

Public Sector Undertakings in India were viewed as a mechanism for structural transformation of the economy and growth for equity and social Justice. The Public Sector thus, lost its original role and strategic focus, which shifted to supply of goods and services on subsidized rates and creation of employment. Public sector Companies were unable to achieve goals & greater inflow. Divestment is generally expected to achieve a greater inflow & better use of Private management practices in public sector units. This leads to increase operational efficiencies, market value and profit as well of public sector units.

The Energy Sector of a country is the backbone of other Sectors because Energy is required for multiple purpose i.e. to operate machines, for production work, for offices and for factories. Therefore importance of this sector can't be ignored.

LITERATURE REVIEW

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 (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 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 (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. Tiwari, A.K. and Prabhakar, R (2001)., 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.

OBJECTIVES OF THE STUDY:

- To assess the impact of divestment on profitability of selected companies during pre and post divestment.
- To assess the impact of divestment on leverage of selected companies during pre and post Divestment.
- To assess the impact of divestment on liquidity of selected companies during pre and post Divestment.
- To assess the impact of Divestment on dividend payout of selected companies during pre and post Divestment.

Research Hypothesis:

The researchers assumed that due to maintaining accordance with government's Economic, Social, Fiscal and Political expectations the public sector enterprises are not able to achieve their internal financial goals. It was thus expected that Divestment would lead to increase in public enterprises profitability and increase in operational efficiency.

Hypothesis:

H₀ :By and large there is no significant impact of Divestment on profitability of NTPC Ltd. & NHPC Ltd.

H₀ : There is no significant impact of Divestment on leverage position of NTPC Ltd. & NHPC Ltd.

H₀ : There is no significant impact of Divestment on liquidity position of NTPC Ltd. & NHPC Ltd.

H₀: There is no significant impact of Divestment on Dividend payout of NTPC Ltd. & NHPC Ltd.

RESEARCH METHODOLOGY

- **Sample Size and Selection Criteria:** There are 8 companies from Energy Public sector enterprises from F.Y. 2005-06 to 2011-12 in which Government has made Divestment. In order to study the effect of Divestment on Financial performance NTPC Ltd and NHPC have been taken into consideration.
- **Data Collection:** The above objectives have been achieved through the use of secondary data which have been collected from published reports of NTPC Ltd & NHPC Ltd and records of Government of India.
- **Duration of the Study:** Duration for the proposed study is Seven years from F.Y. 2005-06 to 2011-12 has been taken into consideration.
- **Statistical Tools Used:** The data collected from various sources has been analyzed with the help of various prescribed ratio such as :
 - Profit after tax to Sales Ratio (PAT/Sales).
 - Debt to Assets Ratio (Debt/Total Assets).
 - Current assets to current liability ratio (Current assets/Current Liabilities).
 - Dividend Payout Ratio (Dividend/PAT).

After calculating these ratios pre and post Divestment t-test has been applied to test the hypothesis at 95% level of confidence with the help of SPSS.

RESULTS AND ANALYSIS

1. PROFITABILITY:

Profitability is an important measurement of efficiency and progress of any organization. This tool of profitability measurement presents the efficiency in a group. Profitability refers to profit earning capacity of an organization. Analysis of profitability estimates profit generation capacity of an organization, provides basis for, measurement of efficiency of departmental managers, depicts the solvency position to creditors, estimates the earning capacity on an organization for prospective investors, is a basis for remuneration and facilitates to employees and is a medium to generate capital for organization.

Profitability before and after Divestment in Case of NTPC Ltd:**Table-1**

(in crores)

Parameters	Pre Divestment			Post Divestment		
	2005-06	2006-07	2007-08	2009-10	2010-11	2011-12
PAT	58202	68647	74148	8728.20	9102.59	9223.73
Sales	261153	327808	372615	463226	548740	62052
Profitability (%)	0.223	0.209	0.199	0.019	0.017	0.149
% change in Profitability		-99.791	-99.801	-99.981	-99.983	-99.851

Source: Annual Report, www.ntpc.co.in

Interpretation: Table I shows the Profitability in pre and post Divestment period. By comparing, the figures of pre Divestment period, we see that profitability position of NTPC is decreasing before Divestment but after Divestment profitability has a minimum change.

Profitability before and after Divestment in Case of NHPC Ltd:**Table-2**

(in crores)

Parameters	Pre Divestment			Post Divestment		
	2005-06	2006-07	2007-08	2009-10	2010-11	2011-12
PAT	742.75	1154.18	1146.17	2175.56	2316.16	3085.58
Sales	1713.79	2711.30	2982.10	5229.56	4916.66	6920.33
Profitability (%)	0.433	0.426	0.384	0.416	0.471	0.446
% change in Profitability		-99.574	-99.616	-99.584	-99.529	-99.554

Source: Annual Report, www.nhpc.co.in

Interpretation: Table 2 shows the Profitability in pre and post Divestment period. By comparing, the figures of pre Divestment period, we found that profitability position of NHPC is decreasing before Divestment but after Divestment profitability has a minimum change.

2. LEVERAGE

Leverage (sometimes referred to as **gearing** in the United Kingdom, or **solvency** in Australia) is a general term for any technique to multiply gains and losses. The most obvious risk of leverage is that it multiplies losses. A corporation that borrows too much money might face bankruptcy during a business downturn, while a less-levered corporation might survive.

Leverage = Debt / Assets

Leverage before and after Divestment in NTPC Ltd:**Table-3**

(in crores)

Parameters	Pre Divestment			Post Divestment		
	2005-06	2006-07	2007-08	2009-10	2010-11	2011-12
Debt	58202	68647	74148	8728.20	9102.59	11325.12
Assets	261153	327808	372615	463226	548740	78963.72
Leverage(%)	0.598	0.450	0.415	0.193	0.186	0.143
% change in Leverage		-99.55	-99.585	-99.807	-99.814	-99.857

Source: Annual Report, www.ntpc.co.in

Interpretation: This ratio is calculated to measure the relative claims of the outsiders against the firm's assets. It consists of two basic components which are external equities or assets. Table 3 shows the debt/assets ratio in pre and post Divestment period. In the post-Divestment period, the position of NTPC Ltd. is better than that of pre Divestment as its Leverage declining.

Leverage before and after Divestment in NHPC Ltd:**Table-4**

(in crores)

Parameters	Pre Divestment			Post Divestment		
	2005-06	2006-07	2007-08	2009-10	2010-11	2011-12
Debt	7166.69	10471.79	12855.49	16351.52	16771.61	17912.62
Assets	23482.85	30979.93	34485.16	44840.20	46822.53	60288.66
Leverage(%)	0.305	0.338	0.373	0.365	0.358	0.297
% change in Leverage		-99.662	-99.627	-99.635	-99.642	-99.703

Source: Annual Report, www.nhpc.co.in

Interpretation: This ratio is calculated to measure the relative claims of the outsiders against the firm's assets. It consists of two basic components which are external equities or assets. Table 4 shows the debt/assets ratio in pre and post Divestment period. In the post-Divestment period, the position of NHPC Ltd. is better than that of pre Divestment as its Leverage declining.

3. LIQUIDITY

Liquidity is the basic test for measurement of short term financial condition of the firm. This is used as a tool to set the liquidity of an organization. Liquidity refers to payment of current liabilities from regular cash flows without any obstruction. In other words, conversion of assets into cash in normal condition is known as liquidity.

Liquidity = Current Assets/ Current Liabilities

Liquidity before and after Divestment in NTPC Ltd:

Table-5

(in crores)

Parameters	Pre Divestment			Post Divestment		
	2005-06	2006-07	2007-08	2009-10	2010-11	2011-12
Current Assets	126958	181351	215134	25302.69	38795.66	38912.52
Current Liabilities	49102	53235	55483	7687.58	10320.48	17238.64
% of WC and CA (Liquidity) (%)	2.586	3.407	3.877	3.291	3.759	2.257
% change in Liquidity		-96.593	-96.123	-96.709	-96.241	-97.743

Source: Annual Report, www.ntpc.co.in

Interpretation: The liquidity ratio measures the ability of the firm to meet its short term obligations as they fall due. Liquidity is the pre-requisite for the every survival of the company. It measures the firm's short-term solvency. Table 5 shows the liquidity ratio in pre and post Divestment period. In the pre-Divestment period, the position of NTPC is satisfactory as it is having increasing liquidity. In the post-Divestment period, the liquidity of NTPC is declining i.e. its performance is not satisfactory which indicates that the company is not able to meet its short-term obligations in time. It is not a good indication for the company.

Liquidity before and after Divestment in NHPC Ltd

Table-6

(in

crores)

Parameters	Pre Divestment			Post Divestment		
	2005-06	2006-07	2007-08	2009-10	2010-11	2011-12
Current Assets	1397.42	2324.97	4319.55	8570.86	72277.67	60288.66
Current Liabilities	700.79	1294.05	2024.96	2246.98	2414.30	55763.67
Liquidity(%)	1.994	1.797	2.133	3.814	3.014	1.081
% change in Liquidity		-98.203	-97.867	-96.186	-96.986	-98.919

Source: Annual Report, www.nhpc.co.in

Interpretation: Table 6 shows the liquidity ratio during pre and post Divestment period. In the pre-Divestment period, the position of NHPC is satisfactory as it is having increasing liquidity. In the post-Divestment period, the liquidity of NHPC is declining i.e. its performance is not satisfactory which indicates that the company is not able to meet its short-term obligations in time. It is not a good indication for the company.

4. DIVIDEND PAYOUT RATIO:

This ratio clarifies the amount, which can be received as dividend by shareholders from their organization. Dividend Payout Ratio also tells us about the percentage of net profit after tax, distributed as dividend and the percentage of retained earnings.

$$\text{Dividend Payout Ratio} = \text{Equity Dividend} * 100 / \text{Profit after Tax}$$

Table-7

(in crores)

Parameters	Pre Divestment			Post Divestment		
	2005-06	2006-07	2007-08	2009-10	2010-11	2011-12
Dividend	23087	26385	28859	3133.27	3133.26	3298
PAT	58202	68647	74148	8725.20	9102.59	9223.73
DPR(%)	0.396	0.384	0.389	0.359	0.344	0.358
% change in DPR		-99.616	-99.611	-99.641	-99.656	-99.642

Source: Annual Report, www.ntpc.co.in

Interpretation: Table-7 shows Dividend Payout Ratio calculated by dividing Dividend with the Profit after Tax. Dividend Payout Ratio decreases during Pre Divestment and Post Divestment as well.

Dividend Payout Ratio before and after Divestment in NHPC Ltd

Table-8

(in crores)

Parameters	Pre Divestment			Post Divestment		
	2005-06	2006-07	2007-08	2009-10	2010-11	2011-12
Dividend	223	278	300	676.54	738.04	861.06
PAT	742.75	1154.18	1146.17	2175.56	2316.16	3085.58
DPR(%)	0.300	0.241	0.262	0.311	0.319	0.279
% change in DPR		-99.759	-99.738	-99.689	-99.681	-99.721

Source: Annual Report, www.nhpc.co.in

Interpretation: Table-8 shows Dividend Payout Ratio calculated by dividing Dividend with the Profit after Tax. Dividend Payout Ratio decreases during Pre Divestment and Post Divestment as well.

Hypothesis Testing in case of NTPC Ltd.

Table-9

Ratios	Pre Divestment		Post Divestment		Hypothesis Testing	
	Mean	S.D.	Mean	S.D.	Sig. value of t test	Ho
Profitability	0.210	.012	0.061	.076	.095	A
Leverage	0.488	.097	.176	.024	.022	R
Liquidity	3.29	.653	3.002	.6509	.718	A
Dividend Payout Ratio	.389	.006	.354	.008	.005	R

Confidence Level= 95%

A= Accepted (p value $0.05 <$ sig value)

R= Rejected (p value $0.05 >$ Sig Value)

Interpretation: Table-9 reveals results of various hypothesis testing at 95% level of Confidence. In case of profitability Mean value of Pre and Post Divestment is tested and significant value of 0.09 came which is more than 0.05 that's why hypothesis is accepted and this is concluded that there is not significant impact of Divestment on profitability but it has a minor impact. In case of leverage significant value is 0.02 which is less than 0.05, therefore hypothesis has been rejected and Divestment has a significant impact on Leverage position of NTPC Ltd. In case of liquidity significant value of t test is 0.718 that is more than 0.05, hence hypothesis is accepted in this case also and Divestment has not a significant impact on liquidity of NTPC. Divestment has significant impact on Dividend Payout Ratio in case of NTPC as its significance value i.e. 0.005 is less than 0.05.

Hypothesis Testing in case of NHPC Ltd.

Table-10

Pre Divestment			Post Divestment		Hypothesis Testing	
Ratios	Mean	S.D.	Mean	S.D.	Sig. value of t test	Ho
Profitability	.414	.027	.445	.029	0.331	A
Leverage	.339	.034	.288	.127	.636	A
Liquidity	1.974	.1688	2.636	1.405	.528	A
Dividend Payout Ratio	.267	.029	.303	.021	.241	A

Confidence level= 95%

A= Accepted ($p \text{ value} < 0.05 < \text{Sig Value}$)

R= Rejected ($p \text{ value} > 0.05 > \text{Sig Value}$)

Interpretation: Table-10 reveals results of various hypothesis testing at 95% level of Confidence. In case of profitability Mean value of Pre and Post Divestment is tested and significant value of 0.331 came which is more than 0.05 that's why hypothesis is accepted and this is concluded that there is not a significant impact of Divestment on profitability but it has a minor impact. In case of leverage significant value is 0.636 which is more than 0.05, therefore hypothesis has been accepted and in case of liquidity significant value of t test is 0.528 that is more than 0.05, hence hypothesis is accepted in this case also and Divestment has not a significant impact on liquidity of NHPC. Divestment has not a significant impact on Dividend Payout Ratio in case of NHPC as its significance value i.e. 0.241 is more than 0.05.

Conclusion and Suggestions:

The study on impact of Divestment on the corporate performance has revealed the following conclusions:

(i) The Profitability on the basis of Profit after tax and Sales has been decreased. It can be said that NTPC and NHPC both must pay attention on other factors as covers in various policies of Government.

(ii) The liquidity ratio indicates that the liquidity position is declining with the Divestment process. Its current assets are insufficient to meet its current obligations.

(iv) The Leverage indicates that the figures are declining in both the cases i.e. NTPC and NHPC which is good. The declining trend indicates that the company is using less debt as compared to its assets. It is indication of lesser obligations of the company.

(v) The interpreted results of the NTPC and NHPC show that the Divestment programme has not significance regarding the corporate performance in case of both the Companies.

In order to achieve the basic objectives of the Divestment programme, the following suggestions have been made:

- For the pre-requirement of a better Divestment process, it is necessary to have linkages with capital market. So, it is necessary to list the companies at the stock exchange.
- To have a successful programme of Divestment, it is necessary to have transparency in sale. The process should be open to all. There should not be any secrets.
- There are lot of methods and techniques to compute the value of public sector undertakings. It is necessary to follow the suitable method and technique which will be helpful in just realizations.
- One of the most important point which is to be considered that the Divestment programme should be carried on at a proper time. The ideal time to sell equity is when the market is at a high level.
- There is no need to follow a uniform method for divesting the shareholding of PSUs. PSUs selected for Divestment should be classified into various categories based on their special features and the best price should then be arrived at by choosing one or a blend of share valuation methods.

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