International Journal of Trend in Scientific Research and Development (IJTSRD)
Volume 6 Issue 7, November-December 2022 Available Online: www.ijtsrd.com e-ISSN: 2456 – 6470

The Economic Status of India's Disinvested Central Public Sector Enterprises

Prof. Mahrukh Mirza[1], Deepa Tiwari[2]

[1]Professor, Khwaja Moinuddin Chishti Language University, Lucknow, Uttar Pradesh, India
[2]Research Scholar, Khwaja Moinuddin Chishti Language University, Lucknow, Uttar Pradesh, India

ABSTRACT

The Central Public Sector Enterprises were created to help India achieve economic independence, and they've since gone on to play a crucial part in the country's continued economic success. Massive investments in public companies were embraced as an economic strategy in nation to speed up and more fairly distribute economic growth. In terms of infrastructure and public services, government-owned CPSEs were crucial. CPSEs had a very low return on capital employed, as shown by the new economic policy implemented in July 1991. In light of this realization, it became clear that the government needed to disband certain sectors in order to refocus its efforts and what has been dubbed as "Disinvestment Policy". Both descriptive and analytical elements are included in this study. It examines what disinvestment is, how it may be accomplished, the criterion used by the Indian governments, and a breakdown of the amount that has been diverted from 2015 to 2020.

KEYWORDS: *CPSE, Investment, Disinvestment, Economic Policy*

How to cite this paper: Prof. Mahrukh Mirza | Deepa Tiwari "The Economic Status of India's Disinvested Central Public Sector Enterprises" Published in International Journal of Trend in Scientific Research and Development (ijtsrd), ISSN: 2456-6470, Volume-6 | Issue-7, December 2022, pp.1199-1206, URL: www.ijtsrd.com/papers/ijtsrd52551.pdf

IJTSRD52551

INTRODUCTION

As government-owned businesses, CPSEs operate under the direct supervision, management, and direction of the Indian central government (under the Companies Act or statutory corporations under the specific statues of Parliament). The Central Government owns more than half of the issued and outstanding shares in these companies. These government-owned businesses were created to help India achieve economic independence, and they've since gone on to play a crucial part in the country's continued economic success. Since 1948, India has acknowledged the public sector's value to the country's economy. Since then, the public sector in India has seen unprecedented expansion in terms of both the quantity and size of investments.

There is no need to emphasize the vital role that public sector firms play in the Indian economy. Some CPSEs are essential because they help the government achieve its social and economic goals and maintain price stability for essential goods and services. The necessity for fast industrialization, coupled with a desire for more fair distribution of economic riches, and the shortcomings of the free market are the primary causes supporting the survival of these businesses. Since the first Economic Plan, which envisioned industrialization as a means of growth, India has seen a rise in state ownership and more control. The dismal results of publicly owned agencies were recognized and addressed in the 1980s. During the period beginning in 1991, when the process of economic reform was first launched, privatization was an integral part of government policy.

Massive investments in public companies were embraced as an economic strategy in nations like India to speed up and more fairly distribute economic growth. From the beginning of the First National Plan in 1951–56 to the completion of the Ninth National Plan in 2002, massive public sector investments were undertaken in each succeeding plan. Since the private sector lacked the capital, managerial and scientific expertise, and willingness to undertake the risks associated with large, long-gestation investments, the strategy led to defining and redefining the role of the state in national development. As a result, state intervention in all sectors of the economy was desirable and inevitable in the First Five Year Plan. Since then, there has been a dramatic expansion in both the number of CPSEs and their overall investment.

LITERATURE REVIEW

Gurwinder Singh Bhallaet.al (2020) study sets out to quantitatively analyse the effects of divestment on the financial and operational performance of 26 CPSEs that traded on India's Bombay Stock Exchange (BSE) between 2000 and 2014. Ratio analysis has been used to establish the asset turnover, equity turnover, net income efficiency, debt equity, dividend payout, and employment rates. Performance before and after disinvestment is compared for each company using the Wilcoxon signed-rank test. The data points to a decline in profitability and this decline is statistically significant. Disinvestment has not been shown to have a positive effect on CPSEs' earnings, according to the available empirical research. The poor financial health of CPSEs prior to disinvestment, a negative rate of return on capital employed by PSEs, and inefficiency are all possible explanations that need to be empirically explored in future research.

Bhawna Kakkar (2018) This research analyses the development of CPSE disinvestment policy from 1991 onward, focusing on the evolution of the legal stance on disinvestment as shown by landmark judgements and the valuation methodology of shares/assets used in the Strategic Sales of CPSEs. This article provides a historical overview of disinvestment policy, covering its development, the various institutions and agencies involved, and the key Supreme Court rulings.

Sharat Kumar (2018) Growth in the economy may be stimulated by increasing the amount invested, since this is a well-established fact, there is little doubt about the significant role that CPSEs have played as investment vehicles throughout the nation. The stock of several of these companies is traded on public exchanges. Though prosperous on paper, the market value of these enterprises has collapsed in recent times. Following recent government pronouncements, CPSE market capitalization and confidence have fallen. The article suggests that the current trend of declining market capitalization of these enterprises may be reversed with the release of a White Paper on the implementation of pending reforms, as advocated by the Panel of Experts on Reforms in CPSEs, formed earlier by the Planning Commission.

Kanhaiya Singh (2021) With the overriding objective of boosting productivity and giving enterprises greater independence, the Indian government executed its disinvestment strategy. To achieve this goal, the disinvestment strategy needed to be fine-tuned on a regular basis. This research looks at the effects of divestment on the financial health of 20 CPSEs. Wilcoxon sign rank test is used to examine the impact that divestment has on a variety of CPSE metrics, including their liquidity, operational efficiency, leverage, payout ratio, overall size, valuation, and profitability. Three years of data were obtained before to the disinvestment, and another three years of data were collected afterwards; together, they make up the seven-year data set used in the study. The test shows that divesting CPSEs enhanced their financial health, dividend, value, and overall size.

K.A. Aneesh (2020) For past 27 years, the central government of India has been gradually and successfully removing PSEs from noncore industries. Recently, strategic disinvestment plans have been announced for some of the best performing CPSEs like Life Insurance Corporation of India Ltd., Air India, and so on. This raises serious doubts about the government's dedication to the disinvestment policy's stated aims, which were first implemented in 1991. Many people worry that the Central Government will have to liquidate CPSEs at a loss and use the proceeds to close budget gaps. This research examines disinvestment and the debates surrounding it, with special attention paid to India. In addition, the article offers a critical evaluation of India's disinvestment profits since the New Economic Policies were enacted in 1991 to combat the country's ballooning budget deficits.

RESEARCH AND METHODOLOGY

Descriptive and analytical methods are used for this paper's research and writing. All of the information here is secondary in nature, and it was gathered from online resources like newspapers, magazines, and blogs as well as official government websites. Disinvestment is measured by looking at how many businesses were sold and how they were sold.

DATA ANALYSIS

Initial disinvestment momentum was helped along by rising government and stock market confidence. Initiated by the government, the process involves the sale of minority holdings in public companies. Companies like Rural Electrification Corporation Ltd, NTPC, Indian Oil Corporation Ltd, EIL, CCIL, etc. were divested via public offerings. The government collected Rs. 23,996.8 crore in 2015-16, falling short of the Rs. 69,500 crore goal, and Rs. 46.246.2 crore in 2016-17, again falling short of the Rs. 56.52 billion goals. There was an increase in revenue collection in 2017-18, when the government collected Rs. 1,00,056.91 crore compared to its objective of Rs. 72,500 crores, and in 2018-19, when it collected Rs. 84,972.17 crore compared to its target of Rs. 80,000. There is also a decrease, from Rs. 90,000 crores in 2019-20 to Rs. 50,298.64 crore in 2020-21.

TABLE 1: ANNUAL CPSE DISINVESTMENT TARGET AND ACTUAL ACCOMPLISHMENT SINCE 2015-16

YEAR	TARGET (Rs. crore)	ACHIEVED * (Rs. crore)	ACHIEVEMENT (%)
2015-16	69,500	23,996.8	34.62
2016-17	56,500	46,246.58	82.09
2017-18	72,500	1,00,056.91	138.82
2018-19	80,000	84,972.17	106.33
2019-20	90,000	50,298.64	55.36
2020-21	2,10,000	32,835**	14.39

Source: www.bsepsu.com

Goals and accomplishments for disinvestment are shown in Table 1 Above. The actual sum realized is far lower than what was hoped for. The government was unable to collect the necessary funds. The money that was made via disinvestment wasn't enough to fix the purpose. Reasons for underperformance in disinvestment vs goal included: • Unfavorable market circumstances • The government's offer did not entice private sector investment. •Accusations against the assessment method. • Uncertainty surrounds the disinvestment policy. •Employees and labor groups have expressed strong resistance • Insufficient information about the procedure to the stake holders; • Lack of political will.

Below, we list, by year, the disinvestment methods, the number of firms, and the total amount Disinvested for the year 2015-16.

TABLE 2: DISINVESTMENTS IN THE YEAR 2015-16

S. No.	Mode of Disinvestment	No. of Enterprises Disinvested	Amount received (in Crores)
1	Buyback	2	4483.22
2	Offer For Sale	7	19513.58
Total		9	23996.8

Source: Author's Computation

Nine public sector undertakings (CPSUs) were divested in 2015–16, as shown in Table2. Only 2 Performance Share Units were repurchased, with the rest being sold via an offer and acceptance. As a result of the disinvestment, a total of Rs.23996.8 Crores was obtained.

TABLE 3: DISINVESTMENTS IN THE YEAR 2016-17

S.No.	Mode of Disinvestment	No. of Enterprises Disinvested	Amount received (in Crores)
1	Buyback	7	18963.47
2	Offer for Sale	5	7475.23
3	Sale to Employees	6	529.19
4	Exchange Trade Fund	2	8499.98
5	Strategic Disinvestment	1	10778.71
Total		**21**	**46246.58**

Source: Author's Computation

Information for 2016-2017 is mentioned above in Table 3. Over the course of this year, the government disinvested in 21 PSUs in various ways: seven through buybacks, six through sales to employees, five through offers for sale, two through exchange traded funds (ETFs), and one through a strategic sale.

TABLE 4: DISINVESTMENTS IN THE YEAR 2017-18

S.No.	Mode of Disinvestment	No. of Enterprises Disinvested	Amount received (in Crores)
1	Buyback	13	5337.55
2	Offer for Sale	7	13395.65
3	Sale to Employees	6	315.21
4	Exchange Trade Fund	1	14500
5	Public Offer	6	24039.85
6	Strategic Disinvestment	1	4153.65
7	Others	2	38315
Total		**36**	**100056.91**

Source: Author's Computation

The 2017–18 disinvestment information is shown in Table4. This year, the government divested from 36 businesses using a variety of strategies, including buybacks and offers for sale, public offerings, employee sales, as exchange traded fund, a strategic sale, and other methods.

TABLE 5: DISINVESTMENTS IN THE YEAR 2018-19

S. No.	Mode of Disinvestment	No. of Enterprises Disinvested	Amount received (in Crores)
1	Buyback	11	10670.83
2	Offer for Sale	1	5218.3
3	Sale to Employees	1	17.33
4	Exchange Trade Fund	3	28079.92
5	Public Offer	5	1914.15
6	Strategic Disinvestment	4	15913.96
7	Others	3	23157.68
Total		**28**	**84972.17**

Source: Author's Computation

In Table 5 information for fiscal year, 2018-2019 is given. This year, 28 companies have been disinvested in some way, with 5 disinvestments occurring via public offer, 11 via buyback, 3 via EFT, 1 via offer for sale, 4 via strategic sale, and 1 via sale to employees.

TABLE 6: DISINVESTMENTS IN THE YEAR 2019-20

S.No.	Mode of Disinvestment	No. of Enterprises Disinvested	Amount received (in Crores)
1	Buyback	3	821.8
2	Offer for Sale	2	1129.58
3	Exchange Trade Fund	3	30869.19
4	Public Offer	2	1113.86
5	Strategic Disinvestment	3	13883
6	Others	2	2481.21
Total		**15**	**50298.64**

Source: Author's Computation

Information for 2019-2020 is Given in Table 6. As of the end of this fiscal year, 15 CPSUs were divested. Three businesses were divested via buyback, three others via exchange-traded funds, two via public offer, two via offer for sale, three via strategic disinvestment, and the remaining enterprises were divested other means.

2020-21 onwards

The Financial year 2020-21disinvestment goal was set for 1.20 lakh crores in Indian rupees.

TABLE 7: DISINVESTMENTS IN THE YEAR 2020-21

S.No.	Mode of Disinvestment	No. of Enterprises Disinvested	Amount received (in Crores)
1	Buyback	7	3935.99
2	Offer for Sale	7	22972.86
3	Public Offer	3	2801.76
4	Others	1	3124.84
Total		**18**	**32835.45**

Source: Author's Computation

Details for 2020-21 are provided in Table 7. To date this year, a total of 18 businesses have been divested, 7 via offer for sale, 7 via buyback, 3 via public offer, and 1 via some other method.

TABLE 8: TOTAL NUMBER OF CPSE Disinvested from 2015–2021, AND PROCEEDS FROM DISINVESTMENT METHODS

S. No.	Mode of Disinvestment	Number of Enterprises disinvested	Amount raised from disinvestment
1	Buyback	43	44212.86
2	Offer for Sale	29	69705.2
3	Sale to Employees	13	861.73
4	Exchange Trade Fund	09	81949.09
5	Public offer	16	29869.62
6	Strategic Disinvestment	09	44726.32
7	Others	08	67078.73

Source: Author's Computation

It can be seen from Table 8 that the government has raised the most money from the disinvestment through the Exchange Trade Fund (i.e., Rs. 81949.09 Crores), followed by the Offer for Sale (Rs. 69705.20 Crores), then the Strategic Sale (Rs. 44726.32 Crores), then the Buyback (Rs. 44212.86 Crores), then the Public Offer (Rs. 29869.62 Crores), and finally

TABLE 9: TOTAL RECEIPTS THROUGH DISINVESTMENTS ANNUALLY AND THE NUMBER OF TRANSACTIONS

S.No	Year	Receipts (Rs. Crores)	No. of transactions
1	2015-2016	23996.8	9
2	2016-2017	46246.58	21
3	2017-2018	100056.91	36
4	2018-2019	84972.12	28
5	2019-2020	50298.64	15
6	2020-2021	32835.45	17
	Total	**338406.5**	**126**

Source: Author's Computation

FIG: 1

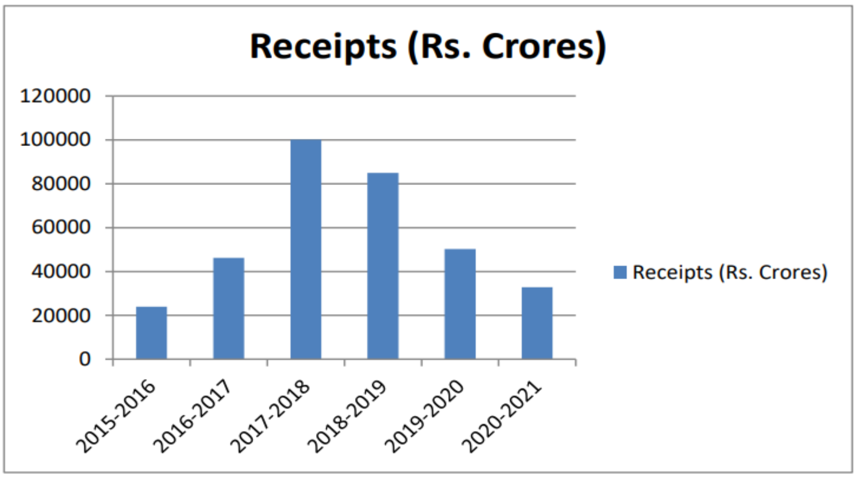

TABLE10: TOTAL DISINVESTMENT AMOUNT WITH RESPECT TO TYPE OF DISINVESTMENT

Year	BB	OFS	EMPOFS	ETF	IPO	SD	Others	Total
2015-16	4483.22	19513.58						23996.8
2016-17	18963.47	7475.23	529.19	8499.98		10778.71		46246.58
2017-18	5337.55	13395.65	315.21	14500	24039.85	4153.65	38315	100056.91
2018-19	10670.83	5218.3	17.33	28079.92	1914.15	15910.96	23157.68	84972.17
2019-20	821.8	1129.58		30869.19	1113.86	13883	2481.21	50298.64
2020-21	3935.99	22972.86			2801.76		3124.84	32835.45
Total	**44212.86**	**69705.2**	**861.73**	**81949.09**	**29869.62**	**44726.32**	**67078.73**	**338406.5**

Source: Author's Computation

According to Figure 1, the Government of India has raised a total of Rs.33,840,65 Crores from a variety of sources over the past six years, through a total of 126 separate transactions. In 2017, the most money was brought in, followed by 2018 and 2019 with smaller totals.

FIG: 2

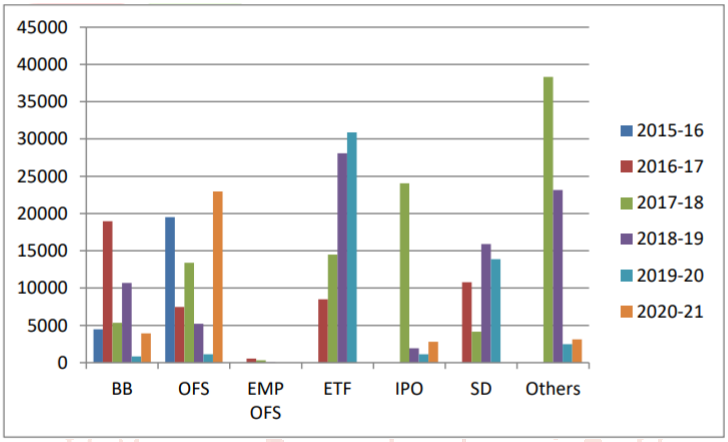

Figure 2 represents the amount raised through various modes of disinvestment since 2015 till 2021.

FINANCIAL PERFORMANCE OF SELECT CENTER PUBLIC SECTOR ENTERPRISES

To analyses the average performance and impact of liberalization on Indian Central Public Sector Enterprises, calculation and presentation of the following summary statistics have been done: pre and post Disinvestment mean, standard error of mean difference, paired 't' statistics, and annual compound growth rates for the key ratios under study, industry-wise across the following sectors.

Petroleum Group

Table 11 displays the debt-equity ratio and compound growth rate for the Petroleum Group Companies before and after the liberalization period.

TABLE 11: DEBT-EQUITY RATIO

Name	Mean		Standard Error	t-val	CGR %	
	Pre	Post			Pre	Post
CRL	.4067	.7544	.0851	-4.085*	-4.25	-1.31
BRPCL	.1433	.1689	.0472	-.541	260	11.35
BPC	.5100	.5400	.0758	-.395	10.34	-3.45

*-significant at 5 % level

The above table shows that the DE ratio in the Petroleum Group industries CRL has increased significantly after the disinvestment period. It is also taken into account that the post-disinvestment period sees a significant slowdown in the compound growth rate of BPC.

Fertilizers And Chemicals Group

Table 12 shows the debt-equity ratio and compound growth rate for companies in the Fertilizers and Chemicals Group before and after the disinvestment.

TABLE 12 DEBT-EQUITY RATIO

Name	Mean		Standard Error	t-val	CGR %	
	Pre	Post			Pre	Post
HOCL	.4100	3.4244	2.9422	-1.025	13.36	+
IPCL	1.3733	1.1538	.2579	.851	-12.11	-11.65
RCFL	.5917	2.1856	.7766	-2.05*	10.33	+
FCL	.2850	.3856	.0682	-1.474	-21.66	-8.97

*Significant at 5 % level +some of the values are non-positive

The above table shows that both the DE ratio and the compound growth rate of the FCL industry increase after the initial period of disinvestment in the Fertilizers and Chemicals Group.

STEEL AND MINERALS GROUP

In table 13, we can see the debt-equity ratio and compound growth rate for the Steel and Minerals Group firms before and after the disinvestment.

TABLE 13: DEBT-EQUITY RATIO

Name	Mean		Standard Error	t-val	CGR %	
	Pre	Post			Pre	Post
NAC	.8717	.1989	.2079	3.235*	-37.46	-5.46
DCL	.9633	.2700	.1134	6.110*	-13.50	-24.46
NLC	.4750	.2033	.0546	4.971*	-17.80	-1.23
HZL	.4617	.1089	.0704	5.009*	-17.43	+
SAI	.8717	.1989	.2079	3.235*	4.58	-9.00

*Significant at 5 % level +some of the values are non-positive

Data from the five industries that make up the Steel and Minerals Group show that their average debt-to-equity ratios have decreased dramatically since the disinvestment period (see table above).

CONCLUSION

The necessity for fast industrialization, coupled with a desire for more fair distribution of economic riches, and the shortcomings of the free market are the primary causes supporting the survival of these businesses. In order to achieve the larger macroeconomic goals of increased economic development and independent production of goods and services, public sector businesses need to be divested. Any failure to achieve the desired level of disinvestment would worsen the government's budget deficit. Investment in long-term infrastructure development that can give continuing dividends to the economy should be made using the money from strategic sales.

REFERENCES

[1] Mandiratta, Priya&Bhalla, Gurwinder. (2020). Disinvestment in Indian central public sector enterprises: a performance improvement measure. Journal of Economic and Administrative Sciences. ahead-of-print. 10.1108/JEAS-02-2019-0023.

[2] Kakkar, Bhawna, A Study of Disinvestment of Central Public Sector Enterprises in India (1991-2016) (December 27, 2017). Available at SSRN: https://ssrn.com/abstract=3093570 or http://dx.doi.org/10.2139/ssrn.3093570

[3] Sharat Kumar (2018) Central Public Sector Enterprises in India: A Case of Policy and Perception Conundrum https://doi.org/10.1177/00195561211025958

[4] Kanhaiya Singh (2021) Impact of Disinvestment on Performance of Select Central Public Sector Enterprises in India

https://doi.org/10.17492/jpi.mudra.v8i2.822101 Published Online: December 15, 2021

[5] K.A. Aneesh (2020) Disinvestment of Public Sector Enterprises (PSEs) and Fiscal Deficit Tackling in India ISSN: 2249-6319

[6] Alipour, M., 2013, Has privatization of state-owned enterprises in Iran led to improved performance? International Journal of Commerce and Management, 23, 4, 281-305.

[7] hhibber, A., and Gupta, S., 2017, Public Sector Undertakings: Bharat's Other Ratans, IIEP Working Paper 2017-6.

[8] Del Bo, C. D., Ferraris, M., and Florio, M., 2017, Governments in the market for corporate control: Evidence from M&A deals involving state-owned enterprises, Journal of comparative economics, 45(1), 89-109.

[9] Jain, R., 2017, Public sector enterprise disinvestment in India: Efficiency gains in a political context, Journal of Asian Economics, 53, 18-36.

[10] Kakkar, B., 2017, A Study of Disinvestment of Central Public Sector Enterprises in India (1991-2016), (December 27, 2017), Available at SSRN: https://ssrn.com/abstract= 3093570 or http://dx.doi.org/10.2139/ssrn.3093570.

[11] Khanna, S., 2015, The Transformation of India's Public sector: Political Economy of Growth and Change, Economic and Political Weekly, L, 5, 47-60

[12] Mandiratta, P., and Bhalla, G.S.2020, Disinvestment in Indian central public sector enterprises: a performance improvement measure, Journal of Economic and Administrative Sciences, DOI: 10.1108/jeas-02-2019-0023.

[13] K.A. Aneesh (2020) Disinvestment of Public Sector Enterprises (PSEs) and Fiscal Deficit Tackling in India ISSN: 2249-6319

[14] Kumar, P. (2014). Impact of Disinvestment on Profitability of Sexed Public Sector Units. International Journal of Reviews, Surveys and Research, 3 (2), 28-42.

[15] Vijayakumar, A., &Jayachitra, S. (2015). Financial and Operating Performance of Dis-invested Central Public Sector enterprises of Manufacturing Sector in India. International Journal of Research in Commerce, IT and Management, 5 (1).