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Disinvestment and Financial Performance: Evidence from Indian Manufacturing Industry

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***Abstract:** The purpose of this article is to examine the association between disinvestment and financial performance of disinvested PSUs. To examine the said the association, this study took Steel Authority of India Ltd. (SAIL) as sample unit to examine the influence of disinvestment on financial performance of SAIL which is disinvested in 2012-13 by government of India and represent the manufacturing sector. Further, we deployed the current ratio, asset turnover ratio, inventory turnover ratio, debtors turnover ratio and return on capital employed to examine the financial performance of SAIL pre and post disinvestment of SAIL. Our results show that financial position of SAIL before disinvestment was in decreasing order, and investment strategy adopted by GOI may improve the financial position of SAIL after disinvestment. The findings of this study provide several implications to stakeholders.*

***Keywords:** PSU, SAIL, Financial Performance, Disinvestment.*

I. INTRODUCTION

The course of economic reforms has gone on over the most recent 15 years. Some new financial arrangements, thoughts and strategies are being carried out to get important changes Indian economy. These are underlying as well as useful changes that are occurring. These changes are connected not exclusively to one specific area or portion of the economy however the entire set-up of economy. Changes demonstrate change in the design as well as change in the demeanor (Rastogi and Shukla, 2013). The very premise ofindian economy is progressively and askew different. In 1974, the Government of India conceded to the philosophy of communism and likewise the Constitution was moreover altered to re-name the country as Socialist, Democratic, Republic of India. Nonetheless, inside twenty years the organizers and legislative leaders of the economy understood the pointlessness of this change in terminology. Today, communism has ended up being a heavenly cow which everybody needs to applaud however no one needs to sustain (Ravinder and Rupinder, 2007).

Whenever it is conceded that Disinvestment as an instrument of financial changes can help in further developing effectiveness of economy, it must be presented by getting reasonable changes in the strategy system and its suggestions on different areas of economy. Financial changes is a longterm interaction. There is no enchanted wand to change a sickly economy into an integral asset for financial change rapidly. The cycles of changes are staggered and are constantly finished in a staged way. This is explicitly evident when one considers mammoth size economy like India. India has different monetary areas, various number of players and enormous segments of financial exercises (Arun and Nixson, 2000). The interest of these areas and segments are interlinked and between dependant. Be that as it may, there is a Catch 22 of clashing interests as well. Therefore, the present study attempt to understand the influence of disinvestment of PSUs on financial performance. Hence, the rest of the study is organized as follows. Section 2 provides the review of related studies and Section 3 deals with research methodology. In Section 4 shows the results of study and Section 5 concludes the finding of this study.

II. Review of Literature

Sankar and Reddy (1989) have introduced the choice of divestment into a lattice structure and have expressed that state claimed ventures (SOEs) are viewed as high or falling short on three elements, specifically, social reason, productivity and asset assembly. As indicated by their model, SOEs working in aggressive business sectors having low friendly reason and furthermore low asset preparation are most appropriate contender for disinvestment.

Jain (2002) assessment that National Policy Initiative like Advancement, Privatization and Globalization are huge advancements in the new history of financial arrangement focused on the quicker improvement of the economy. Public Sector changes require decrease of state control of the economy what's more anticipate interest of the private endeavors and market influences in the creation cycle.

Ray and Maharana (2002) have endeavored to inspect the advancement of the course of PSEs disinvestment in India during the time of 1991 to 2001. As far as activity to the PSEs disinvestment, very little has really emerged. They propose that the debates and reactions against disinvestment can be to a great extent kept away from through a straightforward cycle.

Mike et al (2004) have utilized Chinese firms of various possession types and recommend that proprietorship type can be a stingy and significant variable that chiefs use to intellectually arrange firms into various vital gatherings. They find that state-possessed ventures (SOEs) and exclusive undertakings (POEs) will quite often embrace protector and miner methodologies, individually, while collectively owned endeavors (COEs) and unfamiliar contributed undertakings (FIEs) show an analyzer direction that falls among protectors and miners on the system continuum.

Baijal (2011) had assessed privatization goes across the globe through a recorded point of view by checking out the privatization models and cycles took on in various nations. It likewise incorporates contextual investigations of organizations like BALCO, Maruti, Hindustan Zinc, VSNL, Jessopand CMC, giving an understanding into the various parts of disinvestment. And furthermore dissected, the effect of privatization and disinvestment on organizations, economies and different partners, and starts a solid and wellinformed banter based on realities.

Sinha (2014) observed that the disinvestment of PSUs in India is politicized strategy program which in the last just about two and half many years have neglected to produce the helpful outcomes. Disinvestment strategy with too many curve and turns, during the most recent quite a while stayed dim with each ideological group mounding it as indicated by its requirement for assets and bringing their monetary deficiency, rather than achieving a genuine improvement in the working of the concerned PSUs.

Shrivastava (2014) reasoned that the disinvestment is really great for a nations economy as it gives income to the public authority, increments working and monetary execution of ventures and furthermore rebuild those units which are consistently misfortune making undertakings. However, the fundamental issue behind non accomplishment of disinvestment targets is detached conduct of government. No administration survey strategies for disinvestment in the wake of fixing the objectives.

III. Research Methodology

3.1 Target population, sampling and data collection

Target population for our research study was the public sector undertakings which are disinvested post privatization policy of 1990. These undertakings are perfect target population to test influence of disinvestment policy on firms' financial performance. After selecting the target population, we need to choose the target firm. Hence, this study took Steel Authority of India Ltd. (SAIL) as sample unit to examine the influence of disinvestment on financial performance of SAIL which is disinvested in 2012-13 by government of India and represent the manufacturing sector.

3.2 Measurement and data

The financial performance of disinvested company is measured using following ratio which are frequently used by previous studies:

i). Current Ratio

ii) Asset Turnover Ratio

iii) Inventory Turnover Ratio

iv) Debtors Turnover Ratio

v) Return on Capital Employed

The data was compiled from financial reports of SAIL from 2007-08 to 2018-19 for six years. Then, the data was divided into two parts as pre and post disinvestment. The data from 2007-08 to 2012-13 as pre-disinvestment data and data from 2013-14 to 2018-19 as post disinvestment data.

3.3 Hypotheses

The following hypotheses are formulate to examine the influence of disinvestment on financial performance.

H_1: Disinvestment policy significantly influence the current ratio of SAIL.

H_2: Disinvestment policy significantly influence the asset turnover ratio of SAIL.

H_3: Disinvestment policy significantly influence the inventory turnover ratio of SAIL.

H_4: Disinvestment policy significantly influence the debtors turnover ratio of SAIL.

H_5: Disinvestment policy significantly influence the return on capital employed of SAIL.

3.4 Statistical tests

In this study, we deployed paired t-test statistics for testing of hypotheses. In addition, we used IBM SPSS and MS Excel were used to analysis the data.

IV. DATA ANALYSIS

4.1 Descriptive statistics

Figure 1 shows the current ratio of Steel Authority of India Ltd. (SAIL) pre and post disinvestment. The results provide that current ratio of SAIL was 1.600, 1.720, 1.770, 1.590, 1.390, 1.220, 0.990, 0.830, 0.750, 0.700, 0.750, and 0.850 in financial year 2007-08, 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17, 2017-18 and 2018-19, respectively. The results indicate that before disinvestment the current ratio of SAIL was in decrease trend. After disinvestment of SAIL in financial year 2012-13, the current ratio reported to increase trend. Therefore, the analysis of financial performance of SAIL using the current ratio shows that the disinvestment strategy of SAIL have improve the current position of company.

Figure 1: Current ratio of SAIL pre and post disinvestment

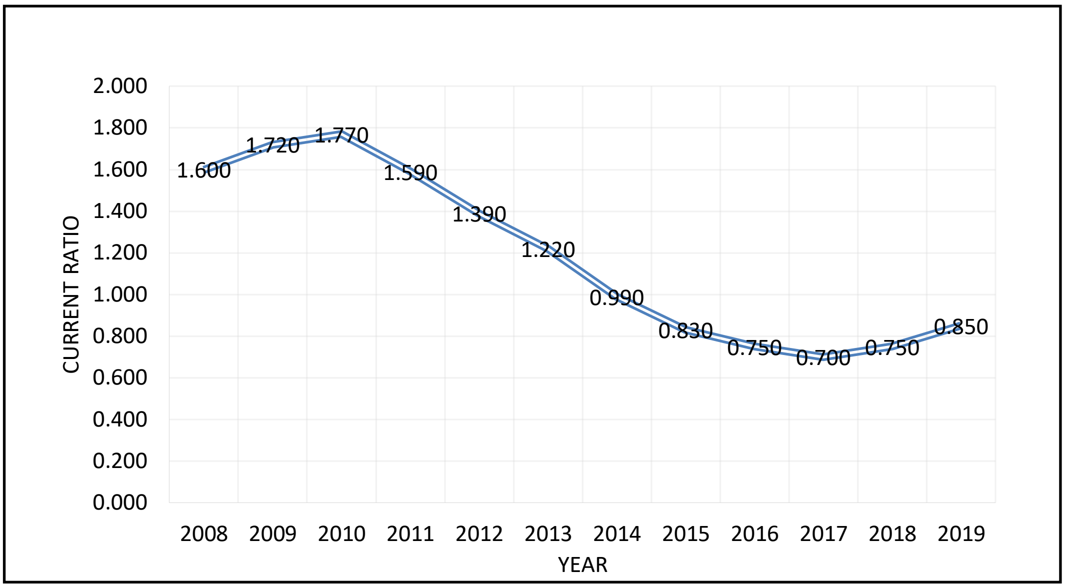


Figure 2 shows the Asset Turnover Ratio of Steel Authority of India Ltd. (SAIL) pre and post disinvestment. The results provide that Asset Turnover Ratio of SAIL was 1.510, 1.530, 1.290, 1.290, 1.280, 1.180, 1.080, 0.860, 0.610, 0.610, 0.650, and 0.680 in financial year 2007-08, 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17, 2017-18 and 2018-19, respectively. The results indicate that before disinvestment the Asset Turnover Ratio of SAIL was in decrease trend. After disinvestment of SAIL in financial year 2012-13, the Asset Turnover Ratio also shows decrease trend upto 2017, thenafter, this indicator rebound. Therefore, the analysis of financial performance of SAIL using the Asset Turnover Ratio shows that the disinvestment strategy of SAIL have not improve the asset turnover capability of company.

Figure 2: Asset Turnover Ratio of SAIL pre and post disinvestment

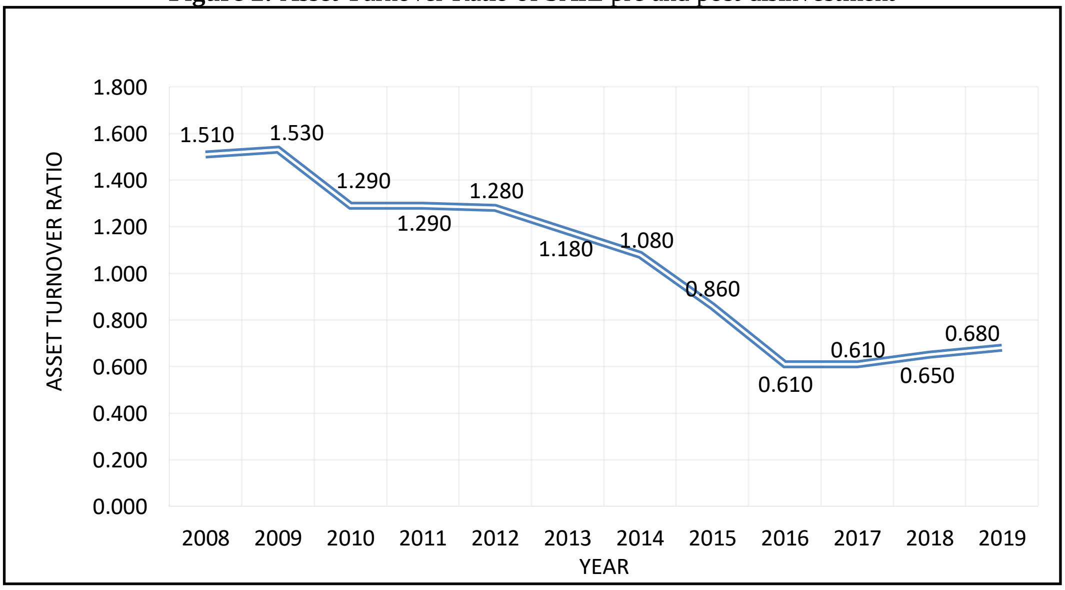


Figure 3 shows the Inventory Turnover Ratio of Steel Authority of India Ltd. (SAIL) pre and post disinvestment. The results provide that Inventory Turnover Ratio of SAIL was 6.650, 5.620, 4.500, 4.610, 4.020, 3.310, 3.310, 3.070, 2.670, 3.230, 3.550, and 3.630 in financial year 2007-08, 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17, 2017-18 and 2018-19, respectively. The results indicate that before disinvestment the Inventory Turnover Ratio of SAIL was in decrease trend. After disinvestment of SAIL in financial year 2012-13, the Inventory Turnover Ratio also shows decrease trend upto 2016, thenafter, this indicator rebound. Therefore, the analysis of financial performance of SAIL using the Inventory Turnover Ratio shows that the disinvestment strategy of SAIL might improve the inventory turnover capability of company.

Figure 3: Inventory Turnover Ratio of SAIL pre and post disinvestment

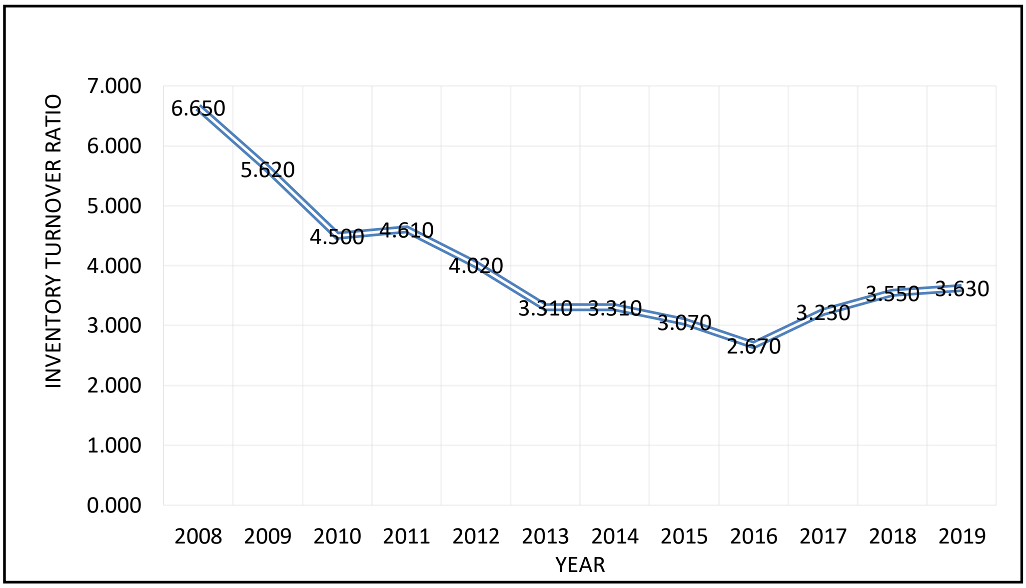


Figure 4 shows the Debtors Turnover Ratio of Steel Authority of India Ltd. (SAIL) pre and post disinvestment. The results provide that Debtors Turnover Ratio of SAIL was 17.150, 16.040, 13.460, 12.490, 11.490, 10.860, 10.560, 11.790, 13.850, 16.410, 17.360, and 16.010 in financial year 2007-08, 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17, 2017-18 and 2018-19, respectively. The results indicate that before disinvestment the Debtors Turnover Ratio of SAIL was in decrease trend. After disinvestment of SAIL in financial year 2012-13, the Debtors Turnover Ratio also shows decrease trend upto 2014, thenafter, this indicator rebound. Therefore, the analysis of financial performance of SAIL using the Debtors Turnover Ratio shows that the disinvestment strategy of SAIL have improved the debtors turnover capability of company.

Figure 4: Debtors Turnover Ratio of SAIL pre and post disinvestment

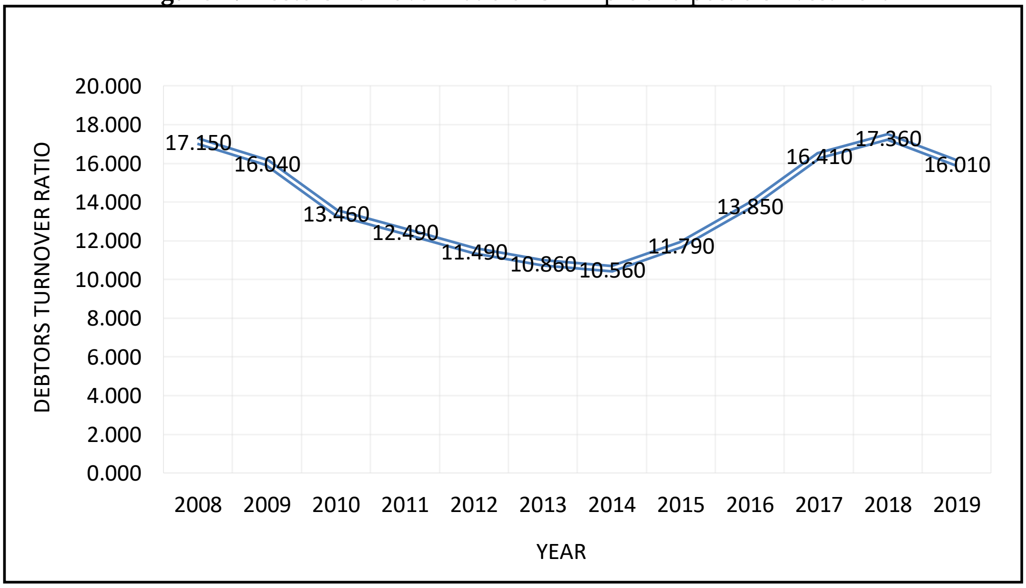
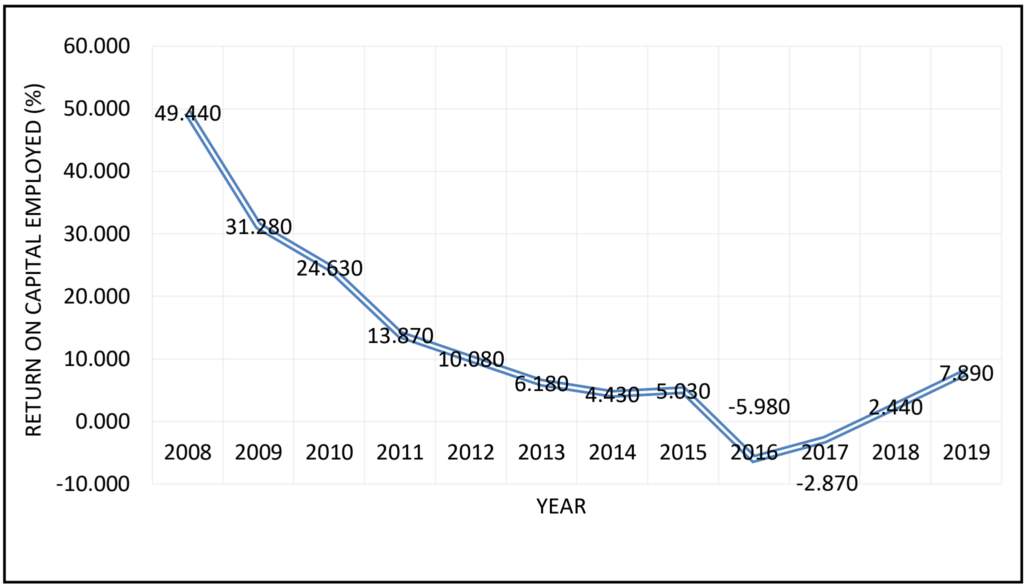


Figure 5 shows the Return on Capital Employed (%) of Steel Authority of India Ltd. (SAIL) pre and post disinvestment. The results provide that Return On Capital Employed (%) of SAIL was 49.440, 31.280, 24.630, 13.870, 10.080, 6.180, 4.430, 5.030, -5.980, -2.870, 2.440, and 7.890 in financial year 2007-08, 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17, 2017-18 and 2018-19, respectively. The results indicate that before disinvestment the Return on Capital Employed (%) of SAIL was in decrease trend. After disinvestment of SAIL in financial year 2012-13, the Return on Capital Employed (%) shows increase trends and it positive in 2018. Therefore, the analysis of financial performance of SAIL using the Return on Capital Employed (%) shows that the disinvestment strategy of SAIL have improved profitability position of company.

Figure 5: Return On Capital Employed (%) of SAIL pre and post disinvestment



4.2 Hypothesis testing

Table 1 shows the paired samples statistics. Mean of current ratio of SAIL was 1.56 before disinvestment of SAIL and 0.81 after disinvestment of SAIL. Similarly, mean of asset turnover ratio of SAIL was 1.35 before disinvestment of SAIL and 0.75 after disinvestment of SAIL. Then, we found that mean of inventory turnover ratio of SAIL was 4.79 before disinvestment of SAIL and 3.24 after disinvestment of SAIL. In addition, the results provide that mean of debtors turnover ratio of SAIL was 13.58 before disinvestment of SAIL and 14.33 after disinvestment of SAIL. In last, the results show that mean of return on capital employed of SAIL was 22.58 before disinvestment of SAIL and 1.82 after disinvestment of SAIL.

Table 1: Paired Samples Statistics

Financial Performance	**Pre/Post**	**Mean**	**N**	**SD**
Current Ratio	Pre-Disinvestment	1.55	6	0.21
	Post-Disinvestment	0.81	6	0.10
Asset Turnover Ratio	Pre-Disinvestment	1.35	6	0.14
	Post-Disinvestment	0.75	6	0.19
Inventory Turnover Ratio	Pre-Disinvestment	4.79	6	1.19
	Post-Disinvestment	3.24	6	0.35
Debtors Turnover Ratio	Pre-Disinvestment	13.58	6	2.52
	Post-Disinvestment	14.33	6	2.73
Return On Capital Employed (%)	Pre-Disinvestment	22.58	6	16.14
	Post-Disinvestment	1.82	6	5.24

Table 2 shows the results of paired samples test. The t-statistics corresponding to current ratio is 7.53 which is significant at 0.001 level of significance. Therefore, our results supported H_1 which hypothesized that disinvestment policy significantly influence the current ratio of SAIL. Similarly, the t-statistics corresponding to asset turnover ratio is 13.67 which is significant at 0.001 level of significance. Hence, our results supported H_2 which hypothesized that disinvestment policy significantly influence the asset turnover ratio of SAIL.

Then, the t-statistics corresponding to inventory turnover ratio was 2.82 which is significant at 0.05 level of significance. Therefore, our results do support H_3 which hypothesized that disinvestment policy significantly influence the inventory turnover ratio of SAIL. In addition, the t-statistics corresponding to debtors turnover ratio is -0.35 which is not significant at 0.05 level of significance. Therefore, our results does not support H_4 which hypothesized that disinvestment policy significantly influence the debtors turnover ratio of SAIL.

In last, the t-statistics corresponding to return on capital employed is 3.03 which is significant at 0.05 level of significance. Therefore, our results do support H_5 which hypothesized that disinvestment policy significantly influence the return on capital employed of SAIL.

Table 2: Results of Paired Samples Test

Financial Performance		**Mean**	**Std. Error Mean**	**t-stat**	**df**	**p-value**
Current Ratio	Pre - Post	0.74	0.10	7.53	5	0.00
Asset Turnover Ratio	Pre - Post	0.60	0.04	13.67	5	0.00
Inventory Turnover Ratio	Pre - Post	1.54	0.55	2.82	5	0.04
Debtors Turnover Ratio	Pre - Post	-0.75	2.12	-0.35	5	0.74
Return On Capital Employed (%)	Pre - Post	20.76	6.85	3.03	5	0.03

V. Conclusion

In this study, we attempt to examine the influence of disinvestment strategy followed by government on financial health of Steel Authority of India Ltd. (SAIL). The SAIL was disinvested in 2012-13 by government of India and represent the manufacturing sector. Our results show that before disinvestment the Asset Turnover Ratio of SAIL was in decrease trend and after disinvestment of SAIL in financial year 2012-13, the Asset Turnover Ratio also shows decrease trend upto 2017, thenafter, this indicator rebound. We found similar results in case of Inventory Turnover Ratio. The results indicate that before disinvestment the Inventory Turnover Ratio of SAIL was in decrease trend. After disinvestment of SAIL in financial year 2012-13, the Inventory Turnover Ratio also shows decrease trend upto 2016, thenafter, this indicator rebound.

In addition, the analysis of financial performance of SAIL using the Debtors Turnover Ratio shows that the disinvestment strategy of SAIL have improved the debtors turnover capability of company. Similarly, the analysis of financial performance of SAIL using the Return on Capital Employed (%) shows that the disinvestment strategy of SAIL have improved profitability position of company. Hence, we conclude from the findings that disinvestment of SAIL leads in improvement of financial position of the company. The findings of this study provide several implications to stakeholders.

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