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Disinvestment and Financial Performance: Evidence from Indian Mining Sector

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Abstract: The aim of this study is to examine the influence of disinvestment on financial performance of Public Sector Undertakings. Hence, this study took Hindustan Copper Ltd. as sample unit to examine the influence of disinvestment on financial which disinvested in 2012-13 by government of India. The required data was compiled from financial reports of sampled PSU. In addition, this study deployed paired t-test statistics for testing of hypotheses. The SPSS and MS Excel were used to analysis the data. Our results provide that the disinvestment strategy of HCL decrease the current position of company. Next, the decision to disinvestment the HCL increase the asset turnover capability of company. In addition, post disinvestment of HCL, the PSU experience decrease in inventory turnover. Moreover, the decision of disinvestment increase the debtors turnover capability of company. However, the disinvestment strategy of HCL decrease the return on capital employed of company. Hence, the findings of this study provide several implications to policy makers, PSU and investors..

Keywords: Disinvestment, PSU, Mining Industry, India.

I. INTRODUCTION

Public Sector Enterprises have been assuming a predominant and one of a kind part in modern development and improvement of Indian economy. PSEs were laid out to destroy the aggregated issues of joblessness, differences of rustic metropolitan, between territorial and between class incongruities, mechanical backwardness and to set up a communist example of society in the country (Chakrabarti and Mondal, 2017). Public Enterprises have turned into the sanctuaries of current India. The public area in India is made out of various sections. The first is government itself, the focal government, state states and neighborhood legislatures; the subsequent class is that of "departmental ventures" which are run straight by government offices and are not independently joined. This class incorporates endeavors like the rail lines, the mail center and the telecom framework. The third classification is of "non-departmental endeavors" which are independently fused and run as autonomous organizations. This classification incorporates both assembling and non-producing undertakings.

Disinvestment is the activity of an association or government selling or exchanging a resource or auxiliary (Comstock et al., 2013). Missing the offer of a resource, disinvestment likewise alludes to capital use decreases, which can work with the redistribution of assets to more useful regions inside an association or government-financed project. Regardless of whether a disinvestment activity brings about divestiture or the decrease of financing, the essential goal is to boost the profit from speculation (ROI) on consumptions connected with capital merchandise, work and framework (Gupta et al., 2011). Therefore, this study attempt to examine the influence of disinvestment on financial performance of Public Sector Undertakings. Hence, rest of the article is organized as follows. Section 2 provides the review of relevant studies. In Section 3, we have discuss relevant methodology to examine the influence of disinvestment on financial performance. Section 4 analysis results of the study using IBM SPSS and MS Excel. In Section 5, we provides the findings and implications of the study.

II. REVIEW OF LITERATURE

Jain and Yadav (2005) concentrated on disinvestment by giving base his discoveries on the time series information from 1981-82 to 1985-86 distributed every year for general society and private area by the study of enterprises. The authors utilized three signs of proficiency (administrative productivity - things that can be constrained by supervisors). They are cash, labor force and material. Based on the proof accessible over the period 1981-82 and 1985-86, the researchers inferred that notwithstanding the weight of the decent capital over which the public area the board has no control and regardless of higher wages and directed costs over which the executives has no control, effectiveness in open area is not the slightest bit second rate compared to the private area.

Gupta and Kaur (2004): utilize Annual Survey of Industries information for the years 1960-61 to 1982-83 for our enterprises: concrete, cotton materials, power, and iron and steel in another review. The last two enterprises, they guarantee are essentially in the public area while the initial two are claimed prevalently by private interests. The creators have no proof of dispense.

Joshi (2018) while assessing the family member execution of public, joint and private area opened that private area is more effective than public and joint area. Moreover, in Indian context, most of the privatization-related studies are found to be conceptual in nature. Majority of these studies presented a thorough view of Indian disinvestment policy, related concepts and various emerging issues such as those conducted by Anshuman (2003); Malik (2003); Makhija (2006) and Srivastava (2014).

Trien and Jonathan (2010) recommend that both state proprietorship and obligation have negative execution outcomes experiencing significant change economies and the conjunction of these two circumstances may not be hurtful. Their outcomes affirm that while obligation and state proprietorship each adversely affect firm execution when used in separation, their association decidedly affects firm execution.

III. RESEARCH METHODOLOGY

The purpose of this study is to examine the influence of disinvestment on financial performance of Public Sector Undertakings. Therefore, the target population of this study is every Public Sector Undertaking which is disinvested by government. In addition, a large number of Public Sector Undertakings are disinvested by government of India post liberalization. The purpose behind the disinvestment of PSU is to improve the financial and operating efficiency of companies. Hence, this study took Hindustan Copper Ltd. as sample unit to examine the influence of disinvestment on financial which disinvested in 2012-13 by government of India. Hindustan Copper Ltd. represent the mining industry. 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 HCL from 2008-09 to 2017-18 for six years. Then, the data was divided into two parts as pre and post disinvestment. The data from 2008-09 to 2012-13 as pre-disinvestment data and data from 2013-14 to 2017-18 as post disinvestment data. In addition, the following hypotheses are formulate to examine the influence of disinvestment on financial performance.

H₁: Disinvestment policy significantly influence the current ratio of HCL.

H₂: Disinvestment policy significantly influence the asset turnover ratio of HCL.

H₃: Disinvestment policy significantly influence the inventory turnover ratio of HCL.

H₄: Disinvestment policy significantly influence the debtors turnover ratio of HCL.

H₅: Disinvestment policy significantly influence the return on capital employed of HCL.

This deployed paired t-test statistics for testing of hypotheses. The SPSS and MS Excel were used to analysis the data.

IV. DATA ANALYSIS

4.1 Descriptive statistics

Figure 1 shows the current ratio of Hindustan Copper Ltd. pre and post disinvestment. The results provide that current ratio of HCL was 1.66, 1.63, 1.91, 2.21, 2.47, 2.99, 3.29, 1.97, 1.63, and 1.39 in financial year 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17, 2017-18, respectively. The results indicate that before disinvestment of HCL the current ratio was in increase order. After disinvestment of HCL in financial year 2012-13, the current ratio decrease to 1.39 from 2.99. Therefore, the analysis of financial performance of HCL using the current ratio shows that the disinvestment strategy of HCL decrease the current position of company.

Figure 1: Current ratio pre and post disinvestment

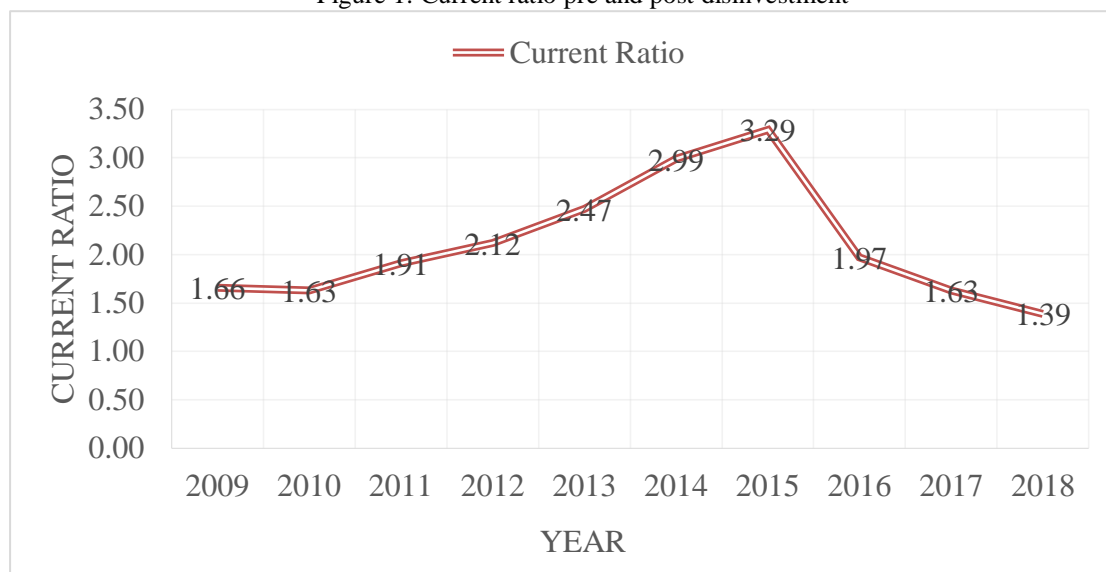


Figure 2 shows the Asset Turnover Ratio of Hindustan Copper Ltd. pre and post disinvestment. The results provide that Asset Turnover Ratio of HCL was 1.93, 1.92, 1.67, 2.11, 1.85, 1.98, 1.34, 2.02, 4.53, and 4.43 in financial year 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17, and 2017-18, respectively. The results indicate that before disinvestment of HCL the Asset Turnover Ratio was around stable more. After disinvestment of HCL in financial year 2012-13, the Asset Turnover Ratio increase to 4.43 from 1.85. Therefore, the analysis of financial performance of HCL using the current ratio shows that the disinvestment strategy of HCL increase the asset turnover capability of company.

Figure 2: Asset turnover ratio pre and post disinvestment

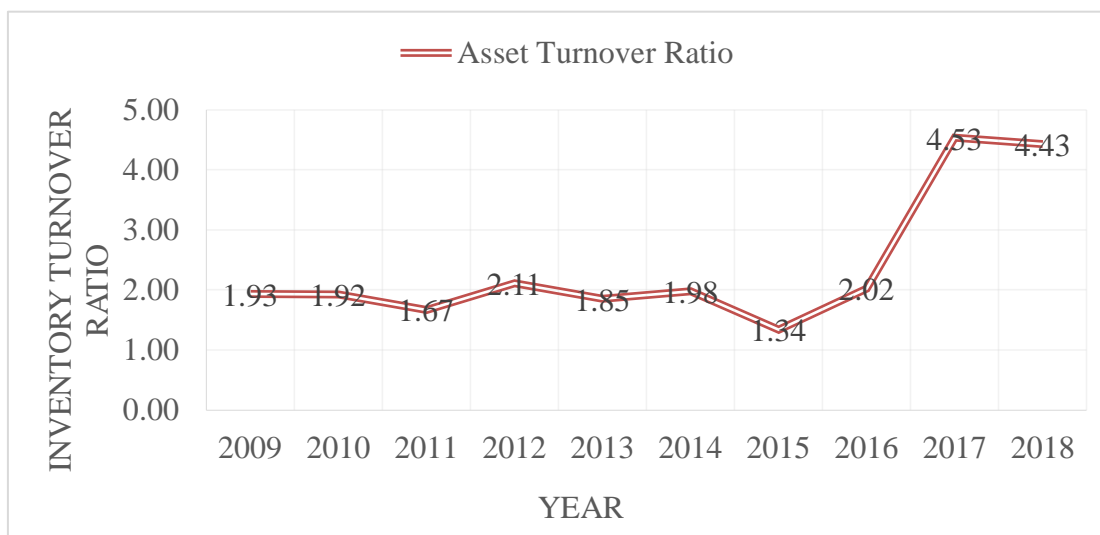


Figure 3 shows the Inventory Turnover Ratio of Hindustan Copper Ltd. pre and post disinvestment. The results provide that Inventory Turnover Ratio of HCL was 3.57, 4.52, 3.69, 4.35, 3.76, 3.79, 2.48, 2.12, 1.89, and 2.07 in financial year 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17, 2017-18, respectively. The results indicate that before disinvestment of HCL, the Inventory Turnover Ratio was in stable order. However, after disinvestment of HCL in financial year 2012-13, the Inventory Turnover Ratio decrease to 2.07 from 3.76. Therefore, the analysis the analysis of financial performance of HCL using the Inventory Turnover Ratio shows that the disinvestment strategy of HCL decrease the inventory turnover of company.

Figure 3: Inventory turnover ratio pre and post disinvestment

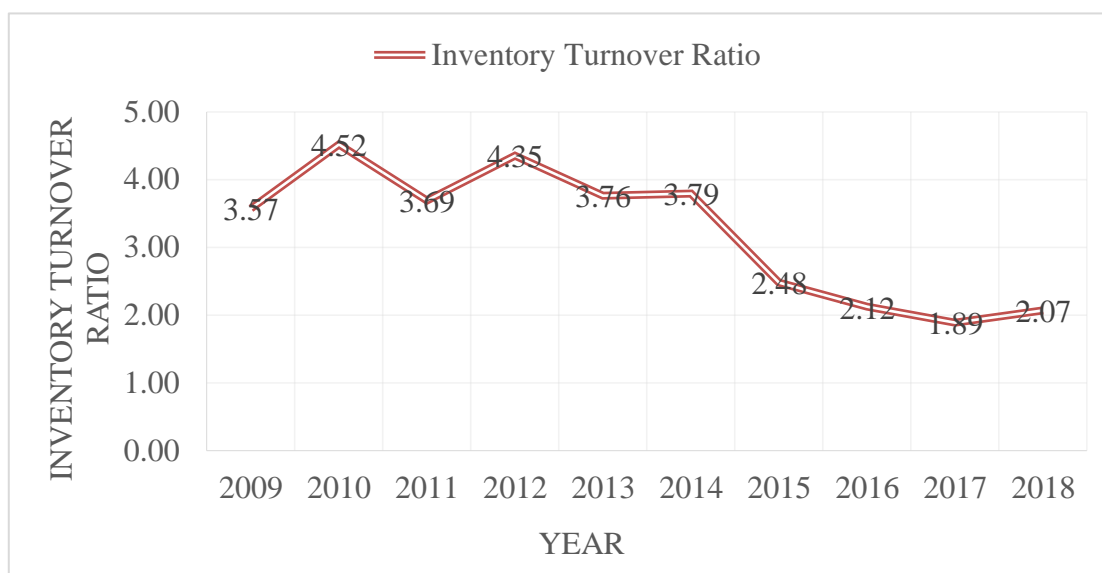


Figure 4 shows the Debtors Turnover Ratio of Hindustan Copper Ltd. pre and post disinvestment. The results provide that Debtors Turnover Ratio of HCL was 12.84, 9.47, 12.36, 17.56, 9.64, 8.48, 8.01, 15.07, 11.86 and 13.95 in financial year 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17, 2017-18, respectively. The results indicate that before disinvestment of HCL the current ratio was in non-stable order. After disinvestment of HCL in financial year 2012-13, the Debtors Turnover Ratio increase to 13.94 from 9.64. Therefore, the analysis of financial performance of HCL using the Debtors Turnover Ratio shows that the disinvestment strategy of HCL increase the debtors turnover capability of company.

Figure 4: Debtors turnover ratio pre and post disinvestment

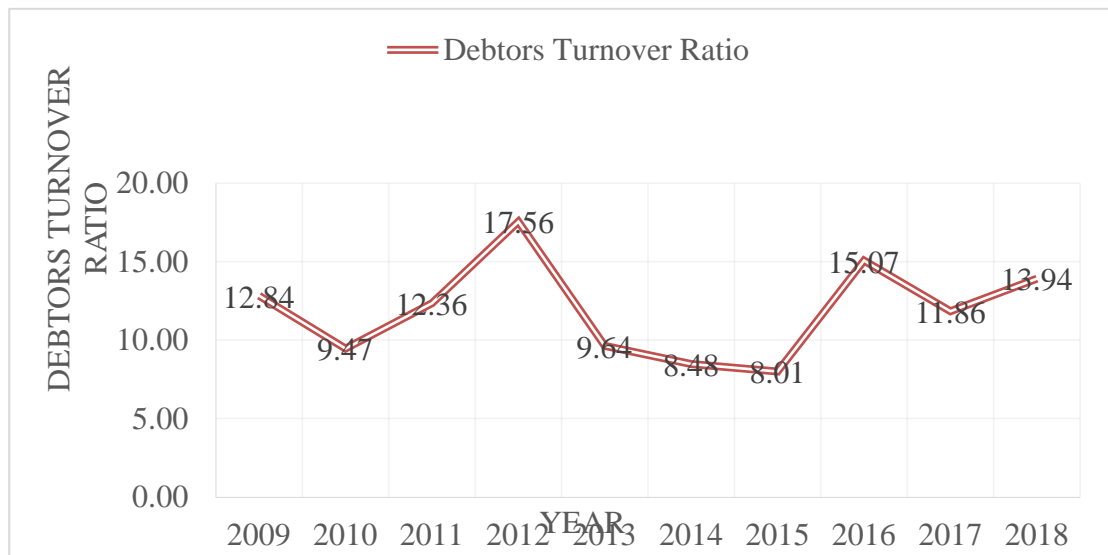
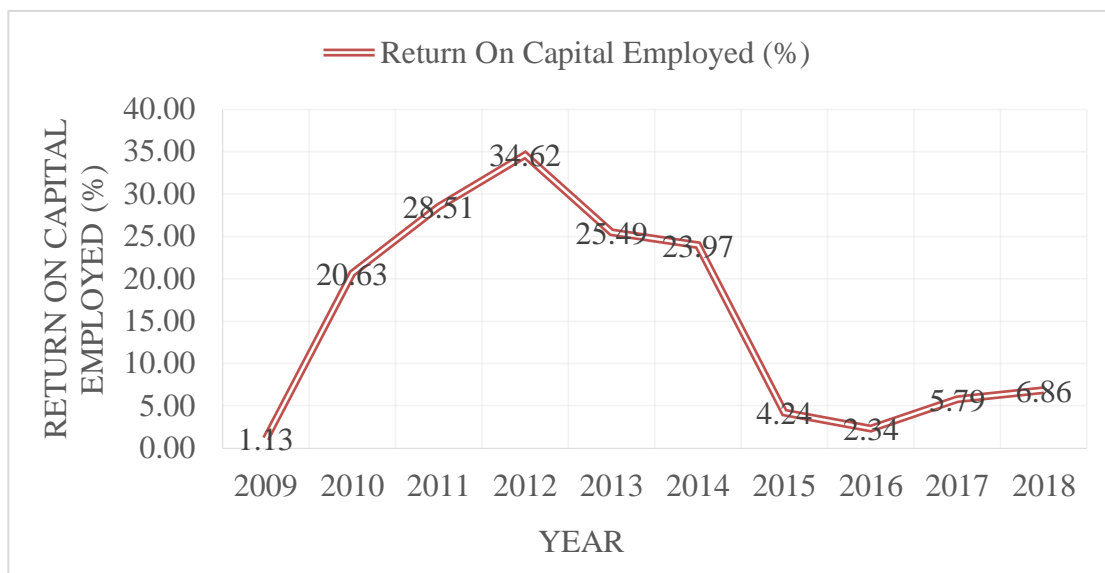


Figure 5 shows the return on capital employed of Hindustan Copper Ltd. pre and post disinvestment. The results provide that return on capital employed of HCL was 1.13, 20.63, 28.51, 34.62, 25.49, 23.97, 4.24, 2.34, 5.79, and 6.86 in financial year 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17, 2017-18, respectively. The results indicate that before disinvestment of HCL the Return on capital employed was in increase trends. After disinvestment of HCL in financial year 2012-13, the return on capital employed was reported decrease trends and decrease to 6.86 from 25.49. Therefore, the analysis of financial performance of HCL using the return on capital employed shows that the disinvestment strategy of HCL decrease the return on capital employed of company.

Figure 5: Return on capital employed pre and post disinvestment



4.2 Hypothesis testing

Table 1 shows the paired samples statistics. Mean of current ratio of HCL was 1.96 before disinvestment of HCL and 2.25 after disinvestment of HCL. Similarly, mean of asset turnover ratio of HCL was 1.90 before disinvestment of HCL and 2.86 after disinvestment of HCL. Then, we found that mean of inventory turnover ratio of HCL was 3.98 before disinvestment of HCL and 2.47 after disinvestment of HCL. In addition, the results provide that mean of debtors turnover ratio of HCL was 12.37 before disinvestment of HCL and 11.47 after disinvestment of HCL. In last, the results show that mean of return on capital employed of HCL was 22.08 before disinvestment of HCL and 8.64 after disinvestment of HCL.

Table 1: Paired Samples Statistics

Financial Performance	Pre/Post	Mean	N	SD
Current Ratio	Pre-Disinvestment	1.96	5	0.35
	Post-Disinvestment	2.25	5	0.84
Asset Turnover Ratio	Pre-Disinvestment	1.90	5	0.16
	Post-Disinvestment	2.86	5	1.50
Inventory Turnover Ratio	Pre-Disinvestment	3.98	5	0.43
	Post-Disinvestment	2.47	5	0.77
Debtors Turnover Ratio	Pre-Disinvestment	12.37	5	3.28
	Post-Disinvestment	11.47	5	3.17
Return On Capital Employed (%)	Pre-Disinvestment	22.08	5	12.76
	Post-Disinvestment	8.64	5	8.74

Table 2 shows the results of paired samples test. The t-statistics corresponding to current ratio is -0.57 which is not significant at 0.05 level of significance. Therefore, our results does not support H₁ which hypothesized that disinvestment policy significantly influence the current ratio of HCL. Similarly, the t-statistics corresponding to asset turnover ratio is -1.49 which is not significant at 0.05 level of significance. Hence, our results does not support H₂ which hypothesized that disinvestment policy significantly influence the asset turnover ratio of HCL.

Then, the t-statistics corresponding to inventory turnover ratio was 3.29 which is significant at 0.05 level of significance. Therefore, our results do support H₃ which hypothesized that disinvestment policy significantly influence the inventory turnover ratio of HCL. In addition, the t-statistics corresponding to debtors turnover ratio is 0.47 which is not significant at 0.05 level of significance. Therefore, our results does not support H₄ which hypothesized that disinvestment policy significantly influence the debtors turnover ratio of HCL.

In last, the t-statistics corresponding to return on capital employed is 1.44 which is not significant at 0.05 level of significance. Therefore, our results do support H₅ which hypothesized that disinvestment policy significantly influence the return on capital employed of HCL.

Table 2: Results of Paired Samples Test

Financial Performance		Mean	Std. Error Mean	t-stat	df	p-value
Current Ratio	Pre - Post	-0.30	0.52	-0.57	4	0.60
Asset Turnover Ratio	Pre - Post	-0.96	0.65	-1.49	4	0.21
Inventory Turnover Ratio	Pre - Post	1.51	0.46	3.29	4	0.03
Debtors Turnover Ratio	Pre - Post	0.90	1.94	0.47	4	0.67
Return On Capital Employed (%)	Pre - Post	13.44	9.36	1.44	4	0.22

V. CONCLUSION

In this article, we examine the influence of disinvestment on financial performance of Public Sector Undertakings. Hence, this study took Hindustan Copper Ltd. as sample unit to examine the influence of disinvestment on financial which disinvested in 2012-13 by government of India. The purpose behind the disinvestment of PSU is to improve the financial and operating efficiency of companies. Our results provide that the disinvestment strategy of HCL decrease the current position of company. Next, the decision to disinvestment the HCL increase the asset turnover capability of company. In addition, post disinvestment of HCL, the PSU experience decrease in inventory turnover. Moreover, the decision of disinvestment increase the debtors turnover capability of company. However, the disinvestment strategy of HCL decrease the return on capital employed of company. Hence, the findings of this study provide several implications to policy makers, PSU and investors.

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