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BOTTOM LINE OF DIVESTED PSE'S IN POST PRIVATIZATION SCENARIO

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ABSTRACT

The Indian economy has passed through a transitional phase from state controlled command economy to market driven economy since 1991. The motto behind creation of public sector after independence was to gear the wheel of Indian economy by creating social infrastructure and essential goods and services. As of now, this motto is of no relevance in the changing scenario. There is paradigm shift in perception of GOI from producer to regulator and widespread opinion that private ownership leads to better use of resources and their more efficient allocation to better utilization of resources that are prone to efficient market discipline. The public sector companies have faced with problems of under – utilization of capacity, problem related to planning and construction of projects, problems of labour, personnel and management and lack of autonomy. Thus, the adoption of disinvestment strategy was initially to utilize the proceeds from disinvestment to fill up the gap of deficit budget. The lesser realization from sale of minority share has compelled the GOI's shifting of action to strategic sale involving transfer of ownership to the private sector. The paper attempts to analyse the impact of change in ownership due to disinvestment from public to private with the financial performance of divested enterprises. Multiple regression analysis has been resorted to assess the influence of share capital and loan fund with the fixed assets and working capital leading to acceleration of bottom line through financial performance of the privatised companies.

Key Words: Govt.of India(GOI), Deficit budget, strategic sale, financial performance, *Bottom line.*

INTRODUCTION AND BACKGROUND OF THE STUDY: "While the case for economic reforms may take good note of the diagnosis that India has too much Government interference in some fields, it ignores the fact that India also has insufficient and ineffective Government activity in many other fields, including basic education, health care, social security, land reforms and the promotion of social change. This inertia, too, contributes to the persistence of widespread deprivation, economic stagnation and social inequity." Dr. Sen has

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rightly pointed out the real tenets of economic reforms which will pave a long way in shaping indian economy self sustainable .

The Liberalization, privatization and globalization programme (LPG) was started since 1991 as sole panacea of economic reforms to open up the Indian economy to outside world. The captioned research is pertinent to study because of the changing role of Government from producer to regulator and from the point of view of return on investment. As the public sector companies are not performing as expected, it is prudent to analyze the financial performance of the divested companies in the post divestment scenario. In order to justify this, the following points merit consideration.

The privatization programme of India was initially intended to fill up the gap of deficit budget. As a part of disinvestment strategy, minor sale of PSEs were done in bundle of shares to fetch revenue to the exchequer. The sale realizations so collected were inadequate to meet the rising scale of fiscal deficit. Subsequently, the GOI has gone ahead with strategic sale of public sector companies by transferring the ownership and control to the private entrepreneurs. The sale realizations received were much better than the former strategy. An attempt has been made to evaluate the impact of change of ownership due to strategic sale over the bottom line of the divested companies. The strategic sale was resorted on total 17 companies having transfer of more than 51 per cent of share from GOI to private entrepreneurs.

Government have emphasized increasingly on strategic sales of identified PSUs. Government equity in all non-strategic PSUs will be reduced to 26% or less and the interests of the workers will be fully protected. The entire receipt from disinvestment and privatization will be used for meeting expenditure in social sectors, restructuring of PSUs and retiring public debt. The strategic sale method was being the preferred option in the Finance Minister's Budget Speech in 2000-01 and also in the recommendations of the Disinvestment Commission and according to the recommendation of Rangarajan Committee.

RECEIPTS FROM STRATEGIC SALE DURING 1999-2000 TO 2003-04

TABLE-I

S.No.	Name of CPSE Disinvested	Type of Disinvestment	Name of Buyer	Percentage of Equity Sold	Percentage of Residual Equity of Govt.	Amount Realised (Rs. crore)
1999-00						
1.	Modern Food Industries (India) Ltd.	Strategic sale	Hindustan Lever Ltd.	74	26	105.45
Sub Total						**105.45**
2000-01						
1.	Bharat Aluminium Company Ltd.	Strategic sale	Sterlite Industries (India) Ltd.	51	49	551.50
2.	Lagan Jute Machinery Company Ltd.^^	Strategic sale	Murlidhar Ratanlal Exports Ltd.	74	26	2.53
Sub Total						**554.03**
2001-02						
1.	HTL Ltd.	Strategic sale	Himachal Futuristic Communications Ltd.	74	26	55.00
2.	CMC Ltd.	Strategic sale	Tata Sons Ltd.	51	32.31	152.00

3.	**India Tourism Development Corporation (ITDC)**					
	i) Hotel Hassan Ashok	Strategic sale	Malnad Hotels & Resorts(P) Ltd.	89.97		*2.27
	ii) Hotel Bodhgaya Ashok	Strategic sale	Lotus Nikko Hotels	89.97	-	1.81
	iii) Hotel Madurai Ashok	Strategic sale	Sangu Chakra Hotels Pvt. Ltd.	89.97	-	*4.98
	iv) Temple Bay Ashok Beach Resort, Mamallapuram	Strategic sale	G.R. Thanga Maligai(P) Ltd.	89.97	-	6.13
	v) Hotel Agra Ashok	Strategic sale	Mohan Singh	89.97	-	*3.61
	vi) Laxmi Vilas Palace Hotel, Udaipur	Strategic sale	Bharat Hotels Ltd.	89.97	-	6.77
	vii) Qutab Hotel, New Delhi	Strategic sale	Consortium of Sushil Gupta and Others	89.97	-	*34.45
	viii) Lodhi Hotel, New Delhi	Strategic sale	Silverlink Holdings Ltd. & Consortium	89.97	-	*71.93
4	IBP Ltd.	Strategic sale	Indian Oil Corpn.	33.58	26	1,153.68
5	Videsh Sanchar Nigam Ltd.	Strategic sale	Panatone Finvest Ltd. (a Tata Group Co.)	25	27.97	1439.25
6	Paradeep Phosphates Ltd.	Strategic sale	Zuari Maroc Phosphates Pvt Ltd.	74	26	151.70
7	HCI# -Indo Hokke Hotels Ltd., Rajgir	Strategic sale	Inpac Travels (India) Pvt. Ltd.	100	--	#6.51
Sub Total						**3,090.09**
2002-03						
1	Hindustan Zinc Ltd.	Strategic sale	Sterlite Opportunities & Ventures Ltd.	26	49.92	445.00
2	Indian Petrochemicals Corporation Ltd.	Strategic sale	Reliance Petro Investments Ltd	26	33.95	1,490.84
3	**ITDC**					
	i) Hotel Airport Ashok, Kolkata	Strategic sale	Bright Enterprises (P) Ltd. & Consortium	89.97	-	*19.39
	ii) Kovalam Ashok Beach Resort	Strategic sale	M Far Hotels Limited	89.97	-	*40.38
	iii) Hotel Aurangabad Ashok	Strategic sale	Loksangam Hotels & Resorts Pvt. Ltd & Consortium	89.97	-	*16.50
	iv) Hotel Manali Ashok	Strategic sale	Auto Impex Limited	89.97	-	*3.66
	v) Hotel Khajuraho Ashok	Strategic sale	Bharat Hotels Ltd.	89.97	-	*2.19
	vi) Hotel Varanasi	Strategic sale	Consortium of Ramnath Hotels(P)	89.97	-	*8.38

	Ashok					
	vii) Hotel Ranjit, New Delhi	Strategic sale	Consortium of Unison Hotels Ltd. & Formax Commercial Pvt. Ltd.	89.97	-	*29.28
	viii) Hotel Kanishka, New Delhi	Strategic sale	Nehru Place Hotels Ltd.	89.97	-	*92.38
	ix) Hotel Indraprastha, New Delhi	Strategic sale	Moral Trading & Investment Ltd.	89.97	-	*43.38
	x) Chandigarh project of Punjab Hotels Limited	Strategic sale	TAJGVK Hotels & Resorts Ltd.	100	-	**17.27
4.	Modern Foods Industries (India) Ltd.	Sale of residual shares to SP (Put Option by GoI)	Hindustan Lever Ltd.	25.995		44.07
Sub Total						**2,252.72**
2003-04						
1.	Hindustan Zinc Ltd.	Call Option by SP	Sterlite Opportunities & Ventures Ltd.	18.92	29.53	323.88
2.	Jessop& Co. Ltd^^	Strategic sale	Indo Wagon Engineering Ltd.	72	27	^^18.18
Sub Total						**342.06**
Grand Total						**6,344.35**

Source: www.divest.nic.in

Note: #Proceeds went to Air India, the holding company.
^^ amount received by BBUNL, the holding company.
* Inclusive of payments to GOI and statutory authorities and other payments.
** Proceeds went to Chandigarh Administration and ITDC, the holding company.

Total amount of Rs 6,344 crores were collected out of strategic sale by offloading more than 51% stake in the hands of private parties from 2000 to 2004. Amongst the privatised companies, the loss making company Paradeep Phosphates Ltd was transformed in to profit making after privatization. Hence, this study is based on the case of Paradeep Phosphates Ltd to assess the role of private ownership on the bottom line of divested PPL in post privatization scenario.

Global Scenario: Deficiencies of Public Sector the countries which have adopted Public Sector or Command Economy as a policy for economic growth, particularly in Soviet Russia and East European Countries as well as newly liberated South- East Asian and African Countries faced serious macro level distortion in their economy as stated below:

- Fiscal Crunch,
- Adverse Balance of Payment,
- Generation of inflationary pressure emanating from fiscal crunch,
- High interest rate,
- Increase in Government expenditure,
- Failure of the allocative efficiency of the Public Sector,
- Dismal performance of Public Sector in relation to capacity utilization, technology absorption, market penetration and financial performance.

Fundamental Changes in World Economic Development: In the intervening period from 1950 to 1990, certain fundamental development has changed the economic activities as follows -

- In the area of economic activities, emphasis has been shifting from manufacturing sector to service sector.

- There is technological developments sweeping the world;

- The field of communication has undergone a metamorphosis bringing the world together;

- The cold war has almost vanished abruptly;

- Information – intensive, synergically integrated industries are emerging and crisis-crossing to evolve themselves to changes with the economic context;

- World trade is undergoing changes, such as fast economic cooperation between different countries was characterized by mobility of skilled manpower from developed region to under-developed area. These factors are gradually changing from mobility of men to mobility of technology transfer and transfer of machines which are tangible and visible. However, since eighties and after two oil shocks in 1972 and 1983 and with the advent of satellite based communication, system global trade is dominated by transfer of fund which is not easily visible;

- In the cultural arena, spread of education, information and knowledge have played a great role reshaping the geopolitical scenario globally;

- Research & development has become more and more business driven.

The present research is aimed at empirical analysis of financial performance of public sector companies which are privatized as a result of strategic sale involving transfer more than 51 per cent share to the private entrepreneurs. The paper is based on the following issues namely first, to study the proceeds received from disinvestment to fill up the gap of deficit budgets and to examine how does the change of ownership influence the financial performance of privatized companies.

Need for Privatization: One basic rationale for privatization is the concept that private ownership leads to better use of resources and their more efficient allocation. Throughout the world, the preference for market economy received a boost after it was realized that the State could no longer meet the growing demands of the economy and the State shareholding inevitably had to come down.

- Another reason for adoption of privatization policy around the globe has been the inability of the Governments to raise high taxes, pursue deficit / inflationary financing and the development of money markets and private entrepreneurship.

The objectives of the disinvestment programme vary from improving efficiency of the Public Sector Enterprises to transformation of the society for making Indian economy more vibrant, healthy and adequately equipped to contest in global arena.

The primary objectives for privatizing the PSEs are as follows:-
a. Necessity for the Government to move away from controlling, managing and running "non-strategic enterprises" ;

b. Releasing the large amount of public resources locked up in non-strategic PSEs; for redeployment in areas that are much higher on social priority, such as, public health, family welfare, primary education and social and essential infrastructure;
c. Stemming further outflow of these scarce public resources for sustaining the unviable non-strategic PSEs;
d. Reducing the public debt that is threatening to assume unmanageable proportions;
e. Transferring the commercial risk, to which the tax-payer's money locked up in the public sector is exposed, to the private sector wherever the private sector is willing and able to step in, the money that is deployed in the PSEs is really the public money; and, is exposed to an entirely avoidable and needless risk, in most cases.

Identification of Problem Areas: The strategy of sale through strategic sale route has got lot of response and more proceeds are expected than before. As the sale involves transfer of ownership and management control to the buyer who in turn transforms the privatized company from loss making in to profitable one. The basic difference between private and public ownership is the difference between the objectives viz., welfare maximization by the public sector and profit maximization by the private sector. Therefore, there are good reason for thinking that the ownership of a firm will have significant effect on the behaviour and performance of the company. So, the problems of the present research examines as to how does the change of ownership influences the financial performance of the privatized companies. In this context, the following points are discussed in order to arrive at the issue as above.

Reasons for Disinvestment: The Public sector in India is at the cross roads. The new economic policy initiated in July 1991, clearly indicated that the public sector undertakings have shown a very negative rate of return on capital employed. On account of this phenomenon, many public sector undertakings have become burden to the Government. They are in fact turning out to be liabilities to the Government rather than being assets.

This is a sector which the Government clearly wants to get rid off. In this direction the Government has adopted a new approach to reform and improve the public sector undertakings performance i.e. disinvestment policy. This has gained lot of importance especially in latter part of 90s. At present the Government seriously perceives the disinvestment policy as active tool to reduce the burden of financing the public sector undertakings.

Problems of Public Sector Undertakings: The most important criticism levied against public sector undertakings has been that in relation to the capital employed, the level of profits has been too low. Even the Government has criticized the public sector undertakings on this count. Of the various factors responsible for low profits in the public sector undertakings, the following points are particularly important:-

- Pricing policy of public sector undertakings
- Under – utilization of capacity
- Problem related to planning and construction of projects
- Problems of labour, personnel and management
- Lack of autonomy

In the context of the above, it can be concluded that divestiture of the Public Sector shares is inevitable and a sine-qua-non for the economic performance at the micro level as well at the macro level to overcome the economic deficiencies of command economy like fiscal crunch, balance of payment crisis, inflationary and high interest rate etc.

At first, the study needs to be undertaken from the first practice by the Commission to sale minority sales in bundles (mixing loss making PSU with profit making one) with an intention to bridge up the gap of fiscal deficit.

Secondly, many studies have been done in the past on strategic sale of PSU. The present study focuses on the procedural issue of strategic sale to ascertain the effective implementation of methods and procedures envisaged by the Disinvestment Commission and to assess that after the change in transfer of management controls how does the loss making PSU perform in a fully privatized environment than before. Further, the study necessitates examining the impact of financial performance of privatized company in strategic sale involving transfer of ownership to the private party after the privatization than before. The issue involves examining the efficiency of loss making PSU after privatization under private ownership and control. There is possibility of further privatizing PSU on strategic sale route in the changing political scenario .Hence this study has been undertaken to evaluate the effectiveness of the methods and procedure of privatization and to assess the impact of financial performance of privatized PSU after the privatization than before.

Objectives: The objective of the present research is to study the impact of ownership due to strategic sale on financial performance of the privatized Pubic sector enterprises between pre and post privatization.

Hypothesis: The following hypothesis has been framed for the study:-

- There is no significant impact of financial performance between the period before disinvestment and thereafter in case of strategic sale involving transfer of management control in the hands of private enterpreneurs. This brings forth two null hypothesis as follows-

o The share capital is not adding significant conrtibution in the investment of fixed asset and net current asset (working capital);

o The loan fund is not adding significant contribution in the investment of fixed asset and net current asset (working capital).

Data Sources and Methodology: The study covers the strategic sale to the private entrepreneurs and its impact on financial performance.The study covers a period of disinvestment from the initiation of privatization programme from 1991-92 to 2005-06. However, the financial data of Paradeep Phosphates Ltd have been taken based upon availability of data from F.Y. 1996-07 to F.Y. 2007- 08 specifically six financial years before and six years after the disinvestment of the company. The present study has made use of three important tools such as computer assisted statistical tools by SPSS10 .Multiple Regression Analysis is used to analyze the data. Case of Paradeep Phosphates Ltd has been used to analyse and interpret the objectives of research to assess the impact of financial performance between pre and post divestment.

The data are collected mostly from the secondary sources from Annual Reports of PSEs. Paradeep Phosphates Ltd has been taken as a case study to test the impact of financial performance before and after the privatiation..So there is a possibility of selection bias to choose the PSU for case analysis amongst the privatized companies. Further, the deregulation of economy has not been taken in to account which may contribute to the financial performance of the privatized companies.

Review of Literature: The literature pertaining to this research is reviewed under different headings which contains the related literature-analytical, theoretical and empirical - on the particular issue. The literature that has been collected focuses more on various issues in privatizing the PSUs to private sector. The issues are nothing but the processing, political, economic, socio-labour; managerial has widely been tapped, through this chapter, for a comprehensive understanding of the research problem. As this part normally seeks, the literature from different sources conducted at International level, Regional (Continental) and National level which are either published or unpublished are furnished in the following headings:

- Literature related to Processing Issues
- Literature related to Political and Economic Issues
- Literature related to Social Labour Issues, and
- Literature related to Managerial Issues.

Processing (transformation) issues are those issues which arise in transforming or converting PSUs to the private sector. Processing issues include privatization policy issues, programming issues, methodological issues (methods and techniques), implementing and monitoring issues. Such issues are inherent in the processing of privatization activity.
Donaldson and Wagle (1995) stress in their research conducted for the OFC lessons of experience series that a strong preliminary approach and legal framework on privatization is a high priority work to make privatization work well. It could be any approach but it must be transparent in the public domain.

Timmorthy (1966) has proposed in his empirical study that a strong groundwork should be done to make any privatization work well. The groundwork is nothing but property rights and institutional support which must clearly be prescribed; he also suggests that the countries seeking transition from command socialism to market capitalism must develop a legal system comparable to those who evolved in market capitalist countries.
A study done by Mishra et al. (1993) cautioned about practices prevailing in under valuation of assets in SOEs before disinvesting them. They quote in their empirical study that the Indian disinvestments, which initially brought down so many controversies, failed to bring the actual amount to be supposedly collected. The amount could have been realized, if the best value method is followed.

Any disinvestments must, ultimately, be made in the best interests of the public, Government of India’s Disinvestment Commission Report (1997) emphasized. It also stressed that to carry out the disinvestment properly; the audit of each disinvestment by the CAG is conducted thoroughly, expeditiously and with the involvement of professionals familiar with the working of the industry and the capital markets.

Political and economical issues cover the change of political ideologies, distribution of ownership, technical assistance and aid from external agencies, term and conditionality of external agencies and foreign dominance which are often confront as either villainous or heroic actors in privatizing the PSUs.

In spite of many empirical and analytical evidences on the relations between privatization and economic performance, there are still many studies supporting the existence of state enterprises. Caves and Christensen (1980) and Bolnic (1987) draws a conclusion for the forgoing, stating that the poor performance is not an inherent characteristics of PSUs, unlike what is predicted in the property rights literature. With good management and sound politics, PSUs can justify their economic rationale, while contributing to social goals. These conclusions are contrary to the results obtained by plane (1997) and Barnett (2000) which favour the privatization as a catalyst for economic growth. Their studies firmly conclude that there is a positive correlation between privatization and economic growth.

Taylor (1995) confirms controversial issues such as ownership issue of PSUs before privatizing them as happened in Polish privatization. The workers and managers at these firms argued that they, rather than the Government, owned the enterprise. If the Government sold the shares, the workers and mangers wanted compensation, where as in Russia the local Governments also claimed ownership.

There are so many social and labour issues, some of which are difficult to identify with either political or social features like ownership, distribution and employment. These issues are nothing but in between political and social which could interchangeably be used. Nevertheless, changes in employment, labour productivity, labour relations, prices, society's access to produce and community reactions and considered as strong social and labour issues.

Schiller (1991) argues that privatization, if properly regulated, can cause no damage to the social and environmental issues, According to him, even in the strategy of protecting environment, privatization can be used as a regulatory option. Private owners are always so in responding damage or pollution control in his environment for which, he is responsible.

The changing management philosophy, work culture, preparedness to take challenges, management efficiency and effectiveness are deemed managerial issues, and are ideally to be discussed at micro level, i.e., at the companies of transition.

Many studies have already proved that private owned enterprises are doing much better in productivity, cost effectiveness and, efficiency, much is authentically proved in an empirical study conducted by Bennet and Johnson (1979). Boardman and Viking (1989) also say that there is a strong evidential record of private ownership that can improve efficiency.

Navak (1991) and Pack (1992) go one step further by preferring the private sector to the public sector in respect to the market, which both agree that the market in private sector economy serves as an efficient disseminator of information, skills, methods and new possibilities (innovation). Novak confirms authentically that the former USSR was not scientifically backward and lacking a vital market place; it succeeded poorly in bringing its research to the service of the common people.

Voszka (1999) assesses the relationship between the economic reform and management autonomy which resulted in a positive outcome. The findings of Hinds (1999) show that the net profit margin before tax and interest of Guyana Telecom Ltd. Effected threefold increase within three years from the date of privatization.

Research Gap: From the foregoing review of literature, it is observed that there are a lot of studies conducted on different issues of privatization. However these studies have contracted largely on; narrow and specific issues; and finally, these studies have amply been done in the industrialized and higher income developing countries which leave the world a dearth of study on privatization in case of strategic sale particularly loss making PSU in a developing country like India. Moreover, it is from the researcher's point of view, there is no study so far conducted empirically on the financial performance of PSU marked for strategic sale in general and loss making PSU in particular. How the private ownership does influence the bottom line by acceleration of the financial performance of a loss making privatized PSU in to a profitable one. Hence, this study is done to fill up this gap.

Theoretical Framework: The present research is based on empirical analysis of data collected from the privatized companies to test the objectives set for the study. The basic aim is to test the financial performance of the privatized company after strategic sale which involves transfer of ownership and management control in the hands of buyers.

A research design has been made which are given below-

- Case Based micro analysis
- Statistical analysis

The fundamentals behind the above have been discussed threadbare before embarking on the analysis of the present research. The theoretical framework on the above points are described below-

Tools of Statistical Analysis: The tools of statistical analysis such as t test and multiple regression analysis have been taken for the study.The strategic sale has been undertaken in 16 PSEs out of which Paradeep Phosphates Ltd has been chosen as a case for doing financial analysis. Further, Centaur hotel has been chosen a case for studying the effectiveness of methods and procedure during strategic sale. Then, with regard to the effectiveness of valuation in case of strategic sale, again Paradeep Phosphates Ltd has been taken as a case to study the valuation issue.

In the strategic sale of a company, the transaction has two elements:

- Transfer of a block of shares to a Strategic Partner and
- Transfer of management control to the Strategic Partner.

The transfer of shares by Government may not necessarily be such that more than 51% of the total equity goes to the Strategic Partner for the transfer of management to take place. In the case of PSUs, in order that the company no longer has the character of a Government company, the transfer of shares involves bringing down Governments shareholding below 51%. In fact, it must be remembered that Companies Act, 1956 only defines a ‘Government Company’, which in common parlance, is a company in which Government holds more that 51%. PSU is not defined in the Companies Act. Once the Governments shareholding goes below 51%, it ceases to be a Government company and hence, it requires changes in the Articles of Association of the company especially in relation to the Presidential directives etc. The Strategic Partner, after the transaction, may hold less percentage of shares than the Government but the control of management would be with him. For instance, if in a PSU the shareholding of Government is 51% and the balance is offloaded in public holdings, then Government may go in for a 25% strategic sale and pass on management control, though the Government would post-transfer have a larger share holding (26%) than the Strategic Partner (25%). It may be noted here that the number 26% has a special significance in Company Law as to get a special resolution passed, one requires at least ¾ majority in a general meeting. Therefore, the 26% block acts as a check. Special resolutions are required under law in case of certain critical decisions by the company such as reduction of capital, alteration in Articles of Association and Memorandum of Association, winding up of the company, issue of share with variation of rights of special classes of shareholders etc..In case of strategic sale of PSUs, Government typically has affirmative rights on several issues, which are much wider in scope than what is provided in Company Law for special resolutions. In fact, the Agreements can be structured such that these rights are exercisable even when Government holding goes below 26%. The other critical number one encounters in Company Law are 10% shareholding, below which one loses voting rights unless specially provided.

Since the shareholders mutually agree to certain rights and obligations which may by dint of the Agreement between the parties assign certain special rights and obligations on the shareholders to which they would normally not be bound through the provisions of the Company Law, the Agreements assume great significance in the case of strategic sale of PSUs. However, as mentioned earlier, in case of strategic sales, the Government has to ensure that the Agreements signed with the Strategic Partner adequately safeguard the Governments/nation’s interests, the interests of the company and finally those of the employees. Therefore, these documents have to be carefully structured.

Analysis & Interpretation:

Financial Background of PPL: Paradeep Phosphates Ltd has been losing money since its inception and till the end of March 2001, had accumulated losses worth Rs 431.5 crore (Rs 4.315 billion) on its books of account. Work on constructing the company's plant manufacturing phosphates fertilizers had begun in 1986 and was completed four years later. The company's outstanding liabilities at the end of March 2001 stood at Rs 856.34 crore (Rs 8.5634 billion).This included amounts owed to a Moroccan group called OCP, GCT of Tunisia and the Indian public sector MMTC (formerly Minerals & Metals Trading Corporation).

In addition, PPL owed more than Rs 200 crore (Rs 2 billion) to the Government for a loan it had taken. The company has installed capacity to produce 720,000 tonnes of di-ammonium phosphate a year. It has a dedicated jetty at Paradeep port to import raw materials such as sulphuric acid, phosphoric acid, ammonia, rock phosphate, sulphur and potash. PPL ran into trouble recently when the Orissa high court directed the Union Government to shut down the company's plant by mid-February 2002 for polluting the environment. This order was thereafter reviewed. Because of its perennial losses, the Government has had to restructure the company's finances no less than three times -- in March 1994, March 2000 and March 2001.At the end of March 2001, PPL's net worth had shrunk to barely Rs 1.15 crore (Rs 11.5 million). According to Shourie, as on March 31, 2001, PPL's net fixed assets were worth Rs 303.08 crore (Rs 3.0308 billion) and its capital investment was Rs 670.69 crore (Rs 6.7069 billion), but because of heavy losses that were being incurred every month, by March 31, 2002, the net worth of the company would have fallen to around minus Rs 120 crore.'

Though the Government had decided in 2001 to privatize PPL by offering 74 per cent of the company's equity shares to a 'strategic partner' in the private sector, it was not until February 2002 that the ministry of divestment invited financial bids on the basis of the company's accounts as on March 31, 2001.

Proceeds of disinvestment vis-à-vis fiscal deficit: The privatization programme at various stages has been done with an initial motive to utilize the sale proceeds to fill up the gap of deficit budget. This chapter covers the critical appraisal of objectives set for the research to come out with the research output by quantitative financial analysis .The data for 1991-92 till 2005-06 has been taken at various stages to analyze and interpret the data.

The disinvestment programme has faced with many trial and errors by the Government Of India which has been described below. In 1997, the first report of the Divestment Commission headed by G V Ramakrishna said the proceeds of Divestment should not be used to bridge the budget deficit but instead be placed in a separate fund to be used for the following four purposes:

(a) Retiring public debt;

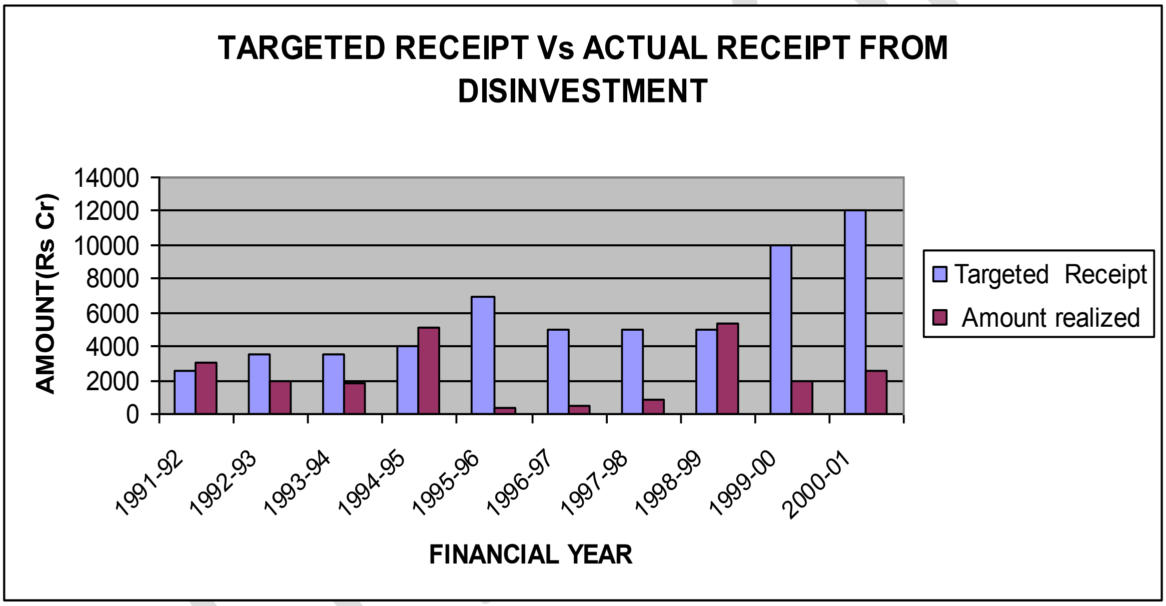
(b) Restructuring public sector undertakings;

(c) Developing the social infrastructure; and

(d) Voluntary retirement schemes.

The targeted receipt and actual proceeds realized from disinvestment from 1991-92 to 2000-01 are shown below:-

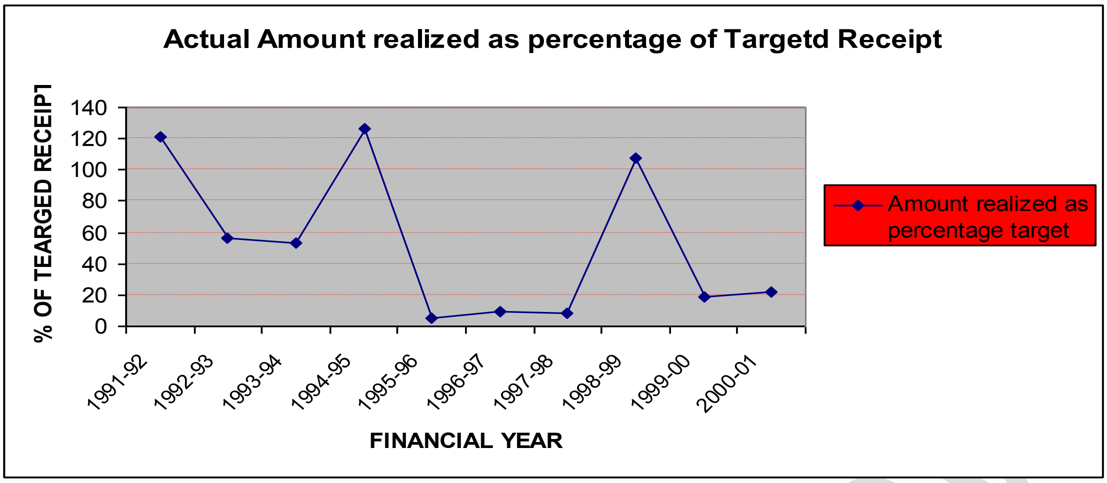
FIGURE -1



Ever since the Union Government began divesting shares of PSUs held by it from 1991-92 onwards, in all but three years (1991-92, 1994-95 and 1998-99) the proceeds of divestment have been substantially lower than budgetary targets and highest in the year 2000-2001. This is due to the sale of minority shares in bundles to the buyers which has resulted into low realization during all these years. This has resulted into distress sales. The figure-9.2 reveals the actual receipt and targeted sales from 1991 to 2001.

FIGURE -2

Actual amount realized as percentage of target

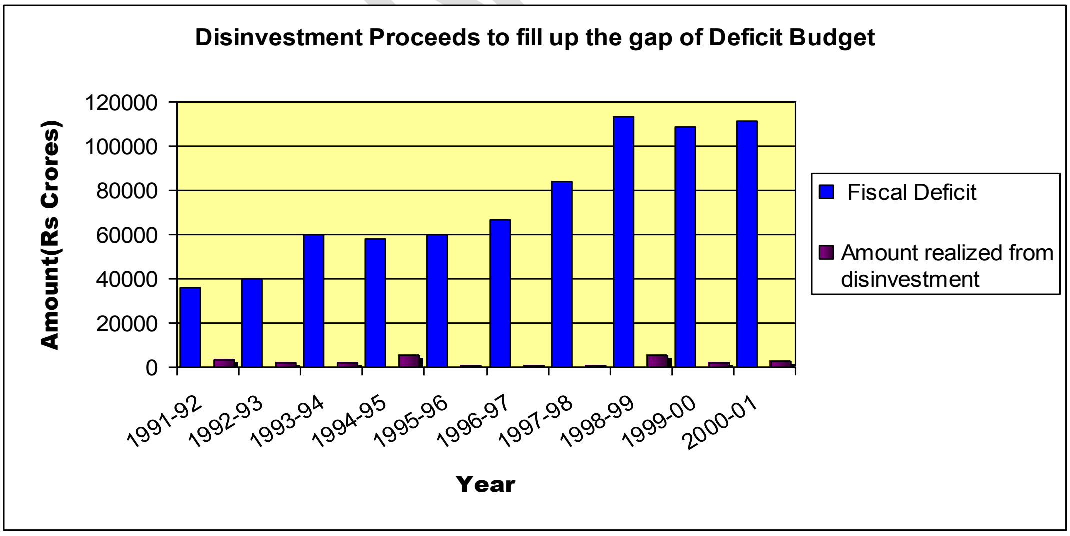


For instance, in 2001-02, against the budget target of Rs 12,000 crore, actual receipts were Rs 3,645 crore .During the two earlier years, the position was much worse. During 1999-2000 and 2000-01, the targets were set at Rs 10,000 crore in both years but actual receipts from Divestment were Rs 1,584 crore and Rs 1,868 crore , respectively.

Controversy over the Utilization of Sales Proceeds

Below is an analysis of the utilization of proceeds received from divestment to fill up the gap of fiscal deficit. The disinvestment as a per cent of fiscal deficit shows highest 8.36 in 1991-92 and lowest 0.6 in 1995-96 due to low realization of proceeds. Further the ratios show inconsistent and insignificant throughout the 10 years period.The following figure shows the year wise fiscal deficit and actual proceeds realized from disinvestment from since the year of privatization 1991-92 to 2000-01.

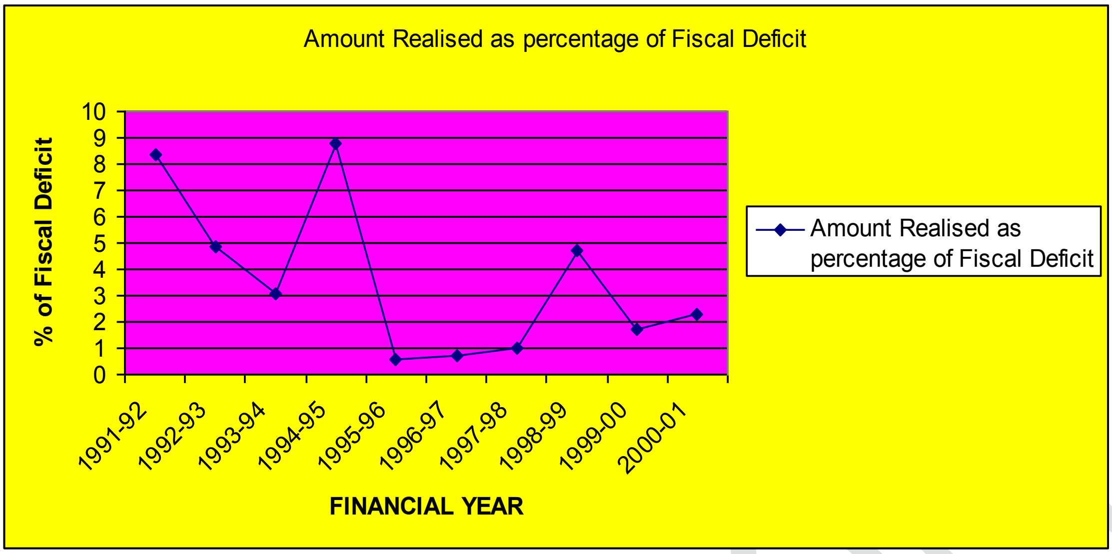
FIGURE -3



In the light of the above, it is interesting to study the proceeds from disinvestment vis-à-vis fiscal deficit and to know the share of disinvestment proceeds in the total deficits.

FIGURE - 4

Amount realized as percentage of fiscal Deficit



Interpretation

From the graph the data relating to fiscal deficit and disinvestment proceeds shows that the proceeds realized from disinvestment were insufficient to meet the increasing rate of fiscal deficit in subsequent years.

Statistical Analysis: It is understood that the disinvestment has exerted the positive influence on the financial performance of the divested companies in case of strategic sale involving management control. However this linkage in the context of PPL has not been studied so far after the divestment. In order to examine the financial performance of PPL before and after divestment an exercise has been conducted. The pair t test has been resorted to understand this phenomenon across the different financial performance ratios before and after the divestment. This t test has helped in examining whether there is any statistically significant difference in financial performance of PPL.

Computation of Multiple Regression Analysis: In order to assess the impact of financial performance of the divested company PPL where there is transfer of ownership and control the contribution of loan funds in the investment of fixed assets and working capital is being studied. The purpose is to ascertain the role of loan finds in the business which gives financial leverage by a high earning per share which leads to maximum value addition to the shareholders. In order to examine the factors those are influencing fixed asset of the PPL, a multiple regression analysis has been resorted to . The present study is to assess the impact of financial performance of the divested company on strategic sale involving transfer of ownership and control. From the perusal of audited balance sheet of Paradeep Phosphates Ltd for the period six year before disinvestment (year 2002) and six years thereafter .The periods taken for the study are from 1996-97 to 2001-02 before disinvestment and 2002-03 to 2007-08.The data of share capital, loan funds, fixed assets and net current assets for the above periods are taken from the audited balance sheet of Paradeep Phosphates Ltd. The period of six year before disinvestment is taken as 1 and six years after disinvestment as 0 as the dummy variable. The multiple regression model which has been resorted is presented here under:-

FA= α+βSC+ δLF +γD+ε

Where FA = Fixed assets,
SC = Share Capital,
LF = Loan Funds,
D = Dummy Variable (1 before and 0 after divestment),
ε = Standard Error.

Before running this multiple regression model diagnostic test for multicollinearity and auto correlation have been examined and the results of such diagnostic tests reveal that the multicollinearity and auto correlation statistics are within the tolerable limits.

Interpretation of Multiple Regression Analysis

The result of multiple regression analysis having share capital as independent variable and fixed assets and net current assets as dependent variables are given below-

Table -2

Result of Multiple Regression Analysis(Share Capital as independent Variable)

riable	efficient	Value	vel of Significance
	107	4	00
	28	33	48*
	21	82	77
		32	09
=0.806	11.097		

Note: * indicates 5 % level of significance

From the perusal of table as above it is observed that the t value in case of share capital, loan funds and year of disinvestment show negative value and the level of significance in case of share capital is 0.048 which shows that the null hypothesis H_0 is accepted. So the role of independent variable share capital is not adding any significant prediction for the dependent variables fixed assets and net current assets.

Thus, it is revealed that the fixed asset is not highly influenced by share capital. A change in share capital does not influence the fixed asset at 5 per cent level of significance where as other two independent variables loan funds and dummy variable significantly influence the fixed assets.

However, taking in to account these three variables such as share capital, loan funds and dummy variable explain about 80 per cent change in dependent variable which is fixed asset.

Further, to examine the factors influencing the net current assets in the context of PPL another multiple regression model have been resorted to.
The multiple regression models which have been resorted is presented here under:-

NCA= α+βSC+ δLF +γD+ε

Where NCA = Net Current Asset
Where SC = Share Capital,
LF = Loan Funds,
D = Dummy Variable (1 before and 0 after divestment),
ε = Standard Error.

Interpretation of Multiple Regression Analysis

The result of multiple regression analysis having loan fund as independent variable and fixed assets and net current assets as dependent variables are given below-

Table -3

Result of Multiple Regression Analysis(Loan Fund as independent Variable)

riable	-efficient	Value	vel of gnificance
	90055	209	340
	143	196	349
	645	717*	24
	62391	176	365
= 0.814	0.027		

* t value is highest.

From the perusal of table this implies rejection of Ho, means at least one of the independent variables loan fund is adding significant prediction for dependent variable. This has a highest beta value of .814. The t value and significant level in each row of the table of variables tells to reject each of the null hypothesis (Ho).Thus, at the .05 level of significance the null hypothesis is rejected.

It is revealed that the net current asset is influenced by loan funds.. A change in loan funds influences the net current asset at 5 per cent level of significance where as other two independent variables loan finds and dummy variable do not significantly influence.

However, taking in to account these three variables such as share capital, loan funds and dummy variable explain about 81 per cent change in dependent variable which is net current asset.

Thus, the loan fund acting as independent variable is adding significant prediction for dependent variables fixed assets as well as net current asset(working capital) which ultimately maximize value to the shareholders by an efficient financial management technique called financial leverage adopted by the private entrepreneurs after acquiring the significant stake (more than 51 per cent) in the privatized companies.

The multiple regression analysis reveals that the fixed asset is not influenced by the share capital where as the net current asset is highly influenced by the loan fund which signifies that the change in ownership has brought more unsecured loan which brings liquidity to the business leading to better financial leverage by optimizing debt equity mix and proper working capital management that brings maximum profitability to the shareholders.

Summary of Findings: In order to see the impact of ownership with financial performance of the divested company, the management decision to restructure the financing mix(debt equity mix) by infusing more unsecured debt and paying of secured loan . The multiple regression analysis has been selected to ascertain the whether the contribution of loan fund is adding significant prediction to net current asset (working capital) .

The findings of the research is done on the basis of financial analysis and statistical analysis as follows-

Proceeds to meet Fiscal Deficit: The proceeds realized from disinvestment as a per cent of fiscal deficit shows highest (8.36) in 1991-92 and lowest (0.6) in 1995-96 due to low realization of proceeds on account of minority sale of shares. Further the ratios of actual proceeds realized as a per cent of fiscal deficit show inconsistent and insignificant throughout the 10 years period. As a result, the intention of GOI to utilize the sale proceeds out of minority sale to fill up the gap of deficit budget is not being fulfilled.

The Government has followed the path of utilizing the proceeds of divestment to meet the fiscal deficit; the low sale realization has prompted the Government to move towards the strategic sale of public sector companies in order to receive more proceeds by transferring the controlling interest in the hands of private players which has been started from 2001-02 onwards. Thus the purpose of disinvestment was not clearly defined in the initial years of disinvestment for which the disinvestment programme was not gaining momentum in the first few years.

Statistical Analysis: The financial analysis has shown improvement of financial performance of the privatized company after divestment**.** However in order to test the significance level of improvement in financial performance the following statistical tests have been applied and the following findings are obtained:-

Application of Multiple Regressions Analysis: There is fine integration of financial management techniques and multiple regression analysis which brings forth the contribution of loan finds significant prediction of fixed assets as well as net current assets. It is revealed that the fixed asset is not highly influenced by share capital. A change in share capital does not influence the fixed asset at 5 per cent level of significance where as other two independent variables loan finds and dummy variable significantly influence to the fixed assets. It is revealed that the net current asset is influenced by loan funds. A change in loan funds influences the fixed asset at 5 per cent level of significance where as other two independent variables loan finds and dummy variable do not significantly influence.

Conclusion: The disinvestment programme started by the Government of India has yielded more revenue form strategic sale. The present research has come out with meaningful conclusion over the disinvestment strategy adopted by the Government at different stages of disinvestment mentioned below:-

The intention to start the privatization programme was to meet the fiscal deficit .But the proceeds realized from minority sale of shares has brought less revenue than the targeted which has prompted the Government to adopt the strategic sale route as the most viable option of privatization where the more than 51 per cent shares have been transferred with transfer of management control. The various statistical tests have confirmed the significance of financial performance through improvement of short term financial position bringing liquidity in case of PPL and improvement of operational efficiency of the privatized company which have been observed in seven group of divested companies.

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