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Liquidity of Select Disinvested Public Sector Enterprises in India during the Period 2000 – 2010

Santosh Koner

Assistant Professor, Chatra Ramai Pandit Mahavidyalaya, Chatra, Bankura, West Bengal, India

Jaydeb Sarkhel

Professor, Department of Commerce, Burdwan University, West Bengal, India

Abstract:

The main purpose of the present paper is to find out the behaviour of different measures of liquidity given by different ratios of the divested central public sector enterprises in India. For this purpose we take the financial data of ten divested central public sector enterprises namely BEML, BEL, SAIL, BHEL, ITI, SCI, ONGC, IOCL, GAIL and CONCOR during the period 2000-2010. We have considered two different measures of short term liquidity such as current ratio (CR), Debt – Equity ratio (D/E)

Keywords: *Liquidity, Current Ratio, Debt – Equity Ratio, Performance, Combined Rank*

1. Introduction

The performance of public sector units can be judged by several efficiency criteria. However, the financial performance assumes importance because one of the objectives of creating public sector enterprises was to generate investable resources for development by earning adequate profits. Financial performance of public sector units is mixed. In 2001-02, 119 profit making enterprises earned a total net profit of about Rs. 36432 crore and 109 loss making units incurred a loss of Rs. 10387 crore. Thus in 2001-02 total net profit earned by 230 central public sector units was Rs. 26045 crore. A very interesting point about the financial performance of central public sector units is that the major part of the profits was contributed by the petroleum sector enterprises. Thus in 2001-02 when the net profit after tax came to Rs. 26045 crore, the share of the petroleum sector enterprises was Rs 12714 crore that is 49%. The profit of the public sector enterprises would look less impressive if the oil sector is excluded. The rate of return on capital employed (defined as the ratio of net profit to capital employed) in 2001-02 was 6.7%. It should be noted that the capital employed in central public sector enterprises is generally raised by way of long term loans from the market and from financial institutions at a much higher rate of interest, Accordingly the rate of return on capital employed is pitifully low.

2. Objectives of the Study

The objectives of the present study are as follows:

- To consider the process of disinvestment of public enterprises from a theoretical perspective.
- To consider the performance of selected disinvested public sector enterprises in India from the standpoint of liquidity.
- To judge whether the selected disinvested public sector enterprises are improving their performance or not due to disinvestment.

3. Methodology and Data Source

We have collected data for ten divested public sector enterprises during the period 2000-2010. This data are primarily secondary data. Data relating to those enterprises have been collected from various issues of Public Enterprise Survey, published by the Department of Public Enterprises, Government of India. Annual financial reports and balance sheets have also been used for the collection of data.

Since we are dealing with financial data, our tool of analysis will obviously be tools of financial statement analysis. The principal tool of financial statement analysis is financial ratio analysis. This ratio analysis has been used as the main tool in the present study. More specifically, we have calculated the values of different financial ratios for the ten selected disinvested public sector enterprises during the period 2000-2010. These ratios are then analyzed to judge the liquidity performance of the selected enterprises over the period. The ratios have also been used to compare the relevant enterprises on the basis of their liquidity performance during the study period. We shall then be able to decide individual public sector enterprise's performance from the stand point of point of liquidity.

Many will argue that it is not wise to judge a public sector undertaking by its profitability and liquidity performance because such enterprises are not always guided by the profit motive. Rather they are guided by broader socio-economic considerations. If necessary, a public enterprise can operate even if it is losing, the losses being met from the government budget.

4. Selection of Companies for the Study

We have selected 10 central public sector enterprises which have been partially or fully disinvested since 1991-92. The disinvested public sector enterprises have been selected from different sectors such as petroleum, steel, minerals and metals, transportation services, medium and light engineering and contract and construction services, heavy engineering etc. The selection of companies has been done not on the basis of random selection but on the basis of judgment sampling keeping in mind their importance in the economy. The ten selected central public sector enterprises are as follows:

- Bharat Earth Movers Ltd. (BEML) -share divested since 1991-92, Govt. holding 60.81% and divested 39.19%.
- Bharat Electronics Ltd. (BEL) – share divested since 1991-92, Government holdings 75.86% and divested 24.14%.
- Steel Authority of India Ltd. (SAIL) – share divested since 1991-92, Government holdings 85.82% and divested 14.18%.
- Bharat Heavy Electricals Ltd. (BHEL) - share divested since 1991-92, Government holdings 67.72% and divested 32.28%.
- Indian Telephone Industries Ltd. (ITI) – share divested since 1991-92, Government holdings 76.67% and divested 22.33%.
- Shipping Corporation of India Ltd. (SCI) – share divested since 1991-92, Government holdings 80.12% and divested 19.88 %.
- Oil and Natural Gas Corporation (ONGC) – share divested since 1994-95, Government holdings 74.14 % and divested 25.86%.
- Indian Oil Corporation Ltd. (IOCL) – share divested since 1994-95, Government holdings 78.92% and divested 21.08%.
- Gas Authority of India Ltd. (GAIL) – share divested since 1994-95, Government holdings 67.34% and divested 32.66%.
- Container Corporation of India Ltd. (CONCOR) – share divested since 1994-95, Government holdings 63.08% and divested 36.92%.

5. Liquidity of Selected Enterprises

We have selected ten divested central public sector enterprises. We have collected financial statistics relating to these ten public sector enterprises from the Public Enterprise Survey report for the period from 2000 to 2010. In this paper we shall use this data to compute some liquidity ratios for the ten divested central public sector enterprises we have selected.

The main purpose of the present paper is to find out the behaviour of different measures of liquidity given by different ratios of the divested central public sector enterprises in India. For this purpose we take the financial data of ten divested central public sector enterprises namely BEML, BEL, SAIL, BHEL, ITI, SCI, ONGC, IOCL, GAIL and CONCOR during the period 2000-2010. We have considered two different measures of short term liquidity such as current ratio (CR), Debt – Equity ratio (D/E).

6. CR of Ten PSEs Taken Together

We have considered the performance with respect to liquidity of 10 selected disinvested public sector enterprises during the period 2000-01 to 2009-10 by using several accounting ratios. For judging liquidity we have used two ratios: Current Ratio and Debt equity Ratio. In each case we have obtained the necessary data from the published annual reports of the relevant PSUs. For any financial ratio we have calculated two average figures. One is for a particular company over the years and another is for a particular year over the companies. For example we have calculated average current ratio for all the companies over the years. These results are given in the row elements under the relevant companies. Along with averages we have also calculated C.V. of the current ratios for different companies over the years. We have ranked the companies on the basis of their average current ratio and on basis of their C.V's. Again we have calculated average current ratio for any particular year taking all the companies together. These figures are given as column elements against relevant years. These averages have also been ranked. Moreover CV's for the values of current ratios in different years have also been calculated. The ranks of different years have also been found by using their CVs. It should be noted that while ranking on the basis of average the highest average value has been given rank 1 and so on but while ranking CVs the lowest CV value has been assigned rank 1 and so on. We have calculated rank correlation coefficient for the two series of ranks to judge whether the rankings are consistent or not. The necessary data are given in Table 1. It is seen from Table 1 that current ratio of BEML decreased from 1.46 in 2000-01 to 1.33 in 2003-04 after which it began to rise reaching 1.82 in 2009-10. The average CR for these 10 years was 1.54. The SD and CV of CRs of BEML have also been calculated in this table. The SD of CRs of BEML was 0.2 and CV was found to be 12.78%. CR of BEL in 2000-01 was 1.27 but it gradually increased to 1.71 in 2009-10. The average is 1.46. The SD of CRs of BEL is 0.17 and CV is 11.55%. The same process has been used to calculate average CR and CV of other companies. The results are given in Table1.

It is seen from Table 1 that on the basis of average of current ratios over the years SCI obtained rank 1, CONCOR obtained rank 2 and so on. The last rank 10 went to IOCL while the rank 9 went to ITI. However when ranking is done on the basis of CV, ranks are changed. Then BHEL gets rank 1, IOCL gets rank 2 and so on. Rank 10 went to SCI. The two sets of ranks are negatively correlated, the correlation coefficient between the two sets of ranks being - 0.35. It appears that the two sets of ranks are not consistent. Taking year-wise performance with the help of averages it is seen that the performance in the last five years was better than the performance of the first five years. The opposite results are obtained while ranking with respect to CVs.

Similarly we have considered the D/E ratio of ten different PSUs during the period. It is seen from Table 2 that D/E ratio of BEML decreased from 0.66 in 2000-01 to 0.03 in 2006-07 after which it began to rise reaching 0.37 in 2009-10. The average D/E ratio for these ten years was 0.24. The SD of D/E ratio of BEML was 0.21 and the CV was found to be 89.08%.

Year	BEML	BEL	SAIL	BHEL	ITI	SCI	ONGC	IOCL	GAIL	CONCOR	Average	Rank	SD	CV	Rank
2000-01	1.46	1.27	0.8	1.41	1.21	1.39	1.61	0.91	1.09	2.35	1.35	6	0.43	31.95	5
2001-02	1.39	1.3	0.7	1.56	1.16	1.24	1.37	0.79	1.06	2.13	1.27	8	0.4	31.73	4
2002-03	1.33	1.33	0.66	1.7	1.18	1.2	1.24	0.79	1.07	1.79	1.22	10	0.35	28.68	3
2003-04	1.33	1.33	0.75	1.66	1.13	1.29	1.34	0.9	1.04	1.71	1.24	9	0.3	24.54	2
2004-05	1.4	1.38	0.99	1.57	1.15	1.79	1.45	0.9	1.09	1.67	1.33	7	0.3	22.36	1
2005-06	1.5	1.48	1.18	1.54	1.11	2.66	1.44	0.88	1.2	1.68	1.46	5	0.48	33.1	6
2006-07	1.62	1.53	1.36	1.47	0.9	3.13	1.41	0.85	1.26	2	1.55	4	0.65	41.72	7
2007-08	1.77	1.63	1.6	1.45	0.81	3.24	1.55	0.84	1.37	2.44	1.67	3	0.72	43.07	8
2008-09	1.81	1.7	1.72	1.4	0.74	3.07	1.78	0.76	1.34	2.65	1.68	2	0.73	43.57	10
2009-10	1.82	1.71	1.77	1.37	0.82	2.93	1.73	0.74	1.22	2.83	1.69	1	0.73	43.42	9
Average	1.54	1.46	1.15	1.51	1.02	2.19	1.49	0.83	1.17	2.12	1.44				Roc = -0.9
Rank	3	6	8	4	9	1	5	10	7	2					
SD	0.2	0.17	0.44	0.11	0.18	0.88	0.17	0.06	0.12	0.43					
CV	12.78	11.55	37.87	7.4	17.76	40.33	11.62	7.52	10.35	20.06					
Rank	6	4	9	1	7	10	5	2	3	8					Rco = -0.35

Table 1: Current Ratio of ten different public sector enterprises during the period 2000-2010

Source: Public Enterprise Survey Report

D/E ratio in case of BEL decreased from 0.16 in 2000-01 to 0.01 in 2005-06 after which it was, for the rest of the years, zero. The average was 0.04. The SD of D/E ratio of BEL was 0.06 and the CV was 139.44%. In the same manner we have calculated the average and CV of D/E ratios of the other companies also. They are shown in Table 2.

7. D/E ratio of Ten PSEs Taken Together

We have ranked 10 PSUs on the basis of average D/E ratio. From the Table 2 it is seen that the ITI has the highest average D/E and its rank is 1. Next in ranking is SAIL with the average D/E of 1.71. Its rank is 2.

We have also ranked the PSUs on the basis of CV. The ranks show that IOCL has the rank 1. ONGC has rank 2. To judge whether the two sets of ranks are consistent or not we have calculated rank correlation coefficient between these two series of ranks. The value of the rank correlation coefficient is 0.21 which implies there is very little consistency between these two sets of ranks.

Similarly we have considered the different companies of a particular year as a whole. It is seen that in the year 2000-01 D/E ratio of different PSUs varied between the 0.11 to 4.08. The average was 1.07. The SD and CV have also been calculated in this table. The SD and CV are 1.36 and 127.41% in the year 2000-01. The average D/E ratio increased to 1.13 in 2001-02 and the SD and CV were 1.57 and 139.29% respectively. Similar calculations have been made for other years. The results are given in Table 2.

Year	BEML	BEL	SAIL	BHEL	ITI	SCI	ONGC	IOCL	GAIL	CONCOR	Average	Rank	SD	CV	Rank
2000-01	0.66	0.16	2.99	0.17	4.08	0.67	0.2	1.18	0.5	0.11	1.07	3	1.36	127.41	4
2001-02	0.5	0.11	3.82	0.2	4.26	0.53	0.13	1.27	0.47	0.06	1.13	2	1.57	139.29	5
2002-03	0.28	0.07	5.02	0.13	9.05	0.49	0.07	0.98	0.38	0.03	1.65	1	3.01	182.19	9
2003-04	0.06	0.03	2.86	0.11	0	0.53	0.16	0.64	0.3	0.01	0.47	4	0.87	184.85	10
2004-05	0.08	0.02	0.94	0.1	0	0.46	0.24	0.6	0.26	0.01	0.27	5	0.31	114.68	1
2005-06	0.06	0.01	0.44	0.08	0	0.35	0.22	0.79	0.21	0	0.21	7	0.25	120.49	2
2006-07	0.03	0	0.28	0.04	0	0.28	0.24	0.83	0.15	0	0.18	8	0.26	141.77	6
2007-08	0.12	0	0.18	0.01	0	0.25	0.21	0.82	0.11	0	0.17	9	0.25	145.28	8
2008-09	0.24	0	0.21	0.01	0	0.33	0.19	0.95	0.09	0	0.2	10	0.29	144.28	7
2009-10	0.37	0	0.39	0.01	0	0.41	0.2	0.95	0.08	0	0.24	6	0.3	126.17	3
Average	0.24	0.04	1.71	0.08	1.73	0.43	0.18	0.9	0.25	0.02	0.55				Rco = -0.05
RANK	6	9	2	8	1	4	7	3	5	10					
SD	0.21	0.06	1.79	0.07	3.1	0.13	0.05	0.21	0.15	0.04					
CV	89.08	139.44	104.89	85.63	179.15	30.4	29.42	23.65	61.95	182.27					
Rank	6	8	7	5	9	3	2	1	4	10					Rco=0.21

Table 2: Debt Equity Ratio of ten different public sector enterprises during the period 2000-2010

We have ranked the average D/E Ratio for any particular year taking all the companies together. From Table 2 it is seen that the year 2002-03 has the highest average D/E ratio and its rank is 1. Next in ranking is 2001-02 with average D/E ratio of 1.13. Its rank is 2 and so on. We have also ranked any particular year taking all the companies together on the basis of CV. The ranks show that the year 2004-05 has the rank1; 2005-06 has the rank 2 and so on. To judge whether the two sets of ranks are consistent or not we have calculated rank correlation coefficient between these two series of ranks. The value of the rank correlation coefficient is (-) 0.05 which implies that there is no consistency between the two sets of rankings. It is seen that on the basis of average D/E ratio the first five years have performed better compared to the last five years. However no such tendency is noticed while ranking the years on the basis of CV.

Ranks on the basis of average	BEML	BEL	SAIL	BHEL	ITI	SCI	ONGC	IOCL	GAIL	CONCOR
CR	3	6	8	4	9	1	5	10	7	2
D/E Ratio	6	9	2	8	1	4	7	3	5	10
Rank Total	9	15	10	12	10	5	12	13	12	12
Combined Rank	2	10	3.5	6.5	3.5	1	6.5	9	6.5	6.5

Table 3: Combined Ranking on the basis of Liquidity Combined Ranking of all companies on the basis of liquidity

We have obtained ranks of all companies with reference to average current ratio and average debt-equity ratio taking all the years. All these ranks are plotted in Table 3. For each company we get two ranks – one on the basis of average CR and the other on the basis of D/E ratio. These two ranks have been added to get rank total of all the companies. The companies are then ranked on the basis of rank total. The company having the lowest rank total is given rank 1, the company having the next higher rank total is rank 2 and so on. In this way we prepare combined ranking of all the companies on the basis of liquidity. It is seen from table 3 that SCI has the lowest rank total of 5. Its combined rank is 1. Next in ranking is BEML whose rank is 2. Then there is a tie between SAIL and ITI for the third position, both of them having the same rank total of 10. Both of them have been allotted rank 3.5. For the next position also there is a tie among four companies – BHEL, ONGC, GAIL and CONCOR – all of them having rank total of 12. All of them have been given rank 6.5. Next comes IOCL having rank 9 and BEL having rank 10. Thus from the stand point of liquidity the first position goes to SCI while the last position goes to BEL.

8. References

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