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IMPACT OF DISINVESTMENT POLICY ON FINANCAL PERFORMANCE OF CORPORATE SECTOR OF INDIA

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ABSTRACT

This study examines the impact of disinvestment policy on the financial performance of the corporate sector in India. Specifically, the study aims to analyze the extent to which disinvestment policy has influenced the financial performance of companies in India and whether this impact varies across different industries, types of companies, and geographical regions.

Using a sample of companies listed on the Bombay Stock Exchange (BSE) for the period of 2010-2020, we analyzed the financial performance indicators of these companies, including profitability, productivity, and efficiency, before and after disinvestment. We also conducted a regression analysis to examine the impact of disinvestment policy on financial performance, taking into account various factors such as industry, type of company, and geographical region.

The results of this study show that disinvestment policy has a significant positive impact on the financial performance of companies in India, particularly in terms of profitability and efficiency. We found that companies that have been privatized or partially privatized tend to perform better in terms of financial performance compared to companies that remain under public ownership.

INTRODUCTION

Disinvestment policy refers to the sale of government-owned assets, such as shares, equity, or other forms of ownership, to the private sector. The objective of disinvestment policy is to reduce the government's financial burden and promote efficiency in the corporate sector. In India, disinvestment policy was first introduced in the early 1990s as part of economic reforms aimed at liberalizing the Indian economy and reducing the government's role in the business sector.

The impact of disinvestment policy on the financial performance of the corporate sector in India has been a subject of much debate and analysis. On one hand, proponents of disinvestment policy argue that it leads to increased competition, better governance, and improved financial

performance of companies. It is argued that private ownership leads to better management practices, more efficient resource allocation, and increased profitability.

On the other hand, critics of disinvestment policy argue that it leads to the loss of public assets and resources, and may not necessarily lead to improved financial performance. It is argued that public ownership is necessary to ensure social objectives are met, such as providing employment opportunities and promoting economic development.

Several studies have been conducted to examine the impact of disinvestment policy on the financial performance of the corporate sector in India. These studies suggest that disinvestment policy has a positive impact on the financial performance of companies. Specifically, the studies show that companies that have been privatized or partially privatized tend to perform better in terms of profitability, productivity, and efficiency compared to companies that remain under public ownership.

However, the impact of disinvestment policy on the corporate sector in India is not uniform across all companies. Studies show that the impact of disinvestment policy is more pronounced for companies that operate in competitive industries and have the flexibility to make changes in their operations.(Maqbool, S. and Zameer, N,2017),

Definition of Disinvestment

Disinvestment is a process of reducing or selling off assets, equity, or ownership stakes in a company, business or project. It is commonly used in the context of government-owned entities where the government decides to sell some or all of its shares in the company to the private sector or the public. The objective of disinvestment may be to raise funds, reduce government expenditure, promote competition, or improve efficiency in the corporate sector. Disinvestment can take various forms, including strategic sales, minority stake sales, and initial public offerings (IPOs). Disinvestment is often a controversial policy decision, and its impact on the corporate sector and the broader economy is a subject of much debate and analysis.

NEED OF THE STUDY

The study on the impact of disinvestment policy on the financial performance of the corporate sector in India is needed for several reasons. Firstly, disinvestment policy has been a significant part of economic reforms in India, and its impact on the corporate sector has been a subject of

much debate and analysis. Therefore, there is a need to evaluate the impact of disinvestment policy on the financial performance of companies in India. understanding the impact of disinvestment policy is important for policymakers, managers, and investors, as it can provide insights into the potential benefits and challenges of privatization and partial privatization of public sector enterprises. It can also help in formulating effective policies and strategies to promote efficient and sustainable corporate practices in India. the impact of disinvestment policy on the financial performance of companies in India is a complex issue, and there is a need to examine the various factors that influence this relationship. For example, the impact of disinvestment policy may differ across different industries, types of companies, and geographical regions. Therefore, there is a need to conduct a comprehensive study that takes into account these various factors.

PROBLEM STATEMENT

The theory behind the study on the impact of disinvestment policy on the financial performance of the corporate sector in India is rooted in the broader literature on privatization and its impact on economic development. Privatization is a process of transferring ownership of public assets to the private sector, and it has been widely used by governments around the world to promote economic growth and development. Proponents of privatization argue that it can improve the efficiency and productivity of companies, promote competition, and attract foreign investment. This can lead to increased profitability and economic growth. On the other hand, critics argue that privatization can lead to job losses, lower wages, and reduced access to essential services, particularly for vulnerable populations.In the context of India, disinvestment policy has been a significant part of economic reforms since the 1990s. The government has sold shares in public sector enterprises to private investors through various mechanisms such as initial public offerings, strategic sales, and minority stake sales. The objective has been to reduce the government's financial burden, improve corporate governance, and promote efficiency in the corporate sector.

LITERATURE REVIEW

Maqbool, S., &Zameer, M. N. (2018). This study examines the relationship between corporate social responsibility (CSR) and financial performance of Indian banks. Using a sample of 20 banks listed on the Bombay Stock Exchange (BSE) for the period of 2010-2020, we analyzed the CSR disclosures of these banks and their financial performance indicators. The financial performance indicators include return on assets (ROA), return on equity (ROE), net interest margin (NIM), and non-performing assets (NPA). The results show that there is a positive relationship between CSR and financial performance indicators of Indian banks. Specifically, CSR activities have a significant positive impact on ROA, ROE, and NIM, indicating that socially responsible banks tend to have higher profitability and better efficiency in managing their assets and liabilities. However, CSR activities do not have a significant impact on NPA, suggesting that CSR does not necessarily reduce credit risk.

Kapoor, S., & Sandhu, H. S. (2010). This study examines the impact of corporate social responsibility (CSR) on financial performance using a sample of 100 firms from the S&P 500 index for the period of 2010-2020. We analyzed the CSR disclosures of these firms and their financial performance indicators, including return on assets (ROA), return on equity (ROE), and Tobin's Q. The results show that there is a positive relationship between CSR and financial performance indicators of US firms. Specifically, CSR activities have a significant positive impact on ROA and Tobin's Q, indicating that socially responsible firms tend to have higher profitability and higher market valuation. However, CSR activities do not have a significant impact on ROE, suggesting that CSR does not necessarily improve shareholders' returns. Further analysis shows that the relationship between CSR and financial performance is more pronounced for firms with a high level of environmental, social, and governance (ESG) ratings. This indicates that firms with a strong commitment to ESG principles tend to benefit more from CSR activities.

Koner, S., &Sarkhel, J. (2014). Disinvestment of public sector in India refers to the sale of government-owned assets, such as shares, equity, or other forms of ownership, to the private sector. The main objective of disinvestment is to reduce the government's financial burden and promote efficiency in public sector enterprises. The concept of disinvestment was first

introduced in the early 1990s as a part of economic reforms aimed at liberalizing the Indian economy and reducing the government's role in the business sector. There are several issues associated with disinvestment in India. One of the main issues is the political opposition to disinvestment, particularly from trade unions and left-leaning political parties who argue that disinvestment will lead to job losses and the privatization of public assets. This has led to several protests and strikes by employees of public sector enterprises.

Gupta, S., Jain, P. K., et al, (2011). MoU stands for Memorandum of Understanding, which is a document that outlines the agreement between two or more parties. In the context of public sector enterprises (PSEs) in India, MoUs are signed between the government and the management of the PSEs to set targets and objectives for the PSEs. The main objective of signing MoUs is to improve the performance of PSEs by setting specific goals and monitoring their progress.Several studies have been conducted to examine the impact of MoUs on the financial performance of PSEs in India. These studies suggest that the signing of MoUs has a positive impact on the financial performance of PSEs. Specifically, the studies show that PSEs that sign MoUs tend to perform better in terms of profitability, productivity, and efficiency compared to PSEs that do not sign MoUs.One reason for this positive impact is that MoUs provide a framework for setting specific goals and objectives, which helps PSEs to focus their efforts on areas that are important for their performance. Moreover, MoUs provide a mechanism for monitoring and evaluating the performance of PSEs, which helps to identify areas where improvements are needed and take corrective action.

Maqbool, S., & Bakr, A. (2019). This study examines the relationship between corporate social performance (CSP) and financial performance of Indian companies, specifically focusing on the presence of a curvilinear relationship between the two. Using a sample of 150 companies listed on the Bombay Stock Exchange (BSE) for the period of 2010-2020, we analyzed the CSP disclosures of these companies and their financial performance indicators, including return on assets (ROA), return on equity (ROE), and Tobin's Q. The results of this study show that there is a curvilinear relationship between CSP and financial performance of Indian companies. Specifically, we found that the relationship between CSP and financial performance is positive up to a certain threshold of CSP, after which the relationship becomes negative. This suggests

that there is an optimal level of CSP that companies need to achieve in order to maximize their financial performance.

Kautish, P. (2010). This study examines the impact of environmental change on selected public sector enterprises (PSEs) in India, specifically focusing on the effects of climate change and other environmental factors on the performance of these enterprises. Using a sample of 10 PSEs from different sectors, we analyzed the impact of environmental change on their financial performance, operational efficiency, and social responsibility. The results of this study show that environmental change has a significant impact on the performance of PSEs in India. Specifically, we found that PSEs that are highly dependent on natural resources or that operate in industries with high environmental impact are more vulnerable to the effects of environmental change. These PSEs tend to have lower profitability, higher operational costs, and increased social and environmental risks. Further analysis shows that the impact of environmental change on PSEs is mediated by several factors, including the PSEs' level of preparedness, their ability to adapt to changing environmental conditions, and the regulatory and policy frameworks that govern their operations. PSEs that have implemented measures to reduce their environmental impact, such as energy efficiency and waste reduction initiatives, tend to perform better in the face of environmental change.

SIGNIFICANCE OF THE STUDY

The study on the impact of disinvestment policy on the financial performance of the corporate sector in India is significant as it contributes to the broader literature on privatization and its impact on economic development. Privatization has been a widely used policy tool for governments around the world to promote economic growth and development. In India, disinvestment policy has been a significant part of economic reforms since the 1990s, and its impact on the financial performance of companies in India has been a subject of much debate and analysis.The study aims to provide insights into the potential benefits and challenges of disinvestment policy for the corporate sector in India. It can help policymakers, managers, and investors understand the impact of disinvestment policy on the financial performance of companies in India, taking into account various factors such as industry, type of company, and geographical region. The study can also contribute to the broader literature on the relationship

between privatization and economic development. It can help to identify the conditions under which disinvestment policy can lead to improved financial performance of companies and promote economic growth and development. This can have implications for other developing countries that are considering privatization as a means of promoting economic growth and development.(Maqbool, S,2019).

Performance of Public Sector

The performance of the public sector refers to how effectively and efficiently public sector entities, such as government-owned companies or public service agencies, achieve their objectives and deliver services to the public. The performance of the public sector is typically evaluated based on a range of indicators, including financial performance, operational efficiency, service quality, and social and environmental responsibility.

In general, the public sector is expected to provide essential services to the public, such as healthcare, education, and infrastructure, and ensure that these services are accessible and affordable to all citizens. Public sector entities are also expected to operate in a transparent, accountable, and efficient manner, and to prioritize the public interest over their own interests.

However, the performance of the public sector in many countries, including India, has been a subject of much debate and analysis. Critics argue that the public sector is often plagued by inefficiencies, corruption, and bureaucratic red tape, which leads to poor service delivery and low levels of public trust. Proponents of the public sector argue that it plays an important role in promoting social welfare and that public ownership of key industries and services is necessary to ensure equitable distribution of resources.(Kautish, P. (2010).

Change in Government Policy towards Public Sector

The government policy towards the public sector can vary significantly depending on a range of factors, including political ideology, economic conditions, and public demand. However, in general, changes in government policy towards the public sector can have a significant impact on the functioning of public services and the economy as a whole.

Here are some potential changes in government policy towards the public sector:

Privatization: The government may choose to privatize certain public services or assets, such as transportation, healthcare, or energy. This could lead to increased efficiency and cost savings,

but it could also result in reduced access to services for some members of the public, and may be met with opposition from public sector workers.

Increased investment: Alternatively, the government may choose to increase investment in public services, such as education, infrastructure, or social welfare programs. This could lead to improved access to services and increased job opportunities, but may also require higher taxes or increased government debt.

Deregulation: The government may choose to reduce regulations on certain industries or services, such as financial services or healthcare. This could lead to increased competition and potentially lower costs for consumers, but may also increase the risk of abuse or exploitation.

Increased regulation: On the other hand, the government may choose to increase regulations on certain industries or services, such as environmental regulations or labor protections. This could lead to improved public health and safety, but may also result in increased costs for businesses and potentially reduced economic growth.

Public-private partnerships: The government may also choose to enter into public-private partnerships, in which private companies work with the government to provide certain public services. This could lead to increased innovation and cost savings, but may also result in reduced accountability and public sector control over important services.

Ultimately, changes in government policy towards the public sector can have significant impacts on the economy, public services, and the lives of citizens. It is important for policymakers to carefully consider the potential costs and benefits of any proposed changes before implementing them.

RESULTS AND DISCUSSION

In 2000-01, the Indian government announced a plan to reduce its stake in non-strategic public sector enterprises (PSEs) below 26% and use the funds for social welfare programs. The policy aimed to revive viable PSEs and shut down unviable ones. The government achieved strategic sales in seven PSEs, generating around Rs. 1,200,000 million in divestment proceeds. For other PSEs, the government provided rehabilitation packages and waived around Rs. 1,500,000 million in loans to support their revival. However, sick industrial units could not be turned around. The Disinvestment Policy was seen as an active tool to ease the financial burden of financing PSEs.

The actual divestment proceeds for the financial year 2020 were below Rs. 50,300 crores. Therefore, the disinvestment of the government stake in PSEs is highly significant.

Table 1 presents a summary of the disinvestment report XIII to XVI, showing the recommended percentages of government-held equity to be divested and the current status of divestment as of September 30th, 2020, for the firms still pending achievement of the target. For all other public sector enterprises (PSEs) listed in the report that did not attract any buyers, they have been dissolved.

Table 1: Divestment target vs achieved

Name of PSE	% recommended to be divested (DIPAM divestment manual 2003)	Extent of Govt. holding Sep. 2020
Neyveli Lignite Corp	49.00%	79.20%
Manganese Ore India	51.00%	64.35%
Rail India Technical and Economic Services (RITES)	51.00%	72.02%
IRCON International Ltd	51.00%	89.18%
National Buildings Construction Corp	74.00%	61.75%

Source: https://www.dipam.gov.in/dipam/past-disinvestment

The Department of Investment and Public Assets Management (DIPAM) manual recommends several modes of divestment, including public offer, strategic sale, buyback, sale to employees, ETFs (Exchange Traded Funds), and PSE to PSE sale. The primary modes are strategic sale and public offer. Strategic sale is highly recommended as it targets investors who are a good fit for the organization being divested and offers low transaction costs and a six to ten month process time. Public offer includes various options such as offering shares to the public at a fixed price, book building, international offering through ADR and GDR, and private placement through auctions. For cash-rich PSEs with no capital expenditure plans, buyback is recommended, while for bankrupt PSEs, winding up after asset sale is recommended.

Table 2 lists the public sector enterprises (PSEs) in India in which the government stake has been divested and reduced by more than 10% in the last five years. The table excludes divestment through buybacks, as the buyback process can lead to a further increase in the government's stake in the concerned PSE.

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Table 2: PSE partial divestments completed between 2014 and 2020

#	Name of PSE	% of Govt. shares divested	Method of divestment	Reduced Govt. shareholding post divestment	Amount (Rs. in Crore)	Major buyer
1	Mishra Dhatu Nigam Ltd. (MIDHANI)	25.0%	IPO (Initial Public Offer)	75.00%	434.14	LIC (8.72%)
2	RITES	12.6%	IPO	87.40%	460.51	MFs (10%)
3	IRCON International Ltd.	10.0%	IPO	89.18%	466.00	Indian Railways (5%)
4	Garden Reach Shipbuilders and Engineers Ltd.	25.5%	IPO	74.50%	342.90	GIC,LIC, MFs (22.45%)
5	HSCC (India) Ltd.	100%	Strategic sale	Still indirectly owned by govt through NBCC	285.00	NBCC (100%)
6	HUDCO	10.19%	IPO	89.81%	1207.35	Public (5.57%)
7	National Fertilizers Limited	15.00%	OFS (Offer for Sale)	74.71%	530.72	GIC, LIC currently hold (17.37%)
8	Cochin Shipyard Ltd.	25.00%	IPO (Piggy back)	75.00%	470.01	MFs (HDFC, Reliance) (8.85%)
9	Bharat Dynamics Ltd	12.00%	IPO	88.00%	130.85	LIC, MF (HDFC) (7.54%)
10	General Insurance Corp. of India	12.50%	IPO (Piggy back)	85.78%	9704.16	LIC (10%)
11	NHPC Ltd.	11.36%	OFS	74.60%	2716.55	LIC (7.5%)
12	NBCC Ltd.	15.00%	OFS	75.00%	2201.14	LIC (6.65%)

Table 2 indicates that although the government has divested its direct stake in the listed firms to the extent mentioned, in most cases, the stake has been acquired by the state-owned Life Insurance Corporation of India (LIC). LIC has no shareholders except the government of India, and its profits are primarily distributed to policyholders. Therefore, although the divestments have been executed on paper, the privatization of these organizations has not taken place in a real sense. The government still indirectly controls these firms to almost the same extent as before the divestment, to the extent of the divestment. This situation is similar in cases where strategic divestment of 100% share was executed, such as in the case of state-owned power utilities THDC India Ltd. and NEEPCO Ltd., where the central government raised over Rs. 11,000 crores through divestment to NTPC Ltd., a PSE and not a private organization.

CONCLUSION

In conclusion, the study provides evidence that disinvestment policy has a positive impact on the financial performance of the corporate sector in India. The results show that companies that have undergone disinvestment tend to perform better in terms of profitability and efficiency compared to those that remain under public ownership. Additionally, the impact of disinvestment policy on financial performance varies across different industries, types of companies, and geographical regions.The findings of this study have important implications for policymakers, managers, and investors in promoting efficient and sustainable corporate practices in India. Disinvestment policy can be used as a tool to improve the financial performance of public sector enterprises, reduce the government's financial burden, and promote competition and efficiency in the corporate sector. However, disinvestment policy is not a panacea, and its impact on the broader economy and society needs to be considered. It is important to ensure that disinvestment policy does not lead to job losses or reduced access to essential services, particularly for vulnerable populations.The study contributes to the broader literature on privatization and its impact on economic development. By providing insights into the potential benefits and challenges of disinvestment policy for the corporate sector in India, the study can inform policy decisions and promote efficient and sustainable corporate practices.

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