Privatization Of Government Sector Companies And Its Impact On Economic Development.

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ABSTRACT

When it came to strategic disinvestment, Bharat Petroleum Corporation Limited (BPCL) was theclear winner over its rival Hindustan Petroleum Corporation Limited (HPCL). The value of BPCL's shareholders' equity was risen by Rs. 33,000 crore as a consequence! In comparison to HPCL, which will remain a government-controlled corporation, the efficiency benefits at BPCL are expected to be more beneficial. So the chapter focuses on the efficiency benefits in India following privatisation. This paper covers the period from 1999-2000 to 2003-04, when 11 CPSEs underwent strategic disinvestment. Comparing these CPSEs to their counterparts in the same industry group requires the use of a difference-in-difference approach. Their recent privatisation has increased their net worth and profits, allowing them to compete on a level playing field with other enterprises. ROA and net profit margins, on the other hand, went from negative to positive, indicating that privatised CPSEs were able to generate greater wealth with the same resources as their rivals. If you take each CPSE one at a time, you'll receive better results, too. According to the research, privatisation has the potential to unleash the wealth-creating potential of CPSEs. As a result, the chapter favours a swift withdrawal of funds from the CPSE.

Keywords: - Privatisation, Economic Policy, Public enterprises, Disinvestment

Introduction

For the first time in 10 years, India has begun a huge privatisation campaign. India's paid-up share capital in some Central Public Sector Enterprises may be reduced "in principle" (CPSEs). The government's 53.29 percent stake in Bharat Petroleum Corporation Ltd (BPCL), one of the CPSEs shortlisted for consideration, was cleared for strategic disinvestment. HPL's share price is shown in comparison with BPCL's share price (HPCL). When BPCL's privatisation was originally reported in September of this year, the poll looked at the pricing differential between BPCL and HPCL. By comparing BPCL with HPCL, all stock market or oil sector movementsare taken into account.

There was a strong correlation between stock prices of HPCL and BPCL as shown by the graph shown in Figure 1. However, their stock prices began to vary after the announcement of BPCL's disinvestment. With respect to HPCL's share price fluctuation, BPCL's shareholders' equityincreased by around Rs 33,000 crore. Alternately, we may say that There was a 33,000 crore increase in the BPCL value since other stakeholder values (such as labour and lenders) did not rise during this time period. Due to BPCL's projected dominance, the stock market has seen a rise in value as a result of BPCL outperforming the government's authority over HPCL. Strategicdisinvestment is a major economic theory that advises stopping the government's engagement in sectors where competition is strong. Private investors are more likely to succeed in running these enterprises, making money and benefiting the economy. Thus, BPCL's worth has risen in comparison to HPCL's as a result of these expected profits. According to a broad range of economics and finance studies, privatisation may result in significant efficiency benefits, as seen above.

Literature Review

According to Brown et al., the average effect of privatisation on most nations and time periods is anticipated to be extremely favourable, ranging from 5% to 12%. Stronger quality enterprises, as well as more robust structural and financial environments, are strongly correlated with successfulresults.

According to Chibber and Gupta, disinvestment is aided significantly by the efficiency and effectiveness of India's public sector employees (2017). According to O' Toole et al. (2016)'s study from Vietnam, privatisation enhances capital allocation and economic productivity.

A company's performance can only improve when it is taken over by a quasi-entity, according to Chen et al (2008).

The effect of severe employee protection laws (EPL) on privatisation is disproportionately greater for companies in industries with high migration rates and poor productivity, according to Subramanian, K. and Megginson, W.(John, B.,2012)

Several studies have shown that following privatisation, firms demonstrate much superior profitability and efficiency, with higher investment levels, increased production, and larger dividend payments (1999).

Gross domestic product, labour productivity, capital investment, and growth rates all rise as a result of partial privatisation.

When Majumdar (1996) studied Indian corporations from 1973 to 1989, he discovered that production levels were well above state-owned industries, which only exhibit efficiency when there is a push for it.

Objective of the study

1. Investigate the government's privatisation agenda.

2. To investigate the impact of privatisation on government-owned businesses.

3. To look into the implications of privatisation on economic policy and development.

4. Examine the efficiency advantages from privatisation and if the ostensibly positive effects of privatisation have materialised in India.

Research Methodology

After privatisation, the strategic disinvestment of 11 CPSEs from 1999-2000 to 2003-04, for which data was available before and after privatisation, had an impact on the performance of these CPSEs. We employed a difference-in-difference technique to gauge how these CPSEs stack up against their peers in the same industry grouping. For a more detailed explanation, see the section below.

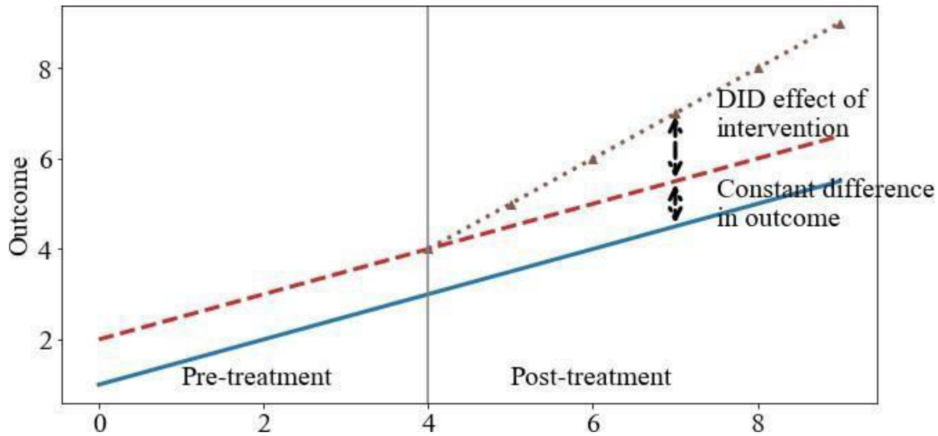
Table 1: List of Selected CPSEs and Peers

Industry Group	Privatized CPSE	Peers
Metals-Non Ferrous	Hindustan Zinc	Tinplate Co. Of India, Hindustan Copper, Vedanta
Aluminium& Aluminium Products	Bharat Aluminium Company Ltd. (BALCO)	NALCO, Hindalco, PG Foils
Computers, peripherals & storage devices	Computer Management Corporation Ltd. (CMC)	Moserbear, Zenith Computers, Izmo Limited
Automobile	Maruti Suzuki	Ashok Leyland Ltd, Tata Motors., Mahindra & Mahindra Ltd
Petrochemicals	Indian Petrochemicals Corporation Ltd. (IPCL)	Chemplast Sanmar, Bhansali Engineering Polymers, Ineos Styrolution India Ltd
Telecommunication Services	Tata Communications	Tata Teleservices, MTNL, GTL infra
Heavy Engineering	Lagan Engineering	Gujarat Toolroom, Gujarat Textronics, Integra Engineering India Ltd.
Medium & Light Engineering	Jessop &Co.	Elgi Ultra, Disa India, Alfa Laval, Filtron Engineers
Bakery Products	Modern Food India Ltd. (MFIL)	Britannia
Wires and Cables	Hindustan Teleprinters (HTL)	Anamika Conductors, Delton Cables, Fort Gloster Ltd
Chemicals and Fertilizers	Paradeep Phosphates	GSFC, Fertilizers & Chemicals-Travancore, Godavari Chemicals and Fertilizers
Total	**11**	**32**

Source: Survey calculations based on data from CMIE Prowess

When evaluating the effectiveness of a treatment or intervention, Di D is a statistical method that may be utilised to do so (such as a passage of law, enactment of policy, or large-scale programme implementation). Comparisons between treatment and control groups are made to see whether there are any changes in outcomes and results (the control group). If unexpected effects are removed, an intervention's intended impact is more likely to be realised. For this, the therapy's projected impact on the result in a patient's treatment group is compared to the predicted outcome for the comparison group.

Difference-in-Differences



Methodology

In the decade after the first year of privatisation, many financial parameters were used to compare the average productivity of these CPSEs with that of their counterparts (see Figure 1). Even after accounting for several influencing variables, such as changes in the performance of their peers over the same time period, companies' performance improves considerably following

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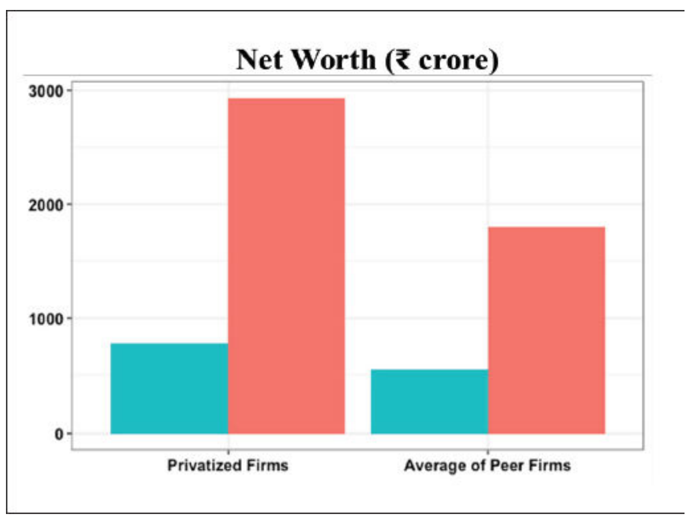
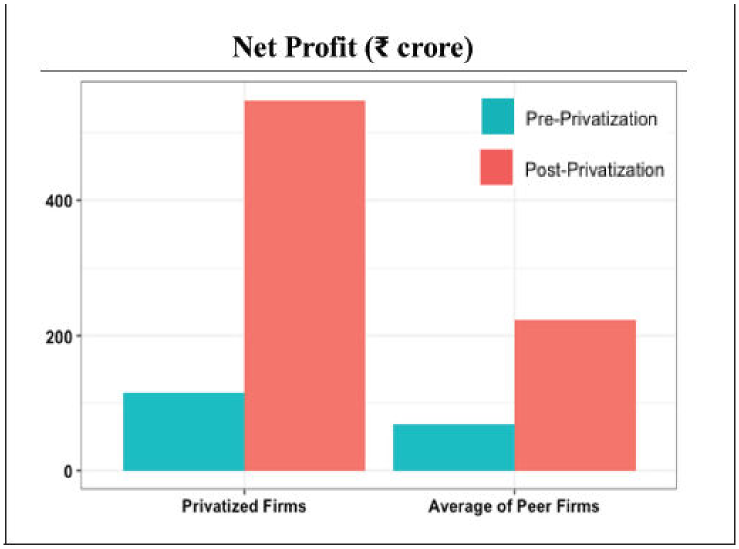
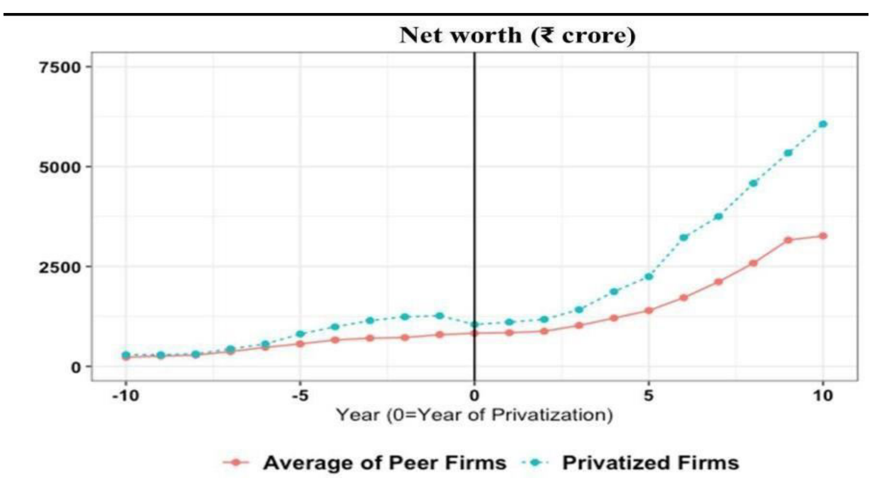
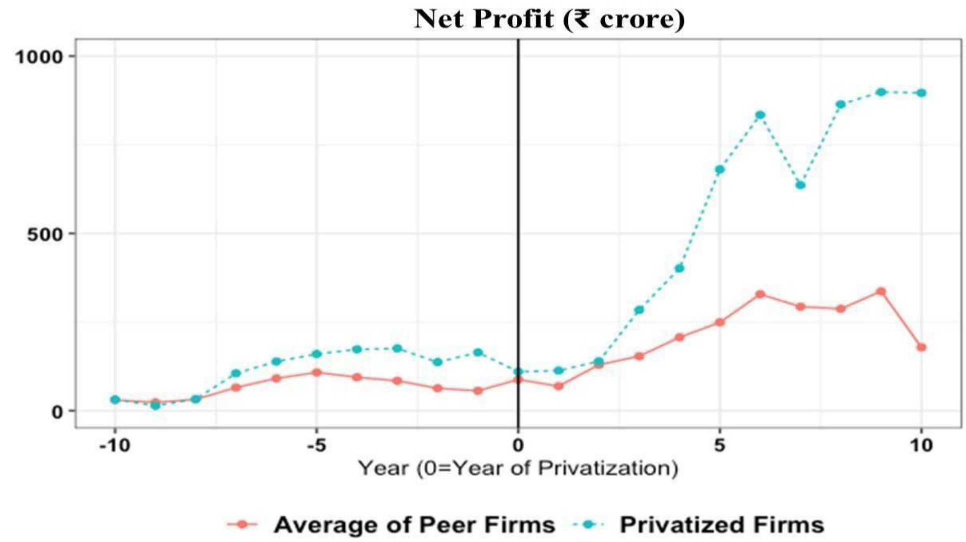




The net worth of a firm is all that matters to the equity owners. Under the heading of "equity capital," profits, and corporate reserves are all included. It is estimated that following privatisation, the net worth of privatised companies increased from an average of 700 crore rupees to a staggering 2992 crore rupees. According to a DiD research, privatisation increased the company's value by Rs. 1040.38 crore.

'Net profit,' as the name implies, is the company's net profit after taxes. Net profit growth indicates that the business has earned more money after all operational expenses have been covered. When compared to their peers, the operational profits of privatised companies increasedfrom Rs. 100 crore to Rs. 555 crore. Privatization, according to Di D, generated a net profit increase of '300.27 crores'.





Way Forward

According to the statistics presented in this chapter, disinvestment benefits projects and employees in terms of both project performance and productivity, as well as their ability to generate money. It would have a tremendous impact on the economy as a whole. CPSEs should aggressively disinvest, particularly along the path of strategically selling, in order to enhance profit, raise efficiency, expand competitiveness and build managerial professionalism. This route. Strategic disinvestment should target non-strategic enterprises in order to maximise the economic viability of these CPSEs. Building new highways and railroads, as well as sewage and irrigation systems and transmission lines would free up money that could be utilised for other types of infrastructure development. DIPAM's enabling provisions are a nice thing to have in place right now. The Cabinet has approved the "in principle" sale of shares in a number of state- owned enterprises (CPSEs). These measures must be pursued strongly in order to increase the efficiency of public resources and free up budgetary space.

The 264 CPSEs are overseen by 38 ministries and agencies. Nearly every one of the 13 Ministries/Departments has at least 10 CPSEs under its command. Figure 11 (right) illustrates that many CPSEs are financially rewarding (left). BSE CPSE Index returned only 4% from 2014 to 2019 compared to the BSE SENSEX's 38% average returns over the same period. CPSEs have historically trailed the market. As a result, any strategy for privatisation or disinvestment musttry to maximise the value of government stock holdings. The knowledge of Singapore's Temasek Holdings Company may be helpful in this case. The government may sell its ownership in CPSEs to another firm if they are publicly listed. There will be an impartial body that will supervise the process of selling the government's stake in these CPSEs. Since the disinvestment programme will be more professional and independent, the CPSEs' economic performance will improve.

Conclusion

After the strategic disinvestment of the government's 53.29 percent ownership in BPCL was authorised, the equity of Bharat Petroleum Corporation Limited (BPCL shareholders) increased by nearly Rs 33,000 crore compared to Hindusta Petroleum Corporation Limited (HPCL). Because of this, the BPCL's entire value increases, increasing the wealth of the country. One can see a rise in net worth and profits after privatisation for 11 CPSEs that underwent selective disinvestment between 1999-2000 and 2003-04.

Comparable enterprises' ROA and profitability ratios increased from negative to positive for the privatised CPSEs, showing that they were able to create more wealth with the same resources. According to the facts, CPSEs (via smart selling) have higher capacity to develop wealth when they are disinvested. Government-approved CPSEs should be aggressively disinvested in order to increase profitability, efficiency, competitiveness, and managerial professionalism.

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