Impact Of Disinvestment On Financial Performance Of Selected Public Sector Undertakings

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INTRODUCTION

In India, for almost four decades, the country was pursuing a path of development in which public sector was expected to be the engine of growth. However, the public sector had overgrown its positive attributes and their shortcomings started manifesting in the shape of low capacity utilization and low efficiency due to over manning and poor work ethics, overcapitalization due to substantial time and cost overruns, inability to innovate, take quick and timely decision, large interference in decision making process etc. The government started to deregulate the area of its operation and subsequently, the disinvestments in public sector enterprises were announced. The process of deregulation was aimed at enlarging competition and allowing new firms to enter the markets. The market was thus opened to domestic entrepreneurs/ industrialists and norms for entry of foreign capital were liberalized.

The main idea behind the disinvestments is realizing large amount of public resources locked up in non-strategic Public Sector Enterprises (PSEs), re-employment in areas that are much higher on social priority such as basic health, family welfare, primary education and social infrastructure. Disinvestments are initiated for reducing the public debt that is threatening to assume unmanageable proportion and transferring the commercial risk to which the taxpayer money locked up in public sector is exposed to. 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. Scarce public resources are used for sustaining the unviable non-strategic PSEs. The government of India has undertaken major disinvestment initiatives as part of its reforms package. Several public sector undertakings – owned by both the federal as well as the state governments - have been identified for disinvestments either through strategic sales or through public offerings. The disinvestment process faces several challenges in the socio-economic context of India. Communications have to address the concerns of employees, unions, media, and opinion leaders as well as other activist groups. This requires all-round expertise and experience of managing multi-dimensional communication tasks.

The first (partial) disinvestment made through a public offering was for VSNL. Ad factors Public Relations (PR) managed the mandate providing integrated communications support. The firm has also provided consultancy and communications support to several bidders with an interest in different corporations being disinvested for strategic sales. Disinvestment of a percentage of shares owned by the Government in public undertakings emerged as a policy option in the wake of economic liberalization and structural reforms launched in 1991. Initially, it was not conceived as privatization of existing undertakings but as limited sales of equity with the objective of raising some resources to reduce budgetary gaps and providing market discipline to the performance of public enterprises in general.

GLOBAL SCENARIO

The revolution of privatization started in 1980 and spread to many parts of the world. Almost all economies of the world are undergoing reforms towards LPG. The process has affected developed, developing and underdeveloped economies from America to Asia and from Europe to Latin America in varying degrees. In **Italy**, efforts have been made to overcome the losses of government owned holding companies by auctioning off the parts of the enterprises along with privatization of certain units. In **West Germany**, deregulation has been introduced and the arrival of international investment banks has opened up the market. **French** privatization was launched in 1986 –with gradual privatization of telecom, insurance, and television companies owned by the government. **Mexico** privatized on a large scale as part of far reaching economic reform program. One of the Mexico's key

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goals for privatization was to raise revenue and ease some of the fiscal problems of the government .The number of public sector units shrunk from 1152 in 1982 to 200. Revenue from privatization contributed substantial amounts to the state exchequer. **Malaysia** has divested many of its public enterprises, and is a leading country in comparison to other Asian countries. **Japan** has further reduced its small public sector and plans to disinvest in airlines, railways. The privatization programme in **UK** was a very bold initiative. The biggest instances of privatization are of British telecom, British airways, British steel, British rail, power sector, and services; water etc. The success of the UK disinvestment experiment worked as a trendsetter in privatization.

THE INDIAN CONTEXT

Public sector reforms were introduced in India in 1991 as part of the process of economic liberalization. The Disinvestment commission was constituted by the government vide its resolution dated 23.08.96 to advise the government on the extent, mode, timing, and pricing of disinvestment. The commission submitted 12 reports to the government covering 58 PSEs. These reports contain specific recommendations, including disinvestment through strategic sale in 29 PSEs, trade sale in 8 PSEs, and offer to share through GDR and domestic route for 5 PSEs, disinvestment deferred in 11 PSEs and closure in respect of 4 PSEs. Beginning from the 1991-92 round of disinvestment, government equity has been completed in 40 national PSEs up to March 2002. In the process, total amount of 18,638 cr. has been realized.

PROGRESS IN DISINVESTMENT

The Government constituted the Disinvestment Commission on August 23, 1996 as an advisory body to make recommendations for disinvestment in public sector undertakings referred to it. The Commission has so far given its recommendations in respect of 58 PSUs. The Commission was reconstituted on July 24, 2001 and more PSUs are being referred to it for consideration and giving recommendations. With the aim to establishing systemic policy approach for disinvestment and privatization and to give a fresh impetus through the disinvestment programme which will emphasize increasingly on strategic sales of identified PSUs, the Government established a new Department of Disinvestment on December 10, 1999. The Department has now been made a full-fledged Ministry of Government. The first strategic sale of a PSU, viz., Modern Food Industries (India) Ltd. took place in January 2000 after the Department of Disinvestment was set up. In March 2001, strategic sale in another PSU, viz. BALCO was completed. Disinvestment action is at present in progress in 27 PSUs. Out of these PSUs, disinvestment process was completed by March 31, 2002 in 13 companies, viz. Bharat Heavy Plates and Vessels Ltd. (BHPV), CMC Ltd., Hindustan Zinc Ltd. (HZL), Hotel Corporation of India (HCI), HTL Ltd., IBP Co. Ltd. Indian Petrochemicals Corporation Ltd. (IPCL), Indian Tourism Development Corporation (ITDC), Instrumentation Control Valves Ltd. (ICVL), Jessop and Co. Ltd., Maruti Udyog Ltd. NEPA Ltd. and Videsh Sanchar Nigam Ltd. (VSNL).After a great deal of initial excitement and reservations, disinvestment of public sector enterprises has become an ongoing process in the country. Public sector enterprises (PSEs), which were given a special role in India's planned economy, grew both in terms of numbers and investment for over four decades from the early 1950s. At the commencement of the First Five Year Plan, there were five PSEs with a total investment of Rs.29 crores. At the end of the Seventh Plan in 1990, there were 244 PSEs and the investment in them had gone up to Rs.99, 329 crores. Although disinvestment had started from the early 1990s, at the end of the Eighth Plan in 1997, investment had soared to Rs.213, 610 crores. At the end of the fiscal year 2000-01, PSEs had a total investment of Rs.274, 114 crores. The PSEs made a significant contribution to industrial production; 100 per cent in lignite, over 80 per cent in coal, crude oil and zinc, almost 50 per cent in aluminum and over 30 per cent in finished steel.

RESEARCH METHODOLOGY

SCOPE OF THE STUDY

The study would cover the pattern of disinvestment in GAIL, IOC, BALCO, VSNL and ONGC within a time frame from 1994-95 to 2006-07, which is further divided into subparts from 1994-95 to1997-98 (pre- disinvestment period) and from 1998-99 to 2006-07 (post- disinvestment period).

OBJECTIVES OF THE STUDY

The present study is conducted with a view to achieve the following specific objectives:

(1) To study the impact of disinvestment on liquidity and long term solvency position of selected companies.

(2) To suggest measures for improving the disinvestment process.

HYPOTHESES OF THE STUDY

The following hypotheses are formulated to achieve the objectives of the present study:

H_{01} – there is no significant difference in liquidity position of the selected companies in the pre- disinvestment and post- disinvestment period.

H_{02} – there is no significant difference in long-term solvency of the selected companies in the pre- disinvestment and post- disinvestment period.

DATA COLLECTION

The present study is of analytical nature and accordingly, the use is made of secondary data collected from 'PROWESS', business newspapers, magazines, on-line journals and websites.

ANALYSIS OF DATA

The collected data was analyzed with the help of statistical tools like percentage method, coefficient of variance (C.V.), mean, t-test, and f- test to arrive at conclusion at the end of the study.

The t statistics is:

$$t = \frac{\overline{x}_1 - \overline{x}_2}{S}\sqrt{\frac{n_1 n_2}{n_1+n_2}}$$

Where: $\overline{x}_1$ = sample mean of pre- disinvestment period

$\overline{x}_2$ = sample mean of post- disinvestment period

S = sample variance

n_1 = sample size of pre- disinvestment period

n_2 = sample size of post- disinvestment period

The f statistic is

$$f = \frac{\text{Larger estimate of variance}}{\text{Smaller estimate of variance}}$$

ANALYSIS OF IMPACT OF DISINVESTMENT

ANALYSIS OF LIQUIDITY

Liquidity refers to the ability of a concern to meet its current obligations as and when these become due. The short-term obligations are met by realizing amount from current, floating or circulating assets. The sufficiency or insufficiency of current assets can be assessed by comparing them with short-term liabilities. To measure the liquidity of a firm, Current Ratio and absolute Quick Ratio are calculated.

(A) Current Ratio -This ratio is an indicator of a firm's commitment to meet its short-term liabilities and is expressed as current assets to current liabilities. An ideal current ratio of 2:1 is considered as a safe margin of short-term solvency due to the fact that if the current assets are reduced to half, even then, current liabilities can be easily paid.

As is evident from Table 1, the average ratio of GAIL, IOC and VSNL in the pre- disinvestment period has improved from 0.73 to 1.42, from 1.07 to 1.19 and from 1.58 to 2.20 in the post disinvestment period, which indicates the improvement in the liquidity. The average ratio has declined from 2.25 to 1.31 in ONGC and from 2.63 to 1.29 in BALCO, which depicts the loss of liquidity. The coefficient of variance has declined in the post-disinvestment period in GAIL, IOC and ONGC, which indicates that the consistency in liquidity has increased comparatively in the post- disinvestment period; on the other hand, the coefficient of variance has increased during the same period, which indicates high variability in VSNL and BALCO. However, the ratio is highest in VSNL; whereas, it is lowest in IOC in the post- disinvestment period.

Table 1: CURRENT RATIO

(in times)

Year	GAIL	IOC	VSNL	ONGC	BALCO
Pre- Disinvestment[1]					
1994-95	1.29	1.31	1.22	3.13	2.14
1995-96	0.46	1.16	1.18	2.91	3.06
1996-97	0.33	1.15	1.69	2.24	2.88
1997-98	0.72	0.83	1.93	1.66	2.67
1998-99	0.86	0.93	1.90	1.32	2.40
Post- Disinvestment[2]					
1999-00	1.23	1.29	3.13	1.76	1.84
2000-01	1.27	1.34	2.17	1.67	1.33
2001-02	1.41	1.01	2.23	1.54	1.50
2002-03	1.48	1.17	2.67	1.19	1.59
2003-04	1.26	1.13	2.45	1.33	2.27
2004-05	1.47	1.24	2.00	1.04	0.28
2005-06	1.47	1.22	1.50	0.95	0.27
2006-07	1.81	1.17	1.46	1.04	1.29
Mean[1]	0.73	1.07	1.58	2.25	2.63
Mean[2]	1.42	1.19	2.20	1.31	1.29
C.V.[1]	51.27	17.94	22.90	34.56	13.99
C.V.[2]	13.12	8.50	25.62	23.61	58.53
Variance[1]	0.14	0.03	0.13	0.60	0.13
Variance[2]	0.03	0.01	0.31	0.09	0.49
t-value	4.42***	0.64	2.15*	4.14***	3.89***
f-value	4.11	3.7	2.42	6.27**	3.65

Source: Data compiled from software, 'PROWESS'.
****, **, *Significant difference at 1 percent, 5 percent, at 10 percent level.*

The difference in variability of pre and post divestment period in GAIL, IOC, VSNL and BALCO is not significant, whereas the same is significant at 5 percent in case of ONGC.

(B) Quick Ratio - This ratio shows the relationship between quick assets and current liabilities. An asset is said to be liquid if it can be converted into cash within a short period without loss of value. The liquid asset includes cash, bank, bills receivables, debtors and marketable securities. The quick ratio can be calculated by dividing the total of quick assets by total current liabilities. The standard ratio 1:1 is considered satisfactory.

It is evident from the Table 2 that the average ratio in the post- disinvestment period has improved from 0.26 to 0.41 in GAIL and from 0.92 to 1.49 in the VSNL. The ratio has declined from 0.33 to 0.28 in IOC, from 1.04 to 0.63 in ONGC and from 0.78 to 0.72 in BALCO, which depicts the inadequacy of liquid assets over current liabilities. As a result, the company is unable to meet its current obligations in the post- disinvestment period. The coefficient of variance has increased drastically in BALCO. On the other hand, the variability has decreased in GAIL, IOC, VSNL and ONGC. The average ratio has increased in GAIL and VSNL between pre and post disinvestment period, which is significant at 10 percent level showing improved liquidity position. On the other hand, there is no significant difference in IOC and BALCO. The average ratio has decreased in ONGC, which is significant at 1percent level, indicating illiquid position.

Table 2 : QUICK RATIO

(in times)

Year	G A I L	IOC	VSNL	ONGC	BALCO
Pre- Disinvestment[1]					
1994-95	0.53	0.56	0.37	1.36	0.81
1995-96	0.19	0.41	0.58	1.01	0.69
1996-97	0.12	0.28	1.12	1.08	0.70
1997-98	0.24	0.27	1.40	0.72	0.72
1998-99	0.24	0.16	1.15	0.39	1.01
Post -Disinvestment[2]					
1999-00	0.58	0.27	2.48	0.63	0.66
2000-01	0.56	0.30	1.77	0.36	0.58
2001-02	0.66	0.27	1.71	0.49	0.72
2002-03	0.69	0.28	1.77	0.37	1.07
2003-04	0.44	0.24	1.64	0.47	1.88
2004-05	0.63	0.27	1.20	0.37	0.10
2005-06	0.66	0.27	0.88	0.28	0.31
2006-07	0.86	0.24	0.79	0.37	0.72
Mean[1]	0.26	0.33	0.92	1.04	0.78
Mean[2]	0.41	0.28	1.49	0.631	0.72
C.V.[1]	59.31	45.62	46.59	35.57	17.03
C.V.[2]	18.96	7.401	36.14	25.97	103.90
Variance[1]	0.02	0.02	0.18	0.13	0.01
Variance[2]	0.01	0.0004	0.30	0.01	0.41
t-value	1.92*	1.06	1.93*	3.03***	0.20
f-value	1.71	60.25**	1.64	12.36**	24.52**

(Source: Data compiled from software, 'PROWESS'.)
****, **, *Significant difference at 1 percent, 5 percent, at 10 percent level.*

The difference in variability in post- disinvestment period is not significant in GAIL and VSNL. On the other hand, it is significant at 5percent level in IOC, ONGC and BALCO.

ANALYSIS OF LONG TERM FINANCIAL POSITION

The long-term solvency refers to the ability of a concern to meet its long-term obligations. Long-term solvency ratio indicates a firm's ability to meet the fixed interest and costs and repayment schedules associated with its long-term borrowings. The Debt Equity Ratio, Solvency Ratio and Interest Coverage Ratio serve the purpose of determining the solvency of the company.

(A) Debt Equity Ratio - The debt equity ratio is determined to ascertain the soundness of the long-term financial policy of the company. It is also known as "external-internal equity ratio". The term external equity refers to total outside liabilities and the term internal equities refers to shareholders funds or tangible net worth. The ratio 1 is considered ideal ratio and it is considered quite satisfactory.

As is evident from the Table 3, the average ratio has declined from 0.43 to 0.32 in GAIL, from 1.09 to 0.907 in IOC in post- disinvestment period, which means that the external equity is very less in comparison to internal equity. In case of VSNL and ONGC, the ratio also decreased from 0.08 to 0.32 and 0.56 to 0.11. On the other hand, in BALCO, the ratio increased from 0.07 to 1.02.The coefficient of variance in all the companies has increased and in ONGC, it has increased three times from 35.44 to 103.41.In the inter firm comparison, BALCO has utilized more debt in post- disinvestment period as compared to pre- disinvestment period.

TABLE 3 : DEBT EQUITY RATIO

(in times)

YEAR	G A I L	IOC	VSNL	ONGC	BALCO
Pre- Disinvestment[1]					
1994-95	0.49	0.81	0.24	0.83	0.12
1995-96	0.38	1.04	0.08	0.69	0.08
1996-97	0.32	1.44	0.08	0.53	0.06
1997-98	0.48	1.34	0.04	0.42	0.05
1998-99	0.48	0.82	0.00	0.34	0.04
Post- Disinvestment[2]					
1999-2000	0.50	1.05	0.00	0.27	0.38
2000-01	0.49	1.31	0.00	0.15	0.14
2001-02	0.45	1.25	0.11	0.12	0.20
2002-03	0.32	0.77	0.06	0.02	0.13
2003-04	0.29	0.53	0.04	0.29	1.64
2004-05	0.23	0.67	0.00	0.04	2.39
2005-06	0.19	0.90	0.02	0.00	2.29
2006-07	0.12	0.78	0.03	0.01	1.02
Mean[1]	0.43	1.09	0.08	0.56	0.07
Mean[2]	0.32	0.90	0.03	0.11	1.02
C.V.[1]	17.71	26.70	103.65	35.44	45.17
C.V.[2]	44.29	30.42	117.16	103.41	101.79
Variance[1]	0.005	0.08	0.008	0.04	0.001
Variance[2]	0.02	0.07	0.001	0.01	1.08
t-statistic	1.51	0.51	1.51	5.19***	2.01*
f-statistic	3.54	1.11	5.73	2.93	1087.1*

Source: Data compiled from software, 'PROWESS'.

****, **, *Significant difference at 1 percent, 5 percent, at 10 percent level.*

The ratio has decreased in GAIL, IOC, and VSNL, which is not significant between pre and post disinvestment period. On the other hand, the ratio has increased in BALCO, which is significant at 1 percent level between pre and post disinvestment period because BALCO has utilized more debt in post disinvestment period. It means that the company has used more debt capital with equity capital. The ratio has decreased in ONGC, which is significant at 10 percent level between pre and post disinvestment period, which shows that the company has less utilized the debt capital in comparison to equity capital.

There is no significant variability in debt equity ratio in GAIL, IOC, VSNL and ONGC in the post disinvestment period whereas in BALCO, there has been significant variability at 10 percent level, which indicates tremendous variations.

(B) Solvency Ratio-The ratio indicates the relationship between the total liabilities to outsiders to total assets of a firm and can be calculated as follows: Solvency ratio= total outside liabilities/ total assets.

It is evident from Table 4 that the average ratio has increased from 1.89 to 2.79 in GAIL; from 1.53 to 1.64 in IOC; from 2.55 to 7.64 in VSNL; from 2.47 to 4.13 in ONGC in the post disinvestment period, which conveys that the outside liabilities have increased in comparison to total assets. In BALCO, the ratio has declined from

4.77 to 2.25. The coefficient of variation has increased in all the five companies which indicates that the variability has increased in the post disinvestment period.

The ratio has increased in GAIL, VSNL and ONGC, which is significant at 1 percent level between pre and post disinvestment period which indicates that they have more outside liabilities as compared to total assets in post disinvestment period. It means that these companies should have enough funds to discharge their long-term liabilities. On the other hand, there has been no significant difference in long term solvency in IOC between pre and post disinvestment period. In BALCO, the average ratio has declined and is significant at 1 percent level, which indicates that the company needs fewer funds to cover up long-term liabilities. In BALCO, the ratio has declined from 4.77 to 2.25.

TABLE 4 : SOLVENCY RATIO

(in times)

YEAR	GAIL	IOC	VSNL	ONGC	BALCO
Pre- Disinvestment[1]					
1994-95	1.81	1.65	2.06	2.05	3.74
1995-96	1.78	1.52	2.03	2.23	5.01
1996-97	1.75	1.40	2.98	2.53	5.29
1997-98	2.05	1.48	3.14	2.67	5.27
1998-99	2.08	1.62	3.62	2.87	4.56
Post- Disinvestment[2]					
1999-00	2.04	1.49	5.52	3.3	2.35
2000-01	2.06	1.43	3.38	4.22	2.73
2001-02	2.41	1.54	4.64	4.95	2.61
2002-03	2.84	1.69	13.38	5.45	2.96
2003-04	3.06	1.88	9.49	3.83	1.51
2004-05	2.83	1.77	10.99	3.82	1.38
2005-06	3.00	1.65	6.91	3.88	1.38
2006-07	4.14	1.70	6.88	3.61	2.25
Mean[1]	1.89	1.53	2.55	2.47	4.77
Mean[2]	2.79	1.64	7.64	4.13	2.25
C.V.[1]	8.33	6.66	27.41	13.38	13.58
C.V.[2]	24.16	9.13	44.34	17.43	30.45
Variance[1]	0.02	0.01	0.48	0.10	0.42
Variance[2]	0.45	0.02	11.47	0.51	0.47
t-statistic	2.87***	1.38	3.26***	4.78***	6.54***
f-statistic	18.23*	2.14	23.48*	4.74	1.12

Source: Data compiled from software, 'PROWESS'.

****, **, *Significant difference at 1 percent, 5 percent, at 10 percent level.*

On one hand, there has been difference in variability of pre and post disinvestment period in GAIL and VSNL at 5 percent level and on the other hand, in BALCO, IOC and ONGC, there has been consistency in long-term solvency in the same period.

(C) Interest Coverage Ratio- This ratio is used to test the debt service capacity of a firm. This ratio is calculated by dividing the net profit before interest and taxes by fixed interest charges.

As it is evident from Table 5, the average ratio has improved from 13.19 to 16.07 in GAIL; from 2.58 to 8.55 in IOC and from 3.25 to 8.17 in ONGC, which indicates that these companies have enough capacity to pay interest on debt and loans. On the other hand, the ratio has declined drastically from 19919.44 to 74.61 in VSNL. The main reason is that in the year 1998 and 1999, the ratio was very high and after that, the ratio had taken on a declining trend. In BALCO, the ratio has declined from 15.03 to 11.12; this depicts that the debt service capacity of the company has declined. The coefficient of variance has increased from 15.09 to 74.16 in IOC; from 39.72 to 71.27 in BALCO which denotes that the variability in these two companies has increased in the post-disinvestment period.

TABLE 5 : INTEREST COVERAGE RATIO

(in times)

YEAR	GAIL	IOC	VSNL	ONGC	BALCO
Pre-Disinvestment[1]					
1994-95	5.52	2.17	11.37	1.99	4.63
1995-96	8.76	2.91	106.71	2.28	19.77
1996-97	14.77	2.27	192.63	2.94	16.00
1997-98	22.53	2.38	1161.99	3.83	17.31
1998-99	14.37	3.21	98124.5	5.25	17.48
Post-Disinvestment[2]					
1999-00	6.87	3.85	250.54	6.33	14.73
2000-01	8.66	2.61	262.17	11.28	4.87
2001-02	8.47	4.04	63.11	9.28	0.13
2002-03	13.63	11.23	3.15	12.15	14.92
2003-04	19.64	21.65	1.77	5.87	15.76
2004-05	20.35	12.40	3.35	6.50	22.51
2005-06	26.71	6.71	5.88	6.71	4.92
2006-07	24.23	5.95	6.97	7.25	11.12
Mean[1]	13.19	2.58	19919.44	3.25	15.03
Mean[2]	16.07	8.55	74.61	8.17	11.12
C.V.[1]	49.36	15.09	219.48	40.48	39.72
C.V.[2]	47.86	74.16	152.86	29.68	71.27
Variance[1]	42.39	0.20	19114	1.74	35.69
Variance[2]	59.16	40.21	13007.36	5.88	62.83
t-statistics	0.69	2.06*	01.32	4.11***	0.94
f-statistics	1.39	198.64*	146953.2*	3.38	1.76

Source: Data compiled from software, 'PROWESS'.
****, **, *Significant difference at 1 percent, 5 percent, at 10 percent level.*

The coefficient of variations have decreased from 49.36 to 47.86 in GAIL; from 219.48 to 152.86 in VSNL; from 40.48 to 29.68 in ONGC, which convey that the variability has declined in these companies in the post-disinvestment period. The highest fall in average ratio is in VSNL in the post- disinvestment period whereas the highest increase is in IOC. The average ratio has increased in IOC and ONGC which is significant at 1 percent level in IOC and 10 percent level in ONGC between pre and post disinvestment period. The position has improved in the post- disinvestment period, which depicts that the company can cover its fixed interest charges very easily whereas in GAIL, VSNL, and BALCO, there has been no significant difference between pre and post disinvestment period. The difference in variability in post- disinvestment period in IOC and VSNL is significant at 5 percent level whereas the same is not significant in case of GAIL, ONGC and BALCO.

MAJOR FINDINGS

- As related to current ratio, the ideal ratio is 2:1. It is considered as a safe margin of short-term solvency due to the fact that if the current assets are reduced to half; even then the current liabilities can be easily paid. The average ratio has increased in GAIL and VSNL in post- disinvestment period, which is significant at

1 percent level in GAIL and at 10 percent level in VSNL. But there is significant difference in the average liquidity between pre and post disinvestment period in IOC. On the other hand, the average ratio has declined in ONGC and BALCO, which is significant at 1 percent level. The difference in variability of pre and post divestment period in GAIL, IOC, VSNL and BALCO is not significant, whereas the same is significant at 5 percent level in case of ONGC.

- In relation to Quick ratio, the standard ratio is 1:1.It is considered as a safe margin of short-term solvency due to the fact that the liquid assets should be sufficient so that current liabilities can be easily paid. The average ratio has increased in GAIL and VSNL between pre and post disinvestment period, which is significant at 10 percent level showing improved liquidity position. On the other hand, there is no significant difference in IOC and BALCO. The average ratio has decreased in ONGC, which is significant at 1 percent level, indicating illiquid position. The difference in variability in post disinvestment period is not significant in GAIL and VSNL. On the other hand, it is significant at 5 percent level in IOC, ONGC and BALCO.
- As it is evident in Debt equity ratio, the ratio has decreased in GAIL, IOC, and VSNL, which is not significant between pre and post disinvestment period. On the other hand, the ratio has increased in BALCO, which is significant at 1 percent level between pre and post disinvestment period because BALCO has utilized more debt in post disinvestment period. It means that the company has used more debt capital with equity capital. The ratio has decreased in ONGC, which is significant at 10 percent level between pre and post disinvestment period, which shows that the company has less utilized the debt capital in comparison to equity capital. There has been no significant variability in debt equity ratio in GAIL, IOC, VSNL and ONGC in the post disinvestment period whereas in BALCO, there has been significant variability at 10 percent level, which indicates tremendous variations.
- As indicated in solvency ratio, the ratio has increased in GAIL, VSNL and ONGC, which is significant at 1 percent level between pre and post disinvestment period which indicates that there have been more outside liabilities as compared to total assets in post disinvestment period. It means that these companies should have enough funds to discharge their long-term liabilities. On the other hand, there has been no significant difference in long term solvency in IOC between pre and post disinvestment period. In BALCO, the average ratio has declined and is significant at 1 percent level, which indicates that the company needs fewer funds to cover up the long-term liabilities. In BALCO, the ratio has declined from 4.77 to 2.25. The difference in variability of pre and post disinvestment period in GAIL and VSNL has been at 5 percent level and in BALCO, IOC and ONGC there has been consistency in long-term solvency in the same period.
- In case of Interest coverage ratio, the average ratio has increased in IOC and ONGC which is significant at 1 percent level in IOC and 10 percent level in ONGC between pre and post disinvestment period. The position has improved in the post- disinvestment period, which depicts that the company can cover its fixed interest charges very easily whereas in GAIL, VSNL and BALCO, there has been no significant difference between pre and post disinvestment period. The difference in variability in post disinvestment period in IOC and VSNL is significant at 5 percent level whereas the same is not significant in the case of GAIL, ONGC and BALCO.

SUGGESTIONS

Liberalization and Privatization to the extent necessary for a sound economy need to be expedited. The opportunities and challenges of the change must be accepted. Only then, disinvestment policies can reach their logical conclusion of ushering in a new economic order in which the government, instead of frittering away its resources on industry, trade and business is able to develop the social sectors like education, rural development etc. Here, some measures are suggested for disinvestment:

- While disinvesting, a regulatory authority should be established in case of telecom and insurance sector and similarly, in case of petroleum and infrastructure enterprises, a regulatory authority is a must before disinvestment policies are suggested.
- The database inadequacy is major hindrance towards the proper disinvestment. There is indeed a need to create a database, which covers information about industry, its functioning, and value in India and abroad.
- It would be more appropriate to restructure PSEs, which are not functioning as per the desired benchmark. The restructuring may include several aspects like legal, financial and physical, etc.

- The development of capital market is a necessary step before indulging in any event of disinvestment. It includes international capital market, which allows PSEs to have access to GDR route and external commercial borrowing.
- The Government of India should give a broader look to existing legal issues involved in disinvestment and should discuss it with the stakeholder to arrive at some appropriate legal framework.
- Disinvestment proceeds should not be considered only to reduce fiscal deficit but it should be used for R and D initiating diversification. All this together, with fixed timeframe, would make disinvestment a worthy exercise to perform.
- Disinvestment need not and should not be regarded as a case of selling family silver. The original investments were made by the government out of its receipts. If some parts of these investments have to be sold and realized for the purpose of expanding the activities of the state in certain other areas which are considered to be urgent now, it should not be regarded as some thing which is undesirable. Disinvestment, even where it does not lead to transfer of ownership, can have a salutary effect on management. There will be a new sense of accountability, which goes beyond being responsible only to the government.

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T.V.S.'S EXPANSION IN THREE WHEELER SEGMENT

The Company also entered the three wheeler segment in March 2008. Another important milestone crossed during the year was the commencement of commercial production from its state-of the-art plant located at Karawang near Jakarta, Indonesia and successful launch of TVS Neo, the Bebek, exclusively developed for the Indonesian market by its subsidiary PT TVS Motor Company, Indonesia.

GOVERNMENT OF INDIA INITIATIVE FOR CONTROLLING PRICE RISE

To ensure adequate supply of steel, the GOI has imposed additional export duty of 15% on primary steel and HR coils, 10% duty on exports of CR coils, Pipes & Tubes, 5% export duty on export of galvanized steel. The government also abolished customs duty on imports of Pig iron, sponge iron, semi finished products, HR coils, CR coils, bars & rods, Ferro alloys and zinc.

RBI'S INITIATIVE FOR CONTROLLING PRICE RISE

RBI has increased the case reserve ratio to 8.25% from the earlier 7.5%. It will perhaps minimize the credit off take of companies. The loan interest rate will increase. This will cut down the free flow money in the country.

CONCLUSION

Financial Success is the result of decreasing cost and increasing revenue. From above mentioned facts and figures, it is all the more true that automobile companies in India failed to reduce the cost. Nor do they have the capacity to increase the revenue. From Maruti's case, it is well understood that offering flexible **financing facilities** and **launching new models** will help automobile companies to sustain and ensure profitability particularly **at times of negative inflation effect.**

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