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Disinvestment in Shifting Management of Public Enterprises in case of Bharat Heavy Electronics Limited

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Abstract

This research study had gained its significance by analyzing the overall shareholding and performance of the BHEL Public Sector Enterprise after disinvestment for the period of 7 years. The usage of entire proceeds of disinvestment and the returns emanating from disinvestment was well brought out in the study.

As it brought out the hidden facts behind disinvestment, its findings and suggestions are expected to be useful to the Government and policy makers. Disinvestment can lead to an increase in efficiency through better utilisation of resources, but reckless privatisation may not provide the ultimate solution for a longer period of time.

The present research would be useful to the academic community as new tools of analysis were including advanced financial models were used and further research areas were also highlighted. The tools used in the study were used as predictors of macro and micro economic factors that would give good scope for future in their research work.

The disinvestment policy has to examine systematically, issue such as the correct valuation of shares, the crowding out possibility, the appropriate use of disinvestment proceeds, and the institutional and other prerequisites. It is further suggested that proceeds from PE disinvestment should not be used for bridging the government's revenue deficit, but it should be used to meet expenditure on social overhead and infrastructure sectors like education, health, and water supply, restructuring of PSEs and providing safety for workers.

I. Introduction - Public Enterprises (PE)

In a more specific sense, Public Sector Enterprises would cover industrial and commercial undertakings of the Government, which are in the form of statutory corporations or companies registered under the Indian Companies Act. Thus, public sector in its widest sense covers all activities of Government mentioned in its five year plans. Public Enterprises cover the institutions under public ownership and operation of public purposes. They have been defined as "that enterprises which meet the challenges posed by a dynamic and growing economy and which are willing and capable of shaping their attitudes, policies and operations to fulfill both the expressed and the latent needs of the community." The growth of public sector in India has been guided by Industrial Policy Resolution 1956 which gave the public sector a strategic role in the economy.

At the time of India's independence in 1947, there were various problems confronting the country which needed to be tackled in a planned and systematic manner. India was basically an agrarian economy with a weak industrial base, low level of savings and inadequate investment and near absence of infrastructural facilities. A vast percentage of population was extremely poor. There existed considerable inequalities in income, level of employment as well as glaring regional imbalances in economic attainments and trained manpower in various fields of management. It was, thus, obvious that if the country was to speed up its economic growth and maintain it in the long-run at a steady level, a big push was required from the Government. As such, State's intervention in all sectors of the economy was inevitable because private sector had neither the necessary resources in terms of funds, managerial and scientific skills nor the will to undertake risks involved in large long-gestation investments.

Among the imperatives were removal of poverty, better distribution of income, expansion of employment opportunities, removal of regional imbalances, accelerated growth of agricultural and industrial production, better utilisation of natural resources and a wider ownership of economic power to prevent its concentration in a few hands. Given the type and range of problems faced by the country on its economic, social and strategic fronts and the various imperatives, it became a pragmatic compulsion to deploy the public sector as an instrument for self reliant economic growth so as to develop a sound agricultural and industrial base, diversify the economy and overcome the economic backwardness."

The predominant consideration for continued investments in Public Sector Enterprises were to accelerate the growth of core sectors of economy, to serve the equipment needs of strategically important sectors like Railways, Telecommunications, Nuclear Power, Defence, etc., to enable the Government to exert a countervailing power on the operation of private monopolies and multinationals in selected areas; and to provide a springboard for the economy to achieve a significant degree of self-sufficiency in the critical sectors. Another category of a large number of public enterprises concerns essentially the consumer oriented industries such as drugs, hotels, food industries, etc. The rationale for setting up such enterprises was to ensure easier availability of vital articles of mass consumption, to introduce check on prices of important products and services or help to promote emerging areas like tourism, etc. Further, a large number of enterprises which were 'sick units', were taken over from the private sector in order to sustain production and protect employment. A number of public enterprises are also operating in national and international trade, consultancy, contract and construction services, inland and overseas communications, etc. The overall profile of Public Sector Enterprises in India is, thus, a heterogeneous conglomerate of basic and infrastructural industries, industries producing consumer goods and engaged in trade and services, etc.

II. Review of Literature - Disinvestment

Trivedi (1986) in the research paper on, "Public Enterprises in India: If Not for Profit Then for What?", focussed on the meaning and the searched for the appropriate criterion with appropriate incentive schemes and other institutional requirements necessary for ensuring good performance of public enterprises. He analysed that there are several problems with using private profits as a criterion for public enterprises performance. The criterion suffers from the accounting, pricing, attribution and conceptual problems, and thus he suggested a simple multiple indicators. Further he had suggested eight steps constituting the alternative to private profit as a criterion for public enterprises performance evaluation.

Megginson, Nash, and Randenborgh (1994) in their study on "The Financial and Operating Performance of Newly Privatised Firms: An International Empirical Analysis", compared the pre and post privatisation financial and operating performance of 61 companies from 18 countries and 32 industries that experience full or partial privatisation through public share offerings during the period 1961 to 1990. The study found strong performance improvement achieved surprisingly without sacrificing employment security after privatisation. Specifically, after being privatised, firms' sales increased in real terms, it become more profitable, increased their capital investment spending, improved their operating efficiency, and increased their work forces. The study further found that companies significantly lower their debt levels and increased dividend pay-out. The authors finally documented significant change in the size and composition of corporate boards of directors after privatisation.

D'Souza and Megginson (1999) made empirical analysis about comparison of pre and post privatised performance of 78 companies from 10 developing and 15 developed countries over the period 1990-94. They found persuasive evidence that the mean and median output (real sales), operating, efficiency and profitability of sample firms had increased significantly and this change occurred in both statistical and economic terms after privatisation. In addition, they documented significant lower leverage ratios. However, they observed fall in the employment level after privatization and concluded that privatisation improved firm's performance.

Saxena (2001) in the study entitled "Trends, Problems and Prospects of Restructuring Public Enterprises in India", explained that the main problem is with the bureaucratic log-jam. The implementation machinery is not market savvy and things takes years to happen. For instance, to issue mandate letter for appointing the global advisors, the file has to pass through several levels of inter-inventorial consultations, leading to inordinate delays. Red tape also hampers flotation of shares at the right time. Trade unions place yet another hurdle in the process of restructuring. Study further explains that another problem is with the valuation of the PSUs. Valuation can bring from one extreme to the other, depending on the kind of assumptions one makes.

Doh and Teegen (2002) in their paper on "Government Privatization Strategies in Emerging Economies: Whether to Go some or All of the Way", investigated factors that contribute to Governmental decisions to fully or partially privatise state-owned infrastructure services. The paper analyzed that macroinstitutional, investment policy, and line of services variables are important determinants of these policy option and full privatization could prove to be more prevalent in projects associated with local (national or international) phone services. The study further found that Governments are more likely to fully privatize in countries with higher per capita income and lower existing telecommunications infrastructure penetration, and in countries that have made substantial international investment. The overall findings of the study support a strategic choice perspective of Government use of privatization as a vehicle to accelerate economic development in technology-intensive industries.

Maharana and Ray (2002) in their paper on "Restructuring PSEs through Disinvestment: Some Critical Issues", critically analysed various strategies implemented by the Government for restructuring the PSEs during the past decade and discuss important issues in PSU disinvestment such as mechanism of disinvestment, valuation of share, application of disinvestment proceeds, predisinvestment restructuring and PSU disinvestment and corporate governance. They concluded in their study that the past ten years from 1991 to 2001, there has been an on-going efforts by the government to PSU disinvestment, but in term of action, very little has actually happened. The analysis suggested that the controversies and criticisms against disinvestment can be largely avoided through a process of transparency, wide publicity and enough safeguards to the affected parties and done with in a particular time frame so that it would result in larger resources for Government, lesser debt burden, healthier fiscal position and a productive and vibrant economy.

III. Research Methodology

The application of appropriate method and adoption of scientific form of mind is an essential requirement for any study. Keeping in view the said assumption, sampling element, sampling technique, the size of the sample, methodology of data collection and analysis of data have been discussed.

Source of Data: The above objectives are studied through the use of secondary data.
Data is gathered from various sources,

- Annual Reports of Public Sector Enterprises, Public Sector Enterprises Survey, Government of India,
- Department of Public Sector Enterprises.
- Disinvestment Commission Reports, Department of Disinvestment, Ministry of Finance.
- Economic Survey.
- Audit Reports.
- Existing Literature and other Scholarly Work, Journals, Magazines, dailies like Business Line and Economic Times.
- Official Websites.

A comparative analysis on the relative performance of the returns from selected candidate shares with the Market, the Sector and the competitive companies in the private sector; the impact of the GOI's decision to hold all disinvestment issues on the stock market; the factors that impedes the privatization programme from a range of stock market performance indicators (adjusted daily closing price, the market index (BSE Sensex) and the sector index (BSE PSU), the daily market capitalization, average traded quantity, average turnover, the share holding pattern) has been computed from April 1, 2014 to March 31,2020.
Use of the statistical tools - correlation and regression analysis to establish the relationship and the level of dependency of the return from selected candidate with other independent variables.

To avoid any multi collinearity problem between the independent variables, the correlation co-efficient between each of the independent variables has been computed. We found that except BSE Sensex (returns from market index) other independent variables are having significant associations between them. So we have dropped the BSE Sensex from our list of independent variables and ran a multiple regression analysis with the following.

Hypothesis:-

H0 - Null hypothesis	The changes in the returns from Selected PSE shares to a large extent are explained by the changes in the returns from BHEL PSU and from the returns from the competitive firms in the same industry
H1 - Alternative Hypothesis	The changes in the returns from Selected PSE shares to a large extent are not explained by the changes in the returns from BHEL PSU and from the returns from the competitive firms in the same industry

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Bharat Heavy Electricals Limited

BHEL is the largest engineering and manufacturing enterprise in India in the energy-related/infrastructure sector, today. BHEL was established more than 40 years ago, ushering in the indigenous Heavy Electrical Equipment industry in India - a dream that has been more than realized with a well-recognized track record of performance.

BHEL manufactures over 180 products under 30 major product groups and caters to core sectors of the Indian Economy viz., Power Generation & Transmission, Industry, Transportation, Telecommunication, Renewable Energy, etc. The wide network of BHEL's 14 manufacturing divisions, four Power Sector regional centres, over 100 project sites, eight service centres and 18 regional offices, enables the Company to promptly serve its customers and provide them with suitable products, systems and services -- efficiently and at competitive prices. The high level of quality & reliability of its products is due to the emphasis on design, engineering and manufacturing to international standards by acquiring and adapting some of the best technologies from leading companies in the world, together with technologies developed in its own R&D centres.

The shareholding pattern of the BHEL as on 31st March, 2020 shows that the GOI is holding 63.17% (219.96 crores) and others hold 36.83% (128.24 crores). Even here, the LIC, a GOI owned organization is holding around 35.06 Crores (10.07%) of shares. The Foreign Portfolio Investors are holding (9.36%) 32.59 crores of shares. Mutual Funds had 19.58 Crores (5.62 %). So, the only 9.96% (33.62 crores) of shares are in private hands.

The disinvestment decision of the GOI is primarily opposed on the ground that the current disinvestment programme will pave way for future disinvestment to make it private. By divesting 10% (21.99 crores), the GOI still holds 53.17 per cent. The Government has also come out with a clear cut statement that it will not bring down its equity below 50%.

Table 5.1 - Shareholding Pattern

BHARAT HEAVY ELECTRICALS LTD.

Statement showing shareholding pattern of the Promoter and Promoter Group

Category of shareholder	Nos. of shareholders	No. of fully paid up equity shares held	Total nos. shares held	Shareholding as a % of total no. of shares	Number of equity shares held in dematerialized form
A1) Indian				0.00	
Central Government/ State Govt	1	2,19,96,50,402	2,19,96,50,402	63.17	2,19,96,50,402
PRESIDENT OF INDIA	1	2,19,96,50,402	2,19,96,50,402	63.17	2,19,96,50,402
Sub Total A1	1	2,19,96,50,402	2,19,96,50,402	63.17	2,19,96,50,402
(B) Public	5,84,235	1,28,24,12,953	1,28,24,12,953	36.83	1,28,11,78,179
Grand Total	5,84,236	3,48,20,63,355	3,48,20,63,355	100.00	3,48,08,28,581

Source - Prime database

Again the reform process in India is more than 25 years old and the experience and the lessons learned over the years have brought more and more transparency into the reform process and it is not that easy to make it private.

So the proposed disinvestment of 10% of GOIs equity holding in BHEL have been defended by the ruling party – the first to initiate the reform programme, the chamber of commerce and some academicians as this did not result in any retrenchment of labour nor the control of management been transferred and as such do not pose any real threat to become private.

All the above reasoning implies that BHEL may be an ideal candidate for disinvestment as this will increase the liquidity of the share in the capital market thereby enhances the market value.

Now, I selected Ideal Public Enterprises from different Seven Sectors. For comparing the selected PSEs I have to again taking top performing PSUs and Private Sector companies. Here I made table for comparing Selected PSUs and Other PSUs, Private Companies.

Table 5.2 - Heavy Industries Sector - Comparing PSUs and Private Sector

Heavy Industries Sector	
Selected PSU	**Comparing PSUs and Private Sector**
Bharat Heavy Electrical Limited	◆ Honeywell
	◆ ABB
	◆ Elgi Equipments
	◆ L&T

Source - Own data

Heavy Industries Sector

Table – 5.3 - Capital Market Indicators - Heavy Industries Sector

6 years Analysis from 01/04/2014 to 31/03/2020

Performance Indicators	BHEL	Honeywell	ABB	Elgi	L&T
Average Return %	-21.68%	36.98%	0.00%	16.15%	5.41%
Total Equity Shares in Nos. (Crs)	3482063355	8841523	211908375	316909016	1404555297
Shares for Trade in Nos.(Crs)	3480828581	8789485	210428724	314583101	1387380965
Shares for Trade in %	**99.9645%**	**99.4114%**	**99.3017%**	**99.2661%**	**98.7772%**
Avg Shares Traded	903730.83	334.68	23503.42	19679.19	231695.58
Traded Shares % Shares for Trade	**0.025963%**	**0.003808%**	**0.011169%**	**0.006256%**	**0.016700%**
Avg Market Cap	22,877.16	39,726.73	39391	6438	2,382,912.2
Avg Turnover	**-8%**	**7.5%**	**-3.5%**	**7.0%**	**10.0%**

A comparative analysis on the Capital Market Performance Indicators

Long – term analysis

A long term (6 year) analysis and the year-to-year analysis on the average returns indicate that the returns from BHEL shares was more than the return from the market (BSE Sensex), the sector (BSE PSU) and from the competitive private companies. A look at the year-to-year analysis explains that the returns from these stocks are fluctuating in nature. An increase in the return is followed by a decrease in the subsequent year. Here also, except year (2016-17) the returns from BHEL shares decreases the return from the market, sector and majority of the private sector companies.

BHEL shares are also the most actively traded shares among the four. This is evident from the fact that BHEL stands first among the four on the average quantity traded as a percentage of the shares available for trade (2.92%) in the market. BHEL has been able to keep up this position from 5 out of 6 years and continuously from 2015 to 2020.

The analysis on another important capital market indicator namely the daily average market capitalization reveals that BHEL stands first among the four with an average daily market capitalization of Rs.22877.16 crores was the second highest among the sector. This has been achieved by BHEL by trading all most the same quantity of the shares traded by the private sector companies.

Table 5.4 - The Average Return from Public and Private sector companies in the oil sector business and comparable return from the market and sector indices in Six periods.

Average Return %							
	Indices		Public	Private Sector			
Period	Market (Sensex)	BSE PSU	BHEL	Honeywell	ABB	Elgi	L&T
2014-15	-4.98%	-17.15%	-36.37%	32.25%	-12.99%	-14.29%	-14.58%
2015-16	2.01%	12.74%	-28.37%	-0.71%	-7.42%	41.90%	5.75%
2016-17	27.5%	18.78%	14.79%	117.07%	33.92%	68.55%	39.65%
2017-18	5.90%	-19.48%	-21.42%	12.93%	-5.06%	-15.61%	13.72%
2018-19	14.08%	-4.02%	-41.16%	25.00%	-2.59%	-1.60%	-10.36%
2019-20	15.48%	-17.08%	-17.57%	35.33%	-5.88%	17.96%	-1.71%

Short – Term Analysis

The short-term (current year) analysis reveals that the five crucial capital market performance indicators with respect to BHEL showed declining performance. The *returns from the BHEL shares became the lowest and negative***.** It took first position on the average quantity traded. The uncertainty prevailing over GOIs decision to disinvest 10% of its holding in BHEL disturbed the investors mind in making their decision to invest in BHEL. Then the approval has to come from the CCEA (Cabinet Committee on Economic Affairs). Besides this it needs to face its legitimate opposition parties on this issue. All this has brought selling pressure on the investors, that has pull down the average return from BHEL share. There was also heavy selling pressure for PSE shares, it was high in the case of BHEL.

Statistical Analysis

The average analysis so for discussed gives little validation and a statistical analysis that explore the level of relationship between the returns from BHEL with returns from the comparable companies. The Pearson correlation coefficient (Multiple R), the most widely used statistical tool to test the degree of relationship between the dependent variable (the returns from BHEL shares) and the independent variables (the returns from BSE PSU, Honeywell, ABB, Elgi Equipments and L&T) shows that there exists good degree of relation ship (55%) in all the period of analysis. But it is not so in case of BSE Sensex**.**

The correlation coefficient just gives the degree of relationship between the returns; it does not predict the responsiveness from the sector, the market and from the competitive firms towards BHEL shares. So the regression technique that explains the level of response from the returns of the independent variables (returns from BSE PSU, Honeywell, ABB, Elgi Equipments and L&T) to the dependent variable (returns from BHEL) has been worked out.

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Table 5.5 - Statement showing the co-efficient of determination and indicators on the influence of the explantory variables (returns from BSE PSU, Honeywell, ABB, Elgi Equipments and L&T) on the returns from BHEL shares

Base of Inference	Indicators	6 year	Action
Co-efficient of determination	Adjusted R Square	**0.7644**	**Do not hold good**
Testing for Hypothesis	Compounded F	**6.1983**	**Reject the Null Hypothesis Since the computed F is greater than Critical F**
	Critical Value of F	**2.621**	
	F - Significance (P Value)	**0.0008**	**Reject the Null Hypothesis since level of F-Significance is less than Probability.**
	Probability Level of Significance	**0.05**	

To avoid any multi collinearity problem between the independent variables, the correlation co-efficient between each of the independent variables has been computed. We found that except BSE Sensex (returns from market index) other independent variables are having significant associations between them. So we have dropped the BSE Sensex from our list of independent variables and ran a multiple regression analysis with the following Hypothesis:-

We found that the adjusted R^2 that explains the variations in the dependent variable when more independent variable are involved explains that the independent variable have only 76% influence on the returns from the BHEL shares and the remaining 24% of the influence in returns from BHEL shares are explained by the other factors. The "F" statistic at 6.1983 is more than the critical "F" and P value is significant at 5% level. So we reject the null hypothesis and accept the alternative hypothesis that the other factors like changes in the external environment (changes in the government policy and changes in the capital markets) that influence the return from the BHEL shares.

The impacts in the Stock Market over GOIs decision to put hold all disinvestment decisions.

The impact on the stock market over GOIs decision to put hold all disinvestment issues have been only for a few days. The stock market took depressing turn during the week the GOI failed in its effort to pacify those opposing the issue. Even here the impact was seen more in the case of BHEL than the market and the sector**.**

But the history has always shown that PSU shares have a way of turning market sentiment; at this point, the entry of fresh offerings, especially of profitable PSUs, could well bring about the change.

A highly pluralist democratic political setup

A thorough debate with the objective of bringing about a clearer realization on the part of all concerned of the full extend of changes needed thereby permitting more purposeful implementation – It is difficult to bring about such consensus approach on many issues as India's highly pluralist democratic political setup blocks such an approach. Instead, India witnessed a process of creating a strong consensus for weak reforms – a halting process of change in which political parties that opposed particular reforms when in opposition actually pushed them forward when in office.

The political set up

The current political setup in India is a peculiar one. The ruling government's decisions are impeded not only by the opposition but also by its own constituent partners in the government. The resistance to the BHEL issue gained momentum as more and more people joined the group opposing the disinvestment proposal.

Bharat Heavy Electricals Limited (BHEL)

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IV. Conclusion

Further, in case of worse performing PSUs, they can either be closed down or their assets should be transferred to those asset management companies where a Government can get a right price for those assets.

There is a need to have a clear and crystal macro-economic policy reform and a specific regularity framework or authority in case Government wants to make have privatization of PSUs. It will help them to regulate and maintain the competition in the market.

The process of disinvestment and its objective has to be made very clear. Every process of management like the process of disinvestment, the change in management, the restructuring of the labour along with all other sensitive areas of concerns should be defined very specifically in order to overcome or abrogate the subsequent embarrassment or failure for the Government.

The Government must furnish all the information about the conversed PE to public, financial institutions and other interested parties so that investors of each party may get adequate information and opportunity to make the essential evaluations within the time framework.

No step in the process of disinvestment programme should be undertaken in hurry, otherwise there will be a loss to exchequer objective. A well perceived and analysed system or operation is required to formulate yearly target for the disinvestment programme.

Disinvestment of PSUs should be in accord with the scientific valuation of the target company shares.

The Government should prepare a comprehensive privatization policy in order to ensure smooth progress of privatization process.

The lack of transparency can nullify the whole process of disinvestment.

Hence, it is suggested and opined to have transparency in the disinvestment process and programmes. This would guarantee the more cooperation and support from all the political wings and also help in greater public acceptability.

The most of the companies or firms fail in want of having a documented social implication of privatization. Hence, it can be suggested that social implications of privatisation need to be assessed and documented more correctly. And also the interests of the various stakeholders should be safeguarded to the fullest extent.

The policy framework is a decisive and crucial factor for growth and development of any firms or industries. Hence, the Government should have a policy framework for the entire disinvestment process; the Government should de-link the disinvestment process from the budgetary exercise and Government should have a long term plan and policy instead of having annual or year wise budgetary, which will provide a better vision and mission to work upon in future.

It is quite obvious that due to lack of separate or head wise fund, the proficiency and productivity of any firm may come down. Therefore, it is necessary to have a separate fund for each investment and disinvestment. Thus a separate fund should be created for disinvestment and it should be kept under the direct control of the president and the allocation must be done in such a way that the maximum fund should be utilized for building infrastructure and developing the social sectors. A timely planned and execution of disinvestment policy is essential for any firm, hence the Government should follow an explicit process or method in order to have more benefits in time to come.

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The auditing of whole process of disinvestment should be carried out by at least two reputed auditing firms so that a system of transparency can be developed. The Government must have a clear and crystal yearly based action plan which would point out the activities carried out and accomplish during that particular year and it should submit a 'Action Taken Report' in the closing of that particular year.

It is suggested that a flawless strategy is required to be developed from the learning's from the past in order to excel and compete in the era of privatization and it is also indeed a necessary take to revise the policy related to disinvestment by analysing and learning from the past experiences and matters.

The speculation of general public, employees of CPSEs and the professional and experts on the disinvestment and the various stakeholders of Indian Public Enterprises should be taken into consideration and acted upon in order to have better results.

Non-transparency in discretion process may invite the allegation of corruption and nepotism. Hence it is suggested that PSEs should not be divested through non-transparent ways of discretion. Disinvestment of PSEs should be pursued by scientific valuation of the target company shares and transparency should be maintained. This in turn, would definitely ensure more support from all political wings and also secure its acceptability from the public.

Furthermore, it is suggested that, not to use sale proceeds to finance budget deficits-retire national debt. Government should deploy the earnings of disinvestment very tactically in order to restore or restructure the PSUs and strengthening social sector profits like education, health, employment and infrastructure sectors.

While emphasising on disinvestment and formulating the policy for disinvestment, Government needs to take into consideration that this policy should not ignore the employment needs of the country otherwise the Government has to face the social unrest which in turn promote trade union opposition to downsizing labour or to the disinvestment process itself.

A proper communication between the Ministry of Disinvestment and other allied ministries can send a right message among the masses and the investor or partners. Therefore, it would be fruitful to have good relations between Disinvestment Ministry and concerned Ministry, which in turn, reflect a bright image of the firm. The whole process requires a sound and healthy political commitment. Hence, there should be a proper political commitment and relationship among the ministries and the management.

Though it becomes necessary evil kind of practices to shift towards privatisation, despite of this fact, it is equally important to Government to have their control over the system. Therefore, it is suggested that Government should take ultimate control over the system and process of pricing, quality and regular supply.

The employees of the PSUs should have certain percentage in PE equity and they should be given opportunity to use their deposits i.e. provident fund or others alike deposits or savings for this purpose. In this way, a healthy atmosphere can be developed in the firm and employees can be motivated to work more efficiently.

There should be a fair system of providing shares to the various stakeholders.

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