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# THEME- PRE DISINVESTMENT & POST DISINVESTMENT FINANCIAL ANALYSIS OF NMDC, NTPC& NHPC

**Prabhash Mishra*    Dr. Ambrish****
**Research Scholar, University of Lucknow.*
***Assistant Professor, Shia P.G. College Lucknow University.*

***Abstract***
*Disinvestment is a powerful tool in the hands of the Indian government that has enabled the public sector to improve its efficiency, responsibility, and accountability to the public, as well as raise revenue to reduce its fiscal deficits. Disinvestment is the process through which the government withdraws some of its equity from public sector firms. In the past, disinvestment occurred, but sadly it was not adequately channelled toward the development of the nation through productive activity. In this research work disinvestment of government shareholding of NMDC, NTPC&NHPC is taken as an event. Profitability, Sales, Profit & EPS has been taken as financial parameters for the comparison of pre and post disinvestment period. The study shows that disinvestment improves the profitability and sales of NTPC while it has affected the market return negatively and it also has negatively affected the efficiency of the company. The firms NMDC and NHPC demonstrated no significant change in sustainability before and after disinvestment, whereas NTPC demonstrated a significant difference; however, the average sustainability after disinvestment is lower than that of the pre-disinvestment period.*

***Keywords: Disinvestment, Government, Public Sector Enterprises, Profitability, Market Return, Efficiency.***

## Introduction
### Disinvestment
The term "Disinvestment" is the antithesis of "Investment." Investment is the acquisition of a cash-generating asset with the aid of capital. Investing is the practise of spending money to acquire assets, such as bonds or stock in a company. In the case of investment, funds are converted into income-generating assets. In the case of disinvestment, an income-generating asset is converted into cash. Here, we will use disinvestment in a particular sense. By disinvestment, we refer to the government's sale of shares in public sector companies. Government-held shares of government-owned corporations are income-generating assets at the government's disposal. When these shares are sold for cash, earning assets are converted to cash. Therefore, it is known as disinvestment**.**

### Difference between disinvestment and privatization
Before we continue, we must resolve a semantic issue. The terms disinvestment and privatisation are distinct. Privatization entails a change in management as a result of a change in ownership. However, disinvestment does not always necessitate a change in management. Disinvestment is the dilution of the government's stake in a public enterprise. If the dilution is less than fifty percent, the government retains control despite disinvestment. It hasn't been privatised. If the dilution exceeds fifty percent, however, there is a transfer of ownership and management. It shall be known as privatisation. Thus, divestment is more extensive than privatisation. Privatization necessitates disinvestment, but disinvestment does not always necessitate privatisation. When disinvestment exceeds 51 percent, privatisation is implied. The extent of the government's stake dilution is determined as part of the disinvestment policy. Before we consider disinvestment, let's briefly examine the role of the public sector in the Indian economy. This is necessary in order to comprehend the government's perspective when making its disinvestment decision.

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India was a predominantly agricultural nation with a weak industrial base. India requires a rapid growth in industrialization that leads to economic development, an improvement in living standards, and economic sovereignty. Shri Jawahar Lal Nehru, the first Prime Minister of India, believed that the development and modernization of the Indian economy required the establishment of basic and heavy industry. To this end, he promoted an economic policy based on import substitution, industrialization, and a mixed economy. To meet Nehru's industrialization policy, the Industrial Policy Resolution of 1956 and India's Second Five Year Plan, i.e. 1956-60, emphasised the development of public sector undertakings. In India, a state-owned business is known as a Public Sector Undertaking (PSU). The companies owned by the central or state governments of India, or both, are Public Sector Undertakings. The primary objective of establishing PSUs was to accelerate the growth of core sectors of the economy, i.e. to meet the equipment needs of vital sectors and generate employment and revenue. These PSUs that operated in public utilities such as railways, post and telegraph offices, airports, cement, and power significantly contributed to the development of India's infrastructure.

**Issue related to Disinvestment Before proceeding further let us first considers some issues relating to disinvestment. These issues are as flows;**

1) **Why Disinvestment?** Government disinvestment is justified for two primary reasons: first, to provide fiscal support, and second, to improve the enterprise's efficiency. The argument for fiscal support is as follows: Governments have limited resources. These resources should be allocated to socially-prioritized areas such as basic health, family welfare, primary education, and social economic infrastructure. By releasing funds from non-strategic Public Sector enterprises, additional resources can be allocated to these priority areas. The second reason for disinvestment is that it will increase the enterprise's operational efficiency.

2) **How Much Disinvestment?** The level of disinvestment in our enterprise in any given year should be derived from the high level of government ownership, which brings us to the second question regarding disinvestment in an enterprise. In this organisation over the medium term. The target level of ownership could be 2% to ensure limited control over the special resolution brought before the enterprise's general assembly. 51 percent for effective control and 100 percent for ownership in its entirety. The target level of disinvestment should be determined by the level of public ownership desired for a unit. There are no market prices for these shares. Then, how can the value of such shares be determined?

**These are the three methods for determining the value of a share of stock.**

1. Net Assets Value Method.
2. Profit Earning Capacity Value Method.
3. Discounted Cash Flow.

**How Disinvestment?** What procedure should be utilised for disinvestment? is the third question. For this, two things are necessary: determining how to fine-tune the valuation of shares and the model to be adopted for sale. If the government owns all the shares of a PSU, those shares are not traded on the market.

**Description about the company**

National Thermal Power Corporation (NTPC) was incorporated on 17th November 1975 by the Government of India as a government company under the provision of the Companies Act 1956. As a "Navaratana" Public Sector Enterprise, NTPC has always exhibited exceptional performance, whether in

terms of generation or power production. The company's strategic plan calls for it to become a 58,156 MW power behemoth by 2019. NTPC became a Maharatna company in 19 May 2010. NTPC Ltd. Is one of the India‟s Best Organization to Work in recent years. India Largest Power Generating Company NTPC has been adjudged 14th rank in 2019 „Great Place to Work‟. This organisation, also known as the "Best PSUs" and "Best organisation" as of 2019, employs more than 10,000 people. Shri Saptarshi Roy, Director (HR), and Shri C.K. Mondol, RED, received the prestigious award at a function in Mumbai.
National Hydro Power Company Limited (NHPC) was established with the objective of developing small hydropower projects in Nepal. NHPC today operates as a wholly public owned company, with no Promoter group. The Company's stock is traded in the Nepal Stock Exchange with corresponding stock symbol "NHPC". The Company has utilized domestic funds, foreign investment as well as public funds to develop hydropower projects and generate clean energy.

NHPC not only believes in doing things differently, but is also committed to doing them differently. We recognise the significance of engineering in our projects and are dedicated to ensuring that every one of them undergoes a rigorous technical and engineering review. We will always maintain a cautious investment strategy, committing to investments only when we are certain of their success. Even though our investment strategy will be conservative, we will set audaciously ambitious goals to see how far we can go in the shortest amount of time. We believe in preserving the environment in all that we do. As individuals developing clean and renewable energy, it is in our genes to work with and protect nature whenever possible. Regarding all cultures, religions, and minority groups, we will also maintain diversity in the workplace. There is strength in unity, and we will maintain unity among our diverse workforce.

National Mineral Development Corporation (NMDC), a Navratna Public Sector Enterprise under the Government of India's Ministry of Steel, is India's largest iron ore producer. It has its registered office in Hyderabad, Telangana, and owns and operates highly mechanised iron ore mines in Chhattisgarh and Karnataka. NMDC is regarded as one of the lowest-cost iron ore producers in the world. In Panna, Madhya Pradesh, it operates the only mechanised diamond mine in India. Additionally, NMDC is constructing a 3 MT integrated steel plant in Nagarnar, Chhattisgarh.

The company's major iron producing units, namely Bailadila Sector in Chhattisgarh and Donimalai in the Bellary-Hospet region of Karnataka, produce approximately 35 MTPA of iron ore. By FY30, NMDC expects to have a production capacity of 100 MT of iron ore.

Indian Bureau of Mines, Ministry of Mines has awarded all NMDC mining complexes with a 5-Star rating, which is a testament to its scientific and environmentally responsible mining methods. UNIDO has designated the NMDC's R&D Center in Hyderabad as a Centre of Excellence. All NMDC mines and the R&D Centre are ISO and EMS certified. The NMDC has a history of exceeding the commitments and expectations of its stakeholders. Throughout its roughly 64-year history, NMDC has endeavoured to improve the lives of communities surrounding its operational areas. The belief that Social Responsibility is an integral part of the process of wealth creation and can enhance business competency, maximises the value of wealth creation to society, and thus contributes to nation building, is ingrained in the NMDC's core philosophy.

**Review of Literature**

**Chary, Kumar and Masood (2011)** Discuss the Disinvestment's objectives, achievements, and effects on the Indian economy. He asserts that the disinvestment proceeds were not utilised appropriately for

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developmental or other purposes, or even to assist the Indian economy. It also implies that they were utilised solely for nonproductive purposes that did not align with the disinvestment goals.

**Srivastava (2014)** Determine the reasons behind the Indian government's inability to meet its disinvestment goals, and suggest some alternatives that can assist in achieving these objectives. He extrapolated the annual disinvestment goals announced during the budget discussion, but the Indian government did not take preventative measures or explain a strategy to achieve these goals. He believes that the government's disinvestment goals can only be achieved if ministerial disagreements are reduced and policies are reviewed frequently.

**Verma (2009)** Consider how slowly the disinvestment programme is moving forward. The government's credibility has been harmed by its failure to maintain transparency throughout the many stages of the disinvestment procedure. The lack of coordination and collaboration between the disinvestment service and other relevant authorities has had a significant impact on the disinvestment program, as observed by him. He suggested that the government develop a plan for disinvestment that is transparent regarding all required processes.

**Singh and Paliwal (2010)** Examine the effect of disinvestment on the financial and operating performance of competitive and monopoly units of public sector enterprises. The operating performance of competitive firms based on sales has shown a decline in profitability, whereas monopoly firms have shown an increase in profitability during the post-disinvestment period.

**Gupta et al. (2011)** In their study, they analysed the financial performance of 38 selected CPSEs in India (out of 44 disinvested enterprises until March 2008) from 1986–1987 to 2009–2010 using selected profitability, efficiency, liquidity, leverage, and productivity ratios. The research revealed that partial or modest disinvestment failed to produce the majority of desired outcomes.

**Scope of the Study**

In this study, the impact of disinvestment on the operational and financial performance of NTPC, NMDC, and NHPC is examined. This will shed light on whether the intended objective is attained.

**Design of the Study**

This paper has been classified as descriptive in nature which presents an ex- post facto description of the pre and post disinvestment situation. For achieving objectives the secondary data has been collected from numerous sources which range from official websites, reports and research published in journals, websites, periodical, magazine, newspaper, annual financial report.

**Objective of the Study**

- The aim of this paper is to study the impact of pre and post disinvestment on financial discipline of NMDC, NTPC&NHPC.
- To analyse and interpret the financial data before and after disinvestment.

**Explanation of the Study**

CPSE performance has improved over time. Furthermore, disinvested CPSEs operate in more advantageous political environments: these businesses are more likely to be situated in states that are more right-wing and have an ideology similar to that of the Centre. The improved success of CPSEs can be linked to the favourable political context in which they operate.

At the time of its creation, the draught paper on disinvestment stated that the two major goals of disinvestment were to close the deficit gap and improve CPSE performance. The two goals may appear to be unrelated, yet the ways to attain them may be diametrically opposed. The most valued and lucrative CPSEs are the ideal candidates for disinvestment in order to decrease the fiscal deficit since they may produce large revenues. If the goal is to enhance performance, the worst-performing CPSEs are the ideal candidates for disinvestment. A cautious strategy including the division of CPSEs based on performance should be taken. The best-performing CPSEs must be considered as long-term investments. Only the sick CPSEs who are unable to be revived are affected.

**EPS of selected companies**

| | **NMDC** | | **NTPC** | | **NHPC** | |
|---|---|---|---|---|---|---|
| | **Pre-Dis Investment** | **Post-Dis Investment** | **Pre-Dis Investment** | **Post-Dis Investment** | **Pre-Dis Investment** | **Post-Dis Investment** |
| | 8.34 | 11.44 | 102.33 | 51.59 | 49.87 | 45.33 |
| | 8.99 | 12.53 | 89.34 | 43.98 | 82.65 | 68.24 |
| | 9.95 | 13.27 | 98.33 | 67.29 | 97.52 | 91.37 |
| | 7.63 | 16.84 | 69.24 | 82.34 | 32.33 | 89.75 |
| **Mean** | **8.72** | **13.52** | **89.81** | **85.55** | **65.59** | **73.67** |
| **SD** | **1.23** | **2.78** | **28.45** | **26.87** | **17.34** | **19.38** |
| **CV** | **15.23** | **17.89** | **91.35** | **49.35** | **31.29** | **49.59** |
| **CAGR** | **0.131** | **0.056** | **-0.198** | **-0.495** | **3.078** | **2.987** |

*Source compiled from annual report of selected PSUs in MS excel*

Data on EPS for NTPC, NMDC, and NHPC were obtained four years before and four years after disinvestment. NTPC's pre-divestment average EPS was 89.81, with a standard deviation of 28.45 for the same time. The coefficient of variance was 91.35, indicating a significant level of variation. Pre-disinvestment CAGR was -0.198, indicating increase for the specified time.

**Pre and Post disinvestment of EPS of selected PSU**

| **Pre-Disinvestment EPS** | | | | |
|---|---|---|---|---|
| **NMDC** | 8.34 | 8.99 | 9.95 | 7.63 |
| **NTPC** | 102.33 | 89.34 | 98.33 | 69.24 |
| **NHPC** | 49.87 | 82.65 | 97.52 | 32.33 |
| **Post-Disinvestment EPS** | | | | |
| **NMDC** | 11.44 | 12.53 | 13.27 | 16.84 |
| **NTPC** | 51.59 | 43.98 | 82.65 | 68.24 |
| **NHPC** | 45.33 | 68.24 | 91.37 | 89.75 |

*Source compiled from annual report of selected PSUs in MS excel*

Following the disinvestment, NTPC's EPS increased significantly, with the mean EPS rising to 12.71 and the standard deviation rising to 15.85. The CV indicated substantial fluctuation, and the CAGR was -0.495. NTPC demonstrated a growing tendency for EPS post-disinvestment, however the amount of the rise was lower when compared to the pre-disinvestment era. NMDC's EPS had a mean value of 8.72 pre-disinvestment and a coefficient of variation of 15.23. NMDC had a CAGR of 0.131, indicating that the

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firm did not expand. NMDC showed a significant degree of variability both before and after disinvestment, as well as a downward trend in EPS after disinvestment.

**Conclusion**

The researcher discovered a significant change in the sustainability of selected firms after disinvestment, but these firms did not improve individually when comparing the pre-disinvestment to post-disinvestment periods. The firms NMDC and NHPC demonstrated no significant change in sustainability before and after disinvestment, whereas NTPC demonstrated a significant difference; however, the average sustainability after disinvestment is lower than that of the pre-disinvestment period. As a result, the researcher discovered that the disinvestment process has not had the desired effect on the performance of the individual PSUs, and to make matters worse, the performance of a number of firms has deteriorated in comparison to their pre-disinvestment performance.

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