ISSN (Print Version) 0975-3931
ISSN (On Line Version) 2278-1277

Pre Disinvestment & Post Disinvestment Financial Analysis of Oil and Gas Company in India

Sharad Srivastava[1] and Sumeet Gupta[2]

PSUs in India were seen as an instrument for auxiliary change of the economy and for development with value and social equity. The Central Public Sector Enterprises (CPSEs) are occupied with extensive scale creation and supply of an extensive variety of items and administrations. The Public area ventures have been set up to serve the expansive full scale financial targets of higher monetary development, independence underway of products and administrations, long haul balance in adjust of installments and low and stable costs.

Disinvestment is a procedure whereby the Government pulls back a divide of the aggregate of its value out in the open endeavors. Enormous measures of open assets are obstructed in a few non-vital PSEs giving pitiful return. Government has reported its arrangement that the principle target of disinvestment is to put national assets and resources for ideal utilize and specifically to unleash the profitable potential inalienable in our open area ventures. Disinvestment is dependably a piece of privatization. There are 16 segments of Indian open area ventures in which Government has embraced disinvestment. The present arrangement on disinvestment conceives individuals' responsibility for while guaranteeing that the Government value does not fall beneath 51% and Government holds administration control. (Open Sector Enterprises Survey, 2011-12)

Literature Review

Article	Author	Inference
Financial Performance of Disinvested CPSE	**Seema Gupta[1]**	The goal of this paper is evaluate the money related execution of

[1] Research Scholar, Center for Infrastructure and Project Finance, COMES, UPES. Email: srivaash@gmail.com

[2] Senior Associate Professor, Head- Center for Infrastructure & Project Finance, Research and Development Centre, College of Management and Economic Studies, UNIVERSITY OF PETROLEUM & ENERGY STUDIES, Dehradun -248007 (Uttarakhand) India Email : sumeetgupta@ddn.upes.ac.in

Enterprises in India: An empirical Study on select dimensions Journal of applied banking and finance **Vol.1, no.4, 2011, 57 106** ISSN: 1792-6580 International Scientific Press, 2011	**P.K. Jain[2]**	disinvested PSEs in India on the premise of a few measurements on pre and post disinvestment bases over the life range of over two decades (i.e. 1986-87 to 2009-10); budgetary execution has been measured on the premise of select gainfulness, proficiency, liquidity, influence and efficiency proportions.
DISINVESTMENT POLICY IN INDIA International Research Journal of Management and Commerce Volume-2, Issue-2	**International Research Journal of Management and Commerce Volume-2, Issue-2**	This paper tells that approach expressed that the administration would disinvest a portion of their values in chose PSEs. The primary goal was to enhance general execution of the PSEs.
Impact of Disinvestment on the Financial and Operating Performance Of Competitive and monopoly Units Of Indian Public Sector Enterprises	**Dr. Gagan Singh**	This paper tells that present study has been kept to concentrate on the effect of disinvestment on the money related and working execution of Indian PSU which are isolated into two gatherings: the individuals who are working in aggressive environment and the individuals who are working in imposing business model environment.

Business Problem:

It is Because of an increasingly competitive among the business environment, which had made it difficult for many PSUs in order to operate profitably. This leads to a rapid erosion of value of the public assets

Research Problem:

Determining the standard operating procedure of Oil and Gas Company before and after disinvestment.

Research Problem:

Objective 1:

To analyze the disinvestment process in Indian oil and gas sector.

Objective 2:

To undertake Pre Disinvestment and Post Disinvestment Financial analysis of Oil and Gas Company.

Research Methodology:

In this approach, divestment strategy before and after has been compared. Pre-disinvestment value of Financial Years (2001-03) for various financial parameter had been taken and is analyzed with their mean value of their Post disinvestment Financial Years (2004-06)

Assumption:

After studying the various parameter it was found because of keeping up agreement with governments Political Social, Fiscal, Economic, expectations the PSU are not able to fulfill their internal source of financial goals. Because of this it was assumed that there would be an increase in operating efficiency & public enterprises profitability.

After Disinvestments of ONGC, it is expected:

1) Assumption 1(A1): That It will cause an increase in the increase in profitability and operating efficiency of PSU after the dilution of equity of the government in ownership

In order to measure profitability, average value of Return on Sales (ROS) Ratio before and after disinvestment period is taken.

- ROSpost > ROSpre.

2) Assumption 2(A2): One main reason is that due to the state's withdrawal of debt guarantees and grows in enterprises cost of borrowing; there will be decline in the proportion of debt in the capital structure both.

- For measuring proportion of debt in capital structure we have computed mean value of Debt to Asset Ratio for before and after disinvestment period.
- LEVpost < LEVpre.

3) Assumption 3(A3): Since private investors would demand higher dividends because of which dividend payout ratio will go up after the disinvestment.

- For computing the impact of government equity dilution on dividends we have computed mean value of Dividend Payout Ratio before and after disinvestment.
- PAYOUTpost > PAYOUTpre

4) Assumption 4(A4): That there is an improvement in liquidity of business. It is anticipated that after disinvestment the sales volume will increase and that will result into higher inventory. Also recovery of short term and long terms loans and credit allowed to customers will also get improved after dilution in the government equity.

In order to measure the liquidity of business, value of Current

Asset to Current Liability Ratio for before and after disinvestment period is assessed.

- LQTDYpost > LQDTYpre

Analysis and Interpretation of ONGC:

Performance Variable	Pre disinvestment Mean Value of FY(2001-2003)	Post Disinvestment Mean Value of FY (2004-2006)	Difference (Post –Pre)	Analysis (Accepted/ Rejected)
Operating Profit based on Sales				
Profitability Return on sales (ROS)	0.2644	0.28422	0.01982	Accepted
Gross Profit Margin	53.495	55.045	1.55	Accepted
Financial Strength				
Leverage	0.0966	0.2433	0.1467	Accepted

Ratio for perspective Investor				
Dividend Payout Ratio	0.3428	0.4262	0.0834	Accepted
EPS	51.31	118.07	66.76	Accepted
DPS	18.33	36.33	18	Accepted
Corporate Liquidity				
Liquidity Ratio	1.42	1.516	0.096	Accepted

Profitability:

- Assumption: ROSpost > ROSpre
- Assumption is accepted as ROSA – ROSB = + 0.0198
- It means that there is an increase in Profitability after disinvestment, which is in accordance with our Assumption.
- It implies that Mean of Return on Sales Ratio for post disinvestment period is significantly higher than the same ratio for pre disinvestment period.

Leverage:

- Assumption: LEVpost > LEVpre
- Assumption is accepted as LEVA - LEVB = 0.1467
- Leverage after disinvestment has not been reduced, which is against as per with our Assumption.
- Debt –Equity Ratio for post disinvestment period should be significantly lower than the same ratio for pre disinvestment period, which means that an increase in cost of debt after dilution of government equity.
- In this case there might be further expansion or requirement of money was there which was done through the debt portion and because of that the debt equity ratio does not got decreased

Liquidity:

- Assumption: LQTDYpost > LQDTYpre
- Assumption is accepted as LQTDYpost - LQDTYpre = + 0.096
- It means that after disinvestment Liquidity of ONGC has been improved. Reason for this improvement is liquidity can be allocated to its huge investment in inventories after disinvestment, as its sales volume has also increased significantly.

Dividend Payout Ratio:

- Assumption: PAYOUTpost > PAYOUTpre
- Assumption is accepted as PAYOUTpost – PAYOUTpre = 0.0834
- Dividend Payout Ratio of ONGC has been increased after disinvestment, because it was expected that private investors would demand more dividends. This ratio indicates how much percentage of earning we are paying

Analysis & Interpretation of IOCL:

Performance Variable	Pre disinvestment Mean Value of FY(2013-2014)	Post Disinvestment Mean Value of FY (2014-2015)	Difference (Post –Pre)	Assumption (Accepted/ Rejected)
Operating Profit based on Sales				
Profitability Return on sales (ROS)	0.015	0.012	-0.003	Rejected
Gross Profit Margin	2.1	1.28	-0.82	Rejected
Financial Strength				
Return On capital Employed	9.11	8.3	-0.81	Rejected
Corporate Liquidity				
Current Ratio(Liquidity Ratio)	0.81	0.73	-0.08	Rejected
Ratio for perspective Investor				

Dividend Payout Ratio	0.1652	0.1634	-0.0018	Rejected
DPS	8.7	6.6	-2.1	Rejected
EPS	28.91	21.72	-7.19	Rejected

Profitability:

- Assumption: ROSpost > ROSpre
- Assumption is rejected as ROSpost – ROSpre= -0.003
- Profitability after disinvestment has been decreased, which is against the accordance with our Assumption.
- Return on Sales Ratio (ROS) mean value for post disinvestment period should be significantly higher than the same ratio for pre disinvestment period.

Liquidity:

- Assumption: LQTDYpost > LQDTYpre
- Assumption is rejected as LQTDYpost - LQDTYpre = -0.08
- Liquidity of IOCL has been decreased after disinvestment.

Dividend Payout Ratio:

- Assumption: PAYOUTA > PAYOUTB
- Assumption is rejected as PAYOUTA – PAYOUTB = (-0.154)
- Dividend Payout Ratio of IOCL has been reduced after disinvestment, it means that the company had paid lower dividend after the disinvestment and it is always expected that private investor would demand for higher. The main reason behind this disinvestment is the expansion Opportunities available to IOCL, which has caused more retained earnings and higher growth rate. This can be seen by the higher market capitalization of IOCL after Disinvestment.

Findings

ONGC:

The ratio analysis calculated before and after disinvestment shows that there is an increase in post disinvestment period:

- Gross Profit Margin (%)
- Profitability Ratio.
- Return on Capital Employed
- Leverage (Debt Equity Ratio)
- Current Ratio (Current Assets/Current Liabilities)
- Dividend Payout Ratio
- Dividend per Share (DPS)
- Earnings per Share (EPS)

It is an indication of effective utilization of resources and increase in efficiency of Public Sector Enterprise after the disinvestment. There was no external factor which affects the company performance like decrease in pricing of crude oil and geopolitics, exchange rate fluctuation

IOCL:

The ratio analysis calculated before and after disinvestment shows that there is an increase in post disinvestment period:

- Gross Profit Margin (%)
- Profitability Ratio.
- Return on Capital Employed
- Leverage (Debt Equity Ratio)
- Current Ratio (Current Assets/Current Liabilities)
- Dividend Payout Ratio
- Dividend per Share (DPS)
- Earnings per Share (EPS)

One of the major causes affecting IOCL decrease in performance is the inventory losses. Indian Oil had done extremely well on physical parameter. Sales had been generated well and there was a good performance in Capacity utilization as well. The main thing that had impacted is the inventory losses

The total loss that company has to take is Rs 5,137 crore on inventory as the crude was bought crude at one price but it was sold at lower price as rates had fallen when the crude was actually in the period of transportation, processing and turned into fuel.

Foreign Exchange Losses

- In the second quarter of 2015-16 there was found to be a foreign exchange losses also of Rs 1100 as opposed to Rs 672 crore losses which was there between same periods of 2014-15.
- There was a decrease in turnover of around Rs 85,384.81 crore due to fall in oil prices in the period which was under the observation , as compared to Rs 1,11,663.81 crore which was a year ago.
- There was a cash subsidy given by govt. of Rs. 1715 crore and upstream company provided a cash subsidy of Rs 462 crore on losses on sale of domestic LPG & PDS Kerosene and done under controlled rate of govt.

Impact after Disinvestment

On Government:

- It reduces financial burden of the government
- It helps the government to attain the fiscal deficit for that particular year.
- It also helps government in providing more source financial assistance to the divestment company after the disinvestment since the government share had been sold either to the other company, financial institution or to the public.
- It also helps government in wider distribution of wealth by means of diluting the government share to investor, public or employee.

On Company:

From financial analysis of ONGC Disinvestment, it can be noted that disinvestment can cause

- Better utilization of resources
- More sources of financing in form of equity and cross holding.
- Disinvestment helps to manage to grow the performance and efficiency of enterprise through better resources utilization but careless privatization is not the only solution for longer duration of time.
- Can leads to better operating efficiency of enterprise.

But from the financial analysis of IOCL Disinvestment, it can be noted that disinvestment alone cannot cause an overall impact on financial performance. There are various external factors which affects majorly the performance of the company e.g. inventory loss, cost of crude oil, foreign exchange loss, subsidy loss.

On Investor:

From the financial analysis of ONGC, there is an increase in ratio after disinvestment (if external factor doesn't fluctuates)

- Dividend per share
- Earning Per share
- Dividend payout ratio
- Market value of share

Conclusion

It has been seen that disinvestment usually improve the operating efficiency as well as shareholder wealth and improve government burden of fiscal deficit of public sector enterprise. But in case of oil and gas industry, the government has planned to divest the share of ONGC in current future. Since the market price of share of ONGC has gone down, the government is actually waiting for a perfect timing in order to generate more revenue out of that..

In case of disinvestment of ONGC in year 2004, the post disinvestment ratio analysis shows that operating performance, shareholder wealth and efficiency of the company has gone up. In case of IOCL, ratio analysis shows that the post disinvestment analysis doesn't bring much impact and all ratios were tend to decrease. But there are many external factors affecting the financial analysis of IOCL.

In case of oil and Gas Company, there are many extra factors which led to change in financial analysis of company. Pricing, subsidy given in terms of PDS kerosene and domestic LPG, foreign exchange losses also plays an important role in oil and gas industry.

Thus it can be concluded that in order to understand the operating efficiency of public sector oil and Gas Company, the divestment alone cannot be only criterion. Any external factor can cause an increase or decrease of profitability ratio of Public sector enterprise