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Equity Return Trends in the Disinvestment Atmosphere: A Study of Selected Industries in Indian CPSEs

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Abstract: *Return on Equity (ROE) attempts to assess pecuniary performance of an organization during a particular time period. It is premeditated by dividing net returns by shareholders' equity. Thus, ROE indicates how efficiently a company generates its profit. Accordingly, an upper ROE indicates efficiency of the company in generating profit and vice versa. As a best practice, a company should aim an ROE so as to equivalent to or more than the average ROE of the concerned industry. The expansion of the CPSEs is directed towards diminution of poverty, attainment of self-sufficiency, deletion of inequalities in terms of earnings, employment enhancement, etc. However, the goals set for the CPSEs could not be attained successfully and this leads to the introduction of disinvestment of the CPSEs in the year 1991-92. In this background, the intent of the cram is to scan the trends in equity returns with reference to selected industries in Indian CPSEs in the ongoing disinvestment atmosphere during the time phase 2010-11 to 2019-20. Overall, the selected manufacturing and service sector industries generates optimistic as well as pessimistic equity returns. However, no specific trends in equity takings are observed during the selected study phase. On the average, hotel & tourist services industry disclose highest equity returns followed by fertilizers industry, financial services industry, crude oil industry, trading & marketing industry and textiles industry. Affirmative equity returns in majority of the selected industries have played an important role in the augmentation of the economy.*

Keywords: CPSEs, manufacturing sector, return on equity, service sector, trends.

1. INTRODUCTION

Return on Equity (ROE) attempts to assess pecuniary performance of an organization during a particular time period. It is premeditated by dividing net returns by shareholders' equity. Thus, ROE indicates how efficiently a company generates its profit. Accordingly, an upper ROE indicates efficiency of the company in generating profit and vice versa. As a best practice, a company should aim an ROE so as to equal to or just more than the average ROE of the concerned industry.

The Central Public Sector Enterprises (CPSEs) in India were set up to accomplish the objectives of monetary expansion, autonomy in production, surfeit equilibrium of payments, and controlling the trends in price rise and price decrease. They are considered as a mechanism for structural conversion of the economy with evenhandedness and social righteousness. In the development of an economy, the CPSEs are considered as tactical players. They make available indispensable commodities and services in the market.

The expansion of the CPSEs is directed towards diminution of poverty, attainment of self-sufficiency, deletion of inequalities in term of earnings employment enhancement, etc. However, the goals set for the CPSEs could not be attained successfully and this leads to the introduction of disinvestment of the CPSEs in the year 1991-92.

Disinvestment is a method in which equity capital of the Government is introverted either in part or in whole. The basic tenet behind divestment is to boost wealth, encourage wider participation of the community and to fetch improved market answerability. The imperative intention of disinvestment is to guarantee best possible use of nationwide prosperity and to boost fruitful effectiveness of the CPSEs.

2. REVIEW OF PRECEDING STUDIES

Kumar, S. (1992), indicated that through personal vending of shares, owner can be evaluated in terms of several benefits like administration, technology, etc.

Naik, S.D. (2001), observed that the reforms method did not traverse the restricted divestment of equity shares in the chosen PSEs.

Nagaraj, R. (2005), revealed that ROE would not be affected by the demeanor of the Govt. The researcher opined that affirmative outcomes can be achieved through disinvestment in a cutthroat atmosphere. **Rastogi, M.K. & Shukla, S.K. (2013)**, in their results observed that disinvestment did not bring acceptable outcomes. The causes of such negative results may be due to soaring cost, outfitted ineffectiveness, etc. **Menaka, R. (2015)**, concluded that CPSEs had contributed 6% to 7% of Indias' GDP. Thus, they played an important part in the fiscal development of the nation. **Cadoret, J. (2016)**, did not found any association involving ROI and budgetary slacks. However, the study indicated that project size could influence slacks to a major extent.

Singh, A. (2017), stated that reform events that were introduced had affirmative effect on the recital of the Indian CPSEs.

Singh, R.A. (2020), stated that the public enterprises had improved their recital appreciably during the cram stage.

3. INTENT OF THE STUDY

The purpose of the study is to scan the trends in equity returns with reference to selected industries in Indian CPSEs in the ongoing disinvestment atmosphere.

4. RESEARCH METHODOLOGY

4.1 Sample Industries

Both manufacturing and service sector industries form the industrial structure in Indian CPSEs. Presently, the population of Indian CPSEs comprises of 13 manufacturing industries and 7 service industries.

Stratified arbitrary sampling system is used to form the sample industries in our study. Accordingly, 3 manufacturing industries are randomly selected out of 13 manufacturing industries, while 3 service industries are randomly selected out of 7 service industries. Thus, sample industries of our study comprises of the following 6 industries that covers both manufacturing sector and service sector:

Crude Oil Industry
Fertilizers Industry
Textiles Industry
Trading & Marketing Industry
Hotel & Tourist Services Industry
Financial Services Industry

4.2 Data and Study Period

The data used in the study is of secondary nature. The required data has been collected from the published annual reports of the Public Enterprises Survey, Government of India from the financial year 2010-11 to the financial year 2019-20.

4.3 Psychoanalysis Technique

Ratio analysis is used to calculate equity returns of the sample industries by the following formula:

ROE = (Net Profit after Taxes) ÷ (Shareholder's Equity)

5. RESULTS AND DISCUSSION

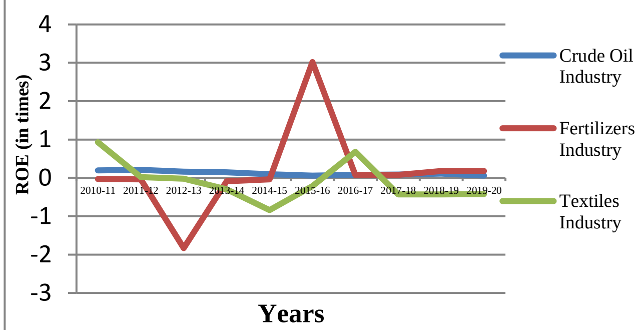
5.1 Equity Returns in Selected Manufacturing Industries: The equity returns of selected manufacturing industries in Indian CPSEs are presented in Table 1 below.

Table 1: Equity Returns of Selected Manufacturing Industries in Indian CPSEs

Year	Equity Returns (ROE)		
	Crude Oil Industry	Fertilizers Industry	Textiles Industry
2010-11	0.20	-0.03	0.93
2011-12	0.21	-0.04	0.02
2012-13	0.16	-1.83	-0.02
2013-14	0.15	-0.09	-0.30
2014-15	0.10	-0.04	-0.84
2015-16	0.06	3.02	-0.21
2016-17	0.08	0.07	0.68
2017-18	0.09	0.08	-0.43
2018-19	0.11	0.18	-0.43
2019-20	0.06	0.18	-0.42
Average	**0.12**	**0.15**	**-0.10**

Author's Computation

Figure 1: Equity Return Trends of Selected Manufacturing Industries in Indian CPSEs



Crude Oil Industry: As evident from Table 1 and Figure 1, equity returns of crude oil industry ranges from 0.06 to 0.21 with an average of 0.12. Table 1 further reveals positive equity takings during all the years under study. Overall, no specific trend in equity returns is observed from 2010-11 to 2019-20.

Fertilizers Industry: Both positive and negative returns are observed in fertilizers industry. The first five years shows negative equity returns, while the next five years shows positive equity takings. The equity returns of fertilizers industry varies from -1.83 to 3.02 with an average of 0.15. For fertilizer industry, no specific trend is observed during 2010-11 to 2019-20.

Textiles Industry: Like fertilizers industry, textiles industry has also shown positive as well as negative equity returns with most of the years showing negative equity returns. The ROE of textiles industry ranges between -0.84 and 0.68 with an average of -0.10. The first five years shows a decreasing trend in ROE, while there has been no specific trend in ROE in the next five years beneath the study.

5.2 Equity Returns in Selected Service Industries: The equity returns of selected service industries in Indian CPSEs are shown below in Table 2.

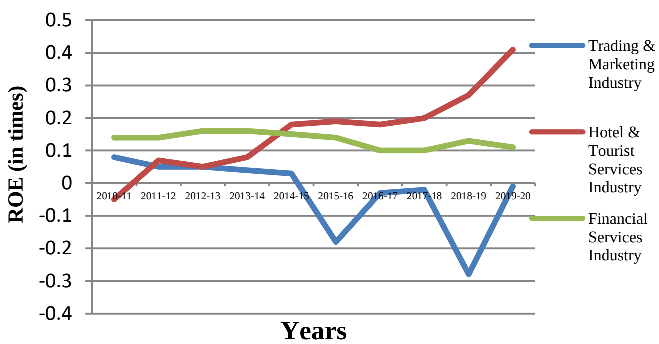
Table 2: Equity Returns of Selected Service Industries in Indian CPSEs

Year	Equity Returns (ROE)		
	Trading & Marketing Industry	Hotel & Tourist Services Industry	Financial Services Industry
2010-11	0.08	-0.05	0.14

2011-12	0.05	0.07	0.14
2012-13	0.05	0.05	0.16
2013-14	0.04	0.08	0.16
2014-15	0.03	0.18	0.15
2015-16	-0.18	0.19	0.14
2016-17	-0.03	0.18	0.10
2017-18	-0.02	0.20	0.10
2018-19	-0.28	0.27	0.13
2019-20	-0.01	0.41	0.11
Average	**-0.03**	**0.16**	**0.13**

Author's Computation

Figure 2: Equity ReturnTrends of Selected Service Industries in Indian CPSEs



Trading & Marketing Industry: From table 2 and Figure 2, it is observed that equity returns of trading & marketing industry shows positive equity takings in the first five years and negative equity returns in the next five years. The ratio moves from -0.28 to 0.08 with a mean of -0.03. The first five years shows a decreasing trend, while the next five years shows no specific trends in ROE.

Hotel & Tourist Services Industry: As observed from Table 2, all the years during 2010-11 to 2019-20 produces positive equity takings except the year 2010-11. No specific trend is observed in the first half, while there has been more or less an increasing trend in the next five years under cram. The ROE of hotel & tourist services industry moves between -0.05 and 0.41 with a mean of 0.16.

Financial Services Industry: Table 2 further shows positive equity returns of financial services industry during all the years under cram. However, no specific trend is observed in equity takings during 2010-11 to 2019-20. The ROE of financial services industry ranges from 0.10 to 0.16 with a mean of 0.13.

6. CONCLUSION AND COMMENDATION

Overall, the selected manufacturing and service sector industries generates optimistic as well as pessimistic equity returns. However, no specific trends in equity takings are observed during the selected study phase. On the average, hotel & tourist services industry disclose highest equity returns followed by fertilizers industry, financial services industry, crude oil industry, trading & marketing industry and textiles industry. Affirmative equity returns in majority of the selected industries have played an important role in the augmentation of the economy.

Theoretically, the cram enlarges the accessible literature on equity takings in Indian CPSEs. For further research, the findings of the current study may act as an indicator to the prospective researchers. Practically, the study recommends that the Govt. may espouse indispensable strategies for the loss making industries in particular and other industries in general so as to earn satisfactory equity takings in Indian CPSEs.

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