

Finances of Non-Government Non-Financial Private Limited Companies, 2015-16*

The select 2,92,308 non-government non-financial (NGNF) private limited companies witnessed deceleration in sales as well as output growth in 2015-16 as compared with the previous year. Lower raw material costs helped in containing operating expenses and resulted in a higher profit margin. In turn, debt serviceability of the companies improved. More than half of the funds generated by the companies were utilised in fixed assets formation, indicating improvement in business expectations.

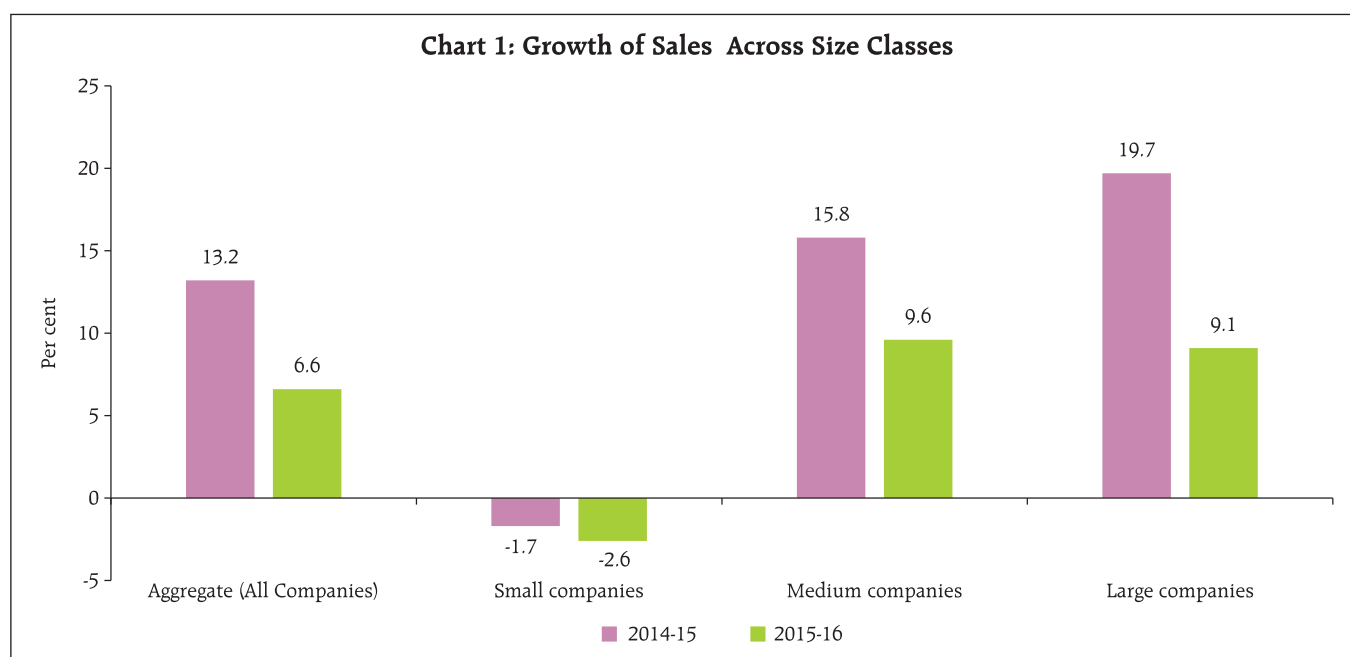
This article presents the financial performance of select 2,92,308 NGNF private limited companies, based on their audited annual accounts for the period from 2013-14 to 2015-16. The data are available on the Reserve Bank's website at https://dbie.rbi.org.in/DBIE/dbie.rbi?site=statistics#12_45. These companies covered 32.9 per cent of the paid-up capital (PUC) of all NGNF private limited companies registered with

the Ministry of Corporate Affairs (MCA) as on March 31, 2016. The distribution of NGNF private limited companies is skewed, with 95 per cent classified as small¹ (with net sales below ₹250 million) and their share in aggregate sales being only 20 per cent.

1. Income and Expenditure

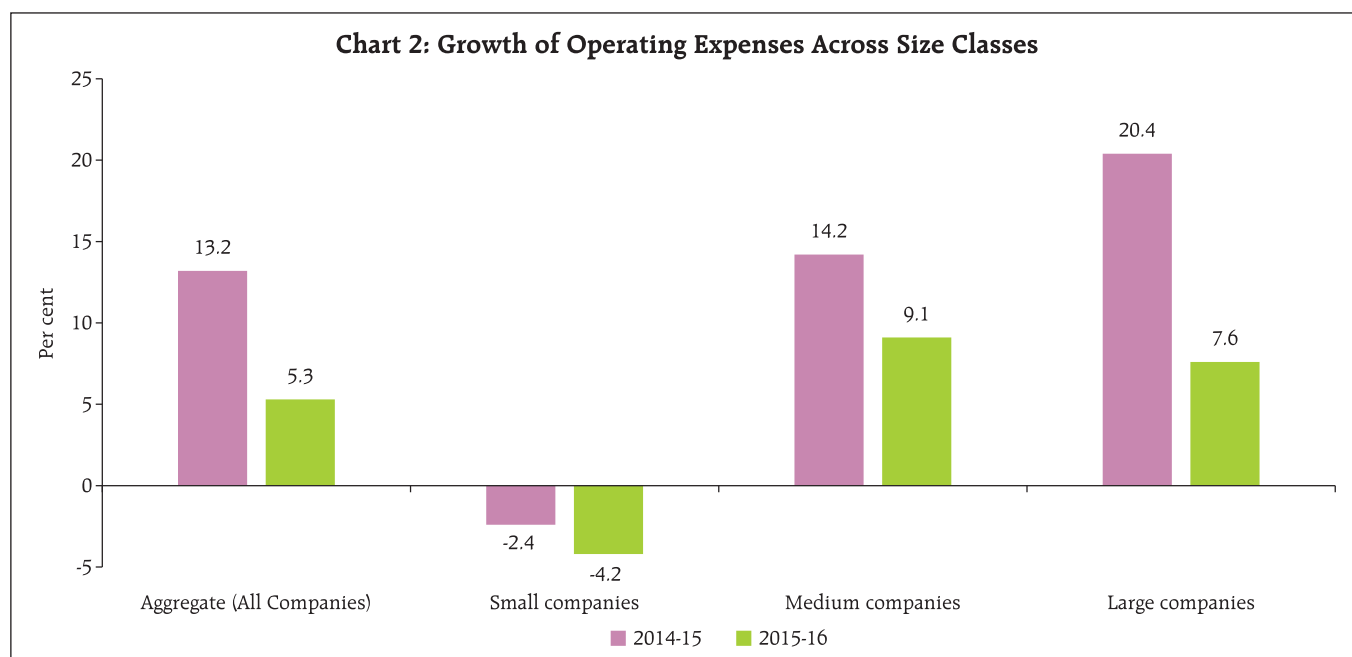
1.1. Sales growth of the private limited companies halved in 2015-16 as compared with the previous year. Although softening of prices of raw materials restrained the increase in operating expenses, the growth of operating profits decelerated. In this context, the deceleration in the growth of gross value added (GVA), was noteworthy (Statement 1, Chart 1, Chart 2 and Chart 3).

1.2. Large companies (with net sales ₹1 billion and above) benefitted the most from the decline in raw material prices and as a result, their operating profits picked up in 2015-16 despite significant sales deceleration. While sales of small companies contracted, the sharper contraction in operating expenses resulted in reasonable growth of profits. Medium sized companies (net sales between ₹250



* Prepared in the Company Finances Division of the Department of Statistics and Information Management, Reserve Bank of India. In the previous article published in the June 2016 issue of the RBI Bulletin the PUC coverage was 23.3 per cent.

¹ Companies have been classified into large, medium and small classes as per their net sales in the year 2015-16.

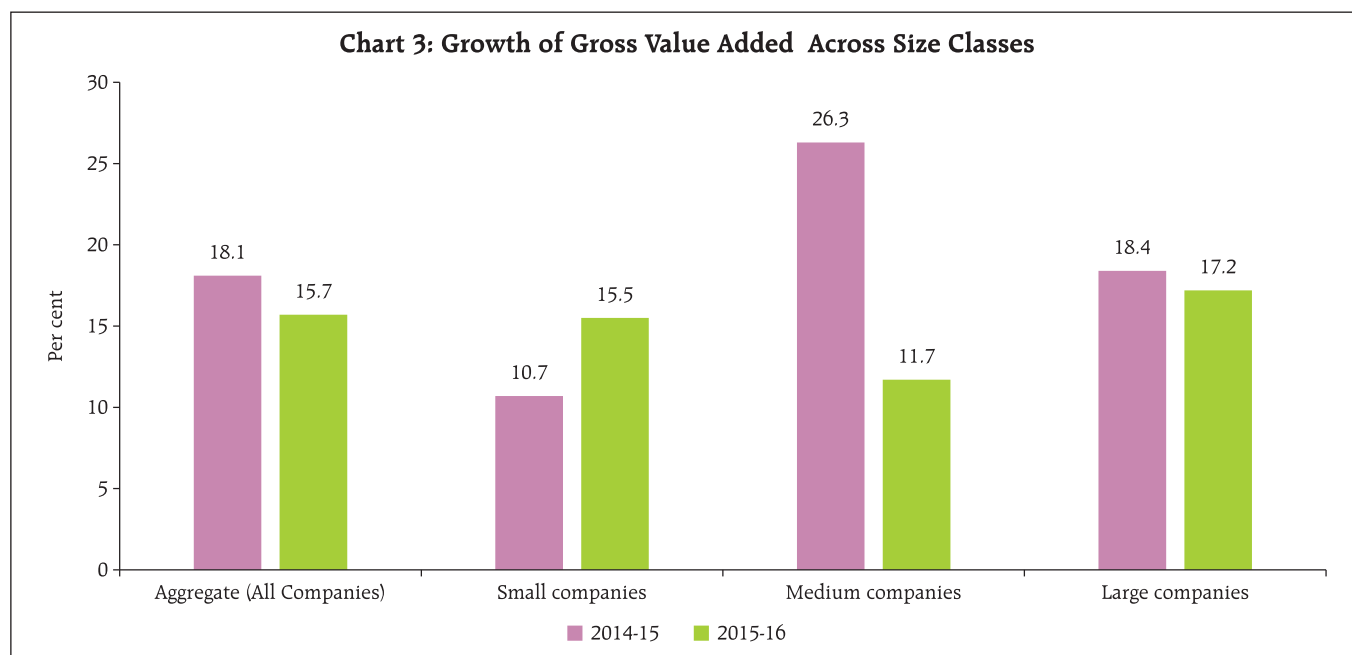


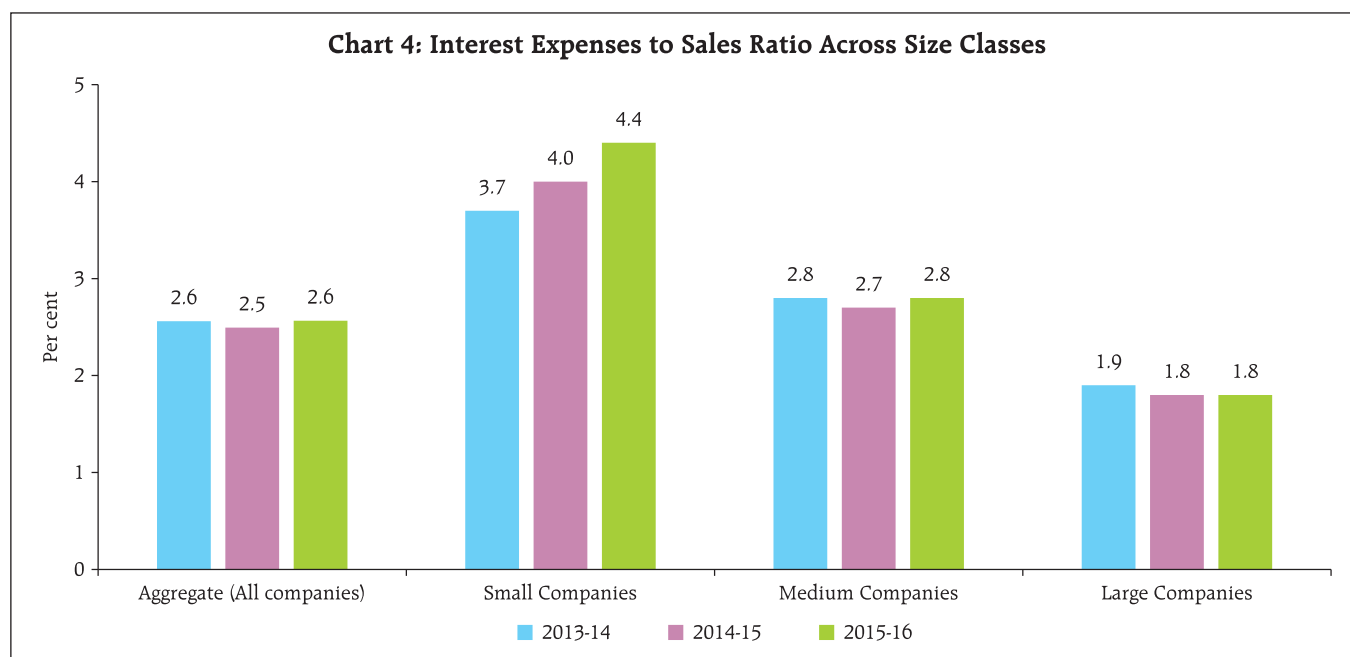
million to ₹1 billion) – many of them belongs to the service sector-did not benefit as much from the decline in raw material costs (Statement 1).

1.3. The poor performance of companies in textiles; chemicals and chemical products; and iron and steel industries pulled down the sales growth of the manufacturing sector as a whole. The growth of sales as well as operating profits of the services

sector companies plummeted due to weak demand conditions. Operating profits of the companies in the mining and quarrying sector contracted on the back of deceleration in sales, coupled with increased operating expenditure (Statement 1).

1.4. Lower operating expenses growth improved the profitability of the companies in the aggregate. For both small and large sized companies, operating





profit margin and return on equity were higher in 2015-16 than in the previous year (Statement 1 and Statement 2).

1.5. Across sales size classes, interest expenses of small companies (as a proportion to sales) continued to increase, mainly due to high growth in total borrowings (Chart 4 and Statement 1).

2. Leverage and Vulnerability

2.1. Rising indebtedness of the companies remained a concern as their debt (long term borrowings) to equity ratio increased successively during the period from 2013-14 to 2015-16. However, on the positive side, companies' debt servicing capacity (in terms of interest coverage ratio, *i.e.*, ICR, defined as EBIT² to interest expenses) improved due to increased profitability (Statement 2).

2.2. Heightened risk aversion among banks and their reluctance to reduce lending rates resulted in sluggish growth in bank borrowings by the companies. The share of banks in total borrowings declined in 2015-16 over the previous year and across all size classes (Chart 5).

2.3. Highly leveraged companies (with debt to equity ratio of more than 200 per cent or with negative net worth) held more than 50 per cent of total bank borrowings and had poor debt serviceability. The profitability of these companies was lower than other companies and half of them made losses in 2015-16.

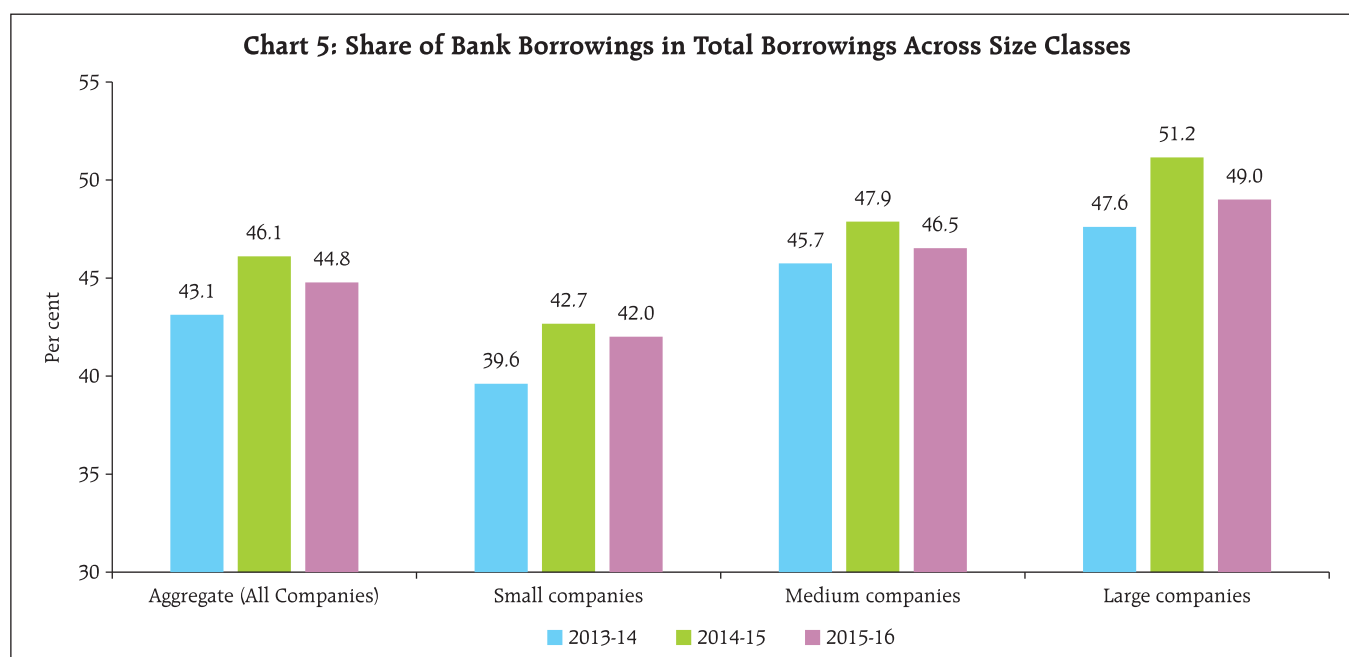
2.4. Vulnerable companies *i.e.*, companies with debt to equity ratio more than 200 per cent and ICR less than 1 (including companies with negative net worth) held a larger share of bank borrowings in 2015-16 than in 2014-15 (Table 1).

Table 1: Share of Bank Borrowings Held by Vulnerable Companies

Year	Number of Vulnerable Companies*	Share of Debt of Vulnerable Companies in 2,92,308 Companies' Total Debt (Per cent)	Share of Bank Borrowings of Vulnerable Companies in 2,92,308 Companies' Bank Borrowings (Per cent)
2013-14	30050	43.1	30.4
2014-15	28274	41.2	28.5
2015-16	29733	40.6	29.0

* Includes companies with negative net worth

² Earnings before interest and tax.



2.5. At the industry level, the construction sector and real estate industry in the services sector had high and increasing debt to equity ratio. Debt servicing capacity of the companies in the iron and steel industry weakened further in 2015-16 (Statement 2).

3. Sources and Uses of Funds

3.1. Of the funds raised by the companies, the share of total borrowings remained the same. The share of bank borrowings, however, declined sharply from 18.3 per cent in 2014-15 to 7.5 per cent in 2015-16. On the other hand, accounts payable registered a decline in share, implying slowdown in new purchases by the companies during the year (Statement 4).

3.2. More than half of the funds generated during 2015-16 were utilised for fixed assets formation by the companies. Correspondingly, depreciation provisions

also increased. On the other hand, inventories were drawn down and companies kept less cash with themselves (Statement 4).

4. Conclusion

The select NGNF private limited companies covered in this article experienced deceleration in sales as well as in nominal GVA, pointing to the overall sluggishness in the manufacturing and services sector of the economy. Saving on raw material costs shored up their profitability especially in the manufacturing sector. Increasing leverage in the companies emerged as a major concern, particularly with the more leveraged among them suffering erosion in debt service capacity. Higher fixed capital formation in uses of funds could be reflecting some optimism on the business outlook.

Statement 1: Growth Rates of Select Parameters of 292,308 NGNF Private Limited Companies (Contd.)								
(Per cent)								
	Growth Rates							
	Sales		Operating expenses		Operating profit		Net profit	
	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16
Aggregate (All Companies)	13.2	6.6	13.2	5.3	21.9	12.9	19.0	13.9
Sales-wise								
Less than ₹ 250 million	-1.7	-2.6	-2.4	-4.2	16.9	9.7	11.4	16.4
₹ 250 million – ₹1 billion	15.8	9.6	14.2	9.1	33.4	7.1	36.5	4.3
₹ 1 billion and above	19.7	9.1	20.4	7.6	18.2	19.4	13.5	21.0
Industry-wise								
Mining and quarrying	7.9	5.2	6.7	7.4	7.8	-13.9	1.1	-38.3
Manufacturing	10.6	5.0	10.8	3.5	9.4	21.1	2.4	28.7
Food products and beverages	10.2	10.1	10.0	9.6	14.6	17.0	4.6	25.0
Textiles	7.1	2.7	6.0	2.9	15.0	-0.8	14.8	-2.5
Chemicals and chemical products	10.4	5.2	8.9	4.4	22.7	17.1	25.2	25.4
Iron and steel	10.4	0.7	10.0	-0.4	42.5	-3.5	#	#
Machinery and equipments ¹	12.0	12.8	10.8	12.3	22.2	8.9	45.0	-3.5
Electrical machinery and apparatus	11.1	18.3	8.7	19.8	25.1	11.6	62.8	21.6
Motor vehicles and other transport equipment's	7.2	10.3	5.5	11.3	42.4	3.4	#	-23.7
Construction	8.8	8.9	8.3	5.0	58.1	10.2	118.5	17.1
Services	16.7	8.2	16.7	7.5	27.2	9.4	23.4	8.5
Wholesale and retail trade	24.2	4.7	26.5	4.1	25.3	-3.4	13.0	-2.3
Transport, storage and communication	14.0	5.2	14.3	5.4	10.2	7.2	13.6	-2.1
Real Estate	17.7	4.8	12.0	2.2	#	-2.9	#	-9.5
Computer and related activities	17.0	15.2	15.3	16.1	24.6	11.0	23.5	15.1

Denominator negative nil or negligible

Statement 1: Growth Rates of Select Parameters of 292,308 NGNF Private Limited Companies (Concl'd.)						
(Per cent)						
	Growth Rates					
	Net worth		Total borrowings		Total net asset	
	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16
Aggregate (All Companies)	10.5	7.8	10.1	9.9	12.3	8.4
Sales-wise						
Less than ₹ 250 million	5.6	4.0	11.6	13.3	8.2	7.7
₹ 250 million – ₹1 billion	13.2	9.0	11.5	7.2	13.4	9.0
₹ 1 billion and above	18.0	13.3	6.7	5.6	18.0	9.0
Industry-wise						
Mining and quarrying	23.2	9.3	1.2	24.3	8.1	13.2
Manufacturing	11.8	10.5	6.4	3.3	9.8	8.1
Food products and beverages	12.0	8.8	9.3	10.1	11.3	12.8
Textiles	12.0	9.1	6.0	6.8	8.7	7.8
Chemicals and chemical products	16.9	11.2	8.0	4.6	12.2	10.2
Iron and steel	-1.9	-3.5	9.5	3.2	9.6	1.2
Machinery and equipments ¹	12.8	11.7	13.0	5.5	9.6	9.2
Electrical machinery and apparatus	12.8	15.4	0.1	-0.7	7.9	12.8
Motor vehicles and other transport equipment's	14.2	13.8	2.2	-1.3	8.2	7.1
Construction	5.2	4.9	13.1	10.5	12.8	7.2
Services	10.6	7.0	10.8	13.3	13.7	8.5
Wholesale and retail trade	8.9	2.1	7.5	14.1	14.6	4.2
Transport, storage and communication	13.5	9.1	4.9	15.1	8.4	10.7
Real Estate	6.1	3.8	15.3	16.1	14.6	9.8
Computer and related activities	18.9	17.3	36.3	10.0	20.5	13.7

Statement 2: Ratios of Select Parameters of 292,308 NGNF Private Limited Companies (Contd.)									
(Per cent)									
	Ratios								
	Operating profit to Sales			PAT to net worth			Total borrowings to equity		
	2013-14	2014-15	2015-16	2013-14	2014-15	2015-16	2013-14	2014-15	2015-16
Aggregate (All Companies)	8.8	9.5	10.1	11.9	12.8	13.6	86.3	86.0	87.6
Sales-wise									
Less than ₹ 250 million	10.7	12.7	14.3	9.0	9.5	10.7	81.4	86.0	93.7
₹ 250 million – ₹1 billion	10.4	12.0	11.7	24.3	29.3	28.0	112.6	110.9	109.1
₹ 1 billion and above	7.2	7.1	7.8	11.6	11.2	11.9	83.4	75.4	70.3
Industry-wise									
Mining and quarrying	9.7	9.7	8.0	12.0	9.8	5.5	114.1	93.7	106.7
Manufacturing	6.9	6.8	7.9	13.4	12.3	14.3	95.6	91.0	85.1
Food products and beverages	5.1	5.3	5.6	10.2	9.6	11.0	100.3	97.8	99.0
Textiles	7.1	7.6	7.4	18.3	18.8	16.8	145.4	137.6	134.7
Chemicals and chemical products	8.8	9.7	10.8	13.5	14.4	16.3	69.6	64.3	60.5
Iron and steel	2.8	3.6	3.4	-0.1	-1.2	-6.1	135.2	150.9	161.2
Machinery and equipments ¹	11.6	12.6	12.2	18.5	23.8	20.5	55.7	55.8	52.7
Electrical machinery and apparatus	7.8	8.8	8.3	13.4	19.4	20.4	91.2	80.9	69.6
Motor vehicles and other transport equipment's	3.7	4.9	4.6	3.7	10.4	7.0	125.8	112.6	97.6
Construction	11.4	16.6	16.8	3.1	6.5	7.3	179.0	192.4	200.7
Services	10.4	11.3	11.5	13.1	14.6	14.8	64.7	64.8	68.6
Wholesale and retail trade	2.3	2.3	2.1	2.5	2.6	2.5	45.8	45.3	50.6
Transport storage and communication	12.1	11.7	11.9	22.8	22.9	20.5	119.9	110.9	117.0
Real Estate	4.1	16.1	14.9	-1.3	4.0	3.5	135.8	147.6	165.0
Computer and related activities	18.7	19.9	19.2	37.1	38.5	37.8	29.3	33.6	31.5

Statement 2: Ratios of Select Parameters of 292,308 NGNF Private Limited Companies (Concl.d.)						
(Per cent)						
	Ratios					
	Debt to equity			Interest coverage ratio*		
	2013-14	2014-15	2015-16	2013-14	2014-15	2015-16
Aggregate (All Companies)	51.2	52.2	53.8	3.4	3.5	3.7
Sales-wise						
Less than ₹ 250 million	52.7	57.0	63.0	3.5	3.7	3.9
₹ 250 million – ₹1 billion	68.5	67.5	66.1	3.6	4.0	3.9
₹ 1 billion and above	41.0	38.1	35.4	3.0	3.1	3.4
Industry-wise						
Mining and quarrying	65.9	58.1	64.2	2.8	2.7	2.0
Manufacturing	47.9	46.9	44.7	2.8	2.7	3.2
Food products and beverages	45.6	43.6	44.2	2.6	2.5	2.8
Textiles	76.6	74.5	73.1	2.5	2.5	2.4
Chemicals and chemical products	35.6	36.3	36.5	3.5	4.1	5.0
Iron and steel	70.4	80.1	82.4	1.0	0.9	0.7
Machinery and equipments ¹	26.9	25.4	24.2	5.2	6.4	6.3
Electrical machinery and apparatus	43.7	41.1	35.6	2.8	3.7	4.1
Motor vehicles and other transport equipment's	58.2	57.0	53.6	1.4	1.8	1.8
Construction	123.4	130.1	137.2	1.6	1.9	1.9
Services	39.1	39.8	42.5	4.8	5.2	5.1
Wholesale and retail trade	23.4	24.0	27.9	2.0	1.9	1.9
Transport storage and communication	71.4	66.8	72.1	3.7	3.9	3.6
Real Estate	87.3	94.5	101.1	1.0	1.9	1.6
Computer and related activities	19.7	20.3	19.2	21.8	24.7	24.9

* Actual ratio

Statement 3: Composition of Liabilities and Assets of 292,308 NGNF Private Limited Companies							
(Per cent)							
A. Composition of liabilities				B. Composition of assets			
Year	2013-14	2014-15	2015-16	Year	2013-14	2014-15	2015-16
1. Shareholders' Funds	39.2	37.5	37.0	1. Gross Fixed Assets	34.7	32.2	36.1
(i) Share Capital	9.2	9.3	9.4	(a) Tangible assets	27.1	24.8	28.2
(ii) Reserves and Surplus	29.9	28.1	27.6	(b) Capital work in progress	3.4	2.8	3.2
(a) Capital reserve	17.7	17.6	17.0	(c) Intangible asset	3.9	4.4	4.5
2. Long-term borrowings (debt)	17.3	17.9	18.4	2. Depreciation (i) Tangible	8.2	5.3	9.3
(a) Bonds/ Debentures	1.8	1.7	2.0	(ii) Intangible	0.6	0.7	0.8
(b) Term loans from banks	8.8	8.8	8.9	3. Net fixed assets	25.9	26.3	25.9
3. Short-term borrowings	10.9	11.6	11.4	4. Non-current investments	12.1	11.2	11.2
<i>of which, from banks</i>	4.7	3.3	3.6	5. Current investments	2.8	2.8	2.8
4. Trade payable	10.8	10.5	10.9	6. Loans and advances	16.0	15.4	15.6
5. Provision	2.7	2.7	2.7	7. Inventories	17.9	18.2	18.2
6. Other Liability	19.2	19.8	19.6	8. Trade receivables	14.9	15.3	15.2
(i) Non-current	2.4	3.0	2.8	9. Cash and cash equivalents	5.4	6.8	6.9
(ii) Current	9.8	8.9	9.5	10. Other assets	5.0	4.0	4.1
TOTAL	100.0	100.0	100.0	(i) Non-current	1.2	1.4	1.3
				(ii) Current	3.8	2.6	2.8
				TOTAL	100.0	100.0	100.0

Statement 4: Sources and Uses of Funds of 292,308 NGNF Private Limited Companies					
(Per cent)					
Sources of Funds			Uses of Funds		
Period	2014-15	2015-16	Period	2014-15	2015-16
By Increase in Equity and Liability			By Increase in Assets		
1. Paid-Up Capital	11.2	7.0	1. Gross Fixed Assets	15.3	50.9
2. Reserves and Surplus	4.3	4.5	(i) Tangible Assets	7.6	42.7
3. Provisions	1.9	39.4	<i>of which</i> , Plant and machinery	-	20.4
(a) Depreciation provision	-	37.5	(ii) Capital Work-in-progress	-	4.7
(b) Other provisions	1.9	1.9	(iii) Intangible assets	7.7	3.6
4. Share Capital and Premium	13.8	10.3	2. Non-current investments	3.9	6.7
5. Long Term Borrowings	18.0	16.1	3. Current investments	2.5	1.5
<i>of which</i> , (a) Bonds, Debentures	5.6	3.9	4. Loans and advances	9.6	11.1
(b) From Banks	7.7	5.1	5. Inventories	18.7	11.6
6. Short-term borrowings	6.2	7.7	6. Trade Receivables	16.6	9.3
<i>of which</i> , From Banks	10.6	2.4	7. Cash and cash equivalents	16.2	5.5
7. Trade Payables	16.8	5.0	8. Other assets	2.0	3.4
8. Other Liabilities	17.9	9.9	(i) Non-current	2.0	-
(i) Non-Current	5.2	0.9	(ii) Current	-	3.4
(ii) Current	12.7	9.0	TOTAL	84.7	100.0
TOTAL	90.2	99.8	By Decrease in Equity and Liability		
By Decrease in Assets			9. Depreciation provision	15.3	-
9. Plant and machinery	2.4	-	TOTAL	15.3	-
10. Capital Work-in-progress	1.9	-	GRAND TOTAL	100.0	100.0
11. Other assets	5.5	0.2			
(i) Non-current	-	0.2			
(ii) Current	5.5	-			
TOTAL	9.8	0.2			
GRAND TOTAL	100.0	100.0			

': Nil or Negligible.