Finances of Large Public Limited Companies, 1998-99 (Part 1 of 5)

The financial performance of 820 non-Government non-financial large public limited companies (each with a paid-up capital of Rs.1 crore and above) during 1998-99 is assessed in this article based on their audited annual accounts closed during April 1998 to March 1999[#]. The companies selected for this study accounted for 17.0 per cent of all non-Government non-financial public limited companies in terms of their paid-up capital as at the end of March 1999.[@]

OVERVIEW

The consolidated results of the financial performance of 820 selected large public limited companies reveal a general deceleration in the performance in the year 1998-99. The growth in sales and value of production fell substantially over the year, while gross profits, the pre-tax and post-tax profits recorded negative growths.

The sales of the selected companies rose by 5.7 per cent to Rs.1,54,940 crore in 1998-99 as against a rise of 7.0 per cent observed in the preceding year. Value of production also recorded a growth of 4.7 per cent in the year under review (8.9 per cent in 1997-98). Expenses incurred towards manufacturing increased by 4.5 per cent in 1998-99, as against a rise of 8.1 per cent in 1997-98. Gross profits further decreased by 5.9 per cent in 1998-99, after a fall of 3.9 per cent in the preceding year. Outgo by way of interest payments rose by 6.6 per cent while tax provisions improved marginally growing by 0.8 per cent in 1998-99. Pre-tax and post tax profits dropped by 14.7 and 19.8 per cent respectively. Retained profits plummeted by 31.1 per cent in 1998-99 over and above a fall of 23.1 per cent witnessed in the preceding year. The gross savings of the selected companies (sum of retained profits and depreciation) dipped by 3.6 per cent in 1998-99.

The profitability ratios reflected the downtrend in the corporate sector as outlined above. Profit margin on sales went down by 1.4 percentage points from 12.2 per cent in 1997-98 to 10.8 per cent in 1998-99, the return on equity (post-tax profits as percentage of net worth) declined from 7.8 per cent in 1997-98 to 5.9 per cent in 1998-99. The effective tax rate (ratio of tax provision to pre-tax profits) rose by 4.5 percentage points to 29.3 per cent in the year under review. The ordinary dividend rate was lower at 17.0 per cent in 1998-99 as compared to 18.6 per cent in the preceding year.

The value of the total net assets (adjusted for revaluation) of the selected companies appreciated by 9.5 per cent in 1998-99 as compared with 12.3 per cent in 1997-98. The growth of inventories was at a much lower rate of 0.7 per cent in 1998-99 as compared with a growth of 6.0 per cent in the preceding year.

External funds continued to play a significant role in financing the asset formation, accounting for 65.0 per cent of the total asset formed in 1998-99 (65.6 per cent in 1997-98). Share of borrowings in total funds decreased from 45.8 per cent in 1997-98 to 38.8 per cent in 1998-99. Gross capital formation as percentage of total usage of funds decreased to 58.0 per cent during 1998-99 (80.0 per cent in the preceding year).

The debt-equity ratio increased from 62.5 per cent in 1997-98 to 69.6 per cent in 1998-99. The liquidity ratio (ratio of current assets to current liabilities) increased to 1.3 in 1998-99 (1.2 in 1997-98). Resources raised from capital markets was of a higher order at 8.2 per cent of the total asset formation during the year under review, as compared to

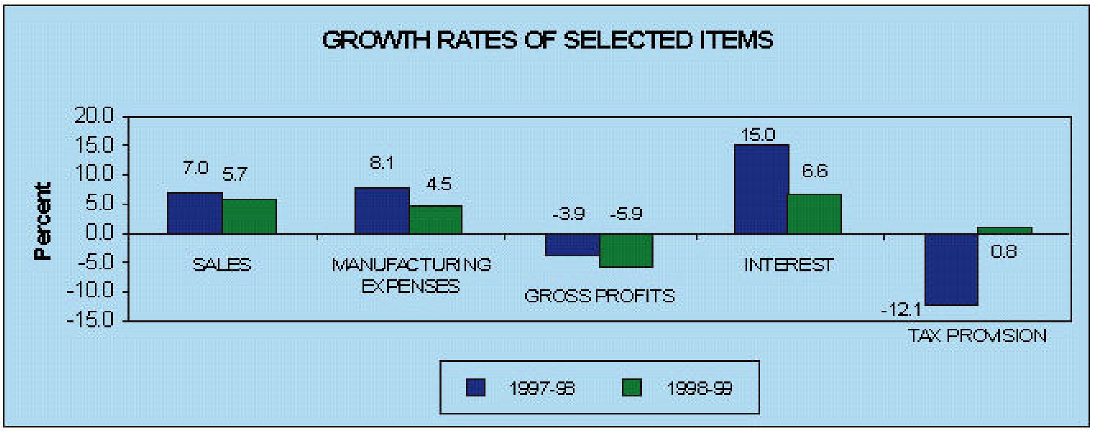
7.4 per cent in 1997-98.

The total foreign exchange earnings of the selected companies showed an increase of 4.4 per cent in 1998-99 over and above the growth of 20.0 per cent observed in the preceding year. Total foreign exchange expenditure recorded a lower growth of 5.5 per cent in 1998-99 as against a growth of 11.0 per cent in 1997-98. The share of exports in sales worked out to 8.8 per cent in 1998-99.

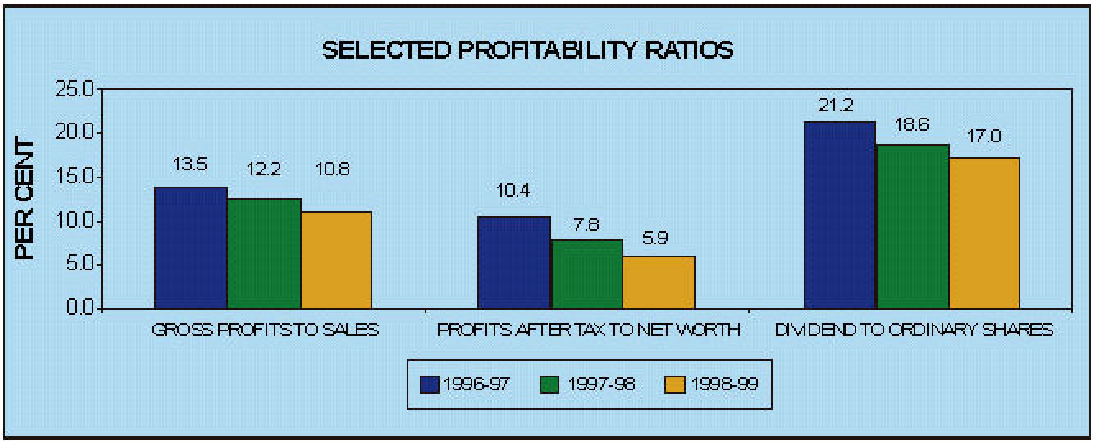
INCOME AND EXPENDITURE

The total sales of the 820 selected companies amounting to Rs.1,54,940 crore registered a growth of 5.7 per cent in 1998-99. The value of production also increased by 4.7 per cent to Rs.1,55,040 crore. 'Other income' of the selected companies grew by 3.7 per cent over the year and stood at Rs. 5,442 crore. In comparison, the performance was better in 1997-98, the corresponding growth rates being 7.0 per cent, 8.9 per cent and 7.2 per cent respectively.

On the expenditure side, manufacturing expenses increased by 4.5 per cent during the year under review, lower than the growth of 8.1 per cent in the previous year. Employees' remuneration at Rs.13,910 crore increased by 12.0 per cent in 1998-99 as against 13.1 per cent in the previous year. Provision for depreciation rose by 12.5 per cent in 1998-99 as compared with a much larger rise of 29.8 per cent in 1997-98. Similarly, interest costs went up by 6.6 per cent to Rs. 10,124 crore in 1998-99 as compared to an increase of 15.0 per cent in the previous year. Profit growth was negative. Pre-tax profits fell by 14.7 per cent, while post-tax profits of the selected companies plunged by 19.8 per cent over and above a drop of 15.7 per cent and 16.9 per cent respectively in the previous year. Tax provision improved by 0.8 per cent in 1998-99 in contrast to a decrease of 12.1 per cent in 1997-98. The effective tax rate worked out to 29.3 per cent in 1998-99.



The slack in the growth of gross profits was also reflected in the profit margin which shrunk from 12.2 per cent in 1997-98 to 10.8 per cent in 1998-99. There was a substantial reduction in the size of the profits ploughed back into business which fell by 31.1 per cent. Dividend payments at Rs.2,624 crore, dipped by 1.4 per cent in 1998-99 after recording a drop of 4.4 per cent in 1997-98. The ordinary dividend rate worked out to 17.0 per cent in 1998-99 compared with 18.6 per cent in the preceding year. Profit retention ratio was at 53.1 per cent in 1998-99 (61.9 per cent in 1997-98).



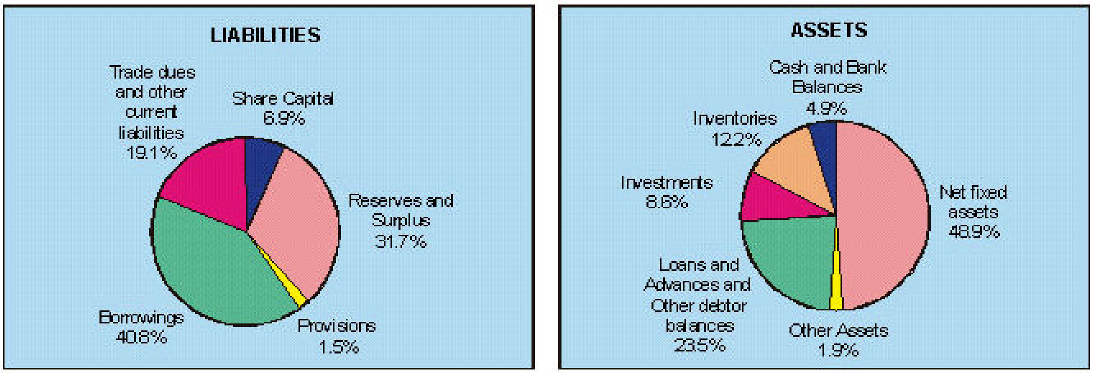
EARNINGS AND EXPENDITURE IN FOREIGN CURRENCIES

The increase in total earnings in foreign currencies of the selected companies was lower at 4.4 per cent in 1998-99, as against 20.0 per cent in 1997-98 (Table 6). The growth rate in merchandise exports was 4.1 per cent (Rs. 13,610 crore) in 1998-99 as compared to 12.8 per cent in 1997-98. Merchandise imports increased by 1.7 per cent in 1998-99 compared to an increase of 11.0 per cent in 1997-98. The imports of raw materials dropped by 6.2 per cent in 1998-99 after having an increase of 12.4 per cent in previous year and the import of capital goods increased by 1.9 per cent in 1998-99 after a decrease of 11.3 per cent in the previous year. The imports in these two categories accounted for 59.6 per cent and 20.0 per cent respectively of the total merchandise imports in 1998-99. The increase in total expenditure in foreign currencies in 1998-99 was at 5.5 per cent as against 11.0 per cent in 1997-98. The net outflow in foreign currencies was Rs. 7,987 crore in 1998-99 compared to an outflow of Rs.7,383 crore in the preceding year.

PATTERN OF ASSETS AND LIABILITIES

Total net assets of the selected companies increased by 9.6 per cent to Rs. 2,44,865 crore in 1998-99 from Rs.2,23,323 crore (13.7 per cent) in 1997-98 (Table 4). After adjustment for revaluation, the growth in total net assets worked out to 12.3 per cent and 9.5 per cent respectively for 1997-98 and 1998-99 (Table 1). Gross fixed assets and inventories (adjusted for revaluation) grew by 10.8 per cent and 0.7 per cent respectively in 1998-99.

PATTERN OF LIABILITES AND ASSETS



The composition of assets and liabilities as at the end of March 1999, remained broadly the same as in the previous year. The share of net fixed assets in total assets decreased marginally from 49.4 per cent in 1997-98 to 48.9 per cent and that of inventories declined from 13.3 per cent in 1997-98 to 12.2 per cent. The share of investments moved up fractionally from 8.3 per cent in 1997-98 to 8.6 per cent in 1998-99. The share of quoted investments in total investments increased from 25.9 per cent in 1997-98 to 30.6 per cent in the year under review.

Among the liabilities, reserves and surplus accounted for 31.7 per cent of total liabilities in 1998-99 (33.3 per cent in the previous year) while the proportion of borrowings went up by 1.0 percentage points to 40.8 per cent in 1998-99. Borrowings together with reserves and surplus accounted for about 72.5 per cent of the total liabilities in 1998-99. There was an increase in debt-equity ratio from 62.5 per cent in 1997-98 to 69.6 per cent in 1998-99. The current ratio (ratio of current assets to current liabilities) increased from 1.2 in 1997-98 to 1.3 in the year 1998-99.

SOURCES AND USES OF FUNDS

The total funds raised by selected companies was of the order of Rs.28,591 crore in 1998-99 as against Rs.30,873 crore in the previous year. The role of external funds in financing the asset formation continued to be substantial and accounted for 65.0 per cent of the total funds (Table 5).

Borrowings accounted for a smaller share in the external funds, decreasing from 69.7 per cent in 1997-98 to 59.6 per cent in 1998-99. The share of debentures in total borrowings decreased from 26.0 per cent in 1997-98 to 18.0 per cent in 1998-99. The share of bank borrowing in total borrowings increased from 22.7 per cent in 1997-98 to 28.8 per cent in 1998-99. Of the funds raised from the capital market during 1998-99 amounting to Rs.2,356 crore, as much as 67.3 per cent was by way of net issues and the balance was premium on shares. Depreciation provision which formed the major component of internal resources of finance increased to Rs. 7,323 crore in 1998-99 from Rs. 6,719 crore. Its share in internal funds increased to 73.1 per cent in 1998-99 from 63.3 per cent in 1997-98.

The total assets formation of the selected 820 companies was of the order of Rs. 28,591 crore in 1998-99 which was lower by Rs. 2,282 crore (7.4 per cent) compared to the level of Rs. 30,873 crore observed in 1997-98 (Table-5). Gross capital formation amounting to Rs. 16,574 crore accounted for 58.0 per cent of total assets formation in 1998-99. Inventory build-up was of the order of Rs. 205 crore as against Rs. 1,695 crore in 1997-98. Its share in total assets formation reduced to 0.7 per cent in 1998-99 from the earlier year's level of 5.5 per cent.

PERFORMANCE OF COMPANIES BY SIZE OF SALES

It is observed that companies with large sales base, generally recorded better rate of growth in sales during the year under study(Table 7). The growth in sales ascended from negative (–12.6 per cent) for the class of companies with sales of 'Less than Rs.25 crore' to 8.5 per cent for companies with sales of 'Rs. 1000 crore and above'. In the case of gross profits for companies with sales range of 'Rs 50 - Rs 100 crore', the growth rates were positive at 28.5 per cent and negative for all other size classes of companies. Retained profits showed a similar trend registering a positive growth for companies with sales range of 'Rs 50 - Rs 100 crore' while regsitering negative growth for all the other categories of companies.

It would appear that sales size has a bearing on profit margins. The profit margin on sales was the lowest at 3.1 per cent for the class of companies with sales of 'Less than Rs. 25 crore' and peaked at 11.9 per cent for companies with sales of 'Rs. 1000 crore and above' (Table 8). While for companies with sales of 'Rs. 1000 crore and above' exports formed 7.0 per cent of their sales in 1998-99, for companies in the lower size classes of sales, the share was in the range of 6 to 12 per cent. Inventory-sales ratio was 27.3 per cent in companies with sales of 'Less than Rs. 25 crore' group but was much lower at 16.4 per cent for the companies with sales of 'Rs. 500 crore – Rs. 1000 crore' in 1998-99. The debt-equity ratio of the companies with sales of 'Rs. 500 crore – Rs. 1000 crore' was the highest at 87.5 per cent and the lowest at 48.8 per cent for companies with sales of 'Rs. 50 crore – Rs. 100 crore'. Tax incidence was the highest at 35.3 per cent for the companies with sales of 'Rs. 500 – Rs. 1000 crore'.

INDUSTRY-WISE PERFORMANCE

Performance of the selected large public limited companies as reflected by their growth in sales, profits, exports and selected financial ratios in selected industries/ industry groups are given in the following statements (also refer to Tables 10 and 11).

I. Growth Rates of Selected Items (Per cent)

Selected Industry / Industry Group	No. of Companies	Sales		Gross Profits		Profits Before Tax		Profits After Tax		Exports	
		1997-98	1998-99	1997-98	1998-99	1997-98	1998-99	1997-98	1998-99	1997-98	1998-99
Tea	15	19.6	12.2	129.2	5.6	298.0	13.2	#	10.6	18.6	6.6
Sugar	16	13.3	11.2	66.0	-2.8	#	4.4	#	-9.3	58.2	-20.8
Cotton / blended Textiles	49	0.5	-0.4	-20.8	-38.3	-19.7	#	-23.6	#	-1.1	8.1
Silk and Rayon Textiles	26	39.4	8.4	-4.9	7.0	-51.6	-19.8	-62.1	-12.7	56.3	31.3
Engineering	**265**	**-2.1**	**-2.1**	**-20.6**	**-27.1**	**-39.2**	**-62.9**	**-39.4**	**-87.4**	**12.7**	**-1.3**
of which											
Motor Vehicles	33	-16.2	-4.6	-36.8	-24.4	-52.1	-25.2	-50.2	-29.3	5.9	-6.6
Electrical Machinery	71	4.6	2.5	-25.5	-8.3	-62.1	17.7	-71.5	20.5	12.0	1.2
Machinery other than transport & electrical	82	3.1	-4.4	-10.1	-19.3	-10.8	-42.0	-9.1	-63.0	8.3	6.3
Foundries and engineering workshop	39	7.3	-3.3	-3.1	-59.3	-42.9	#	-47.4	#	23.9	-4.1

Ferrous/Non-ferrous metal product	37	7.1	-0.5	-12.8	-24.0	-39.9	-89.1	-32.0	#	34.8	1.4
Chemical and chemical products	**139**	**9.1**	**11.3**	**6.7**	**-4.0**	**3.0**	**9.1**	**4.7**	**12.4**	**23.4**	**2.9**
of which											
Medicines and pharmaceutical preparations	36	9.6	9.0	8.5	8.1	3.4	15.5	7.0	17.5	28.5	-6.4
Basic industrial chemicals	63	9.3	11.4	7.2	-11.1	1.3	3.9	-0.4	6.4	20.5	12.7
Chemical fertilizers	16	14.7	14.5	14.3	-13.9	13.7	-1.2	15.7	-1.2	52.5	74.9
Cement	12	-1.1	2.9	-25.1	0.6	-76.6	-81.9	-85.4	#	-13.9	-15.3
Rubber and rubber products	16	3.6	2.6	23.5	11.1	-7.0	46.4	-4.8	37.4	5.0	-27.7
Paper and paper products	21	0.8	-2.2	-27.3	-52.7	-57.6	#	-61.8	#	-18.6	-1.0
Construction	20	14.1	16.5	27.2	10.3	-31.1	14.2	-29.8	16.7	#	#
Information Technology	17	27.5	40.8	35.1	70.1	27.3	93.8	25.2	98.6	-5.0	37.6
Trading	22	17.9	9.2	-15.1	-14.2	-36.1	18.8	-43.9	38.2	203.2	20.9
Shipping	5	-1.8	0.1	-13.8	-9.0	-5.9	-69.8	-7.2	-70.6	#	#
Diversified companies	12	4.5	12.6	-16.6	-2.0	-19.3	-34.6	-20.2	-42.1	-1.1	11.6
All Industries	**820**	**7.0**	**5.7**	**-3.9**	**-5.9**	**-15.7**	**-14.7**	**-16.9**	**-19.8**	**12.8**	**4.1**

Denominator nil or negligible

II. Selected Financial Ratios

(Per cent)

Selected Industry/Industry Group	**No. of companies**	**Profit margin**		**Effective tax rate**		**Debt to equity**	
		1997-98	**1998-99**	**1997-98**	**1998-99**	**1997-98**	**1998-99**
Tea	15	24.3	22.9	31.7	32.7	16.2	16.5
Sugar	16	15.7	13.7	11.2	22.8	78.5	71.3
Cotton/blended Textiles	49	10.0	6.2	19.6	-44.9	65.2	73.6
Silk and rayon Textiles	26	10.1	10.0	25.8	19.3	43.6	56.2
Engineering	**265**	**10.2**	**7.6**	**29.2**	**76.0**	**73.8**	**82.3**
of which							
Motor vehicles	33	9.9	7.8	24.2	28.4	42.1	47.2
Electrical machinery	71	7.3	6.6	50.4	49.2	48.7	59.1
Machinery other than transport & electrical	82	11.7	9.9	32.2	56.7	40.7	41.1
Foundries and engineering workshop	39	12.6	5.3	20.1	-2.0	154.7	177.1
Ferrous/Non-Ferrous metal products	37	9.8	7.5	26.4	#	75.2	82.0
Chemical and chemical products	**139**	**14.7**	**12.7**	**24.4**	**22.2**	**64.7**	**70.1**
of which							
Medicines and pharmaceutical preparations	36	13.9	13.8	27.0	25.7	30.2	32.2
Basic industrial chemicals	63	15.7	12.5	21.7	19.7	82.3	89.9
Chemical fertilizers	16	17.3	13.0	16.2	16.2	84.4	93.2
Cement	12	11.5	11.2	46.9	#	127.7	123.0
Rubber and rubber products	16	10.0	10.8	24.6	29.2	64.7	62.5
Paper and paper products	21	6.3	3.0	30.0	-8.9	73.6	95.0
Construction	20	11.2	10.6	28.3	26.8	99.3	130.1
Information Technology	17	17.7	21.3	10.7	8.6	26.5	24.7
Trading	22	5.0	3.9	36.8	26.4	62.1	64.9
Shipping	5	26.2	23.8	15.8	18.1	76.7	112.7
Diversified companies	12	8.6	7.5	19.0	28.3	64.6	75.5
All industries	**820**	**12.2**	**10.8**	**24.8**	**29.3**	**62.5**	**69.6**

Denominator nil or negligible

Industry-Wise Performance

It may be observed that the industries like Information Technology (40.8 per cent), Construction (16.5 per cent) and Chemical Fertilizers (14.6 per cent) recorded better growth in their sales during 1998-99. Turning to gross profits, significant improvement over the year was registered by Information Technology (70.1 per cent) and Rubber and rubber products (11.1 per cent) industries. On the other hand, gross profits of industries like Engineering (-27.1 per cent), Motor Vehicle (-24.4 per cent), Foundries (-59.3 per cent), Cotton/blended Textiles (-38.3 per cent) and Paper and Paper products(-52.7 per cent) declined sharply in 1998-99. Selected companies belonging to Information Technology posted substantial increase (98.6 per cent) in their post tax profits during

1998-99. The profit margin on sales was high for Shipping (23.8), Tea (22.9 per cent) and Information Technology (21.3) in 1998-99.

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* **Prepared in the Company Finances Division of the Department of Statistical Analysis and Computer Services.**

Reference may be made to the April, 1999 issue of the Reserve Bank of India Bulletin for the previous study.

@ Based on data as on 31st March, 1999 supplied by the Department of Company Affairs, Government of India.