

## **Performance of Financial and Investment Companies, 1997-98 (Part 1 of 5)**

The present study analyses the performance of non-government financial and investment companies (other than banking, insurance and chit fund companies) for the year 1997-98. Data on the audited annual accounts of 697 companies, which closed their accounts during the period April 1997 to March 1998 are processed<sup>@</sup>. These companies accounted for 23.3 per cent of the total paid-up capital of all non-government financial and investment companies as at the end of March 1998<sup>\$</sup>.

The segment of financial and investment companies in the private corporate sector includes two giant companies, viz., Industrial Credit and Investment Corporation of India (ICICI) and Housing Development Finance Corporation (HDFC). These two companies together claimed 17.4 per cent of the total paid-up capital, 58.0 per cent of main income and 61.0 per cent of total net assets of the selected 697 companies in 1997-98. Moreover, both these companies are mainly engaged in loan finance activities. The presence of these large-sized companies in the study would exert considerable influence on the various quantitative measures of performance of the remaining smaller companies. In view of such marked skewness in the size structure, the analysis that follows is confined to the remaining 695 companies. However, data on all the selected 697 companies (including ICICI and HDFC) are separately presented in Annexures 1 to 3.

In the case of companies which either extended or shortened their accounting year, Income, Expenditure and Appropriation account figures have been annualised. The balance sheet data have been retained as presented in the annual accounts of these companies with the result that the data reported in balance sheets in such cases refer to varying periods. The analysis of the financial performance over the year is subject to these limitations.

### **A. Composition of the Selected Companies**

The selected 695 financial and investment companies were classified into major groups, viz., (1) share trading and investment holding, (2) loan finance, (3) hire purchase finance, and (4) leasing companies. A company was placed in one of these major activity groups if more than half of its annual income was derived from that activity consistent with the income yielding assets. In case no single activity was predominant, the company was classified under 'Diversified' group. Companies not fitting into any of these categories were classified as 'Miscellaneous'. The distribution of total number of companies, their paid-up capital, main income and net assets across these activities is presented in Table 1.

### **B. Overall performance**

The main income of the selected 695 financial and investment companies registered an improvement, but their profits continued to decline in 1997-98. Consequently, their profit margin (operating profits as percentage of main income) and return on shareholders funds (profits after tax to net worth) had declined. The effective tax-rate (tax provision as percentage of pre-tax profits) was higher in 1997-98 as compared to the previous year.

External sources continued to be a major source of finance in the assets formation of the selected financial and investment companies in 1997-98. Borrowings was the major source of funds whereas disbursement of loans and advances, investments in shares and

debentures of Indian companies and fixed assets formation were the major uses of funds during the year.

**TABLE 1: DISTRIBUTION OF NUMBER OF COMPANIES, THEIR PAID-UP CAPITAL, MAIN INCOME AND NET ASSETS, 1996-97 AND 1997-98**

Sr. Activity No.	Number of companies	(Rs. crore)					
		Paid-up capital		Main income		Net assets	
		1996-97	1997-98	1996-97	1997-98	1996-97	1997-98
1. Share trading and investment holding	271 (39.0)	1,165 (33.0)	1,652 (39.3)	258 (5.4)	246 (4.7)	4,012 (12.5)	4,967 (13.7)
2. Loan finance	131 (18.8)	726 (20.6)	771 (18.4)	318 (6.6)	382 (7.3)	3,039 (9.5)	3,884 (10.7)
3. Hire purchase Finance	44 (6.3)	362 (10.3)	341 (8.1)	1339 (27.8)	1557 (29.7)	7,731 (24.1)	8,732 (24.1)
4. Leasing	62 (8.9)	270 (7.6)	286 (6.8)	614 (12.8)	635 (12.1)	2,526 (7.9)	2,728 (7.5)
5. Diversified	125 (18.0)	781 (22.1)	904 (21.5)	2111 (43.9)	2271 (43.3)	13,668 (42.6)	14,797 (40.8)
6. Miscellaneous	62 (8.9)	227 (6.4)	247 (5.9)	174 (3.6)	149 (2.8)	1,130 (3.5)	1,142 (3.2)
<b>All activities</b>	<b>695</b> <b>(100.0)</b>	<b>3,531</b> <b>(100.0)</b>	<b>4,201</b> <b>(100.0)</b>	<b>4,814</b> <b>(100.0)</b>	<b>5,240</b> <b>(100.0)</b>	<b>32,106</b> <b>(100.0)</b>	<b>36,250</b> <b>(100.0)</b>

Note : Figures in parantheses represent percentage to all activities.

The trends in performance were observed to be similar across the activity-groups. However, in respect of share trading and investment holding companies, the main income was lower in 1997-98 as compared to 1996-97.

### C. Operational Results

The main income of selected financial and investment companies increased by 8.9 per cent in 1997-98, while total expenditure rose by a higher rate of 14.0 per cent during the year. Interest payments (constituting 51.1 per cent of total expenditure) increased by 11.9 per cent and employees' remuneration rose by 15.3 per cent in 1997-98.

Consequently, operating profits, pre-tax profits and post-tax profits declined in 1997-98.

**TABLE 2: GROWTH RATES OF MAIN INCOME, OPERATING PROFITS AND PROFITS AFTER TAX OF THE SELECTED FINANCIAL AND INVESTMENT COMPANIES, 1996-97 AND 1997-98**

Activity	(Per cent)					
	Main income		Operating profits		Profits after tax	
	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98
1. Share trading and investment holding	-20.1	-4.5	-73.5	-8.5	-92.4	58.2
2. Loan finance	17.6	20.1	-16.4	-16.4	-41.8	-19.0
3. Hire purchase finance	26.5	16.4	0.4	-4.1	-5.5	-17.7
4. Leasing	17.5	3.4	-44.4	\$	-65.5	\$
5. Diversified	17.5	7.6	-18.9	-32.1	-35.4	-43.1
<b>All activities</b>	<b>17.3</b>	<b>8.9</b>	<b>-25.2</b>	<b>-30.3</b>	<b>-39.2</b>	<b>-41.8</b>

\$ Numerator negative.

**TABLE 3: PROFIT MARGIN, EFFECTIVE TAX RATE, RETURN ON NET WORTH AND DIVIDEND RATE OF THE SELECTED FINANCIAL AND INVESTMENT COMPANIES, 1996-97 AND 1997-98**

Activity	(Per cent)							
	Profit margin		Effective tax rate		Return on net worth		Dividend rate	
	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98
1. Share trading and investment holding	14.5	13.9	82.7	56.8	0.5	0.6	6.4	2.6
2. Loan finance	11.6	8.1	44.8	45.0	2.0	1.5	2.1	1.6
3. Hire purchase finance	18.1	14.9	23.1	28.6	15.4	11.6	18.1	18.6
4. Leasing	8.5	\$	26.8	#	4.7	\$	11.6	6.6
5. Diversified	17.3	10.9	23.5	37.7	6.2	3.6	16.9	11.1
<b>All activities</b>	<b>16.0</b>	<b>10.2</b>	<b>28.8</b>	<b>39.9</b>	<b>5.7</b>	<b>3.1</b>	<b>9.4</b>	<b>5.9</b>

\$ Numerator negative

# Denominator negative.

The profitability of the selected companies declined in 1997-98. The profit margin and return on equity of selected companies declined from 16.0 per cent and 5.7 per cent in 1996-97 to 10.2 per cent and 3.1 per cent respectively, in 1997-98. However, the effective tax rate increased from 28.8 per cent in 1996-97 to 39.9 per cent in 1997-98.

It may be observed from the activity-wise performance of the selected companies that main income of share trading and investment holding companies continued to decline in the second consecutive year but they could show increase in their post-tax profits on account of lower expenditure and tax provisions in 1997-98. Leasing companies registered net operating losses in 1997-98. Companies belonging to other activity-groups showed decline in their post-tax profits in 1997-98 as compared to those in 1996-97. The profit margin as well as return on net worth for all activity groups were generally lower in 1997-98 than in 1996-97. However, in respect of share trading and investment holding companies, the return on net worth increased fractionally from 0.5 per cent in 1996-97 to 0.6 per cent in 1997-98. The dividend rate (dividends to total paid-up capital) was the highest at 18.6 per cent for hire purchase finance companies.

#### **D. Pattern of Financing and Capital Structure**

##### **Financing Pattern**

The selected companies raised Rs. 4,912 crore in 1997-98 as against Rs. 4,962 crore raised in 1996-97 (Statement 5). The pattern of financing was slightly different in the study year 1997-98 as compared to the previous year. Deposits received from public was the leading source for financing the assets formation in 1996-97 while issuance of debentures was prominent in 1997-98. Trade dues and other current liabilities, fresh paid-up capital and depreciation provision were other major sources of funds in both the years viz., 1996-97 and 1997-98. The contribution of the various items in the total sources of financing of the selected companies is given in Table 4.

**TABLE 4: FINANCING PATTERN OF SELECTED FINANCIAL AND INVESTMENT COMPANIES, 1996-97 AND 1997-98**

(Per cent)

Sources of funds	Share trading and investment holding		Loan finance		Hire purchase finance		Leasing		Diversified		All activities	
	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98
<b>Internal sources</b>	<b>-80.9</b>	<b>-2.2</b>	<b>-2.4</b>	<b>0.6</b>	<b>20.0</b>	<b>23.3</b>	<b>19.4</b>	<b>17.0</b>	<b>25.0</b>	<b>25.5</b>	<b>17.9</b>	<b>15.4</b>
a) Paid-up capital*	14.0	0.1	-	-	0.3	-	0.4	4.4	0.7	0.4	0.6	0.4
b) Reserves and Surplus	-118.6	-3.5	-1.3	-0.1	8.6	8.0	-3.7	-23.4	4.7	-0.2	2.9	-0.2
c) Provisions	23.7	1.2	-1.1	0.7	11.1	15.3	22.7	36.0	19.6	25.3	14.4	15.3
<b>External sources</b>	<b>180.9</b>	<b>102.2</b>	<b>102.4</b>	<b>99.4</b>	<b>80.0</b>	<b>76.7</b>	<b>80.6</b>	<b>83.0</b>	<b>75.0</b>	<b>74.5</b>	<b>82.1</b>	<b>84.6</b>
d) Paid-up capital**	254.5	53.6	17.9	5.9	10.3	3.1	6.2	1.4	3.4	11.1	12.3	16.4
e) Borrowings	-165.2	12.1	67.3	90.0	59.1	58.9	52.0	74.6	64.3	44.8	58.6	50.4
f) Trade dues and other Current liabilities	87.6	36.6	17.2	3.5	10.6	14.7	22.4	7.0	7.3	18.6	11.2	17.8
g) Others	3.9	-	-	-	-	-	-	-	-	-	0.1	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

\* Represents the Paid-up Capital raised by the Companies by capitalising their reserves through the issuance of bonus shares.

\*\* Represents the equity raised by the companies through issuance of equity shares.

Across the activity-groups, in the case of share trading and investment holding companies, fresh capital raised from the market and trade dues and other current liabilities were the major sources of financing. For loan finance companies, issuance of new debentures and borrowings from Indian financial institutions were prominent sources of funds. Public deposits constituted the largest source of financing in the case of hire purchase finance and leasing companies.

### Capital Structure

The total liabilities (unadjusted) of the selected companies increased by 12.9 per cent to Rs. 36,250 crore in 1997-98 (Statement 4). Borrowings continued to be the single major component, constituting more than half of the total liabilities. The composition of total liabilities of the selected companies is given in Table 5. For share trading and investment holding companies, the share of 'Borrowings' and 'Reserves and surplus' in total liabilities reduced from 44.4 per cent and 16.2 per cent in 1996-97 to 38.2 per cent and 13.0 per cent respectively in 1997-98. On the contrary, the share of 'Share capital' and 'Trade dues and other current liabilities' in total liabilities increased from 29.0 per cent and 8.9 per cent in 1996-97 to 33.3 per cent and 14.2 per cent respectively in 1997-98. In respect of companies in other activity groups, the share of borrowings in total liabilities had increased.

**TABLE 5 : CAPITAL STRUCTURE OF THE SELECTED FINANCIAL AND INVESTMENT COMPANIES, 1996-97 AND 1997-98**

(Per cent)

Capital and liabilities	Share trading and investment holding		Loan finance		Hire purchase finance		Leasing		Diversified		All activities	
	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98
a) Share capital	29.0	33.3	23.9	19.8	4.7	3.9	10.7	10.5	5.7	6.1	11.0	11.6
b) Reserves and surplus	16.2	13.0	9.5	8.0	12.5	12.8	15.1	11.5	26.0	23.0	19.3	17.0
c) Borrowings	44.4	38.2	57.8	64.4	61.7	62.5	50.7	55.0	53.9	54.7	53.8	54.5
d) Trade dues and other current liabilities	8.9	14.2	8.1	7.1	20.2	19.9	21.4	20.5	12.8	13.9	14.5	15.2
e) Other liabilities	1.5	1.3	0.7	0.7	0.9	1.0	2.0	2.5	1.6	2.3	1.4	1.7

<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------

## E. Uses of Funds and Assets Structure

### Uses of funds

The selected companies taken as a whole utilised a substantial portion of the funds raised by them in 1997-98 in disbursement of loans and advances and investments in shares and debentures of Indian companies (Statement 5). Consequently, 'Loans and advances' and 'Investments' formed the two major uses of funds comprising 49.4 per cent and 36.5 per cent respectively of total uses of funds in 1997-98. Fixed assets formation constituted 15.8 per cent of total uses of funds. The composition of total uses of funds available to the selected companies is given in Table 6.

**TABLE 6: PATTERN OF UTILISATION OF FUNDS BY THE SELECTED FINANCIAL AND INVESTMENT COMPANIES, 1996-97 AND 1997-98**

Uses of funds	(Per cent)											
	Share trading and investment holding		Loan finance		Hire purchase finance		Leasing		Diversified		All activities	
	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98
a) Cash and bank balances	-35.1	-0.3	7.0	1.6	0.7	1.8	-2.5	9.2	2.7	-2.1	1.8	0.4
b) Investments	413.7	86.8	17.5	12.1	10.4	7.1	20.4	-1.8	17.1	48.0	20.9	36.5
c) Receivables	38.9	30.7	73.4	70.0	62.3	62.0	30.5	73.2	39.3	36.2	50.6	49.4
d) Inventories	-306.6	-15.0	-3.6	4.5	0.5	1.0	3.7	-8.3	3.7	0.5	-2.6	-2.2
e) Gross fixed assets	0.6	-2.1	5.8	11.9	24.5	27.8	55.2	21.3	36.2	18.3	29.1	15.8
<i>Of which,</i>												
<i>Leased assets</i>	-3.8	-2.8	1.6	8.5	18.5	21.8	21.0	8.6	35.4	-7.2	23.8	4.5
f) Others	-11.5	-0.1	-	-0.1	1.6	0.2	-7.4	6.5	1.0	-1.0	0.2	0.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

During 1997-98, across the activity-groups, the pattern of deployment of funds by the selected companies was obviously influenced by the major activity carried on by them. Share trading and investment holding companies used most of their funds for investments in shares and debentures of Indian companies whereas loan finance companies provided the major portion of funds towards extending loans and advances. Hire purchase finance companies utilised 38.1 per cent of total funds in advancing loans and advances against hire purchase. However, leasing companies utilised 31.5 per cent of total funds towards Loans and advances and 21.3 per cent for creating fixed assets in 1997-98.

### Assets Structure

The assets structure of the selected companies in 1997-98 remained similar to that in the previous year (Statement 4). The composition of assets in 1996-97 and 1997-98 is given in Table 7. Receivables (51.0 per cent), investments (25.4 per cent) and net fixed assets (17.7 per cent) remained the major constituents of total assets of all selected companies in 1997-98.

Activity-wise, the assets structure of the selected financial and investment companies was in tune with the major activity undertaken by them. However, for leasing companies, receivables accounted for a significant proportion (50.1 per cent) of total assets.

TABLE 7: ASSETS STRUCTURE OF THE SELECTED FINANCIAL AND INVESTMENT COMPANIES, 1996-97

Assets	(Per cent)											
	Share trading and investment holding		Loan finance		Hire purchase finance		Leasing		Diversified		All activities	
	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98
a) Cash and bank balances	0.8	0.6	4.0	3.4	2.7	2.6	2.6	3.4	2.0	1.6	2.3	2.1
b) Investments	77.2	79.1	22.0	19.8	7.2	7.3	10.0	9.1	20.2	22.6	23.7	25.4
c) Receivables	9.0	13.2	64.9	65.7	69.8	70.1	45.6	50.1	48.6	48.8	50.0	51.0
d) Inventories	9.4	4.7	2.7	3.1	0.4	0.5	2.1	1.1	3.3	3.1	3.2	2.6
e) Net fixed assets	1.6	0.9	4.6	6.2	19.1	18.8	38.6	34.5	24.9	22.7	19.5	17.7
f) Other assets	1.9	1.4	1.9	1.8	0.8	0.7	1.0	1.8	0.9	1.0	1.2	1.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

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

@ Reference may be made to the July 1999 issue of the Reserve Bank of India Bulletin for the study which covered the financial performance of 707 non-government financial and investment companies during 1996-97.

\$ Based on provisional data relating to year ended March 1998 supplied by Department of Company Affairs, Government of India.

**Statement 1: Annual Growth Rates of Selected Items - Financial and Investment Companies - Activity-wise, 1996-97 And 1997-98**

ITEM	(Per cent)											
	ALL ACTIVITIES		SHARE TRADING AND INVESTMENT HOLDING		LOAN FINANCE		HIRE PURCHASE FINANCE		LEASING		DIVERSIFIED	
	(695)	(695)	(271)	(271)	(131)	(131)	(44)	(44)	(62)	(62)	(125)	(125)
	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98
	2	3	4	5	6	7	8	9	10	11	12	13
1. Main income	17.3	8.9	-20.1	-4.5	17.6	20.1	26.5	16.4	17.5	3.4	17.5	7.
2. Interest received	19.5	27.7	13.3	-23.0	7.9	15.1	-4.5	39.2	18.0	72.7	48.5	39.
3. Dividend received	-0.2	-16.2	13.1	-5.1	60.6	-20.9	-35.6	15.6	-7.5	-34.8	-15.4	-39.
4. Other income	-2.4	-1.3	20.6	-28.0	-17.4	51.9	-66.6	0.2	-24.5	-45.5	36.2	-0.
5. Total expenditure	25.7	14.0	21.3	-5.8	19.1	27.2	16.9	19.9	25.0	13.7	30.7	13.
6. Interest payment	23.5	11.9	19.4	-12.8	18.2	26.3	25.8	20.6	17.2	14.2	25.8	7.
7. Depreciation provision	21.3	11.3	5.2	-25.1	59.8	40.9	27.6	13.7	10.9	7.2	22.6	11.
8. Employees' remuneration	22.4	15.3	11.1	-0.1	30.1	1.9	13.2	22.5	12.1	12.7	30.1	16.
9. Operating profits	-25.2	-30.3	-73.5	-8.5	-16.4	-16.4	0.4	-4.1	-44.4	\$	-18.9	-32.
10. Non-operating surplus/deficit	#	-79.1	#	\$	\$	&	172.9	-84.5	&	&	&	1

11. Profits before tax	-24.0	-31.0	-65.9	-36.8	-18.1	-18.8	6.5	-11.4	-55.4	\$	-20.0	-30.
12. Tax provision	101.7	-4.3	24.9	-56.6	63.4	-18.5	83.8	9.7	123.6	-28.7	264.1	12.
13. Profits after tax	-39.2	-41.8	-92.4	58.2	-41.8	-19.0	-5.5	-17.7	-65.5	\$	-35.4	-43.
14. Dividend paid	-2.7	-25.4	12.3	-43.8	-22.6	-17.5	11.7	-2.9	-21.0	-39.3	-5.6	-23.
15. Profits retained	-61.0	-66.2	\$	&	-65.3	-23.2	-11.9	-24.7	\$	&	-50.3	-61.
16. Investments @	17.8	23.5	9.9	26.8	18.1	15.0	41.9	15.0	44.1	-2.1	23.0	28.
17. Loans and advances @	15.7	14.1	-4.4	194.6	25.9	28.0	19.8	9.6	10.6	11.2	10.8	8.
18. Total net assets @	16.0	13.5	1.4	23.8	24.3	27.1	22.3	12.9	13.0	8.0	16.5	9.
19. Borrowings @	20.2	14.3	-5.9	6.5	28.9	42.3	24.2	14.4	18.2	17.0	23.8	9.
20. Net worth @	9.6	8.4	6.1	26.5	10.6	4.7	29.7	9.8	1.7	-7.9	5.8	4.

@ Adjusted for revaluation etc., if any.

# Denominator is negative or nil or negligible.

\$ Numerator is negative or nil or negligible.

& Numerator and denominator both are negative or nil.