

Finances of Private Limited Companies, 1997-98*

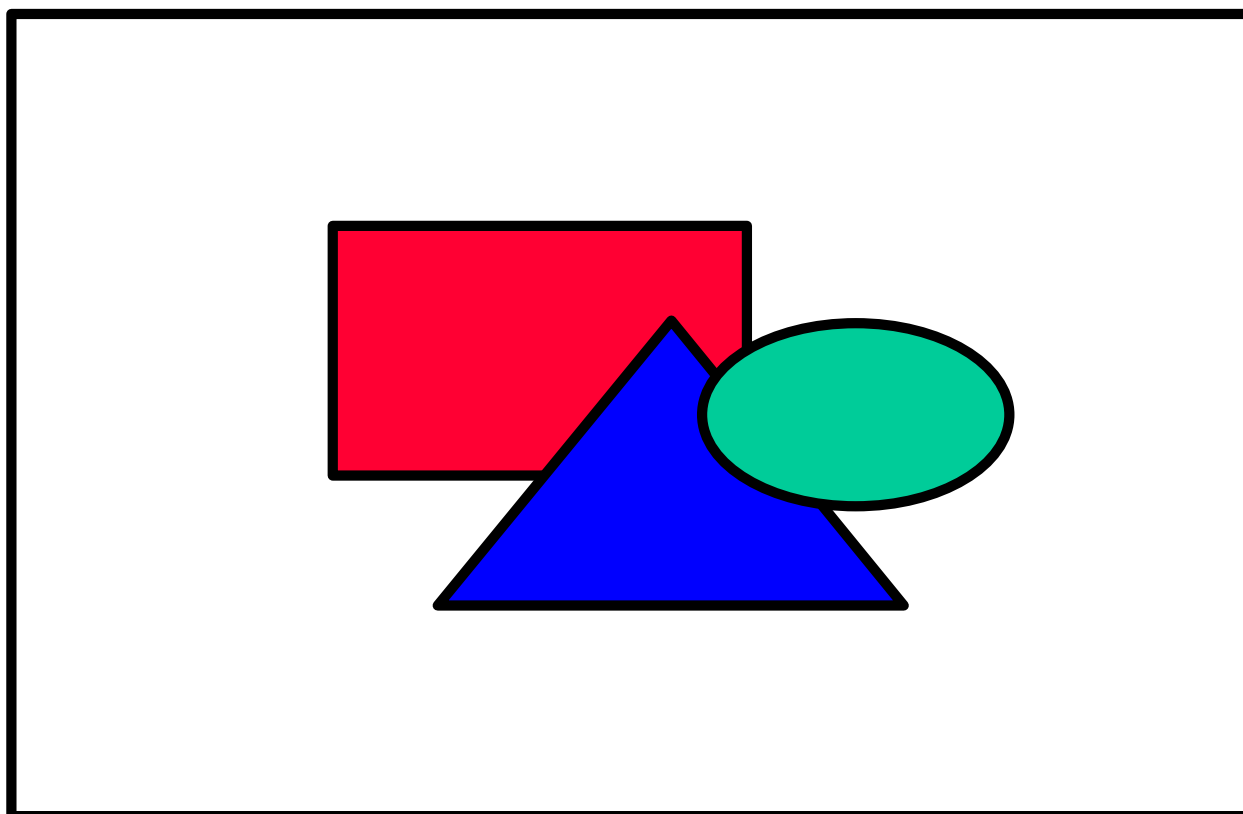
The financial performance of the 883 selected non-government non-financial private limited companies[®] for the period 1995-96 to 1997-98 is assessed in this article based on their audited annual accounts closed during the period April 1997 to March 1998[§]. In the case of companies, which either extended or shortened their accounting year, income, expenditure and appropriation account figures have been annualised. The balance sheet data, however, have been retained as presented in the annual accounts of the companies with the result that the data reported in balance sheets in such cases might refer to varying periods. The analysis of the financial performance of private limited companies over the years is subject to these limitations.

Overall Performance

The financial performance of the selected private limited companies revealed an improvement in outlook in 1997-98 after the overall deceleration observed in the previous year. The selected companies had increased their total sales by 12.0 per cent in 1997-98 as against 10.9 per cent in 1996-97. The profits for the year under study were higher as compared to the previous year. The profit margin (gross profits to sales) and return on net worth (profits after tax to net worth) increased from 8.3 per cent and 8.7 per cent in 1996-97 to 8.5 per cent and 10.4 per cent respectively in 1997-98. Effective tax rate (tax provision to profits before tax) declined from 41.4 per cent in 1996-97 to 32.0 per cent in 1997-98. External sources of funds continued as the major source of financing for these companies. However, their share in total sources of funds declined from 66.6 per cent in 1996-97 to 53.5 per cent in 1997-98. Gross fixed assets formation by these companies worked out to 45.0 per cent of the total uses of funds in 1997-98 (46.9 per cent in 1996-97).

A. Operational Results

The selected companies recorded an increase of 12.0 per cent in their sales in 1997-98 following a 10.9 per cent growth in the previous year. On the expenditure side, manufacturing expenses increased by 10.2 per cent and employees remuneration by 15.4 per cent in 1997-98. The growth in interest payments was reined in to 1.3 per cent in 1997-98 as against the increase of 19.1 per cent in 1996-97. However, their gross profits and the net profits (profits after tax) increased by 14.5 per cent and 41.5 per cent respectively during the year under study ([Statement 3](#)). Profit margin (gross profits to sales) of these companies changed from 8.3 per cent in 1996-97 to 8.5 per cent in 1997-98. Effective tax rate declined to 32.0 per cent in 1997-98 as compared to 41.4 per cent in 1996-97. Tax provision declined by 6.0 per cent in 1997-98 as against an increase of 8.9 per cent in 1996-97.



The return on shareholders' equity (profits after tax to net worth) moved up to 10.4 per cent in 1997-98 as compared to 8.7 per cent in 1996-97. The ordinary dividend rate (ordinary dividend to ordinary paid-up capital) for the selected companies worked out to 6.3 per cent in 1997-98 as compared to 6.6 per cent in 1996-97. The retention ratio was 75.4 per cent in 1997-98 as against 69.7 per cent in the previous year.

B. Foreign Business

The foreign business of the selected private limited companies continued to indicate favourable trends in 1997-98 ([Statement 6](#)). However, net inflow of foreign currencies, which amounted to Rs. 170 crore in 1996-97 for the selected companies, decreased to Rs. 133 crore in 1997-98.

The export intensity of sales (exports to sales) of the selected companies declined fractionally from 7.6 per cent in 1996-97 to 6.9 per cent in 1997-98. Exports by the selected companies increased marginally by 2.0 per cent in 1997-98 after an increase of 30.6 per cent in the previous year. The foreign exchange earnings of these companies increased by 11.5 per cent in 1997-98 (21.6 per cent in 1996-97). The growth in imports was 14.2 per cent in 1997-98 as compared to 15.3 per cent in 1996-97.

C. Financing Pattern and Capital Structure

Financing Pattern

A total amount of Rs. 449 crore was raised by the selected companies during 1997-98 ([Statement 5](#)). The financing pattern of the selected companies (Table 1) indicates that the share of funds from internal sources has gone up from 33.4 per cent in 1996-97 to 46.5 per cent in 1997-98. Internal funds were mainly in the form of depreciation provision.

Among the external sources, the percentage share of fresh capital increased from 18.6 per cent in 1996-97 to 28.5 per cent in 1997-98 while that of 'Borrowings' and 'Trade dues and other current liabilities' declined. Fresh borrowings accounted for 30.7 per cent in external sources in 1997-98.

Table 1: Financing Pattern of Selected Private Limited Companies, 1996-97 and 1997-98

Sources of funds	(Per cent)	
	1996-97	1997-98
Internal sources	33.4	46.5
Paid-up capital (Internal)	1.9	1.3
Reserves and surplus	10.9	20.6
Provisions	20.7	24.6
External sources	66.6	53.5
Paid-up capital (External)	12.4	15.2
Borrowings	22.9	16.4
Trade dues and Other current liabilities	30.5	20.9
Others	0.8	0.9
Total	100.0	100.0

Capital Structure

Total liabilities/ assets of the selected companies increased by 11.2 per cent to Rs.3,531 crore in 1997-98 ([Statement 4](#)). The changes in the financing pattern during 1997-98 did not affect the broad liability structure of the selected companies (Table 2).

Table 2: Composition of Liabilities of Selected Private Limited Companies, 1995-96 to 1997-98

Liabilities	(Per cent)		
	1995-96	1996-97	1997-98
1. Share capital	13.2	13.4	14.1
2. Reserves and surplus	19.8	19.5	20.7
3. Borrowings	33.2	32.5	31.3
4. Trade dues and other current liabilities	32.2	32.8	32.1

5. Others	1.7	1.8	1.7
Total	100.0	100.0	100.0

'Borrowings' (31.3 per cent) and 'Trade dues and other current liabilities' (32.1 per cent) remained the two major constituents of total liabilities in 1997-98. Trade dues in the form of sundry creditors increased from Rs. 606 crore in 1996-97 to Rs. 702 crore in 1997-98. 'Reserves and surplus' and 'Share capital' accounted for 20.7 per cent and 14.1 per cent respectively in total liabilities in 1997-98. The debt-equity ratio of the selected companies came down from 31.0 per cent in 1996-97 to 24.7 per cent in 1997-98.

D. Utilization of Funds and Assets Structure

Utilization of Funds

The pattern of utilization of funds in 1997-98 was similar to that in the previous year ([Statement 5](#)). About 45 per cent of the total funds were utilized for fixed asset formation in 1997-98 which is slightly lower than the 46.9 per cent share in 1996-97. The share of 'Inventory accumulation' had remained the same accounting for about 10 per cent of total funds deployment in 1997-98. On the other hand, incremental 'Loans and advances and other debtor balances' increased from Rs. 145 crore in 1996-97 to Rs. 155 crore in 1997-98 and its share in total uses of funds increased from 29.8 per cent in the earlier year to 34.5 per cent in 1997-98. The share of investments in total funds utilization declined to 1.7 per cent in 1997-98 from 4.4 per cent in the previous year.

Table 3: Funds Utilization by the Selected Private Limited Companies, 1996-97 and 1997-98

Uses of Funds	(Per cent)	
	1996-97	1997-98
1. Gross fixed assets	46.9	45.0
2. Inventories	10.0	9.9
3. Loans and advances & other debtor balances	29.8	34.5
4. Investments	4.4	1.7
5. Cash and bank balances	8.2	7.2
6. Other assets	0.7	1.8
Total	100.0	100.0

Assets Structure

The changes in the utilization pattern of funds during 1997-98 resulted in minor variations in the assets structure of the selected companies ([Statement 4](#)).

Table 4: Composition of Assets of Selected Private Limited Companies, 1995-96 to 1997-98

Assets	(Per cent)		
	1995-96	1996-97	1997-98
1. Net fixed assets	34.8	34.9	34.4
2. Inventories	18.1	17.3	16.9
3. Loans & advances & other debtor balances	34.8	35.0	35.8
4. Investments	5.7	5.7	5.3
5. Other assets	6.6	7.1	7.6
Total	100.0	100.0	100.0

The share of 'Loans and advances and other debtor balances' in total net assets had moved up fractionally from 35.0 per cent in 1996-97 to 35.8 per cent in 1997-98 while that of 'Net fixed assets' and 'Inventories' moved down from 34.9 per cent and 17.3 per cent in 1996-97 to 34.4 per cent and 16.9 per cent respectively in 1997-98. The current ratio of the selected companies remained unchanged at 1.1 during the year under study.

E. Industry-wise Performance

The performance of the selected private limited companies as reflected by the growth in sales and in net assets as also in the profit margins of the selected industry-groups is given in Table 5 (reference is also invited to [statements 7](#) and [8](#)).

Table 5: Industry-wise Performance of Selected Private Limited Companies, 1996-97 and 1997-98

Selected Industry / Industry-group	Number of Companies	Growth in Sales		Growth in Net Assets		Profit Margin	
		96-97	97-98	96-97	97-98	96-97	97-98
		(Per cent)					
1. Engineering	166	1.6	10.3	9.3	13.4	9.1	8.5
<i>Of which,</i>							
(a) Motor vehicles	7	23.8	-4.2	7.3	11.0	7.2	1.7
(b) Electrical machinery, apparatus, appliances, etc.	49	2.5	30.6	9.0	22.6	9.5	8.7
(c) Machinery other than transport & electricals	47	3.9	-1.0	5.3	9.6	10.5	10.5

(d) Foundries and engineering workshops	14	-3.8	2.6	16.0	0.8	6.4	5.8
(e) Ferrous/ non-ferrous metal products	45	-0.7	13.4	9.7	13.0	9.0	8.1
2. Chemicals	106	13.9	15.8	17.5	12.1	6.7	5.5
<i>Of which,</i>							
(a) Basic industrial chemicals	32	37.6	12.7	20.1	7.9	7.0	1.7
(b) Medicines and pharmaceutical preparations	32	16.6	18.2	15.8	18.7	9.4	10.0
3. Trading	98	13.6	37.1	9.6	18.6	6.1	5.4
4. Cotton textiles	42	21.8	7.8	24.5	1.8	4.0	3.9
5. Hotels, restaurants and eating houses	30	13.0	10.2	20.6	18.8	35.8	32.0
6. Paper and paper products	23	-5.4	18.5	21.3	7.8	6.9	6.1
7. Tea	23	4.9	39.5	3.7	19.7	9.0	23.3
All Companies	883	10.9	12.0	14.2	10.8	8.3	8.5

It may be observed that the volume of business (as indicated by sales) as also the size (as measured by total net assets) of the selected companies belonging to Engineering, Chemicals, Trading and Tea industries have posted a recovery in 1997-98 after a subdued performance in the previous year.

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

@ The selected companies for this study accounted for 2.0 per cent of the total paid-up capital of all non-government non-financial private limited companies as at the end of March 1998 as per the information available from the Department of Company Affairs, Government of India.

\$ Reference may be made to the November 1999 issue of the RBI Bulletin for the previous study, which covered 853 non-government non-financial private limited companies during 1996-97.