Performance of Private Corporate Business Sector, 1999-2000*

The financial performance of the private corporate business sector during 1999-2000 is assessed in this article, based on the **abridged audited/unaudited** financial results of companies collected from financial/news dailies and The Stock Exchange, Mumbai. Since, the data of only a few selected items are available from the abridged results of companies and these are provisional in nature, analysis based on these data can be taken at best as indicative. The reference period of the study is the year ended March 2000. The study covers 1151 non-financial non-Government public limited companies#, accounting for about 21 per cent in terms of paid-up capital of all non -Government non-financial public limited companies as at the end of March 1999.

Overall performance

The abridged financial results of the 1151 non-financial public limited companies showed perceptible improvement in their performance during 1999-2000 over the preceding year, as indicated by growth rates of sales and profits. The combined sales of these companies rose by 14.4 per cent in 1999-2000 to Rs.2,74,884 crore from Rs.2,40,280 crore in 1998-99 (Table 1). Other income amounting to Rs.7,772 crore showed a rise of 20.0 per cent. Total expenditure incurred by these companies amounting to Rs.2,38,284 crore went up by 14.2 per cent, at around the same rate as sales.

Depreciation provision amounting to Rs.11,517 crore was up by 15.2 per cent in 1999-2000. Gross profits at Rs.32,855 crore recorded a rise of 16.7 per cent during the period under review. Interest payments aggregating to Rs.14,391 crore rose at a lower rate of 9.0 per cent and pre-tax profits spurted by 23.4 per cent to Rs.18,464 crore. Tax provision amounting to Rs.3,787 crore rose by 23.5 per cent. Post-tax profits also recorded an impressive rise of 23.3 per cent to Rs.14,677 crore in 1999-2000, from Rs.11,899 crore in the previous year.

TABLE 1 : FINANCIAL PERFORMANCE OF 1151 SELECTED NON-FINANCIAL COMPANIES, 1999-2000

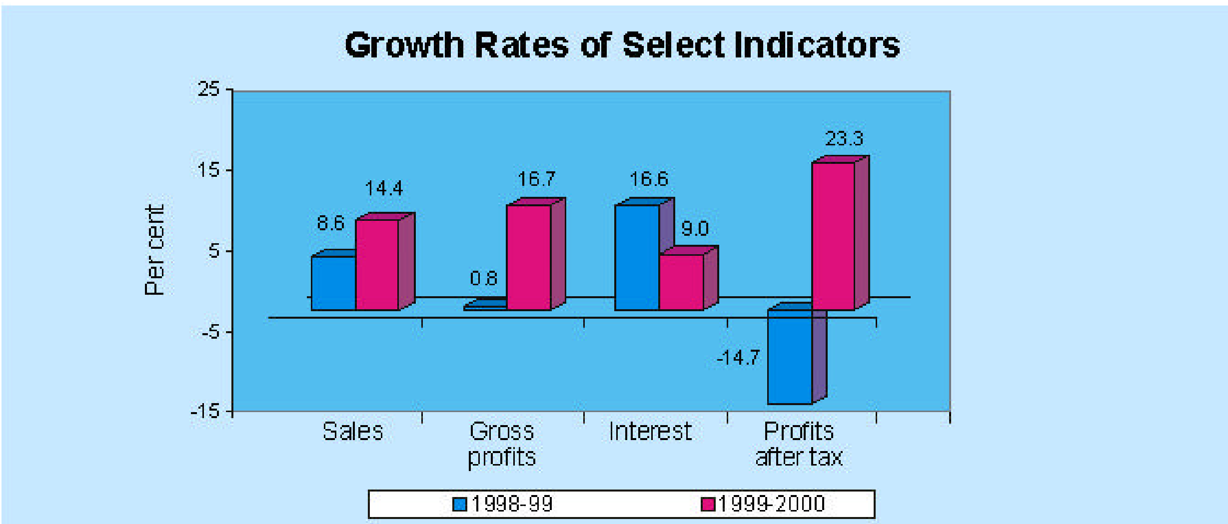
(Rs. Crore)

Item	1998-1999	1999-2000	Growth rate (percent)	
			1998-1999 *	1999-2000
1	2	3	4	5
Sales	2,40,280	2,74,884	8.6	14.4
Other income	6,475	7,772	11.5	20.0
Total expenditure	2,08,594	2,38,284	9.4	14.2
Depreciation provision	9,995	11,517	15.9	15.2
Gross profits	28,166	32,855	0.8	16.7
Interest	13,200	14,391	16.6	9.0
Profits before tax	14,966	18,464	-12.0	23.4
Tax provision	3,067	3,787	- 0.1	23.5
Profits after tax	11,899	14,677	-14.7	23.3
Paid-up capital	*20,417*	*21,408*	*4.7*	*4.9*

* Based on 1248 companies included in the study on “Performance of Private Corporate Business Sector, 1998-99”.

Of the 1151 companies, the number of companies reporting post-tax profits was 902 in 1999-2000 as compared with 890 companies in the previous year. Aggregate paid-up capital of the 1151 companies rose by 4.9 per cent to Rs.21,408 crore by end March 2000.

With a view to obtaining a comparative picture of the direction and dimension of changes, the performance of 1151 non-financial companies in terms of growth rates of selected indicators in 1999-2000 was compared with the corresponding rates of 1248 non-financial companies covered in the previous study. The comparison is broad and indicative, *inter alia*, due to the fact that the selected companies in the two studies are different.



Business activity of private corporate sector during 1999-2000 showed marked improvement in terms of growth in sales and profits. The sales of the 1151 companies accelerated at a much higher rate of 14.4 per cent in 1999-2000 as compared with 8.6 per cent growth recorded by 1248 companies during the previous year. Total expenditure incurred by 1151 companies in 1999-2000 rose by 14.2 per cent at around the same rate as sales, whereas total expenditure moved up by 9.4 per cent in 1998-99 - higher by about one percentage point than that of sales. Gross profits improved significantly registering a growth of 16.7 per cent, in sharp contrast with the marginal rise of 0.8 per cent witnessed in the previous year. Interest payments rose at a much lower rate of 9.0 per cent in 1999-2000 as compared with 16.6 per cent increase in the preceding year. Pre-tax profits spurted by 23.4 per cent as against a drop of 12.0 per cent in 1998-99. Likewise, post-tax profits rose by as much as 23.3 per cent in 1999-2000, as compared with a considerable fall of 14.7 per cent in the previous year.

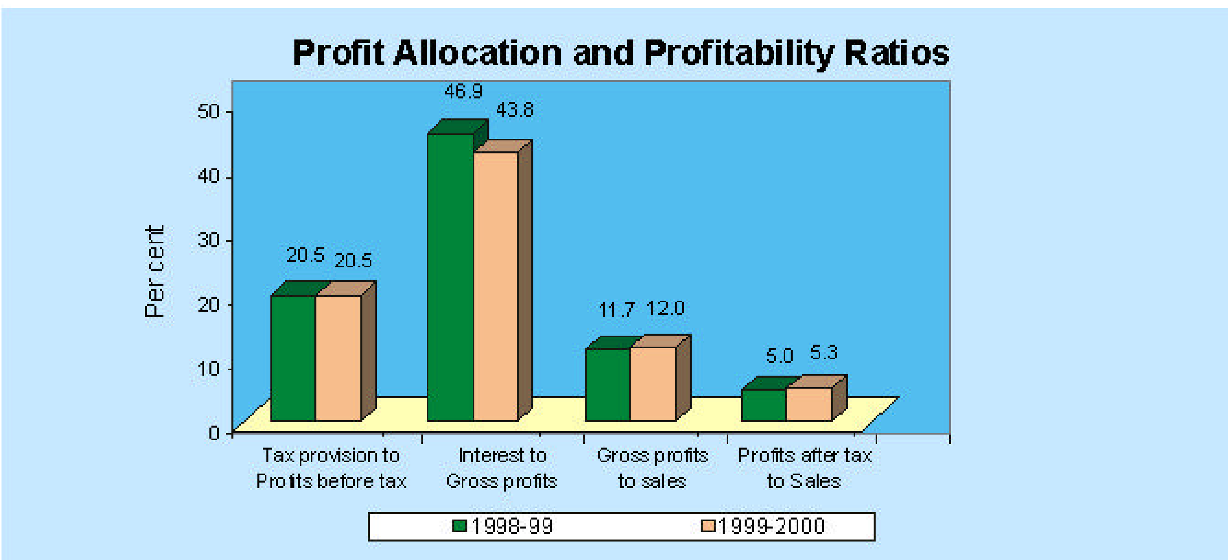
Interest cost of sales at 5.2 per cent during the year under review was slightly lower (5.5 per cent in the previous year). Interest burden (interest as percentage of gross profits) at 43.8 per cent in 1999-2000 eased by over 3 percentage points, compared to the corresponding ratio at 46.9 per cent in 1998-99 (Table 2).

Table 2 : Profit Allocation, Profitability And Other Ratios, 1999-2000

(Per cent)

Ratio	1998-1999	1999-2000
1	2	3
Profit Allocation Ratios		
Tax provision to Profits before tax	20.5	20.5
Interest to Gross profits	46.9	43.8
Profitability Ratios		
Gross profits to Sales	11.7	12.0
Profits before tax to Sales	6.2	6.7
Profits after tax to Sales	5.0	5.3
Other Ratios		
Interest to Sales	5.5	5.2
Interest to Expenditure @	5.7	5.5

@ *Expenditure includes interest and depreciation provision*



The effective tax rate (tax provision as a percentage of profits before tax) at 20.5 per cent in 1999-2000 remained unchanged from that in 1998-99. It may be mentioned that out of the 1151 companies covered in the study, there were 376 companies which *did not* make any tax provision during the period under review as against 346 such companies in the previous year. In the case of companies which did provide for tax, the effective tax rate at 19.3 per cent was almost the same as in 1998-99.

The year 1999-2000 witnessed a slight improvement in profitability ratios. Both profit margin (ratio of gross profits to sales) at 12.0 per cent and return on sales (ratio of profits after tax to sales) at 5.3 per cent for the period under review were higher than the corresponding ratios at 11.7 per cent and 5.0 per cent respectively in the previous year.

Rates of growth and profitability according to size of paid-up capital

The distribution of the number of companies covered in the study according to the size of paid-up capital showed a greater concentration in the lower size groups of Rs.1 crore to Rs. 5 crore and Rs.5 crore to Rs. 10 crore (57.8 per cent), though their share in terms of paid-up capital was relatively small at 15.7 per cent of all the selected companies (Table 3).

Table 3 : Growth Rates of Selected Items According To Size of Paid-Up Capital During 1999-2000

Size group (Rs. crore)	No. of compa-nies	Paid-up capital		Growth rates (Per cent)							
		Amount outstanding (Rs. crore)	Per cent share	Sales	Total expen-diture	Depre-ciation provi-sion	Gross profits	Interest	Profits before tax	Tax provi-sion	Profits after tax
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
Less than 1	*91*	*49*	*0.2*	3.9	2.9	8.8	18.9	-8.7	70.5	23.0	108.9
1 - 5	*349*	*1,182*	*5.5*	6.0	5.6	6.7	14.5	2.4	25.7	16.8	29.1
5 - 10	*316*	*2,181*	*10.2*	16.8	16.9	13.3	18.8	6.5	32.0	21.4	35.0
10 - 15	*130*	*1,547*	*7.2*	14.8	15.6	13.8	14.7	2.4	25.8	14.2	28.8
15 - 25	*96*	*1,808*	*8.5*	16.2	16.6	17.0	17.0	6.9	25.6	25.0	25.7
25 and above	*169*	*14,641*	*68.4*	14.6	14.3	15.9	16.7	10.9	21.7	25.1	20.8
All companies	***1151***	***21,408***	***100.0***	**14.4**	**14.2**	**15.2**	**16.7**	**9.0**	**23.4**	**23.5**	**23.3**

The top 169 companies, each with paid-up capital of Rs.25 crore and above (about 15 per cent in terms of number) accounted for over two-thirds (68.4 per cent) of the total paid-up capital of the selected companies.

The growth rate of sales of companies in the top three size groups (each with paid-up capital of Rs.10 crore and above) were in the range 14.6 to 16.2 per cent; the growth in gross profits ranged between 14.7 and 17.0 per cent. Smaller companies (each with paid-up capital of less than Rs.5 crore) recorded much lower sales growth rate of 6 per cent or less, but their growth in gross profits (14.5 per cent to 18.9 percent) was comparable with companies in the higher size groups.

Increase in interest payments was modest in most of the size groups (2 to 7 per cent), except for the top companies, for which the growth was the highest at 10.9 per cent. During the year under review, there was a broad decline in the rate of growth in post-tax profits in relation to size. The growth in post-tax profits was 35.0 per cent for the size class Rs.5 crore to Rs.10 crore and decreased progressively with size, to 20.8 per cent for companies with paid-up capital of Rs.25 crore and above.

Across all size groups, interest burden during 1999-2000 was lower than in 1998-99 and moved in the range of 41.8 per cent to 49.9 per cent; for companies with paid-up capital of Rs.25 crore and above, interest burden declined by 2.3 percentage points. The fall in the interest burden was to the tune of 4.0 to 5.3 percentage points for companies in other size groups, except in the case of the lowest size group of companies with paid-up capital of less than Rs. 1 crore.

Table 4 : Profit Allocation and Profitability Ratios According to Size Of Paid-Up Capital

(Per cent)

Size group (Rs. crore)	Profit allocation ratios				Profitability ratios					
	Tax provision to Profits before tax		Interest to Gross profits		Gross profits to Sales		Profits before tax to Sales		Profits after tax to Sales	
	1998-1999	1999-2000	1998-1999	1999-2000	1998-1999	1999-2000	1998-1999	1999-2000	1998-1999	1999-2000
1	2	3	4	5	6	7	8	9	10	11
Less than 1	44.7	32.3	65.0	49.9	8.3	9.5	2.9	4.7	1.6	3.2
1 -5	27.5	25.6	48.2	43.1	7.6	8.2	3.9	4.7	2.9	3.5
5 - 10	21.7	20.0	51.7	46.4	9.9	10.1	4.8	5.4	3.8	4.3
10 - 15	20.7	18.8	47.2	42.1	10.9	10.9	5.8	6.3	4.6	5.1
15 - 25	18.0	18.0	45.8	41.8	10.0	10.1	5.4	5.9	4.5	4.8
25 and above	20.2	20.8	46.2	43.9	12.8	13.0	6.9	7.3	5.5	5.8
All companies	**20.5**	**20.5**	**46.9**	**43.8**	**11.7**	**12.0**	**6.2**	**6.7**	**5.0**	**5.3**

The sales margin was the highest at 13.0 per cent for top companies during the year under review, and the profit margin had also improved during the year, albeit marginally. For companies in the size classes Rs.5 crore to Rs.10 crore, Rs.10 crore to Rs.15 crore and Rs.15 crore to Rs.25 crore, the sales margin was range-bound between 10-11 per cent. Return on sales also improved across all the size groups in 1999-2000 as compared with the previous year, and was at its maximum (5.8 per cent) in respect of top companies.

Industry-wise performance

Information on major industrial activities of companies is not available in the abridged financial results for many companies. Therefore, available information from newspapers or the previous annual reports of the companies is used. Even so, activity-wise details in respect of 27 companies were not available and hence the industry-wise analysis of companies is attempted based on 1124 companies. The industry-wise analysis in this article may thus be viewed with this caveat.

Growth rates of important indicators across the industry groups showed considerable variation in 1999-2000 (Table 5). The engineering and chemical companies reported a growth in sales of 14.2 per cent and 14.6 per cent respectively during 1999-2000. Automobiles and ancillary companies performed well with a spurt in sales by 22.1 per cent, while companies manufacturing electrical machinery recorded a rise of 14.8 per cent in sales during 1999-2000. Sales of iron and steel and allied product companies rose by 10.5 per cent during the year under review. Cement and electricity generation and supply companies posted moderate increase in sales (8.2 per cent and 7.7 per cent respectively). Performance of information technology companies continued to be impressive during the year under review with sales rising by as much as 43.9 per cent. Turnover of construction companies showed a significant rise of 27.9 per cent, while the diversified companies registered 18.4 per cent growth in their sales during the year under review.

In the case of industries like textiles, food processing, sugar, plastic products and paper and paper products, sales growth varied between 8.7 per cent and 11.4 per cent. A few industries recorded much lower rise in sales, as in the case of rubber and rubber products (6.6 per cent) and tea (2.3 per cent). Turnover of the hotel industry slipped by 7.4 per cent during the year under review.

Post-tax profits of engineering companies rose substantially by 28.9 per cent, while that of the chemical industry was up by 7.7 per cent. Among the engineering companies, automobiles and ancillary companies showed an impressive rise of 22.4 per cent in their post-tax profits, whereas post-tax profits of 'electrical machinery' and 'other machinery' companies actually declined by 12.7 per cent and 14.3 per cent respectively. Post-tax profits of iron and steel and allied products industry more than doubled during the year, recording a rise of 159.9 per cent. Pharmaceutical companies performed well by posting a rise of 33.2 per cent in their post-tax profits; on the other hand, basic industrial chemical industry reported a sizable decline of 15.6 per cent. Pre-tax and post-tax profits of information technology companies more than doubled during the year under review (growth rates of 110.7 per cent and 102.4 per cent respectively) from their year-ago levels. Among the other industries, companies engaged in construction and electricity generation and supply activities registered increases of 24.8 per cent and 31.6 per cent respectively in their post-tax profits, while lower order of growth was observed in the case of food processing (17.2 per cent) and diversified companies (14.7 per cent). Industries like cement, hotel, plastic products, sugar and tea recorded substantial fall in pre and post tax profits during 1999-2000.

Table 5 : Industry-Wise Growth Rates of Selected Items During 1999-2000

Industry / Industry group	No. of companies	Paid-up capital		Growth rates (Per cent)							
		Amount Outstanding (Rs. crore)	Per cent share	Sales	Total expenditure	Depreciation provision	Gross profits	Interest	Profits before tax	Tax provision	Profits after tax
1	2	3	4	5	6	7	8	9	10	11	12
1. Engineering	297	6,498	30.4	14.2	13.8	13.0	20.9	14.1	29.9	32.0	28.9
Of which,											
i) Iron and steel & allied products	38	2,149	10.0	10.5	6.7	17.1	48.6	24.2	132.2	65.2	159.9
ii) Automobiles and ancilliaries	51	1,062	5.0	22.1	23.4	18.1	19.7	12.4	23.5	26.6	22.4
iii) Electrical machinery	82	1,190	5.6	14.8	15.6	16.9	6.5	13.4	-3.0	25.0	-12.7
iv) Other machinery	59	619	2.9	-1.9	-0.9	6.0	2.4	5.2	-3.6	3.6	-14.3
2. Chemicals	203	5,176	24.2	14.6	15.2	18.8	8.2	3.6	11.0	25.3	7.7
Of which,											
i) Basic industrial chemicals	88	2,722	12.7	17.1	19.5	17.0	-0.2	9.3	-10.5	20.4	-15.6
ii) Pharmaceuticals and drugs	57	787	3.7	16.6	15.2	21.6	28.7	10.9	34.4	40.9	33.2
3. Cement	22	965	4.5	8.2	9.4	7.8	-18.5	0.6	-231.0	-21.5	-355.5
4. Electricity generation and supply	9	616	2.9	7.7	6.7	5.1	18.0	8.5	25.6	11.1	31.6
5. Construction	20	137	0.6	27.9	27.9	12.0	24.6	20.4	29.1	42.0	24.8
6. Textiles	130	1,512	7.1	11.4	11.5	6.7	16.6	0.8	78.8	2.8	95.2
7. Tea	13	131	0.6	2.3	10.3	7.2	-18.1	21.3	-22.6	-28.3	-19.9
8. Sugar	12	162	0.8	10.6	13.7	12.6	-10.5	10.8	-43.0	-55.3	-39.7
9. Food processing	46	367	1.7	10.7	10.8	15.5	14.3	12.4	15.6	10.5	17.2
10. Rubber and rubber products	13	185	0.9	6.6	6.9	15.2	5.7	-15.5	40.9	24.1	45.8
11. Paper and paper	26	407	1.9	8.7	6.7	8.2	46.3	20.7	*	55.6	*

products											
12.Plastic products	*24*	*142*	*0.7*	9.4	12.9	21.2	-22.8	1.7	-71.3	1.6	-90.2
13.Information technology	*55*	*586*	*2.7*	43.9	38.1	40.6	86.3	-6.3	110.7	235.3	102.4
14.Trading	*50*	*285*	*1.3*	11.4	11.5	12.6	23.7	-0.3	51.8	7.0	60.1
15.Hotel	*18*	*284*	*1.3*	-7.4	-4.6	14.6	-13.5	29.2	-23.0	-22.0	-23.2
16.Diversified	*17*	*1,810*	*8.5*	18.4	17.9	20.3	16.6	19.9	14.2	2.6	14.7
All companies (including others)	***1151***	***21,408***	***100.0***	**14.4**	**14.2**	**15.2**	**16.7**	**9.0**	**23.4**	**23.5**	**23.3**

* *Profits before tax and profits after tax were negative.*

Interest burden during the period under review was lower as compared to previous year for most of the industries (Table 6). Interest burden continued to be high for industries like iron and steel and allied products (64.7 per cent), electrical machinery (61.6 per cent), basic industrial chemicals (56.8 per cent), rubber and rubber products (50.0 per cent) and construction (49.5 per cent). Interest burden was moderate and in the range of 20 and 40 per cent in respect of food processing, automobiles and ancillaries, pharmaceuticals and hotel industries, while it was much lower for information technology and tea companies (10 to 16 per cent).

While profit margin of engineering companies rose from 9.5 per cent to 10.0 per cent in 1999-2000 , that of chemical companies declined to 12.9 per cent in 1999-2000 from 13.6 per cent in the previous year. Profit margin for iron and steel companies (10.5 per cent), electricity generation and supply (22.7 per cent) and pharmaceutical companies (15.6 per cent) improved by 1 to 3 percentage points during 1999-2000 and for industries like basic industrial chemicals (12.4 per cent), cement (7.4 per cent), tea (16.9 per cent), plastic products (6.6 per cent) and sugar (11.1 per cent) declined during the year under review.

Profitability ratios of information technology industry significantly improved by over 4 percentage points in 1999-2000. Profit margin on sales and return on sales during the year under review were higher at 19.6 per cent and 15.8 per cent respectively as against 15.1 per cent and 11.2 per cent respectively in 1998-99.

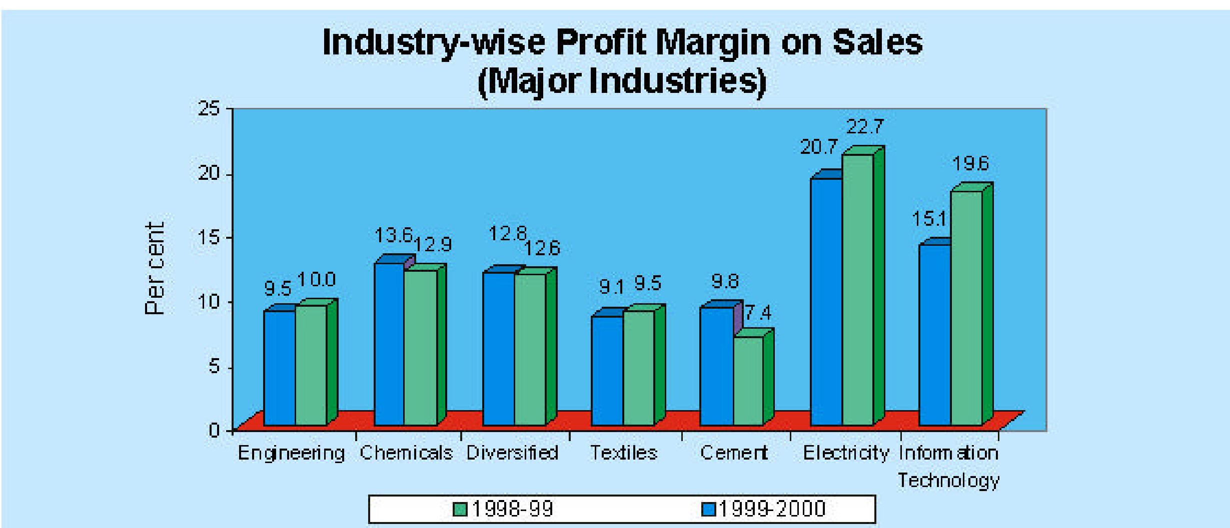
Table 6 : Industry-Wise Profit Allocation and Profitability Ratios

(Per cent)

Industry/ Industry group	Profit allocation ratios				Profitability ratios					
	Tax provision to Profits before tax		Interest to Gross profits		Gross profits to Sales		Profits before tax to Sales		Profits after tax to Sales	
	1998-1999	1999-2000	1998-1999	1999-2000	1998-1999	1999-2000	1998-1999	1999-2000	1998-1999	1999-2000
1	2	3	4	5	6	7	8	9	10	11
1. Engineering	32.1	32.6	56.7	53.5	9.5	10.0	4.1	4.7	2.8	3.1
Of which,										
i) Iron and steel & allied products	29.2	20.8	77.4	64.7	7.8	10.5	1.8	3.7	1.2	2.9
ii) Automobiles and ancilliaries	24.6	25.2	34.4	32.3	10.1	9.9	6.7	6.7	5.0	5.0
iii) Electrical machinery	25.7	33.1	57.8	61.6	8.9	8.3	3.8	3.2	2.8	2.1
iv) Other machinery	59.8	64.3	67.2	69.1	8.5	8.9	2.8	2.7	1.1	1.0
2. Chemicals	18.3	20.6	38.3	36.7	13.6	12.9	8.4	8.1	6.9	6.5

Of which,										
i) Basic industrial chemicals	14.3	19.3	51.9	56.8	14.5	12.4	7.0	5.3	6.0	4.3
ii) Pharmaceuticals and drugs	15.4	16.1	23.9	20.6	14.1	15.6	10.7	12.4	9.1	10.4
3. Cement	37.3	....*	91.7	113.3	9.8	7.4	0.8	-1.0	0.5	-1.2
4. Electricity generation and supply	29.3	25.9	44.6	41.0	20.7	22.7	11.5	13.4	8.1	9.9
5. Construction	25.4	27.9	51.2	49.5	10.4	10.1	5.1	5.1	3.8	3.7
6. Textiles	17.8	10.2	79.8	69.0	9.1	9.5	1.8	2.9	1.5	2.6
7. Tea	31.9	29.6	10.3	15.2	21.1	16.9	18.9	14.3	12.9	10.1
8. Sugar	21.5	16.9	60.4	74.8	13.7	11.1	5.4	2.8	4.3	2.3
9. Food processing	24.1	23.0	39.9	39.2	4.5	4.6	2.7	2.8	2.0	2.2
10. Rubber and rubber products	22.6	19.9	62.5	50.0	9.7	9.6	3.6	4.8	2.8	3.8
11. Paper and paper products	*	62.0	106.5	87.9	6.2	8.3	-0.4	1.0	-0.8	0.4
12. Plastic products	20.5	72.8	66.5	87.6	9.4	6.6	3.1	0.8	2.5	0.2
13. Information technology	6.2	9.9	20.9	10.5	15.1	19.6	12.0	17.6	11.2	15.8
14. Trading	15.6	11.0	54.0	43.5	4.8	5.3	2.2	3.0	1.9	2.7
15. Hotel	13.7	13.9	18.3	27.3	25.5	23.8	20.8	17.3	18.0	14.9
16. Diversified	4.7	4.2	42.1	43.3	12.8	12.6	7.4	7.1	7.1	6.8
All companies (including others)	**20.5**	**20.5**	**46.9**	**43.8**	**11.7**	**12.0**	**6.2**	**6.7**	**5.0**	**5.3**

* *Profits before tax were negative*



Return on sales (ratio of profits after tax to sales) of iron and steel companies (2.9 per cent), pharmaceutical companies (10.4 per cent), electricity generation and supply (9.9 per cent) and textiles (2.6 per cent) were higher by 1 to 2 percentage points during 1999-2000. Most of the other industry groups witnessed a fall in their return on sales during 1999-2000.

* Prepared in the Corporate Studies Division of the Department of Statistical Analysis and Computer Services.

\# The previous study on ‘Performance of Private Corporate Business Sector, 1998-99’ was published in the October 1999 issue of the Reserve Bank of India Bulletin.