

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

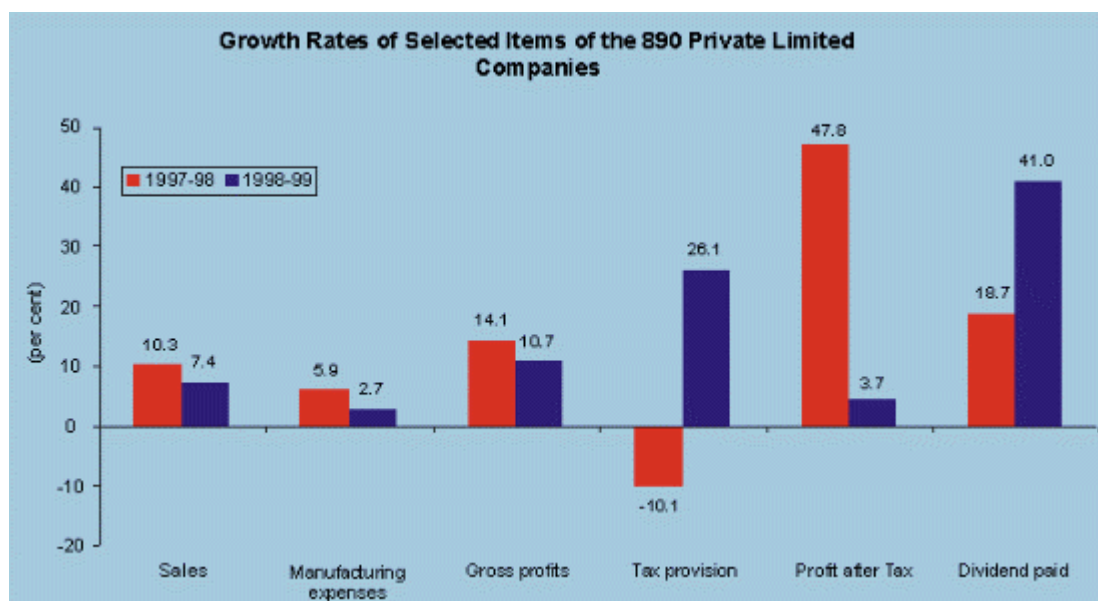
The financial performance of the 890 selected non-government non-financial private limited companies[®] for the period 1996-97 to 1998-99 is assessed in this article based on their audited annual accounts closed during the period April 1998 to March 1999[§]. In the case of companies, which either extended or shortened their accounting year, their 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 indicates an overall deceleration during 1998-99. The selected companies registered an increase in their total sales by 7.4 per cent in 1998-99 as compared to an increase of 10.3 per cent in the preceding year. The growth rates in profits during 1998-99 were also lower as compared to the previous year. The profit margin (gross profits to sales) increased from 8.4 per cent in 1997-98 to 8.7 per cent in 1998-99 but the return on net worth (profits after tax to net worth) declined from 9.2 per cent in 1997-98 to 8.4 per cent in 1998-99. Effective tax rate (tax provision to profits before tax) was higher at 36.8 per cent in 1998-99 as compared to 32.4 per cent in the previous year. The selected companies seem to have relied more on the internal sources of funds for financing their activities and their share in total sources of funds increased from 41.6 per cent in 1997-98 to 57.1 per cent in 1998-99. Gross fixed assets formation by these companies accounted for nearly half of the total uses of funds in 1998-99 (45.9 per cent in 1997-98).

A. Operational Results

The selected companies recorded an increase of 7.4 per cent in their sales in 1998-99 following a 10.3 per cent growth in the previous year. On the expenditure side, manufacturing expenses and employees' remuneration increased by 2.7 per cent and 14.0 per cent in 1998-99 as compared to an increase of 5.9 per cent and 14.3 per cent in the previous year, respectively. However, gross profits registered an increase of 10.7 per cent over the year while growth in net profits (profits after tax) was much lower at 3.7 per cent in 1998-99 ([Statement 3](#)). Tax provisions were pegged much higher with a 26.1 per cent rise in 1998-99 as against a fall of 10.1 per cent in the previous year. Retained profits declined by 8.2 per cent in 1998-99 in sharp contrast to the increase of 60.2 per cent in 1997-98. Profit margin of the selected companies increased from 8.4 per cent in 1997-98 to 8.7 per cent in 1998-99. Effective tax rate increased to 36.8 per cent in 1998-99 as compared to 32.4 per cent in 1997-98.



The return on shareholders equity (profit after tax to net worth) slipped to 8.4 per cent in 1998-99 from 9.2 per cent in the earlier year. The ordinary dividend rate (ordinary dividend to ordinary paid-up capital) worked out to 6.2 per cent in 1998-99 (4.9 per cent in 1997-98). The retention ratio also climbed down to 67.2 per cent in 1998-99 from 75.9 per cent in the previous year.

B. Foreign Business

The foreign business of the selected private limited companies continued to indicate favourable trends in 1998-99 ([Statement 6](#)). Net inflow of foreign currencies, which amounted to Rs. 130 crore in 1997-98 for the selected companies, increased to Rs. 226 crore in 1998-99.

The export intensity of sales (exports to sales) of the selected companies declined fractionally from 7.4 per cent in 1997-98 to 7.2 per cent in 1998-99. Exports by the selected companies increased by 5.0 per cent in 1998-99 as compared to an increase of 12.5 per cent in 1997-98. The foreign exchange earnings by these companies increased by 8.5 per cent in 1998-99 (31.5 per cent in 1997-98).

The imports by the selected companies declined by 10.0 per cent in 1998-99 as against an increase of 15.6 per cent in 1997-98. The total expenditure in foreign currencies decreased by 22.8 per cent in 1998-99 as against an increase of 40 per cent in the previous year.

C. Financing Pattern and Capital Structure

Financing Pattern

A total amount of Rs. 362 crore was raised by the selected companies during 1998-99 as compared to Rs.468 crore in the previous year ([Statement 5](#)). The decline was mainly in the external sources of funds which dropped from Rs.273 crore in 1997-98 to Rs.155 crore in 1998-99. The financing pattern of the selected companies indicates that the share of funds from internal sources has gone up from 41.6 per cent in 1997-98 to 57.1 per cent in 1998-99 ([Table 1](#)). Major portion of internal funds were in the form of depreciation provision.

Table 1: Financing Pattern of Selected Private Limited Companies, 1997-98 and 1998-99

Sources of funds	(Per cent)	
	1997-98	1998-99
Internal sources	41.6	57.1

Paid-up capital (Internal)	2.7	1.8
Reserves and surplus	15.6	19.3
Provisions	23.3	36.0
External sources	58.4	42.9
Paid-up capital (External)	14.0	21.5
Borrowings	27.5	24.7
Trade dues and other current liabilities	16.2	-4.1
Others	0.7	0.8
Total	100.0	100.0

Fresh capital roughly accounted for half of the total external sources of funds of the selected companies in 1998-99 as against the corresponding share of nearly 24 per cent in the previous year. Fresh borrowings accounted for 57.5 per cent of the external sources in 1998-99 as compared to 47.1 per cent in 1997-98.

Capital Structure

Total liabilities / assets of the selected companies increased by 7.2 per cent to Rs. 3,780 crore in 1998-99 ([Statement 4](#)). The changes observed in the financing pattern of the companies during 1998-99 did not appear to have affected the broad liability structure of the selected companies ([Table 2](#)). 'Borrowings' (33.6 per cent) and 'Trade dues and other current liabilities' (28.4 per cent) remained the two major constituents of total liabilities in 1998-99. 'Reserves and surplus' and 'Share Capital' accounted for 19.8 per cent and 16.4 per cent respectively in total liabilities in 1998-99. The debt-equity ratio of the selected companies came down from 27.2 per cent in 1997-98 to 24.9 per cent in 1998-99.

Table 2: Composition of Liabilities of Selected Private Limited Companies, 1996-97 to 1998-99

Liabilities	(Per cent)		
	1996-97	1997-98	1998-99
1. Share capital	14.7	15.3	16.4
2. Reserves and surplus	18.3	18.9	19.8
3. Borrowings	33.3	33.4	33.6
4. Trade dues and other current liabilities	32.1	30.9	28.4
5. Others	1.6	1.5	1.8
Total	100.0	100.0	100.0

D. Utilization of Funds and Assets Structure

Utilization of Funds

The pattern of utilization of funds in 1998-99 was different from that in the previous year ([Statement 5](#)). About half of the total funds were utilized for fixed assets formation which is higher than the 45.9 per cent share in 1997-98. The gross capital formation to total uses of funds decreased from 58.3 per cent in 1997-98 to 40.0 per cent in 1998-99. The share of incremental 'Loans and advances and other debtor balances' increased to 39.7 per cent in 1998-99 from 29.4 per cent in the previous year.

Table 3: Funds Utilization by the Selected Private Limited Companies, 1997-98 and 1998-99

	(Per cent)	
Uses of funds	1997-98	1998-99
1. Gross fixed assets	45.9	49.9
2. Inventories	12.4	-9.9
3. Loans and advances & other debtor balances	29.4	39.7
4. Investments	4.0	4.6
5. Cash and bank balances	8.2	14.2
6. Other assets	-	1.5
Total	100.0	100.0

Assets Structure

The changes in the utilization pattern of funds during 1998-99 resulted in minor variations in the assets structure of the selected companies ([Statement 4](#)). The share of 'Loans and advances and other debtor balances' in total net assets had moved up marginally from 35.0 per cent in 1997-98 to 36.5 per cent in 1998-99 while that of 'Net fixed assets' and 'Inventories' went down from 35.2 per cent and 17.6 per cent in 1997-98 to 34.7 per cent and 15.5 per cent in 1998-99, respectively. The current ratio of the selected companies remained unchanged at 1.1 during the period under study.

Table 4: Composition of Assets of Selected Private Limited Companies, 1996-97 to 1998-99

	(Per cent)		
Assets	1996-97	1997-98	1998-99
1. Net fixed assets	35.6	35.2	34.7
2. Inventories	17.9	17.6	15.5
3. Loans & advances & other debtor balances	34.7	35.0	36.5
4. Investments	4.9	4.9	5.0
5. Other assets	6.9	7.3	8.3
Total	100.0	100.0	100.0

E. Industry-wise Performance

The performance of the selected private limited companies as reflected by the growth in sales and net assets and 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](#)).

It may be observed that the volume of business (as indicated by sales) as also the size (as measured by total net assets) decelerated in a majority of industries in 1998-99 after a good performance in the previous year.

Table 5: Industry-wise Performance of Selected Private Limited Companies, 1997-98 and 1998-99

(Per cent)

Selected Industry / Industry-group	Number of Companies	Growth in Sales		Growth in Net Assets		Profit Margin	
		1997-98	1998-99	1997-98	1998-99	1997-98	1998-99
1. Engineering	182	7.3	6.9	16.4	5.5	9.1	8.8
<i>Of which,</i>							
(a) Motor vehicles	16	7.0	1.5	11.8	9.0	4.9	1.6
(b) Electrical machinery, apparatus, appliances, etc.	50	13.4	10.3	18.8	14.3	8.6	8.4
(c) Machinery other than transport and electricals	54	0.9	5.0	15.9	3.7	12.0	12.1
(d) Foundries and engineering workshops	11	-8.2	12.0	6.1	6.9	9.2	7.1
(e) Ferrous/ non-ferrous metal products	46	15.1	6.4	15.3	7.4	7.4	8.5
2. Chemicals	96	15.5	9.9	12.9	11.3	5.6	7.5
<i>Of which,</i>							
(a) Basic industrial chemicals	27	4.4	13.8	7.0	7.8	\$	1.0
(b) Medicines and pharmaceutical preparations	29	35.7	10.2	29.3	20.5	9.3	8.7
3. Trading	92	15.2	7.7	18.3	3.1	8.4	8.7
4. Cotton textiles	47	1.7	-0.3	-0.5	-2.4	6.0	2.7
5. Hotels, restaurants and eating houses	35	4.4	5.2	13.9	11.1	20.6	19.9
6. Paper and paper products	23	11.8	5.9	13.6	4.1	6.8	7.4
7. Tea	18	35.9	-0.5	19.2	5.2	25.3	21.4
All Companies	890	10.3	7.4	11.3	6.9	8.4	8.7

\$ Numerator is negligible.

* **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 1999 as per the information available from the Department of Company Affairs, Government of India.

\$ Reference may be made to the July 2000 issue of the RBI Bulletin for the previous study, which covered 883 non-government non-financial private limited companies during 1997-98.