

## **Performance of Financial and Investment Companies, 1999-2000\***

The present study analyses the performance of non-government financial and investment companies (other than banking, insurance and chit-fund companies) for the year 1999-2000. The study is based on the audited annual accounts of 805 companies, which closed their accounts during the period April 1999 to March 2000<sup>@</sup>. The companies covered in this study accounted for 23.6 per cent of the total paid-up capital of all non-government financial and investment companies as at the end of March 2000<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 accounted for 27.4 per cent of the total paid-up capital, 61.4 per cent of main income and 65.5 per cent of total net assets of the selected 805 companies in 1999-2000. 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 companies. In view of such marked skewness in the size structure, the analysis that follows is confined to the remaining 803 companies. However, data on all the selected 805 companies (including ICICI and HDFC) are separately presented in Annexures [1](#), [2](#) and [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 803 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 803 financial and investment companies recorded higher growth in 1999-2000 than in 1998-99. The growth in total expenditure in 1999-2000 was lower than the growth in the previous year. The growth in profits witnessed an increase in 1999-2000 after a decline in the previous year. The profit margin (operating profits as percentage of main income) and return on shareholders' funds (profits after tax to net worth) in 1999-2000 were higher than in the previous year. The dividend rate (dividend to paid up capital) for selected companies also increased during the year.

External sources continued to be a major source of finance in the assets formation of the selected financial and investment companies and accounted for around 90 per cent of their sources of funds in 1999-2000. 'Borrowings' was the major source of funds accounting for nearly three-fourths of the total external sources of funds. Inventories in financial securities, investments in shares and debentures of Indian companies and receivables were the major uses of funds during the year.

**TABLE 1: DISTRIBUTION OF NUMBER OF SELECTED COMPANIES, THEIR PAID-UP CAPITAL, MAIN INCOME AND NET ASSETS, 1998-99 AND 1999-2000**

Activity	Number of companies	(Rs.crore)					
		Paid-up capital		Main income		Net assets	
		1998-99	1999-00	1998-99	1999-00	1998-99	1999-00
1. Share trading and investment holding	322 (40.1)	1,936 (36.9)	2,263 (38.6)	462 (8.8)	1,215 (19.9)	8,157 (20.7)	9,765 (22.5)
2. Loan finance	174 (21.7)	1,421 (27.1)	1,513 (25.8)	1,157 (22.1)	1,430 (23.5)	10,947 (27.7)	13,298 (30.6)
3. Hire purchase finance	106 (13.2)	636 (12.1)	701 (11.9)	1,861 (35.6)	1,739 (28.5)	9,913 (25.1)	9,745 (22.4)
4. Leasing	76 (9.5)	590 (11.2)	695 (11.8)	721 (13.8)	509 (8.3)	4,087 (10.4)	3,453 (7.9)
5. Diversified	62 (7.7)	395 (7.5)	416 (7.1)	851 (16.3)	833 (13.7)	5,400 (13.7)	5,561 (12.8)
6. Miscellaneous	63 (7.8)	273 (5.2)	282 (4.8)	174 (3.3)	368 (6.0)	969 (2.5)	1,663 (3.8)
<b>All Activities</b>	<b>803</b> (100.0)	<b>5,252</b> (100.0)	<b>5,870</b> (100.0)	<b>5,225</b> (100.0)	<b>6,093</b> (100.0)	<b>39,474</b> (100.0)	<b>43,485</b> (100.0)

Note: Figures in brackets represent percentage to all activities.

### C. Operational Results

The main income of selected financial and investment companies increased by 16.6 per cent in 1999-2000. The growth in main income was influenced by high growth of 163.0 per cent in main income registered by 'Share trading and investment holding companies' during 1999-2000. The growth of 23.8 per cent in main income observed during 1998-99 in the case of 'Loan finance' companies was sustained in the subsequent year when they registered a comparable growth of 23.6 per cent. Main income of 'Hire purchase' companies declined by 6.5 per cent during 1999-2000 as against an increase of 5.5 per cent during the previous year. 'Leasing' and 'Diversified' companies registered negative growth in main income during 1999-2000 also.

The growth in total expenditure of selected companies increased by 7.7 per cent over and above an increase of 9.5 per cent in the previous year. Interest payments during 1999-2000 increased by 1.1 per cent and constituted nearly 45 per cent of the total expenditure. The rise of 18.6 per cent in employees' remuneration during 1999-2000 was higher than the increase of 11.6 per cent in the previous year. The provisions for bad debts increased by 100.4 per cent in 1999-2000 after an increase of 130.7 per cent in the previous year. This needs to be viewed in the context of the prudential norms prescribed for non-banking financial companies.

The operating profits and profits before tax witnessed an increase in 1999-2000 after a decline in the previous year. The profit margin and return on equity of the selected companies for 1999-

2000 were 12.9 per cent and 3.1 per cent, respectively. The dividend rate for the selected companies increased from 3.6 per cent in 1998-99 to 6.2 per cent in 1999-2000. The effective tax rate (tax provision as percentage of pre-tax profits) for the selected companies was 56.3 per cent in 1999-2000.

**TABLE 2: GROWTH RATES OF MAIN INCOME, OPERATING PROFITS AND PROFITS AFTER TAX OF THE SELECTED FINANCIAL AND INVESTMENT COMPANIES, 1998-99 AND 1999-2000**

Activity	(Per cent)					
	Main income		Operating profits		Profits after tax	
	1998-99	1999-00	1998-99	1999-00	1998-99	1999-00
1. Share trading and investment holding	12.7	163.0	+	#	&	#
2. Loan finance	23.8	23.6	-3.3	112.2	-39.0	135.1
3. Hire purchase finance	5.5	-6.5	-48.3	+	-63.7	+
4. Leasing	-15.4	-29.4	&	&	&	&
5. Diversified	-10.1	-2.1	-63.7	-27.5	-79.0	-73.6
<b>All activities</b>	<b>3.4</b>	<b>16.6</b>	<b>-86.9</b>	<b>1271.6</b>	<b>+</b>	<b>#</b>

# Denominator is negative, nil or negligible.

+ Numerator is negative, nil or negligible.

& Numerator and Denominator both are negative, nil or negligible.

**TABLE 3: PROFIT MARGIN, EFFECTIVE TAX RATE, RETURN ON NET WORTH AND DIVIDEND RATE OF THE SELECTED FINANCIAL AND INVESTMENT COMPANIES, 1998-99 AND 1999-2000**

Activity	(Per cent)							
	Profit margin		Effective tax rate		Return on net worth		Dividend rate	
	1998-99	1999-00	1998-99	1999-00	1998-99	1999-00	1998-99	1999-00
1. Share trading and investment holding	+	59.4	#	20.5	+	14.3	2.7	7.9
2. Loan finance	9.3	15.9	40.1	37.7	3.1	6.6	1.6	4.1
3. Hire purchase finance	6.1	+	54.5	#	3.0	+	7.2	7.0
4. Leasing	+	+	#	#	+	+	3.7	3.0
5. Diversified	7.2	5.4	67.1	89.1	1.6	0.4	9.0	7.4
<b>All activities</b>	<b>1.1</b>	<b>12.9</b>	<b>270.2</b>	<b>56.3</b>	<b>+</b>	<b>3.1</b>	<b>3.6</b>	<b>6.2</b>

See footnote on Table 2.

It may be observed from the activity-wise performance of the selected companies that main income, operating profits, pre-tax profits and post-tax profits of 'Share trading and investment holding' and 'Loan finance' companies increased during 1999-2000 whereas companies involved in other activities registered decline in all of them. During 1999-2000, the profit margins for 'Share trading and investment holding' and 'Loan finance' companies were 59.4 per cent and 15.9 per cent, and their return on net worth were 14.3 per cent and 6.6 per cent, respectively.

The dividend rate at 7.9 per cent was the highest for 'Share trading and investment holding' companies in 1999-2000. Dividend rates for 'Hire purchase', 'Loan finance' and 'Leasing' companies during 1999-2000 were 7.0 per cent, 4.1 per cent and 3.0 per cent, respectively.

## D. Pattern of Financing and Capital Structure

### Financing Pattern

The selected companies raised funds to the tune of Rs. 4,008 crore from various sources in 1999-2000 as against Rs. 3,137 crore raised in the previous year ([Statement 5](#)). The pattern of financing in 1999-2000 was observed to be at variance with that of the previous year. Total borrowings by the selected companies increased from Rs. 1,775 crore in 1998-99 to Rs. 2,720 crore in 1999-2000. The share of external sources of funds in total funds increased from 87.6 per cent in 1998-99 to 90.4 per cent in 1999-2000 mainly due to a large increase in 'Borrowings'. 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, 1998-99 AND 1999-2000**

Sources of funds	(Per cent)	
	All activities	
	1998-99	1999-00
<b>Internal sources</b>	<b>12.4</b>	<b>9.6</b>
a) Paid-up capital*	-	1.3
b) Reserves and surplus	-11.8	-1.4
c) Provisions	24.2	9.7
<b>External sources</b>	<b>87.6</b>	<b>90.4</b>
d) Paid-up capital #	20.1	20.7
e) Borrowings	56.6	67.9
f) Trade dues and other current liabilities	10.8	-2.5
g) Others	-	4.4
<b>Total</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.

### Capital Structure

The total liabilities (unadjusted) of the selected companies increased by 10.2 per cent to Rs. 43,485 crore in 1999-2000 ([Statement 4](#)). 'Borrowings' continued to be the single major component, constituting nearly 60 per cent of the total liabilities. The composition of total liabilities of the selected companies across the major activities is given in Table 5.

**TABLE 5 : CAPITAL STRUCTURE OF SELECTED FINANCIAL AND INVESTMENT COMPANIES, 1998-99 AND 1999-2000**

Capital and liabilities	(Per cent)					
	Share trading and investment holding	Loan finance	Hire purchase finance	Leasing	Diversified	All activities

	1998-99	1999-00	1998-99	1999-00	1998-99	1999-00	1998-99	1999-00	1998-99	1999-00	1998-99	1999-00
a) Share capital	23.8	23.2	13.0	11.4	6.4	7.2	14.4	20.1	7.3	7.5	13.3	13.5
b) Reserves and surplus	16.2	18.5	4.9	4.6	13.8	12.6	7.2	-1.8	20.5	23.5	12.3	12.0
c) Borrowings	45.6	47.2	77.4	79.9	60.3	60.5	52.2	46.3	53.5	51.5	59.2	60.0
d) Trade dues and other current liabilities	11.6	7.7	3.8	3.3	18.0	18.0	18.8	21.8	15.8	13.3	12.8	11.4
e) Other liabilities	2.8	3.5	0.9	0.8	1.5	1.7	7.4	13.5	3.0	4.2	2.4	3.1
<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>

## E. Uses of Funds and Assets Structure Uses of funds

The total figures indicate that the selected companies had deployed substantial portion of the funds raised by them during 1999-2000 in inventories in financial securities, investments and receivables ([Statement 5](#)). The share of 'Inventories' in total uses of funds in 1999-2000 was 39.3 per cent. 'Investments' and 'Receivables' constituted 29.4 per cent and 28.7 per cent of the total uses of funds, respectively. Across the activity-groups, it is observed that the pattern of deployment of funds by the selected companies was somewhat influenced by the major activity undertaken by them. 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, 1998-99 AND 1999-2000**

Uses of funds	(Per cent)	
	All activities	
	1998-99	1999-00
a) Cash and bank balances	-	11.4
b) Investments	30.8	29.4
c) Receivables	46.7	28.7
d) Inventories	19.6	39.3
e) Gross fixed assets	3.9	-8.8
<i>Of which,</i>		
<i>Leased assets</i>	-8.5	-11.5
f) Others	-1.1	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

## Assets Structure

The assets structure of the selected companies in 1999-2000 remained almost similar to that of the previous year ([Statement 4](#)). The composition of assets in 1998-99 and 1999-2000 is given in Table 7. Receivables (47.8 per cent), investments (28.3 per cent) and net fixed assets (10.7 per cent) remained the major constituents of total assets of the selected companies in 1999-2000. Activity-wise, the assets structure of these companies was in tune with the major activity undertaken by them. However, for leasing companies, receivables accounted for a major proportion (53.0 per cent) of the total assets.

**TABLE 7: ASSETS STRUCTURE OF THE SELECTED FINANCIAL AND INVESTMENT COMPANIES, 1998-99 AND 1999-2000**

(Per cent)

Assets	Share trading and investment holding		Loan finance		Hire purchase finance		Leasing		Diversified		All activities	
	1998-99	1999-00	1998-99	1999-00	1998-99	1999-00	1998-99	1999-00	1998-99	1999-00	1998-99	1999-00
	a) Cash and bank balances	1.7	1.8	1.4	3.6	2.3	3.1	2.0	2.3	2.3	1.9	2.1
b) Investments	72.5	67.9	26.5	24.4	6.7	6.6	8.9	8.0	20.4	23.5	28.2	28.3
c) Receivables	16.2	19.9	52.5	47.1	71.9	71.9	52.0	53.0	52.8	52.2	49.8	47.8
d) Inventories	6.5	7.6	9.9	15.1	1.2	1.3	1.9	1.8	1.5	4.2	5.0	8.1
e) Net fixed assets	2.1	1.8	5.3	5.3	16.8	16.0	33.4	32.8	21.9	17.1	12.9	10.7
f) Other assets	1.0	1.1	4.4	4.4	1.1	1.0	1.8	2.1	1.1	1.0	2.1	2.2
<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 the Department of Statistical Analysis and Computer Services.

@ Reference may be made to the November 2000 issue of the Reserve Bank of India Bulletin for the study which covered the financial performance of 727 non-government financial and investment companies during 1998-99.

# Based on provisional data relating to year ended March 2000 supplied by Department of Company Affairs, Government of India.

[Statement 1 : Annual Growth Rates of Selected Items - Selected Financial and Investment Companies - Activity-Wise, 1998-99 and 1999-2000](#)

[Statement 2: Profit Allocation and Profitability Ratios - Selected Financial and Investment Companies - Activity-Wise, 1997-98 to 1999-2000](#)

[Statement 3: Combined Income, Expenditure and Appropriation Accounts - Selected Financial and Investment Companies - Activity-Wise, 1997-98 To 1999-2000](#)

[Statement 4: Combined Balance Sheet - Selected Financial and Investment Companies - Activity-Wise, 1997-98 to 1999-2000](#)

[Statement 5: Sources and Uses of Funds - Selected Financial and Investment Companies - Activity-Wise, 1998-99 and 1999-2000](#)

[Annexure 1: Combined Income, Expenditure and Appropriation Accounts - Selected Financial and Investment Companies, 1997-98 to 1999-2000](#)

[Annexure 2 : Combined Balance Sheet - Selected Financial and Investment Companies, 1997-98 to 1999-2000](#)

[Annexure 3 :Sources and Uses of Funds - Selected Financial and Investment Companies, 1998-99 and 1999-2000](#)

[Appendix](#)