Performance of Financial and Investment Companies, 2001-02*

Financial and investment companies provide credit to businesses and households and also help in developing an efficient capital market in the country through their investment holding, share trading and merchant banking activities. These companies originate loans and extend lease finance for purchase of consumer goods such as automobiles, electrical equipments and other appliances, to household sector. They supply short and intermediate-term credit (including leases) to businesses for such purposes of acquiring fixed assets (land and building, plants and machinery, motor vehicles, *etc*.), for working capital requirements, *etc.*

The present article analyses the performance of the non-Government financial and investment companies (other than banking, insurance and chit-fund companies) during the year 2001-02. The study is based on the audited annual accounts of 920 companies, which closed their accounts during the period April 2001 to March 2002[1]. The companies included in this study accounted for 20.2 per cent of the total paid-up capital of all non-Government non-banking financial and investment companies as at the end of March 2002[2].

The segment of financial and investment companies in the private corporate sector used to include two giant companies, *viz.*, Industrial Credit and Investment Corporation of India (ICICI) and Housing Development Finance Corporation (HDFC) up to the previous study. Subsequently, due to the merger of ICICI with its subsidiary ICICI Bank, the present study includes HDFC only. The presence of HDFC in the study would exert influence on the various quantitative measures of performance of the remaining companies. In view of such skewness, the analysis presented in the article excludes this company. Further, on analysis of the performance of the companies, it was observed that a few companies reported abnormal results and, therefore, these outlier companies were also kept outside the analysis presented below, which is, thus, confined to 916 companies. However, data on all the selected 920 companies including the outlier companies 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 the companies with the result that the consolidated data reported in the article refer to the aggregation of the balance sheetsfor varying periods. The analysis of the financial performance for the year discussed below is subject to these limitations.

I. Composition of the Selected 916 Companies

The selected 916 financial and investment companies were classified into six major groups, according to their activity, *viz.*, (1) Share trading and investment holding, (2) Loan finance, (3) Hire purchase finance, (4) Leasing, (5) Diversified and (6) Miscellaneous. 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 composition of companies based on their total number, paid-up capital, main income and total net assets across the above mentioned activities is presented in Table 1.

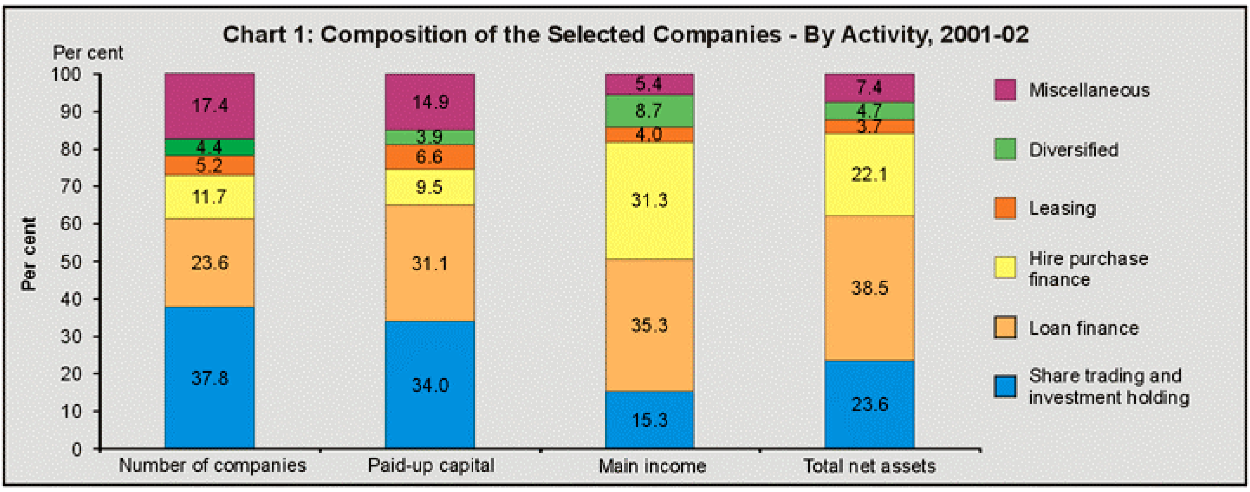
The composition of the selected 916 companies in 2001-02 in terms of their paid-up capital, main income and total net assets is more or less the same as that in 2000-01. The 'Share trading and investment holding' companies, which accounted for 37.8 per cent of the selected 916 companies, shared 34.0 per cent of the paid-up capital and 23.6 per cent of the total net assets in 2001-02; but accounted for only 15.3 per cent of the total main income. 'Loan finance' and 'Hire purchase finance' companies (23.6 per cent and 11.7 per cent, respectively, in terms of number) together accounted for 40.6 per cent of paid up capital, 60.6 per cent of total net assets and 66.6 per cent of main income of the selected 916 companies.

Table 1 : Composition of the Selected Companies - by Activity, 2000-01 and 2001-02

(Rs.crore)

Activity	Number of Companies	Paid-up capital 2000-01	Paid-up capital 2001-02	Main income 2000-01	Main income 2001-02	Total Net assets 2000-01	Total Net assets 2001-02
1. Share trading and investment holding	346	2,891	3,012	800	931	13,939	14,626
	(37.8)	(36.6)	(34.0)	(13.1)	(15.3)	(25.4)	(23.6)
2. Loan finance	216	2,252	2,757	2,141	2,146	19,514	23,836
	(23.6)	(28.5)	(31.1)	(35.1)	(35.3)	(35.6)	(38.5)
3. Hire purchase finance	107	797	841	1,798	1,903	12,292	13,656
	(11.7)	(10.1)	(9.5)	(29.5)	(31.3)	(22.4)	(22.1)
4. Leasing	48	567	584	357	244	2,750	2,267
	(5.2)	(7.2)	(6.6)	(5.9)	(4.0)	(5.0)	(3.7)
5. Diversified	40	311	342	425	531	2,694	2,887
	(4.4)	(3.9)	(3.9)	(7.0)	(8.7)	(4.9)	(4.7)
6. Miscellaneous	159	1,072	1,317	581	331	3,657	4,596
	(17.4)	(13.6)	(14.9)	(9.5)	(5.4)	(6.7)	(7.4)
All Activities	**916**	**7,891**	**8,853**	**6,102**	**6,085**	**54,846**	**61,868**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**

Note: Figures in parantheses represent percentages to all activities.



II. Overall performance

The consolidated results of the selected 916 Non-Government financial and investment companies indicated improved performance in terms of profits despite a marginal decline in their main income. The growth in profits registered by these companies during 2001-02 can be attributed to lower depreciation provision and other expenditure as compared to those in the previous year. Interest payments were also marginally lower in 2001-02 as compared to that in the previous year. Employees' remuneration continued to increase in 2001-02, but at a lower pace. The profit margin (operating profits as percentage of main income) and the return on shareholders' funds (profits after tax to net worth) were higher in 2001-02 than those in 2000-01, though, these were still lower when compared to their respective levels in 1999-2000. The dividend rate (dividends to total paid up capital) was fractionally higher during the period under report. Across the activity, the profit margin was the highest in case of 'Diversified' companies followed by 'Share trading and investment holding' companies (Statement 2).

External sources continued to be the major source of finance to the selected financial and investment companies during 2001-02. Issuance of new debentures, borrowings from banks and public deposits were the prominent external sources of funds. Investments in securities of other Indian companies and mutual funds, loans and advances against hire purchase and other receivables were the important uses of funds during the year.

III. Operational Results

The main income of the selected financial and investment companies declined marginally by 0.3 per cent during 2001-02 to Rs. 6,085 crore (-3.5 per cent in 2000-01) (Statement 3). The total expenditure of selected companies declined by 7.4 per cent in 2001-02 as against an increase of 7.2 per cent in the previous year. Interest payments declined by 0.4 per cent during 2001-02 as against 8.9 per cent growth in the preceding year.

Table 2 : Growth Rates of Main Income, Total Expenditure, Operating Profits and Profits After Tax of the Selected Financial and Investment Companies, 2000-01 and 2001-02

(Per cent)

Activity	Main income		Total expenditure		Operating profits		Profits after tax	
	2000-01	**2001-02**	**2000-01**	**2001-02**	**2000-01**	**2001-02**	**2000-01**	**2001-02**
1. Share trading and Investment holding	–33.9	16.4	20.7	–18.1	*	#	*	#
2. Loan finance	14.9	0.2	23.2	–4.6	–49.4	62.3	–35.5	23.6
3. Hire purchase finance	3.2	5.8	7.1	–0.2	–43.1	88.2	–81.0	335.1
4. Leasing	–33.0	–31.6	–43.9	–17.1	$	$	$	$
5. Diversified	9.6	25.2	–1.0	14.9	56.0	31.8	177.9	46.4
All activities	**–3.5**	**–0.3**	**7.2**	**–7.4**	**–76.4**	**201.1**	*****	**#**

Denominator is negative, nil or negligible. * Numerator is negative, nil or negligible.
$ Numerator and Denominator both are negative, nil or negligible.

The interest payments constituted almost half of total expenditure during the year under review. Employees' remuneration registered an increase by 8.6 per cent during 2001-02, after having a substantial growth of 24.2 per cent in 2000-01. The operating profits and profits before taxes were positive during 2001-02 but these were still lower when compared to their respective levels in 1999-2000.

Activity-wise, 'Diversified' activity-group witnessed the highest growth in main income at 25.2 per cent followed by 'Share trading and investment holding' at 16.4 per cent during 2001-02. All activity-groups except 'Leasing' reported growth in profits during 2001-02.

The profit margin of the selected companies during 2001-02 was recorded at 10.4 per cent (Table 3). During the period under review, the dividend rate was fractionally higher at 3.8 per cent as compared to 3.7 per cent in 2000-01. Return on net worth was at 2.8 per cent in 2001-02. The profit margin, return on net worth and dividend rate in 2000-01 and 2001-02, were the highest for 'Diversified' companies.

Table 3 : Selected Profitability Ratios of the Selected Financial and Investment Companies, 2000-01 and 2001-02

(Per cent)

Activity	Profit margin		Effective tax rate		Return on net worth		Dividend rate	
	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02
1. Share trading and investment holding	*	19.4	#	43.6	*	2.9	3.2	3.9
2. Loan finance	8.2	13.3	40.1	30.3	4.6	4.8	2.5	2.0
3. Hire purchase finance	5.8	10.3	76.9	51.3	1.1	4.5	8.4	8.7
4. Leasing	*	*	#	#	*	$	1.2	0.9
5. Diversified	31.7	33.4	43.2	40.2	11.0	15.3	13.3	20.7
All Activities	**3.5**	**10.4**	**114.0**	**52.8**	*	**2.8**	**3.7**	**3.8**

See footnotes to Table 2.

IV. Sources and Uses of Funds

Sources of Funds

The selected 916 companies raised their funds (net) to the tune of Rs. 6,996 crore from various sources in 2001-02 as against Rs. 5,644 crore raised in the previous year (Statement 5). The pattern of finances raised in 2001-02 was observed to be at variance with that of the previous year (Table 4). The selected companies recorded net repayment through internal sources, mainly because of draw-down of reserves and surplus and lower depreciation provisions during 2001-02.

The share of 'Borrowings' in total sources of funds during 2001-02 increased to 99.3 per cent from 67.8 per cent in 2000-01. Across the activity groups, similar trends were observed. Except for the 'Diversified' companies, the companies in all other activity-groups relied mainly on external sources of funds, particularly, on borrowed funds. The 'Diversified' companies resorted to internal sources for their fund needs and accounted for 82.8 per cent of total sources of funds in 2001-02. The share of 'Trade dues and other current liabilities' declined in respect of all activities.

Table 4 : Sources of Funds of the Selected Financial and Investment Companies, 2000-01 and 2001-02

(Amount in Rs. Crore)

Sources of Funds	Share trading and investment Holding		Loan finance		Hire purchase Finance		Leasing		Diversified		All activities	
	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02
Internal sources	**–156**	**–42**	**88**	**–28**	**77**	**–18**	**–300**	**–202**	**51**	**176**	**–315**	**–111**
	(–8.7)	**(–6.6)**	**(3.6)**	**(–0.7)**	**(4.2)**	**(–1.3)**			**(9.5)**	**(82.8)**	**(–5.6)**	**(–1.6)**
a) Paid-up capital *	10	—	—	—	—	—	—	—	—	11	26	11
	(0.5)	(—)	(—)	(—)	(—)	(—)			(—)	(5.3)	(0.5)	(0.2)
b) Reserves and Surplus	–198	49	112	30	–36	–42	–205	–194	24	3	–359	–162
	(–11.1)	(7.6)	(4.6)	(0.7)	(–1.9)	(–3.2)			(4.4)	(1.3)	(–6.4)	(–2.3)

c) Provisions	33	–91	–23	–58	112	24	–95	–8	27	162	19	39
	(1.8)	(–14.2)	(–1.0)	(–1.4)	(6.1)	(1.8)			(5.1)	(76.2)	(0.3)	(0.6)
External sources	**1,945**	**683**	**2,338**	**4,270**	**1,766**	**1,342**	**–259**	**–285**	**488**	**36**	**5,959**	**7,107**
	(108.7)	**(106.6)**	**(96.4)**	**(100.7)**	**(95.8)**	**(101.3)**			**(90.5)**	**(17.2)**	**(105.6)**	**(101.6)**
d) Paid-up capital #	109	202	145	612	86	80	19	17	168	19	612	1,188
	(6.1)	(31.6)	(6.0)	(14.4)	(4.7)	(6.0)			(31.1)	(8.9)	(10.8)	(17.0)
e) Borrowings	702	1,590	1,985	3,474	1,177	1,413	–279	–247	313	107	3,826	6,945
	(39.2)	(248.2)	(81.8)	(81.9)	(63.9)	(106.7)			(58.1)	(50.4)	(67.8)	(99.3)
f) Trade dues & other	1,133	–1,108	207	184	502	–151	1	–55	7	–89	1,521	–1,025
current liabilities	(63.4)	(–172.9)	(8.5)	(4.3)	(27.3)	(–11.4)			(1.3)	(–42.1)	(26.9)	(–14.6)
g) Others	1	–2	—	—	—	—	—	—	—	—	1	–2
	(—)	(–0.3)	(—)	(—)	(—)	(—)			(—)	(—)	(—)	(—)
Total	**1,789**	**641**	**2,426**	**4,242**	**1,843**	**1,325**	**–559**	**–487**	**539**	**212**	**5,644**	**6,996**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**			**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**

Note :Figures in brackets represent percentage to total. Percentages for 'Leasing' companies are notpresented as totals are negative in magnitude.

* 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.

— Nil or negligible.

Uses of Funds

The total uses of funds indicated that the selected companies had deployed substantial portion of their funds in investments in Indian securities and receivables (loans and trade dues) during 2001-02 (Statement 5). 'Investments' and 'Receivables' constituted 66.0 per cent and 37.1 per cent of the total uses of funds, respectively, in 2001-02 (Table 5). Across the activity-groups, it was observed that the pattern of deployment of funds by the selected companies was somewhat influenced by the major activity undertaken by them. For 'Share trading and investment holding' activity-group, investments in shares and debentures of other Indian companies and inventories of securities were the major uses of funds during 2001-02. In the case of 'Loan finance' and 'Hire purchase finance' companies, the 'Receivables' accounted for the largest share in the total uses of funds. The gross fixed assets formation registered net declines across all activity-groups in 2001-02.

V. Capital and Assets Structure

Capital Structure

The total liabilities (unadjusted) of the selected companies increased by 12.8 per cent to Rs.61,868 crore in 2001-02 (Statement 4).

Table 5 : Uses of Funds by the Selected Financial and Investment Companies, 2000-01 and 2001-02

(Amount in Rs. Crore)

Uses of Funds	Share trading and investment holding		Loan finance		Hire purchase Finance		Leasing		Diversified		All activities	
	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02
a) Cash and bank balances	83	–83	–18	–47	91	161	5	19	—	52	234	72
	(4.7)	(–13.0)	(–0.8)	(–1.1)	(4.9)	(12.2)				(24.5)	(4.1)	(1.0)
b) Investments	653	1,611	1,074	1,584	–66	–78	–26	–45	148	59	1,892	4,615
	(36.5)	(251.5)	(44.3)	(37.3)	(–3.6)	(-5.9)			(27.4)	(28.0)	(33.5)	(66.0)
c) Receivables	1,232	–1,405	1,600	2,834	2,038	1,538	–210	–243	301	237	4,354	2,597
	(68.9)	(–219.4)	(65.9)	(66.8)	(110.6)	(116.1)			(55.8)	(111.8)	(77.1)	(37.1)
d) Inventories	–163	623	–177	152	12	–39	–15	–1	53	–54	–268	641

	(–9.1)	(97.2)	(–7.3)	(3.6)	(0.7)	(–2.9)			(9.8)	(–25.5)	(–4.8)	(9.2)
e) Gross fixed assets	–6 (–0.3)	–94 (–14.7)	–32 (–1.3)	–290 (–6.8)	–232 (–12.6)	–241 (–18.2)	–310	–217	38 (7.1)	–82 (–38.6)	–540 (–9.6)	–912 (–13.0)
f) Other assets	–12 (–0.7)	–11 (–1.7)	–21 (–0.9)	8 (0.2)	–1 (–0.1)	–17 (–1.3)	–3	—	—	—	–28 (–0.5)	–17 (–0.2)
Total	**1,789** **(100.0)**	**641** **(100.0)**	**2,426** **(100.0)**	**4,242** **(100.0)**	**1,843** **(100.0)**	**1,325** **(100.0)**	**–559**	**–487**	**539** **(100.0)**	**212** **(100.0)**	**5,644** **(100.0)**	**6,996** **(100.0)**

For footnotes, please refer table 4.

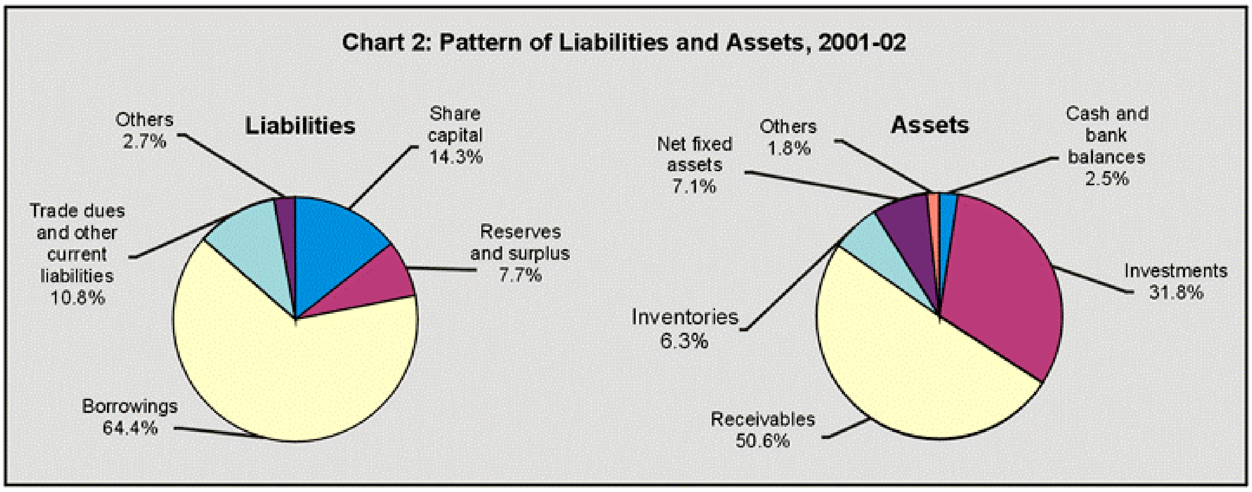
'Borrowings' continued to be the major component, constituting 64.4 per cent of total liabilities. Similar trends were observed across the different activity-groups and 'Borrowings' accounted for more than half of the total liabilities in respect of all activity-groups during the period under review. However, the borrowings of 'Share trading and investment holding' companies accounted for 49.3 per cent of total liabilities in 2000-01. The composition of total liabilities of the selected companies across the major activities is given in Table 6.

The share of 'Borrowings' in total liabilities was maximum for all activity-groups and this was followed by 'Share capital' in the case of 'Share trading and investment holding', 'Loan finance' and 'Leasing' companies and 'Trade dues and other current liabilities' in the case of 'Hire purchase' and 'Diversified' companies.

Table 6 : Capital Structure of the Selected Financial and Investment Companies, 2000-01 and 2001-02

(Per cent)

Capital and liabilities	Share trading and investment holding		Loan finance		Hire purchase finance		Leasing		Diversified		All activities	
	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02
a) Share capital	20.7	20.6	11.5	11.6	6.5	6.2	20.6	25.8	11.6	11.8	14.4	14.3
b) Reserves and surplus	12.8	13.1	6.7	6.0	10.6	9.5	–17.3	–29.5	14.9	14.0	8.6	7.7
c) Borrowings	49.3	57.8	74.4	75.5	60.2	64.6	63.6	66.2	52.9	53.1	60.0	64.4
d) Trade dues and other current liabilities	13.6	5.4	6.5	6.1	19.7	16.6	18.2	19.6	17.3	13.0	14.1	10.8
e) Other liabilities	3.5	3.1	0.9	0.8	3.0	3.2	14.9	17.9	3.3	8.0	3.0	2.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**



Assets Structure

The assets structure of the selected companies in 2001-02 remained similar to that of the previous year (Statement 4). The composition of assets across different activities, in 2000-01 and 2001-02, is given in Table 7. Receivables (50.6 per cent), investments (31.8 per cent) and net fixed assets (7.1 per cent) were the major constituents of total net assets of the selected companies in 2001-02.

Activity-wise, the assets structure of these companies was in tune with the major activity undertaken by them, *viz.*, investments accounted for about 62 per cent for 'Share trading and investment holding' companies, receivables formed about 84 per cent for 'Hire purchase finance' and 50 to 60 per cent for 'Loan finance', 'Leasing' and 'Diversified' companies. However, net fixed assets accounted for 36.3 per cent of the total net assets for 'Leasing' companies.

Table 7: Assets Structure of the Selected Financial and Investment Companies, 2000-01 and 2001-02

(Per cent)

Assets		Share trading and investment holding		Loan finance		Hire purchase finance		Leasing		Diversified		All activities	
		2000-01	2001-02	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02
a)	Cash and bank balances	1.4	0.8	2.3	1.7	2.9	3.7	1.3	2.4	2.7	4.3	2.7	2.5
b)	Investments	53.4	61.9	28.7	30.2	4.3	3.3	8.9	8.8	15.9	16.9	27.4	31.8
c)	Receivables	26.8	15.9	53.1	55.3	80.5	83.7	50.0	50.0	55.4	59.9	52.3	50.6
d)	Inventories	14.8	18.4	1.7	2.1	1.5	1.1	1.1	1.2	13.7	10.9	5.9	6.3
e)	Net fixed assets	2.5	2.1	10.5	7.2	10.1	7.5	37.0	36.3	11.5	7.4	9.6	7.1
f)	Other assets	1.1	0.9	3.6	3.5	0.7	0.7	1.7	1.3	0.8	0.5	2.1	1.8
Total		**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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

1 Reference may be made to the November 2002 issue of the Reserve Bank of India Bulletin for the study relating to 2000-01, which covered the financial performance of 1,030 non-Government financial and investment companies.

2 Based on provisional paid-up capital data of non-Government financial and investment companies relating to year ended March 2002 supplied by the Department of Company Affairs, Government of India.

Appendix
Explanatory Notes to Various Statements

- Due to rounding off of figures, the constituent items may not add up to the totals.
- The growth rates of all the items and data on sources and uses of funds are adjusted for changes due to amalgamation of companies. These are also adjusted for revaluation, etc., wherever necessary.
- ***Income*** includes non-operating surplus/ deficit but excludes transfers from reserves outstanding at the end of the previous year and amount carried forward at the end of the previous year.
- ***Non-operating surplus/ deficit*** comprises (a) profit/ loss on account of (i) sale of fixed assets, etc., and (ii) revaluation/ devaluation of assets/ foreign currencies, (b) provisions no longer required written back, (c) insurance claims realised and (d) income/ expenditure relating to the previous years and such other items of non-current nature.
- Profit/ loss on sale of financial investments is included in net profit/ loss in share dealings.
- ***Total expenditure*** comprises interest payments, remuneration to employees, managerial remuneration, bad debts, other expenses, depreciation provision and other provisions.
- ***Remuneration to employees*** comprises (a) salaries, wages and bonus, (b) provident fund and (c) employees' welfare expenses (including gratuity, etc.).
- ***Tax provision*** includes tax deducted at source in respect of interest/ dividend received by the companies.
- ***Operating profits*** are net of depreciation provision and interest payments.
- ***Profit making companies*** are those companies making operating profits.
- ***Ordinary dividend*** payment includes deferred dividends.
- ***Retained profits*** comprises transfers to reserves and profit/ loss carried to balance-sheet.
- ***Ordinary paid-up capital*** includes deferred shares.
- ***Capital reserves*** include profit on sale of investments and fixed assets.
- ***Other reserves*** include profits retained in the form of various specific reserves and profit/ loss carried to balance sheet.
- ***Equity or Net worth*** comprises (a) paid-up capital, (b) forfeited shares and (c) all reserves and surplus.
- ***Debentures*** include privately placed debentures with financial institutions.
- ***Debt*** comprises (a) all borrowings from Government and semi-Government bodies, financial institutions other than banks, and from foreign institutional agencies, (b) borrowings from banks against mortgages and other long term securities, (c) borrowings from companies and others against mortgages and other long term securities, (d) debentures, deferred payment liabilities and public deposits.
- ***Trade dues and other current liabilities-others*** include share application money.