PERFORMANCE OF PRIVATE CORPORATE BUSINESS SECTOR, 1997-98 *

The financial performance of the private corporate sector during 1997-98 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 the 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 1998. The study covers 966 non-financial non-Government public limited companies.# The companies included in the study were in operation during 1996-97 and 1997-98.

As product-wise information was not available in respect of 33 companies, industry-wise analysis of companies could be attempted only for remaining 933 companies. Incidentally, industrial classification itself needs to be viewed with some circumspection, since companies have been restructuring their activities. The industry-wise analysis attempted in this article may be viewed with this caveat.

Overall Performance

The financial results of the 966 non-financial companies indicated that their sales rose by 8.0 per cent in 1997-98 to Rs.2,21,206 crore from Rs.2,04,872 crore in 1996-97 (Table 1). Other income amounting to Rs.5,377 crore showed a rise of 10.2 per cent. Total expenditure incurred by these companies amounting to Rs.1,88,926 crore went up by 8.6 per cent, at a slightly higher rate than that of sales.

TABLE 1:PERFORMANCE OF 966 SELECTED NON-FINANCIAL COMPANIES, 1997-98

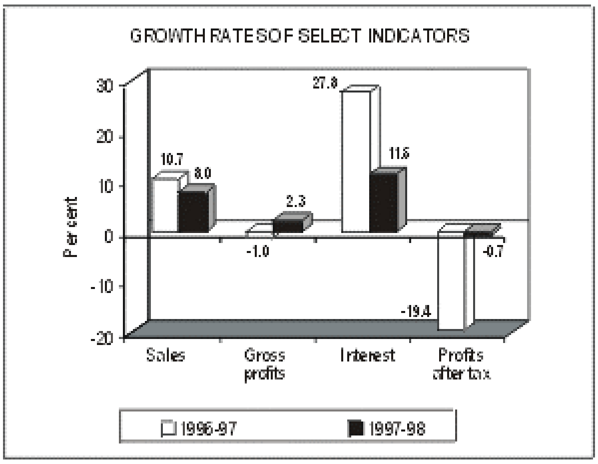
(Rs. crore)

Item	1996-97	1997-98	Growth rate (per cent)	
			1996-97@	1997-98
1	2	3	4	5
Sales	2,04,872	2,21,206	10.7	8.0
Other income	4,879	5,377	4.4	10.2
Total expenditure	1,73,994	1,88,926	11.9	8.6
Depreciation provision	7,700	8,955	26.7	16.3
Gross profits	28,057	28,702	-1.0	2.3
Interest	10,951	12,226	27.8	11.6
Profits before tax	17,106	16,476	-14.4	- 3.7
Tax provision	3,397	2,863	12.1	-15.7
Profits after tax	13,709	13,613	-19.4	- 0.7
Paid-up capital	17,552	18,808	8.4	7.2

@ Based on 1220 companies included in the study on "Financial Performance of Private Corporate Business Sector, 1996-97".

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

The previous study on 'Financial Performance of Private Corporate Business Sector, 1996-97 was published in the December 1997 issue of the Reserve Bank of India Bulletin.



Depreciation provision amounting to Rs.8,955 crore was up by 16.3 per cent in 1997-98. Gross profits amounting to Rs.28,702 crore moved up by 2.3 per cent during the period under review.

With interest payments rising at a much higher rate of 11.6 per cent (than gross profits) to Rs.12,226 crore, pre-tax profits declined by 3.7 per cent to Rs.16,476 crore. Tax provision declined by 15.7 per cent to Rs.2,863 crore, and post-tax profits in consequence, declined marginally by 0.7 per cent to Rs.13,613 crore in 1997-98, from Rs.13,709 crore in the previous year. Of the 966 companies, the number of companies reporting post-tax profits was lower at 764 in 1997-98 as compared with 801 companies in the previous year. Aggregate paid-up capital of the 966 companies rose by 7.2 per cent to Rs.18,808 crore by end March 1998.

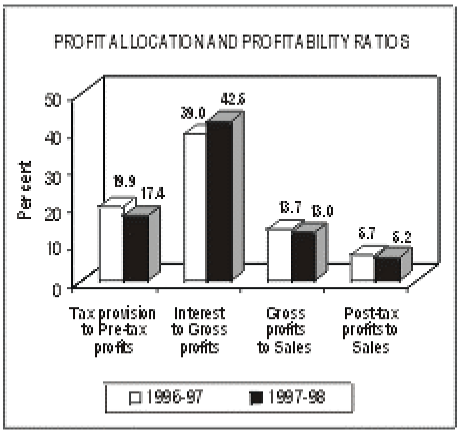
With a view to obtaining a broad comparative picture of the direction and magnitude of changes, the performance of 966 non-financial companies in terms of growth rates of selected indicators in 1997-98 was compared with the corresponding rates of 1220 non-financial companies covered in the previous study. Such a comparison is, however, subject to the limitation that the number of companies covered in the current and previous studies are different. Reduced business activity of private corporate sector during 1997-98 was in evidence, as reflected by the deceleration in the sales of the 966 companies. The sales of the 966 companies rose at a relatively lower rate of 8.0 per cent in 1997-98 as compared with 10.7 per cent recorded by 1220 companies during the previous year. Like-wise total expenditure incurred by these companies increased at a lower rate of 8.6 per cent as against 11.9 per cent in 1996-97. Gross profits improved by 2.3 per cent during the period under review as against a decline of 1.0 per cent witnessed in the previous year. Interest payments rose at a much lower rate of 11.6 per cent in 1997-98 in sharp contrast to 27.8 per cent increase in the previous year. Accordingly, the decline in profits before tax was less steep at 3.7 per cent as against a fall of 14.4 per cent witnessed in the previous year.

TABLE 2: PROFIT ALLOCATION AND PROFITABILITY RATIOS, 1997-98

(Per cent)

Ratio	1996-97	1997-98
1	2	3
Profit Allocation Ratios		
Tax provision to Profits before tax	19.9	17.4
Interest to Gross profits	39.0	42.6
Profitability Ratios		
Gross profits to Sales	13.7	13.0
Profits before tax to Sales	8.3	7.4
Profits after tax to Sales	6.7	6.2

Tax provided by the 966 companies declined by 15.7 per cent in 1997-98 as compared with the rise of 12.1 per cent in the previous year. As a consequence, the fall in the post-tax profits was much contained to 0.7 per cent as against a substantial decline of 19.4 per cent in the previous year.



Interest cost of sales at 5.5 per cent was almost of the same order (5.3 per cent) as in the previous year. However, interest burden (interest as percentage of gross profits) was higher at 42.6 per cent in 1997-98 as compared with 39.0 per cent in the previous year (Table 2).

The effective tax rate (tax provision as a percentage of profits before tax) at 17.4 per cent in 1997-98 was lower by 2.5 percentage points. It may be mentioned that out of the 966 companies covered in the study 295 companies *did not* make any tax provision during the period under review as against 253 such companies in the previous year. In the case of companies which had made tax provision, the effective tax rate was lower by more than four percentage points at 20.0 per cent as against 24.7 per cent in the previous year. Profit margin (ratio of gross profits to sales) at 13.0 per cent and return on sales (ratio of profits after tax to sales) at 6.2 per cent for the period under review were lower compared with the corresponding ratios at 13.7 per cent and 6.7 per cent in the previous year.

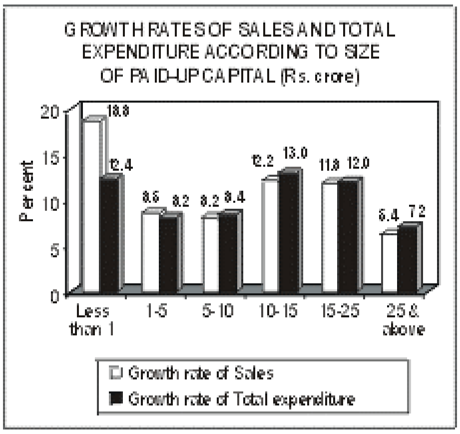
Rates of Growth and Profitability according to Size of Paid-up Capital

The distribution of number of companies covered in the study according to size of paid-up capital showed greater concentration in the lower size groups of Rs.1 crore to Rs.5 crore and Rs.5 crore to Rs.10 crore, though their share in terms of paid-up capital was low (Table 3). The top 163 very large companies, each with a paid-up capital of Rs.25 crore and above accounted for about 17 per cent in number of companies and as much as 67.4 per cent of the total paid-up capital of selected companies, whereas about 31 per cent of the companies in the smaller size class of Rs.1 crore to Rs.5 crore, accounted for 5.4 per cent of the total paid-up capital. The top 163 companies recorded the lowest growth in sales of 6.4 per cent during the period under review as compared with companies in the other size classes. The companies each with a paid-up capital in the range Rs.10 crore to Rs.15 crore and Rs.15 crore to Rs.25 crore, recorded relatively higher growth in sales at 12.2 per cent and 11.8 per cent respectively. Sales of small companies (each with paid-up capital below Rs.1 crore), however, registered an impressive growth of 18.8 per cent. For most of the size classes, growth rates of total expenditure were slightly higher or almost same as that of sales.

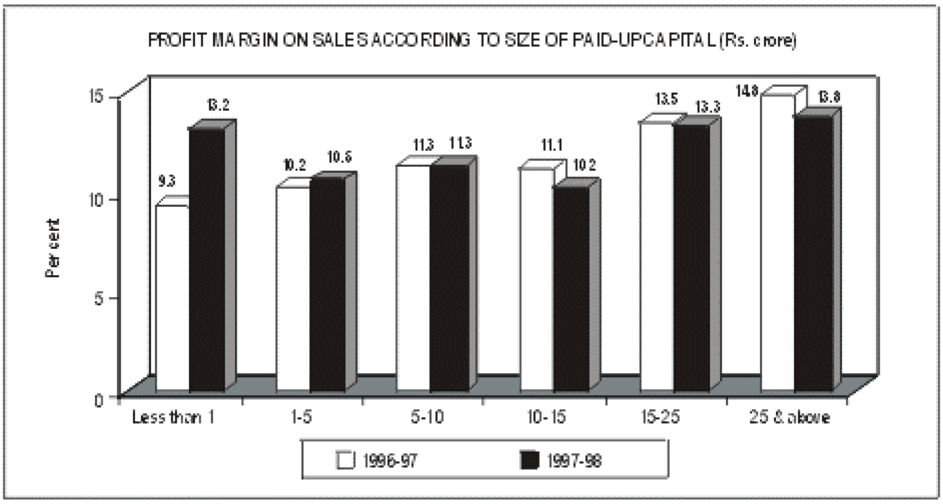
TABLE 3: GROWTH RATES OF SELECTED ITEMS OF SELECTED NON-FINANCIAL COMPANIES ACCORDING TO SIZE OF PAID-UP CAPITAL

(Per cent)

Size group (Rs. crore)	No. of comp-anies	Paid-up capital		Growth Rates							
		Amount outstanding (Rs.crore)	Per cent share	Sales	Total expen-diture	Depre-ciation provision	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	36	18	0.1	18.8	12.4	85.6	69.1	89.0	55.9	54.2	56.5
1 - 5	297	1,024	5.4	8.6	8.2	13.8	11.9	5.5	16.5	0.7	22.0
5 - 10	252	1,744	9.3	8.2	8.4	15.1	7.7	9.1	6.4	-13.6	12.1
10 - 15	117	1,399	7.4	12.2	13.0	11.6	3.0	14.3	-4.0	-19.3	0.3
15 - 25	101	1,942	10.3	11.8	12.0	24.6	9.6	7.5	10.8	1.6	13.2
25 and above	163	12,681	67.4	6.4	7.2	15.7	-0.8	11.8	-8.6	-20.8	-5.8
All companies	**966**	**18,808**	**100.0**	**8.0**	**8.6**	**16.3**	**2.3**	**11.6**	**-3.7**	**-15.7**	**-0.7**



Following the criterion of growth in profits, the performance of the 163 top companies is indeed discouraging. Their gross profits and pre-tax profits declined by 0.8 per cent and 8.6 per cent respectively in 1997-98, whereas, their post-tax profits, declined by 5.8 per cent, thanks to reduced tax provision. In fact, companies in the lower size groups of Rs.15 crore to Rs.25 crore and Rs.5 crore to Rs.10 crore fared much better in this respect. In the case of 297 smaller companies, each with paid-up capital in the range of Rs.1 crore to Rs.5 crore, pre-tax and post-tax profits recorded impressive rise of 16.5 per cent and 22.0 per cent respectively during the year under review.



Profitability ratios by and large, showed an up trend in relation to the size of companies (Table 4). In respect of companies in the top three size groups, profit margin on sales (ratio of gross profits to sales) in 1997-98 was almost same as or lower than those in 1996-97. Profit margin for the top 163 companies declined by 1 percentage point to 13.8 per cent in 1997-98.

TABLE 4: PROFIT ALLOCATION AND PROFITABILITY RATIOS ACCORDING TO SIZE OF PAID-UP CAPITAL

(Per cent)

	Profit allocation ratios	Profitability ratios

Size group (Rs. crore)	Tax provision to Profit before tax		Interest to Gross profits		Gross profits to Sales		Profits before tax to Sales		Profits after tax to Sales	
	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98
1	2	3	4	5	6	7	8	9	10	11
Below 1	26.6	26.4	39.8	44.5	9.3	13.2	5.6	7.3	4.1	5.4
1 - 5	26.2	22.6	41.6	39.2	10.2	10.6	6.0	6.4	4.4	5.0
5 - 10	22.0	17.8	46.4	47.0	11.3	11.3	6.1	6.0	4.7	4.9
10 - 15	21.9	18.4	38.4	42.6	11.1	10.2	6.9	5.9	5.4	4.8
15 - 25	21.0	19.2	37.0	36.3	13.5	13.3	8.5	8.4	6.7	6.8
25 and above	18.8	16.3	38.5	43.4	14.8	13.8	9.1	7.8	7.4	6.6
All companies	**19.9**	**17.4**	**39.0**	**42.6**	**13.7**	**13.0**	**8.3**	**7.4**	**6.7**	**6.2**

Profit margin improved marginally from 10.2 per cent to 10.6 per cent in 1997-98 for companies in the modal size class of Rs.1 crore to Rs.5 crore.

Industry-wise performance

Growth rates of important indicators across the industry groups showed considerable variation in 1997-98 (Table 5). Infrastructure industries iron & steel and electricity generation & supply showed low growth in sales of 4.7 per cent in 1997-98. The sales of cement companies actually fell marginally by 0.9 per cent. Construction companies recorded better performance with their turnover rising by 11.7 per cent, whereas engineering industry lagged behind with sales rising by a meagre 2.1 per cent. Chemical companies also fared well with their sales rising by 11.2 per cent, followed by plastic products at 10.9 per cent in 1997-98. Trading companies recorded the highest growth in sales by 35.1 per cent in 1997-98, followed by companies in textiles (26.8 per cent), tea (26.4 per cent) and sugar (18.9 per cent). At the lower end of the scale, sales of paper and paper products and hotel industries registered a rise of about 0.5 per cent in the year under review.

The pre-tax and post-tax profits of several industries like tea, sugar, rubber & rubber products, food processing, plastic products, textiles and trading, recorded much higher growth rates during 1997-98 as compared with other industries. Post-tax profits of the tea companies more than doubled during the year under review, followed by sugar and food processing companies which also registered impressive rise in post-tax profits. On the other hand, pre-tax profits of key industries like cement (-83.0 per cent), iron and steel (-31.7 per cent), engineering (-13.5 per cent) registered notable decline in 1997-98.

TABLE 5: INDUSTRY-WISE GROWTH RATES OF SELECTED ITEMS

(Per cent)

Industry / Industry group	No. of companies	Paid-up capital		Growth Rates							
		Amount outstanding (Rs.	Per cent share	Sales	Total expenditure	Depreciation provision	Gross profits	Interest	Profits before tax	Tax provision	Profits after tax

		crore)									
1	2	3	4	5	6	7	8	9	10	11	12
Tea	17	161	0.9	26.4	15.5	6.5	69.1	-17.2	119.3	101.7	128.3
Sugar	9	144	0.8	18.9	13.5	36.8	46.4	34.4	81.9	1.4	93.5
Food processing	60	991	5.3	9.7	9.5	5.6	12.6	-6.6	35.1	-8.7	44.4
Textiles	96	2,663	14.2	26.8	26.1	36.7	22.2	42.9	10.1	10.3	10.1
Iron and steel	38	1,441	7.7	4.7	8.0	4.7	-13.9	3.6	-31.7	-31.2	-31.8
Engineering	231	3,701	19.7	2.1	2.4	20.0	-2.6	21.4	-13.5	-29.3	-7.7
Chemicals	184	4,603	24.5	11.2	13.6	8.6	1.4	2.6	0.5	-14.7	3.8
Cement	23	615	3.3	-0.9	1.9	5.0	-25.6	31.0	-83.0	-38.8	-89.5
Rubber and rubber products	10	156	0.8	5.1	2.4	22.4	23.4	20.0	31.2	89.9	21.0
Paper and paper products	20	133	0.7	0.5	2.1	14.6	-20.1	26.0	-71.7	-50.8	-80.1
Plastic products	23	156	0.8	10.9	10.9	20.3	15.7	13.9	18.1	11.9	18.6
Construction	16	105	0.6	11.7	13.5	9.4	-5.4	7.8	-16.0	-17.3	-15.4
Electricity generation and supply	9	575	3.1	4.7	3.6	16.5	11.0	31.9	-2.2	12.2	-7.1
Trading	26	197	1.0	35.1	36.5	16.1	9.4	15.5	6.5	-29.3	13.0
Hotel	22	330	1.8	0.4	10.2	13.6	-12.1	-21.7	-10.8	-28.9	-7.7
Diversified	14	762	4.1	-9.4	-8.0	-4.4	-23.5	-21.1	-25.2	-40.0	-22.8
All companies	**966**	**18,808**	**100.0**	**8.0**	**8.6**	**16.3**	**2.3**	**11.6**	**-3.7**	**-15.7**	**-0.7**

Effective tax rate of companies for most of the industries had declined in 1997-98 (Table 6). Interest burden (ratio of interest paid to gross profits) was much higher for the industries like cement (88.7 per cent), paper and paper products (83.2 per cent), iron and steel (60.7 per cent), sugar (68.8 per cent); it was relatively low for chemicals (45.1 per cent) and engineering (38.9 per cent).

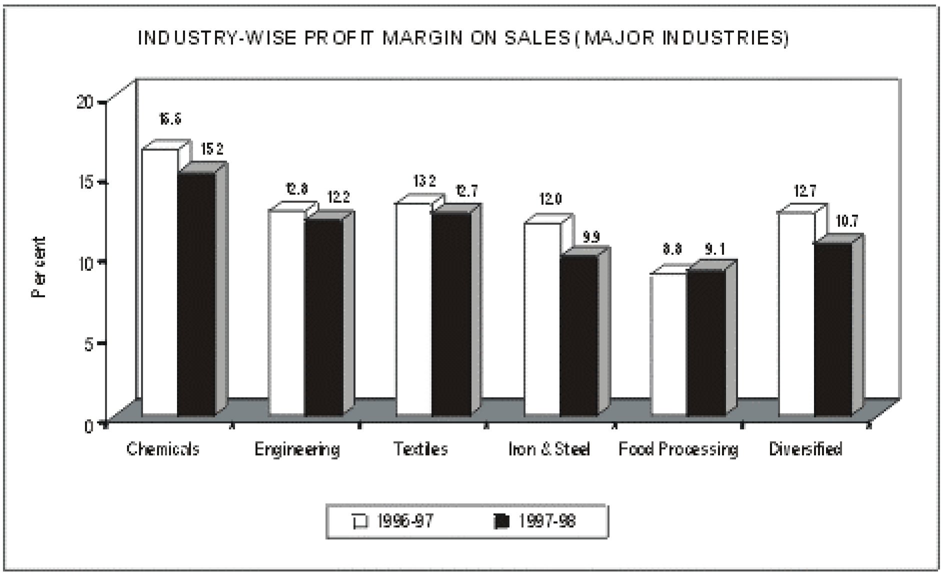
Industries which recorded impressive rise in post-tax profits were tea (128.3 per cent), sugar (93.5 per cent), and food processing (44.4 per cent). On the other hand, the profits after tax of core industries like cement (-89.5 per cent), iron and steel (-31.8 per cent) registered steep decline in the year under review; the fall was some what less steep (-7.7 per cent) in the case of engineering.

Major industries which operated with lower profit margin than in the previous year were iron & steel (9.9 per cent), cement (8.2 per cent) and construction (10.4 per cent). Other important industries which operated with reduced profit margin during 1997-98 were textiles (12.7 per cent), chemicals (15.2 per cent) and engineering (12.2 per cent). On the other hand, agro-based industries such as tea (23.8 per cent), sugar (16.9 per cent), food processing (9.1 per cent) and rubber & rubber products (10.7 per cent), increased their profit margin in 1997-98. Return on sales (i.e, profits after tax to sales) in respect of tea, sugar and food processing industries improved to 13.5 per cent, 4.9 per cent and 4.4 per cent respectively. Return on sales of iron & steel and cement companies at 3.4 per cent and 0.5 per cent declined by 1.8 and 4.3 percentage points respectively as compared with the previous year. During 1997-98, other industries like chemicals (7.1 per cent), electricity generation & supply (7.6 per cent) and construction (3.7 per cent) also witnessed fall in their return on sales, in the range of 0.5 to 1.2 percentage points.

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	
	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98
1	2	3	4	5	6	7	8	9	10	11
Tea	33.6	30.9	36.7	18.0	17.8	23.8	11.2	19.5	7.5	13.5
Sugar	12.7	7.0	74.9	68.8	13.8	16.9	3.5	5.3	3.0	4.9
Food processing	17.4	11.8	53.9	44.7	8.8	9.1	4.1	5.0	3.4	4.4
Textiles	6.4	6.5	36.8	43.1	13.2	12.7	8.3	7.2	7.8	6.8
Iron and steel	12.9	13.0	50.5	60.7	12.0	9.9	6.0	3.9	5.2	3.4
Engineering	26.8	21.9	31.2	38.9	12.8	12.2	8.8	7.5	6.5	5.8
Chemicals	17.7	15.0	44.6	45.1	16.6	15.2	9.2	8.3	7.6	7.1
Cement	12.7	46.0	50.4	88.7	11.0	8.2	5.4	0.9	4.8	0.5
Rubber and rubber products	14.8	21.4	70.0	68.1	9.1	10.7	2.7	3.4	2.3	2.7
Paper and paper products	28.6	49.8	52.8	83.2	7.9	6.3	3.7	1.0	2.7	0.5
Plastic products	7.5	7.1	56.9	56.0	12.3	12.8	5.3	5.6	4.9	5.2
Construction	28.9	28.5	44.3	50.5	12.3	10.4	6.9	5.2	4.9	3.7
Electricity generation and supply	25.3	29.0	38.7	46.0	18.6	19.7	11.4	10.6	8.5	7.6
Trading	15.4	10.2	33.0	34.8	6.3	5.1	4.2	3.3	3.6	3.0
Hotel	14.8	11.8	11.7	10.4	38.8	33.9	34.2	30.4	29.2	26.8
Diversified	13.8	11.1	42.2	43.5	12.7	10.7	7.3	6.0	6.3	5.4
All companies	**19.9**	**17.4**	**39.0**	**42.6**	**13.7**	**13.0**	**8.3**	**7.4**	**6.7**	**6.2**


INDUSTRY-WISE PROFIT MARGIN ON SALES (MAJOR INDUSTRIES)
Per cent
20
15
10
5
0
16.6
15.2
12.8
12.2
13.2
12.7
12.0
9.9
8.8
9.1
12.7
10.7
Chemicals
Engineering
Textiles
Iron & Steel
Food Processing
Diversified
1996-97
1997-98