

Finances of Private Limited Companies, 1995-96* (Part 1 of 2)

The financial performance of the 880 selected non-government non-financial private limited companies[@] for the period 1993-94 to 1995-96 is assessed in this article based on their audited annual accounts closed during the period April 1995 to March 1996[§]. 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, 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 continued to be good during 1995-96. Sales and gross profits of these companies rose by 20.3 per cent and 22.4 per cent respectively over and above the rise of 19.6 per cent and 22.0 per cent recorded in the previous year. The profit margin (gross profits to sales) showed an increasing trend while the effective tax rate (tax provisions to profits before tax) declined steadily during the years under review. External sources of funds continued to remain the major source of financing for these companies. However, their share in total sources of funds declined from 67.3 per cent in 1994-95 to 64.3 per cent in 1995-96. Gross fixed assets formation was 37.9 per cent of total uses of funds.

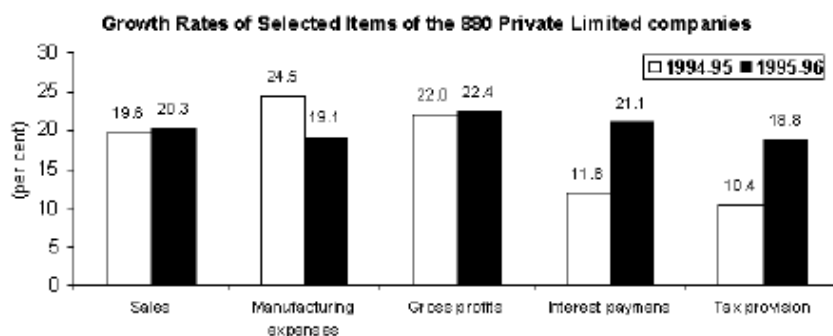
A. Operational Results

The selected companies succeeded in raising their gross profits by 22.4 per cent in 1995-96 following a rise of 22.0 per cent in 1994-95 (Statement 3). Substantial growth in sales (20.3 per cent) coupled with relatively lower rise in manufacturing expenses (19.1 per cent in 1995-96 as against 24.5 per cent in 1994-95) had contributed towards this result. Profit margin (gross profits to sales) of these companies increased from 9.9 per cent in 1993-94 to 10.3 per cent in 1995-96.

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

@ The selected companies accounted for 3.4 per cent of the total paid-up capital of all non-government non-financial private limited companies for the year as at the end of March 1996 as per the information available from the Department of Company Affairs, Government of India.

§ Reference may be made to the August 1998 issue of the RBI Bulletin for the previous study, which covered 839 non-government non-financial private limited companies during 1994-95.



However, higher interest payments (21.1 per cent) and tax provisions (18.8 per cent) affected the growth in profits after tax at 24.0 per cent in 1995-96 (40.9 per cent in 1994-95). The return on shareholders' equity (profits after tax to net worth) also dipped slightly from 17.4 per cent in 1994-95 to 16.5 per cent in 1995-96. The ordinary dividend rate (ordinary dividend to ordinary paid-up capital) for the selected companies was lower at 6.9 per cent in 1995-96 as compared to 7.9 per cent in 1994-95. The retention ratio was at 86.3 per cent in 1995-96 as against 83.8 per cent in the previous year.

B. Foreign Business

The foreign business of the selected private limited companies continued to indicate favourable trends in 1995-96 (Statement 6). Net inflow of foreign currencies, which amounted to Rs. 184 crore in 1994-95 for the selected companies, picked up to Rs. 212 crore in 1995-96.

The export intensity of sales (export to sales) of the selected companies was at 8.4 per cent in 1995-96 as compared to 8.8 per cent in 1994-95. The exports by the selected companies increased by 15.4 per cent in 1995-96 as compared to the increase of 21.1 per cent in the previous year. The foreign exchange earnings of these companies increased by 17.3 per cent in 1995-96 (15.9 per cent in 1994-95).

The imports increased by 18.9 per cent in 1995-96 (26.0 per cent in 1994-95). The total expenditure by these companies in foreign currencies grew by 18.6 per cent as against 27.1 per cent rise recorded in 1994-95.

C. Financing Pattern and Capital Structure

Financing Pattern

A total amount of Rs. 984 crore was raised by the selected companies during 1995-96 (Statement 5). The composition of internal and external sources of funds are given in Table 1. The share of funds from internal sources increased marginally from 32.7 per cent in 1994-95 to 35.7 per cent in 1995-96. Among the internal sources, reserves and surplus contributed to a large extent in 1995-96 while the share of paid-up capital through issuance of bonus declined. The reliance on external sources was substantial with borrowings forming 42.7 per cent of total external sources in 1995-96. Banks and corporates were the major sources of fresh borrowings for the selected companies in 1995-96.

TABLE 1 : FINANCING PATTERN OF SELECTED PRIVATE LIMITED COMPANIES, 1994-95 AND 1995-96

	(Per cent)	
Sources	1994-95	1995-96
Internal sources	32.7	35.7
Paid-up capital (Internal)	7.5	3.0
Reserves and surplus	12.8	20.0
Provisions	12.4	12.7
External sources	67.3	64.3
Paid-up capital (External)	9.0	12.0
Borrowings	30.0	27.5
Trade dues and other current liabilities	26.9	24.1
Others	1.4	0.8
Total	100.0	100.0

Capital Structure

Total liabilities/ assets of the selected companies increased by 22.7 per cent to Rs.4,715 crore in 1995-96 (Statement 4). The changes in financing pattern during 1995-96 did not result in much variation in the capital structure of selected companies (Table 2).

TABLE 2 : COMPOSITION OF LIABILITIES OF SELECTED PRIVATE LIMITED COMPANIES, 1993-94 TO 1995-96

	(Per cent)		
Liabilities	1993-94	1994-95	1995-96
1. Share capital	10.3	11.0	10.9
2. Reserves and surplus	18.4	19.5	21.6
3. Borrowings	36.9	35.9	35.0
4. Trade dues and other current liabilities	32.8	32.0	31.1
5. Others	1.7	1.6	1.4
Total	100.0	100.0	100.0

'Borrowings' and 'Trade dues and other current liabilities' remained the major two constituents of total liabilities, though their share in total liabilities declined marginally in 1995-96. However, total reserves and surplus increased sharply by 35.8 per cent in 1995-96. Consequently, its share in total liabilities climbed from 19.5 per cent in 1994-95 to 21.6 per cent in 1995-96. The debt-equity ratio for these companies declined from 41.8 per cent in 1993-94 to 36.6 per cent in 1994-95 and further to 31.3 per cent in 1995-96.

D. Utilization of Funds and Assets Structure

Utilization of Funds

The pattern of utilization of funds showed wide variations in 1995-96 as compared to

the previous year (Statement 5).

TABLE 3 : FUNDS UTILIZATION BY THE SELECTED PRIVATE LIMITED COMPANIES, 1994-95 AND 1995-96

Uses of funds	(Per cent)	
	1994-95	1995-96
1. Gross fixed assets	32.7	38.0
2. Inventories	22.0	13.5
3. Loans and advances and other debtor balances	29.1	44.8
4. Investments	7.8	2.9
5. Cash and bank balances	6.7	2.0
6. Other assets	1.7	- 1.1
Total	100.0	100.0

There was a positive shift in the utilization of funds in 1995-96 from inventory accumulation and cash-in-hand to fixed asset formation and deployment of funds for loans and advances and other debtor balances. 'Loans and advances and other debtor balances' (44.8 per cent) and gross fixed asset formation (38.0 per cent) were the dominant uses of total funds raised during 1995-96. The share of investments in total funds utilization came down from 7.8 per cent in 1994-95 to 2.9 per cent in 1995-96.

Assets Structure

The changes in utilization pattern during 1995-96 resulted in minor variations in the assets structure of the selected companies (Statement 4).

Share of 'Loans and advances and other debtor balances' in total net assets increased from 35.4 per cent in 1994-95 to 38.2 per cent in 1995-96. On the contrary, the shares of 'Inventories' and 'Other assets' declined from 21.4 per cent and 6.6 per cent in 1994-95 to 20.3 per cent and 5.6 per cent respectively in 1995-96. However, the current ratio of these companies remained unchanged at 1.1 during the period under study.

TABLE 4 : COMPOSITION OF ASSETS OF SELECTED PRIVATE LIMITED COMPANIES, 1993-94 TO 1995-96

Assets	(Per cent)		
	1993-94	1994-95	1995-96
1. Net fixed assets	32.1	31.4	31.1
2. Inventories	21.0	21.4	20.3
3. Loans and advances and other debtor balances	36.4	35.4	38.2
4. Investments	4.4	5.1	4.9
5. Other assets	6.1	6.6	5.6
Total	100.0	100.0	100.0

E. Industry-wise Performance

Performance of the selected private limited companies as reflected by the growth in

sales and net assets and profit margin in selected industries/ industry-groups is given in table 5 (also refer to Statements 7 and 8).

TABLE 5 : INDUSTRY-WISE PERFORMANCE OF SELECTED PRIVATE LIMITED COMPANIES, 1994-95 AND 1995-96

Selected Industry/ Industry-group	(Per cent)					
	Growth in Sales		Growth in Net Assets		Profit Margin	
	1994-95	1995-96	1994-95	1995-96	1994-95	1995-96
1. Engineering (228)	31.8	26.7	23.3	24.6	10.0	10.2
<i>Of which,</i>						
(a) Motor vehicles (21)	36.5	25.5	18.2	28.5	6.4	6.6
(b) Electrical machinery, apparatus, appliances, etc. (60)	34.2	19.3	18.6	25.8	7.9	8.1
(c) Machinery other than transport and electricals (64)	38.2	26.0	25.1	18.8	13.2	12.5
(d) Foundries and engineering workshops (22)	27.7	45.4	19.9	25.6	9.9	12.2
(e) Ferrous/ non-ferrous metal products (52)	36.7	28.7	29.5	37.1	10.2	10.9
2. Chemicals (93)	17.1	20.4	24.8	26.6	10.1	10.6
<i>Of which,</i>						
(a) Basic industrial chemicals (24)	16.3	6.1	25.7	5.2	10.7	8.2
(b) Medicines and pharmaceutical preparations (34)	13.8	25.2	24.7	44.3	9.2	11.5
3. Trading (72)	14.4	13.3	25.3	28.3	9.3	7.8
4. Cotton textiles (61)	19.0	28.5	29.7	16.6	5.7	4.7
5. Hotels, restaurants and eating houses (34)	16.4	33.1	11.4	32.3	22.8	26.9
6. Paper and paper products (32)	18.3	25.2	19.2	37.4	7.1	7.3
7. Tea (19)	- 8.1	18.5	- 2.5	8.4	7.7	9.9
All Industries (880)	19.6	20.3	22.7	22.5	10.1	10.3

Note : Figures in brackets relate to number of companies.

It may be observed that the volume of business (as indicated by sales) as also the size (as measured by total net assets) of the selected companies belonging to various industries as above have generally increased in 1995-96 over and above the substantial growths recorded in the previous year. The profit margin also increased during the year under review except for the companies belonging to 'Machinery other than transport and electrical', 'Basic industrial chemicals', 'Trading' and 'Cotton textiles' industry-groups.