

Finances of Public Limited Companies, 1996-97*

The financial performance of 1930 non-Government non-financial public limited companies during the year 1996-97 presented in this article is based on the audited annual accounts closed during the period April 1996 to March 1997^{\$}. The selected companies for this study accounted for 30.7 per cent in terms of paid-up capital of all non-Government non-financial companies as at the end of March 1997[#].

Overview

The trends in the private corporate sector as glimpsed from the financial performance of selected public limited companies indicate an overall deceleration in the year 1996-97. The growth rates in sales and value of production fell substantially over the year and gross profits declined, while pre-tax profits and post-tax profits showed negative growth against the backdrop of an impressive performance in 1995-96 ([Table A](#), also refer to [Table 1](#)).

The sales of the selected 1930 companies grew by 10.4 per cent to Rs.2,34,824 crore in 1996-97 as against a growth of 23.7 per cent in the preceding year. Manufacturing expenses showed a growth of merely 10.6 per cent in the year under review as compared to a growth of 24.7 per cent in 1995-96. Gross profits fell by 1.9 per cent while outgo in terms of interest payments grew by 25.7 per cent in 1996-97. Taxes recorded a growth of 15.2 per cent in 1996-97 as compared to a growth of 34.9 per cent in the preceding year. Retained profits slumped by 36.2 per cent in 1996-97.

TABLE A - GROWTH RATES OF SELECTED ITEMS

Item	1995-96	(Per cent) 1996-97
Sales ^{\$}	23.7	10.4
Value of Production	24.5	8.8
Manufacturing Expenses	24.7	10.6
Gross profits	31.0	- 1.9
Interest	25.0	25.7
Profits before tax	25.9	- 18.3
Tax provision	34.9	15.2
Profits after tax	23.9	- 26.6
Dividends	20.6	0.4
Profits retained	25.1	- 36.2

^{\$} Net of 'rebates and discounts' and 'excise and cess'.

The profit margin on sales (gross profits as percentage of sales) dropped by 1.6 percentage points to 12.6 in 1996-97. Return on equity (Post tax profits as a percentage of net worth) fell by 4.9 percentage points to 9.5 in 1996-97. The effective tax rate (Tax provision to Profits Before Tax) rose by 8.1 percentage points to 27.8 per cent in the year under review. The ordinary dividend rate was lower at 21.2 per cent in 1996-97 as compared to 23.0 per cent in 1995-96.

The total net assets (adjusted for revaluation) of the selected companies increased by 14.1 per cent in 1996-97 as compared to 20.9 per cent in the preceding year. Inventories accumulated at a rate of 5.0 per cent in 1996-97 as against 20.6 per cent posted in the preceding year.

The accounts of the selected companies indicate that external sources of funds continue to play a significant role for the selected companies, contributing, in their case 64.9 per cent of the funds raised in 1996-97 as compared to 63.4 per cent in the preceding year. The share of borrowings in external sources of funds was 67.4 per cent in 1996-97 as against 49.5 per cent in 1995-96.

The debt-equity ratio of the selected companies increased from 58.7 per cent in 1995-96 to 61.6 per cent in 1996-97. The current ratio (current assets to current liabilities) declined to 1.3 in 1996-97 from 1.4 in 1995-96.

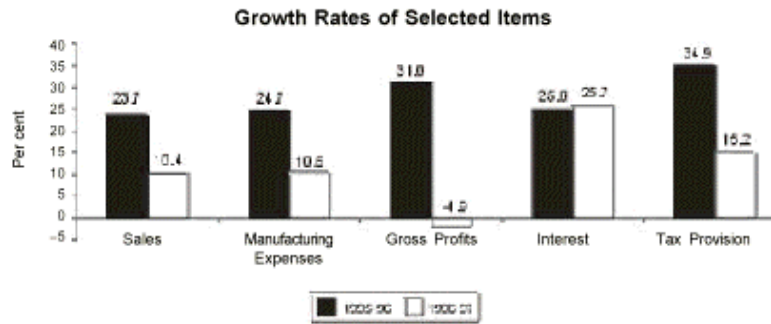
The total foreign exchange earnings of the selected companies showed an increase of 18.7 per cent in 1996-97 over and above the growth of 25.4 per cent in the preceding year. Total foreign exchange expenditure recorded a growth of 8.1 per cent in 1996-97 compared with growth of 43.4 per cent in 1995-96.

Income and Expenditure

The sales of the 130 selected companies covered in this study registered a growth of 10.4 per cent in 1996-97 as compared to 23.7 per cent in 1995-96. Total income of these companies was of the value of Rs.2,44,739 crore in 1996-97, up by 8.6 per cent over the level of Rs.2,25,263 crore in 1995-96. 'Other income' was higher at Rs.7,812 crore in 1996-97 compared to Rs.6,993 crore in 1995-96 ([Table-3](#)).

On the expenditure side, manufacturing expenses increased by 10.6 per cent during the year under review as against 24.7 per cent in the previous year. Interest cost went up by 25.7 per cent to Rs.14,010 crore in 1996-97. Employees' remuneration at Rs.18,745 crore also increased by 11.9 per cent in 1996-97 as against 19.7 per cent in the previous year. Depreciation was provided at a higher rate of 28.6 per cent in 1996-97 compared with 23.3 per cent in 1995-96. Profits before tax actually decreased by 18.3 per cent while post tax profits of selected companies plunged by 26.6 per cent in 1996-97 in contrast to an impressive growth of 25.9 per cent and 23.9 per cent respectively in the previous year. Tax provision went up by 15.2 per cent in 1996-97 as against 34.9 per cent in 1995-96.

The sluggish growth in income has adversely affected the profitability of the companies at the aggregate level. Profit margin on sales dropped by 1.6 percentage points to 12.6 percent in 1996-97. The effective tax rate (Tax Provision to Profits Before Tax) for 1996-97 worked out to 27.8 per cent , 8.1 percentage points higher than the previous year.



Profits ploughed back into the business was lower by 36.2 per cent in 1996-97 compared to an increase of 25.1 per cent in 1995-96. Dividend payments at Rs.4369 crore were at the same level as in the previous year. The ordinary dividend rate worked out to 21.2 per cent in 1996-97 compared to 23.0 per cent in 1995-96.

Earnings and Expenditure in Foreign Currencies

The total earnings in foreign currencies of the selected 1930 companies increased at 18.7 per cent in 1996-97 which was substantially lower than the increase of 25.4 per cent in 1995-96 (Table 6). The growth in merchandise exports had considerably slackened at 10.7 per cent (Rs.21,310 crore) as against 26.3 per cent in the preceding year. Merchandise imports were also subdued with a growth of 8.2 per cent in 1996-97 as against a growth rate of 44.4 per cent in the previous year. The total expenditure in foreign currencies increased by 8.1 per cent as against a growth rate of 43.4 per cent in 1995-96. The imports of raw materials were cut down by 1.5 per cent in 1996-97 after an increase of 36.4 per cent in 1995-96. However, imports of capital goods increased by 35.3 per cent in 1996-97 over and above the increase of 68.7 per cent in the previous year. The imports of raw materials capital goods accounted for 57.9 per cent and 27.4 per cent respectively of the total merchandise imports in 1996-97. The net outflow of foreign currency in 1996-97 was of the order of Rs.3,639 crore as against Rs.5,596 crore in 1995-96.

Pattern of Assets and Liabilities

The total net assets of the selected companies increased by 14.3 per cent to Rs.3,17,680 crore in 1996-97 as compared to a growth of 22.0 per cent in the preceding year (Table 4). Gross fixed assets and inventories adjusted for revaluation grew by 18.1 per cent and 5 per cent respectively. The composition of assets at the end of March 1997 did not differ much from that observed in the previous year with net fixed assets (46.8 per cent), loan and advances (25.7 per cent), inventories (15.0 per cent) and investments (8.2 per cent).

Among the liabilities, reserves and surplus accounted for 33.7 per cent (34.1 per cent in 1995-96) of total liabilities while borrowings constituted 38.7 per cent (36.7 per cent in 1995-96) of the total liabilities. Bank borrowings constituted 33.4 per cent of total borrowings in 1996-97 compared to 35.0 per cent in 1995-96.

The current ratio (current assets to current liabilities) declined from 1.4 to 1.3 in 1996-97.

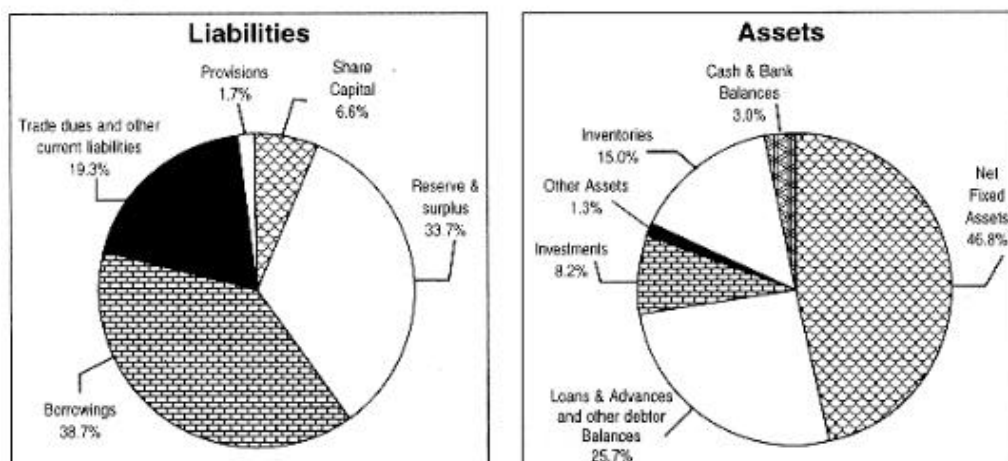
Debt - equity ratio increased to 61.6 per cent in 1996-97 from 58.7 per cent in the preceding year.

Sources and Uses of Funds

The total funds raised by the selected companies in 1996-97 amounted to Rs.47,623 crore as compared to Rs.54,292 crore in 1995-96 ([Table - 5](#)). External sources continued to have major share with 64.9 per cent of the total funds raised in 1996-97. Borrowings constituted 67.4 per cent of external funds mobilised by the companies. The share of debentures in total borrowings declined from 11.1 per cent in 1995-96 to 9.4 per cent in 1996-97. The share of bank borrowings in total borrowings came down steeply from 56.4 per cent in 1995-96 to 25.6 per cent in 1996-97. Of the total funds of Rs.4,975 crore raised from capital market in 1996-97, 75.6 per cent were on account of premium on shares while the rest was from net issues. Internal sources declined from Rs.19,886 crore in 1995-96 to Rs.16,732 crore in 1996-97 driven mainly on account of decline by 33.2 per cent in reserves and surpluses. Depreciation provision increased from Rs.6,626 crore to Rs.8,452 crore in 1996-97 and formed major component of internal resources of finance with its share being 50.5 per cent.

The total asset formation of the selected companies was Rs.47,623 crore in 1996-97 which was lower by Rs.6,669 crore compared to a level of Rs.54,292 crore prevailing in 1995-96. Gross capital formation amounting to Rs.33,602 crore accounted for 70.6 per cent of total asset formation in 1996-97. Inventory build up was of the order of Rs.2,251 crore in 1996-97.

Pattern of Liabilities / Assets in 1996-97



Performance of Companies by Size of Sales

The size factor as measured by volume of sales had significant effect on the performance of the companies during the year 1996-97. It was observed that companies with large sales base generally showed better growth rates in sales ([Table 7](#)). While companies in the sales bracket of 'Less than Rs.25 crore', showed a decline in sales by 6.4 per cent, the companies in the sales bracket of 'Over 1,000 crore' recorded growth of 15.5 per cent in sales in 1996-97. The gross profits of companies with sales 'Less than Rs.25 crore' reduced by 35.3 per cent in 1996-97,

whereas, the gross profits for companies with sales 'Rs.100 crore and over' increased by 2.4 per cent. Exports and imports of companies with sales 'Less than Rs.25 crore' reduced by 17.7 per cent and 24.2 per cent respectively while those of companies with sales 'Rs.1,000 crore and above', increased by 3.5 per cent and 14.5 per cent respectively. The companies with sales 'Rs.1,000 crore and above', recorded a growth of 25.5 per cent in total borrowings while the companies with sales, 'Less than Rs.25 crore', recorded 6.1 per cent growth in their borrowings.

The profit margin on sales was higher for companies with a large sales base as compared to smaller sales base companies. Profit margin was the highest at 16.1 per cent for companies with sales 'Rs.1000 crore and above' while companies with sales 'Less than Rs.25 crore' showed a profit margin of only 5.6 per cent in 1996-97 ([Table-8](#)). Exports as a percentage of sales was highest at 11.0 per cent for companies with sales in the range of 'Rs.50 crore-Rs.100 crore' and the lowest at 7.0 per cent for companies with sales 'Less than Rs.25 crore'. Debt to equity ratio was the highest at 82.2 per cent for companies with sales 'Less than Rs.25 crore', while it was the lowest at 54.8 per cent for companies with sales 'Rs.500 crore - Rs.1000 crore'.

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

\$ Reference may be made to November 1998 issue of RBI Bulletin for the previous study on the performance of 1730 non-Government non-financial public limited companies for 1995-96.

Based on the data related to non-Government non-financial public limited companies as on 31st March 1997 supplied by Department of Company Affairs, Government of India.

Industry-wise Performance

The performance of the selected public limited companies as reflected by their growth in sales, profits, exports and selected financial ratios in selected industries/industry group are given in the following table B (also refer to [Tables 10](#) and [11](#)).

TABLE B - INDUSTRY-WISE PERFORMANCE

Selected Industry / Industry Group	I Growth Rates of Selected Items (Per cent)									
	Sales		Gross Profits		Profits Before Tax		Profits After Tax		Exports	
	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97
Tea (63)	21.8	10.8	10.8	20.4	- 7.6	20.4	- 21.8	19.8	21.4	28.7
Sugar (35)	32.6	8.0	- 8.4	12.1	- 55.3	- 93.2	- 52.1	-	25.3	104.4
Cotton / blended textiles (155)	17.0	1.8	- 9.8	- 5.3	- 58.6	- 65.4	- 55.6	- 86.3	25.0	26.3
Jute textiles (13)	11.5	- 4.8	-	-	-	-	-	-	12.7	48.2
Silk and rayon textiles (58)	18.1	12.4	14.2	2.2	9.6	- 15.6	10.2	- 19.6	9.8	27.6
Engineering (562)	28.8	15.9	36.1	6.7	25.3	- 6.2	22.0	- 14.0	33.2	2.0
<i>of which</i>										
<i>Motor vehicles (74)</i>	35.2	21.0	47.1	18.9	53.3	15.8	51.4	15.5	25.3	2.8
<i>Electrical machinery (153)</i>	26.4	8.2	22.0	- 3.1	13.9	- 13.2	15.6	- 18.7	29.7	18.6
<i>Machinery other than transport & electrical (136)</i>	25.5	13.2	31.0	4.0	14.4	- 3.4	13.0	- 11.5	18.9	2.4
<i>Foundries and engineering workshop (95)</i>	26.8	23.7	39.7	- 8.8	- 15.2	- 69.3	- 18.1	- 77.4	67.7	- 15.6
<i>Ferrous/Non-Ferrous metal products (91)</i>	23.8	10.7	30.6	0.8	54.4	- 40.1	63.8	- 57.7	77.9	4.0
Chemical and chemical products (289)	18.3	5.9	27.0	- 0.5	23.5	- 17.1	23.4	- 26.9	22.1	13.0
<i>of which</i>										
<i>Medicines and pharmaceutical preparations (61)</i>	13.1	16.4	16.0	36.6	36.6	11.8	38.9	4.9	32.7	25.1
<i>Paints and varnishes (11)</i>	29.2	7.3	23.1	12.9	20.8	11.9	27.8	8.7	5.3	- 26.0
<i>Basic industrial chemicals (135)</i>	20.4	1.5	35.6	- 13.0	27.7	- 31.7	26.2	- 40.1	9.2	- 5.7
<i>Chemical fertilizers (27)</i>	16.6	4.1	28.2	- 5.1	21.8	- 8.8	20.8	- 19.1	- 0.7	- 41.1

Cement (37)	24.0	6.4	40.4	- 24.2	52.5	- 56.4	40.0	- 56.8	0.2	1.2
Rubber and rubber products (32)	31.9	12.7	54.0	4.9	61.6	4.6	81.9	- 10.6	5.2	18.3
Paper and paper products (59)	24.5	- 2.8	84.4	- 37.3	92.4	- 63.0	95.7	- 68.0	62.0	- 8.0
Construction (28)	14.6	11.7	3.2	- 17.3	69.6	- 40.7	85.6	- 52.3	63.4	120.0
Electricity generation and supply (8)	19.0	12.2	66.5	- 13.3	124.3	- 33.8	85.6	- 47.3	-	-
Trading (78)	28.9	11.7	26.6	5.2	21.8	- 11.9	24.7	- 27.8	46.5	2.9
Shipping (17)	14.6	15.9	19.2	- 3.1	17.5	- 21.8	6.5	- 31.9	-	-
Diversified companies (10)	24.0	9.8	27.9	- 10.6	25.4	- 32.9	20.0	- 35.4	27.7	6.5
All Industries (1930)	23.7	10.4	31.0	- 1.9	25.9	- 18.3	23.9	- 26.6	26.3	10.7

II. Selected Financial Ratios

(Per cent)

Selected Industry / Industry Group	Profit Margin		Effective Tax Rate		Debt to Equity	
	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97
Tea (63)	12.9	14.0	41.2	41.4	16.0	19.2
Sugar (35)	9.9	10.3	12.3	*	87.9	103.7
Cotton / blended textiles (155)	8.1	7.5	9.8	64.2	75.7	78.0
Jute textiles (13)	- 2.5	- 3.3	- 6.0	- 3.0	61.9	73.8
Silk and rayon textiles (58)	16.0	14.5	0.3	5.1	53.7	65.0
Engineering (562)	12.9	11.9	26.9	33.0	57.2	61.2
<i>of which</i>						
<i>Motor vehicles (74)</i>	14.2	14.0	30.9	31.0	30.3	40.1
<i>Electrical machinery (153)</i>	11.9	10.7	29.6	34.1	35.8	41.2
<i>Machinery other than transport & electrical (136)</i>	12.5	11.5	30.2	36.1	43.9	37.9
<i>Foundries and engineering workshop (95)</i>	14.3	10.5	6.4	31.1	114.4	123.3
<i>Ferrous/Non-Ferrous metal products (91)</i>	10.6	9.7	17.9	42.0	71.8	86.1
Chemical and chemical products (289)	16.3	15.3	17.6	27.4	62.7	63.5
<i>of which</i>						
<i>Medicines and pharmaceutical preparations (61)</i>	13.4	15.7	21.9	26.7	28.1	25.4
<i>Paints and varnishes (11)</i>	12.1	12.7	35.7	37.6	33.3	36.0
<i>Basic industrial chemicals (135)</i>	19.0	16.3	11.4	22.3	77.2	80.5
<i>Chemical fertilizers (27)</i>	20.9	19.1	7.3	17.8	84.2	86.7
Cement (37)	19.5	13.9	11.7	12.5	92.4	104.9
Rubber and rubber products (32)	8.7	8.1	22.1	33.4	57.8	61.9
Paper and paper products (59)	14.4	9.3	10.8	22.9	57.1	70.4
Construction (28)	12.7	9.4	12.7	29.9	65.0	75.2
Electricity generation and supply (8)	21.6	16.6	21.4	37.4	82.3	83.0
Trading (78)	4.8	4.5	32.9	45.0	13.2	12.4
Shipping (17)	28.2	23.6	9.7	21.3	107.0	105.7
Diversified companies (10)	16.7	13.6	12.9	16.2	68.6	63.9
All Industries (1930)	14.2	12.6	19.7	27.8	58.7	61.6

Note : Figures in brackets denote number of Companies.

* Denominator nil or negligible.

- nil or negligible.

It may be observed that industries like Foundries and Engineering Workshop (23.7 per cent), Motor Vehicles (21.0 per cent), Medicines and Pharmaceutical preparations (16.4 per cent) recorded good growth in their sales during 1996-97. Turning to gross profits, significant improvement over the year was registered by 'Medicines and Pharmaceutical preparations' (36.6 per cent) and Tea (20.4 per cent) industries. On the other hand, gross profits of Paper and Paper products (-37.3 per cent), Cement (-24.2 per cent), and Construction (-17.3 per cent) industries declined sharply in 1996-97.