Performance of Financial and Investment Companies, 1996-97 *

The present study analyses the performance of non-government financial and investment companies (other than banking, insurance and chit fund companies) for the year 1996-97. The study is based on the audited annual accounts of 707 companies, which closed their accounts during the period April 1996 to March 1997[@]. The companies covered in this study accounted for 23.5 per cent of the total paid-up capital of all non-government financial and investment companies as at the end of March 1997[$].

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) which claimed 18.1 per cent of the total paid-up capital of the 707 selected financial and investment companies in 1996-97. These big companies also accounted for a sizeable share of 57.5 per cent of 'Main income' and 58.2 per cent of 'Total net assets' of the selected 707 companies in 1996-97. Moreover, these 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 smaller companies. In view of such marked skewness in the size structure, the analysis that follows is confined to the remaining 705 companies. However, in annexures 1 to 3, the data including ICICI and HDFC are separately presented.

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 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 705 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 705 companies registered an improvement, but their Profits declined in 1996-97. Consequently, their profit margin (operating profits as percentage of main income) declined. Lower pre- tax profits coupled with higher tax provisions in 1996-97 resulted in a substantially higher effective tax rate (tax provision as percentage of pre-tax profits) in 1996-97. The return on net worth (profits after tax to net worth) of the selected financial and investment companies declined in 1996-97.

External sources continued to be a major source of finance in the assets formation of the

Selected financial and investment companies in 1996-97. 'Borrowings' and 'Trade dues and other current liabilities' were the major sources of funds while investments in shares and debentures of Indian companies, distributing loans and advances and fixed assets formation were the major uses of funds in the year under review.

Table 1 : Distribution of Number of Companies, Their Paid-Up Capital, Main Income and Net Assets, 1995-96 and 1996-97

(Rs. Crore)

Sr. No.	Activity	Number Of Companies	Paid-up-capital		Main income		Net Asset	
			1995-96	1996-97	1995-96	1996-97	1995-96	1996-97
1.	Share trading and investment holding	294 (41.7)	984 (35.0)	1,138 (34.9)	402 (10.7)	354 (8.4)	4,105 (15.6)	5,247 (16.3)
2.	Loan finance	119 (16.9)	379 (13.5)	389 (11.9)	163 (4.4)	176 (4.2)	1,582 (6.0)	1,787 (5.6)
3.	Hire purchase finance	49 (7.0)	237 (8.4)	266 (8.1)	997 (26.7)	1,253 (29.9)	5,703 (21.7)	6,985 (21.8)
4.	Leasing	80 (11.3)	354 (12.6)	380 (11.6)	802 (21.4)	854 (20.4)	4,149 (15.8)	4,477 (13.9)
5.	Diversified	90 (12.8)	491 (17.5)	520 (15.9)	1,108 (29.6)	1,272 (30.3)	7,029 (26.8)	8,057 (25.1)
6.	Miscellaneous	73 (10.4)	364 (13.0)	571 (17.5)	268 (7.2)	287 (6.8)	3,672 (14.0)	5,560 (17.3)
	All activities	**705** **(100.0)**	**2,809** **(100.0)**	**3,264** **(100.0)**	**3,740** **(100.0)**	**4,196** **(100.0)**	**26,240** **(100.0)**	**32,113** **(100.0)**

Note : Figures in parantheses represent percentage to all activities.

The trends in performance were observed to be similar across the activity-groups. However, the main income of share trading and investment holding was lower in 1996-97 as compared to 1995-96.

C. Operational Results

The main income of selected financial and investment companies grew by 12.2 per cent in

1996-97. However, there was a spurt in the total expenditure at the rate of 35.9 per cent during the year under review. Interest payments grew by 26.8 per cent and constituted 46.8 per cent of total expenditure. Operating profits and pre- tax profits in 1996-97 plummeted to less than half of their size in 1995-96. There was an enormous increase in tax provisions by 76.6 per cent during the year under review in contrast to a marginal decline of 6.3 per cent in the previous year. Consequently, profits after tax declined by 64.7 per cent in 1996-97.

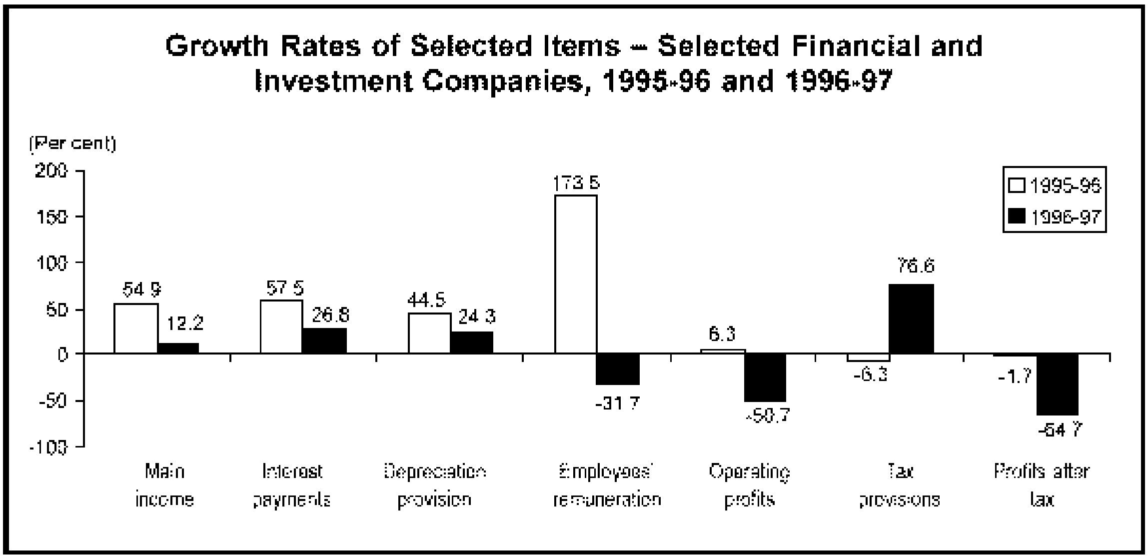

Table 2 : Growth Rates of Main Income, Operating Profits and Profits After Tax of the Selected Financial and Investment Companies, 1995-96 and 1996-97

(Per cent)

	Activity	Main income		Operating profits		Profits after tax	
		1995-96	**1996-97**	**1995-96**	**1996-97**	**1995-96**	**1996-97**
1	Share trading and investment holding	24.4	-11.8	7.3	-54.4	-1.0	-66.8
2	Loan finance	39.3	7.6	-25.5	-38.6	-54.1	-53.8
3	Hire purchase finance	89.4	25.6	34.8	8.0	29.5	3.2
4	Leasing	60.0	6.4	-23.5	*	-15.2	*
5	Diversified	60.6	14.7	0.1	-47.1	-4.4	-53.1
	All activities	**54.9**	**12.2**	**6.3**	**-50.7**	**-1.7**	**-64.7**

* Numerator negative

Table 3 : Profit Margin, Effective Tax Rate, Return on Net Worth and Dividend Rate of the Selected Financial and Investment Companies, 1995-96 and 1996-97

(Per cent)

Activity	Profit margin	Effective tax	Return on net	Dividend rate

				rate		worth			
		1995-96	1996-97	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97
1.	Share trading and investment holding	50.3	26.0	19.7	49.9	9.0	1.9	9.8	9.4
2.	Loan finance	20.5	11.7	21.5	45.4	5.2	2.3	4.7	3.4
3.	Hire purchase finance	20.4	17.6	16.6	26.4	20.0	17.3	19.9	20.4
4.	Leasing	14.9	*	4.6	#	12.9	*	15.3	8.8
5.	Diversified	20.0	9.2	8.7	26.8	12.7	5.6	12.6	10.1
	All activities	**27.8**	**12.2**	**12.6**	**41.9**	**11.9**	**3.6**	**11.4**	**9.6**

* Numerator negative # Denominator negative.

The profit margin of selected companies declined from 27.8 per cent in 1995-96 to 12.2 per cent in 1996- 97. Substantially lower pre-tax profits coupled with higher tax provisions resulted in a sudden jump in the effective tax rate from 12.6 per cent in 1995-96 to 41.9 per cent in 1996-97. Return on equity declined from 11.9 per cent in 1995-96 to 3.6 per cent in 1996-97.

It may be observed from the activity-wise performance of the selected companies that only hire purchase finance companies could maintain their profits in terms of absolute amounts in 1996-97 as compared to those in 1995- 96. For all the activity-groups, the profit margin as well as return on net worth were lower in 1996-97 than in 1995- 96 while their effective tax rates were higher. The dividend rate (dividends to total paid-up capital) was the highest at 20.4 per cent for hire purchase finance companies.

D. Pattern of Financing and Capital Structure

Financing Pattern

The selected companies could raise only Rs.5,686 crore in 1996-97 as against Rs.7,732 crore raised in 1995- 96 (Statement 5). The pattern of financing was slightly different in the year under review as compared to the previous year. Public deposits continued to play a major role in financing the asset formation in both the years, viz., 1995-96 and 1996-97 for the companies under study. Issuance of new debentures, fresh paid-up capital raised from the market and incremental bank borrowings were the leading sources for financing the assets formation in 1995- 96 while trade dues and other current liabilities and depreciation provisions were prominent in 1996-97. 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, 1995-96 and 1996-97

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Sources of funds	Share trading investment and	Loan finance	Hire purchase	Leasing	Diversified	All activ

	holding				Finance						
	1995-96	**1996-97**	**1995-96**	**1996-97**	**1995-96**	**1996-97**	**1995-96**	**1996-97**	**1995-96**	**1996-97**	**1995-96**
Internal sources	**9.5**	**– 3.4**	**6.8**	**2.0**	**11.9**	**21.5**	**20.4**	**4.0**	**15.1**	**22.2**	**14.7**
a) Paid-up capital*****	0.5	2.1	0.2	—	0.7	0.4	1.6	0.5	0.2	0.6	0.6
b) Reserves and surplus	8.1	– 17.1	2.7	0.7	6.7	8.2	4.9	– 60.9	5.7	2.3	7.5
c) Provisions	0.8	11.5	3.8	1.3	4.4	13.0	13.9	64.3	9.2	19.3	6.6
External sources	**90.5**	**103.4**	**93.2**	**98.0**	**88.1**	**78.5**	**79.6**	**96.0**	**85.0**	**77.8**	**85.3**
d) Paid-up capital******	25.9	83.0	36.8	6.3	7.9	3.1	12.7	8.8	13.0	4.3	21.2
e) Borrowings	58.2	– 30.3	78.2	56.2	59.6	59.0	53.3	75.8	49.3	75.6	49.1
Of which, Public deposits	*– 1.6*	*9.9*	*21.4*	*42.7*	*30.9*	*42.9*	*50.2*	*46.6*	*29.3*	*70.2*	*22.1*
f) Trade dues and other current liabilities	6.4	50.8	– 21.8	35.6	20.7	16.4	13.6	11.4	22.7	– 2.1	14.9
g) Others	—	—	—	—	—	—	—	—	—	—	0.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* 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.

Across the activity-groups also, public deposits generally figured as the major source of financing. However, in the case of share trading and investment holding companies, fresh capital raised from the market remained the most significant source of financing and there were net repayments of earlier borrowings.

Capital Structure

The total liabilities (unadjusted) of the selected companies increased by 22.4 per cent to Rs.32,113 crore in 1996-97 (Statement 4). Borrowings continued to be the single major component, constituting about half of the total liabilities. The composition of total liabilities of the selected companies is given in Table 5.

Share trading and investment holding companies made net repayments of earlier borrowings and, therefore, the share of borrowings in total liabilities for these companies reduced from 46.7 per cent in 1995-96 to 34.3 per cent in 1996-97. On the contrary, the share of reserves and surplus in total liabilities increased from 19.5 per cent in 1995-96 to 32.5 per cent in 1996-97, on account of sharp increase in capital reserves of these companies.

Table 5: Capital Structure of the Selected Financial and Investment Companies, 1995-96 and 1996-97

(Per cent)

Capital and Liabilities	Share trading and investment holding		Loan finance		Hire purchase finance		Leasing		Diversified		All activities	
	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97

		1995-96	1996-97	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97
a)	Share capital	24.0	21.7	24.0	21.7	4.2	3.8	8.5	8.5	7.0	6.5	10.7	10.2
b)	Reserves and surplus	19.5	32.5	9.6	8.8	11.0	11.1	15.6	8.5	14.7	13.6	18.7	18.1
c)	Borrowings	46.7	34.3	58.6	58.4	60.9	62.0	56.6	60.3	59.0	63.1	53.1	50.9
	Of which,												
	Public deposits	*0.5*	*1.1*	*14.8*	*18.1*	*29.9*	*33.4*	*32.8*	*35.3*	*19.7*	*28.0*	*33.9*	*21.0*
d)	Trade dues and other												
	current liabilities	7.7	9.8	6.7	10.1	23.0	22.2	17.6	17.5	18.3	15.6	16.1	18.9
e)	Other liabilities	2.1	1.7	1.1	1.0	0.9	0.9	1.7	5.2	1.0	1.2	1.4	1.9
	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**

E. Uses of Funds and Assets Structure

Uses of funds

The selected companies taken as a whole, seem to have used up a substantial portion of the funds raised by them in 1996-97 in investments in shares and debentures (Statement 5). Consequently, the share of investments in total uses of funds increased from 27.3 per cent in 1995-96 to 41.2 per cent in 1996-97. Distribution of loans and advances and creation of fixed assets were the other major uses of funds. 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, 1995-96 and 1996-97

(Per cent)

	Uses of funds	Share trading and investment holding		Loan finance		Hire purchase finance		Leasing		Diversified		All activities	
		1995-96	1996-97	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97
a)	Cash and bank balances	1.8	– 5.5	7.7	9.7	2.5	3.8	– 1.2	– 8.0	0.9	3.5	0.9	0.4
b)	Investments	77.3	97.6	14.3	26.4	6.9	7.9	17.7	3.2	5.9	23.1	27.3	41.2
c)	Receivables	10.4	37.9	58.4	59.6	67.1	64.8	40.7	48.9	65.8	33.3	45.8	40.1
d)	Inventories	5.3	– 29.9	5.4	– 6.1	– 2.2	0.4	– 2.6	– 0.6	– 0.7	0.2	0.3	– 2.8
e)	Gross fixed assets	3.2	0.6	13.0	10.6	25.1	20.9	45.2	65.4	27.5	37.1	24.7	20.7
	Of which,												
	Leased assets	*2.5*	*8.1*	*8.2*	*1.4*	*23.2*	*18.0*	*44.6*	*62.1*	*24.1*	*42.6*	*19.5*	*19.1*
f)	Others	2.0	– 0.7	1.3	– 0.3	0.5	2.3	0.1	– 8.8	0.6	2.8	1.0	0.5
	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**

Across the activity-groups, the pattern of deployment of funds by the selected companies was obviously dictated by the major activity carried on by them. Share trading and investment holding companies used up most of their funds for investments in shares and debentures of Indian companies whereas loan finance companies provided the majority of funds available towards extending loans and advances. Hire purchase finance companies spent 58.2 per cent of total funds in 1996-97 towards advancing loans and advances against hire purchase. In the case of leasing companies, fixed assets formation accounted for 65.4 per cent of total funds in 1996-97.

Assets Structure

The assets structure of the selected companies in 1996-97 remained similar to that in the previous year (Statement 4). The composition of assets in 1995- 96 and 1996-97 is given in Table 7. Receivables (47.4 per cent), investments (31.1 per cent) and net fixed assets (16.2 per cent) remained the major constituent of total assets of all selected companies in 1996-97.

Activity-wise, the assets structure of the selected financial and investment companies was remarkably in tune with the major activity carried by them. How- ever, for leasing companies, receivables accounted for a significant proportion of 51.0 per cent in total assets.

Table 7 : Assets Structure of the Selected Financial and Investment Companies, 1995-96 and 1996-97

(Per cent)

	Assets	Share trading and investment holding		Loan finance		Hire purchase finance		Leasing		Diversified		All activities	
		1995-96	1996-97	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97
a)	Cash and bank balances	1.5	0.7	3.1	3.9	2.9	3.2	3.0	1.9	2.3	2.6	2.5	2.1
b)	Investments	73.9	79.2	21.2	21.8	6.5	6.9	10.9	10.4	12.3	14.2	26.3	31.1
c)	Receivables	12.0	12.1	61.3	61.3	72.9	73.1	49.6	51.0	60.5	58.0	49.3	47.4
d)	Inventories	7.5	3.8	5.3	4.0	0.3	0.3	2.8	2.6	1.6	1.4	2.8	1.8
e)	Net fixed assets	3.1	2.8	7.7	7.5	16.9	15.4	31.1	32.4	22.4	22.5	17.6	16.2
	Of which, Leased assets	*1.4*	*1.9*	*2.3*	*1.7*	*15.3*	*13.6*	*27.4*	*28.7*	*18.6*	*19.5*	*13.4*	*12.5*
f)	Other assets	2.1	1.5	1.4	1.5	0.5	1.1	2.6	1.7	0.9	1.3	1.5	1.4
	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.**

@ Reference may be made to the March 1999 issue of the Reserve Bank of India Bulletin for the study which covered the financial performance of 625 non-government financial and investment companies during 1995-96.

$ Based on provisional data relating to year ended March 1997 supplied by Department of Company Affairs, Government of India.