Performance of Private Corporate Business Sector, 1998-99*

The financial performance of the private corporate business sector during 1998-99 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 on only a few selected items are available from the abridged results of 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 1999. The study covers 1248 non-financial non-Government public limited companies.

Overall performance

The abridged financial results of the 1248 non-financial public limited companies indicated a sales growth of under ten per cent, increase in interest payments and a decline in profits. The combined sales rose by 8.6 per cent in 1998-99 to Rs.2,50,938 crore from Rs.2,31,079 crore in 1997-98 (Table 1). Other income amounting to Rs.6,469 crore showed a rise of 11.5 per cent. Total expenditure incurred by these companies amounting to Rs.2,18,017 crore went up by 9.4 per cent, almost one per cent higher than sales.

Depreciation provision amounting to Rs.10,790 crore was up by 15.9 per cent in 1998-99. Gross profits at Rs.28,601 crore recorded marginal rise of about one percentage point (0.8 per cent) during the period under review. With interest payments rising at a faster clip of 16.6 per cent compared to gross profits at 0.8 per cent growth, pre-tax profits declined sharply by 12.0 per cent to Rs.13,771 crore. Tax provision amounting to Rs.2,922 crore was at the same magnitude a year ago. Post-tax profits declined steeply by 14.7 per cent to Rs.10,849 crore in 1998-99, from its earlier year level of Rs.12,721 crore. Of the1248 companies, the number of companies reporting post-tax profits was lower at 916 in 1998-99 as compared with 968 companies in the previous year. Aggregate paid-up capital of the 1248 companies rose by 4.7 per cent to Rs.23,627 crore by end March 1999.

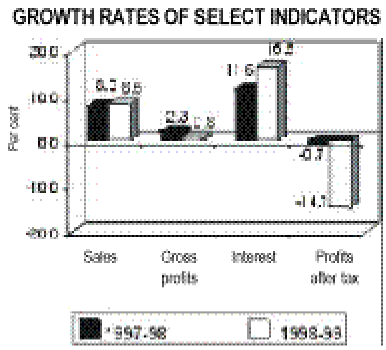


TABLE 1 : PERFORMANCE OF 1248 SELECTED NON-FINANCIAL COMPANIES, 1998-99

(Rs. crore)

			Growth rate (per cent)	
Item	**1997-98**	**1998-99**	**1997-98 ***	**1998-99**

1	2	3	4	5
Sales	2,31,079	2,50,938	8.0	8.6
Other income	5,803	6,469	10.2	11.5
Total expenditure	1,99,213	2,18,017	8.6	9.4
Depreciation provision	9,306	10,790	16.3	15.9
Gross profits	28,362	28,601	2.3	0.8
Interest	12,717	14,830	11.6	16.6
Profits before tax	15,645	13,771	- 3.7	-12.0
Tax provision	2,924	2,922	- 15.7	- 0.1
Profits after tax	12,721	10,849	- 0.7	- 14.7
Paid-up capital	22,577	23,627	7.2	4.7

* Based on 966 companies included in the study on "Financial Performance of Private Corporate Business Sector, 1997-98".

With a view to obtaining a comparative picture of the direction and dimension of changes, the performance of 1248 non-financial companies in terms of growth rates of selected indicators in 1998-99 was compared with the corresponding rates of 966 non-financial companies covered in the previous study. The comparison is, only broad and indicative, on account of the fact that the selected companies in the two studies are different; in fact the current study covers a larger number of companies.

Business activity of private corporate sector during 1998-99 showed that while growth rate of sales improved marginally, profit earnings had deteriorated considerably. The sales of the 1248 companies rose at a slightly higher rate of 8.6 per cent in 1998-99 as compared with 8.0 per cent recorded by 966 companies during the previous year. Likewise total expenditure incurred by these companies increased at a faster rate of 9.4 per cent as against 8.6 per cent in 1997-98. Gross profits plateaued at 0.8 per cent as compared with the moderate rise of 2.3 per cent witnessed in the previous year. Interest payments rose at a higher rate of 16.6 per cent in 1998-99 as compared with 11.6 per cent increase in the preceding year possibly due to higher dependence on borrowings. Pre-tax profits dipped by 12.0 per cent as against a fall of 3.7 per cent witnessed in 1997-98. Post-tax profits also declined sharply by 14.7 per cent in contrast with a small decline of 0.7 per cent observed in the preceding year.

Interest cost of sales at 5.9 per cent was marginally higher than the cost at 5.5 per cent in the previous year. However, interest burden (interest as percentage of gross profits) was higher at 51.9 per cent in 1998-99 as compared with 44.8 per cent in the previous year (Table 2).

TABLE 2 : PROFIT ALLOCATION, PROFITABILITY AND OTHER RATIOS, 1998-99

(Per cent)

Ratio	1997-98	1998-99
1	**2**	**3**
Profit Allocation Ratios		
Tax provision to Profits before tax	18.7	21.2
Interest to Gross profits	44.8	51.9

Profitability Ratios		
Gross profits to Sales	12.3	11.4
Profits before tax to Sales	6.8	5.5
Profits after tax to Sales	5.5	4.3
Other ratios		
Interest to Sales	5.5	5.9
Interest to Expenditure @	5.8	6.1

@ Expenditure includes interest and depreciation provision.

The effective tax rate (tax provision as a percentage of profits before tax) at 21.2 per cent in 1998-99 was higher by 2.5 percentage points. It may be mentioned that out of the 1248 companies covered in the study, 471 companies *did not* make any tax provision during the period under review as against 381 such companies in the previous year. In the case of companies which had made tax provision, the effective tax rate was higher by about 1.6 percentage points at 28.2 per cent as against 26.6 per cent in the previous year.

Profit margins also increasingly came under pressure during 1998-99. Sales margin (ratio of gross profits to sales) at 11.4 per cent and return on sales (ratio of profits after tax to sales) at 4.3 per cent for the period under review were lower by about one percentage point each, as compared with the corresponding ratios at 12.3 per cent and 5.5 per cent respectively in the previous year.

Rates of growth and profitability according to size of paid-up capital

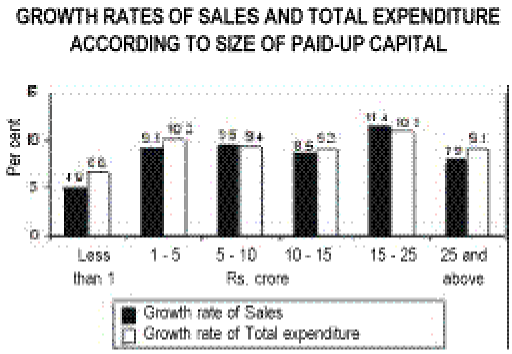
The distribution of the number of companies covered in the study according to the size of paid-up capital showed a greater concentration in the lower size groups of Rs.1 crore to Rs.5 crore and Rs.5 crore to Rs.10 crore (61.4 per cent), though their share in terms of paid-up capital was low at 16.3 per cent of all the selected companies (Table 3).

TABLE 3 : GROWTH RATES OF SELECTED ITEMS OF SELECTED NON-FINANCIAL COMPANIES ACCORDING TO SIZE OF PAID-UP CAPITAL, 1998-99

(Per cent)

Size group (Rs. crore)	*No. of com-panies*	*Paid-up capital*		Growth Rates							
		Amount outstan-ding (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	*61*	*30*	*0.1*	4.8	6.6	4.7	- 8.5	- 0.6	- 13.1	- 13.1	- 13.2
1 - 5	*413*	*1,404*	*5.9*	9.1	10.2	9.5	- 5.7	8.7	- 19.4	- 4.2	- 24.8
5 - 10	*353*	*2,451*	*10.4*	9.5	9.4	9.8	10.0	6.2	14.6	9.2	16.1
10 - 15	*131*	*1,555*	*6.6*	8.5	9.2	15.8	0.0	11.9	- 12.3	2.1	- 15.8
15 - 25	*115*	*2,208*	*9.3*	11.4	10.9	21.1	3.0	19.8	- 5.8	- 0.5	- 7.0
25 and above	*175*	*15,980*	*67.7*	7.9	9.1	16.5	- 0.1	19.2	- 15.6	- 1.0	- 18.7
All Companies	***1248***	***23,627***	***100.0***	**8.6**	**9.4**	**15.9**	**0.8**	**16.6**	**- 12.0**	**- 0.1**	**- 14.7**

The top 175 companies, each with paid-up capital of Rs.25 crore and above (about 14 per cent in terms of number) accounted for over two-thirds (67.7 per cent) of the total paid-up capital.



The top 175 companies recorded lower growth in sales of 7.9 per cent during the period under review as compared with companies in the other size classes. The companies in the size classes of Rs.10 crore to Rs.15 crore and Rs.15 crore to Rs.25 crore, recorded relatively higher growth in sales at 8.5 per cent and 11.4 per cent respectively. Sales of companies in smaller size groups of Rs.1 crore to Rs. 5 crore and Rs. 5 crore to Rs. 10 crore, however, registered higher growth of 9.1 per cent and 9.5 per cent respectively. For top companies the growth in total expenditure at 9.1 per cent was higher by 1.2 percentage points than that of sales. For companies in the preceding size class (Rs. 15 crore to Rs. 25 crore) total expenditure grew at 10.9 per cent, -half of a percentage point less than that of sales.

Following the criterion of growth in profits, the performance of the 175 top companies was indeed discouraging. Both pre-tax and post-tax profits fell sharply by 15.6 per cent and 18.7 per cent respectively. Similar trends were discernible for the companies in the lower two size groups of Rs.15 crore to Rs.25 crore and Rs.10 crore to Rs. 15 crore. However, companies in the size class Rs.5 crore to Rs. 10 crore (353 companies) recorded relatively higher growth in sales, pre- and post-tax profits; while their pre-tax profits rose by 14.6 per cent, post-tax profits registered a higher growth of 16.1 per cent in 1998-99.

Sales margins were lower across most of the size groups during the year under review. Profitability ratios, by and large, showed an up trend in relation to the size of companies (Table 4).

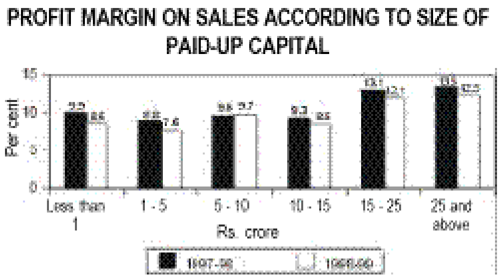
TABLE 4: PROFIT ALLOCATION AND PROFITABILITY RATIOS ACCORDING TO SIZE OF PAID-UP CAPITAL, 1998-99

(Per cent)

Size group (Rs. crore)	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	
	97-98	98-99	97-98	98-99	97-98	98-99	97-98	98-99	97-98	98-99
1	2	3	4	5	6	7	8	9	10	11
Less than 1	27.3	27.3	37.1	40.3	9.9	8.6	6.2	5.2	4.5	3.8
1 -5	25.9	30.8	48.8	56.2	8.8	7.6	4.5	3.3	3.3	2.3
5- 10	22.6	21.5	54.6	52.7	9.6	9.7	4.4	4.6	3.4	3.6
10-15	19.8	23.0	50.8	56.9	9.3	8.5	4.6	3.7	3.7	2.8

15-25	17.5	18.5	34.6	40.2	13.1	12.1	8.6	7.3	7.1	5.9
25 and above	17.9	21.0	44.4	53.0	13.5	12.5	7.5	5.9	6.2	4.6
All companies	**18.7**	**21.2**	**44.8**	**51.9**	**12.3**	**11.4**	**6.8**	**5.5**	**5.5**	**4.3**

In respect of companies in the top three size groups, profit margin on sales in 1998-99 was lower than those in 1997-98. Sales margin of the top 175 companies declined by one percentage point to 12.5 per cent in 1998-99.



Industry-wise Performance

Information on major industrial activities of companies is not available in the abridged financial results for many companies. In such instances, available information from newspapers or the previous annual reports of the companies is used. Even so, the industry-wise analysis of companies is attempted based on 1216 companies as activity-wise details in respect of 32 companies were not available. It is also possible that some of the companies have undertaken new activities in the recent year and needed to be classified differently. The industrial classification needs to be viewed with some circumspection. The industry-wise analysis attempted in this article may be viewed with this caveat.

Growth rates of important indicators across the industry groups showed considerable variation in 1998-99 (Table 5). Engineering companies recorded low growth in sales of 4.1 per cent in 1998-99. In fact, within the engineering industry, the sales of the iron and steel and allied product companies were stagnant, rising by a negligible 0.1 per cent, while the sales of automobile and ancilliary companies rose by 2.8 per cent. Electrical machinery companies, however, performed well registering a rise of 14.4 per cent in sales, and in contrast, the sales of the companies producing 'other machinery' showed decline by 5.9 per cent during the year under review. Cement companies recorded marginal rise of 0.7 per cent in sales. Electricity generation and supply companies performed better with their sales rising by 11.0 per cent, while turnover of construction companies increased by 9.8 per cent. Chemical industry fared well with the sales rising by 15.2 per cent, followed by plastic products at 12.2 per cent in 1998-99. Within the chemical industry, pharmaceutical and drug companies recorded an impressive rise in sales by 20.3 per cent, followed by basic industrial chemical companies (10.7 per cent).

Amongst other industries, information technology companies displayed a very impressive performance with their sales rising at a very high rate of 51.2 per cent -infact, the highest amongst all industries in 1998-99. Food processing companies also performed well with a sales growth of 29.5 per cent followed by sugar industry (10.9 per cent) and companies engaged in diverse activities (8.4 per cent) in the year under review. Industries recording low rise in sales were paper and paper product (4.8 per cent), textiles (4.4 per cent) and tea (2.7 per cent). On the other hand, hotel and rubber and rubber product industries, recorded decline in sales by 2.0 per cent and 3.6 per cent respectively during 1998-99. Except industries like information technology, pharmaceuticals and drugs, food processing, plastic products, electricity generation and supply and trading companies, other industries recorded a considerable fall in pre and post-tax profits. Pre-tax profits of information technology companies (82.2 per cent) recorded significant rise during the year under review, followed by pharmaceutical and drug companies (33.9 per cent). Chemicals (-12.2 per cent) and engineering (- 25.0 per cent) industries registered sharp decline in their pre-tax profits in 1998-99.

TABLE 5: INDUSTRY-WISE GROWTH RATES OF SELECTED ITEMS, 1998-99

(Per cent)

Industry / Industry group	***No. of com-panies***	***Paid-up capital* Amount outstan-ding (Rs.crore)**	***Per cent share***	**Growth Rates Sales**	**Total expen-diture**	**Depre-ciation**	**Gross profits**	**Interest**	**Profits before tax**	**Tax provi-sion**	**Profits after tax**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
1 . Engineering	*340*	*6,900*	*29.2*	4.1	5.5	4.9	-7.0	13.2	-25.0	-2.5	-31.5
Of which,											
i) Iron and steel and allied products	*55*	*2,660*	*11.3*	0.1	1.0	-11.7	8.9	14.5	-69.2	-26.6	..... *
ii) Automobiles and ancilliaries	*48*	*1,063*	*4.5*	2.8	4.4	6.9	-6.4	12.0	-14.0	-14.3	-13.9
iii) Electrical machinery	*107*	*1,442*	*6.1*	14.4	14.6	15.8	9.5	18.1	0.5	7.1	-0.7
iv) Other machinery	*58*	*637*	*21*	-5.9	-4.9	2.7	-26.4	15.8	-51.1	-8.1	-63.9
2. Chemicals	*224*	*5,174*	*21.9*	15.2	17.2	27.8	2.2	18.6	-12.2	2.2	-15.5
Of which,											
i) Basic industrial chemicals	*103*	*3,018*	*12.8*	10.7	12.1	30.7	-3.0	24.3	-31.3	2.6	-37.3
ii) Pharmaceuticals and drugs	*64*	*619*	*2.6*	20.3	19.1	25.4	29.7	20.9	33.9	30.5	34.7
3. Cement	*23*	*640*	*2.7*	0.7	0.7	13.6	6.5	15.7	..... *	13.4	..... *
4. Electricity Generation and supply	*11*	*570*	*2.4*	11.0	7.6	36.2	15.8	21.1	11.8	18.2	9.1
5. Construction	*22*	*517*	*2.2*	9.8	9.6	11.1	0.0	8.3	-7.2	-18.0	-3.8
6. Textiles	*154*	*3,102*	*13.1*	4.4	5.1	16.5	1.2	20.5	-13.8	-43.3	-11.7
7. Tea	*14*	*145*	*0.6*	2.7	3.9	14.0	-2.3	-10.4	-1.0	-1.9	-0.5
8. Sugar	*13*	*170*	*0.7*	10.9	12.5	-2.3	-1.9	-4.2	2.0	71.1	-6.5
9. Food processing	*72*	*1,040*	*4.4*	29.5	32.5	-2.9	1.8	-1.7	5.7	15.8	3.2
10. Rubber and rubber products	*10*	*188*	*0.8*	-3.6	-3.6	6.1	-6.5	-8.4	-2.9	-8.2	-1.6
11. Paper and paper products	*33*	*681*	*2.9*	4.8	4.7	35.1	-21.3	47.7	..... *	-23.0	..... *
12. Plastic products	*23*	*170*	*0.7*	12.2	11.6	26.3	12.8	6.4	19.4	14.8	20.0
13. Information technology	*26*	*311*	*1.3*	51.2	45.1	62.7	68.8	14.4	82.2	82.6	82.2
14. Trading	*58*	*549*	*2.3*	6.7	5.9	5.i	13.2	26.3	1.9	-15.1	5.2
15. Hotel	*22*	*365*	*1.5*	-2.0	4.4	17.8	-18.9	41.9	-26.4	-14.6	-28.0
16. Diversified	*14*	*744*	*3.1*	8.4	10.2	19.0	-9.91	23.1	-29.21	-39.3	-27.9
All Companies (including others)	***1248***	***23,627***	***100.0***	**8.6**	**9.4**	**15.9**	**0.8**	**16.6**	**-12.0**	**-0.1**	**-14.7**

* Profits before tax and profits after tax were negative.

Interest burden continued to be high for industries like iron and steel and allied products (98.1 per cent), cement (111.1 per cent) and paper and paper products (241.2 per cent); in the case of paper and paper products industry, while the gross profits fell steeply by 21.3 per cent, interest payment rose significantly by 47.7 per cent in 1998-99 (Table 6).

TABLE 6: INDUSTRY-WISE PROFIT ALLOCATION AND PROFITABILITY RATIOS, 1998-99

(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	
	97-98	98-99	97-98	98-99	97-98	98-99	97-98	98-99	97-98	98-99
1	2	3	4	5	6	7	8	9	10	11
1. Engineering	22.5	29.2	47.2	57.5	11.0	9.8	5.8	4.2	4.5	3.0
Of *which,*										
i) Iron and steel and allied products	98.0	233.7	93.4	98.1	6.6	7.2	0.4	0.1	0.0	-0.2
ii) Automobiles and ancilliaries	24.9	24.9	29.2	35.0	10.6	9.7	7.5	6.3	5.6	4.7
iii) Electrical machinery	15.6	16.6	51.1	55.1	10.4	9.9	5.1	4.5	4.3	3.7
iv) Other machinery	23.0	43.2	36.8	58.0	14.1	11.0	8.9	4.6	6.8	2.6
2. Chemicals	18.6	21.7	46.9	54.4	14.0	12.5	7.5	5.7	6.1	4.5
Of *which,*										
i) Basic industrial chemicals	15.1	22.5	50.9	65.3	14.4	12.6	7.1	4.4	6.0	3.4
ii) Pharmaceuticals and drugs	20.5	20.0	32.1	29.9	12.0	12.9	8.2	9.1	7.3	6.5
3. Cement	..... *	..... *	102.3	111.1	7.3	7.7	-0.2	-0.9	-0.5	-1.2
4. Electricity generation and supply	29.6	31.3	42.8	44.7	20.8	21.7	11.9	12.0	8.4	8.2
5. Construction	23.9	21.1	46.7	50.6	10.2	9.3	5.5	4.6	4.2	3.6
6. Textiles	6.4	4.2	43.8	52.1	12.5	12.2	7.0	5.8	6.6	5.6
7. Tea	31.4	31.1	14.5	13.3	22.9	21.8	19.6	18.9	13.4	13.0
8. Sugar	11.0	18.4	63.3	61.8	15.9	14.1	5.8	5.4	5.2	4.4
9. Food processing	19.7	21.6	52.5	50.6	7.5	5.9	3.6	2.9	2.9	2.3
10. Rubber and rubber products	19.8	18.7	66.2	64.9	9.4	9.1	3.2	3.2	2.5	2.6
11. Paper and paper products	..... *	..... *	128.5	241.2	5.1	3.8	- 1.5	-5.4	-2.0	-5.8
12. Plastic products	11.6	11.1	51.2	48.3	11.5	11.5	5.6	6.0	5.0	5.3
13. Information technology	6.4	6.4	19.8	13.4	17.5	19.6	14.0	16.9	14.0	15.8
14. Trading	16.3	13.6	46.4	51.8	4.9	5.2	2.6	2.5	2.2	2.2
15. Hotel	11.9	13.8	11.0	19.2	31.4	26.0	27.9	21.0	24.6	18.1
16. Diversified	11.0	9.4	36.9	50.4	12.7	10.6	8.0	5.2	7.1	4.7
All Companies (including others)	**18.7**	**21.2**	**44.8**	**51.9**	**12.3**	**11.4**	**6.8**	**5.5**	**5.5**	**4.3]**

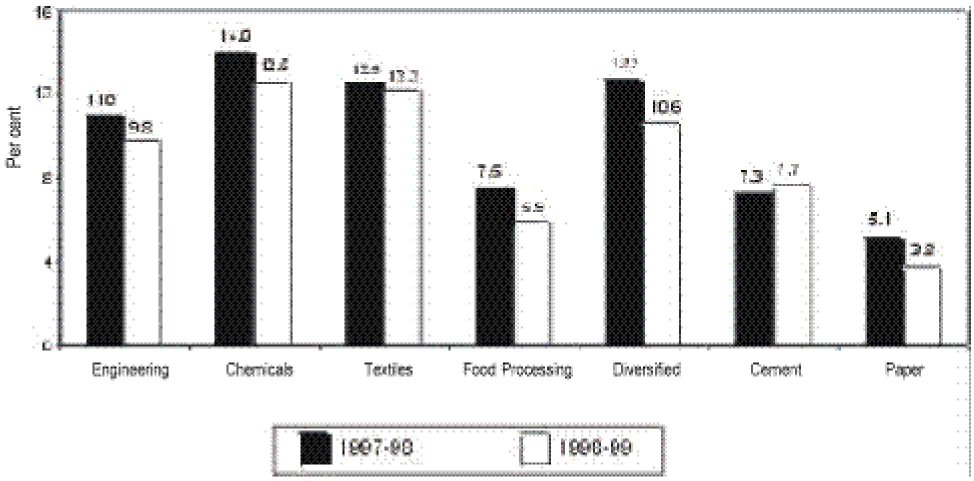
* Profits before tax was negative

Other industries for which interest burden was relatively high were rubber and rubber products (64.9 per cent), sugar (61.8 per cent), engineering (57.5 per cent) and chemicals (54.4 per cent). On the other hand, interest burden in 1998-99 was much lower for automobiles and ancilliaries (35.0 per cent), hotel (19.2 per cent), information technology (13.4 per cent) and tea (13.3 per cent), as in the previous year.

Margin on sales for chemical and engineering industries at 12.5 per cent and 9.8 per cent were lower by more than one percentage point followed by construction companies at 9.3 per cent. On the other hand, profit margin for information technology companies was relatively high at 19.6 per cent in 1998-99, and was higher by about two percentage points as compared with the preceding year. Among the consumer product-based industries, margin on sales was relatively high for tea (21.8 per cent), followed by sugar (14.1 per cent), pharmaceuticals and drugs (12.9 per cent) and textiles (12.2 per cent); for food processing it was low at 5.9 per cent in 1998-99.

Return on sales (ratio of profits after tax to sales) of the major industry groups like chemicals (4.5 per cent), engineering (3.0 per cent), electricity generation and supply (8.2 per cent) and construction (3.6 per cent) etc. was lower by 0.2 to 1.6 percentage points during 1998-99. Companies of iron and steel and allied products (- 0.2 per cent), cement (- 1.2 per cent) and paper and paper product (- 5.8 per cent) incurred losses, the return on sales being negative. Some of the industries for which return on sales was high were hotel (18.1 per cent), information technology (15.8 per cent) and tea (13.0 per cent).

INDUSTRY-WISE PROFIT MARGIN ON SALES (MAJOR INDUSTRIES)



***	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, 1997-98' was published in the January 1999 issue of the Reserve Bank of India Bulletin.