

## Finances of Public Limited Companies, 1997-98\*

The financial performance of 1948 non-Government non-financial public limited companies during the year 1997-98 presented in this article is based on the audited annual accounts closed during the period April 1997 to March 1998@. The selected companies for this study accounted for 30.3 per cent in terms of paid-up capital of all non-Government non-financial companies as at the end of March 1998#.

### 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 1997-98. 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 similar to that in 1996-97 ([Table A](#), also refer to [Table 1](#)).

The growth in sales of the selected 1948 companies at 5.2 per cent in 1997-98 was much less than the growth of 12.2 per cent in the preceding year. The total sales stood at Rs. 2,48,844 crore. Likewise, manufacturing expenses rose by 5.7 per cent in the year under review as compared to a growth of 10.6 per cent in 1996-97. Gross profits, which recorded a nominal growth of 1.2 per cent in the earlier year, deteriorated and fell by 4.7 per cent. Outgo in terms of interest payments rose by 9.4 per cent in 1997-98 compared to arise of 30.5 per cent in 1996-97. Tax provision recorded a fall of 10.7 per cent in 1997-98 as compared to a rise of 17.0 per cent in the preceding year. Retained profits shrank by 19.7 per cent in 1997-98, over and above a fall of 33.7 per cent witnessed in 1996-97.

**TABLE A - GROWTH RATES OF SELECTED ITEMS**

Item	(Per cent)	
	1996-97	1997-98
Sales \$	12.2	5.2
Value of Production	9.3	6.3
Manufacturing Expenses	10.6	5.7
Gross profits	1.2	- 4.7
Interest	30.5	9.4
Profits before tax	- 16.6	- 13.3
Tax provision	17.0	- 10.7
Profits after tax	- 24.6	- 14.3
Dividends	1.3	-4.3
Profits retained	- 33.7	- 19.7

\$ Net of 'Rebates and discounts' and 'excise and cess'.

The profit margin on sales (Gross profits as percentage of sales) dropped by 1.2 percentage points to 11.7 per cent in 1997-98. Return on equity (Post-tax profits as a percentage of net worth) fell by 2.2 percentage points to 7.6 per cent in 1997-98. The effective tax rate (Tax

provision to profits before tax) increased by 0.8 percentage point to 27.9 per cent in the year under review. The ordinary dividend rate was lower at 18.6 per cent in 1997-98 as compared to 20.8 per cent in 1996-97.

The total net assets (adjusted for revaluation) of the selected companies increased by 11.3 per cent in 1997-98 as compared to a rise of 14.2 per cent in the preceding year. Inventories accumulated at a rate of 4.4 per cent in 1997-98 as against an increase of 1.5 per cent posted in the preceding year.

The accounts of the selected companies indicate that external sources of funds continue to play a major role in the finances of the corporate sector. External sources of funds of the selected companies accounted for 66.6 per cent of the funds raised in 1997-98 as compared to 64.1 per cent in the preceding year. The share of borrowings in external sources of funds was 69.0 per cent in 1997-98 as against 71.2 per cent in 1996-97.

The debt-equity ratio of the selected companies moved up slightly from 62.4 per cent in 1996-97 to 65.0 per cent in 1997-98. The current ratio (Current assets to current liabilities) slipped from 1.3 in 1996-97 to 1.2 in 1997-98.

The total foreign exchange earnings of the selected companies increased by 6.1 per cent in 1997-98 after a substantial growth of 20.9 per cent in the preceding year. Besides, the total foreign exchange expenditure fell by 5.3 per cent in 1997-98 as against a rise of 15.3 per cent in 1996-97.

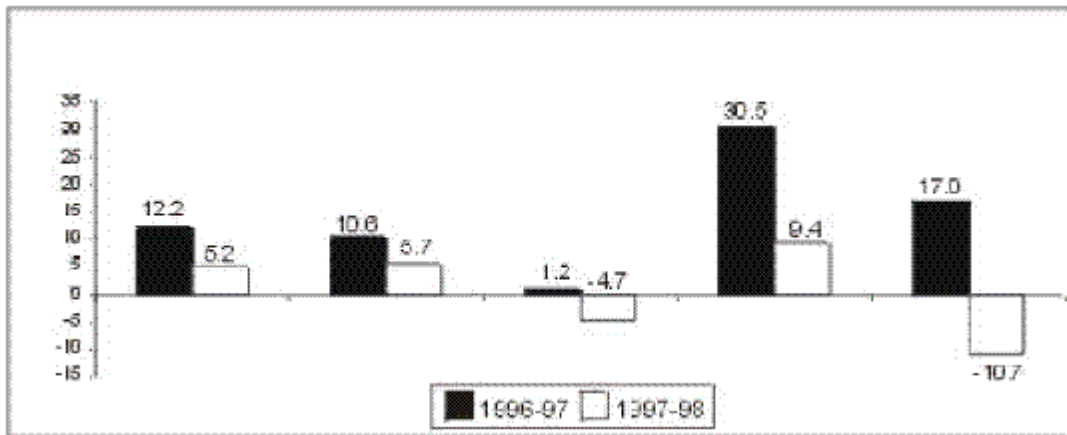
### **Income and Expenditure**

The growth of 5.2 per cent in the total sales of the 1948 selected companies covered in the study in 1997-98 gave rise to a total income of the value of Rs. 2,61,016 crore in 1997-98, up by 6.4 per cent over the previous year. 'Other income' was higher by 6.7 per cent at Rs. 8,715 crore in 1997-98 as compared to Rs. 8,168 crore in 1996-97 ([Table - 3](#)).

On the expenditure side, manufacturing expenses increased by 5.7 per cent during the year under review as against an increase of 10.6 per cent in the previous year. The rise in interest cost was less pronounced at 9.4 per cent leading to a total interest outgo of Rs.15,825 crore in 1997-98. The rise in interest outgo was 30.5 per cent in the previous year. Employees' remuneration at Rs.21,219 crore increased by 11.8 per cent in 1997-98 as against 12.3 per cent increase in the preceding year. The rise in depreciation provided during the year at 13.4 per cent in 1997-98 was much lower compared to the increase of 30.4 per cent in 1996-97. Profits before tax fell by 13.3 per cent while post-tax profits of selected companies suffered further setback by 14.3 per cent in 1997-98 after a fall of 16.6 per cent and 24.6 per cent respectively in the preceding year. Tax provision went down by 10.7 per cent in 1997-98 as against 17.0 per cent rise in 1996-97.

The decline in the growth of gross profits was also reflected in the profit margin on sales, which dropped by 1.2 percentage points to 11.7 per cent in 1997-98. The effective tax rate (Tax provision to profits before tax) for 1997-98 worked out to 27.9 per cent, 0.8 percentage point higher than the rate in the previous year.

### Growth Rates of Selected Items



Profits ploughed back into the business further decreased by 19.7 per cent in 1997-98 after a decline of 33.7 per cent in 1996-97. Dividend payments also decreased by 4.3 per cent in 1997-98. The ordinary dividend rate worked out to 18.6 per cent in 1997-98 as compared to 20.8 per cent in 1996-97.

### Earnings and Expenditure in Foreign Currencies

The total earnings in foreign currencies of the selected 1948 companies increased by 6.1 per cent in 1997-98 as against the increase of 20.9 per cent in 1996-97 (Table 6). The growth in merchandise exports was at 6.3 per cent in 1997-98 as against 12.5 per cent increase in the preceding year. Merchandise imports decreased by 7.4 per cent in 1997-98 as against an increase of 15.3 per cent in the previous year. The total expenditure in foreign currencies was reduced by 5.3 per cent as against an increase of 15.3 per cent in 1996-97. The imports of raw materials were cut down by 7.9 per cent in 1997-98 after an increase of 14.4 per cent in the previous year. Imports of capital goods declined by 28.7 per cent in 1997-98 as against a rise of 30.5 per cent in the previous year. The imports of raw materials and capital goods accounted for 61.8 per cent and 19.7 per cent respectively of the total merchandise imports in 1997-98. The net outflow of foreign currency in 1997-98 was of the order of Rs. 9,076 crore in comparison with the outflow of Rs. 12,719 crore in 1996-97.

### Pattern of Assets and Liabilities

The total net assets of the selected companies increased by 12.2 per cent to Rs.3,60,549 crore in 1997-98 as compared to a growth of 14.4 per cent in the preceding year (Table 4). Gross fixed assets and inventories adjusted for revaluation grew by 15.7 per cent and 4.4 per cent respectively in 1997-98. The composition of assets at the end of March 1998 did not differ much from that observed in the previous year. Net fixed assets accounted for 49.3 per cent of total assets followed by Loans and advances at 23.8 per cent. The share of Debentures and Investments in the total assets was of the order of 13.8 per cent and 7.9 per cent respectively.

On the liabilities side, reserves and surplus accounted for 32.5 per cent (33.2 per cent in 1996-

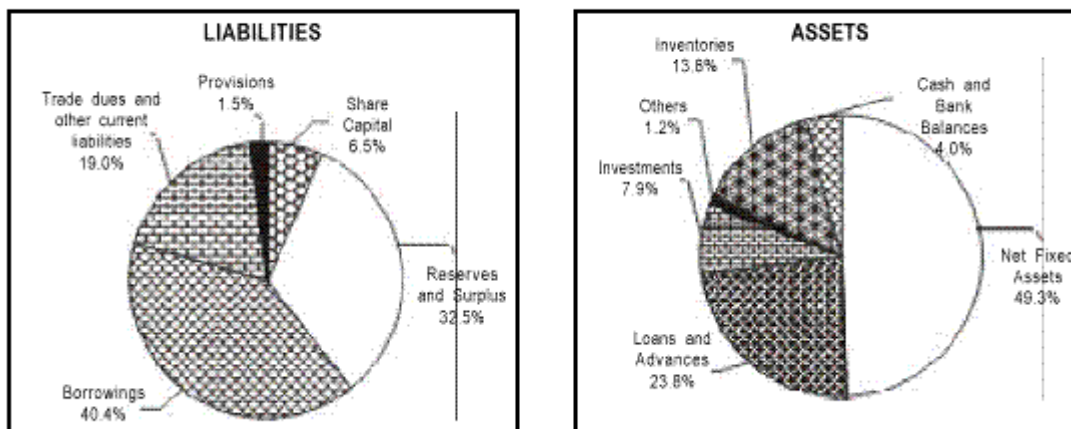
97) of total liabilities while borrowings constituted 40.4 per cent (38.8 per cent in 1996-97) of the total liabilities. Bank borrowings constituted 31.9 per cent of total borrowings in 1997-98 as compared to 33.6 per cent in 1996-97.

The current ratio (current assets to current liabilities) declined from 1.3 in 1996-97 to 1.2 in 1997-98. Debt - equity ratio registered a slight increase from 62.4 per cent in 1996-97 to 65.0 per cent in the year under review.

### Sources and Uses of Funds

The total funds raised by the selected companies in 1997-98 amounted to Rs.45,486 crore as compared to Rs.48,772 crore in 1996-97 (Table 5). External sources continued to have major share with 66.6 per cent of the total funds raised in 1997-98. Borrowings constituted 69.0 per cent of external funds mobilised by the companies. The share of debentures in total borrowings went up from 11.9 per cent in 1996-97 to 26.5 per cent in 1997-98. The share of bank borrowings in total borrowings came down from 29.3 per cent in 1996-97 to 21.9 per cent in 1997-98. Of the total funds of Rs.3,471 crore raised in the form of paid-up capital from capital market in 1997-98, 61.7 per cent were on account of premium on shares while the rest was from net issues. Internal sources declined from Rs. 17,513 crore in 1996-97 to Rs. 15,186 crore in 1997-98 driven mainly on account of decline by 36.2 per cent in reserves and surpluses. Depreciation provision increased from Rs.8,716 crore in 1996-97 to Rs. 9,460 crore in 1997-98 and formed major component of internal resources of finance with its share being 62.3 per cent in 1997-98.

**PATTERN OF LIABILITIES/ASSETS IN 1997-98**



The total asset formation of the selected companies was Rs. 45,486 crore in 1997-98 which was lower by Rs. 3,286 crore compared to the level prevailing in 1996-97. Gross capital formation amounting to Rs. 34,904 crore accounted for 76.7 per cent of total asset formation in 1997-98. Inventory build up was of the order of Rs. 2,100 crore in 1997-98.

### Performance of Companies by Size of Sales

The size factor as measured by volume of sales had significant effect on the performance of the selected companies during the year 1997-98. 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 fall in sales by 11.9 per cent, the companies with sales in the range of 'Rs.500 crore - Rs 1,000 crore' recorded a growth of 5.1 per cent. The companies in the sales bracket of 'Rs.1,000 crore and above' recorded growth of 9.3 per cent in sales in 1997-98. The gross profits of companies with sales 'Less than Rs. 25 crore' fell by 40.8 per cent in 1997-98, whereas, the gross profits for companies with sales in the range of 'Rs 1,000 crore and above' increased by 0.8 per cent. Exports and imports of companies with sales 'Less than Rs. 25 crore' reduced by 15.8 per cent and 8.3 per cent respectively while companies with sales 'Rs. 1,000 crore and above', showed an increase of 15.5 per cent in exports and a fall of 0.1 per cent in imports in 1997-98. The companies with sales 'Rs. 1,000 crore and above', recorded a growth of 16.4 per cent in total borrowings while the companies with sales, 'Less than Rs.25 crore', recorded 7.8 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 14.6 per cent for companies with sales 'Rs. 1,000 crore and above' and the lowest at 4.7 per cent for companies with sales 'Less than Rs. 25 crore' in 1997-98 (Table-8). Exports as a percentage of sales was the highest at 13.1 per cent for companies with sales in the range of 'Rs. 50 crore-Rs.100 crore' and the lowest at 6.9 per cent for companies with sales in the range of both 'Less than Rs. 25 crore' and 'Rs.1,000 crore and above'. Debt-equity ratio was the highest at 80.3 per cent for companies with sales 'Less than Rs. 25 crore', while it was the lowest at 61.6 per cent for companies with sales 'Rs. 100 crore - Rs. 500 crore'.

### Industry-wise Performance

The performance of the public limited companies as reflected by their growth in sales, profits and exports in selected industry groups are given in the Table B (also refer to Tables 10 and 11).

It may be observed that industries like Silk and rayon textiles (31.0 per cent), Tea (27.8 per cent) and Basic industrial chemicals (21.2 per cent) recorded significant increase in their sales. On the other hand industries like Motor vehicles (-9.3 per cent), Paper and paper products (-17.4 per cent) and Rubber and rubber products (-4.1 per cent) recorded noticeable decline in their sales during 1997-98. Turning to gross profits, significant improvement over the year was registered by Sugar (63.2 per cent) and Tea (95.7 per cent) industries. On the other hand, gross profits of Paper and paper products (-59.5 per cent), Rubber and rubber products (-50.5 per cent), Motor vehicles (-23.2 per cent) and Cement (-23.9 per cent) industries declined sharply in 1997-98.

**TABLE B - INDUSTRY-WISE PERFORMANCE**

I. Growth Rates of the Selected Items	(Per cent)									
	Sales		Gross Profits		Profits Before Tax		Profits After Tax		Exports	
Selected Industry / Industry Groups	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 (63)	9.2	27.8	16.7	95.7	13.9	165.3	12.0	204.3	37.3	25.7
Sugar (29)	11.2	11.0	13.8	63.2	-76.8	362.9	-86.9	664.9	104.6	-66.5
Cotton / blended Textiles (162)	3.2	2.0	-6.1	-7.4	-53.3	-18.6	-66.5	-42.4	27.9	-1.1
Silk and rayon Textiles (56)	11.1	31.0	-2.4	29.6	-22.7	9.5	-26.7	3.0	26.5	24.5
<b>Engineering (560)</b>	<b>16.8</b>	<b>-1.9</b>	<b>8.5</b>	<b>-18.0</b>	<b>-5.8</b>	<b>-30.3</b>	<b>-13.3</b>	<b>-30.9</b>	<b>11.5</b>	<b>8.3</b>
<i>of which</i>										
<i>Motor vehicles (72)</i>	21.1	-9.3	20.6	-23.2	15.6	-29.8	15.7	-28.3	3.1	1.5
<i>Electrical machinery (146)</i>	9.4	5.3	-1.2	-19.3	-12.1	-37.3	-16.4	-38.4	41.0	3.6
<i>Machinery other than transport &amp; electrical (143)</i>	16.9	-2.2	8.5	-19.4	-4.3	-19.1	-12.9	-20.0	3.4	-5.6
<i>Foundries and engineering workshop (101)</i>	20.2	4.2	-11.7	-2.6	-65.9	-63.3	-74.0	-86.1	14.4	23.6
<i>Ferrous/Non-ferrous metal products (85)</i>	14.2	1.2	9.5	-19.2	-30.7	-50.8	-45.4	-55.3	20.0	41.3
<b>Chemical and chemical products (292)</b>	<b>7.9</b>	<b>16.2</b>	<b>-2.2</b>	<b>6.3</b>	<b>-18.5</b>	<b>5.2</b>	<b>-29.0</b>	<b>7.1</b>	<b>8.4</b>	<b>24.6</b>
<i>of which</i>										
<i>Medicines and pharmaceutical preparations (69)</i>	17.1	8.3	40.3	8.5	9.1	-0.9	-2.5	1.2	15.6	19.5
<i>Paints and varnishes (10)</i>	8.4	8.9	17.1	9.2	11.1	14.3	4.8	24.3	-27.3	-29.5
<i>Basic industrial chemicals (131)</i>	3.3	21.2	-13.7	8.7	-31.8	8.6	-39.9	7.2	-0.3	37.4
<i>Chemical fertilizers (25)</i>	4.1	12.5	-5.1	9.4	-9.0	6.5	-19.3	6.5	-44.8	38.4
Cement (29)	7.2	3.2	-13.9	-23.9	-38.3	-65.1	-37.6	-69.4	-1.5	6.8
Rubber and rubber products (33)	13.2	-4.1	10.3	-50.5	7.9	#	-5.7	#	16.3	-4.1
Paper and paper products (60)	15.6	-17.4	-29.3	-59.5	-70.0	#	-75.1	#	15.9	-32.0
Construction (30)	21.6	5.1	-11.6	17.0	6.7	-28.7	-5.1	-26.5	**	35.2
Electricity generation and supply (8)	12.2	8.0	-13.3	13.6	-33.8	-9.0	-47.3	-26.3	**	-0.6
Trading (79)	11.3	-3.7	22.3	9.5	-19.6	-11.0	-45.5	13.0	12.3	-44.0
Shipping (14)	18.9	6.0	5.1	5.0	-7.5	2.7	-17.9	1.7	**	**
Diversified companies (14)	9.3	-10.6	-7.6	-36.7	-23.0	-41.7	-27.3	-42.2	-1.0	-31.3
<b>All Industries (1948)</b>	<b>12.2</b>	<b>5.2</b>	<b>1.2</b>	<b>-4.7</b>	<b>-16.6</b>	<b>-13.3</b>	<b>-24.6</b>	<b>-14.3</b>	<b>12.5</b>	<b>6.3</b>

## II. Selected Financial Ratios

(Per cent)

Selected Industry / Industry Groups	Profit margin		Effective tax rate		Debt to equity	
	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98
1	2	3	4	5	6	7
Tea (63)	13.6	20.8	42.3	33.8	20.8	20.4
Sugar (29)	10.9	16.0	48.3	14.6	95.9	89.8
Cotton / blended Textiles (162)	7.9	7.2	33.1	52.7	70.6	73.2
Silk and rayon Textiles (56)	14.3	14.1	5.5	11.0	67.8	47.2
<b>Engineering (560)</b>	<b>12.0</b>	<b>10.0</b>	<b>32.3</b>	<b>32.9</b>	<b>62.5</b>	<b>67.1</b>
<i>of which</i>						
<i>Motor vehicles (72)</i>	13.9	11.7	30.7	29.2	38.6	42.0
<i>Electrical machinery (146)</i>	9.8	7.5	35.6	36.8	45.4	41.7
<i>Machinery other than transport &amp; electrical (143)</i>	12.2	10.1	34.9	35.6	40.8	43.7
<i>Foundries and engineering workshop (101)</i>	10.9	10.2	28.4	73.0	125.0	144.4
<i>Ferrous / Non-ferrous metal products (85)</i>	10.9	8.7	33.8	39.9	83.5	89.9

<b>Chemical and chemical products (292)</b>	<b>15.7</b>	<b>14.3</b>	<b>26.6</b>	<b>25.3</b>	<b>67.0</b>	<b>66.9</b>
<i>of which</i>						
<i>Medicines and pharmaceutical preparations (69)</i>	13.8	13.8	32.1	30.7	26.0	29.2
<i>Paints and varnishes (10)</i>	13.3	13.4	38.4	32.9	35.1	34.1
<i>Basic industrial chemicals (131)</i>	17.2	15.4	20.6	21.7	80.4	79.7
<i>Chemical fertilizers (25)</i>	19.1	18.6	17.8	17.8	86.6	88.8
Cement (29)	15.8	11.7	10.6	21.7	90.0	113.9
Rubber and rubber products (33)	8.2	4.2	30.9	- 68.7	60.1	56.0
Paper and paper products (60)	9.3	4.6	29.6	- 39.6	80.5	80.4
Construction (30)	8.8	9.8	30.2	28.0	71.9	94.3
Electricity generation and supply (8)	16.6	17.5	37.4	49.3	83.0	97.6
Trading (79)	5.1	4.8	54.1	41.8	36.6	36.6
Shipping (14)	27.5	24.7	18.5	19.3	74.4	76.1
Diversified companies (14)	13.2	9.3	16.6	17.3	52.7	62.3
<b>All Industries (1948)</b>	<b>12.9</b>	<b>11.7</b>	<b>27.1</b>	<b>27.9</b>	<b>62.4</b>	<b>65.0</b>

Note : Figures in brackets denote number of companies.

# Denominator nil, negligible or negative.

\*\* Numerator nil, negligible or negative.

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

@ **Reference may be made to June 1999 issue of RBI Bulletin for the previous study on the performance of 1930 non-Government non-financial public limited companies for 1996-97.**

# **Based on the data related to non-Government non-financial public limited companies as on 31st March 1998 supplied by Department of Company Affairs, Government of India.**