

## Finances of Private Limited Companies, 1996-97\*

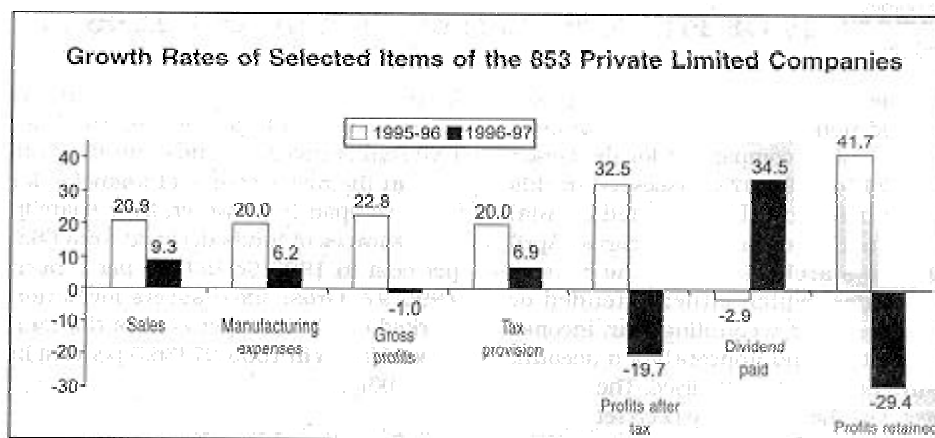
The financial performance of the 853 selected non-government non-financial private limited companies<sup>@</sup> for the period 1994-95 to 1996-97 is assessed in this article based on their audited annual accounts closed during the period April 1996 to March 1997<sup>§</sup>. In the case of companies, 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 reveals an overall deceleration during 1996-97. These companies had increased their total sales by 9.3 per cent in 1996-97 as against 20.9 per cent in 1995-96. The profits for the year under study were lower as compared to the previous year. The profit margin (gross profits to sales) and return on net worth (profits after tax to net worth) declined from 9.3 per cent and 13.5 per cent in 1995-96 to 8.4 per cent and 9.2 per cent respectively in 1996-97. Effective tax rate (tax provision to profits before tax) was higher at 38.5 per cent in 1996-97 as compared to 32.0 per cent in 1995-96. 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 66.0 per cent in 1995-96 to 62.3 per cent in 1996-97. Gross fixed assets formation worked out to 50.0 per cent of the total uses of funds in 1996-97 (36.5 per cent in 1995-96).

### A. Operational Results

The selected companies recorded an increase of 9.3 per cent in their sales in 1996-97 following 20.9 per cent growth in the previous year. However, their gross profits and the net profits (profits after tax) declined by 1.0 per cent and 19.7 per cent respectively during the year under study ([Statement 3](#)). Profit margin (gross profits to sales) of these companies declined from 9.3 per cent in 1995-96 to 8.4 per cent in 1996-97. Effective tax rate was higher at 38.5 per cent in 1996-97 as compared to 32.0 per cent in 1995-96. Tax provisions registered 6.9 per cent rise in 1996-97.



The return on shareholders' equity (profits after tax to net worth) dipped from 13.5 per cent in 1995-96 to 9.2 per cent in 1996-97. However, dividends paid by these companies increased by 34.5 per cent in 1996-97 over last year. The ordinary dividend rate (ordinary dividend to ordinary paid-up capital) for the selected companies was at 7.3 per cent in 1996-97 as compared to 6.1 per cent in 1995-96. The retention ratio was at 74.6 per cent in 1996-97 as against 84.9 per cent in the previous year.

## **B. Foreign Business**

The foreign business of the selected private limited companies continued to indicate favourable trends in 1996-97 ([Statement 6](#)). Net inflow of foreign currencies, which amounted to Rs. 193 crore in 1995-96 for the selected companies, picked up to Rs. 249 crore in 1996-97.

The export intensity of sales (export to sales) of the selected companies increased from 6.9 per cent in 1995-96 to 7.3 per cent in 1996-97. Exports by the selected companies increased by 15.1 per cent in 1996-97 over and above an increase of 24.5 per cent in 1995-96. The foreign exchange earnings of these companies increased by 16.4 per cent in 1996-97 (29.6 per cent in 1995-96).

The growth in imports was substantially lower at 8.3 per cent in 1996-97 as against 25.8 per cent in 1995-96. The total expenditure by these companies in foreign currencies grew by 4.0 per cent in 1996-97 as against 26.5 per cent in the previous year.

## **C. Financing Pattern and Capital Structure**

### **Financing Pattern**

A total amount of Rs. 601 crore was raised by the selected companies during 1996-97 ([Statement 5](#)). The financing pattern of the selected companies ([Table 1](#)) indicates that the share of funds from internal sources has slightly gone up from 34.0 per cent in 1995-96 to 37.7 per cent in 1996-97. Internal funds were mainly in the form of depreciation provision.

Among the external sources, the percentage share of borrowings in financing from external sources came down by about 19 percentage points while that of 'Trade dues and other current liabilities' went up by 15 percentage points, the latter accounting for nearly 55 per cent of the total external sources in 1996-97. Fresh borrowings contributed 27.3 per cent in external sources in 1996-97.

**TABLE 1 : FINANCING PATTERN OF SELECTED PRIVATE LIMITED COMPANIES, 1995-96 AND 1996-97**

Sources of funds	(Per cent)	
	1995-96	1996-97

Internal sources	34.0	37.7
Paid-up capital (Internal)	3.2	1.9
Reserves and surplus	16.6	14.3
Provisions	14.2	21.5
<b>External sources</b>	<b>66.0</b>	<b>62.3</b>
Paid-up capital (External)	7.6	10.5
Borrowings	30.8	17.0
Trade dues and other current liabilities	26.2	34.2
Others	1.4	0.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

### Capital Structure

Total liabilities/ assets of the selected companies increased by 13.9 per cent to Rs.4,379 crore in 1996-97 ([Statement 4](#)). The changes in financing pattern during 1996-97 did not affect the broad liability structure of the selected companies ([Table 2](#)).

**TABLE 2 : COMPOSITION OF LIABILITIES OF SELECTED PRIVATE LIMITED COMPANIES, 1994-95 TO 1996-97**

Liabilities	(Per cent)		
	1994-95	1995-96	1996-97
1. Share capital	10.9	10.8	10.7
2. Reserves and surplus	20.4	20.8	21.9
3. Borrowings	35.6	35.6	33.6
4. Trade dues and other current liabilities	31.5	31.3	32.2
5. Others	1.6	1.4	1.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

'Borrowings' (33.6 per cent) and 'Trade dues and other current liabilities' (32.2 per cent) remained the two major constituents of total liabilities in 1996-97. Trade dues in the form of sundry creditors increased from Rs. 698 crore in 1995-96 to Rs. 841 crore in 1996-97. 'Reserves and surplus' and 'Share capital' accounted for 21.9 per cent and 10.7 per cent respectively in total liabilities in 1996-97. The debt-equity ratio of the selected companies came down from 28.9 per cent in 1995-96 to 27.4 per cent in 1996-97.

### D. Utilization of Funds and Assets Structure

#### Utilization of Funds

The pattern of utilization of funds showed wide variations in 1996-97 as compared to the previous year ([Statement 5](#)). About half of the total funds was utilized for fixed asset formation in 1996-97 which was quite an improvement over the 36.5 per cent share in 1995-96. The share

of 'Inventory accumulation' and 'Cash in hand' had also increased, accounting for 21.2 per cent and 4.0 per cent of total funds deployment respectively in 1996-97. On the other hand, incremental 'Loans and advances and other debtor balances' reduced significantly from Rs. 340 crore in 1995-96 to Rs. 106 crore in 1996-97 and its share in total uses of fund declined substantially from 45.0 per cent to 17.6 per cent in 1996-97. The share of investments in total funds utilization went up to 6.0 per cent in 1996-97 from 3.2 per cent in the previous year.

**TABLE 3 : FUNDS UTILIZATION BY THE SELECTED PRIVATE LIMITED COMPANIES, 1995-96 AND 1996-97**

<b>Uses of funds</b>	(Per cent)	
	<b>1995-96</b>	<b>1996-97</b>
1. Gross fixed assets	36.5	50.0
2. Inventories	14.8	21.2
3. Loans and advances and other debtor balances	45.0	17.6
4. Investments	3.2	6.0
5. Cash and bank balances	2.3	4.0
6. Other assets	-1.8	1.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

#### **Assets Structure**

The changes in the utilization pattern of funds during 1996-97 resulted in minor variations in the assets structure of the selected companies ([Statement 4](#)).

The share of 'Loans and advances and other debtor balances' in total net assets had come down from 37.1 per cent in 1995-96 to 35.0 per cent in 1996-97 while that of 'Net fixed assets' and 'Inventories' moved up from 32.7 per cent and 19.8 per cent in 1995-96 to 33.9 per cent and 20.3 per cent respectively in 1996-97. The current ratio of the selected companies remained unchanged at 1.1 during the year under study.

**TABLE 4: COMPOSITION OF ASSETS OF SELECTED PRIVATE LIMITED COMPANIES, 1994-95 TO 1996-97**

<b>Assets</b>	(Per cent)		
	<b>1994-95</b>	<b>1995-96</b>	<b>1996-97</b>
1. Net fixed assets	34.0	32.7	33.9
2. Inventories	20.4	19.8	20.3
3. Loans and advances and other debtor balances	34.0	37.1	35.0
4. Investments	5.6	5.4	5.5
5. Other assets	5.9	5.0	5.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

#### **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](#) (reference is also invited to [statements 7](#) and [8](#)).

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 decelerated after a good performance recorded in the previous year. The profit margin for major industry-groups has generally declined during the year under review.

**TABLE 5 : INDUSTRY-WISE PERFORMANCE OF SELECTED PRIVATE LIMITED COMPANIES, 1995-96 AND 1996-97**

		(Per cent)					
Selected Industry/ Industry-group	Growth in Sales		Growth in Net Assets		Profit Margin		
	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97	
1. Engineering (210)	22.8	5.2	25.5	9.7	9.5	9.3	
<i>Of which,</i>							
(a) Motor vehicles (19)	20.0	10.0	34.3	4.5	7.6	6.9	
(b) Electrical machinery, apparatus, appliances, etc. (53)	18.4	7.5	29.1	10.5	8.3	9.2	
(c) Machinery other than transport and electricals (62)	19.7	5.3	22.5	7.5	12.2	11.7	
(d) Foundries and engineering workshops (19)	35.1	14.9	24.0	20.0	6.4	8.1	
(e) Ferrous/ non-ferrous metal products (49)	24.5	- 0.1	27.6	14.3	9.6	9.5	
2. Chemicals (93)	24.6	16.2	27.5	35.5	8.6	8.0	
<i>Of which,</i>							
(a) Basic industrial chemicals (28)	21.8	17.5	16.7	8.4	7.5	6.9	
(b) Medicines and pharmaceutical preparations (30)	30.1	18.2	46.9	65.5	9.7	10.4	
3. Trading (83)	16.2	5.4	18.0	9.5	8.3	7.4	
4. Cotton textiles (53)	27.0	15.3	6.8	11.2	3.2	3.6	
5. Hotels, restaurants and Eating houses (34)	35.4	15.5	28.2	19.5	30.5	29.9	
6. Paper and paper products (31)	28.3	4.4	34.7	21.5	8.2	7.5	
7. Tea (20)	20.5	3.8	8.5	3.1	10.3	8.5	
<b>All Companies (853)</b>	<b>20.9</b>	<b>9.3</b>	<b>20.4</b>	<b>12.7</b>	<b>9.3</b>	<b>8.4</b>	

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

@ The selected companies accounted for 2.3 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 1997 as per the information available from the Department of Company Affairs,

Government of India.

\$ Reference may be made to the May 1999 issue of the RBI Bulletin for the previous study, which covered 880 non-government non-financial private limited companies during 1995-96.

Note: Figures in brackets relate to number of companies.