PERFORMANCE OF PRIVATE CORPORATE BUSINESS SECTOR DURING THE FIRST HALF OF 1997-98*

The financial performance of the private corporate sector for the first half of 1997-98 i.e., April to September 1997, 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, in the unaudited results of the companies (which are provisional in nature), data on only a few selected items are available, analysis based on these data can be taken at best as indicative. The reference period of the study is the half year ended September 1997. The study covers 1,262 non-financial companies.#

Companies which were not in operation during both the current half year and in the corresponding period of the previous year are not included in the study. In the absence of product–wise information, industry-wise analysis of these companies could be attempted only based on the information available from newspapers or from the previous annual reports of the companies. Despite these efforts, 34 companies could not be classified due to non-availability of relevant information. Incidentally, industrial classification itself needs to be viewed with some circumspection, since companies have been diversifying their activities. The industry-wise analysis attempted in this article may be viewed with this caveat.

Overall Performance

The financial results of the 1,262 non-financial companies indicated that their sales rose by 8.6 per cent in the first half (April to September) of 1997-98 to Rs.1,12,661 crore from Rs.1,03,763 crore in the first half of 1996-97 (Table 1). Other income amounting to Rs.2,775 crore showed a rise of 6.8 per cent. Total expenditure incurred amounting to Rs.95,908 crore rose by 8.6 per cent, at the same rate as sales.

Depreciation provision amounting to Rs.4,667 crore was up by 23.0 per cent in the current half year. Gross profits increased by 4.1 per cent to Rs.14,862 crore during the period under review. With interest payments rising at a much higher rate of 12.3 per cent than gross profits to Rs. 6,338 crore, pre-tax profits declined by 1.3 per cent to Rs.8,524 crore. Tax provision declined by 10.6 per cent to Rs.1,363 crore, and post-tax profits registered a meagre rise of 0.8 per cent to Rs. 7,161 crore in the first half of 1997-98, over Rs.7,107 crore in the corresponding period of the previous year. Of the 1,262 companies, the number of companies reporting post-tax profits was relatively lower at 961 in 1997-98 as compared with 1,171 companies in the previous year. Aggregate paid-up capital of the 1,262 companies was higher by Rs.997

*** 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 during First Half of 1996-97' was published in the March 1997 issue of the Reserve Bank of India Bulletin.

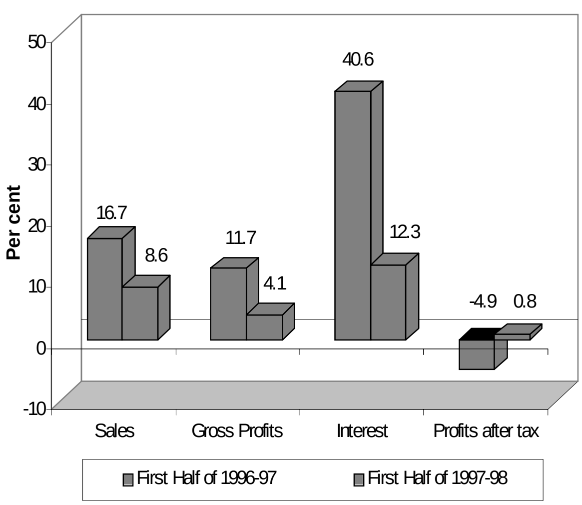
TABLE 1: FINANCIAL PERFORMANCE OF 1262 SELECTED NON-FINANCIAL COMPANIES, 1997-98

(Rs. crore)

Item	1996-97 (Apr.–Sept.)	1997-98 (Apr.–Sept.)	Growth rate (Per cent)	
			1996-97 *	1997-98
1	2	3	4	5
Sales	1,03,763	1,12,661	16.7	8.6
Other income	2,598	2,775	10.0	6.8
Total expenditure	88,291	95,908	16.8	8.6
Depreciation provision	3,794	4,667	30.1	23.0
Gross profits	14,275	14,862	11.7	4.1
Interest	5,643	6,338	40.6	12.3
Profits before tax	8,632	8,524	–0.1	–1.3
Tax provision	1,525	1,363	24.3	–10.6
Profits after tax	7,107	7,161	–4.9	0.8
Paid-up capital	18,917	19,914	9.9	5.3

* Based on 1,069 companies included in the study on "Financial Performance of Private Corporate Business Sector during First Half of 1996-97".

GROWTH RATES OF SELECT INDICATORS



crore (5.3 per cent), amounting to Rs.19,914 crore by end September 1997.

With a view to obtaining a broad comparative picture of the direction and magnitude of changes, the performance of 1,262 non-financial companies in terms of growth rates of selected indicators in the first half of 1997-98 was compared with the corresponding rates of 1,069 non-financial companies in the first half of 1996-97, covered in the previous study. Business activity of private corporate sector in the first half of 1997-98 slowed down considerably as evidenced by the sluggish growth in sales and only a marginal rise in profits. Sales and gross profits decelerated, recording lower rates of growth of 8.6 per cent and 4.1 per cent respectively, in the first half of 1997-98 as compared with corresponding growth rates of 16.7 per cent and 11.7 per cent observed in the previous year. Moderate rise in interest payments, combined with reduction in tax provision, in fact, prevented a steep decline in profits in 1997-98. Interest payments rose moderately by 12.3 per cent in 1997-98 in sharp contrast to 40.6 per cent increase witnessed in the first half of 1996-97.

Pre-tax profits fell by 1.3 per cent as compared to a marginal decline of 0.1 per cent in the corresponding period of the previous year. Consequent to the substantial decrease in tax provision, partly reflecting the reduction in corporate tax rates, post-tax profits registered a modest increase of 0.8 per cent in 1997-98 in contrast to a drop of 4.9 per cent in the previous year.

TABLE 2 : PROFIT ALLOCATION AND PROFITABILITY RATIOS, 1997-98

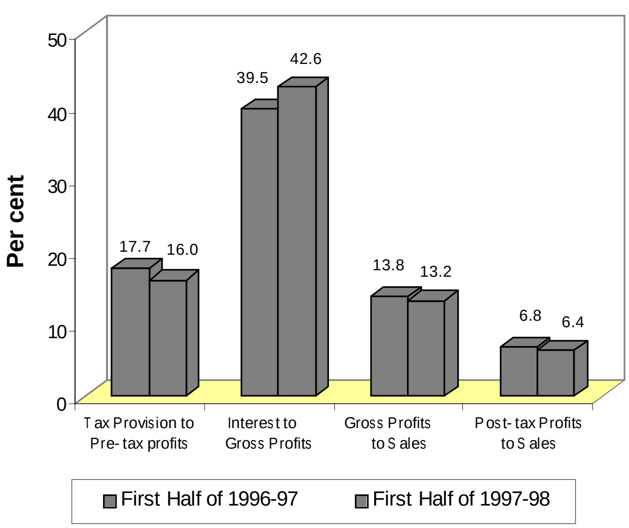
(Per cent)

Ratio	1996-97	1997-98
1	2	3
Profit Allocation Ratios		
Tax provision to Profits before tax	17.7	16.0
Interest to Gross profits	39.5	42.6
Profitability Ratios		
Gross earnings@ to Sales	17.4	17.3
Gross profits to Sales	13.8	13.2
Profits before tax to Sales	8.3	7.6
Profits after tax to Sales	6.8	6.4

@ Profits before depreciation, interest and tax provision.

Interest cost of sales at 5.6 per cent was almost of the same order (5.4 per cent) as in the first half of the previous year. However, interest burden (interest as percentage of gross profits) was higher at 42.6 per cent in the first half of 1997-98 as compared with 39.5 per cent in the comparable period of the previous year (Table 2). The effective tax rate (tax provision as a percentage of profits before tax) at 16.0 per cent for all non-financial companies in 1997-98 is lower by 1.7 percentage points. It may be mentioned that out of the 1,262 companies, 794 companies *did not* make any tax provision during the period under review as against 777 such companies in the first half of the previous year. In the case of companies which had made tax provisions, the effective tax rate was lower by four percentage points at 19.8 per cent as against 23.8 per cent in the previous year. Profit margin (gross profits to sales) at 13.2 per cent and return on sales (profits after tax to sales) at 6.4 per cent for the period under review were lower compared with the corresponding ratios at 13.8 per cent and 6.8 per cent respectively in the previous year.

PROFIT ALLOCATION AND PROFITABILITY RATIOS



Rates of Growth and Profitability according to Size of Paid-up Capital

The distribution of companies covered in the study according to size of paid-up capital is highly skewed (Table 3). The top 170 very large companies each with a paid-up capital of Rs.25 crore and above accounted for as much as 62.7 per cent of the total paid-up capital, whereas 425 companies in the modal size class of Rs.1 crore to Rs.5 crore had a share of 7.2 per cent . On the other hand 85 relatively smaller companies each with a paid-up capital of below Rs. 1 crore had negligible share (0.1 per cent).

The top 170 companies recorded lower growth in sales of 8.4 per cent during the period under reveiw as compared with companies in the three size classes, Rs.15 crore to Rs.25 crore, Rs.10 crore to Rs.15 crore and Rs.1 crore to Rs.5 crore, whose sales rose by 9.6 per cent, 9.5 per cent and 9.2 per cent respectively. Growth rates in total expenditure were slightly higher or the same as that of sales for most of the size classes. In regard to smaller companies with

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

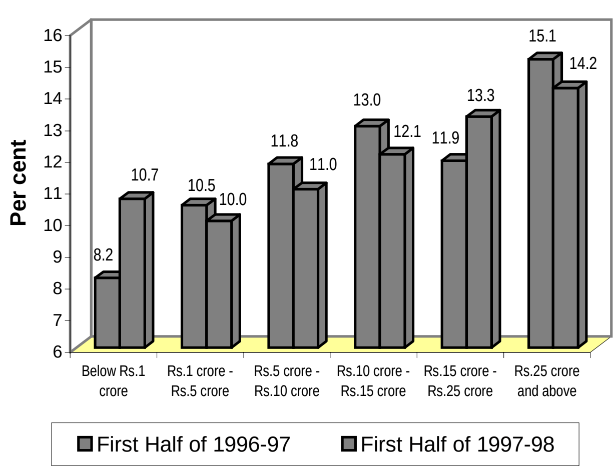
(Per cent)

Size group (Rs. crore)	*Number of companies*	*Paid-up capital*		*Growth Rates*							
		Amount out-standing (Rs.crore)	*Per cent share*	Sales	Total expen-diture	Depre-ciation provision	Gross profits	Interest	Profits before tax	Tax provision	Profits after tax
1	*2*	*3*	*4*	5	6	7	8	9	10	11	12
Less than 1	*85*	*29*	*0.1*	7.3	1.7	50.2	39.4	46.8	31.6	27.7	32.2
1 – 5	*425*	*1,434*	*7.2*	9.2	9.4	16.6	3.7	4.1	3.4	-1.5	4.7
5 – 10	*346*	*2,390*	*12.0*	7.7	8.4	18.6	0.0	13.0	-8.9	-20.2	-6.1
10 – 15	*129*	*1,552*	*7.8*	9.5	10.2	21.4	2.5	18.3	-8.3	-24.8	-4.8
15 – 25	*107*	*2,031*	*10.2*	9.6	9.7	24.7	22.3	11.8	29.3	19.7	31.6
25 and above	*170*	*12,478*	*62.7*	8.4	8.4	23.5	2.0	11.7	-4.0	-13.0	-2.1
All Companies	*1,262*	*19,914*	*100.0*	8.6	8.6	23.0	4.1	12.3	-1.3	-10.6	0.8

paid-up capital below Rs.1crore, total expenditure moved up by only 1.7 per cent in sharp contrast to the rise in sales by 7.3 per cent.

Large companies in the size class of Rs.15 crores to Rs.25 crore recorded impressive rise in profits when compared with the top 170 companies whose profits in fact declined. Pre-tax and post-tax profits of the companies in the size group Rs.15 crore to Rs.25 crore rose by 29.3 per cent and 31.6 per cent respectively in 1997-98, whereas the top companies recorded a fall of 4.0 per cent and 2.1 per cent in their pre-tax and post-tax profits during the same period. The decline in profits was also noticeable in the other major size groups Rs.5 crore to Rs.10 crore and Rs.10 crore to Rs.15 crore. In the case of 425 companies in the modal size class, the pre-tax and post-tax profits recorded a moderate rise of 3.4 per cent and 4.7 per cent respectively in 1997-98.

PROFIT MARGIN ON SALES ACCORDING TO SIZE OF PAID-UP CAPITAL



Profitability ratios showed an up trend in relation to the size of companies (Table 4). Across the size groups, however, the profitability ratios in the first half of 1997-98 were generally lower than those in 1996-97, the exceptions being the companies in the size class of Rs.15 crore to Rs.25 crore

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

(Per cent)

Size group (Rs. crore)	Profit Allocation Ratios				Profitability Ratios							
	Tax provision to Profits before tax		Interest to Gross profits		Gross earnings to Sales		Gross profits to Sales		Profits before tax to Sales		Profits after tax to Sales	
	96-97	97-98	96-97	97-98	96-97	97-98	96-97	97-98	96-97	97-98	96-97	97-98
1	2	3	4	5	6	7	8	9	10	11	12	13
Below 1	14.8	14.3	51.8	54.5	11.1	14.4	8.2	10.7	4.0	4.9	3.4	4.2
1 - 5	21.4	20.4	48.3	48.5	13.0	12.7	10.5	10.0	5.4	5.1	4.3	4.1
5 – 10	19.8	17.3	40.8	46.1	14.8	14.3	11.8	11.0	7.0	5.9	5.6	4.9
10 – 15	17.5	14.3	40.7	46.9	15.6	15.1	13.0	12.1	7.7	6.4	6.3	5.5
15 – 25	19.5	18.1	39.8	36.4	14.6	16.4	11.9	13.3	7.2	8.4	5.8	6.9
25 and above	16.9	15.3	38.2	41.9	19.3	19.0	15.1	14.2	9.3	8.3	7.7	7.0
All Companies	17.7	16.0	39.5	42.6	17.4	17.3	13.8	13.2	8.3	7.6	6.8	6.4

and those with paid-up capital of less than Rs.1 crore. The profit margin declined by about 1 percentage point in 1997-98 from 15.1 per cent to 14.2 per cent for the top companies whereas it increased from 11.9 per cent to 13.3 per cent for companies in the size class of Rs.15 crore to Rs.25 crore. In respect of 85 companies in the smallest size group, profit margin was up at 10.7 per cent in 1997-98 as against 8.2 per cent in the previous year.

Industry-wise performance

The industry-wise performance during the first half of 1997-98 showed wide variation in the growth rates of important indicators across the industries (Table 5). Infrastucture industries like iron & steel, electricity generation & supply and cement showed mixed trends in terms of growth in sales. While iron & steel and electricity generation & supply companies recorded rise in sales by 20.1 per cent and 12.6 per cent respectively, the sales of cement companies were nearly stagnant recording a marginal fall of 0.5 per cent in 1997-98. Construction companies showed a very low sales growth of 3.8 per cent while engineering companies recorded a negligible rise in their sales (0.5 per cent). Chemical companies fared better with their sales registering a rise of 14.0 per cent. On the other hand, sales of textiles companies rose impressively by 27.7 per cent, followed by tea (20.1 per cent) and food processing companies (9.4 per cent). The rate of decline in sales of rubber & rubber products, plastic products and paper & paper products varied between 1 to 6 per cent.

The pre-tax and post-tax profits of many industries, barring tea, sugar, textiles and trading, declined during 1997-98. While post-tax profits of cement and construction companies declined by 55.5 per cent and 35.8 per cent respectively, the fall was some what less steep in case of iron & steel (-11.8

TABLE 5 : INDUSTRY-WISE GROWTH RATES OF SELECTED ITEMS

(Per cent)

Industry/ Industry group	Number of Companies	Paid-up capital		Growth Rates							
		Amount out-standing (Rs.crore)	Per cent share	Sales	Total expen-diture	Depre-ciation provision	Gross profits	Interest	Profits before tax	Tax provision	Profits after tax
1	2	3	4	5	6	7	8	9	10	11	12
Tea	21	208	1.0	20.1	16.9	12.6	25.3	12.0	30.1	12.5	35.1
Sugar	20	237	1.2	2.6	-5.1	35.7	53.7	32.2	215.0	7.4	430.6
Food processing	47	358	1.8	9.4	10.5	23.0	-5.6	-2.8	-7.5	-7.6	-7.4
Textiles	121	2,144	10.8	27.7	25.7	39.3	31.0	42.8	24.3	3.3	25.0
Iron and steel	21	288	1.4	20.1	21.8	54.8	5.4	22.2	-13.9	-40.6	-11.8
Engineering	318	4,402	22.1	0.5	0.6	18.1	-1.8	9.9	-7.4	-7.7	-7.3
Chemicals	227	5,446	27.3	14.0	16.0	22.2	-1.0	4.9	-5.6	-15.2	-3.5
Cement	15	440	2.2	-0.5	3.2	13.2	-26.0	27.3	-59.8	-81.1	-55.5
Rubber and rubber products	19	223	1.1	-5.3	-5.2	16.4	-9.6	6.9	-38.3	-27.6	-40.7
Paper and paper products	19	247	1.2	-2.6	-1.4	9.3	-28.6	17.2	-95.9	-47.0	-101.3
Plastic products	30	179	0.9	-1.2	-2.8	18.2	13.6	38.4	-16.1	-12.3	-16.3
Construction	25	182	0.9	3.8	5.1	5.0	-4.5	27.5	-29.3	-4.4	-35.8
Electricity generation and supply	11	511	2.6	12.6	16.4	17.4	-3.7	18.3	-15.5	-23.9	-12.6
Trading	44	368	1.8	27.1	28.0	18.0	11.3	4.4	16.2	-45.0	35.6
Hotel	22	347	1.7	1.9	10.2	22.9	-9.1	-12.9	-8.3	-22.5	-5.8
Diversified	13	605	3.0	-3.2	-2.8	18.1	-4.3	-2.7	-5.5	-15.6	-4.0
Total (including others)	1,262	19,914	100.0	8.6	8.6	23.0	4.1	12.3	-1.3	-10.6	0.8

per cent), engineering (-7.3 per cent), chemicals (-3.5 per cent), electricity generation & supply (–12.6 per cent) and plastic products (–16.3 per cent).

While the post-tax profits of sugar companies in the first half of 1997-98 was over five times the profits in the corresponding period of the previous year, tea and textile companies also registered impressive rise in post-tax profits, by 35.1 per cent and 25.0 per cent respectively.

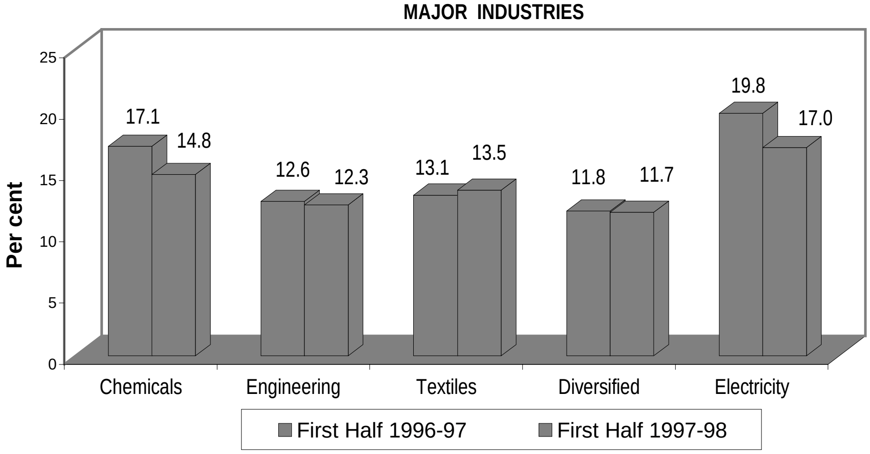
Effective tax rate of companies for almost all the industries had declined in the first half of 1997-98 (Table 6). Most of the industries, barring tea and sugar, had borne higher interest burden, as indicated by the ratio of interest to gross profits, in the first half of 1997-98 as compared with the

TABLE 6 : INDUSTRY-WISE PROFIT ALLOCATION AND PROFITABILITY RATIOS

(Per cent)

Industry/ Industry group	Profit Allocation Ratios				Profitability Ratios							
	Tax provision to Profits before tax		Interest to Gross profits		Gross earnings to Sales		Gross profits to Sales		Profits before tax to Sales		Profits after tax to Sales	
	96-97	97-98	96-97	97-98	96-97	97-98	96-97	97-98	96-97	97-98	96-97	97-98
1	2	3	4	5	6	7	8	9	10	11	12	13
Tea	21.9	19.0	26.5	23.7	21.9	22.6	20.0	20.9	14.7	15.9	11.5	12.9
Sugar	50.9	17.4	88.2	75.9	14.9	21.6	10.8	16.2	1.3	3.9	0.6	3.2
Food processing	23.5	23.5	39.9	41.0	8.9	8.0	7.6	6.6	4.6	3.9	3.5	3.0
Textiles	3.0	2.5	36.2	39.5	17.4	18.1	13.1	13.5	8.4	8.1	8.1	7.9
Iron and steel	7.5	5.2	53.6	62.1	12.4	12.1	9.4	8.3	4.4	3.1	4.0	3.0
Engineering	20.3	20.2	31.9	35.8	15.7	16.0	12.6	12.3	8.6	7.9	6.9	6.3
Chemicals	17.8	16.0	43.0	45.6	21.0	19.0	17.1	14.8	9.7	8.1	8.0	6.8
Cement	16.8	7.9	38.8	66.8	17.9	14.9	13.9	10.3	8.5	3.4	7.1	3.2
Rubber and rubber products	18.6	21.9	63.4	75.0	10.4	10.4	8.8	8.4	3.2	2.1	2.6	1.6
Paper and paper products	10.0	129.6	59.6	97.7	17.5	15.3	11.3	8.3	4.6	0.2	4.1	-0.1
Plastic products	4.8	5.0	54.4	66.3	14.3	16.6	11.0	12.7	5.0	4.3	4.8	4.1
Construction	20.7	28.0	43.7	58.4	17.3	16.3	13.9	12.8	7.8	5.3	6.2	3.8
Electricity generation and supply	25.4	22.9	34.8	42.7	26.2	23.6	19.8	17.0	12.9	9.7	9.7	7.5
Trading	24.0	11.4	42.2	39.6	7.9	6.9	6.7	5.9	3.9	3.5	2.9	3.1
Hotel	15.0	12.7	16.0	15.3	36.6	33.9	32.5	29.0	27.3	24.6	23.2	21.4
Diversified	13.2	11.8	42.7	43.4	15.3	16.0	11.8	11.7	6.8	6.6	5.9	5.8
Total (Including others)	17.7	16.0	39.5	42.6	17.4	17.3	13.8	13.2	8.3	7.6	6.8	6.4

INDUSTRY-WISE PROFIT MARGIN ON SALES, MAJOR INDUSTRIES



corresponding period in the previous year.

Major industries which operated with lower profit margin than in the previous year were chemicals (14.8 per cent), engineering (12.3 per cent), cement (10.3 per cent), construction (12.8 per cent), electricity generation & supply (17.0 per cent) and paper and paper products (8.3 per cent). On the other hand, consumer product industries such as tea (20.9 per cent), sugar (16.2 per cent), textiles (13.5 per cent) and plastic products (12.7 per cent), raised their profit margin. Return on sales (i.e, profits after tax to sales) of tea as well as sugar industries improved to 12.9 per cent and 3.2 per cent from 11.5 per cent and 0.6 per cent respectively.

Post-tax profits to sales of iron & steel and cement companies at 3.0 per cent and 3.2 per cent declined by 1.0 and 3.9 percentage points respectively. Other industries like chemicals (6.8 per cent), electricity generation & supply (7.5 per cent) and construction (3.8 per cent) also witnessed fall in their return on sales by about one to three percentage points, during the period under review.