FINANCES OF LARGE PUBLIC LIMITED COMPANIES, 1996-97[@]

The financial performance of 756 non-Government non-financial large public limited companies (each with a paid-up capital of Rs.1 crore and above) during 1996-97 is assessed in this article based on their audited annual accounts closed during April 1996 to March 1997[#]. The companies selected for this study accounted for 17.8 per cent of all non-Government non-financial public limited companies in terms of their paid-up capital as at the end of March 1997.[@@]

OVERVIEW

The trends in the private corporate sector, as glimpsed from the financial performance of the 756 selected large public limited companies, indicate an overall deceleration in the year 1996-97. The growth in sales and value of production fell substantially over the year and profits declined, the pre-tax and post-tax profits recording a negative growth against the backdrop of an impressive performance in 1995-96 as per the study covering 700 companies.

The sales of the selected companies rose by 10.4 per cent to Rs.1,46,706 crore in 1996-97 as against a substantial rise of 25.3 per cent observed in the preceding year. Value of production also recorded a much lower growth of 9.2 per cent in the year under review (25.8 per cent in 1995-96). Expenses incurred towards manufacturing increased by only 12.4 per cent in 1996-97, as against 25.6 per cent in 1995-96. Gross profits actually went down by 0.2 per cent in 1996-97, as compared with a phenomenal rise of 34.5 per cent in the preceding year. Outgo by way of interest payments and tax provision rose at a comparatively lower rate in 1996-97. Retained profits plummeted by 22.4 per cent in 1996-97 in sharp contrast to the rise of 30.4 per cent witnessed in the preceding year. Consequently, the gross savings of the selected companies (sum of retained profits and depreciation) decreased by 2.7 per cent as against 24.0 per cent rise in the preceding year.

The profitability ratios reflected the downtrend in the corporate sector as outlined above. Profit margin on sales went down by 1.5 percentage points from 15.9 per cent in 1995-96 to 14.4 per cent in 1996-97, the return on equity (post-tax profits as percentage of net worth) declined even more from 15.9 per cent in 1995-96 to 12.0 per cent in 1996-97. The effective tax rate (ratio of tax provision to pre-tax profits) rose by 5.3 percentage points to 25.6 per cent in the year under review. The ordinary dividend rate was lower at 26.6 per cent in 1996-97 as compared to 27.1 per cent in 1995-96.

Total net assets (adjusted for revaluation) of the selected companies rose by 15.3 per cent in 1996-97 as compared with 20.6 per cent in 1995-96. The growth of inventories

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

Reference may be made to the March, 1998 issue of Reserve Bank of India Bulletin for the previous study.

@@ Based on the data relating to companies as on 31st March, 1997 supplied by Department of Company Affairs, Government of India.

was at a lower rate at 5.9 per cent in 1996-97 as against 20.1 per cent in the preceding year.

External funds continued to play a significant role in financing the asset formation, accounting for 60.0 per cent in 1996-97 as against 57.7 per cent in the preceding year. There was a spurt in the share of borrowings in total external funds from 45.7 per cent in 1995-96 to 67.9 per cent in 1996-97. Gross capital formation as percentage of total usage of funds marginally declined to 66.7 per cent during 1996-97 (67.1 per cent in the preceding year).

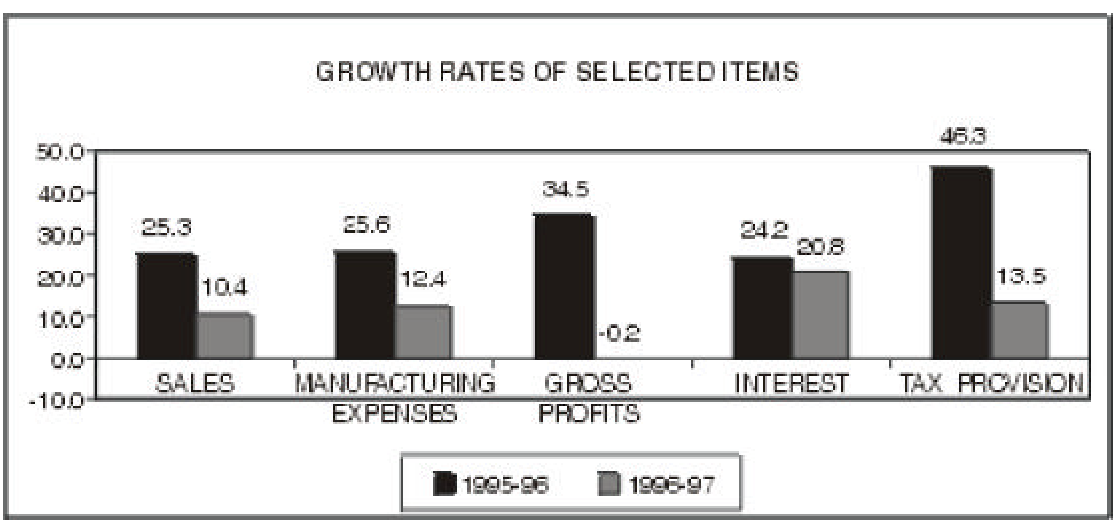
The debt-equity ratio increased from 52.2 per cent in 1995-96 to 56.3 per cent in 1996-97. The liquidity ratio (ratio of current assets to current liabilities) declined to 1.4 in 1996-97 (1.5 in 1995-96). Resources raised from capital markets was of a lower order at 7.7 per cent of the total asset formation during the year under review, as compared to13.8 per cent in 1995-96.

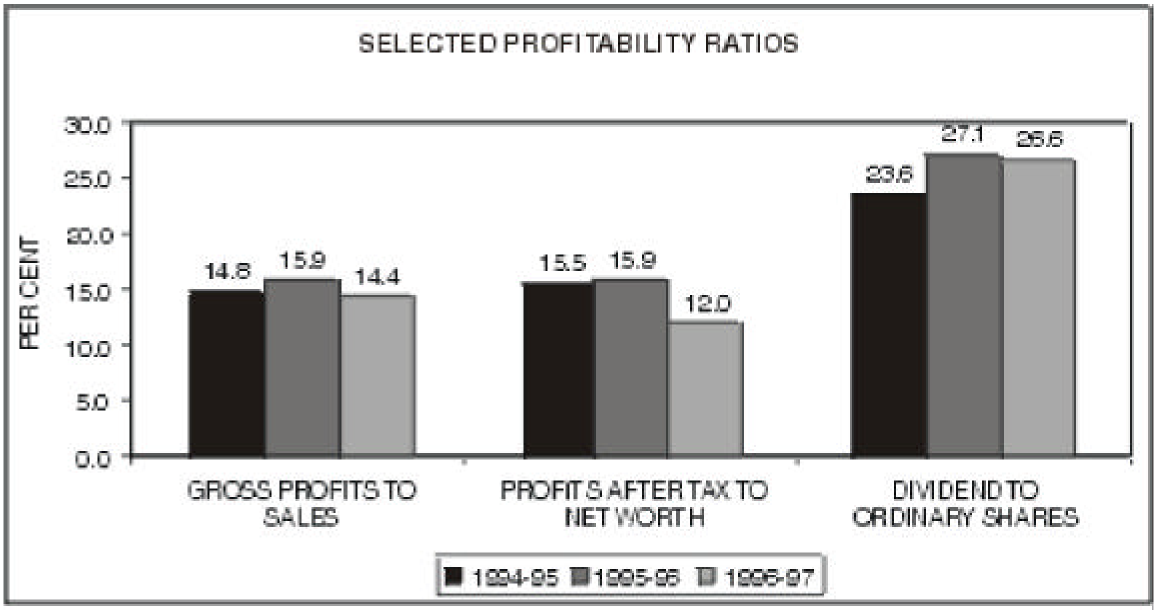
The total foreign exchange earnings of the selected companies showed an increase of 18.0 per cent in 1996-97 over and above the growth of 25.6 per cent observed in the preceding year. Total foreign exchange expenditure recorded a lower growth of 9.4 per cent in 1996-97 compared with 39.7 per cent in 1995-96. The share of exports in sales remained stable at 9.1 per cent during 1994-95 to 1996-97.

INCOME AND EXPENDITURE

The total sales of the 756 selected companies amounting to Rs.1,46,706 crore registered a modest growth of 10.4 per cent in 1996-97. A similar trend was observed in the value of production which increased by 9.2 per cent to Rs.1,47,742 crore. 'Other income' also grew by 9.2 per cent amounting to Rs.4,816 crore. In comparison, the performance was much better in 1995-96, the corresponding growth rates being 25.3 per cent, 25.8 per cent and 45.6 per cent.

On the expenditure side, expenditure on manufacturing increased by 12.4 per cent during the year under review as against 25.6 per cent in the previous year. Likewise, employees' remuneration at Rs.11,902 crore also increased by 12.4 per cent in 1996-97 as against 21.6 per cent in the previous year. Depreciation was provided at a slightly higher rate of 25.8 per cent in 1996-97 as compared with 24.4 per cent rise in 1995-96. Interest





costs went up by 20.8 per cent to Rs.8,246 crore in 1996-97. The profit growth was adversely affected. Pre-tax profits decreased by 9.7 per cent, while post-tax profits of the selected companies plunged by 15.6 per cent in contrast to an impressive growth of 32.2 per cent and 29.1 per cent respectively in the previous year. Tax provision grew by 13.5 per cent in 1996-97 as compared to 46.3 per cent in 1995-96. The effective tax rate worked out to 25.6 per cent in 1996-97, 5.3 percentage points higher than the previous year.

The slack in the growth of gross profits was reflected in the gross profit margin which reduced from 15.9 per cent in 1995-96 to 14.4 per cent in 1996-97. Consequently profits ploughed back into business also was lower by 22.4 per cent as compared to an increase of 30.4 per cent in the previous year. Dividend payments at Rs.3,182 crore, grew by 4.6 per cent in 1996-97 over and above the increase of 25.4 per cent in 1995-96. The ordinary dividend rate worked out to 26.6 per cent in 1996-97 compared with 27.1 per cent in the preceding year. Profit retention ratio was at 68.6 per cent in 1996-97 (74.7 per cent in 1995-96).

EARNINGS AND EXPENDITURE IN FOREIGN CURRENCIES

The year under review witnessed only a modest improvement in activity with regard to earnings and expenditure in foreign currencies. The increase in total earnings in foreign currencies of the selected companies was decidedly lower at 18.0 per cent in 1996-97, as against 25.6 per cent in 1995-96 (Table 6). The growth rate in merchandise exports was only 10.2 per cent (Rs. 13,320 crore) in 1996-97 as compared to 25.8 per cent in 1995-96. Merchandise imports also registered a much smaller growth of 9.0 per cent in 1996-97 as against 46.1 per cent in 1995-96. The growth rates in imports of raw materials and capital goods were 4.6 per cent and 15.9 per cent respectively in 1996-97 as compared to 34.1 per cent and 98.0 per cent respectively in the previous year. The imports of these two categories accounted for 61.5 per cent and 26.4 per cent respectively of the total merchandise imports in 1996-97. The increase in total expenditure in foreign currencies in 1996-97 was at 9.4 per cent as against 39.7 per cent in 1995-96. The net outflow in foreign currency recorded Rs.4,702 crore in 1996-97 as against Rs.5,424 crore in the preceding year.

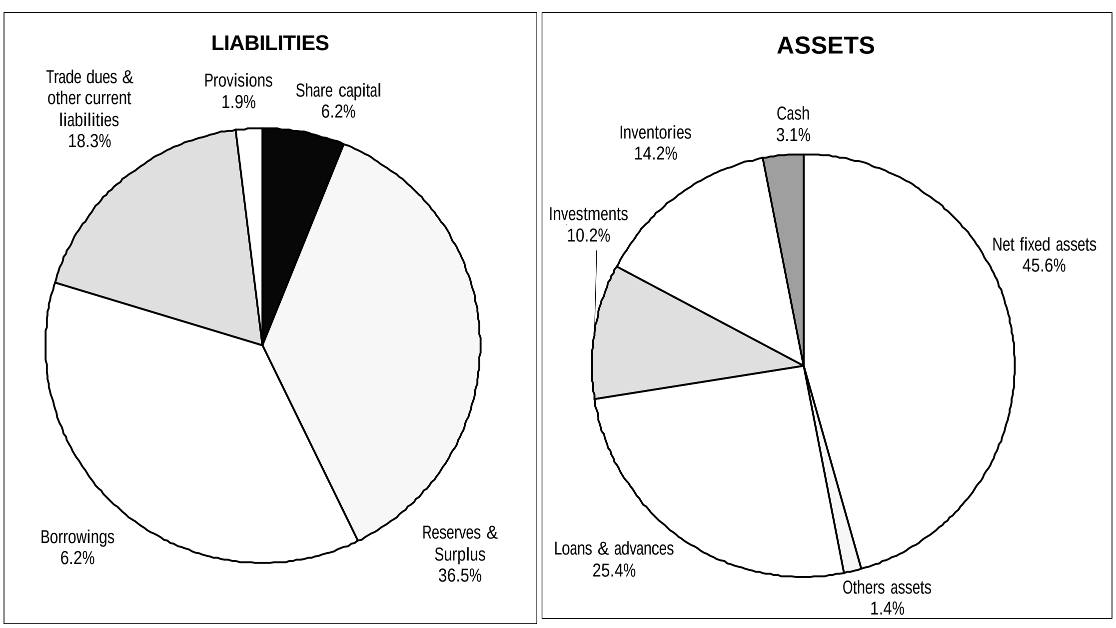
PATTERN OF ASSETS AND LIABILITIES

Total net assets of the selected companies increased by 15.2 per cent to Rs.1,98,475 crore in 1996-97 from Rs.1,72,264 crore (22.0 per cent) in 1995-96 (Table 4). After adjustment for revaluation, the growth in total net assets worked out to 15.3 per cent and 20.6 per cent respectively for 1996-97 and 1995-96 (Table 1). Gross fixed assets and inventories (adjusted for revaluation) grew by 18.3 per cent and 5.9 per cent respectively in 1996-97.

The composition of assets and liabilities as at the end of March 1997, remained broadly the same as in the previous year. The share of net fixed assets in total assets increased slightly from 44.3 per cent in 1995-96 to 45.6 per cent, whereas that of inventories declined from 15.5 per cent in 1995-96 to 14.2 per cent. The share of investments moved up from 9.8 per cent in 1995-96 to 10.2 per cent in 1996-97. The share of quoted investments in total investments increased from 28.4 per cent in 1995-96 to 34.0 per cent in the year under review.

Among the liabilities, reserves and surplus accounted for 36.5 per cent of total liabilities (37.0 per cent in the previous year) while the proportion of borrowings went up by 1.9 percentage points to 37.0 per cent in 1996-97. Borrowings and reserves and surplus together accounted for about 73.6 per cent of the total liabilities in 1996-97. There was a modest rise in debt-equity ratio from 52.2 per cent in 1995-96 to 56.3 per cent in 1996-97. The liquidity ratio (ratio of current assets to current liabilities) declined marginally from 1.5 in 1995-96 to 1.4 in the year 1996-97.

PATTERN OF LIABILTIES AND ASSETS IN 1996-97



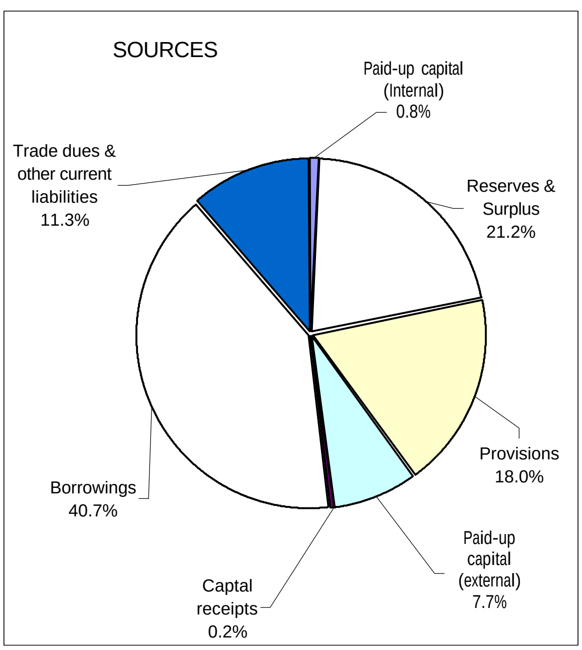
SOURCES AND USES OF FUNDS

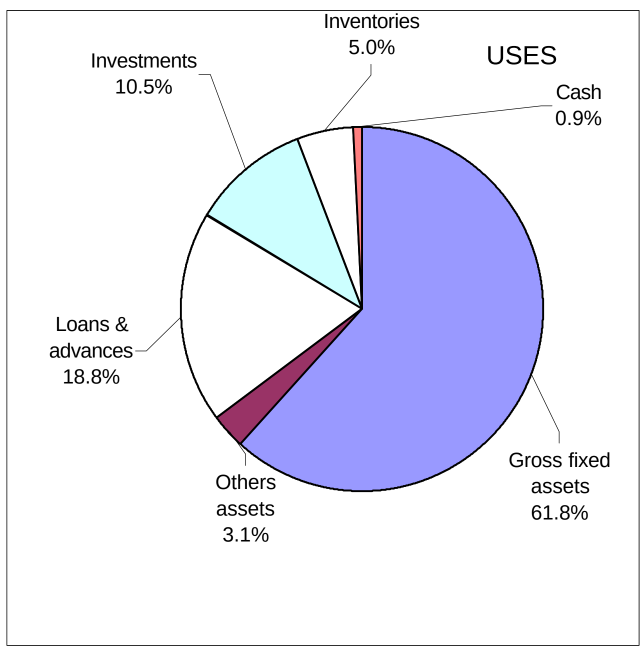
The total funds raised by selected companies amounted to Rs. 31,771 crore in 1996-97 against Rs. 33,575 crore in the previous year.The reliance on external sources continued to be a strong factor as in the previous year (around 60 per cent) (Table 5).

Borrowings accounted for a greater share in the external funds, increasing from 45.7 per cent in 1995-96 to 67.9 per cent in 1996-97. The share of debentures in total borrowings declined from 11.3 per cent in 1995-96 to 10.0 per cent in 1996-97. The share of bank borrowing in total borrowings came down steeply from 57.2 per cent in 1995-96 to 27.3 per cent in 1996-97. The share of borrowing from other Indian Financial Institutions increased from 8.8 per cent in 1995-96 to 21.7 per cent in 1996-97. Of the funds raised from the capital market during 1996-97 amounting to Rs.2,454 crore, as much as 86.8 per cent was by way of premium on shares and the balance was net issues. In fact, premium on shares alone accounted for 6.7 per cent of total funds as compared to 11.1 per cent in the preceding year. Internal sources declined by Rs. 1,495 crore from Rs. 14,219 crore in 1995-96 to Rs. 12,724 crore in 1996-97 mainly on account of decline by 20.2 per cent (Rs. 1,704 crore) in reserves and surplus. Depreciation provision which formed the major component of internal resources of finance increased to Rs. 5,319 crore in 1996-97 from Rs. 4,240 crore. Its share in internal funds increased to 41.8 per cent in 1996-97 from 29.8 per cent in 1995-96.

The total assets formation of the selected 756 companies was Rs. 31,771 crore in 1996-97 which was lower by Rs. 1,804 crore (5.4 per cent) compared to the level of Rs. 33,575 crore prevailing in 1995-96 (Table-5). However, gross capital formation amounting to Rs. 21,201 crore accounted for

PATTERN OF SOURCES AND USES OF FUNDS IN 1996-97





66.7 per cent of total assets formation in 1996-97 which was slightly lower than the 67.1 per cent of 1995-96. Inventory build-up was of the order of Rs. 1,579 crore as against Rs. 4,462 crore in 1995-96. Its share in total assets declined to 5.0 per cent in 1996-97 from the earlier level of 13.3 per cent. The share of loans and advances and other debtor balance also declined from 21.9 per cent in 1995-96 to 18.8 per cent in 1996-97.

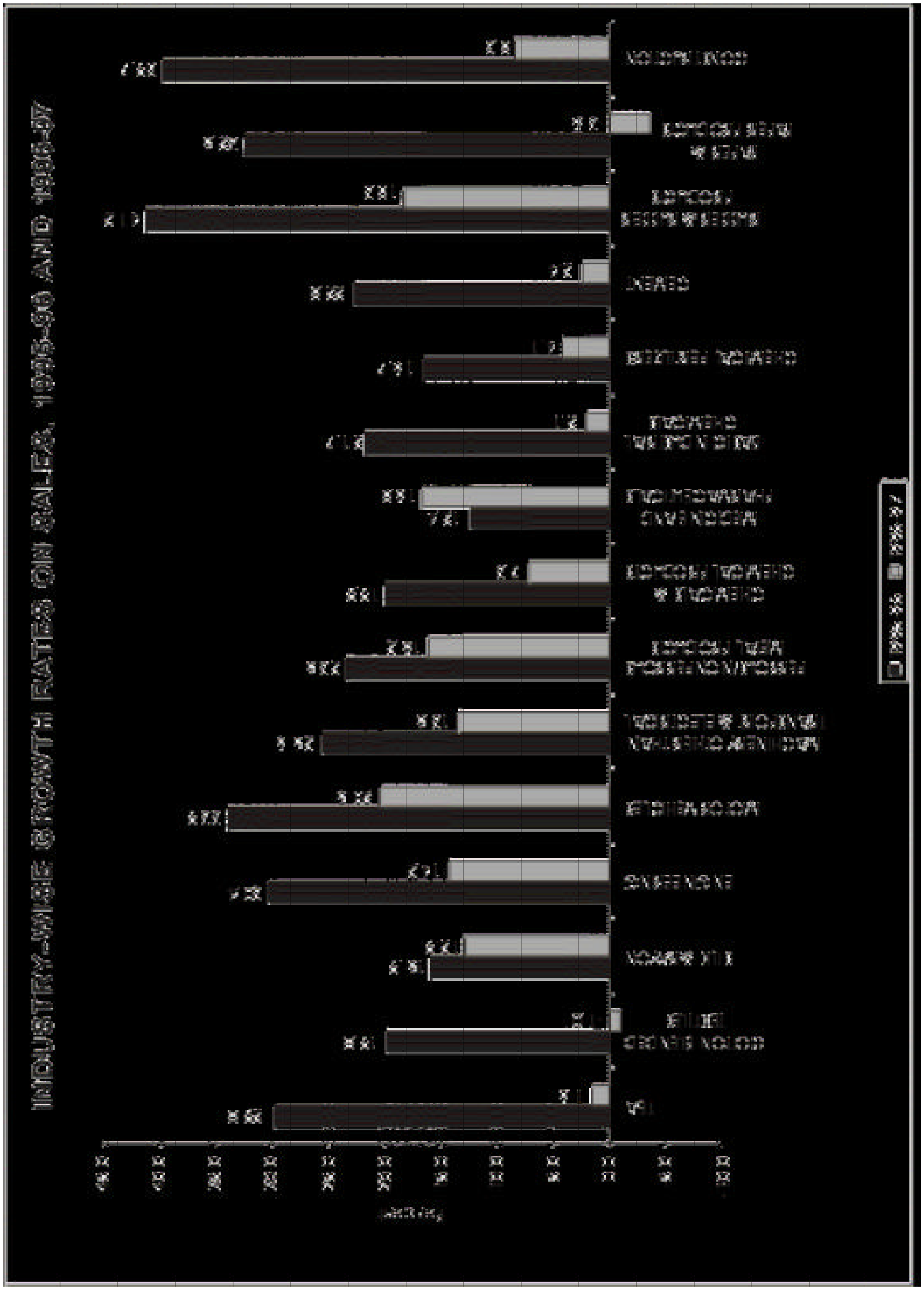
PERFORMANCE OF COMPANIES BY SIZE OF SALES

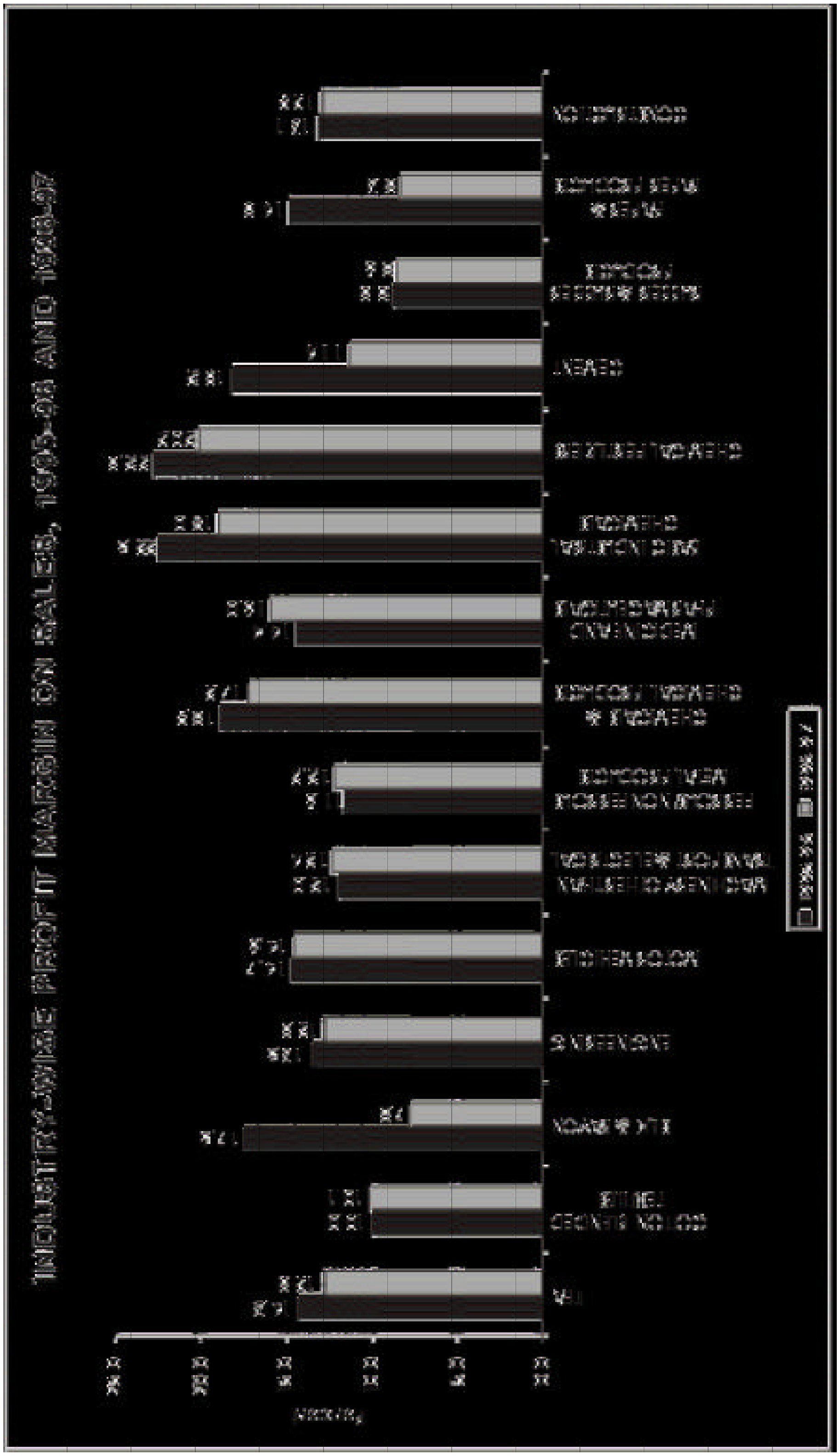
It was observed that companies with large sales base, generally recorded better rate of growth in sales (Table 7). The growth rate in sales ranged from –2.9 per cent for the smallest sized class of companies with sales of 'Less than Rs.25 crore' to 13.8 per cent for companies with sales of 'Rs. 1000 crore and above'. The gross profits of the companies with sales of 'Less than Rs. 25 crore' declined by 31.3 per cent, those for companies with sales of 'Rs. 25 crore to Rs.50 crore' declined by 9.0 per cent and the gross profits for companies with sales of 'Rs.1000 crore and above' increased by 2.1 per cent over and above the impressive performance in the previous year. Retained profits of companies with sales of 'Rs.1000 crore and above' shrank by 10.5 per cent in 1996-97 and those with sales of 'Rs.25 crore to Rs. 50 crore' contracted by 86.8 per cent. Growth in bank borrowings also tended to increase with size of sales barring the class of companies with sales of 'Rs. 500 crore to Rs. 1000 crore' and the rise was from 5.7 per cent for companies with sales of 'Less than Rs.25 crore' to 28.3 per cent for companies with sales of 'Rs.1000 crore and above'. In general, companies with sales of 'Rs. 1000 crore and above' recorded highest growth rates in their key indicators like sales, gross profits etc. in 1996-97.

It would appear that the sale size has some influence on profit margin on sales. The profit margin was the lowest at 7.5 per cent for the smallest size class of companies with sales of 'Less than Rs. 25 crore' and peaked at 16.9 per cent for companies with sales of 'Rs. 1000 crore and above' (Table 8). While for companies with sales of 'Rs. 1000 crore and above' exports formed 9.9 per cent of their sales in 1996-97, for companies in the lower size of sales the share was in the range of 7 to 9 per cent. Inventory-sales ratio was 30.4 per cent in companies with sales of 'Less than Rs. 25 crore' group but was much lower at 16.1 per cent for the companies with sales of 'Rs. 1000 crore and above' in 1996-97. Like-wise the debt-equity ratio of the companies with sales of 'Less than Rs. 25 crore' was the highest at 73.8 per cent and fell to 58.7 per cent for companies with sales of 'Rs. 1000 crore and above'. Tax incidence was the highest at 64.1 per cent for the companies with sales 'Less than Rs. 25 crore', whereas for companies in the other size classes, it fluctuated between 22.2 per cent and 47.5 per cent. The tax incidence in general was higher in 1996-97 across the size groups, than in 1995-96.

INDUSTRY-WISE PERFORMANCE

There was a general slackening across the industries as the pace of growth in sales, value of production and gross profits had slowed down during 1996-97. A few industries like Motor Vehicle (20.5 per cent), Rubber and rubber products (18.3 per cent), Medicines and Pharmaceutical (16.8 per cent) and Ferrous and non ferrous metal products (16.2 per cent) recorded much better growth in their sales during 1996-97. The Sales growth was low in respect of industries like Tea (1.6 per cent), Basic industrial chemical (2.1 per cent) and Cement (2.4 per cent). Turning to gross profits, significant improvement over the year was


INDUSTRY-WISE GROWTH RATES ON SALES, 1995-96 AND 1996-97


INDUSTRY-WISE PROFIT MARGIN ON SALES, 1995-96 AND 1996-97

registered by Medicines and Pharmaceutical Preparations (29.5 per cent) and Ferrous/ non ferrous metal products (21.8 per cent). On the other hand, gross profits of Silk and Rayon textiles (–49.7 per cent) and Paper and paper products (–45.7 per cent) declined sharply in 1996-97. Companies belonging to Rubber and rubber products (29.1 per cent) posted substantial increase in their post tax profits during 1996-97 . On the other hand post tax profits declined for most of the industries during 1996-97.

The profit margin on sales was high for Chemical Fertilizer (20.2 per cent) and Basic industrial chemicals (19.0 per cent) in 1996-97. Effective tax rate was above 30.0 per cent for Paints and varnishes, Tea, Engineering, Construction and Trading.

In the following paragraphs, an attempt is made to portray the performance of major industries.

TEA

Tea companies (11 companies) recorded a growth of 1.6 per cent in their sales in 1996-97 as compared with 29.8 per cent in the previous year. Exports of these companies picked up registering a growth of 12.8 per cent as against an increase of 22.4 per cent in 1995-96. Pre-tax profits dipped by 6.7 per cent while the post-tax profits fell by 11.1 per cent in 1996-97. Profit margin was lower at 12.8 per cent as compared with 14.3 per cent in the previous year. Inventories declined by 14.3 per cent resulting in the lower ratio of inventories to sales at 13.8 per cent in 1996-97 as against 16.4 per cent in the previous year. Debt-equity ratio rose from 8.4 per cent in 1995-96 to 13.6 per cent in 1996-97.

COTTON/BLENDED TEXTILES

The sales of cotton/blended textile companies (46 companies) declined by 1.0 per cent in 1996-97 compared with rise of 19.8 per cent in 1995-96. Manufacturing expenses came down by 6.9 per cent in 1996-97 as against rise of 22.4 per cent in the previous year.

Gross profits of these companies increased by 0.5 per cent in contrast to a fall of 4.5 per cent in the previous year. After interest payments and tax provision, these companies posted a decline of 27.1 per cent in their post-tax profits as compared with a decline of 34.8 per cent in the previous year. Profit margin on sales was slightly higher at 10.1 per cent compared with 10.0 per cent in 1995-96. Total borrowings were reduced by 7.2 per cent (16.6 per cent rise in the previous year), whereas borrowings from banks came down by 28.0 per cent (35.2 per cent rise in 1995-96). Exports of these companies recorded a rise of 28.8 per cent in 1996-97 as compared with 22.3 per cent observed in the previous year.

ENGINEERING

Engineering industry (244 companies) continued to perform well with the sales going up by 14.2 per cent in 1996-97, over and above the impressive growth in the previous year (30.4 per cent). Manufacturing expenses grew by 12.6 per cent in 1996-97. The selected companies posted a rise of 8.2 per cent in their gross profits. Interest payments grew by 23.8 per cent in 1996-97 as against 17.8 per cent in previous year and profits before tax rose by 5.0 per cent in 1996-97. Profit margin on sales recorded 12.8 per cent as compared with 13.5 per cent in the previous year. Inventory to sales ratio was 18.2 per cent as against 19.6 per cent in 1995-96. However, debt as percentage of equity increased from 49.5 per cent to 55.2 per cent in 1996-97.

The sales of Motor vehicle industry (42 companies) under the engineering group recorded 20.5 per cent growth in 1996-97 after registering a substantial increase of 33.9 per cent in 1995-96. Similarly, these companies posted 20.3 per cent growth in their gross profits over and above 42.4 per cent recorded in 1995-96. Their profits before tax also increased by 17.8 per cent in 1996- 97. The debt-equity ratio went up from 27.8 per cent in 1995-96 to 36.7 per cent in 1996-97.

The key indicators of financial performance of Machinery other than transport and electrical machinery industry (62 companies), viz., sales (13.5 per cent), value of production (13.8 per cent), gross profits (17.2 per cent) etc. posted impressive growth in 1996-97. However, interest payments increased by 19.1 per cent in 1996-97 in contrast to 4.3 per cent in 1995-96. Tax provision increased to 16.3 per cent in 1996-97 as against a rise of 33.5 per cent in 1995-96. Post-tax profits grew by 18.0 per cent in 1996-97. Exports registered a decline of 6.2 per cent, while imports rose sharply by 25.1 per cent.

CHEMICALS AND CHEMICAL PRODUCTS

The sales of chemical industry (137 companies) grew by 7.3 per cent in 1996-97 (19.9 per cent in 1995-96). The pre-tax profits of these companies declined by 14.0 per cent as against a rise of 27.6 per cent in 1995-96. Tax provision by the chemical companies also increased at the rate of 22.0 per cent as against 40.5 per cent rise in 1995-96 resulting in decline of 21.7 per cent in profits after tax (25.1 per cent rise in the preceding year). Profit margin on sales declined slightly to 17.2 per cent in 1996-97 from 18.9 per cent in 1995-96. Debt-equity ratio increased from 62.3 per cent in 1995-96 to 64.1 per cent in 1996-97.

The sales of the chemical fertilizer industry (16 companies) grew by 4.1 per cent in 1996-97 (16.7 per cent in 1995-96). Their manufacturing expenses rose at a rate of 4.2 per cent resulting in decline of 7.9 per cent in gross profits (13.3 per cent rise in the previous year). Chemical fertilizer companies operated with a slightly lower profit margin of 20.2 per cent in 1996-97 (22.8 per cent in 1995-96). Their pre-tax profits declined by 10.8 per cent in the year under review against a rise of 18.1 per cent in 1995-96. The effective tax rate rose from 6.9 per cent to 17.8 per cent in 1996-97. Debt-equity ratio went up from 87.6 per cent in 1995-96 to 89.7 per cent in 1996-97.

CEMENT

The sales of 23 cement companies had increased by 2.4 per cent (22.8 per cent in 1995-96). Gross profits declined by 35.7 per cent during 1996- 97. Interest payments rose at a rate of 26.2 per cent. Profits before tax declined by 66.4 per cent in 1996-97 as compared to 72.9 per cent rise in 1995-96. The profit margin on sales was at 11.4 per cent in 1996-97 as against 18.2 per cent in the previous year. The effective tax rate moved up significantly from 16.5 per cent in 1995-96 to 19.9 per cent in 1996-97. Debt-equity ratio was at 85.9 per cent compared with 64.6 per cent in the previous year.

PAPER AND PAPER PRODUCTS

The sales of the 25 paper and paper product companies declined by 3.6 per cent in 1996-97 (32.5 per cent rise in 1995-96). Their gross profits, pre-tax profits and post-tax profits declined by 45.7 per cent, 68.7 per cent and 71.8 per cent respectively in 1996-97. Profit margin on sales decreased to 8.3 per cent from 14.8 per cent in the previous year. Effective tax rate went up from 17.3 per cent in 1995-96 to 25.3 per cent during 1996-97 and their profit retention ratio declined from 87.9 per cent to 63.1 per cent. Debt-equity ratio for these companies was higher at 60.1 per cent in 1996-97 (51.3 per cent in 1995-96).

CONSTRUCTION

The main income (sales) from 12 selected construction companies recorded a rise of 8.3 per cent in 1996-97 over and above the rise of 39.7 per cent in the year 1995-96. Gross profits of these companies posted a rise of 6.7 per cent in 1996-97 as against 25.3 per cent in the previous year. Their post-tax profits declined by 25.3 per cent in contrast to a rise of 16.7 per cent in the preceding year. Profits ploughed back in business reduced by 34.0 per cent in 1996-97 after having an increase of 24.0 per cent in 1995-96. Debt-equity ratio for these companies was higher at 80.0 per cent compared to 70.3 per cent in the previous year.