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Trends in the Finances of Indian Corporate Sector

*Vaishali Goel**

This present study has been undertaken with a view to capture the trends in income, saving, investment borrowings etc in the corporate sector. It is an attempt to cull out select industry wise trends in public limited companies from various published sources and to present them meaningfully. The data presented in this study are compiled from the various annual studies based on the annual accounts of select companies from among the non-government non financial public limited companies. The consolidated results of the financial performance of both the selected large public limited companies and private limited companies showed improved performance as revealed from the growth rates in respect of sales, value of production, manufacturing expenses, gross profit, net worth, etc. during 2021-22 as compared with the previous year.

[**Keywords :** Finances, Public limited companies, Private limited companies, Performance, Growth rates]

* **Assistant Professor, Department of Commerce, Ch. Vedram College of Higher Education, Hapur, Uttar Pradesh (India) E-mail: <dr.vaishaligoel23@gmail.com>**

1. Introduction

In a real sense, financial is the cornerstone of the enterprise system, so good financial management is vitally important to the economic health of business firms, and hence to the nation and the world. Because of its importance, finance Should be widely and thoroughly understood, but this is easier said than done. The field is relatively complex and it is under going constant change in response to shifts in economic conditions. All of this makes finance stimulating and exciting , but also challenging and sometimes perplexing.

Financial management must not be considered as an art on its own, but as an integral part of management as a whole. If industry is to improve its efficiency, management must recognize that the financial area has as important a part to play as marketing, production, etc., through a process of control liquidity need for funds is identified and from what sources, from a crucial part of the overall planning of the business. As long term planning proceeds, financial management must assess the implication of the policies proposed in terms of funds required and make arrangements to raise the long term funds necessary to secure the financial basis of growth.

The method of raising long-term funds requires decisions as to the proportions of and the terms which funds to be raised from shareholder's and lenders. These decisions enormously affect the overall cost of capital and have significant effects upon the return on equity funds and the level of risk.

In fact, the economic development of a country depends, to a great extent, on the adequate supply of capital for industrial development. The availability of long-term funds depends inter-alia on a healthy, strong and stable capital market, Industrial development in Indian has been impressive over the past four decades. We have come a long way during the past 5 decades and acquired a diversified industrial structure. However, from the viewpoint of targets India's industrial potential has not yet been fully realized.

Among other things financing pattern also sets the trend and prospects of development of any economy. Recently there has been an unprecedented boom followed by an unprecedented depression in the market prices of the securities and consequently prospective investors from within the country and outside have become panicky. This has brought in an atmosphere of uncertainty in the capital market. This tendency ash also given rise to speculation in the share market. On account of globalizing and liberalization newer avenues of funds raising have emerged. The availability of funds has taken a quantum jump and the cost of funds has also substantially reduced. All these factors motivate use to study the present financial climate of the country which may have far reaching impact on the industrialization of the country.

The finance available from different sources has its repercussion on shareholder's income, risk, control, tax liability and shareholder's wealth. Maximization of shareholder's wealth is the primary objective of financial management. It is imperative to see whether the recent trends in financing, organization and working of Indian capital market have been achieving these objectives or not. Indian capital market has its own characteristics. Are these characteristics consistent with the growing requirements of industrial development? We also aim at evaluation the impact of financing pattern on the industrial development of the country.

2. Purpose of Study

The main objective of the study are to get an idea of the magnitude and trends in the industrial profits, financing pattern and to estimate of the saving and capital formation in the Indian corporate sector. It aims at discussing the specific use of various external sources of corporate finance including the prescription of a optimal capital structure. The study aims at analysing the impact of the changed funding pattern on the cost of capital, shareholder's wealth, their risk & control. We have selected some prominent companies from the private corporate sector to study the change in their means of financing. In the view of the practical difficulties posed by the sheer number of the companies in the corporate and private sectors and the time and resource constraints, this study focuses only to procurement, processing and analysis of only selected companies.

3. Methodology

The present study is exploratory in nature. Secondary sources of data have been used to fulfil the objective of the study. Growth Rate of selected items of public limited and private limited companies only have been evaluated.

4. Public Limited Companies

The study of non-government, non-financial public limited companies is considered the most Important among the regular studies on the finances of the Corporate sector. The distribution of public limited companies In the population according to the size of paid up capital (PUC) is found to be skewed with a few large companies with high PUC accounting for the bulk of the coverage in total PUC.

The topic presents the financial performance of the select non-Government, non-financial large public limited companies during 2021-22. The data are presented at the aggregate level for all select companies and also for select industries. The consolidated results reveal an improvement in the performance of the companies viewed from growth in sales, value of production , gross profits, profits after tax, profits retained and net worth over the period of the study. The profitability and profit allocation ratios like profit margin, retention ratio, and profit after tax to net worth also increased during the under review. Internal sources of the funds played an important role in financing the assets formation of the companies under study.

In the case of companies which are either extended or short and their accounting year, their income, expenditure and appropriation account figures have been analyzed, the balance sheet data, however, has been retained as presented in the annual accounts of the companies.

The analysis of the financial performance of companies is subject to these limitations. Data have been analyzed at aggregate level, industry wise and also in respect of classification based on size of sales & paid up capital.

The following table presents data on growth rate of selected items in 2021-22 over the previous year in public limited companies in percent :

Table-1 : Growth Rate of selected Items in 2021-22 over the previous year in Public Limited Companies (In percent)

Items	2020-21	2021-22
Sale	30.8	31.3
Value of production	30.9	31.2
Manufacturing expenses	38.7	39.3

Remuneration to employees	29.8	30.4
Gross profit	42.9	45.7
Profit after tax	49.5	49.9
Profit retained	90.6	92.3
Net worth	30.4	31.5
Gross saving	54.2	55.6
Gross value added	35.2	36.7

The consolidated results of the financial performance of select large public limited companies showed improved performance as revealed from the growth rates in respect of sales, value of production, manufacturing expenses, gross profit, net worth, etc. The growth in sales, value of production, manufacturing expenses , remuneration to employees , grass profit, profit after tax, profit retained and net worth have been studied. The growth in gross saving and gross value added was impressive in 2021-22

5. Private Limited Companies

The topic assesses the financial performance of selected non-Government non-financial private limited companies during 2021-22, based on the analysis of their audited annual accounts. The data are presented at the aggregate level for all the companies. Besides, growth rates of selected items and selected financial ratios are presented for selected industries/industry-groups. The consolidated results of the selected companies reveal an overall improvement in performance during 2021-22, as observed from impressive growths in income, profits, and net saving, healthy profitability ratios, and increase in assets formation.

The financial performance of non-government non-financial private limited companies over the study period is analyzed in this topic based on the annual accounts of selected companies, which closed their accounts during the period April 2021 to March 2022. The companies included in this topic accounted for 15 per cent of the estimated total paid-up capital of all non-Government non-financial private limited companies as at the end of March 2022.

The analysis of selected companies reveal that a few companies exhibited results largely at variance with the other companies, and their presence in the study would exert considerable influence on the various quantitative measures of overall performance of the companies in this group. In view of such marked variation, these companies are kept outside the present analysis.

In case of companies, which either extended or shortened their accounting year, the income, expenditure and appropriation account figures have been annualised. The balance sheet data, however, have been retained as presented in annual accounts of the companies.

The following table presents data on growth rate of selected items in 2021-22 over the previous year in private limited companies in percent :

Table-2 : Growth Rate of selected Items in 2021-22 over the previous year in Private Limited Companies (In percent)

Sr. No.	Items	2020-21	2021-22
1.	Sales	15.2	22.3
2.	Value of production	15.4	20
3.	Other income	17.3	25.3
4.	Manufacturing expenses	15.0	20.2
5.	Remuneration to employees	12.4	13.7
6.	Depreciation provision	5.4	7.0
7.	Gross profit	16.0	14.0
8.	Interest	-19.20	-22.50
9.	Profit before tax	33.6	21.0
10.	Tax provision	50.7	35.5
11.	Profit after tax	30.0	28.0
12.	Profit retained	50.6	30.4

The consolidated results of select private limited companies showed improved performance in terms of higher growth in sales, value of production, manufacturing expenses, employees, remuneration, etc., during 2021-22 as compared with the previous year. The operating profits, pre-tax profits and post-tax profits also recorded impressive growth during the year, over and above high growth witnessed in the previous year. The return on net worth and dividend rate increased during the year under review.

6. Conclusion

Indian corporate sector has experienced a paradigm shift over the last two decades with the initiation of certain measures of financial liberalization. As a result of these policy changes, the ratio of Indian FDI outflows to Indian FDI inflows has increased significantly. This has resulted in the dynamic transformation over the last decade in this sector, particularly post-pandemic. Supported by a surge in digital adoption and the startup revolution, India today supports the 3rd largest fintech ecosystem. In fact,the Indian financial landscape is increasingly becoming innovation and tech-driven, with India Stack, artificial intelligence, embedded finance, and robotics playing an instrumental role in its transformation. Conventional lenders have been reevaluating their role and collaborating with fintechs to offer bespoke loans, savings, insurance, and other credit products. The result is obvious. Financial sector players have been capitalizing on technology to generate value and transform India's financial ecosystem.

In conclusion, it may be said on the basis of data presented here that the net funds raised by the companies were higher in 2021-22 as compared to that in the year 2020-21. Internal sources of funds were major source of financing for select companies while 'Fixed assets formation' and 'Debtor balances' were the major uses of funds during 2021-22 Bank borrowings increased steeply during the year. Borrowings followed by 'Trade dues and other current liabilities' and 'Reserves and Surplus' were major constituents of total liabilities during the year under review. 'Net fixed assets' and 'Loans and advances and other debtor balances' were major assets.

International Monetary Fund Working Paper on "Indian Financial Sector: Structure, Trends and Turns" by Rakesh Mohan and Partha Ray (2017) has very rightly concluded that India continues its journey towards a financially inclusive regime through innovative policies involving a multi-pronged approach. India has come a long way from a financially repressive regime to a modern financial sector where public sector financial institutions tend to compete with the private sector financial institutions.

It may also be mentioned that the Fitch Ratings Inc., an American credit rating agency and one of the "Big Three credit rating agencies", expects India's resilient GDP growth, limited exposure to slowdown in overseas markets, generally adequate corporate balance sheets and supportive industry conditions in some cases to support a stable or improving sector outlook for rated Indian corporates. According to this rating, margins are likely to improve for most companies in the financial year ending 31 March 2024 (FY24) after softness in FY23 due to cost pressures.

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