

PART II – NON-FINANCIAL STATISTICS

4. COMPANY FINANCES STATISTICS

4.1. Introduction

The Reserve Bank of India has been regularly publishing studies on the financial performance of private corporate business sector for the past five decades. The source for measuring the financial performance of companies is the audited annual accounts of companies. The work relating to the analysis of balance sheets of companies was initiated in the Bank as early as in 1949. The first study related to around 2500 non-financial companies whose accounts were closed during 1947. Data on 20 selected items were captured in this study. The number of items included was increased to 51 in the next study conducted in 1952, which related to 1000 non-financial companies whose accounts were closed during 1948 and 1949. Both these studies were exploratory in nature, aimed at understanding the presentation of corporate statistics and the subtle differences, if any, in the concepts and definitions adopted by the companies. Based on the experience gained from these studies, a system for the analysis and processing of financial statistics from the annual accounts of selected companies was evolved and the studies based on the same were taken up on a regular basis from 1953 onwards. The first regular study for the years 1950 and 1951 was published in the RBI Bulletin in August 1954.

4.2. Measurement needs of the area

The main objective of the study is to build comprehensive corporate finance statistics with a view to capture the trends in income, value of production, sales, profitability, saving, investment, borrowings, etc., for understanding the broad structural features of the private corporate sector.

One of the features of company finance (CF) studies is the analysis of sources and uses of funds. These data give an insight into the internal and external sources of funds of the private corporate sector; the adequacy of support from financial intermediaries and the extent to

which corporate raise resources bypassing financial intermediaries. These data also give valuable insight into the trends in capital formation in the private corporate sector. The analysis of profit and loss accounts gives an indication on interest burden, profitability of corporates and give an idea of business climate in the country. These data, therefore, serve both qualitative and quantitative inputs for the policy formulation.

As per the standing arrangement with the Central Statistical Organization (CSO) and the RBI, the Department of Statistical Analysis and Computer Services (DESACS) of RBI compiles the estimates of saving and capital formation in the private corporate business sector based on the data from CF studies and supplies the estimates to CSO for inclusion in the National Accounts Statistics. The methodology of compiling the estimates of saving and capital formation in India has been examined by two Expert Committees: the K.N. Raj Committee: "Capital Formation and Saving in India 1950-51 to 1979-80", (Report published in February 1982) and the Raja J. Chelliah Committee: "Report of the Expert Group on Saving and Capital Formation", December 1996. Raj Committee (set up in 1981) on the method of estimation of saving and investment specified the role of the RBI and the CSO in preparing the estimates on saving and investment. While it recommended that the RBI should prepare the estimates for the private corporate business sector and financial saving (except life insurance, provident and pension funds) of household sector.

The Expert Group on Saving and Capital Formation (Chelliah Committee, set up in 1995) considered various alternative sources of data, viz., ASI data and data compiled by other private bodies, for generating the estimates of saving and capital formation of the private corporate sector. It was, however, noted that these sources of data do not provide complete or satisfactory information to build up the required saving and

capital formation of the private corporate business sector. Hence it recommended continuation of preparation of the estimates based on the RBI studies.

In addition to the corporate saving and investment estimates at aggregate level, industry-wise saving and capital formation figures, data on value added and its detailed components for selected industries and industry-wise inventory data for preparation of Input-Output Transaction Table (IOTT) is also forwarded to CSO. The CSO uses data from CF studies on Financial and Investment Companies to prepare estimates of financial intermediation services indirectly measured (FISIM).

On the basis of the captured data, the DESACS is preparing the following regular annual studies for the publication in the RBI Bulletin.

- a) Finances of Large public Limited Companies
- b) Finances of Public Limited Companies
- c) Finances of Private Limited Companies
- d) Performance of Financial and Investment Companies
- e) Finances of Foreign direct investment Companies

A list of other adhoc publications is presented in the Annex 4.1.

4.3. Concepts, Definitions and Classifications

The RBI studies present detailed data items covering all financial variables from 'combined balance sheet' and 'combined income, value of production and appropriation accounts'. Data on assets/liabilities, income, expenditure and appropriation accounts are culled out from annual accounts and posted in self-balancing worksheets. The studies cover selected non-financial and financial companies relating the Private corporate business sector. The criteria adopted for the selection of companies is the size of their paid-up capital with objective of having maximum coverage in terms of paid-up capital and industry-wise representation of companies. Companies in construction stage and defunct companies are not included in the RBI

studies. The studies also exclude companies in formative stage and those not operative for more than six months during the year. In addition, companies functioning for non-profit motives, companies limited by guarantee and promotional/developmental organizations are excluded. The list of selected companies is revised constantly with a view to improving the paid-up capital coverage and the representative character of the selected companies. These studies include as many representative companies as possible from various industries. While presenting industry-wise results, companies are classified as per national industrial classification (NIC), 1998. Since classification of industries under NIC-1998 refers to activities, whereas, company finance studies are based on products; the department adopted certain modifications at the 3-digit level to suit its requirements. In RBI classification, while the first two digits are taken from corresponding NIC code, the third digit is suitably adjusted to represent specific industry/industry group based on the main product. A company with more than one line of business activity is classified under the industry from which it derived more than half of its sales.

In the process of analyzing the accounts, data on assets/liabilities, income, expenditure and appropriation accounts are culled out from annual accounts and posted in self-balancing worksheets. These are supplemented with information available in Directors' report, notes on accounts, statutory disclosures, etc. For preparing the worksheet, the DESACS has developed suitable methodology so as to standardize the accounts for comparability between companies and over time period. All company finances studies cover data for three consecutive years, the current study year as well as two immediate preceding years, so as to get comparable growth rates and sources and uses of funds data. The definitional aspects of various items of assets, liabilities, income and expenditure accounts are given in Annex 4.2.

4.4. Sources and Systems

The source of data for CF studies is the audited annual accounts of companies. A company is

required to present within six months of the date of closing of accounts its balance sheet and profit and loss account at an annual general meeting (AGM) of the share holder members. Companies prepare the annual accounts for their shareholders in the manner prescribed in the Schedule VI of the Companies Act, 1956.

The DESACS maintains a database of companies consisting of information of about 32,000 companies and corresponds with them for procurement of balance sheets. Besides direct correspondence with companies, DESACS also gets balance sheets from Registrars of Companies (RoCs). Companies submit three copies of their annual accounts to RoCs under whose jurisdiction they are falling. By an arrangement of RBI(DESACS) with the Ministry of Company Affairs (MCA), the RoCs provide one copy of the balance sheet as required by RBI.

The National Statistical Commission (NSC) recognised the importance of RBI studies and recommended various measures to strengthen the data collection efforts of the Bank. The Commission recommended that the Department of Company Affairs (Now Ministry of Company Affairs) should ensure that Annual Reports of companies required by the Reserve Bank of India

(RBI) % whether listed, deemed or private limited – are made available to RBI so that further detailed analysis can be conducted.

Annual accounts/reports of some companies are available in the Internet. The department uses such reports whenever printed balance sheets are not received through regular sources.

4.5. Ensuring Quality standards

The company finances studies present three-year data for the same set of companies at aggregate/ industry level. In the case of companies, which either extended or shortened their accounting year, their income, expenditure and appropriation account figures are annualized. The balance sheet data, however, have been retained as presented in the annual accounts of the companies. The methodology of standardization and aggregation of company level data ensures that changes in the composition of selected companies do not affect the results of the studies. While the derived financial ratios are comparable over the years, forming time-series of ratios, the absolute numbers are not strictly comparable due to changes in the samples over the successive studies. However, if the analysis is based on common companies, the absolute figures also become comparable.