

Competitiveness of the Selected Listed Indian Companies – An In-Depth Analysis of the Risk, Income Structure and Sources for Profit

Mrs. Bhagyashri Kanhere¹, Dr. Parag Saraf²

¹Asst. Prof. AISSMS Institute of Management Kennedy Road, Pune - 01

²Chartered Accountant

Abstract: *The process of globalization, started in 1991 in India, has put several challenges to Indian companies. It is assumed that Indian companies will be more and more competitive. Competition essentially leads to more efficiency; and through increased efficiency, it obviously shall result into more profits. Combining the two aspects mentioned above, we have taken a stock of the Income and Profit structure of Diversified Industries Sector comprising 29 listed companies such as DCM Shriram, Jyothy Laboratories, Mahindra & Mahindra, Tata Autocomp etc. The financial data relating to Income and Profit for last 10 years starting from 1999 to 2008 have been considered. The data consists of five variables, namely, Sales, Income from Financial securities or Services, Other Income, Prior Period and Extraordinary Income, and Profit After Tax. We have calculated the basic ratios such as, Profit Margin, and thereafter, found out the relationship of this ratio with other Income sources. Appropriate statistical tools have been used for the analyzing data. We have observed that almost all the companies have earned their profits mainly because of the presence of other income sources. Thus, on the ground of competitiveness, these business groups have been found to be defeated. It is imperative for all these groups to concentrate on their strengths and compete in a truly global environment.*

I. Introduction

Research is defined as an activity based on intellectual application in investigation of a specific matter. The primary purpose of applied research is the development of methods & systems for the advancement of human knowledge. The research is proposed by the researcher to study the impact of non-business investment income and the total earning of Indian corporate in various sectors. After 1990 the Indian company has faced a turn around, due to globalization & restructuring of the same, to bring it in tune with the changing global economic scenario. This change was in terms of opening of economy, collapse of USSR & substantial opportunities for Indian economy to work in dynamic ever evolving export trades and global activities. The researcher feel that a period of 1990 ~2000 was a period for Indian corporate sectors to accept and adjust to changing economic environment, accepting & acting on various initiatives taken by Indian government to provide sound platform & robust environment for increasing the share of Indian business & exports worldwide. It also add another important dimension of giving sufficient importance for private sectors to grow and to further manifest of economic agenda of India as a whole. Substantial development has been observed by Indian economy during these 10 years. (1990 ~2000).

The researcher intends to study & analyze the annual financial statement of various companies, working in various industrial sectors to know whether there is any impact of incomes earned by such companies by way of income from non-business investments on the total income earned by such company.

The Indian corporate sector investment pattern is typical. It has combination of individual share holders & institutional investors. Many companies have a long history of consistently giving certain amount or percentage of income distribution & dividend regularly. Indian industry in corporate form is working in this country for more than one and half century.

It is working in variety of activities – from heavy industry to serving, from high financial investment to very low investment, catering to Indian as well as global needs.

II. Literature Review

(Jensen, Michael, 1986) has rightly pointed out that external debt can be considered as an effective way to reduce the agency cost problems that may lead to the under-performance of firms. So, confusions emerge in between internal and external source of financing to reach at a judicious managerial decision.

(Pandey, Anand, 2003) tested the efficiency level of the three popular stock Indices of Indian Stock Market using the Runs Test and the Autocorrelation Function of ACF. It is found from the Autocorrelation and Runs Test that the time series of stock indices in the Indian Stock Market were biased random time series. It is

the attitude that is well addressed amongst the financial researchers to set a new horizon on the investment pattern, that redefine the company financial pattern.

(Margaret E. Slade, 2003) has looked at four models of firm profitability: two taken from Industrial Organization, one from Finance, and one from the Economics of Exhaustible Resources. Only one predicts that there will be a positive relationship between firm profitability and the structure of the market in which the firm operates, and only that one views high profits as an indication of monopoly power. Nevertheless, most antitrust authorities base their policies on a belief in those relationships. Using panel data from 14 nonferrous-metal mining and refining markets, the author find strong empirical support only for the market-structure model.

(Kin-Yip Ho & Albert K. C. Tsui, 2004) probed the applicability of volatility behavior of aggregate indices to the sectoral indices. The study doubted the leverage effects of equity returns and also its bearing on the strategy of portfolio diversification among various sectors. This also raised a possible question mark on the impact of capital structure on the financial framework in the long run as because the growth factor is always subject to forecast with uncertainty.

(Tanseem, Alam & Muhammad Waheed, 2004) investigated the monetary transmission mechanism in Pakistan at the sectoral level. The study assessed whether the reform process achieved notable impact on the monetary transmission mechanism or not. The study found that there was significant change in the transmission of monetary stock to real sector of the economy during the post-reform period. (Mufeed, Rawashdeh & Jay Squalli, 2005) tested market efficiency across the four sectors, namely, Banking, Industrial, Insurances and Services in the Amman Stock Exchange (ASE). The study found that the random walk and weak form efficiency hypotheses were rejected for all sample sectors. Besides, the returns of mean values were highly volatile and over inflated stock prices and frequent market corrections formed a bubble effect. It indicates that investment in all sectors of the ASE may be very risky in the short run.

(Almeida, 2004) have observed that the availability of internal liquidity is a key parameter of firms' ability to invest and accomplish the desired expansion plans. Companies need not to seek the assistance of external financing source as it always has a higher cost to the capital, thereby adversely affecting the profit and profitability of the firm.

(Dani Rodrik & Arvind Subramanian, 2004) This paper explores the causes of India's productivity surge around 1980, more than a decade before serious economic reforms were initiated. Trade liberalization, expansionary demand, a favorable external environment, and improved agricultural performance did not play a role. We find evidence that the trigger may have been an attitudinal shift by the government in the early 1980s that unlike the reforms of the 1990s, was pro-business rather than pro-market in character, favoring the interests of existing businesses rather than new entrants or consumers. A relatively small shift elicited a large productivity response, because India was far away from its income-possibility frontier. Registered manufacturing, which had been built up in previous decades, played an important role in determining which states took advantage of the changed environment.

In the views of (Flkender and Petersen, 2006) the dependence of investment on cash or debt largely depends on whether the firm is facing an income shortage or, conversely, a high income state. The authors highlight that there is interplay between firms' cash and debt policies as cash holdings have a significant effect on financing capacity and investment spending in low cash flow states, while debt reductions are a particularly effective way of boosting investment in high cash-flow states.

(M. Ayhan Kose, Eswar Prasad, Kenneth Rogoff, and Shang-Jin Weil, 2006) The literature on the benefits and costs of financial globalization for developing countries has exploded in recent years, but along many disparate channels and with a variety of apparently conflicting results. For instance, there is still little robust evidence of the growth benefits of broad capital account liberalization, but a number of recent papers in the finance literature report that equity market liberalizations do significantly boost growth. Similarly, evidence based on microeconomic (firm- or industry-level) data shows some benefits of financial integration and the distortionary effects of capital controls, while the macroeconomic evidence remains inconclusive. We attempt to provide a unified conceptual framework for organizing this vast and growing literature. This framework allows us to provide a fresh synthetic perspective on the macroeconomic effects of financial globalization, in terms of both growth and volatility. Overall, our critical reading of the recent empirical literature is that it lends some qualified support to the view that developing countries can benefit from financial globalization, but with many nuances. On the other hand, there is little systematic evidence to support widely cited claims that financial globalization by itself leads to deeper and more costly developing country growth crises.

(Tian G. G. & Zeitun R., 2007) fairly review the relationship between capital structure and firm's performance with the information of 167 Jordan's firm in 1985-2003 and found that there is a significant relationship between short-run debt ratio to total assets, total debt to total equity with return of assets. But, the study is silent on the influencing parameter that largely decides the asset holdings.

(Fosberg, R. H. & Ghosh, A.) have done a research on U.S security exchange and New York security exchange. As companies in New York exchange used debt 5% to 8% more than other companies in their

financial structure, it proved that relationship between capital structure and ROA in New York security exchange is negative.

(Chin Wen Cheong, 2008) investigated the weak form market efficiency by using daily return of nine sectoral indices in Malaysian Stock Market. These empirical results were in sharp contrast with the traditional unit root test which ignored the economic crisis and currency control. The study found that the sectoral indices of Malaysian Stock Markets were inefficient weak-form (except the property index). (Selvam M., Indhumathi G. & Rajesh Ramkumar R., 2010) studied the market efficiency of the sample companies listed on the BSE PSU Index. The study found that the PSU Index performed well during the study period and the investors of PSU companies earned maximum return through stock market operations. Financial performance analysis is vital for the triumph of an enterprise. Financial performance analysis is an appraisal of the feasibility, solidity and fertility of a business, sub-business or mission. A rich literature has tackled the issue of how the mix between internal and external funds is linked with firm real performance.

(Azhagaiah, R. & Gangadevi S., 2008) studied the leverage and financing decision for the selected 30 electronic companies for the five years period ranging from 1998 to 2003. In his study he found that the company has a high operating leverage should kept low financial leverage and vice versa. So, a company's expected to have low operating leverage with high financial one. Wide coverage of literature review enlists varieties of approaches to the study of relevance, undertaken by different school of thoughts; not merely focusing on the proposed study with specified objectives.

(Nimalathasan, B. & Valeriu B., 2010) have pointed out capital structure and its impact on profitability by a study of listed manufacturing companies in Sri Lanka. The analysis of listed manufacturing companies shows that debt-equity ratio is positively and strongly associated to all profitability ratios (Gross Profit, Operating Profit & Net Profit Ratios). The proportion of the debt-equity in the capital structure is also fairly responsible to design the financial structure of the firms to a greater extent.

Attempt made by (Nandi K. C., 2011) to examine the influence of working capital management on corporate profitability carries a meaningful insight. For assessing impact of working capital management on profitability of NTPC, Pearson's coefficient of correlation and multiple regression analysis between some ratios relating to working capital management and the impact measure relating to profitability (i.e., ROI ratio) had been computed and applied. This attempt purposefully measured the sensitivity of return of investment (ROI) to changes in the level of working capital leverage (WCL) of the studying company. This spreads the message of positive relationship of capital structure with that financial structure to logically justify the profitability.

(Mody, Ashoka, Anusha Nath & Michael Walton, 2011) Some see India's corporate sector as the fundamental driver of recent and future prosperity. Others see it as a source of excessive market power, personal enrichment, and influence over the State, with an ultimately distorting influence. To inform this debate, this paper analyses the correlates of profitability of firms listed on the Bombay Stock Exchange, covering a dynamic period—in terms of firm entry and growth—from the early 1990s to the late 2000s. Overall, the results do not provide support for the systematic exercise of market power via the product market. At least for this period, the story is more consistent with a competitive and dynamic business sector, despite the continued dominance of business houses and public sector firms in terms of sales and assets. Those with opposing views can, with justification, argue that our analysis does not cover influences, such as corporate governance and state-corporate relations, which may paint a less flattering picture of the corporate sector's role. Those broader themes deserve further attention.

The state of research relating to the financial structure of the Indian Companies is not adequate. The literature is limited to the growth, development, expansion, working and functional analysis of the units in relation to Indian Companies. Only in a few studies, the problem of bottlenecks of the Indian companies has also been highlighted. It is felt that in relation to Indian companies no pin pointed study has been made on the problem of financial structure. No study has been undertaken analyzing the problem of financial structure" on the basis of prescribed norms, standards and managerial ratios and statistical tools. The proposed study will focus the financial structure aspect of Indian Companies in India on which the available literature is in scarcity. The planning of the financial structure is a must for the measurement of the efficiency of the Indian Companies. To evaluate the efficiency and performance of Indian Companies, the measurement of the financial structure is resorted to. The performance and efficiency of Indian Companies is directly related to financial structure. The poor financial structure may be due to diverse factors. The factors rendering financial structure poor would be sorted out and highlighted with a view to suggesting remedial measures. The inspiration for this research work is the generally based on simple observation of the reality in most literature studies that firms (indeed, the industry-wise company sector) must be able to finance their activities and grow over time if they are ever to play an increasing and predominant role in enhancing value-added income in terms of profits, expanding their shape and size in the economy; generating tax revenue for the government; and, all in all, ensuring sustainability through scalable performance. So, now-a-days, the corporate houses normally seek to have a well-structured capital and financial framework would be self-sufficient to materialize the basic objectives of the enterprise.

Statement of the Problem

The researcher is attempting to study the change in proportion of business & other income of select corporate and its impact on profitability, the impact of non-business investment income & the total earning of Indian corporate in various sectors, need of share holders, Modus operandi of income distribution, operating profit, income on investment outside the business etc.

Hypotheses

A hypothesis refers to provisional idea who made it requires evaluation. It is actually a calculated guess and presumption of the study. For proper evaluation, the researcher needs to define the objective in a very specific manner and apply various relevant statistical techniques so as to be able to arrive at the desired hypotheses.

The proposed study has the following hypotheses

1. The proportion of the investment in a non- business asset is more than investment in fixed asset and current assets. Such investments are non business investments or ‘outside business investments’.
2. Indian Cos are earning from the other income. A larger share of their profits thereby refraining the corporate sector business related investment.
3. The corporate world is investing out side the business arena as a matter of precaution & conservative aspect of working.

Sampling

The researcher has selected Diversified Industries Sector comprising 29 listed companies such as DCM Shriram, Jyothy Laboratories, Mahindra & Mahindra, Tata Autocomp etc. The researcher has calculated descriptive stats for financial data and ratios. Two important ratios have compared by using T-test.

Descriptive Stats for Income Data

DIVERSIFIED SECTOR	Sales	TOTAL OTHER INCOME	Profit after tax
Mean	20590.98	615.49	1151.55
Median	8053.58	138.82	330.24
S. Deviation	34619.68	1075.87	2905.30
Kurtosis	18.09	6.06	18.91
Skewness	4.02	2.54	4.17
Count	29	29	29
Confidence Level(95.0%)	13168.62	409.24	1105.12

In all cases, the mean is greater than mean, which shows that there are few companies having bigger size and majority of the companies have relatively smaller size. This also proves that the data is not normal and positively skewed. The standard deviation is greater than mean, which shows that the data is highly dispersed.

Descriptive Stats for Ratios

DIVERSIFIED SECTOR	PAT as % of total income	PAT as % of net worth	TOI / PAT	% TOI TO SALES	TOI / TOTAL INCOME
Mean	3.75	11.93	0.70	3.13	3.43
Median	4.06	12.57	0.50	1.92	1.49
S.Deviation	4.32	7.68	0.70	5.00	5.45
Kurtosis	1.87	-1.13	0.92	19.25	13.00
Skewness	-0.46	-0.09	0.82	4.14	3.36
Count	29	29	29	29	29
Confidence Level(95.0%)	1.64	2.92	0.27	1.90	2.07

In all cases, the mean is greater than mean (except for first two ratios), which shows that there are few companies having bigger size and majority of the companies have relatively smaller size. This also proves that the data is not normal and positively skewed (except for first two ratios, where it is negatively skewed). The standard deviation is greater than mean (except for first two ratios), which shows that the data is highly dispersed.

Paired-Sample T Test

	TOI / PAT	% TOI TO SALES
Mean	0.70	3.13
Variance	0.49	25.04
Observations	29.00	29.00
Pearson Correlation	0.28	
t Stat	-2.70	
P(T<=t) one-tail	0.01	
t Critical one-tail	1.70	

Apparently, there is a weak positive correlation between the ratio of Total Other Income to PAT and the ratio of Total Other Income to Sales. Considering that the t calculated is less than the t critical, we accept null hypothesis that there is no significant difference between the two ratios selected.

III. Conclusions

The basic ratios, the descriptive stats, and the t- test help in proving the hypotheses set for this research work. The whole idea of this research is neither to curse our Indian business groups, nor it is a mere fault-finding of Indian business icons. Instead, we would like this research to be treated as a caution note for all business groups in India. True competitiveness will come from consistent efforts towards quality enhancement along with reduction in wastages and costs leading towards competitive price of the commodity or service. It is absolutely essential for business groups to focus on their strengths, rather than just wandering around for some crazy ideas of earning money through some short-term, short-sighted means.

Works Cited

- [1]. Almeida, H. C. (2004). The Cash Flow Sensitivity of Cash. *Journal of Finance*, 59 , 1777-1804.
- [2]. Azhagaiah, R. & Gangadevi S. (2008). Leverage and Financial Decisions. *The Indian Journal of Commerce*, 16(1) , 90-98.
- [3]. Chin Wen Cheong. (2008). A Sectoral Efficiency Analysis of Malaysian Stock Exchange. *American Journal of Applied Sciences* , 1291-1295.
- [4]. Dani Rodrik & Arvind Subramanian. (2004). *From "Hindu Growth" to Productivity Surge: The Mystery of the Indian Growth Transition*. IMF Working Paper.
- [5]. Flkender and Petersen. (2006). Does the Source of Capital Affect Capital structure. *The Review of Financial Studies*, 19 , 45-79.
- [6]. Fosberg, R. H. & Ghosh, A. (n.d.). Profitability & C.
- [7]. Jensen, Michael. (1986). Agency Costs of Free Cash Flow. *American Economic Review*, 76 , 323-329.
- [8]. Kin-Yip Ho & Albert K. C. Tsui. (2004). An Analysis of the Sectoral Indices of Tokyo Stock Exchanges. *Autum School and International Conference*. Tokyo.
- [9]. M. Ayhan Kose, Eswar Prasad, Kenneth Rogoff, and Shang-Jin Weil. (2006). *Financial Globalization: A Reappraisal*. IMF Working Paper.
- [10]. Margaret E. Slade. (2003). Competing Models of Firm Profitability. *Journal of Economic Literature* .
- [11]. Mody, Ashoka, Anusha Nath & Michael Walton. (2011). *Sources of Corporate Profits in India - Business Dynamism or Advantages of Entrenchment?* International Monetary Fund.
- [12]. Mufeed, Rawashdeh & Jay Squalli. (2005). *A Sectoral Efficiency Analysis of Amman Stock Exchange*.
- [13]. Nandi K. C. (2011). Impact of Working Capital Management on Profitability. *The Management Accountant* , 22-27.
- [14]. Nimalathasan, B. & Valeriu B. (2010). Capital Structure and Its Impact on Profitability of Listed Manufacturing Companies in Sri Lanka. *The Young Economists Journal*, 13 , 55-61.
- [15]. Pandey, Anand. (2003). Efficiency of Indian Stock Market. *Indian Economic Journal*, 36(4) , 68-121.
- [16]. Selvam M., Indhumathi G. & Rajesh Ramkumar R. (2010). Analysis of Market Efficiency of BSE-PSU Index. *SNS Journal of Finance* , 1-10.
- [17]. Tanseem, Alam & Muhammad Waheed. (2004). <http://ssrn.com/abstract=971318>. Retrieved 2016, from <http://ssrn.com/abstract=971318>.; <http://ssrn.com/abstract=971318>.
- [18]. Tian G. G. & Zeitun R. (2007). Capital Structure & Corporate Performance. *Australasian Accounting Business & Finance* , 40.