CHAPTER III

TRENDS IN CORPORATE EARNINGS
After studying the concept and determinants of the corporate earnings in the preceding two chapters, we now proceed to examine the trends in the earnings of the corporate units covered by this survey. The ultimate goal of every business is to maximise its earnings. All types of investors expect the business to preserve their capital intact and pay an annual return preferably at an increasing rate but not less than the normal rate of interest. For this purpose, an adequate amount of earnings is necessary. Everyone who is interested in the smooth running of the corporation is eager to know its profit position. Since there is diversion between the ownership and the management of a concern, an investor normally receives information about the performance of the companies either through the published accounts or the fluctuations in the price of the shares. However, the price of a share is not the real indicator of its intrinsic value. In a majority of the unquoted securities it is not possible to know correct price thereof. It is only the published accounts through which an investment can be evaluated for different purposes. This requires a more careful analysis not only of the balance sheet but of the entire working results as disclosed by the profit and loss account for a number of years and that too from various angles.
Balance sheet being a factual presentation of the financial health of the business on a certain date, the last date of the accounting year, fails to indicate the sources and rate of earnings. By its very nature, balance sheet is a static document showing the state of affairs as on a particular date and does not show the realisable values of fixed assets. One of the various influences, which the American experiments have had on the accounting practices, is the increased use and importance of the profit and loss account as compared to the tradition bound balance sheet. Attention of all those who are interested in the published accounts of a corporation has been shifted from the state of affairs (balance sheet) to the stream of activities (profit and loss account). The popularity of management accounting is also responsible for throwing the balance sheet into the background and bringing the profit and loss account into the forefront. The concept of going concern has turned the balance sheet to be unreal. Even according to the normal principles of accounting, both the sides of balance sheet can never tally without incorporation of the sum and substance of the profit and loss account. Thus the profit and loss account constitutes the most important part of the final accounts and presents a true picture of the earnings of a concern.

ELABORATION OF HYPOTHESIS
The profit and loss account or "income statement is the mathematical interpretation of the policies, experience, knowledge, foresight and aggressiveness of the management of a business enterprise from the point of view of the income
expenses, gross profit, operating profit and net profit or loss." It contains a summary of changes in the owner's interest, resulting from the operations over a period of time, whereby overall financial strength and stamina can be judged. It is of special importance to the analysts who are interested in the long term view. The longer a claim is likely to continue the more sustained will be the interest in the earning power of the concern, as the operating management and shareholders have a perpetual interest. The final net profit or loss is the ultimate measure of managerial efficiency and source of income for the shareholders. However, it should be remembered that the balance sheet has not outlived its utility. For the scientific and proper analysis of the financial statements, one is in the need of both profit and loss account and balance sheet.

Ordinarily, shareholders give little importance to either of these statements. They are interested in the dividend cheques and the market price of the shares. Profit and loss account is useful for controlling various divisions and lines of business but the main controlling device lies in the balance sheet. Profit and loss account just serves the purpose of various meters indicating the speed and fuel, while the balance sheet represents the steering wheel and speed gears in the business automobile. As such profit and loss account may well be called an instrument to exhibit in a detailed and interesting way the activities of the business, though it is of little value without balance sheet.

* Falke, Roy - A practical Financial Statement Analysis Page No. 516
Profit and loss account is the heart of an enterprise and its thorough dissection becomes all the more necessary. The sum of income minus the sum of expenses would show the net increase or decrease to net worth. With a view to judging a business effectively as a going concern, adequate knowledge must be available of profit-making potentiality, cash generating capacity and solvency. Managerial decisions, investors' reactions, labour union claims and even public policies will be based implicitly upon the assumption that the profit and loss statement portrays a correct picture of the profit position of an undertaking. To the extent that this assumption is not well founded, all users of the statements will be misled.

The type of profit and loss account which is published by Indian companies in compliance with the requirements of the Companies Act, is not much helpful for intelligent analysis needed for administrative and investment purposes.

COMMON SIZE EARNING STATEMENTS
Absolute figures as depicted in the consolidated earning statements vide table No. 3.01 to 3.03 are of less significance unless the same are related to the sources and bases and analysed through the ratio accounting, vertically and horizontally, so as to focus attention to the changes that have occurred therein. Then alone the important and unusual variance can be investigated and interpreted in the light of economic facts. With a view to studying the trends of earnings from the absolute figures of the earnings and the related items, we have computed index numbers of
some of the important constituents of the consolidated statements taking 1985 as the base year. We have framed the common size earning statements comprising the vertical percentages of all the items to the total revenue accruing through net sales and non-operating earnings as per tables No.3.01, 3.02 and 3.02. A horizontal reading of these percentages over a number of years reveals the trends in the distribution of the earnings among the factors of production. It facilitates comparison among the companies of varying sizes belonging to different industries.

The observations on the consolidated and common size earning statements are summarised as below:

1. **Net Sales**

   Net sales reflect the dynamic force in business and industry. These are the main sources wherefrom the cost of production and the margin for entrepreneurial risk are covered. Mere production of goods without being sold at remunerative price, has no meaning. By analysing the trends obtaining in the net sales, a producer can forecast the future demand and frame and implement the production plans. Figures of net sales are generally given in the manufacturing and trading account and are arrived at by deducting sales returns, allowances and trade discount from the gross sale proceeds.

   The net sales of all types of companies, as classified on the basis of size and kind of industry, showed a continuous upward trend. During the decade 1985-1990 the rupee value of sales increased in all the cases. In 1985 the net sales
of the small companies amounted to Rs.26.68 crores, and Rs.46.02 crores in 1990, thus recording an increase of Rs.19.34 crores, which is about 72.5% of that 1985. The net sales of medium companies were Rs. 47.84 crores in 1985 and Rs.121.00 crores in 1990, thus recording an increase of Rs.73.16 crores i.e. increase of 153%. The net sales of large companies were Rs.190.25 crores in 1985 and raised to Rs.322.64 crores in 1990, thus recording an increase of Rs.132.39 crores i.e. increase of 69.59%. Taking all the companies together, we find that the trends were similar to those prevailing in large companies. The net sales of all the 75 companies were Rs.264.77 crores in 1985 which increased to Rs.489.66 crores in 1990, thus recording an increase of Rs.224.89 crores i.e. an increase of 85%.

Analysing the net sales industrywise, we find that in each of the three industries, there was a continuous upward trend. The net sales index number rose to 119.3 in Food, 88.6 in Pharmaceutical and 24.6 in Tea.

Looking at the common size percentage, it is found that the net sales provided more than 98% of the total revenue in the case of all the companies of various sizes and different industries. The non-operating earnings have been between 0.2% and 5.5% of the total income.

It is not necessary that the quantum of goods sold would have risen in proportion to the sale proceeds. To a greater extent the rise in sales represented an increase in the rupee value of the sales.
2. Direct Costs

Ascertaining of gross and net profit depends upon the consumption or the direct costs of the sales. It is disheartening to note that hardly any company in India shows in its published accounts the correct amount of cost of sales. Divergent meanings attributed to the cost of sale in the financial accounts and cost accounts have confused the terms 'gross profit' and 'net profit'. In the manufacturing and trading account aggregates of material consumed, wages and direct factory expenses are shown as cost of production, after adjusting the value of closing stock of raw materials, semi-produced and finished goods. Depreciation, repairs and most of the items like managerial selling, distribution and financial expenses, though directly varying in the proportion of changes in the output and sales, are excluded from the trading account. Thus these accounts show works cost and not the cost of sales, while in the cost accounts, the approach towards computation of the cost of sale is quite different. All items of overheads are classified as variable and fixed and costs of sale are ascertained, taking all the items as such. Of late, it is considered that the overheads resulting from the under-utilisation of capacities and other abnormal losses should be excluded from the manufacturing and trading accounts and charged to profit and loss appropriation account or adjusted from the provision made for the purpose. However, this practice is rarely followed by our companies. It is difficult to
ascertain the correct amount of cost from the final accounts. Variable and fixed costs are relative terms. Bifurcation of cost outlays into two is a difficult task and the magnitude of the same differs from concern to concern and from period to period. The purpose of accounting is not to be exact in each circumstance but to be near to the realities as far as possible. There is need for amending the Companies Act, 1956 and the Schedule VI, governing the presentation of final accounts with a view to reconciling the misconceptual approach towards the cost of sale, specially when the cost audit has been made compulsory for many industries.

Direct Cost to Sales
For scientific and realistic analysis of the earnings we have computed the direct cost by adding to the works cost shown by the manufacturing and trading account, the depreciation, repairs and selling expenses. Administrative expenses and interest on borrowing have been presumed to be the semi-fixed overheads. But the interest, being a charge for the use of capital funds, has been treated separately.

Size-wise Analysis (Table No. 3.04)
The direct cost of sales as percentage of the total revenue varied from 87.6% (1986) to 89.0% (1990) in the case of small companies, from 87.8% (1990) to 89.9% (1986) in medium companies, from 86.1% (1985) to 90.6% (1989) in
large companies and from 86.7% (1985) to 89.3% (1989) in the case of all companies included in this study. In all the cases the index numbers of direct costs fluctuated in proportion to the net sales.

Industry-wise analysis of the direct cost to the total revenue ratio reveals that the same was: Pharmaceutical 85.9% (1987) to 89.9% (1985), Food 90.6% (1988) to 92.3% (1989) and Tea 70.9% (1990) to 85.1% (1985).

3. Gross Profits (Table No. 3.05)

Excess of net sale proceeds over the direct cost is called gross profit. It is expected to cover the indirect expenses of an establishment and leave a sufficient margin to meet the liabilities of interest and dividends. It is observed that the gross profit of the companies included in this study, did not increase in proportion to the increase in net sales.

Size-wise analysis indicates that the gross profit percentage in comparison to 1985 rose to 55% (1990) in small companies, 170.5% (1990) in medium companies 63.9% in (1990) in large companies and approximately 79.6% in all the companies taken together. It is noticed that the Gross Profits of medium companies almost recorded impressive gains in comparison to those in large and small companies, included in this study.
Industry-wise trends reveal that the gross profit index No. was the highest at 148.6 (1990) in Food, 108.3 (1990) in Pharmaceutical and 29.6 (1990) in Tea.

The common size ratio of gross profit varied from 10.7% (1988) to 12.4% (1986) in small companies, 10.1% (1986) to 12.2% (1990) in medium companies, 9.4% (1989) to 13.9% (1985) in large companies and 10% (1989) to 13.3% (1985) in all the companies. The average worked out to 11.41 in small companies, 11.22 in medium companies, 11.55 in large companies and 11.48 in all the companies.

This study clearly shows that the gross profit did not record a proportional increase to that of sales because of ever increasing cost of production which could not be shifted to the consumers. Gross profit ratio was sufficiently higher in modern industries like Pharma and Food than that in the traditional industries like Tea.

4. Operating Expenses : (Table No. 3.06)
Operating expenses have a great bearing upon the quantum and rate of net earnings available for serving the capital and ploughing back of profits. These expenses were more or less of semi-fixed nature and any increase in gross profit is expected to result in an increase in the net-earnings and vice versa. But in our study this postulate does not hold good. Operating expenses tended to show a rising tendency along with the rise in sales, thereby neutralising
the likely advantages accruing to the entrepreneurs.

Operating expenses to total revenue ratio varied from 3.1% (1990) to 5% (1985) in small companies, 3.6% (1989) to 5.7% (1986) in medium companies, 3.8% (1985) to 7.5% (1987) in large companies and 4% (1985) to 6.8% (1987) in all the companies. There was a continuously rising trend in the managerial, selling and distributional expenses.

Industry-wise ratio of operating expenses fluctuated from 4.7% (1985) to 8.5% (1987) in Pharmaceutical, 2.8% (1985) to 5.1% (1988) in Food and 4.5% (1985) to 7.8% (1987) in Tea.

5. Operating Earnings: (Table No. 3.07)

By operating earnings is meant the surplus created out of the process of main activities of the corporate units. The trends operating in the quantum and the rate of operating profits reflect the performance of the various units of the corporate sector. The operating earnings to total sales ratio varied from 6.04% (1988) to 8% (1986) in small companies, 5.13% (1986) to 7% (1989) in medium companies, 5.02% (1989) to 10.36% (1985) in large companies and 5.30% (1988) to 9.26% (1985) in all the companies. The average worked out to 7.12% in small companies, 6.18% in medium companies, 6.62% in large companies and 6.60% in all the companies.

6. Non-operating Earnings

Non-operating earnings are called income credits. They consist of rent, interest and other miscellaneous incomes like transfer fees and so on, earned or received. Size-wise analysis of the main operating total revenue ratio travelled between 1% and 1.8% in small and medium companies and between 1.2% and 1.7% in large and all the companies included in this study. Industry-wise computation of this ratio reveals that the same fluctuated from 3.5% (1987) to 5% (1986) in Pharmaceutical, 3.4% (1985) to 6.6% (1988) in Food and 4.2% (1985) to 6.2% (1987) in Tea.

The exact contribution of non-operating earnings can be ascertained only after charging therewith the direct and indirect expenses attributable thereto. However, the financial data published in the annual accounts of the companies do not reveal the same and hence the net income is not ascertainable.

7. Earning Before Interest and Tax : (Table No. 3.08)

Earning before interest and tax shows the importance of financial analysis. After meeting the operating expenses out of the gross profits and non-operating earning, the residual amount of the revenue is appropriated into interest, tax provision, dividend and ploughed back profits.

Size-wise earning before interest and tax : total revenue ratio fluctuated between 9.8% (1988) and 12.9% (1986) in
small companies, 10.4% (1988) and 12.5% (1985) in medium companies, 9.3% (1986) and 13.7% (1985) in large companies and 9.9% (1986) and 13.4% (1985) in all the companies. The average amounted to 11.4% in small companies, 11.5% in medium companies, 11% in large companies and 11.1% in all the companies. It is thus noticed that the earnings before interest and tax was the lowest in small companies. The same was the highest in medium companies. The overall average was influenced by medium and large companies, weeding out the trends obtaining in small companies.

The common-size ratio of the earning before interest and tax to sales in different industries varied from 9.1% (1987) to 10.7% (1986) in Pharmaceutical, 8% (1989) to 10.9% (1988) in Food and 14.1% (1988) to 27.7% (1985) in Tea. Thus the mixed trends in the common-size ratio were in agreement with those envisaged in the total revenue and other items coming before the earnings.

The performance of traditional industries was poorer than that of modern industries. Our findings have rebutted the presumption that the indirect expenses would be less variable. The earning before interest and tax indices rose at a lower scale than that of gross profit, implying thereby that the indirect expenses particularly the managerial remuneration and establishment expenses have been constantly rising with the rise in sales.
8. Interest: (Table No. 3.09)

Payment of interest on debentures and other borrowings can be said to be the first and foremost item of appropriation of earning before interest and tax. The amount of interest is determined by the quantum of borrowings and the rate of interest thereon. The cheap and easy funds provided by the financial institutions and commercial banks changed the debt equity ratio of the companies. All types of corporate units prefer institutional borrowings to the issue of shares and debentures, because of the rising cost of issue of shares and tax considerations. This tendency has resulted into an ever-increasing amount of interest being paid out of the total revenue.

The size-wise analysis of the amount of interest reveals that the same recorded a negligible increase in the case of small companies and 35% rise in large companies. Common size ratio of interest to total revenue recorded a small rise from 2.4% (1987) to 2.9% (1985) in small companies, 2.4% (1985) to 2.9% (1988) in medium companies, 2% (1985) to 3.2% (1988) in large companies and 2.2% (1985) to 3.1% (1988) in all the companies under study.

Industry-wise common size ratio varied from 2.6% (1985) to 3.1% (1990) in Pharmaceutical, 1.8% (1985) to 3.5% (1988) in Food and 1.9% (1985) to 3.2% (1989) in Tea. The average rate of interest during the decade had a nominal rise of the percent, thereby implying that the borrowings have increased considerably. This led to direct impact on the
tax liability and distributable earnings. Almost all the companies benefited by increasing the amount of debt financing.

9. **Tax Provision**: (Table No. 3.10)

By studying the trends in the provisions for Corporation Tax, one comes to know the impact of tax on the earnings and the contribution made to the exchequer. Other taxes like excise, customs and sales tax constitute the cost of production and sale and are directly shifted to the customers through the rise in prices. The quantum of tax has been directly affected by the rise in the net earnings and changes in the rate and structure of the tax.

The common-size of tax provision to total revenue fluctuated between 2.5% (1990) and 4.8% (1986) in small companies, 2.6% (1989) and 4.7% (1985) in medium companies, 2.2% (1989) and 5.7% (1985) in large companies and 2.4% (1989) and 5.4% (1985) in all the companies. The average worked out to 3.4% in small companies, 3.2% in medium companies, 3.4% in large companies and 3.4% in all the companies taken together. Industry-wise common-size ratio varied from 2.2% (1987) to 3% (1986) in Pharmaceutical, 1.2% (1989) to 3.2% (1985) in Food and 1.4% (1985) to 12.5% (1990) in Tea.

It can be concluded that the trends obtaining in the tax provision indices conform to those in taxable earnings, but at a slightly higher scale. This is due to the fact that
there has been a rise in the effective rate of tax. Further, the downward trend in the common size ratio of tax provision over the total revenue confirms the view that the rise in the total income did not result into a proportionate increase in the taxable income because of the rise in costs and interest paid. Tax liability had a direct bearing on the total income and the tax is levied on the net earnings.

10. Distributable Earnings (PAT) : (Table No. 3.11)
Distributable earnings is the most important item of the income statement of a company. It indicates the residual amount of earnings which, after meeting the liability for interest and tax, is appropriated into dividend and retained profits at the discretion of the directors. It is the ultimate measure of the efficiency of management. Shareholders always look at the figure of distributable profits. Even if the directors do not recommend the entire amount to be paid as dividend, the shareholders are indirectly benefited by the ploughed back profits, through the rise in intrinsic value (net worth value) of their shares and increased financial soundness of the company. However, the companies sustaining losses do not have distributable earnings. They either do not declare dividend or declare the same out of the past surplus. In this study, we have followed macro analysis and hence distributable earnings studied are the net figures after adjusting the losses.
Earning indices varied from 4.6% (1988) to 6% (1990) in small companies, 4.4% (1985) to 6.7% (1990) in medium companies, 4.1% (1986) to 6.2% (1985) in large companies and 4.3% (1986) to 6% (1990) in all the companies under study. The overall index number does not depict the precarious performance of the small companies and the less satisfactory position of the medium companies.

Industry-wise ratios showed the mixed and uncertain trends and fluctuated between 3.9% (1987) and 5.2% (1989) in Pharmaceutical, 3.4% (1985) to 5.1% (1988) in Food and 6% (1986) to 12.5% (1990) in Tea.

A close scrutiny of the indices of distributable earnings of all the companies reveals that interest and corporate tax have greatly drained away the quantum of earnings and this does not appear to be an unexpected trend. In the case of small companies the impact of interest and tax has been more pronounced, adversely affecting the insufficient amount of their earnings. This implies that these companies borrowed beyond the desirable limits and had disproportionate capital earning ratio. In the case of medium companies no clear trend was visible. These companies could not adopt a consistent capital gearing ratio, while in the case of large companies it can be said that these companies derived positive advantages from trading on equity. This might have been feasible due to large scale economies and enhanced credit worthiness.
Common Size Ratios: Profit After Tax

Total revenue ratio indicates the amount which accrues to the entrepreneurial capital out of the total income. This ratio fluctuated between 4.6% (1988) to 6% (1990) in small companies, 4.4% (1985) and 6.7% (1990) in medium companies, 4.1% (1986) to 6.2% (1985) in large companies and 4.3% (1986) to 6% (1990) in all the companies. The average worked out to 5.31% in small companies, 5.32% in medium companies, 4.94% in large companies and 5.1% in all the companies. Industry-wise ratios were found varying from 3.9% (1987) to 5.7% (1989) in Pharmaceutical, 3.4% (1985) to 5.1% (1988) in Food and 6% (1986) to 12.5% (1990) in Tea. The average was the highest in Tea 12.5% and was followed by Pharmaceutical 5.2% and Food 5.1%. In Tea and Pharmaceutical, Food industries there was mixed trend and in the case of all the industries it is more or less constant.

11. Dividends: (Table No. 3.12)

The rate and quantum of dividends have direct relationship with the paid-up capital. It has been observed by us in this study that the paid-up capital and reserve and surplus substantially increased during 1985 to 1990. Statutory provision for development reserves resulted into a continuous growth in the net worth. Even if the dividends would have been paid at stabilized rates. The index of dividend would have been raised by 300% in case of small, 400 in case of medium and 250% in case of large the
aggregate rise shows 27.5%. However, the result obtained by this study does not confirm this phenomenon. A good number of companies could not declare dividend for want of divisible profits and surplus. Pattern of equity and preference dividends have been examined in a separate chapter of the present work. Here we are concerned with the trends in the quantum of dividends in relation to the distributable profits.

Like all other items of income statement, dividend indices showed mixed trends. Size-wise analysis reveals that the index was between 23.2% (1985) and 39.9% (1989) in small companies, 31.3% (1987) and 41.8% (1990) in medium companies, 31.3% (1985) and 53.9% (1989) in large companies and 31.1% (1985) and 48.2% (1989) in all the companies analysed here.

Industry-wise position of the dividend indices reveals that the same varied from 28.6% (1985) to 41.4% (1988) in Pharmaceutical, 29.7% (1987) to 65.3% (1989) in food and 32.1% (1985) to 54.6% (1989) in Tea.

It is obvious that the small and medium companies could not pay dividend in proportion to rise in their net worth. In small companies dividend was paid out of past surplus for want of divisible profits and their financial position remained unsatisfactory. Medium companies appeared to have paid a fixed amount of current profits by way of dividends and thus adopted a rigid dividend policy, giving adequate
attention to the retained earnings. Large companies were in a comfortable position. Not only that their profits showed a rising tendency but they could pay out steady dividends and also retained sufficient funds out of current profits. Considering the results of all the companies together, it is found that the large companies swayed the results and weeded out the disappointing trends noticed in the case of small companies and rigidity practiced by the medium companies.

Analysing the trends industry-wise, it is found that the dividend recorded satisfactory rise in Tea and Pharmaceutical, whereas the trends were mixed in Food.

Common-size Analysis
Dividend to distributable profit ratio reflects the proportion of total distributable income which is disbursed to shareholders as return on their capital. Despite the increase in sale proceeds dividend did not increase. The amount of dividend remained more or less stagnant. This ratio varied from 23.2% (1985) to 39.9% (1989) in small companies, 31.3% (1987) to 41.8% (1990) in medium companies, 31.3% (1985) to 53.9% 1989) in large companies and 31.1% (1985) to 48.2% (1989) in all the companies. The average worked out to 31.2% in small companies, 37.9% in medium companies, 42.1% in large companies and 39.8% in all the companies.
Industry-wise ratio of dividend to total distributable profits fluctuated from 28.6% (1985) to 41.4% (1988) in Pharmaceutical, 29.7% (1987) to 65.3% (1989) in Food and 32.1% (1985) to 54.6% (1989) in Tea. Computing the 6 year average, it is found that the same was the highest in Food and was followed by Tea.

12. Retained Earnings: (Table No. 3.13)
Retained Earnings are considered as a backbone of the financial structure of the corporate sector and represent that portion of the divisible profits which is not paid out as dividend. Every good concern is expected to retain some amount of current profits to finance expansion, redemption of debt, equalisation of dividends so as to strengthen its credit-worthiness. Detailed study of the trends in retained earnings has been carried out in the VIIth chapter of this work. Here we have examined the absolute amount of retained profits through indices and common-size ratios.

Retained Earnings Indices
Witnessed wide ups and downs and fluctuated from 69.1% (1987) to 13.9% (1985) in small companies, 59.1% (1988) to 78.6% (1990) in medium companies, 41.7% (1989) to 61.8% (1987) in large companies and 51.8% (1989) to 68.9% (1985) in all the companies of the survey. Like many of the items of consolidated earning statements, the retained earning indices of all the companies too have been influenced by the trends obtaining in the large companies. Medium companies could retain their profits by squeezing the rate
of dividend, whereas the small companies exhausted their accumulated surplus through payout, to a considerable extent. Large companies ploughed back profits which kept rising every year.

While looking into the industry-wise indices of the ploughed back profits, it was found that the same varied from 58.6% (1988) to 71.4% (1985) in Pharmaceutical, 34.7% (1989) to 70.3% (1987) in Food and 45.4% (1989) to 67.9% (1985) in Tea.

There was steep down-ward trend in savings of Food and Tea. Industries like Pharmaceutical enjoyed continuous growth in ploughed back profits.

**Common-size Analysis**

Common-size ratio of the retained earnings refers to the portion of total distributable profits which are ploughed back in to the business. This varied from 69.1% (1987) to 139.1% (1985) in small companies, 59.1% (1988) to 78.6% (1990) in medium companies and 41.7% (1989) to 61.8% (1987) in large companies and 51.8% (1989) to 68.9% (1985) in all the companies. The six year average worked out to 82.2% in small companies, 65% in medium companies, 54.0% in large companies and 60.2% in all the companies. Further, it also reveals that small companies have paid dividends out of the past profits thereby reducing retained profits.
Interpreting the data industry-wise, it is found that their ratio varied between 58.6% (1988) and 71.4% (1985) in Pharmaceutical, 34.7% (1989) and 70.3% (1987) in Food and 45.4% (1989) and 67.9% (1985) in Tea.

Reasons for the low level of retained earnings of the traditional industries need not be mentioned repeatedly. The trends in the retained earnings of the modern industries were in tune with the general observations.

Corporate Losses: (Table No. 3.14)
Trends in the corporate losses during the decade 1985-1990 have been studied vide table No.3.14. It has been observed that the number of loss-sustaining companies and the amount of loss recorded steep rise. Out of 75 companies the number of such companies was 6 only and the maximum loss amounted to Rs. 0.33 crores in 1988. The number of companies and loss came down to 4 and Rs. 0.21 crores respectively in 1990. The impact of loss was greater in the case of small companies and those belonging to Food and Tea.