Indian Family Business Groups: An Analytical Financial Review

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INTRODUCTION

The theory of finance has come a long way in last one century. Michael C. Jensen & Clifford W. Smith (1984) have taken an excellent overview of corporate finance theories. Financial economics has progressed through its stage of policy irrelevance propositions of the 1960s to a stage where the theory and evidence have much useful guidance to offer the practicing financial manager. They noted that the theory and evidence are now sufficiently rich that sensible analysis of many detailed problems such as the valuation of contingent claims, optimal bond indenture covenants, and a wide range of contracting problems are emerging. However, they note some important unresolved questions, such as, (1) the level of dividend payment, (2) the maturity structure of the firm's debt instruments, (3) the marketing of the firm's securities (i.e. public versus privately placed debt, rights versus underwritten offerings), and (4) the relative quantities of debt and equity in the firm's capital structure.

Stanley C. W. Salvary (2003) identified three basic reasons about the argument that the numbers in financial statements are not relevant. These are: (1) the numbers are not isomorphic with capital market values, (2) the numbers do not have a future orientation, and (3) the numbers are un-interpretable. The author observed that the first two arguments are invalid, whereas the third one holds.

Raj S. Dhankar & Ajit S. Boora (1996) have taken an interesting literature survey on cost of capital, optimal capital structure, and value of firm. Franco Modigliani and Merton Miller were the first to present a formal model on valuation of capital structure. In their seminal papers(1958,1963), they showed that under the assumptions of perfect capital markets, equivalent risk class, no taxes, 100 per cent dividend-payout ratio and constant cost of debt, the value of a firm is independent of its capital structure. When corporate taxes are taken into account, the value of a firm increases linearly with debt-equity (D/E) ratio because of interest payments being tax exempted. M-M'S work has been at the centre-stage of the financial research till date. Their models have been criticized, supported, and extended over the last 35 years. David Durand (1963) criticized the model on the ground that the assumptions used by M-M are unrealistic. Solomon (1963) argued that the cost of debt does not always remain constant. When the leverage level exceeds the accepted level, the probability of default in interest payments increases thus raising the cost of debt. Stiglitz (1969,1974) proved the validity of the M-M model under relaxed assumptions whereas Smith (1972), Krause and Litzenberger (1973), Baron (1974,1975), and Scott (1976, 1977), supported the M-M model, but only under the conditions of risk free debt and costless bankruptcy. When bankruptcy has positive costs, there exists an optimal capital structure which is a trade-off between tax advantage of debt and bankruptcy costs. This trade-off theory was challengedby Miller (1977). He argued that bankruptcy and agency costs are too small to offset the tax advantage of debt. But when personal taxes are taken into account, this advantage is completely offset by the disadvantage of personal tax rate. Thus, in equilibrium, the value of a firm is independent of its capital structure, even when the market is imperfect. But Miller's model was rejected by

DeAngelo and Masulis (1980) argued that even if bankruptcy, agency and related costs are ignored, introduction of non-debt tax shields is enough for a firm to have an optimal capital structure. And even if these costs are taken into account, an optimal capital structure exists, irrespective of availability of non-debt tax shields. Masulis (1980,1983), Brennen and Schwartz (1978), and Jensen and Meckling (1976) also advocated the existence of an optimal capital structure in an imperfect market, while using different mechanisms. Besides, a lot more work has been done on this problem till now, but a formal model, showing the mechanism for determining an optimal capital structure in an imperfect market, is yet to be developed.

In the Indian context, one comes across two works, one by Sharma and Rao (1969) and the other by Pandey (1992). The former tested the M—M model using cross-sectional analysis for engineering companies, wherein the value of a firm was found to be independent of its capital structure after allowing for tax advantage.

ABOUT RATIO ANALYSIS

A ratio is a quotient of two numbers and is an expression of relationship between the figures of two amounts. The relationship between two accounting figures is known as accounting ratio. According to J.Batty "the term accounting ratio use used to describe significant relationships which exist between figures shown in a balance sheet, in a profit and loss account, in a budgetary control system or in any other part of the accounting organization." It indicates a quantitative relationship which is used for a qualified judgment and decision making. Ratio analysis is thus the most widely used tool of management for the purpose of financial analysis.

Theoretically speaking, there could be any number of such relationships established depending upon the number of items in Balance Sheet and / or Income Statement. Each relationship is meaningful. Several text books have elaborated literally hundreds of ratios. Many a times, there are contradictions and confusions as well. Nonetheless, ratios are frequently used by the researchers as primary analytical tools. A few such examples are quoted in the following paragraphs.

Philip Lowe & Geofiey Shuetrim (1992) have examined the relationship between leverage and the macro-economy. They observed that the theoretical work on these links has outpaced the empirical research. Also, they explored the evolution of debt-asset ratios, interest cover ratios, dividend pay-out ratios and the ratio of trade credit to total debt. The financial liberalization of the 1980s eliminated the need for disequilibrium credit rationing in Australian financial markets. This permitted a wide range of firms to enjoy greater access to borrowed hnds intermediated by the finance sector.

Timo Salmi & Teppo Martikainen (2005) provides a critical review of the theoretical and empirical basis of four central areas of financial ratio analysis. The research areas reviewed are the functional form of the financial ratios, distributional characteristics of financial ratios, classification of financial ratios, and the estimation of the internal rate of return from financial statements. It is observed that it is typical of financial ratio analysis research that there are several unexpectedly distinct lines with research traditions of their own.

Steve Keen & Russell Standish (2005) have compared micro-and-macro-economic theories, with specific reference to the theory of profit-maximizing behaviour by firms. They observed that Marshallian "atomistic" competition model is wrong as against Cournot-Nash game theoretic competition model. It is observed that the assumptions made by economists are seriously at odds with reality.

Allan Tomas (2006) has made some interesting observations about the record profit growth and its impact on fixed capital investments. This situation has led to a significant shift in the corporate sectors' net lending/borrowing position - from one of a chronic deficit position to one of sustained surplus. After having run deficits for almost 30 years, corporations have emerged with significant surplus positions in the last decade. This has placed the corporate sector in a new role – that of increasingly supplying funds to the rest of the economy.

Zulkarnain Muhamad Sori et al (2006) have investigated the distributional characteristics and appr opriate remedial actions of selected financial ratios from failed and non-failed Malaysian listed firms. A total of 66 listed firms with 330 observations and 65 variables were examined for the period from 1980 to 1996. The finding shows that in all instances, only one variable (i.e., current asset percent) conformed to normal distribution.

FINANCIAL ISSUES RELATED TO FAMILY BUSINESS GROUPS

Luigi Buzzacchi and Massimo G. Colombo (1994) have focused on cross-industry differences in the patternof corporate ownership in the Italian manufacturing and miningsectors. The authors draw attention to

factors responsible forthe diffusion of ownership. The paper relies on econometricestimates which confirm the role played by economies of scale,R&D intensity, and specialization of human capital in shapingcorporate ownership structures. More importantly, the econometricfindings point out that the internal fund allocation functionextensively performed by large, diversified business groupssignificantly distorts the pattern of corporate ownership.

Khanna, Tarun & Palepu, Krishna (2000) have observed poorly functioning institutions in India provide potential to business groups both to offer benefits to member firms, and to destroy value. While analyzing the performance of affiliates of diversified Indian business groups relative to unaffiliated firms, they found that accounting and stock market measures of firm performance initially decline with group diversification and subsequently increase once group diversification exceeds a certain level. Also, affiliates of the most diversified business groups outperform unaffiliated firms.

Johnson et al. (2000b) argue that the controlling shareholdersin business groups have strong incentives to siphon resourcesout of firms to increase their wealth. They term such an expropriation"tunneling." La Porta, Lopez-de-Silanes, and Shleifer (1999)argue that the expropriation of minority shareholders by controllingshareholders is particularly serious when the controlling shareholdershave concentrated ownership in the firm that exceeds their cashflow rights and have power over the firm. Johnson et al. (2000b)and Friedman, Johnson, and Mitton (2003) further show that thepropensity to tunnel is higher for firms belonging to businessgroups. Supporting these arguments, several studies find evidenceof tunneling in countries with weak legal protection of investors(La Porta, Lopez-de-Silanes, and Zamarripa, 2003; Bertrand,Mehta, and Mullainathan, 2002; Bae, Kang, and Kim, 2002; Friedman,Johnson, and Mitton, 2003; and Baek, Kang, and Lee, 2006).

Tarun Khanna & Yoshay Yafeh (2002) has challenged the popular view of the importance of risk sharing in business groups. The belief that group affiliates have both lower levels of operating profitability and lower standard deviations of operating profitability could not be generalized to most emerging markets except for Japan. Interestingly, the authors have found limited evidence of “liquidity smoothing” in Indian business groups. A final mechanism of group-provided insurance that has been analyzed (using unique data available only for India) is “liquidity smoothing” through intra-group transfers (recorded as “loans and receivables”).

Sea Jin Chang (2002) has examined the causal relationships between ownership structure and performance. The results show that performance leads to the determination of ownership structure, but the vice versa is not true. It is necessary to study in greater details about the agency problems in business groups.

Camey, Michael & Gedajlovic, Eric (2002) focused on the generation and allocation of financial resources stemming from the coupling of ownership and control among Hong Kong based business groups. They found that coupled ownership and control is positively related with dividend payout levels and financial liquidity while it is negatively related to investments in capital expenditures. Also, coupled ownership and control is positively related to short-term (accounting) profitability.

Randall Morck and Bernard Yeung (2003) have highlighted on the typical agency problems that might persist in the companies closely held by families. The use of pyramidal group structure along with tunneling between related companies are detrimental to public investors in such companies

Tarun Khanna and Krishna G. Palepu (2003) have underlined the requirement of the family business groups in the context of institutional voids, i.e. the absence of specialized intermediaries in capital markets. They elaborated a positive response of a few business groups towards a growing competitive world.

Heitor Almeida & Daniel Wolfenzon (2003) have observed that existing theories of pyramidal business groups cannot explain empirical findings about the prevalence of these groups and their characteristics. Through a specifically designed model, they have identified that business groups arise to substitute for missing financial markets, and families choose pyramidal ownership structures when the benefit of using retained earnings that belong to existing firms in the group is large.

R. George et al (2004) have focused on the inefficient profit redistribution explanation of the concept of 'business group discount' as opposed by 'business group premium'. It is proved that inefficient profit redistribution causes group-affiliated companies to perform poorly relative to independent companies. Also, such profit distribution is more pronounced for groups of larger size and greater corporate control.

Raja Kali & Jayati Sarkar (2005) have found that business group affiliation continues to generate higher market valuation vis-à-vis standalone firms ten years into the transition, but diversification is not the source of these benefits. Instead, they found that propping through profit transfers among firms within a group and better monitoring through group level directorial interlocks explains the higher market valuation of business group affiliated firms.

Tarun Khanna & Yishay Yafeh (2005) has termed business groups as a hybrid organizational form between firm and market. It is observed that the existing literature focuses on groups as diversified entities and on conflicts between controlling and minority shareholders. They have challenged the assumption rent seeking is the only feasible political economy equilibrium in an interaction between groups and the government.

Jayati & Subrata Sarkar (2005) have analyzed the role of debt in corporate governance with respect to a large emerging economy, India, where debt has been an important source of external finance. They found some evidence of debt being used as an expropriation mechanism in group firms that are vulnerable to such expropriation.

Atif Ikram & Syed Ali Asjad Naqvi (2005) have done interesting analysis of family business groups in Pakistan, with specific reference to tunnelling framework. They have identified three issues related to the sensitivity of group firms to industry and group shocks. 1) There is a situation of cross-shareholdings. There is also a 'dilution' of dividend earnings in the pyramidal chain. 2) Results show that top firms are more sensitive to their own shock, while bottom down firms are the least sensitive to their own shock. 3) In countries with weak institutional structures, groups act as an insurance mechanism. However, this insurance issue implies that high up firms (where ownership is high) should receive less 'insurance'.

Jayesh Kumar (2006) has examined the relationship between corporate firm's ownership and capital structure in context of Indian companies. It is found that the debt structure is non-linearly linked to the corporate governance. Also, firms with weaker corporate governance mechanisms, dispersed shareholding pattern, in particular measured by the entrenchment effects of group affiliation, tend to have a higher debt level. However, firms with higher foreign ownership or with low institutional ownership tend to have lower debt level.

Radhakrishnan Gopalan et al (2006) have documented that intra-group loans are an important means of transferring cash across group firms and that such transfers are typically used to support the financially weaker firms. Loans are not, in general, used to fund investment opportunities or to tunnel resources. They found that an important reason for support may be to avoid group firm default and consequent negative spillovers to the group.

Diego Cueto (2007) has observed that the controlling shareholders divert resources for their own consumption, in turn reducing shareholder value. A concentrated ownershipstructure gives rise to a new form of conflict of interest: between controlling shareholdersand minority shareholders. The conflict of interest is characterized as the potential forasset diversion from the firms to the controlling shareholders, reducing overallshareholders' value.

Jongsub Lee (2008) has identified two types of ownership structure in family business groups, i.e. Pyramidal Structure (by establishing a subsidiary) or Horizontal Structure (by establishing a new stand-alone entity). He focused more on the former. The pyramidal structure implies co-insurance benefit and control optionality.

Ching-Hai Jiang , Kuei-yuan Wang, Yen-Sheng Huang (2008)examine the relationship among managerial ownership, capital expenditures and firm performance using data of 359 firms listed on the Taiwan Stock Exchange over the period 1998-2005. The empirical results indicate a concave relationship

between managerial ownership and future firm performance and a positive relationship between managerial ownership and capital expenditures. Moreover, for firms with larger capital expenditures, the interactive effect of managerial ownership and capital expenditures is significantly positively related to firm performance.

Hsi-Mei Chung, Yunshi Liu (2008)attempt to investigate the relationships among overlapping investment, use of particularistic ties, group performance, and succession in family business group. The results show that the family business managers and family members occupying the decisive positions of group affiliates significantly influence its leader change. This study highlights the importance of alternative control choices within the family business. Furthermore, it also provides a good comparing start-point for researches interested in understanding the succession issue of Chinese family business in Great China.

Azlan Amran, Mohd Hassan Che Haat, Rosli Abdul Manaf (2008)focused on the importance of ownership structure as a determinant of risk disclosure. It is expected to contribute to the literature particularly in the Malaysian context, where risk disclosure practice is in the infancy stage. This study uses multiple regressions in assessing the variability of the extent of risk disclosure. The overall results confirm that highly concentrated ownership would lead to high agency problem, which then leads to less disclosure. This implies that, to promote greater transparency in countries where many of the large listed companies are family-owned, more stringent laws that mandates adequate risk disclosure is clearly warranted.

M. Akbar & Manoj Joshi (2008) have noted that privately held firms are notorious from the perspective of transparency. They observed that founding families do not allow the firm to expand, and if they do, it is typically meant to accommodate growing family members and thus, subject to considerable succession disputes. Also, owner opportunism, self control and altruism become the destructive agency problems.

Surajit Majumdar (2008) has aptly pointed out that the analysis of business groups needs to move away from trying to explain them as efficiency enhancing responses to institutional voids. Such an approach is firstly completely a historical and static—attaching little significance to either the shifts in the environmental and institutional context of groups or the fact that these groups themselves are entities that change and get transformed over time. It is an objective examination of the actual working of the group, unhindered by any prior conception that the historical function of business enterprises is to deliver efficiency and the proof of that lies in their success, which is necessary.

Teodora Paligorova and Zhaoxia Xu (2009) have investigated the impact of pyramid ownership structure and multiple controlling shareholders on firm leverage. Pyramids, having at least one controlling shareholder and a subsidiary, rely significantly more on debt financing than non-pyramid firms. Moreover, higher leverage is observed in pyramids where the second controlling shareholders have more voting rights. We also find that the disparity between the voting rights of the first two controlling shareholders is negatively related to firm leverage. Interestingly, the influence of the second controlling shareholder is only present in non-family controlled pyramids. Overall, the results are consistent with the view that controlling shareholders in pyramids use debt to secure their private benefits.

Andrew Ellul (2009) has investigated the use of leverage as one channel through which control-motivated block-holders can defend their corporate control. When faced with a trade-off between raising external finance and losing their control over the firm, debt offers a solution while equity does not. It is found that block-holders' control motives significantly influence the capital structure of the firms they invest in, leading to higher leverage. Leverage is used strategically by the control-motivated block-holders given the higher risk of bankruptcy it poses: debt is mostly used when control is contestable, and used less when block-holders already have control-enhancing mechanisms in place. The evidence is reinforced when analyzing the evolution of leverage around hostile takeovers and withdrawn takeover bids.

Oluwarotimi Owolabi & Sarmistha Pal (2009) have argued that the networked firms have an advantage in securing bank finance in countries with weak legal and judicial institutions. Importance of being associated with business networks is particularly evident among firms who borrow from foreign banks, as

the latter attempt to hedge risk in an uncertain environment.Significance of business networking however vanishes if institutional quality improves.

Domenico Scalera & Alberto Zazzaro (2009) have reviewed the literature on the analysis and testing of the possible relationships between participation in inter-firm networks and corporate finance. They found more focus on whether a) finance can be in itself a motivation for the formation of networks and b) belonging to a network makes finance cheaper and/or access to external credit easier. Likewise, a role for networks in favouring easier and cheaper access of firms to financial funds is widely recognized, through both the functioning of internal capital markets and a greater availability of bank credit. Also, it is necessary on the architecture of financial systems, the features of financial regulation and the degree of investor protection interact with a network's ability to relax its participants' financial constraints.

Ronald W. Masulis et al (2009) have analyzed whether family-controlled business groups (often structured as pyramids), are a means to facilitate better access to capital or to expropriate minority shareholders. Using a sample of 28,039 firms from 45 countries, it is found that family groups tend to consist of large, established and high-dividend-paying firms. Although group-affiliated firms on average have weaker performance indicators than their unaffiliated peers, it is noted that after controlling for endogeneity in group membership choice, group structure helps improve firm value (Tobin's Q). Within each group, firm performance rises down the pyramidal chain and increases with the direct shareholding of the group in a member firm. These results indicates that expropriation risk is outweighed by the funding, reputation and corporate control benefits provided by a family business group, similar to a venture capitalist in a developed market. At the country level, the prevalence of groups is more related to access to outside funding than the strength of the corporate governance environment. Overall, they have suggested that family business groups exist and grow because of their critical roles in supporting investment opportunities that might not otherwise be funded by external investors, especially in underdeveloped capital markets.

SUMMARY OF LITERATURE SURVEY

After scrutinizing various text books and a few research papers for this research project, the researcher has settled down on the use of following ratios, namely, Return On Equity, Strategic Growth Rate, Return On Investment (based on Total Assets), Current Ratio & Debt-equity ratio.

METHODOLOGY

The data comprises of FIFTEEN family business groups in India. The data has spread over for last ten years i.e. from 1998 to 2008. The parameters used for analysis are – Return on Equity (ROE), Strategic Growth Rate (SGR) and Return on Investment – Assets based (ROI). The data has been analyzed on the basis of these parameters for each of the companies in each of the business group as well as combined for the business group as a whole. Calculations are done for each year separately as well as combined for ten years.

STAGE I –

Business Group 1 – BAJAJ GROUP

Out of 38 companies in the group, 22 companies have positive ROE & SGR; 5 companies have zero ROE & SGR; and remaining 11 companies have negative ROE & SGR. This is based on the combined data of 10 years. When we analyse year-on-year the picture isn't different. The average of ROE for the whole group is 2.13, whereas the average of SGR for the whole group is 1.41 and the average of ROI for the whole group is mere 0.05. The profit margin is 8.77; however, if the Non-recurring Revenue & Taxes thereof are removed, then it is -82.75. The current ratio is 1.56 & the debt-equity ratio is 1.75. The return on net worth is 3.53 & the return on capital employed is 8.51, with the percentage of Bank borrowings to total borrowings is 7.75. The assets turnover ratio is 69.81. The SD of ROE & SGR is more and the SD of ROI is very less. This suggests that mean ROI is more constant and representative for all the companies. If the data

of all companies having zero or negative ROE, SGR & ROI have not been considered, the average of ROE for the whole group is 18.54, whereas the average of SGR for the whole group is 15.28 and the average of ROI for the whole group is 0.08.

Business Group 2 – BIRLA GROUP

Out of 198 companies in the group, 110 companies have positive ROE, SGR & ROI; 24 companies have zero ROE, SGR & ROI; and remaining 64 companies have negative ROE, SGR & ROI. This is based on the combined data of 10 years. When we analyse year-on-year the picture isn't different. The average of ROE for the whole group is 2.53, whereas the average of SGR for the whole group is 2.39 and the average of ROI for the whole group is -1.33. The profit margin is -0.10; however, if the Non-recurring Revenue & Taxes thereof are removed, then it is -6.81. The current ratio is 5.80 & the debt-equity ratio is 2.77. The return on net worth is 36.15 & the return on capital employed is 8.14, with the percentage of Bank borrowings to total borrowings is 4.02. The assets turnover ratio is 99.38.

The SD of ROE & SGR is very high and the SD of ROI is very low. This suggests that mean ROI is more constant and representative for all the companies. If the data of all companies having zero or negative ROE, SGR & ROI have not been considered, the average of ROE for the whole group is 5.42, whereas the average of SGR for the whole group is 5.19 and the average of ROI for the whole group is 5.53.

Business Group 3 – DCM SHRIRAM GROUP

Out of 61 companies in the group,22 companies have positive ROE, SGR & ROI; 12 companies have zero ROE, SGR & ROI; and remaining 27 companies have negative ROE, SGR & ROI. This is based on the combined data of 10 years. When we analyse year-on-year the picture isn't different. The average of ROE for the whole group is -0.84, whereas the average of SGR for the whole group is -0.89 and the average of ROI for the whole group is -16.06. The profit margin is -1.27; however, if the Non-recurring Revenue & Taxes thereof are removed, then it is -192.86. The current ratio is 4.41 & the debt-equity ratio is 2.03. The return on net worth is -25.48 & the return on capital employed is 21.00, with the percentage of Bank borrowings to total borrowings is 17.13. The assets turnover ratio is 107.01.

The SD of ROE & SGR is very low and the SD of ROI is very high. This suggests that mean ROE & SGR are more constant and representative for all the companies. If the data of all companies having zero or negative ROE, SGR & ROI have not been considered, the average of ROE for the whole group is 3.78, whereas the average of SGR for the whole group is 3.64 and the average of ROI for the whole group is 9.84.

Business Group 4 – ESSAR (RUIA) GROUP

Out of 39 companies in the group,14 companies have positive ROE, SGR & ROI; 8 companies have zero ROE, SGR & ROI; and remaining 17 companies have negative ROE, SGR & ROI. This is based on the combined data of 10 years. When we analyse year-on-year the picture isn't different. The average of ROE for the whole group is 0.61, whereas the average of SGR for the whole group is 0.61 and the average of ROI for the whole group is -0.42. The profit margin is –4.83; however, if the Non-recurring Revenue & Taxes thereof are removed, then it is -3867.75. The current ratio is 7.10 & the debt-equity ratio is 663.77. The return on net worth is -1.53 & the return on capital employed is 11.58, with the percentage of Bank borrowings to total borrowings is 1.19. The assets turnover ratio is 21.73.

The SD of ROE & SGR is high and the SD of ROI is low. This suggests that mean ROI is more constant and representative for all the companies.If the data of all companies having zero or negative ROE, SGR & ROI have not been considered, the average of ROE for the whole group is 6.27, whereas the average of SGR for the whole group is 6.27 and the average of ROI for the whole group is 3.61.

Business Group 5 – GOENKA (DUNCANS) GROUP

Out of 36 companies in the group, 7 companies have positive ROE, SGR & ROI; 5 companies have zero ROE, SGR & ROI; and remaining 24 companies have negative ROE, SGR & ROI. This is based on the combined data of 10 years. When we analyse year-on-year the picture isn't different. The average of ROE for the whole group is -0.25, whereas the average of SGR for the whole group is -0.27 and the average of ROI for the whole group is -5.70. The profit margin is –-13.05; however, if the Non-recurring Revenue & Taxes thereof are removed, then it is -839.29. The current ratio is 1.60 & the debt-equity ratio is 5.12. The return on net worth is -9.80 & the return on capital employed is -12.87, with the percentage of Bank borrowings to total borrowings is 5.15. The assets turnover ratio is 51.17.

The SD of ROE & SGR is low and the SD of ROI is high. This suggests that mean SGR & ROE are more constant and representative for all the companies.If the data of all companies having zero or negative ROE, SGR & ROI have not been considered, the average of ROE for the whole group is 0.40, whereas the average of SGR for the whole group is 0.36 and the average of ROI for the whole group is 4.63.

Business Group 6 – KIRLOSKAR GROUP

Out of 34 companies in the group, 16 companies have positive ROE, SGR & ROI; 4 companies have zero ROE, SGR & ROI; and remaining 14 companies have negative ROE, SGR & ROI. This is based on the combined data of 10 years. When we analyse year-on-year the picture isn't different. The average of ROE for the whole group is 0.85, whereas the average of SGR for the whole group is 0.62 and the average of ROI for the whole group is 2.35. The profit margin is –-4.44; however, if the Non-recurring Revenue & Taxes thereof are removed, then it is 12.15. The current ratio is 13.25 & the debt-equity ratio is 6.83. The return on net worth is -21.93 & the return on capital employed is 7.46, with the percentage of Bank borrowings to total borrowings is 0.71. The assets turnover ratio is 101.30.

The SD of ROE & SGR is low and the SD of ROI is high. This suggests that mean SGR & ROE are more constant and representative for all the companies. If the data of all companies having zero or negative ROE, SGR & ROI have not been considered, the average of ROE for the whole group is 2.78, whereas the average of SGR for the whole group is 2.30 and the average of ROI for the whole group is 15.12.

Business Group 7 – LARSON & TOUBRO GROUP

Out of 49 companies in the group, 25 companies have positive ROE, SGR & ROI; 20 companies have zero ROE, SGR & ROI; and remaining 5 companies have negative ROE, SGR & ROI. This is based on the combined data of 10 years. When we analyse year-on-year the picture isn't different. The average of ROE for the whole group is 1.91, whereas the average of SGR for the whole group is 1.77 and the average of ROI for the whole group is 3.63. The profit margin is –-6.29; however, if the Non-recurring Revenue & Taxes thereof are removed, then it is -134.90. The current ratio is 2.36 & the debt-equity ratio is 3.83. The return on net worth is 15.27 & the return on capital employed is 18.29, with the percentage of Bank borrowings to total borrowings is 6.20. The assets turnover ratio is 78.04.

The SD of ROE & SGR is relatively low and the SD of ROI is high. This suggests that mean SGR & ROE are more constant and representative for all the companies. If the data of all companies having zero or negative ROE, SGR & ROI have not been considered, the average of ROE for the whole group is 3.78, whereas the average of SGR for the whole group is 3.52 and the average of ROI for the whole group is 8.08.

Business Group 8 – MAFATLAL GROUP

Out of 49 companies in the group, 13 companies have positive ROE, SGR & ROI; 16 companies have zero ROE, SGR & ROI; and remaining 20 companies have negative ROE, SGR & ROI. This is based on the combined data of 10 years. When we analyse year-on-year the picture isn't different. The average of ROE for the whole group is -0.43, whereas the average of SGR for the whole group is -0.46 and the average of ROI for the whole group is -2.19. The profit margin is –--5.30; however, if the Non-recurring Revenue &

Taxes thereof are removed, then it is -168.58. The current ratio is 3.63 & the debt-equity ratio is 0.63. The return on net worth is 1.30 & the return on capital employed is -11.43, with the percentage of Bank borrowings to total borrowings is 1.57. The assets turnover ratio is 63.27.

The SD of ROE & SGR is low & negative and the SD of ROI is relatively high, but negative. This suggests that mean SGR & ROE are more constant and representative for all the companies. If the data of all companies having zero or negative ROE, SGR & ROI have not been considered, the average of ROE for the whole group is 1.44, whereas the average of SGR for the whole group is 1.32 and the average of ROI for the whole group is 10.48.

Business Group 9 – MAHINDRA & MAHINDRA GROUP

Out of 56 companies in the group, 32 companies have positive ROE, SGR & ROI; 7 companies have zero ROE, SGR & ROI; and remaining 17 companies have negative ROE, SGR & ROI. This is based on the combined data of 10 years. When we analyse year-on-year the picture isn't different. The average of ROE for the whole group is -0.22, whereas the average of SGR for the whole group is -0.41 and the average of ROI for the whole group is 3.52. The profit margin is 6.87; however, if the Non-recurring Revenue & Taxes thereof are removed, then it is 30.74. The current ratio is 2.16 & the debt-equity ratio is 3.15. The return on net worth is -0.32 & the return on capital employed is 165.06, with the percentage of Bank borrowings to total borrowings is 4.85. The assets turnover ratio is 87.03.

The SD of ROE & SGR is low & negative and the SD of ROI is high & positive. This suggests that mean SGR & ROE are more constant and representative for all the companies. If the data of all companies having zero or negative ROE, SGR & ROI have not been considered, the average of ROE for the whole group is 1.16, whereas the average of SGR for the whole group is 0.82 and the average of ROI for the whole group is 15.26.

Business Group 10 – JINDAL GROUP

Out of 20 companies in the group, 13 companies have positive ROE, SGR & ROI; 2 companies have zero ROE, SGR & ROI; and remaining 5 companies have negative ROE, SGR & ROI. This is based on the combined data of 10 years. When we analyse year-on-year the picture isn't different. The average of ROE for the whole group is 2.07, whereas the average of SGR for the whole group is 1.81 and the average of ROI for the whole group is 2.01. The profit margin is 7.27; however, if the Non-recurring Revenue & Taxes thereof are removed, then it is -291.86. The current ratio is 22.81 & the debt-equity ratio is 3.89. The return on net worth is -18.10 & the return on capital employed is 14.96, with the percentage of Bank borrowings to total borrowings is 0.35. The assets turnover ratio is 58.38.

The SD of ROE, SGR & ROI is almost matching. This suggests that mean ROE, SGR & ROI are more constant and representative for all the companies. If the data of all companies having zero or negative ROE, SGR & ROI have not been considered, the average of ROE for the whole group is 3.21, whereas the average of SGR for the whole group is 2.82 and the average of ROI for the whole group is 3.73.

Business Group 11 – RELIANCE GROUP

Out of 63 companies in the group, 33 companies have positive ROE, SGR & ROI; 13 companies have zero ROE, SGR & ROI; and remaining 17 companies have negative ROE, SGR & ROI. This is based on the combined data of 10 years. When we analyse year-on-year the picture isn't different. The average of ROE for the whole group is -7.66, whereas the average of SGR for the whole group is -7.83 and the average of ROI for the whole group is -0.05. The profit margin is 7.83; however, if the Non-recurring Revenue & Taxes thereof are removed, then it is 31.84. The current ratio is 2089.74 & the debt-equity ratio is 42.11. The return on net worth is -0.03 & the return on capital employed is 9.21, with the percentage of Bank borrowings to total borrowings is 46.92. The assets turnover ratio is 89.76.

The SD of ROE, SGR is higher than that of ROI; however, all the figures of mean are negative. This suggests that mean ROE, SGR & ROI are more constant and representative for all the companies. If the data of all companies having zero or negative ROE, SGR & ROI have not been considered, the average of ROE for the whole group is 3.04, whereas the average of SGR for the whole group is 2.71 and the average of ROI for the whole group is 6.16.

Business Group 12 – RPG GROUP

Out of 75 companies in the group, 23 companies have positive ROE, SGR & ROI; 9 companies have zero ROE, SGR & ROI; and remaining 43 companies have negative ROE, SGR & ROI. This is based on the combined data of 10 years. When we analyse year-on-year the picture isn't different. The average of ROE for the whole group is -0.43, whereas the average of SGR for the whole group is -0.60 and the average of ROI for the whole group is -5.74. The profit margin is -1.53; however, if the Non-recurring Revenue & Taxes thereof are removed, then it is -204.14. The current ratio is 4.42 & the debt-equity ratio is 5.81. The return on net worth is 8.86 & the return on capital employed is 10.51, with the percentage of Bank borrowings to total borrowings is 11.95. The assets turnover ratio is 55.84.

The SD of ROE, SGR is very high as compared to that of ROI. This suggests that mean ROE, SGR are more constant and representative for all the companies. If the data of all companies having zero or negative ROE, SGR & ROI have not been considered, the average of ROE for the whole group is 0.79, whereas the average of SGR for the whole group is 0.26 and the average of ROI for the whole group is 4.60.

Business Group 13 – TATA GROUP

Out of 164 companies in the group, 103 companies have positive ROE, SGR & ROI; 21 companies have zero ROE, SGR & ROI; and remaining 40 companies have negative ROE, SGR & ROI. This is based on the combined data of 10 years. When we analyse year-on-year the picture isn't different. The average of ROE for the whole group is 94.28, whereas the average of SGR for the whole group is 56.31 and the average of ROI for the whole group is -1.61. The profit margin is 9.53; however, if the Non-recurring Revenue & Taxes thereof are removed, then it is -83.96. The current ratio is 2.61 & the debt-equity ratio is 5.47. The return on net worth is 8.70 & the return on capital employed is 19.59, with the percentage of Bank borrowings to total borrowings is 5.45. The assets turnover ratio is 72.14.

The SD of ROE, SGR is much higher & positive than that of ROI, which is negative. This suggests that mean ROI is more constant and representative for all the companies. If the data of all companies having zero or negative ROE, SGR & ROI have not been considered, the average of ROE for the whole group is 201.79, whereas the average of SGR for the whole group is 141.92 and the average of ROI for the whole group is 8.35.

Business Group 14 – TVS IYENGAR GROUP

Out of 66 companies in the group, 47 companies have positive ROE, SGR & ROI; 5 companies have zero ROE, SGR & ROI; and remaining 14 companies have negative ROE, SGR & ROI. This is based on the combined data of 10 years. When we analyse year-on-year the picture isn't different. The average of ROE for the whole group is 0.99, whereas the average of SGR for the whole group is 0.50 and the average of ROI for the whole group is 3.33. The profit margin is 4.84; however, if the Non-recurring Revenue & Taxes thereof are removed, then it is 1.53. The current ratio is -0.33 & the debt-equity ratio is 2.05. The return on net worth is 11.37 & the return on capital employed is 24.42, with the percentage of Bank borrowings to total borrowings is 0.69. The assets turnover ratio is 104.67.

The SD of ROE, SGR is lower than that of ROI. This suggests that mean ROE & SGR are more constant and representative for all the companies. If the data of all companies having zero or negative ROE, SGR & ROI have not been considered, the average of ROE for the whole group is 1.75, whereas the average of SGR for the whole group is 1.07 and the average of ROI for the whole group is 10.27.

Business Group 15 – WADIA (BOMBAY DYEING) GROUP

Out of 25 companies in the group, 15 companies have positive ROE, SGR & ROI; 5 companies have zero ROE, SGR & ROI; and remaining 5 companies have negative ROE, SGR & ROI. This is based on the combined data of 10 years. When we analyse year-on-year the picture isn't different. The average of ROE for the whole group is 1.00, whereas the average of SGR for the whole group is 0.76 and the average of ROI for the whole group is 2.17. The profit margin is 4.87; however, if the Non-recurring Revenue & Taxes thereof are removed, then it is -154.88. The current ratio is 5.22 & the debt-equity ratio is 4.66. The return on net worth is -2.47 & the return on capital employed is 10.22, with the percentage of Bank borrowings to total borrowings is 1.36. The assets turnover ratio is 120.06.

The SD of ROE, SGR is lower than that of ROI. This suggests that mean ROE & SGR are more constant and representative for all the companies. If the data of all companies having zero or negative ROE, SGR & ROI have not been considered, the average of ROE for the whole group is 1.78, whereas the average of SGR for the whole group is 1.38 and the average of ROI for the whole group is 4.55.

CONCLUSION:

1. Overall, it means that though the assets are used satisfactorily, the profit margin from assets is a negative figure.
2. On the other hand, it also means that the group had sources for Non-recurring, Non-business Income.
3. The current ratio & debt-equity ratio is higher and also the percentage of bank borrowings suggests that there are huge borrowings from sister concerns.
4. The gap between Return on Net Worth and Return on Capital Employed is widened and this also leads us to positively conclude on the motive of using business funds for non-business purposes.
5. ROE & SGR of all the companies are perfectly positively correlated; whereas, ROE & ROI, SGR & ROI have lower positive correlation.
6. The profits not distributed to the shareholders (in theory, it is termed as 'retained profits') by these companies are not practically retained in those companies but have been shifted to other companies which are having negative figures.

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