

C H A P T E R - VIB. TATA CHEMICALS LIMITED6.1. A short outline of the firm taken as a Case-Study:¹

The Tata Chemicals Limited was incorporated on 23rd January, 1939 at Bombay as a large-sized Public Limited widely-held Company with an authorised capital of Rs. 500,00,000 in 5% 2,50,000 preference shares of Rs. 100 each and 25,00,000 equity shares of Rs.10 each. The main activities and objectives of the company as per its Memorandum of Association is to manufacture and sale of salt, by-products of salt, alkalies, heavy chemicals and insecticides and flux technical and battery grades. The products usually manufactured by the company are : (1) Marine : gypsum, common salt, vacuum salt, pure salt, bromine, epsom salt, potassium chloride and magnesium chloride. (2) Heavy chemicals and Alkalies : Soda ash, caustic soda, sodium bicarbonate, liquid chlorine, hydrochloric acid, hydrochloric, zinc chloride, ferric chloride and bleaching powder. (3) Pharmaceuticals: Bromides of ammonium, sodium, potassium and ethyl (4) Agro-chemicals: Benzene hexachloride, ethylene dibromide, copper oxychloride and copper sulphate. The Company's manufacturing centre is at Withapur, Gujrat state in India.

In June 1957, the Company isⁿ association with Fison Pest Control, Ltd., U. K., floated a new company under the 1. The stock Exchange official Directory, Bombay, V. 14.

name of Tata - Fison Pvt. Ltd., for the preparation and sale of large range of insecticidal, pesticidal and fungicidal products. The name of the Company subsequently changed to Tata Fison Industries, Ltd., As at 30th June, 1973 the company had an investment of the paid-up value of Rs. 26.35 lakhs in the equity capital of Tata Fison Industries, Ltd., Tata Fison merged with Mallis India Ltd., on 1st September, 1972.

Hoshan Investments, Ltd., with an equity share capital of Rs. 24.64 lakhs became a wholly owned subsidiary of the company during 1977-78. The name of the subsidiary changed to Varma Investments, Ltd. on 3rd November, 1978.

The accounting year of the company ended on 30th June and its first annual report together with the audited annual accounts was published in 1980-81 and the forty-second in 1980-81.

Now it would be our endeavour to analyse the overall operations of the company for the last five years, from 1976-77 to 1980-81 with the help of 38th to 42nd annual reports of the Company as major source and to test the hypothesis already made relating to the probable impact of corporate tax on its own behaviour, vis-a-vis fixed assets formation, investment pattern, employment quantum, liquidity, debt-equity and profitability positions.

6.2. Highlights:

Table VI.1 has been prepared from a number of annual reports of the company and their analysis will show the overall performances of the company under study for the period from 1976-77 to 1980-81. Figures VI.1.1 to VI.1.6. will also show some of the important performances of the company for the period concerned.

The Table indicates that no further issue of capital was made since the financial year 1976-77 and the amount of paid-up capital (Prof. Rs. 6 millions & Equity Rs. 93.4 millions) remained the same as Rs. 99.4 millions in 1980-81. The amount of paid-up capital in the year of incorporation in 1939-40 was Rs. 66,50,750 divided into 5,7,375 Preference shares @ Rs. 100 fully paid-up, 52,250 Preference shares of Rs. 100 each, paid up at Rs. 25 and 950 equity shares @ Rs. 10 fully paid-up and 6,13,000 equity shares of Rs. 10 each, paid up at Rs. 7½. Reserves and Surplus raised more than two fold, from Rs. 119.7 millions in 1976-77 to Rs. 268.1 millions in 1980-81. But borrowings & deferred credits rose by only Rs. 124.7 millions during the five years, from Rs. 227.5 millions in 1976-77 to Rs. 352.2 millions in 1980-81. So for greater capital needs the company depended mainly upon ploughing back of profits, though the borrowings had also played a vital role in meeting greater capital needs. Current assets and current liabilities increased more or

Table VI.1

TATA CHEMICALS LIMITED
(FINANCIAL REFLECTORS)

(Rs. in millions)

Particulars	1976 - 77	1977 - 78	1978 - 79	1979 - 80	1980 - 81
Paid-up Capital (Prof. + Equity)	99.4	99.4	99.4	99.4	99.4
(Equity Capital)	(93.4)	(93.4)	(93.4)	(93.4)	(93.4)
Reserves & Surplus	119.7	144.1	166.5	203.6	268.1
Borrowings & Deferred Credits (Secured - (a) Debentures, (b) Convertible bonds (c) Loans, Unsecured - (a) deposits & Loans (b) deferred payment credits).	227.5	214.1	240.3	234.8	352.2
Current Assets, Loans and advances.	169.8	143.5	181.2	252.9	333.4
Current Liabilities and Provisions.	79.9	67.6	93.5	123.9	161.8
Gross Block (including Capital W.I.P.)	547.2	605.6	669.7	748.1	887.7
Fixed Assets (excluding W.I.P.)	461.7	557.7	612.0	669.7	782.9
Net Fixed Assets (including W.I.P.)	354.6	379.7	405.9	443.2	533.3

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Table - VI.I(Contd.)

Capital employed in the business (All assets- C. Liabilities).	446.6	457.6	506.2	587.8	719.7
Sales	364.3	412.5	394.2	557.5	744.9
Depreciation during the year	32.8	33.4	40.1	51.3	64.9
Interest paid	20.4	21.2	20.2	26.3	39.1
Provision for taxes	30.0	--	14.1	36.4	37.0
Profits before tax	65.7	40.7	52.9	92.6	122.9
Profits after tax	35.7	40.7	38.3	56.2	85.9
Cost of Sales (Sales (+)/(-) Profit before tax).	298.6	371.8	341.3	464.9	622.0
Inventory	63.3	26.5	41.5	70.2	119.9
Materials consumed	84.2	92.0	97.0	131.6	199.3
Net worth (Share Capital + Reserves)	219.1	243.5	265.9	303.0	367.5
Working Capital (Current Assets - Current Liabilities)	89.9	75.9	87.7	129.0	171.6
Gross Profit (Revenue)	371.4	434.8	418.2	586.0	788.9
Debtors	64.4	35.9	30.9	49.4	58.7
Dividends	16.3	16.3	16.3	19.1	21.4

Source : Annual Reports.

TATA CHEMICALS LIMITED

SOME HIGHLIGHTS

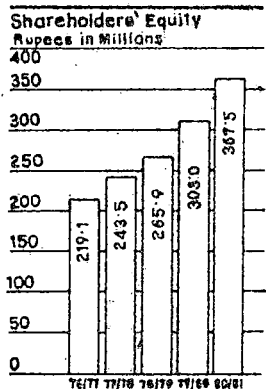
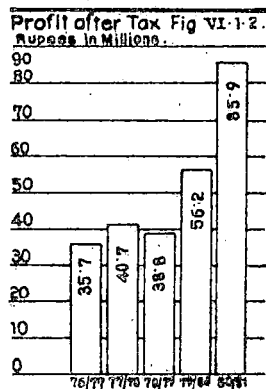
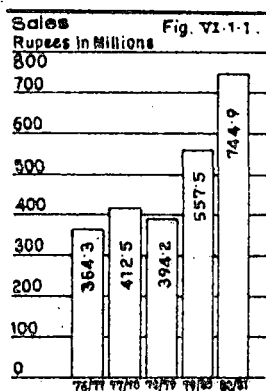


Fig. VI-1-3

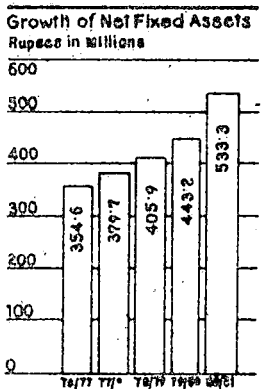
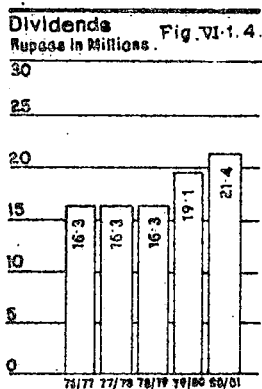


Fig. VI-1-5

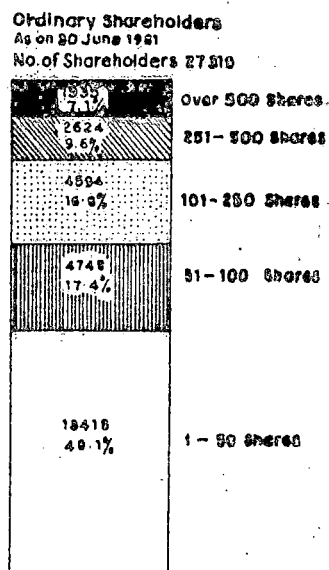


Fig. VI-1-6

less in the same proportion but the increase in current assets was mostly contributed by substantial increase in inventory. Investments in gross fixed assets including capital work-in-progress rose by Rs. 340.5 millions from 1976-77 to 1980-81, but the greater investment was contributed mainly by greater outlay in plant and machinery. Capital employed in the business had also increased from Rs. 446.6 millions in 1976-77 to Rs. 719.7 millions in 1980-81. The growth of sales remained unabated which rose more than two times during the period from 1976-77 to 1980-81. The actual sales in 1976-77 was of Rs. 364.3 millions and in 1980-81, such amount came to Rs. 744.9 millions. It would be difficult, if not impossible to ascertain what portion of such an increase was due to inflation or of capacity utilisation separately. Considering the profit positions during the years, it could be said that the volume of sales increased substantially as the growth rate in cost of sales is higher than the growth rate in actual sales. Though the Cost of materials consumed increased to a certain extent, but the share of materials consumed over cost of sales showed a declining tendency over the period. So, it could be said that increase in administration/selling and distribution costs might contribute greater share for the increase in cost of sales of the Company for the period under review. In spite of greater amount of profits before tax, provision for taxes did not show a sensible relationship with the profit. That might be due to greater utilisation of tax benefits resulting lower effective tax burden. Net worth of the

Table-VI.2

TATA CHEMICALS LIMITED

(DISTRIBUTION OF REVENUE)

(%)

Particulars	1976 -77	1977 - 78	1978 - 79	1979 - 80	1980 - 81
Raw materials & operating expenses.	43.6	51.6	44.7	44.9	43.0
Depreciation and maintenance	13.2	12.1	15.0	14.0	13.2
Taxes and Excise Duty	17.5	10.4	13.1	15.6	17.9
Salaries, Wages and other payments to employees.	3.1	9.2	9.3	7.9	7.3
Retained profits.	5.2	5.6	5.3	6.3	8.2
Administration and selling expenses	4.0	3.9	4.5	3.8	4.1
Dividends	4.4	3.7	3.9	3.3	2.7
Interest	4.0	3.5	3.7	4.2	3.6
	100.0	100.0	100.0	100.0	100.0

Source : Annual Reports.

Company increased from Rs. 219.1 millions in 1976-77 to Rs. 367.5 millions in 1980-81.

Dividends paid by the company remained the same for all the three years as Rs. 16.3 millions from 1976-77 to 1978-79 but the amount increased to a certain extent in 1979-80 to Rs. 19.1 millions and again in 1980-81 to Rs. 21.4 millions. Thus, the company probably reflects its better profitability positions in the last two years in comparison with the preceeding three years. The profits before tax increased during the same period leading to greater amount of Reserves & Surplus also. Of course capital employed in the business showed a phenomenal growth during the last two years. On analysis one might find that the major portions of the increase in capital employed in the business had been contributed by the company's borrowings and reserves & surplus.

Distribution of Revenue for the five-years' period has been shown in the form of percentages in Table VI.2.

6.3. Growth of Investment and Tax Provisions:

Table VI.3 has been prepared showing the absolute growth of investment in Gross Fixed Assets as well as in Plant and Machinery. Their rates of growth over the immediate previous years are also shown in the Table. Incidence of taxes shown in

the form of tax provision as a percentage of profits before tax is also exhibited in different years. Annual Reports of the company have been taken recourse for the preparation of the said Table.

The Annual Reports in general and the Table in particular will be analysed by us for the purpose of showing the impact of different tax benefits availed of by the company on its growth of investment. Our hypothesis being taken as the growth of investment has got no coherent relationship with different tax benefits.

From the Table it could be noted that the rate of growth ^{of} investment in gross fixed assets varied from year to year but such variations were not substantial except in the year 1980-81. The rates were 10.67 percent in 1977-78, 10.58 percent in 1978-79, 11.71 percent in 1979-80 and 13.66 percent in 1980-81 corresponding to the previous years under consideration. In absolute terms, growth in fixed assets amounted to Rs. 5.34 crores in 1977-78, Rs. 6.41 crores in 1978-79, Rs. 7.84 crores in 1979-80 and Rs. 13.96 crores in 1980-81. The rate of growth in Plant & Machinery, a component of total fixed assets having specific tax advantage like investment allowance, development rebate and the like on its utilisation lags behind the overall growth of fixed assets

Table - VI.3

TATA CHEMICALS LIMITED

(INVESTMENT GROWTH RATES AND TAXATION)

Particulars	1976 - 77	1977 -78	1978 - 79	1979 - 80	1980 - 81
Absolute Growth of Gross Fixed Assets (Rs. Crores)	5.84	6.41	7.84	13.96	
Absolute Growth of Plant & Mech. (Rs. Crores)	3.72	3.73	3.82	3.27	
Rate of Growth of Gross Fixed Assets (%)	10.67	10.53	11.71	13.66	
Rate of Growth of Plant & Machinery (%)	23.41	9.46	8.84	17.61	
Tax provision as a percen- tage of profits before tax	45.06	(-)	26.65	39.30	30.16

(-) No provision

Source: Annual Reports.

except in the year 1977-78. In the years from 1977-78 to 1980-81, out of total growth in fixed assets, plant and machinery contributed Rs. 8.72 crores in 1977-78, Rs. 3.73 crores in 1978-79, Rs. 3.82 crores in 1979-80 and Rs. 8.72 crores in 1980-81, representing 149, 53, 48 and 59 per cent respectively. Incidence of tax was 45.66 in 1976-77, 26.65 in 1978-79, 39.30 in 1979-80, 30.16 in 1980-81 and no provision was required to be made in 1977-78. By effective use of various fiscal measures including different tax benefits, the company managed to lower the tax burden in different years. In spite of profits in the year 1977-78 over Rs. 4 crores, due to greater provisions made in comparison with different fiscal benefits obtained in 1976-77, the company did not think it necessary to provide for tax liability further in the said year, 1977-78. It is mentioned in the Directors' Annual Report in 1977-78. 'It is fortunate that as a result of the large investment and depreciation allowances earned on new plant and machinery worth Rs. 961 lacs commissioned during the year, no provision for taxation was required to be made

.....' p. 7.

For specific verification of our hypothesis, another Table is required to be prepared showing the sources and utilisation of funds for the growth of investment in assets. Normally investment in fixed assets is financed by internally generated funds and long term borrowings, while current assets

financing, specially of inventory financing, is done through short-term sources including borrowings from financial institutions and trade creditors. But the companies may divert one way or the other depending upon the prevailing conditions in the money and capital markets and the policy measures pursued by the companies from time to time. That is why, we had to analyse the sources and utilisation of funds for the growth of total assets, both fixed and current, in the first instance and then we shall try to show the role of internally generated fund, specially the components attached with different tax benefits, like, depreciation, development rebate, investment allowance, for the investment-growth in fixed assets.

Table VI.4 has been prepared from the ^{able}availed data in the Annual Reports of the Company showing the sources and utilisation of funds for each of the years, from 1976-77 to 1980-81. On analysis of the Table, it can be noted that internal sources of funds had played a major role in financing gross assets, though its importance gradually diminished over the years except in the year 1977-78. In the year 1977-78, internal sources represented 132.42 percent of the funds required to finance the gross fixed assets in the year and such source was diverted to pay off the loans and borrowings to the extent of Rs. 13.38 millions. The share of internal sources were 69.65 per cent in 1978-79, 63.75 per cent in 1979-80 and 62.86 per cent in 1980-81, whereas, that of external

Table - VI.4

TATA CHEMICALS LIMITED

(FINANCING OF GROSS ASSETS - INCREASE)

(Rs. in million)

Particulars	1977-78 (%)	1978 -79 (%)	1979 - 80 (%)	1980 - 81 (%)
<u>INCREASE IN GROSS ASSETS</u>				
(Gross Block + W.I.P. + net current Assets + Misc. Exp. + Investments.)	44.36	86.50	122.60	181.46
	100	100	100	100
<u>INTERNAL SOURCES OF FUNDS</u>				
(Reserves & Surplus + Depreciation)	57.74	60.26	73.16	114.07
	132.42	69.65	63.75	62.86
<u>EXTERNAL SOURCES OF FUNDS</u>				
(Loans:- Secured & unsecured, deferred cre- dits).	(-) 13.38	26.24	44.44	67.39
	(-) 32.42	30.35	36.25	37.14
	44.36	36.50	122.60	181.46
	100.00	100.0	100.00	100.00

(-) represents repayment.

Source: Annual Reports.

sources, the share came to be 30.35 per cent, 36.25 per cent and 37.14 per cent for the respective years. Inventory formation in total investment gradually increased over the years and such rate of increase was more than the rate of increase in gross assets, both fixed and current taken together (vide Table VI.1). As internal source is generally utilised for investment in fixed assets, for extension and improvement of the business, the decreasing share of internal source in total capital formation does not mean its diminishing importance, rather it can be said that for fixed capital formation the share of internal source is gradually increasing over the years. Out of total internal source, depreciation, development rebate reserve and investment allowance reserve constituted major source of funds in all the years under study, showing greater share in the growth of investment over the years. As the provision for development rebate on fixed assets formation had been withdrawn on the expiry of statutory period for all practical purposes, in Income Tax Act, so there is little or no scope for further provision of the development rebate. That is why it can be noted from the Annual Reports of the Company that the existing development rebate reserve balance is being utilised for purchasing new plant and machinery over the years as per provisions of Income-tax Act. But it could be seen that the amount of investment allowance reserve is gradually being inflated by charging substantial amount in each of the years in Profit & Loss Accounts. As the items, mentioned above, constituting major elements of internal source of financing, are specifically pro-

vided by Income-tax Act as investment oriented incentives, we can say that such tax incentives had played greater role in the growth of investment of this Tata Chemicals Limited.

6.4. Fixed Assets Formation and Tax Provisions:

For the purpose of analysis we have prepared Table VI.5 and from the Table it could be noted that gross fixed assets increased from Rs. 55 crores in 1976-77 to Rs. 89 crores approx. In 1980-81, indicating an increase of about Rs. 34 crores over the five years. Substantial portion of such an increase in investment on fixed assets had been accounted for by an increase of investment in plant and machiner^yies. Net fixed assets after charging depreciation also increased from Rs. 35 crores to over Rs. 53 crores which might indicate the greater provision for depreciation on fixed assets during the period of our study, from 1976-77 to 1980-81. Profits before tax of the Company fluctuated from year to year. The amount in 1976-77 was roughly Rs. 7 crores which came to about Rs. 13 crores in 1980-81. The profits dropped to Rs. 4 crores in 1977-78 but the company regained its position in the next few years and earned a lot in the final year of our study. Provisions for tax liability were made by the Company in all the years except in 1977-78 and the amount of provisions also differed in different years. Considering the prevailing rates of income tax on companies, the provisions for taxes on profits should had been much higher than

Table - VI.5

TATA CHEMICALS LIMITED

(FIXED ASSETS FORMATION AND DEPRECIATION) (Rs. in million)

Particulars	1976 - 77	1977 - 78	1978 - 79	1979 - 80	1980 - 81
Gross Fixed Assets (incl. W.I.P.)	547.2	605.6	669.7	748.1	887.7
Plant & Machinery	306.9	394.1	431.4	469.4	552.3
Net Fixed Assets (incl. W.I.P.)	354.6	379.7	405.9	443.2	533.3
Profits before Tax	65.7	40.7	52.9	92.6	122.9
Provision for Taxes	30.0	--	14.1	36.4	37.0
Profits after Tax	35.7	40.7	38.8	56.2	85.9

Source : Annual Reports.

what had been provided for. That might indicate that the Company had taken the benefits of different types of rebates and reliefs during the period which resulted lesser incidence of tax. Inspite of profits earned by the Company, the Company did not think it necessary to provide any amount for taxes in the year 1977-78. It may not be unlike to presume that the company obtained different tax benefits in the previous years which amounted more than the burden itself. Therefore, inspite of higher earnings in the years 1979-80, and 1980-81, comparatively lesser amounts were provided for tax purposes. Profits after tax came to more than Rs. 8½ crores in 1980-81 from around Rs. 3½ crores in 1976-77.

So, from the analysis it might be concluded that different types of tax benefits helped the Company for its greater capital formation and resulted lesser incidence of tax liability.

6.5. Liquidity, Profitability and Tax Liability:

A Table VI.6 has been prepared for showing the liquidity, debt-equity and profitability position of Tata Chemicals Limited. Here liquidity is measured by the conventional accounting ratios like (i) current assets to current liabilities, known as current ratio; (ii) quick assets to current liabilities, known as quick or acid test ratio; and (iii) inventories as percentage of sales/cost of sales, known as inventory turnover ratio. For the purpose of our study, the items included in current assets are

Table - VI.6

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(Ratios of Liquidity, Debt - Equity and Profitability)

Year	Tax Provi- sion as per- centage of pro- fits be- fore tax.	Current Assets to Cu- rrent Liabi- lities (Current ratio)	Quick ^{*1} Assets to Cu- rrent Liabi- lities (acid- test ratio)	Debt as per- centage of Equity ^{*2} (Debt-Eq- uity ratio)	Pro- fits retai- ned as percent- age of profits after tax.	Pro- fits after tax as percent- age of Equity paid-up Capital	Ordinary di- vidend as percent- age of Eq. paid-up capital.	Inventory as percent- age of sales.	Inventory as percent- age of cost sales.
1	2	3	4	5	6	7	8	9	10
1976-77	45.66	2.12	1.34	103.8	54.4	33.2	17.0	17.37	21.50
1977-78	*	2.11	1.73	37.3	50.0	40.5	17.0	6.42	7.13
1978-79	26.65	1.94	1.43	90.4	50.0	41.5	17.0	10.42	12.16
1979-80	39.30	2.04	1.27	94.0	66.0	60.2	20.0	12.53	15.10
1980-81	30.16	2.03	1.32	95.3	75.0	92.0	22.5	15.00	19.27

* Numerator nil

*1 Current Assets - Inventory

*2 Paid-up Capital + Reserves & Surplus.

Source : Annual Reports.

(i) stores and spare parts; (ii) returnable containers; (iii) loose plant, tools and equipment; (iv) inventories; (v) sundry debtors; (vi) cash and bank balances and (vii) loans and advances including deposit with Industrial Development Bank of India under the Companies Deposits (Surcharge on Income-tax) Scheme, 1976. Current Liabilities include (i) acceptances; (ii) sundry creditors; (iii) dividend warrants; (iv) sundry deposits; (v) interest accrued on loans; and different provisions like provision for taxation, provision for dividends. To find out the value of quick assets, the value of inventories has been deducted from the total current assets. To find out the overall solvency of the company through debt-equity ratio, the debt includes long term loans, both secured and unsecured, including fixed deposits from the public, employees and loans from shareholders; and deferred payment credits. Equity base for the purpose is taken as the aggregate value of paid-up capital plus reserves & surplus. Profitability is measured by the ratios like (i) profits retained as percentage of profits after tax; (ii) profits after tax as percentage of equity paid-up capital; and (iii) ordinary dividend as percentage of equity paid-up capital. Tax provision as percentage of profits before tax will reflect the tax burden on the Company over the years.

The ratios are computed from the data available through the Company's audited financial accounts in the Annual Reports. The period covered is five years, from 1976-77 to 1980-81. The hypothesis being taken as the corporate tax incidence has

got no impact on corporate profitability, debt-equity and liquidity position, we shall try to test such hypothesis in the case of this Tata Chemicals Limited, taking in mind the limitations of published financial statements which do not reflect the details of tax benefits obtained by the firm.

Analysing the Table, it could be noted that current ratios for all the years under study are more or less ^{near} ~~neering~~ to the standard ratio of 2:1, showing the double coverage against current liabilities. Such liquidity position possibly reflects "sound" working capital management of the Company. But acid-test ratio, which often shows 'true liquidity' of any company, is far from satisfactory in the sense that in all the years under consideration it seems to be more than the so called norm of 1:1. Lower percentage of inventory on sales or cost of sales represents lesser capital blocked up in such asset. Higher acid-test ratios indicate unnecessary blockage of cash or near cash items without proper utilisation in productive purposes. So, inspite of ideal current asset-position in the perspective of current liabilities, reflecting in current ratios, it can be conjectured that the Company is suffering from over-liquidity, specially, as regards cash or near-cash items. Tax liability, shown as percentage of profits before tax, appears as 45.66 per cent in 1976-77, 26.65 per cent in 1978-79, 39.30 per

cent in 1979-80 and 30.16 per cent in 1980-81. In spite of profits earned in the year 1977-78 by the amount of over Rs. 4 crores, the Company did not find it necessary to provide for tax liability in the said year. Higher provision for tax liability is expected to focus lower liquidity. From the Table VI.6, it can be noted that in the year 1976-77, when the rate of tax provision was 45.66 per cent, the acid test ratio became 1.34 and the next year the ratio appeared to be highest as 1.73 and in the same year, there was no provision for tax liability. Thus, an inverse relationship may be established between these two parameters, tax liability and liquidity, at least for the first two years under study. The same fact is also noted in the years 1978-79 and 1980-81, where higher tax liability leads to lower liquidity. In the year 1980-81, tax provision was 30.16 per cent and liquidity was 1.32 but such ratios were 26.65 per cent and 1.49 in the year 1978-79. But it might be observed that though a large provision was made in the year 1979-80 in comparison with the immediate previous year, liquidity position, reflecting in acid-test ratio, in the year 1979-80, did not show a mark decline but a marginal change. One of the probable explanations might be that the company, with effect from 1st October, 1979, had been accepting fixed deposits from the public and loans from shareholders with higher rates of interest which was discontinued for more than a year with effect from 12th June, 1978. That higher deposits might lead to a greater liquidity, had there been no higher tax liability provision. So, that year was not an exception

but also had the same nature which reflected higher tax provisions having lower liquidity. Thus, an inverse relationship between tax liability and liquidity might be established in the case of this Tata Chemicals Limited Company.

Analysing the capital structure of the Company, it can be noted that the Company is not dependent on its 'debts' for its development, though its importance can not be denied. In the years 1976-77 to 1980-81, the debt-equity ratios in the form of percentage appear to be 103.8, 87.9, 90.4, 94.8 respectively, though conventional standard is taken as twice the debts against equity representing 200 per cent of debt equity. Such ratio shows a rising tendency since the year 1977-78. As debt raising is comparatively cheaper than issuing of equity, interest being allowed as deductible expenses for income-tax purposes but not the dividend, debt might be preferred to equity in overall capital needs of the Company. That might cause higher proportion of debts to equity though the ratios for all the years seemed to be far below ~~than~~ the conventional standard of 2:1. But from the Table we do not find any conclusive and distinct relationship in the triangle of tax liability, liquidity and debt equity, though it appears from the Table that higher tax liability leads to lower liquidity and higher debt equity. Thus, we can say that higher tax liability may have probable impact on debt-equity by enhancing the same to the upwards.

Again higher tax liability generally leads to lower profitability which might be reflected by the ratios relating to retention of profits and earning power on equity. By analysing the Table it can be noted that no such relationship is accurately established in the case of this Tata Chemicals Limited. When there was a tax liability of 45.66 per cent in 1976-77, percentage of retention was 54.4, whereas in the year 1978-79, when the tax liability was only 26.65 per cent, the retention rose to 58.0 per cent. But such retention were substantially raised in the years 1979-80 and 1980-81, even when there were higher tax liabilities. The rates of dividend to equity shareholders also raised substantially in those years. So we do not find any clear relationship between the tax liability and profitability, as it is known that profitability of any enterprise is dependent on a host of factors and tax is nothing but one of such factors.

6.6. SUMMARY:

The observations made in the analysis of our study regarding Tata Chemicals Limited might be stated briefly as follows:

1. The rate of growth in investment in gross fixed assets varied from year to year but such variations were not substantial except in the year 1980-81 (6.3)

2. Growth rates of plant and machinery were less than the overall growth rates of fixed assets, except in the year 1977-78

when new plant and machinery worth Rs. 961 lakhs was commissioned (6.3).

3. Capital consumption allowances, like depreciation, investment allowance, accrued development rebate constituted major source of funds for greater investment in fixed assets over the years (6.4).

4. Different types of tax benefits helped the company for its greater capital formation and lesser incidence of tax (6.4).

5. Inspite of higher earnings in the years 1979-80 and 1980-81, comparatively lesser amounts were provided for tax purposes, presumably by availing different types of tax benefits in the year (6.4).

6. It was noted that the current ratios for all the years under study were nearing the conventional standard of 2:1, reflecting "sound" working capital management of the company (6.5).

7. Acid-test ratios, reflecting 'true' liquidity of the company, seemed to be more than the so called norm of 1:1 for all the years. That indicated unnecessary blockage of cash or near cash items without proper utilisation in productive purposes (6.5).

8. Tax liability, shown as percentage of profits before tax, was 45.66 per cent in 1976-77, 26.65 per cent in 1978-79, 39.30 per cent in 1979-80 and 30.16 per cent in 1980-81. On ana-

lysis it was found that higher tax liability was accompanied by lower liquidity and vice-versa (6.5).

9. Analysing the capital structure of the company we did not find any conclusive and distinct relationship between tax liability and debt-equity. Higher tax liability was accompanied by higher debt-equity in some of the years but not in all the years under study (6.5).

10. Higher tax liability generally leads to lower profitability. But in the case of this Tata Chemicals Limited, no such impact was noticed in any of the years. When there was a tax liability of 45.66 per cent in 1976-77, percentage of 'retention' was 54.4, whereas in the year 1978-79, when there was tax liability of 26.65 per cent only, the 'retention' showed a slight increase to 58.0 per cent. But such 'retention' were substantially raised in the years 1979-80 and 1980-81, even when there were higher tax liabilities. Rate of dividend to equity shareholders also showed an increasing trend in those years. Therefore, it might be said that 'profitability' was independent of tax liability in the case of this chemical company in the private sector (6.5).