

FINANCIAL PERFORMANCE OF HIMACHAL ROAD TRANSPORT CORPORATION (HRTC) IN HIMACHAL PRADESH

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Abstract

The present paper has made an attempt to analyze the financial performance of Himachal Pradesh Road Transport in Himachal Pradesh. Road transport forms the life-line of the economy in the hilly terrains, like that of Himachal Pradesh. Himachal Road Transport Corporation came into existence on 2nd October 1974 by uniting Mandi-Kullu Transport Corporation and Himachal Government Transport. It is only the way to provide the passenger transport facilities. Himachal Pradesh is a hilly state so there is no other means of passenger transportation. Since its inception, the activities of the Himachal Road Transport Corporation have increased manifold. The corporation is only organization providing passenger transport services barring a few routes, in the states. Himachal Pradesh is a land or plains and sky scraping mountains. Himachal Road Transport Corporation runs its routes from plains to high altitude which is more than 4725 meters. The hindrances in the operation of Himachal Road Transport Corporation, the roads are too hairpin handed and steep sloping, especially the oldest.

Key words: Analysis, financial, performance, HRTC, Himachal Pradesh

Introduction

Road Transport plays a vital role in the process of economic development of any state. In hilly state it is considered to be the life line of people. In Himachal Pradesh where the other transportation means are negligible, the road transport acquires added significance, which has changed the life of people of the state since its inception. Himachal Pradesh happens to be a small state the state government has established only a few public sector units. So far the public sector undertaking in Himachal Pradesh are involved in variegated industrial activities ranging from services and goods sector like tourism, handicrafts, housing etc., to infrastructural sector like power and transport. This wide range of industrial activities also necessitates the wide range of experts and skilled personnel to operate the same. The Himachal Pradesh government seems to have realized the critical importance of transport in socio-economic life of the state for the very beginning. Thus in 1949 Himachal Government Transport (H.G.T.) a government commercial department

was created to provide transport services in the state. The Mandi-Kullu Road Transport Corporation (M.K.R.T.C.) was established in 1959 with Punjab and Himachal each contributing 40% share capital and rest of capital contributed by the central government. As the hilly areas of Punjab were merged with Himachal Pradesh in 1966, the transport facilities were further expanded to cover these areas. The government has consistently try to control the operate services in most of the roots with few exceptions. In fact, the routes in Kangra, Mandi and Kullu districts still remain in private hands. To answer the growing transport needs, Himachal Road Transport Corporation (H.R.T.C.) was constituted in Oct, 1974 under the Road Transport Corporation Act, 1950, by amalgamation of Himachal government transport and Mandi - Kullu Road Transport Corporation. The basic objective of the H.R.T.C. provide quick, efficient, adequate and well-knit coordinate transport facilities to people throughout the state and on the joint routes in the neighboring state and union territories. At present, nearly 82% of the passenger transport is nationalized in Himachal Pradesh and covered by the H.R.T.C. buses, while the goods transport is in the hands of private operators.

After the nationalization of bus transport, economic activities grew in inaccessible areas of Himachal Pradesh by introduction of bus services. The Road Transport is the only medium for passenger transport in the state. Since the nationalization of transport, HRTC played a significant role in the social and economic development of the state. HRTC has developed a bus route network in the remote and inaccessible areas of like Lahul & Spitti, Chamba, Kullu, Sirmour and Kelong. Besides providing passenger transport services in the state, HRTC has been operating as goods transport services for providing foods and essential commodities to the remote corners of the state, even where private truck owners hesitate to go, HRTC has undoubted played a major role in economic development of the state.

Financial Performance of HRTC

Financial analysis of an organization brings out the significant relationship that exists between key figures contained in the financial statements. A study on the performance of the STUs conducted by the Planning Commission revealed a steady improvement in the overall indices of physical performance, namely, vehicle productivity, staff productivity,

bus-staff ratio, fuel efficiency. However, the financial positions of the STUs have not shown any improvement. Passenger transport corporations have faced inherent conflict between their role as public utility service and their commitment to economic efficiency and profitability. A large number of ratios and measures may be used to analyze the financial status of the enterprises like HRTC. This work limits to discuss only a few important of the ratios. In fact, the measure of financial productivity is the profitability of the enterprise. A good measure of productive efficiency is the profitability ratios.

Income of HRTC

For corporations, revenues minus cost of sales, operating expenses, and taxes, over a given period of time. Income is the reason corporations exist, and are often the single most important determinant of a stock's price. Income is important to investors because they give an indication of the company's expected future dividends and its potential for growth and capital appreciation. That does not necessarily mean that low or negative earnings always indicate a bad stock; for example, many young companies report negative income as they attempt to grow quickly enough to capture a new market, at which point they'll be even more profitable than they otherwise might have also been called earnings.

Table No. 1
Detail of the Income of HRTC from different Sources (Amount in Rs.)

Income From	2009-10	2010-11	2011-12	2012-13	2013-14
Passengers	3043663990	3633672963	3781907457	3920055628	4336112957
Wet Leasing	13123149	10571294	1467879	0	178024869
Postal	8324006	21213039	10943469	10269291	12392821
Goods	2673961	4680300	4484026	892101	3795886
Other Revenue	883121302	1198925126	1000112751	1832628986	1672443079
Operating Loss	266851363	126768143	702464939	1008125800	716968128
Non-operational	14955032	10887028	18172438	22044768	27507210
Total Loss Carried Forward to Balance Sheet	374982039	230690721	806509500	1109527447	832670568
Total	4340843479	5110640471	5623597521	6895418221	7492963567

Source: compiled from Audit Reports of HRTC of various years.

The data in the above table shows increase in income in the various years. The total income of HRTC from various items was Rs. 4340843479 in

the year 2009-10 and shows a big increase in the year Rs. 7492963567 in the year 2013-14.

Expenditure of HRTC

Expenditure is a payment in cash or barter credits, or the incurrance of a liability by an entity, in exchange for goods or services. Evidence of the documentation triggered by expenditure is a sales receipt or an invoice. Organizations tend to maintain tight controls over expenditures, to keep from incurring losses. A capital expenditure is expenditure for a high-value item that is to be recorded as a long-term asset. A business usually sets a capitalization limit for classifying expenditures as capital expenditures. A cap limit is established in order to keep an organization from recognizing low-cost items as fixed assets. Expenditure is not necessarily the same as an expense, since an expense represents the reduction in value of an asset, whereas expenditure simply indicates the procurement of an asset. Thus, expenditure covers a specific point in time, while an expense may be incurred over a much longer period of time. Effectively, there is no difference between the two terms when expenditure automatically triggers the incurrance of an expense; for example, office supplies are typically charged to expense as soon as they are procured.

Table No. 2.
Detail of the Expenditure of HRTC in different items (Amount in Rs.)

Expenditure in	2009-10	2010-11	2011-12	2012-13	2013-14
Traffic	1125531790	1357402897	1494504132	1903169937	1733843994
Wet Leasing	17775192	15427754	2750096	0	144645891
Repair & Maintenance	2204229848	2586386560	2876225405	3211876283	3613554360
License & Taxes	110374277	122186417	142800504	163655088	165757306
Welfare & Superannuation	163647923	238059314	252617621	401396369	390235461
General Admn. Charges	400461467	464133245	523325791	878620474	586574863
Depreciation	163568840	198928567	188483282	205830845	237439924
Compensation & Claims	32168434	13311111	20673690	7422810	47685861
Non-Operational	123085708	114809606	122216999	123446415	143209650
Total	4340843479	5110640471	5623597521	6895418221	7492963576

Source: compiled from Audit Reports of HRTC of various years.

The data in the table number 2 reveals that the expenditure of the HRTC increases with the period of time. It was Rs. 4340843479 in the year 2009-10 and shows a big increase in the expenditure of Rs. 7492963576 in the year 2013-14.

Capital Structure of HRTC

The capitalist test of productivity in an undertaking is profit, which in simple terms is the difference between aggregate revenue and aggregate cost. This criterion is simple to calculate and provides a common standard of measuring productivity. It is a measure of general nature combining all different factors together. But public sector enterprises are not normally guided solely by profit motive as is the case of private sector where prospects of earning profits on the invested capital constitute a criterion whereas public investment moves into the in whatever the social the social cost-benefit ratio justifies it. The first and foremost requirement of enterprises whatever big or small, is to estimate its capital requirement. Accordingly Capital mix is to be determined and further funds are raised to give it a proper form or shape. This decision of determining the form or shape of Capital is broadly referred to as Capital Structure. The major components of capital structure are government contribution, loan capital, current liabilities, commutative profits and loss, debentures and public deposits. HRTC has equity share capital from the state government as well from the center government. Loans from different financial institutions like from H.P. state co-operative Bank, term loan from Kangra central co-operative Bank, term loan from Punjab & Sindh Bank as well from state Bank of Patiala etc.

Table No. 3 : Capital Liabilities of HRTC (Amount in Rs.)

Capital Liabilities	2010-11	2011-12	2012-13	2013-14
Equity share capital	4136975853	43899775851	5013415851	5413415851
Loans	596274001	622600000	707275000	969950000
Funds & Reserve	1436475272	1572492990	1639884979	1833041543
Deposits	16716999	16591866	20707006	26478529
Capital Reserve	96007235	89092994	74251993	57156265
Revenue Reserve	0	0	950973	852919
Current liabilities	208491802	2518138943	3131727168	3799058562
Provisions	145659524	193755181	245447595	340467037
Total	8513021686	9402647825	10833660565	12440420706

Source: Compiled from Annual Audit Reports of relevant Years of HRTC.

The data from the above table shows the capital structure of HRTC. Capital contribution shows an increasing trend since 2010 to 2014. The State Government Contribution was 324.16 corers in 2008-09 and 485.89 corers in 2012-13, whereas Central Government Contribution through Northern Railways remains same over a period of five years from i.e. 15.44 corers. The borrowing are make in terms of loan from other Banks and Public Deposits. Loan from other Banks was 140.01 corers in 2008-09 and rose to 70.73 corers during 2012-13. Capital has also been raised through public deposit it stands at 1.30 corers in 2008-09 and becomes 2.07 corers during 2012-13. In spite of the absence of a clear policy to strengthen the capital structure of the STUs, these organizations have been managing to improve their asset base.

Table No. 4 : Capital Assets of HRTC (Amount in Rs.)

Assets	2010-11	2011-12	2012-13	2013-14
Fixed Assets	2417054274	2549829831	2828953768	3172758820
Investment	7323029	7862835	7390057	8480149
Current Assets	360688440	310489714	353323852	782518281
Losses	5727955943	6534465442	7643992889	8476663457
Total	8513021686	9402647826	10833660566	12440420707

Source: Compiled from Annual Audit Reports of relevant Years of HRTC.

Profit Performance and Cash Generation

Though profit is an important yardstick of productivity yet cannot be accepted as the sole criterion because the profit of an enterprise is affected by factors such as intensity of capital structure. Scale of operation, location of enterprise, area of operation, taxation policies, inflationary condition, productivity of other factor inputs, besides objectives of the organization. Another important financial parameter to understand the financial performance of any organization is Cash Generation Capacity, which reflects the strength of the organization to generate marketable goods or services. This concept is arrived at when depreciation is added to the profit/loss of a given time period.

**Table No. 5
Profit and Cash Generation in HRTC (Rs. In Crore)**

Year	Profit	depreciation	Cash loss	Net loss(-) profit(+) for the year
2008-09	5.26	13.17	39.40	-34.18
2009-10	4.98	16.36	42.48	-37.49
2010-11	16.71	19.89	39.77	-23.07
2011-12	2.53	18.85	83.18	-80.65
2012-13	3.75	20.58	114.69	-110.95

Source: Balance Sheets of relevant years of HRTC.

During the entire period under review, it is found that HRTC has a negative cash generation. In more simple terms it means cash losses are incurred by the HRTC. Any organization in private sector would never have been able to bear cash losses for over such a long span of five years. In other terms it means that HRTC has been eroding its capital for over such a long period of time. Business principles hardly appear to have been taken into consideration by the management of HRTC.

Trend Revenue of HRTC

A further analysis of sources of revenue of HRTC for the period under study also reveals many facts. There are three basic sources of revenue of HRTC. These are operation revenue, non-operating revenue and grants-in-aid from the state government.

Operating Revenue

The basic source of the revenue of HRTC is the operating revenue, which source is a result of its core activities. The operating revenue receipts include passenger income, goods carriage income and income from postal department and other insignificant revenues. Operating revenue receipts are a function of passenger fare, extent of bus operating and frequency of bus operation. These factors are not determined by the management of HRTC and, therefore, in the best of opinion, should not strictly be seen as a parameter of productivity in absolute terms. At the same time, the operating revenue is of significance to the HRTC to know its financial status. The growth trend of operating revenue of HRTC is reflected in the table:

Table No. 6
Percentage of Operating Revenue to the Total Revenue

Year	Operating Revenue	Total Revenue	Operating Revenue as a % percent of total Revenue
2008-09	36040.34	37217.47	96.83
2009-10	38163.11	39658.62	96.22
2010-11	47710.78	48799.49	97.76
2011-12	46353.64	48170.88	96.22
2012-13	55654.44	57858.91	96.18

Source: Compiled from the Annual Financial statements of HRTC of relevant period.

It is apparent from the analysis of operating revenues of the review period that these range between 96 percent and 98 percent of the total revenue receipts of the HRTC. The mean value of the operating revenue as a percent of total revenue for the entire period under consideration is 96 percent. This means that nearly 98 percent of the total revenues emerge

from the core activities and there has been a three-fold increase in the absolute value of operating revenues.

Non-Operating Revenue

Non-operating revenue of HRTC reflects the activities which are allied to its core activities of bus operation. Non-operating revenue sources of HRTC include advertisement on its buses and other premises, rent from buildings and stalls, job income, sale of scraps and old vehicles, lost property sales, interest on deposits, loans and advances, etc. Of all the sources of non-operating revenue of HRTC, job income has ample scope of its increase by simply offering repair and fabrication facilities to all the customers both in public sector as well as private sector at competitive rates. This will also ensure diversification of its core activities and will result in higher non-operating income besides ensuring optimum utilization of its capacity. May be that this step will require HRTC to adopt shift system, which is a common practice in the industrial world, to fully harness its potential. Workers have to be taken into confidence before initiating such step. It will result in overall productivity improvements including physical on financial. The table 4.8 represents the percentage of non-operating revenue to the total revenue of HRTC for various years.

Table No. 7
Percentage of Non-Operating Revenue to the Total Revenue

Year	Non-operating Revenue	Total Revenue	Non-operating as a % percent of total Revenue
2008-09	1177.13	37217.47	3.16
2009-10	1495.51	39658.62	3.77
2010-11	1088.71	48799.49	2.23
2011-12	1817.24	48170.88	3.77
2012-13	2204.47	57858.91	3.81

Source: Compiled from Annual Financial statements of HRTC of relevant period.

The data of non-operating revenue reveal that this source has not been able to generate substantial revenue. It has roughly remained within the age of one percent to 3.81 percent of the total revenue of HRTC. It appears that the receipts on account of this source of revenue are influenced more by the sale of old and scrapped vehicles and therefore, does not show any linear trend.

Grants-in-Aid

Grants-in-aid are payments in the nature of assistance, donations or contributions made by one government to the other government, body,

institution or individual. Grants-in-aid are given for a specific purpose of supporting an institution including building of assets. The general principal of grants-in-aid is that it can be given to a person, a public body or institution having a legal status of its own. Such grants-in-aid could be given in cash or in kind used by the recipient agencies towards meeting their operating as well as capital expenditure requirement. Grants-in-aid are received by the HRTC by the Himachal Pradesh government to compensate its expense and consequent losses on account of social benefits schemes such as free travel concessions, subsidized travel facilities to students, police personal, etc. the table below gives the picture of Grants-in-aids as received by the HRTC.

Table No. 8
Percentage of Grants-in-Aids to the Total Revenue of HRTC

Year	Grants-in-aids	Total Revenue	Grants-in-aids as a % percent of total Revenue
2008-09	4800.00	37217.47	12.89
2009-10	6912.14	39658.62	17.42
2010-11	5831.69	48799.49	20.22
2011-12	9000.00	48170.88	18.68
2012-13	17065.00	57858.91	29.49

Source: Compiled from Annual Financial statements of HRTC of the relevant years.

The percent of grants-in-aids to total revenue range between 13 to 30 percent for the period under review. It has been an assured source of revenue to the government through regular State budgetary provision. The quantum of grants-in-aids in different year reflect the amount of travel subsidy doled out by the state government to different sections of society, though the HRTC is not fully compensated by way of grants-in-aids for the losses it has to incur on account of such free or subsidized travel facilities. It is also noticed that this amount is also showing reducing trend since 2012-2013. A fresh thinking is needed to contain the subsidies based on merits of each kind and category of subsidy. Over the time period, certain section of society have become well off requiring no free travel or concession travel, for example, MPs and MLAs now neither need to be subsidized nor they any longer prefer bus travel.

Labour Welfare

The Himachal Road Transport Corporation has introduced the Benevolent Fund Scheme and the following monetary benefits are being given to the employees of Himachal Road Transport and their wards out of the HRTC Employees Fund, under this scheme:

Table No. 9
Detail of Labour Welfare Policies in HRTC

Description	Amount (in Rs.)	
On death of employees in service	75000	
Retirement of employees:		
On superannuation	15000	
On compulsory retirement	7500	
On voluntary retirement	7500	
On Disability		
Permanent disability	10000	
Permanent disability (partial)	5000	
Wards suffer from paralysis/polio	15000	
Cash awards to the wards securing 75 percent and above marks in final examination in 8 th , 10 th , +2, Graduation level, Masters Level, Engineering etc.		
75% to 79%	a) Boys	1200
	b) Girls	1500
80% to 89%	Boys	1800
	Girls	2250
90% and above	Boys	3000
	Girls	3750
Cash awards to the wards of HRTC employees getting distinction in the final examination as mentioned in the column number d above		
In one subject		500
	In two or more subject	1000
Monetary relief to employees in stress due to serious fire, flood, complete damage of house, etc,		5000

Source: Obtained from Head Office of the HRTC Shimla.

The HRTC is providing compensations and rewards under different schemes to its employees which are very important for any organisation. The corporation is providing compensations and rewards in thirteen disciplines to its employees.

Social Obligations

HRTC is playing an important role in providing social obligations to the people under different categories. The detail of the social obligations is in the table number 10.

Table No. 10
Concessional / Free Travelling Facilities Provided By HRTC

Categories	Concessional/Free Travelling
Government School/College Students	Allowed concessional travelling facilities for a month against payment of 10 single fare (in ordinary buses).
Public/Private Schools	Allowed concessional travelling facilities for a month against payment of 40 single fare (in ordinary buses).
Government Employees	Allowed concessional travelling facilities for a month against payment of 30 single fare up to 50 Kms. (in ordinary buses).
Handicapped Persons	Allowed free travelling facilities within the state and blind personnel are allowed free travelling even outside the state also (in ordinary buses).
Police personnel up to the rank of Inspector	Allowed free travelling facilities within the state and outside the state (in ordinary buses).
Jail warden	Allowed free travelling facilities within the state and outside the state (in ordinary buses).
Freedom fighter with attendant	Allowed free travelling facilities within the state and outside the state (in all type of buses except AC buses).
Gallantry Awards Winners	Allowed free travelling facilities within the state and outside the state (in all type of buses except AC buses).
War widow with one attendant free	Free travelling facility allowed within the state (in ordinary buses).
Honorable M. Ps./M. L. As. With one attendant, Ex. M. Ps./M. L. As./Press Correspondents	Free travelling facility allowed within and outside the state. Press correspondents are not allowed free travelling in Volvo/AC buses.
Thalassaemic patients	Free travelling facility allowed within and outside the state in all type of buses except AC buses.
Orphan students	Free travelling up to +2 class (in ordinary buses).
Cancer/multi fracture injuries	Free travelling on referral slip (in ordinary buses).
State awardees teachers	Six free pass in a year for travelling within the state (in ordinary buses).
Parent (s) of Posthumous Gallantry Award winner	Free travelling in all type of buses except AC buses.
Padam Shree Awardees:- Sh. Charanjeet Singh Sh. Rajinder Kumar	Free travelling in all type of buses except AC buses.
Sh. Sunder Lal Bahuguna Social Worker, Sh. Mangal Singh	Free travelling in all type of buses except AC buses.

Source: Obtained from Head Office of the HRTC Shimla.

The above table shows that the corporation is providing social obligations to the people in different coteries effectively. Providing social obligation is one of the reasons for loss of corporation. These obligations are government schemes and the government pay very less to the corporation against these obligations.

Conclusion

In the financial analysis of HRTC it was observed that for the entire review period losses have dominated the balance sheets of HRTC. The situation does not stop here alone and moves a step further in financial weakening structure of HRTC as reflected by the cash losses in HRTC. This implies that the HRTC is eating into its capital. This situation in the corporate sector is never compromised and is taken as the failure of the corporate entity warranting withdrawal from the business. HRTC being a public sector undertaking, providing public services, has been allowed to deteriorate its financial edifice through the entire review period. It is further evident from the analysis of revenues that the major source of revenue for HRTC remains its bus operations, whereas non-operating revenue show erratic proceeds in different years of review period. Further the grants-in-aids are received from the state government to offset the losses on account of various social measures including free and concession travel, etc. The relationship of profits and parameters of physical productivity fails to emerge from the statistical analysis. This is the most notable observation of the study is the absence of impact of physical productivity on profits. It is, therefore, imperative for the HRTC to devise mechanisms to reflect productivity improvements in its balance sheets also.

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