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ANALYSIS OF FINANCIAL PERFORMANCE OF HIMACHAL PRADESH SCHEDULED CASTES & SCHEDULED TRIBES DEVELOPMENT CORPORATION

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Abstract: India is a land of many religions, languages, dialects, castes, races, demographical structures and climatic conditions. The caste system prevailed since long in India which has inherited by birth and is thus stable and cannot be changed because of its inheritance origin. Scheduled castes and scheduled tribes are those castes/tribes in the country which suffer from extreme social, educational and economic backwardness arising out of age-old practice of untouchability socio economic backwardness and certain others on account of lack of infrastructure facilities and geographical isolation, and who need special consideration for safeguarding their interests and for their accelerated socio-economic development. Democracy gains authenticity only if the weaker sections of the society have just opportunity to play their creative part in the shape of fair opportunity for dynamic actions, development and cultural advancement.

The framer of the Indian constitution had notified these weaker sections of the society as Scheduled Castes (SCs) and Scheduled Tribes (STs) as per provisions contained in Clause 1 of Articles 341 and 342 of the Constitution and granted various special facilities for them. Thus Indian government is trying to mitigate discriminations and to establish some measure of social justice.

1. INTRODUCTION

The Government of India classifies some of its citizens based on their social and economic condition, as Scheduled Caste (SC), Scheduled Tribe (ST), Backward and Other Backward Class (OBC). Article 341 and 342 of the Constitution of India provides for drawing up the lists of Scheduled Castes and Scheduled Tribes.

The Central Government has set up three national level Corporation viz. (i) National Scheduled Castes Finance and Development corporation [N.S.F.D.C.]. New Delhi, (ii) National Scheduled Tribes Finance & Development Corporation [N.S.T.F.D.C.], New Delhi And (iii) National Safai Karamcharies Finance and Development Corporation[N.S.K.F.D.C.], New Delhi for the welfare of SC/ST, Scavenger and safai Karamcharies which provides loans under various schemes to the state SCDCs for refinance to these communities. Share Capital contribution is released to the State Scheduled Castes Development Corporations (SCDCs) under a Centrally Sponsored Scheme in the ratio of 49:51 between Central Government and State Governments. There are in total 27 such State-level Corporations which are working for the economic development of Scheduled Castes, although some of these Corporations are also catering to the requirements of other weaker sections of the Society, e.g. Scheduled Tribes, OBCs, Minorities etc.

The State SCDCs are playing an important role in providing credit and missing inputs by way of margin money loans and subsidy to the target group. The main functions of SCDCs include identification of eligible SC,ST, Scavenger and Safai Karamchari families and motivating them to undertake economic development schemes, sponsoring the schemes to financial institutions for credit support, providing financial assistance in the form of the margin money at a low rate of interest, providing subsidy out of the funds made available to the States under the Scheme of Special Central Assistance to Scheduled Castes Sub Plan of the States to reduce the repayment liability and providing necessary tie up with other poverty alleviation programmes.

The SCDCs finance the employment oriented schemes covering diverse areas of economic activities which inter-alia include (i) agriculture and allied activities including minor irrigation (ii) small scale industry (iii) transport and (iv) trade and service sector besides (v) Higher Study loans.

1.1. Brief Overview of Himachal Pradesh Scheduled Castes and Scheduled Tribes Development Corporation

Himachal Pradesh Scheduled Castes & Scheduled Tribes Development Corporation has been established by the Government of Himachal Pradesh by enactment of an Act in the State Legislative Assembly known as Himachal Pradesh Scheduled Castes & Scheduled Tribes Dev. Corporation Act, 1979. Initially, the Corporation was entrusted the work of upliftment of poor Sch. Castes families of the State. It was in the year 1984, that the work for upliftment of poor Scheduled Tribes families of the State was also entrusted to the Corporation. Thereafter, the work for training & rehabilitation of poor Scavenger families of the State has also been entrusted to H.P. SC/ST Dev. Corporation. The main objective for establishing a separate Corporation for upliftment of poor SC/ST families in the State is to ensure commitment of the Government to the Constitution of India which provided special provisions for the economic and social development of deprived weaker sections of the Society.

1.2. Management and Organising Structure of Himachal Prsadesh Scheduled Castes & Scheduled Tribes Development Corporation

As per provisions in the H.P Scheduled Castes & Scheduled Tribes Development Corporation Act 1979, there are 16 members of Board of Directors who are nominated by the State Government as official and non official members provided further that not less than two directors shall be nominated from amongst the officers serving the State Government in the Department of Social Justice & Empowerment, Industries, and the remaining from amongst the persons who have special knowledge of Industries, Handicraft, Animal Husbandry, Agriculture, Agro Industries, Water Development, Co-operative and Financial Institutions and at least two directors should be from the community of Scheduled castes and one director should be from scheduled tribes category.

Out of the nominated Directors, State Government under sub section 1(1) of the Act, appoint the chairman and the Vice Chairman of the Corporation, who perform such duties and exercises such powers as are assigned to them or conferred upon them by the board under Sub Section(2) of Section 15 of this Act. The Managing Director of H.P. Scheduled Castes and Scheduled Tribes Development Corporation is an I.A.S., I.P.S. or I.F.S. Officer appointed by the State Government.

Managing Director of the Corporation also functions as one of the Directors, being an officer of the state Government, besides functioning as chief executive officer of the Corporation. The Managing Director is the chief executive officer of the Corporation. The Corporation has its Head Quarter at Solan with twelve district offices headed by District Manager located at District Head Quarter of each District and five Sub offices headed by Assistant Manager(Dev.) at Tehsil Head Quarter with one each at Bharmour [Distt. Chamba], Dehra [District Kangra], Jubal [Distt. Shimla], Kaza [District Lahaul Spiti] & Sarkaghat[District Mandi in the State of Himachal Pradesh.

2. DISTRICT WISE POSITION OF LITERACY RATE OF SCHEDULED CASTES & SCHEDULED TRIBES IN RELATION TO OVERALL LITERACY RATE IN HIMACHAL PRADESH

Himachal Pradesh has made great strides in the field of literacy as about 83 per cent of the population is literate as per 2011 Population Census (Table 1). The literacy rate was 89.5 per cent for males while it was comparatively lower in case of females i.e. 75.9 per cent. District-wise figures show that Hamirpur has the highest literacy rate (88.1 per cent), whereas it was the lowest in Chamba (72.2 per cent).

The same pattern was followed in case of males and females literacy rates across various other Districts in Himachal Pradesh. As expected the literacy rate was lower among the SCs and STs as compared to the figure for the entire population. The STs having lower literacy rate than the SCs. The literacy rate was the lowest among the SCs and STs in Chamba district. The lower rate of literacy among SCs and STs is one of the main causes of their low development. Due to lack of required skills to have jobs coupled with high poverty rates in this district, they are badly trailing behind the main stream with respect to various socio-economic indicators. District Chamba recorded lowest literacy rate with respect to SC(69.6 per cent) and ST (69.1 per cent) population.

Table 1
District-wise literacy rate of SC/ST in relation to overall literacy rate in Himachal Pradesh as per 2011 population census

District	*Overall Literacy rate*			*Literacy rate among SCs*	*Literacy rate among STs*
	Male	*Female*	*Total*		
Bilaspur	91.2	78.0	84.6	81.2	75.5
Chamba	82.6	61.7	72.2	69.6	69.1
Hamirpur	94.4	82.6	88.1	85.9	85.4
Kangra	91.5	80.0	25.7	81.4	74.1
Kinnaur	87.3	71.0	80.0	77.3	80.0
Kullu	87.4	71.0	79.4	75.1	83.2
Lahaul Spiti	85.7	66.8	76.8	80.0	76.9
Mandi	89.6	73.7	81.5	77.5	75.9
Shimla	89.6	77.1	83.6	78.8	75.5
Sirmour	85.6	71.4	78.8	74.7	59.7
Solan	89.6	77.0	83.7	79.9	73.1
Una	92.0	81.1	86.5	84.7	80.0
Himachal Pradesh	89.5	75.9	82.8	78.9	73.6

Source: Statistical outline of Himachal Pradesh, Department of Economic & Statistics, Government of HimachalPradesh (2017-18)

3. CONSTITUTIONAL SAFEGUARDS FOR WEAKER SECTIONS

The framer of the Indian constitution has outlawed caste-based discrimination, supporting the secular, democratic principles and had notified these weaker sections of the society as Scheduled Castes (SCs) and Scheduled Tribes (STs) as per provisions contained in Clause 1 of Articles 341 and 342 of the Constitution and granted various special facilities for them. Indian constitution provides various safeguards to weaker sections of the society. Social safeguards are provided under article 17,23, 24 & 25 of the constitution whereas articles 15(4), 332,334 & 243(D) provides for educational and cultural safeguards to these weaker sections of the society. Articles 16(4), 320(4), 335, 338 provides for service safeguards.

4. OBJECTIVES

The Govt. of H.P. has established Himachal Pradesh Scheduled Castes & Scheduled Tribes Development Corporation with the objective to work for upliftment of poor SC/ST people of the State. Sound financial health of any organization depends not only on financial astronomy and sufficiency of resources, rather good accounting practice; sound financial management techniques go a long way in determining the overall performance of an institution. H.P. Scheduled Castes & Scheduled Tribes Development Corporation has been functioning since 1979 but it is in the year, 1991-92, it started direct financing to the poor SC/ST & Scavenger families in the state of Himachal Pradesh in collaboration with Apex Corporations viz. NSFDC New Delhi, NSTFDC, New Delhi & NSKFDC New Delhi.

Thus analysis of the financial health of an Organization which is engaged in direct financing for more than 25 years is quite essential to determining various shortcomings in its working and to suggest measures to improve its financial health. In this study an attempt has been made to analyze short term and long term financial health of the Corporation.

The proposed study is focused on to analyze financial performance of Himachal Pradesh Scheduled Castes & Scheduled Tribes Development Corporation. To analyze and evaluate the financial performance of the HP SC ST Dev. Corporation, following objectives have been set.

1. To analyzing short and long term financial health of Himachal Pradesh Scheduled Castes & Scheduled Tribes Development Corporation and
2. To analyze overall profitability position of Himachal Pradesh Scheduled Castes & Scheduled Tribes Development Corporation.

5. METHODOLOGY

Research methodology is the science of studying how research is to be carried out and how to solve a problem in a systematic way. Essentially, the procedures by which researchers go about their work of describing, explaining and predicting phenomena are called research methodology. It is also defined as the study of methods by which knowledge is gained. Its aim is to give the work plan of research. *Financial analysis* may be defined as the process of highlighting the *financial* strengths and flaws of a business by studying both the balance sheet and income statement elements. *Financial statements* produce a summary of data from which important *analysis* and *interpretation* can be made.

The present study is based only on secondary data. To evaluate the financial performance of the Himachal Pradesh Scheduled Castes & Scheduled Tribes Development Corporation the data has been collected from following source.

(i) Annual Administrative Reports and Balance Sheets of the Corporation for the period under study.

(ii) Periodical Reports, Status Notes & Minutes of various Meetings of HP SC/ST Development Corporation.

(iii) Economic Reviews: Department of Economics & Statistics from 1980-81 to 2017-2018.

(iv) Population Census Reports Govt. of India.

(v) Reports of Department of Finance, Govt. of Himachal Pradesh.

(vi) Publication of Planning Department Himachal Pradesh.

6. EVALUATION OF OVERALL FINANCIAL PERFORMANCE OF HP SC & ST DEVELOPMENT CORPORATION

Himachal Pradesh Scheduled Castes & Scheduled Tribes Develoopment Corporation is a non profit organization established by the Govt. of H.P. with sole objective of upliftment of poor SC/ST & Scavenger families of the state. Financial performance of an Organization is evaluated with the help of ratio analysis. Measurement of financial performance by the ratio analysis helps to identify the organizational strengths and weaknesses by detecting financial anomalies and focusing attention on issues of organizational importance. Given that the mission of a non profit organization is the reason for its existence, it is appropriate to focus on financial resources in their relationship to mission. Ratio Analysis is a widely used tool of financial analysis. The term ratio refers to the relationship expressed in mathematical terms between two individual figures or group of figures connected with each other in some logical manner. Ratio analysis is a well established tool to evaluate an organization's profitability, liquidity and financial stability. Hence ratio analysis is applied to answer the following questions.

- Are the goals of the organization consistent with the financial resources it needs to accomplish these goals?
- Is there an appropriate matching between the sources of funds and application of funds?
- Are present resources are sustainable?

Though Ratio analysis is an important tool to analyze financial health of an organization yet, it has certain limitations, particularly when it comes to analyze the financial health of a non profit organization.

The different types of ratios have been calculated analyzed and interpreted. The different liquidity, operating, solvency and profitability ratios have been calculated to evaluate the financial health of the Corporation. These ratios can indeed be very helpful in analyzing the strengths and weaknesses of the various financial variables for accessing the efficiency of the Corporation. Further, the financial ratios enable the analyst to draw quick and meaningful inferences from the financial statements, which consequently results in a complete and in depth understanding of the financial performance.

In the present study, two sets of ratios are analyzed namely solvency/liquidity ratios and long term solvency ratios to adjudge short term and long term financial health of Himachal Pradesh Scheduled Castes & Scheduled Tribes Development Corporation.

6.1. Short term financial health of H.P. Scheduled Castes & Scheduled Tribes Development Corporation

Short term, financial health of H.P. SC/ST Dev. Corporation has been studied with the help of following ratios.

6.1.1 Solvency Ratios / Liquidity Ratio

To check the short term liquidity position of the Corporation, the current ratio, acid test ratio, working capital to total loan and advances are computed. Since the corporation does not have any inventory, hence liquidity and acid test ratio will be the same. Only liquidity ratio is reported.

The liquidity position of the concern is satisfactory if it is able to meet its current obligations when they become due or an organization has the ability to meet its short term liabilities, as it has sufficient liquidity funds, to pay the interest on its short maturing debt usually within a year as well as principal. This ability is reflected in the liquidity ratio of the organization. Short term creditors and management are vitally interested in the liquidity position of the concern. If a firm fails to meet the current obligations due to inadequate funds, its credibility in the market is likely to be affected. Similarly a very high degree of liquidity is not good for the firm because such situation represents unnecessarily excessive funds being tied up in current assets.

Therefore, it is very important to have a proper balance with regard to the liquidity of the firm. The activity of the Corporation is welfare oriented as it has to provide maximum welfare to the SC and ST population from the fund raised by it for the short run and long run. However, improper utilization of the short and long run funds may also cause mismanagement of the Corporation. Keeping in view the importance of balanced short term financial position, the following ratios have been calculated to evaluate short tern financial strengths of Corporation:

(i) Current Ratio (CR)

(ii) Absolute liquidity Ratio (ALR)

(iii) Working Capital to total Assets Ratio

Table 2
Short Term Solvency Ratios

Year	*Current Ratio*	*Absolute Liquidity Ratio*	*Working Capital to Total Assets Ratio*
1991-92	374.31	354.27	34.08
1992-93	497.97	470.13	32.26
1993-94	461.78	453.53	40.95
1994-95	395.72	379.52	39.89
1995-96	25.78	21.76	30.94
1996-97	163.19	62.00	53.34
1997-98	103.94	48.95	52.52
1998-99	160.74	89.12	31.45
1999-00	161.45	91.92	51.59
2000-01	156.53	68.01	50.88
2001-02	52.40	13.56	46.47
2002-03	45.41	15.46	47.89
2003-04	65.48	20.08	49.07
2004-05	138.46	43.56	52.0
2005-06	91.48	22.54	50.88
2006-07	149.90	49.70	55.96
2007-08	168.25	48.17	60.21
2008-09	111.79	36.17	60.08
2009-10	32.14	10.16	60.19
Average	176.67	120.98	47.40
SD in %	145.36	159.05	9.78
CV in %	82	132	21
Growth in %	-12.92	-18.69	02.99

Source: Ratio computed on the basis of data collected from various relevant reports of Himachal Pradesh Scheduled Caste & Schedule Tribe Development Corporation for the relevant years.

Abbreviation used

(i) CR: Current Ratio

(ii) ALR: Absolute liquidity Ratio

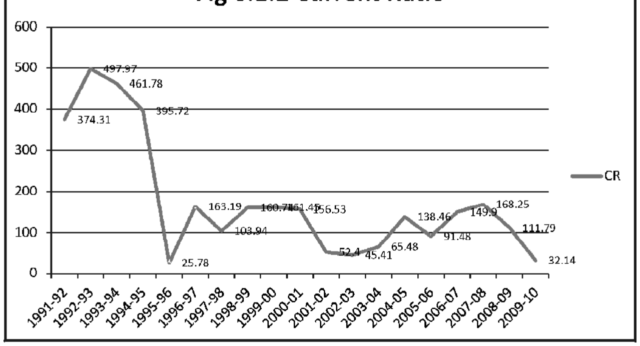
(iii) WCTAR: Working Capital to total Assets Ratio

6.1.2. Current Ratio (CR)

Current Ratio is the ratio between current asset and current liabilities. Current assets includes cash-in-hand, cash at bank, sundry debtors and inventory. Current liabilities consist of short term loans and advances, and sundry creditors. Current assets also include cash, cash equivalents, margin money deposit, accounts receivable, stock inventory and the portion of prepaid liabilities & draft in hand. Current liabilities also include accounts payable, wages payable, property taxes payable, insurance payable, interest payable, bills payable, taxes payable, utilities payable, & short-term bank loan payable if any, GSLIS, GIS GPF, unpaid salary provident fund payable loans and advances and so on.

Current Ratio in a business concern indicates the availability of current assets to meet its current liabilities. Traditionally, 2:1 ratio, i.e. 2 units of current asset for each unit of current liabilities is the ideal ratio for any business concern. It is so because we are analyzing the financial data of an organization whose mission is not to make profit but it is working for the upliftment of the backward society of the state.

Fig 6.1.2 Current Ratio



The HPSC & ST Development Corporation is a non profit making organization hence; it is not justified to analyze its financial health by using the same parameters applied to a commercial institution. Generally the level of current ratio varies from industry to industry. It can be seen from Table 2 that the current ratio of the Corporation is the lowest i.e. 25.78 in the year 1995-96. On the contrary, it is highest in the year 1992-93 i.e 497.97 It clearly shows that the current ratio of the corporation is well ahead of the standard norm of 2:1. This is not a very healthy sign from the point of view of the Corporation. It is also observed that the current ratio is highly unstable and varying year to year. The average current ratio for the period under study stood at 176.67, which is also very high. It indicates that the large amount of funds of the Corporation have been in current assets. The standard deviation and coefficient of variation for the entire study period is also very high i.e. 145.36 and 82 per cent respectively. This reveals that there exists large variation in current ratio during the period under study. The current ratio on an average declined at a rate 12.92per cent per annum during the period under study.

The current ratio of H.P. Sch.Castes & Sch Tribes Dev. Corporation is very high than the ideal ratio (2:1). The reasons for very high current ratio is release of grants and equity capital by the Government at the fag end of every year i.e. mostly on 31st of March which remained unutilized in that particular financial year and resulting in instant increase in the current ratio. Thus Current Ratio can not be taken as an appropriate and effective measure to adjudge the short term financial health of the Himachal Pradesh Scheduled Castes & Scheduled Tribes Development Corporation.

6.1.3. Absolute Liquidity Ratio (ALR)

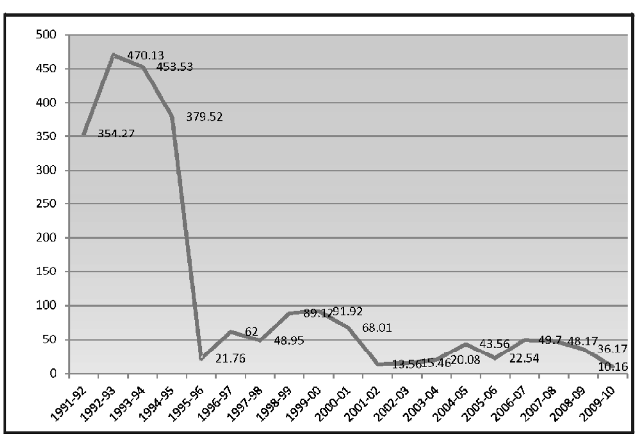
This is also called cash ratio which measures the extent of absolute liquidity of the business. Absolute liquid assets are equal to liquid assets minus accounts receivables (including bills receivables). Main components of Absolute liquid assets are cash, bank balance and marketable securities etc. This ratio considers only the absolute liquidity available with the firm. This ratio is calculated by excluding the receivables and inventory from the current assets. An absolute liquid ratio of 0.5:1 is usually considered favorable which means that the absolute liquid assets of a business should be half of the current liabilities. The formula for calculating absolute liquid ratio is as follows:

$$\text{Absolute Liquidity Ratio} = \frac{\text{Absolute Liquid Assets}}{\text{Current Liabilities}}$$

Absolute liquid ratio of the Corporation over the period under study was highest in the year 1992-93 i.e. 470.13:1 and it was lowest in the year 2009-10 i.e. 10.16:1. It can be seen from Table 2 that the absolute liquid ratio of the Corporation remained above 10.16:1 which is above the standard norm of 0.5:1. This clearly indicates that the Corporation keeps the excess fund over current liabilities. The average value of liquid ratio during the period under study stood at 120.98. However, there have been quite high variations with respect to absolute liquid assets of the Corporation across various years as revealed by the value of Coefficient of Variation i.e. 132 per cent. This high value of Coefficient of Variance reveals that Absolute Liquid Ratio varied a lot across various years. Thus, the yearly fluctuations recorded in Absolute Liquid Assets seems to be a cause of great concern regarding the ability of the Corporation to make proper disbursements during the period under study. However Absolute Liquid Ratio declined at a rate of 19 per cent during the period under study.

A combined study of Current and Absolute Liquidity Ratio reveals that the corporation is having a huge amount of liquid and absolute liquid asset as against the normal requirement. Meaning thereby, that the management of the Corporation is not utilizing the funds efficiently.

The money is unnecessarily blocked in current assets and absolute liquid assets. The absolute liquid ratio is high because grants are received during the fag end of the year like in case of current ratio.



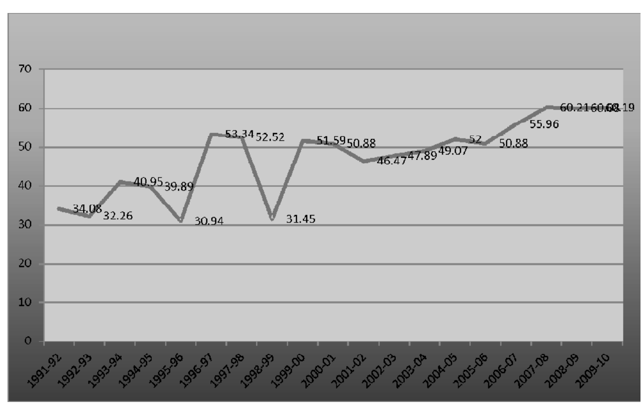
It is the nature of an organization which plays a vital role while analyzing the financial health of an organization. The Corporation receive grants and own capital to provide loans and advances, training etc to the weaker sections of the society.

6.1.4. Working Capital to total Assets Ratio

This ratio shows relationship between working capital and total asset of the Corporation. Working Capital is very important aspect of day to day requirement of fund for meeting the expenses. Working capital is calculated by subtracting current liability from the current assets. This ratio depicts how much of the working capital is raised from short term and long term sources. It depicts the pattern of financing. The formula for calculating Working capital to Total Asset ratio is as follows:

$$\text{Working Capital to total Assets ratio} = \frac{\text{Current Asset} - \text{Current Liabilities}}{\text{Total Assets}}$$

It can be seen from the Table 7.1 that the working capital to total asset ratio stood highest in the year 2006-07 (60.21) and lowest in 1995-96 (30.94). The ratio exhibited an increasing trend during the entire study period (2.99%). It implies that lots of funds are in the form of working capital in comparison to total assets. The average ratio for the whole period under study is 47.10 which is also very high. The calculated value of standard deviation and co-efficient of variation have been found to be 9.78 and 21 per cent respectively.



All the three ratios i.e. current ratio, absolute liquidity ratio and working capital to total assets depict that the

Corporation is keeping excessive liquidity which is not a very healthy sign.

6.2. Long Term Financial Health of H.P. Scheduled Castes & Scheduled Tribes Development Corporation

Long term solvency position of H.P. Scheduled Castes & Scheduled Tribes Development Corporation has been studied with the help of following ratio.

6.2.1. Long Term Solvency Ratio

It refers to the ability of a concern to meet out its long term obligations. The long-term creditors of a firm are primarily interested in knowing the firms ability to pay interest regularly interest on long term borrowings, repayment of the principal amount at the maturity and the security of their loans. The long term solvency of the firm reflects its ability to assure the long term creditors with regard to periodic payment of interest during the period of the loan and repayment of principal on maturity. As far as long term financial position of the Himachal Pradesh scheduled castes and Scheduled Tribes Development Corporation is concerned it has not issued the debenture to the public so far. More over the capital contribution is made by the state and the central government in agreed proportion.

The Corporation is also increasing its share capital besides long term funds for re-financing. Initially the share capital of the Corporation was Rs. 5.00 crores which was raised to Rs. 90.00 Crores from time to time. Likewise loan portfolio for re-financing the long term project also increased from initial outlay of Rs. 5.61 Cr. to Rs. 322.20 Cr.

Reasons for rising share capital / loans for re-financing the long term projects are: (i) lack of awareness about the long term projects schemes i.e. Corporations' beneficiaries are unaware about funding of their loans (ii) Gestation period of two years i.e. Corporation raises loan for a period three years whereas period for repayment of loan to the Corporation by its beneficiaries is five years & (iii) Gap in the percentage of repayment by the Corporation and the beneficiaries i.e. Repayment by the beneficiaries is not 100 per cent as compared to the repayment by the Corporation to the funding agencies is 100 per cent.

The following ratios have been calculated in order to analyze the long term financial position of the Corporation.

(i) Debt Equity Ratio (DER)
(ii) Fixed Assets to Net worth Ratio (FANW)
(iii) Capital Gearing Ratio (CGR)
(iv) Total Loan to Total Capitalization Ratio (TLCR)

Table 3
Long Term Financial Position

Year	*DER*	*FANW*	*CGR*	*TLCR*
1991-92	0.155	0.99	6.41	15.50
1992-93	0.157	0.76	6.35	15.70
1993-94	0.149	0.64	6.87	14.50
1994-95	0.281	0.55	3.65	27.30
1995-96	0.320	0.60	3.21	31.00
1996-97	0.277	0.97	3.60	27.70
1997-98	0.271	0.98	3.68	27.10
1998-99	0.314	0.88	3.17	31.40
1999-00	0.385	0.80	2.59	38.50
2000-01	0.432	0.85	2.31	43.20
2001-02	0.532	0.70	1.87	53.20
2002-03	0.577	0.57	1.73	57.70
2003-04	0.475	0.52	2.10	47.70
2004-05	0.364	0.78	2.74	36.40
2005-06	0.296	0.68	3.37	29.60
2006-07	0.425	0.64	2.34	42.50
2007-08	0.379	0.65	2.63	37.90
2008-09	0.302	0.51	3.31	30.20
2009-10	0.216	0.41	4.62	21.60
Average	0.33	0.71	3.50	33.09
SD	0.12	0.17	1.53	12.23
CV in %	37	24	44	37
Growth in %	1.75	-4.64	-1.72	01.74

Source: As per Table 3

Abbreviations used

(i) DER: Debt Equity Ratio
(ii) FANW: Fixed Assets to Net worth Ratio
(iii) CGR: Capital Gearing Ratio
(iv) TLCR: Total Loan to Total Capitalization Ratio

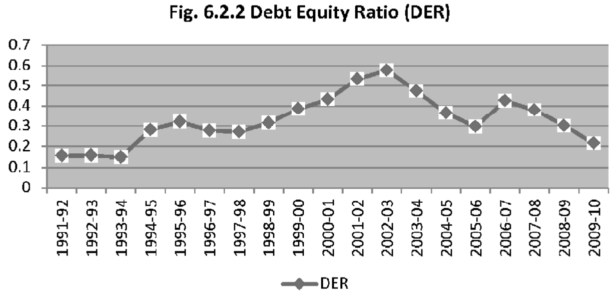
6.2.2. Debt Equity Ratio (DER)

The formula for calculating Debt Equity Ratio (DER) is as follows:

$$Debt\ Equity\ Ratio = \frac{Debt}{Equity}$$

The ratio indicates the relative proportion of debt in comparison to equity. Debt equity ratio varied between 0.149 in 1993-94 to 0.577 in 2002-03. The average debt equity ratio during the period under study was 0.332. Debt equity ratio did not exhibit any consistent pattern of rise or fall over a period of time. In some years it increased whereas in a few other it declined. Moreover, the analysis showed that the claim of outsiders was less than the owner's fund. This indicates that the Corporation has been utilizing mainly its own funds for distribution to the beneficiaries. This reflects a positive financial behavior of the Corporation. The value of Coefficient of Variation (37 per cent) reveals that there does not exist large variation in value of this ratio during the period under study. Debt equity ratio on an average recorded a nominal increase of 1.7 per cent per annum during the period under study. The Corporation is mainly using its own funds and nearly one third of the funds come from loans.

Fig. 6.2.2 Debt Equity Ratio (DER)



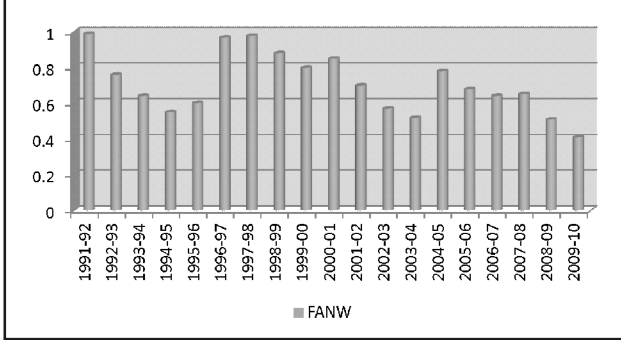
6.2.3. Fixed Assets to Net Worth Ratio (FANW)

The formula for calculating fixed assets to net worth ratio (FANW) is as follows:

$$Fixed\ Assets\ to\ Net\ Worth\ Ratio = \frac{Fixed\ Asset}{Net\ Worth}$$

This ratio shows the relationship between the fixed assets and the net worth of the Corporation. This ratio indicates the extent to which the shareholders funds are blocked into the fixed assets. The analysis reveals that the value of this ratio stood very low during period under study. This shows that a small proposition of equity funds is utilized for financing the fixed assets. These funds are mainly utilized for the benefit of the beneficiaries for advancing loans. Meaning thereby, that the ratio appears to be satisfactory from point of view of the Corporation, as it stood less than one during almost all the years under study. The small value of Coefficient of Variation (24 per cent) reveals that there did not exit much variation with respect to the value of this ratio. The value of this ratio on an average declined at a rate of 4.64 per cent per annum during the period under study.

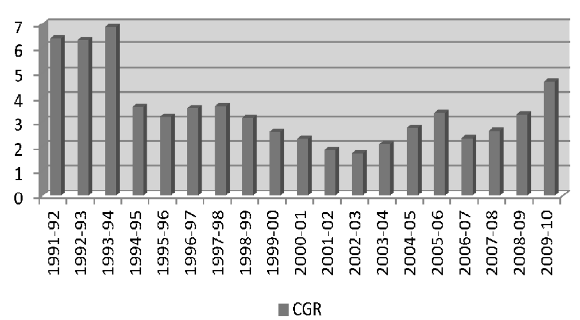
Fig. 6.2. 3 Fixed Assets to Net Worth Ratio (FANW)



6.2.4. Capital Gearing Ratio: (CGR)

The ratio has been calculated to find out the relationship between share capital and fixed interest bearing long term funds of the Corporation. Capital gearing ratio is helpful in designing a sound and economical capital structure of the enterprise. The ratio indicates the relative proportion of fixed interest bearing securities as presented by preference share capital and the loan capital to the equity share capital in the capital structure. If the proportion of preference share capital and loan capital is more than the equity share capital, it is called as highly geared. On the other hand, if the equity share capital is more than the preference share capital and loan capital, it is said to be low geared. The corporation has not issued any preference shares and debentures. The whole of the capital is a contribution made by respective governments. Therefore a relation of equity capital and loan capital has been made in this ratio. The average, standard deviation and co-efficient of variation of this ratio for nineteen years under study works out to be 3.50, 1.53 and 44 per cent percent respectively. This ratio recorded a negative growth i.e. 1.72 per cent per annum during the period under study. The high value of co-efficient of variation reveals that this ration has been fluctuating over a period of time. However, this ratio confined to remain low geared throughout the study period under study and exhibited a declining trend.

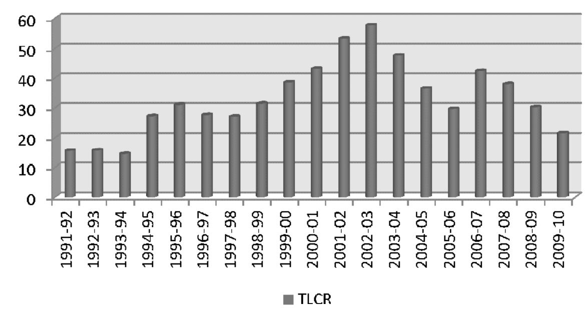
Fig. *6.2.4 Capital Gearing Ratio: (CGR)*



6.2.5. Total Loans to Total Capitalization Ratio: (TLCR)

This ratio is calculated to find out the relationship between the total loans and the total capital of the Corporation. The ratio reveals the distribution of loans out of the total capitalization. The ratio indicates the capital used by the corporation for the disbursement of the loans etc. The analysis (Table 3) reveals that the percentage of loan out of total capitalization stood less than 50 per cent during the period under study except the years 2001-02 and 2002-03. The value of this ratio on an average stood at 36.97 per cent during the period under study. Thus it shows a low percentage of loans out of total capitalization. This indicates the inefficiency of the Corporation as per its motive for the upliftment of SCs and STs. The Corporation should pull off its socks in this context as the loan disbursement is a major activity of the Corporation. The standard deviation and co-efficient variance of this ratio stood at 12.23 and 37 per cent respectively. The growth rate is 1.74 per cent per annum which reflects a negligible increase in the loan disbursement out of total capitalization of the corporation.

Fig. 6.2.5 Loans to Total Capitalization Ratio: (TLCR)



7. PROFITABILITY RATIOS IN RELATION TO INVESTMENTS

In order to analyze the overall profitability of the Corporation its profit is compared with the investments. Following profitability ratios are computed:-

(i) Return on Gross Capital Employed Ratio (RGCER)

(ii) Return on Net Capital Employed Ratio (RNCER)

Table 4
Profitability Ratio (in per cent)

Years	*RGCER*	*RNCER*
1991-92	(1.79)	(1.79)
1992-93	0.38	0.03
1993-94	(0.15)	(0.15)
1994-95	0.97	0.09
1995-96	1.59	1.62
1996-97	(0.44)	(0.44)
1997-98	0.11	0.11
1998-99	(4.46)	(4.48)
1999-00	(3.23)	(3.24)
2000-01	(0.51)	(0.51)
2001-02	(1.75)	(1.77)
2002-03	1.05	1.02
2003-04	(1.84)	(4.10)
2004-05	5.35	0.30
2005-06	0.07	0.58
2006-07	(1.41)	(1.42)
2007-08	1.88	1.89
2008-09	(0.03)	(0.31)

contd. table 4

Years	*RGCER*	*RNCER*
2009-10	(0.52)	(0.54)
Average	(0.25)	(0.69)
SD in %	2.09	1.75
CV in %	(838)	(254)
Growth -	-	

Source: As per table 3

* Data given in the above Table are derived from various relevant the annual Reports of Himachal Pradesh Scheduled Caste & Schedule Tribe Development Corporation.

** Growth rate cannot be calculated because of loss to the Corporation.

*** Figures in bracket indicates losses and decreases

*** Abbreviations used:

(i) RGCER: Return on Gross Capital Employed Ratio.

(ii) RNCER: Return on Net Capital Employed Ratio.

7.1. Return On Capital Employed Ratio: (ROCER)

This ratio indicates the efficiency and profitability of a company's capital investments. The ratio is computed as follows

$$ROCE = \frac{EBIT}{Total\ Assets - Current\ Liablities}$$

ROCE should always be higher than the rate at which the company borrows; otherwise any increase in borrowing will reduce shareholders' earnings. For the long term survival of the corporation, this ratio should be greater than the cost of borrowing funds.

A variation of this ratio is return on average capital employed (ROACE), which takes the average of opening and closing capital deployed during the period under reference.

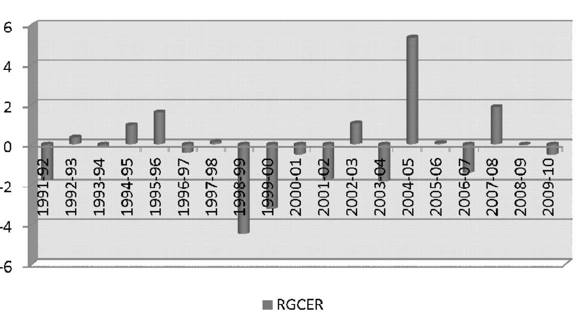
Capital employed and operating profits are the main components to assess these ratios. Capital employed may be defined in a number of ways. However, two widely accepted definitions are "gross capital employed" and "net capital employed". Gross capital employed usually means the total assets, fixed as well as current, used in business, while net capital employed refers to total assets minus liabilities. On the other hand, it refers to total capital which indicates capital reserves, revenue reserves (including profit and loss account balance), debentures and long term loans.

This ratio has been calculated to analyze the relationship between total liabilities to adjusted net profits. It is calculated to measure the overall profitability and efficiency of the corporation. Though the profitability is not an objective of the Corporation, since it is working for the upliftment of SCs and STs of the state, yet it is necessary that the Corporation must be efficient in providing loans to the beneficiaries. The ratio has been calculated and analyzed with regard to Gross Capital Employed as below:

7.1.1. Return on Gross Capital Employed Ratio

The analysis revealed a mixed trend in the ratio. Both positive and negative ratios are observed during the period under study. This ratio analyses intergenerational equity and the match between source and uses of money. Neither excessive return nor losses are desirable. The highest positive ratio (5.35 per cent) is observed in the year 2004-05 and lowest (-4.46 per cent) in 1998-99. The average return on gross capital employed has been observed to be 0.25 per cent. This low mean value signifies that the Corporation is not working efficiently. The value of standard deviation has been calculated to be 2.08 per cent whereas the value of co-efficient variance is 838 per cent which shows huge yearly variations in data.

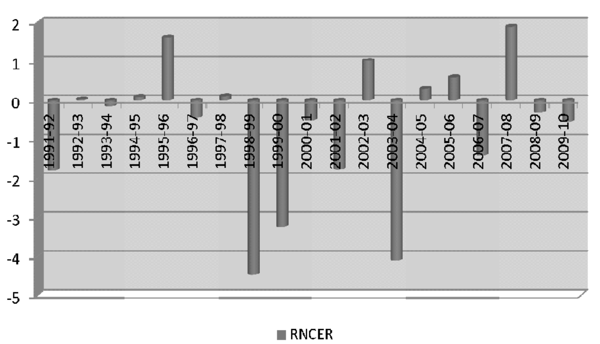
Fig. 7.1.1 Return on Gross Capital Employed (RGCE) :



7.1.2. Return on Net Capital Employed Ratio

This ratio analyzes the intergenerational equity and the match between sources and uses of money. To find out the relationship between the adjusted net profit and net capital employed i.e. gross capital employed minus current liabilities. Neither excessive profit nor losses are desirable when it comes to return on capital employed. The analysis reveals negative ratios in the four years and in other ten years also it is very meager. On an average return on net capital employed stood at -0.69 per cent per annum during the period under study. During the year 2007-08, the value of this ratio stood highest (1.88 per cent). On the contrary, the value of this ratio stood negative in as many as eleven years under study. The value of co-efficient of variation reveals that there existed huge yearly variation 25.4 per cent with respect to this ratio during the period under study.

Fig. 7.1.2 Return on Net Capital Employed (RNCE):



Conclusion: In brief the analysis revealed that overall financial health of the Corporation is not very sound. Although, short term financial health of the Corporation appears to be very sound as compared to the long term financial health which is quite unsound yet the other side of the mirror is quite different. A combine study of short term solvency ratios reveals that High current and absolute liquid ratios resulted from release of funds by the government at the fag end of the year is not perfect measures to judge the short term financial health of the Corporation. Similarly, parking of excessive funds in the form of working capital in comparison to the total assets is also not a good sign to judge the short term financial health of an organization. On the other hand long term solvency position of the Corporation is quite alarming. It also makes a question mark on the survival of the corporation in the long run. The gap between income and expenditure of the Corporation is widening day by day due to increase in the administrative expenditure particularly under the head Salary and allowances. Non receipt of administrative grant from the government on the one hand and instant hike in the salary of the employees in the recent years due to revision pay scales the other hand had widen the gap between income and expenditure of the Corporation in recent years which has resulted in successive losses being incurred by the Corporation year after year. Overall profitability ratios of the Corporation are also favorable. Corporation being a nonprofit organization has to control its expenditure on various heads in relation to increase in its earning to earn profit to survive in the long run. The Corporation should opt for an optimal financing mix to meet out its capital requirement to decrease the gap in the interest earned and interest paid and to recycle the funds rather to go for loans for refinancing the projects. Long term solvency ratios of the Corporation also indicates that the Corporation has to design a sound and economical capital structure to survive in the long run.

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