Analysis And Interpretation Of Performance Of Haryana Financial Corporation

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Abstract: Share capital forms the initial funding of the Corporation. The authorised share capital of HFC can be fixed by the state government but it cannot be less than Rs. 50 lakh and more than 50 cores as defined under the SFC Act, 1951. The borrowing has registered an ACGR of 10.9% during the study period, which is quite high. It can be noticed from table 3.1 that till March 1968, HFC was able to raise funds of Rs. 390.80 lacs by borrowing which has increased to Rs. 24069.03 lacs on March, 2007. Profit is considered to be one of the important indicators of financial performance of any concern. According to table 3.2, the irregular trend in the level of profit do not reflect so good performance of HFC. Reserves are created for different purposes like taxes, depreciation etc. So amount in reserves is also a indicator of financial strength of an institution. Table 3.2 shows that amount in reserves increased from Rs. 15.01 lakhs in 1968 to Rs. 1652.53 lakhs in 2007. Reserve amount of HFC has grown at ACGR of 12.2%. These reserve work as a source to meet the working capital requirement of any concern.

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Introduction:

The State Financial Corporations are statutory bodies formed under the State Financial Corporation Act, 1951, whose function is to provide finance to industries within state borders. It was due to the limited scope of the Industrial Finance Corporation of India that it become necessary to set-up finance corporations at the state level to cater especially to the needs of small scale and medium scale industries and for removing inter-regional, inter-district imbalances in industrial development of the states. SFCs provide assistance to industries in the form of term loan, direct share contribution in equity/debenture, encashment of exchange bills etc.[1,2] Facilitating investment in hitherto backward areas and creation of new class of entrepreneurs in the small scale sector remain their primary objectives, though they also provide assistance to the medium scale sector. In this context, the following study is undertaken of a special corporation – The Haryana Financial Corporation and its role in development of small scale industries in Haryana.[3] Haryana Financial Corporation was set up on Ist April, 1967 for providing long term financial assistance for setting up industries in the state. The principal objective of the HFC is to provide medium and logn term financial assistance to small and medium scale industrial enterprises in Haryana, with a view to, accelerate the growth rate of industrial production, provide additional employment opportunities and reduce regional imbalances.[4,5] Thus HFC plays a more significant role in industrial development in Haryana. It was in this background that HFC had been set up to fill up the gap left by other leading financial institutions investing in the credit needs of modern and small scale industrial units in the state.[6]

Growth of Financial Resources:

The financial resources of any institution act as a pivot around which all other activities revolve. It is due to this reason that the growth of these resources over a period of time has been taken as an important indicator, which improves or deteriorates the performance of the Corporation.[8]

The financial resources of the HFC may be broadly divided into two parts: -

(i) External Sources- (a) Share capital (b) Borrowings

(ii) Internal Sources- (a) Profits (b) Reserves (c) Recoveries

Share capital

Share capital forms the initial funding of the Corporation. The authorised share capital of HFC can be fixed by the state government but it cannot be less than Rs. 50 lakh and more than 50 cores as defined under the SFC Act, 1951.[10] Following parties can subscribe to the share issued by HFC.

(a) State Government
(b) Reserve Bank of India
(c) Development Banks
(d) Scheduled Banks, Insurance Companies, Investment Trusts and Co-operative Banks.
(e) Private individuals and firms.

The Corporation was allotted the authorised share capital of Rs. 31.22 lakhs on the reorganisation of Punjab Financial Corporation in 1967. This was enhanced to Rs. 100.00 lakhs in the same year as per provision of section 4 of the SFC Act, 1951. The paid-up share capital in the same year was Rs. 68.05 lakhs. According to the table 3.1 the paid-up share capital has shown an increasing trend over the years. In 1997-98 the authorised share capital and the paid-up share capital was increased to Rs. 4000 lakhs and Rs. 3387.05 lakhs respectively. In the last financial year, the paid-up capital stood at Rs. 3892.51 lakhs after the authorised capital had been raised to Rs. 5000 lakhs. (i.e. 50 crores, the upper limit as per SFC Act, 1951). The share paid-up capital has grown at the ACGR of 10.6% during the study period.

Table 1: External Sources of Finance of HFC (Rs. In Lacs)

Year	Paid-up Share Capital	Borrowing
1967-68	68.05	390.80
1968-69	69.10	487.59
1969-70	72.53	496.53
1970-71	80.65	537.74
1971-72	89.11	671.75
1972-73	92.00	854.44
1973-74	120.15	1063.78
1974-75	185.20	1299.32
1975-76	218.19	1761.78
1976-77	298.00	2082.17
1977-78	309.62	2110.06
1978-79	315.12	2254.99
1979-80	346.00	2294.93
1980-81	388.66	2349.39
1981-82	407.07	2561.79
1982-83	467.07	3437.24
1983-84	487.07	4086.17
1984-85	521.07	4678.43
1985-86	551.07	5315.17
1986-87	631.07	5987.42
1987-88	741.07	6668.76
1988-89	901.07	7700.48
1989-90	991.07	9134.13
1990-91	1091.07	11629.99
1991-92	1221.07	14545.92
1992-93	1591.07	19615.26
1993-94	1751.93	26718.92
1994-95	1742.27	32161.66
1995-96	2128.27	39151.66
1996-97	2133.24	49618.50
1997-98	3387.05	56770.60
1998-99	3387.05	59204.61
1999-00	3387.05	52942.97
2000-01	3405.84	50900.87
2001-02	3179.97	47153.65
2002-03	3176.08	45130.39
2003-04	3176.08	37792.94
2004-05	3176.28	31350.39
2005-06	3392.51	25139.49
2006-07	3892.51	24069.03
ACGR	10.6%	10.9%

Source: Annual Reports of HFC, Chandigarh.[9]

Borrowing

Borrowing includes bonds, debentures and loans from Haryana Government, various banks and insurance companies. Lastly the industrial development bank of India (IDBI) and small industries development bank of India (SIDBI) also render assistance under their refinancing scheme. The borrowing has registered an ACGR of 10.9% during the study period, which is quite high. It can be noticed from table 3.1 that till March 1968, HFC was able to raise funds of Rs. 390.80 lacs by borrowing which has increased to Rs. 24069.03 lacs on March, 2007.

Profits

Profit indicates the excess of revenue over expenses. Profit is considered to be one of the important indicators of financial performance of any concern. According to table 3.2, the irregular trend in the level of profit do not reflect so good performance of HFC. Upto the year 1997-98, profit shows an upward trend but after this the profit has a decreasing tendency, which is not a healthy sign for any financial institution. The main reason for reduction in profit are competition from banks, downward revision in lending rates and rebate in interest rates to good borrower. Income tax, which the HFC has to pay to Income Tax Dept., is also a reason of low profit level. The profit of HFC has grown at ACGR of 9.4% during 1967-2007 which is not very satisfactory. Profit can be enhanced by increasing the level of efficiency, better collection policy and streamlining the expenditure structure. HFC should approach to Central Board Of Direct Taxes for granting complete exemption from income tax on the line of Industrial Development Bank of India (IDBI).

Reserves

Reserves include share premium, share forfeited and special reserve for the purpose of section 36 (i) (Viii) of the Income Tax Act, 1961. Reserves are created for different purposes like taxes, depreciation etc. So amount in reserves is also a indicator of financial strength of an institution. Table 3.2 shows that amount in reserves increased from Rs. 15.01 lakhs in 1968 to Rs. 1652.53 lakhs in 2007. Reserve amount of HFC has grown at ACGR of 12.2%. These reserve work as a source to meet the working capital requirement of any concern.

Recoveries

The HFC extends financial assistance to entrepreneurs to help them in setting up new industries or expanding and modernisation of existing units. But at the same time, the recovery of loans with interest from such concerns is essential to ensure the financial health of the Corporation. In fact, a good recovery position accelerates the pace of further progress as it improves cash inflows and generates sufficient resources to be ploughed back into the activities of the Corporation. Raid recycling of funds is the case of achieving improved operational results.

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