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"Performance Evaluation of Haryana Financial Corporation"

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Abstract: *Haryana Financial Corporation has been set up under the State Financial Corporation Act 1951 to meet the credit needs of small and medium scale industrial units by advancing the loans. It has already engaged in this field for more than 47 years. So, it is high time that its performance should be judged. That is why, the investigators have decided to analyze and evaluate the operational and financial performance of HFC through this research paper. This research paper is based on the performance of the last 5 years made by HFC from 2008-2009 to 2012-2013. Information are collected through secondary data and they have been analyzed and judged by using financial ratios. The findings reveal that the financial and operational performance of HFC is declining from last 5 years due to heavy losses, poor solvency and liquidity status as well as downward recoveries of loans. So there is acute need to take some major and effective steps by HFC for improving its financial as well as operational status.*
Keywords: *HFC, Operational and financial performance, Financial ratios*

I. Introduction

When normal banking accommodation became inappropriate to make available medium and long-term capital to industrial concerns in some particular circumstances, the INDIAN FINANCIAL CORPORATION was established by an Act of Parliament in 1948. At that time of setting up of the IFC, the necessity for the establishment of similar institutions, which would assist smaller industries in different states, had also been recognized because it was not possible for a single institution to cope with the capital needs of smaller concerns sprawling all over the country.

Accordingly, the State Financial Corporation Act was passed in 1951. This empowered the state government to set up financial institutions for industrial development in their respective states. At present, there are 19 SFCs operating in India.

II. Historical Background Of Haryana Financial Corporation (HFC)

Haryana Financial Corporation (HFC) was setup by Government of Haryana under the state Financial Corporation Act, 1951. It came into existence from April, 1 1967, as a sequel to the reorganization of the erstwhile large state of Punjab under Reorganization Act 1966. Under the Punjab Reorganization Act, 1966 a scheme was formed for the reorganization of the erstwhile Punjab Financial Corporation, sanctioned by the central Government vide notification number F.6 (46) – corp/66 dated 23-3-67 of the Government of India by the Ministry of Finance, Department of Economics Affairs. Under the said scheme for the reorganization of the Punjab Financial Corporation, the area of Jurisdiction of that corporation was limited to the territories of the reorganized states of Punjab and three new financial Corporations, Haryana Financial Corporation, Himachal Pradesh Financial Corporation, and the Delhi Financial Corporation.

Under the terms of the aforesaid scheme, HFC came in to existence on April, 1st 1967 as a new state Financial Corporation by the state Government Vide their notification number 3569-21-8-67/5997, dated March, 31st 1967, with its head office at Chandigarh to cater to the needs of small and medium scale industrial units in Haryana and there by encourage the growth, development and expansion of industries in the state. The establishment of HFC by the Government of Haryana shows the Government's efforts and will for industrial in the state.

The chief objective of the HFC is to provide medium-term and long-term financial assistance to small industrial enterprises in the state of Haryana, with a view to accelerate the rate of growth of industrial production, providing additional employment opportunities and reducing regional imbalances.

III. Need Of Study

Haryana Financial Corporation has been setup under the SFC Act, 1951. HFC meets the credit needs of small /medium scale industrial units by advancing the loans. The HFC has already engaged in this field for more than 47 years. It is high time that its performance should be judged to find out how it has been successfully achieving those objectives which it had set at the time of its establishment on the other.

The need of the study is to show the operational and financial i.e. overall performance whether progress has been made by the HFC, whether it has been fulfilling the need of the industrialist in the best way or not in past or present, and to suggest how it can give more contribution in fulfilling the objectives.

IV. Review Of Related Literature

Singh Arora and Anand (1991) analyzed in their work entitled **"Performance Evaluation of SFCs: A Comparative operational and financial performance of the Punjab Financial Corporation (PFC) and Haryana Financial Corporation (HFC)** on the basis of ratio analysis. The performance has been measured over a period 23 years from 1967-68 to 1989-90. It is revealed from the study that the performance of PFC is better than that of HFC. PFC seems to have an edge over HFC with respect to over-dues, percentage of loans outstanding and recovery performances. But, operations profitability of ?HFC is better than that of PFC. This may be due to comparatively larger portions of PFCs total disbursements going to backward areas, where assistance is given at a confessional rate of interest.

Gupta and Vashistha (1996) in their study analyzed the **Operational performance of HFC**. The study reveal the fact that the HFC is playing a vital role in financing and nurturing small and medium scale industrial units in all the districts of the state, so as to remove regional imbalance in the industrial growth. Sanctioning and disbursement by HFC been quite impressive, but recovery position has been very poor because of lack of proper monitoring system.

Kaur (1999)in her paper**" Operational Performance of State Financial Corporation (A case study of PFC)"**, analyzed the study into two sections: growth of sanctions and disbursements, purpose wise, organization-wise and sector-wise analysis of assistance has been made in section-I and operational performance of PEC has been evaluated from beneficiaries view point in section-II of this study. It is observed from the study that the purpose-wise analysis of the assistance by the PFC reveals wide gaps. Rationalization, modernization and rehabilitation etc. have remained neglected in spite of the fact that these aspects of industrialization are very important in the changing economic scenarios. The study reveals that the PFC acts as an engine of growth in the small scale sector.

Singh (2000) in his study entitled **"The role of financial institutions in the Industrial Development of Punjab."** observed that from amongst the 18 SFCs in the country, Tamil Nadu state Financial Corporation (T.N. SFC) with sanctions of 92.41% to S.S. I sector Himachal Pradesh state Financial Corporation (HPSFC) with 59.6% of sanctions to SSI sector was at the top and bottom of the group respectively. During 1980-84, Punjab Financial Corporation sanctioned 80% of its loan to SSI sector, thus playing an important role of the industrialization of Punjab. However, the concentration of industrial activities was limited to only a few industrially developed districts of Punjab.

Verma, Sushma Rani (2010) in her paper entitled **"Performance of Haryana financial Corporation in Liberalized era"** analyzed the performance of HFC in Liberalized era and found that the performance of HFC is declining year by year and it is not achieving its objectives.

V. Objectives Of The Study

The primary aim of the present study is to make an analytical study of the performance of the HFC in order to know whether the corporation is discharging its responsibilities and giving necessary fill up to industrialization in Haryana. The specific objectives of the study are as follows:

1. To analyze and evaluate the operational performance of HFC.
2. To analyze and evaluate the financial performance of HFC.

VI. Limitations Of The Study

The present limitations of the study are as follows:

1. The study is based on the performance of the last five years (2008-2009 to 2012-2013)of the said Corporation.
2. The study does not contain the comparison of performance of said Corporation with other similar Corporations.
3. The area of the study is kept limited due to the shortage of time and financial position.

VII. Research Methodology

To fulfill the objectives of the present study, following research methodology has been used:

1. **Selection of SFC for study:**

As stated in the "Need of the study", one SFC namely HFC operating in Haryana has been selected for the purpose of the study.

2. **Collection of data:**

The main sources of secondary data are published annual reports, manuals, pamphlets and other Printed literature of the institution.

3. **Analysis of Data:**

Analysis of data is most skillful task of all the stages of the research. To achieve the desired objective, the collected data has been analyzed properly by using financial ratios. Some important financial ratios, like NPM, ROI, ROE, Current ratio, Quick ratio and DER have been computed and analyzed to assess the financial performance of the reference period.

4. **Period of analysis:**

In order to achieve the objective of the study, a time series data on the relevant indicators have been collected from 2008-2009 to 2012-2013.

VIII. Findings

Financial Performance

	2008-09	**2009-10**	**2010-2011**	**2011-12**	**2012-13**
Current ratio	2.45	2.39	2.27	1.58	0.94
Quick ratio	2.16	2,08	1.93	1.58	0.94
Debt-Equity ratio	1.23	3.72	3.02	2.52	1.57
Operating profit margin	72.26	74.56	59.34	-17.55	-98.60
N/P Margin	-8.67	48.41	27.51	-188.36	-2.05
Return on capital Employed	4.92	4.38	4.28	1.84	0.36
Return on Net worth	-3.67	13.54	7.69	48.08	-0.51

Findings of the financial performance reveal the following facts:

1. The performance of HFC is going to downward in profit point of view. The operating profit for 2008-2009 of HFC is 72.26 crores, but now in 2013 it is -98.60. The net profit margin ratios show loses continuously from last five years except 2010-2011.
2. The liquidity ratios show declining performance of HFC.
3. There is lot of ups and downs in solvency status of HFC.

Operational Performance

	2008-09	**2009-10**	**2010-2011**	**2011-12**	**2012-13**
Loan sanctions	64.57	23.48	1.16	0.00	11.39*
LOAN DISBURSEMENTS	23.94	21.38	3.22`	2.37	11.92*
Loan recoveries	73.73	58.34	62.03	45.98	39.36

***Auction purchaser cases**

Findings of the operational performances reveal that

1. In 2008-09, 2009-10, 2010-11, the loan sanctions and disbursement reduced year by year. There were no sanctions in 2011-12 and the disbursement in the same year was for the previous year's loan.
2. The most surprising part is that the loan sanctions and disbursements by HFC in 2012-13 include only auction purchaser cases.
3. The recoveries of loan made by HFC show declining continuously for the last five years.

IX. Suggestions

As per the findings concluded above, the researchers want to suggest the following things:

1. Due to downward financial performance of HFC, its operational performance is going to be effective reversely. Therefore, first of all, HFC should improve its financial performance.
2. The main emphasis of HFC is to recovery the loans; therefore, there are few disbursements and few sanctions in loan made by HFC, which should be improved only by making effective plans regarding financial point of view.
3. HFC should increase the amount of loans sanctioned and disbursements, which will helpful in improving its overall performance.
4. HFC should increase the sale of NPA through which it can earn maximum profits and can reduce its losses and improve its position in the capital market as well as it can maximize the wealth of the shareholders.

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