



To cite this article: Dr. Kamlesh Devi, and Dr. J. S. Rana Professor (CS) (2024). A STUDY ON PERFORMANCE EVALUATION OF A STATE PUBLIC SECTOR UNDERTAKING IN HIMACHAL PRADESH, International Journal of Research in Commerce and Management Studies (IJRCMS) 6 (3): 60-67 Article No. 260 Sub Id 498

## A STUDY ON PERFORMANCE EVALUATION OF A STATE PUBLIC SECTOR UNDERTAKING IN HIMACHAL PRADESH

Dr. Kamlesh Devi, and Dr. J. S. Rana Professor (CS)

Associate Professor (Commerce)  
Indus International University – Una. HP

DOI: <https://doi.org/10.38193/IJRCMS.2024.6307>

### ABSTRACT

Himachal Pradesh occupies sixth position in the country in respect of its forest coverage. Forests are an important resource of the state and it occupies an area of 36,986 sq. km. This accounts for about 66.4% of the total geographical area of the state.

‘Himachal Pradesh State Forest Corporation Ltd.’ being unique in its nature has to perform numerous activities relating to Timber extraction work, Bamboo extraction work, Resin extraction work, and Resin processing and marketing work etc. So, it becomes very essential to study the performance of the Corporation to pin point its strength and weakness.

In this study an attempt has been made to evaluate the performance of Himachal Pradesh State Forest Corporation. In order to make this study intensive and more comprehensive, it covers a period of thirteen years i.e. from 1994-95 to 2006-07. The basic purpose of this study is to evaluate the financial performance of the Corporation. It includes short-term financial performance, long-term financial performance, and profitability performance.

This doctoral level scholastic investigation is being presented in a nutshell. Here only evaluation of Secondary Data towards performance of Himachal Pradesh State Forest Corporation Ltd is being shown.

**KEYWORDS:** Forest, STFP, LTFP, PP, PP Royalty, Accumulation, Interval Measures, PV Profit Relationship, Recasting, Effective Management, Faster Reporting

### INTRODUCTION

Himachal Pradesh State Forest Corporation Ltd.’ being unique in its nature has to perform numerous activities relating to Timber extraction work, Bamboo extraction work, Resin extraction work, and Resin processing and marketing work etc. So, it becomes very essential to study the performance of

the Corporation to pin point its strength and weakness.

### **RESEARCH DESIGN**

The data for present research has been collected from secondary sources. The secondary data has been collected mainly through annual reports and other relevant records of the Corporation. Since the present research work is concerned with the 'Performance Evaluation of Himachal Pradesh State Forest Corporation Limited' the main sources of secondary data are Annual reports of HPSFC Ltd., Memorandum and Article of Association of HPSFC Ltd., Official records published as well as unpublished, Manuals of Forest Department, Manuals of the Corporation, H.P. Government Finance Department's published records 2005-06 and Notifications issued under the Indian Forest Act.

### **Major Findings**

The major findings of the study are summarized as follows:

#### **Short-term Performance**

It has been observed that the short-term performance of the Corporation has not been at satisfactory level. Corporation is not in a position to pay off its current liabilities out of its existing current assets. This is evident from the liquid ratio and absolute liquid ratio of the Corporation, which are below than the conventional norms. The average quick ratio of the Corporation has been found to be 0.31 and it ranged from minimum 0.13 in 2003-04 to a maximum of 1.29 in 1996-97. However, this ratio remained below 0.32 in the remaining twelve years. A high current ratio along with low quick ratio indicates a very high level of pre-paid royalty and inventory accumulation with the Corporation. It also affects adversely its capacity to pay its current liabilities in time. There is a need to make qualitative improvement in its current assets so that it is able to meet its current obligation without any difficulty.

The interval measure indicates that HPSFC Ltd. has sufficient liquid assets to finance its operations. On average, its liquid assets are sufficient to finance its operating expenses for 149 days during the period under review. However, the year wise break of interval measure indicates significant variation from 71 days in 1995-96 to 418 days in 1996-97. It is clear from the interval measure that the level of its current assets is not only very high but also slow moving.

The net working capital ratios of HPSFC Ltd. has been found be very high during the study period. The average net working capital ratio has been observed to be 0.96 with relatively low fluctuation. This ratio varies from minimum 0.85 to maximum of 0.99 during the study period. This ratio is very high and almost on average 96% of its net assets has been invested in net working capital leaving small proportion of capital for fixed assets.

Its average inventory turnover ratio of finished goods is 5.36 times and it ranged from 4.17 times in 2001-02 to 8.03 times in 1996-97.

The average debtors' turnover ratio has been found to be 11.33 times. However, this ratio varies minimum from 7.67 times in 2000-01 to 17.61 times in 2003-04 during this period. The average collection period of its debtors comes to be about 34 days and it ranges from minimum 21 days in 2003-04 to a maximum of 48 days in 2000-01. The debtors are allowed credit for a maximum period of 3 months. The debtor turnover ratio and debtor collection period actually observed have been good as compared to its collection policy. It has been able to collect its debtors promptly without any delay. It has collected its debts efficiently on account of better sale discount allowed by it for making payment within 20 days.

Working capital ratios of HPSFC Ltd. has been found to be extremely low on account of the fact that HPSFC Ltd. has paid huge amount to the state government as royalty. This amount has been shown as current assets being royalty paid in advance in successive balance sheets. The presence of royalty paid in advance has reduced this ratio significantly and as a result working capital turnover period ranges between 4 months to 70 months on sale price basis.

It is clear from its fund flow statements and cash flow statements that HPSFC Ltd. has been generated its sources mainly from borrowings and more recently by significant reduction in its working capital. It has utilized its funds mainly to repay its borrowing and finance its working capital. It has not raised any amount by issue of share capital. It has also lost significant funds/cash to cover its operating losses.

### **Long-term performance**

The long-term solvency of the Corporation has not been found sound. The Corporation is following a casual approach in its financing and investment policy. As the debt-equity ratio of the Corporation is very high, which reveals that the Corporation has adopted the debt financing policy to finance total assets employed and the creditors of the Corporation do not have a sufficient cushion of net worth towards their claims. The debt-equity ratio of the Corporation has been computed for four years when its equity was positive. Even in these four years, its debt-equity ratios were extremely high ranging from 98.11 times to 298.75 times and the average being 192.53 times. It is clear that it has been generating its resources from the outside creditors. Absence of equity or extremely high debt-equity ratios are the indicator of its unsatisfactory financing pattern and its net worth has been negative during this period with the exception of four years. Even during these four years, its proprietary ratios were below one percent. The average proprietary ratio was 0.42% during these four years. This implies that the proportion of fixed assets financed by the proprietors' fund was very small and insignificant. In

fact, HPSFC Ltd. has been financing its assets exclusively from borrowed funds since 2002-03.

The interest coverage ratios of the Corporation have been very low during this period. This ratio has been deteriorated year after year with minor exception in one year. Its earnings are hardly enough even to meet its interest obligation. The average interest coverage ratio was about 0.58 (Average EBIT or EBDIT/Average Interest). This implies on average its earnings could meet 58 percent of its interest liabilities and remaining 42 percent of its interest obligation has been paid out of its long-term funds. The Corporation has been making excessive use of debts and also showing inefficiency in its operation.

### **Profitability Performance**

The profitability of the Corporation is extremely poor and in fact it has been suffering losses continuously after 2001-02. It has earned some profits in five years i.e. in 1994-95, 1995-96, 1997-98, 2000-01 and 2001-02. However, it has suffered huge losses since 2002-03 and its net worth has been turned out to be negative.

It is clear from the cost-volume-profit relationship analysis that it requires sustained and massive efforts to increase its volume of sales even in order to achieve the break-even-point. However, significant increase in its sales volume during 1997-98 coupled with significant reduction in its variable cost and fixed cost resulted in not only reducing break-even-point but also earning profit to the extent Rs. 5.51 crores. Its sales in the remaining period from 1994-95 to 2006-07 remained much below even from its break-even-point.

The average gross profit ratio of HPSFC Ltd. has been found to be 26.78 percent during this period with ranging from minimum 15.36 percent in 2002-03 to a maximum of 36.75 percent in 2006-07. Its gross profit ratio has been increasing after 2002-03. No doubt, its gross profit is rising yet it is not sufficient to cover even its operating expenses.

The average operating ratio of HPSFC Ltd. is very high. It is 104.23%. The operating ratio of the Corporation varies from minimum 94.38 percent in 1997-98 to a maximum of 122.73 percent in 2003-04. Its operating ratio remained very high during the study period and even exceeded 100 percent mark from the year 1998-99. It shows its operating expenses are very high and resulting in very small amount of operating profit in the first four years and thereafter, resulting in operating losses. High operating cost also shows that its operating efficiency is very poor and it is incurring losses on account of high operating cost.

The breakup of the operating ratio into different expense ratios shows that huge increase in its

employees' remuneration and benefits. No doubt, cost of goods sold and administrative, selling expenses and interest paid need to be controlled but the immediate focus of the Corporation shall be to exercise proper control over its employment cost by increasing the efficiency of its personnel and to prevent over employment.

The return on gross capital employed during the study period has not only been very poor but it was negative in four years. The average return on gross capital employed was merely 1.14 percent and it has shown a declining trend during this period. Thus, the overall profitability of HPSFC Ltd. in relation to funds supplied by the creditors and owners taken together is extremely low even negative.

The capital turnover ratio of the Corporation has been very low with minor exception of first two years. Its capital turnover ratios were 2.75 times and 4.48 times in 1994-95 and 1995-96 respectively. Thereafter, its capital turnover ratios declined significantly. It came down to 1.02 times in 1997-98. The ratio ranged between 0.17 times to 0.36 times during 1997-98 to 2003-04. However, it improved after 2003-04 but remained below 1. Low capital turnover ratio is the indicator of its poor efficiency and poor effectiveness in utilization of its resources.

### **Suggestions**

An attempt has been made to suggest some measures to improve its performance and profitability. These suggestions are as under:

#### **1. Recasting the Capital Structure of the Corporation**

The Corporation has suffered heavy losses with minor exception in four years during the period under review. It has lost its entire capital and its net worth has been turned to be negative. There is an urgent need to recast and reorganize its capital structure. The state government should provide it sufficient capital not only to make good its accumulated losses but also provide sufficient amount to acquire fixed assets, to repay its debts and finance working capital. The state government can contribute capital in the form of equity capital or combination of equity capital or interest free loan keeping in view its fragile financial condition. Its dependence on borrowed funds such as long term loans from financial institutions and commercial banks shall be reduced by repayments of their loans till the Corporation become financial viable entity.

#### **2. Proper and Effective Management of Working Capital**

The Corporation has not managed its working capital effectively and efficiently. Excess working capital has resulted increase in cost of financing its working capital. There is an urgent need to assess its working capital requirements more accurately and make arrangement of its funds accordingly by matching with the time of its requirements. Excess working capital shall be used to pay debts with higher interest or invested temporarily in such a manner that it gives it both income and liquidity. In order to manage its working capital effectively, there shall be proper balance in different components

of the working capital.

### **3. Use of Cost Effective Latest/ Modern Technology**

The Corporation has been carrying out its work on traditional technology and outdated methods resulting into high cost of its different activities. In order to reduce its total cost, it shall immediately use cost effective latest and modern technology to carry out its different activities. It shall evaluate the impact of such technologies available in the market on reducing its operating cost significantly and improving the qualities of its products for getting better prices in the market. A thorough cost benefit analysis of such technologies shall be carried to increase its profitability.

### **4. Diversification of its Activities or Business**

The main business of the Corporation such as timber extraction, production of rosin and turpentine oil is showing a significant declining trend during this period if price level changes are also taken into account. Consequently, its cost is rising. In order to use its human and other resources effectively, it shall consider the possibility of diversifying its activities in other related field. It can diversify its business by making value addition in its main products and incorporating other activities within the scope of its business. It should take into consideration the possibility of:

- i) Making door and window frames from its timber,
- ii) Making doors and windows for residential houses, offices etc.,
- iii) Making furniture,
- iv) Collection and marketing of herbs and medicinal plants,
- v) Bamboo plantation and exploitation,
- vi) Eco – Tourism,
- vii) A forestation and Reforestation programs of the state government, and
- viii) Other products from forest produce.

### **5. Use of Technique of Standard Costing and Budgetary Control**

The Corporation should apply the system of standard costing for its different products after fixing standard cost for each product in a scientific manner. In order to use this technique effectively actual costs of these are reported from time to time to the relevant level of management with variance analysis to facilitate corrective action. In addition to this, the budgetary control system should be used to supplement the standard costing system.

### **6. Faster Reporting**

The communication among different divisions and units of the Corporation shall be as fast as possible. It shall not result any delay. Performance reports and other information shall be sent to appropriate level of authority for taking appropriate and timely corrective action. The greater emphasize in reporting should be given to report deviation immediately. Similarly, corrective actions should be intimated immediately to the persons concerned with implementation and execution of work. This will

help in controlling the cost more effectively.

## **CONCLUSIONS**

At present, the Corporation is marketing its different forest produces through open auction to the traders. There is every possibility that these traders may form the cartels to manipulate the auction prices by giving bid at low rate. The Corporation should review the present marketing policy and consider the option to sell its products directly to ultimate consumers. Apart from this, the Corporation should also consider the option to make value addition in its different products instead of selling these products in raw form. It can make frames from the timber for windows, doors, furniture etc. and minimizing the wastage of timber. Similarly, it can use rosin for manufacturing of paints.

## **BIBLIOGRAPHY**

### **A. BOOKS**

1. Aswathappa, K., "Essentials of Business Administration", Himalaya Publishing House Bombay, Delhi, Nagpur, Seventh Revised Edition 2000, Reprint 2003.
2. Aswathappa, K., "Essentials of Business Environment", Himalaya Publishing House, Mumbai, Delhi, Nagpur, Bangalore, Hyderabad, First Edition 1985.
3. Barnes, M.C., Fogg, A.H., Stephens, C.N. and Titman, L.G., "Company Organization +Theory and Practice", Published by Vanity Books International A – 38/2, Mayapuri Phase-I, New Delhi – 110064, 2001.
4. Dr. Aggarwal, M.D. and Dr. Aggarwal, N.P., "Financial Management: Theory, Practice and Control", Ramesh Book Depot, Jaipur, Thoroughly Revised and Enlarge Edition, 2001-02.
5. Dr. Gupta, L.M. and Dr. Sharma, K.P., "Business Studies", Publisher V.K. (India) Enterprises, New Delhi, Second Edition 1996.
6. Dr. Gupta, O.P., "Statistical Analysis", Rekha Prakashan, 3917 – Nai Sarak, Delhi – 110006, New Edition 2001.
7. Kaushal, T.L., "Economic Analysis", Kalyani Publishers, Ludhiana, New Delhi, Noida

### **B. JOURNALS**

1. Dr. K. Thiripurasundari, "Fiancial Analysis of Fishnet Works – A case study", The Management Accountant: Strategic Management Perspective, September 2002, Vol. 37, No. 9, The Institute of Cost & Works Accountants of India, website: [www.icwai.com](http://www.icwai.com), pp. 674-676.
2. Dr. Keshab C. Sinha, "Cooperative Societies vis-à-vis Private Producers in Handloom Industry: an appraisal of their role and objectives", The Management Accountant: capital flow & capital management, September 1999, Vol.34, No. 9, pp. 674-676.
3. Dr. M. Sakthivel Murugam, "Financial and Operating Performance of IT Enabled Industries", The Management Accountant: Costing and Cost Audit in Telecom, December 2002, Vol. 37,



- No. 12, The Institute of Costs and Works Accountants of India, Website: [www.icwai.com](http://www.icwai.com)., pp. 899-903.
4. Dr. M. Selvam, S. Vanitha, M. Babu, “Financial A study on Health of Cement Industry – “Z” Score Analysis”, The Management Accountant: Working Capital and Cash Flow, July 2004, Vol. 39, No. 7, The Institute of Costs and Works Accountants of India, Website: [www.icwai.org/myicwai.com](http://www.icwai.org/myicwai.com)., pp. 591-593.
  5. Dr. Moh’d Amir Khan, “Adopting a wider perspective in Managing Working Capital”, The Management Accountant: capital flow & capital management, September 1999, Vol. 34, No. 9, pp. 656.