

Financial Crisis in Himachal Road Transport Corporation

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Abstract

Road transport plays an important role in the process of economic development of the any state. In a hilly state, it is considered to be the life line of the people. In Himachal Pradesh other means of transportation is negligible the road transport acquires added significance. Himachal Road Transport Corporation has given transport facilities also in remote areas. HRTC has boosted the economical condition of other sectors of the state economy. But HRTC is suffering with the problems of breakdown, accident, low kmpl and shortage of staff. The financial position of HRTC is very miserable. There are so many causes regarding it like poor condition of roads, old buses, low per kilometres earning, unfair competition with Private operators, and leakage of revenue by conductors, drivers and passengers. This paper deals with the secondary study on *Financial Crisis in Himachal Road Transport Corporation*. The study has undertaken keeping in the view financial position of the HRTC. The Annual compound growth rate (ACGR) and average has been used for analysis of data. Secondary data collected from different journals, magazines, Financial Statement and Annual Administrated Reports of HRTC.

KEYWORDS: Financial, Capital, Revenue, Crisis, Expenditure and Leakage.

Introduction

An efficient transport system is a pre-requisite for sustained economic development. It is not only the key infrastructural input for the growth process but also plays a significant role in promoting national integration, which is particularly important in a large country like India. Transport system also plays an important role of promoting the development of the backward regions and integrating them with the mainstream of economy by opening them to trade and investment. Road Transport consists of movement of goods and people from one place to another. It offers a number of advantages such as flexibility, reliability, speed and door to door service. It promotes a balanced growth of the various regions in the country and can help in the dispersal of industry and commerce over wider regions. Road transport plays an important role in the process of economic development of the all states. In a hilly state it is considered to be the life line of the people. In Himachal Pradesh where other means of transportation is negligible the road transport acquires added significance. Since the commencement of the Five Year Plans, a major object of the Government of Himachal Pradesh has been to set up a close contact among the villages and nearby towns. For this purpose, bus transport has been doing a great deal by removing the isolation of villages and bringing about a better social and economic relationship among the villages and towns.

1. Establishment of Himachal Road Transport Corporation

In order to accelerate the process of economic development of the state the Himachal Road Transport Corporation (HRTC) was established in the year of 1974 after the merger of Mandi-Kullu Road Transport in Himachal Government Transport. At present, Himachal Road Transport Corporation has 23 operational units functioning in the state. The operation of the corporation is being controlled by four divisional officers functioning at Shimla, Mandi, Dharmshala and Hamirpur.

Besides providing passenger transport in the State, HRTC has been operating as goods transport system. HRTC has boosted the agriculture sector of the state. In Himachal Pradesh 62 per cent population directly or indirectly depend on agriculture. Most of the rural farmers of the state use HRTC buses for carry their agriculture product to the market. But HRTC is suffering with the problems of breakdown, accident, low kmpl and shortage of staff. The financial position of HRTC is very miserable. There are so many causes regarding it like poor condition of roads, old buses, low per kilometres earning, unfair competition with Private operators, and leakage of revenue by conductors, drivers and passengers.

2. Objectives of the Study

The main objective of the present research paper is to appraise the *Financial Crisis in Himachal Road Transport Corporation*. To achieve the main objective, the following sub- objectives are formulated.

1. To analyze the financial performance of Himachal Road Transport Corporation.
2. To study the leakages of revenue in Himachal Road Transport Corporation.
3. To make suggestion for the improvement of financial condition of Himachal Road Transport Corporation.

3. Methodology

The present paper is based on secondary data. Data has been collected from different journals, magazines and Annual Administrated Reports of Himachal Road Transport Corporation and Department of transport. The collected data has been analyzed by using Annual Compound Growth Rate (ACGR) and per year growth rate. Data has been taken from the year 2008-09 to 2014-15.

Annual Compound growth Rate (ACGR):

While calculating compound growth rate, the following equation has been used.

$$r = \left(\frac{A_n}{A_0} \right)^{\frac{1}{n}} - 1$$

- r = rate of the growth.
- A_n = is the figure of nth year.
- A_0 = is the figure of base year.
- n = is the number of years.

4. Financial performance

With a view to study the financial performance of Himachal Road Transport Corporation, it is important that an analysis of their revenue and expenditure should be made. It is the growth and structure of capital, revenue and cost of an institution which ultimately reflects its performance.

4.1 Capital Structure

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. The decision of determining the form or shape of capital is broadly referred to as capital structure.

Table-1 shows the capital structure of the HRTC. Capital contribution shows an increasing trend since 2010-11. The state Government contribution was 398.25 crores in 2010-11 and increased to 565.9 crores in 2014-15. The contribution of central government has found same in every year of whole the study period i.e. 15.44 crore. Loan from the Banks and other agencies were Rs. 59.62 crore in the year 2010-11 and rose to Rs. 143.48 crore during the year 2014-15. Total capital & Liability in the year 2010-11 was Rs. 851.30 crore and it becomes Rs. 1534.47 crore in the year 2014-15. Fixed assets include land, buildings, plant & machinery, passenger buses, other vehicles furniture and other office equipments. Total assets was Rs. 278.50 crore in the year 2010-11 it rose to Rs. 513.44 crore in the year 2014-15.

Table - 1

Capital Structure of Himachal Road Transport Corporation in the 2010-11 to 2014-15

(Rs. in Crore)

	2010-11	2011-12	2012-13	2013-14	2014-15
A) Capital & Liabilities					
1.Equity Share Capital	413.69	439.00	501.34	541.34	581.3
(a) State Govt. Contribution	398.25	423.53	485.90	525.90	565.9
(b) Central Govt. Contribution	15.44	15.44	15.44	15.44	15.44
2.Loans	59.62	62.26	70.72	97.00	143.48
3.Funds & Reserve	143.64	157.24	163.98	183.30	189.68
4.Deposit	1.67	1.65	2.07	2.64	2.40
5.Capital Reserve	9.60	8.90	7.42	5.71	121.43
6.Revenue Reserve	0.00	0.00	0.9	0.8	0.8

7.Liability	208.50	251.81	313.17	379.90	448.13
8.Provision	14.56	19.37	24.54	34.04	47.24
Total Capital & Liabilities	851.30	940.26	1083.36	1244.04	1534.47
B) Assets					
1.Fixed Assets	241.70	254.98	282.90	317.27	446.39
2.Investment	0.73	0.78	0.73	0.84	0.84
3.Current Assets	36.06	31.04	35.33	78.25	66.21
Total Assets	278.50	286.80	318.97	396.36	513.44

Source: Annual Reports and Official Statistics of HRTC of various years.

4.2 Cost structure

The cost are indicative of organizational health, the lower the cost the better the health of the organization at a given quality level of the services provided by the undertaking. The objective of indemnification and analysis of cost structure is to get a relative significance of various components/elements of the cost. Table-2 represents the trend of total cost in HRTC on 2008-09 to 2014-15. Operating cost is a major component of total cost and covers more than 95 per cent of it. As we know operating cost is a major component of total cost, when we see the 7 years data it shows increasing trend i.e. 97 per cent to 98 per cent except the last year. Similarly non operating cost shows decreasing trend except the last year. The maximum growth rate registered in the year 2014-15 i.e. 23.33 per cent. Operating cost has registered ACGR of 12.38 per cent as compare to ACGR of non-operating cost i.e. 2.80 per cent. Total cost has registered ACGR of 12.45 per cent.

Table-2

Cost structure of Himachal Road Transport Corporation in the year 2008-09 to 2014-15

Years	Operating Expenditure (Rs in crore)	Operating Expenditure as % of Total Expenditure	Non-Operating Expenditure (Rs in crore)	Non-Operating Expenditure as % of Total Expenditure	Total Expenditure (Rs in crore)	Growth Rate
2008-09	39732.32	97.78	903.34	2.22	40635.65
2009-10	42177.57	97.16	1230.85	2.84	43408.43	6.82
2010-11	49958.3	97.75	1148.1	2.25	51106.41	17.73
2011-12	55013.81	97.83	1222.16	2.17	56235.97	10.04
2012-13	67719.71	98.21	1234.46	1.79	68954.18	22.62
2013-14	73497.53	98.09	1432.16	1.91	74929.63	8.66
2014-15	89922.02	97.30	2491.40	2.70	92413.41	23.33

ACGR (%)	12.38	-0.07	15.60	2.84	12.45	
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Source: Annual Reports and Official Statistics of HRTC of various years.

4.3 Revenue Structure

Revenue represents that income which increases the owner's equity, except that arising from capital contribution. It results from the sale of services in the State Transport Undertakings in terms of fare collection from passengers through conductors. It is the main source of revenue of a passenger transport organization. It consists mainly of operating revenue/ traffic receipt and non operating revenue/non traffic receipt. Revenue realized from transportation of passengers and incidental revenue related to transportation of passengers constitutes traffic revenue. The source of traffic revenue includes.

- a) Sale of passengers tickets including monthly passes, advance booking etc.
- b) Charges for accompanied luggage.
- c) Reservation charges.
- d) Casual contract service charge.
- e) Postal mail charges.

Table 3 depicts the trend of revenue of H.R.T.C. operating revenue account for more than 99 per cent of the total revenue. Certainly, it has a capacity to influence the final determination of the result of operation. The ratio of non-operating revenue is less than one per cent. Table shows that during the study period, operating revenue of HRTC has increased with ACGR of 10.49 per cent but non-operating revenue has increased more than operating revenue and registered ACGR of 13.36 per cent. Total revenue has registered ACGR of 10.56 per cent. During the study period, maximum growth was calculated in the year 2010-11 i.e. 23.05 per cent and minimum growth was recorded in the year 2011-12 i.e. -1.29 per cent.

Table-3

Revenue structure of Himachal Road Transport Corporation in the year 2008-09 to 2014-15

Years	Operating Revenue (Rs in crore)	Operating Revenue as % of Total Revenue	Non-Operating Revenue (Rs in crore)	Non-Operating Revenue as % of Total Revenue	Total Revenue (Rs in crore)	Growth Rate
2008-09	37099.75	99.68	117.71	0.32	37217.74
2009-10	39509.06	99.62	149.55	0.38	39658.61	6.55
2010-11	48690.62	99.78	108.87	0.22	48799.5	23.05
2011-12	47989.15	99.62	181.72	0.38	48170.88	-1.29
2012-13	57638.46	99.62	220.44	0.38	57858.91	20.11
2013-14	66327.85	99.59	275.07	0.41	66602.92	15.11
2014-15	74567.63	99.23	575.91	0.77	75143.54	12.82

ACGR (%)	10.49	-0.06	25.46	13.36	10.56	
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Source: Annual Reports and Official Statistics of HRTC of various years.

4.4 Net margin

The analysis of net margin is taken up as it shows the financial health of the organization. Here total revenue is being compared with the total costs to determine the net margin.

Table-4

Analysis of financial position of HRTC from the year 2008-09 to 2014-15

(Rs. in Crore)

Years	Total Revenue	Total Expenditure	Net Profit/Net Loss)
2008-09	37217.74	40635.65	-3417.91
2009-10	39658.61	43408.43	-3749.82
2010-11	48799.5	51106.41	-2306.91
2011-12	48170.88	56235.97	-8065.09
2012-13	57858.91	68954.18	-11095.3
2013-14	66602.92	74929.63	-8326.71
2014-15	75143.54	92413.41	-17269.9
Average	53350.3	61097.67	-7747.37
ACGR (%)	10.56	12.45	

Source: Annual Reports and Official Statistics of HRTC of various years.

Table 4 depicts the situation, which is not favourable. The unfavourable situation depicts as there was uncontrollable increase in the cost of various inputs the non operating revenue, not running the operation on business principles. Hence the operating cost and operating revenues dominated the total costs and revenues which have adversely affected the margin. Table shows that during the study period, total revenue of HRTC has increased with ACGR of 10.56 per cent but Total expenditure has increased more than total revenue and registered ACGR of 12.45 per cent. Himachal Road Transport Corporation has earned average amount of Rs. 53550.3 crore and average expenditure is Rs. 61097.67 crore. The net margin comes out to be negative which indicates the excess of cost over revenue. So, it is clear from the table that HRTC is suffering with net loss of -7747.37 crore per annum.

5. Leakage of revenue

The leakages could be through- conductor, driver, cashier, booking clerks employed in booking offices, checking inspector, mechanic and store keeper.

A. By Conductors

- Non issue of tickets after collection of legitimate fare.
- Non issue of tickets and non collection of fare.

- Re-issue of tickets and wrong punching of tickets.
- Alternation in conductor waybill.
- Irregularities in luggage tickets or not disclosing exact weight of the luggage.
- Use of absolute tickets and use of tickets which are not included in the waybill.
- Sale of stolen tickets.
- Corrupt practices by driver and conductor in collusion with private operators.

B. Leakage's through Drivers

- Allowing extra passengers in contract carriages without knowledge of unit officer.
- Performing unauthorized trips especially during night halt periods.
- Not displaying proper route boards.
- Diesel/petrol selling practice resulting low earning per kilometers.

C. Leakage's through Passengers

- Over travelling by passengers.
- Keeping quiet when conductor enquiries about tickets.
- Travelling without tickets especially during peak hours.
- Use of stolen passes or over wring on bus passes.
- Travelling on pretext that they are HRTC employees.

D. Leakage by Checking Inspectors

- Not checking tickets properly.
- Corrupt practices by Inspector in collusion with conductors.

E. Leakage by Storekeeper and Mechanic

- Sale of spare parts like- tyres and tubes, spring leaf, pump etc.
- Sale of fuel and lubricant.
- Sale of other inventories like- office furniture, electronics, stationary etc.

6. Findings of the Study

By analyzing collected material from different journals and H.R.T.C. department some points are found that shows the financial condition of HRTC. The holistic findings of the study mentioned as below:

- The corporation is by and large depending on operating revenue and over a period of time its dependency on none operating has been on decline.
- One of the important reasons of poor performance of the corporation lies in its expenditure pattern. The major part of expenditure of the corporation is made on payment of wages and salaries alone and very is the share of capital out lays.
- Earnings per kilometer of HRTC have always continued to be less than its cost per kilometer.

- The various problem faced by the corporation are leakage of revenue, social obligation aged fleet, shortage of operating staff, red tapism in the management and scarcity of resources.
- The vehicles of private operator are running ahead HRTC buses causing revenue loss and unhealthy competition.
- Poor road and adverse weather condition also increase the cost per kilometer of the corporation.
- Leakages of revenue by the conductor, driver, passenger, storekeeper and mechanic also the reason of poor financial performance of the corporation.

7. Suggestions

With a view to improve efficiency in the operations of Himachal Road Transport Corporation and to restore financial health of HRTC, numbers of measures are suggested.

- The government should allow HRTC to decide its services price on the market conditions rather than political and social conditions which will helps HRTC to achieve financial viability.
- The Government should provide adequate financial incentive to HRTC so as to enable it to pay off its outstanding debt which will improve its financial viability. This will also help to improve services and infrastructures so as to compete with the private operators.
- The management should take strong action for reducing operating expenses especially through improving staff productivity and fleet utilization.
- Himachal Road Transport Corporation should try to increase further the earning per kilo meter through improvement made in different variables in physical and operational areas.
- There should be more frequent surprise checks in order to avoid the opportunity for free trippers or without tickets.
- The extent of illegal competition from private operators on the paying routes has increased considerably in the recent past under the grab of various names such as contract carriage, tourist service etc. and their impact on the loss of the corporate has been estimated to be sizeable. The Government must take effective steps to curb this trend.
- The corporation should provide proper training of drivers to reduce the fuel consumption. This is all the more improvement especially in the present day context of oil crisis faced world over.

Conclusion:

At the end of the paper, it is concluded that the financial position of HRTC is very miserable. There are so many causes regarding it like poor condition of roads, old buses, low per kilometres earning, leakage of revenue by conductors, drivers, passengers and unfair competition with Private operators. HRTC has boosted the economical condition of other sectors of the state economy but it has own condition is poor. The Government should provide adequate financial incentive to HRTC so as to enable it to pay off its

outstanding debt which will improve its financial viability. This will also help to improve services and infrastructures so as to compete with the private operators. More frequent surprise checks in order to avoid the opportunity for free trippers or without tickets. For improve the financial position the corporation should provide proper training of drivers to reduce the fuel consumption.

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