

## FINANCIAL APPRAISAL OF H.P. TOURISM DEVELOPMENT CORPORATION

**Nancee, Ph. D.**

Assistant Professor, Department of Commerce, S.C.V.B Govt. College Palampur  
Himachal Pradesh, India. E- Mail id - nancychauhan001@gmail.com

### Abstract

*Tourism is basically a service industry and as such, historically it was generally left to private enterprises to provide accommodation, transport and other services to visitors. But as tourism became a global phenomenon in the sixties and seventies the respective governments found it necessary to play more active role. It was considered necessary for the public sector in India to start operating in the service industry. Tourism has been declared a concurrent subject to be handled both by the union and the state government under the constitution of India. The nature of the study is explanatory, descriptive and analytical and emphasis has been put to evaluate financial performance of HPTDC.*

**Keywords:** Tourism, Financial, Appraisal, Corporation.



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### I. INTRODUCTION

Tourism has emerged as a global phenomenon after the second world war. The availability of better and faster means of communications has resulted into massive movement of people throughout the world, drawing them closer through experiencing and appreciating different culture and life styles.[1]

India's tourism is managed between private sector and public sector, there is separate tourism development corporation in every state. These corporations are working under the 'Ministry of Tourism' on the pattern of Indian Tourism Development Corporation (ITDC), Himachal Pradesh Tourism Development Corporation (HPTDC) is such one. Tourism in India dates back to the ancient times, and travel in the sub-continent for the purpose of learning, pilgrimage and trade had become an integral part of the social life.[2]

Himachal Pradesh Tourism Development Corporation H.P.T.D.C. is a public sector undertaking. By public sector we mean all those state units engaged in production or creation in infrastructure which are owned by the state and managed by it. Schematic parameters for the reforms of public sector undertaking (PSUs) have been outlined by Himachal Pradesh Government.[3]

The First prime minister of India Late Pt. Jawahar Lal Nehru observed in the Rome conference on Public enterprises in Italy that in India, the public sector represents a dynamic urge to go towards the socialist society. A dynamic public enterprise can give a significant leverage to the many facts of government economic policy.[4] In this context, Late Smt. Indira Gandhi, the then Prime Minister of India, pointed out “we advocate public sector for three reasons (a) to gain control of the commanding heights of the economy, (b) to promote critical development in terms of social gain or strategic value rather than primarily on consideration of profit and (c) to provide commercial surplus with which to finance further economic development.[5]

The public sector came into existence from the state property, which emerged as a result of intervention by the supreme authority in the distribution and consumption of the social product.[6]

### **CONCEPT OF TOURISM**

The word ‘Tourism’ is derived from the term ‘Tour’ which according to the Oxford, English Dictionary ‘A journey from place to place or time to be spent at a station or rambling excursion.[7]

### **ORIGIN OF TOURISM IN INDIA**

During second world war, the first effort to promote tourism in India was made in 1945, when committee was set up by Government of India under the chairmanship of Sh. John Sargent, the then educational advisor. In 1963, adhoc committee was appointed by Government of India and recommended that public sector should assume more active and positive role in promoting tourism.[8]

### **TOURISM SCENARIO IN HIMACHAL PRADESH**

‘Snow peaked, pine scented, flower sprangled Himachal Pradesh. A heaven in the heart of the Himalayas. Himachal Pradesh is clustered with picturesque hill resorts, where you can fish, trek, explore the country side or just gaze at the breathtaking mountains. This is how Himachal has been pointed by Ram Acharaya.[9]

Himachal Pradesh is home to millions, celebration of Tabo monastery the ones in a life time event is being celebrated in style, both temporal and religious for centuries a mystic aurd surrounded the Trans Himalayan tracts, mist fine mountain ranges cut across the state, the low lying Shiwalik, rising from plains of Punjab, the Dhauladhar the pir Panjal, the great Himalayan and the Zanskar ranges. [10]

**MATERIALS AND METHODS**

In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm, calculation of mere ratios does not serve any purpose, unless several appropriate ratios are analysed and interpreted. The various ratios have been used in order to analyse the short-term financial position, inventory management, receivable management, long term financial position, general profitability, overall profitability and capital structure of the corporation under study.

**RATIO ANALYSIS**

In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. The various ratios have been used in order to analyse the short-term financial position, inventory management, receivable management, long term financial position, general profitability, overall profitability and capital structure of the corporation under study.

Analysis of Short-Term Financial Position (Test of Liquidity)

The following ratios have been calculated to evaluate the short-term strengths of HPTDC.

Liquidity Ratios

Current Asset Movement Ratios

Liquidity ratio measure the ability of a firm to meet its current obligations. To measure the liquidity of a firm the following ratios have been calculated:

Current Ratio

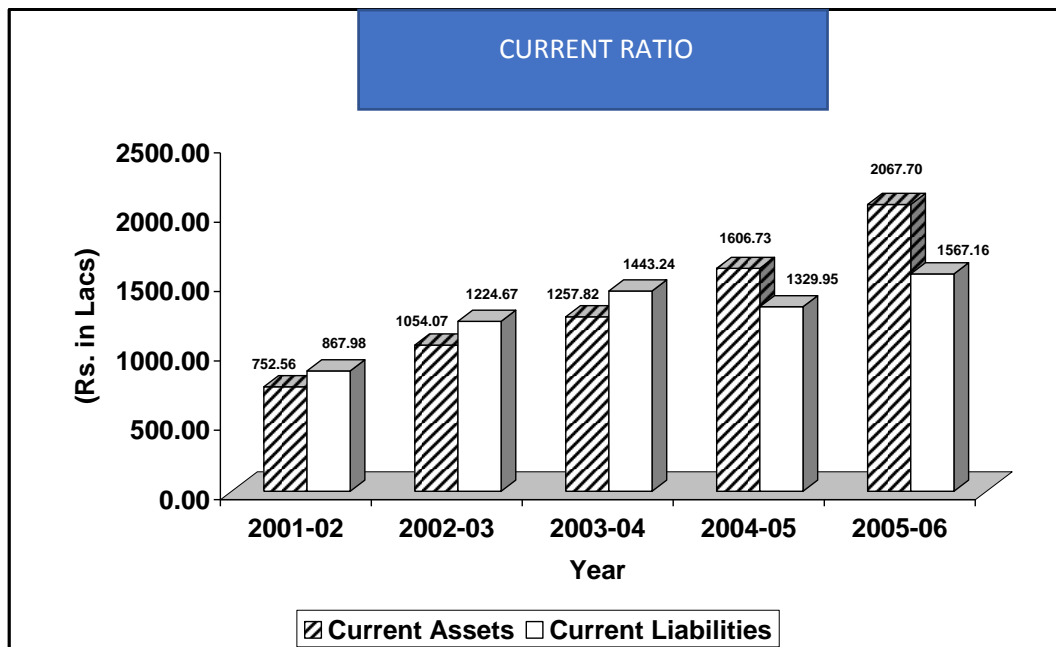
Liquid Ratio

Absolute Liquid Ratio

**Table 1 Short Term Financial Position Ratios**

<b>YEAR</b>	<b>CURRENT RATIO (Times)</b>	<b>QUICK RATIO (Times)</b>	<b>ABSOLUTE LIQUIDITY RATIO (Times)</b>
2001-02	0.87	0.79	0.21
2002-03	0.86	0.80	0.34
2003-04	0.87	0.83	0.41
2004-05	1.21	1.16	0.77
2005-06	1.32	1.28	0.87
AVG.	1.02	0.97	0.52
$\sigma$	0.22	0.23	0.28
C.V	21.56	23.86	55.19
SKEWNESS	0.75	0.74	0.38
KURTOSIS	-2.51	-2.44	-2.40
r	0.86	0.86	0.83

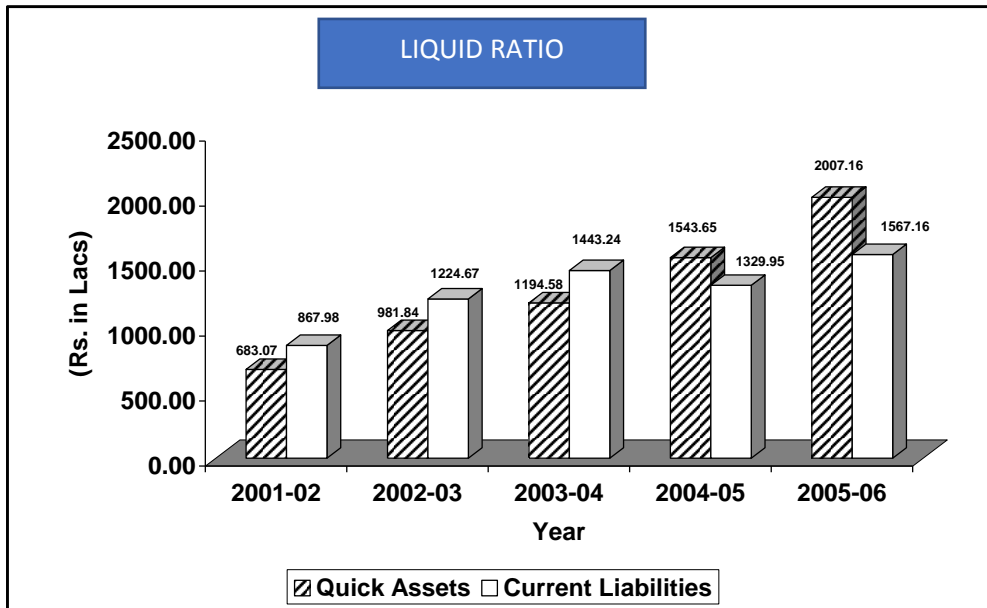
It is obvious from table 1 that the current ratio of the corporation over the period under study ranged between .87:1 in 2001-02 to 1.32:1 in 2005-06. The table clearly shows that the current ratio of the corporation was below the standard norm in first three years, which is not a healthy sign as far as short-term creditors of the corporation are concerned. During the last two years of study, this ratio has been found satisfactory. The average of current ratio for whole period under study has been worked out 1.02:1. The standard deviation, coefficient of variation, skewness and kurtosis are recorded as .22, 21.56, .75 and (-2.51) respectively. This shows less variation, which is good for the corporation. The correlation coefficient between current assets and current liabilities is +.86 which reflects high degree positive correlation between current assets and current liabilities.



Thus, it can be revealed from the above analysis that the corporation has been utilizing its funds efficiently.

### Liquid Ratio

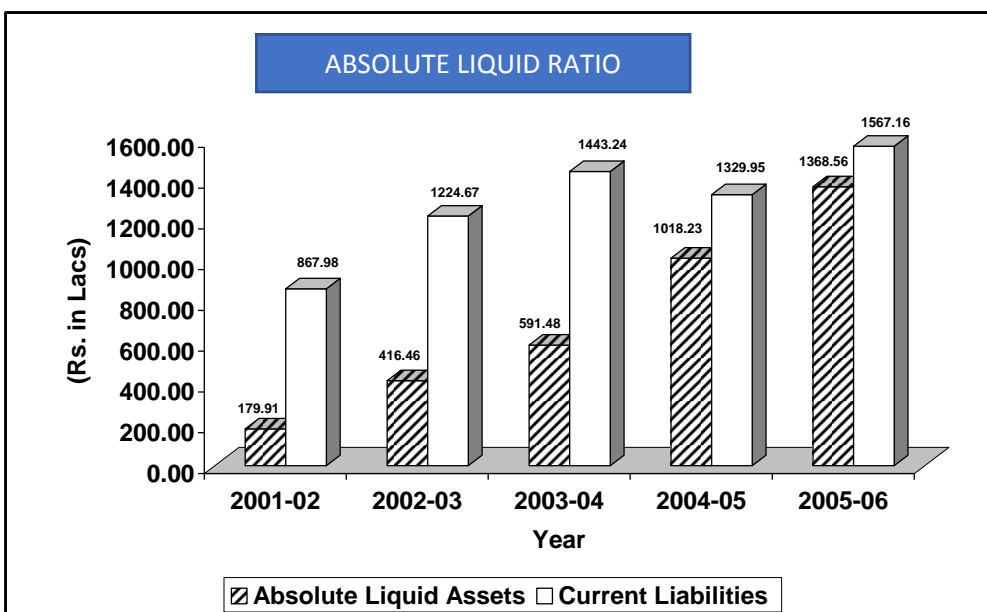
The ratio over the period under study ranged between .79:1 in 2001-02 to 1.28:1 in 2005-06. This ratio has been found high for the last two years of study but in remaining years it remained below the accepted norm. The ratio further supports sound short term solvency position from creditors point of view. The above analysis is further supported by calculated values of mean, standard deviation, coefficient of variation, skewness and kurtosis which came to be .97:1, .23, 23.86, .74 and -2.44 respectively.



The calculated value of correlation is  $+0.86$  which shows high degree positive correlation between liquid assets and current liabilities.

**Absolute Liquid Ratio**

Absolute Liquid Ratio of the corporation over the period under study was found maximum in the year 2005-06 (.87:1) and minimum in the year 2001-02 (.21:1). The table 3 clearly depicts that absolute liquid ratio of the corporation during last two years is more than the standard norm. The calculated values of mean, standard deviation, coefficient of variation, skewness and kurtosis have been found .52:1, .28, 55.19, .38 and  $-2.40$  respectively. Which reflects less variation.



The calculated value of correlation is +.83 which shows that there is high degree positive correlation between absolute liquid assets and current liabilities.

It can be concluded on the basis of above discussion of results that overall short-term liquidity position of the corporation during the study period has been noted satisfactory but a significant fluctuation have been recorded in all the liquidity ratios, seems to be cause of great concern which requires immediate attention of the management.

#### Current Assets Movement (Turnover Ratios)

Turnover ratio indicates the speed with which assets are being converted or turned over into sales. These ratios are employed to evaluate the efficiency with which the firm manages and utilises its assets. To measure the efficiency of the corporation, following ratios have been worked out.

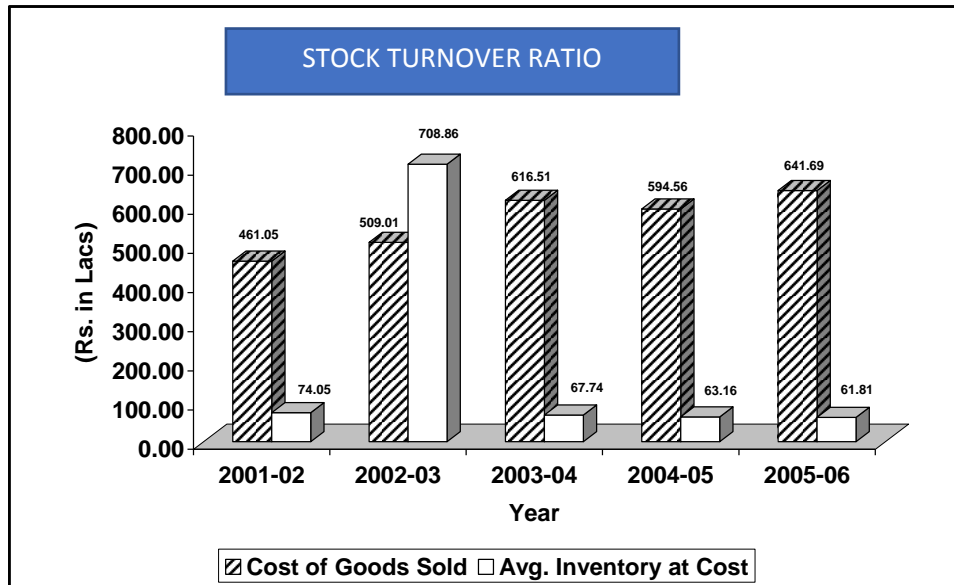
**Table 2 Current Asset Movement Ratios**

<b>YEAR</b>	<b>STOCK TURNOVE R RATIO (Times)</b>	<b>DEBTOR TURNOVER RATIO (Times)</b>	<b>AVG. COLLECTI ON PERIOD (Days)</b>	<b>WORKING CAPITAL TURNOVER RATIO (Times)</b>
2001-02	6.23	17.48	20	-8.50
2002-03	7.18	17.48	20	-6.51
2003-04	9.10	14.35	25	-7.05
2004-05	9.41	12.54	28	4.77
2005-06	10.38	14.99	24	2.79
AVG	8.46	15.37	23	-2.90
$\sigma$	1.70	2.12	3.43	6.18
C.V	20.15	13.84	14.68	-212.99
SKEWNES	-0.42	-0.21	0.24	0.60
S				
KURTOSI	-1.76	-1.59	-1.52	-2.89
S				
r	-0.90	0.93	0.68	0.68

#### Stock Turnover Ratio

The ratio shown in table 2 reveals that stock turnover ratio shows a mixed trend during the study period. The maximum and minimum have been recorded for 2005-06 (10.38 times) and for 2001-02 (6.23 times) whereas the average for the same has been worked out 8.46 times. It shows that the corporation is not handling its inventory management efficiently and systematically.

The standard deviation, coefficient of variation, skewness and kurtosis are found as 1.70, 20.15, -.42 and -1.76 respectively.

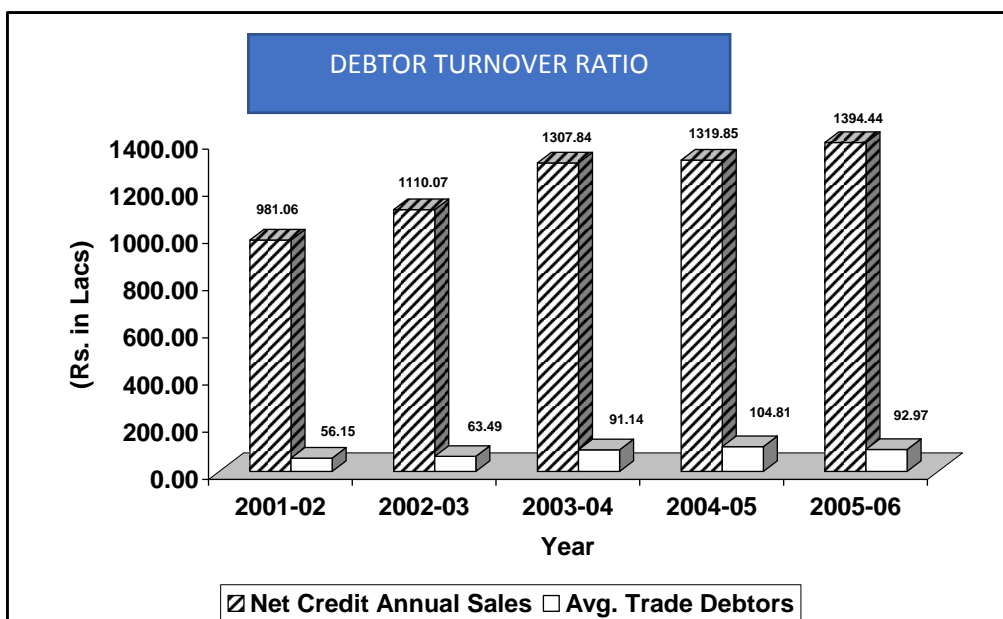


The calculated value of correlation coefficient is  $-0.90$  which reflects high degree negative correlation between cost of goods sold and average inventory at cost.

### Debtor Turnover Ratio

The ratio shown in table 2 reveals that debtor turnover ratio has been showing decreasing trend during the majority years under study. The maximum and minimum were recorded in 2001-02 (17.48 times) and in 2004-05 (12.54 times) respectively. The table further reveals that debtor turnover ratio have shown improvement in the year 2005-06. This is an indication of the efficiency arrived at in collection of debts.

The average, coefficient of variation, standard deviation, skewness and kurtosis are 15.37, 13.84, 2.12,  $-0.21$ ,  $-1.59$  respectively.



The calculated value of correlation coefficient is +.93 which shows a high degree positive correlation between average debtor and net sales.

**Average Collection Period**

The average collection period presented in table 2 indicates that the average collection period of the corporation has shown increasing trend from 20 days in 2002-03 to 28 days in 2004-05. The maximum and minimum were recorded for 2004-05 (28 days) and in 2001-02 (20 days) respectively. Thus, it can be concluded that the management of collection of debts is good during the entire period under study.

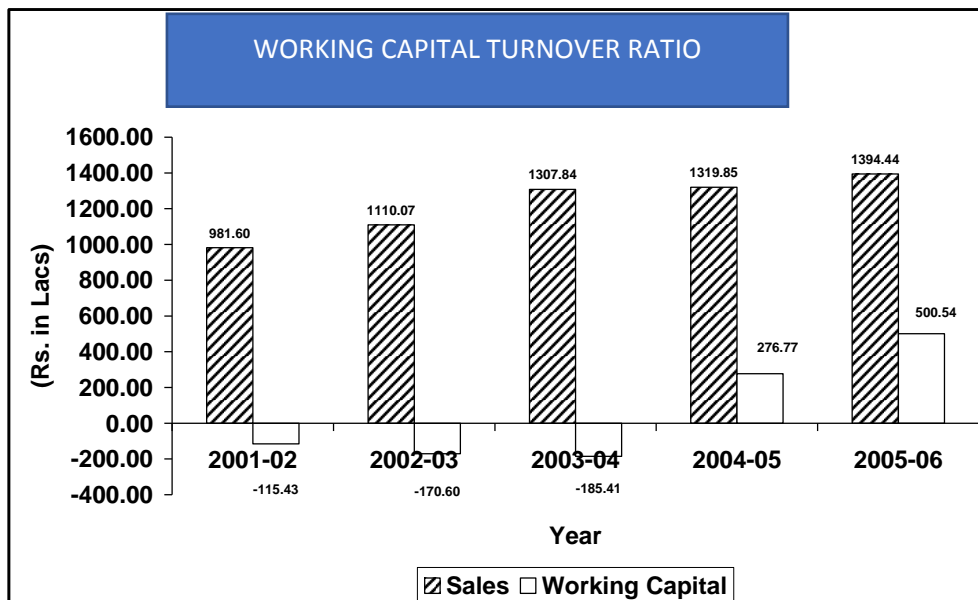
The calculated values of mean, standard deviation, coefficient of variation, skewness and kurtosis are 23 days, 3.43, 14.68, .24 and -1.52 respectively also support the above analysis.

The calculated value of correlation coefficient is +.68 which shows high degree positive correlation between sales and average debtors.

**Working Capital Turnover Ratio**

The ratio shown in table 2 reveals that working capital turnover ratio of the corporation is negative for the years 2001-02 to 2003-04, on account of more current liabilities. However, after 2003-04 this ratio has improved.

The average, standard deviation, coefficient of variation, skewness and kurtosis are -2.90 times, 6.18, -212.19, .60 and -2.89 respectively.



The calculated value of correlation is +.68 which shows moderate degree positive correlation between sales and average working capital.

**Analysis of Long-Term Solvency Position**



This analysis shows the ability of a concern to meet its long-term obligations. The term long term debtness of any organisation includes debenture holders, financial institutions providing medium- and long-term loans and other creditors selling goods on instalment basis. The long-term creditors are primarily interested in knowing the organization's ability to pay regular interest on long term borrowings, repayment of principle amount on maturity and security of their loans.

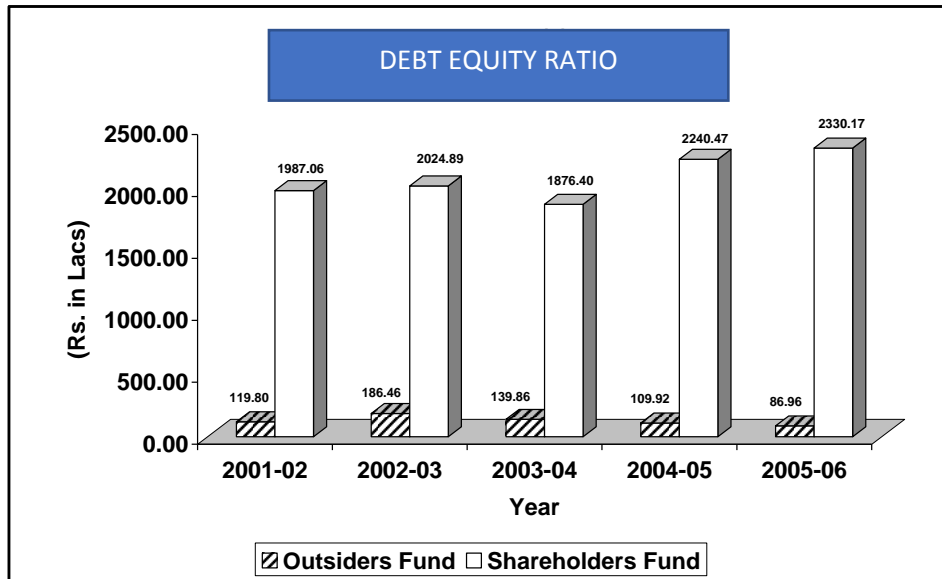
**Table 3 Long Term Financial Position Ratios**

YEAR	DEBT EQUITY RATIO (Times)	FUNDED TO CAPITALISATI ON (%)	DEBT TOTAL RATIO (%)	PROPRIETORY RATIO (%)	FIXED ASSET RATIO (%)
2001-02	0.06	5.69		86.33	12.93
2002-03	0.09	8.43		76.66	8.51
2003-04	0.07	6.94		69.67	10.27
2004-05	0.05	4.68		73.80	13
2005-06	0.03	3.60		65.97	16.84
AVG	0.06	5.87		0.74	0.12
$\sigma$	0.022	1.89		0.77	0.03
C.V	37.27	32.26		10.43	29.87
SKEWNESS	-2.59	-0.29		0.82	0.67
KURTOSIS	0.2	-0.87		0.73	-0.59
r	0.64	-0.50		0.84	0.62

**Debt-Equity Ratio**

The ratio calculated in the table 3 shows that the debt-to-equity ratio has shown sound long term financial position of the corporation. It ranged between .06:1 in 2001-02 to .03:1 in 2005-06, which indicates that the claims of outsiders during the entire period under study were less than the owner. Further, an increase was observed in 2002-03 and after that it showed decline but as a whole it remained less than 1:1. This reflects a positive financial behaviour of the corporation.

The average of this ratio for entire study period comes to .06:1, further standard deviation, coefficient of variation, skewness and kurtosis are recorded to the tune of .022, 37.27, -2.59, 0.2 respectively. This shows significant increase in outsiders fund as compared to shareholders fund.

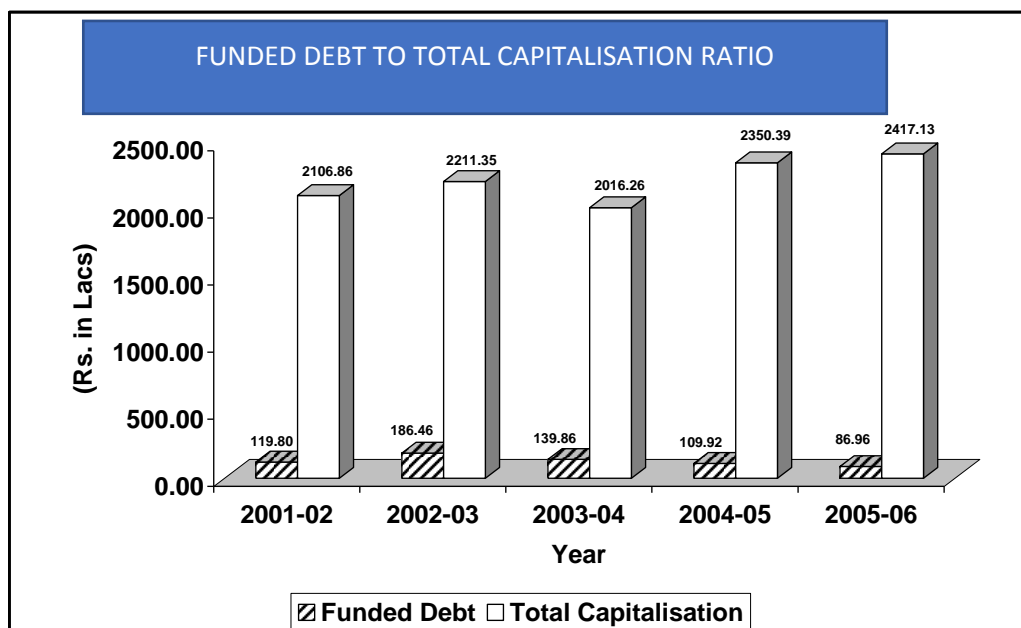


The calculated value of correlation is  $+0.64$  which shows that there is  $+ve$  correlation between external equities and internal equities.

### Funded Debt to Total Capitalisation Ratio

The purpose of this ratio is to ascertain the contribution of the borrowed long-term fund to the total capitalization of the enterprise. The higher ratio reflects the weak viability of long-term solvency of the institution and vice-versa. The ratio shown in table 5 reveals that this ratio registered a fluctuating trend during the period under study. It was maximum in the year 2002-03 (8.43%) and minimum in 2005-06 (3.60%).

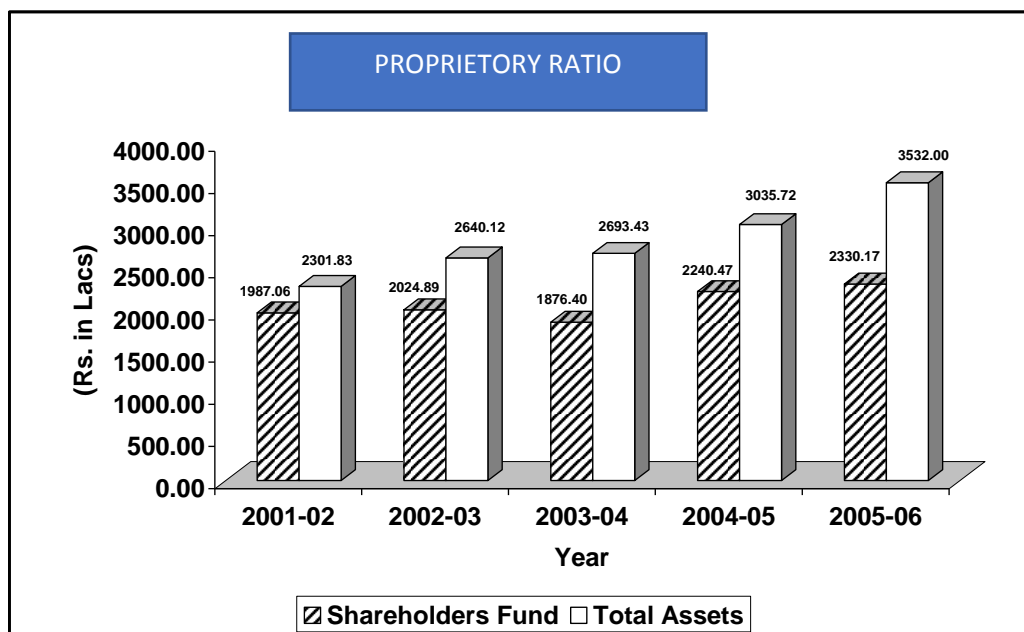
The average, standard deviation, coefficient of variation skewness and kurtosis came to be 5.87%, 1.89, 32.26,  $-0.29$ ,  $-0.87$  respectively.



The calculated value of correlation is  $-.50$  which shows that there is negative correlation between funded debt and total capitalization.

### Proprietary Ratio

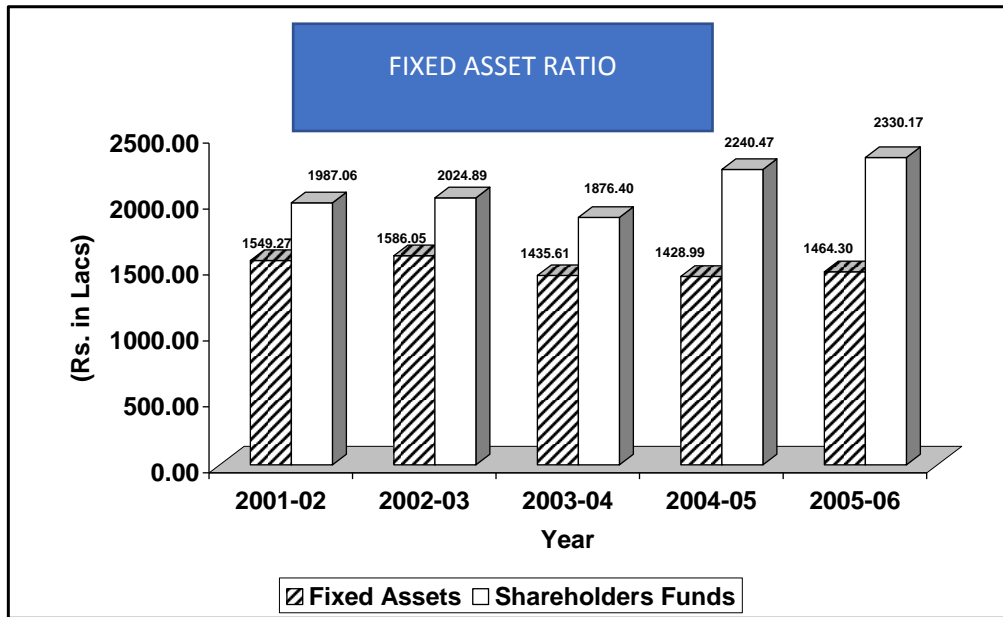
The ratio shown in table 3 indicates that the proprietary ratio of corporation was recorded to the maximum of 86.33% in 2001-02 and reduced to the minimum of 65.97% in 2005-06. This ratio was above the normal standard during the entire study period which reflects sound solvency position of the corporation. It can be concluded that mainly shareholders funds are used for financing various assets. The mean, standard deviation, coefficient of variation, skewness and kurtosis are found .74%, .77, 10.43, .82 and .73 respectively.



The calculated value of correlation is  $+.84$  which reflects high degree positive relationship between shareholders fund and total asset.

### Fixed Asset Ratio

The figures presented in the table 3 reveals that the ratio ranged between 12.93% in 2001-02 to 16.84% in 2005-06. This ratio recorded continuous increase from 2003-04 till 2005-06. In nutshell, this ratio has been found insignificant for the entire study period which reflects that only small amount of long-term funds is inverted in fixed assets and the balance in other activities of the corporation. The above discussion is also supported by the calculated values of mean, standard deviation, coefficient of variation, skewness and kurtosis which came to be .12%, .03, 29.87, .67 and  $-.59$  respectively.



The coefficient of correlation between fixed asset and long-term fund is +.62 which shows positive correlation between these two variables.

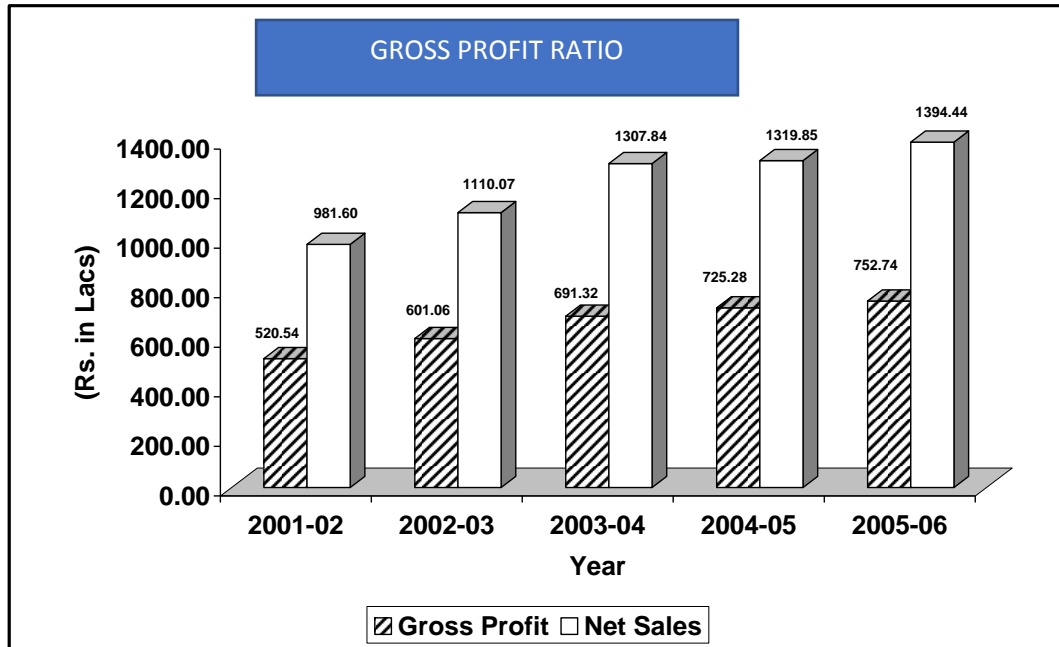
#### Analysis of Profitability Ratios

**Table 4 General Profitability Ratios**

YEAR	GROSS PROFIT RATIO (%)	NET PROFIT RATIO (%)	OPERATING PROFIT RATIO (%)
2001-02	53.03	-11.55	4.49
2002-03	54.15	-17.12	3.83
2003-04	52.86	-2.81	7.21
2004-05	54.95	4.47	13.79
2005-06	53.98	2.69	12.65
AVG	0.53	-0.04	0.08
$\sigma$	0.009	0.09	0.04
C.V	1.60	-190.47	54.83
SKEWNESS	0.22	-0.46	0.33
KURTOSIS	-1.32	-1.99	-2.85
r	0.99	0.88	0.78

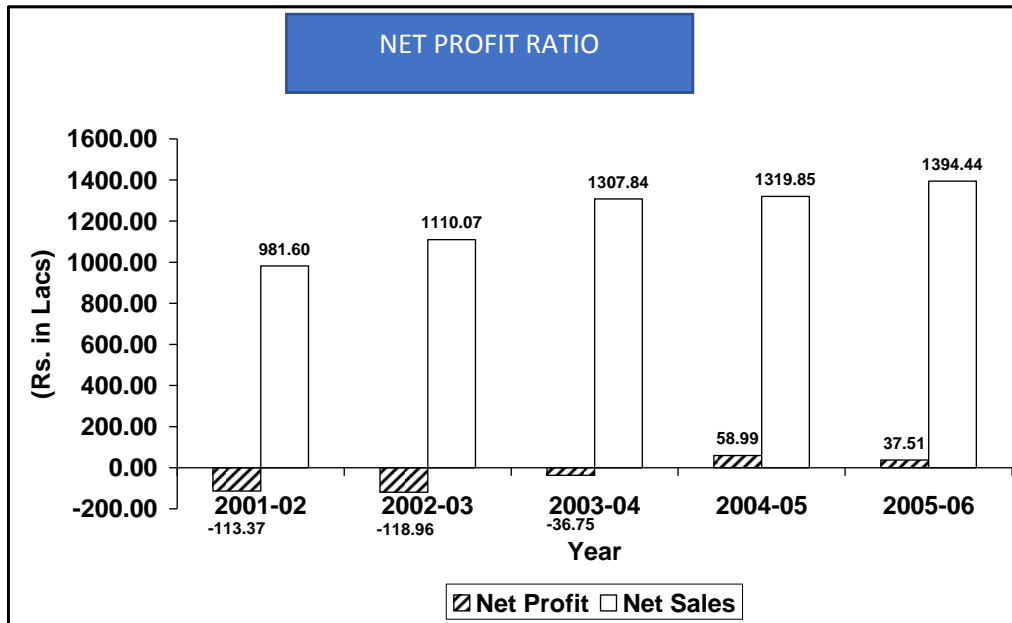
**Gross Profit Ratio:** Table 4 reveals, that the ratio remained more or less stable except some minor changes during the entire study period. It ranged between 53.03% in 2001-02 to 53.98% in 2005-06. It may be interpreted from the above analysis that gross profit of the corporation remained satisfactory as the corporation has been found in a position to bear the cost of purchases and other direct expenses relating to sales.

The mean, standard deviation, coefficient of variation, skewness and kurtosis have been found .53%, .009, 1.60, .22 and  $-1.32$  respectively. This all indicates less variation which is good for the corporation.



The calculated value of correlation coefficient is  $+0.99$  which shows a high degree positive relationship between gross profit and sales.

**Net Profit Ratio:** The table 4 reveals that there has been poor performance indicating losses in first three years of studies, but after that profits are noted. The maximum and minimum net profit ratio is 4.47% in 2004-05 and  $-17.12\%$  in 2002-03. It all indicates that the corporation failed to generate satisfactory revenue and, it was not in the capacity to withstand in adverse economic conditions. The corporation has also earned profit ranging between 4.47 to 2.69 per cent during the remaining years under study. It is a matter of great concern that the losses of the corporation for the years 2001-02, 2002-03 and 2003-04 were very high. It might be due to the fact that the management of the corporation had no check in controlling different expenses during such years.



The mean, standard deviation, coefficient of variation, skewness and kurtosis are noted as -.04%, .09, -190.47, -.46, -1.99 respectively. This high variation indicates inefficiency of the management especially during the years of losses. It is required that the management should seek the help from the policies and practices adopted during the years of profits.

Operating Profit Ratio: The table 4 reveals a mixed trend in the operating profit ratio during the entire study period. It has been worked out maximum for 2004-05 (13.79%) and minimum for the year 2002-03 (3.83%) ratio recorded. Moreover, this ratio should be high but it remained quite low throughout the period under consideration. The mean, standard deviation, coefficient of variation, skewness and kurtosis are found as .08%, .04, 54.83, .33 and -2.85 respectively. Which reveals high variation that is too towards the lower side of mean. It reflects poor profitability position of the corporation during majority years under study.

The calculated value of correlation is +.78 which shows positive correlation between operating profit and sales which leads to the conclusion that the corporation should make its efforts in order to increase the sales and ultimately to improve its profitability.

### Expense Ratios

Expense ratios include manufacturing expenses ratio, office administrative expense ratio, selling and distribution expense ratios, etc. The following ratios have been calculated and interpreted in the present study:

**Table 5 Expense Ratios**

YEAR	POWER & FUEL (%)	EMPLOYEE REMUNERATION (%)	RENT (%)	RATES, TAXES & INSURANCE (%)
2001-02	16.88	139.31	3.07	4.12
2002-03	15.62	133.42	2.30	4.45
2003-04	14.58	118.81	1.84	4.35
2004-05	16.52	124.38	1.58	4.24
2005-06	20.24	130.48	1.59	3.85
AVG	0.17	1.29	0.02	0.04
$\sigma$	0.02	0.07	0.006	0.002
C.V	12.74	6.15	30.15	5.52
SKEWNESS	1.28	-0.15	1.24	-0.83
KURTOSIS	2.22	-0.79	0.80	0.43
r	0.82	0.92	-0.92	0.91

**Power and Fuel Expense Ratio:** The table 5 reveals that the power and fuel expenses ratio has shown fluctuating trend over the period under study. It was found maximum in 2005-06 (20.24%) and minimum in 2003-04 (14.58%). It indicates high margin of sales has been utilised in order to meet out this particular expense.

**Employees Remuneration Expense Ratio:** Table 5 reveals that this ratio ranged between 139.31% in 2001-02 to 130.48% in 2005-06. It indicates that the corporation is not able to manage the remuneration of its employees even from the total turnover during the entire period under study. The calculated values of mean, standard deviation, coefficient of variation, skewness and kurtosis are 1.29%, 0.07, 6.15, -.15 and -.79 respectively, which reveals inefficiency of the management of any commercial organisation which cannot recover the salary of its employees from the gross income of its business.

**Rent Expense Ratio:** Table 5 reflects that this ratio ranged between 3.07% in 2001-02 to 1.59% in 2005-06. The mean, standard deviation, coefficient of variation, skewness and kurtosis have been found 0.02%, 0.006, 30.15, 1.24 and .80 respectively. However, these expenses were high during the initial study period but reduced significantly during the last years under study.

**Rates, Taxes and Insurance:** This ratio was maximum in 2002-03 (4.45%) and minimum in 2005-06 (3.85%). Table 5 reveals less fluctuation in this ratio throughout the period under study.

This ratio has remained under control during the period of study which is clearly indicated by the calculated values of mean, standard deviation, coefficient of variation, skewness and kurtosis 0.04%, 0.002, 5.52, -0.83 and 0.43. The correlation coefficient is +.91 which shows high degree positive correlation between rates, taxes, insurance and sales.

**Table 6 Expense Ratios**

YEAR	TRAVELLI NG & CONVEYA NCE (%)	MAINTENAN CE OF STAFF VEHICLE (%)	CORPOR ATE GUEST (%)	ADVERTISE MENT, PUBLICITY & PROMOTIO NAL (%)
2001-02	1.82	1.28	0.05	0.73
2002-03	1.51	1.07	0.03	0.43
2003-04	1.22	0.81	0.04	0.23
2004-05	1.40	0.98	0.03	0.32
2005-06	1.49	0.91	0.02	0.44
AVG	0.01	0.01	0.0003	0.004
$\sigma$	0.002	0.002	0.0001	0.002
CV	14.69	18.04	35.71	44.11
SKEWNESS	1.39	0.63	0.75	-0.33
KURTOSIS	1.49	0.52	-.21	1.73
r	0.41	-0.09	-0.46	-0.49

**Travelling & conveyance Expense Ratio:** This ratio ranged between 1.82% in 2001-002 to 1.49% in 2005-06, which reveals proper control of management on this particular expense. The calculated values of mean, standard deviation, coefficient of variation, skewness and Kurtosis also support the above discussion as .01%, .002, 14.69, 1.39 and 1.49 respectively.

**Maintenance of Staff Vehicle Expense Ratio:** This ratio was maximum in 2001-02 (1.28%) and was minimum in 2003-04 (0.81%). The mean, standard deviation, coefficient of variation skewness and kurtosis are .01%, 0.002, 18.04, .63 and .52 respectively, which depicts proper control on this expense during the study period.

**Corporate Guest Expense Ratio:** This ratio on an average account for .003% and was maximum in 2001-02 (.05%) and minimum in 2005-06 (.02%). It is an indication of efficient handling of these expenses by the corporation. The standard deviation, coefficient of variation, skewness and kurtosis are .0001, 35.71, .75 and -.21 respectively.



**Advertisement, Publicity and Promotion Expense Ratio:** This ratio ranged between .73% in 2001-02 to .44% in 2005-06. This reveals that corporation has been spending a very small amount on advertisement, publicity and promotion. The mean, standard deviation, coefficient of variation, skewness and kurtosis are .004, .002, 44.11, -.33 and 1.73 respectively which reflects unfavourable attitude of the corporation for the promotion of tourism in the state.

## CONCLUSION

On the basis of ratio analysis it is found that overall financial position is very low. The reasons for this poor financial performance can be attributed to a number of factors like heavy administrative expenses, improper use of various assets and financial resources. This position can be improved by providing the quality of service and putting control over different expenses especially administrative expenses. It may be suggested that, the management should try to increase the operating income, exercise control over operating expenses through a proper policy of matching expenses with revenue.

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