



A STUDY ON FINANCIAL PERFORMANCE IN APSRTC

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ABSTRACT

Transport is a means to carry men and materials from one place to another resulting in creation of place and time utilities. Transport involves movement of goods, merchandise and services from places where their marginal utility is less to the places where their marginal utility is high. Thus transportation is a medium of enhancing the marginal utilities of scarce economic resources to their desirable levels. Therefore transportation acts as an accelerator and catalyst towards faster, higher and quicker economic growth. An efficient transport system is an indicator of the economic prosperity of a nation. In fact, it works as a catalyst for economic, political, social and cultural advancement, effectively linking different corners by annihilating the distance. An effective transport system revolutionizes the very tenor and trend of the community's life. This paper attempt o achieve the objectives (i) To analyse the present financial performance of APSRTC on its Cost trends, Cost revenue relationship, incidence of tax burden and its impact on the profitability.(ii)To suggest appropriate measures for improvement in the overall financial performance of APSRTC.result of the study APSRTC during 1990-1991 to 2010-2011. It reveals that the corporation's revenues have been increasing continuously during the study period. It had the incremental revenues every year and more incremental revenues are registered in the years 1999-2000, 2000-2001, 2005-2006 , 2006-2007, 2008-2009 and 2010-2011. The annual revenue generated in the initial year of the study period was Rs 78102.37 lakhs and the same has been reached to Rs 41,8738.94 lakhs by the end of the year 2006-2007. It touched.Rs 614569.42 lakhs in the year 2010-2011.

KEY WORDS: Financial Performance, Profits and Loss, Total Cost and Total Revenue.

INTRODUCTION

Transport is a means to carry men and materials from one place to another resulting in creation of place and time utilities. Transport involves movement of goods, merchandise and services from places where their marginal utility is less to the places where their marginal utility is high. Thus transportation is a medium of enhancing the marginal utilities of scarce economic resources to their desirable levels. Therefore transportation acts as an accelerator and catalyst towards faster, higher and quicker economic growth. An efficient transport system is an indicator of the economic prosperity of a nation. In fact, it works as a catalyst for economic, political, social and cultural advancement, effectively linking different corners by annihilating the distance. An effective transport system revolutionizes the very tenor and trend of the community's life. Due to its impact on the distribution of goods and services, industrial production gets a fillip resulting in the emergence of new industrial belts. Improved personal contacts between different sections of the society give rise to a new horizon of civilization and culture, leading to political unity, with national integration as its base. Transportation, thus, brings about a vibrant community, displacing its dormant nature.

PRESENT STUDY

The present study pertains to the study of costs, revenues, and profit aspects of Andhra Pradesh State Road Transport Corporation (APSRTC), the largest transport undertaking under the public sector. The origin of APSRTC dates back to 1932 when it was first established as a wing of the Nizam State Railways. The Nizam State Railways was federally and financially integrated with the Indian Railways in 1950. For a shorter period it continued as an agency of the Indian Railways and there after it was managed as a Department of State Government of Hyderabad till 1956. The two states of Hyderabad and Andhra were merged and formed into a new state called "Andhra Pradesh State". During the period 1956-1958, this organization was run as a Department of Andhra Pradesh State Government. As Statutory Corporation, it came into being on 11th January 1958 under Road Transport Corporation (RTC) Act, 1950. Since then it is popular as "Andhra Pradesh State Road Transport Corporation". Over the years, this Corporation has achieved tremendous progress in terms of its size and volume of operation. In 1932, it was started with 27 buses, 166 employees with the capital investment of Rs. 3.73 lakhs. Now, a different picture is seen if

we observe the present status of APSRTC. The Corporation has webbed its activity to over 26,424 of the 32,480 villages in the state covering 81.35 per cent of total villages with its rural services and operating city services in eight major cities. By the end of 2002-2003, the corporation has 19,157 buses carrying 1.24 crores passengers everyday on an average with 17,967 scheduled services deployed in various routes. The capital employed (aggregation of total assets minus current liabilities) touched to a figure of Rs. 1694.93 crores. By 1998-1999 it self, the staff strength reached to 1,31,374 employees.

Like other public transport undertakings, APSRTC has enjoyed complete monopoly of transport operations for more than four decades. It was blessed with perennial financial support from the State Government and finds no troubles in mobilizing the resources for expansion. This Corporation reported a sizeable addition to the fleet and expansion of services due to sufficient depreciation accruals, retained earning, government contribution and long-term loans.

The other side of the history of APSRTC reveals that it is running under heavy losses. The corporation entered into a syndrome of losses along with other STUs in the country. It incurred losses for seven consecutive years starting from 1977-1978 to 1983-1984. By the end of March 1984, its accumulated losses mounted to Rs.77.04 crores. Though the Corporation has slightly recovered in the following years and brought down the cumulative losses to Rs. 33.13 crores by the end of 1988-1989, it again plunged into losses from 1989-1990 and the cumulative losses reached to Rs. 100.45 crores by the end of 1991-1992. The corporation's financial position was grim due to the exorbitant increase in the figures of losses it incurred. As on March 2005, the accumulated losses of APSRTC reached to a staggering figure of Rs.1221 crores.

NEED FOR THE PRESENT STUDY

Every organization has to carry its activities with a consciousness of maximizing the revenues and minimizing the costs to earn profits. Profit has an important role to play for the survival of the organization. Profits are taken as efficient measure of the use of economic resources by the organization. Almost the hidden agenda of every organization is that it has to improve its financial viability by whatever means available before it. APSRTC, one among the major public transport undertakings in India, has been facing many threats from internal

and external factors. There has been a severe criticism from the public that the corporation has been making losses due to its inefficiencies. The State Government has been pursuing the policy of privatization and trying to distance itself from any further commitment. It is suggesting the corporation to equip itself to meet the new set of challenges that arises from the external environment. The Corporation has been getting the signals that the State Government is adopting a lukewarm attitude in extending the financial support. The need has arisen to the APSRTC to improve its financial viability by reducing the gap between revenue and cost of operation. It is imminent to the corporation to follow the generic options available before it and one of such options is cost control. As there are so many barriers in maximizing the revenues from operations, it has to focus more on controlling the cost of operations and it is the only available option which paves the way for its future survival. In view of this background, there is an imperative need to study the costs and revenue aspects and the areas of cost control in APSRTC. Many research studies stated in review of literature reveal that they were made on other areas and that too much earlier to the period of severe financial crunch. An attempt has been made in the present study to fill this research gap to some extent.

REVIEW OF LITERATURE

Satyanarayana (1985) analyzed cost- fare relationships, organizational set-up, management information system, capital structure and financial policies of Andhra Pradesh State Road Transport Corporation (APSRTC). The study has focused on various physical and financial performance parameters. In this study, APSRTC was compared with GSRTC and one Transport Company in Tamilnadu (Katta Bommana), a transport organization formed under companies Act.

Viswanadham's (1986) study focused on finances of APSRTC, analyzed the financial structure, deployment of funds, cost-fare relationships and fund-flows between APSRTC and the State Government. As a part of the study, the physical and financial performance of the Corporation was also analyzed. However, the study relates to a period of 12 years i.e. from 1965-1966 to 1976-1977, during which period, the APSRTC on the whole but for the two to three years, not incurred losses. No inter-firm comparison has been made to apprise the performance of APSRTC

Sreenivasulu (2007) evaluated the operational efficiency and financial viability of APSRTC. He made a comparison of APSRTC with other major Corporations in the country on quality of service, manpower productivity, and financial aspects. Pathak (1994) made an inter-STU comparison of nine STUs. He viewed that profitability is not the right criteria for the performance evaluations of STUs, and suggested value-added concept as an alternative criteria to measure efficiency. He used the Factor Productivity Approaches for measuring the productivity.

Apart from the few studies mentioned above on the physical, operational and financial performance of APSRTC and other major STUs, there are a number of studies on other aspects of passenger Road Transport particularly APSRTC. Subramanyam (1982) evaluated the performance of APSRTC from the point of view of organization structure, leadership styles etc. Ramanadham (1965) studied the functioning of erstwhile Road Transport Department of the present-Corporation. Krishna Murthy (1985) analyzed the Incentive Schemes in APSRTC and Narasimloo (1980) on the Quantum of depreciation in terms of historical cost Vs. acquisition cost and determined the correct retirement policy. Paniswara Raju (1986) studied purchasing, stores and inventory management aspects in APSRTC. Mutyalu Naidu (1990) examined Human Resource Management in APSRTC and Chand Basha (1990) made a study of Trade Unionism and leadership aspects in APSRTC. Laxmi Prasad (1988) analysed various aspects of personnel management exclusively related to the conductors. This study has emphasized various aspects of personnel management but has not covered the aspects relating to physical, operational and financial performance.

OBJECTIVES

The objectives of the study are

- ★ To analyse the present financial performance of APSRTC on its Cost trends, Cost revenue relationship, incidence of tax burden and its impact on the profitability.
- ★ To suggest appropriate measures for improvement in the overall financial performance of APSRTC.

DATA AND METHODOLOGY

The study is primarily based on Secondary Data culled out from (i) Published Annual Reports of APSRTC (ii) The profile and performance reports of Nationalized Transport Undertakings published by “

Central Institute of Road Transport” (C.I.R.T.), Pune, and (iii) Other published records, reports, journals, books etc., Besides, on the published data, a series of discussions were held with the officials, leaders of the employee’s unions of APSRTC, which enable the researcher to pursue the research objectives appropriately.

In order to attain stated objectives, certain indicators of performance, both physical and financial, are taken for evaluation. The performance of APSRTC is compared with the other major State Transport Undertakings on the basis of selected parameters. Simple statistical techniques like ratios, averages and percentages are computed for evaluation.

The study covers a period of 15 years i.e. from 1990-1991 to 2004-2011. During this period, the financial performance of all state transport undertakings are said to be very critical and many programmes were initiated to come out of the losses.

The scope of the study is limited to the evaluation of financial performance of APSRTC and is quantitative biased, and does not include the quality of service which is a qualitative aspect. While making inter- STU comparison, the analysis suffered from limitations due to the differences in density of population, fare structure, traffic demand, tax structure, incentive schemes, state policies, etc.,

ANALYSIS PROFIT OR LOSS POSITION OF APSRTC

Excess of revenues over costs are treated as profits and as long as this status continues, the business organization is considered to be successful in its business. Profits assure the survival of the organization and can also be looked upon as a source of financing for future expansion. The business

concerns strive hard for more and more incremental revenues when compared to incremental costs. Profitability denotes economic viability attained through maximization of revenues, optimum resource utilization and increase in returns to the holder of risk capital. In case of public sector passenger transport corporation, the revenue can be generated through traffic means and non-traffic means. The traffic revenue would be the major portion and the non-traffic revenue consists a small portion of total revenue. The corporation can make revenue by running the buses in permitted routes causing movement of passengers from one place to other place. Where as the total cost elements include personnel cost, material cost, interest on borrowings, taxes paid to the government and capital cost (depreciation cost) and maintenance cost.

Table 1.1 presents data on total cost, total revenue and profit or loss position of APSRTC during 1990-1991 to 2010-2011. It reveals that the corporation’s revenues have been increasing continuously during the study period. It had the incremental revenues every year and more incremental revenues are registered in the years 1999-2000, 2000-2001, 2005-2006 , 2006-2007, 2008-2009 and 2010-2011. The annual revenue generated in the initial year of the study period was ‘. 78102.37 lakhs and the same has been reached to ‘. 41,8738.94 lakhs by the end of the year 2006-2007. It touched ‘. 614569.42 lakhs in the year 2010-2011. When we look at these revenue figures, it can be perceived that the corporation has made tremendous efforts in increasing the revenues. This could be possible by increasing the volume of operation, increase in fares mainly. The Total Cost figures shows increasing trend in the corporation as there are incremental costs every year. In the year 1990 -1991, the total cost incurred was ‘. 79294.34 lakhs and with an increasing trend it went up to ‘. 646307.03 lakhs in year 2010-2011. The indices of revenue and cost figures convey that the cost index

Table 1.1 PROFITS / LOSS POSITION IN A.P.S.R.T.C.

Year	Total Cost (. In lakhs)	Index	Total Revenue (. In lakhs)	Index	Profit / Loss (. In lakhs)
(1)	(2)	(3)	(4)	(5)	(6)
1990-91	79294.34	100.00	78102.37	100.00	-1191.97
1991-92	93608.55	118.05	90181.01	115.47	-3427.54
1992-93	106750.95	134.63	103723.86	132.81	-3027.09
1993-94	124490.00	157.00	125115.00	160.19	625.00
1994-95	135485.00	170.86	136755.00	175.10	1270.00
1995-96	153988.00	194.20	158495.00	202.93	4507.00
1996-97	172921.00	218.07	173553.00	222.21	632.00
1997-98	199085.00	251.07	194113.00	248.54	-4972.00
1998-99	215160.00	271.34	205296.00	262.86	-9864.00
1999-00	248509.97	313.40	233325.12	298.74	-15184.85

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(1)	(2)	(3)	(4)	(5)	(6)
2000-01	275015.55	346.83	254020.73	325.24	-20994.82
2001-02	284771.83	359.13	257565.15	329.78	-27206.68
2002-03	306172.22	386.12	287998.09	368.74	-18174.13
2003-04	316322.00	398.92	312120.00	399.63	-4202.00
2004-05	344287.00	434.19	321579.51	411.74	-22707.49
2005-06	371915.66	469.03	367637.27	470.71	-4278.39
2006-07	429921.37	542.18	418738.94	536.14	-11182.43
2007-08	432189.14	545.04	445755.68	570.73	+13566.54
2008-09	492874.91	621.58	503953.68	645.25	+11078.77
2009-10	572081.87	721.47	520626.53	666.60	-51455.34
2010-11	646307.03	815.07	614569.42	786.88	-31737.61

Source : (i) ASRTUs Reports on the performance of Nationalized Transport Undertakings CIRT; Pune (1985 - 2005)

(ii) Annual Administrative Reports of APSRTC (2005 -2011)

It has increased at a relatively faster rate over the index of revenue figures in majority years during the study period. The incremental costs are more than incremental revenues in fifteen years of the study period and the positive trend is seen in six years.

The profit or loss figures convey that the corporation's financial position is very poor because it made profits in six years and incurred losses in fifteen years during 1990-1991 to 2010-2011. Due to upward trend in costs over revenues, abnormal losses are inevitable in many years. The figures of losses from fifteen years can not be compared with the figures of profit that the corporation it made in six years during the study period. The corporation has made heavy losses in ten years due to exorbitant increase in costs over revenues. Though it made profits in six years, they are said to be meagre as they are insufficient to bail out corporation from the position of accumulated losses. APSRTC has shown dismal financial performance particularly from 1997-1998 to 2006-2007, and heavy losses were added to the heap of accumulated losses in the years 1999-2000, 2001-2002, 2006-2007, 2008-2009 and 2009-2010.

Table 1.2 presents the data on region-wise financial performance of APSRTC for the year 2010-2011. The table reveals that the corporation has made losses from all the regions except one. Out of 23 regions, the losses were observed in 22 regions and a small portion of profit from Ranga Reddy region. The registered losses are very high in the regions of Kurnool, Anantapur, Cuddapah, Prakasam, Hyderabad, Visakhapatnam, Nellore, Guntur, Warangal, Mahaboob Nagar, Nizamabad, and Adilabad. The registered losses are very low in the regions of Krishna, Karim Nagar and Nalgonda. It can be perceived that much losses of the corporation are from the regions belonging to Rayalaseema territory.

Cost – Revenue Relationships

Cost analysis has a prominent role to play in the road transport sector since it is an important tool for the management to assess the efficiencies, wastages, profitable or unprofitable activities and to compare the cost of services rendered by the transport undertaking with the revenues generated through the operations. The management has to set things right and put the wheels of the undertaking in a profitable status.

Table 1.2 Region wise Net Profit of A.P.S.R.T.C. for the year 2010 – 2011

Sl. No.	YEARS	Total Revenue (. in Lakhs)	Total Cost (. in Lakhs)	Net Profit (. In Lakhs)	Net Profit Per eff. KM (Paise)
1	Hyderabad City	46,866.61	48,835.74	-1969.13	-144
2	Secundrabad	40,442.20	40,472.77	-3057.00	-2
3	Ranga Reddy	19,344.33	18,901.67	442.66	57
4	Mahaboobnagar	22,229.84	23,787.11	-1557.27	-145
5	Nalgonda	19,986.74	20,536.37	-549.63	-56
6	Medak	16,010.44	16,701.48	-691.04	-92
7	Karimnagar	27,482.88	27,673.82	-190.94	-14
8	Warangal	24,836.31	25,240.96	-404.65	-34
9	Nizamabad	18,424.04	18,904.21	-480.71	-58
10	Adilabad	16,674.85	18,003.98	-1329.13	-162
11	Khamam	18,290.07	18,909.96	-619.69	-66
12	Krishna	41,252.60	41,383.15	-130.55	-7
13	West Godavari	16,595.65	18,188.17	-1592.52	-184
14	Guntur	33,707.89	35,330.84	-1622.95	-95
15	Visakhapatnam	28,670.27	30,533.24	-1862.97	-141
16	East Godavari	24,367.21	25,084.02	-446.81	-37
17	North East cost	24384.34	26,807.08	-2422.74	-195
18	Cuddapah	26,200.80	29,617.85	-3415.05	-255
19	Kurnool	28,597.88	32,633.91	-4036.03	-276
20	Anantapur	25,860.55	29,547.22	-3686.67	-284
21	Nellore	26,065.00	27,893.69	-1828.69	-137
22	Prakasham	23,329.17	25,546.09	-2216.92	-179
23	Chittoor	44,679.75	45,773.70	-1093.95	-52

Source: Annual Administrative Reports of A.P.S.R.T.C. (2010-2011)

The study of cost in relation to traffic (operating) revenue is more pertinent because it brings out the combined and relative significance of various 'total cost' components to the revenues generated. This study reveals the capabilities of a transport undertaking in meeting its total cost from the operating revenue realized from transportation of passengers and incidental charges related to transportation of passengers. It also reveals whether there is any scope for cost efficiency, constant economies of scale in total cost and enhancing the capabilities, which are necessary for decision making and profit planning.

The concept of cost in case of road transport refers to "the total of all direct (or variable) costs associated with output in terms of service kms of any particular transport organization plus all indirect (or fixed) costs to be incurred as a result of the continuation of the service size of the organization which is reflected in terms of total bus fleet held". Here the term 'Operating revenue' means the revenue realized from transportation of passengers and incidental charges. It includes revenue realized from sale of tickets, amount charged on accompanied

luggage, reservation service charges, casual contract services, postal mail services and any income realized directly related to actual conveyance or operations. On the other hand, income from other sources not directly related to transportation of passengers constitute non - operating (non - traffic) revenue. It includes the revenue realized from advertisement on vehicles, shelters and tickets, rents collected from cloak room, auto or cycle stand, sale of scrap materials, etc.,

It is evident from Table 3.3 that the Traffic revenue (Operating revenue) constitutes a major portion of total revenue generated by APSRTC. It consists more than 97.00 per cent of the total revenue. Relatively, the non-Traffic revenue has no significance as it constitutes approximately less than 3.00 per cent of the total revenue on an average in many years of the study period. While observing the trends of these two revenues, there is an increasing trend in the figures of the traffic revenue. It conveys that the corporation has made incremental revenues every year during the study period. In case of non-traffic revenue, the trend is different and no incrementalities were made continuously. In some

years, the figures of non-traffic revenues were below the figures of their previous years. More over, wide variations may be observed in the figures of non-traffic revenue. While expressing the total cost in relation to total.

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