

International Journal of Advanced Multidisciplinary Research

ISSN: 2393-8870

www.ijarm.com

Coden:IJAMHQ(USA)

Research Article

SOI: <http://s-o-i.org/1.15/ijarm-2-11-16>

A study on total revenue and profit or loss position of APSRTC

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Abstract

Keywords

Revenue,
Profit,
Loss,
APSRTC

In this chapter an attempt has been made to evaluate the financial performance of APSRTC on the basis of study of Profit or Loss position, cost–revenue relationships and tax burden. All these convey the revenue and profit potentials of APSRTC, incidence of operational costs and it's contribution to the government exchequer in the form of taxes. (i) To analyse the total revenue and profit or loss position of APSRTC.(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.

Introduction

Earning Profit is a sole criteria to Judge the efficiency of any organization be it a public or private sector. In recent years, there is a sudden realization among the public sector undertakings that the time has come to make more emphasis on profits. The reason is that the tendency has come that they are judged more on their abilities to create incremental revenues along with its efficiency to serve the society. The society and the stake holders view that there is no much difference between a private organization and a public undertaking. The public sector undertakings, particularly in the transport sector, have to follow business principles strictly to equip themselves to compete with the private organizations. Though they are rendering useful service to the society, they are not exception to increasing the efficiency and making the profits. The private bus operators, though they have limited fleet are acting as

change agents by bringing high technology and luxurious buses into the market and attracting the passengers even in high competition routes. Where as the public sector passenger transport corporations are struggling a lot even in high remunerative routes.

Gone are the days APSRTC has enjoyed the perennial financial support and monopoly in business operations. Now the corporation is facing the real challenges of the business. Due to the increasing role of privatization and financial resource crunch with the state government, the corporation is forced to redefine its business objectives time to time. The government is not in a position to tolerate the losses of the corporation and it is conveying the signals that the corporation should be self – sufficient. It is issuing directions to the APSRTC that it has to compete with private sector by improving

operational and financial performance. It became inevitable to the corporation to increase its financial position to meet the future needs and to stay in the competition. It is forced to generate sufficient revenues through all available means in the absence of liberal lending hand.

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 APSARTC. 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 1991-1992.¹² 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

Swamy (1989) analyzed operational efficiency of APSRTC by applying various costing and financial techniques like Marginal costing, Break-even Analysis, Standard costing, Ratio Analysis and Cost of Capital during the study period 1977–1978 to 1986–1987. The study aimed at quantifying the efficiency of APSRTC and other six selected STUs. He highlighted the application of costing technologies for decision in operations management.

Vaidya (1983) had laid stress on route–wise cost, profitability analysis, organizational set up and the various physical performance parameters, like vehicle utilization, staff productivity and quality of service in terms of accidents, break downs, regularity, punctuality of services in Punjab Roadways. He analysed the contributions of inter-state routes and their importance for maximizing the overall revenue and minimizing the losses in these transport undertakings.

Agarwal (1992) in his study, analysed the financial performance of Rajasthan State Road Transport

Corporation (RSRTC) and Uttar Pradesh RTC. The analysis was made on the basis of various ratios i.e. Liquidity ratios, Leverage ratios, Activity ratios and Profitability ratios. Inter–firm comparison was made on the basis of profit earned, value added, ratio of cause and effect and composite ratio etc.

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.

Gangappa's (1991) study confined itself to the evaluation of performance of City Transport Services of APSRTC, focusing on the Twin-city services of Hyderabad and Secunderabad. He analysed operational performance, cost-structure, cost-fare relationships and financial performance of the selected city services. The study made a comparative analysis of city services managed by APSRTC with other city services like Bombay Electric Supply and Transport (BEST), Pallavan of Madras and Ahmedabad Municipal Transport Corporation for five Years.

Anjaneyulu (1995) in his research made an attempt to evaluate the physical and financial performance of APSRTC in comparison with other major STUs in the country. The study focused on tax structure and tax burden, productivity and profitability aspects, cost–revenue relationships, quality of service aspects and material efficiency.

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 total revenue and profit or loss position of APSRTC.
- 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.

Analysis

Table 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 Profit / 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

.... ctd.

(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)

Figure 1

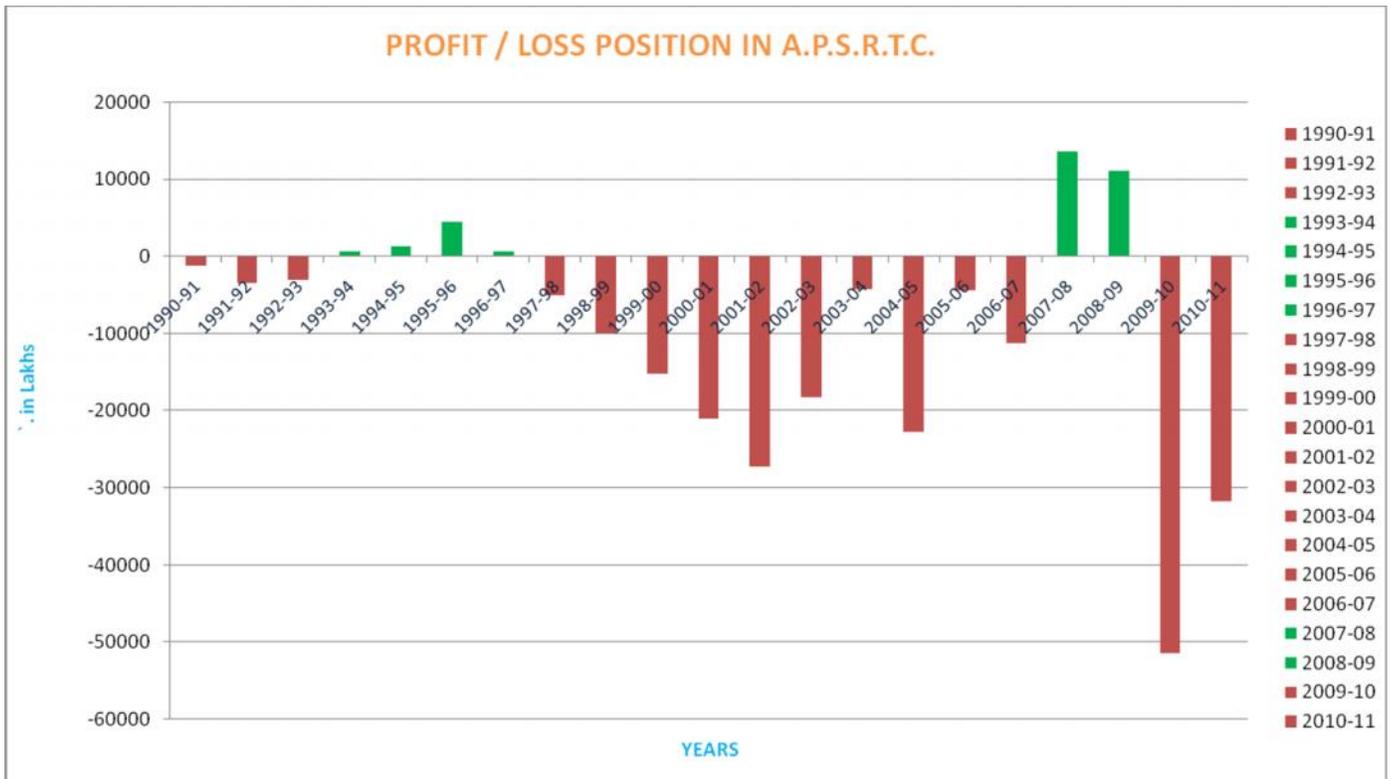
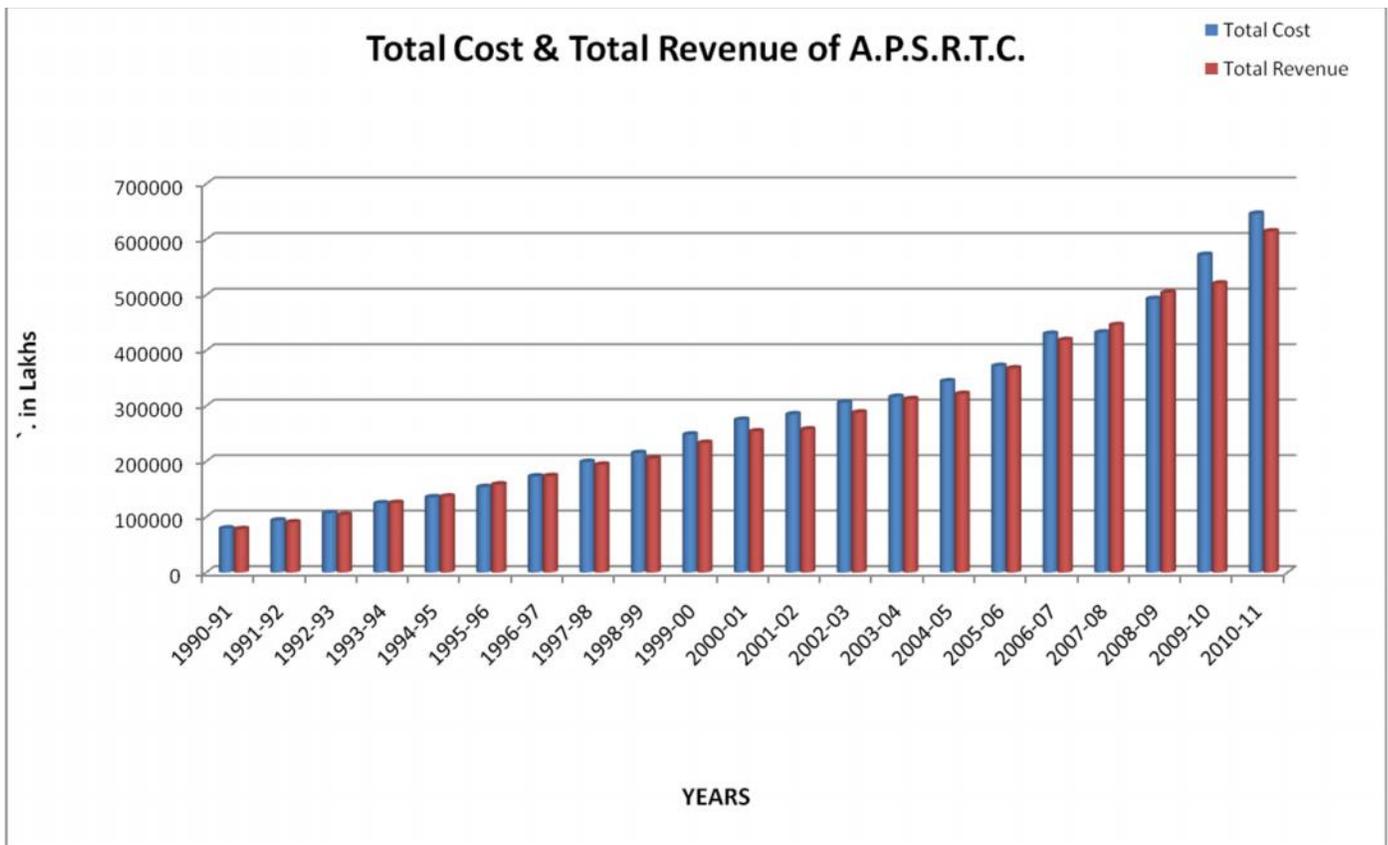


Figure 3.1



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.

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How to cite this article:

N. Renuka. (2015). A study on total revenue and profit or loss position of APSRTC. Int. J. Adv. Multidiscip. Res. 2(11): 102 -108.