SOME ASPECTS OF FINANCIAL PERFORMANCE
OF
STATE TRANSPORT UNDERTAKINGS
WITH
CHAPTER I
INTRODUCTION

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CHAPTER 1

INTRODUCTION

1.1 Importance of Passenger Transport

The modes of mass transportation are mainly two, namely Railways and roads.

(i) The Railways are capital intensive, involving huge long-term investment of funds in coaches, wagons, signalling system etc.

(ii) They suffer from limitations due to their inability to reach far into the interiors.

Several advantages could be cited in favour of road transport which makes it the most relevant mode of transport for developing countries. These are-

(i) Less capital-intensive compared to the railways,

(ii) Route network is flexible,

(iii) Feeder to other modes of transport,

(iv) Road Transport is capable of providing more employment opportunity per unit of investment than other modes of transport (Table No. 1.1).

1.2 Passenger Road Transport - A Public Utility

A public utility is subject to regulations including price regulation of a type designed primarily to protect commuters. Moreover, there are other two essential features of public utility, viz. the special public importance or necessity of the services supplied and technical characteristics leading

almost inevitable to monopoly or at least ineffective forms of competition. Thus public control has been further extended to public ownership, but the reason for nationalisation appears to be more social than economic.

Some thinking in this direction is also being promoted among official quarters. At a stage when each State cherishes the ideology of more and more nationalisation in the public interest, there is a view that the State should now adopt "thus far and no farther" policy in respect of nationalisation.

Transport as a service has two basic components, i.e. freight and passenger traffic. The former is directly related to the level of economic activities and receives due priority. Passenger road transport is not only related to the economic development, but also to the social, educational, cultural and religious needs of the rural areas. Indian economy as said earlier, is predominantly a rural one and hence there is a pressing need to connect hundreds of thousands of villages by all weather roads.

After Independence, the need for well organised passenger road transport was felt for rural development. Hence the RTC Act, 1950 was passed which enabled to State Governments to create the STUs for facilitating passenger transport in rural areas in respective States. But STUs thus created under the RTC Act, began to face problems of rising cost of inputs, burden of

1-3 Economic of Passenger Road Transport-after independence

2. ibid - page 8
taxation, cost of social services, lack of resources for road development and non-availability of needed technology for better planning of passenger road transport services. The problems narrated above have put some of the STUs in the red.

It was against this background that a need was felt about the study of some aspects of financial performance of STUs. It aimed at bringing out the real causes of losses incurred. This might enable the planners and management to take suitable decisions in various areas of operation.

Some of the aspects covered under the study are:

(a) burden of taxes,
(b) losses due to operation on Kutcha roads,
(c) cost of obligatory social services,
(d) rising cost of operation vis-a-vis passenger bus fare, and
(e) policies relating to material management, finance etc.

1.4 Context of thesis

The passenger road transport is developing very fast and STUs are playing major role in the passenger road transport. However, almost all STUs are incurring losses (table No. 1.2) for the last few years. This should cause concern to the decision makers, especially when the STUs are having 77756 vehicles, employing about 6 lacs of employees as on March 31, 1984, operating 670.33 crores of kilometers carrying 4.33 crores of passengers, (contd...)
per day and realising a revenue of Rs.2006.90 crores during 1983-84. For these operations, STUs incurred an expenditure of Rs.2164.15 crores, incurring a net loss of Rs. 157.25 crores. The STUs are unable to generate adequate cash flows to modernise their fleet.

Many public undertakings are generally making losses. It is the common impression that public undertakings can seldom be profit-making. This, however, may not be true in case of STUs, if proper diagnosis of the ailments is made. This study makes an attempt in that direction.

1.5 Published Work

There is but limited published work on passenger road transport in India. There are some papers and study reports published on specific aspects of road transport. A survey of even limited research work pertaining to STUs reveals that there has been some research on role of passenger road transport industry, working capital management, operation/management control systems, organisational structure and corporate performance.
Passenger Road transport in particular has not been a subject of intensive inquiry except in occasional discussions in seminars or articles and papers published in journals. Attempts are made to have indepth study of related aspects of passenger road transport by Central Institute of Road Transport, Pune, some of the STUs have got prepared study reports on the topics they needed. However, such study reports are for departmental circulations and not for publication. C.I.R.T. Pune is publishing every year the statistical performance data of member STUs in the areas of finance, operations, productivity etc. This could be profitably used for analysis.


Relevant important books such as Economics of Transportation by Lock Lin, Economics by Guthrice & Wallace, Road Passenger Transport in India by Dr. P.G. Patankar, Productivity in STUs by Shantosh Sharma, Working of State Enterprise in Rajasthan by Sharma, Working of A.P.S.R.T.C. by J. Satyanarayan, Managerial Economics by Dr. Kulkarni, Purchase & Material Management by Lamar Lee & Dobler, Transport in Modern India by Bhatnagar, Transport Management by R.R. Khan, Principles and problems of Indian Transport by J.K. Jain, 25 years of M.S.R.T.C., Paper on Transportation system - study by I.I.T., The Rural Transport Problems by David St. John Thomas, The Economics of Transport by M.R. ponavia, Transportation (Principles & Problems) by Truman C. Bigham & M.S. Roberts etc. etc.
1.6 Source of Information

The main source of information is statistical performance data of member STUs published by CIRT, Pune and the statistics of GSRTC. Besides this statistical data, opinion and Information published in various books, journals, Planning Commission Reports and reports of various committees and Commissions on the subject are used.

A questionnaire was sent to certain STUs in order to obtain necessary data/information. A few STUs supplied the information which could be directly used. However, whatever information was relevant has been used.

In order to get deeper insight into the matter, however, one should seek facts from other sources, such as executives and managers concerned with the subject. Accordingly, many executives in the areas of traffic operations, finance, material management and maintenance of some of the STUs were contacted in person or through correspondence and information was obtained from them.

The information was also gathered through discussions with a number of functionaries at various levels belonging to various departments and divisions of GSRTC. Discussions were also held with past Chairmen, VC & MD, past Directors, Transport Secretary and also Secretaries in the Finance Ministry of State of Gujarat.

Discussions were held with faculties of I.I.M., Ahmedabad and of CIRT, Pune. Papers on transportation study presented by experts in various national
and international seminars were also used.

For the data/information relating to GSRTC, detailed discussions were held with Departmental Heads particularly in Accounts, Statistics, Traffic and Stores.

1.7 Justification of thesis

The topic of this thesis, viz. "Some aspects of financial performance of STUs with particular reference to GSRTC" is related to the financial aspects of transport management. It is a study of financial performance and productivity of selected STUs. It attempts to prescribe remedial measures for bringing out the STUs from their present unenviable situation.

1.8 Objectives of Thesis

With properly worded and limited topics and full opportunity of research, the objective of a thesis could well have been to inform the world so well that "the same path need never be trod by any one" hereafter. However, the aim of this thesis could not be so high. It is simply to pinpoint the main causes responsible for the sory state of finances of STUs and then draw the attention of planners and managers for taking suitable measures.

Within this framework, the objectives of the thesis could be stated as follows:

1. To gauge incidence of taxation.
2. To quantify costs of social services.
3. To identify cost of operation on kutcha roads.
4. To examine parameters of productivity.
5. To suggest techniques of effective purchase policy and inventory control.
6. To examine the principles of pricing services and also fare structure.
7. To examine the extent of loan capital contribution and to highlight incidence of borrowings.

1.3 Methodology

Tentative hypotheses relating to different aspects of the working of the STUs were formulated and then tested against available data collected from various sources.

To prove/disprove the hypothesis, mostly the secondary data are used. Various study reports on relevant subjects are used to support the arguments. Mathematical formulations are generally avoided. Figures are quoted to substantiate the points of view.

The stress is on analysis and comparison inter se STUs. Each of the STUs has different characteristics regarding fleet strength, fleet age composition,
capital structure, operational efficiency, extent of nationalisation and geographical conditions. Due to these variations, comparison of data of STUs becomes difficult. An attempt however is made to make them comparable and derive meaningful conclusions.

The data on performance of 10 member STUs of ASRTUs having 1500 and more vehicles operating on plain are obtained. These STUs represent more than 50% of the STUs in terms of vehicles held as well as kilometers operated and staff employed. The combined fleet strength of these selected STUs as on March 31, 1983 represent 52.3% (44054 vehicles) of the total vehicles (76639 vehicles) in the public sector. The combined operations by these STUs in 1982-83 were approximately 326.25 crores kilometers and accounted for 52.7% of the total operations of 618.82 crores kilometers. The STUs under study are similar in many respects excepting the ST Punjab. They have all been established under the RTC Act with more or less similar organisational structure and management policy. They operate under almost identical conditions in all the four directions of the country. The period covered in this thesis relates to 10 years from 1972-73 to 1982-83.
The thesis comprises of 11 Chapters and is divided into four main parts, as shown in the above diagram.

First part deals with introduction to the thesis.

Second part details the performance of GSRTC in the areas of management and productivity.
The third part is concerned with the factors affecting finances of STUs. This part is further divided into two major heads, viz. "Environmental" and "Internal". The environmental factors are: tax burden, cost of social services, cost of operation on kutcha roads, whereas the internal factors are: rising cost of inputs and material management.

The fourth part deals with revenue and capital resources of STUs and GSRTC.

Based on the study, certain recommendations/suggestions follow for further improvement.

An attempt is made to examine financial aspects of GSRTC in order to identify factors affecting the finances of STUs in general. As said, earlier, the study is based on the data for a decade beginning from 1972-73 to 1982-83. Wherever the data for 1983-84 were available, the same are however used.

Charts, diagrams and tables are used for facilitating the presentation.

1.11 Chapter Scheme

CHAPTER: ONE

INTRODUCTION:
The main constituents of this introductory chapter are importance of passenger transport, context of thesis and the objectives. The published works on passenger
road transport are cited. The main sources of information are yearwise statistical performance reports compiled by CIT Pune and published by ASRTU. The Annual Administration Reports and the book titled "Statistics of GSRT Corporation", besides information available from various books, journals, Planning Commission Reports, etc. In order to arrive at reliable conclusions, however, dialogues were also arranged with executives of STUs at different levels in different areas. The Transport Secretary and Finance Minister were approached for personal discussion.

CHAPTER: TWO

HISTORY OF PASSENGER TRANSPORT

In this Chapter, the history and development of passenger road transport during pre and post Independence period are presented. Enactment of Acts to regulate the movement of vehicles on the basis of reports of various committees, nationalisation of passenger road transport, formation of STUs in general and GSRTC in particular, outlay during VI and VII plan periods, Government approach to nationalisation during VII plan period etc. are also discussed.

CHAPTER: THREE

PRODUCTIVITY IN AND PERFORMANCE OF GSRTC

Some aspects of productivity in and financial performance of GSRTC are examined in this chapter. Factors affecting the finances of GSRTC in particular and STUs in general are identified. The specific factors are: tax burden,
cost of social services, cost of operation on kutcha roads, rising cost of inputs, pricing of services and resources. All these factors are examined in detail in succeeding chapters.

CHAPTER : FOUR

TAX BURDEN

In this chapter the taxes levied by various agencies are discussed. The tax burden vis-a-vis financial performance and productivity of STUs are examined. An attempt is made to show that tax burden is one of the major causes for the losses incurred by the STUs.

CHAPTER : FIVE

COST OF SOCIAL SERVICES

In this chapter, incidence of cost of social services is discussed. The cost of social services are quantified on the basis of available data of GSRTC. The cost of social services of all the STUs taken together was also quantified by CIRT. This is examined so as to show how it affects adversely the finances of the STUs. The incidence of cost of social obligations exceeds the losses incurred by STUs taken together in general and GSRTC in particular.

Suggestions are made for meeting the losses.
CHAPTER: SIX

COST OF OPERATION ON KUTCHA ROADS

In this chapter the cost of operation on kutcha roads is discussed. The development of different categories of roads in the country and in Gujarat are discussed. Factors responsible for high cost of operation on kutcha roads are discussed at length. Besides, improved productivity and performance vis-a-vis additional cost are also discussed. The assessment of monetary cost and the performance of STUs with particular reference to GSRTC: 1982-83, form part of the discussion.

CHAPTER: SEVEN

RISING COST OF INPUTS

This chapter deals with rising cost of inputs. The rising trend of prices vis-a-vis productivity is examined. Increased productivity may ease the problem a little and help generate internal resources. In order to achieve higher productivity, the drive may have to be launched for conservation of fuel-lubricants, extraction of maximum services from tyre-tubes and maximisation of labour productivity. The measures are discussed in detail.

CHAPTER: EIGHT

MATERIAL MANAGEMENT

This chapter deals with constituents of material management, viz. Purchase
policy and inventory control. It highlights material management techniques for effective purchasing and inventory control, their applications in STUs in general and GSRTC in particular. The suggestions are made so as to get maximum sale proceeds from disposal of scrap and obsolete materials.

CHAPTER: NINE

PRICING OF SERVICES AND FARE POLICY

In this chapter present method of pricing of services and fare structure is discussed. Various theories of determining the pricing policy and fare structure are discussed. The cost plus pricing policy is examined in the light of rising cost of operation and probability of fare revision in some STUs. The productivity of STU is kept in view while determining the fares. A reference to the fare structure of GSRTC is made for comparison.

CHAPTER: TEN

S.T.Us FINANCES

In this chapter capital structure and plan outlay for road transport are highlighted. The loan capital contribution from Government and its limitations are presented. Financial performance during VI plan and productivity in STUs are examined. While identifying the constraints in generation of internal resources, borrowings could bridge the gap between the required funds and their availability. This may help to sustain the growth. The constraints on borrowings are examined and suggestions, such as formation of S.T.D.F. Corporation are made.
The financial performance of STUs is examined with particular reference to GSRTC.

CHAPTER: ELEVEN

SUMMARY & CONCLUSIONS

This chapter provides summary and conclusions of the thesis. It also pinpoints suggestions based on the findings of the study.

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TABLE No. 1.1

COMPARATIVE EMPLOYMENT INTENSITY IN DIFFERENT MODES OF TRANSPORT 1977-78

<table>
<thead>
<tr>
<th>Mode</th>
<th>Employment (No. of persons-Year) per lakh of Rupees of Investment</th>
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<tbody>
<tr>
<td></td>
<td>Direct</td>
</tr>
<tr>
<td>____________</td>
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<tr>
<td>I  Inland Water Transport</td>
<td></td>
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<tr>
<td>Operation</td>
<td></td>
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<tr>
<td>Development of</td>
<td></td>
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<tr>
<td>Navigation channel</td>
<td></td>
</tr>
<tr>
<td></td>
<td>13.20</td>
</tr>
<tr>
<td>II Road Court &amp; Mainland</td>
<td>15.00</td>
</tr>
<tr>
<td>III Road Transport</td>
<td></td>
</tr>
<tr>
<td>Bullock cart</td>
<td>27.00</td>
</tr>
<tr>
<td>Three wheelers</td>
<td>13.42</td>
</tr>
<tr>
<td>Trucks</td>
<td>11.15</td>
</tr>
<tr>
<td>Buses</td>
<td>7.15</td>
</tr>
<tr>
<td>Taxies</td>
<td>2.76</td>
</tr>
<tr>
<td>Vehicle Production</td>
<td>1.78</td>
</tr>
<tr>
<td>IV Coastal Shipping</td>
<td></td>
</tr>
<tr>
<td>Sailing vessels</td>
<td>20.00</td>
</tr>
<tr>
<td>Other coastal shipping</td>
<td>2.40</td>
</tr>
<tr>
<td>V Railway</td>
<td>03.64</td>
</tr>
<tr>
<td>VI Air Transport</td>
<td>00.72</td>
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<tbody>
<tr>
<td>1.</td>
<td>Andhra Pradesh</td>
<td>-7.05</td>
<td>-11.43</td>
<td>-27.53</td>
<td>-23.88</td>
<td>-9.42</td>
</tr>
<tr>
<td>2.</td>
<td>Bihar</td>
<td>-2.43</td>
<td>-1.92</td>
<td>-</td>
<td>-</td>
<td>-9.5</td>
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<tr>
<td>3.</td>
<td>Gujarat</td>
<td>-3.91</td>
<td>-5.46</td>
<td>-25.59</td>
<td>-36.75</td>
<td>-8.77</td>
</tr>
<tr>
<td>5.</td>
<td>M.P.</td>
<td>-0.84</td>
<td>-2.50</td>
<td>-7.52</td>
<td>-7.28</td>
<td>-11.81</td>
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<tr>
<td>6.</td>
<td>Rajasthan</td>
<td>-3.12</td>
<td>-4.87</td>
<td>-7.06</td>
<td>-11.04</td>
<td>-6.69</td>
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<tr>
<td>7.</td>
<td>Orissa</td>
<td>-</td>
<td>-0.81</td>
<td>-3.32</td>
<td>-3.08</td>
<td>-3.88</td>
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<td>8.</td>
<td>Karnataka</td>
<td>-0.63</td>
<td>-1.76</td>
<td>-10.95</td>
<td>-16.37</td>
<td>-14.25</td>
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<td>9.</td>
<td>U.P.</td>
<td>+1.03</td>
<td>+1.19</td>
<td>-9.72</td>
<td>-2.75</td>
<td>-11.61</td>
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<td>11.</td>
<td>All STUs</td>
<td>-21.01</td>
<td>-53.14</td>
<td>-199.34</td>
<td>-228.18</td>
<td>-169.97</td>
</tr>
</tbody>
</table>

Source: Performance statistics of STUs pub.by A.S.R.T.U: (G.I.R.T. Pune)  
Dr. P.G. Patankar Road Passenger Transport in India pub. by ASRTU  
Page No. 78 and note on financial and physical performance of STUs pub.  
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