Findings and Conclusion
CHAPTER – VII

FINDINGS AND CONCLUSION

In India transport is undeniably a crucial component of the infrastructure needed for the social developmental process. It forms the circulatory system of the National Economy and paves the way for all changes and developments in the socio-economic and political arena. The operative features of STUs are predominantly influenced by the socio-political considerations. Therefore prudent management of the STUs in all aspects in general and of financial aspects in particular is very important. In the financial aspects, studying about cash management is important for the success of Transport Corporations. Although the concept of cash management, as an important aspect of working capital management, is not new, it has assumed great importance in the modern transport system due to novel changes in the conduct of the transport undertakings and ever increasing difficulties and cost of borrowings.

Besides the facts matters presented in the introduction chapter, Chapter-II has aimed at dealing with the features of cash management in the transport corporations. The transport service has its own peculiar features, which distinguishes it from other forms of business. Transport service is produced in bulk and sold in single seat km form. The cash inflow and
outflow are not matching due to deficit cash situations. Cash flow is cyclical in its nature and major portion of revenue comes from operation of bus services. The non-operating income is meagre and is received mainly from the sale of old buses, disposal of scraps and income through advertisement.

Profit or Loss of the Transport Corporations is ascertained after meeting fixed and variable cost. Cash generation of the corporations is ascertained by adding depreciation because it is utilised in the business itself due to shortage of funds. But technically it is not a sound practice.

Inflow of cash depends upon the traffic. The traffic is not uniform on all the days. Traffic is influenced by internal and external factors.

Non-matching of inflow and outflow creates a deficit cash situation. Temporary deficit or surplus is not a serious one. Constant cash deficit situation faced by the Transport Corporation is one of the serious problems. The Transport Corporations faces an inner conflict between their role as a public utility service and their commitment to economic efficiency and profitability.

Even the opening balance of cash flow statement of the corporations starts with minus balance and ends with minus balance. This is mainly due to huge overdraft availed by the Transport Corporations for meeting the ever increasing operating cost which was not adequately off-set by operational income.
The corporations mobilise daily collections from various branches and spend the amount through by the head office. The collection is made in small amounts and spent in lumpsum. The daily collections have more or less doubled over a period of nine years in both K-I and K-II.

The major portion of current assets consists of cash and inventory. Book debts are very meagre in Transport Corporations since the transport operations are made in cash and carry system. It is found that book-debts are very meagre compared with total revenue in the Transport Corporations.

Another feature of the corporations is the proportionate increase in expenditure of the two corporations is more than the proportionate increase in income. This has led to deficit cash situations. It is suggested that the corporations should make efforts to increase their revenue.

The next chapter deals with the cash planning and assessment of cash needs. It was found out that the two Transport Corporations give due importance to a regular forecast in the effective Management of Cash. The time span covered by them in the preparation of cash flow budget is one year having monthly break-ups. Revised estimates are also prepared at the end of tenth or eleventh month based on actuals. It was found that unexpected events, fuel cost rise, fare revision etc., are responsible for causing deviations in the original budget. The 'Fund Section' of accounts department, in the Transport Corporations, is responsible for the preparation of cash flow
forecast. The deviations in the original budget ranges between three to five per cent in ordinary times and thirty to forty per cent in extraordinary circumstances like natural calamities, road block, etc.

The branch managers are to be informed about cash flow statement, budget estimates and balance sheet well-in-advance for taking appropriate action and corrective measures to achieve the target fixed on the budget report.

Budget forecasts are reviewed by way of comparison with actuals and necessary revisions are made only after direct discussions with the concerned branch managers. Such measures provide a stimulus to personnel responsible for preparing forecasts accurately.

The monthly budget estimates are prepared separately for town, mofussil, ghat, partly ghat, express and overall services by adopting the guidelines issued by the Tamil Nadu Government.

The extent of cash needs depends upon the investment in tyres, tubes, fuel, maintenance, administration and taxes. Cash is also required for replacement and augmentation of buses and for carrying out other important capital programme. The amount on purchase of fixed assets are heavy and in an upward trend in the two Transport Corporations. The average cost of inventory over a period of nine years is Rs.137.39 lakhs in K-I and Rs.126.54 lakhs in K-II. It was found that the percentage of kilometers lost due to want
of spares worked out at 0.16 and 0.02 for K-I and K-II respectively. Further K-I kept stock of stores and spares only for 0.94 months whereas K-II maintained stocks for 1.58 months as an average over a period of nine years. K-I paid Rs.769.63 lakhs and K-II paid Rs.769.67 lakhs on an average over a period of nine years towards motor vehicle tax. K-I contributed Rs.208.91 lakhs and K-II contributed Rs.197.20 lakhs towards Provident Fund on an average over a period of nine years. The payment towards bank, exgratia and gratuity is increasing year by year.

It is found that personnel cost accounts for nearly half of the total cost in the Transport Corporations. On an average over a period of nine years, K-I appropriated Rs.597.11 lakhs and K-II Rs.796 lakhs towards depreciation.

The cash requirements are met from loans from the Government, the TDFC, Banks and operating and non-operating revenues. The Transport Corporations are not to rely only on these resources permanently and fare revision is the only remedial measure for escaping from such precarious position, which cannot be done easily under the administered system of fare fixation.

The fourth chapter deals with the significance of cash in cash rich organizations. The main sources of cash for the corporations are operating and non-operating revenues. K-I and K-II have been able to earn annual revenues of Rs.8,459 lakhs and Rs.8,788 lakhs respectively on an average over a period of nine years. There is no substantial difference as regards
average annual revenue earned and average rate of increase in revenue between K-I and K-II. The analysis of cash balances maintained by the Transport Corporations during the nine year period 1990-91 to 1998-99 shows that the actual cash and bank balances on a given date are more the result of chance rather than of any planning. This is obviously due to the non-presentation of cheques by suppliers before the closing date of accounts.

Percentage of cash and bank balance to current assets is not properly and proportionately maintained in TNSTC, K-I. But in TNSTC, K-II, the percentage of cash and bank balance to current assets is properly and proportionately maintained.

As regard to the relation between cash and bank balance and current liabilities in TNSTC, K-I and K-II they are positively related.

Cash and bank balances are highly correlated with the revenues both in K-I and K-II.

With regard to the study of the relation between cash and bank balance and inventory to current assets, in TNSTC, K-I cash and bank balance to current assets are negatively related but current assets and inventory are positively related. In TNSTC, K-II, both current assets to cash and bank balance and current assets to inventory are positively related.
It is found that over a period of nine years the average percentage of cash and bank balances to total current assets stands at 27.80 in K-II whereas the corresponding ratio in K-I is only 19.96. K-II keeps a higher proportion of its current assets in the form of cash and bank balances compared to K-I.

It is found that K-II has been able to maintain higher percentage of cash and bank balance to meet its current liabilities than K-I. The average percentage of cash and bank balances to current liabilities in K-II stands at 15.68 whereas the corresponding figure for K-I is only 7.2 per cent.

In arriving at a conclusion on the linear relation between revenue and expenditure the total revenue depends on total expenditure and there is a linear relation between total expenditure and total revenue.

The chapter-V deals with the surplus and deficit cash situation in the transport corporations. The corporations studied depend on their banks, the TDFC and the Government for necessary funds apart from operating and non-operating revenue. Hence, generally they do not have surplus cash. The corporations are having the practice of investing ‘specific funds’ in savings and fixed deposits of their banks. It was found that an average of Rs.71.15 lakhs is kept as cash and bank balances in K-I whereas in K-II it is Rs.144.07 lakhs. In comparing the percentage of cash and bank balances to deposit, K-I keeps an average of 30.31 per cent and K-II keeps an average of 19.37 per cent. The average interest income from investment is Rs.3.38 lakhs in K-I
whereas it is Rs.2.64 lakhs in K-II over a period of nine years. At present the transport corporations are facing deficit cash situations.

The Transport Corporations have cash credit arrangement with their banks that provide not only for working capital requirements for meeting out cash deficits but also ensure the availability of necessary funds in emergencies. Cash shortage can be faced with this type of arrangement. The existing cash credit arrangement is not sufficient under a deficit finance situation. Increasing daily collections postponed payment are some of the measures adopted for meeting deficit cash situation at present.

Following the surplus and deficit cash situation chapter, chapter-VI deals with the relationship of the corporations with financing agencies. The corporations, by and large, maintain accounts with more than one bank, the State Bank of India being common to all of them. Apart from commercial banks, the TDFC is playing a predominant role in providing financial assistance to the corporations. Selection of banks is mostly based on proximity to their place of business and ability to provide required service. It is found that the balances outstanding on account of borrowings from the TDFC and banks has increased from Rs.1496.24 lakhs in 1990-91 to Rs.5,020.29 lakhs in 1997-98 in K-I. The proportion ranges between 68.43 per cent and 99.95 per cent. But in K-II, this proportion ranges between 90.53 per cent to 100 per cent. The highest dependence on the TDFC and banks as sources of borrowing is observed in the case of K-II.
The banks have been facilitating the Transport Corporations by extending special services as well as routine services to them and generally charging commission at the rates prescribed by the Reserve Bank of India for special services. It is found that the increase in quantum of bank changes depends on the revision of bank charges effected by the banks and the quantum of cash remittance. Huge flow of funds into the banks from the corporations is possible every day because of cash and carry system. Because of this the banks are rendering routine services to them. Apart from these, the Transport Corporations invest, specific funds like Insurance Fund, Security deposit, in Savings and Fixed deposits of the banks. The actual balances maintained in current amount by the Transport Corporations are more than the required balance by the banks. Maintenance of excessive cash balances in the current account may be due to issuing of cheques to the suppliers on the last date and the need of cash for operational requirements. Hence, there is every patronage extended by the banks of the corporation, besides cordiality in day-to-day transactions.

It is found that K-I maintains Rs.1.12 lakhs balance in its current account and K-II Rs.1.19 lakhs over a period of nine years on an average. From cash management point of view, maintenance of large amount in current account is undesirable for the reason that banks do not allow any interest on these balances and the valuable cash remains unproductive. However for the Transport corporations with an average revenue of Rs.8459 lakhs in K-I and Rs.8778 in K-II keeping a current account balance of Rs.1.12 lakhs and 1.19 lakhs in K-I and K-II respectively, cannot be considered as an excess balance.
CONCLUSION

The study deals with the features of cash management in the two Transport Corporations. The major portion of income comes from the operating revenue. The flow of cash, in Transport Corporations, depends upon traffic. Income of the corporations is not uniform in all the days in a year. The ever increasing operating cost leads to non-synchronisation of inflow and outflow of cash. Decentralised collection and centralised spending practice is followed in the Transport Corporations. Collection is made in small amount and spent in large amount. Further the cash and inventory are heavy among current assets and book debts are less compared with other business. The proportionate increase in income in less than the proportionate increase in expenditure. The Transport Corporations prepare a cash budget to estimate their future cash flow. The cash forecast is very helpful for estimating the requirement of cash for running the corporations.

The Two Transport Corporations are not following proper practice in maintaining cash balances. Cash credit arrangement with banks and short-term credit arrangement with the TDFC play an important role in providing cash to the Transport Corporations not only for the day-to-day requirements and facing cash shortages but also in ensuring the availability of required funds in emergencies. An effective relationship with participating financing agencies is necessary for the success of cash management programme.

For increasing the availability of usable cash, the following suggestions are made.
1. For optimum utilisation of cash resources every steps should be taken to minimise the balances in current account. If possible the merger of current account with the cash credit account would be worth considering. This will keep their idle cash fully employed by reducing the balance in cash credit account. This will helpful for save interest payment and increase the cash availability.

2. The Transport Corporations is taking possible steps for increasing the cash availability. Efforts should be made to increase the operational revenue. There should be an automatic system for increasing the fare when input cost is raised. It is suggested that there should be an increase in fare structure on presentation of budget every year considering the input cost rise and projected operation cost such as wage settlement etc.

3. Luxury buses shall be introduced in crowded routes with increased fare to meet the special requirements of the upper sections. This will increase the revenue to certain extent.

4. Govt. should give subsidy for operating buses in uneconomic routes or tax holiday may be given for buses operated in uneconomic routes.

5. Revenue leakage caused by drivers and conductors should be minimised by giving proper instructions to drivers and conductors and other persons involved in the operation. Commuters should be educated to destroy the travelled tickets as and when they complete the journey unless it is specifically required for any claim purpose.

6. Steps should be taken continuously to improve the physical parameters wherever possible. Special emphasis should be laid to operate bus as on time during change over timings especially during lunch break.
7. State Transport Corporations buses should switch to compressed natural gas (CNG) from the costly and fast diminishing diesel as proposed in Gujarat State Transport Corporation (GSTC) (Hindu, Dec.4, 2000, p.10). With the help of this, change fuel cost may be saved and the availability of cash may be increased to certain extent.

8. Appointment of non-technical staff shall be kept at minimum level to reduce staff bus ratio and the overhead charges may be curtailed.

9. Allotment of uneconomic remote routes to the corporations compulsorily must be stopped and compulsory equal participation by the private sector must be insisted by making suitable amendment in the Act.

10. Government should provide pucca road facilities for minimising vehicle maintenance cost.

11. At present the corporations provide Rs.1.71 for mofussil buses and 2.22 for town buses as collection batta per 100 rupees. This should be increased on par with private transport where it is 3 to 3.50 rupees per 100 rupees as collection batta. This will stimulate the employees to collect more and increase the cash availability.

**SUGGESTIONS TO THE GOVERNMENT**

Government should permit the Transport Corporations to withdraw buses from uneconomic routes and allow mini-bus operators to operate mini buses in those areas. This will reduce the loss of the corporations to certain extent and increase the cash availability. The Government may also give concessions in the payment of motor vehicle tax to the buses operated on uneconomic routes.
Since the personnel cost occupies a major portion i.e., 40 to 60 per cent of the total cost, the Government may grant managerial subsidy to bear the cost of the services of the top officials. In future, government should recruit drivers cum conductors in all State Transport Corporations so that they may be deployed in a beneficial manner by rotating the duty among themselves for ‘To’ and ‘Fro’ journeys in long distant routes. This type of arrangement, will further help in avoiding non-operation of buses due to the non-availability of conductors or drivers.

**AREA FOR FURTHER RESEARCH**

1. With the fast developing era of information technology and the application of electronic fund transfer mechanism the day-to-day collection can be pooled fastly and used optimally. There can be a separate study as to the implementation of the above and the implications.

2. Similarly studies on other features of cash management at the micro level can be a subject matter for further research.

3. Exclusive studies on cash planning, the extent of cash needs and fulfilment can be taken up on comparative basis with other transport corporations in order to judge the efficiency.

4. The giant financing agency, viz. the TDFC, can be taken up as a case study in providing financial assistance to all the Transport Corporations in Tamil Nadu.