

**MANAGING THE FINANCIAL CRISIS IN UTTAR
PRADESH STATE ROAD TRANSPORT CORPORATION**

(With Special reference to Cost Management)

SUMAN DEVI¹

Abstract-

Road transport is the most preferred mode of transport among common mass. In India, State Road Transport Undertakings (SRTUs) are engaged in providing road transport facility to public. They run their services on the basis of business principles. Their practices are motivated to provide transport facilities to public with resultant profitability. But in recent years the SRTUs are suffering from huge amount of losses. The current study is focused on the Cost Management aspect of the SRTUs. The area of study selected is Uttar Pradesh. The study discusses about the cost management with special reference to Uttar Pradesh State Road Transport Corporation (UPSRTC). It discusses the various components of total cost and analyse its share in total cost. Further, the study suggests some valuable measures for improving the cost effectiveness of the Corporation. This paper is an important avenue available for the Corporation to improve their economic and financial viability which in turn enhance their profitability.

Keywords: *State Road Transport Corporation, Motor Vehicle Taxes, Operational Effectiveness, Operating and Non-operating Cost.*

¹ Research Scholar, Faculty of Commerce, Banaras Hindu University, Varanasi, Uttar Pradesh, Pin-221005

1. Introduction-

Road transport is the most preferred mode of transport among common mass. Economical fare rates, easily accessible, flexible in operation and services at door step are some common features of road transport, which make it superior over other modes of transportation. India, having second largest road network covering about 33 lakh km., is used to transport over 60 percent of total goods and 85 percent of passenger traffic through road transportation. As on March, 2013, the total number of passengers carried through road transport is stood at 2527.16 crores.²

In India, State Road Transport Undertakings (SRTUs) are engaged in providing road transport facility to public. The present study discuss about the cost management with special reference to Uttar Pradesh State Road Transport Corporation (UPSRTC). It was formed to provide a public sector passenger road transport services in the states of Uttar Pradesh (U.P.) and other adjoining states of North India. It came into existence on June 1, 1972 during the Fourth Five Year Plan. As on March, 2011-12 total fleet strength of the Corporation was 6890 with 94% fleet Utilisation. It was one of the largest units among other SRTUs, providing employment to 28170 employees with 5.22 bus staff ratio. UPSRTC earned total revenue of Rs. 2323.98 crores against total cost of Rs. 2358.55 crores. It incurred losses of Rs. 34.57 crores as on March, 2012.³

2. Objective of the Study-

The present study makes an effective attempted to explain the total cost structure of the SRTUs with special reference to UPSRTC. The study analyse their performance and find out whether the Corporation have been managing the total cost effectively. In this regard, the following objectives are framed:

1. To study the classification of total cost structure of SRTUs, a case study of UPSRTC.
2. To analyse the performance of UPSRTC with the help of various statistical tools, for knowing its share and impact on the profitability of the Corporation.

² Road Transport Year Book (March, 2012-13). www.morth.nic.in.

³ Annual Reports of UPSRTC, 2011-12, www.upsrtc.com.

3. Research Methodology-

For analysing the cost structure of SRTUs, a case study of area of Uttar Pradesh has been taken. The current study covers a period of ten year from 2002-03 to 2011-12. The data used in the study, gathered from the secondary source of information. Such as various issues of Performance and Profile of SRTUs published by Central Institute of Road Transport, Annual reports of UPSRTC, various reports of Road Transport published by Ministry of Road Transport and Highways, various articles, research papers, theses and books. Further, to analyse the study some important statistical tools, viz. average, percentage and index are used.

4. Financial Position of UPSRTC-

The Corporation run their services on the basis of business principles. Their practices are motivated to provide transport facilities to public with resultant profitability. Earning profit is one of the core objectives of the Corporation. For any organisation Profit earning and having continuity in its earning have a positive impact on the morale of management. Financial performance is an important factor which influences the profitability of the organisation and in turn is influenced by various factors. In macro sense, it can be said that the costs and revenues and the resultant profits or losses decides the financial performance. The costs are influenced by both operational and non-operational factors whereas the revenues are primarily dependent upon the fares and operational performance of bus transport services. The following table show the financial position of the UPSRTC.

Table no. 01: Cost, Revenue and Profit/Loss Position of UPSRTC

(From 2002-03 to 2011-12)

(Rs. in Crores)

Sr. No.	Year	Total Revenue Earned	% change over the Previous Year	Total Expenditure incurred	% change over the Previous Year	Profit/ Loss
1.	2002-03	812.28	-	867.46	-	-55.18
2.	2003-04	816.92	0.57	853.65	-1.59	-36.73
3.	2004-05	872.23	6.77	868.36	1.72	3.87
4.	2005-06	1018.68	16.79	1004.91	15.73	13.77
5.	2006-07	1141.17	12.02	1101.14	9.58	40.03
6.	2007-08	1240.74	8.73	1200.03	8.98	40.71
7.	2008-09	1413.86	13.95	1403.19	16.93	10.67
8.	2009-10	1657.01	17.20	1708.98	21.79	-51.97
9.	2010-11	2074.40	25.19	2112.89	23.63	-38.49
10.	2011-12	2323.98	12.03	2358.55	11.63	-34.57

(Sources: Annual Report, UPSRTC -2012-13, www.upsrtc.com.)

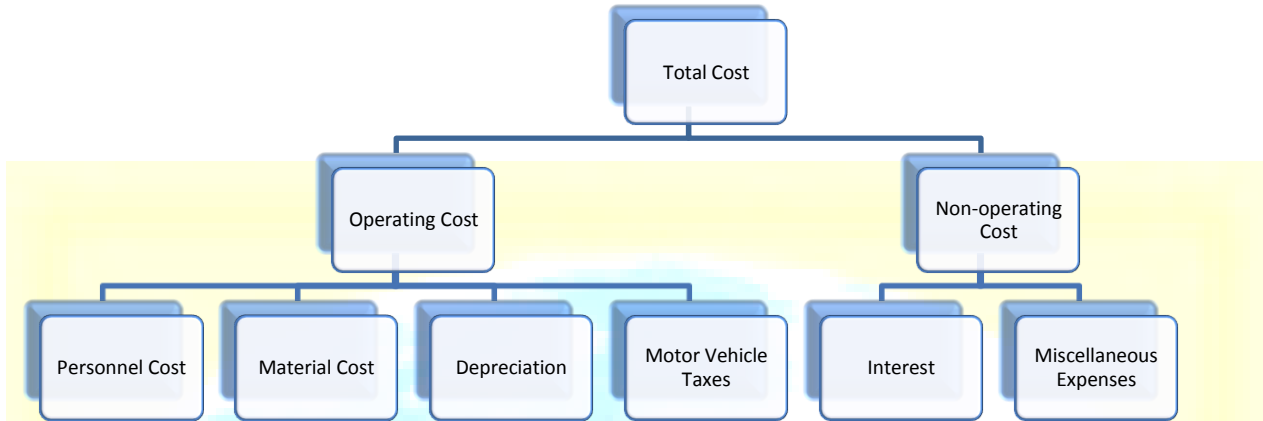
From the table given above, it is quite understandable that the Corporation record tremendous increase in the total revenue. It can be observed from the table that total revenue has increased from Rs. 812.28 crores in 2002-03 to Rs. 2323.98 crores in 2011-12 and gained nearly two time increase in ten years. On the other hand, total cost shows continuous upward trend. In 2002-03, the total cost was Rs. 867.46 crores, which increased by 171.90 percent in ten years and recorded Rs. 2358.55 crores in 2011-12. The profit/loss position of the Corporation is quite impulsive in nature. In 2002-03, the Corporation suffered from a huge amount of losses, viz. Rs. 55.18 crores. However, in 2011-12 the Corporation bear Rs. 34.57 crores as losses.

5. Components of Total Cost-

For long term survival as well as better performance in short term, huge amount of fund is needed. However, earning is an important issue, but their effective and efficient utilisation is even more important for the financial health of the Corporation. The management of the earnings is not only concerned with the attainment of earnings but also with the disbursement of earnings under various heads of expenditures and ploughing back the profits in case of concerns having retained earnings. The maximum coverage of earnings of the road transport undertakings goes to the operational cost of bus services, which includes cost of personnel and cost of material. Still there are various heads under which the earnings of road transport are distributed viz. depreciation, interest and other expenses covered under miscellaneous expenditure, etc.⁴Total earning of the UPSRTC can be classified into two parts- Operating and Non-operating cost, which can be understand through the chart given below-

⁴ Mahalingu and Dr. Madegowda, J., "Performance Evaluation of SRTCs with specific reference to Cost Management" Indian Journal of Transport Management, Pune, March-2012.

Figure: Composition of Total Cost of SRTUs



The total cost of the Corporation is categorised into two parts; first, the operating cost which includes various expenses incurred on conducting the regular operations of the Corporation. Personnel Cost, Material Cost, Depreciation and Motor Vehicle Taxes are covered under this head. Another category is Non-operating Cost, which includes Interest and Miscellaneous Expenses.

The six broad categories covered under Operating and Non- operating Cost, are explained below. And an analysis is make to study the performance during the period of past ten years viz. from 2002-03 to 2011-12.

6. Cost of Personnel-

The Cost of Personnel or Labour cost covers a major part of the total cost of the undertakings. It includes the total of salaries and wages, allowances, all types of rewards, incentives to all categories of employees in the Corporation, whether engaged in administrative and supervisory work or in traffic regulation or in workshop activities. Moreover all the employees belonging to above categories are paid on monthly basis. Therefore, this labour cost is an item of fixed or period cost and cannot be reduced. Hence, the only alternative the Corporation have is to obtain the maximum possible work done from them. So that the Corporation can ensures higher rate of

production which leads to higher profitability with the help of human resource employed in it. The table given below shows the personnel cost incurred by UPSRTC from 2002-03 to 2011-12.

Table No. 02: Personnel Cost
(From 2002-03 to 2011-12)

Sr. No.	Year	Amount (Rs. in Lakh)	Relative Share to Total Cost (%)	Index
1.	2002-03	38880.82	44.82	100
2.	2003-04	34001.44	39.83	87.45
3.	2004-05	31753.49	36.57	81.67
4.	2005-06	33755.88	33.59	86.82
5.	2006-07	34633.25	31.45	89.08
6.	2007-08	39022.31	32.52	100.37
7.	2008-09	44354.42	31.61	114.08
8.	2009-10	56300.74	32.94	144.81
9.	2010-11	70135.63	33.19	180.39
10.	2011-12	75729.15	32.11	194.74
Average			34.86%	

On going through the analysis of the above table, it reveals that the salaries and allowances head have showed a tendency to increase over the years. In the year 2002-03, it accounted for Rs. 38880.28 lakh, which followed a downward turn during 2003-04 and 2004-05 and stood at Rs. 34001.44 lakh and Rs. 31753.49 lakh respectively. Afterward, again the value of personnel cost showed an increasing trend and jumped from Rs. 33755.88 lakh (in 2005-06) to Rs. 75729.15 lakh (in 2011-12). During the period of study, the relative share of personnel cost to total cost varied between as high as 44.82 percent (in 2002-03) and as low as 31.45 percent (in 2006-07). However, it stood at 36.91 percent with a slight increase over the previous year. The average ratio for relative share of personnel cost to total cost was 34.86 percent.

After analysing of the trend of personnel cost, it can be said that the Corporation showed a decreasing trend from 2002-03 to 2004-05, but after that it increased on continuous basis showing nearly two-fold rise over the period of 2011-12.

7. Cost of Materials-

The second head, which involve highest amount of the total cost of operation, is the Materials Cost. It includes the cost of all those materials which are required to operate the buses as well as different spare-parts and stories which are used in workshops. Thus, the cost of materials contains mainly the costs of fuel, tyre and tube costs. The other items under material costs are oil and lubricants, springs, auto spare parts, batteries, reconditioned items and general items, tickets and tickets issuing machines. Against this background, the details relating to material cost to total cost are presented in the table given below-

Table No. 03: Cost of Materials
(From 2002-03 to 2011-12)

Sr. No.	Year	Amount (Rs. in lakh)	Relative share in Total Cost (%)	Index
1.	2002-03	29177.36	33.63	100
2.	2003-04	31264.18	36.62	107.15
3.	2004-05	34328.88	39.53	117.66
4.	2005-06	44666.59	44.45	153.09
5.	2006-07	51350.36	46.63	175.99
6.	2007-08	54540.97	45.45	186.93
7.	2008-09	67579.13	48.16	231.61
8.	2009-10	70572.52	41.29	241.87
9.	2010-11	77746.90	36.80	266.46
10.	2011-12	87047.36	36.91	298.34
Average			40.95%	

It is clear from the above table that the Material Cost is the second prominent item of the total cost of UPSRTC. The amount spend by the Corporation over this head has been increased from year to year. It worth Rs. 29177.36 lakh during the year 2002-03, which increased to Rs. 51350.36 lakh in 2006-07 and further jumped to 87047.36 lakh during the period of 2011-12. During the period of the study, the relative share of material cost to total cost varied between as high as 48.16 percent (in 2008-09) and as low as 33.36 percent (in 2002-03).

Moreover, expenditure incurred on this head was reflecting a constant rising trend, showing nearly three times rise for the ten years of the study period. It had 40.95 percent average ratio for percentage share of material cost to total cost.

8. Depreciation-

With the passage of time and because of its use, every assets is depreciated. Therefore, management of depreciation becomes an essential part not only of accounting but also of the cost accounting management. There are two types of assets to be depreciated by a transport undertaking, viz., bus fleet and other assets like buildings, workshops, garages, bus stations and administrative premises, plants and machinery, tools and equipments, furniture and fittings, etc.

According to Accounting Standards, every enterprise must make provisions against depreciation. As in case of SRTUs, Section 29 (1) of the Road Transport Corporation Act, 1950, states, "A Corporation shall make such provisions for depreciation and for reserve and other funds as the State Government may from time to time, direct."⁵

Hence, the Corporations are required to adopt an appropriate method of charging depreciation not only on its buses but also on other assets, because if the assets are not utilised properly, it resulted into not only reduction in the potential revenue but also dead capital. The table given below revealed the depreciation position of UPSRTC.

Table No. 04: Depreciation
(From 2002-03 to 2011-12)

Sr. No.	Year	Amount (Rs. in lakh)	Relative share in Total Cost (%)	Index
1.	2002-03	5610.77	6.47	100
2.	2003-04	6668.91	7.81	118.86
3.	2004-05	7960.44	9.17	141.88
4.	2005-06	8963.25	8.92	159.75
5.	2006-07	10309.21	9.36	183.74
6.	2007-08	11507.77	9.59	205.10
7.	2008-09	11701.65	8.34	208.56
8.	2009-10	13581.41	7.95	242.06

⁵ "The Road Transport Corporation Act 1950" Section 29 (1), Gazette of India, Government of India, May 1, 1950.

9.	2010-11	12498.17	5.92	222.75
10.	2011-12	13678.62	5.80	243.79
Average			7.93%	

After analysing the above table it can be said that the depreciation head of the Corporation was constantly showing increasing trend. It stood at Rs. 5610.77 lakh during the period of 2002-03, which went up to Rs. 13678.62 lakh in 2011-12. As far as the relative share of the depreciation in the total cost is concerned, it was 6.47 percent (in 2002-03), which had increased to 9.17 percent (in 2004-05). Further it went to 9.59 percent during the period of 2007-08 with a slight fall in 2005-06 (8.92 percent). After 2007-08, the Corporation was able to reduce the ratio and reached at 5.80 percent (in 2011-12) and the average of the ratio was 7.93 percent during the period of study.

9. Motor Vehicle and Other Taxes-

A transport undertaking pays different kinds of taxes to both, the Central and State and Local Governments on the operations of the bus services. There are two types of taxes, direct and indirect, which includes customs duty, excise duty, sales tax, motor vehicle tax, passenger tax, registration fees and road tax.

The tax structure followed by SRTUs varies from one undertaking to another. No uniformity is found in the rates of taxes imposed by the State Governments. That is why, incidence of taxes per vehicle and /or vehicle kms. and /or per passenger kms. differs from one state to another. Therefore, there is a need to follow a similar tax structure and uniformity in the rules of tax imposed. In this light, the relative share of motor vehicle and other taxes in the total cost is presented in the table given below-

Table No. 05: Motor Vehicle and Other Taxes
(From 2002-03 to 2011-12)

Sr. No.	Year	Amount (Rs. in lakh)	Relative share to Total Cost (%)	Index
1.	2002-03	747.75	0.86	100
2.	2003-04	777.73	0.91	104.01
3.	2004-05	736.26	0.85	98.46
4.	2005-06	758.44	0.75	101.43
5.	2006-07	835.03	0.76	111.67
6.	2007-08	836.59	0.70	111.88
7.	2008-09	878.48	0.63	117.48

8.	2009-10	10425.89	6.10	1394.30
9.	2010-11	25422.71	12.03	3399.90
10.	2011-12	27708.76	11.75	3705.62
Average			3.53	

The analysis of the above table revealed that the total tax burden has increased from Rs. 747.75 lakh in 2002-03. After that, it has decreased with a little amount of Rs. 736.26 lakh in 2004-05. But afterward, the Corporation has recorded a continuous increase. The amount rose from Rs. 878.48 lakh during the period of 2008-09 to Rs. 27708.76 lakh during 2011-12, recording 37 times rise over the year 2002-03. During the period of study, the average percentage in relative share of motor vehicles and other taxes to total cost was stood at 3.53 percent.

10. Interest-

Every enterprise needs fund in the form of capital employed or/and loans to meet the capital and revenue expenditures. The SRTUs gathered their capitals from State and Central Government, public deposits and loans from LIC, IDBI, banks and other financial institutions. The rates of interest imposed on capital employed and/or borrowed funds have been fixed at the time of borrowing money or at the time of accepting the capital contributions from the Government and different financial institutions. Amount paid through interest occupied a significant place in total cost. The amount paid and the relative share of interest to total cost is shown in the table presented below-

Table No. 06: Interest
(From 2002-03 to 2011-12)

Sr. No.	Year	Amount (Rs. in lakh)	Relative share to Total Cost (%)	Index
1.	2002-03	1970.38	2.27	100
2.	2003-04	1740.85	2.04	88.35
3.	2004-05	1785.52	2.06	90.62
4.	2005-06	1705.89	1.70	86.58
5.	2006-07	1910.99	1.74	96.99
6.	2007-08	1778.74	1.48	90.27
7.	2008-09	2216.91	1.58	112.5
8.	2009-10	2428.00	1.42	123.22
9.	2010-11	2043.31	0.97	103.70

10.	2011-12	3573.40	1.52	181.36
Average			1.68%	

From the above table it can be noticed that the amount paid by way of interest is quite impulsive in nature. It stood at Rs. 1970.38 lakh during 2002-03. Thereafter, during the period of study, it varies as low as Rs. 1705.89 lakh (in 2005-06) and as high as Rs. 3573.40 lakh (in 2011-12). However, the Corporation succeeded in lowering their relative share of interest paid to the total cost ratio from 2.27 percent (in 2002-03) to 0.97 percent (2010-11), but it rose to 1.52 percent during the period of 2011-12. The average of the percent amount to total cost stood at 1.68 percent.

11. Miscellaneous Expenditure-

All the other cost incurred besides above categories fall under the Miscellaneous Expenses head. It may includes expenditure incurred on maintenance of office, stationery expenses, etc. the ratio of other expenses differs from one Corporation to another and also from one year to another as the elements covered under such heads varies from one undertaking to another. The details of the other expenses have been presented in the table shown below-

Table No. 07: Miscellaneous Expenditure
(From 2002-03 to 2011-12)

Sr. No.	Year	Amount (Rs. in lakh)	Relative share to Total cost (%)	% change over the previous year
1.	2002-03	3753.73	4.33	-
2.	2003-04	2565.16	3.00	-31.66
3.	2004-05	2377.32	2.74	-7.32
4.	2005-06	2860.33	2.85	20.32
5.	2006-07	3287.43	2.99	14.93
6.	2007-08	3349.76	2.79	1.89
7.	2008-09	1983.11	1.41	-40.80
8.	2009-10	2430.79	1.42	22.57
9.	2010-11	2595.33	1.23	6.77
10.	2011-12	3269.18	1.39	25.96
Average			2.42%	

It is clear from the above table that the miscellaneous expenses had showed a vast variation in past decade. It stood at Rs. 3753.73 lakh in 2002-03, which reached to Rs. 3269.18 lakh during the period of 2011-12 after facing a huge disparity in figures. But it can be analysed that the Corporation was able to minimise the relative share of other expenses to total cost.

12. Suggestions-

The main reasons behind such unbalanced financial position with special concern to cost management are heavy increase in the price of petroleum products, operational inefficiency, high bus staff ratio and inefficient bus space utilisation. The corporation can take following steps for the efficient management of its earning-

1. The corporation should invest an equal amount in the form of cash reserves and/or sinking funds, besides providing the depreciation out of its earnings.
2. The corporation can reduced its tax burden by converting its capital into share capital.
3. The corporation have to brought down its bus staff ratio in order to reduce the over staffing in the corporation.
4. Maximum amount spend on material cost and in the form of paying taxes, are not controllable by the Corporation. However, the Corporation can put a strong case with the Government for some relief or some kind of subsidy on the ground of social services rendered by the Corporation.
5. There are few Corporations which have achieved higher results through effective cost management practices and policies. The UPSRTC should make efforts to follow such practices.

13. Conclusions-

As know, cost and revenue are two most important factors which determine the profitability position of the corporation. Revenue side don't have much scope for improvement as decision regarding increase in fares is total depend on government. But on the hand cost management is total under the control of management of the concerned Corporation. Hence, the corporation

have to manage this head effectively and efficiently not only to improve their financial position but also to survive in competition.

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