

PROFITABILITY PERFORMANCE OF PUNJAB STATE WAREHOUSING CORPORATION

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ABSTRACT

This paper examines the profitability performance of Punjab State Warehousing Corporation (PSWC). The data from 2000-01 to 2012-13 has been collected from secondary sources for the study. The data has been analyzed with the help of ratio analysis. The profitability performance of PSWC has been studied on the basis of various variables of profitability like Income from Warehousing Charges to Total Income, Interest Income to Total Income, Other Income to Total Income, Establishment Expenses to Total Expenses, Interest Expense to Total Expenses, Operating Expenses to Total Expenses, Operating Profit/Loss Ratio, Gross Profit/Loss Ratio, Net Profit/Loss Ratio, Return on Assets, Return on Shareholders' Equity or Net Worth. The study reveals that the PSWC showed the profitability only in 2000-01 and 2002-03 which was also quiet low and in other years of study period, the Corporation was in losses due to rise in expenses, deficit from procurement of paddy and wheat, underutilization of warehousing facilities and inefficiency of the management in running operations.

Keywords: Warehousing charges, Profitability, Total income, Total expense, Losses, PSWC.

Introduction:

The primary objective of a business undertaking is to earn profits. Profit earning is considered important for the survival of the business. A business needs profit not only for its existence but also for expansion and diversification. Profit is the difference between income and expenditure over a period of time. It means excess of income over expenditure. Profit is a useful measure of overall efficiency of business concern. A business enterprise can discharge its obligations to the various segments of the society only through earning of profits. Profit is the yardstick for judging not just the economic, but the managerial efficiency and social objectives also.

Profitability means ability to make profit from all the business activities of and organization, company, firm, or an enterprise. It shows how efficiently the management can make profit by using all the resources available in the market. Profitability indicates the earning capacity of the Corporation. The rate of profitability and volume of profits are rightly considered as indicators of efficiency in the deployment of resources of the Corporation. The operating efficiency of the firm ultimately depends on

the profitability of the firm. It is through profitability that the competitive strength of the Corporation can be known. Besides management of the Corporation, creditors and owners are also interested in the profitability of the Corporation.

In this paper an attempt has been made to study the profitability performance of Punjab State Warehousing Corporation (PSWC). The agriculture remains predominant sector of Punjab in terms of employment and livelihood. The role of the PSWC is very significant in meeting the requirement of safe and scientific storage of the agriculture and allied produce in Punjab. The Punjab State Warehousing Corporation (PSWC) was originally established on 2.01.1958 for the purpose of warehousing of agricultural produce and other notified commodities by the State Government complying with the provisions of Agricultural Produce (Development and Warehousing) Corporations Act, 1956 which was subsequently repealed and replaced by the Warehousing Corporations Act, 1962. It is declared as one of the procuring agencies of the State Govt. in 1993-94.

Literature Review:

Various studies have been conducted on the performance of Warehousing Corporations in India. Like, Momin (1972) evaluated the performance of Central Warehousing Corporation (CWC). He discussed the role of public warehousing in price control operations. He analyzed the physical and financial performance of CWC during 1971-72. He indicated that the Corporation had made a gross profit of over Rs. 1 crore during 1971-1972 and this was better than profit made in any previous years. Grewal (1990) studied the organization and working of Haryana State Warehousing Corporation. It was found that the number of warehouses of Haryana State Warehousing Corporation increased from 77 in 1967-68 to 97 in 1986-87. She further revealed that the warehousing charges formed 84% - 99% of the Corporation's income from 1983-84 to 1986-87. Atmanand (1997) studied the growth and performance of Bihar State Warehousing Corporation (BSWC) for the period 1980-1991. He found that BSWC earned a net profit of Rs. 584.88 lakhs between 1980-81 and 1988-89 while in the same period it incurred a net loss of Rs. 52.08 lakhs. Mishra, et.al. (2006) evaluated the performance of Andhra Pradesh State Warehousing Corporation (APSWC). They conducted the horizontal analysis of APSWC's performance by comparing its working with five State Warehousing Corporations such as Maharashtra State Warehousing Corporation, Haryana State Warehousing Corporation, Tamil Nadu State Warehousing Corporation, Rajasthan State Warehousing Corporation and Uttar Pradesh State Warehousing Corporation during the years 1998-1999 to 2001-02. They concluded that the Uttar Pradesh State Warehousing Corporation emerged as a rival to Andhra Pradesh State Warehousing Corporation in physical and financial performance. They had given some suggestions to improve the performance of APSWC like APSWC should continue to take measures to increase its income, the present profitability trend should be strengthened and the Corporation could increase the business by employing prudent volume of debt. Patil (2007) discussed the growth, performance and storage capacity utilization pattern of Karnataka State Warehousing Corporation (KSWC) in comparison with Private Warehousing Corporation during the period 1991-2005. He employed discounted cash flow technique to evaluate financial feasibility of both Warehousing Corporations. He found that the financial feasibility of KSWC was under heavy profits at the 8 per cent rate of discount but in case of private warehouses, it was found at the rate of 4 per cent.

Objectives:

Like other Corporations, it's very important to evaluate profitability performance of PSWC. So, the objectives of the present study are given below:

- To examine the profitability performance of Punjab State Warehousing Corporation.
- To give the suggestions on the basis of findings of the study.

Research Methodology:

The data for the period of 2000-01 to 2012-13 has been collected from secondary sources. The data has been collected from annual reports of Punjab State Warehousing Corporation. The profitability performance of PSWC is measured by using ratio analysis.

Profitability Performance:

The profitability performance of PSWC has been studied on the basis of following variables of profitability:

Income from Warehousing Charges to Total Income:

This ratio shows the proportion of income from warehousing charges in the total income earned by PSWC. The income from warehousing charges is the main source of income for the PSWC. The total income of the Corporation comprises of income from warehousing charges, interest income and other income. The table 1.1 depicts that income from warehousing charges to total income in PSWC during the study period formed the major proportion of total income. The share of income from warehousing charges in total income was showing a fluctuating trend and stood in range of 90.92 per cent to 99.76 per cent during the period under study. This ratio indicating the entire reliability of PSWC on warehousing activities.

Table 1.1: Income from Warehousing Charges to Total Income

(In per cent)

Year	Ratio
2000-01	94.04
2001-02	96.83
2002-03	97.45
2003-04	97.20
2004-05	94.56
2005-06	94.24
2006-07	92.35
2007-08	90.92
2008-09	98.41
2009-10	99.10
2010-11	99.27
2011-12	99.34
2012-13	99.76

(Source: Calculated from the annual reports of PSWC for the period 2000-01 to 2012-13)

Interest Income to Total Income:

This ratio indicates the relationship between total interest earned to total income earned by PSWC. The interest income of PSWC includes interest on advances to employees, bank interest, interest on income tax refund, interest on loan to CONWARE and Punjab Govt. The table 1.2 shows that the interest income to total income ratio was 5.89 per cent in 2000-01 which decreased to 1.97 per cent in 2002-03. In 2003-04, it increased to 2.15 per cent. It then decreased to 0.62 per cent in 2004-05 and remained stable in 2005-06. The ratio further remained in the range of 0.12 per cent to 0.95 per cent during 2006-07 to 2012-13. It is observed from the table that the interest income formed the low proportion of total income of PSWC over the study period.

Table 1.2: Interest Income To Total Income (In per cent)

Year	Ratio
2000-01	5.89
2001-02	3.15
2002-03	1.97
2003-04	2.15
2004-05	0.62
2005-06	0.63
2006-07	0.75
2007-08	0.95
2008-09	0.42
2009-10	0.55
2010-11	0.20
2011-12	0.17
2012-13	0.12

(Source: Calculated from the annual reports of PSWC for the period 2000-01 to 2012-13)

Other Income to Total Income:

The ratio studies the relationship between other income to total income. Other income of PSWC comprises of miscellaneous income, recovery from employees against shortage, recovery from millers against defalcation, gain on sale of assets, sale of wooden crates/poly covers etc. The table 1.3 reveals that the ratio of other income to total income remained in the range of 0.02 per cent to 8.13 per cent and shows that the other income also formed low proportion of total income during the study period. On the whole, by comparing the table 1.1, 1.2 and 1.3, it may be concluded that the proportion of income from warehousing charges was many fold more than the interest income and other income in the total income of PSWC over the study period.

Table 1.3: Other Income to Total Income (In per cent)

Year	Ratio
2000-01	0.07
2001-02	0.02
2002-03	0.58
2003-04	0.64
2004-05	4.81
2005-06	5.13
2006-07	6.90
2007-08	8.13
2008-09	1.17
2009-10	0.35
2010-11	0.53
2011-12	0.48
2012-13	0.12

(Source: Calculated from the annual reports of PSWC for the period 2000-01 to 2012-13)

Establishment Expenses to Total Expenses:

The establishment expenses to total expenses ratio measures the proportion of establishment expenses in total expenses. The total expenses of PSWC comprises of establishment expenses, interest paid, director remuneration & fee, insurance, chemicals consumed, depreciation, internal handling charges, poly covers consumption, repair & maintenance of godowns, rent, rate & taxes, travelling expenditure, provision for interest of Punjab Govt. and CONWARE, provision for bad & doubtful debts, sundry expenses and other. It is clear from the table 1.4 that the ratio has shown variation during the period of study. PSWC has spent in the range of 9.71 per cent to 26.86 per cent of total expenses on establishment over the period of study. It may be concluded from the results that the PSWC has expended significant proportion of total expenses on establishment during the study period.

Table 1.4: Establishment Expenses to Total Expenses (In per cent)

Year	Ratio
2000-01	26.86
2001-02	9.71
2002-03	14.05
2003-04	13.85
2004-05	22.30
2005-06	19.76
2006-07	18.10
2007-08	20.05
2008-09	22.47
2009-10	24.74
2010-11	13.33
2011-12	12.00
2012-13	13.53

(Source: Calculated from the annual reports of PSWC for the period 2000-01 to 2012-13)

Interest Expense to Total Expenses:

The PSWC has to pay interest on loan borrowed from banks and interest on loan of Central Warehousing Corporation. The ratio of interest expense to total expenses shows the proportionate of total expenses consumed by interest payment made by the PSWC. The table 1.5 shows that interest expense formed the low proportion of total expenses. It stood in range of 0.06 per cent to 12.48 per cent over the period 2000-01 to 2012-13. In the last of the study period, this ratio has increased many fold.

2005-06	51.81
2006-07	44.64
2007-08	43.72
2008-09	42.37
2009-10	50.14
2010-11	29.86
2011-12	25.74
2012-13	27.03

(Source: Calculated from the annual reports of PSWC for the period 2000-01 to 2012-13)

Table 1.5: Interest Expense to Total Expenses (In per cent)

Year	Ratio
2000-01	0.06
2001-02	1.74
2002-03	3.47
2003-04	2.91
2004-05	4.75
2005-06	5.12
2006-07	3.86
2007-08	2.47
2008-09	2.56
2009-10	12.48
2010-11	1.17
2011-12	0.62
2012-13	0.42

(Source: Calculated from the annual reports of PSWC for the period 2000-01 to 2012-13)

Operating Expenses to Total Expenses:

The expenses related to day to day operations of Corporation are called operating expenses. Operating expenses consist of director remuneration & fee, insurance, chemicals consumed, payments for employees, internal handling charges, poly covers consumption, repair & maintenance of godowns & offices, rent, rate & taxes, travelling expenditure and sundry expenses. This ratio measures the operating efficiency of the Corporation. The table 1.6 depicts that the operating expenses to total expenses ratio showed a fluctuating trend during the study period. The share of operating expenses in total expenses of PSWC was ranging from 25.74 per cent to 62.73 per cent during the period of study. The result in the table 1.6 shows that the share of operating expenses in total expenses of PSWC was very significant over the study period.

Table 1.6: Operating Expenses to Total Expenses (In per cent)

Year	Ratio
2000-01	46.32
2001-02	26.08
2002-03	42.39
2003-04	44.76
2004-05	62.73

Operating Profit/Loss Ratio:

One of the important profitability ratios in relation to sales is the operating profit/loss ratio. It expresses the relationship between operating profit to sales in percentage term. It is calculated by dividing operating profit by sales. The operating profit ratio is a yardstick of operating efficiency of the Corporation. Higher the ratio better is the operational efficiency of the Corporation. The table 1.7 shows that the operating profit/loss ratio has shown fluctuating trend throughout the study period. The ratio indicates negative values in 2001-02, 2006-07 to 2012-13. A close look into the table 1.7 reveals that the operating profit ratio was relatively better in the year 2002-03 as compared to other years of study period.

Table 1.7: Operating Profit/Loss Ratio (In per cent)

Year	Ratio
2000-01	0.23
2001-02	-5.89
2002-03	3.23
2003-04	0.55
2004-05	1.56
2005-06	0.22
2006-07	-2.15
2007-08	-2.18
2008-09	-3.86
2009-10	-1.53
2010-11	-4.11
2011-12	-6.72
2012-13	-7.76

(Source: Calculated from the annual reports of PSWC for the period 2000-01 to 2012-13)

Gross Profit/Loss Ratio:

Gross profit/loss ratio establishes a relationship between gross profit or loss and net sales. The table 1.8 reveals that the gross profit ratio was negative from 2000-01 to 2012-13. The results depicts that the PSWC has shown gross loss in all the years of the study period. The PSWC showed gross loss during the study period, due to the unfavourable policies for PSWC and favourable policies for millers adopted by

Government of India (GOI), in case of procurement of paddy stock by PSWC on behalf of GOI. The cost of procurement and other cost relating to paddy were not fully compensated by GOI. Another reason was the paddy stocks defalcated by various millers during the period of study. The gross profit ratio of PSWC was not a sign of good management for the period 2000-01 to 2012-13. A Corporation should have adequate gross margin to ensure the coverage for operating expenses, interest charges and sufficient return to the owners of the Corporation.

Table 1.8: Gross Profit/Loss Ratio
(In per cent)

Year	Ratio
2000-01	-4.01
2001-02	-10.51
2002-03	-3.42
2003-04	-4.22
2004-05	-0.90
2005-06	-3.19
2006-07	-6.79
2007-08	-5.77
2008-09	-7.00
2009-10	-2.28
2010-11	-10.31
2011-12	-10.63
2012-13	-12.85

(Source: Calculated from the annual reports of PSWC for the period 2000-01 to 2012-13)

Net Profit/Loss Ratio:

To reveal the financial results of the PSWC and to reflect the management efficiency in operations, this ratio is calculated by dividing net profits after tax by sales. This ratio is an important indicator of profitability performance of PSWC. The table 1.9 shows that the net profit ratio was positive only in (0.15 per cent) 2000-01 and (3.65 per cent) 2002-03 but in remaining years of the study period, it was negative. The negative ratio indicates that the PSWC incurred net losses in many years over the period of study. It can be noted here that the profitability of the PSWC was better in 2002-03 as compared to other years of the study period. The PSWC has shown the net losses due to deficit from paddy & wheat procurement, rise in the expenses and underutilization of warehousing facilities. The result from the table 1.9 also reveals the inefficiency of the management in running operations of PSWC.

Table 1.9: Net Profit/Loss Ratio
(In per cent)

Year	Ratio
2000-01	0.15
2001-02	-7.04
2002-03	3.65

2003-04	-0.85
2004-05	-2.09
2005-06	-3.11
2006-07	-5.77
2007-08	-4.84
2008-09	-1.49
2009-10	-1.54
2010-11	-3.81
2011-12	-6.72
2012-13	-8.04

(Source: Calculated from the annual reports of PSWC for the period 2000-01 to 2012-13)

Return on Assets:

The return on assets is an important indicator of profitability in relation to investment. It is a ratio of net profit divided by total assets. It indicates the efficiency of utilization of assets in generating income. A Corporation with a higher return on assets is able to raise money more easily from the external sources because it offers prospects for a better return on investment. It is clear from table 1.10 that the ratio of return on assets was positive only in (0.05 per cent) 2000-01 and (2.93 per cent) 2002-03 but in remaining years of period of study, it was negative. It can be noted here that the return on assets of the PSWC was better in 2002-03 than other years of the study period. It shows that the PSWC has not utilized the assets effectively during the study period.

Table 1.10: Return on Assets
(In per cent)

Year	Ratio
2000-01	0.05
2001-02	-3.16
2002-03	2.93
2003-04	-0.77
2004-05	-2.92
2005-06	-4.03
2006-07	-4.62
2007-08	-4.06
2008-09	-0.95
2009-10	-1.57
2010-11	-2.11
2011-12	-4.08
2012-13	-4.16

(Source: Calculated from the annual reports of PSWC for the period 2000-01 to 2012-13)

Return on Shareholders' Equity or Net worth Ratio:

The return on shareholders' equity is another important profitability ratio in relation to investment which speaks about the efficiency in the utilization of owners' fund. This ratio establishes the relationship between net profit (after interest and tax) and the shareholders fund. The shareholders fund or net worth

includes paid up share capital, share premium, reserves and surpluses less accumulated losses, if any. The higher ratio reveals that the efficiency in the utilization of owners fund is satisfactory but a low ratio shows poor profitability and inefficiency in the utilization of owners' fund. Table 1.11 shows that the ratio of return on shareholder's equity was positive only in (1.39 per cent) 2000-01 and (109.52 per cent) 2002-03 but in remaining years of study period, it was negative. It is observed from the table that the return on shareholders' equity of the PSWC was better in 2002-03 than other years of the study period. It reveals that the PSWC has shown inefficiency in the utilization of owners fund during the study period.

Table 1.11: Return on Shareholders' Equity (In per cent)

Year	Ratio
2000-01	1.39
2001-02	-799.25
2002-03	109.52
2003-04	-31.18
2004-05	-123.21
2005-06	-163.69
2006-07	-225.51
2007-08	-251.29
2008-09	-94.39
2009-10	-162.88
2010-11	-301.69
2011-12	-643.96
2012-13	-805.21

(Source: Calculated from the annual reports of PSWC for the period 2000-01 to 2012-13)

Conclusion and Suggestions:

While studying the profitability performance of the Punjab State Warehousing Corporation, it can be concluded that the main source of income of the Corporation was the income from warehousing charges but the interest income and other income comparatively formed low proportion of total income of the Corporation over the study period. It has been found the Corporation was also expended significant portion of total expenses on establishment in range of 9.71 per cent to 26.86 per cent during the study period. The PSWC has also shown inefficiency in the utilization of assets and owners fund over the study period. The results reveal that operating profit ratio was relatively better in the year 2002-03 as compared to other years of study period. The study further depicts that the PSWC showed the profitability only in 2000-01 and 2002-03 which was low and in other years of study period, the Corporation was in losses

due to rise in expenses, deficit from procurement of paddy and wheat, underutilization of warehousing facilities and inefficiency of the management in running operations. So, the study suggests that the PSWC should utilize its assets more efficiently so to earn higher return on its assets. The PSWC has needed to increase the profitability by controlling the expenses and increasing the income.

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