Relevance of Supplyco and its Operations in Kerala's Current Scenario

Deepthi Mary Mathew
Nimmish Sany

ABSTRACT

Kerala State Civil Supplies Corporation, otherwise known as Supplyco, is a household name across Kerala. Supplyco was formed in 1974 with the primary objective of controlling rise in prices of essential commodities. In the course of 44 years of operations, Supplyco has expanded into many other areas in retail as a public sector enterprise. Supplyco now has a considerable presence in Kerala's retail market owing to two factors viz; selling food commodities at subsidized prices and having a large number of retail outlets across Kerala. Yet we hear reports of steep rise in the prices of food commodities and food grains shortage in Kerala.[1] This warrants a study into the effectiveness of Supplyco's operations in achieving its objective. This paper analyses whether Supplyco as an institution is effective in controlling the rise in prices of essential commodities. The paper also studies whether the activities undertaken by Supplyco are apposite to its stated objective of controlling rise in prices. The financial performance analysis covers finance management capabilities of Supplyco which is one of the largest loss making public sector enterprises in Kerala.

Keywords: Supplyco, essential commodities, food inflation, Kerala retail

Authors:

Deepthi Mary Mathew, Senior Research Associate

Nimmish Sany, Research Assistant, CPPR

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Centre for Public Policy Research (CPPR)

First Floor, "Anitha", Sahodaran Ayappan Road

Elamkulam, Kochi, Kerala , India-682020

www.cppr.in | E-mail: cppr@cppr.in

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EXECUTIVE SUMMARY

Supplyco is Kerala's state-owned retail chain. Formed in 1974, Supplyco currently has 1406 retail outlets ranging from small-scale outlets to hypermarkets across Kerala. Supplyco has a significant presence in Kerala's current retail market and claims itself to be the largest retail chain in Kerala. The objective of Supplyco is to control the rise in prices of essential commodities in Kerala. The initial operations of Supplyco mainly included buying stocks of food grains from outside markets and maintaining buffer stocks with the objective of mitigating shortage.

However, Supplyco later expanded its operations into retailing of consumer goods that are not limited to essential commodities. An analysis of whether Supplyco has been successful in achieving its objective of controlling the rise in prices of essential commodities reveals the contrary. A comparison shows that food inflation figures have always been, and still are, higher in Kerala than the national level. The study suggests that food inflation in the state could also be a result of many other factors in the economy such as Minimum Support Prices (MSP) or agricultural wages. Therefore, in order to arrest food inflation an overall strategy taking into account all such factors is necessary. Supplyco's retail chain model where certain subsidized commodities are sold at lower prices through its outlets across Kerala is not simply capable of controlling the rise in prices of essential commodities.

Further, the study analyses the efficiency of Supplyco by examining the consumption of essential commodities sold by Supplyco. This reveals that Supplyco's share in Kerala's consumption of those commodities is near negligible. Majority of the demand is met by the market outside Supplyco. Consumer interviews took as part of this study substantiate this finding. The study shows that Supplyco's financial performance as a public sector enterprise is not sound if not poor. This is mainly due to its economically unsustainable model of financing resulting from Market Intervention Scheme (MIS) operations and the consequent increase in the purchase of traded goods notwithstanding the upward trend in losses incurred. With an accumulated loss of ₹338 crores as of 2014-15, it costs dearly to the state exchequer to run Supplyco. In fact, to transfer the intended subsidy benefits worth ₹121.60 per person per month, the government spends an additional ₹61 per person per month for running Supplyco.

1. INTRODUCTION

Kerala is a price sensitive state where a marginal rise in prices has a multiplier effect on state level prices.[i] With a population of 33,406,061, Kerala forms barely 2.5 per cent of India's total population. However, Kerala which is also known as a consumer state, has 12 per cent of the country's consumers.[ii] With high per capita income and monthly per capita expenditure (MPCE), Kerala is one of the most preferred retail markets in India.[iii] This is substantiated by a compound annual growth rate of 9.44 per cent for *trade, repair, hotels and restaurants* within the tertiary sector which itself contributes to 63.18 per cent of gross value added (GVA) to Kerala's economy.[1][iv] This includes both organized and unorganized retailing.

Kerala's private organized retailing sector contributes an average of 5 per cent jobs towards the whole of private sector jobs in the state. This contribution is growing at a compounded annual growth rate of 6 per cent.[v] Some of the major players in organized retail are Reliance Fresh, Big Bazaar, MORE, Bismi, Margin Free markets, etc. Unorganized retail includes small scale retail shops, kirana stores, etc.

Kerala State Civil Supplies Corporation, otherwise known as Supplyco is the state owned retail chain hugely popular across Kerala. Supplyco provides consumer goods, especially certain food articles, at lower prices than the prevailing market rate by subsidizing them. Supplyco was formed on June 25, 1974 as a fully owned government company with the objective to regulate the rise in prices of food articles in Kerala.[vi] Over the years, Supplyco had diversified from essential food articles into many other commodities such as petroleum, consumer goods like notebooks, non-alcoholic beverages, etc. Supplyco now has a significant presence in the state's retail market with more than 1400 retail outlets across Kerala.[vii] This warrants an inspection into how relevant Supplyco is in the present retail market ecosystem in Kerala and the changing consumption patterns of its population. This paper matches the activities practiced by Supplyco against its stated objective of controlling the rise in prices of essential food commodities. The paper also analyses the financial performance of Supplyco. Through these, the study aims to find out whether selling food commodities at subsidized prices is the effective and efficient economic model to transfer the intended benefits to the consumer.

[1] The figures are computed from Economic Survey 2017 data.

IMAGE: CPPR

2. FORMATION AND EVOLUTION OF SUPPLYCO

Kerala State Civil Supplies Corporation was established in 1974 with the primary responsibility of purchasing food grains from other states and maintaining buffer stocks to mitigate any shortage.

FORM I. R

CERTIFICATE OF INCORPORATION

No. 2615 of 1974

I hereby certify that THE KERALA STATE CIVIL SUPPLIES CORPORATION LIMITED *is this day incorporated under the Companies Act. 1956 (No 1 of 1956) and that the Company is Limited.*

Given under my hand at COCHIN this Twenty-fifth day of June One thousand nine hundred and seventy-four.

Seal of the Registrar of Companies Kerala

(Sd.)
P S ANWAR
Registrar of Companies,
Kerala

Under the Public Distribution System (PDS) in India, major commodities such as wheat, rice, sugar and kerosene are procured by the central government through Food Corporation of India (FCI). States are allocated certain quantities of these food grains from a central pool of stocks. The acute shortage in rice allocated to Kerala from the central pool in the 1970s was worsened by the widespread pest attacks in the state during the early `70s. This resulted in the reduced availability of food grains.[viii]

To attenuate this shortage, Supplyco started building buffer stocks of food grains, especially rice and wheat, using the FCI godowns in the state.

In coastal areas, Supplyco started out by providing rice at subsidized rates over and above the normal ration. In cities Supplyco utilized co-operative and departmental stores to disburse maida and pulses during its initial years.[ix] By 1976, Supplyco had started selling rice, wheat, wheat products and pulses at subsidized rates, although in rural areas the sales were limited to only rice and wheat.

In a 1976 legislative document, the then Food & Civil Supplies Minister, Paul P Mani stated that Supplyco did not have adequate food supplies to distribute across the whole state of Kerala and hence sales were limited to selected locations. As for the rationale behind the selection of essential commodities, the minister also states in a question and answer session in the legislative assembly that the 15 commodities that Supplyco did distribute were identified essential in a meeting of ministers from South Indian states.

By 1976, Supplyco diversified into dry chillies, coconut oil, petroleum products, notebooks, baby food, soap, etc. However, it is unclear whether these were sold at subsidized rates. Supplyco had also set up 10 wholesale depots and eight retail depots across Kerala by 1976. Out of these, nine are district level depots and one is a sub-depot located in Cherthala. Supplyco's retail depots used the existing PDS outlets to disburse commodities. Supplyco officers were on deputation from other departments in the initial years and other employees were daily wage workers. Documents form Assembly proceedings of 1976 reveal that the incumbent government was considering recruiting Supplyco employees through Public Service Commission (PSC).

The present format of Supplyco's outlets and their key features are listed in the table below.[x] It was inferred from employee interviews that many of the staff employed in retail outlets were daily wage employees.[xi] Supplyco presently has about 3500 employees. Permanent employees are recruited through PSC examinations. It currently has about 1406 stores across the state, with its headquarters in Kochi.[xii]

Table 1: Supplyco Outlet Format

Outlet type	Key features
Maveli Stores	Kirana shop format, sale of 13 subsidized commodities
Supplyco Super Market	Operates on Supplyco's own land, supermarket format, focus on Fast Moving Consumer Goods (FMCG)
Hyper Market	Operates on Supplyco's own land, hypermarket format, focus on FMCG
Maveli Medical Store	Sales of medicines at reduced rates
Supplyco People's Bazar	Supermarket format with sale of 13 subsidized commodities and FMCG, not on Supplyco's own land
Apna Bazar	Only one such outlet inside Kakkanad Civil Station, Ernakulam District.
Supplyco Premium Store	-
LPG Outlet	-
Supplyco Petrol Bunk	-
Mobile Maveli Store	-

Source: Supplyco

3. OBJECTIVES AND ACTIVITIES OF SUPPLYCO

In this section, we list down the stated objectives and the practiced operations of Supplyco.

3.1. Stated Objectives

The main objective of Supplyco, as inferred from literature and stakeholder interviews, is to control the rise in prices of essential commodities.[xiii] However, the Memorandum of Association from registration of Supplyco in 1974 elaborates this objective as follows:

To engage, promote, improve, develop, counsel and finance production, purchase, storage, processing, movement, transport, distribution and sale of food grains, food stuffs and any other commodities which the government may consider as essential and to provide services, advice, and assistance of all kinds including capital, credit, means, resources, technical and managerial for the aforesaid business.

Supplyco's objective covers virtually everything from production, transportation and even assistance in capital and technical expertise for any commodity that the government may consider essential. This is an open ended clause which gives Supplyco a justification to expand into many activities. It is worth questioning why Supplyco would want to intervene in so many spheres, some of which are unquantifiable to do an impact assessment.

3.2. Practiced Activities

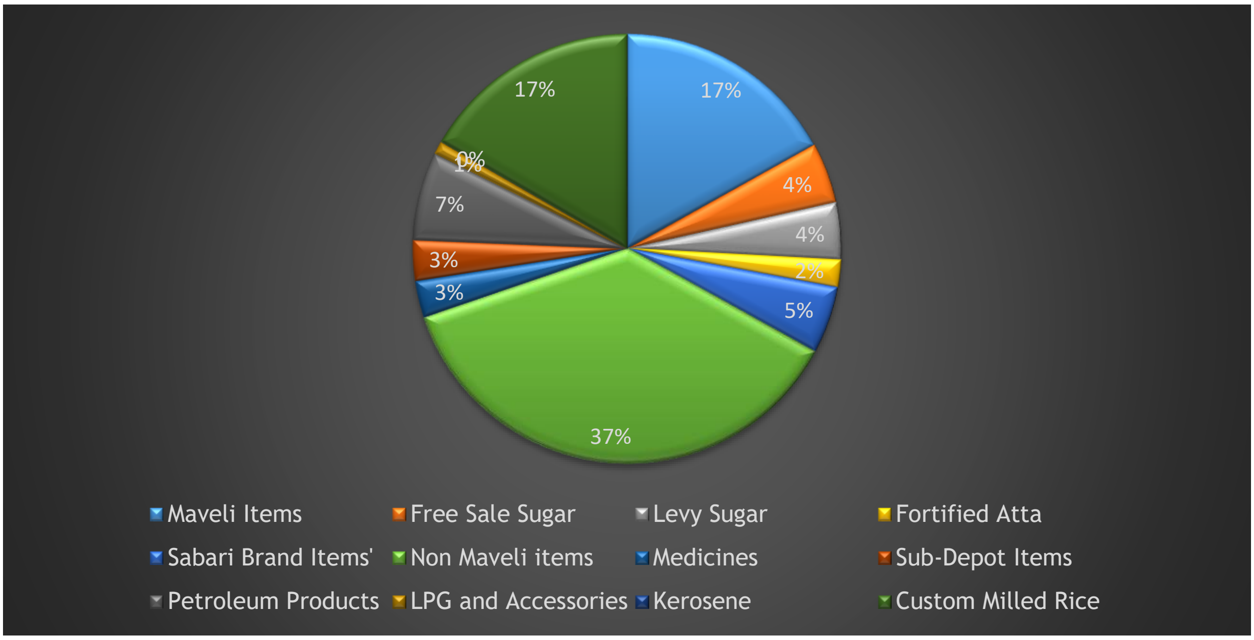
Supplyco's activities include[xiv]:

i. *Market Intervention through retailing of essential commodities at subsidized rates*
ii. *Retailing of FMCG items at competitive rates*
iii. *Retailing of medicines at discounted rates through medical outlets*
iv. *Marketing own branded products under the brand of Sabari*
v. *Selling tea, coffee, pepper, curry powders, coconut oil, asafoetida, tamarind and notebooks under Sabari brand*
vi. *Selling essential commodities through selected ARD stores (Authorised Retail Dealers or ration shops) called Sabari stores*
vii. *Supports Theeramythri supermarkets by providing essential commodities at subsidized rates.*
viii. *Implementation of Mid-day meal Scheme for schools in Kerala*
ix. *Implementation of the decentralized paddy procurement and distribution system in Kerala*
x. *Production, Distribution and Marketing of fortified Atta*
xi. *Petrol, Diesel, Kerosene and LPG Distribution*

Market Intervention Scheme (MIS) is a measure implemented by governments when there is a significant fluctuation in market prices of food commodities. Usually it is considered when there is a 10 per cent rise or fall in production of the commodity when compared to that of last year.[xv] It is a temporary measure to mitigate shortage. However, the ad hoc measure of market intervention has turned into a permanent mechanism and forms the fundamental principle behind institutionalisation of Supplyco.

Other than executing MIS, Supplyco uses the outlets described in Table 1, to sell many items ranging from essential commodities to FMCG. The figure below shows the revenue distribution from the sales of goods. The major share of Supplyco's sales revenue- 37 per cent- comes from the sale of FMCG products (non Maveli items), followed by Maveli items which contribute to 17 per cent of the total revenue from sales.

Graph 1: Revenue share of Supplyco from Sales, 2008-14



Source: SUPPLYCO ANNUAL REPORTS

From stakeholder interviews conducted as part of this study, it was understood that the rationale for diversifying into FMCG and other products was to cross subsidize the losses incurred from selling certain commodities at subsidised prices.

Other than FMCG items from multinational brands, Supplyco uses its chain of Maveli stores and Fair Price Shops also known as ration shops or Authorised Retail Dealers (ARD) to sell its own brand of Sabari curry powders, tea and coffee. The Sabari brand was launched in 1984 with Sabari tea powder which Supplyco claims to be the largest selling branded tea in Kerala. By 1997, Sabari brand has expanded into spices and curry powders. This indicates that Supplyco had diverged from its main objective of controlling market prices of essential commodities.[xvi]

4. EVALUATION OF ACTIVITIES

In this section, we analyse two cardinal activities of Supplyco to check whether they are apposite and adequate in achieving the stated objective of controlling the rise in prices of essential commodities. The activities evaluated are:

i. Distribution of essential commodities by Supplyco at subsidized prices
ii. Paddy Procurement scheme by Supplyco

The explanation of each activity is followed by an evaluation of that activity's ability in controlling prices of essential commodities.

4.1. Distribution of Essential Commodities at Subsidized Prices

Thirteen essential commodities and their prices are fixed by the government and the distribution is regulated through ration cards. For limiting the burden of the subsidy, only a certain fixed quantity can be issued to a card holder. A list of commodities sold through Supplyco outlets as on December 2016, their prices, and the differences between open market price and price at Supplyco outlets are shown in the table below.

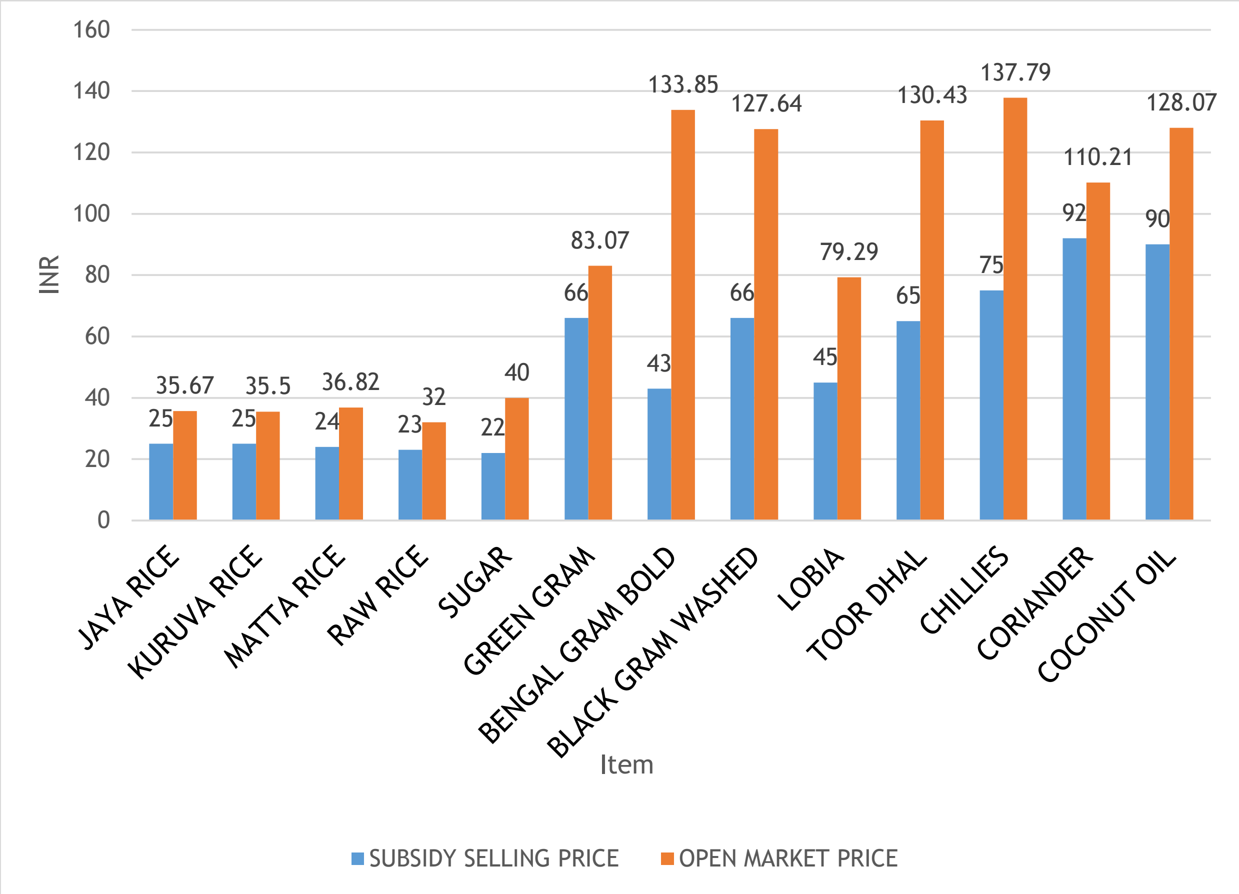
Table 2: Comparison of Supplyco and Market prices

No.	ITEM	SUBSIDY SELLING PRICE	OPEN MARKET PRICE	DIFFERENCE	DIFFERENCE IN %	QUANTITY ISSUED PER RATION CARD IN A MONTH
1	Jaya Rice	25	35.67	10.67	29.91	5 Kg per fortnight (10 Kg per month)
2	Kuruva Rice	25	35.5	10.5	29.58	
3	Matta Rice	24	36.82	12.82	34.82	
4	Raw Rice	23	32	9	28.13	
5	Sugar	22	40	18	45	1 Kg
6	Green Gram	66	83.07	17.07	20.55	1Kg
7	Bengal Gram Bold	43	133.85	90.85	67.87	1Kg
8	Black Gram Washed	66	127.64	61.64	48.29	1Kg
9	Lobia	45	79.29	34.29	43.25	1 Kg
10	Tur Dhal	65	130.43	65.43	50.16	1Kg
11	Chillies	75	137.79	62.79	45.57	1/2 Kg
12	Coriander	92	110.21	18.21	16.52	1/2 Kg
13	Coconut Oil	90	128.07	38.07	29.73	1 Ltr

Source: Supplyco

The above table reveals that the per cent difference between open market prices and Supplyco prices also varies from one commodity to another.

Graph 2: Comparison of subsidized price and market price



Source: Supplyco

From graph 1, it is visible that the price difference varies from 16.52 per cent for coriander to 67.87 per cent for Bengal gram bold.

From stakeholders' interviews it was inferred that the subsidised selling price is set arbitrarily by the cabinet for an elected government's full term. They were not based on calculations designed to control rise in market prices as the objective states.

4.1.1. Evaluation: Ability to Control Food Inflation

The aim of this evaluation is to analyse whether the distribution of essential commodities at subsidized prices has an independent effect in controlling prices of food commodities.

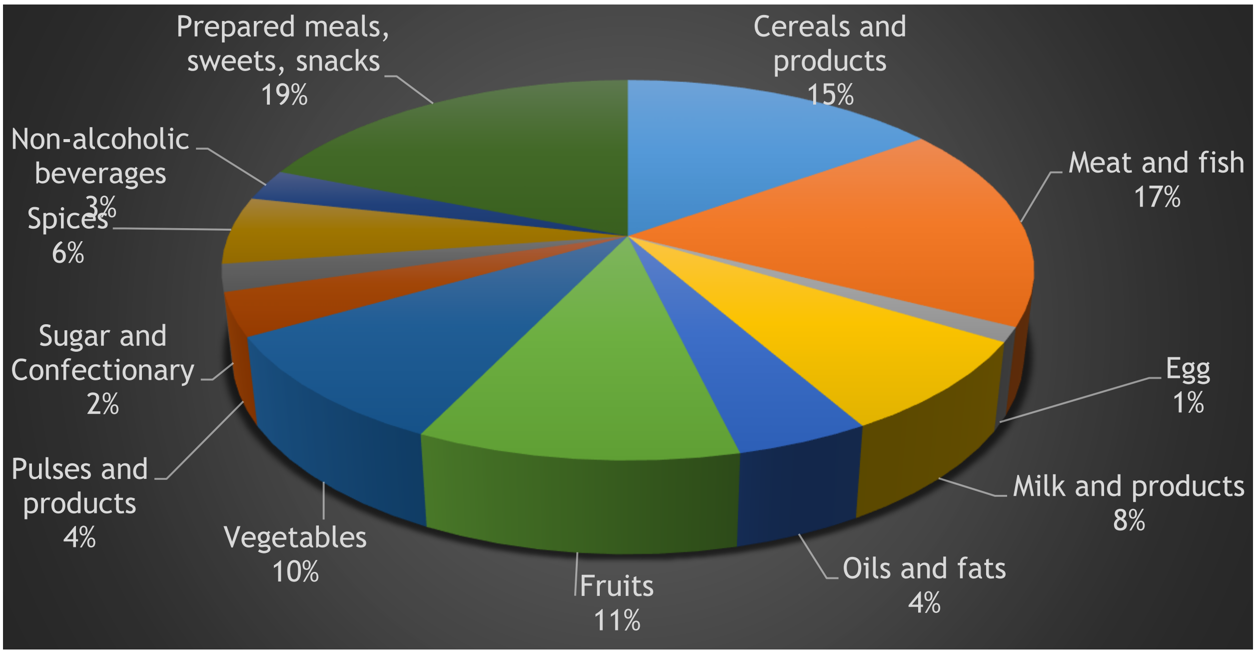
The rise in food prices is represented by food inflation figures here. If the base year for calculating inflation is taken as 2012, then the Consumer Price Index (CPI) of 2012 will be taken as 100, and if the CPI is 120 as of 2015, then it simply means that what cost 100 rupees in 2012 costs 120 rupees in 2015.

Inflation would be the growth rate of CPI. This evaluation has two sub-sections:

i. Comparison of state and national level food inflation
ii. Evaluation of Supplyco's market share to control food inflation

4.1.1.1. Comparison of State and National Level Food Inflation

Graph 3: Percentage distribution of weightage within Kerala's food basket

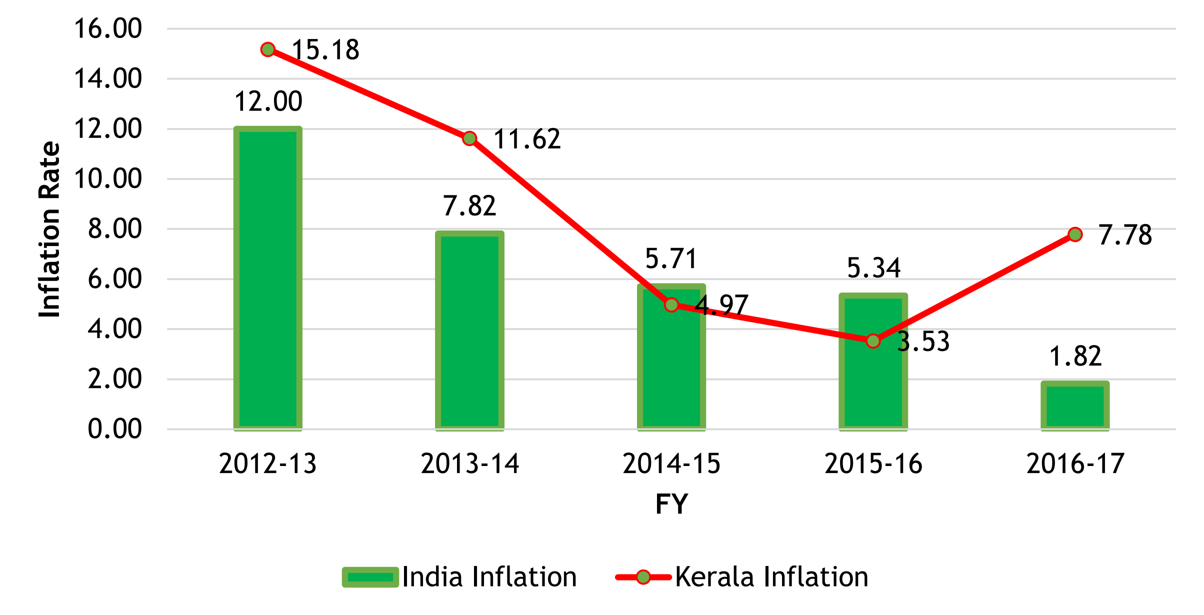


Source: Reserve Bank of India

In Kerala's commodity basket, food articles and beverages have a weightage of 37.67 per cent- urban and rural combined. In this basket of food articles and beverages, there are categories of cereals (weightage of 5.69 per cent), oils and fats (weightage of 1.71 per cent), pulses (weightage of 1.38 per cent), spices (weightage of 2.16 per cent), and non-alcoholic beverages (weightage of 1.01 per cent) amongst other items. Supplyco sells consumer commodities from each of these categories at subsidized prices.

Thus, Supplyco has presence in 32 per cent of Consumer Price Index (CPI) weightage in Kerala's food basket. Still, CPI has increased by 50.61 per cent in Kerala from 2012 to 2017, while the national level CPI rose by 37 per cent during this same period (refer graph 1). This also questions the rationale of choosing the essential commodities during a time when Kerala's consumption pattern is changing.

Graph 4: Food Inflation Comparison



Source: Consumer Price Indices Warehouse, MoSPI[2]

Looking at inflation levels, food Inflation at state level and national level follow a similar trend. However, state level figures seem to be higher than the national level with the highest difference clocked in FY 2016-17.

This implies that the rise in food prices is higher in Kerala than at the overall national level, questioning the effectiveness of Supplyco in arresting food inflation.

4.1.1.2 Evaluation of Supplyco's Market Share to Control Food Inflation

The principle behind Supplyco's operations is to increase the supply of commodities and bring down the prices in the market. This section analyses the effectiveness of these operations by:

i. **Comparison of distributed quantity of essential commodities with consumption demand in Kerala**

The quantities of the chosen commodities- coconut oil, dry chillies, black gram (washed), and rice (matta) distributed by Supplyco through its outlets across Kerala are compared against total demand for consumption in Kerala in the table below.

[2] Base is taken as 2010=100 for 2011-14 and 2012=100 for 2015-17

Table 3: Supplyco's share in Kerala's consumption

Commodity	Average Qty. distributed by Supplyco per year at subsidized prices from 2012-17	Consumption demand in Kerala	Contribution of Supplyco towards demand (in percentage)
Coconut oil	49.91 lakh litres	1984.39 lakh litres	2.52
Dry chillies	0.61 lakh quintals	6.57 lakh quintals	9.28
Black gram (washed)	1.19 lakh quintals	6.45 lakh quintals	18.45
Rice (Matta)	9.19 lakh quintals	187.13 lakh quintals	4.91

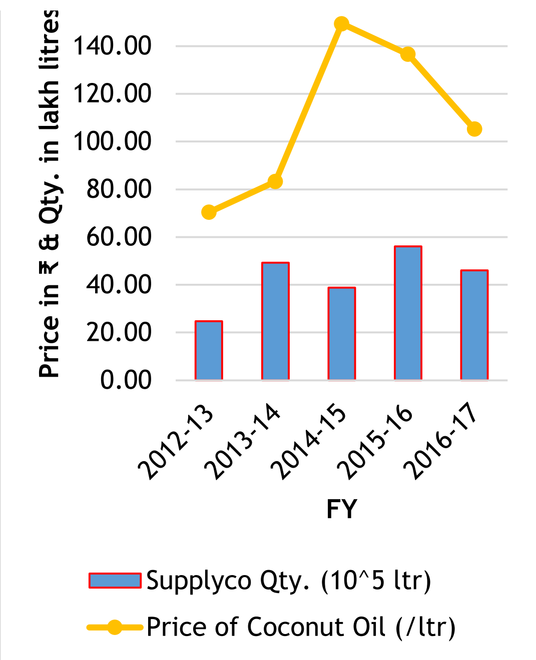
Source: NSSO household survey 2011-12

It is inferred from the above table that the quantity distributed by Supplyco through its 1406 outlets across Kerala is not enough to meet the state's consumption demand. Thus most of the consumption demand is catered to by other players. It was understood from the consumer interviews taken as part of this study that the most preferred and frequently bought item from Supplyco is coconut oil. However, figures reveal that the subsidized coconut oil distributed through Supplyco outlets forms only a mere 2.52 per cent of total consumption, implying that more than 97 per cent of the demand is met by other players.

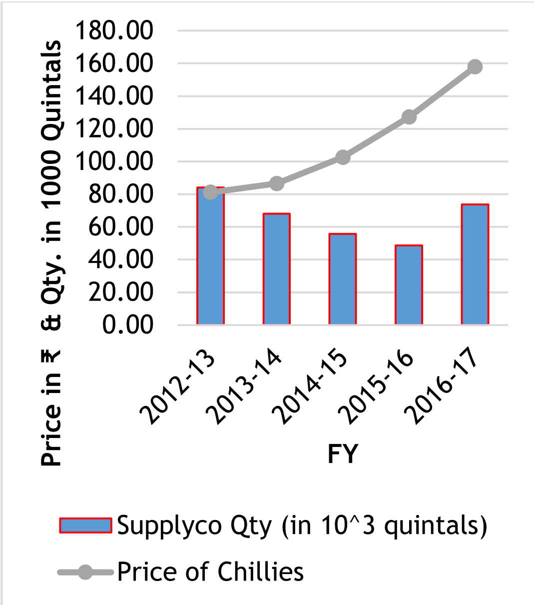
ii. Comparing the distributed quantity of most sold item from each basket (oil, pulses, spices, and cereals) with market prices

The most sold item from the oil basket is coconut oil in Supplyco's case. For pulses, it is black gram and for spices it is dry chillies. The most sold item from cereal basket is rice.[xvii]

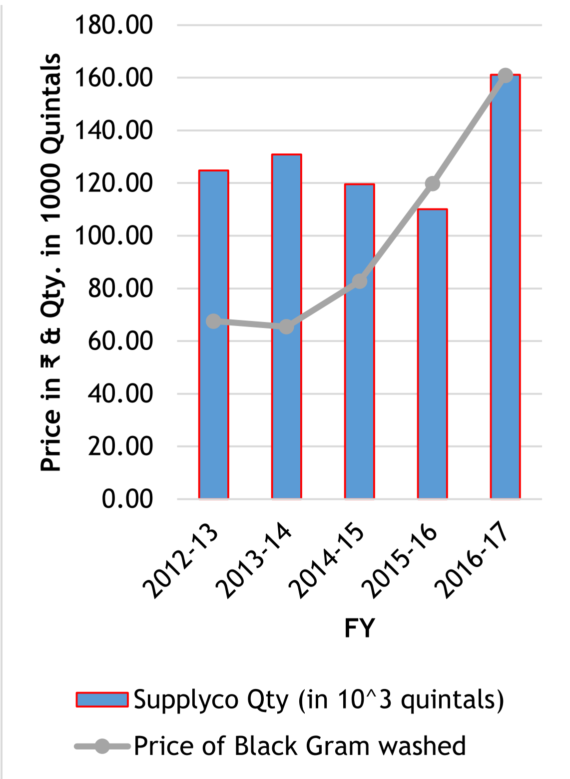
Graph 5: Comparison of Quantity and Market prices of coconut oil



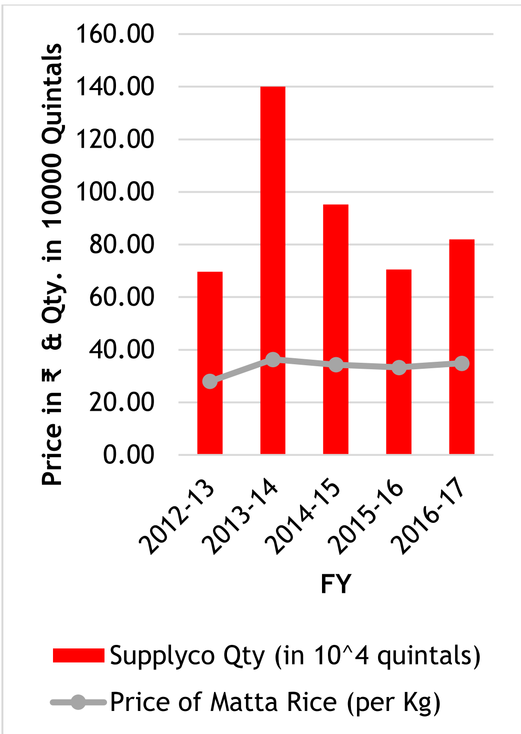
Graph 6: Comparison of Quantity and Market prices of dry chillies



Graph 7: Comparison of Quantity and Market prices of Black Gram



Graph 8: Comparison of Quantity and Market prices of Rice



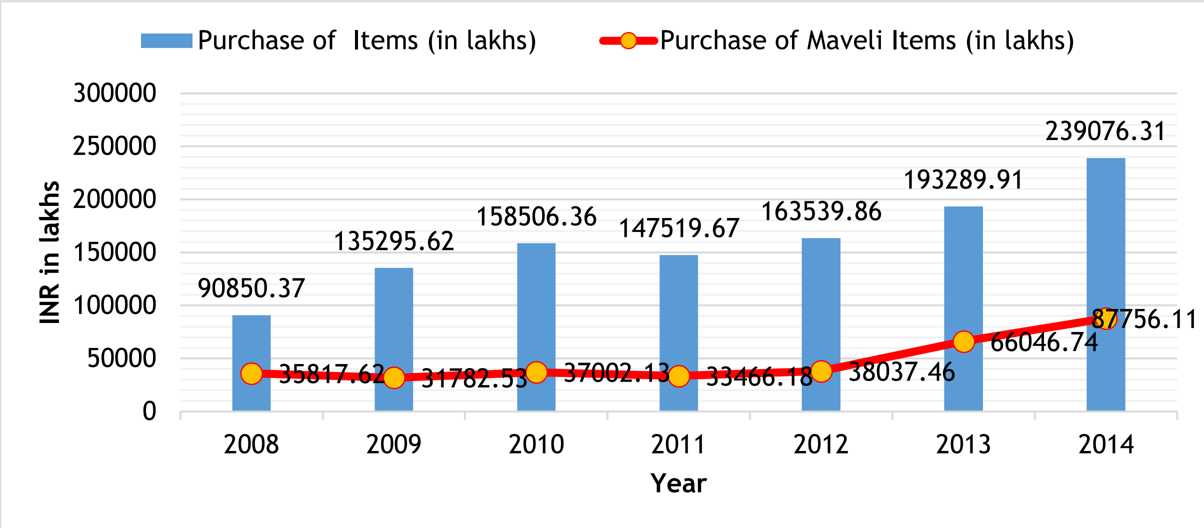
Source: Primary data

The price of black gram (washed) and rice does not seem to fluctuate with the increase/decrease in quantity disbursed through Supplyco at subsidized prices implying an absence of correlation between quantity and market price. In the case of coconut oil and dry chillies, at first glance, the decline in Supplyco's distribution of these commodities seems to have an effect on prices. However, there is no independent effect or causality to argue that the decline in quantity distributed by Supplyco leads to the rise in market prices of coconut oil or dry chillies.

iii. Analysing trend in distributed quantity of these commodities over the years

Before analysing the trend in distributed quantities of essential commodities, it would be worthwhile to assess the purchase of goods at Supplyco shown in graph 9 below.

Graph 9: Purchase of goods at Supplyco



Source: Supplyco

The purchase of Maveli items (subsidized commodities) shows a steady rise in the years 2012 to 2014. This could mean that either:

a) there is an increase in the quantity purchased, or

b)there is an increase in the cost price of these commodities

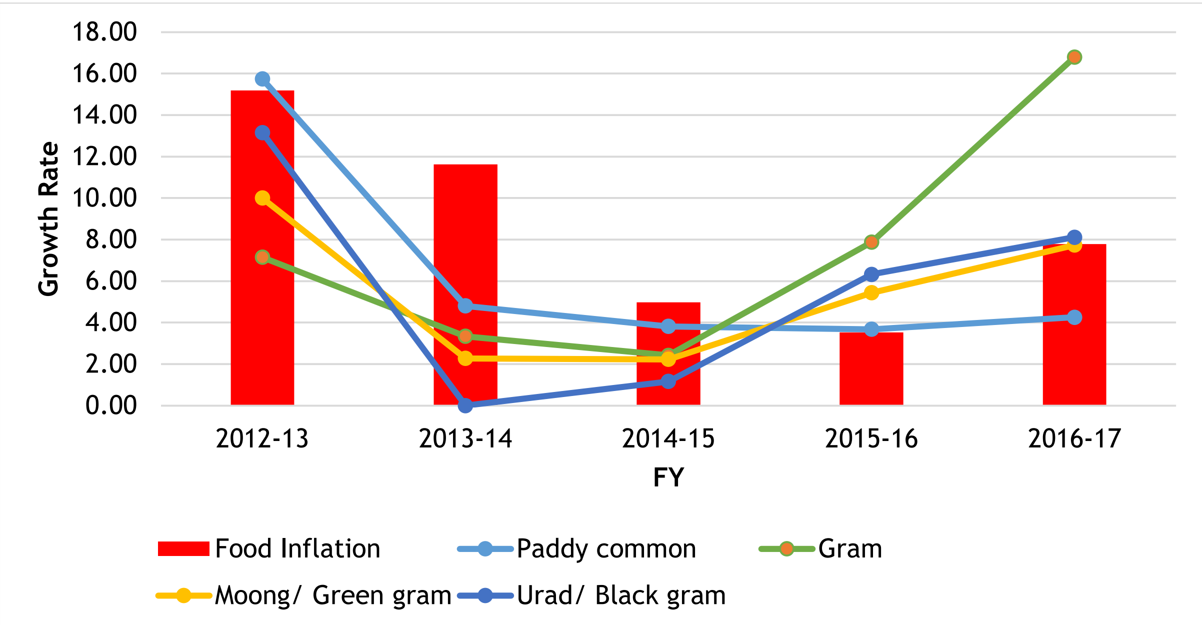
Graphs 5 to 8 show the trend in distributed quantities of four essential commodities, each representing a particular category. There is no steady rise in the quantities distributed in those years. This rules out the increase in quantities purchased. This indicates that the cost price of the commodities are increasing in the market i.e. the prices of essential commodities are increasing in the market regardless of Supplyco's existence. This further implies that Supplyco is only a retail chain engaged in buying commodities and selling those commodities at lower prices to the consumers. Considering the open ended objective of Supplyco (section 3.1), it is questionable whether Supplyco plays any role in controlling the actual drivers of inflation to control the rise in prices of essential commodities in the market

4.1.2. Other Drivers of Inflation: Agricultural Wages & Minimum Support Prices

Food Inflation, or the rise in prices of food commodities, is closely associated with overall inflation. Inflation may rise owing to many factors, some of which are well outside the ambit of Supplyco's operations. Literature suggests that agricultural wages and revisions in Minimum Support Prices (MSP) of major food crops contributes towards food inflation.[xviii]

MSP is a form of market intervention by the Government of India to insure agricultural producers against any sharp fall in farm prices.[xix] The MSP for each food crop is determined by the Commission for Agricultural Costs and Prices (CACP) which is a central body. In addition to MSP, state governments provide bonuses as incentives. In the case of Kerala, a hike in the MSP of a crop produced in another state could translate into higher prices for consumers in Kerala (Refer graph 4).

Graph 10: MSP Growth rate for Major Food crops vs Food Inflation in Kerala

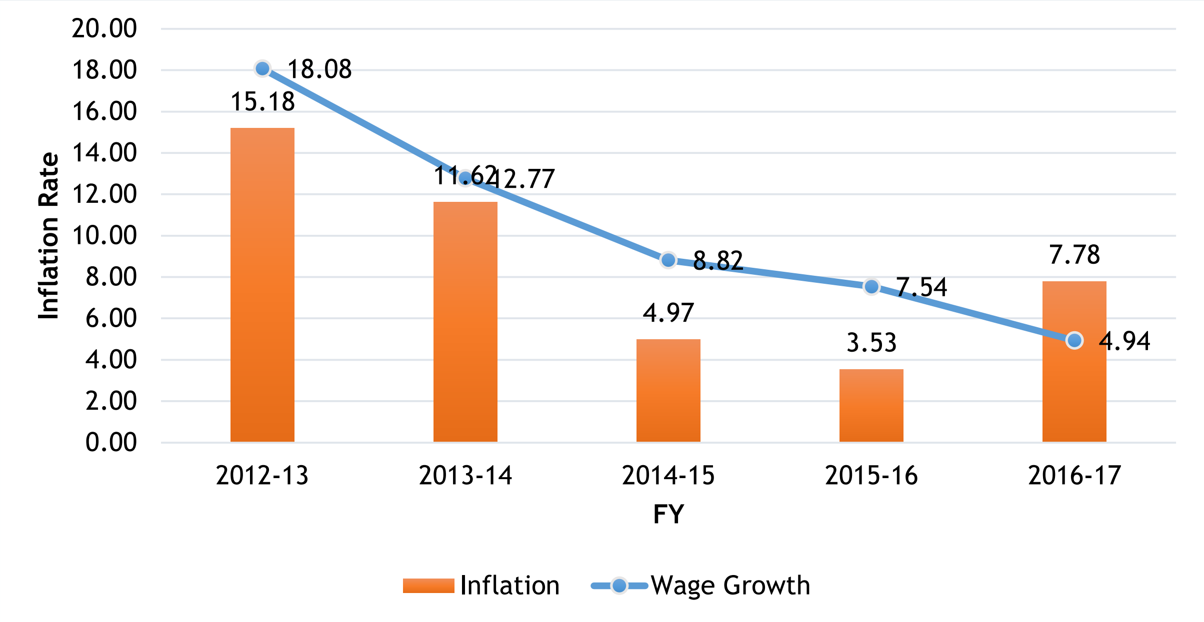


Sources: Reserve Bank of India, Commission for Agricultural Costs and Prices, Government of Kerala[3]

Graph 10 shows a positive correlation between MSP for some of the major food crops and food inflation levels in Kerala. From FY 2012-13 to FY 2015-16, both MSP and food inflation levels follow a downward curve.

[3] Computed from data available from Kerala State Economic Review 2017 and other data available form mentioned sources

Graph 11: Comparing growth of agricultural wages and inflation in Kerala



Sources: Department of Economics and Statistics, Government of Kerala

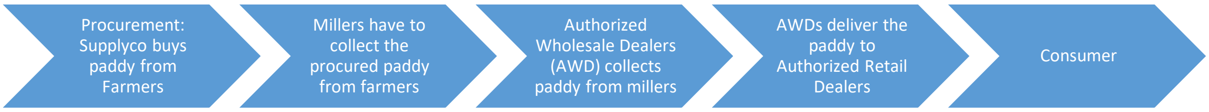
Also, the hike in MSP will also increase agricultural labour costs since the demand for labour increases, thereby putting more income into agricultural households and consequently contributing to overall inflation. This overall inflation will be reflected in food inflation as well.[xx] The positive correlation between wage growth and inflation levels in Kerala corroborates this (Refer graph 11).

Thus it can be inferred that the argument that agricultural wages and revisions in MSPs contribute towards food inflation holds true for Kerala as well. However, Supplyco's activities do not involve controlling any such drivers of food inflation, thus questioning its effectiveness in controlling the rise in prices of essential commodities only through retailing at subsidized rates.

4.2. Paddy Procurement

Kerala was declared as a DCP (Decentralized Procurement Scheme) state in 2005. DCP is an integral part of India's food safety programme. DCP is the procurement of food grains from the central pool of food grain stocks through state agencies. In Kerala's case, DCP is carried out by Supplyco.

Figure 1: Supplyco's paddy procurement process



Supplyco issues tenders for the procurement of paddy and procures paddy directly from farmers. The procurement price is usually higher than the MSP for paddy as announced by the Commission for Agricultural Costs and Prices (CACP) to which the State Incentive Bonus (SIB) is added. The current paddy procurement rate is at ₹23.30 per kg which includes MSP of ₹5.50 per kg and SIB of ₹80 per kg.[xxi] While MSP is decided by the Centre, SIB is decided by the State government.

Image 1: Procurement by the Civil Supplies Corporation in Progress at a paddy field in the upper Kuttanad village of Chathankary in Thiruvalla taluk

Source: The Hindu

Supplyco claims that it remits the procurement price of paddy directly to the farmer's bank account.[xxii] However there have been multiple reports in various years stating that farmers were yet to receive the money that Supplyco owes from procurement of paddy.[xxiii] [xxiv] Millers too complain that penalty is imposed upon them if 68 kilograms of rice is not returned from 100 kilograms of paddy while the global standard is only 65 kilograms of rice per 100 kilograms of paddy.[xxv]

Supplyco maintains that in order to procure paddy from the farmer, the moisture content should be between 14 and 17 per cent which is allowable for milling. However, as part of stakeholder interviews conducted in the course of this study, millers say that the paddy delivered to them is high in moisture content (above 17 per cent) while milling requires the moisture content to be below 17 per cent. This raises questions not only about Supplyco's efficiency in quality assurance but also of its capability in storage and transportation of the procured paddy.

4.2.1. Evaluation of Supplyco's Paddy Procurement

As part of DCP, Supplyco procures paddy from the farmers, converts it to milled rice, and distributes it through Authorised Retail Dealers (ARD). Supplyco procures about 5.6 lakh metric tonnes a year while the distribution is around 3.94 lakh metric tonnes per year.

Table 4: Comparison of paddy procured by Supplyco against Kerala's consumption

FY	Supplyco paddy procured (in lakh Metric Tonnes)	Rice obtained (65 kg of rice from 100 kg of paddy) (in lakh Metric Tonnes)
2009-10	4.35	2.83
2010-11	2.97	1.93
2011-12	5.19	3.37
2012-13	4.33	2.81
2013-14	5.09	3.31
Total consumption demand of rice in Kerala (from NSSO data) is 18.71 lakh metric tonnes according to NSSO household survey data.		

Source: NSSO Household Survey 2011-12, Supplyco[4]

The amount of paddy procured by Supplyco as part of DCP has never been adequate to Kerala's total consumption demand. There is a stark difference between the total quantity of rice needed in the state and the rice obtained from Supplyco's paddy

[4] Data computed from the mentioned sources

procurement operations. The consistent media reports and complaints about the manner in which DCP is carried out by Supplyco also questions the efficiency of Supplyco in implementing DCP.

5. Financial Performance of Supplyco

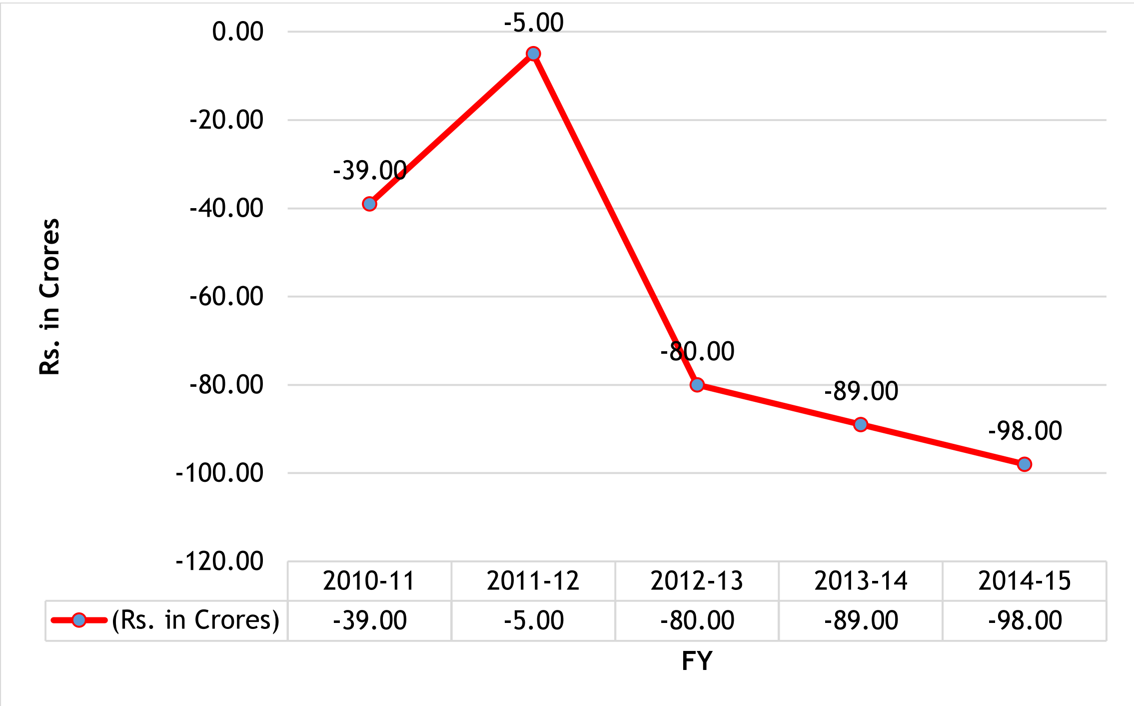
Supplyco is a public sector enterprise with an accumulated loss of 33,806.66 lakh rupees. This demands a thorough look into its financial performance as a public sector enterprise that runs on taxpayer's money[xxvi]

To assess the financial performance of Supplyco, the study takes into account the following factors. All the data required to construct the graphs were taken from Supplyco's annual reports.

5.1. Profit/Loss

This factor analyses the profit/loss curve of Supplyco over the years. The graph shows that Supplyco has been operating in loss in all the years taken as data points for this graph, and there seems to be a substantial increase in losses over the years.

Graph 12: Supplyco's profit/loss over the years



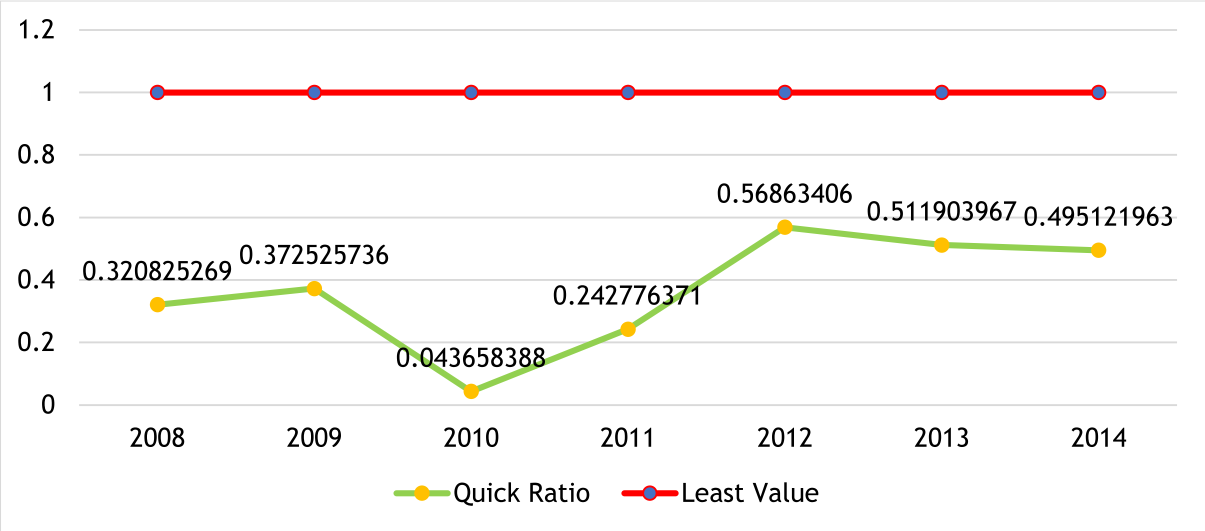
Sources: Supplyco Annual Reports

5.2. Quick Ratio

Quick Ratio, also known as the acid test ratio, is the ratio of current assets to current liabilities. It is a liquidity ratio that measures the ability of a company to pay its current liabilities when they come due with only quick assets. Quick assets are assets that can be converted into cash quickly. A quick ratio of more than one shows that the organisation is financially well off.

However, in the case of Supplyco, the graph shows that the value of quick ratio has always been less than 0.6 indicating its financial fragility.

Graph 13: Quick Ratio Analysis/Acid Test of Supplyco

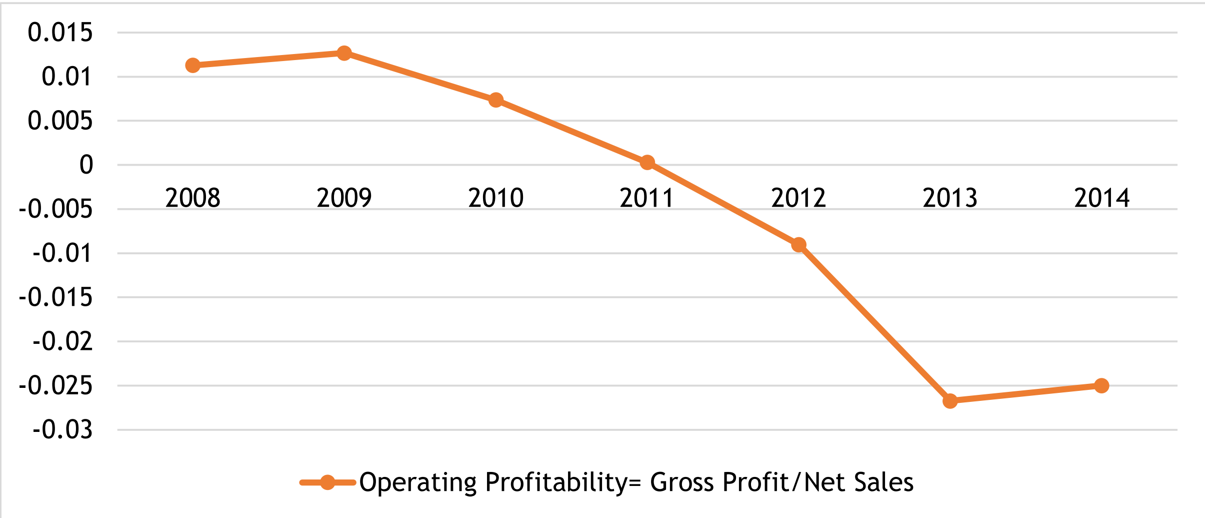


Sources: Supplyco Annual Reports

5.3. Operating Profitability

Operating Profitability is the ratio of gross profit to net sales. This shows the average amount of profit considering only sales and the cost of the items sold. This tells how much profit the product or service is making without overhead considerations. As such, it indicates the efficiency of operations as well as how products are priced. The operating profitability curve of Supplyco has not only been declining but has also been negative and less than 1, since net sales has always been negative due to losses.

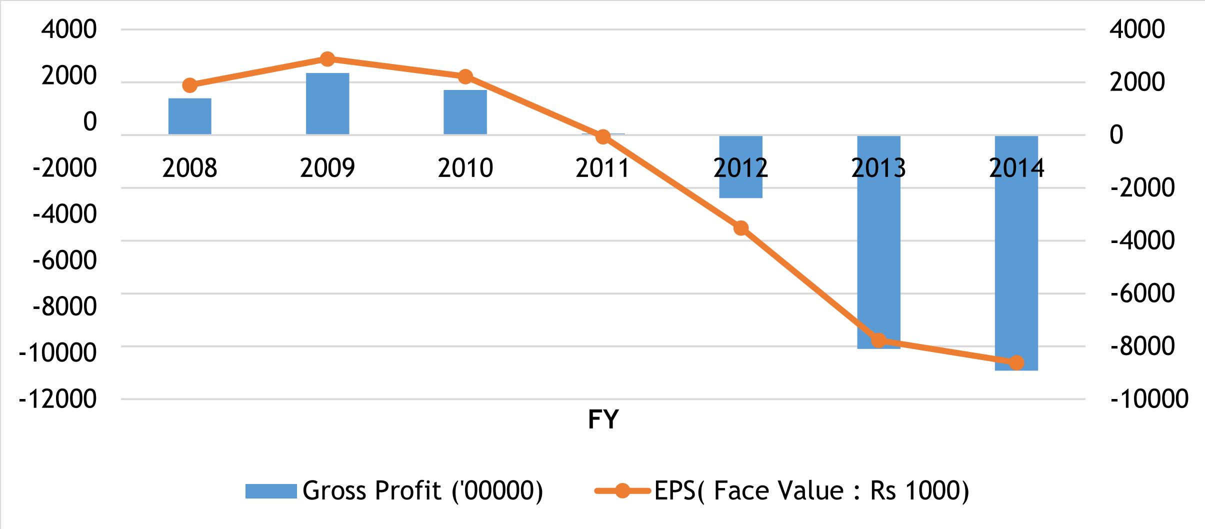
Graph 14 Operating Profitability of Supplyco



Sources: Supplyco Annual Reports

5.4. Earnings per Share (EPS)

Graph 15 Earnings per Share for Supplyco

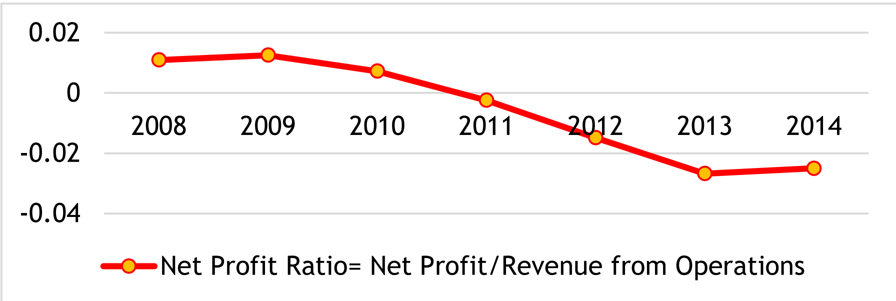


Sources: Supplyco Annual Reports

EPS is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability. EPS has always been low or negative for Supplyco indicating losses or very low profitability. The EPS curve also shows a steady decline over the years.

5.5. Net Profit Ratio

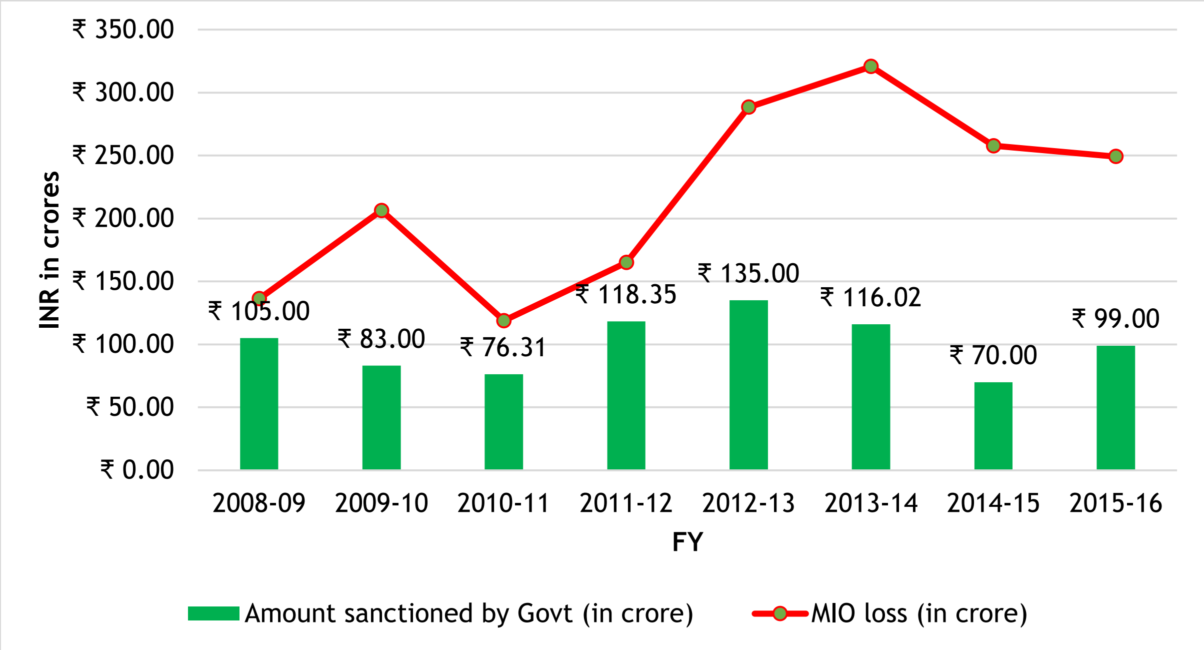
Graph 16: Net Profit Ratio for Supplyco



Sources: Supplyco Annual Reports

The profitability ratio shows the relationship between net profit after tax and net sales. It is computed by dividing the net profit (after tax) by net sales. It is a downward curve for Supplyco because of the downward trend in its profits. Graphs 12 to 16 reflect upon the poor financial health of Supplyco. The utmost priority should be to bridge the gap between revenue from sales and the gross profit.

Graph 17: Loss from Market Intervention Scheme operations for Supplyco



Sources: Supplyco Annual Reports

The primary reason for this is the expense incurred in purchasing stock which is growing each year regardless of losses (refer Graph 9). The increase in purchasing stock is part of the Supplyco's MIS operations. The trend in losses from MIS operations follows an upward curve. The gap between the losses and the amount sanctioned as grants by government in the annual budget is also widening. This indicates the unsustainability of this financing model where Supplyco incurs loss from MIS and it is reimbursed a portion of these through government grants.

5.6. Public Expenditure

The below table is constructed from the consumption pattern data collected from NSSO 68th round[xxvii]. According to this, the government needs to spend ₹121.60 per person per month through Supplyco which translates to ₹4,679.98 crore per year for 80,18,030 ration cards[xxviii] or households. The government has to foot this massive bill each year through grants if MIS intervention is to reach every household in Kerala.

Table 5: Subsidy benefit transferred through Supplyco

Item	Quantity consumed per 30 days (in Kg)	Difference in Supplyco prices per kg	Amount gained per person through Supplyco	Amount gained per household
Rice- Market (Matta)	4.67	12.82	₹ 59.84	₹ 239.38
Tur Dal	0.13	65.43	₹ 8.31	₹ 33.24
Green gram	0.13	17.07	₹ 2.17	₹ 8.67
Black gram	0.16	61.64	₹ 9.92	₹ 39.70
Bengal gram	0.13	90.85	₹ 12.17	₹ 48.70
Coconut Oil	0.45	38.07	₹ 17.02	₹ 68.07
Dry Chillies	0.16	62.79	₹ 10.29	₹ 41.15
Coriander	0.10	18.21	₹ 1.88	₹ 7.50
Total			₹ 121.60	₹ 486.40

Sources: NSSO Household Survey 2011-12, Supplyco[5]

The government presently spends a few thousand crores in running Supplyco for transferring subsidy benefits worth ₹121.60 to an individual in Kerala, incurring losses in the process.

In effect, the government incurs an additional expense of ₹61 per person (50 per cent additional expense) over and above the intended ₹121.60 (Refer table 5)

Table 6: Expenditure incurred in running Supplyco

FY	Total Expenses
2008	₹1259 crores
2009	₹1884 crores
2010	₹2393 crores
2011	₹2259 crores
2012	₹2694 crores
2013	₹3137 crores
2014	₹3660 crores
Average expenditure per year	₹2469.43 crores
Expenditure per person per month in Kerala (Expenditure/(Population of Kerala *12))	***₹61***

Sources: Supplyco annual reports, Department of Economics and Statistics, Government of Kerala

[5] Data computed from the mentioned sources

The magnitude of this loss is huge. For instance, the loss incurred by Supplyco in FY2014-15 is ₹98 crore. This is equal to the total amount spent by the State government in the same year for forestry and wildlife conservation. Even the loss incurred by Supplyco that year is greater than the amount spent by the government for some of the other welfare activities or schemes in the same year (Refer Table 7).

Table 7: Comparison of Supplyco's loss with state expenditure on other sectors

Sector/Scheme	Spending by Government in FY2014-15	Losses of Supplyco in FY2014-15
Housing	₹68 crores	₹98 crores
Road Transport	₹87.02 crores	
Public works	₹74.76 crores	
Forestry and Wildlife conservation	₹98 crores	
National Programme of Mid-day meals in schools	₹33.72 crores	
National Highways	₹57.35 crores	

Source: State Budget 2014-15, Government of Kerala

This questions the effectiveness and the very necessity of the Supplyco model in transferring subsidy benefits to individuals. Subsides can be transferred to the individual through many other effective, efficient and economic methods such as Direct Benefit Transfer (DBT). Kerala, known for being the first fully digital state, has high penetration of financial markets and mobile communications, making it an ideal state to implement DBT successfully. Such alternatives need to be examined.

CONCLUSIONS

Begun in 1974 as a government owned company, Supplyco's objectives included everything from promotion to development to even distribution of production, logistics, etc. of food grains with the ultimate objective of food security for Kerala. However, Supplyco's operations which are limited to retailing of goods at subsidized prices are ineffective in arresting the food inflation levels in Kerala which is higher than the national level.

The quantity of essential commodities distributed through 1406 retail outlets across Kerala is sufficient for less than 20 per cent of the total consumption in Kerala. This indicates that most of the demand is met by other retailers. Also, the quantity distributed through these outlets do not have any independent effect in controlling market prices. Supplyco's procurement of paddy is also ineffective in meeting the required quantity for consumption.

Even though factors such as growth in agricultural wages and MSP drive inflation in Kerala, Supplyco's operations do not involve any activities to control these drivers of inflation.

Supplyco's financial performance is poor and its financing model is unsustainable owing to large losses. To transfer the intended subsidy benefits worth ₹121.60 per person, the government spends an additional ₹61 per person when it is transferred through the machinery of Supplyco.

Supplyco is only a retail chain in Kerala and offers no other contribution towards arresting food inflation. Merely selling food commodities to consumers at lower prices hasn't controlled the rise in prices of those commodities. At best, Supplyco is a manifestation of the welfare state. In Kerala's present retail market ecosystem, the rationale for the existence of Supplyco needs to be rethought and, if needed, remodelled so as to transfer maximum benefits to consumers.

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