Part - I

Chapter – I
Functioning of Power Sector Undertakings

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1. Introduction

1.1 The Power Sector Companies play an important role in the economy of the State. Apart from providing critical infrastructure required for development of the State's economy, the sector also adds significantly to the Gross Domestic Product (GDP) of the State. A ratio of Power sector PSUs' turnover to Gross State Domestic Product (GSDP) shows the extent of activities of PSUs in the State economy. The table below provides the details of turnover of the Power Sector Undertakings and GSDP of Punjab for a period of five years ending March 2018.

Table 1.1: Details of turnover of Power Sector Undertakings *vis-a-vis* GSDP of Punjab

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Turnover	20,097.83	22,270.15	23,589.08	24,763.66	29,880.88
GSDP of Punjab	3,17,556	3,49,826	4,08,815	4,27,297	4,77,482
Percentage of Turnover to GSDP of Punjab	6.33	6.37	5.77	5.80	6.26

Source: Turnover figures as per latest finalized accounts as of 30 September of respective years and GSDP figures as per Economic Review 2017-18 of Government of Punjab.

The turnover of Power Sector Undertakings has recorded continuous increase and it ranged between 4.98 *per cent* and 20.66 *per cent* during the period 2013-18, whereas increase in GSDP of Punjab ranged between 4.52 *per cent* and 16.86 *per cent* during the same period. The compounded annual growth of GSDP was 10.86 *per cent* during last five years. The compounded annual growth is a useful method to measure growth rate over multiple time periods. Against the compounded annual growth of 10.86 *per cent* of the GSDP, the turnover of Power Sector Undertakings recorded higher compounded annual growth of 17.90 *per cent* during last five years. However, there was decrease in the share of turnover of the Power Sector Undertakings to the GSDP from 6.33 *per cent* in 2013-14 to 6.26 *per cent* in 2017-18.

1.2 *Formation of Power Sector Undertakings*

The State Government framed (April 2010) the Punjab Power Sector Reforms Transfer Scheme, 2010 (Scheme) for unbundling of Punjab State Electricity Board (PSEB) and transfer of functions, undertakings, assets, properties, rights, liabilities, proceedings and personnel of PSEB to two successor Power Sector Companies (Punjab State Power Corporation Limited (PSPCL) and Punjab State Transmission Corporation Limited (PSTCL)). These two Power Sector Companies came into existence *w.e.f.* 16 April 2010 and all the assets and liabilities of PSEB (including equity of ₹ 6,687.26 crore[1] and capital reserve of ₹ 10,620.49 crore[2] created out of setting off accumulated losses of PSEB of ₹ 10,180.35 crore against reserve created on land revaluation) were distributed among these companies according to the provisions of the Scheme. Besides these, two companies were incorporated as wholly owned subsidiaries of PSPCL i.e Gidderbaha Power Limited in the year 2008 as special purpose vehicle by PSEB now PSPCL and Punjab Thermal Generation Limited in 2013-14[3]. However, the State Government did not infuse any equity in these companies. Another power sector company namely Punjab Genco Limited was incorporated in 1998 with the entire shareholding held by Punjab Energy Development Agency (PEDA). Thus, there were five Power Sector Companies in the State as on 31 March 2018. Of these five Power Sector Companies, two[4] companies did not commence commercial activities till 2017-18.

Disinvestment, restructuring and privatisation of Power Sector Undertakings

1.3 The State Government established (July 2002) the Directorate of Disinvestment under the Department of Finance, with the objective of disinvestment of State Government equity held in PSUs and their subsidiaries/promoted companies and restructuring/privatisation of PSUs. During the year 2017-18, no PSU was completely disinvested by the Directorate.

Investment in Power Sector Undertakings

1.4 The activity-wise summary of investment in the Power Sector Undertakings as on 31 March 2018 is given below:

Table 1.2: Activity-wise investment in Power Sector Undertakings

Activity	Number of undertakings	Investment (₹ in crore)				
		Equity of GoP	Equity of Others	Long term loans of GoP	Long term loans of others	Total
Generation & Distribution of Power[5]	4	6,081.47	23.00	15,661.29	7,988.58	29,754.34
Transmission of Power	1	605.88	--	--	4,898.32	5,504.20
Total	**5**	**6687.35**	**23.00**	**15661.29**	**12886.90**	**35258.54**

Source: Compiled based on information received from PSUs.

[1] Punjab State Power Corporation Limited (₹ 6081.43 crore) and Punjab State Transmission Corporation Limited (₹ 605.83 crore).

[2] Punjab State Power Corporation Limited (₹ 8772.66 crore) and Punjab State Transmission Corporation Limited (₹ 1847.83 crore).

[3] Intimation for incorporation of the Company was received during 2014-15.

[4] Gidderbaha Power Limited and Punjab Thermal Generation Limited.

[5] Three PSUs (Gidderbaha Power Limited, Punjab Genco Limited and Punjab Thermal Generation Limited) are engaged in the activity of Generation of power and only one PSU (PSPCL) undertakes both Generation and Distribution activities.

As on 31 March 2018, the total investment (equity and long term loans) in five Power Sector Undertakings was ₹ 35,258.54 crore. The investment consisted of 19.03 *per cent* towards equity and 80.97 *per cent* in long-term loans.

The Long term loans advanced by the State government constituted 54.86 *per cent* (₹ 15,661.29 crore) of the total long term loans whereas 45.14 *per cent* (₹ 12,886.90 crore) of the total long term loans were availed from Central Government and other financial institutions. However, during 2015-16 and 2016-17, the State Government has taken over ₹ 15,628.26 crore (75 *per cent*) of the outstanding debts of ₹ 20,837.68 crore of PSPCL as on 30 September 2015 under Ujwal Discom Assurance Yojana[6] (UDAY) scheme.

Budgetary Support to Power Sector Undertakings

1.5 The Government of Punjab (GoP) provides financial support to Power Sector Undertakings in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies, loans written off and loans converted into equity during the year in respect of Power Sector Undertakings for the last three years ending March 2018 are as follows:

Table 1.3: Details of budgetary support to Power Sector Undertakings during the years

(₹ in crore)

Particulars[7]	**2015-16**		**2016-17**		**2017-18**	
	Number of PSUs	**Amount**	**Number of PSUs**	**Amount**	**Number of PSUs**	**Amount**
(i) Equity Capital	0	0	0	0	0	0
(ii) Loans given (Interest bearing[8])	1	9,859.72	1	5,768.54	0	0
(iii) Grants/ Subsidy provided	1	4,847.00	1	5,600.70	1	6,577.57
Total Outgo (i+ii+iii)	**1**	**14,706.72**	**1**	**11,369.24**	**1**	**6,577.57**
Loan repayment written off	0	0	0	0	0	0
Loans converted into equity	0	0	0	0	0	0
Guarantees issued	2	6,248.28	2	1,993.26	2	1,879.00
Guarantee Commitment	2	9,408.00	2	8,519.08	2	9,345.14

Source: Compiled based on information received from PSUs.

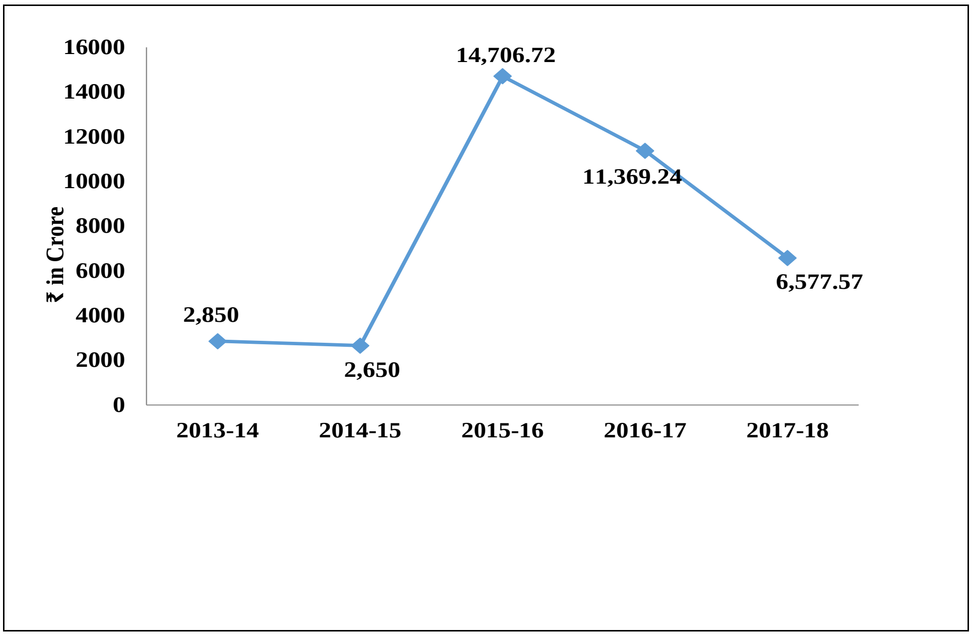
The details of budgetary support towards equity, loans and grants/ subsidies for the last five years ending March 2018 are given in a chart below:

6 Scheme launched by Ministry of Power and GoI for financial and operational turnaround of DISCOMs.

7 Amount represents outgo from State budget only.

8 PSPCL was given interest bearing loans at the rates of interest of 7.21 *per cent* to 8.72 *per cent* per annum.

Chart 1.1: Budgetary support towards Equity, Loans and Grants/Subsidies



The budgetary assistance received by these PSUs ranged between ₹ 2,650.00 crore and ₹ 14,706.72 crore during 2013-14 to 2017-18. The budgetary assistance of ₹ 6,577.57 crore received during the year 2017-18 is on account of subsidy for free supply to scheduled castes households/ agricultural power consumers. The Ministry of Power (MoP), Government of India launched (20 November 2015) UDAY Scheme for operational and financial turnaround of DISCOMs. The provisions of UDAY and status of implementation of the scheme by DISCOM are discussed under Para 1.20 of this Chapter. There was substantial increase in the subsidy provided by the State Government for the year 2017-18 (₹ 6,577.57 crore) in comparison to that of the previous year (₹ 5,600.70 crore).

In order to enable PSUs to obtain financial assistance from banks and financial institutions, the State Government gives guarantee under Punjab Fiscal Responsibility and Budget Management Act, 2003 subject to the limits prescribed by the Constitution of India, for which a guarantee fee is charged. The State Government charged guarantee fee at the rate of 0.5 *per cent* to two *per cent* from these PSUs. During the year, two PSUs[9] paid guarantee fee of ₹ 29.00 crore (including ₹ 2.50 crore pertaining to previous years) out of ₹ 29.53 crore payable. Punjab State Power Corporation Limited (PSPCL) was to pay the balance of ₹ 0.53 crore.

Reconciliation with Finance Accounts of Government of Punjab

1.6 The figures in respect of Equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the Government of Punjab. In case the figures do not

9 PSPCL and PSTCL.

agree, the concerned PSUs and the Finance Department should carry out reconciliation of the differences. Though the figures in respect of guarantee outstanding agrees with that in the finance accounts, there were differences in the position of Equity and loans as on 31 March 2018 as stated below:

Table 1.4: Equity and Loans outstanding as per Finance Accounts vis-à-vis records of Power Sector Undertakings

(₹ in crore)

Outstanding in respect of	Outstanding Loans		Difference
	As per Finance Accounts	As per records of power sector undertakings	
Equity	2,772.79	6,687.35	(-) 3,914.56
Loans	16,402.11	15,661.29	740.82
Total Difference			**4,655.38**

Source: Compiled based on information received from PSUs and Finance Accounts.

The differences between the figures are persisting since last many years. The issue of reconciliation of differences was also taken up with the PSUs/ Departments from time to time. We, therefore, recommend that the State Government and the PSUs should reconcile the differences in a time-bound manner.

Submission of accounts by Power Sector Undertakings

1.7 *Timeliness in preparation of accounts by Power Sector Undertakings*

There were five[10] Power Sector Undertakings under the audit purview of CAG as of 31 March 2018. Accounts for the year 2017-18 were submitted by four PSUs by 30 September 2018 as per statutory requirement. Details of arrears in submission of accounts of Power Sector Undertakings as on 30 September of each financial year for the last five years ending 31 March 2018 are given below:

Table 1.5: Position relating to submission of accounts of Power Sector Undertakings

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1.	Number of PSUs	4	5	5	5	5
2.	Number of accounts submitted during current year	7	4	5	5	9
3.	Number of PSUs which finalised accounts for the current year	1	0	0	0	4
4.	Number of previous year accounts finalised during current year	6	4	5	5	5
5.	Number of PSUs with arrears in accounts	3	5	5	5	1
6.	Number of accounts in arrears	3	5	5	5	1
7.	Extent of arrears	1 Year	1 Year	1 Year	1 Year	1 year

Source: Compiled based on accounts of working PSUs received during the period October 2017 to September 2018.

Only one company (Punjab Genco Ltd.) had arrear in preparation of accounts for one year i.e. 2017-18. The arrears have also since been eliminated.

[10] PSPCL, PSTCL, Gidderbaha Power Limited, Punjab Genco Limited and Punjab Thermal Generation Limited.

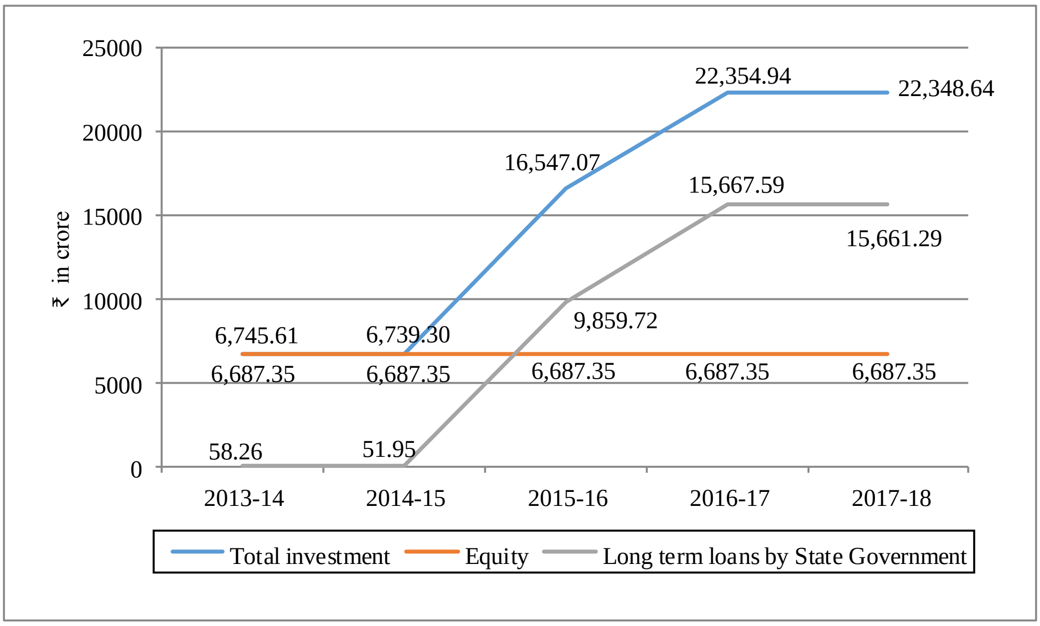
Performance of Power Sector Undertakings

1.8 The financial position and working results of five Power Sector Companies as per their latest finalised accounts as of 30 September 2018 are detailed in ***Annexure 1***

The Public Sector Undertakings are expected to yield reasonable return on investment made by Government in the undertakings. The amount of total investment (equity and long term loans) in the Power Sector Undertakings as on 31 March 2018 was ₹ 35,258.54 crore consisting of ₹ 6,710.35 crore as equity and ₹ 28,548.19 crore as long term loans. Out of this, Government of Punjab had investment of ₹ 22,348.64 crore in the two[11] Power Sector Undertakings consisting of equity of ₹ 6,687.35 crore and long term loans of ₹ 15,661.29 crore.

The year wise status of investment of GoP in the form of equity and long term loans in the Power Sector Undertakings during the period 2013-14 to 2017-18 is as follows:

Chart 1.2: Total investment of GoP in Power Sector Undertakings



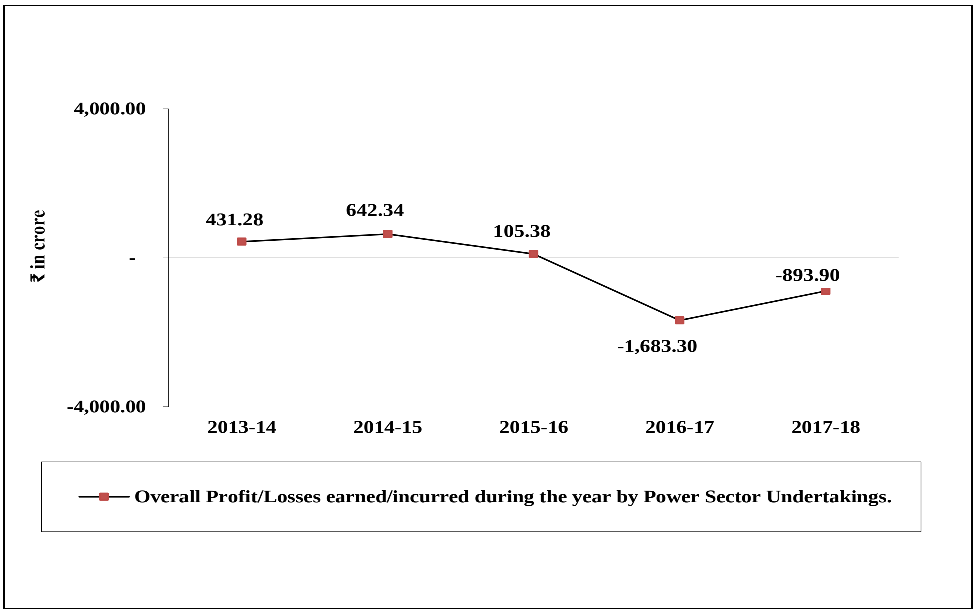
The profitability of a company is traditionally assessed through return on investment, return on equity and return on capital employed. Return on investment measures the profit or loss made in a fixed year relating to the amount of money invested in the form of equity and long term loans and is expressed as a percentage of profit to total investment. Return on capital employed is a financial ratio that measures the company's profitability and the efficiency with which its capital is used and is calculated by dividing company's earnings before interest and taxes by capital employed. Return on Equity is a measure of performance calculated by dividing net profit after tax by shareholders' fund.

[11] PSPCL and PSTCL.

Return on Investment

1.9 Return on Investment is the percentage of profit or loss to the total investment. The overall position of Profit/losses[12] earned/incurred by all the Power Sector Undertakings during 2013-14 to 2017-18 is depicted below in a chart:

Chart 1.3: Profit/Losses earned/incurred by Power Sector Undertakings



The loss incurred by these five power sector PSUs was ₹ 893.90 crore in 2017-18 against profit of ₹ 431.28 crore earned in 2013-14. As per latest finalised accounts for the year 2017-18, out of five power sector PSUs, two[13] PSUs earned profit of ₹ 13.02 crore, one[14] PSU incurred loss of ₹ 906.92 crore, two PSUs are under construction ***(Annexure 1)***.

Position of Power Sector Undertakings which earned/incurred profit/loss during 2013-14 to 2017-18 is given below:

Table 1.6: Power Sector Undertakings which earned/incurred profit/loss

Financial year	Total PSUs in power sector	Number of PSUs which earned profits during the year	Number of PSUs which incurred loss during the year	Number of PSUs which had marginal[15] profit/ loss during the year
2013-14	4	3	-	1
2014-15	5	3	-	2
2015-16	5	2	1	2
2016-17	5	2	1	2
2017-18	5	2	1	2

12 Figures are as per the latest finalised accounts during the respective years.
13 Punjab Genco Limited and PSTCL.
14 PSPCL.
15 It includes the Companies that are under construction.

(a) Return on the basis of historical cost of investment

1.10 Out of five Power Sector Undertakings of the State, the State Government infused funds in the form of equity, loans and grants/subsidies in two[16] Power Sector Undertakings only. Funds in two[17] Companies were contributed by their holding company (PSPCL) and the entire shareholding of one[18] Company was held by PEDA.

The Return on Investment from the two PSUs has been calculated on the investment made by the Government of Punjab in the PSUs in the form of equity and loans. In the case of loans, only interest free loans are considered as investment since the government does not receive any interest on such loans and are therefore of the nature of equity investment by government except to the extent that the loans are liable to be repaid as per terms and conditions of repayment. Further, the funds made available in the form of the grants/subsidy, have not been reckoned as investment since they do not qualify to be considered as investment.

The investment of State Government in these two Power Sector Undertakings has been arrived at by considering the equity (initial equity net of accumulated losses plus the equity infused during the later years), adding Interest free loans and deducting interest free loans which were later converted into equity for each year.

The investment of State Government as on 31 March 2018 in these two Power Sector Undertakings was ₹ 22,348.64 crore consisting of equity of ₹ 6,687.35 crore and long term loans of ₹ 15,661.29 crore. There were no interest free loans released by State Government. Thus, with no interest free loan and considering equity of ₹ 6,687.35 crore as investment of the State Government in these two power sector PSUs, the investment on the basis of historical cost stood at ₹ 6,687.35 crore.

The Return on Investment on historical cost basis for the period 2013-14 to 2017-18 is as given below:

Table 1.7: Return on State Government Investment on historical cost basis

Financial year	Investment by the GoP at the end of the year in form of Equity and Interest Free Loans on historic cost basis (₹ in crore)	Total Earnings/ Losses[19] for the year (₹ in crore)	Return on Investment (in *per cent)*
2013-14	6,687.35	629.83	9.42
2014-15	6,687.35	103.20	1.54
2015-16	6,687.35	(-) 1692.83	(-) 25.31
2016-17	6,687.35	(-) 2831.23	(-) 42.34
2017-18	6,687.35	(-) 901.92	(-) 13.49

The Return on Investment of the two power sector PSUs was 9.42 *per cent* and 1.54 *per cent* during 2013-14 and 2014-15 respectively. The Return on

16 PSPCL and PSTCL.
17 Gidderbaha Power Limited and Punjab Thermal Generation Limited.
18 Punjab Genco Limited.
19 As per annual accounts of the respective years.

Investment was negative in the years 2015-16 to 2017-18 which was attributed to increase in cost of power purchase, employee cost and finance costs (2015-16) of PSPCL at rate higher than the increase in its sale of power. During 2017-18, however, the increase in tariff compensation to PSPCL by GoP on account of subsidised supply of power reduced the negative return on investment.

(b) On the basis of Present Value of Investment

1.11 In view of the significant investment by State Government in the two Power Sector Companies, return on such investment is essential from the perspective of the State Government. Traditional calculation of return based only on historical cost of investment may not be a correct indicator of the adequacy of the return on the investment since such calculations ignore the present value (PV) of money. The present value of the Government investments has been computed to assess the rate of return on the present value of investments of GoP in the State PSUs as compared to historical value of investments. In order to bring the historical cost of investments to its present value at the end of each year upto 31 March 2018, the past investments/ year-wise funds infused by the GoP in the State PSUs have been compounded at the year-wise average rate of interest on government borrowings which is considered as the minimum cost of funds to the Government for the concerned year. Therefore, PV of the State Government investment was computed where funds had been infused by the State Government in the shape of equity and interest free loan since inception of these companies till 31 March 2018. However, the two PSUs had a positive Return on Investment on historical cost basis only during the year 2013-14 and 2014-15. Therefore, only for the year 2013-14 and 2014-15, the return on investment has been calculated and depicted on the basis of PV.

The PV of the State Government investment in Power Sector Undertakings was computed on the basis of following assumptions:

- Interest free loans have been considered as investment infusion by the State Government as no amount of interest free loans have been repaid by the Power Sector PSUs. Further, in those cases where interest free loans given to the PSUs were later converted into equity, the amount of loan converted into equity has been deducted from the amount of interest free loans and added to the equity of that year. The funds made available in the form of grant/subsidies have not been reckoned as investment.
- The average rate of interest on Government borrowings for the concerned financial year[20] was adopted as compounded rate for arriving at Present Value since they represent the cost incurred by the Government towards investment of funds for the year and therefore

[20] The average rate of interest on Government borrowings was adopted from the Reports of the C&AG of India on State Finances (Government of Punjab) for the concerned year wherein the average rate for interest paid = Interest payment/ [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities)/ 2] *100.

considered as the minimum expected rate of return on investments made by the Government.

For the period 2015-16 to 2017-18, when the two companies incurred combined losses, a more appropriate measure of performance is the erosion of net worth due to the losses. The erosion of net worth of the company is commented upon in Para 1.13.

1.12 The Company wise position of State Government investment in the two Power Sector Companies in the form of equity and interest free loans since inception of these companies till 31 March 2018 is indicated in ***Annexure 2.*** The consolidated position of the PV of the State Government investment and the total earnings relating to the two Power Sector Companies since inception of these companies till 31 March 2018 is indicated in table below:

Table 1.8: Year wise details of investment by the State Government and its present value (PV)

(₹ in crore)

Financial year	Present value of total investment at the beginning of the year	Equity infused by the state government during the year	Interest free loans given by the state govern-ment during the year	Interest free loans converted during the year	Total investment during the year	Average rate of interest on government borrowings (in *per cent*)	Total invest-ment at the end of the year	Present value of total investment at the end of the year	Minimum expected return to recover cost of funds for the year	Total earnings for the year[21]
i	ii	iii	iv	v	vi=iii+iv-v	vii	viii=ii+vi	ix={viii*(1+vii)/ 100}	x={viii*vii/100}	xi
2010-11	-	6,687.35[22]	-	-	6,687.35	7.73	6,687.35	7,204.28	516.93	-1696.24
2011-12	7,204.28	-	-	-	0.00	7.96	7,204.28	7,777.74	573.46	-559.34
2012-13	7,777.74	-	-	-	0.00	7.79	7,777.74	8,383.63	605.89	419.21
2013-14	8,383.63	-	-	-	0.00	8.04	8,383.63	9,057.67	674.04	629.83
2014-15	9,057.67	-	-	-	0.00	8.35	9,057.67	9,813.99	756.32	103.20
2015-16	9,813.99	-	-	-	0.00	8.09	9,813.99	10,607.94	793.95	-1692.83
2016-17	10,607.94	-	-	-	0.00	7.48	10,607.94	11,401.41	793.47	-2831.23
2017-18	11,401.41	-	-	-	0.00	8.12	11,401.41	12,327.21	925.79	-901.92
Total		**6,687.35**	**-**	**-**	**6,687.35**					

The PV of investments by way of equity of the State Government upto 31 March 2018 worked out ₹ 12,327.21 crore. The State Government had not extended any interest free loan or infused fresh equity or extended grant to the Companies under UDAY.

It could be seen that total earnings for the year in these companies remained negative during the years 2010-11, 2011-12 and 2015-16 to 2017-18. This indicates that instead of generating returns on the invested funds, Government could not recover its cost of funds invested. Further, the positive total earnings during the remaining years also remained substantially below the minimum expected return towards the investment made in these power sector companies.

A comparison of Return on Investment as per Historic cost and Present Value of such investment during 2013-14 and 2014-15 when there were positive earnings is given below:

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21 Total Earning for the year depicts total of net earnings (profit/loss) for the concerned year relating to two Power Sector PSUs where funds were infused by State Government.

22 No accumulated losses were transferred to Power Sector Companies at the time of unbundling as accumulated losses of erstwhile PSEB of ₹ 10,180.35 crore were set off against capital reserve created on land revaluation.

Table 1.9: Return on State Government Funds

(₹ in crore)

Year	Total Earnings for the year	Investment by the GoP in form of Equity and Interest free Loans	Return on State Government investment on the basis of historical value (*per cent*)	Present value of the State Government investment at end of the year	Return on State Government investment considering the present value of the investments (*per cent*)
2013-14	629.83	6,687.35	9.42	9,057.67	6.95
2014-15	103.20	6,687.35	1.54	9,813.99	1.05

The returns based on present value were less than the returns based on historic cost as indicated by the comparison of returns during 2013-14 and 2014-15. Return based on historic cost was 9.42 *per cent* and 1.54 *per cent* during 2013-14 and 2014-15 respectively whereas return based on Present Value was 6.95 *per cent* and 1.05 *per cent* during corresponding period.

Erosion of Net worth

1.13 Net worth means the sum total of the paid-up capital and free reserves and surplus minus accumulated losses and deferred revenue expenditure. Essentially it is a measure of what an entity is worth to the owners. A negative net worth indicates that the entire investment by the owners has been wiped out by accumulated losses and deferred revenue expenditure. The overall accumulated losses of the five Power Sector Undertakings were ₹ 6,429.77 crore as against the capital investment of ₹ 6,710.35 crore resulting in net worth of ₹ 280.58 crore (***Annexure 1***). Of the five Power Sector Undertakings, the net worth of Punjab State Power Corporation Limited (₹ -861.82 crore) had been eroded completely.

The following table indicates paid up capital, free reserves, accumulated loss and net worth of the two[23] Power Sector Undertakings during the period 2013-14 to 2017-18:

Table 1.10: Net worth of two Power Sector Undertakings during 2013-14 to 2017-18

(₹ in crore)

Year	Paid up Capital at end of the year	Free Reserves	Accumulated Loss (-) at end of the year	Net worth
2013-14	6,687.35	102.02	-1,916.27	4,873.10
2014-15	6,687.35	482.54	-1,666.96	5,502.93
2015-16	6,687.35	419.83	-1,501.05	5,606.13
2016-17	6,687.35	421.81	-3,195.90	3,913.26
2017-18	6,687.35	416.90	-6,963.37	140.88

The combined net worth of both the PSUs was positive during 2013-14 to 2017-18. However, entire capital infused in PSPCL eroded in 2017-18 due to increase in accumulated losses of PSPCL from ₹ 1,916.27 crore in 2013-14 to ₹ 6,963.37 crore in 2017-18.

[23] PSPCL and PSTCL (having State Government investment).

Dividend Payout

1.14 The State Government had formulated (July 2011) a dividend policy under which all PSUs are required to pay a minimum return of five *per cent* on the funds invested by the State Government. Dividend Payout relating to two Power Sector Undertakings where equity was infused by GoP during the period is shown in table below:

Table 1.11: Dividend Payout of two Power Sector Undertakings during 2013-14 to 2017-18

(₹ in crore)

Year	Total PSUs where equity infused by GoP		PSUs which earned profit during the year		PSUs which declared/paid dividend during the year		Dividend Payout Ratio (*per cent*)
	Number of PSUs	Equity infused by GoP	Number of PSUs	Equity infused by GoP	Number of PSUs	Dividend declared/ paid by PSUs	
1	2	3	4	5	6	7	8= 7/5*100
2013-14	2	6687.35	2	6687.35	-	-	-
2014-15	2	6687.35	2	6687.35	-	-	-
2015-16	2	6687.35	1	6081.47	-	-	-
2016-17	2	6687.35	1	605.88	-	-	-
2017-18	2	6687.35	1	605.88	-	-	-

During the period 2013-14 to 2014-15, two PSUs earned profits whereas during 2015-16 to 2017-18 only one PSU earned profit. But none of the PSU declared/paid dividend during the period.

Return on Equity

1.15 Return on Equity (ROE) is a measure of financial performance to assess how effectively management is using company’s assets to create profits and is calculated by dividing net income (i.e. net profit after taxes) by shareholders' fund. It is expressed as a percentage and can be calculated for any company if net income and shareholders' fund are both positive numbers.

Shareholders’ fund of a Company is calculated by adding paid up capital and free reserves net of accumulated losses and deferred revenue expenditure and reveals how much would be left for a company’s stakeholders if all assets were sold and all debts paid. A positive shareholders fund reveals that the company has enough assets to cover its liabilities while negative shareholder equity means that liabilities exceed assets.

Return on Equity has been computed in respect of two power sector undertakings where funds had been infused by the State Government. The details of Shareholders fund and ROE relating to these two power sector undertakings during the period from 2013-14 to 2017-18 are given in table below:

Table 1.12: Return on Equity relating to two Power Sector Undertakings where funds were infused by the GoP

Year	Net Income/ total Earnings for the year[24] (₹ in crore)	Shareholders' Fund (₹ in crore)	ROE (*per cent*)
2013-14	629.83	4873.10	12.92
2014-15	103.20	5502.93	1.88
2015-16	(-) 1692.83	5606.13	-
2016-17	(-) 2831.23	3913.26	-
2017-18	(-) 901.92	140.88	-

As can be seen from the above table, during the last five years ending 31 March 2018, the Net Income was negative during 2015-16 to 2017-18 which was attributed to increase in cost of power purchase, employee cost and finance costs (2015-16) of PSPCL at rates higher than the rate of increase in sale of power. However, Shareholders' funds were positive during all the five years for the two undertakings. Return on equity was 12.92 *per cent* and 1.88 *per cent* during 2013-14 and 2014-15 respectively.

Return on Capital Employed

1.16 Return on Capital Employed (ROCE) is a ratio that measures a company's profitability and the efficiency with which its capital is employed.

ROCE is calculated by dividing a company's earnings before interest and taxes (EBIT) by the capital employed[25]. The details of ROCE of all the five Power Sector Undertakings during the period from 2013-14 to 2017-18 are given in table below:

Table 1.13: Return on Capital Employed

Year	EBIT (₹ in crore)	Capital Employed (₹ in crore)	ROCE (*per cent*)
2013-14	3,082.28	35,157.48	8.77
2014-15	3,405.70	36,702.66	9.28
2015-16	2,904.45	38,673.18	7.51
2016-17	1,673.14	26,929.15	6.21
2017-18	2,567.06	30,697.68	8.36

The ROCE of the Power Sector Undertakings ranged between 6.21 *per cent* and 9.28 *per cent* during the period 2013-14 to 2017-18.

Analysis of Long term loans of the Companies

1.17 The analysis of the long term loans of the companies which had leverage during 2013-14 to 2017-18 was carried out to assess the ability of the companies to service the debt owed by the companies to Government, banks and other financial institutions. This is assessed through the Interest Coverage Ratio and Debt Turnover Ratio.

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24 As per annual accounts of the respective years.

25 Capital employed = Paid up share capital + free reserves and surplus + long term loans - accumulated losses - deferred revenue expenditure. Figures are as per the latest year for which accounts of the PSUs are finalised.

Interest Coverage Ratio

1.18 Interest coverage ratio is used to determine the ability of a company to pay interest on outstanding debt and is calculated by dividing a company's earnings before interest and taxes (EBIT) by interest expenses of the same period. The lower the ratio, the lessor the ability of the company to pay interest on debt. An interest coverage ratio of below one indicates that the company was not generating sufficient revenues to meet its expenses on interest. The details of interest coverage ratio in Power Sector Companies during the period from 2013-14 to 2017-18 are given in table below:

Table 1.14: Interest coverage ratio

Year	Interest (₹ in crore)	Earnings before interest and tax (EBIT) (₹ in crore)	Number of PSUs having liability of loans from Government and Banks and other financial institutions[26]	Number of companies having interest coverage ratio more than 1	Number of companies having interest coverage ratio less than 1
2013-14	2,645.82	3,082.28	3	2	0
2014-15	2,650.65	3,405.70	3	2	0
2015-16	2,797.82	2,904.45	3	1	1
2016-17	3,350.56	1,673.14	3	1	1
2017-18	3,456.20	2,567.06	3	1	1

The above interest includes interest of ₹ 1,192.17 crore and ₹ 1,306.95 crore charged by GoP during 2016-17 and 2017-18 respectively from the PSPCL on the loans given to it under UDAY Scheme to discharge their loan liability to other financial institutions and banks.

It was observed that the two Power Sector Companies had interest coverage ratio of more than one in 2013-14 and 2014-15. However, the interest coverage ratio decreased from two companies to one company from 2015-16 onwards.

Debt-Turnover Ratio

1.19 During the last five years, the turnover of the five Power Sector Undertakings recorded compounded annual growth of 17.90 *per cent* while compounded annual growth of debt was 21.22 *per cent* due to which the Debt-Turnover Ratio deteriorated from 0.57 in 2013-14 to 0.96 in 2017-18 as given in table below:

Table 1.15: Debt Turnover ratio relating to the Power Sector Undertakings

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Debt from Government/ Banks and Financial Institutions	11,550.85	12,653.30	16,073.01	27,643.19	28,548.19
Turnover	20,097.83	22,270.15	23,589.08	24,763.66	29,880.88
Debt-Turnover Ratio	0.57:1	0.57:1	0.68:1	1.12:1	0.96:1

Source: Compiled based on Information received from PSUs.

[26] Gidderbaha Power Ltd. though had the loan liability had not paid interest as per Board's decision.

Assistance under Ujwal DISCOM Assurance Yojana (UDAY)

1.20 The Ministry of Power (MoP), Government of India launched (20 November 2015) Ujwal DISCOM Assurance Yojana (UDAY Scheme) for operational and financial turnaround of State owned Power Distribution Companies (DISCOMs). As per provisions of UDAY Scheme, the participating States were required to undertake following measures for operational and financial turnaround of DISCOMs:

Scheme for improving operational efficiency

1.20.1 The participating States were required to undertake various targeted activities like compulsory feeder and distribution transformer (DT) metering, consumer indexing and Geographic Information System (GIS) mapping of losses, upgrading or changing transformers and meters, smart metering of all consumers consuming above 200 units per month, Demand Side Management (DSM) through energy efficient equipments, quarterly revision of tariff, comprehensive IEC campaign to check theft of power, assure increased power supply in areas where the Aggregate Technical & Commercial (AT&C) losses have been reduced for improving the operational efficiencies. The timeline prescribed for these targeted activities were also required to be followed so as to ensure achievement of the targeted benefits *viz.* ability to track losses at feeder and DT level, identification of loss making areas, reduce technical losses and minimize outages, reduce power theft and enhance public participation for reducing the theft, reduce peak load and energy consumption *etc.* The outcomes of operational improvements were to be measured through indicators *viz.* reduction of AT&C loss to 15 *per cent* in 2018-19 as per loss reduction trajectory finalised by the MoP and States, reduction in gap between average cost of supply and average revenue realised to zero by 2018-19.

Scheme for financial turnaround

1.20.2 The participating States were required to take over 75 *per cent* of DISCOMs debt as on 30 September 2015 over two years, 50 *per cent* in 2015-16 and 25 *per cent* in 2016-17. The scheme for financial turnaround *inter alia* provided that:

- State will issue *'Non-Statutory Liquidity Ratio (Non-SLR) bonds'* and the proceeds realized from issue of such bonds shall be transferred to the DISCOMs which in turn shall discharge the corresponding amount of Banks/ FIs debt. The bonds so issued will have a maturity period of 10-15 years with a moratorium on repayment of principal upto 5 years.
- Debt of DISCOM will be taken over in the priority of debt already due, followed by debt with higher cost.
- The transfer to the DISCOM by the State in 2015-16 and 2016-17 will be as a grant which can be spread over three years with the remaining transfer through State loan to DISCOM. In exceptional cases, 25 *per cent* of grant can be given as equity.
- State shall take over the future losses of DISCOMs in a graded manner by funding the previous year losses at prescribed percentage.

Implementation of the UDAY Scheme

1.20.3 The status of implementation of the UDAY Scheme is detailed below:

A. Achievement of operational parameters

The achievements *vis-a-vis* targets under UDAY Scheme regarding different operational parameters relating to the only State DISCOM (PSPCL) were as under:

Table 1.16: Parameter wise achievements *vis-a-vis* targets of operational performance upto 30 September 2018

Parameter of UDAY Scheme	Target under UDAY Scheme (2018-19)	Progress under UDAY Scheme	Achievement (in *per cent*)
Feeder metering (in Nos.)	10,800	10,800	100
Metering at Distribution Transformers (in Nos.)	1,96,092	47,062	24
Feeder Segregation (in Nos.)	5,962	5,686	95.37
Rural Feeder Audit (in Nos.)	7,414	7,414	100
Electricity to unconnected household (in lakh Nos.)	67.62	67.59	99.96
Smart metering (in Nos.) above 500KwH	6,97,711	0	0
Smart metering (in Nos.) above 200KwH upto 500 KwH	9,34,394	0	0
Distribution of LED UJALA (in lakh Nos.)	25.00	12.56	50.24
AT&C Losses (in *per cent*)	14.00	17.89	-
ACS-ARR Gap (₹ per unit)	0.09	0.09	(Full subsidy)
Net Income or Profit/Loss including subsidy (₹ in crore)	467	-322.50	-

Source: Information provided by State Discom and State Health Card under UDAY Scheme as per website of the MoP, GoI.

The State has not initiated action for smart metering. It has performed poorly in case of metering of DTs, whereas the targets have been fully achieved in feeder metering, feeder segregation, rural feeder audit and providing electricity to unconnected households. Further, going by the current trend of progress, the State will find it difficult to achieve the most important target of reduction of AT&C loss to 14.00 *per cent* by 2018-19. According to the Ministry of Power, the Government of India, the State of Punjab stood 13th amongst all the States on the basis of overall achievements made by the State DISCOMs under UDAY Scheme upto 31 December 2018.

B. Implementation of Financial Turnaround

1.20.4 A tripartite Memorandum of Understanding (MoU) was signed (04 March 2016) between the MoP, the GoP and PSPCL. As per provisions of the UDAY Scheme and tripartite MoU, out of total outstanding debt (₹ 20,837.68 crore) pertaining to PSPCL as on 30 September 2015, the GoP took over total debt of ₹ 15,628.26 crore during the period 2015-16 and 2016-17 by giving loan as detailed below:

Table 1.17: Implementation of UDAY Scheme

(₹ in crore)

Year	Equity Investment	Loan	Revenue Grant	Total
2015-16	-	9,859.72	-	9,859.72
2016-17	-	5,768.54	-	5,768.54
2017-18	-	-	141.81	141.81
Total	-	15,628.26	141.81	15,770.07
Position as on 31 March 2018	-	15,628.26	141.81	15,770.07

The amount of ₹ 15,628.26 crore which was provided by way of loans under UDAY Scheme, is to be converted into equity ₹ 3,900.00 crore and grant ₹ 11,728.26 crore during 2019-20.

The GoP also charged interest of ₹ 2,499.12 crore for the period October 2015 to March 2018 on the loans given to PSPCL under UDAY Scheme to discharge the loan liability due to other financial institutions and banks. To fund 5 *per cent* of the loss of PSPCL for the year 2016-17 as per provisions of UDAY scheme, GoP took over an amount of ₹ 141.81 crore during FY 2017-18 by way of revenue grant to PSPCL.

Comments on Accounts of Power Sector Undertakings

1.21 Five Power Sector Companies forwarded their nine audited accounts to the Principal Accountant General during 1 October 2017 to 30 September 2018. Of these, seven accounts were selected for supplementary audit. The Audit Reports of Statutory Auditors and supplementary audit conducted by the CAG indicated that the quality of accounts needs to be improved substantially.

The details of aggregate money value of the comments of Statutory Auditors and the CAG for the accounts of 2015-18 are as follows:

Table 1.18: Impact of audit comments on Power Sector Companies

(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	1	12.28	2	3.39	1	0.59
2.	Increase in profit	0	0	0	0	1	5.39
3.	Increase in loss	1	3.83	1	3,515.86	2	3,816.19
4.	Decrease in loss	0	0	0	0	1	8.75
5.	Non-disclosure of material facts	0	0	0	0	1	19,367.06
6.	Errors of classification	0	0	0	0	4	26,805.44

Source: Compiled from comments of the Statutory Auditors/ C&AG in respect of Government Companies.

During the year 2017-18, the Statutory Auditors had issued qualified certificates on seven accounts. Compliance to the Accounting Standards by the PSUs remained poor as there were 19 instances of non-compliance to the Accounting Standards in four accounts.

Compliance Audit Paragraphs

1. 22 For Part-I of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2018, 11 compliance audit paragraphs relating to Power Sector Undertakings were issued to the Principal Secretary Department of Power, GoP with request to furnish replies within six weeks. Replies on the seven compliance audit paragraphs have not been received from the State Government. The total financial impact of the compliance audit paragraphs is ₹ 1067.73 crore.

Follow up action on Audit Reports

1.23 The Report of the Comptroller and Auditor General (CAG) of India is the product of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. The State Finance Department, Government of Punjab issued (August 1992) instructions to all administrative departments to submit replies/explanatory notes to paragraphs/Performance Audits included in the Audit Reports of the CAG of India within a period of three months of their presentation to the Legislature without waiting for any questionnaires from the Committee on Public Undertakings (COPU). However, explanatory notes were not received in 25 *per cent* of the Performance Audits and over 38 *per cent* of the Audit Paragraphs as on 30 September 2018 as depicted in table 1.19 below:

Table 1.19: Explanatory notes not received (as on 30 September 2018)

Year of the Audit Report (Commercial/ PSU)	Date of the Placement of Audit Report in the State Legislature	Total Performance Audits (PAs) and paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2012-13	July 2014	1	06	Nil	6
2013-14	March 2015	1	07	1	Nil
2014-15	March 2016	1	06	Nil	Nil
2015-16	March 2017	1	06	Nil	Nil
2016-17	March 2018	0	06	Nil	6
Total		**04**	**31**	**1**	**12**

Discussion of Audit Reports by COPU

1.24 The status of discussion of Performance Audits and paragraphs that appeared in Audit Reports (PSUs) by the COPU as on 30 September 2018 was as under:

Table 1.20: Performance Audits (PAs)/Paragraphs appeared in Audit Reports vis-a-vis discussed as on 30 September 2018

Period of Audit Report	Number of PAs/ Paragraphs			
	Appeared in Audit Report		Paras discussed	
	PAs	Paragraphs	PAs	Paragraphs
2012-13	1	06	Nil	Nil
2013-14	1	07	Nil	7
2014-15	1	06	Nil	Nil
2015-16	1	06	Nil	1
2016-17	0	06	Nil	Nil
Total	**04**	**31**	**Nil**	**8**

Source: Compiled based on the discussions of COPU on the Audit Reports.

The discussion on Audit Reports (PSUs) up to 2011-12[27] has been completed.

[27] Audit Reports upto 2011-12 have been transferred to concerned Administrative Secretaries as per decision of COPU dated 19 September 2017.