

## CHAPTER IV: ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKINGS)

### 4.1 Functioning of Public Sector Undertakings

#### 4.1.1 Introduction

As of 31 March 2018, there were 17 PSUs (15 Government Companies and 2 Statutory Corporations) in Meghalaya as detailed below:

**Table 4.1.1: Total number of PSUs as on 31 March 2018**

Type of PSUs	Working PSUs	Non-working PSUs	Total
Government Companies <sup>1</sup>	14	1	15
Statutory Corporations	2	Nil	2
<b>Total</b>	<b>16</b>	<b>1</b>	<b>17</b>

None of these companies was listed on the stock exchange. During the year 2017-18, no new PSU was incorporated and no existing PSU was closed down. The working PSUs registered an aggregate turnover of ₹ 1,136.88 crore as per their latest finalised accounts as of September 2018. A significant portion of this turnover (90 per cent) was contributed by four power sector companies (₹ 1,025.14 crore).

The working PSUs incurred an overall loss of ₹ 410.17 crore as per their latest finalised accounts as on 30 September 2018 as compared to the aggregate loss of ₹ 266.27 crore incurred as of September 2017. The increase in the losses during 2017-18 was mainly because of increase of ₹ 134.80 crore in the net losses of power sector companies during 2017-18 from ₹ 234.92 crore (2016-17) to ₹ 369.72 crore (2017-18). The Return on Equity (RoE<sup>2</sup>) in respect of 7 out of the 16 working PSUs was (-) 0.92 per cent as per their latest finalised accounts as on 30 September 2018. The accumulated losses (₹ 1,797.29 crore) of the remaining nine<sup>3</sup> working PSUs had completely eroded their share capital (₹ 1,077.58 crore) as per their latest finalised accounts. Hence, RoE of these nine PSUs could not be worked out.

As of 31 March 2018, there was one non-working PSU<sup>4</sup> involving an investment of ₹ 4.72 crore, that had been lying defunct since 2006. This is critical as the investment in non-working PSU do not contribute to the economic growth of the State.

#### 4.1.2 Accountability framework

Audit of the financial statements of a Company in respect of financial years commencing on or after 1 April 2014 is governed by the provisions of the Companies Act, 2013 (Act) and audit of the financial statements in respect of financial years that

<sup>1</sup> Government companies include other Companies referred to in Section 139(5) and 139(7) of the Companies Act 2013.

<sup>2</sup>  $ROE = \{(\text{Net Profit after tax} - \text{Preference Dividend}) \div \text{Shareholders' Fund}\} \times 100$ ;  
where, Shareholders' Fund = Paid up Share Capital + Free Reserves and Surplus – Accumulated Losses – Deferred Revenue Expenditure.

<sup>3</sup> Sl. No. A1, A2, A4, A6, A7, A10, A12, A13 & B15 of Appendix 4.1.2.

<sup>4</sup> Meghalaya Electronics Development Corporation Limited.

commenced earlier than 1 April 2014 continued to be governed by the Companies Act, 1956.

#### **4.1.2.1 Statutory Audit**

The financial statements of a Government Company are audited by the Statutory Auditors, appointed by the Comptroller and Auditor General of India (CAG). These financial statements are subject to supplementary audit by the CAG under the provisions of Section 143(6) of the Act.

Audit of Statutory Corporations is governed by their respective legislations. Out of two Statutory Corporations in Meghalaya, CAG is the sole auditor for Meghalaya Transport Corporation. In respect of the other Corporation (*viz.* Meghalaya State Warehousing Corporation), the audit is conducted by Chartered Accountants and supplementary audit is done by CAG.

#### **4.1.2.2 Role of Government and Legislature**

The State Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executives and Directors on the Board of these PSUs are appointed by the Government.

The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this purpose, the Annual Reports of State Government Companies together with the Statutory Auditors' Reports and comments of the CAG thereon are required to be placed before the Legislature under Section 394 of the Act. Similarly, the Annual Reports of Statutory Corporations along with the Separate Audit Reports of CAG are required to be placed before the Legislature as per the stipulations made under their respective governing Acts. The Audit Reports of CAG are submitted to the State Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

### **4.1.3 Stake of Government of Meghalaya**

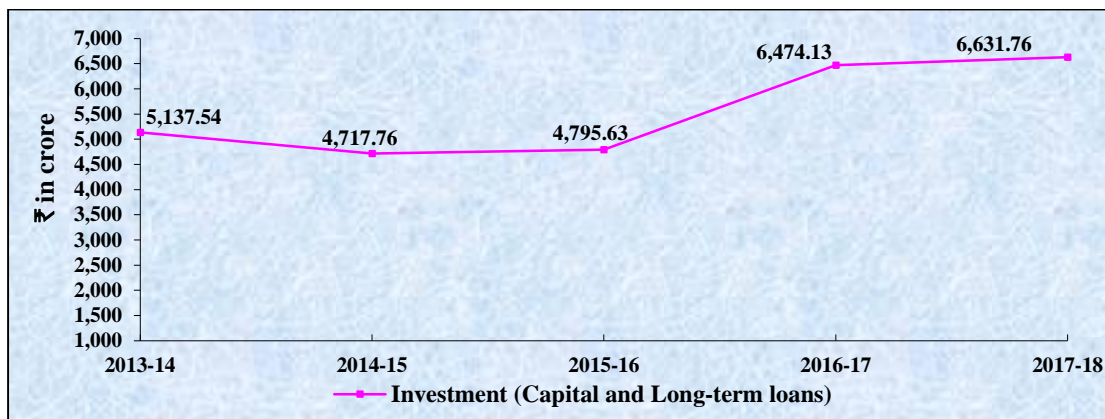
State Government has a huge financial stake in these PSUs. This stake is of mainly three types:

- **Share Capital and Loans-** In addition to the share capital contribution, State Government also provides financial assistance by way of loans to the PSUs from time to time.
- **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- **Guarantees-** State Government also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

#### 4.1.4 Investment in PSUs

As on 31 March 2018, the investment (capital and long-term loans) in 17 PSUs was ₹ 6,631.76 crore<sup>5</sup>. The total investment consisted of 69.10 per cent towards capital and 30.90 per cent in long-term loans. The investment has grown by 29.08 per cent from ₹ 5,137.54 crore in 2013-14 to ₹ 6,631.76 crore in 2017-18 as shown below:

Chart 4.1.1: Total investment in PSUs



There was a significant increase (₹ 1,836.13 crore) in investment in PSUs during the last two years due to increase in the investment in power sector companies during 2016-17 (equity: ₹ 162.74 crore and loans: ₹ 1,501.85 crore) and 2017-18 (equity: ₹ 230.87 crore). The sector wise summary of investments in the PSUs as on 31 March 2018 is given below:

Table 4.1.2: Sector-wise investment in PSUs as on 31 March 2018

(₹ in crore)

Name of Sector	Government/Other <sup>6</sup> Companies		Statutory Corporations	Total Investment
	Working	Non-Working	Working	
Power	6,187.31	0.00	0.00	6,187.31
Manufacturing	165.22	4.72	0.00	169.94
Infrastructure	159.69	0.00	0.00	159.69
Service	7.96	0.00	95.94	103.90
Agriculture & Allied	2.45	0.00	0.00	2.45
Miscellaneous	5.11	0.00	3.36	8.47
<b>Total</b>	<b>6,527.74</b>	<b>4.72</b>	<b>99.30</b>	<b>6,631.76</b>

The leap in investment in power sector was mainly on account of borrowings availed by two power sector companies<sup>7</sup> for construction of three hydro power projects (₹ 1,368.35 crore) and implementation of two GoI schemes (₹ 148.42 crore) namely, Restructured Accelerated Power Development Reform Programme (R-APDRP) and Rajiv Gandhi Gramin Vidyutikaran Yojna (RGGVY). There was no significant variation in the investments in other sectors during the last five years.

<sup>5</sup> Investment figures are provisional and as per the information provided by the PSUs as none of the 17 PSUs has finalised accounts for 2017-18 as of September 2018.

<sup>6</sup> 'Other Companies' as referred to under Section 139 (5) and 139 (7) of the Companies Act, 2013.

<sup>7</sup> Meghalaya Power Generation Corporation Limited and Meghalaya Power Distribution Corporation Limited.

#### 4.1.5 Special support and returns during the year

State Government provides financial support to PSUs in various forms through annual budgetary allocations. The details of budgetary outgo towards equity, loans and grants/ subsidies in respect of PSUs for three years ended 2017-18 are given below:

**Table 4.1.3: Details of budgetary support to PSUs**

(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	1	3.31	3	38.90	4	90.47
2.	Loans given from budget	1	100.31	4	10.43	3	1.38
3.	Grants/Subsidy from budget	6	(G) 18.82 (S) 6.21	6 3	(G) 68.76 (S) 28.37	8 2	(G) 104.86 (S) 6.00
	<b>Total Outgo<sup>8</sup> (1+2+3)</b>	<b>8</b>	<b>128.65</b>	<b>11</b>	<b>146.46</b>	<b>13</b>	<b>202.71</b>
4.	Guarantees issued during the year	Nil	Nil	1	325.00	Nil	Nil
5.	Guarantee Commitment (Cumulative)	6	993.85	3	1,136.78	3	1087.78

Source: As furnished by Companies/Corporations.

(G): Grants; (S): Subsidies

During 2017-18, the budgetary outgo to PSUs was higher by 38 per cent at ₹ 202.71 crore as compared to the previous year due to significant budgetary support of ₹ 137.26 crore provided to four power sector companies during 2017-18 in the form of equity (₹ 37.37 crore), loans (₹ 1.38 crore) and grants/subsidy (₹ 98.51 crore). Major portion (₹ 125 crore) of this budgetary support was provided to Meghalaya Power Distribution Corporation Limited through the holding company (Meghalaya Energy Corporation Limited) by way of grant (₹ 93.75 crore) and equity (₹ 31.25 crore) for implementation of GoI scheme, viz, Ujwal DISCOM Assurance Yojna (UDAY)<sup>9</sup>.

Further, to enable the PSUs obtain financial assistance from banks and financial institutions, State Government provides guarantees subject to the prescribed limits and charges a guarantee fee from the PSUs concerned. The guarantee fee so charged varies from 0.25 per cent to one per cent as decided by the State Government. The cumulative guarantee commitment of the State Government against the borrowing of the PSUs decreased from ₹ 1,136.78 crore (2016-17) to ₹ 1,087.78 crore (2017-18) due to repayment of State Government guaranteed bank loan (₹ 49 crore) by Meghalaya Power Distribution Corporation Limited.

#### 4.1.6 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per the records of PSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the Finance Department and the PSUs concerned

<sup>8</sup> Actual number of PSUs, which received equity, loans, grants/subsidies from the State Government.

<sup>9</sup> Ujwal DISCOM Assurance Yojana (UDAY) is a Government of India Scheme aimed at financial turnaround and revival of state power distribution companies.

should carry out reconciliation of differences. The position in this regard as of 31 March 2018 is given below:

**Table 4.1.4: Variation between Finance Accounts and records of PSUs**

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs <sup>10</sup>	Difference
Equity	2,519.82	2,501.78	18.04
Loans	Not available <sup>11</sup>	171.55	Cannot ascertain
Guarantees	775.19	768.99	6.20

Source: As per the Finance Accounts and information furnished by the Companies/Corporations.

From the table above, it can be seen that there were unreconciled differences in the figures of equity (₹ 18.04 crore) and guarantees outstanding (₹ 6.20 crore) as per the two sets of records. The differences in equity occurred in respect of seven PSUs<sup>12</sup> and some of the differences were pending reconciliation since 2012-13. Though the Principal Secretary, Finance Department, Government of Meghalaya as well as the management of the PSUs concerned were apprised regularly about the differences and the need for early reconciliation was impressed upon, no significant progress was noticed in this regard. A core committee comprising the officers from Principal Accountant General (Audit) and Principal Accountant General (Accounts & Entitlements) was also formed to reconcile the above differences. The core committee in a meeting held (April 2018) with the representatives of four power sector companies<sup>13</sup>, which involved the major differences, had impressed upon the entities concerned to provide the requisite documents in support of investment made by State Government so as to incorporate in the Finance Accounts.

#### 4.1.7 Arrears in finalisation of accounts

The financial statements of the companies are required to be finalised within six months after the end of the financial year *i.e.* by September end in accordance with the provisions of Section 96(1) of the Act. Failure to do so may attract penal provisions under Section 99 of the Act. Similarly, in case of Statutory Corporations, their accounts are to be finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

Table below provides the details of progress made by the working PSUs in finalisation of their annual accounts as on 30 September 2018.

<sup>10</sup> Information provided by PSUs and includes only the investment made by State Government.

<sup>11</sup> State Government's loans to PSUs are extended through the Government Departments. Hence, the PSU-wise figures of State Government loans are not available in the Finance Accounts.

<sup>12</sup> Forest Development Corporation Limited, Meghalaya Industrial Development Corporation Limited, Meghalaya Energy Corporation Limited, Meghalaya Handloom & Handicraft Development Corporation Limited, Meghalaya Basin Management Agency, Meghalaya Transport Corporation and Meghalaya Infrastructure Development & Finance Corporation Limited.

<sup>13</sup> Meghalaya Energy Corporation Limited, Meghalaya Power Generation Corporation Limited, Meghalaya Power Distribution Corporation Limited and Meghalaya Power Transmission Corporation Limited.

**Table 4.1.5: Position relating to finalisation of accounts of working PSUs**

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1.	Number of Working PSUs	15	15	16	16	16
2.	Number of accounts finalised during the year	9	13	35	13	30
	<b>Number of accounts in arrears</b>	<b>58</b>	<b>60</b>	<b>43<sup>14</sup></b>	<b>46</b>	<b>32</b>
3.	Extent of arrears (numbers in years)	1 to 15	1 to 16	1 to 14	1 to 11	1 to 7

As can be seen from the table above, the number of accounts in arrears was highest (60 accounts) during 2014-15. The situation has improved significantly thereafter, on account of increase in the number of accounts finalised by the working PSUs during 2015-16 and 2017-18. As on 30 September 2018, total 32 accounts of 16 working PSUs were in arrears for 1 to 7 years. Out of the total arrears of 32 accounts for 2017-18, 17 accounts pertained to 4 PSUs<sup>15</sup>.

Timely finalisation of accounts is important for the State Government to assess the financial health of the PSUs, avoid financial misappropriation and mismanagement, ensure safety of Government equity, *etc.* Persistent delay in finalisation of accounts is fraught with the risk of fraud and leakage of public money going undetected apart from violation of the provision of the Companies Act, 2013. The Principal Accountant General (Audit) has been taking up the matter regularly with the Chief Secretary of Meghalaya and the administrative departments concerned for liquidating the arrears of accounts of PSUs.

#### **4.1.8 Investment made by State Government in PSUs**

State Government invested an amount aggregating ₹ 243.80 crore in 13 PSUs {equity: ₹ 124.82 crore (4 PSUs), loans: ₹ 6.40 crore (4 PSUs) and grants ₹ 112.58 crore (8 PSUs)} during the years for which the accounts of these PSUs had not been finalised as detailed in **Appendix 4.1.1**. In the absence of finalisation of accounts and their subsequent audit, it cannot be verified if the investments made and the expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not.

In addition to the above, there were arrears of 11 accounts (2007-08 to 2017-18) as on 30 September 2018, in respect of the sole non-working PSU, which became defunct in 2006 and had been in the process of liquidation since June 2011. The State Government needs to expedite the liquidation process to wind up the above mentioned non-working PSU.

The Government may consider setting up a special cell under the Finance Department to oversee the expeditious clearance of arrears of accounts of PSUs. Where there is lack of staff expertise, Government may consider outsourcing the work relating to

<sup>14</sup> Including two years' accounts of a newly added Company at serial no. A-5 of **Appendix 4.1.2** which were pending finalisation.

<sup>15</sup> Forest Development Corporation Limited (7 accounts); Meghalaya Transport Corporation (4 accounts); Meghalaya Tourism Corporation Limited (3 accounts); and, Meghalaya Handloom & Handicrafts Development Corporation Limited (3 accounts).

preparation of accounts and take punitive action against financial heads responsible for arrears of accounts.

#### 4.1.9 Performance of PSUs as per their latest finalised accounts

The financial position and working results of working Government Companies and Statutory Corporations are detailed in **Appendix 4.1.2**. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. **Table 4.1.6** below provides the details of working PSUs turnover and State GDP for a period of five years ending 2017-18.

**Table 4.1.6: Details of working PSUs turnover *vis-à-vis* State GDP**

Particulars	₹ in crore)				
	2013-14	2014-15	2015-16	2016-17	2017-18
Turnover <sup>16</sup>	430.20	640.05	935.69	1,108.66	1,136.88
State GDP <sup>17</sup>	22,938.00	23,235.00	25,767.00	28,445.76	31,636.42
Percentage of Turnover to State GDP	1.88	2.75	3.63	3.90	3.59

As can be seen from the above table, there was an overall increase of ₹ 706.68 crore in the PSUs turnover during the last five years from ₹ 430.20 crore (2013-14) to ₹ 1,136.88 crore (2017-18). This increase was mainly on account of overall growth of ₹ 495.88 crore in the turnover of four power sector companies<sup>18</sup> from ₹ 529.26 crore (2014-15) to ₹ 1025.14 crore (2017-18). Despite this increase, the overall percentage of PSUs turnover to State GDP reversed the increasing trend and dropped from 3.90 per cent (2016-17) to 3.59 per cent (2017-18) indicating decline in the contribution of PSUs turnover to State GDP.

##### 4.1.9.1 Erosion of capital due to losses

The paid-up capital and accumulated losses of 16 working PSUs as per their latest finalised accounts as on 30 September 2018 were ₹ 4,395.95 crore and ₹ 2,164.62 crore respectively (**Appendix 4.1.2**). Analysis of investment and accumulated losses of these PSUs revealed that the accumulated losses (₹ 1,797.29 crore) of nine<sup>19</sup> working PSUs had completely eroded their paid-up capital (₹ 1,077.58 crore). Accumulation of huge losses by these PSUs had eroded public wealth, which is a cause of serious concern.

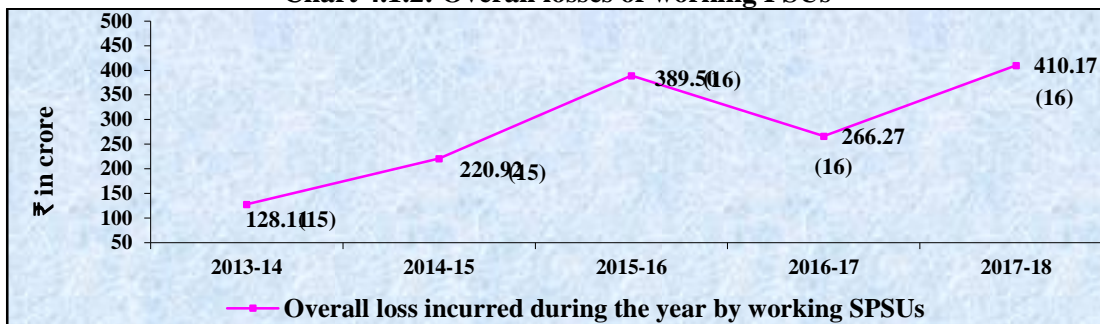
The overall position of losses incurred by the working PSUs during 2013-14 to 2017-18 as per their latest finalised accounts as on 30 September of the respective year has been depicted below in **Chart 4.1.2**.

<sup>16</sup> Turnover of working PSUs as per the latest finalised accounts as on 30 September of the respective year.

<sup>17</sup> Source: Ministry of Statistics & Programme Implementation, Government of India.

<sup>18</sup> Meghalaya Energy Corporation Limited, Meghalaya Power Generation Corporation Limited, Meghalaya Power Distribution Corporation Limited and Meghalaya Power Transmission Corporation Limited.

<sup>19</sup> Sl. No. A1, A2, A4, A6, A7, A10, A12, A13 & B15 of **Appendix 4.1.2**.

**Chart 4.1.2: Overall losses of working PSUs**


(Figures in brackets show the number of working PSUs in respective years)

From the **Chart** above, it can be observed that during four out of five years (excepting 2016-17), the overall losses of working PSUs had shown an increasing trend. The highest losses of the working PSUs (in last five years) were incurred during 2015-16 (₹ 389.50 crore) and 2017-18 (₹ 410.17 crore), which were contributed by the power sector companies to the extent of 94 per cent (₹ 365.30 crore) and 90 per cent (₹ 369.72 crore) respectively. There was reduction in the losses of power sector companies during 2016-17 from ₹ 365.30 crore (2015-16) to ₹ 234.92 crore (2016-17), which had corresponding impact of reducing the overall losses of working PSUs from ₹ 389.50 crore (2015-16) to ₹ 266.27 crore (2016-17).

During 2017-18, out of 16 working PSUs, 4 PSUs earned profits of ₹ 8.94 crore while 11 PSUs incurred losses of ₹ 419.11 crore. The remaining one PSU (Meghalaya Basin Management Agency) was functioning on 'no profit no loss' basis. The main contributors to losses were Meghalaya Power Distribution Corporation Limited (₹ 343.21 crore), Meghalaya Power Generation Corporation Limited (₹ 19.88 crore), Meghalaya Energy Corporation Limited (₹ 14.78 crore) and Mawmluh Cherra Cements Limited (₹ 32.20 crore). The profit was mainly contributed by Meghalaya Power Transmission Corporation Limited (₹ 8.15 crore).

#### 4.1.9.2 Key parameters

Some of the key parameters of PSUs performance as per their latest finalised accounts as on 30 September of the respective year are given below.

**Table 4.1.7: Key Parameters of PSUs**

Particulars	(₹ in crore)				
	2013-14	2014-15	2015-16	2016-17	2017-18
Return on Capital Employed ( <i>per cent</i> )*	(-) 4.09	(-) 6.83	(-) 4.80	(-) 3.30	(-) 6.42
Debt	1,126.21	1,310.44	1,231.99	1,418.51	1,756.87
Turnover <sup>20</sup>	430.20	640.05	935.69	1,108.66	1,136.90
Debt/ Turnover Ratio	2.62:1	2.05:1	1.32:1	1.28:1	1.55:1
Interest Payments	31.52	41.98	137.13	139.90	154.94
Accumulated losses	358.41	576.93	1,113.47	1,533.80	2,182.97

\*Negative figures in all the five years under reference.

From the above table, it can be seen that during the period 2013-18, the return on capital employed was negative in all the years.

<sup>20</sup> Turnover of working PSUs as per the latest finalised accounts as on 30 September of the respective year.



A low debt-to-turnover ratio (DTR) demonstrates a good balance between debt and income. Conversely, a high DTR can signal too much of debt against the income of PSUs from core activities. Thus, the PSUs having lower DTR are more likely to successfully manage their debt servicing and repayments. As can be seen from the above table, there was an overall improvement in the DTR in the last five years from 2.62:1 (2013-14) to 1.55:1 (2017-18), which indicated a positive position of PSUs to service their long-term debts. The improvement in DTR was mainly due to consistent growth in PSU-turnover, which increased by 164 *per cent* during last five years from ₹ 430.20 crore (2013-14) to ₹ 1,136.90 crore (2017-18).

During the period of five years, the PSUs debt has also increased by ₹ 630.66 crore (56 *per cent*) from ₹ 1,126.21 crore (2013-14) to ₹ 1,756.87 crore (2017-18). This had correspondingly increased the interest expenditure of PSUs from ₹ 31.52 crore (2013-14) to ₹ 154.94 crore (2017-18), which was also one of the factors contributing towards increase in the accumulated losses of PSUs during the five years.

There was no recorded information about the existence of any specific policy of the State Government on payment of minimum dividend by the PSUs. As per their latest finalised accounts as on 30 September 2018, four PSUs<sup>21</sup> earned aggregate profit of ₹ 8.94 crore. None of these PSUs, however, has declared any dividend during 2017-18.

#### **4.1.10 Impact of Audit Comments on Annual Accounts of PSUs**

During October 2017 to September 2018, 12 working companies have forwarded 29 audited accounts to the Principal Accountant General (Audit). Of these, 19 accounts of 10 Companies were selected for supplementary audit while 10 accounts of three<sup>22</sup> Companies were issued 'non-review certificates'. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of the comments of statutory auditors and CAG are given below:

<sup>21</sup> Meghalaya Power Transmission Corporation Limited, Meghalaya Government Construction Corporation Limited, Meghalaya Mineral Development Corporation Limited and Meghalaya State Warehousing Corporation Limited.

<sup>22</sup> Meghalaya Infrastructure Development and Finance Corporation Limited, Meghalaya Handloom & Handicraft Development Corporation Limited and Meghalaya Basin Management Agency.

**Table 4.1.8: Impact of audit comments on working Companies**

(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		207-18	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	4	3.31	1	1.48	2	0.13
2.	Increase in loss	16	95.69	1	1.00	7	61.31
3.	Non-disclosure of material facts	8	1,877.13	7	4,736.04	12	332.52
4.	Errors of classification	5	572.68	4	164.51	8	570.28

Source: As per latest finalised annual accounts of PSUs.

During the year, the statutory auditors had qualified the accounts of all 12 Companies (29 accounts). In addition, CAG has also issued qualified certificate on all 19 accounts of 10 companies selected for supplementary audit. No adverse certificates or disclaimers were issued by the statutory auditors or CAG on any of the accounts during the year. The compliance of companies with the Accounting Standards (AS) remained inadequate as there were 81 instances of non-compliance with AS relating to 24 accounts of 9 companies.