Chapter - I

1. Functioning of Power Sector PSUs

Introduction

1.1. The Power Sector PSUs play an important role in the economy of the State. Apart from providing a 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 turnover of Power Sector PSUs to GDP of the State shows the extent of activities of PSUs in the State's economy. The table below provides the details of turnover of the Power Sector PSUs and GDP of the State for a period of five years ending March 2019:

Table No. 1.1: Details of turnover of Power Sector PSUs *vis-a-vis* GDP of the State

(₹ in crore)

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1	Turnover of PSUs	34,887.37	38,372.81	41,284.65	46,311.34	50,719.75
2	GDP of State	9,13,923.00	10,45,182.00	11,55,912.00	13,25,443.00	14,08,112.00
3	Percentage of Turnover to GDP of State	3.82	3.67	3.57	3.49	3.60

The turnover of Power Sector PSUs recorded continuous increase over the previous years, which varied from 7.59 *per cent* to 12.18 *per cent* during 2014-15 to 2018-19, while increase in GDP of the State varied from 6.24 *per cent* to 14.67 *per cent* during the same period. The compounded annual growth of turnover of Power Sector PSUs recorded 9.81 *per cent*[8] as against that of GDP of 11.41 *per cent*[9] during last five years. This resulted in decrease in share of turnover of the Power Sector PSUs to the GDP from 3.82 *per cent* in 2014-15 to 3.60 *per cent* in 2018-19.

Formation of Power Sector PSUs

1.2. The functions of generation, transmission and distribution of electricity in the State, which were under the control of the erstwhile Government of Mysore, Electrical Department, were transferred to Karnataka Electricity Board (KEB) after its formation with effect from 1 October 1957. Karnataka Power Corporation Limited (KPCL), which came into existence in July 1970 as a fully owned State Public Sector Undertaking, has been the mainstay of power generation in the State through its hydro, thermal and renewable energy stations. Government of Karnataka (GoK) also took the initiative (1995) to form an exclusive entity called Karnataka Renewable Energy Development Limited (KREDL) for promoting renewable energy and energy conservation in the State.

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[8] Calculated as $[1(50,719.75/34,887.37)^{1/1\times4} - 1] \times 100$ ($r=n[(A/P)^{1/nt}-1]$ where r=rate of interest, n= compounding term, A=principal *plus* Interest, P= principal and t=compounding period).

[9] Calculated as $[1(14,08,112/9,13,923)^{1/1\times4} - 1] \times 100$.

Later in January 1997, GoK pronounced its general policy on power reforms which envisaged setting up of an Independent Regulatory Commission, reorganisation of KEB by separating generation, transmission and distribution functions, followed by reorganisation of the distribution function into several economically viable units. In pursuance to the said policy, Karnataka Electricity Reforms Act, 1999 was brought into effect in June 1999 enabling establishment of Karnataka Electricity Regulatory Commission (KERC) and formation (July 1999/August 1999) of two new companies under the Companies Act, 1956 by carving out the functions of KEB *viz*. Karnataka Power Transmission Corporation Limited (KPTCL) for carrying out transmission and distribution functions and Visvesvaraya Vidyuth Nigama Limited (VVNL) for generation functions.

The GoK, in order to undertake further reforms and restructuring measures in the power sector, came out (January 2001) with a Power Policy Statement wherein it was decided *inter-alia* to restructure KPTCL into several utilities and privatise them thereafter to promote the development of an efficient, commercially viable and competitive power supply industry, which can provide reliable quality supply at competitive prices to various classes of consumers in the State. In this direction, four independent distribution companies covering different regions in the State were formed under the Companies Act, 1956, which became functional with effect from 1 June 2002 *viz*. Bengaluru Electricity Supply Company Limited (BESCOM), Mangalore Electricity Supply Company Limited (MESCOM), Hubli Electricity Supply Company Limited (HESCOM) and Gulbarga Electricity Supply Company Limited (GESCOM). The Fifth Distribution Company - Chamundeshwari Electricity Supply Corporation Limited (CESC) was carved out of MESCOM with effect from 1 January 2005. Further, VVNL, which was formed to carry out the generation functions of erstwhile KEB, was amalgamated (April 2006) with KPCL.

The GoK had also set up (August 2007) a Special Purpose Vehicle *viz.* Power Company of Karnataka Limited (PCKL) to supplement the efforts of KPCL in generation capacity addition in the State by way of setting up of new power projects through bidding process, and long term procurement of power.

The State Government provides financial support in the form of equity, loan, grant and subsidy to these Power Sector PSUs from time to time. The status of investment in the power sector by the State Government and its Present Value and performance of Power Sector PSUs are discussed in the subsequent paragraphs.

Investment in Power Sector PSUs

1.3. As on 31 March 2019, there were 11 Power Sector PSUs (including one subsidiary - KPC Gas Power Corporation Private Limited, one Joint Venture - Raichur Power Corporation Limited and one Associate Company -PCKL). Details of investment made in these 11 Power Sector PSUs in the shape of equity and long term loans upto 31 March 2019 are detailed in ***Appendix-1(a)*.** As on 31 March 2019, the activity-wise investment (equity and long term loans) in 11 Power Sector PSUs was ₹ 55,573.93 crore as detailed in the following table.

Table No.1.2: Activity-wise investment in Power Sector PSUs

(₹ in crore)

Sl. No.	Activity	Number of PSUs	Investment[10]		
			Equity	Long term loans	Total
1	Power Generation[11]	3	7,419.81	17,668.53	25,088.34
2	Power Transmission[12]	1	2,182.32	5,991.74	8,174.06
3	Power Distribution[13]	5	5,614.42	12,909.76	18,524.18
4	Others[14]	2	20.55	3,766.80	3,787.35
	Total	**11**	**15,237.10**	**40,336.83**	**55,573.93**

As seen from the above, the total investment consisted of 27.42 *per cent* of equity and 72.58 *per cent* of long-term loans. The total Long term loans (₹ 40,336.83 crore) advanced constituted 4.81 *per cent* (₹ 1,938.07 crore) by the State Government, 4.24 *per cent* (₹ 1,710.95 crore) by the Central Government and 90.95 *per cent* (₹ 36,687.81 crore) by other financial institutions.

Budgetary support to Power Sector PSUs

1.4. The State Government provided financial support to Power Sector PSUs in various forms through the annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies, loans written off and interest waived in respect of Power Sector PSUs for the three years ended 2018-19 are given in the following table:

Table No.1.3: Details regarding budgetary support to Power Sector PSUs by State Government

(₹ in crore)

Sl. No.	Particulars	2016-17		2017-18		2018-19	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity capital	5	871.80	5	805.77	5	580.23
2	Loans given	1	84.01	1	7.10	1	1,500.00
3	Grants/Subsidy provided	4	6,567.47	4	3,628.12	4	5,281.41
4	**Total outgo**		**7,523.28**		**4,440.99**		**7,361.64**
5	Waiver of loans and interest	-	-	-	-	1	28.47
6	Guarantees issued	1	4.03	3	2,331.73	2	1,473.64
7	Guarantee Commitment	5	490.17	5	2,791.17[15]	5	4,090.03

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[10] Investment includes investment by State Government, Central Government and Holding Companies.

[11] Karnataka Power Corporation Limited, KPC Gas Power Corporation Private Limited (KPCGPCL-a fully owned subsidiary of KPCL), Raichur Power Corporation Limited (a joint venture between KPCL and Bharat Heavy Electricals Limited).

[12] Karnataka Power Transmission Corporation Limited.

[13] BESCOM, CESC, GESCOM, HESCOM, MESCOM.

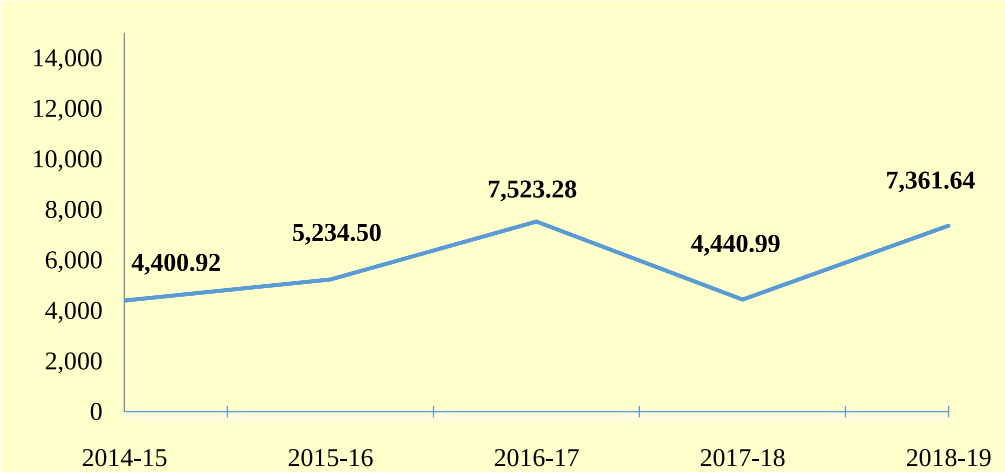
[14] Karnataka Renewable Energy Development Limited, Power Company of Karnataka Limited (an associate of Distribution Companies).

[15] Includes ₹ 2,300 crore pertaining to PCKL, as per the revised information received during 2018-19.

The details regarding budgetary outgo towards equity, loans, grants and subsidies for five years ending 2018-19 are given in the following Chart:

Chart No.1.1: **Budgetary outgo towards equity, loans, grants and subsidies**

(₹ in crore)



There was an increase in budgetary support provided in the form of equity, loans, grants and subsidies by the State Government over a period of five years ending 2018-19 except during 2017-18. The budgetary support was increased by 65.77 *per cent* during 2018-19 as compared to previous year (2017-18). The increase in budgetary support during 2018-19 was on account of sanction of grant /subsidy of ₹ 3,229.97 crore and loan of ₹ 1,500 crore to Hubli Electricity Supply Company Limited. The budgetary assistance of ₹ 7,361.64 crore received during 2018-19 included equity of ₹ 580.23 crore, loans of ₹ 1,500 crore and grants and subsidy of ₹ 5,281.41 crore.

Status of Guarantees for loan and guarantee commission outstanding

1.5. In order to enable Power Sector PSUs to obtain financial assistance from Banks and Financial Institutions, the State Government gives guarantee under Karnataka Ceiling on Government Guarantees Act, 1999 (as amended by Act 15 of 2002). The Government charges a minimum of one *per cent* as guarantee commission, which cannot be waived under any circumstances. The guarantee commitment of the State Government has increased over a period of three years from ₹ 490.17 crore in 2016-17 to ₹ 4,090.03 crore in 2018-19. The Guarantee fee of ₹ 2.81 crore, which was outstanding during 2018-19, has been paid by five[16] Power Sector PSUs.

Reconciliation with Finance Accounts

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

[16] KPCL, BESCOM, MESCOM, HESCOM and GESCOM. Guarantee Commission payable by PCKL was borne by the Distribution Companies (ESCOMs).

differences. The position in this regard as on 31 March 2019 is given in the following table:

Table No.1.4: **Equity, loans and guarantees outstanding as per Finance Accounts *vis-a-vis* records of Power Sector PSUs**

(₹ in crore)

Sl. No.	**Outstanding in respect of**	**Amount as per Finance Accounts^**	**Amount as per records of PSUs**	**Difference**
	(1)	**(2)**	**(3)**	**(4 = 2-3)**
1	Equity	10,771.74	12,566.69	(-) 1,794.95
2	Loans	2,386.17	1,938.07	448.10
3	Guarantees	4,202.64	4,090.03	112.61

^**Source:** Finance Accounts Statement no.18 (Loans), 19 (Equity) and 20 (Guarantees)

There were differences in respect of nine Power Sector PSUs as detailed in ***Appendix – 2(a)***. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner and take appropriate action for rectifying/adjusting the differences.

Submission of accounts by Power Sector PSUs

1.7. The financial statements of the Companies for every financial year are required to be finalised within six months from the end of the relevant financial year, *i.e*. by end of September, in accordance with the provisions of Section 96(1) of the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of the Act.

The following table provides the details of progress made by Power Sector PSUs in finalisation of accounts by 30 September 2019:

Table No.1.5: **Position relating to finalisation of accounts of Power Sector PSUs**

Sl. No.	**Particulars**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
1	Number of PSUs	11	11	11	11	11
2	Total number of accounts finalised during the year	14	9	6	17	11
	Number of accounts finalised relating to current year	10	8	3	9	9
	Number of accounts finalised relating to previous years	4	1	3	8	2
3	Number of accounts in arrears	1	3	8	2	2
4	Number of PSUs with arrears in accounts	1	3	8	2	2
5	Extent of arrears (number in years)	1 year	1 year	1 year	1 year	1 year

During 2018-19, 10 companies finalised 11 accounts and two accounts from two PSUs[17] were in arrears.

1.8. The State Government invested ₹ 107.20 crore in one out of two power Sector PSUs during the year, for which accounts were not finalised as detailed in ***Appendix-3*** (Sl. No. 40). In the absence of finalisation of accounts and their

[17] KPTCL and GESCOM (Sl. No. of 39 & 40 ***Appendix-3***).

subsequent audit, it could not be ensured whether the investments and expenditure incurred were properly accounted for and the purpose for which the amount was invested was achieved or not. Thus, the Government's investment in such PSUs remained outside the control of the State Legislature.

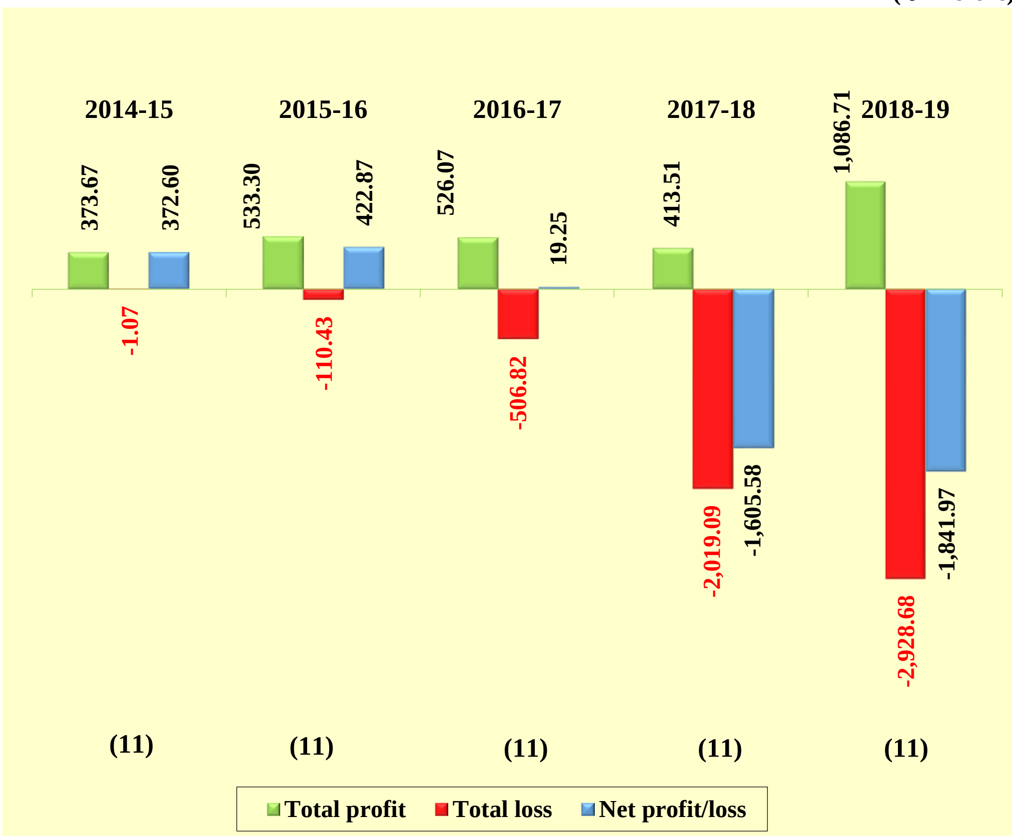
Performance of Power Sector PSUs as per their latest finalised accounts

1.9. The financial position and working results of Power Sector PSUs are detailed in ***Appendix-4(a)*** as per their latest finalised accounts as of 30 September 2019.

Overall profit (losses)[18] earned (incurred) by the Power Sector PSUs of the State during 2014-15 to 2018-19 are given in the following bar Chart:

Chart No.1.2: Profit/Loss of Power Sector PSUs

(₹ in crore)



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

As per their latest finalised accounts, out of the 11 Power Sector PSUs, five[19] earned profit of ₹ 1,086.71 crore and six[20] incurred loss of ₹ 2,928.68 crore.

The major contributors to profit were Hubli Electricity Supply Company Limited (₹ 690 crore) and Karnataka Power Transmission Corporation Limited (₹ 212.14 crore). Huge losses were incurred by Raichur Power Corporation Limited

[18] Profit/Losses during 2017-18 and 2018-19 were arrived after considering Other Comprehensive Income (OCI).
[19] One accounts related to 2017-18 and four accounts related to 2018-19.
[20] One accounts related to 2017-18 and five accounts related to 2018-19.

(₹ 1,251.30 crore), Karnataka Power Corporation Limited (₹ 992.06 crore), Gulbarga Electricity Supply Company Limited (₹ 472.63 crore) and Chamundeshwari Electricity Supply Corporation Limited (₹ 209.35 crore).

The Power Sector PSUs showed net aggregate profits of ₹ 372.60 crore, ₹ 422.87 crore and ₹ 19.25 crore during 2014-15, 2015-16 and 2016-17 respectively and incurred net aggregate loss of ₹ 1,605.58 crore and ₹ 1,841.97 crore during 2017-18 and 2018-19 respectively.

The position of Power Sector PSUs which earned profit/incurred loss during 2014-15 to 2018-19 is given in the following table:

Table No. 1.6: **Power Sector PSUs which earned profit/incurred loss**

Sl. No.	Year	Total PSUs in Power Sector[21]	Number of PSUs which earned profits during the year	Number of PSUs which incurred loss during the year
1	2014-15	10	9	1
2	2015-16	10	8	2
3	2016-17	10	7	3
4	2017-18	11	6	5
5	2018-19	11	5	6

Return on State Government funds infused in Power Sector PSUs

1.10. 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 the company's earnings before interest and taxes by capital employed. Return on Equity is a measure of performance calculated by dividing net profit by shareholders' funds. These parameters are discussed in the subsequent paragraphs.

Return on Investment

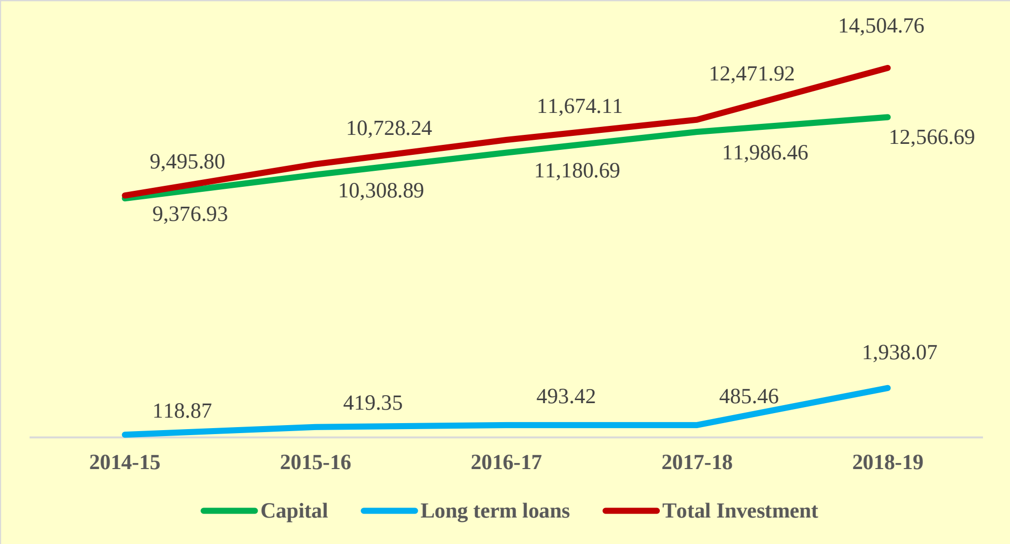
1.10.1. The PSUs are expected to yield reasonable return on investment made by Government in the PSUs. The amount of investment in the eight Power Sector PSUs as on 31 March 2019 was ₹ 14,504.76 crore consisting of ₹ 12,566.69 crore as equity and ₹ 1,938.07 crore as long term loans by the State Government.

The investment grew by 52.75 *per cent* from ₹ 9,495.80 crore in 2014-15 to ₹ 14,504.76 crore in 2018-19 as shown in the following Chart:

[21] During 2014-15 to 2016-17, RPCL had not prepared Profit and Loss account, as it was under project construction period. Hence, it was not considered for total PSUs.

Chart No.1.3: Investment in Power Sector PSUs by State Government

(₹ in crore)



Return on the basis of historical cost of investment

1.10.2. Out of 11 Power Sector PSUs of the State, the State Government infused funds in the form of equity, interest free loans and grants/ subsidies in eight Power Sector PSUs only. The State Government did not infuse any direct funds in the other three[22] PSUs till 2018-19 and the equity of these PSUs was contributed by the concerned holding companies.

The investment of the State Government in these eight Power Sector PSUs was arrived at by considering the equity (initial equity net of accumulated losses, if any *plus* the equity infused during the latter years), adding interest free loans and deducting interest free loans which were later converted into equity, if any, for each year.

Out of the total long term loans, only interest free loans have been considered as investment of the Government in these PSUs as the interest free loans given to the PSUs are akin to equity since they have not been repaid and parts of the loans have been converted into equity subsequent to sanctions of the loans. Further, the funds made available in the form of the grants/subsidies have not been considered as investment since they do not qualify to be considered as investment.

As on 31 March 2019, the investment of the State Government in eight Power Sector PSUs was ₹ 14,504.76 crore consisting of equity of ₹ 12,566.69 crore and long term loans of ₹ 1,938.07 crore. Out of the released long term loans, ₹ 0.94 crore was interest free loan. Thus, considering the equity of ₹ 12,566.69 crore and interest free loan of ₹ 0.94 crore as investment of the State Government in these eight Power Sector PSUs, the investment on the basis of historical cost at the end of 2018-19 stood at ₹ 12,567.63 crore.

[22] KPCGPCL, RPCL and PCKL.

The return on investment of the State Government on historical cost basis for the period 2014-15 to 2018-19 is given in the following table:

Table No. 1.7: Return on State Government Investment on historical cost basis

Sl. No.	Year	Total earnings/ Losses (-)[23] (₹ in crore)	Equity[24] and Interest Free Loans as at the end of the year (₹ in crore)	Return on Investment (*per cent*)
1	2014-15	372.62	9,377.87	3.97
2	2015-16	422.64	10,309.83	4.10
3	2016-17	21.29	11,181.63	0.19
4	2017-18	-39.61	11,987.40	-0.33
5	2018-19	-587.33	12,567.63	-4.67

The return on investment declined from 3.97 *per cent* in 2014-15 to 0.19 *per cent* in 2016-17 and was negative during 2017-18 and 2018-19. The main reasons for negative return during 2017-18 and 2018-19 were due to losses incurred by Gulbarga Electricity Supply Company Limited in 2017-18 and Karnataka Power Corporation Limited in 2018-19.

Return on the basis of Present Value of Investment

1.10.3. In view of the significant investment by the Government in the eight Power Sector PSUs, 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 of money. The Present Value (PV) of the Government investments has been computed to assess the rate of return on the present value of investments of the State Government in the Power Sector PSUs as compared to the 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 2019, the past investments/ year-wise funds infused by the State Government in the Power Sector 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 respective years.

Therefore, PV was computed where funds had been infused by the State Government in the shape of equity and interest free loan upto 2009-10 and from 2010-11 to 2018-19. The PV of the State Government funds infused in these PSUs was computed on the basis of the following assumptions:

- Interest free loans have been considered as investment infusion by the State Government as no interest on such loans has been paid by the Power Sector PSUs. Further, in those cases where interest free loans given to the PSUs were later converted into equity, if any, 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

[23] As per latest finalised accounts.
[24] Equity includes share deposit/share application money pending allotment.

available in the form of grants/subsidies have not been reckoned as investment, as grants and subsidies were not provided for operational and administrative expenditure and do not qualify to be considered as investment.

- The average rate of interest on Government borrowings for the financial year concerned was adopted as the compounded rate for arriving at the PV since it represents the cost incurred by the Government towards investment of funds for the year and was, therefore, considered as the minimum expected rate of return on investments made by the Government.

1.10.4. The Company-wise position of State Government investment in the eight Power Sector PSUs in the form of equity and interest free loans upto 2009-10 and from 2010-11 to 2018-19 is indicated in **Appendix – 5(a).** The consolidated position of the PV of the State Government funds relating to the eight Power Sector PSUs is indicated in the following table:

Table No. 1.8: **Year wise details of funds infused by the State Government and PV of Government funds from 2010-11 to 2018-19**

(₹ in crore)

Sl. No.	Year	PV 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	Total investment at the end of the year	Average rate of interest on Government borrowings[25] (in *per cent*)	PV of total investment at the end of year	Minimum expected return to recover cost of funds for the year	Total earnings for the year[26]
(a)	**(b)**	**(c)**	**(d)**	**(e)**	**(f)=(c+d+e)**	**(g)**	**(h)= f×(1+g/100)**	**(i)= f×(g/100)**	**(j)**
1	Upto 2009-10	-	4,536.03	-	4,536.03	6.7	4,839.94	303.91	
2	2010-11	4,839.94	1,174.20	0.94	6,015.08	6.4	6,400.05	384.97	593.17
3	2011-12	6,400.05	1,026.29	-	7,426.34	6.6	7,916.48	490.14	261.86
4	2012-13	7,916.48	1,099.93	-	9,016.41	6.6	9,611.49	595.08	255.66
5	2013-14	9,611.49	825.31	-	10,436.80	6.2	11,083.88	647.08	-534.58
6	2014-15	11,083.88	715.17	-	11,799.05	6.5	12,565.99	766.94	372.62
7	2015-16	12,565.99	931.96	-	13,497.95	6.5	14,375.32	877.37	422.64
8	2016-17	14,375.32	871.80	-	15,247.12	6.3	16,207.69	960.57	21.29
9	2017-18	16,207.69	805.77	-	17,013.46	7.7	18,323.50	1,310.04	-39.61
10	2018-19	18,323.50	580.23	-	18,903.73	8.2	20,453.83	1,550.11	-587.33
	Total		**12,566.69**	**0.94**					

The balance of investment by the State Government in these eight PSUs at the end of the year increased to ₹ 12,567.63 crore in 2018-19 from ₹ 4,536.03 crore as at 31 March 2010, as the State Government infused further funds in the form of equity (₹ 8,030.66 crore) and interest free loans (₹ 0.94 crore) during the

[25] The average rate of interest on borrowing by the State Government is adopted as per the Audit Reports of the C&AG of India on State Finances, GoK.

[26] Total Earning for the year depicts total of net earnings (profit/loss) as per their latest finalised accounts during the respective years relating to those eight Power Sector PSUs where funds were infused by State Government.

period 2010-11 to 2018-19. The PV of funds infused by the State Government upto 31 March 2019 worked out to ₹ 20,453.83 crore.

It could also be seen that total earnings for the year relating to these PSUs was negative during 2013-14, 2017-18 and 2018-19 which indicates that these PSUs did not recover the cost of funds to the Government. Further, the positive total earning in the remaining years except 2010-11 remained substantially below the minimum expected return towards the investment made in these Power Sector PSUs.

1.10.5. The return on State Government funds (at PV) infused in the Power Sector PSUs indicates the profitability and the efficiency of the PSUs. The return on State Government funds is worked out by dividing the total earnings[27] of the eight Power Sector PSUs with the PV of the State Government investments. During 2014-15 to 2018-19, these eight PSUs had a positive return on investment only during the years 2014-15, 2015-16 and 2016-17. Hence, the return on investment has been calculated and depicted on the basis of PV for these three years.

A comparison of returns on investment as per historical cost and PV of such investment during 2014-15 to 2016-17 when there were positive earnings in these eight Power Sector PSUs is given in the following table:

Table No. 1.9: Return on State Government Funds

(₹ in crore)

Sl. No.	Year	Total earnings	Investment in the form of Equity and Interest Free Loans on historical cost	Return on investment on the basis of historical cost (*per cent*)	PV of the State Government funds at the end of the year	Return on investments on the basis of PV (*per cent*)
1	2014-15	372.62	9,377.87	3.97	12,565.99	2.97
2	2015-16	422.64	10,309.83	4.10	14,375.32	2.94
3	2016-17	21.29	11,181.63	0.19	16,207.69	0.13

The returns based on PV were less than the returns based on historical cost during 2014-15 to 2016-17. The returns based on historical cost varied from 0.19 *per cent* to 4.10 *per cent* during 2014-15 to 2016-17, while the returns based on PV varied from 0.13 *per cent* to 2.97 *per cent* during the same period. Further, the Power Sector PSUs incurred overall losses of ₹ 39.61 crore during 2017-18 and ₹ 587.33 crore during 2018-19.

Erosion of Net worth

1.10.6. Net worth 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. The net worth[28] of all the eight Power Sector

[27] This includes net profit/losses relating to the eight Power Sector PSUs where the funds have been infused by the State Government as per their latest finalised accounts.
[28] Paid up capital *plus* Free reserves *less* Accumulated losses.

PSUs, where the GoK had infused funds during 2014-15 to 2018-19 as per their latest finalised accounts is indicated in the table below:

Table No. 1.10: Net worth of Power Sector PSUs during 2014-15 to 2018-19

(₹ in crore)

Sl. No.	Year	Paid up Capital	Accumulated Profit (+)/ Loss (-) at end of the year	Net worth
1	2014-15	8,317.67	5,256.71	13,574.38
2	2015-16	8,756.79	2,068.61	10,825.40
3	2016-17	9,075.46	1,622.15	10,697.61
4	2017-18	10,565.94	2,903.76	13,469.70
5	2018-19	11,538.58	3,312.77	14,851.35

As seen from the table above, the overall net worth of eight Power Sector PSUs was *positive* during the last five years ended 2018-19. However, the net worth of two[29] out of eight PSUs was eroded as at 31 March 2019.

Dividend Payout

1.10.7. The State Government formulated (May 2003) guidelines according to which Government nominees on the Boards of Public Enterprises or Joint Ventures, where the State Government had equity holding, should insist on the declaration of minimum dividend of 20 *per cent* on shareholding. In case payment of dividend to this extent was not possible, dividend payout must constitute at least 20 *per cent* of profit after tax. Dividend Payout relating to eight Power Sector PSUs during the period 2014-15 to 2018-19 is shown in the table below:

Table No. 1.11: Dividend Payout during 2014-15 to 2018-19

(₹ in crore)

Sl. No.	Year	Total PSUs where equity infused by GoK		PSUs which earned profit during the year		PSUs which declared dividend during the year		Dividend payment as a percentage of Paid up capital
		Number of PSUs	Paid up capital	Number of PSUs	Paid up capital	Number of PSUs	Dividend declared by PSUs	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8=7/5*100)
1	2014-15	8	8,317.67	8	8,317.67	1	41.41	0.50
2	2015-16	8	8,756.79	7	8,451.65	1	43.46	0.51
3	2016-17	8	9,075.46	6	7,835.83	1	47.69	0.61
4	2017-18	8	10,565.94	6	8,578.10	Nil	-	-
5	2018-19	8	11,538.58	5	4,765.80	Nil	-	-

During the period 2014-15 to 2018-19, the number of PSUs which earned profits ranged between five and eight, of which only one PSU (Karnataka Power Corporation Limited) declared dividend to GoK during 2014-15 to 2016-17. Though, six PSUs in 2017-18 and five PSUs in 2018-19 earned profit, no PSU

[29] HESCOM (- ₹ 401.53 crore) and GESCOM (- ₹ 234.62 crore).

declared dividend. Further, the Dividend Payout Ratio during 2014-15 to 2016-17 was very nominal which ranged between 0.50 *per cent* and 0.61 *per cent* of paid up capital.

Return on Equity

1.10.8. Return on Equity (ROE) is a measure of financial performance to assess how effectively management is using companies' assets to generate earnings growth and is calculated by dividing net profit after taxes with shareholders' fund[30].

Return on Equity has been computed in respect of eight Power Sector PSUs where funds had been infused directly by the State Government. The details of Shareholders fund and ROE relating to these eight PSUs during the period from 2014-15 to 2018-19 are given in the following table:

Table No. 1.12: Return on Equity relating to Power Sector PSUs

Sl. No.	Year	Net profit after taxes (₹ in crore)	Shareholders' Fund (₹ in crore)	Return on Equity (*per cent*)
1	2014-15	372.62	13,574.38	2.75
2	2015-16	422.64	10,825.40	3.90
3	2016-17	21.29	10,697.61	0.20
4	2017-18	-39.61	13,469.70	-
5	2018-19	-587.33	14,851.35	-

As seen from the above table, the Power Sector PSUs earned profit only during 2014-15 to 2016-17. The RoE remained very nominal ranging from 0.20 *per cent* to 3.90 *per cent* during 2014-15 to 2016-17. Further, RoE was *nil* in 2017-18 and 2018-19 due to losses.

Return on Capital Employed

1.10.9. 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) with the capital employed[31]. The details of ROCE of eight Power Sector PSUs where State Government had infused funds during the period from 2014-15 to 2018-19 are given in following table:

Table No. 1.13: Return on Capital Employed

Sl. No.	Year	EBIT (₹ in crore)	Capital Employed (₹ in crore)	ROCE (*per cent*)
1	2014-15	3,223.86	27,962.84	11.53
2	2015-16	3,501.48	27,331.82	12.81
3	2016-17	3,622.95	29,062.90	12.47
4	2017-18	4,534.91	33,845.15	13.40
5	2018-19	4,591.09	37,903.06	12.11

[30] Shareholder's fund = Paid up capital *plus* Free reserves *less* Accumulated losses.

[31] Capital Employed = Paid up capital *plus* Free reserves and surplus *plus* long term loans *less* accumulated loss.

The ROCE of Power Sector PSUs increased from 11.53 *per cent* to 13.40 *per cent* during the period 2014-15 to 2017-18 and decreased to 12.11 *per cent* in the year 2018-19.

Analysis of Long term loans of Power Sector PSUs

1.11 The analysis of the long term loans of the companies which had leverage during 2014-15 to 2018-19 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.

Interest Coverage Ratio

1.11.1. 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 with interest expenses of the same period. The lower the ratio, the lesser the ability of the company to pay interest on debt. An interest coverage ratio of below one indicates that the company is not generating sufficient revenues to meet its expenses on interest. The details of interest coverage ratio in those Power Sector PSUs which had interest burden during the period from 2014-15 to 2018-19 are given in the table below:

Table No. 1.14: Interest coverage ratio

Sl. No.	Year	Interest (₹ in crore)	EBIT (₹ in crore)	Number of PSUs having interest burden	Number of PSUs having interest coverage ratio more than one	Number of PSUs having interest coverage ratio less than one
1	2014-15	2,750.02	3,223.86	8	8	0
2	2015-16	2,885.20	3,501.48	8	7	1
3	2016-17	3,320.65	3,622.95	8	6	2
4	2017-18	3,767.37	4,534.91	7	5	2
5	2018-19	4,106.18	4,591.09	7	4	3

It was observed that the number of Power Sector PSUs with interest coverage ratio of more than one decreased from eight to four during 2014-15 to 2018-19. As at 31 March 2019, three Power Sector PSUs (KPCL, CESC and GESCOM) had interest coverage ratio of less than one.

Debt-Turnover Ratio

1.11.2. The debt-turnover ratio is calculated by dividing loans outstanding with turnover at the end of the year. The debt-turnover ratio of eight Power Sector PSUs has not improved as the compounded annual growth[32] rate of turnover (9.23 *per cent*) was less than that of Debt (10.46 *per cent*) during 2014-15 to 2018-19. The debt turnover ratio of these PSUs during the last five years is

[32] Calculated as $[1(23{,}051.71/15{,}486.71)^{1/1\times4} - 1] \times 100 = 10.46$ *per cent* for debt and $[1(49{,}672.22/34{,}887.24)^{1/1\times4} - 1] \times 100 = 9.23$ *per cent* for turnover.

shown in the following table:

Table No. 1.15: Debt Turnover ratio relating to the Power Sector PSUs

(₹ in crore)

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1	Debt	15,486.71	16,506.42	18,365.29	20,375.45	23,051.71
2	Turnover	34,887.24	38,372.52	41,284.37	45,591.36	49,672.22
3	Debt-Turnover ratio	0.44:1	0.43:1	0.44:1	0.45:1	0.46:1

Assistance under Ujwal DISCOM Assurance Yojana (UDAY)

1.12. The Ministry of Power (MoP), Government of India launched (20 November 2015) Ujwal DISCOM Assurance Yojana (UDAY) for Operational and Financial turnaround of State owned Power Distribution Companies (DISCOMs). As per the Memorandum of Understanding (MoU) concluded (June 2016) between Ministry of Power (MoP), Government of India, Government of Karnataka and five DISCOMs, the State was required to implement the following measures for improving operational efficiency of DISCOMs:

Scheme for improving operational efficiency

1.12.1. The State had undertaken various targeted activities like compulsory feeder and Distribution Transformer (DT) metering, consumer indexing and GIS mapping of losses, upgrading or changing transformers and meters, smart metering of all consumers consuming above 500 units per month, Demand Side Management (DSM) through energy efficient equipments, periodical tariff hike, comprehensive IEC campaign to check theft of power, assured increased power supply in areas where the Aggregate Technical and Commercial (AT&C) losses have been reduced for improving the operational efficiencies.

The timeline prescribed for these targeted activities in the MoU was also required to be followed so as to ensure achievement of the targeted benefits *viz.* ability to track losses at feeder and DT level, identify 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.* reduce AT&C loss to 14.2 *per cent* in 2018-19 as per loss reduction trajectory as indicated in MoU, eliminate the gap between average cost of supply and average revenue by 2018-19.

Implementation of UDAY

1.12.2. The participating States were required to take over 75 *per cent* of DISCOMs debt by 30 September 2018 *i.e.* 50 *per cent* in 2015-16 and 25 *per cent* in 2016-17.

The Government of Karnataka has not taken over any debt of DISCOMs but has undertaken to implement the operational parameters. The achievements *vis-a-vis* targets under UDAY[33] for different operational parameters relating to the five State DISCOMs were as under:

Table No. 1.16: **Parameter wise achievements *vis-a-vis* targets of operational performance upto 30 September 2020.**

Sl. No.	Parameter of UDAY	Target under UDAY	Progress under UDAY	Achievement (*per cent*)
1	Feeder metering (Nos.)	179	563	314.53
2	Metering at Distribution Transformers (Nos.)			
	a. Urban	11,525	19,252	167.05
	b. Rural	40,350	67,459	167.18
3	Feeder Segregation (Nos.)	1,124	1,312	116.73
4	Rural Feeder Audit (Nos.)	157	4,534	2,887.90
5	Electricity to unconnected household (lakh Nos.)	5.42	7.95	146.68
6	Smart metering (in Nos.)	43	2,541	5,909.30
7	Distribution of LED UJALA (lakh Nos.)	135.08	180.68	133.76
8	AT&C Losses (*per cent*)	14.20*	26.21	-
9	ACS-ARR Gap (₹ per unit)	No gap*	0.01	-
10	Net Income or Profit/Loss including subsidy (₹ in crore)	1,059.04	1,429.01	-

* As per the MoU concluded by the State Government

As seen from the above, the achievement of the State exceeded the targets set under the UDAY in respect of all the parameters, except parameters mentioned at Sl. No. 8 and 9.

Comments on Accounts of Power Sector PSUs

1.13. Ten Power Sector PSUs forwarded their 11[34] audited accounts to the Accountant General between 1 October 2018 and 30 September 2019. All these, 11 accounts (of 10 companies) were selected for Supplementary Audit. The Audit Reports of the Statutory Auditors (appointed by the CAG) and the Supplementary Audits of the CAG indicate that the quality of maintenance of accounts requires improvement. The details of aggregate money value of comments of Statutory Auditors and the CAG are given in the following table:

Table No. 1.17: **Impact of audit comments on working companies**

(₹ in crore)

Sl. No	Particulars	2016-17		2017-18		2018-19	
		No.	Amount	No.	Amount	No.	Amount
1	Decrease in profit (accounts)	1	889.96	5	830.85	2	3,181.38
2	Increase in profit (accounts)	1	5.58	1	6.01	-	-
3	Decrease in loss (accounts)	-	-	-	-	-	-
4	Increase in loss (accounts)	1	577.39	4	3,654.76	3	630.07
5	Non-disclosure of material facts (instances)	4	-	5	-	7	-
6	Errors of classification (instances)	1	-	-	-	1	-

[33] As per State Health Card under UDAY published in the website of the MoP, GoI.
[34] KREDL finalised two accounts.

During the year 2018-19, the Statutory Auditors issued unqualified reports on two accounts and qualified reports on nine accounts. The compliance of Power Sector PSUs with the Accounting Standards remained poor as there were 36 instances of non-compliance in accounts during the year.

Response of the Government to Audit

Performance Audits and Compliance Audit Paragraphs

1.14. One Performance Audit and two Compliance Audit Paragraphs (theme based) related to Power Sector PSUs were issued to the Additional Chief Secretary to the GoK, Energy Department with a request to furnish replies. Replies to one Performance Audit and two Compliance Audit Paragraphs were received. The views of the Government have been suitably incorporated.

Follow up action on Audit Reports

Replies outstanding

1.15. The Reports of the CAG represent the culmination in the process of audit scrutiny. It is therefore necessary that they elicit appropriate and timely response from the Executive. The Finance Department, Government of Karnataka, issued (January 1974) instructions to all Administrative Departments to submit replies to paragraphs and Performance Audits (PAs) included in the Audit Reports of the CAG within a period of three months of their presentation to the Legislature, without waiting for any questionnaires from the Committee on Public Undertakings (COPU). The status of receipt of replies to the report of Comptroller and Auditor General of India from the GoK is given in the following table:

Table No.1.18: **Replies not received as on 30 September 2019**

Sl. No.	Year of the Audit Report (PSUs)	Date of placing the Audit Report in the State Legislature	Total PAs and Paragraphs in the Audit Report pertaining to Power Sector		Number of PAs/ Paragraphs for which replies were not received	
			PAs	Paragraphs	PAs	Paragraphs
1	2015-16	23.03.2017	1	4	1	0
2	2016-17	22.02.2018	1	2	1	1
	Total		**2**	**6**	**2**	**1**

It could be seen that replies for two Performance Audits and one Paragraph in respect of Power Sector PSUs, were not furnished by the Energy Department, GoK (September 2019).

Discussion of Audit Reports by COPU

1.16. The status of Performance Audits (PAs) and paragraphs relating to Power Sector PSUs that appeared in Audit Reports on PSUs and discussed by COPU as on 30 September 2019 was as follows:

Table No.1.19: Status of discussion of PAs and Paragraphs

Sl. No.	Period of Audit Report	Number of PAs/paragraphs			
		Appeared in Audit Report		Discussed	
		PAs	Paragraphs	PAs	Paragraphs
1	2010-11	1	2	0	2
2	2011-12	1	2	0	2
3	2013-14	1	7	1	6
4	2014-15	1	8	1	5
5	2015-16	1	4	0	0
6	2016-17	1	2	0	1
	Total	**6**	**25**	**2**	**16**

Compliance to Reports of COPU

1.17. Action Taken Note (ATN) from the Government of Karnataka pertaining to seven recommendations of COPU (Report No. 132 of COPU presented to the State Legislature during June 2017) on one paragraph which appeared in the Report of the CAG of India for the period 2014-15, was not received (September 2019).

It is recommended that the Government may ensure sending replies to Paragraphs/Performance Audits and ATNs on the recommendations of COPU as per the prescribed time schedule.

Response to Inspection Reports

1.18. Audit observations noticed during audit and not settled on the spot were communicated to the heads of PSUs and the Energy Department of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through the Energy Department within a period of one month. There were 1,469 paragraphs from 238 Inspection Reports (**Appendix 6 - Sl. No. 1**) pertaining to 11 Power Sector PSUs outstanding as on 31 March 2019.

It is recommended that the Government may ensure that a procedure exists for taking action (a) against officials who fail to respond to Inspection Reports based on the reports of Audit Monitoring Cell constituted by the Government and (b) to recover loss/outstanding advances/overpayment within the prescribed time.