

PART-I

CHAPTER-I

Functioning of Power Sector PSUs

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. The table below provides the details of turnover of the power sector PSUs and GSDP of Odisha for a period of five years ending March 2018:

Table 1.1: Details of turnover of power sector undertakings vis-a-vis GSDP of Odisha
(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Turnover	8297.18	8003.66	8325.75	8530.83	9601.63
Percentage change of Turnover over Previous Year	22.38	-3.54	4.02	2.46	12.55
GSDP of Odisha	2,88,414.31	3,10,810.24	3,32,329.13	3,14,363.78	4,15,981.68
Percentage change of GSDP over Previous Year	11.47	7.77	6.92	-5.41	32.32
Percentage of Turnover to GSDP of Odisha	2.88	2.58	2.51	2.71	2.31

(Source: Compiled based on Turnover figures of power sector PSUs and GSDP figures as per information furnished by Finance Department of Government of Odisha)

In 2017-18 the percentage of the turnover of power sector PSUs relative to GSDP was 2.31 per cent and was more or less around the same per cent during the five years. The compounded annual growth¹³ of GSDP was 9.96 per cent during last five years, while the turnover of power sector PSUs recorded lower compounded annual growth of 7.20 per cent during the same period.

1.2 Formation of Power Sector PSUs

Odisha became the first State in India to reform its electricity sector. Odisha Electricity Reform Act, 1995 setting out the basic framework of the reform which came into force from 01 April 1996 envisaging restructuring of electricity industry for rationalisation of generation, transmission, distribution and supply of electricity. Consequently, Assets and Liabilities belonging to Odisha State Electricity Board (OSEB) were vested in State Government as on 01 April, 1996 and all loans, subventions and obligation of OSEB towards the State stood extinguished. OSEB was restructured and corporatised into Grid Corporation of Odisha Limited (GRIDCO) and Odisha Hydro Power Corporation Limited (OHPC). GRIDCO took over transmission and distribution business while OHPC took charge of hydel generation business.

¹³ Rate of Compounded Annual Growth $[\{(Value\ of\ 2017-18/Value\ of\ 2012-13)\}^{(1/5\ years)} - 1] * 100$ where turnover and GSDP for the year 2012-13 were ₹ 6779.98 crore and ₹ 258744.09 crore respectively.

Total assets and liabilities of OSEB valued at ₹3,600.10 crore was apportioned between GRIDCO (₹2,395.90 crore) and OHPC (₹1,204.20 crore). Total apportioned value includes equity of ₹326.20 crore in GRIDCO and ₹300 crore in OHPC. The only thermal power company established in November 1984, which was outside the purview of OSEB, with 49 *per cent* shareholding of Government of Odisha was disinvested in January, 1999. Pursuant to enactment of Odisha Electricity Reform (Transfer of Assets, Liabilities Proceedings and Personnel of GRIDCO to Distribution Companies) Rule 1998, the GoO transferred the distribution assets and properties along with personnel of GRIDCO to four distribution companies namely Central Electricity Supply Company of Odisha Limited, North Eastern Electricity Supply Company of Odisha Limited, Western Electricity Supply Company of Odisha Limited and Southern Electricity Supply Company of Odisha Limited with effect from 26 November, 1998 established as wholly owned subsidiaries of GRIDCO. They were subsequently privatised in April 1999/ September 1999 with disinvestment of 51 *per cent* shareholding of GRIDCO. They now function under the distribution and retail supply licence obtained from Odisha Electricity Regulatory Commission (OERC). They are also not under the purview of C&AG Audit. In conformity with power vested under Electricity Act, 2003 the GoO through Odisha Electricity Reforms (Transfer of Transmission related Activities) Scheme, 2005 vested the transmission business of the State to a newly incorporated company i.e., Odisha Power Transmission Corporation Limited (OPTCL) from 01 April, 2005. OPTCL now discharges the function of State Transmission Utility (STU) as well as State Load Dispatch Centre (SLDC). Besides these four companies, four¹⁴ other power sector companies were incorporated (January 2007 to January 2015) as subsidiary/ joint venture companies of Odisha Power Generation Corporation Limited (OPGC)/ Odisha Mining Corporation Limited (OMC)/ Power Grid Corporation of India Limited (PGCIL)/ OHPC/ OPTCL. Thus, there were eight power sector companies in the State as on 31 March 2018. Of these eight power sector companies, one¹⁵ company did not commence commercial activities till 2017-18.

Disinvestment, restructuring and privatisation of Power Sector PSUs

1.3 During the year 2017-18, no disinvestment, restructuring or privatisation was done by the State Government in the power sector PSUs.

Investment in Power Sector PSUs

1.4 The activity-wise summary of investment in the power sector undertakings as on 31 March 2018 is given below:

¹⁴ Odisha Thermal Power Corporation Limited (January 2007), Kalinga Bidyut Prasaran Nigam Private Limited (December 2012), Green Energy Development Corporation of Odisha Limited (April 2013) and Odisha Coal and Power Limited (January 2015)

¹⁵ Kalinga Bidyut Prasaran Nigam Private Limited

Table 1.2: Activity-wise investment in power sector PSUs

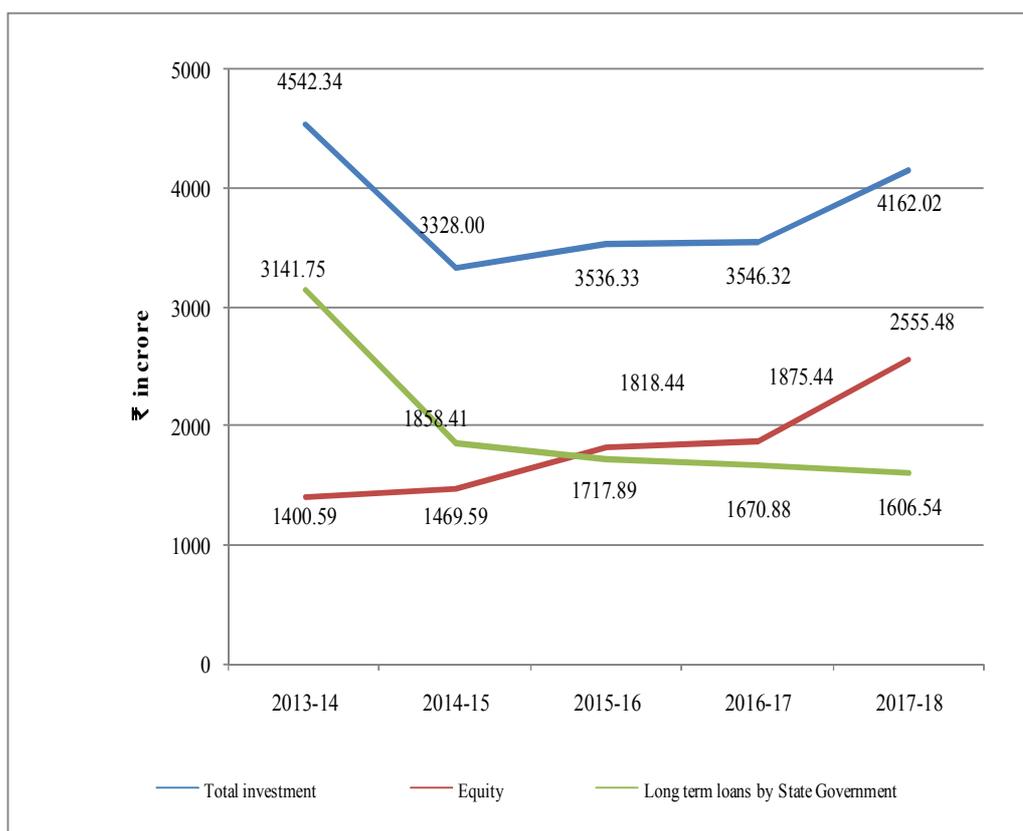
Activity	No. of government undertakings	Investment (₹ in crore)		
		Equity	Long term loans	Total
Generation of Power	4	2611.88	6497.16	9109.04
Transmission of Power	2	460.08	638.22	1098.30
Distribution of Power	-	-	-	-
Other ¹⁶	2	876.71	4253.37	5130.08
Total	8	3948.67	11388.75	15337.42

(Source: Compiled based on information received from PSUs)

As on 31 March 2018, the total investment in eight power sector undertakings was ₹15,337.42 crore. The investment consisted of 25.75 per cent towards equity and 74.25 per cent in long-term loans.

Out of the total long term loans of ₹11,388.75 crore, ₹1,606.54 crore (14.11 per cent) was availed from the State Government and balance ₹9,782.21 crore (85.89 per cent) was availed from financial institutions.

The year wise status of investment of GoO in the form of equity and long-term loans in the four holding power sector PSUs during the period 2013-14 to 2017-18 is as follows:

Chart 1.1: Total investment of GoO in four power sector PSU as at end of the year

16 Two power sector undertakings i.e. GRIDCO Limited engaged in business of bulk purchase and bulk sale of power to the four Distribution Companies inside the State and trading of surplus power through traders to promote exchange of power with neighbouring states in the country and Odisha Coal and Power Limited for supply of coal exclusively to OPGC expansion power project at Ib-Thermal Power Station, Banaharpali, Jharsuguda, Odisha

Budgetary Support to Power Sector PSUs

1.5 The Government of Odisha (GoO) 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 ¹⁷	2015-16		2016-17		2017-18	
	Number of PSUs	Amount	Number of PSUs	Amount	Number of PSUs	Amount
Equity Capital (i)	1	57.00	3	352.35	3	557.69
Loans given (ii)	1	48.75	1	121.66	1	20.00
Grants/Subsidy provided (iii)	2	967.00	1	66.90	1	10.00
Total Outgo (i+ii+iii)	3[#]	1072.75	5	540.91	4^{\$}	587.69
Loan repayment written off	1	30.23	-	-	-	-
Loans converted into equity	-	-	-	-	-	-
Guarantees issued ¹⁸	-	-	1	1,100.00	-	-
Guarantee Commitment ¹⁹	2	1,343.53	1	971.18	1	2,836.00

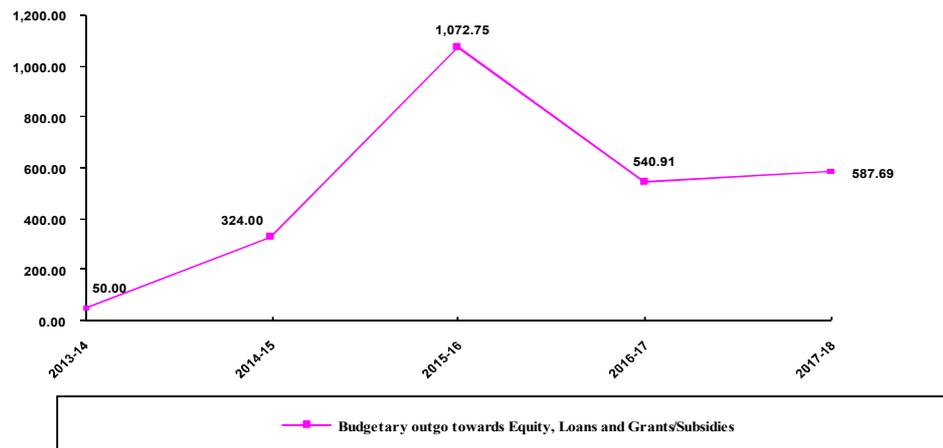
(Source: As per information furnished by PSUs)

One company i.e., Odisha Power Transmission Corporation Limited received both equity and grant in 2015-16

\$ One company i.e., Odisha Power Transmission Corporation Limited received both equity and loans in 2017-18

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

Chart 1.2: Budgetary support towards Equity, Loans and Grants/Subsidies



17 Amount represents outgo from State Budget only

18 Government guarantee issued to the PSUs during a particular year

19 Closing balance of Government guarantee in respect of PSUs at the end of a particular year

The budgetary assistance received by these PSUs ranged between ₹50 crore and ₹1,072.75 crore during 2013-14 to 2017-18. The budgetary assistance of ₹587.69 crore received during the year 2017-18 included ₹557.69 crore, ₹20 crore and ₹10 crore in the form of equity, loan and grants/subsidy respectively. During 2017-18, subsidy/grant was given for infrastructure assistance to Green Energy Development Corporation of Odisha Limited (₹10 crore).

Government of Odisha extends guarantees as provided under Article 293(1) of Constitution of India and fixed prescribed limit for such guarantee to PSUs as per guidelines (November 2002) of Government of Odisha. PSUs seek financial assistance from Banks and financial institutions, for which guarantee commission is being charged. The rate is 0.50 per cent on the maximum of the guarantee sanctioned. Outstanding guarantee commitments of GoO increased by 192.02 per cent from ₹971.18 crore in 2016-17 to ₹2,836 crore in 2017-18 as GRIDCO Limited sought additional guarantee commitment from GoO for loan availed to settle power purchase bills. During the year 2017-18, guarantee commission of ₹31.74 crore was paid by the three power sector PSUs.

Reconciliation with Finance Accounts of Government of Odisha

1.6 The figures in respect of Equity, loans and guarantees outstanding as per records of State PSUs should agree with the figures appearing in the Finance Accounts of the Government of Odisha. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of the differences. As on 31 March 2018, there were differences in figures in respect of equity, loans and guarantees as stated below:

Table 1.4: Loans outstanding as per Finance Accounts vis-à-vis records of power sector undertakings

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of State PSUs	Difference
Equity	2,684.35	2,605.49	78.86
Loans	1,603.81	2,589.77	985.96
Guarantees	1,610.26	2,836.00	1,225.74
Total Difference	5,898.42	8,031.26	2,290.56

(Source: Information furnished by PSUs and State Finance Audit Report for the year ended March 2018)

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.

Submission of accounts by Power Sector PSUs

1.7 There were eight power sector undertakings under the audit purview of CAG as on 31 March 2018. Accounts for the year 2017-18 were submitted by seven of these working PSUs by 30 September 2018 as per statutory requirement. One PSU i.e. Odisha Power Transmission Corporation Limited submitted its account on 22 October 2018. Details of arrears in submission of accounts of power sector PSUs as on 30 September of each financial year for the last five years 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	7	8	8	8	8
2.	Number of accounts submitted during current year	7	7	8	5	12
3.	Number of PSUs which finalised accounts for the current year	5	5	6	3	7
4.	Number of previous year accounts finalised during current year	2	2	2	2	5
5.	Number of PSUs with arrears in accounts	2	2	2	5	1
6.	Number of accounts in arrears	2	2	2	5	1
7.	Extent of arrears	1 year				

(Source: Database of finalisation of accounts maintained in the PAG Office)

The power sector PSUs have been prompt in submission of their annual accounts and the extent of arrear was only one year in case of one company.

Performance of Power Sector PSUs

1.8 The financial position and working results of eight power sector companies as per their latest finalised accounts as on 30 September 2018 are detailed in *Annexure-1*.

The Public Sector Undertakings are expected to yield reasonable return on investment made by Government. The total amount of investment in the eight Power Sector PSUs as on 31 March 2018 was ₹16,760.72 crore consisting of ₹3,948.67 crore as equity, ₹11,388.75 crore as long-term loans and ₹1,423.30 crore as grants, subsidies for operational & management expense. Out of this, investment of GoO in the four holding Power Sector PSUs viz., GRIDCO Limited, Odisha Hydro Power Corporation Limited, Odisha Power Generation Corporation Limited and Odisha Power Transmission Corporation Limited for the period ending 31 March 2018 was ₹5,495.44 crore consisting of equity of ₹2,555.48 crore, long term loans of ₹1,606.54 crore and grants, subsidies of ₹1,279.75 crore.

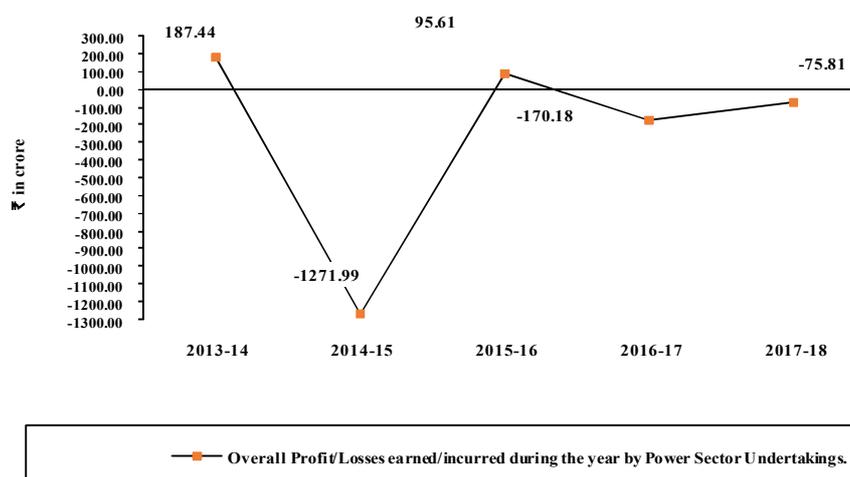
The rest four are Subsidiary Companies where there is no investment by Government of Odisha in the form of equity and long term loans which is made by the concerned Holding Companies. However, Government of Odisha has invested ₹86.90 crore in the form of grants, subsidies in one subsidiary company.

The profitability of a company is traditionally assessed through return on investment, return on equity and return on capital employed. The Rate of Real Return on investment is the profit or loss made in a fixed year relating to the Present Value (PV) of the investment made over the years and is expressed as a percentage of profit to the PV of total investment. Investment for this purpose included equity, interest free loans, grants, subsidies for operational and management expense. 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.

Rate of Real Return on Investment

1.9 Rate of Real Return on Investment is the percentage of profit or loss to the Present Value (PV) of total investment. The overall position of Profit/losses²⁰ earned/incurred by all the power sector PSUs during 2013-14 to 2017-18 is depicted in a Chart 1.3:

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



The eight power sector PSUs at the aggregate level failed to earn profit and it was (-) ₹75.81 crore in 2017-18 compared with the profit of ₹187.44 crore earned in 2013-14. As per latest finalised accounts for the year 2017-18, out of eight power sector PSUs, five PSUs earned profit of ₹124.75 crore, two PSUs incurred loss of ₹200.56 crore and one PSU had not yet started operation/commercial production (*Annexure-1*). The top three profit making companies were Odisha Hydro Power Corporation Limited (₹98.70 crore), Odisha Power Transmission Corporation Limited (₹17.97 crore) and Odisha Power Generation Corporation Limited (₹4.79 crore) while GRIDCO Limited incurred substantial loss of ₹197.50 crore. Position of Power Sector PSUs which earned/incurred profit/loss during 2013-14 to 2017-18 is given below:

Table 1.6: Power Sector PSUs 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 not started commercial production during the year
2013-14	7	4	2	1
2014-15	8	4	2	2
2015-16	8	3	4	1
2016-17	8	5	2	1
2017-18	8	5	2	1

(Compiled based on information received from PSUs)

²⁰ Figures are as per the latest finalised accounts during the respective years.

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

1.10 Out of eight power sector undertakings four companies are subsidiary/Joint Venture of other²¹ companies and equity in these four companies are contributed by the concerned holding companies. The investment in four holding companies consisted of equity, loans, grants, subsidies for operational & management expenses.

The Rate of Real Return on Investment in the eight PSUs has been calculated on the investment made in these PSUs in the form of equity, loans and grants, subsidies for operational & management expense. In the case of loans, only interest free loans are considered as investment. Since no interest is received on such loans and are therefore of the nature of equity investment except to the extent that the loans are liable to be repaid as per terms and conditions of repayment.

The investment of Government of Odisha, Government of India and others in these Power Sector PSUs has been arrived at by considering the equity, adding interest free loans and deducting interest free loans which were later converted into equity/interest bearing loans for each year, grants, subsidies for operational and management expenses minus disinvestments.

The investment of GoO, GoI and others as on 31 March 2018 in these eight power sector PSUs was ₹15740.70 crore consisting of equity of ₹3,329.92 crore, long term loans of ₹10,987.48 crore and grants, subsidies of ₹1423.30 crore. Out of the released long term loans, ₹1,112.64 crore were interest free loans of which ₹766.20 crore was later converted into interest bearing loans. Thus, considering the net interest free loans of ₹346.44crore (₹1,112.64 crore - ₹766.20 crore) the investment of GoO, GoI and others in these eight PSUs on the basis of historical cost stood at ₹5099.66 crore (₹3,329.92 crore + ₹346.44 crore + ₹1423.30 crore).

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

Table 1.7: Rate of Real Return on Investment on historical cost basis

Financial year	Investment by GoO in form of Equity, interest free loans and Grants, Subsidies on historic cost basis (₹ in crore)	Investment by GoI in form of Grants, Subsidies on historic cost basis (₹ in crore)	Investment by others in form of Equity and Grants, Subsidies on historic cost basis (₹ in crore)	Total Investment in the form of equity, interest free loans and grants/subsidies on historic cost basis (₹ in crore)	Total Earnings/Losses ²² for the year (₹ in crore)	Rate of Real Return on Investment (in per cent)
2013-14	2580.98	0.00	293.88	2874.86	187.44	6.52
2014-15	2904.98	0.00	293.88	3198.86	-1271.99	-39.76
2015-16	3454.63	2.98	293.88	3751.49	95.61	2.55
2016-17	3578.53	2.98	293.88	3875.39	-170.18	-4.39
2017-18	4268.57	2.98	828.11	5099.66	-75.81	-1.49

(Compiled based on information received from PSUs)

²¹ Odisha Hydro Power Corporation Limited, Odisha Power Generation Corporation Limited, Odisha Mining Corporation Limited, Odisha Power Transmission Corporation Limited and Power Grid Corporation of India Limited

²² As per annual accounts of the respective years

The Rate of Real Return on investment of the eight power sector PSUs in 2017-18 was negative. Heavy losses of GRIDCO Limited during the above period (except 2013-14) contributed to overall losses of the power sector.

(b) On the basis of Present Value of Investment

1.11 In view of the significant investment by the Government in the Power Sector PSUs, Rate of Real Return on such investment is essential. Traditional calculation of return based only on historical cost of investment may not be a correct indicator of the adequacy of the Rate of Real Return on the investment since such calculations ignore the present value of money. The present value of the investments has been computed to assess the Rate of Real Return on the present value of investments 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 up to 31 March 2018, the past investments/ year-wise funds infused 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 for the concerned year. Therefore, Present value (PV) of the investment was computed where funds had been infused by the State Government, Central Government and others in the shape of equity, interest free loans, grants, subsidies for operational and management expenses since inception of these companies till 31 March 2018. The eight PSUs, however, had a positive rate of real return on investment only during the year 2013-14 and 2015-16. Therefore, for the year 2013-14 and 2015-16, the rate of real return on investment has been calculated and depicted on the basis of PV.

The PV of the investment in power sector PSUs was computed on the basis of following assumptions:

- The equity infused minus disinvestment and funds made available in the form of the grants, subsidies for operational & management expenses and interest free loans have been reckoned as investment for calculating the Rate of Real Return on Investments. Further, in those cases where interest free loans given to the PSUs were later converted into interest bearing loans, the amount of loan converted into interest bearing loan has been deducted from the amount of interest free loans.
- The average rate of interest on government borrowings for the concerned financial year²³ was adopted as compounded rate for arriving at Present Value since they represent the cost incurred towards investment of funds for the year and therefore considered as the minimum expected Rate of Real Return on investments.

For the period 2014-15, 2016-17 and 2017-18 when the eight companies incurred losses, a more appropriate measure of performance is the erosion of net worth due to the losses. The erosion of net worth of the companies is commented upon in Para 1.13.

²³ The average rate of interest on government borrowings was adopted from the Reports of the C&AG of India on State Finances (Government of Odisha) 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.

1.12 The company wise position of investment by the State Government in the eight power sector PSUs in the form of equity, interest free loans, grants and subsidies for operational & management purpose since inception of these companies till 31 March 2018 is indicated in *Annexure-2*.

The total investment of the Government and others in these eight PSUs at the end of the year 2017-18 was ₹5099.66 crore consisting of equity ₹3,329.92 crore, grants/subsidies ₹1,423.30 crore and interest free loans ₹346.44 crore. The PV of investments of the Government and others up to 31 March 2018 worked out to ₹19,923.24 crore.

As during the years 2013-14 and 2015-16, the eight PSUs earned profit, RoI by Government and others at historical cost and at present value for these years are given in table 1.8:

Table 1.8: Real Rate of Return on total investment on Present Value
(₹ in crore)

Financial year	Investment by GoO in form of Equity, interest free loans and Grants, Subsidies on historic cost basis (₹ in crore)	Investment by GoI in form of Grants, Subsidies on historic cost basis (₹ in crore)	Investment by others in form of Equity and Grants, Subsidies on historic cost basis (₹ in crore)	Total Investment in the form of equity, interest free loans and grants/subsidies on historic cost basis (₹ in crore)	PV of the total investment at end of the year	Total Earnings/Losses ²⁴ for the year	Rate of Real Return on total Investment on historical cost basis (in per cent)	Rate of Real Return on total investment considering PV of the investments (in per cent)
2013-14	2,580.98	0.00	293.88	2,874.86	13,352.04	187.44	6.52	1.40
2015-16	3,454.63	2.98	293.88	3,751.49	15,946.71	95.61	2.55	0.60

(Compiled based on information received from PSUs)

It is evident from the table that the rate of real return on total investment computed on the present value is very low (1.40 per cent 2013-14, 0.60 per cent 2015-16) even in the years when the eight Power sector PSUs had positive earnings. A return of 6.52 per cent and 2.55 per cent calculated on historical cost basis would therefore be a distortion and does not reflect the correct picture. Effectively, while the PV of total investment at the end of 2013-14 was ₹13,352.04 crore its rate of real return was 1.40 per cent and at the end of 2015-16 when it was ₹15,946.71 crore the rate of real return was even lower at 0.60 per cent.

Erosion of Net worth

1.13 Net worth is the company's 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. Of the eight Power Sector PSUs, the net worth of GRIDCO Limited had fully eroded (₹ -3,853.75 crore).

The State Government continued to provide financial support to four holding power sector PSUs by infusing substantial equity during the period 2013-18.

²⁴ As per annual accounts of the respective years

Despite infusion of substantial capital, the accumulated losses of these power sector PSUs increased from ₹604.89 crore in 2013-14 to ₹2,537.16 crore in 2017-18.

Dividend Payout

1.14 The State Government had formulated (December 2011) dividend policy under which all profit making PSUs are required to pay annual dividend of 20 *per cent* of the State Government equity or 20 *per cent* of the profit after tax, whichever is higher. The minimum dividend payout in respect of PSUs in the mining and power generation sector should be 30 *per cent* of profit after tax. Subsequently, GoO issued revised (February 2016) guideline for payment of dividend at the rate of 30 *per cent* for all PSUs. Dividend payout relating to four Power Sector Undertakings where equity was infused by GoO during the period is shown in Table 1.9:

Table 1.9: Dividend Payout of four Power Sector PSUs during 2013-14 to 2017-18

Year	Total PSUs where equity infused by GoO		PSUs which earned profit during the year		PSUs which declared/paid dividend during the year		Dividend Payout Ratio (%)
	Number of PSUs	Equity infused by GoO	Number of PSUs	Equity infused by GoO	Number of PSUs	Dividend declared/paid by PSUs	
1	2	3	4	5	6	7	8=7/5*100
2013-14	4	1400.59	4	1400.59	2	35.39	2.53
2014-15	4	1469.59	3	892.88	2	18.89	2.12
2015-16	4	1818.44	3	1241.73	2	23.43	1.89
2016-17	4	1875.44	3	1298.73	2	41.19	3.17
2017-18	4	2555.48	3	1978.77	2	35.92	1.82

(Compiled based on information received from PSUs)

In 2013-14, four PSUs and during the period 2014-15 to 2017-18, three PSUs earned profits. Out of which two PSUs (Odisha Hydro Power Corporation Limited and Odisha Power Generation Corporation Limited) declared/paid dividend to GoO. Though other two PSUs *viz.* GRIDCO Limited and Odisha Thermal Power Corporation Limited earned profit they did not declare dividend contrary to Government guidelines.

The Dividend Payout Ratio during 2013-14 to 2017-18 was very nominal which ranged between 1.82 *per cent* and 3.17 *per cent*. Further, the Dividend Payout Ratio reduced from 2.53 *per cent* in 2013-14 to 1.82 *per cent* in 2017-18 due to increase in infusion of equity by GoO.

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. It is calculated and expressed as a percentage by dividing net income (i.e. net profit after taxes) by shareholders' fund.

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 shareholders'

equity means that liabilities exceed assets. RoE has been computed in respect of all power sector PSUs which included the holding and subsidiary companies.

The RoE in Power Sector PSUs has shown extremely divergent trends. It was positive in 2013-14 and 2015-16 at 13.46 *per cent* and 15.69 *per cent*, respectively. However, it became negative in 2014-15, 2016-17 and 2017-18 ranging from (-) 4.3 *per cent* to (-) 336.93 *per cent*. The main reason for this negative RoE was the huge losses by GRIDCO Limited in these years.

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 employed²⁵. The details of RoCE of all the eight power sector undertakings during the period from 2013-14 to 2017-18 are given in table below:

Table 1.10: Return on Capital Employed

Year	EBIT (₹ in crore)	Capital Employed (₹ in crore)	RoCE (%)
2013-14	1,096.65	8,185.34	13.39
2014-15	216.15	5,495.39	3.93
2015-16	973.31	7,235.68	13.45
2016-17	764.41	7,758.16	9.85
2017-18	609.56	13,151.47	4.63

(Compiled based on information received from PSUs)

During 2017-18, the RoCE of all the Power Sector PSUs was 4.63 *per cent* due to decrease in EBIT and increase in capital employed.

Analysis of long-term loans of the Companies

1.17 The analysis of the long term loans of the companies which had leverage²⁶ 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.

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 lesser is the ability of the company to pay interest on debt. An interest coverage ratio of below "1" indicates that the company was not generating sufficient revenues to meet its expenses on interest. The details of interest coverage ratio in those power sector companies which had interest burden during the period from 2013-14 to 2017-18 are given in table below:

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.

²⁶ Leverage means the amount of debt a firm uses to finance assets.

Table 1.11: 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	Number of companies having interest coverage ratio more than 1	Number of companies having interest coverage ratio less than 1	Number of companies for which interest coverage ratio was not calculated ²⁷
2013-14	837.45	1096.65	4	3 ²⁸	-	1 ²⁹
2014-15	567.78	216.15	4	2 ³⁰	1 ³¹	1 ²⁸
2015-16	718.09	973.31	5	4 ³²	1 ³⁰	-
2016-17	810.23	764.41	5	4 ³¹	1 ³⁰	-
2017-18	646.91	609.56	5	3 ³³	1 ³⁰	1 ³⁴

(Compiled based on information received from PSUs)

It was observed that the number of power sector companies with interest coverage ratio of more than one ranged between two and four during 2013-14 to 2017-18.

Debt-Turnover Ratio

1.19 During the last five years, the turnover of the eight power sector undertakings recorded compounded annual growth of 3.72 per cent and compounded annual growth of debt was 19.64 per cent due to which the Debt-Turnover Ratio deteriorated from 0.67 in 2013-14 to 1.19 in 2017-18 as given in table below:

Table 1.12: Debt Turnover ratio relating to the Power Sector PSUs

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Debt from Government/ Banks and Financial Institutions	5556.40	5117.87	6626.12	7395.68	11388.75
Turnover	8297.18	8003.66	8325.75	8530.83	9601.63
Debt-Turnover Ratio	0.67:1	0.64:1	0.80:1	0.87:1	1.19:1

(Source: Compiled based on information received from PSUs)

Comments on Accounts of Power Sector PSUs

1.20 Eight power sector companies forwarded 12 audited accounts for the years 2016-17 and 2017-18 to the Principal Accountant General during 1 October 2017 to 30 September 2018. All 12 accounts were selected for supplementary audit. The Audit Reports of Statutory Auditors and

²⁷ Interest coverage ratio could not be calculated as the interest expenses for the year has been capitalised by the company

²⁸ GRIDCO Limited, Odisha Hydro Power Corporation Limited and Odisha Power Transmission Corporation Limited

²⁹ Odisha Power Generation Corporation Limited

³⁰ Odisha Hydro Power Corporation Limited and Odisha Power Transmission Corporation Limited

³¹ GRIDCO Limited

³² Odisha Hydro Power Corporation Limited, Odisha Power Transmission Corporation Limited, Odisha Power Generation Corporation Limited and Green Energy Development Corporation of Odisha Limited

³³ Odisha Hydro Power Corporation Limited, Odisha Power Transmission Corporation Limited and Odisha Power Generation Corporation Limited

³⁴ Odisha Coal and Power Limited

supplementary audit conducted by the CAG indicated that the quality of accounts needs some improvement. 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 1.13: 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	2	49.24	1	0.48	4	417.12
2.	Increase in profit	0	0	1	15.85	2	39.03
3.	Increase in loss	3	342.03	1	221.47	Nil	Nil
4.	Decrease in loss	0	0	0	0	0	0
5.	Non-disclosure of material facts	1	85.13	Nil	Nil	1	6.00
6.	Errors of classification	Nil	Nil	Nil	Nil	Nil	Nil

(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 certification with qualification for all the 12 accounts. Compliance to the Accounting Standards by the PSUs remained poor as the Statutory Auditors pointed out seven instances of non-compliance to the Accounting Standards in three accounts of three PSUs.

Compliance Audit Paragraphs

1.21 For Part-I of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2018, six compliance audit paragraphs were issued to the Secretary of Department of Energy with request to furnish replies within six weeks. Replies in respect of all these audit paragraphs were received from the State Government and suitably incorporated in this report. The total financial impact of the compliance audit paragraphs is ₹83.79 crore.

Follow up action on Audit Reports

1.22 The Report of the Comptroller and Auditor General of India is the product of audit scrutiny. It is, therefore, necessary that the executive furnishes appropriate and timely response. The Finance Department, Government of Odisha issued (December 1993) instructions to all Administrative Departments to submit replies/explanatory notes to paragraphs/performance audits included in the Reports of the CAG of India within a period of three months after their presentation to the Legislature, in the prescribed format, without waiting for any questionnaires from the Committee on Public Undertakings (COPU). Explanatory notes to nine Paragraphs/Performance Audits in respect of Department of Energy were awaited (September 2018). The details are given in Table 1.14.

Table No.1.14: Explanatory notes pending in respect of power sector PSUs (as on 30 September 2018)

Year of the Audit Report (PSUs)	Date of placement of Audit Report in the State Legislature	Total power sector Performance Audits (PAs) and Paragraphs in the Audit Report		Number of power sector PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2013-14	24 August 2015	0	3	0	3
2014-15	26 September 2016	1	1	1	1
2016-17	26 March 2018	0	4	0	4
Total	--	1	8	1	8

(Source: Database maintained in the PAG Office)

Discussion of Audit Reports by COPU

1.23 The status of power sector Performance Audits and Paragraphs that appeared in Audit Reports (PSUs) and those discussed by the COPU as on 30 September 2018 was as under:

Table No.1.15: Power sector Performance Audits/ Paragraphs appeared in Audit Reports vis-à-vis discussed as on 30 September 2018

Period of Audit Report	Number of power sector Performance Audits/ Paragraphs			
	Appeared in Audit Reports		Discussed	
	PAs	Paragraphs	PAs	Paragraphs
2008-09	1	5.5	0	5.5
2009-10	1	5	0	5
2010-11	0	1	0	1
2011-12	1	6	1	6
2012-13	1	3	1	3
2013-14	0	3	0	0
2014-15	1	1	0	0
2015-16	0	3	0	0
2016-17	0	4	0	0
Total	5	31.5	2	20.5

(Source: Database maintained in the PAG Office)

Committee on Public Undertakings was apprised of the pendency in the discussion of Audit Report Paragraphs in their first meeting (April 2017). During 2017-18, CoPU had not discussed any paragraphs in the Audit Report relating to power sector PSUs.

Compliance to Reports of Committee on Public Undertakings (CoPU)

1.24 There were no Action Taken Notes (ATNs) pending from Department of Energy.