

Part-I

Chapter I

**Functioning of Power sector
Undertakings**

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Introduction

1.1 The State Public Sector Undertakings (SPSUs) engaged in generation, transmission and distribution of electricity are classified under Power sector. The State has 87 SPSUs as on 31 March 2019 of which 10 SPSUs are engaged in electricity related business and remaining 77 SPSUs are engaged in other activities. The functioning of 77 SPSUs engaged in activities other than Power sector is discussed in Chapter III of Part II. The 10 SPSUs are State Government Companies, which includes eight subsidiary/ joint venture Companies of other Government Companies. Government of Gujarat (GoG) periodically provides financial support to SPSUs in the form of equity, loans and grants/subsidy. Of the 10 SPSUs, GoG invested funds in three SPSUs¹ and no funds were infused in remaining seven SPSUs² that were subsidiary/ joint venture of State Government Companies. The respective Holding Companies contributed to the equity of these seven subsidiary/ joint venture Companies.

Contribution to Economy of the State

1.2 The Power sector SPSUs 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 State Domestic Product (GSDP). The ratio of turnover of SPSUs of Power sector to GSDP is indicative of the scale of SPSU activities in the economy of the State. The details of Power sector SPSUs' turnover *vis-à-vis* GSDP for five years ending March 2019 are given in the **Table 1.1**.

Table 1.1: Details of turnover of Power sector SPSUs *vis-à-vis* GSDP of Gujarat

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Turnover ³ (₹ in crore)	74,271.78	82,115.94	84,049.58	94,544.75	1,09,824.46
Percentage change in turnover	9.12	10.56	2.35	12.49	16.16
GSDP of Gujarat (₹ in crore)	9,21,773	10,29,010	11,53,327 (P)	13,14,680 (Q)	15,01,496 (A)
Percentage change in GSDP	14.13	11.63	12.08	13.99	14.21
Percentage of turnover to GSDP	8.06	7.98	7.29	7.19	7.31

Estimate (P) = Provisional, (Q) = Quick estimate and (A) = Advance estimate.

Source: Compiled based on turnover reported by SPSUs in the financial statements finalised in respective years and Statement under Gujarat Fiscal Responsibility Act, 2005 (Budget Publication No. 30 of 2019-20).

¹ Gujarat Urja Vikas Nigam Limited, Gujarat Energy Transmission Corporation Limited and Gujarat Power Corporation Limited.

² Gujarat State Electricity Corporation Limited, Gujarat State Energy Generation Limited, GSPC Pipavav Power Company Limited, Dakshin Gujarat Vij Company Limited, Madhya Gujarat Vij Company Limited, Paschim Gujarat Vij Company Limited and Uttar Gujarat Vij Company Limited.

³ Turnover of active SPSUs as per the latest finalised financial statements received up to 30 September 2019.

The turnover of Power sector SPSUs has recorded continuous increase over previous years. The increase in turnover ranged between 2.35 and 16.16 *per cent* during the period 2014-19, whereas increase in GSDP of Gujarat ranged between 11.63 and 14.21 *per cent* during the same period. The Compounded Annual Growth Rate (CAGR)⁴ of GSDP was 13.20 *per cent* during last five years. Against the CAGR of 13.20 *per cent* of GSDP, the turnover of Power sector SPSUs recorded lower CAGR of 10.04 *per cent* during last five years. As a result, the share of turnover of Power sector SPSUs to GSDP reduced from 8.06 *per cent* in 2014-15 to 7.31 *per cent* in 2018-19. Out of the total turnover of ₹ 1,09,824.46 crore, ₹ 1,06,209.12 crore pertains to eight Power sector SPSUs which finalised the financial statements for the year 2018-19. In case of two SPSU⁵, the turnover of ₹ 3,615.34 crore was as per the finalised financial statements for the year 2017-18.

Formation of Power sector Undertakings

1.3 Gujarat Electricity Board (GEB) was engaged in Generation, Transmission and Distribution of electricity in Gujarat. GoG enacted the Gujarat Electricity Industry (Reorganisation & Regulation) Act, 2003 to restructure Power sector. Accordingly, GEB was unbundled with effect from 1 April 2005 into seven Companies. All the assets and liabilities of GEB (including equity of ₹ 6,964.14 crore and accumulated losses of ₹ 584.67 crore) were distributed amongst two Companies⁶ according to the provisions of Gujarat Electricity Industry Reorganisation and Comprehensive Transfer Scheme, 2003. Of the seven Companies, Gujarat Urja Vikas Nigam Limited (GUVNL) is Holding Company of remaining six Companies⁷ and had the functional responsibility of trading in electricity. Of the six Companies equity investment of GoG in Gujarat Energy Transmission Corporation Limited (GETCO) of GoG and GUVNL was ₹ 12.50 crore (1.81 *per cent*) and ₹ 676.52 crore (98.19 *per cent*) respectively.

Apart from the above seven Companies, remaining three Companies⁸ are engaged in development of energy sector and generation of electricity for sale to GUVNL. Thus, there were 10 Power sector SPSUs in the State as on 31 March 2019.

Disinvestment, Restructuring and Privatisation of SPSUs of Power sector

1.4 No disinvestment and privatisation of the State PSUs in the Power sector took place during the year ended 31 March 2019. GoG restructured

⁴ CAGR is a useful method to measure growth rate over multiple time-period.

⁵ Gujarat Power Corporation Limited and Gujarat Energy Transmission Corporation Limited (GETCO).

⁶ Accumulated loss ₹ 737.29 crore (GUVNL) less accumulated surplus ₹ 152.62 crore (GSECL).

⁷ A generation company *i.e.*, Gujarat State Electricity Corporation Limited (GSECL); a transmission company *i.e.*, Gujarat Energy Transmission Corporation Limited (GETCO); and four distribution Companies *viz.*, Dakshin Gujarat Vij Company Limited (DGVCL), Madhya Gujarat Vij Company Limited (MGVCL), Uttar Gujarat Vij Company Limited (UGVCL) and Paschim Gujarat Vij Company Limited (PGVCL).

⁸ Gujarat Power Corporation Limited (GPCL), Gujarat State Energy Generation Limited (GSEG) and GSPC Pipavav Power Company Limited (GPPC).

(August 2018) GSECL by merging Bhavnagar Energy Company Limited (BECL) with it. The above merger was effective from 1 April 2018.

Investment in Power sector Undertakings

1.5 The activity wise summary of investment in the 10 Power sector SPSUs as on 31 March 2019 is given in **Table 1.2** below:

Table 1.2: Activity wise investment in Power sector SPSUs as on 31 March 2019

Activity	Number of SPSUs	Investment ⁹ (₹ in crore)			
		Equity	Long-Term Loans	Grant and Subsidy	Total
Generation of power	4	4,050.03	11,197.87	197.39	15,445.29
Transmission of power	1	724.24	6,403.21	-	7,127.45
Distribution of power	4	7,708.07	651.47	-	8,359.54
Other ¹⁰	1	20,169.83	125.66	55,616.32	75,911.81
Total	10	32,652.17	18,378.21	55,813.71	1,06,844.09

Source: Compiled based on information received from SPSUs.

Out of the total investment of ₹ 1,06,844.09 crore in Power sector SPSUs as on 31 March 2019, 30.56 per cent was towards equity, 17.20 per cent was towards long-term loans and 52.24 per cent was towards grant and subsidy.

The long-term loans advanced by the State Government and Central Government constituted 4.90 per cent (₹ 900.66 crore) and 0.24 per cent (₹ 43.20 crore) of the total long-term loans respectively. The Power sector SPSUs availed 94.86 per cent (₹ 17,434.35 crore) of the total long-term loans from other financial institutions¹¹.

Assistance under Ujwal DISCOM Assurance Yojana (UDAY)

1.6 The Ministry of Power (MoP), Government of India launched (20 November 2015) *Ujwal DISCOM Assurance Yojana* (UDAY scheme) for operational and financial turnaround of State owned Power Distribution Companies (DISCOMs). As per provisions of UDAY, the participating States were required to undertake activities for operational and financial turnaround of DISCOMs. In Gujarat the DISCOMs have already achieved financial turnaround prior to introduction of UDAY therefore, the State Government/DISCOMs have not availed any loan/ assistance under UDAY. In respect of operational turnaround, the achievements *vis-à-vis* targets under UDAY regarding different operational parameters relating to the four DISCOMs of the State are given in **Table 1.3** below:

⁹ This amount will not tally with the equity and long-term loan figures in *Paragraph 1.10*, which is prepared based on latest finalised financial statements whereas details of investment in SPSUs in **Table 1.2** has been prepared based on information furnished by the SPSUs, which includes additions subsequent to latest finalised financial statements.

¹⁰ GUVNL is included under "Others" as it is the holding Company of UGVCL, DGVCL, MGVCL, PGVCL, GSECL, and GETCO. It is engaged in the business of bulk purchase and sale of electricity, supervision, co-ordination of the activities of subsidiary Companies and receives financial support from the State Government to support the four subsidiary DISCOMs.

¹¹ Banks, National Bank for Agriculture and Rural Development, Rural Electrification Corporation, Gujarat State Financial Services Limited, Financial Institutions.

Table 1.3: Parameter wise achievements vis-à-vis targets of operational performance up to 31 March 2020

Sl. No.	Parameter of UDAY Scheme	Unit	Target		Achievement	
			Physical	Date of Completion	Physical	(in per cent)
1	Feeder Metering	Nos.	724	-	5,524	100
2	Urban DT Metering	Nos.	22,686	-	50,482	100
3	Rural DT Metering	Nos.	2,33,257	-	7,83,728	100
4	Feeder Segregation	Nos.	-	-	1,077	100
5	Rural Feeder Audit	Nos.	7,953	-	2,27,391	100
6	Electricity to new household	lakh Nos.	6.35	-	13.56	100
7	Smart metering	Nos.	2,60,000	-	22,328	8.59
8	Distribution of LED UJALA	lakh Nos.	202	-	388.33	100
9	AT&C Losses	per cent	4.20	-	8.51	-
10	ACS-ARR Gap	₹ per unit	(-) 0.03	31 December 2019	(-) 0.03	100
11	Net Income or Profit/ Loss including subsidy	₹ in crore	289	31 December 2019	245.92	85.09

DT- Distribution Transformers.

Source: State Health Card under UDAY Scheme as per website (www.uday.gov.in) of the Ministry of Power, GoI.

The State has not achieved target of smart metering and the AT&C losses of DISCOMS (Sl. No. 7 and 9 of **Table 1.3**). However, the targets for remaining parameters of UDAY have been achieved.

Budgetary support to Power sector Undertakings

1.7 The State Government provides financial support to Power sector SPSUs in various forms through the annual budget. The summarised details of budgetary outgo towards equity, loans and grants/subsidies in respect of Power sector SPSUs for three years ended 2018-19 is given in **Table 1.4**. It also gives details of guarantee commitment outstanding at the end of the respective years.

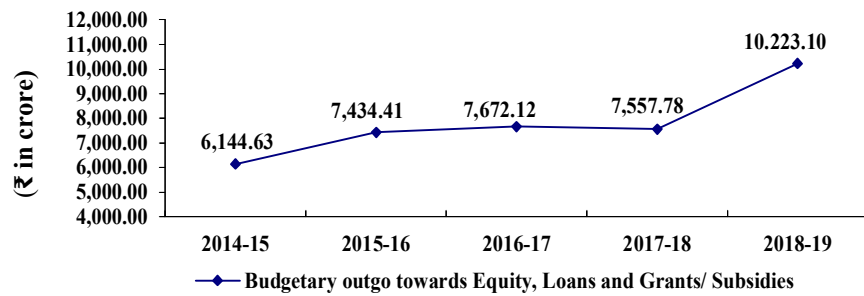
Table 1.4: Budgetary support to Power sector SPSUs during last three years

(₹ in crore)

Sl. No.	Particulars	2016-17		2017-18		2018-19	
		No. of SPSUs	Amount	No. of SPSUs	Amount	No. of SPSUs	Amount
1.	Equity Capital outgo from budget	2	2,627.41	2	2,885.99	2	2,813.37
2.	Loans given from budget	-	-	1	50.62	-	-
3.	Grants/Subsidy from budget	8	5,044.71	7	4,621.17	7	7,409.73
4.	Total Outgo (1+2+3)		7,672.12		7,557.78		10,223.10
5.	Waiver of loans and interest	-	-	-	-	-	-
6.	Loans converted into equity	-	-	-	-	-	-
7.	Guarantees issued during the year	-	-	-	-	-	-
8.	Guarantee Commitment outstanding at the end of the year	1	0.08	-	-	-	-

Source: Compiled based on information received from SPSUs.

The details of budgetary outgo towards equity, loans and grants/subsidies for past five years are given in **Chart 1.1**:

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

Source: Compiled based on information received from SPSUs.

The budgetary assistance received by these PSUs ranged between ₹ 6,144.63 crore and ₹ 10,223.10 crore during the period from 2014-15 to 2018-19. Outgo in the form of equity, loans and grants/subsidies increased from ₹ 7,557.78 crore in 2017-18 to ₹ 10,223.10 crore in 2018-19. This included ₹ 2,813.37 crore and ₹ 7,409.73 crore in form of equity and grants/subsidy respectively. GUVNL received (₹ 2,767.09 crore) major share of equity funds from budgetary outgo for upcoming power projects, transmission projects and research and maintenance activities related to power plants.

Besides, the Ministry of Power, Government of India launched (20 November 2015) *Ujwal DISCOM Assurance Yojana (UDAY)* for operational and financial turnaround of State Owned Power Distributions Companies (DISCOMs). However, the State Government has not availed any loan/ assistance under UDAY.

Further, in order to provide financial assistance to SPSUs from Banks and Financial Institutions, State Government gives guarantee under Gujarat State Guarantee Act, 1963 for which guarantee fee is being charged. During 2017-18 and 2018-19 no guarantee commitments were outstanding.

Reconciliation with Finance Accounts

1.8 The figures in respect of equity, loans and guarantees outstanding as per the records of SPSUs should agree with the corresponding figures appearing in the Finance Account of the State. In case the figures do not agree, the concerned SPSUs and the Finance Department should carry out reconciliation of the differences. The above difference in paid-up capital and Guarantee Committed as on 31 March 2019 is given in **Table 1.5** below:

Table 1.5: Equity and guarantees outstanding as on 31 March 2019 as per Finance Accounts vis-à-vis records of Power sector SPSUs

Sl. No.	Name of SPSUs	As per Finance Accounts		As per SPSU Records		Difference	
		Paid-up Capital	Guarantee Committed	Paid-up Capital	Guarantee Committed	Paid-up Capital	Guarantee Committed
1	2	3	4	5	6	7	8
1	Gujarat Energy Transmission Corporation Limited	50.00	--	12.50	--	37.50	--
2	Gujarat Urja Vikas Nigam Limited	20,170.51	344.54	20,169.83	--	0.68	344.54
Total		20,220.51	344.54	20,169.83	--	38.18	344.54

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

The differences between the figures mentioned in **Table 1.5** in respect of the two SPSUs are persisting since prior to 2003-04. Besides, four SPSUs¹² have outstanding loan of ₹ 900.66 crore that remained unreconciled because the Finance Accounts of the State report disclosed the aggregate amount of loan outstanding of the SPSUs instead of providing the breakup of amount outstanding in respect of individual SPSUs. The above issue was taken up by the Principal Accountant General (Audit) II Gujarat, regularly, the latest being in July 2020 with the SPSUs/ Departments to reconcile the differences.

We, therefore, recommend that the State Government and the SPSUs should reconcile the differences in a time bound manner.

Submission of financial statements by Power sector Undertakings

1.9 The 10 SPSUs in the Power sector, under the audit jurisdiction of C&AG as on 31 March 2019 finalised 10 annual financial statements including one consolidated financial statement¹³ as per Indian Accounting Standards (IND ASs). Of these, eight financial statements pertained to 2018-19 and remaining two financial statements pertained to previous year.

Table 1.6 provides the details of progress made by active SPSUs in the submission of financial statements as on 30 September 2019.

Table 1.6: Status for submission of financial statements of Power sector SPSUs as on 30 September 2019

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1.	Number of active SPSUs/ other companies	11	11	11	11	10
2.	Number of financial statements finalised during the year	11	13 ¹⁴	11 ¹⁵	13 ¹⁶	10 ¹⁷
3.	Number of active SPSUs which finalised financial statements for current year	9	10	9	10	8
4.	Number of previous year financial statements finalised during current year	2	3 ¹⁴	2 ¹⁵	3 ¹⁶	2 ¹⁷
5.	Number of financial statements in arrears	3 ¹⁴	2 ¹⁵	3 ¹⁶	2 ¹⁷	3 ¹⁸
6.	Number of active SPSUs with arrears in financial statements	2	1	3	2	3
7.	Extent of arrears (numbers in years)	1	1	1	1	1

Source: Compiled based on financial statements of active SPSUs received during the period October 2018 to September 2019.

The Power sector SPSUs generally submitted the financial statements timely, but the financial statement of Gujarat Energy Transmission Corporation Limited, Gujarat Power Corporation Limited and the consolidated financial statement of GUVNL were in arrear for one year (2018-19).

¹² Gujarat Energy Transmission Corporation Limited (₹ 546.08 crore), Gujarat Urja Vikas Nigam Limited (₹ 125.66 crore, Paschim Gujarat Vij Company Limited (₹ 171.69 crore) and Uttar Gujarat Vij Company Limited (₹ 57.23 crore).

¹³ Gujarat Urja Vikas Nigam Limited 2017-18.

¹⁴ This includes one consolidated financial statement of 2014-15.

¹⁵ This includes one consolidated financial statement of 2015-16.

¹⁶ This includes one consolidated financial statement of 2016-17.

¹⁷ This includes one consolidated financial statement of 2017-18.

¹⁸ This includes one consolidated financial statement of 2018-19.

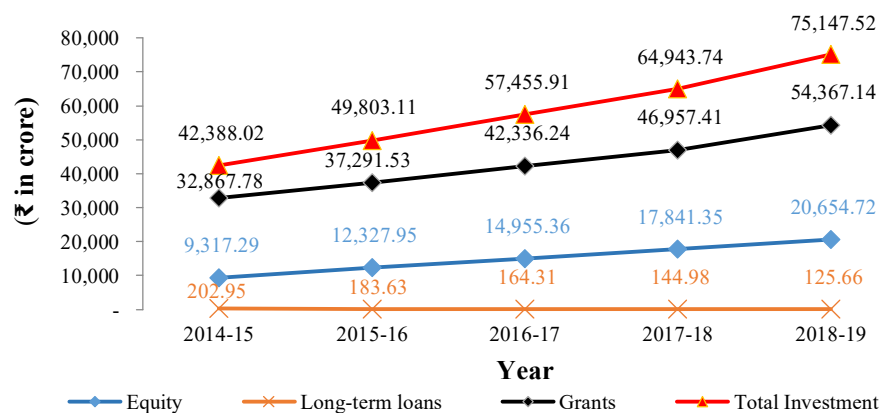
Performance of Power sector SPSUs

1.10 The financial position and working results of 10 Power sector SPSUs as per their latest finalised financial statements as of 30 September 2019 are detailed in *Annexure 1*.

The SPSUs are expected to yield reasonable return on investment made by Government in the SPSUs. The total investment of State Government and others in the Power sector SPSUs is ₹ 49,203.80 crore¹⁹ as on 31 March 2019. The investment consists of ₹ 32,638.15 crore as equity and ₹ 16,565.65 crore as long-term loans. Out of 10 Power sector SPSUs, the State Government infused funds in the form of equity, loans and grants/subsidies in three²⁰ Power sector SPSUs only while in other seven Power sector SPSUs funds have been invested by respective joint venture/ holding Companies. GoG invested Equity of ₹ 20,654.72 crore, grants/subsidies of ₹ 54,367.69 crore in three Power sector SPSUs and out of long-term loans provided, interest bearing long-term loans of ₹ 125.66 crore²¹ was outstanding in GUVNL and no interest free loan was outstanding (*Annexure 3*).

The year wise status of investment of GoG in form of equity, long-term loans and grants/subsidies in the three Power sector SPSUs during the period 2014-15 to 2018-19 is given in **Chart 1.2** below:

Chart 1.2: Total investment of GoG in Power sector SPSUs



Source: Compiled as per latest finalised financial statements received from SPSUs.

The total investment of GoG has grown by *77.28 per cent* from ₹ 42,388.02 crore in 2014-15 to ₹ 75,147.52 crore in 2018-19 as shown in the **Chart 1.2**.

¹⁹ This amount will not tally with investment amount shown in *Paragraph 1.5*, which is prepared based on information furnished by the SPSUs, which includes additions subsequent to latest finalised financial statements.

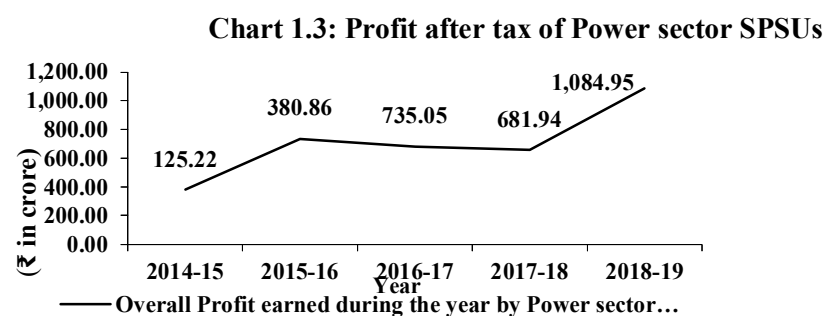
²⁰ Gujarat Power Corporation Limited, Gujarat Energy Transmission Corporation Limited, Gujarat Urja Vikas Nigam Limited.

²¹ Loan received from GoG for power purchase and Asian Development Bank loan for transmission and power evacuation component of Gujarat Solar Power Project.

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, long-term loans and grant/subsidy and is expressed as a percentage of profit to total investment. The Rate of Real Return on investment measures the profitability and efficiency with which equity and similar non-interest bearing capitals have been employed, after adjusting them for their time value, and assumes significance when compared with the conventional Return on Investment (RoI), which is calculated by dividing the PAT by the sum of all such investments counted on historical cost basis. 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.

Return on investment

1.11 Return on investment is the percentage of profit or loss to the total investment. The overall position of profit/ losses earned/ incurred after tax by all the Power sector SPSUs during 2014-15 to 2018-19 is depicted in the **Chart 1.3** below:



Source: Compiled based on latest finalised financial statements received from SPSUs.

As per their latest finalised financial statements received as on September 2019, all 10 Power sector active SPSUs, earned profit after tax of ₹ 1,084.95 crore (**Annexure 1**). The major contributors to the profit were:

- Gujarat Energy Transmission Corporation Limited (₹ 375.72 crore)
- Gujarat State Electricity Corporation Limited (₹ 372.43 crore)
- Paschim Gujarat Vij Company Limited (₹ 74.66 crore)

Position of Power sector SPSUs, which earned profit/ incurred loss during 2014-15 to 2018-19 is given in **Table 1.7** below:

Table 1.7: Power sector SPSUs that earned profit/ incurred loss

Financial year	Total number of SPSUs	During the year number of SPSUs that	
		earned profit	incurred loss
2014-15	11	08	3
2015-16	11	10	1
2016-17	11	10	1
2017-18	11	10	1
2018-19	10	10	-

Source: Compiled as per latest finalised financial statements received from SPSUs.

Return on Investment on historical cost of GoG investment

1.11.1 Out of 10 Power sector SPSUs, GoG infused funds in the form of equity, loans, grants/subsidies in three Power sector SPSUs²² only. GoG did not infuse any funds directly in the remaining seven Power sector SPSUs²³. In these seven SPSUs equity was contributed by the respective Joint venture/ Holding Companies.

The Return on investment (RoI) from the three SPSUs has been calculated on the investment made by the GoG in the SPSUs in the form of equity, interest free long-term loans, grant and subsidies given by GoG for operational and administrative expenditure. Out of the total long-term loans, only interest free loans have been considered as investment of the GoG in these SPSUs. This is so because the interest free loans given to the SPSUs are akin to equity as the Government does not receive any interest on such loans.

The investment of GoG in these three Power sector SPSUs has been arrived at by considering the equity, adding interest free loans, grants/subsidies and later deducting the interest free loans that were converted into equity in each year. The investment of GoG in three Power sector SPSUs as on 31 March 2019 was ₹ 75,147.52 crore consisting of equity of ₹ 20,654.72 crore, grants/subsidies of ₹ 54,367.14 crore and interest bearing long-term loans of ₹ 125.66 crore. As no interest free loan was outstanding as on 31 March 2019, the investment of the GoG in these three Power sector SPSUs, on the basis of historical cost at the end of 2018-19 stood at ₹ 75,021.86 crore.

The RoI in the three Power sector SPSUs on historical cost basis for the period 2014-15 to 2018-19 is given in **Table 1.8** below:

²² Gujarat Power Corporation Limited, Gujarat Energy Transmission Corporation Limited and Gujarat Urja Vikas Nigam Limited.

²³ Paschim Gujarat Vij Company Limited, Uttar Gujarat Vij Company Limited, Dakshin Gujarat Vij Company Limited, Madhya Gujarat Vij Company Limited, Gujarat State Energy Generation Limited, GSPC Pipavav Power Company Limited and Gujarat State Electricity Corporation Limited.

Table 1.8: Return on GoG Investment at historical cost

Year	Total Earnings ²⁴ / Net Losses (₹ in crore)	Investment of GoG in Equity, Interest Free Loans, Grants/subsidies (₹ in crore)	Return on investment (in per cent)
(1)	(2)	(3)	(4)=(3)÷(2)×100
2014-15	365.91	42,185.07	0.87
2015-16	302.14	49,619.48	0.61
2016-17	265.95	57,291.60	0.46
2017-18	531.15	64,798.76	0.82
2018-19	453.42	75,021.86	0.60

Source: Figures in column 2 are as per latest finalised financial statements and figures in column 3 are as per information received from SPSUs for respective years.

The RoI of the three Power sector SPSUs ranged between 0.46 per cent and 0.87 per cent during the period from 2014-15 to 2018-19.

Rate of Real Return on GoG Investment (RoRR)

1.11.2 In view of the significant investment by Government in the three Power sector Companies, Rate of Real Return (RoRR) on such investment is essential from the perspective of State Government. Traditional calculation of RoI is based on historical cost of investment, which may not be a correct indicator of the adequacy of the return on the investment since such calculations ignore the present value (PV) of money. Therefore, in addition, RoRR is calculated considering the Present Value (PV) of historical cost of investment. PV of the State Government investment was computed where funds had been infused by GoG as equity, grant/ subsidies and interest free loans since inception of these Companies till 31 March 2019. The RoRR of the SPSUs was not sufficient to recover the cost of funds for the year.

The PV of GoG investment in Power sector SPSUs was computed on the basis of following assumptions:

- Interest free loans (IFL) have been considered as investment infusion by the GoG as there are cases where interest free loans given to the SPSUs were later converted into equity. The amount of loan converted into equity has been deducted from the amount of interest free loans and added to the equity of that year.
- The funds made available in the form of grant/ subsidies have been reckoned as investment.
- The average rate of interest on GoG borrowings for the concerned financial year²⁵ was adopted as compound rate for arriving at PV since they represent the cost incurred by the government towards investment of funds for the year.

1.12 The position of State Government investment in the three Power sector SPSUs in the form of equity, grant, subsidies and loans since inception of these SPSUs till 31 March 2019 is indicated in **Annexure 2**. The consolidated

²⁴ Net profit earned during the year less losses incurred during the year (by the individual SPSUs).

²⁵ The average rate of interest on government borrowings was adopted from the Reports of the C&AG of India on State Finances (Government of Gujarat) for the concerned year. The calculation for the average rate for interest paid = Interest Payment ÷ [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities) ÷ 2] × 100.

position of the PV of the GoG investment relating to the three Power sector SPSUs since inception of these SPSUs till 31 March 2019 is indicated in **Table 1.9** below:

Table 1.9: Year wise details of GoG investment and its present value until 2018-19

(₹ in crore)

Financial year	PV of investment at beginning of year	During the year infused by GoG				Investment at the end of year	Avg. rate of interest on government borrowings (in per cent)	Net present value of total investment at the end of the year	Min. expected return to recover cost of funds for the year ²⁶	Total earnings for the year	
		Equity	IFL		Grants/ Subsidies for operation and administrative Expenditure						Total investment
1	2	3	4	5	6	7= 3+4+5+6	8=2+7	9	10=8×(1+(9÷100))	11= (8×(9÷100))	12
Up to 2004-05	-	200.32	-	-	1,445.62	1,645.94	1,645.94	9.08	1,795.39	-	-
2005-06	1,795.39	1,628.71	-	-	1,620.89	3,249.60	5,044.99	8.06	5,451.62	406.63	91.77
2006-07	5,451.62	756.31	225.58	150.00	2,010.30	2,842.19	8,293.81	8.19	8,973.07	679.26	89.31
2007-08	8,973.07	811.61	-	-	2,284.93	3,096.54	12,069.61	8.12	13,049.66	980.05	54.37
2008-09	13,049.66	120.70	(11.76)	-	3,613.72	3,722.66	16,772.32	7.80	18,080.56	1,308.24	59.19
2009-10	18,080.56	97.97	(15.12)	-	3,357.65	3,440.50	21,521.06	7.64	23,165.27	1,644.21	118.96
2010-11	23,165.27	703.76	(15.12)	-	3,126.43	3,815.07	26,980.34	7.56	29,020.06	2,039.71	296.75
2011-12	29,020.06	518.20	(15.12)	-	2,230.55	2,733.63	31,753.69	7.63	34,176.49	2,422.81	338.21
2012-13	34,176.49	1,056.25	(15.12)	-	4,409.45	5,450.58	39,627.07	7.66	42,662.51	3,035.43	296.14
2013-14	42,662.51	1,539.25	(3.34)	-	4,507.82	6,043.73	48,706.24	7.62	52,417.65	3,711.42	362.78
2014-15	52,417.65	1,884.21	-	-	4,260.42	6,144.63	58,562.28	7.76	63,106.72	4,544.43	365.91
2015-16	63,106.72	3,010.66	-	-	4,423.75	7,434.41	70,541.13	7.69	75,965.74	5,424.61	302.14
2016-17	75,965.74	2,627.41	-	-	5,044.71	7,672.12	83,637.86	7.67	90,052.88	6,415.02	265.95
2017-18	90,052.88	2,885.99	-	-	4,621.17	7,507.16	97,560.04	7.59	1,04,964.85	7,404.81	531.15
2018-19	1,04,964.85	2,813.37	-	-	7,409.73	10,223.10	1,15,187.95	7.44	1,23,757.93	8,569.98	453.42
Total		20,654.72	150.00	150.00	54,367.14	75,021.86					

Source. Figures of equity, interest free loans and grants/subsidies are compiled based on information received from SPSUs and the figure of total earnings is compiled based on latest finalised financial statements.

The investment by GoG in these three SPSUs increased from ₹ 1,645.94 crore in 2004-05 to ₹ 75,021.86 crore in 2018-19. The PV of investment of the State Government up to 31 March 2019 worked out to ₹ 1,23,757.93 crore. Total earnings for the year 2004-05 to 2018-19 depicted net earnings for the year related to three SPSUs. The total earnings for the year relating to these SPSUs remained positive during 2004-05 to 2018-19, however, the earnings remained substantially below the minimum expected return towards the investment made in these Power sector SPSUs. The RoRR of investment of ₹ 1,23,757.93 crore to the total earnings of three SPSUs during 2018-19 is as per **Table 1.10** below:

Table 1.10: Return on GoG Funds for 2018-19

(₹ in crore)

Year	Total Earnings/ (Loss)	At historical cost		At Present Value (PV)	
		Investment by GoG in form of Equity, IFL and grant	Return on Investment (per cent)	Investment of GoG at the end of year	Rate of Real Return (per cent)
1	2	3	4=(2÷3)×100	5	6=(2÷5)×100
2014-15	365.91	42,185.07	0.87	63,106.72	0.58
2015-16	302.14	49,619.48	0.61	75,965.74	0.40
2016-17	265.95	57,291.60	0.46	90,052.88	0.29
2017-18	531.15	64,798.76	0.82	1,04,964.85	0.51
2018-19	453.42	75,021.86	0.60	1,23,757.93	0.37

Source: Figures of earnings, investment and Present Value of investment is compiled from **Table 1.9**.

²⁶ Present value of Total investment at the end of the year less Total investment at the end of the year.

The RoRR was less than RoI as indicated by the comparison of returns during 2018-19. Return on Investment was 0.60 *per cent* during 2018-19 whereas Rate of Real Return was only 0.37 *per cent*.

Performance of Power sector SPSUs with investment of GoG

Analysis of net worth of active Power sector SPSUs

1.13 Net worth means the sum total of the paid-up capital and free reserves and surplus *minus* accumulated losses and deferred revenue expenditure. Essentially, it is a measure of what an entity is worth to the owners. A negative net worth indicates that the entire investment by the owners has been wiped out by accumulated losses and deferred revenue expenditure. The capital investment²⁷ and accumulated profits of the three active SPSUs as per their latest finalised financial statements were ₹ 23,565.12 crore and ₹ 2,768.15 crore respectively as detailed in *Annexure 1*. As on 31 March 2019, the aggregate net worth of all the active SPSUs in the Power sector was positive.

The paid-up capital, accumulated profit/ loss and net worth of the three Power sector SPSUs for the period from 2014-15 to 2018-19 are given in **Table 1.11** below:

Table 1.11: Net worth of three Power sector SPSUs during 2014-15 to 2018-19

<i>(₹ in crore)</i>				
Year	Paid up capital at the end of the year	Free Reserves	Accumulated Profit (+) Loss (-) at end of the year	Net worth
2014-15	8,006.32	1,666.05	1,413.50	11,085.87
2015-16	9,459.47	2,109.83	1,690.50	13,259.80
2016-17	14,770.26	2,252.25	2,163.96	19,186.47
2017-18	17,344.48	2,663.47	2,696.01	22,703.96
2018-19	20,901.65	2,663.47	2,768.15	26,333.27

Source: As per latest finalised financial statements received in respective years from SPSUs.

Dividend Pay-out

1.14 The Finance Department has issued standing instructions in October 1994 by which all profit making SPSUs were required to pay dividend to the government regularly. As per their latest finalised financial statements, the three active Power sector SPSUs in which the share capital was invested by GoG earned profit of ₹ 453.42 crore. However, none of these SPSUs declared dividend during 2018-19.

The State Government may consider specifying minimum rate of return from the profit earned by SPSUs on the paid-up share capital contribution by the State Government.

²⁷ Capital investment=Paid-up capital *excluding* share money application pending allotment *plus* Free Reserves

Return on equity

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

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

RoE has been computed in respect of three Power sector SPSUs in which the State Government has infused funds. The details of Shareholders' fund and RoE relating to these three Power sector SPSUs during the period from 2014-15 to 2018-19 are given in **Table 1.12** below:

Table 1.12: Return on equity of three Power sector SPSUs where GoG in equity

Year	Net Income (₹ in crore)	Shareholders' fund (₹ in crore)	RoE (in per cent)
2014-15	365.91	11,085.87	3.30
2015-16	302.14	13,259.80	2.28
2016-17	265.95	19,186.47	1.39
2017-18	531.15	22,703.96	2.34
2018-19	453.42	26,333.27	1.72

Source: As per latest finalised financial statements received in respective years from SPSUs.

During the last five years ended March 2019, the Net Income and Shareholders' fund was positive.

Return on capital employed in active Power sector SPSUs

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 employed²⁸. The details of RoCE of 10 Power sector SPSUs during the period from 2014-15 to 2018-19 are given in **Table 1.13** below:

Table 1.13: Return on Capital Employed

Year	EBIT (₹ in crore)	Capital Employed (₹ in crore)	RoCE (in per cent)
2014-15	3,145.47	49,385.77	6.37
2015-16	3,366.38	47,285.84	7.12
2016-17	3,471.05	55,537.32	6.25
2017-18	3,570.50	59,021.29	6.05
2018-19	2,977.48	64,533.80	4.61

Source: As per finalised financial statements received in respective years from Companies.

²⁸ Capital employed= Paid-up capital *minus* share application money pending allotment *plus* accumulated profit/ loss *plus* free reserves *plus* long-term loan outstanding.

The RoCE of Power sector SPSUs ranged between 4.61 and 7.12 *per cent* during the period 2014-15 to 2018-19. During 2018-19, the EBIT has decreased by 16.61 *per cent* while Capital employed has increased by 9.34 *per cent* as compared to 2017-18.

Analysis of long-term loans of active Power sector SPSUs

1.17 The analysis of long-term loans of SPSUs which had leverage during 2014-15 to 2018-19 was carried out to assess the ability of the SPSUs to service the debt owned by the SPSUs 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 the ability of the Company to pay interest on debt. Interest coverage ratio below one indicates that the Company was not generating sufficient revenues to meet its expenses on interest. The details of interest coverage ratio²⁹ in ten Power sector SPSUs that had interest burden during the period from 2014-15 to 2018-19 are given in **Table 1.14** below:

Table 1.14: Interest coverage ratio of Power sector SPSUs

Year	Interest (₹ in crore)	Earnings before interest and tax (₹ in crore)	Number of SPSUs having liability of interest from Government and Banks and other financial institutions	Number of SPSUs with interest coverage ratio	
				In excess of 1	Less than 1
2014-15	2,469.15	3,145.47	10	08	2 ³⁰
2015-16	2,320.99	3,366.38	10	10	-
2016-17	2,169.49	3,471.05	10	10	-
2017-18	2,123.69	3,570.50	11	10	1 ³¹
2018-19	1,852.81	2,977.48	10	10	-

Source: As per finalised financial statements received in respective years from SPSUs.

It was observed that during 2018-19 Interest Coverage ratio of individual SPSUs and overall of Power sector SPSUs was more than one.

Debt Turnover ratio of Power sector SPSUs

1.19 During the last five years, the turnover of Power sector SPSUs recorded CAGR of 10.04 *per cent* and CAGR of debt was (-) 1.59 *per cent* due to which the Debt Turnover Ratio improved from 0.27 in 2014-15 to 0.15 in 2018-19 as given in **Table 1.15** below:

²⁹ Earnings before interest and tax (EBIT) ÷ Interest.

³⁰ Gujarat State Energy Generation Limited and GSPC Pipavav Power Company Limited.

³¹ Bhavnagar Energy Company Limited.

Table 1.15: Debt Turnover Ratio of Power sector SPSUs

Particulars	(₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Debt from Government and Others (Banks and Financial institutions)	19,908.67	18,861.76	19,445.03	17,041.59	16,565.65
Turnover	74,271.78	82,115.94	84,049.58	94,544.75	109,824.46
Debt Turnover Ratio	0.27:1	0.23:1	0.23:1	0.18:1	0.15:1

Source: Compiled based on latest finalised financial statements.

Comments on financial statements of Power sector SPSUs

1.20 Ten Power sector SPSUs forwarded their 10 audited financial statements³² for supplementary audit during the period October 2018 to September 2019. All the 10 financial statements were reviewed in supplementary audit. The comments in the Audit Report of Statutory Auditors appointed by the C&AG and the supplementary audit of the C&AG mention the significant observations on the financial statements. These comments indicate the quality of financial statements and highlight the areas, which need improvement. The details of aggregate money value of comments of Statutory Auditors and the C&AG for the financial statements of 2016-19 are given in **Table 1.16**.

Table 1.16: Impact of audit comments on Power sector SPSUs

Sl. No.	Particulars	(₹ in crore)					
		2016-17		2017-18		2018-19	
		No. of FSs	Amount	No. of FSs	Amount	No. of FSs	Amount
1.	Increase in profit	01	82.67	-	-	-	-
2.	Decrease in profit	-	-	-	-	01	716.09
3.	Non-disclosure of material facts	01	23.85	01	401.00	-	-
4.	Errors of classification	01	58.15	07	2,851.94	04	2,162.93
	Total		164.67		3,252.94		2,879.02

FSs- Financial Statements.

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

The aggregate money value of Statutory Auditors' comments and C&AG's comments during the year 2018-19 was ₹ 2,879.02 crore.

During the period from October 2018 to September 2019, the Statutory Auditors had given unqualified opinion for eight financial statements and qualified opinion for two financial statements. The compliance of SPSUs with the Accounting Standards (ASs)/ IND AS remained deficient, as six instances of non-compliance were observed in five financial statements. Few instances of non-compliance of IND AS commented upon in the financial statements of SPSUs are discussed below:

i. Gujarat Urja Vikas Nigam Limited (Standalone) (2018-19)

The Company through oversight paid excess wheeling/ transmission charges amounting to ₹ 716.09 crore during 2009-18 to Gujarat Energy Transmission Corporation Limited. The Company during 2018-19 recovered the above

³² Includes one consolidated financial statement of Gujarat Urja Vikas Nigam Limited for the year 2017-18.

excess wheeling/ transmission charges and reported it as revenue for the year. The Company follows IND AS for preparation of its financial statements. IND AS 8 requires that an entity shall correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by restating the comparative amounts for the prior period(s) presented in which the error occurred. As the above was an error relating to the prior period, the effect of the same should have been worked out retrospectively and accounted for in the opening balance of retained earnings. This has resulted in understatement of retained earnings and overstatement of profit by ₹ 716.09 crore.

ii. Dakshin Gujarat Vij Company Limited (2018-19)

The Company recognised the grants/ consumer contribution received against depreciable assets at reducing balance method but it revised the above recognition to straight line method from 01 April 2016. The Company revised the method to rectify the error of mismatch in recognition of grants in the Statement of Profit and Loss *vis-à-vis* the related depreciation expense. As per Accounting Standard-12, Grants related to depreciable assets are treated as deferred income and the provision for its recognition are same in AS-12 and the corresponding IND AS 20 therefore the above change was not mandated by IND AS 20. Since the depreciable assets related to the above grants/ consumer contribution were capitalised in the books of the Company the effect of such change should have been worked out retrospectively and accounted in the opening balance of Deferred Government Grants, Subsidies and Consumer contribution. This has resulted in overstatement of retained earnings and understatement of balances of Deferred Government Grants, Subsidies and Consumer Contribution towards Capital Assets by ₹ 293.44 crore as at 31 March 2017.

The above observations were issued for financial statements for the year 2016-17 and 2017-18, however, no corrective action has been taken by the Company during 2018-19.

The above comment was also issued on the financial statements of **Madhya Gujarat Vij Company Limited** and **Paschim Gujarat Vij Company Limited** for the year ending 31 March 2019.

Follow-up action on Audit Reports

Replies outstanding

1.21 The Report of the C&AG of India represents the culmination of the process of audit scrutiny. It is therefore, necessary that they elicit appropriate and timely response from the executive. All the administrative departments of SPSUs need to submit, within three months of their presentation to the Legislature, the explanatory notes indicating the corrective/ remedial action taken or proposed to be taken on paragraphs and Performance Audits included in the Audit Reports.

There were no explanatory notes pending to be received (June 2020) from Energy and Petrochemical department on paragraphs and PAs included in the Audit Reports.

Discussion of Audit Reports by COPU

1.22 The status as on 30 September 2019 of Performance Audits and Paragraphs that appeared in Audit Reports (PSUs) and discussed by Committee on Public Undertakings (COPU) pertaining to Energy & Petrochemicals department was as under:

Table 1.17: PAs/ CA Paragraphs appeared in Audit Reports *vis-à-vis* discussed as on 30 September 2019

Period of Audit Report	Number of Performance Audits/ paragraphs			
	Appeared in Audit Report		Paragraphs discussed	
	PAs	Paragraphs	PAs	Paragraphs
2015-16	2	2	-	-
2016-17	-	4	-	-
Total	2	6	-	-

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

The discussion on the Audit Reports (PSUs) up to 2014-15 has been completed.

Compliance to Reports of COPU

1.23 Action Taken Notes (ATN) to a recommendation made on a paragraph which pertained to a Report of the COPU presented to the State Legislature in September 2018 had not been received (September 2019) as indicated below:

Table 1.18: Compliance to COPU Reports

Report of COPU	Total number of recommendations in COPU Report	Number of recommendations for which ATNs not received
2 nd Report of 14 th Assembly	1	1
Total	1	1

Source: Compiled based on ATNs received on recommendations of COPU from the respective Departments of GoG.

The Report of COPU for which ATN was not received, contained recommendation in respect of the paragraph which appeared in the Report of the C&AG of India for the year 2012-13.

It is recommended that the Government may ensure that replies to Explanatory Notes/ Draft Paragraphs/ Performance audits and ATNs on the recommendation of COPU are received as per the prescribed time schedule.

