

PART - II

Chapter - III Functioning of State Public Sector Undertakings (other than Power Sector)

PART-II

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Introduction

3.1 There were 47¹ State Public Sector Undertakings (PSUs) as on 31 March 2019 which were related to sectors other than Power Sector. These State PSUs, incorporated during the period 1952-53 to 2016-17, included 40 Government Companies, three Government Controlled Other Companies (GCOC) and four Statutory Corporations *i.e.* Punjab Scheduled Castes Land Development and Finance Corporation (PSCLDFC), PEPSU Road Transport Corporation (PRTC), Punjab State Warehousing Corporation (PSWC) and Punjab Financial Corporation (PFC). The Government Companies included 19² inactive companies and 13³ subsidiary companies owned by Government Companies. Besides these 47 State PSUs, there was one State PSU (Statutory Corporation) namely Punjab Backward Classes Land Development and Finance Corporation, audit of which was not under the purview of the Comptroller and Auditor General of India (CAG).

The Government of Punjab (GoP) provides financial support to the State PSUs in the shape of equity, loans and grants/subsidies from time to time. Of the 47 State PSUs, the State Government invested funds in 35⁴ State PSUs only.

Contribution to Economy of the State

3.2 A ratio of turnover of the PSUs to the Gross State Domestic Product (GSDP) shows the extent of activities of the PSUs in the State economy. The following table provides the details of turnover of State PSUs and GSDP of Punjab for a period of five years ending March 2019:

¹ During the year, one PSU *i.e.* Punjab Agro Power Corporation Limited was removed from the Register of Companies by the Registrar of Companies under Section 248(5) of the Companies Act, 2013.

² Sl. No. 22 to 26, 30 to 43 of *Annexure 4*.

³ Sl. No. 1, 9, 12, 23, 28, 33 to 38, 42 and 43 of *Annexure 4*.

⁴ Includes five subsidiaries (Sl. No. 1, 9, 12, 23 and 38 of *Annexure 4*) of Government Companies where the State Government has infused investment in the shape of loans/ grants/ subsidies only.

Table 3.1: Details of turnover of State PSUs (other than Power Sector) vis-à-vis GSDP of Punjab

Particulars	(₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Turnover	30,462.89	32,104.55	33,032.24	36,728.43	40,883.49
GSDP of Punjab (at current prices and advance estimates)	3,49,826.00	4,08,815.00	4,27,297.00	4,77,482.00	5,21,861.00
Percentage of Turnover to GSDP of Punjab	8.71	7.85	7.73	7.69	7.83

Source: Compiled based on turnover figures of working PSUs and GSDP figures as intimated by Economic and Statistical Organisation, Government of Punjab.

The PSUs recorded continuous increase in their turnover over the previous years' turnover as per their latest finalised accounts available in respective years. The increase in turnover ranged between 2.89 per cent and 23.59 per cent during the period 2014-19, whereas increase in GSDP of the State ranged between 4.52 per cent and 16.86 per cent during the same period. The compounded annual growth is a useful method to measure growth rate over multiple time periods. Against the compounded annual growth of 10.45 per cent of the GSDP, the turnover of these PSUs recorded higher compounded annual growth of 10.65 per cent during last five years. However, there is decrease in share of turnover of these PSUs to the GSDP, in percentage terms, from 8.71 per cent in 2014-15 to 7.83 per cent in 2018-19.

Investment in State PSUs

3.3 There are some PSUs which function as instruments of the State Government to provide certain services which the private sector may not be willing to extend due to various reasons. Besides, the Government has also invested in certain business segments through PSUs where they function in a competitive environment with private sector enterprises. The position of these State PSUs have therefore been analysed under two major classifications viz. those in the social sector and those functioning in competitive environment. Besides, four⁵ of these State PSUs incorporated to perform some specific activities on behalf of the State Government have been categorised under 'others'. Details of investment made in these 47 State PSUs in shape of equity and long term loans upto 31 March 2019 are detailed in **Annexure 4**.

3.4 The sector-wise summary of investment by the State Government and others in these State PSUs as on 31 March 2019 is given in the following table:

⁵ Punjab Police Housing Corporation Limited, Amritsar Smart City Limited, Ludhiana Smart City Limited and Jalandhar Smart City Limited.

Table 3.2: Sector-wise investment in State PSUs

Sector	Number of PSUs		Investment (₹ in crore)						Total (₹ in crore)
			Equity		Long term loans		Grants/ subsidies		
	Active	Inactive	Active	Inactive	Active	Inactive	Active	Inactive	
Social	21	5	1,028.96	4.83	25,972.04	4.08	2,491.96	0.00	29,501.87
Competitive	3	14	130.62	19.30	708.51	27.99	5.00	0.00	891.42
Others	4	0	0.08	0.00	25.00	0.00	50.00	0.00	75.08
Total	28	19	1,159.66	24.13	26,705.55	32.07	2,546.96	0.00	30,468.37

As on 31 March 2019, the total investment (equity, long term loans and grants/subsidies) in these 47 PSUs was ₹ 30,468.37 crore. The investment consisted of 3.89 per cent towards equity, 87.75 per cent in long-term loans and 8.36 per cent towards grants/ subsidies. The long term loans advanced by the State Government constituted 90.70 per cent (₹ 24,251.15 crore) of the total long term loans and 9.30 per cent (₹ 2,486.47 crore) were availed from other financial institutions.

The investment grew by 629.10 per cent from ₹ 4,178.92 crore in 2014-15 to ₹ 30,468.37 crore in 2018-19. The investment increased due to addition of ₹ 24,787.88 crore towards long term loans due to conversion of short term Cash Credit Liabilities of State Procuring Agencies⁶ into long term loans of the GoP (Legacy Account) during 2014-15 to 2018-19. There was also a reduction in equity⁷ of ₹ 45.50 crore and addition of ₹ 1,547.07 crore in grants/ subsidies in the corresponding period.

Disinvestment, restructuring and privatisation of State PSUs

3.5 During the year 2018-19, no disinvestment, restructuring or privatisation was done by the State Government in these State PSUs.

Budgetary Support to State PSUs

3.6 The GoP provides financial support to State PSUs 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 these State PSUs for the three years ended March 2019 are as follows:

⁶ Punjab Agro Foodgrains Corporation Limited (PAFCL), Punjab State Civil Supplies Corporation Limited (PUNSUP), Punjab State Grains Procurement Corporation Limited (PUNGRAIN) and Punjab State Warehousing Corporation (PSWC).

⁷ Major net reduction in Punjab Water Resources Management and Development Corporation Limited: ₹ 65.74 crore and infusion in PSCLDFC: ₹ 21.16 crore.

Table 3.3: Details regarding budgetary support to State PSUs

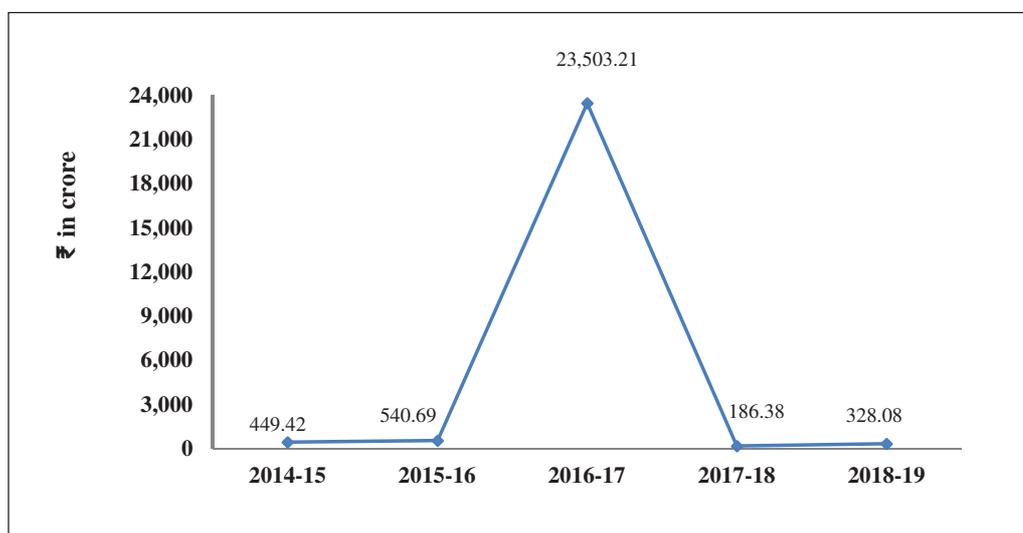
(₹ in crore)

Particulars ⁸	2014-15		2015-16		2016-17		2017-18		2018-19	
	Number of PSUs	Amount	Number of PSUs	Amount	Number of PSUs	Amount	Number of PSUs	Amount	Number of PSUs	Amount
Equity Capital outgo (i)	3	72.07	2	32.24	2	10.83	-	-	-	-
Loans given (ii)										
a) Interest free	-	-	-	-	-	-	-	-	-	-
b) Interest bearing	-	-	-	-	4	22,974.19	-	-	-	-
Grants/Subsidies provided (iii)	3	377.35	5	508.45	3	518.19	4	186.38	8	328.08
Total Outgo (i+ii+iii)		449.42		540.69		23,503.21		186.38		328.08
Loan repayment written off	-	-	-	-	2	6.47	-	-	-	-
Loans converted into equity	-	-	-	-	-	-	-	-	-	-
Guarantees issued	7	26,810.58	2	34.40	-	-	2	141.12	1	150.00
Guarantee Commitment	9	34,488.81	10	29,250.45	7	1,633.69	9	1,721.84	10	2,023.31

Source: Compiled based on information received from PSUs.

The details regarding budgetary outgo towards equity, loans and grants/subsidies for the last five years ending March 2019 are given in a graph below:

Chart 3.1: Budgetary outgo towards Equity, Loans and Grants/Subsidies



The annual budgetary assistance to these PSUs ranged between ₹ 186.38 crore and ₹ 23,503.21 crore during the period 2014-15 to 2018-19. The budgetary assistance of ₹ 328.08 crore given during the year 2018-19 was in the form of grants/subsidies. The State Government did not infuse any equity or provide new loans to these PSUs during 2018-19. The grants/subsidies given by the State Government were primarily for lining of water courses and sinking and installation (S&I) of tubewells, assistance under Rashtriya Krishi Vikas Yojana, discharge of debt liabilities and administrative expenses.

⁸ Amount represents outgo from the State budget only.

In order to enable PSUs to obtain financial assistance from banks and financial institutions, the State Government gives guarantee under Punjab Fiscal Responsibility and Budget Management Act, 2003 subject to the limits prescribed by the Constitution of India, for which a guarantee fee is charged. The State Government charged guarantee fee at the rate of two *per cent* from the PSUs. Outstanding guarantee commitments had decreased from ₹ 34,488.81 crore in 2014-15 to ₹ 2,023.31 crore in 2018-19. Punjab State Industrial Development Corporation had defaulted in payment of guarantee commission of ₹ 26.63 crore which was to be paid by it, since 1997. Further, PSWC and Punjab Police Housing Corporation Limited did not make payment of guarantee commission of ₹ 0.83 crore and ₹ 0.50 crore respectively for the year 2018-19.

Reconciliation with the Finance Accounts of the Government of Punjab

3.7 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the Government of Punjab. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of the differences. The position in this regard as on 31 March 2019 is stated below:

Table 3.4: Equity, loans and guarantees outstanding as per the Finance Accounts of Government of Punjab vis-à-vis records of State PSUs

(₹ in crore)			
Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of State PSUs	Difference
Equity	831.44	1,059.22	(-)227.78
Loans	25,661.87	24,251.15	1,410.72
Guarantees	2,178.70	2,023.31	155.39

Source: Compiled based on information received from PSUs and Statement nos. 18, 19 and 20 of Finance Accounts of Government of Punjab for the year 2018-19.

Audit observed that out of 47 State PSUs, such differences occurred in respect of 32 PSUs as shown in *Annexure 5*. The differences between the figures are persisting for the last many years. The issue of reconciliation of differences has been taken up by the Principal Accountant General (Audit) Punjab with the PSUs and the Departments from time to time. Major difference in balances was observed in Punjab Water Resources Management and Development Corporation Limited (PWRMDC) and the State Foodgrains Procuring Agencies (SPAs). The State Government and the respective PSUs should reconcile the differences in a time-bound manner.

Submission of Accounts by State PSUs

3.8 Of the total 47 State PSUs, 28 PSUs – 24 Companies and 4 Statutory Corporations are active while 19 Companies are inactive as of 31 March 2019. The status of timelines followed by the State PSUs in preparation of their accounts are as detailed below:

Timeliness in preparation of Accounts by the working State PSUs

3.8.1 Accounts for the year 2018-19 were required to be submitted by all the working PSUs by 30 September 2019. However, out of 24 working Government Companies, 4 Companies submitted their accounts for the year 2018-19 for audit by CAG on or before 30 September 2019, whereas accounts of 20 Government Companies were in arrears. Of the four Statutory Corporations, CAG is the sole auditor in two Statutory Corporations (PSCLDFC and PRTC). PSCLDFC has submitted accounts for the year 2018-19. Accounts for the year 2018-19 were awaited in respect of other three corporations as on 30 September 2019.

Details of arrears in submission of accounts of working PSUs as on 30 September 2019 are given below:

Table 3.5: Position relating to submission of accounts by the working State PSUs

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1.	Number of PSUs	26	26	25	28	28
2.	Number of accounts submitted during current year	31	23	23	28	36
3.	Number of working PSUs which finalised accounts for the current year	6	5	4	5	5
4.	Number of previous year accounts finalised during current year	25	18	19	23	31
5.	Number of working PSUs with arrears in accounts	20	21	21	23	23
6.	Number of accounts in arrears	34	37	38	44	33
7.	Extent of arrears	One to four years	One to five years	One to four years	One to eight years	One to four years

Source: Compiled based on accounts of PSUs received during the period October 2018 to September 2019.

Of these 28 working State PSUs, 26 PSUs had finalised their 36 annual accounts during the period from 1 October 2018 to 30 September 2019 which included five annual accounts for the year 2018-19 and 31 annual accounts for previous years. Further, 33 annual accounts were in arrears which pertain to 23 PSUs. The Administrative Departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the stipulated period. The concerned Departments were informed half yearly by the Principal Accountant General (Audit) Punjab regarding arrears in finalisation of accounts.

The GoP had provided ₹ 354.33 crore (grants/subsidies) to seven of the 23 working State PSUs, accounts of which had not been finalised by 30 September 2019 as prescribed under the Companies Act, 2013 whereas no investment was made in remaining 16 PSUs during the period for which their accounts are in arrears. PSU wise details of investment made by the State Government during the years for which accounts are in arrears are shown in **Annexure 6**.

In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred had been properly accounted for and the purpose for which the amount was invested was achieved. The GoP investment in these PSUs, therefore, remained outside the scrutiny of the State Legislature.

Timeliness in preparation of Accounts by inactive State PSUs

3.8.2 There were arrears in finalisation of accounts by 17 out of total 19 inactive PSUs, details of which are as given below:

Table 3.6: Position relating to arrears of accounts in respect of inactive PSUs

Sl. No.	Name of inactive companies	Period for which accounts were in arrears
1.	Punjab Land Development and Reclamation Corporation Limited	1995-96 to 2018-19
2.	Punjab Micro Nutrients Limited	1992-93 to 2018-19
3.	Punjab Poultry Development Corporation Limited	2016-17 to 2018-19
4.	Amritsar Hotel Limited	2016-17 to 2018-19
5.	Neem Chameli Tourist Complex Limited	2018-19
6.	Punjab Venture Capital Limited	2018-19
7.	Punjab Film and News Corporation Limited	2009-10 to 2018-19
8.	Electronic Systems Punjab Limited	2014-15 to 2018-19
9.	Punjab Bio-Medical Equipments Limited	1997-98 to 2018-19
10.	Punjab Digital Industrial System Limited	2007-08 to 2018-19
11.	Punjab Electro Optics Systems Limited	1997-98 to 2018-19
12.	Punjab Footwears Limited	2000-01 to 2018-19
13.	Punjab Power Packs Limited	1998-99 to 2018-19
14.	Punjab State Handloom and Textile Development Corporation Limited	2017-18 to 2018-19
15.	Punjab State Hosiery and Knitwear Development Corporation Limited	2006-07 to 2018-19
16.	Punjab State Leather Development Corporation Limited	2010-11 to 2018-19
17.	Punjab Tanneries Limited	1997-98 to 2018-19

Source: Compiled based on accounts of PSUs received.

Out of 19 inactive PSUs, six⁹ were in the process of liquidation whose accounts were in arrears for five to 27 years. Out of the remaining 13 inactive PSUs, 11 had arrears of accounts ranging from one to 24 years.

Placement of Separate Audit Reports of Statutory Corporations in the State Legislature

3.9 Out of four working Statutory Corporations, PSCLDFC had forwarded its accounts for the year 2018-19 by 30 September 2019.

Separate Audit Reports (SARs) are audit reports of the CAG on the accounts of Statutory Corporations. These reports are to be laid in the Legislature as per

⁹ Companies at Sl. No. 23, 33, 34, 35, 36 and 38 of *Annexure 7*.

the provisions of the respective Acts. Status of annual accounts of Statutory Corporations and placement of their SARs in legislature is detailed below:

Table 3.7: Status of placement of SARs of the Statutory Corporations

Sl. No.	Name of Corporation	Year up to which SARs placed in the Legislature	Year for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Present Status
1	Punjab Financial Corporation	2015-16	2016-17 2017-18	18-10-2018 -	Yet to be placed SAR under finalisation
2	Punjab Scheduled Castes Land Development and Finance Corporation	2016-17	2017-18 2018-19	11-04-2019 -	Yet to be placed SAR under finalisation
3	PEPSU Road Transport Corporation	2013-14	2014-15 2015-16 2016-17	29-10-2018 01-03-2019 -	Yet to be placed Yet to be placed SAR under finalisation
4	Punjab State Warehousing Corporation	2015-16	2016-17 2017-18	07-01-2019 -	Yet to be placed SAR under finalisation

Source: Information provided by PSUs.

Impact of non-finalisation of Accounts of State PSUs

3.10 The delay in finalisation of accounts is a violation of the provisions of the relevant Statutes, and it has multiple consequences such as (i) Actual contribution of the PSUs to State GDP for the year 2018-19 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature, (ii) It may result in fraud and leakage of public money apart from violation of the provisions of the relevant statutes, (iii) In absence of finalisation of accounts and their subsequent audits, oversight by the Statutory Auditors appointed by the CAG and supplementary audit by the CAG could not be exercised, (iv) It could not be ensured whether the investments and expenditure incurred had been properly accounted for and the purpose for which the amount was invested was achieved besides being a violation of the provisions of the relevant Statutes.

Of the working PSUs, 23 PSUs had arrears of finalisation of 33 annual accounts ranging from one year to four years. It is, therefore, recommended that the Administrative Departments should strictly monitor and issue necessary directions to liquidate the arrears in accounts. The Government may also look into the constraints in preparing the accounts of the PSUs and take necessary steps to liquidate the arrears in accounts.

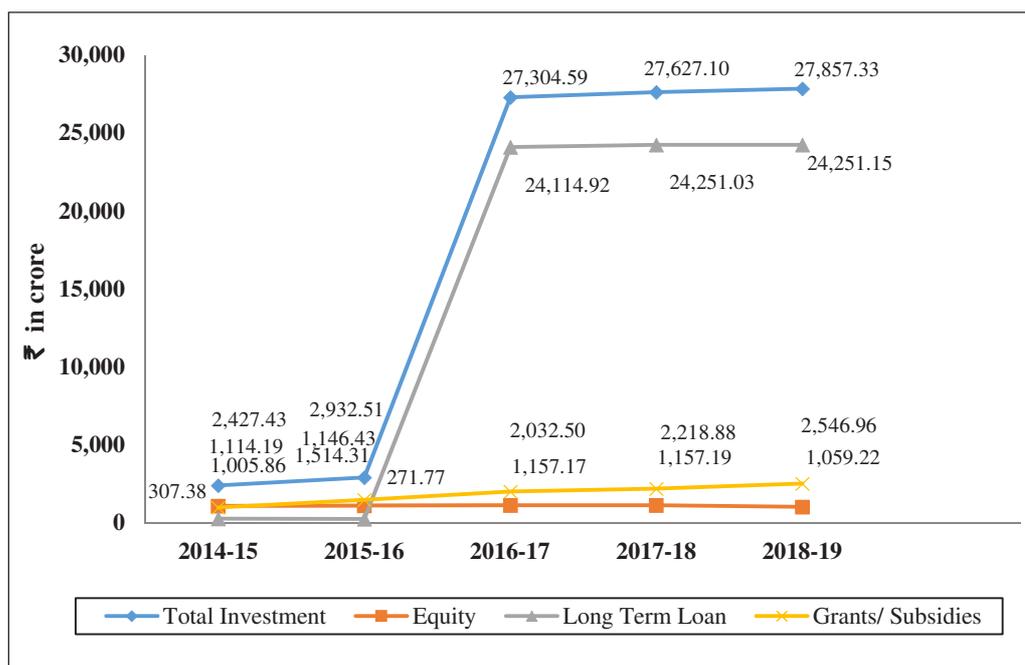
Performance of State PSUs

3.11 The financial position and working results of the 47 State PSUs are detailed in *Annexure 7* as per their latest finalised accounts as of 30 September 2019.

The Public Sector Undertakings are expected to yield reasonable return on investment made by the Government in the undertakings. The total investment of State Government and others in the PSUs as on 31 March 2019 was ₹ 30,468.37 crore consisting of equity of ₹ 1,183.79 crore, long term loans of ₹ 26,737.62 crore and grants/subsidies of ₹ 2,546.96 crore. Out of this, the Government of Punjab has investment of ₹ 27,857.33 crore in the 35 PSUs consisting of equity of ₹ 1,059.22 crore, long term loans of ₹ 24,251.15 crore and grants/subsidies of ₹ 2,546.96 crore (including ₹ 465.32 crore on account of grants/subsidies for purposes other than operational and management expenses).

The year wise investment of the GoP in the PSUs during the period 2014-15 to 2018-19 is as follows:

Chart 3.2: Total investment of GoP in PSUs

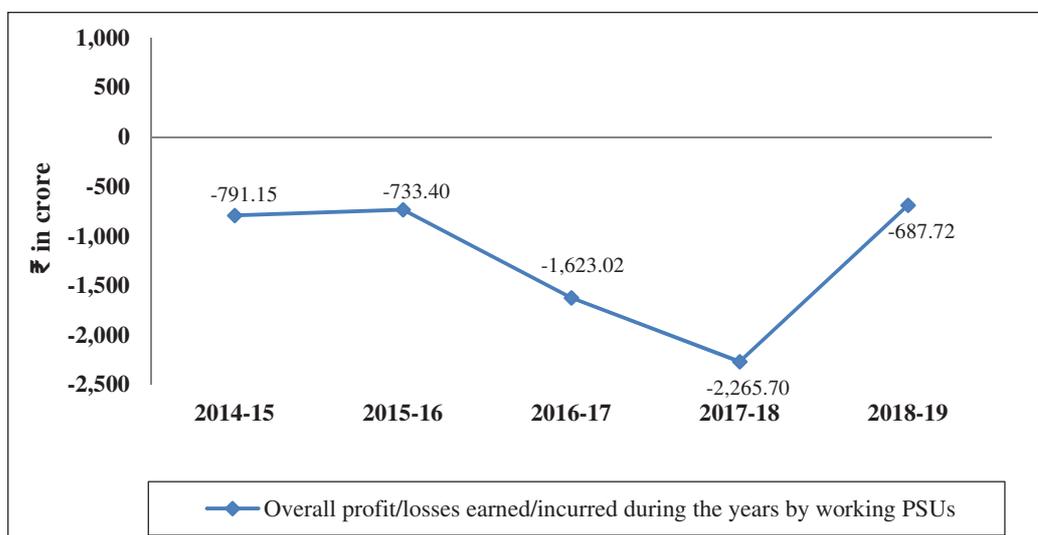


The profitability of a company is traditionally assessed through Return on Investment and Return on Capital Employed. Return on Investment measures the profit or loss made in a fixed year relating to the amount of money invested in the form of Equity and Long Term Loans. Return on Capital Employed is a financial ratio that measures the company's profitability and the efficiency with which its capital is used.

Return on Investment

3.12 The Return on Investment is the percentage of profit or loss to the total investment. The overall position of Profit/losses¹⁰ earned/incurred by the 28 working State PSUs during 2014-15 to 2018-19 is depicted below:

Chart 3.3: Profit/Losses earned/incurred by working PSUs



The loss of ₹ 2,265.70 crore incurred by the working PSUs in 2017-18 decreased to ₹ 687.72 crore in 2018-19 due to substantial decrease in losses of State Foodgrains Procuring Agencies from ₹ 2,269.68 crore in 2017-18 to ₹ 697.20 crore in 2018-19. According to latest finalised accounts of these 28 working State PSUs, 13¹¹ PSUs earned profit of ₹ 285.31 crore and 10¹² PSUs incurred losses of ₹ 973.03 crore as detailed in *Annexure 7*. Out of the remaining five PSUs, four are functioning on 'No Profit No Loss' basis and one PSU was under construction during the year.

The top profit making companies were PSWC (2017-18: ₹ 240.51 crore), Punjab Small Industries and Export Corporation Limited (2017-18: ₹ 13.34 crore), Punjab State Container and Warehousing Corporation Limited (2018-19: ₹ 10.62 crore) while Punjab State Grains Procurement Corporation Limited (PUNGRAIN) (2016-17: ₹ 451.75 crore) and Punjab State Civil Supplies Corporation Limited (PUNSUP) (2016-17: ₹ 360.32 crore) incurred heavy losses. The losses incurred by PUNSUP were mainly on account of reversal of Transportation charges Infrastructure Development Cess and interest on Atta Dal subsidy excess booked during previous years.

¹⁰ Figures are as per the latest finalised accounts of the respective years.

¹¹ Sl. no. 2, 4, 6, 7, 11, 13, 15, 16, 19, 27, 29, 45 and 47 of *Annexure 7*.

¹² Sl. no. 1, 3, 5, 8, 9, 10, 14, 20, 21 and 28 of *Annexure 7*.

Of the 28 working PSUs as on 31 March 2019, position of working PSUs which earned/incurred profit/loss during 2014-15 to 2018-19 is given in following table:

Table 3.8: Details of working PSUs which earned/ incurred profit/loss during 2014-15 to 2018-19

Financial year	Total number of PSUs	Number of PSUs which earned profit during the year	Number of PSUs which incurred loss during the year	Number of PSUs		
				No profit no loss	Under construction	1 st Accounts yet to be received
2014-15	26	8	13	3	1	1
2015-16	26	8	14	3	1	-
2016-17	25	8	13	3	-	1
2017-18	28	9	12	3	-	4
2018-19	28	13	10	4	1 ¹³	-

(a) **Return on Investment on historical cost basis**

3.13 Out of 28 working PSUs of the State, the State Government infused funds in the form of equity, long term loans and grants/subsidies in 23¹⁴ PSUs only. The Government has invested ₹ 27,360.65 crore in these 23 PSUs including equity of ₹ 1,042.17 crore, long term loans of ₹ 24,236.84 crore and grants/ subsidies of ₹ 2,081.64 crore. Out of the released long term loans of ₹ 24,236.84 crore, ₹ 30.00 crore was interest free loan.

The funds made available in the form of the grants/subsidies for operational and management expenses have been reckoned as investment. Out of the total long term loans, only interest free loans have been considered as investment. However, in cases where interest free loans have been repaid by the PSUs, the value of investment based on historical cost and present value (PV) was calculated on the reduced balances of interest free loans over the period as detailed in table 3.9.

The sector-wise return on investment in working PSUs¹⁵, (with State Government investment in the form of equity and interest free loans) on the basis of historical cost of investment for the period 2014-15 to 2018-19 is as follows:

¹³ Jalandhar Smart City Limited in its Accounts for the year 2016-17 and 2017-18 has neither shown any income nor expenditure in Profit and Loss Account.

¹⁴ These 23 PSUs include 22 PSUs where GoP has infused equity along with loan in some cases and one PSU i.e. PAFCL where GoP has provided long term loan only as detailed in *Annexure 4*.

¹⁵ Working PSUs of respective years.

Table 3.9: Return on State Government Funds in working PSUs on the basis of historical cost of investment

(₹ in crore)

Year wise Sector-wise break-up	Total Earnings for the year	Funds invested by the GoP in form of Equity, Interest Free loans and Grants/ Subsidies on historical cost basis	Return on State Government investment on historical cost basis (in per cent)
i	ii	iii	iv= ii/iii*100
2014-15			
Social Sector	(-) 764.90	1,898.25	(-) 40.30
Competitive Sector	(-) 12.08	107.52	(-) 11.24
Others	-	0.05	-
Total	(-) 776.98	2,005.82	(-) 38.74
2015-16			
Social Sector	(-) 615.58	2,254.70	(-) 27.30
Competitive Sector	(-) 7.29	107.52	(-) 6.78
Others	-	0.05	-
Total	(-) 622.87	2,362.27	(-) 26.37
2016-17			
Social Sector	(-) 1,482.76	2,769.81	(-) 53.53
Competitive Sector	(-) 13.31	107.52	(-) 12.38
Others	-	0.05	-
Total	(-) 1,496.07	2,877.38	(-) 51.99
2017-18			
Social Sector	(-) 1,907.03	2,938.43	(-) 64.90
Competitive Sector	9.56	107.52	8.89
Others	-	0.07	-
Total	(-) 1,897.47	3,046.02	(-) 62.29
2018-19			
Social Sector	(-) 569.30	3,046.22	(-) 18.69
Competitive Sector	9.26	107.52	8.61
Others	1.46	0.07	2,085.71
Total	(-) 558.58	3,153.81	(-) 17.71

The return on State Government investment is worked out by dividing the total earnings¹⁶ of these PSUs by the cost of the State Government investment. The return earned on the State Government investment ranged between (-) 17.71 per cent and (-) 62.29 per cent during the period 2014-15 to 2018-19. The overall negative return on State Government investment decreased in 2018-19 over that of 2017-18 due to substantial decrease in losses of State Foodgrains Procuring Agencies which was on account of better working

¹⁶ This includes net profit/losses for the concerned year relating to those State PSUs where the investment (equity + interest free loans) has been made by the State Government.

results effected primarily by increase in sales (₹ 917.62 crore) of PUNSUP and PUNGRAIN.

(b) Present Value of Investment

3.14 An analysis of the earnings *vis-à-vis* investments in respect of those 22 State PSUs where funds had been infused by the State Government was carried out to assess the profitability of these PSUs. Traditional calculation of return on investment (ROI) based only on the basis of historical cost of investment may not be a correct indicator of the adequacy of the return on the investment since such calculations ignore the present value (PV) of money. Therefore, in addition to the calculation of return on funds invested by the GoP in 22 PSUs on historical cost basis, the real return on investment has also been calculated after considering the Present Value (PV) of investment in 19 Government companies (excluding three¹⁷ Government Controlled Other Companies). The PV of the State Government investment was computed where funds had been infused by the State Government in the shape of equity and interest free loan since inception of these companies and grants/subsidies given by the State Government for operational and management expenses¹⁸ less: disinvestments till 31 March 2019. During the period from 2014-15 to 2018-19, these 19 PSUs had a negative real return on investment.

For the years 2014-15 to 2018-19 when these 19 PSUs 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 PSUs is commented upon in paragraph 3.16.

3.15 PSU wise position of State Government investment in these 22 State PSUs in the form of equity and interest free loans on historical cost basis for the period from 2010-11 to 2018-19 is indicated in **Annexure 8**. Further, consolidated position of Net Present Value (NPV) of the State Government investment relating to 19 PSUs for the same period is indicated in the following table:

¹⁷ Sr. No. 45, 46 and 47 of **Annexure 4**.

¹⁸ Grants/subsidies given during the period 2011-12 to 2018-19 have been taken.

Table 3.10: Year wise details of investment by the State Government and present value (PV) of Government investment for the period from 2010-11 to 2018-19

(₹ in crore)

Financial year	Present value of total investment at the beginning of the year	Equity infused by the State Government during the year	Interest free loans given by the State Government during the year	Grants/subsidies given by State Government for operational and management expenses	Total investment during the year	Total investment at the end of the year	Average rate of interest on government borrowings (in per cent)	Present value of total investment at the end of the year	Minimum expected return to recover cost of funds for the year ¹⁹	Total Earning for the year ²⁰
i	ii	iii	iv	v	vi= iii + iv + v	vii = ii + vi	viii	ix={vii*(1 + viii/100)}	x={vii* viii/100}	xi
Upto 2010-11	-	789.79	-		789.79	789.79	7.73	850.84	61.05	-
2011-12	850.84	196.93	-	108.48	305.41	1,156.25	7.96	1,248.29	92.04	(-)220.29
2012-13	1,248.29	15.91	30.00	190.29	236.20	1,484.49	7.79	1,600.13	115.64	(-)375.98
2013-14	1,600.13	22.35	-	242.25	264.60	1,864.73	8.04	2,014.65	149.92	(-)684.85
2014-15	2,014.65	72.07	-	337.75	409.82	2,424.47	8.35	2,626.91	202.44	(-)776.98
2015-16	2,626.91	32.24	-	324.21	356.45	2,983.36	8.09	3,224.71	241.35	(-)622.87
2016-17	3,224.71	10.83	-	504.28	515.11	3,739.82	7.48	4,019.56	279.74	(-)1,496.07
2017-18	4,019.56	-	-	168.62	168.62	4,188.18	8.12	4,528.26	340.08	(-)1,897.47
2018-19	4,528.26	(-)97.97 ²¹	-	205.76	107.79	4,636.05	8.00	5,006.93	370.88	(-)560.04
Total		1,042.15	30.00	2,081.64	3,153.79					

Note: There was no interest free loan converted into equity and disinvestment during the above years.

The balance of investment by the State Government in these PSUs at the end of the year increased to ₹ 3,153.79 crore in 2018-19 from ₹ 789.79 crore in 2010-11 as the State Government made further investments in shape of equity (₹ 252.36 crore) and interest free loans (₹ 30 crore) and grants/subsidies for operational and management expenses (₹ 2,081.64 crore) during the period 2010-11 to 2018-19. The PV of funds infused by the State Government upto 31 March 2019 amounted to ₹ 5,006.93 crore. During 2011-12 to 2018-19, total earnings for the year remained below the minimum expected return to recover cost of funds infused in these PSUs as two of these PSUs incurred substantial losses during this period.

The comparison between rate of return on historical cost and rate of real return on investment could not be made as these PSUs incurred losses during the period 2011-12 to 2018-19.

¹⁹ Present value of total investment at the end of the year less: Total investment at the end of the year.

²⁰ Total Earnings for the year depicts total of net earnings (profit/loss) for the concerned year relating to those 22 PSUs where funds were infused by State Government. In case where annual accounts of any PSU was pending during the year then net earnings (profit/loss) for that year has been taken as per latest finalised accounts of the concerned PSU.

²¹ While finalising the accounts for the year 2017-18, PWRMDC treated the capital grant amounting to ₹ 97.97 crore received from the State Government for sinking and installation of tubewells as deferred revenue which was earlier being treated as 'Share application money pending allotment'.

Erosion of Net Worth

3.16 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 investment and accumulated losses of these 28 working PSUs as per their latest finalised accounts (as on 30 September 2019) were ₹ 1,745.36 crore and ₹ 8,611.16 crore respectively resulting in negative net worth of ₹ 6,865.80 crore. Analysis of investment and accumulated losses disclosed that net worth had eroded fully in 11²² out of these 28 PSUs. Of these 11 PSUs, the maximum net worth erosion was in PUNGRAIN (₹ 3,496.81 crore) and PUNSUP (₹ 1,889.38 crore) due to accumulation of interest on the outstanding Cash Credit Liabilities (CCL) payments on account of non-reimbursement of actual incidentals incurred by these PSUs for procurement of foodgrains on behalf of Government of India, besides losses arising out of misappropriation of paddy, damage of wheat stocks, inefficiencies in milling operations, non-recovery of costs from millers, delayed/ non-raising of claims on Food Corporation of India/millers.

The following table indicates total paid up capital, total accumulated profit/loss, and total net worth of the 23 companies where the State Government has made direct investment:

Table 3.11: Net Worth of 23 working PSUs during 2014-15 to 2018-19

(₹ in crore)				
Year	Paid Up Capital and free reserves at end of the year	Accumulated Losses (-) at end of the year	Deferred Revenue Expenditure	Net Worth
2014-15	1,434.11	(-) 4,980.67	-	(-) 3,546.56
2015-16	1,493.52	(-) 5,354.52	-	(-) 3,861.00
2016-17	1,607.49	(-) 6,581.72	-	(-) 4,974.23
2017-18	1,680.15	(-) 7,947.89	-	(-) 6,267.74
2018-19	1,719.25	(-) 8,580.84	-	(-) 6,861.59

As can be seen, the net worth of these companies decreased during 2014-19. It decreased from ₹ (-) 3,546.56 crore in 2014-15 to ₹ (-) 6,861.59 crore in 2018-19. Out of these 23 PSUs, 14 PSUs showed positive net worth while nine PSUs had negative net worth during 2018-19.

Dividend Payout

3.17 The Thirteenth Finance Commission recommended (December 2009) that a minimum dividend of five *per cent* on Government equity should be paid by all enterprises. The State Government adopted the recommendations and formulated (July 2011) a dividend policy under which all PSUs are required to pay a minimum return of five *per cent* on the equity funds invested by the State Government.

²² Sl. No. 1, 3, 5, 9, 10, 14, 19, 21, 27, 28 and 29 of *Annexure 7*.

Dividend Payout relating to 22 working PSUs where equity was infused by GoP during the period is shown in table below:

Table 3.12: Dividend payout of 22 working PSUs during 2014-15 to 2018-19

(₹ in crore)

Year	Total PSUs where equity infused by GoP		PSUs which earned profit during the year		PSUs which declared/paid dividend during the year		Dividend Payout Ratio (in per cent)
	Number of PSUs	Equity infused by GoP	Number of PSUs	Equity infused by GoP	Number of PSUs	Dividend declared/paid by PSUs	
1	2	3	4	5	6	7	8=7/5*100
2014-15	19	1,097.05	8	188.04	3	2.08	1.11
2015-16	19	1,129.29	8	229.77	3	2.13	0.93
2016-17	19	1,140.12	8	229.77	3	2.12	0.92
2017-18	22	1,140.14	9	307.98	4	4.17	1.35
2018-19	22	1,042.17	13	318.65	3	1.67	0.52

During the period 2014-15 to 2018-19, the number of PSUs which earned profits ranged between 8 and 13. During this period, number of PSUs which declared/paid dividend to GoP ranged between three and four.

The Dividend Payout Ratio during 2014-15 to 2018-19 ranged between 0.52 per cent and 1.35 per cent only.

As per their latest finalised accounts, three²³ working PSUs declared a dividend of ₹ 1.67 crore which worked out to 0.52 per cent of equity capital of these PSUs. Of the 13 profit earning PSUs, 10 PSUs did not declare dividend due to accumulated losses or marginal profits, two²⁴ PSUs declared dividend higher than the minimum return limit and one PSU²⁵ declared dividend as per the policy.

Return on Equity

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

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

²³ PSUs at Sl. No. 4, 6 and 15 of *Annexure 7*.

²⁴ PSUs at Sl. No. 4 and 6 of *Annexure 7*.

²⁵ PSU at Sl. No. 15 of *Annexure 7*.

Table 3.13: Return on Equity relating to 22 working PSUs where Equity was infused by the GoP

Year	Net Income/ Total Earnings for the year ²⁶ (₹ in crore)	Shareholders' Fund (₹ in crore)	Return on Equity (in per cent)
2014-15	(-) 776.98	(-) 3,556.46	-
2015-16	(-) 622.87	(-) 3,774.45	-
2016-17	(-) 1,496.07	(-) 4,767.42	-
2017-18	(-) 1,897.47	(-) 5,697.98	-
2018-19	(-) 560.04	(-) 6,166.39	-

Return on Equity could not be calculated as both Earnings and Shareholders' Fund were negative during the period 2014-15 to 2018-19.

Return on Capital Employed

3.19 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 employed²⁷. The details of total ROCE of all 28 working State PSUs during the period from 2014-15 to 2018-19 are given in table below:

Table 3.14: Return on Capital Employed of working PSUs

Year	EBIT (₹ in crore)	Capital Employed (₹ in crore)	ROCE (in per cent)
2014-15	2,931.67	10,108.26	29.00
2015-16	3,554.32	10,346.10	34.35
2016-17	(-) 1,532.50	(-) 2,435.72	-
2017-18	(-) 1,411.18	4,544.90	(-) 31.05
2018-19	(-) 403.48	12,033.07	(-) 3.35

The ROCE ranged between (-) 31.05 per cent and 34.35 per cent during the period 2014-15 to 2018-19. The ROCE was not measurable for the year 2016-17 as both the capital employed and the EBIT were negative.

The capital employed for these PSUs substantially increased during the year 2018-19 over that of 2017-18. This was on account of PUNGRAIN treating the unsettled CCL (₹ 6,831.54 crore) taken over by the GoP in its latest finalised accounts for the year 2016-17 as long term borrowings which were earlier being treated as short term borrowings and increase in CCL of PSWC. Further, the negative EBIT improved on account of better working results of the State Foodgrains Procuring Agencies during 2018-19 due to the reasons mentioned in paragraph 3.13 above.

²⁶ As per annual accounts of the respective years.

²⁷ 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.

Analysis of Long Term Loans of the PSUs

3.20 Analysis of the Long Term Loans of the PSUs which had leverage during 2014-15 to 2018-19 was carried out to assess the ability of the companies to serve the debt owed by the companies to the Government, banks and other financial institutions. This is assessed through the interest coverage ratio and debt turnover ratio.

Interest Coverage Ratio

3.21 Interest Coverage Ratio is used to determine the ability of a PSU to pay interest on outstanding debt and is calculated by dividing EBIT of a PSU by interest expenses of the same period. The lower the ratio, the lesser is the ability of the PSU to pay interest on debt. An interest coverage ratio below one indicated that the PSU was not generating sufficient revenue to meet its expenses on interest. The details of positive and negative interest coverage ratio during the period from 2014-15 to 2018-19 are given in table below:

Table 3.15: Interest Coverage Ratio relating to State PSUs

Year	Interest (₹ in crore)	Earnings before interest and tax (EBIT) (₹ in crore)	Number of PSUs having liability of loans from Government, Banks and financial institutions	Number of PSUs having interest coverage ratio more than 1	Number of PSUs having interest coverage ratio less than 1
2014-15	3,792.07	2,931.67	26	6	20
2015-16	4,356.30	3,554.32	25	5	20
2016-17	3,589.63	(-) 1,532.50	25	4	21
2017-18	3,919.08	(-) 1,411.18	25	4	21
2018-19	3,149.04	(-) 403.48	26	4	22

Of the 26 State PSUs having liability of loans from Government as well as banks and other financial institutions during 2018-19, 4 PSUs had interest coverage ratio of more than one whereas remaining 22 PSUs had interest coverage ratio below one which indicates that these 22 PSUs could not generate sufficient revenue to meet their expenses on interest during the period.

Debt Turnover Ratio

3.22 During the last five years, the turnover of the working PSUs recorded compounded annual growth of 10.65 *per cent* and compounded annual growth of debt was 66.33 *per cent* due to which the debt turnover ratio deteriorated from 0.06 in 2014-15 to 0.65 in 2018-19 as given in table below:

Table 3.16: Debt Turnover Ratio relating to the 28 working State PSUs

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Debt from Government and others (Banks and Financial Institutions)	1,908.62	1,471.81	25,222.28	26,522.68	26,705.55
Turnover	30,462.89	32,104.55	33,032.24	36,728.43	40,883.49
Debt-Turnover Ratio	0.06:1	0.05:1	0.76:1	0.72:1	0.65:1

Source : Compiled based on Annexure 4 and Annexure 7.

The debt-turnover ratio ranged between 0.05 and 0.76 during this period.

Winding up of Inactive State PSUs

3.23 19 of the 47 State PSUs were inactive companies having a total investment of ₹ 56.20 crore as detailed in *Annexure 4* as on 31 March 2019. The number of inactive PSUs at the end of each year during last five years ended 31 March 2019 are given below:

Table 3.17: Inactive State PSUs

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Number of inactive companies	23	22	21	20	19

Source: Compiled from the information included in Audit Report (PSUs), GoP of respective years and in Annexure 4.

The stages of closure in respect of inactive PSUs are given in table below:

Table 3.18: Closure of inactive PSUs

Sl. No.	Particulars	No. of PSUs
1.	Total number of inactive PSUs	19
2.	Of (1) above, the number under:	
(a)	Liquidation by Court (liquidator appointed)	-
(b)	Voluntary winding up (liquidator appointed)	6 ²⁸
(c)	Closure i.e. closing orders/instructions issued but liquidation process not yet started.	6

The companies which have taken the route of voluntary winding up under the Companies Act are under liquidation for a period ranging from four to 25 years. During the year 2018-19, one Company - Punjab Agro Power Corporation Limited was removed from the Register of Companies by the Registrar of Companies under section 248(5) of the Companies Act, 2013. The Government (Directorate of Disinvestment)²⁹ may expedite decisions regarding winding up.

²⁸ Sr. No. 23, 33, 34, 35, 36 and 38 of *Annexure 4*.

²⁹ A cell established for disinvestment of State Government equity in State PSUs/ subsidiaries and for restructuring/ privatisation etc. of these PSUs.

Comments on Accounts of State PSUs

3.24 22 working companies forwarded 31 audited accounts to the Principal Accountant General (Audit) during the period from 1 October 2018 to 30 September 2019. Of these, 27 accounts were selected for supplementary audit. The Audit Reports of Statutory Auditors and supplementary audit conducted by the CAG indicated that the quality of accounts needs to be improved substantially. The details of aggregate money value of the comments of Statutory Auditors and the CAG are as follows:

Table 3.19: Impact of audit comments on Accounts of Working Companies

(Amount: ₹ in crore)

Sl. No.	Particulars	2016-17		2017-18		2018-19	
		Number of accounts	Amount	Number of accounts	Amount	Number of accounts	Amount
1.	Decrease in profit	3	12.29	3	21.34	7	28.58
2.	Increase in profit	-	-	2	22.54	4	14.44
3.	Increase in loss	7	2,869.79	4	5,898.30	7	6,897.59
4.	Decrease in loss	-	-	1	1.36	4	391.21
5.	Non-disclosure of material facts	4	241.31	4	375.50	6	508.21
6.	Errors of classification	9	474.29	11	1,424.36	15	3,465.57

Source: Compiled from comments of the Statutory Auditors/ CAG in respect of Government Companies finalised by CAG during October to September each year.

During the year 2018-19, the Statutory Auditors had issued qualified certificates on 17 accounts and adverse certificates on two accounts. The compliance to the Accounting Standards by the PSUs remained poor. The Statutory Auditors and CAG pointed out 31 instances of non-compliance to the Accounting Standards in 16 number of accounts.

3.25 The State has four Statutory Corporations *i.e.* PSCLDFC, PRTC, PSWC and PFC. The CAG is sole auditor in respect of PSCLDFC and PRTC. Four working statutory corporations forwarded their five³⁰ accounts to the Principal Accountant General (Audit) during the period from 1 October 2018 to 30 September 2019. The accounts of PSCLDFC and PRTC pertained to sole audit while supplementary audit was conducted in respect of the remaining two accounts (PFC and PSWC). The Audit Reports of statutory auditors and the sole/supplementary audit of CAG indicated the need to improve the quality of the accounts. The details of money value of comments of Statutory Auditors and CAG on accounts audited during the last three years are given in table 3.20:

³⁰ PSCLDFC (two Accounts), PRTC, PSWC and PFC.

Table 3.20: Impact of audit comments on Account of Statutory Corporations

(Amount: ₹ in crore)

Sl. No.	Particulars	2016-17		2017-18		2018-19	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1.	Decrease in Profit	-	-	-	-	2	76.51
2.	Increase in profit	2	5.01	-	-	1	2.94
3.	Increase in loss	1	1.86	1	0.65	4	196.74
4.	Non-disclosure of material facts	8	18.55	-	-	5	2,336.32
5.	Errors of classification	6	22.01	-	-	6	252.66

Source: Compiled from comments of the Statutory Auditors/ CAG in respect of accounts of Statutory Corporations finalised by CAG during October to September each year.

During the year, accounts of PFC and PSWC received unqualified opinions.

Performance Audit and Compliance Audits Paragraphs

3.26 For the Report of the Comptroller and Auditor General of India (Public Sector Undertakings) for the year ended 31 March 2019, five compliance audit paragraphs and one Performance Audit were issued to the Principal Secretaries/ Secretaries of the respective Administrative Departments with request to furnish replies. Reply of these compliance audit paragraph have not been received from the State Government. The total financial impact of these compliance audit paragraphs and Performance Audit is ₹ 697.27 crore.

Follow up action on Audit Reports

Replies outstanding

3.27 The Report of the CAG is the product of audit scrutiny. It is, therefore, necessary that these elicit appropriate and timely response from the Executive. The State Finance Department, Government of Punjab issued (August 1992) instructions to all administrative departments to submit replies/explanatory notes to paragraphs/Performance Audits (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). However, explanatory notes were not received in 83.33 per cent of the performance audits and 55.10 per cent of the audit paragraphs as on 30 September 2019 as depicted in table 3.21:

Table 3.21: Position of explanatory notes on Audit Reports related to PSUs as on 30 September 2019

Year of the Audit Report (PSU)	Date of the Placement of Audit Report in the State Legislature	Total performance audits (PAs) and paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2012-13	July 2014	2	6	2	1
2013-14	March 2015	1	10	1	4
2014-15	March 2016	1	12	Nil	4
2015-16	March 2017	1	10	1	7
2016-17	March 2018	1	11	1	11
Total		6	49	5	27

Discussion of Audit Reports by COPU

3.28 The status of discussion of PAs and paragraphs related to PSUs that appeared in Audit Reports (PSUs) and discussed by the COPU as on 30 September 2019 was as under:

Table 3.22: PAs/Paragraphs appeared in Audit Reports *vis-à-vis* discussed as on 30 September 2019

Period of Audit Report	Number of PAs/ Paragraphs			
	Appeared in Audit Report		Paragraphs discussed	
	PAs	Paragraphs	PAs	Paragraphs
2012-13	2	6	Nil	1
2013-14	1	10	Nil	Nil
2014-15	1	12	Nil	Nil
2015-16	1	10	Nil	2
2016-17	1	11	Nil	Nil
Total	6	49	Nil	3

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

The discussion on Audit Reports (PSUs) upto 2011-12³¹ has been completed.

³¹ Audit Reports upto 2011-12 had been transferred to concerned Administrative Secretaries vide COPU decision dated 19 September 2017.