CHAPTER 4

Management of surplus cash in CPSEs

4.1 Introduction

4.1.1 The Department of Public Enterprises (DPE) in the Ministry of Heavy Industries and Public Enterprises, Government of India (GOI) lays down policy guidelines on performance improvement, financial accounting and personnel management in the CPSE. As on 31st March 2015 there were 570 CPSEs under the audit jurisdiction of the Comptroller and Auditor General of India.

4.1.2 We have analysed the data in respect of 46[15] listed government companies and their four subsidiaries. The 46 listed CPSEs together accounted for around 12.89 *per cent* (₹ 13,50,506 crore) of the total market capitalization of all companies (₹ 104,79,396 crore) listed at BSE as of 31 July 2015. Cash and bank balance (CBB) of 46 listed CPSEs as on 31 March 2015 was ₹ 1,62,970 crore. The key financials for 2014-15 in respect of 46 listed CPSEs are given in Table 4.1.

Table 4.1: Key financials for 2014-15 in respect of 46 listed CPSEs

(₹ in crore)

Market Capitalization	Reserves	Cash and Bank Balance	Turnover	Profit Before Tax
13,50,506	6,82,784	1,62,970	15,60,107	1,30,705

4.2 Rationale for selection of Topic for review

4.2.1 An effective cash management system would balance the need to have adequate cash and cash equivalents with the need to channelise surplus cash into income yielding investments to maximise wealth for the shareholders. Previous study on management of surplus cash was conducted in respect of 31 CPSEs, covering a period of five years i.e. 2007-2012, and the audit findings were included in CAG's Report no. 2 of 2013.

4.2.2 High cash balances with the CPSEs raises the following issues. Are the CPSEs paying appropriate amount of dividends to their shareholders (mainly the GOI)? Do the CPSEs have effective Capital Expenditure plans in place?

4.3 Audit Objectives

The main audit objectives of this audit were to assess whether: (a) the dividend policy of CPSEs was in compliance with DPE guidelines and provisions of the Companies Act, and investors had received the fair reward for their investments; (b) the CPSEs had made plans for utilisation of surplus cash and bank balances; (c) the CPSEs have an

[15] Excluding four listed CPSEs viz.(i) IRCON International Limited,(ii) Kudremukh Iron ore co. Ltd. (iii) Hindustan Photo films Mfg. Company Limited, (iv) Hindustan Cables Limited and one subsidiary government company viz. Eastern Investment Limited, whose shares were not traded during period of study 2012-15

investment policy for surplus cash which appropriately addresses the issues of safety, liquidity and profitability; and (d) the Board of Directors and the Ministry have taken cognizance of the high cash reserves and initiated action thereon.

4.4 Audit scope, criteria and methodology

4.4.1 The audit selected 36 listed CPSEs as given in ***Appendix–VII*** out of 46 CPSEs for audit whose CBB as on 31 March 2015 was more than ₹ 1,000 crore and/or turnover was more than ₹ 1,000 crore during 2014-15. Audit covered period of three years from 01 April 2012 to 31 March 2015. As would be seen from Table 4.2, 36 listed CPSEs had ₹ 1,62,019 crore of CBB as of 31 March 2015 which accounted for 99.42 *per cent* of total CBB held by 46 listed CPSEs.

Table 4.2: Key financials for 2014-15 of 36 listed CPSEs selected for audit

(₹ in crore)

Particulars	Listed CPSEs Numbers	CBBs as on 31 March 2015
CBB of listed CPSEs	46	1,62,970
Listed CPSEs with CBBs of ₹ 1000 crore or more	23	1,60,586
Listed CPSEs with turnover of over ₹ 1000 crore*	13	1,433
CPSEs selected for audit	36	1,62,019

Key financials of these 36 listed CPSEs as of 31 March 2015 (₹ in crore)

Market Capitalization	Reserves and Surplus	CBB	Turnover	Profit Before Tax
13,41,238[16]	6,82,772	1,62,019	15,56,223	1,31,150

*Other than CPSEs which have CBBs of ₹ 1,000 crore or more

4.4.2 Audit criteria included: guidelines from DPE, Administrative Ministry, and Finance Ministry; provisions of the Companies Act; CPSEs' decision, and CBB utilisation plans. Audit examined the relevant criteria, and records of CPSEs for audit conclusion.

4.5 Audit findings

4.5.1 Dividend payment

4.5.1.1 DPE O.M. No. 15(10)/2004 – DPE (GM) dated 18 October 2004 prescribed that all profit making CPSEs should pay dividend amounting to (a) 20 *per cent* (30 *per cent* in case of Oil, Petroleum, Chemical and other infrastructure companies) of PAT; OR (b) 20 percent of equity, whichever is higher. Out of 36 CPSEs, 30 CPSEs have paid a total dividend of ₹ 1,27,078 crore during 2012-15. Dividend pay-out or retention guided by the objective to maximise shareholders' wealth depends on factors like financial needs and liquidity position, and general expectation of the shareholders. The Companies Act also bestowed the authority for distribution of profit or reserves by way of dividend to the Board of Directors of the company and quantum of profit distribution decided by the Board cannot be increased.

[16] As on 31 July 2015

4.5.1.2 Four CPSEs as shown in Table 4.3 (A) and 4.3 (B) did not disburse minimum dividend as required by the DPE guidelines despite having sufficient profit after tax during 2014-15.

Table 4.3 (A): CPSE which did not pay minimum dividend of 20% of PAT or 20% Equity, whichever is higher, out of current year PAT

(₹ in crore)

CPSE	Closing CBB	Equity	20 % of equity	PAT	20 % of PAT	Dividend required to be paid	Dividend paid	Shortfall in dividend
(1)	(2)	(3)	(4)	(5)	(6)	(7) = higher of (4) or (6)	(8)	(9)
The Shipping Corporation of India Limited	1,256	465	93	201	40	93	0	93
							Sub-total of 4.3(A)	**93**

Table 4.3 (B): CPSEs which did not pay minimum dividend of 30 % of PAT or 20% Equity, whichever is higher, out of current year PAT

(₹ in crore)

CPSEs	Closing CBB	Equity	20 % of equity	PAT	30% of PAT	Dividend required to be paid	Dividend paid	Shortfall in dividend
(1)	(2)	(3)	(4)	(5)	(6)	(7) = higher of (4) or (6)	(8)	(9)
Power Grid Corporation of India Limited	2,063	5,232	1,046	4,979	1,494	1,494	1,046	448
GAIL (India) Limited	1,142	1,268	254	3,039	912	912	761	151
NTPC Limited	12,879	8,245	1,649	10,291	3,087	3,087	2,061	1,026
							Sub-total of 4.3 (B)	**1,625**
Total shortfall in dividend payment with reference to DPE guidelines							**4.3 (A) plus 4.3 (B)**	**1,718**

4.5.1.3 The issue was previously raised in para 7.2.1 (Chapter 7 Management of Surplus cash by CPSEs) in CAG report No. 2 of 2013 that since dividend is to be paid out of profits earned by the CPSE, it would not be possible to comply with provision of 20 *per cent* of PAT or 20 *per cent* equity, whichever is higher, in all those cases where the entire amount of PAT for a particular year is less than amount of 20 *per cent* of equity. In this respect Ministry replied that dividend would be paid out of profits of the company for the financial year, or out of the profits for the previous financial years or out of both. Table 4.4(A) and 4.4(B) shows that three CPSEs did not disburse minimum dividend as required by DPE due to inadequate PAT in the relevant year, although they had sufficient free reserves, and had sufficient CBB to pay the required minimum dividend.

(₹ in crore)

Table 4.4 (A) : CPSEs which did not pay minimum dividend of 20 % of PAT or 20% Equity, whichever is higher, despite having sufficient past reserves and CBB

CPSEs	Financial Year	Closing Free reserve[17]	CBB	Equity	20 % of equity	PAT	20% of PAT	Dividend required to be paid	Dividend paid	Shortfall in dividend
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9) =higher of (6) or (8)	(10)	(11)
Hindustan Copper Limited	2014-15	1,182	320	463	93	68	14	93	14	79
BEML Limited	2014-15	2,022	145	42	8	7	1	8	4	4
Sub-total of 4.4 (A)										**83**

Table 4.4 (B) : CPSEs which did not pay minimum dividend of 30 % of PAT or 20% Equity, whichever is higher despite having sufficient past reserves and CBB (₹ in crore)

CPSEs	Financial Year	Closing Free reserve	CBB	Equity	20 % of equity	PAT	30% of PAT	Dividend required to be paid	Dividend paid	Shortfall in dividend
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9) =higher of (6) or (8)	(10)	(11)
NHPC Limited	2012-13	14,135	5,616	12,301	2,460	2,348	704	2,460	738	1,722
	2013-14	12,068	5,304	11,071	2,214	979	294	2,214	332	1,882
	2014-15	13,867	5,422	11,071	2,214	2,125	638	2,214	664	1,550
Sub-total of 4.4 (B)										**5,154**
Total shortfall in dividend payment with reference to DPE guidelines 4.4(A) plus (B)										**5,237**

4.5.2 Issue of bonus shares

4.5.2.1 Issuing bonus shares by CPSEs helps in promoting active trading of the company's shares in the stock market through a reduction in the market price per share; and to serve as a strong indication to the stock market about the company's financial strength through its continued ability to service its larger equity base. DPE guidelines[18] of November 1995 as updated in November 2011 laid down the procedure for issue of bonus shares by CPSEs. As per these guidelines:

- The CPSEs which are carrying substantial reserves in comparison to their paid up capital should issue Bonus Shares to capitalise the reserves;
- CPSEs should also consider the need for increasing their authorised capital to accommodate the release of bonus shares; and
- Each Administrative Ministry may direct the enterprises under their control that CPSEs with reserves in excess of three times their paid up capital should immediately consider the scope of issuing bonus shares.

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17 Closing free reserves include general reserves, surplus and share premium reserves.

18 DPE O.M. No. DPE/12(6)/95 dated 10 November 1995 and DPE O.M. No. DPE/13(21)/1 dated 25 November 2011

4.5.2.2 Audit observed that nine out of 36 CPSEs were not required to issue bonus shares as their paid-up capital was less than three times of their reserves. 24 CPSEs whose paid-up capital to reserve ratio was more than 1:3 did not issue bonus shares as given in Table 4.5. Three CPSEs viz. Balmer Lawrie & Co. Limited, Bharat Petroleum Corporation Limited and Container Corporation of India Limited issued bonus shares during 2012-15 but their paid-up capital to reserve ratio remained more than 1:3 (Table 4.6). The concerned Administrative Ministry did not issue directives for issue of bonus shares in respect of 11 CPSEs namely, Balmer Lawrie & Co. Limited, Bharat Petroleum Corporation Limited, BEML Limited, Coal India Limited, NMDC Limited, National Buildings Construction Corporation Limited, Power Finance Corporation Limited, Power Grid Corporation of India Limited, Rashtriya Chemicals and Fertilizers Limited, Rural Electrification Corporation Limited and Oil and Natural Gas Corporation Limited. BEML Limited did not issue bonus shares despite in- principle approval of Board in May 2012.

Table 4.5: CPSEs which did not issue bonus shares

(₹ in crore)

Name of the CPSE	Paid Up Capital	Free Reserves	No. of times reserves
	As on 31 March 2015		
(1)	(2)	(3)	(4=3/2)
BEML Limited	42	2,022	48.14
Bharat Electronics Limited	80	7,756	96.95
Bharat heavy Electricals Limited	490	33,559	68.49
Chennai Petroleum Corporation Limited	149	1,506	10.11
Coal India Limited	6,316	32,265	5.11
Engineers India Limited	168	2,369	14.10
GAIL (India) Limited	1,268	27,620	21.78
Hindustan Petroleum Corporation Limited	339	15,330	45.22
Indian Oil Corporation Limited	2,428	62,646	25.80
MMTC Limited	100	1,259	12.59
MOIL Limited	168	3,214	19.13
National Aluminium Company Limited	1,289	11,508	8.93
National Buildings Construction Corporation Limited	120	1,204	10.03
Neyveli Lignite Corporation Limited	1,678	12,687	7.56
NMDC Limited	396	31,935	80.64
NTPC Limited	8,245	69,149	8.38
Oil and Natural Gas Corporation Limited	4,278	1,40,306	32.80
Oil India Limited	601	20,898	34.77
Power Finance Corporation Limited	1,320	17,165	13
Power Grid Corporation of India Limited	5,232	26,548	5.07
Rashtriya Chemicals and Fertilizers Limited	552	2,159	3.91
Rural Electrification Corporation Limited	987	13,497	13.67
Steel Authority of India Limited	4,131	38,336	9.28
The Shipping Corporation of India Limited	466	4,577	9.82

Table 4.6 : Paid capital and free reserves of three CPSE as on 31 March 2015 whose ratio remained more than 1:3 despite issue of bonus shares

(₹ in crore)

Name of the CPSE	Paid Up Capital	Free Reserves	No. of times reserves
Balmer Lawrie & Co. Limited	29	875	30.17
Bharat Petroleum Corporation Limited	723	21,176	29.29
Container Corporation of India Limited	195	7,441	38.16

4.5.2.3 CPSEs' management replied the following:

- Steel Authority of India Limited stated (18 November 2015) that the Board did not agree to the proposal for issue of bonus shares in their meeting held on 12 February 2013.
- MMTC Limited stated (6 November 2015) that keeping in view the required fund outflow for meeting the expenditure plan, it was not feasible to issue bonus shares.
- Rashtriya Chemicals and Fertilizers Limited stated (13 October 2015) that issue of bonus shares means compromising the dividend rate.
- Oil India Limited stated (30 October 2015) that issue of bonus shares means that the earning per share get reduced due to increase in number of shares and frequent issue of bonus shares would have adverse effect on the Navratna status of the Company.
- National Buildings Construction Corporation Limited stated (13 November 2015) that issue of bonus shares will be decided after disinvestment of 10 per cent Government of India shareholding together with raising of 10 per cent fresh issue of shares for business development.
- Oil and Natural Gas Corporation Limited stated (9 November 2015) that there are no guidelines/directives for issue of bonus shares from MoPNG.
- Neyveli Lignite Corporation Limited stated (5 November 2015) that the DPE guidelines of issue of bonus shares could not be adhered due to meeting targeted investment of 12th plan period.

4.5.3 Buy back of shares

4.5.3.1 A company may decide to return the surplus cash by buying back its shares when it has surplus cash and do not have the right avenue to invest such surplus cash. DPE O.M. No. DPE/14(24)/2011 – Fin. dated 26 March 2012 on buy back of shares states that:

- CPSEs are encouraged to buy back their shares to provide sustained investor interest in the Company and protect their market capitalisation in the long term interest of the Company's ability to raise funds from the market; and

- CPSEs will amend their Articles of Associations (AoA) to provide for buyback of shares, if such provision does not exist in their articles.

4.5.3.2 Audit observed that in case of eight CPSEs, managements have yet to amend AoA to provide for buyback of shares. Articles of Associations provides for buyback of shares in 24 CPSEs, but except NHPC Limited, buy back of shares was not done by 23 CPSEs, while in respect of four CPSEs viz. Bharat Electronics Limited, Oil India Limited, Indian Oil Corporation Limited and The Fertilizers and Chemicals Travancore Limited information was not available.

4.5.3.3 There were 11 CPSEs which had average CBB of more than ₹ 1000 crore in last 12 quarters ending March 2015 and also had a comfortable CBB and reserve and surplus position with no or insignificant long-term borrowings as shown in Table 4.7. These CPSEs could have considered buying back their own shares.

Table 4.7: CPSEs which could have considered issue of bonus shares and/or buy back of shares

(₹ in crore)

Name of the CPSE	Average CBB of last 12 quarters	As on March 2015		During 2014-15		
		Reserves & Surplus	Long term borrowing	Dividend Paid	Planned CAPEX	Actual CAPEX
Bharat Electronics Limited	4,956	7,805	0	234	625	218
Bharat Heavy Electricals Limited	7,691	33,595	61	284	493	395
Coal India Limited	60,729	34,037	202	13,075	5,225	5,173
Container Corporation of India Limited	2,851	7,440	0	261	1,146	1,037
Engineers India Limited	1,900	2,399	0	168	176	173
MOIL Limited	2,608	3,214	0	143	192	115
National Aluminium Company Limited	4,060	11,509	0	451	2,739	282
National Buildings Construction Corporation Limited	1,310	1,204	0	66	No Plan	No Plan
NMDC Limited.	20,775	31,935	0	3,390	7,825	3,136
Oil and Natural Gas Corporation Limited	14,534	1,40,323	0	8,128	16,531*	2,770*
Oil India Limited	11,167	20,913	8,341	1,202	3,632	3,774

*Average of three years ending March 2015.

4.5.3.4 Out of 36 CPSEs, it was observed in MOUs of 23 CPSEs with their respective administrative ministries that utilisation of surplus cash was not included as a financial parameter for monitoring the performance of that CPSE. Data was not available in respect of remaining CPSEs.

4.5.4 Investment Policy and procedures in CPSEs for investing surplus cash

4.5.4.1 DPE O.M. No. 4/3/92 – Fin dated 27 June 1994 and O.M. No. 4/6/94 – Fin dated 14 December 1994 suggested that: investment policy should be clear cut and transparent; investment should be made only in instruments with maximum safety; the surplus availability may be worked out by preparation of best estimates of availability of funds by the CPSEs and the Administrative Ministry may be kept informed; Board of Directors of all CPSEs should ensure that decision regarding investments of funds are transparent and taken within delegated authority; and such proper authority is monitored by the Board. 10 out of 36 CPSEs namely, MMTC Limited, NMDC Limited, Bharat Electronics Limited, BEML Limited, SJVN Limited, MOIL Limited, The Shipping Corporation of India Limited, Madras Fertilizers Limited, The Fertilizers and Chemicals Travancore Limited and Rashtriya Chemicals and Fertilizers Limited did not formulate their investment policy for surplus cash.

4.5.4.2 Constitution of a sub-committee for investments

According to O.M. No. 4/6/94 – Fin dated 14 December 1994, decision on investment of surplus funds shall be taken by CPSEs Board. However, decisions on investments involving short term funds up to one year maturity and up to a prescribed limit of investment may be delegated to a designated group of Director(s), which should invariably include Chairman cum Managing Director and Director (Finance)/Head of Finance, besides others. Where such delegation is made, the delegation order should spell out the levels of approval and the powers of each official, which should be strictly observed. However, in case of Rashtriya Chemicals and Fertilizers Limited and The Shipping Corporation of India Limited, the powers were solely vested with the Chairman/ Director (Finance) jointly and no sub-committee as required by DPE was constituted. In case of remaining CPSEs, sub-committee for investments was formed, except for four CPSEs viz. BEML Limited, Madras Fertilizers Limited, Mahanagar Telephone Limited and The Fertilizers and Chemicals Travancore Limited where data was not available.

4.5.4.3 Composition of Investments

DPE O.M. No.DPE/11(47)/2006 – Fin. dated 11 April 2008 in respect of surplus of funds states that “at least to the extent of 60 *per cent* of funds under the control of Ministries/Departments/Other agencies/Entities etc. be placed with Public Sector Banks.” The Composition of cash in hand and investments of 36 CPSEs is given in ***Appendix-VIII*** and Table 4.8. All the CPSEs except Hindustan Copper Limited (during 2014-15) had invested at least 60 *per cent* of their funds in Public Sector Banks.

Table 4.8: Composition of cash in hand and investments of 36 CPSEs as on 31 March 2015

(₹ in crore)

Composition	Cash and stamps in hand	Bank/ FDs	Govt. Bonds etc.	Equity & Mutual Funds	Corporate Deposits	Misc.	Total
Total	791	1,61,161	34,885	59,519	2,124	3,241	2,61,721
Percentage	0.30	61.58	13.33	22.74	0.81	1.24	100

4.5.4.4 Safe Custody of investments and Physical verification

The investments have to be kept under safe custody and should be periodically verified for title of ownership and physical presence to avoid frauds. The documents to be verified include the (i) Fixed Deposit/ Term Deposit receipts; (ii) Account Statements of Banks indicating the electronic holding of investments etc. There was arrangement for safe custody of investments and periodic physical verification of title of ownership in case of 28 CPSEs. Physical verification of fixed deposits was not conducted in National Fertilizers Limited during 2012-15. In case of remaining CPSEs complete data was not available.

4.6 Governance by Board and Oversight by Ministry

The Board of Directors is responsible for the overall supervision of the performance of the company and play a key role in advising the Company in investment decisions. The Administrative Ministry monitors the performance of the CPSEs through the Memorandum of Understanding (MoU) signed by the CPSEs with them. Governance by CPSEs' Board and oversight of Ministry vis-a-vis compliance with DPE guidelines may be seen in following conclusion.

4.7 Conclusion

- Four CPSEs did not disburse minimum dividend of ₹ 1,718 crore as required by the DPE guidelines, despite having sufficient profit after tax;

- Three CPSEs did not disburse minimum dividend of ₹ 5,237 crore as required by DPE, due to insufficient PAT, despite having large free reserves;

- In case of 27 CPSEs, free reserves were in excess of thrice of their paid up capital. However, bonus shares were not issued as required by DPE in case of 24 CPSEs. In case of three CPSEs namely Balmer Lawrie & Co. Limited, Container Corporation of India Limited and Bharat Petroleum Corporation Limited, even after issue of bonus shares their reserves remained more than three times of their paid up capital. They did not consider issue of bonus shares as per DPE guidelines;

- In case of eight CPSEs, managements have yet to amend Articles of Association to provide for buyback of shares as required by DPE;

- Utilisation of surplus cash is not included as a financial parameter to monitor performance in MOUs of 23 CPSEs; and

- 10 CPSEs namely, MMTC Limited, NMDC Limited, Bharat Electronics Limited, BEML Limited, SJVN Limited, MOIL Limited, The Shipping Corporation of India Limited, Madras Fertilizers Limited, The Fertilizers and Chemicals Travancore Limited and Rashtriya Chemicals and Fertilizers Limited did not formulate their investment policy for investing surplus cash as required by DPE.

4.8 Recommendation

Oversight of Board and the Administrative Ministry may be strengthened over management of surplus cash held by the CPSEs and compliance to DPE guidelines ensured.

New Delhi
Dated : 31 March 2016

(PRASENJIT MUKHERJEE)
Deputy Comptroller and Auditor General and Chairman, Audit Board

Countersigned

New Delhi
Dated : 1 April 2016

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India