

CHAPTER – IV

ECONOMIC SECTOR
(STATE PUBLIC SECTOR
UNDERTAKINGS)

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ECONOMIC SECTOR

FUNCTIONING OF STATE PUBLIC SECTOR UNDERTAKINGS

4.1 Introduction

There were six State Public Sector Undertakings (SPSUs)¹ as on 31 March 2018 which were incorporated² during the period 1977-78 to 2011-12. State Government provides financial support to the SPSUs in the form of equity, loans/ grants/ subsidy from time to time. Of the six SPSUs, State Government invested funds in five and the sixth was incorporated as a joint venture of another Government Company³. Equity of the joint venture company was contributed by the co-partner. All the six SPSUs are working companies.

4.2 Investment in State PSUs

State PSUs in Mizoram function as instruments of State Government to provide certain services which private sector may not be willing to extend due to various reasons. Details of investment made in these six State PSUs in the form of equity and long-term loans up to 31 March 2018 are detailed in **Appendix-4.1.1**.

The sector-wise summary of investment in these SPSUs as on 31 March 2018 is given below:

Table-4.1:- Sector-wise investment in State PSUs

Sector	Number of SPSUs	Investment (₹ in crore)		
		Equity	Long term loans	Total
Agricultural Marketing	1	5.45	-	5.45
Financing	1	15.78	29.68	45.46
Manufacturing	2	27.23	-	27.23
Miscellaneous	2	10.15	1.00	11.15
Total	6	58.61	30.68	89.29

Source: Latest finalised accounts of SPSUs

As on 31 March 2018, the total investment (equity and long term loans) in these six SPSUs was ₹ 89.29 crore. The investment consisted of 65.64 per cent towards equity and 34.36 per cent towards long-term loans. The long-term loans advanced by State Government constituted 33.74 per cent (₹ 10.35 crore) of the total long term loans while 66.26 per cent (₹ 20.33 crore) of the total long term loans were availed from other financial institutions.

The investment has declined by 1.64 per cent from ₹ 90.78 crore in 2013-14 to ₹ 89.29 crore in 2017-18.

4.3 Disinvestment, restructuring and privatisation of State PSUs

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

¹ Appendix-4.1.1

² One each in 1977-78, 1988-89, 1989-90, 1991-92, 1992-93 and 2011-12

³ Zoram Industrial Development Corporation Limited

4.4 Budgetary Support to State PSUs

GoM provides financial support to State PSUs in various forms through annual budget. Summarised details of budgetary outgo towards equity, loans, grants/ subsidies, loans written off and loans converted into equity in respect of State PSUs for the last three years ending March 2018 are as follows:

Table-4.2:- Budgetary support to State PSUs

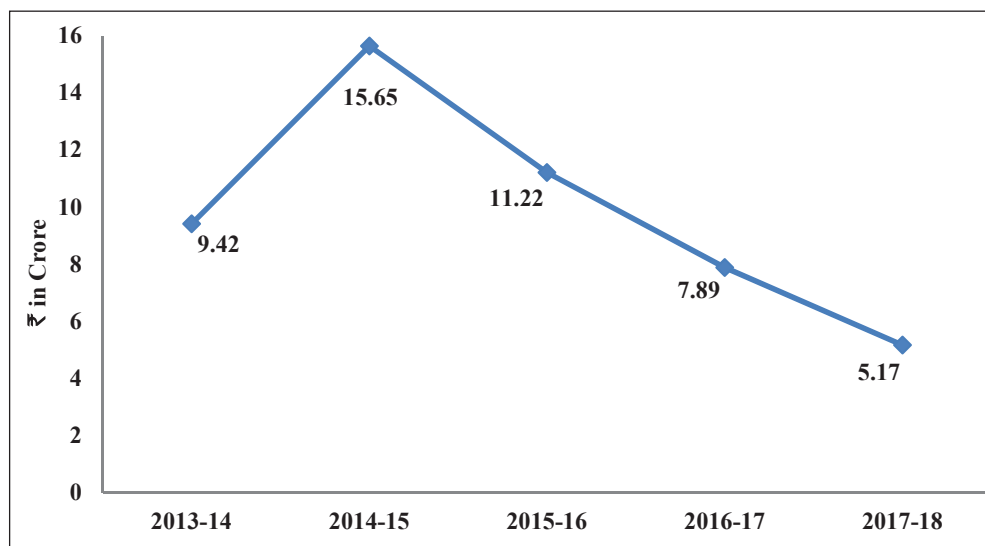
(₹ in crore)

Particulars	2015-16		2016-17		2017-18	
	No. of SPSUs	Amount	No. of SPSUs	Amount	No. of SPSUs	Amount
Equity Capital outgo (i)	1	1.30	-	-	-	-
Loans given (ii)	-	-	1	1.00	-	-
Grants/ Subsidy provided (iii)	3	9.92	4	6.89	2	5.17
Total Outgo (i + ii + iii)	4	11.22	5	7.89	2	5.17
Loan repayment written off	-	-	-	-	-	-
Loans converted into equity	-	-	-	-	-	-
Guarantees issued	-	-	-	-	-	-
Guarantee Commitment	1	22.68	1	24.93	1	27.34

Source: Information provided by SPSUs

The details regarding budgetary outgo towards equity, loans and grants/ subsidies for the last five years ending March 2018 are given in chart below:

Chart-4.4.1: Budgetary outgo towards Equity, Loans and Grants/ Subsidies



The annual budgetary assistance to these SPSUs ranged between ₹ 5.17 crore and ₹ 15.65 crore during the period 2013-14 to 2017-18. The budgetary assistance of ₹ 5.17 crore given during the year 2017-18 represented grants/ subsidy primarily to meet the expenditure on salaries of employees and other establishment expenditure. State Government did not provide any equity assistance to these SPSUs during 2017-18.

GoM provides guarantee under Mizoram Guarantee Act, 2011 for SPSUs to seek financial assistance from Banks and other financial institutions. The Government charges a minimum of 0.75 per cent of the guarantee amount as guarantee commission vide Mizoram Ceiling of Government Guarantees Act, 2011. Outstanding guarantee commitments increased by 46.91 per cent from ₹ 18.61 crore in 2013-14 to ₹ 27.34 crore in 2017-18.

4.5 Reconciliation with Finance Accounts of Government of Mizoram

The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with the figures appearing in the Finance Accounts of Government of Mizoram. In case the figures do not agree, SPSUs concerned and Finance Department should carry out reconciliation of differences. The position in this regard as on 31 March 2018 is stated below:

Table-4.3:- Equity, loans, guarantees as per Finance Accounts 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	6.98	58.61	51.63
Loans	-	30.68	30.68
Guarantees	29.67	27.34	2.33

Source: Information provided by SPSUs and Finance Accounts

Audit observed that the differences occurred in respect of all SPSUs and reconciliation of these two sets of figures has been pending for more than ten years. The issue of reconciliation of differences was also taken up with SPSUs and departments concerned from time to time. However, no significant progress was noticed in this regard. State Government and the SPSUs need to take concrete steps to reconcile the differences in a time-bound manner.

4.6 Submission of accounts by State PSUs

Accounts for the year 2017-18 were required to be submitted by all the working SPSUs by 30 September 2018. However, none of the six working Government Companies submitted their accounts for the year 2017-18 for audit by CAG on or before 30 September 2018.

Details of arrears in submission of accounts of working SPSUs as on 30 September 2018 are given below:

Table-4.4:- Position relating to submission of accounts by the working State PSUs

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Number of SPSUs	6	6	6	6	6
Number of working SPSUs which finalised accounts for the current year	-	-	-	-	-
Number of previous year accounts finalised during current year	1	1	15	15	2
Number of working SPSUs with arrears in accounts	6	6	6	6	6
Number of accounts in arrears	33	38	29	20	24
Extent of arrears in years	1 to 8	1 to 13	2 to 10	1 to 7	2 to 8

Source: Accounts of SPSUs received during the period October 2017 to September 2018

Of six working SPSUs, two SPSUs had finalised two annual accounts for previous years during the period 01 October 2017 to 30 September 2018. Two working companies forwarded two audited accounts to the Principal Accountant General during the period from 01 October 2017 to 30 September 2018. Both these were issued a Non-Review Certificate on 03 January 2018 (Zoram Industrial Development Corporation Limited) and 14 February 2019 (Mizoram Handloom and Handicrafts Development Corporation Limited). Further, 24 annual accounts pertaining to six SPSUs were in arrears as detailed in **Appendix-4.1.2**. The Administrative departments have the responsibility to oversee activities of these entities and to ensure that the accounts are finalised and adopted by these SPSUs within the stipulated period.

The GoM had provided ₹ 29.16 crore (Equity: ₹ 8.49 crore, Grants: ₹ 20.67 crore) to four of the six working State PSUs, the accounts of which had not been finalised by 30 September 2018 as prescribed under the Companies Act, 2013. PSU wise details of investments made by State Government during the years for which accounts are in arrears are shown in **Appendix-4.1.2**.

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

4.7 Impact of non-finalisation of accounts of State PSUs

As pointed out in paragraph-4.6, the delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant statutes. In view of the above state of arrears of accounts, the actual contribution of the State PSUs to State GDP for the year 2017-18 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

It is, therefore, recommended that the Administrative departments should strictly monitor and issue necessary directions to clear the arrears in accounts. The Government may also look into the constraints in preparing the accounts of the SPSUs and initiate appropriate action to address the issue.

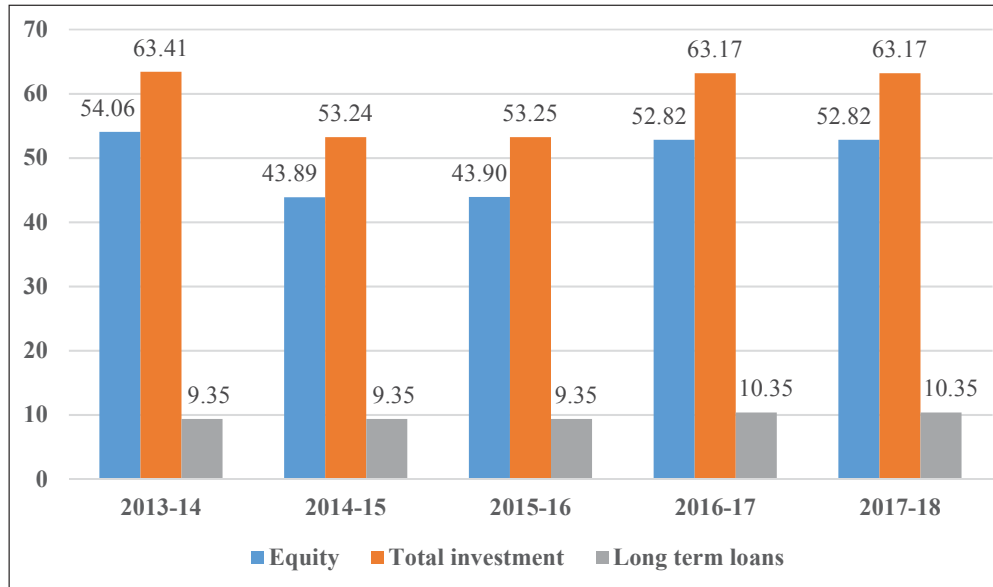
4.8 Performance of State PSUs

Financial position and working results of the six State PSUs as per their latest finalised accounts as of 30 September 2018 are detailed in **Appendix-4.1.3**.

The SPSUs are expected to yield reasonable return on investment made by Government in them. The total investment of State Government and others in the SPSUs was ₹ 89.29 crore consisting of equity of ₹ 58.61 crore and long term loans of ₹ 30.68 crore. Out of this, Government of Mizoram has made investment of ₹ 63.17 crore consisting of equity of ₹ 52.82 crore (five SPSUs) and long-term loans of ₹ 10.35 crore (two SPSUs).

Year wise statement of investment of GoM in SPSUs during the period 2013-14 to 2017-18 is as follows:

Chart-4.8.1: Total investment of GoM in SPSUs

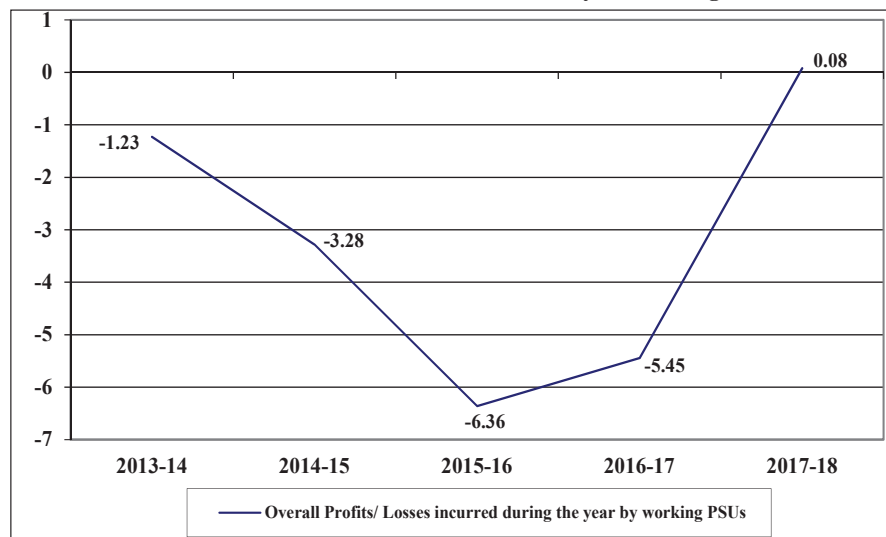


Profitability of a company is traditionally assessed through returns on investments made and capital employed. Return on investment measures the profit or loss made in a fixed year relating to the amount of money invested and is expressed as a percentage of net profit to total investment. Return on capital employed is a financial ratio that measures the company's profitability and the efficiency with which its capital is used.

4.8.1 Return on Investment

The overall position of Profit/ losses earned/ incurred by the six working State PSUs during 2013-14 to 2017-18 is depicted below:

Chart-4.8.2: Profit/ Losses earned/ incurred by six working SPSUs



The loss of ₹ 1.23 crore incurred by these working SPSUs in 2013-14 transformed into a profit of ₹ 0.08 crore in 2017-18 due to profit earned by two SPSUs. According to the latest finalised accounts of these six working SPSUs, two SPSUs earned profit of ₹ 2.94 crore while four incurred losses of ₹ 2.86 crore as detailed in **Appendix-4.1.3**.

The top profit making companies were Zoram Industrial Development Corporation Limited (₹ 1.66 crore) and Mizoram Handloom and Handicrafts Development Corporation Limited (₹ 1.28 crore) while Mizoram Food and Allied Industries Corporation (₹ 1.59 crore) and Mizoram Agricultural Marketing Corporation Limited (₹ 1.02 crore) incurred losses.

4.8.2 Return on Investment on the basis of historical cost of investment

The Government invested ₹ 63.17 crore in five SPSUs including equity of ₹ 52.82 crore and long term loans of ₹ 10.35 crore.

The funds made available in the form of grants/ subsidy have not been reckoned as investment since these do not qualify to be considered as investment. Out of the total long term loans, only interest free loans have been considered as investment.

The entire long term loans of ₹ 10.35 crore, were interest free loans. Thus, the total investment of State Government in these five SPSUs on the basis of historical cost was ₹ 63.17 crore (₹ 52.82 crore plus 10.35 crore).

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

Table-4.5:- Return on State Government Funds on the basis of historical cost of investment

Year	Total Earnings	Investment by GoM in the form of equity and Interest free loans on the basis of historical cost	Return on State Government funds on the basis of historical cost (in per cent)
2013-14	(-) 1.23	63.41	(-) 1.94
2014-15	(-) 3.28	53.24	(-) 6.16
2015-16	(-) 6.36	53.25	(-) 11.94
2016-17	(-) 5.45	63.17	(-) 8.63
2017-18	0.08	63.17	0.13

Source: SPSUs records and finalised accounts for respective years

The return on State Government investment is worked out by dividing the total earnings of these SPSUs by cost of State Government investments. Return earned on State Government investments ranged between (-) 11.94 per cent and 0.13 per cent during the period 2013-14 to 2016-17. The positive rate of return during 2017-18 was mainly due to profit earned by Zoram Industrial Development Corporation Limited and Mizoram Handloom and Handicrafts Development Corporation Limited during the year.

4.8.3 Return on Capital Employed

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 capital employed. Details of total ROCE of all the State PSUs together during the period from 2013-14 to 2017-18 are given in the table below:

Table-4.6:- Return on Capital Employed

Year	EBIT (₹ in crore)	Capital Employed (₹ in crore)	ROCE (in per cent)
2013-14	(-) 1.23	65.56	(-) 1.88
2014-15	(-) 3.28	65.55	(-) 5.00
2015-16	(-) 6.36	65.55	(-) 9.70
2016-17	(-) 5.45	78.92	(-) 6.91
2017-18	0.08	77.08	0.10

Source: SPSUs records and finalised accounts for respective years

The ROCE of these State PSUs ranged between (-) 9.70 per cent and 0.10 per cent during the period 2013-14 to 2017-18. The ROCE turned into positive due to the profit earned by Zoram Industrial Development Corporation Limited and Mizoram Handloom and Handicrafts Development Corporation Limited during the year 2017-18.

4.9 Erosion of Net worth

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. Capital investment and accumulated losses of these six State PSUs as per their latest finalised accounts were ₹ 58.61 crore and ₹ 59.14 crore respectively, resulting in net worth of (-) ₹ 0.53 crore as detailed in **Appendix-4.1.3**. Analysis of investment and accumulated losses disclosed that net worth eroded fully in four out of these six SPSUs, as the capital investment and accumulated losses of these four SPSUs were ₹ 41.38 crore and ₹ 46.51 crore respectively. Of these four SPSUs, the maximum net worth erosion was in Zoram Industrial Development Corporation Limited (₹ 3.21 crore) and Mizoram Agricultural Marketing Corporation Limited (₹ 0.98 crore).

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

Table-4.7:- Net worth of six public sector undertakings during 2013-14 to 2017-18

(₹ in crore)

Year	Paid up Capital at end of the year	Accumulated Profit (+) Loss (-) at end of the year	Deferred revenue Expenditure	Net Worth
2013-14	59.85	(-) 58.03	-	1.82
2014-15	49.69	(-) 57.89	-	(-) 8.20
2015-16	49.69	(-) 57.89	-	(-) 8.20
2016-17	58.61	(-) 62.09	-	(-) 3.48
2017-18	58.61	(-) 59.14	-	(-) 0.53

Source: SPSUs records and finalised accounts for respective years

As can be seen above, the net worth of these companies fluctuated during the period. It decreased from ₹ 1.82 crore in 2013-14 to (-) ₹ 0.53 crore in 2017-18. Out of the six SPSUs, two SPSUs had positive net worth and four SPSUs had negative net worth during 2017-18.

4.10 Debt Turnover Ratio

During the last five years, the turnover of these SPSUs recorded a compounded annual growth of 1.88 per cent and compounded annual growth of debt was (-) 0.16 per cent due to which, the debt turnover ratio improved from 1.90 in 2013-14 to 1.74 in 2017-18 as given in following table:

Table-4.8:- Debt Turnover Ratio relating to the State PSUs

Particulars	(₹ in crore)				
	2013-14	2014-15	2015-16	2016-17	2017-18
Debt from Government and others (Banks and Financial Institutions)	30.93	23.62	22.68	30.68	30.68
Turnover	16.32	17.43	05.86	03.77	17.58
Debt-Turnover Ratio	1.90:1	1.36:1	3.87:1	8.14:1	1.74:1

Source: SPSUs records and finalised accounts for respective years

The debt-turnover ratio ranged between 8.14 and 1.74 during the period 2016-17 and 2017-18. The overall accumulated losses decreased marginally during the year 2017-18 in comparison to that for the year 2016-17 which was mainly due to decrease in accumulated losses of Zoram Industrial Development Corporation Limited and Mizoram Handloom and Handicrafts Development Corporation Limited.