

# **Chapter-II**

## **Financial Performance of State Public Sector Enterprises (other than Power Sector)**



## CHAPTER - II

### Financial Performance of State Public Sector Enterprises (Other than Power Sector)

#### 2.1 Introduction

There were 44<sup>1</sup> State Public Sector Enterprises (Other than Power Sector) in the State of Punjab as on 31 March 2020 (*Annexure 3*). These SPSEs, incorporated during the period 1952-53 to 2016-17, included 37 Government Companies, three<sup>2</sup> Government Controlled Other Companies (GCOCs) and four<sup>3</sup> Statutory Corporations. The Government Companies included 16<sup>4</sup> inactive companies and 10<sup>5</sup> subsidiary companies owned by Government Companies. One Company, Punjab Communications Limited, was listed on a stock exchange.

The financial performance of 28 working SPSEs (*Annexure 4*) on the basis of their latest finalised accounts as on 31 December 2020 is covered in this Chapter.

Summary of financial performance of Other than Power Sector SPSEs covered in this Chapter	
Number of SPSEs	44
SPSEs covered	28 (Working)
Paid up Capital	₹ 1,159.69 crore
Equity investment of Government of Punjab as on 31 March 2020	₹ 1,043.26 crore
Long term Loans	₹ 18,900.20 crore
Net Profit	₹ 284.09 crore (Nine <sup>6</sup> SPSEs)

<sup>1</sup> During the year, two SPSEs under liquidation (Punjab Digital Industrial Systems Limited and Punjab Electro Optics Systems Limited) were dissolved as per Punjab & Haryana High Court orders dated 9 February 2018 and 4 March 2020 respectively. Further one inactive SPSE namely Punjab Tanneries Limited has been struck off from Register of Companies by the Registrar of Companies under Section 248(5) of the Companies Act, 2013.

<sup>2</sup> Amritsar Smart City Limited, Ludhiana Smart City Limited and Jalandhar Smart City Limited.

<sup>3</sup> PEPSU Road Transport Corporation (PRTC), Punjab Financial Corporation (PFC), Punjab Scheduled Castes Land Development and Finance Corporation (PSCLDFC) and Punjab State Warehousing Corporation (PSWC).

<sup>4</sup> Sl. No. 29 to 44 of *Annexure 3*.

<sup>5</sup> Sl. No. 1, 9, 12, 20, 35, 39 and 41 to 44 of *Annexure 3*.

<sup>6</sup> Punjab Agro Industries Corporation Limited, Punjab State Forest Development Corporation Limited, Punjab State Seeds Corporation Limited, Punjab Small Industries & Export Corporation Limited, Punjab Agri Export Corporation Limited, Punjab State Bus Stand Management Company Limited, Punjab State Container and Warehousing Corporation Limited, Punjab State Warehousing Corporation and Punjab Financial Corporation.

Net Loss	₹ 488.36 crore ( 13 <sup>7</sup> SPSEs)
Zero Profit/Loss	Six <sup>8</sup> SPSEs
Dividend Declared	₹ 1.38 crore ( Two <sup>9</sup> SPSEs)
Total Assets	₹ 41,435.05 crore
Turnover	₹ 40,027.52 crore
Net Worth <sup>10</sup>	₹ (-) 7,300.89 crore

Source: Latest finalised accounts of SPSEs and information received from SPSEs.

The ratio of turnover of SPSEs to the Gross State Domestic Product (GSDP) shows the contribution of activities of these SPSEs in the State economy. The **Table 2.1** below provides the details of turnover of working SPSEs and GSDP of Punjab for a period of five years ending March 2020:

**Table 2.1: Details of turnover of SPSEs vis-à-vis GSDP of Punjab**

Particulars	(₹ in crore)				
	2015-16	2016-17	2017-18	2018-19	2019-20
Turnover	32,104.55	33,032.24	36,728.43	40,883.49	40,027.52
GSDP of Punjab (at current prices and advance estimates)	3,90,087.00	4,26,988.00	4,70,834.00	5,26,376.00	5,74,760.00
Percentage of Turnover to GSDP of Punjab	8.23	7.74	7.80	7.77	6.96

Source: Compilation based on Turnover figures as per latest finalised accounts of SPSEs and GSDP figures as per Economic and Statistical Organisation, Government of Punjab.

As per their latest finalised accounts, the SPSEs recorded continuous increase in their turnover over the previous years' turnover during 2015-16 to 2018-19 but recorded decrease during 2019-20. The increase/decrease in turnover ranged between (-) 2.09 per cent and 11.31 per cent during the period 2015-20, whereas increase in GSDP of the State ranged between 9.19 per cent and 11.80 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 10.11 per cent of the GSDP, the turnover of these SPSEs recorded lower compounded annual growth of 5.61 per cent during last five years. Hence, there is decrease in share of turnover of these SPSEs to the GSDP, in percentage terms, from 8.23 per cent in 2015-16 to 6.96 per cent in 2019-20.

<sup>7</sup> Punjab Agro Foodgrains Corporation Limited, Punjab Agro Juices Limited, Punjab State Grains Procurement Corporation Limited, Punjab Water Resources Management & Development Corporation Limited (PWRMDC), Gulmohar Tourist Complex (Holiday Home) Limited, Punjab Information & Communication Technology Corporation Limited, Punjab State Civil Supplies Corporation Limited, Punjab Tourism Development Corporation Limited, Punjab State Industrial Development Corporation Limited, Punjab Communications Limited, Punjab Scheduled Castes Land Development and Finance Corporation Limited, PEPSU Road Transport Corporation and Ludhiana Smart City Limited

<sup>8</sup> It includes four SPSEs working on No Profit No Loss basis and Two SPSEs earned zero Profit/loss during the year.

<sup>9</sup> Punjab State Forest Development Corporation Limited and Punjab State Container and Warehousing Corporation Limited

<sup>10</sup> Net Worth = Paid up share capital + free reserves and surplus - accumulated losses - deferred revenue expenditure.

Out of 24 working Government Companies, eight Companies submitted their accounts for the year 2019-20 for audit by CAG on or before 31 December 2020<sup>11</sup> as per statutory requirement. Of the four Statutory Corporations, Accounts for the year 2019-20 were pending receipt from all the Corporations as of 31 December 2020.

Details of arrears in submission of accounts of working SPSEs for the last three years ending 31 March 2020 are given below:

**Table 2.2: Position relating to submission of accounts by the SPSEs**

Sl. No.	Particulars	2017-18	2018-19	2019-20
1.	Number of SPSEs	28	28	28
2.	Number of accounts submitted by SPSEs during current year	28	36	26
3.	Number of SPSEs which finalised accounts for the current year	5	5	8
4.	Number of previous year accounts finalised during current year	23	31	18
5.	Number of SPSEs with arrears in accounts	23	23	20
6.	Number of accounts in arrears	44	33	35
7.	Extent of arrears	One to eight years	One to four years	One to five years

*Source: Compiled from accounts of working SPSEs received during the period October 2019 to December 2020.*

Of these 28 working SPSEs, 21 SPSEs had finalised their 26 annual accounts during the period from 1 October 2019 to 31 December 2020 which included eight annual accounts for the year 2019-20 and 18 annual accounts for previous years. Further, 35 annual accounts were in arrears pertaining to 20 SPSEs. 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 SPSEs within the stipulated period. The concerned Departments are being informed half yearly by the Principal Accountant General (Audit) Punjab regarding arrears in finalisation of accounts.

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 SPSEs, therefore, remained outside the scrutiny of the State Legislature.

## 2.2 Investment in SPSEs

The amount of investment in equity and long term loans in 28 SPSEs for the period of three years ending 31 March 2020 (as detailed in *Annexure 5*) is given in **Table 2.3**:

<sup>11</sup> Due date for holding of Annual General Meeting for the financial year 2019-20 was extended up to 31 December 2020, as per Registrar of Companies order of 8 September 2020.

**Table 2.3: Equity investment and long term loans in SPSEs**

(₹ in crore)

Source of Investment	As on March 2018			As on March 2019			As on March 2020		
	Equity	Long Term Loans	Total	Equity	Long Term Loans	Total	Equity	Long Term Loans	Total
State Government	1,140.14	24,235.64	25,375.78	1,042.17	24,236.84	25,279.01	1,043.26	16,015.88	17,059.14
Central Government	91.15	24.92	116.07	91.15	11.07	102.22	96.94	0.00	96.94
Others	26.34	2,262.12	2,288.46	26.34	2,457.64	2,483.98	26.34	2,204.30	2,230.64
<b>Total</b>	<b>1,257.63</b>	<b>26,522.68</b>	<b>27,780.31</b>	<b>1,159.66</b>	<b>26,705.55</b>	<b>27,865.21</b>	<b>1,166.54</b>	<b>18,220.18</b>	<b>19,386.72</b>
<b>Percentage of State Government Investment to Total Investment</b>	<b>90.66</b>	<b>91.38</b>	<b>91.34</b>	<b>89.87</b>	<b>90.76</b>	<b>90.72</b>	<b>89.43</b>	<b>87.90</b>	<b>87.99</b>

Source: Compiled based on information received from SPSEs.

The Government of Punjab (GoP) provides financial support to SPSEs in various forms through its 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 SPSEs for the last five years ending March 2020 are as follows:

**Table 2.4: Details of budgetary support to SPSEs during last five years**

(₹ in crore)

Particulars <sup>12</sup>	2015-16		2016-17		2017-18		2018-19		2019-20	
	Number of SPSEs	Amount	Number of SPSEs	Amount	Number of SPSEs	Amount	Number of SPSEs	Amount	Number of SPSEs	Amount
(i) Equity Capital Outgo	2	32.24	2	10.83	-	-	-	-	1	1.09
(ii) Loans given (Interest bearing)	-	-	4	22,974.19	-	-	-	-	-	-
(iii) Grants/ Subsidy provided	5	508.45	3	518.19	4	186.38	8	328.08	10	375.71
<b>Total Outgo (i+ii+iii)</b>		<b>540.69</b>		<b>23,503.21</b>		<b>186.38</b>		<b>328.08</b>		<b>376.80</b>
Loan repayment written off	-	-	2	6.47	-	-	-	-	1	0.84
Loans converted into equity	-	-	-	-	-	-	-	-	-	-
Guarantees issued	2	34.40	-	-	2	141.12	1	150.00	2	188.41
Guarantee Commitment	10	29,250.45	7	1,633.69	9	1,721.84	10	2,023.31	10	2,771.27

Source: Information received from SPSEs.

During the year 2019-20, the total subsidy of ₹ 375.71 crore, included ₹ 122.43 crore provided to Punjab State Civil Supplies Corporation Limited for Atta Dal Scheme.

### 2.2.1 Investment in Equity

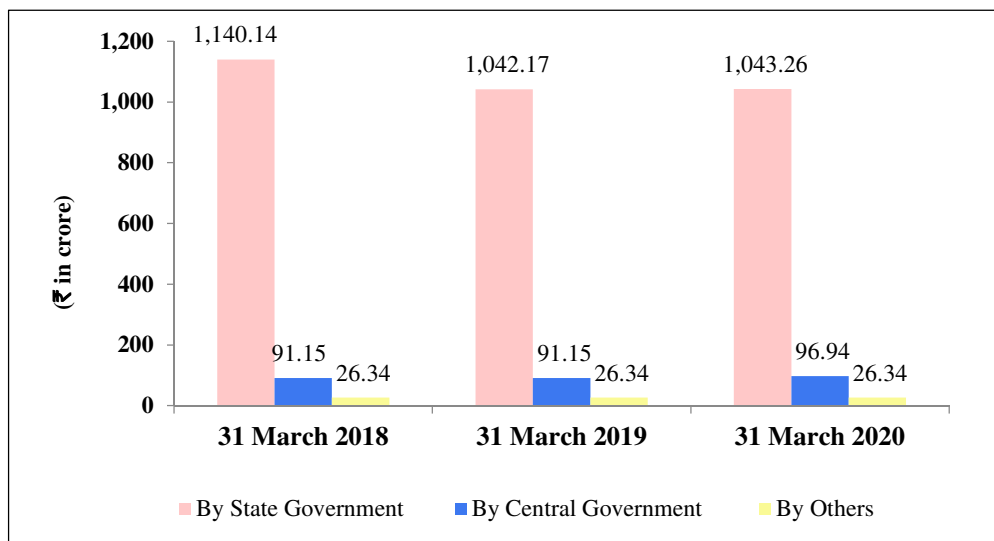
As on 31 March 2020, the total investment (equity and long term loans) in 28 SPSEs was ₹ 19,386.72 crore. The investment consisted of 6.02 per cent

<sup>12</sup> Amount represents outgo from State budget only.

towards equity and 93.98 per cent in long-term loans. During the year 2019-20, there was increase in equity of Punjab Scheduled Castes Land Development and Finance Corporation by ₹ 6.88 crore due to infusion of equity by State Government (₹ 1.09 crore) and Central Government (₹ 5.79 crore).

Investment in equity by State Government, Central Government and Others in SPSEs for the period of three years ending March 2020 is depicted in **Chart 2.1** below:

**Chart 2.1: Investment in Equity in SPSEs**



Details of significant investments (investment of more than ₹ 100 crore) made by the State Government as on 31 March 2020 in the paid up capital of the SPSEs is given in the **Table 2.5** below:

**Table 2.5: Significant investments made by the State Government in equity of SPSEs**

Name of the SPSE	Name of the Department	Amount (₹ in crore)
PEPSU Road Transport Corporation (PRTC)	Transport	307.08
Punjab Water Resources Management and Development Corporation Limited	Irrigation	300.00

## 2.2.2 Loans given to SPSEs

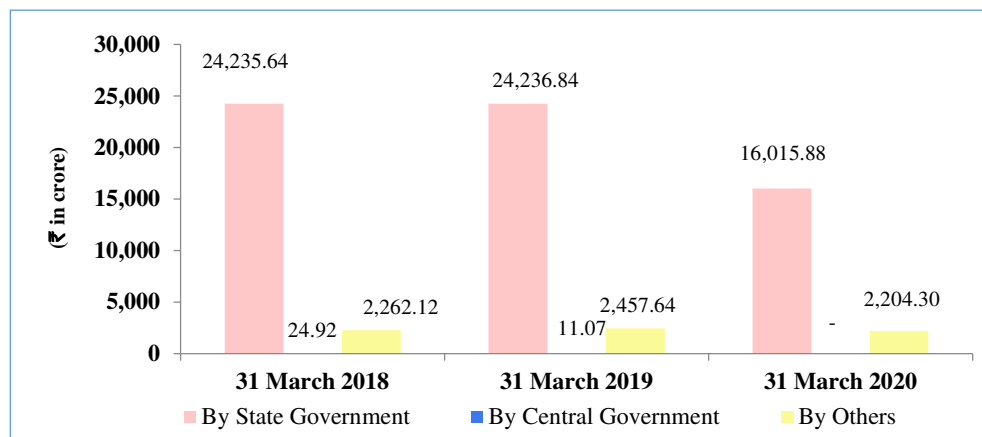
### 2.2.2.1 Computation of long term loans outstanding as on 31 March 2020

Of the 28 working SPSEs, thirteen SPSEs had outstanding long term loans availed from various sources, as on 31 March 2020. The total outstanding long term loan was ₹ 18,220.18 crore. Of the long term loans, those advanced by the State Government constituted 87.90 per cent (₹ 16,015.88 crore) whereas 12.10 per cent (₹ 2,204.30 crore) of the total long term loans were availed from other financial institutions. Two<sup>13</sup> SPSEs defaulted in repayment of loans

<sup>13</sup> PRTC since 2012-13 and Punjab Financial Corporation (PFC) since 1991-92

to State Government amounting to ₹ 33.59 crore. Both SPSEs have taken up the matter with State Government for conversion of their loan into equity. The details of outstanding long term loans of SPSEs during the last three years ending 31 March 2020 is depicted in the **Chart 2.2** below:

**Chart 2.2: Long term loans outstanding in SPSEs**



#### 2.2.2.2 Adequacy of assets to meet loan liabilities

Ratio of total debt to total assets is one of the methods used to determine whether a company can stay solvent. To be considered solvent, the value of a company's assets must be greater than the sum of its loans/debts. The coverage of long term loans by value of total assets in 15 SPSEs, which had long term loans, as per latest finalised accounts as on 31 March 2020 is given in the following **Table 2.6**:

**Table 2.6: Coverage of long term loans with total assets**

(₹ in crore)

Nature of SPSEs	Positive Coverage				Negative Coverage			
	Number of SPSEs	Assets	Long Term Loans	Ratio of Assets to Long term loans	Number of SPSEs	Assets	Long Term Loans	Ratio of Assets to Long term loans
Government Companies	11	20,804.15	13,241.67	1.57:1	-	-	-	-
Statutory Corporations	3	6,425.48	5,623.76	1.14:1	1	18.82	34.77	0.54:1
<b>Total</b>	<b>14</b>	<b>27,229.63</b>	<b>18,865.43</b>		<b>1</b>	<b>18.82</b>	<b>34.77</b>	

Source: Latest finalised accounts of SPSEs.

Out of 28 working SPSEs, in 10 Government Companies and all the three GCOs, percentage of total assets to long term loans could not be calculated as these did not have any long term loans. In 15 SPSEs having long term loans, one<sup>14</sup> SPSE had negative coverage and other 14 SPSEs had positive coverage of long term loans.



### 2.2.2.3 Interest Coverage

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 less is the ability of the company to pay interest on debt. An interest coverage ratio of below one indicates that the company was not generating sufficient revenues to meet its expenses on interest. The details of interest coverage ratio in SPSEs charging interest on long term loans in their Accounts during the period from 2017-18 to 2019-20 are given in the **Table 2.7** below:

**Table 2.7: Interest Coverage Ratio**

Year	Interest (₹ in crore)	Earnings before interest and tax (EBIT) (₹ in crore)	Number of SPSEs	Number of SPSEs having interest coverage ratio more than 1	Number of SPSEs having interest coverage ratio less than 1
2017-18	832.07	329.26	8	4	4
2018-19	265.55	410.51	8	5	3
2019-20	365.14	470.37	8	4	4

Source: Latest finalised accounts of SPSEs

In 2019-20, number of SPSEs with interest coverage ratio more than one was four against five in 2018-19. Other four SPSEs had interest coverage ratio below one which indicates that these SPSEs could not generate sufficient revenue to meet their expenses on interest during the period.

### 2.2.2.4 Age wise analysis of interest outstanding on loans

As on 31 March 2020, interest amounting to ₹ 19.34 crore was outstanding in respect of one SPSE on the long term loans provided by the State Government and ₹ 191.57 crore was outstanding in respect of three SPSEs on the long term loans obtained from other financial institutions. The age wise analysis of interest outstanding on long term loans in the SPSEs is depicted in the **Table 2.8** below:

**Table 2.8: Interest outstanding in SPSEs**

(₹ in crore)					
Sl. No.	Name of SPSE	Interest Outstanding	Interest outstanding for less than 1 year	Interest outstanding for 1 to 3 years	Interest outstanding for more than 3 years
<b>A. Interest outstanding on State Government Loans</b>					
1.	PEPSU Road Transport Corporation	19.34	-	8.55	10.79
<b>Total (A)</b>		<b>19.34</b>	<b>-</b>	<b>8.55</b>	<b>10.79</b>
<b>B. Interest outstanding on Loans obtained from other financial institutions</b>					
1.	Punjab Agro Foodgrains Corporation Limited	49.62	49.62	0.00	0.00

2.	Punjab Scheduled Castes Land Development and Finance Corporation	0.20	0.20	0.00	0.00
3.	Punjab State Industrial Development Corporation Limited	141.75	15.20	60.72	65.83
<b>Total (B)</b>		<b>191.57</b>	<b>65.02</b>	<b>60.72</b>	<b>65.83</b>

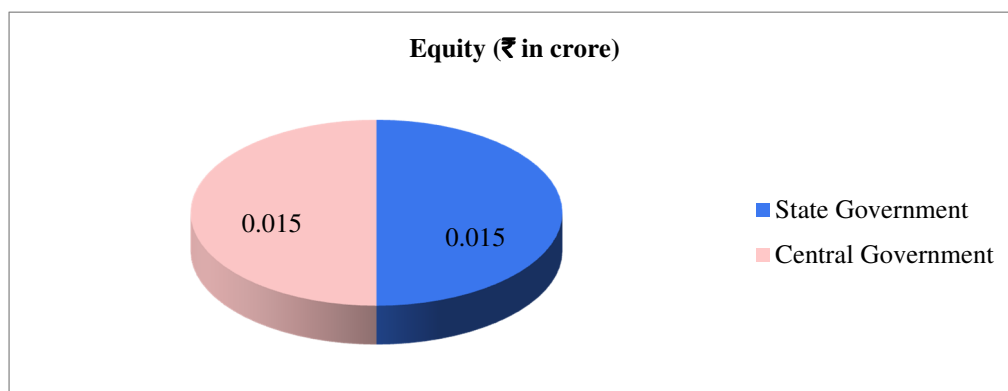
Source: Information provided by SPSEs.

State food grains procuring agencies<sup>15</sup> (SPAs) have not made any provision for interest on State Government Loan (Legacy Account) as no instructions for the payment of interest on said loans have been issued by the State Government. Further, one SPSE (PFC) has not calculated interest on loans citing its precarious financial position.

### 2.2.3 Investment in Government Controlled Other Companies

The capital invested by State Government and Central Government in three<sup>16</sup> Government Controlled other Companies (GCOCs) as on 31 March 2020 is depicted in **Chart 2.3** below. As on 31 March 2020, equity in these GCOCs was ₹ 0.03 crore which was equally shared by State Government and Central Government.

**Chart 2.3: Composition of share capital in Government Controlled Other Companies**



## 2.3 Return on investment in SPSEs

### 2.3.1 Profit earned by SPSEs

As per latest finalised accounts, nine SPSEs (excluding GCOCs) earned profit in 2019-20 as compared to 11 in 2018-19. The profit earned was ₹ 284.09 crore in 2019-20 as against profit of ₹ 283.85 crore in 2018-19. Return on

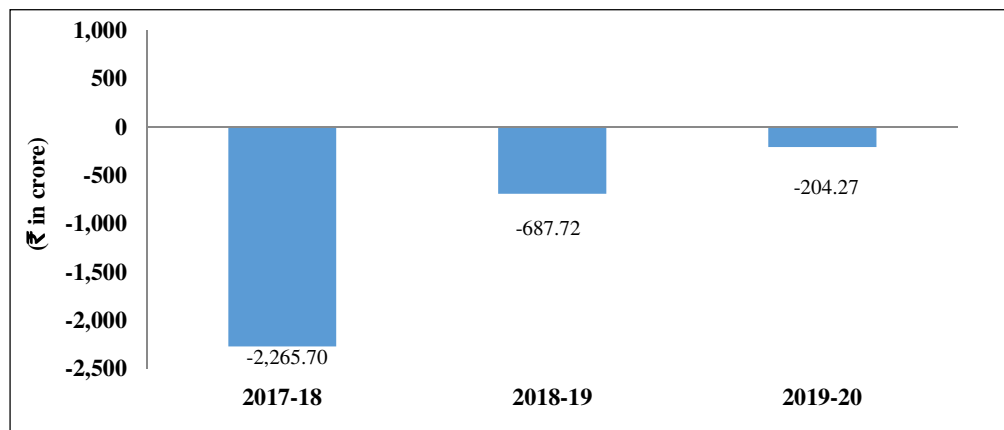
<sup>15</sup> Punjab State Grains Procurement Corporation Limited, Punjab State Civil Supplies Corporation Limited, Punjab State Warehousing Corporation and Punjab Agro Foodgrains Corporation Limited

<sup>16</sup> Amritsar Smart City Limited, Jalandhar Smart City Limited and Ludhiana Smart City Limited.

Equity (ROE)<sup>17</sup> of the six profit earning SPSEs was 4.96 per cent in 2019-20 as compared to 4.48 per cent in eight SPSEs in 2018-19. ROE in case of other SPSEs could not be calculated as their net worth was negative.

The overall position of Profit/losses<sup>18</sup> earned/incurred by the 28 working SPSEs during 2017-18 to 2019-20 is depicted below:

**Chart 2.4: Profit/Losses earned/incurred by working SPSEs**



The loss of ₹ 687.72 crore incurred by the working SPSEs in 2018-19 decreased to ₹ 204.27 crore in 2019-20 primarily due to substantial decrease in losses of State Foodgrains Procuring Agencies (SPAs) from ₹ 697.20 crore in 2018-19 to ₹ 194.65 crore in 2019-20.

According to latest finalised accounts of the 28 working State SPSEs, nine<sup>19</sup> SPSEs earned profit of ₹ 284.09 crore and 13<sup>20</sup> SPSEs incurred losses of ₹ 488.36 crore as detailed in *Annexure 4*. Out of the remaining six SPSEs, four<sup>21</sup> are functioning on 'No Profit No Loss' basis and two<sup>22</sup> SPSEs did not earn/incur any profit/loss.

Position of 28 working SPSEs which earned/incurred profit/loss during 2017-18 to 2019-20 is given in following **Table 2.9**:

**Table 2.9: SPSEs which earned/ incurred profit/loss during 2017-18 to 2019-20**

Financial Year	Total number of SPSEs	Number of SPSEs which earned profit during the year	Number of SPSEs which incurred loss during the year	Number of SPSEs		
				No profit No loss	Under construction	1 <sup>st</sup> Accounts yet to be received
2017-18	28	9	12	3	-	4
2018-19	28	13	10	4	1	-
2019-20	28	9	13	6	-	-

Source: Compiled based on *Annexure 4*.

<sup>17</sup> Return on Equity = (Net profit after taxes/net worth)\*100.

<sup>18</sup> Figures are as per the latest finalised accounts of the respective years.

<sup>19</sup> Sl. no. 2, 4, 6, 7, 9, 13, 15, 22 and 25 of *Annexure 4*.

<sup>20</sup> Sl. no. 1, 3, 5, 8, 10, 11, 14, 16, 19, 20, 23, 24 and 28 of *Annexure 4*.

<sup>21</sup> Sl. no. 12, 17, 18 and 21 of *Annexure 4*.

<sup>22</sup> Sl. no. 26 and 27 of *Annexure 4*.

Sector wise contribution to total profit during 2019-20 is summarised in **Table 2.10** below:

**Table 2.10: Sector wise contribution to profit during the year 2019-20**

Sector	Number of Profit earning SPSEs	Net Profit Earned (₹ in crore)	Percentage of profit to total SPSEs' profit
Agriculture	5	258.33	90.93
Industries	2	20.05	7.06
Transport	1	3.98	1.40
Others	1	1.73	0.61
<b>Total</b>	<b>9</b>	<b>284.09</b>	<b>100.00</b>

Source: Latest finalised accounts of SPSEs.

The SPSEs which earned profit of more than ₹ 10 crore during the year 2019-20 are given in the **Table 2.11** below:

**Table 2.11: SPSEs which earned profit of more than ₹ 10 crore**

Sl. No.	Name of the SPSE	Net Profit (₹ in crore)
1.	Punjab State Warehousing Corporation	240.51
2.	Punjab State Container and Warehousing Corporation Limited	15.05
3.	Punjab Small Industries and Export Corporation Limited	13.34
	<b>Total</b>	<b>268.90</b>

Source: Latest finalised accounts of SPSEs.

It may be seen that these three SPSEs had contributed 94.65 per cent of the total profit (₹ 284.09 crore) earned by nine SPSEs during 2019-20. Also, as per latest finalised accounts of three Government Controlled other Companies, no GCOC earned profit during 2019-20 against two in 2018-19.

### 2.3.2 Dividend Payout by SPSEs

As per latest accounts of SPSEs, in which Government of Punjab held equity and finalised during 2019-20, there were eight SPSEs which earned profit but only two of these paid dividend. The detail of State Government equity holding, profit earned and dividend payout in SPSEs is given in the **Table 2.12** below:

**Table 2.12: Dividend Payout of SPSEs during 2017-18 to 2019-20**

(₹ in crore)

Year	Total SPSEs where equity infused by GoP		SPSEs which earned profit during the year		SPSEs which declared/paid dividend during the year		Dividend Payout Ratio (in per cent)
	Number	Equity by GoP	Number	Equity by GoP	Number	Dividend declared/paid by SPSEs	
1	2	3	4	5	6	7	8 = 7/5*100
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
2019-20	22	1,043.26	8	214.54	2	1.38	0.64

Source: Latest finalised accounts of SPSEs.

During the period 2017-18 to 2019-20, the number of SPSEs which earned profits ranged between 8 and 13. During this period, number of SPSEs which declared/paid dividend to GoP ranged between two and four. The Dividend Payout Ratio during 2017-18 to 2019-20 ranged between 0.52 *per cent* and 1.35 *per cent* only.

The return on aggregate investment of ₹ 1,043.26 crore made by the State Government in equity capital of 22 SPSEs was 0.13 *per cent* in 2019-20 as compared to 0.16 *per cent* on ₹ 1,042.17 crore during 2018-19. The following two SPSEs declared dividend as per latest finalised Accounts as on 31 December 2020:

**Table: 2.13: Profit earned and dividend declared**

(₹ in crore)			
Name of SPSE	Paid up capital	Net profit after Interest and Tax	Dividend declared
Punjab State Forest Development Corporation Limited	0.25	1.73	0.13
Punjab State Container and Warehousing Corporation Limited	25.00	15.05	1.25
<b>Total</b>	<b>25.25</b>	<b>16.78</b>	<b>1.38</b>

Out of remaining six non dividend paying SPSEs, two<sup>23</sup> have accumulated losses but four<sup>24</sup> SPSEs despite having accumulated profits did not declare dividend.

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 directed (July 2011) all Public Sector Enterprises to pay a minimum return of five *per cent* on the equity funds invested by the State Government. Thus, despite having distributable profits, four SPSEs did not declare any dividend which was non compliance with State Government directions.

**It is recommended that the State Government may take up the matter through its nominees on the Board of Directors.**

### 2.3.3 Return on Equity of SPSEs

Return on Equity<sup>25</sup> (RoE) is a measure of financial performance of companies calculated by dividing net income by shareholders' equity. It is expressed as a percentage and can be calculated for any company if net income and shareholders' equity are both positive numbers.

The details of shareholders' equity and ROE relating to these 28 SPSEs during the period from 2017-18 to 2019-20 are given in **Table 2.14**:

<sup>23</sup> PSWC and PFC

<sup>24</sup> Sl. no. 2, 6, 7 and 13 of *Annexure 4*.

<sup>25</sup> Return on equity = (Net Profit after Tax/Shareholder's Equity) x 100 where Shareholder's equity = paid up capital + free reserves - accumulated losses - deferred revenue expenditure.

Table 2.14: Return on Equity

(₹ in crore)

Year	Net Income/ Total Earnings for the year	Shareholders' Equity	Return on Equity (in per cent)
2017-18	(-) 2,265.70	(-) 6,268.20	-
2018-19	(-) 687.72	(-) 6,865.80	-
2019-20	(-) 204.27	(-) 7,300.89	-

Source: Latest finalised accounts of SPSEs.

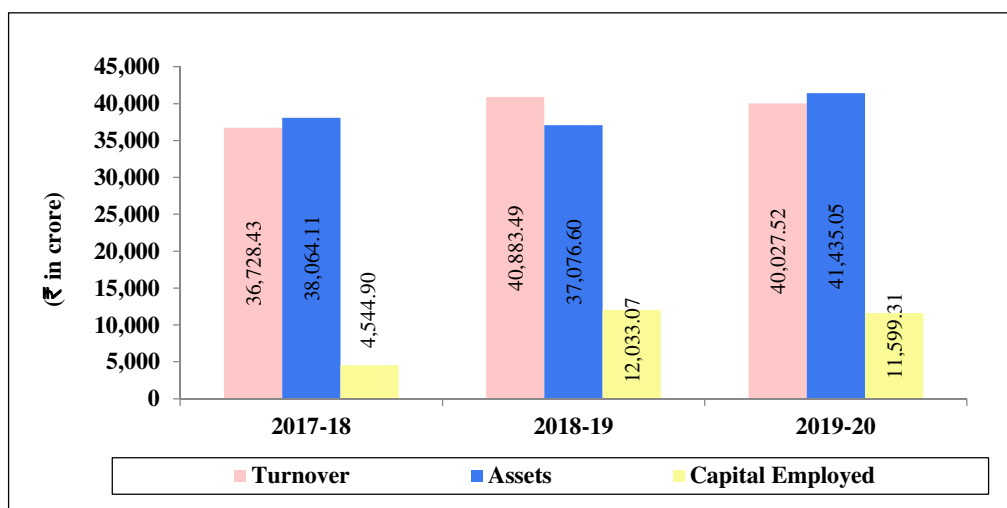
As can be seen from the above table, during the last three years ending 31 March 2020, Return on Equity could not be calculated as both Earnings and Shareholders' equity were negative.

## 2.4 Operating efficiency of SPSEs

### 2.4.1 Turnover

The summary indicating turnover, total assets and capital employed of SPSEs over a period of three years is depicted in the **Chart 2.5** below:

Chart 2.5: Turnover, Assets and Capital Employed



The nature of SPSEs and their turnover, total assets and capital employed during 2017-18 to 2019-20 are given in **Table 2.15** below:

Table 2.15: Nature of SPSE and their turnover, total assets and capital employed

(₹ in crore)

Nature of SPSE	Turnover	Total Assets	Capital employed
<b>2017-18</b>			
Government Companies	29,910.89	33,447.13	1,517.75
Statutory Corporations	6,817.54	4,616.98	3,027.15
GCOC	-	-	-
<b>Total</b>	<b>36,728.43</b>	<b>38,064.11</b>	<b>4,544.90</b>
<b>2018-19</b>			
Government Companies	34,039.25	30,527.15	7,369.48
Statutory Corporations	6,844.24	6,444.30	4,661.87
GCOC	0.00	105.15	1.72
<b>Total</b>	<b>40,883.49</b>	<b>37,076.60</b>	<b>12,033.07</b>

<b>2019-20</b>			
Government Companies	33,182.49	34,705.04	6,960.38
Statutory Corporations	6,845.03	6,444.30	4,638.92
GCOE	0.00	285.71	0.01
<b>Total</b>	<b>40,027.52</b>	<b>41,435.05</b>	<b>11,599.31</b>

Source: Latest finalised accounts of SPSEs.

There was decrease in the turnover and capital employed whereas there was increase in total assets in the year 2019-20 as compared to the previous year.

### **2.4.2 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 the capital employed<sup>26</sup>. The details of ROCE of 28 SPSEs during the period from 2017-18 to 2019-20 are given in **Table 2.16** below:

**Table 2.16: Return on Capital Employed**

<b>Year</b>	<b>EBIT (₹ in crore)</b>	<b>Capital Employed (₹ in crore)</b>	<b>ROCE (in per cent)</b>
2017-18	(-) 1,411.18	4,544.90	(-) 31.05
2018-19	(-) 403.48	12,033.07	(-) 3.35
2019-20	174.98	11,599.31	1.51

Source: Latest finalised accounts of SPSEs.

The ROCE of the SPSEs ranged between (-) 31.05 *per cent* and 1.51 *per cent* during the period 2017-18 to 2019-20. ROCE has turned positive during the year 2019-20 due to positive EBIT during 2019-20 which is primarily on account of substantial decrease in losses of State Foodgrains Procuring Agencies (SPAs).

### **2.4.3 Return on the basis of Present Value of Investment**

In order to bring the historical cost of investment to its present value at the end of each year upto 31 March 2020, the past investments/ year-wise funds infused by the GoP in the SPSEs have been compounded at the year-wise average rate of interest on Government borrowings which is considered as the minimum cost of funds to the Government for the concerned year. Therefore, PV of the State Government investment was computed where funds had been infused by the State Government in the shape of equity, interest free loans and grants/subsidies for operational and management expenses, if any *less*: disinvestments since inception of these Companies till 31 March 2020.

The PV of the State Government investment in SPSEs was computed on the basis of following assumptions:

- Interest free loans have been considered as investment infusion by the State Government as no amount of interest free loans have been repaid by SPSEs. Further, in those cases where interest free loans given to the SPSEs 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.

<sup>26</sup> Capital employed = Paid up share capital + free reserves and surplus + long term loans - accumulated losses - deferred revenue expenditure.

- The average rate of interest on Government borrowings for the concerned financial year<sup>27</sup> was adopted as compounded rate for arriving at PV since they represent the cost incurred by the Government towards investment of funds for the year and therefore considered as the minimum expected rate of return on investments made by the Government.

SPSE wise position of State Government investment in the 19 SPSEs (Other than GCOCs) in the form of equity and interest free loans on historical cost basis for the period from 2010-11 to 2019-20 have been given in **Annexure 6**. The consolidated position of the PV of the State Government investment and the total earnings relating to 20<sup>28</sup> SPSEs for the same period is indicated in **Table 2.17** below:

**Table 2.17: Year wise details of investment by the State Government and present value (PV) of Government investment for the period from 2010-11 to 2019-20**

(₹ in crore)

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 the 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 <sup>29</sup>	Total Earnings for the year <sup>30</sup>
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 <sup>31</sup>		-			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 <sup>32</sup>	-	205.76	107.79	4,636.05	8.00	5,006.93	370.88	(-) 560.04
2019-20	5,006.93	1.09	-	160.28	161.37	5,168.30	7.93	5,578.15	409.85	(-) 36.82
<b>Total</b>			<b>30.00</b>	<b>2,241.92</b>						

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

<sup>27</sup> The average rate of interest on Government borrowings was adopted from the Reports of the CAG on State Finances (GoP) for the concerned year wherein the average rate for interest paid = Interest payment/ [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities)/2] x 100.

<sup>28</sup> It includes one Non Power SPSE (Punjab Agri Export Corporation Limited) having no State Government investment as equity but received grant for operational and management expenses during the year 2019-20.

<sup>29</sup> Present value of total investment at the end of the year less: Total investment at the end of the year.

<sup>30</sup> Total Earnings for the year depicts total of net earnings (profit/loss) as per latest finalised Accounts relating to those 20 SPSEs (excluding GCOCs) where funds were infused by State Government.

<sup>31</sup> ₹ 789.79 crore is the investment, on historical cost basis, by Government of Punjab at the beginning of financial year 2010-11.

<sup>32</sup> 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'.



The balance of investment by the State Government in these SPSEs at the end of the year 2019-20 increased to ₹ 3,315.16 crore from ₹ 850.84 crore at the end of 2010-11. The State Government made further investments in shape of equity (₹ 253.45 crore) and interest free loans (₹ 30.00 crore) and grants/subsidies for operational and management expenses (₹ 2,241.92 crore) during the period 2011-12 to 2019-20 in these SPSEs. The PV of funds infused by the State Government upto 31 March 2020 amounted to ₹ 5,578.15 crore. During 2011-12 to 2019-20, total earnings for all the year remained below the minimum expected return to recover cost of funds infused in these SPSEs.

## 2.5 SPSEs incurring losses

There were 13 SPSEs that incurred losses during the year 2019-20. The losses decreased to ₹ 488.36 crore in 2019-20 from ₹ 973.03 crore during 2018-19 as in **Table 2.18** below:

**Table 2.18: Number of SPSEs that incurred losses during 2017-18 to 2019-20**

Year	Number of SPSEs incurred loss	Net loss for the year (₹ in crore)	Accumulated Loss (₹ in crore)	Net worth (₹ in crore)
<b>Government Companies</b>				
2017-18	9	(-) 2,131.74	(-) 5,394.59	(-) 5,002.12
2018-19	8	(-) 967.41	(-) 6,377.27	(-) 5,991.46
2019-20	10	(-) 479.61	(-) 7,486.20	(-) 6,999.91
<b>Statutory Corporations</b>				
2017-18	3	(-) 186.85	(-) 1,598.54	(-) 1,120.13
2018-19	2	(-) 5.62	(-) 405.54	38.39
2019-20	2	(-) 8.57	(-) 408.49	35.44
<b>Government Controlled Other Companies</b>				
2017-18	First Accounts not received			
2018-19	0	0.00	0.00	0.00
2019-20	1	(-) 0.18	(-) 0.16	(-) 0.15
<b>Total</b>				
<b>2017-18</b>	<b>12</b>	<b>(-) 2,318.59</b>	<b>(-) 6,993.13</b>	<b>(-) 6,122.25</b>
<b>2018-19</b>	<b>10</b>	<b>(-) 973.03</b>	<b>(-) 6,782.81</b>	<b>(-) 5,953.07</b>
<b>2019-20</b>	<b>13</b>	<b>(-) 488.36</b>	<b>(-) 7,894.85</b>	<b>(-) 6,964.62</b>

Out of total loss of ₹ (-) 488.36 crore incurred by 13 SPSEs, loss of ₹ (-) 435.96 crore was contributed by four SPSEs which functioned in Agriculture sector.

### 2.5.1 Erosion of capital in SPSEs

As on 31 March 2020, there were 14 SPSEs with accumulated losses of ₹ (-) 9,065.73 crore. Of the 14 SPSEs, 11 SPSEs incurred losses in the year 2019-20 amounting to ₹ (-) 484.82 crore and three SPSEs earned profits of ₹ 248.42 crore during 2019-20, even though they had accumulated loss of ₹ (-) 1,135.64 crore.

Net worth of 12 out of 14 SPSEs had been completely eroded by accumulated loss and their net worth had become negative. The net worth of these 12 SPSEs was ₹ (-) 8,298.86 crore against equity investment of ₹ 534.90 crore

in these SPSEs as on 31 March 2020. This included one listed company whose net worth was ₹ (-) 14.83 crore against equity investment of ₹ 12.05 crore.

In seven out of 12 SPSEs whose capital had been eroded, Government loans outstanding as on 31 March 2020 amounted to ₹ 25,091.95 crore.