

# Chapter - 3

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## **Functioning of PSUs (Non-Power Sector)**

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### 3.1 Introduction

As on 31 March 2019, there were 74 State PSUs in sectors other than Power. These PSUs were incorporated between 1937-38<sup>1</sup> and 2018-19<sup>2</sup> and included 71 Government Companies and three Statutory Corporations<sup>3</sup>. The Government Companies further included six<sup>4</sup> subsidiary companies owned by other Government Companies, two<sup>5</sup> Joint Venture Companies (JVC) of other Government Companies and 20<sup>6</sup> inactive Companies. One Government Company, namely Infrastructure Corporation of Andhra Pradesh Limited (INCAPL) and 19<sup>7</sup> inactive Companies were in the process of demerger.

The State Government provides financial support to the PSUs in the form of equity, loans and grants/ subsidy from time to time. Of the 54 working PSUs, the State Government invested funds in 44 PSUs. Out of the remaining 10 PSUs, in eight PSUs<sup>8</sup> equity capital was contributed by other Government Companies/ Institutions and two PSUs<sup>9</sup> have no equity capital.

#### 3.1.1 Contribution to Economy of the State

A ratio of turnover of the PSUs (Non-Power Sector) to the Gross State Domestic Product (GSDP) shows the extent of activities of these PSUs in the State economy. In 2018-19, 54 working PSUs contributed to 2.01 *per cent* of the GSDP of Telangana State (**Table 3.1**). The compounded average annual growth rate<sup>10</sup> of GSDP of Telangana was 14.22 *per cent* during the years 2014-15 to 2018-19. As against this, the turnover of working PSUs recorded higher compounded annual growth of 210.39 *per cent* due to increase (93 times) in the turnover owing to increase in the number of working PSUs (from 21 to 54) during the period 2014-15 to 2018-19.

The **Table 3.1** provides the details of turnover of the working State PSUs and GSDP of Telangana for the five-year period ending March 2019.

<sup>1</sup> The Nizam Sugars Limited

<sup>2</sup> During 2018-19, six new PSUs were incorporated. one PSU was incorporated in 2015 but the information regarding incorporation was received during 2018-19 only

<sup>3</sup> Telangana State Warehousing Corporation, Telangana State Financial Corporation and Telangana State Road Transport Corporation

<sup>4</sup> Maheswaram Science Park Limited, eCity Manufacturing Cluster Limited, Fab City SPV (India) Private Limited, Zaheerabad NIMZ Limited, Hyderabad Pharma City Limited and Telangana Life Sciences Infrastructure Development Limited as subsidiaries of Telangana State Industrial Infrastructure Corporation Limited

<sup>5</sup> Damodhara Minerals Private Limited a JVC of two private parties and Telangana State Mineral Development Corporation Limited and APMDC-SCCL Suliyari Coal Company Limited a JVC of The Singareni Collieries Company Limited and Telangana State Mineral Development Corporation Limited

<sup>6</sup> Includes APMDC-SCCL Suliyari Coal Company Limited

<sup>7</sup> Excluding APMDC-SCCL Suliyari Coal Company Limited which is exclusive to Telangana

<sup>8</sup> Six subsidiaries, one JVC namely, Damodhara Minerals Private Limited and one PSU namely Hyderabad Growth Corridor Limited

<sup>9</sup> Wehub Foundation and T-Works Foundation

<sup>10</sup> Rate of Compounded Annual Growth  $((\text{value of 2018-19}/\text{value of 2014-15})^{(1/4\text{years})} - 1) * 100$  where turnover and GSDP for the year 2014-15 were ₹186.17 crore and ₹5,05,849 crore respectively

**Table 3.1: Details of turnover of working PSUs vis-à-vis GSDP of Telangana**

Particulars	(₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Total Number of working PSUs	21	35	40	48	54
Number of working PSUs which are required to furnish their Accounts/ information upto 2018-19 <sup>11</sup>	17	35	39	47	54
Number of working PSUs which furnished their Accounts/ information upto 2018-19	16	28	32	40	39
Turnover	186.17*	10,297.18	12,822.79	17,009.93	17,279.16
Percentage change of turnover over previous year	*	5,431.06	24.53	32.65	1.58
GSDP of Telangana	5,05,849	5,77,902	6,58,325	7,53,127	8,61,031
Percentage change of GSDP over previous year (₹4,51,580 for 2013-14)	12.02	14.24	13.92	14.40	14.33
Percentage of Turnover to GSDP of Telangana	-	1.78	1.95	2.26	2.01

\* Telangana State was formed with effect from 2 June 2014.

**Source:** Turnover figures are as per accounts/ information furnished by the PSUs and GSDP figures as per latest data (March 2020) of Ministry of Statistics and Program Implementation, Government of India

### 3.2 Investment in PSUs (Non-Power Sector)

There were 39 PSUs, which function as instruments of the State Government to provide certain services and where the private sector might be unwilling to extend such services in the State due to various reasons. Besides, the Government has also invested in certain business segments through 31 PSUs which function in a competitive environment with private sector undertakings. The position of these State PSUs have therefore been analysed under two major classifications viz., those in the social sector and those functioning in a competitive environment<sup>12</sup>. Besides, four<sup>13</sup> PSUs have been incorporated to perform certain specific activities on behalf of the Government and have been categorised under 'Others'. Details of total investment in 74 PSUs (Non-Power Sector) in the form of equity and long term loans as on 31 March 2019 are detailed in **Appendix 4**.

The sector-wise summary of the investment in State PSUs during the period from 2014-15 to 2018-19 is given in **Table 3.2**.

<sup>11</sup> PSUs incorporated between January to March of a year can submit their first accounts for a period of 15 months i.e., up to March of next year

<sup>12</sup> Telangana State Mineral Development Corporation Limited, Telangana State Warehousing Corporation, Telangana State Forest Development Corporation Limited, Telangana Rajiv Swagruha Corporation Limited, Hyderabad Pharma City Limited, etc.

<sup>13</sup> Telangana State Beverages Corporation Limited, Telangana State Aviation Corporation Limited, Telangana State Police Housing Corporation Limited and Telangana State Technology Services Limited incorporated to perform collection of excise revenue for Government of Telangana (GoT), scheduled air transport for GoT, buildings construction and civil engineering works for Police Department, GoT and procurement of hardware and software for GoT respectively

**Table 3.2: Sector-wise investment in PSUs (Non-Power Sector)****(₹ in crore)**

Sector Wise Financial Year	Number of PSUs	Equity <sup>\$</sup>	Long Term Loans*	Total
<b>Social Sector</b>				
2014-15	13	46.33	1,787.97	1,834.30
2015-16	22	37.80	4,092.44	4,130.24
2016-17	25	140.91	15,774.38	15,915.29
2017-18	33	149.37	36,776.20	36,925.57
2018-19	39	154.75	65,241.14	65,395.89
<b>Competitive Sector</b>				
2014-15	29	101.41	239.45	340.86
2015-16	31	104.15	228.72	332.87
2016-17	33	188.04	3,268.29	3,456.33
2017-18	31	174.75	3,860.12	4,034.87
2018-19	31	208.06	3,447.19	3,655.25
<b>Others</b>				
2014-15	1	0.05	0.00	0.05
2015-16	4	0.15	0.00	0.15
2016-17	4	0.15	0.00	0.15
2017-18	4	0.15	0.00	0.15
2018-19	4	0.15	0.00	0.15
<b>Grand Total</b>				
<b>2014-15</b>	<b>43</b>	<b>147.79</b>	<b>2,027.42</b>	<b>2,175.21</b>
<b>2015-16</b>	<b>57</b>	<b>142.10</b>	<b>4,321.16</b>	<b>4,463.26</b>
<b>2016-17</b>	<b>62</b>	<b>329.10</b>	<b>19,042.67</b>	<b>19,371.77</b>
<b>2017-18</b>	<b>68</b>	<b>324.27</b>	<b>40,636.32</b>	<b>40,960.59</b>
<b>2018-19</b>	<b>74</b>	<b>362.96</b>	<b>68,688.33</b>	<b>69,051.29</b>

<sup>\$</sup>Equity includes share application money

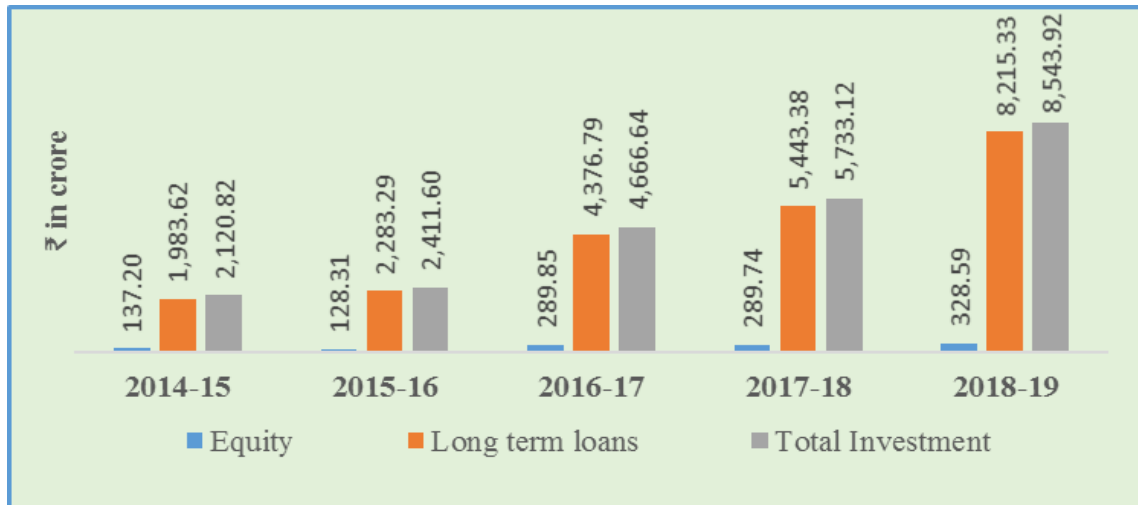
\* The long-term loans include loans from Central and State Governments, Public Financial Institutions and Commercial Banks

**Source:** Accounts/ information furnished by PSUs

As on 31 March 2019, the total investment in the PSUs in non-Power Sector was ₹69,051.29 crore consisting of ₹362.96 crore as equity and ₹68,688.33 crore as long term loans. Out of this, the State Government's investment was ₹8,543.92 crore (12.37 per cent) in 62 PSUs (44 Working PSUs and 18 Inactive PSUs) comprising ₹328.59 crore Capital and ₹8,215.33 crore of Long-term loans.

The pattern of investment made by the State Government in these 62 PSUs during the five-year period 2014-19 is given in **Chart 3.1**.

**Chart 3.1 Investment of Government in PSUs (Non-Power Sector)**



Source: Information furnished by PSUs

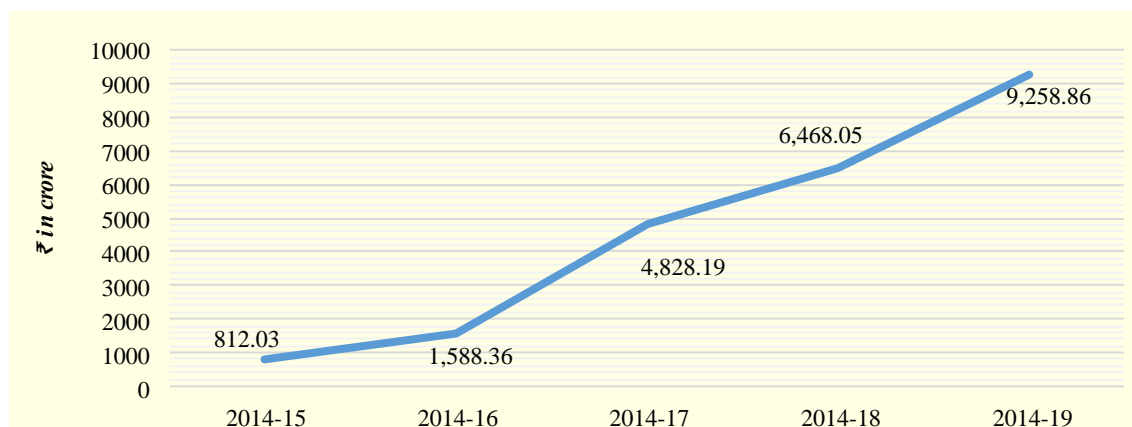
### 3.3 Disinvestment, Restructuring and Privatisation of PSUs (Non-Power Sector)

During the year 2018-19, no disinvestment, restructuring or privatisation of PSUs (Non-Power Sector) was done by the State Government.

### 3.4 Budgetary Support to PSUs (Non-Power Sector)

The State Government provides financial support to PSUs in various forms through its annual budget. The details of budgetary outgo towards equity, loans and grants/ subsidies for the last five years ending March 2019 are given in **Chart 3.2** below.

**Chart 3.2: Budgetary outgo towards Equity, Loans and Grants/ Subsidies**



Source: Information furnished by PSUs

The summarised details of budgetary support in respect of PSU (Non-Power Sector) during the last five years ending March 2019 are given in **Table 3.3**.

**Table 3.3: Details regarding budgetary support to PSUs****(₹ in crore)**

Particulars	2014-15		2015-16		2016-17		2017-18		2018-19	
	No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
Equity	8	6.85	14	1.63	5	105.08	10	10.47	6	46.79
Loans	1	454.57	1	176.52	2	110.00	4	1,144.86	7	2,645.36
Grants/Subsidy*	6	350.61	14	1,410.21	15	4,613.11	21	5,312.72	19	6,566.71
<b>Total Outgo<sup>14</sup></b>	<b>9</b>	<b>812.03</b>	<b>21</b>	<b>1,588.36</b>	<b>18</b>	<b>4,828.19</b>	<b>27</b>	<b>6,468.05</b>	<b>26</b>	<b>9,258.86</b>
Loans written off	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Loans converted into Equity	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Guarantees issued	0	0.00	0	0.00	5	30,361.21	7	36,570.69	3	28,206.22
Guarantee Commitment	0	0.00	0	0.00	6	35,779.46	7	47,910.75	8	78,302.75

\* Includes grants/ subsidy towards operational and management expenses not ascertainable separately  
**Source:** Information furnished by PSUs

As can be seen from the table above, annual budgetary assistance received by the PSUs in non-Power Sector increased from ₹812.03 crore in 2014-15 to ₹9,258.86 crore during the period 2018-19. During 2018-19, the equity addition of ₹46.79 crore also includes equity (₹2.10 crore) infused in three<sup>15</sup>, out of the seven<sup>16</sup> State PSUs newly incorporated during the year. The grants/ subsidy of ₹6,566.71 crore given by the State Government was primarily under the schemes of subsidised food supplies, supply of drinking water, subsidised housing and construction of Kaleshwaram Irrigation Project Limited.

State Government helps the PSUs in raising loans from banks and Public Financial Institutions by giving guarantee for repayment of principal and interest. The outstanding guarantee commitment given for State PSUs increased by 63.43 *per cent* from ₹47,910.75 crore in 2017-18 to ₹78,302.75 crore in 2018-19. The guarantee commitment in respect of Kaleshwaram Irrigation Project Corporation Limited (KIPCL) (₹33,017.36 crore) and Telangana Drinking Water Supply Corporation Limited (TDWSCL) (₹32,651.36 crore) together constituted 83.87 *per cent* of the total outstanding guarantee commitment.

### 3.5 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per the records of PSUs should agree with the figures appearing in the Finance Accounts of State. In case the figures do not tally, the PSUs concerned and the Finance Department should carry out reconciliation of the differences. The position in this regard as on 31 March 2019 with regard to 39 working PSUs (Non-Power Sector) which furnished their accounts/ information is given in **Table 3.4**.

<sup>14</sup> The figure represents number of PSUs which have received outgo from budget under one or more heads i.e. equity, loans and grants/subsidies

<sup>15</sup> Telangana State Water Resources Infrastructure Development Corporation Limited, Telangana Handloom Development Corporation Limited and Hyderabad Airport Metro Limited

<sup>16</sup> Photonics Valley Corporation, Hyderabad Airport Metro Limited, Telangana State Water Resources Infrastructure Development Corporation Limited, Telangana Powerloom & Textiles Development Corporation Limited, Telangana Handloom Development Corporation Limited, Telangana Life Sciences Infrastructure Development Limited and Wehub Foundation

**Table 3.4: Equity, loans and guarantees outstanding as per Finance Accounts  
vis-à-vis records of PSUs**

(₹ in crore)

Amount outstanding in respect of	No. of PSUs	As per Finance Accounts	As per records of PSUs	Difference
(A)	(B)	(C)	(D)	(E) = (C) - (D)
Equity <sup>s</sup>	11	100.00	47.00	53.00
Loans <sup>s</sup>	9	6,114.06	6,712.87	-598.81
Guarantees	12	61,957.13	78,302.75	-16,345.62

<sup>s</sup> Information in respect of only those PSUs (Non-Power Sector) whose equity and loans were bifurcated on demerger as per finance accounts is considered

**Source:** Finance Accounts and information furnished by PSUs

It was observed that the major differences existed with respect to the guarantees given by the State Government for raising loans by the working PSUs in non-Power Sector. Differences in respect of equity/ loans occurred in respect of 16 out of 39 PSUs was shown in **Appendix 5**. Major differences were observed in TDWSCL (Equity: ₹98.00 crore), Telangana Housing Corporation Limited (Loans: ₹3,080.32 crore) and KIPCL (Guarantee: ₹5,027.76 crore). The differences in equity, loans and guarantees were pending reconciliation since long period. The matter was taken up (June 2020) with the State Government and reply is awaited. The State Government needs to initiate expeditious action to analyse the reasons for the variations in figures between the two sets of figures in consultation with the concerned PSUs and ensure reconciliation in a time-bound manner.

### **3.6 Submission of Accounts by PSUs (Non-Power Sector)**

As of 31 March 2019, out of 74 PSUs in non-Power Sector, 54 working PSUs (50 Government Companies, three Statutory Corporations and one Government Company under demerger process) and 20 inactive PSUs were under the audit purview of CAG in Telangana State. Out of three the Statutory Corporations, the CAG is the sole auditor of one Statutory Corporation (Telangana State Road Transport Corporation). The status of timeliness followed by these 54 working PSUs in preparing accounts is detailed below:

#### **3.6.1 Timeliness in preparation of Accounts by the working PSUs**

As prescribed under the Companies Act, 2013, all the working State PSUs were required to submit accounts for the year 2018-19 by 30 September 2019. Out of 51 working Government Companies, only four Government Companies submitted their accounts for the year 2018-19 for audit by CAG by 30 September 2019. None of the three Statutory Corporations submitted their first accounts. Details of arrears in submission of accounts by working PSUs (Non-Power Sector) as on 30 September 2019 calculated from the date of their incorporation are given in **Table 3.5**.



**Table 3.5: Position of submission of Accounts by working PSUs**

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1	Total Number of PSUs	21	35	40	48	54
2	Total Number of working PSUs which are required to furnish their accounts	17	35	39	47	54
3	Number of accounts submitted during current year	5	4	14	16	34
4	Number of PSUs whose accounts are current	2	2	3	3	4
5	Number of previous year accounts finalised during current year	3	2	11	13	30
6	Number of PSUs with accounts in arrears	15	33	36	44	50
7	Number of accounts in arrears	25	56	81	109*	129
8	Extent of arrears	1 to 6 years	1 to 7 years	1 to 4 years	1 to 5 Years	1 to 5 years

\* Excludes three arrears of APMDC-SCCL Suliyari Coal Company Limited which became inactive during 2017-18

**Source:** Accounts finalised by PSUs as on 30 September of the relevant years

Of the 54 working PSUs (Non- Power Sector), 28 PSUs had finalised their 34 annual accounts during the period from 1 October 2018 to 30 September 2019, which included four annual accounts for the year 2018-19 and 30 annual accounts for previous years, as detailed in **Appendix 6**. Further, 129 annual accounts were in arrears pertaining to 50 State PSUs. The Administrative Departments have the responsibility to oversee the activities of these entities. Therefore, they have to ensure that the accounts are finalised by these PSUs and adopted by their respective Boards within the stipulated period.

During 2018-19, the State Government provided budgetary support of ₹9,251.10 crore (Equity of ₹42.26 crore, Loans of ₹2,643.74 crore and Grants/ Subsidies of ₹6,565.10 crore) to 24 working PSUs (Non-Power Sector) which did not finalise their accounts by 30 September 2019. The PSU-wise details of investment made by State Government during the years for which accounts were in arrears are shown in **Appendix 6**.

In the absence of finalisation of accounts and their subsequent audit, the accounting and investments and expenditure incurred could not be verified. The State Government's investment in these PSUs (Non-Power Sector), therefore, remained outside the oversight of State Legislature.

### **3.6.2 Timeliness in preparation of Accounts by Inactive PSUs**

There were arrears in finalisation of accounts by 20 inactive PSUs (including 19 PSUs yet to be demerged). Details are given in **Table 3.6**.

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

Sl. No.	Name of non-functional companies	Last financial Year up to which Accounts finalised	Period for which accounts were in arrears
1.	A.P Small Scale Industrial Development Corporation Limited	2001-02	2002-03 to 2018-19
2.	Andhra Pradesh Essential Commodities Corporation Limited	2013-14 (14 M)	2014-15 to 2018-19
3.	Andhra Pradesh Fisheries Corporation Limited	2001 to 2002	2002-03 (10-5-2002 to 31-3-2003) to 2018-19
4.	Allwyn Auto Limited	1994-95	1995-96 to 2018-19
5.	Allwyn Watches Limited	1998-99	1999-00 to 2018-19
6.	Andhra Pradesh Automobile Tyres & Tubes Limited	1992-93	1993-94 to 2018-19
7.	Andhra Pradesh Dairy Development Corporation Limited	2013-14 (14 M)	2014-15 to 2018-19
8.	Andhra Pradesh Electronics Development Corporation Limited	2002-03	2003-04 to 2018-19
9.	Andhra Pradesh Steels Limited	1991-92	1992-93 to 2018-19
10.	Aptronix Communications Limited	NA	NA
11.	Golkonda Abrasives Limited	1997-98	1998-99 to 2018-19
12.	Hyderabad Chemicals and Fertilisers Limited	1984-85	1985-86 to 2018-19
13.	Krishi Engineering Limited	1984-85	1985-86 to 2018-19
14.	Marine and Communication Electronics (India) Limited	1992-93	1993-94 to 2018-19
15.	PJ Chemicals Limited	1989-90	1990-91 to 2018-19
16.	Proddutur Milk Foods Limited	1983-84	1984-85 to 2018-19
17.	Republic Forge Company Limited	1991-92	1992-93 to 2018-19
18.	Southern Transformers and Electricals Limited	1993-94	1994-95 to 2018-19
19.	APMDC-SCCL Suliyari Coal Company Limited	First Accounts not submitted	2014-15 to 2018-19
20.	Vidyut Steels Limited	1985-86	1986-87 to 2018-19

Source: Compiled by O/o AG (Audit), Telangana

### 3.7 Impact of non-finalisation of Accounts by PSUs (Non-Power Sector)

As pointed out in **Paragraph 3.6**, delay in finalisation of accounts carries the risk of fraud and leakage of public money going undetected apart from violating the provisions of the relevant Statutes. In view of the arrears of accounts, the actual contribution of the PSUs in non-Power Sector to State GSDP for the year 2018-19 could not be ascertained and reported to the State Legislature.

It is therefore, recommended that the State Government may issue necessary directions to the Administrative Departments to set targets for individual PSUs and strictly monitor the clearance of arrears. The State Government needs to take appropriate steps expeditiously to liquidate the arrears in finalisation of accounts.

### 3.8 Placement of Separate Audit Reports of Statutory Corporations

Separate Audit Reports (SARs) are the Audit Reports of the CAG on the accounts of Statutory Corporations. These reports are to be laid before the State Legislature as per the provisions of the respective Acts. Out of the three working Statutory Corporations, two Corporations (TSRTC and TSWC) had not submitted their accounts since their inception. In case of the Telangana State Finance Corporation (TSFC), it has not prepared separate accounts. However, the accounts were finalised by Andhra Pradesh State Finance Corporation as single entity up to 2018-19 along with TSFC.

### 3.9 Performance of PSUs (Non-Power Sector)

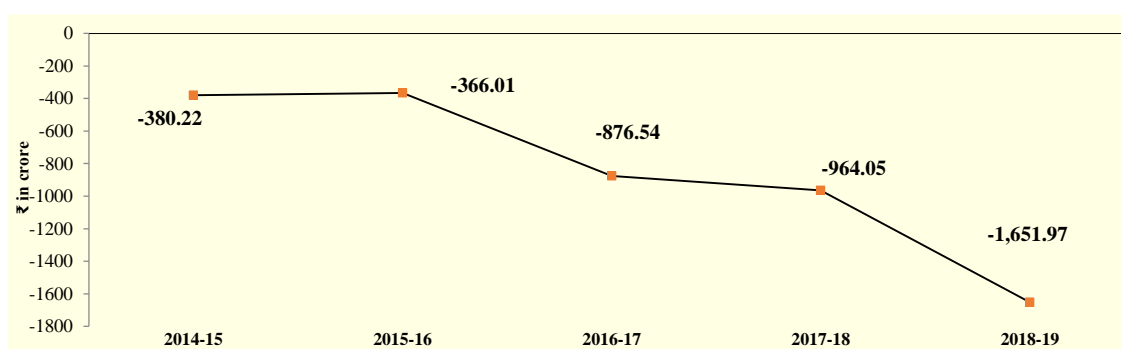
Financial position and working results of the 74 PSUs as on 31 March 2019 are detailed in *Appendix 7*.

PSUs are expected to yield reasonable return on investment made by the Governments. The profitability of a Company is traditionally assessed through Return on Investment, Return on Equity and Return on Capital Employed. The Rate of Real Return (RoRR) on investment measures the profit or loss made in a fixed year relating to the Present Value (PV) of the investment made over the years and is expressed as a percentage of profit to the PV of total investment. Investment for the purpose included equity, interest free loans, grants and subsidies for operational and management expenses. Return on Capital Employed is a financial ratio that measures the company's profitability and the efficiency with which its capital is used and is calculated by dividing company's earnings before interest and taxes by capital employed. Return on Equity is a measure of performance calculated by dividing net profit after tax by shareholders' fund.

#### 3.9.1 Rate of Real Return on Investment

Return on Investment (RoI) is the percentage of profit or loss to the total investment. The 54 working PSUs (Non-Power Sector) incurred aggregate losses of ₹4,238.79 crore during 2014-15 to 2018-19. The overall position is depicted below in **Chart 3.3**.

**Chart 3.3: Profit earned/ Losses incurred by working PSUs (Non-Power Sector)**



*Source: Accounts and information furnished by PSUs*

During 2018-19, out of the 39 PSUs which furnished their accounts/ information, 14 PSUs earned profits and 20 PSUs incurred losses while five PSUs reported neither profit

or loss<sup>17</sup>. The increase in losses during 2017-18 and 2018-19 was mainly on account of losses of the Telangana State Road Transport Corporation<sup>18</sup>.

Major profit making PSUs during the year 2018-19 were, Telangana State Forest Development Corporation Limited (₹47.36 crore), Telangana State Minerals Development Corporation Limited (₹22.54 crore), Telangana State Warehousing Corporation (₹57.39 crore) and Telangana State Technology Services Limited (₹12.43 crore). These profits were set-off by loss of ₹928.66 crore reported by TSRTC.

Out of the 14 profit making PSUs, three PSUs namely, Telangana State Mineral Development Corporation Limited (₹22.54 crore), Telangana State Warehousing Corporation (₹57.39 crore) and Telangana State Industrial Development Corporation (₹0.04 crore) are classified under Competitive Sector. In the remaining 11 PSUs, nine are in Social Sector and two PSUs namely, Telangana State Technology Services Limited (TSTSL) and Telangana State Police Housing Corporation Limited (TSPHCL) are classified under 'Others' category. The TSTSL is engaged in contract supply (Information Technology equipment & software) works majorly on nomination basis while the TSPHCL is engaged in construction of buildings, etc. for the Police Department.

All the PSUs in social sector are involved in implementing the Government sponsored schemes, wherein the margin/ profit element is subsumed in the scheme grants/ subsidy released by the Government through budget annually. However, the profit making PSUs in Competitive Sector and Others Sector did not receive any budgetary grant/ subsidy during 2018-19.

The number of PSUs in non-Power Sector that earned profit/ incurred loss during the five-year period 2014-19 is given in **Table 3.7**.

**Table 3.7: Number of working PSUs which earned profit/ incurred loss**

Financial year	Total number of PSUs (Non-Power Sector) which furnished their accounts/ information	Number of PSUs which earned profits during the year	Number of PSUs which incurred loss during the year	Number of PSUs reporting No profit / No loss during the year
2014-15	16	6	9	1
2015-16	28	16	9	3
2016-17	32	11	19	2
2017-18	40	16	20	4
2018-19	39	14	20	5

*Source: Accounts and information furnished by PSUs*

### **3.9.2 Rate of Real Return on the basis of historical cost of investment**

Out of 54 working PSUs, the State Government infused funds in the form of equity, interest free loans (except to the extent that the loans are liable to be repaid as per terms

<sup>17</sup> Any difference in expenditure over income was provided by Government

<sup>18</sup> Incorporated on 1 June 2016

and conditions of repayment) and subsidies/ grants in 44 State PSUs. An analysis of the earnings *vis-à-vis* investments was carried out to assess the profitability of these PSUs. The Rate of Real Return on Investment (RoRR) from the PSUs (Non-Power Sector) has been calculated on the total investment (investment including State, Central Governments & Others). In case of PSUs formed due to demerger, the initial investment in the equity and loans is considered at the carrying amounts as on the date of their incorporation. Further, apportionment of assets and liabilities between the successor demerged PSUs (as discussed in **Paragraph 2.1.4**) resulted in a Reorganisation/ Demerger Adjustment Reserve (surplus/ deficit), which is considered as investment of the State Government.

As on 31 March 2019, total investment of State Government in these 44 working PSUs on the basis of historical cost stood at ₹21,679.44 crore<sup>19</sup> (considering initial investment of ₹2,288.08 crore up to bifurcation and subsequent investment of ₹19,391.36 crore during 2014-15 to 2018-19), the investment of Central Government was ₹7,164.32 crore (in the form of equity of ₹26.78 crore and subsidy/ grants of ₹7,137.54 crore), while the investment of 'Others' consisted of equity of (₹2.61 crore) and subsidy and grants of (₹237.05 crore) totalling ₹239.66 crore.

The sector-wise RoRR on historical cost basis for the period 2014-15 to 2018-19 is given in **Table 3.8**.

**Table 3.8: Return on the basis of historical cost of investment**

(₹ in crore)

Year	Funds invested by State Government in Equity, interest free loans and grants, subsidies	Funds invested by Central Government in Equity and grants, subsidies	Funds invested by Others in Equity and grants, subsidies	Total investment in Equity, interest free loans and grants, subsidies	Total Earnings/ Losses for the year	RoRR (in per cent)
<b>Social Sector</b>						
2014-15	2,003.62	0.00	0.00	2,003.62	-353.80	-17.66
2015-16	3,571.24	1.33	0.00	3,572.57	-424.01	-11.87
2016-17	7,358.26	2,238.50	0.00	9,596.76	-150.91	-1.57
2017-18	11,966.73	4,216.25	0.09	16,183.07	-317.52	-1.96
2018-19	18,695.52	7,019.98	0.27	25,715.78	-778.09	-3.03
<b>Competitive Sector</b>						
2014-15	385.51	17.03	0.71	403.25	-25.69	-6.37
2015-16	459.82	50.03	2.58	512.43	58.12	11.34
2016-17	1,430.65	75.48	239.07	1,745.20	-732.50	-41.97
2017-18	2,220.67	144.34	239.07	2,604.08	-661.15	-25.39
2018-19	2,789.50	144.34	239.39	3,173.23	-887.79	-27.98

<sup>19</sup> ₹309.97 crore (Equity) + ₹55.19 crore (Demerger reserve) + ₹3,186.78 crore (interest free loans) + ₹18,127.50 crore (grants and subsidies)

Year	Funds invested by State Government in Equity, interest free loans and grants, subsidies	Funds invested by Central Government in Equity and grants, subsidies	Funds invested by Others in Equity and grants, subsidies	Total investment in Equity, interest free loans and grants, subsidies	Total Earnings/ Losses for the year	RoRR (in per cent)
<b>Others</b>						
2014-15	19.04	0.00	0.00	19.04	0.00	0.00
2015-16	79.86	0.00	0.00	79.86	0.04	0.05
2016-17	143.66	0.00	0.00	143.66	9.69	6.75
2017-18	194.42	0.00	0.00	194.42	16.21	8.34
2018-19	194.42	0.00	0.00	194.42	13.83	7.11
<b>Grand total</b>						
2014-15	2,408.17	17.03	0.71	2,425.91	-379.49	-15.64
2015-16	4,110.92	51.36	2.58	4,164.86	-365.85	-8.78
2016-17	8,932.57	2,313.98	239.07	11,485.62	-873.72	-7.61
2017-18	14,381.82	4,360.59	239.16	18,981.57	-962.46	-5.07
2018-19	21,679.44	7,164.32	239.66	29,083.42	-1,652.05	-5.68

*Source: Accounts and information furnished by PSUs*

The return on investment is worked out by dividing the total earnings by the cost of the investments. The Rate of Real Return earned on investment by State Government, Central Government and Others was negative in all the years during the period 2014-15 to 2018-19 and ranged between (-) 15.64 per cent and (-) 5.07 per cent. The negative returns were mainly due to heavy losses incurred by Hyderabad Metro Rail Limited (HMRL) in all the five years (₹1,270.76 crore) and Telangana Drinking Water Supply Corporation Limited in 2018-19 (₹337.65 crore) in social sector while Telangana State Road Transport Corporation (TSRTC) incurred losses for the years 2016-17 to 2018-19 (₹2,426.53 crore) in competitive sector. Further, the profits earned mainly by four PSUs<sup>20</sup> during this period was also off-set by the losses incurred by the HMRL and TSRTC due to which the total earnings remained negative.

The return on investment from both social sector and competitive sector showed fluctuating trends while returns from Other sector showed increasing trend (except in 2018-19), mainly due to lower investment in this sector and increase in turnover (₹16.16 crore in 2016-17 to ₹67.20 crore in 2018-19) of Telangana State Technology Services Limited, which secured orders from Government Departments on nomination basis.

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

An analysis of the earnings *vis-a-vis* investments in respect of 44 PSUs (Non-Power Sector) where funds had been infused by the State Government, Central Government and Others since their inception to 31 March 2019 was carried out to assess the profitability of

<sup>20</sup> Telangana State Industrial Infrastructure Corporation Limited, Telangana State Mineral Development Corporation Limited, Telangana State Warehousing Corporation and Telangana State Forest Development Corporation Limited

these PSUs. Traditional calculation of return based only on the historical cost of investment may not be a correct indicator of the adequacy of the rate of real return on the investment since such calculations ignore the present value of money. The present value of the total investments has been computed to assess the rate of real return on the present value of total investments in the PSUs as compared to historical value of investments. In order to bring the historical cost of investments to its present value at the end of each year up to 31 March 2019, the past investments have been compounded at the year-wise average rate of interest on Government borrowings which is considered as the minimum cost of funds for the concerned year. During the period from 2014-15 to 2018-19, these 44 PSUs had a negative rate of real return on investment.

The PV of investment in PSUs (Non-Power Sector) was computed on the basis of the following assumptions:

- The net equity infused (equity minus disinvestment), interest free loans and funds made available in the form of the grants and subsidies have been reckoned as investment for calculating the rate of real return on investments. In case of repayments of loans by the PSUs, the PV is calculated on the reduced balances of interest free loans over the period.
- The average rate of interest on Government borrowings for the financial year<sup>21</sup> concerned was adopted as compounded rate for arriving at Present Value since it represents the cost incurred towards investment of funds for the year and therefore considered as the minimum expected rate of return on investments.

PSU-wise position of State Government investment in the 44 PSUs (Non-Power Sector) in the form of equity, interest free loans and grants/ subsidies for operational and management expenses on historical cost basis for the period from 2014-15 to 2018-19 is indicated in the *Appendix 8*.

The total investment of the State, Central Government and Others in these 44 PSUs at the end of the year 2018-19 was ₹29,083.42 crore, consisting of equity of ₹394.55 crore (including Reorganisation/ Demerger Adjustment Reserve of ₹55.19 crore), interest free loans of ₹3,186.78 crore and subsidy/ grants of ₹25,502.09 crore. The PV of investments of the Governments and Others up to 31 March, 2019 worked out to ₹34,198.43 crore. The Rate of Real Return on the PV of the Government investment could not be calculated as the PSUs (Non-Power Sector) incurred losses during all the five Financial Years from 2014-15 to 2018-19.

### **3.9.4 Erosion of Net worth**

Net worth means the sum of the Paid-up Capital *plus* 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

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<sup>21</sup> The average rate of interest on Government borrowings was adopted from the Reports of the C&AG of India on State Finances (Government of Telangana) for the concerned year wherein the average rate for interest paid =  $\text{Interest Payment} / [(\text{Amount of previous year's Fiscal Liabilities} + \text{Current year's Fiscal Liabilities}) / 2] * 100$

by the owners has been wiped out by accumulated losses and deferred revenue expenditure. The capital investment<sup>22</sup> and accumulated losses of these 54 working PSUs (Non-Power Sector)<sup>23</sup> as on 31 March 2019 was ₹260.82 crore and ₹10,617.96 crore respectively, resulting in a negative net worth of ₹10,718.79 crore after deducting deferred revenue expenditure of ₹361.65 crore as detailed in **Appendix 7**. Analysis of investment and accumulated losses disclosed that net worth was fully eroded in 15 out of these 54 working PSUs. The net worth of these 15 PSUs was ₹ (-) 11,626.99 crore as their capital investment and accumulated losses were ₹122.64 crore and ₹11,389.31 crore respectively. Of these 15 PSUs, the maximum net worth erosion was in TSRTC (₹4,887.07 crore), Telangana State Housing Corporation Limited (₹3,557.43 crore), HMRL (₹2,085.17 crore), Telangana Rajiv Swagruha Corporation Limited (₹441.08 crore) and TDWSCL (₹353.39 crore). Of these 15 PSUs where net worth had been fully eroded, one<sup>24</sup> PSU earned profit during the year 2018-19, although there were substantial accumulated losses.

The following table indicates total paid up capital, free reserves and surplus, total accumulated losses, and net worth of the 44 working PSUs, where the State Government made direct investment.

**Table 3.9: Net worth of 44 PSUs during 2014-15 to 2018-19**

(₹ in crore)

Year	Paid up Capital at end of the year	Free Reserves and Surplus	Accumulated Loss at end of the year	Deferred revenue Expenditure	Net worth
2014-15	72.73	287.74	-1,433.76	0.00	-1,073.29
2015-16	67.04	676.74	-4,534.89	92.03	-3,883.14
2016-17	254.03	793.56	-7,949.09	97.04	-6,998.54
2017-18	262.49	998.43	-9,119.85	222.08	-8,081.01
2018-19	260.76	775.94	-11,393.86	361.65	-10,718.81

**Source:** Accounts and information furnished by PSUs

It is evident from the above that the net worth of the 44 working PSUs where State Government had infused funds deteriorated from ₹(-)1,073.29 crore in 2014-15 to ₹(-)10,718.81 crore in 2018-19. During 2018-19, net worth of 13<sup>25</sup>, out of 44 PSUs was fully eroded. The erosion of net worth in these 13 PSUs ranged from three times to 12,789.44 times of the paid up capital.

### 3.9.5 Dividend Payout

As per the guidelines issued by the Public Enterprises Department of the State Government, a PSU shall declare or pay dividend for any financial year out of the profits

<sup>22</sup> Includes paid-up capital of Central Government, State Government and Other Parties

<sup>23</sup> Including 44 working PSUs where the State Government had invested funds in the form of equity and interest free loans

<sup>24</sup> Telangana State Minorities Finance Corporation (TSMFC)

<sup>25</sup> Telangana Fiber Grid Corporation Limited, Telangana Overseas Manpower Company Limited, Telangana State Irrigation Development Corporation Limited, Telangana State Leather Industries Promotion Corporation Limited, TSMFC, The Nizam Sugars Limited, TSRTC, TDWSCL, Telangana State Most Backward Classes Development Corporation Limited, HMRL, Telangana Rajiv Swagruha Corporation Limited, Telangana State Film Development Corporation Limited and Telangana State Housing Corporation Limited



for that year arrived at after providing for depreciation in accordance with the Companies Act. A minimum rate of dividend on the paid up share capital or the profit for the year was, however, not prescribed.

During the period 2014-15 to 2018-19, the number of PSUs which earned profits ranged between four and 16, of which, only one PSU namely, Telangana State Warehousing Corporation declared/ paid dividend. It was observed that the Dividend Payout Ratio increased from 0.79 per cent in 2016-17 to 4.98 per cent in 2018-19 as the amount of dividend declared/ paid increased during 2017-19.

Dividend Payout Ratio relating to 44 PSUs, where equity was infused by the State Government, during the period from 2014-15 to 2018-19 is shown below.

**Table 3.10: Details of Dividend Payout of 44 PSUs**

(₹ in crore)

Year	PSUs where equity is infused by State Government		PSUs which earned profit during the year		PSUs which declared/ paid dividend during the year		Dividend Payout Ratio	
	No. of PSUs	Total Equity	No. of PSUs	Total Equity	No. of PSUs	Amount of Dividend	As % of Total Equity	As % of Equity of Profit Making PSUs
1	2	3	4	5	6	7	8 (7/3*100)	9 (7/5*100)
2014-15	11	72.73	4	6.93	0	0.00	0.00	0.00
2015-16	23	67.04	14	55.33	1	3.50	5.22%	6.33%
2016-17	26	254.03	11	14.80	1	2.00	0.79%	13.51%
2017-18	32	262.49	16	155.87	1	3.50	1.33%	2.25%
2018-19	34	260.76	13	123.48	1	13.00	4.98%	10.53%

*Source: Accounts and information furnished by PSUs*

### 3.9.6 Return on Equity

Return on Equity (ROE) is a measure of financial performance to assess how effectively management is using shareholders' fund to create profit. It 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 Shareholders' funds means that liabilities exceed assets.

In respect of 44 working PSUs of Telangana, where funds had been infused by the State Government, both the Shareholders' fund and the Net Income were negative during the last five years ended 2018-19, as given in **Table 3.11**.

**Table 3.11: Return on Equity relating to 44 working PSUs\***

(₹ in crore)

Details	Year	Number of PSUs	Net Profit/ Loss	Shareholders' Fund	RoE (in per cent)
1	2	3	4	5	6=(4/5)*100
<b>Profit Earning</b>	2014-15	4	13.11	259.91	5.04
	2015-16	14	68.31	479.07	14.26
	2016-17	11	44.54	-2,331.73	-
	2017-18	16	214.25	857.57	24.98
	2018-19	13	156.17	883.97	17.67
<b>Loss Incurring</b>	2014-15	6	-392.60	-1,333.25	-
	2015-16	6	-434.16	-4,362.36	-
	2016-17	13	-918.26	-4,666.91	-
	2017-18	12	-1,176.71	-8,940.68	-
	2018-19	18	-1,808.22	-11,603.88	-
<b>No Profit/ Loss</b>	2014-15	1	0.00	0.05	-
	2015-16	3	0.00	0.15	-
	2016-17	2	0.00	0.10	-
	2017-18	4	0.00	2.10	-
	2018-19	3	0.00	1.10	-
<b>Total</b>	2014-15	11	-379.49	-1,073.29	-
	2015-16	23	-365.85	-3,883.14	-
	2016-17	26	-873.72	-6,998.54	-
	2017-18	32	-962.46	-8,081.01	-
	2018-19	34	-1,652.05	-10,718.81	-

\* Includes details of only those PSUs which furnished their accounts/ information

Source: Accounts and information furnished by PSUs

As can be seen from above table, both the Shareholders' fund and the Net Income were negative during all the five years period ended 2018-19. Since the Shareholders' Fund and the Net Income during 2014-15 to 2018-19 was negative, the Return on Equity could not be worked out.

### 3.9.7 Return on Capital Employed

Return on Capital Employed (RoCE) is a profitability metric that measures the long-term profitability and efficiency with which the total capital is employed by a company. RoCE is an important decision metric for long term lenders. The significance of RoCE becomes obvious when it is juxtaposed against RoE, which measures the efficiency with which a company's assets have been used to create profits for its shareholders. RoCE is calculated by dividing a company's earnings before interest and taxes (EBIT) by the capital employed<sup>26</sup>. The details of total RoCE of all the 54 working PSUs during the period from 2014-15 to 2018-19 are given in **Table 3.12**.

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

Table 3.12: RoCE of 54 working PSUs\*

(₹ in crore)

Details	Year	Number of PSUs	EBIT	Capital employed	RoCE (in per cent)
1	2	3	4	5	6=(4/5)*100
<b>Profit Earning</b>	2014-15	6	24.96	273.93	9.11
	2015-16	16	796.24	633.39	125.71
	2016-17	11	1,004.80	-639.07	-157.23
	2017-18	16	1,094.19	15,083.00	7.25
	2018-19	14	1,094.68	32,291.26	3.39
<b>Loss Incurring</b>	2014-15	9	-354.47	488.30	-72.59
	2015-16	9	-421.68	-2,386.92	-
	2016-17	19	-768.36	12,488.29	-6.15
	2017-18	20	-995.44	17,285.07	-5.76
	2018-19	20	-1,528.73	25,498.83	-6.00
<b>No Profit/ No Loss</b>	2014-15	1	0.00	0.05	-
	2015-16	3	0.00	1,999.53	-
	2016-17	2	0.00	0.10	-
	2017-18	4	0.00	2.10	-
	2018-19	5	0.00	6.11	-
<b>Total</b>	2014-15	16	-329.51	762.28	-43.23
	2015-16	28	374.56	246.00	152.26
	2016-17	32	236.44	11,849.32	2.00
	2017-18	40	98.75	32,370.17	0.31
	2018-19	39	-434.05	57,796.20	-0.75

\* Includes details of only those PSUs which furnished accounts/information

Source: Accounts and information furnished by PSUs

The RoCE of the PSUs ranged between (-) 43.23 per cent and 152.26 per cent during the period 2014-15 to 2018-19. The RoCE increased substantially during 2015-16 in comparison to 2014-15 mainly due to positive earnings before interest and taxes (EBIT) of Telangana State Civil Supplies Corporation Limited. The RoCE however, reduced during the period 2016-19 mainly due to increase in Capital employed in Kaleshwaram Irrigation Project Corporation Limited and Telangana State Drinking Water Supply Corporation Limited and the reduction in EBIT which could be mainly due to the losses of Telangana State Road Transport Corporation.

### 3.9.8 Analysis of Long Term Loans of the PSUs

Analysis of the Long Term Loans of the 54 working PSUs during 2014-15 to 2018-19 was carried out to assess the ability of these PSUs to serve the debt owed by them to the Government, banks and other financial institutions. This was assessed through the Interest Coverage Ratio (ICR) and Debt Turnover Ratio (DTR).

### 3.9.9 Interest Coverage Ratio

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 the ability of the PSU to pay interest on debt. An ICR below one indicates that the PSU was not generating sufficient revenues to meet its expenses on interest. The details of positive and negative ICR in respect of 11 working PSUs, which had interest burden during the period from 2014-15 to 2018-19 are given in **Table 3.13**.

**Table 3.13: ICR of PSUs**

(₹ in crore)

Year	EBIT	Interest	ICR	Total Number of PSUs*	Number of PSUs having ICR more than 1	Number of PSUs having ICR less than 1
2014-15	3.32	6.54	0.51:1	2	1	1
2015-16	691.05	704.01	0.98:1	9	6	3
2016-17	357.32	1,088.10	0.33:1	11	4	7
2017-18	143.77	1,002.52	0.14:1	9	5	4
2018-19	-30.47	1,167.61	-0.03:1	11	4	7

\* Only those PSUs which had liability for loans and interest expenditure are considered

**Source:** Accounts and information furnished by PSUs

Of the 11 PSUs having liability of loans from Government as well as banks and other financial institutions during 2018-19, four PSUs had ICR of more than one whereas remaining seven PSUs had ICR below one indicating that these seven PSUs could not generate sufficient revenues to meet their expenses on interest during the period.

Seven PSUs were required to pay interest to State Government during the year 2018-19. Only five of these PSUs provided for interest of ₹46.59 crore in their accounts. However, the same was not paid during the year. Total outstanding interest payable by these five PSUs was ₹180.31 crore as on 31 March 2019.

### 3.9.10 Debt Turnover Ratio

During the last five years ended March 2019, the debt-turnover ratio of 54 working PSUs ranged between 0.40:1 and 9.90:1. Further, the compounded annual growth rate of turnover of the PSUs (210.39 per cent) outpaced the compounded annual growth rate of debt (146.93 per cent) due to which the debt turnover ratio improved from 9.90:1 in 2014-15 to 3.97:1 in 2018-19 as given in **Table 3.14**.

**Table 3.14: Details of Debt Turnover Ratio of PSUs**

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Debt from Government/Banks and Financial Institutions	1,842.89	4,136.63	18,858.14	40,462.98	68,514.99
Turnover	186.17	10,297.18	12,822.79	17,009.93	17,279.16
Debt-Turnover Ratio	9.90:1	0.4 :1	1.47:1	2.38:1	3.97:1

**Source:** Accounts and information furnished by PSUs

### 3.10 Winding up of inactive PSUs (Non-Power Sector)

As on 31 March 2019, there were 20 inactive PSUs, of which, 19 were under demerger process. The total investment in these 20 inactive PSUs was ₹234.87 crore. The number of inactive PSUs and their stage of closure at the end of each year during last five years ended 31 March 2019 is given in **Table 3.15**.

**Table 3.15: Details of Inactive PSUs and status of liquidation**

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Number of Inactive companies	22	22	22	20	20
Liquidation by Court (liquidator appointed)	10	10	10	8	9
Voluntary winding up	0	0	0	1	1

*Source: Compiled from the information as furnished by Official Liquidator*

Out of the 20 inactive PSUs, nine were reported to be in the process of liquidation for several decades, although official liquidator had already been appointed in respect of these PSUs.

### 3.11 Comments on Accounts of PSUs (Non-Power Sector)

Twenty-eight working companies forwarded 34 audited accounts to the Accountant General (Audit), Telangana during the period from 1 October 2018 to 30 September 2019. Of these, 26 accounts were selected for supplementary audit and Non-Review Certificate was issued in respect of the remaining eight accounts. The Audit Reports of Statutory Auditors and supplementary audit conducted by the CAG indicated that the quality of accounts needs to be improved. The details of aggregate money value of the comments of Statutory Auditors and the CAG are given in **Table 3.16**.

**Table 3.16: Impact of audit comments on State PSUs (Non-Power Sector)**

(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18		2018-19	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1.	Decrease in profit	0	0.00	2	0.33	1	0.51	9	32.72
2.	Increase in profit	0	0.00	0	0.00	1	0.52	6	25.14
3.	Increase in loss	0	0.00	2	8.26	3	43.22	1	31.83
4.	Decrease in loss	0	0.00	0	0.00	3	24.18	2	3.94
5.	Non-disclosure of material facts	0	0.00	2	0.00	4	71.48	9	146.70
6.	Errors of classification	0	0.00	0	0.00	5	242.82	10	2,791.23

*Source: Compiled from comments of the Statutory Auditors/CAG*

During the year 2018-19, the Statutory Auditors issued 16 qualified Audit Reports on 34 accounts. Compliance to the Accounting Standards by the State PSUs remained poor as the Statutory Auditors pointed out eight instances of non-compliance to the Accounting Standards in four accounts.

All the three working Statutory Corporations have not furnished their separate annual accounts for audit since their inception (TSRTC: 2016-17; TSFC & TSWC: 2015-16).

