



CHAPTER 1

PART I

Chapter 1

Functioning of Power Sector Undertakings

1. Introduction

1.1 The power sector companies play an important role in the economy of the State. Apart from providing the critical infrastructure required for development of the State's economy, this sector also adds significantly to the GDP of the State. A ratio of power sector PSUs' turnover to Gross State Domestic Product (GSDP) shows the extent of activities of PSUs in the State economy. The Table 1.1 provides the details of turnover of the power sector undertakings and GSDP of Madhya Pradesh for a period of three years ending March 2018.

Table 1.1: Details of turnover of power sector undertakings vis-a-vis GSDP of Madhya Pradesh

Particulars	(₹ in crore)		
	2015-16	2016-17	2017-18
Turnover	57,520.83	64,162.93	66,043.29
Percentage change in turnover as compared to turnover of preceding year	16.60	11.55	2.93
GSDP of Madhya Pradesh	5,30,442.61	6,39,219.67	7,07,046.99
Percentage change in GSDP as compared to GSDP of preceding year	10.48	20.51	10.61
Percentage of Turnover to GSDP of Madhya Pradesh	10.84	10.04	9.34

Source: Compiled based on Turnover figures of power sector PSUs from CAG Audit Report and GSDP figures as per Economic Review 2017-18 of Government of Madhya Pradesh.

The turnover of power sector undertakings has recorded continuous increase. However, growth in the sector was not commensurate with the growth of GSDP. The year on year growth slided during the period 2015-18, whereas increase in GSDP of Madhya Pradesh ranged between 10.48 *per cent* and 20.51 *per cent* during the same period. The compounded annual growth¹ of GSDP was 10.05 *per cent* during the last three years. The compounded annual growth is a useful method to measure growth rate over multiple time periods. Against the compounded annual growth of 10.05 *per cent* of the GSDP, the turnover of power sector undertakings recorded lower compounded annual growth of 4.71 *per cent* during last three years. This resulted in decrease in share of turnover of these power sector undertakings to the GSDP from 10.84 *per cent* in 2015-16 to 9.34 *per cent* in 2017-18.

¹ Rate of Compounded Annual Growth $[(\text{Value of 2017-18} / \text{Value of 2015-16})^{(1/3 \text{ years})} - 1] * 100$.

Formation of Power Sector Undertakings

1.2 The State Government enacted (February 2001) the Madhya Pradesh Vidyut Sudhar Adhiniyam, 2000 (MPVSA 2000) which *inter alia* provided for re-organisation of electricity industry and preparation of a scheme for transferring the powers, duties and functions of Madhya Pradesh State Electricity Board (MPSEB) to one or more power sector companies of the State Government. The State Government accordingly formulated (30 September 2003) the Madhya Pradesh Power Sector Reforms Transfer Scheme, 2003 (MPPSRT Scheme 2003) for unbundling of Madhya Pradesh State Electricity Board (MPSEB) and transfer of assets, properties, liabilities, obligations, proceedings and personnel of MPSEB to five power sector companies [*i.e. Madhya Pradesh Power Generating Company Limited (MPPGCL), Madhya Pradesh Power Transmission Company Limited (MPPTCL), Madhya Pradesh Poova Kshetra Vidyut Vitaran Company Limited (MPPoKVVCL), Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited (MPMKVVCL) and Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited (MPPaKVVCL)*]. These five power sector companies came into existence *w.e.f.* November 2001 and all the assets and liabilities of MPSEB (including equity of ₹ 3,528.02 crore² and loans of MPSEB of ₹ 1,151.57 crore) were distributed among these companies according to the provisions of the MPPSRT Scheme 2003. The State Government incorporated one other power sector company *i.e. Madhya Pradesh Urja Vikas Nigam Limited (MPUVNL)* by infusing equity of ₹ 0.69 crore in 1982-83. Besides these six companies *and Madhya Pradesh Power Trading Company Limited, later renamed as Madhya Pradesh Power Management Company Limited (MPPMCL)*³, *four*⁴ other power sector companies were incorporated (February 2007 to October 2011) as subsidiary companies of MPPMCL/ MPPGCL. These PSUs did not commence any commercial activities till 2017-18 and one of them has already gone into liquidation⁵.

Disinvestment, restructuring and privatisation of Power Sector Undertakings

1.3 No Disinvestment, restructuring and privatisation of Power Sector Undertakings was done during this period in the state of Madhya Pradesh.

Investment in Power Sector Undertakings

1.4 The activity-wise summary of investment in the power sector undertakings as on 31 March 2018 is given in Table 1.2:

² MPPGCL (₹ 1,915.08 crore), MPPTCL (₹ 730.43 crore), MPPoKVVCL (₹ 284.08 crore), MPMKVVCL (₹ 351.88 crore) and MPPaKVVCL (₹ 246.55 crore).

³ As holding company of the three DISCOMs.

⁴ BTPCL (9-6-2011), STPCL (5-2-2007), DDKPL (25-2-2010) and SSPPL (12-10-2011).

⁵ DDKPL (2017-18).

Table 1.2: Activity-wise investment in power sector undertakings

Activity	Number of government undertakings	Investment (₹ in crore)		
		Equity	Long term loans	Total
Generation of Power	1	6,228.86 ⁶	11,843.00	18,071.86
Transmission of Power	1	2,988.69	2,201.22	5,189.91
Distribution of Power	3	16,119.70	30,275.82	46,395.52
Other ⁷	2	100.06 ⁸	20.58	120.64
Not covered in this report ⁹	4	45.15	4.45	49.60
Total	11	25,482.46	44,345.07	69,827.53

Source: Compiled based on annual accounts of PSUs and sanction/ release orders for equity and loans.

As on 31 March 2018, the total investment (equity and long term loans) in seven power sector undertakings covered in this report was ₹ 69,777.93 crore. The investment consisted of 36.45 per cent towards equity and 63.55 per cent in long-term loans. Further, an investment of ₹ 49.60 crore was made in four PSUs not covered in this Report.

The Long term loans advanced by the State Government constituted 60.45 per cent (₹ 26,808.01 crore) of the total long term loans, whereas 39.55 per cent (₹ 17,537.06 crore) of the total long term loans were availed from other financial institutions. However, during 2016-17 and 2017-18, the State Government has taken over ₹ 12,189.99 crore (35.09 per cent) of the outstanding debts (₹ 34,739.00 crore) of the DISCOMs as on 30 September 2015 under Ujwal DISCOM Assurance Yojana¹⁰ (UDAY) scheme.

Budgetary Support to Power Sector Undertakings

1.5 The Government of Madhya Pradesh (GoMP) provides financial support to power sector undertakings in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/ subsidies, loans written off and loans converted into equity during the year in respect of power sector undertakings for the last three years ending March 2018 are detailed in Table 1.3:

⁶ Excluding an amount of ₹ 22.55 crore invested by holding company at Sr. No. A1 of *Annexure-1.1* in its subsidiaries at Sr. No. E8 and E11.

⁷ Sr. No. D6 and D7 of *Annexure-1.1*.

⁸ Excluding an amount of ₹ 10,312.55 crore invested by holding company at Sr. No. D7 of *Annexure-1.1* in its subsidiaries at Sr. No. C3 to C5 and E9 and E10.

⁹ Sr. No. E8 to E11 of *Annexure-1.1*.

¹⁰ Scheme launched by Ministry of Power, GoI for financial and operational turnaround of DISCOMs.

Table 1.3: Details of budgetary support to power sector undertakings

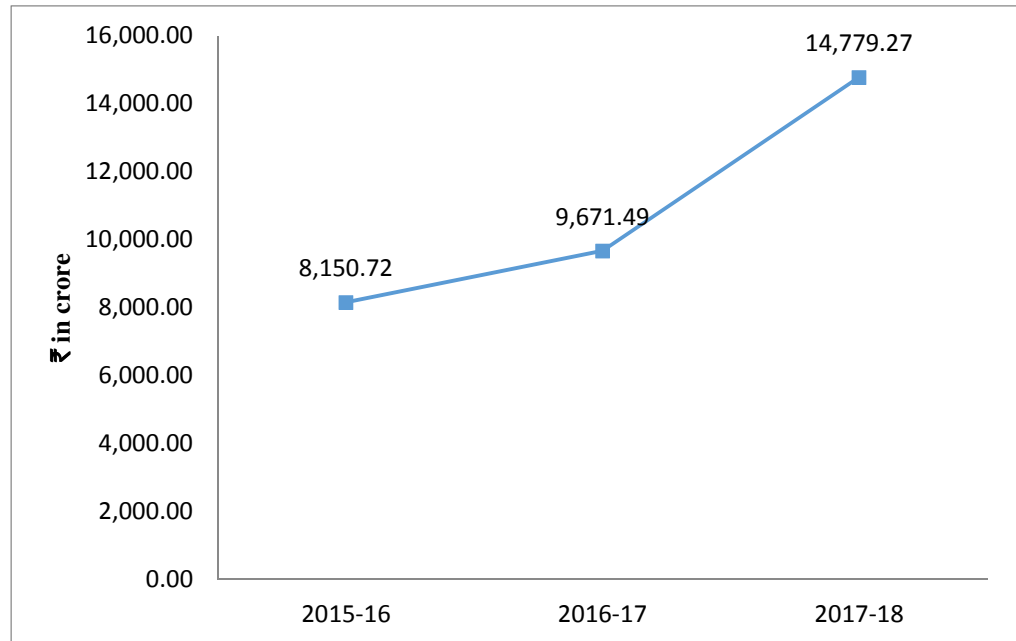
(₹ in crore)

Particulars ¹¹	2015-16		2016-17		2017-18	
	No of PSUs	Amount	No of PSUs	Amount	No of PSUs ¹²	Amount
Equity Capital outgo (i)	6	637.23	6	196.93	3	4,913.94
Loans given (ii)	6	2,150.96	6	3,201.44	3	217.12
Grants/ Subsidies provided (iii)	3	5,362.53	3	6,273.12	4	9,648.21
Total Outgo (i+ii+iii)	6	8,150.72	6	9,671.49	4	14,779.27
Loan repayment/ written off	-	-	1	170.00	1	3,805.48 ¹³
Loans converted into equity	-	-	3	3,557.00	3	4,010.99
Guarantees Outstanding	7	5,026.98	6	10,086.05	4	2,772.16
Guarantee Commitment	7	12,240.91	6	17,809.92	4	6,736.26

Source: Compiled based on annual accounts of PSUs and sanction/ release orders for equity, loans and guarantees.

The details of budgetary support towards equity, loans and grants/ subsidies for the last three years ending March 2018 are given in the graph below:

Chart 1.1: Budgetary support towards Equity, Loans and Grants/ Subsidies



The budgetary assistance received by these PSUs during the year ranged between ₹ 8,150.72 crore and ₹ 14,779.27 crore during the period 2015-16 to 2017-18. The budgetary assistance ₹ 14,779.27 crore received during the year 2017-18 included ₹ 4,913.94 crore, ₹ 217.12 crore and ₹ 9,648.21 crore in shape of equity, loan and grants/ subsidy respectively.

¹¹ Amount represents outgo from State Budget only.

¹² GoMP released equity directly to the three DISCOMS on behalf of their holding company i.e. MPPMCL against which these subsidiaries issued shares to their holding Company. Therefore, for the purpose of infusion of Government's fund, only holding company on behalf of its subsidiaries has been considered. Remaining one Power Sector PSU is Madhya Pradesh Urja Vikas Nigam Limited.

¹³ Difference in Closing balances of 2017-18 and 2016-17 is (-) ₹ 7,599.35 crore: This include reduction on account of UDAY (₹ 4,010.99 crore), repayment (₹ 3,805.48 crore) and loans received from budget (₹ 217.12 crore).

Besides, the Ministry of Power (MoP), Government of India also launched (20 November 2015) UDAY Scheme for operational and financial turnaround of State owned Power Distribution Companies (DISCOMs). The provisions of UDAY and status of implementation of the scheme by three DISCOMs are discussed under *Paragraph 1.19* of this Chapter. The outstanding loans amounting to ₹ 4,010.99 crore were converted into equity during 2017-18 under UDAY scheme. Thus, the addition of ₹ 8,924.93 crore in equity of power sector companies during 2017-18 was through cash induction (₹ 4,913.94 crore) and conversion of loans (₹ 4,010.99 crore) into equity of three State DISCOMs under UDAY Scheme. The addition in equity was mainly towards capital investment and execution of various projects.

GoMP provides guarantee under Madhya Pradesh Government Guarantees Rules (MPGGR), 2009 for PSUs to seek financial assistance from Banks and financial institutions. The Government decided (February 2011) to charge guarantee commission at the rate of half a *per cent* to one *per cent* per annum in case of loan availed by PSUs from banks/ financial institutions without any exception under the provisions of the MPGGR 2009. Outstanding guarantee commitments decreased by 62.18 *per cent* from ₹ 17,809.92 crore in 2016-17 to ₹ 6,736.26 crore in 2017-18. During the year 2017-18, guarantee commission of ₹ 18.66 crore was paid by the PSUs.

Reconciliation with Finance Accounts of Government of Madhya Pradesh

1.6 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the Government of Madhya Pradesh. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of the differences. The position in this regard as on 31 March 2018 is stated in Table 1.4:

Table 1.4: Equity, Loans and Guarantee outstanding as per Finance Accounts vis-à-vis records of power sector undertakings

(₹ in crore)

Form of investment	As per Finance Accounts	As per records of power sector undertakings	Difference
Equity	27,254.82	19,467.02	7,787.80
Loans	32,864.75	26,808.01	6,056.74
Guarantees	3,581.72	2,772.16	809.56
Total	63,701.29	49,047.19	14,654.10

Source: Compiled based on information received from PSUs and Finance Accounts.

The differences between the figures have been persisting for last many years. The issue of reconciliation of differences has also been taken up with the PSUs/ Departments from time to time. We, therefore, recommend that the State Government and the PSUs should reconcile the differences in a time-bound manner.

Submission of accounts by Power Sector Undertakings

Timeliness in preparation of accounts by Power Sector Undertakings

1.7 There were 11 power sector undertakings under the audit purview of CAG as of 31 March 2018. Accounts for the year 2017-18 were submitted by seven working PSUs by 31 December 2018. Details of arrears in submission of accounts of power sector undertakings as on 31st December/ 30th September of each financial year for the last three years ending 31 March 2018 are given in Table 1.5:

Table 1.5: Position relating to submission of accounts of Power Sector Undertakings

Sl. No.	Particulars	2015-16	2016-17 ¹⁴	2017-18
1.	Number of PSUs	11	11	11
2.	Number of accounts submitted during current year	13	08	13
3.	Number of PSUs which finalised accounts for the current year	08	05	07
4.	Number of previous year accounts finalised during current year	05	03	06
5.	Number of PSUs with arrears in accounts	03	06	04
6.	Number of accounts in arrears	03	06	04
7.	Extent of arrears	One year	One year	One year

Source: Compiled based on accounts of PSUs received till 31 December 2018.

Performance of Power Sector Undertakings

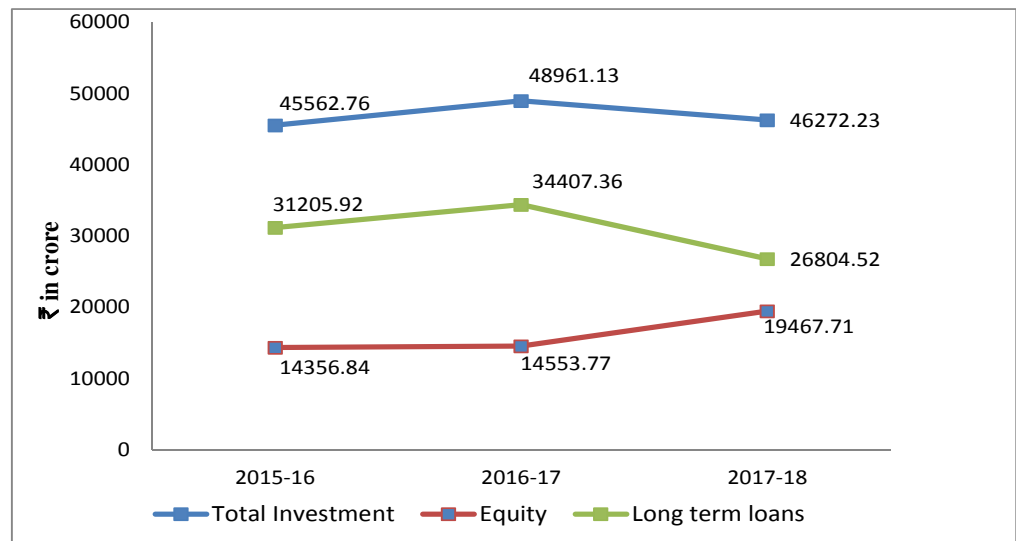
1.8 The financial position and working results of 11 power sector companies as per their latest finalised accounts as of 31 December 2018 are detailed in *Annexure-1.1*.

The Public Sector Undertakings are expected to yield reasonable return on investment made by Government in the undertakings. The total investment of State Government and others in the power sector PSUs was ₹ 80,162.63 crore consisting of ₹ 35,817.56 crore as equity and ₹ 44,345.07 crore as long-term loans as detailed in *Annexure-1.2*. Out of this, Government of Madhya Pradesh has investment of ₹ 46,272.23 crore in the seven Power Sector PSUs¹⁵ covered in this report consisting of equity of ₹ 19,467.71 crore and long-term loans of ₹ 26,804.52 crore.

The year wise status of investment of GoMP in the form of equity and long-term loans in the power sector PSUs during the period 2015-16 to 2017-18 is shown in Chart 1.2:

¹⁴ For the years 2016-17 and 2017-18 accounts received till 31 December are considered.

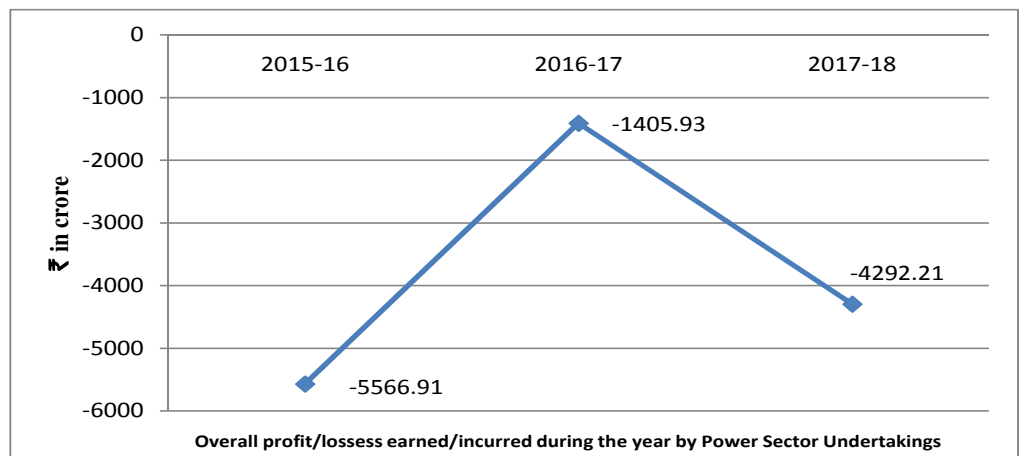
¹⁵ GoMP released equity to the MPPMCL and MPPGCL on behalf of their subsidiaries. Therefore, for the purpose of Infusion of Government's fund, only holding companies on behalf of their subsidiaries have been considered. Remaining two Power Sector PSUs are MPPTCL and MPUVNL.

Chart 1.2: Total investment of GoMP in Power Sector Undertakings

The profitability of a company is traditionally assessed through return on investment, return on equity and return on capital employed. Return on investment measures the profit or loss made in a fixed year relating to the amount of money invested in the form of equity and long term loans and is expressed as a percentage of 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 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.

Return on Investment

1.9 Return on investment is the percentage of profit or loss to the total investment. The overall position of Profit/ losses¹⁶ earned/ incurred by all the power sector undertakings during 2015-16 to 2017-18 is depicted in chart 1.3.

Chart 1.3: Profit/ Losses earned/ incurred by Power Sector Undertakings

The losses incurred by these PSUs was ₹ 4,292.21 crore in 2017-18 against ₹ 5,566.91 crore in 2015-16. According to latest finalised accounts of PSUs

¹⁶ Figures are as per the latest finalised accounts during the respective years.

covered in this report, three PSUs earned profit of ₹ 618.10 crore, two PSUs incurred loss of ₹ 4,907.25 crore and two¹⁷ PSUs had no profit no loss (*Annexure-1.1*). The profit making companies were Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited (₹ 552.89 crore), Madhya Pradesh Power Generating Company Limited (₹ 32.73 crore) and Madhya Pradesh Power Transmission Company Limited (₹ 32.48 crore) while Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited (₹ 2,716.79 crore) and Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited (₹ 2,190.46 crore) incurred substantial loss.

Position of Power Sector Undertakings which earned/ incurred profit/ loss during 2015-16 to 2017-18 is given in Table 1.6:

Table 1.6: Power Sector Undertakings which earned profit / incurred loss

Financial year	Total PSUs in power sector	Number of PSUs which earned profits during the year	Number of PSUs which incurred loss during the year	Number of PSUs which had No profit/ loss during the year
2015-16	11	2	5	4
2016-17	11	2	5	4
2017-18	11	3	3	5

Real rate of return on the basis of Present Value of Investment

1.10 In view of the significant investment by Government in the seven PSUs covered in this report, return on such investment is essential from the perspective of State Government. Traditional calculation of return based only on historical cost of investment may not be a correct indicator of the adequacy of the return on the investment since such calculations ignore the present value of money. Therefore, the real return on investment has also been calculated after considering the Present Value (PV) of money. PV of the State Government investment was computed where funds had been infused by the State Government in the shape of equity, long term loans and Capital grants since finalisation of the balance sheets of these companies after unbundling of erstwhile MPSEB (2000-01) till 31 March 2018.

The PV of the State Government investment in power sector undertakings was computed on the basis of following assumptions:

- Long term loans and Capital grants have been considered as investment infusion by the State Government. Further, in those cases where interest free loans given to the PSUs 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. The funds made available in the form of revenue grants and subsidies have not been reckoned as investment except in the case of grant given under UDAY.

¹⁷ Net expenses of MPPMCL are entirely distributed amongst its subsidiary companies on whose behalf it functions, operational loss of MPUVNL have been transferred to Government.

- The average rate of interest on government borrowings for the concerned financial year¹⁸ was adopted as discount rate for arriving at Present Value since they represent the cost incurred by the government towards investment of funds for the year.

For the period 2015-16 to 2016-17 when the seven PSUs covered in this report incurred losses, a more appropriate measure of performance is the erosion of net worth due to the losses. The erosion of net worth of the company is commented upon in *Paragraph 1.12*.

1.11 The position of State Government investment in the seven PSUs covered in this report in the form of equity, loans and capital grants since inception of these companies till 31 March 2018 and the consolidated position of the PV of the State Government investment relating to them since 2000-01 till 31 March 2018 is indicated in Table 1.7:

Table 1.7: Year wise details of investment by the state government and present value (PV) of government funds from 2000-01 to 2017-18

(₹ in crore)

Financial year	Present value of total investment at the beginning of the year	Equity infused by the state government during the year	Loans and capital grants given by the state government during the year	Total investment during the year	Average rate of interest on government borrowings (in %)	Total investment at the end of the year	Present value of total investment at the end of the year	Minimum expected return to recover cost of funds for the year	Total earnings for the year ¹⁹
i	ii	iii	iv	v=iii+iv	vi	vii=ii+v	viii={vii*(1+vi)/100}	ix=(vii*vi/100)	x
2000-01	2544.08	-478.85	97.52	-381.33	9.94	2162.75	2377.73	214.98	-1,374.03
2001-02	2377.73	0.00	191.68	191.68	9.19	2569.41	2805.54	236.13	-1,477.23
2002-03	2805.54	-61.53	-1874.87	-1936.40	8.81	869.14	945.71	76.57	-1,476.97
2003-04	945.71	0.25	0.00	0.25	9.41	945.96	1034.97	89.01	-157.50
2004-05	1034.97	0.00	682.04	682.04	8.96	1717.01	1870.86	153.84	148.36
2005-06	1870.86	3949.23	3763.30	7712.53	7.33	9583.39	10285.85	702.46	1,241.50
2006-07	10285.85	162.75	198.01	360.76	7.86	10646.61	11483.43	836.82	554.84
2007-08	11483.43	774.11	-3739.92	-2965.81	7.72	8517.62	9175.18	657.56	-1,729.70
2008-09	9175.18	2048.89	1139.66	3188.55	7.24	12363.73	13258.87	895.13	-3,218.73
2009-10	13258.87	2659.40	1515.05	4174.45	6.94	17433.32	18643.19	1209.87	-3,616.38
2010-11	18643.19	-114.24	1281.62	1167.38	7.07	19810.57	21211.17	1400.61	-2,147.35
2011-12	21211.17	1017.28	5029.04	6046.32	6.91	27257.49	29140.99	1883.49	-2,469.05
2012-13	29140.99	953.84	6613.06	7566.90	6.75	36707.89	39185.67	2477.78	-4,280.84
2013-14	39185.67	893.44	3743.04	4636.48	6.69	43822.15	46753.85	2931.70	-6,197.61
2014-15	46753.85	1204.35	9338.05	10542.40	6.73	57296.25	61152.29	3856.04	-6,588.09
2015-16	61152.29	637.23	2325.81	2963.04	6.86	64115.33	68513.64	4398.31	-4,994.09
2016-17	68513.64	196.93	3260.89	3457.82	6.72	71971.46	76807.94	4836.48	-5,546.12
2017-18	76807.94	4913.94	-7599.35	-2685.41	6.67	74122.53	79,066.51	4943.97	-4,289.15
Total		18,757.02	25,964.63	44,721.65					

¹⁸ The average rate of interest on Government borrowings was adopted from the Reports of the C&AG of India on State Finances (Government of Madhya Pradesh) for the concerned year wherein the calculation for the average rate for interest paid = Interest Payment/ [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities)/2]*100.

¹⁹ Total Earnings for the year depict total of net earnings (profit/ loss) for the concerned year relating to those Power Sector PSUs where funds were infused by State Government.

The balance of investment of the State Government in these seven PSUs covered in this report at the end of the year increased to ₹ 47,265.73 crore in 2017-18 from ₹ 2,544.08 crore in 2000-01 as the State Government made further investments in shape of equity (₹ 18,757.02 crore), loans (₹ 25,309.73 crore) and capital grants (₹ 654.90 crore). The PV of investments of the State Government upto 31 March 2018 worked out to ₹ 79,066.51 crore.

It could be seen that total earnings for the year relating to these companies remained negative during 2000-01 to 2017-18 which indicates that instead of generating returns on the invested funds, these companies had not even recovered the cost of funds to the Government.

Further, the Government has also given equity/ grant of ₹ 7,568 crore in 2016-17 and ₹ 4,621.99 crore in 2017-18 to the three DISCOMs under UDAY scheme for taking over the debts of these DISCOMs due to banks and financial institutions. If we consider this grant as investment of the State Government, the return on investment would further get reduced.

Erosion of Net worth

1.12 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.

As on 31 March 2018 there were five PSUs with accumulated losses of ₹ 45,228.09 crore. Of the seven PSUs, covered in this report two PSUs incurred losses in the year 2017-18 amounting to ₹ 4,907.25 crore and three PSUs had not incurred loss in the year 2017-18, even though they had accumulated loss of ₹ 12,540.87 crore.

Net worth of three out of seven PSUs covered in this report had been completely eroded by accumulated loss and their net worth was either zero or negative. The net worth of these three PSUs was (-) ₹ 27,912.81 crore against equity investment of ₹ 16,119.70 crore in these PSUs as on 31 March 2018. However, out of three PSUs, whose capital had been eroded (being zero or negative net worth), one PSU had profit of ₹ 552.89 crore during 2017-18 largely on account of grant received under UDAY (*Annexure-1.1*).

In all the three PSUs whose capital had been eroded, Government loans outstanding as on 31 March 2018 amounted to ₹ 26,559.67 crore.

Net worth was less than half of its paid up capital in respect of one (MPPMCL) out of seven PSUs, whose net worth was positive at the end of 31 March 2018, mainly because the PSU did not undertake any independent business activity and just carried out power trading on behalf of its subsidiaries (DISCOMs).

The Table 1.8 indicates paid up capital, accumulated profit/ loss and net worth of the three Power Sector Undertakings whose net worth has been eroded during the period 2015-16 to 2017-18:

Table 1.8: Net worth of loss making three Power Sector Undertakings during 2015-16 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
2015-16	5,868.60	-35,602.55	-	-29,733.95
2016-17	9,973.21	-37,131.92	-	-27,158.71
2017-18	14,040.00	-42,032.03	-	-27,992.03

Dividend Payout

1.13 The State Government had formulated (July 2005) a dividend policy under which all profit making PSUs are required to pay a minimum return of 20 per cent on profit after tax. As per their latest finalised accounts, out of 11 Power sector PSUs, three PSUs earned an aggregate profit of ₹ 618.10 crore but none of them declared a dividend of ₹ 123.62 crore according to the criteria mentioned above. Dividend Payout relating to seven PSUs covered in this report of Power Sector Undertakings where equity was infused by GoMP during the period is shown in Table 1.9:

Table 1.9: Dividend Payout of seven PSUs covered in this report during 2015-16 to 2017-18

(₹ in crore)

Year	Total PSUs where equity infused by GoMP		PSUs which earned profit during the year		PSUs which declared/ paid dividend during the year		Dividend Payout Ratio (%)
	Number of PSUs	Equity infused by GoMP	Number of PSUs	Equity infused by GoMP	Number of PSUs	Dividend declared/ paid by PSUs	
1	2	3	4	5	6	7	8=7/ 5*100
2015-16	8	637.23	2	339.82	0	0	0
2016-17	8	196.93	2	445.45	0	0	0
2017-18	8	4,913.94	3	2,655.70	0	0	0

During the period 2015-16 to 2017-18, the number of PSUs which earned profits ranged between two and three. None of these PSUs declared/ paid dividend to GoMP.

Further analysis disclosed that none of these companies have declared/ paid dividend since inception.

Return on Equity

1.14 Return on Equity (ROE)²⁰ is a measure of financial performance to assess how effectively management is using company's assets to create profits and is calculated by dividing net income (i.e. net profit after taxes) by shareholders' fund. It is expressed as a percentage and can be calculated for any company if net income and shareholders' fund are both positive numbers.

²⁰ Return on Equity = (Net Profit after Tax and preference Dividend/ Equity + Loans)*100 where Equity = Paid up Capital + Free Reserves – Accumulated Loss – Deferred Revenue Expenditure.

Return on Equity has been computed in respect of three²¹ profit making power sector undertakings where funds had been infused by the State Government as in respect of other loss making PSUs their net worth is in negative. The details of Shareholders fund and ROE relating to these profit making power sector undertakings during the period from 2015-16 to 2017-18 are given in Table 1.10:

Table 1.10: Return on Equity relating to three Power Sector Undertakings where funds were infused by the GoMP

Year	Net Income/ total Earnings for the year ²² (₹ in crore)	Shareholders' Fund (₹ in crore)	ROE (%)
2015-16	29.49	16920.51	0.17
2016-17	64.28	11462.01	0.56
2017-18	65.21	12118.70	0.54

During the last three years period ended March 2018, the ROE of profit making PSUs ranged between 0.17 and 0.56 *per cent* only depicting the poor performance of these PSUs.

Return on Capital Employed

1.15 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 employed²³. The details of ROCE of PSUs covered in this report during the period from 2015-16 to 2017-18 are given in Table 1.11:

Table 1.11: Return on Capital Employed

Year	EBIT (₹ in crore)	Capital Employed (₹ in crore)	ROCE (%)
2015-16	-2,654.18	15,432.56	-17.20
2016-17	1,577.81	14,826.51	10.64
2017-18	-473.37	23,876.88	-1.98

The ROCE of the Power Sector Undertakings ranged between -17.20 *per cent* and 10.64 *per cent* during the period 2015-16 to 2017-18.

Analysis of Long term loans of the Companies

1.16 The analysis of the long term loans of the companies which had leverage during 2015-16 to 2017-18 was carried out to assess the ability of the companies to service the debt owed by the companies to Government, banks and other financial institutions. This is assessed through the Interest coverage ratio.

²¹ MPPGCL, MPPTCL and MPPaKVVCL.

²² As per annual accounts of the respective years.

²³ Capital employed = Paid up share capital + free reserves and surplus + long term loans – accumulated losses - deferred revenue expenditure. Figures are as per the latest year for which accounts of the PSUs are finalised.

Interest Coverage Ratio

1.17 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 lesser 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 of PSUs covered in the report, which had outstanding loans during the period from 2015-16 to 2017-18 are given in Table 1.12:

Table 1.12: Interest Coverage Ratio

Year	Interest (₹ in crore)	Earnings before interest and tax (EBIT) (₹ in crore)	Number of PSUs having liability of loans from Government and Banks and other financial institutions	Number of companies having interest coverage ratio more than 1	Number of companies having interest coverage ratio less than 1
2015-16	2,905.06	-2,653.64	7	2	5
2016-17	3,441.12	1,577.81	7	3	4
2017-18	4,307.36	-468.30	7	3	4

It was observed that the number of power sector companies with interest coverage ratio of more than one increased from two companies in 2015-16 to three companies in 2017-18.

In none of the PSUs the interest payable on loans was higher than the value of their total assets as on 31 March 2018 which indicates high risk of insolvency in these PSUs.

Age wise analysis of interest outstanding on State Government Loans

1.18 As on 31 March 2018, interest amounting to ₹ 4,739.07²⁴ crore was outstanding on the long term loans of three PSUs provided by GoMP. The age wise analysis of interest outstanding on GoMP Loans in PSUs is depicted in Table 1.13:

²⁴ On the basis of information received from five PSUs.

Table 1.13: Interest outstanding on State Government Loans

(₹ in crore)

Sl. No.	Name of PSU	Outstanding interest on loans	Outstanding for less than 1 year	Outstanding for 1 to 3 years	Outstanding for more than 3 years
1	Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited	1,183.26	868.76	184.57	129.93
2	Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited	1,563.06	1,101.26	391.73	70.07
3	Madhya Pradesh Power Management Company Limited	1.63	0.54	1.02	0.07
4	Madhya Pradesh Power Transmission Company Limited	1,703.58	317.77	498.27	887.54
5	Madhya Pradesh Power Generating Company Limited	287.54	73.84	96.78	116.92
	Total	4,739.07	2,362.17	1,172.37	1,204.53

Assistance under Ujwal DISCOM Assurance Yojana (UDAY)

1.19 The Ministry of Power (MoP), Government of India launched (20 November 2015) Ujwal DISCOM Assurance Yojana (UDAY Scheme) for operational and financial turnaround of State-owned Power Distribution Companies (DISCOMs). As per provisions of UDAY Scheme, the participating States were required to undertake following measures for operational and financial turnaround of DISCOMs:

Scheme for improving operational efficiency

1.19.1 The participating States were required to undertake various targeted activities for improving the operational efficiencies like compulsory feeder and Distribution Transformer (DT) metering, consumer indexing and GIS mapping of losses, upgrading or changing transformers and meters, smart metering of all consumers consuming above 200 units per month, Demand Side Management (DSM) through energy efficient equipments, quarterly revision of tariff, comprehensive Information, Education and Communication (IEC) campaign to check theft of power, assure increased power supply in areas where the AT&C losses have been reduced. The timeline prescribed for these targeted activities were also required to be followed so as to ensure achievement of the targeted benefits *viz.* ability to track losses at feeder and DT level, identification of loss making areas, reduce technical losses and minimize outages, reduce power theft and enhance public participation for reducing the theft, reduce peak load and energy consumption *etc.* The outcomes of operational improvements were to be measured through indicators *viz.* reduction of AT&C loss to 15 per cent in 2019-20 as per loss reduction trajectory finalised by the MoP and States, reduction in gap between average cost of supply and average revenue realised to zero by 2019-20.

Scheme for financial turnaround

1.19.2 The participating States were required to take over 75 per cent of DISCOMs debt by 2020-21 *i.e.* 21.80 per cent in 2016-17 and 13.30 per cent each year from 2017-18 to 2020-21. The scheme for financial turnaround *inter alia* provided that:

- State will issue non-SLR bonds to raise funds for providing grant/ loan/ equity to the Madhya Pradesh Power Distribution Companies.
- Takeover of debt shall be in the order of non Capex GoMP debt, followed by debt with highest cost.
- The transfer to the DISCOMs by the State in 2016-17 will be as equity and the remaining transfer in the form of grant.

Implementation of the UDAY Scheme

1.19.3 The status of implementation of the UDAY Scheme is detailed below:

Achievement of operational parameters

The achievements *vis-a-vis* targets under UDAY Scheme regarding different operational parameters relating to the three State DISCOMs are in Table 1.14:

Table 1.14: Parameter wise achievements *vis-a-vis* targets of operational performance for the year 2017-18

Parameter	Target period as per MoU	Target	Achievement
Financial turnaround			
Takeover of loans of DISCOMs by GoMP by conversion into equity/ grant (in ₹ crore)	2017-18	4,622.00	4,621.99
Reduction of AT & C Loss (in per cent)	2017-18	19.15	30.16
Elimination of ACS - ARR gap (upto ₹ per unit)	2017-18	0.16	0.47
Tariff Revision in time	2017-18	Timely filing of tariff petition	No delay
Billing efficiency (in per cent)	2017-18	80.85	76.03
Collection efficiency (in per cent)	2017-18	100.00	91.51
Operational turnaround			
Distribution transformers metering (Urban) (in nos.)	2017-18	63,259.00	49,997.00
Distribution transformers metering (Rural) (in nos.)	2017-18	3,24,710.00	1,29,982.00
Feeder metering (Rural) (in nos.)	2017-18	14,204.00	8,934.00
Rural feeder audit (in nos.)	2017-18	11,934.00	8,726.00
Smart metering above 500 KWH (in nos.)	2017-18	1,28,708.00	40,557.00
Electricity access to un-connected households (in lakh)	2017-18	142.08	78.03
Distribution of LEDs under UJALA scheme (in lakh)	2017-18	300.00	132.41
Physical feeder segregation (in nos.)	2017-18	7,968.00	5,001.00

Source: Information furnished by the three DISCOMs.

The State has performed poorly in meeting the target for feeder metering and DTR metering in rural areas, smart metering, providing electricity to unconnected households and distribution of LEDs. Further, going by the current trend of progress, the State will find it difficult to achieve the most important target of reduction of AT&C loss to 15 *per cent* by 2019-20. According to the Ministry of Power, the Government of India, the State of Madhya Pradesh stood ninth amongst all the states on the basis of overall achievements made by the three State DISCOMs under UDAY Scheme upto 30 September 2018.

Implementation of Financial Turnaround

1.19.4 The Government of Madhya Pradesh (GoMP) conveyed (December 2015) its '*in principal*' consent to the MoP, GoI to take benefit of the UDAY Scheme. Thereafter, tripartite Memorandums of Understanding (MoU) was signed (10 August 2016) among the MoP, the GoMP and MPPMCL, on behalf of its three subsidiary State DISCOMs *i.e.* MPMKVVCL/ MPPoKVVCL/ MPPaKVVCL). As per provisions of the UDAY Scheme and tripartite MoU, out of total outstanding debt (₹ 34,739 crore) pertaining to three State DISCOMs as on 30 September 2015, the GoMP had to take over 75 *per cent* of total debts. The GoMP has taken over total debt of ₹ 12,189.99 crore during the period 2016-17 and 2017-18 as detailed in Table 1.15:

Table 1.15: Implementation of UDAY Scheme

(₹ in crore)			
Year	Equity Investment	Grant	Total
2016-17	3,557.00	4,011.00	7,568.00
2017-18	4,010.99	611.00	4,621.99
Total	7,567.99	4,622.00	12,189.99

The remaining amount of ₹ 13,864.26 crore was to be converted into grant over a period of three years *i.e.* 2018-19, 2019-20 and 2020-21.

Comments on Accounts of Power Sector Undertakings

1.20 Nine Power Sector Companies forwarded their 13 audited accounts to the Accountant General during the period from 01 January 2018 to 31 December 2018. Of these, eight accounts were selected for supplementary audit. The Audit Reports of Statutory Auditors and supplementary audit conducted by the CAG indicated that the quality of accounts needs to be improved substantially. The details of aggregate money value of the comments of Statutory Auditors and the CAG for the accounts of 2016-18 are detailed in Table 1.16:

Table 1.16: Impact of audit comments on Power Sector Companies*(₹ in crore)*

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	5	20.15	2	10,063.26	-	-
2.	Increase in profit	-	-	-	-	-	-
3.	Increase in loss	3	11,260.65	1	162.63	1	217.27
4.	Decrease in loss	-	-	-	-	-	-
5.	Non-disclosure of material facts	3	97.25	1	7.98	-	-
6.	Errors of classification	3	605.29	2	136.71	1	3,841.00

Source: Compiled from comments of the Statutory Auditors/ C&AG in respect of Government Companies.

During the year 2017-18, the Statutory Auditors had issued qualified certificates on seven²⁵ accounts. Compliance to the Accounting Standards by the PSUs remained poor as the Statutory Auditors pointed out 12 instances of non-compliance to the Accounting Standards in three accounts.

Compliance Audit Paragraphs

1.21 For Part I of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2018, three compliance audit paragraphs relating to power sector undertakings were issued to the Principal Secretary of Energy Department, GoMP with request to furnish replies within two weeks. Reply of all compliance audit paragraphs has been received from the State Government and suitably incorporated in this report. The total financial impact of the compliance audit paragraphs is ₹ 29.57 crore.

Follow up action on Audit Reports

1.22 The Report of the Comptroller and Auditor General of India is the product of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The Finance Department, Government of Madhya Pradesh issued (May 2016) instructions to all Administrative Departments to submit replies/ explanatory notes to paragraphs/ performance audits included in the Reports of the CAG of India within a period of three months after their presentation to the Legislature, in the prescribed format, without waiting for any questionnaires from the Committee on Public Undertakings (COPU).

Discussion of Audit Reports by COPU

1.23 The status of discussion of Performance Audits and paragraphs that appeared in Audit Reports (PSUs) by the COPU as on 31 December 2018 was as detailed in Table 1.17:

²⁵ Accounts of PSUs at S. No. A1, B5, C6, C7, C8, D9 and D10 of *Annexure-1.1*.

Table 1.17: Performance Audits/ Paragraphs appeared in Audit Reports vis-a-vis discussed as on 31 December 2018

Period of Audit Report	Number of Performance Audits/ Paragraphs			
	Appeared in Audit Report		Paragraphs discussed	
	Performance Audit	Paragraphs	Performance Audit	Paragraphs
2015-16	1	6	1	6
2016-17	2	6	-	-

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

Compliance to Reports of COPU

1.24 Action Taken Notes (ATNs) on eight reports of the COPU presented to the State Legislature in 2000-01 to 2011-12 had not been received (31 December 2018) from the State PSUs (Power Sector) as indicated in the Table 1.18:

Table 1.18: Compliance to COPU Reports

Year of the COPU Report	Total number of Reports of COPU	Total number of recommendations in COPU Reports	Number of recommendations where ATNs not received
2000-01	1	29	9
2001-02	1	41	10
2009-10	3	3	3
2010-11	2	5	4
2011-12	1	1	1
Total	8	79	27

Source: Compiled based on ATNs received on recommendations of COPU from the respective Departments of GoMP.

The above mentioned Reports of COPU contained recommendations in respect of paragraphs pertaining to Madhya Pradesh State Electricity Board, Madhya Pradesh Power Management Company Limited, Madhya Pradesh Power Transmission Company Limited and Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited which appeared in the Reports of the CAG of India for the year 2000-01 and 2011-12.