

Functioning of State Public Sector Undertakings (other than Power Sector)

Introduction

3.1 There were 133 State Public Sector Undertakings (PSUs) as on 31 March 2018 which were related to sectors other than Power Sector. These State PSUs were incorporated during the period 1927-28 to 2017-18 and included 129 Government Companies and four Statutory Corporations, *i.e.*, Kerala State Road Transport Corporation, Kerala State Warehousing Corporation, Kerala Financial Corporation and Kerala Industrial Infrastructure Development Corporation. The Government Companies further included 15 non-working companies and 15 subsidiary companies (five⁴¹ working and 10⁴² non-working) owned by other Government Companies.

The State Government provides financial support to the State PSUs in the shape of equity, loans and grants/subsidy from time to time. Of the 133 State PSUs (other than Power Sector), the State Government invested funds in 120 State PSUs including three⁴³ subsidiaries of Government Companies. The State Government did not infuse any funds in those 12 Government Companies which were incorporated as subsidiary of other Government Companies. Equity of these 12 subsidiary companies was contributed by the respective Holding Companies.

Contribution to Economy of the State

3.2 A ratio of turnover of the PSUs to the Gross State Domestic Product (GSDP) shows the extent of activities of the PSUs in the State economy. The **Table 3.1** below provides the details of turnover of working State PSUs (other than Power Sector) and GSDP for a period of five years ending March 2018:

Table 3.1: Details of turnover of working State PSUs (other than Power Sector) vis-a-vis GSDP of Kerala

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Turnover	12,527	14,131	14,562	15,488	16,535
GSDP	4,65,041	5,12,564	5,61,546	6,21,700	6,86,116
Percentage of turnover of State PSUs (other than Power Sector) to GSDP	2.69	2.76	2.59	2.49	2.41

(Source: Compiled based on turnover figure of working PSUs and GSDP figures as per State Finance Report of GoK)

⁴¹Kinfra Export Promotion Industrial Parks Limited, Kinfra Film and Video Park Limited, Kinfra International Apparel Parks Limited, Keltron Component Complex Limited and Keltron Electro Ceramics Limited.

⁴²Kerala Garments Limited, SIDCO Mohan Kerala Limited, Keltron Counters Limited, Keltron Power Devices Limited, SIDKEL Televisions Limited, Astral Watches Limited, Keltron Rectifiers Limited, Kerala State Wood Industries Limited, Kunnathara Textiles Limited and Vanjinad Leathers Limited.

⁴³Keltron Component Complex Limited, Kerala State Wood Industries Limited and Kunnathara Textiles Limited.

The turnover of these PSUs has recorded continuous increase over previous years. The increase in turnover ranged between 3.06 per cent and 12.80 per cent during the period 2013-18, whereas increase in GSDP of the State ranged between 9.56 per cent and 10.71 per cent during the same period. The turnover of these PSUs recorded compounded annual growth of 7.19 per cent during last five years which was lower than the compounded annual growth of 10.21 per cent of the GSDP of the State. This resulted in marginal decrease in share of turnover of these PSUs to the GSDP from 2.69 per cent in 2013-14 to 2.41 per cent in 2017-18.

Investment in State PSUs (other than Power Sector)

3.3 There are some PSUs which function as instruments of the State Government to provide certain services which the private sector may not be willing to extend due to various reasons. Besides, the Government has also invested in certain business segments through PSUs which function in a competitive environment with private sector undertakings. The position of these State PSUs has, therefore, been analysed under two major classifications viz. those in the social sector and those functioning in the competitive environment. Details of investment made in these 133 State PSUs in the shape of equity and long term loans up to 31 March 2018 are detailed in **Appendix 4**.

3.4 The sector-wise summary of investment in these State PSUs as on 31 March 2018 is given below in **Table 3.2**:

Table 3.2: Sector-wise investment in State PSUs (other than power sector)

Sector	Number of PSUs	Investment (₹ in crore)		
		Equity	Long term loans	Total
Social Sector	32	1,024.95	962.52	1,987.47
Competitive Environment Sector	101	4,935.80	13,101.73	18,037.53
Total	133	5,960.75	14,064.25	20,025.00

(Source: Compiled based on information received from PSUs)

As on 31 March 2018, the total investment (equity and long term loans) in these 133 PSUs was ₹20,025.00 crore. The investment consisted of 29.77 per cent towards capital and 70.23 per cent in long term loans. The long term loans consisted of 29.17 per cent (₹4,102.16 crore) from the State Government, 0.24 per cent (₹33.90 crore) from the Central Government and 70.59 per cent (₹9,928.19 crore) from financial institutions.

The investment has grown by 107.30 per cent from ₹9,659.70 crore in 2013-14 to ₹20,025.00 crore in 2017-18. The investment increased due to addition of ₹2,093.15 crore and ₹8,272.15 crore towards capital and long term loans respectively during 2013-14 to 2017-18.

Disinvestment, restructuring and privatisation of State PSUs (other than Power Sector)

3.5 During the year 2017-18 no disinvestment, restructuring or privatisation was done by the State Government in State PSUs (other than Power Sector).

Budgetary Support to State PSUs (other than Power Sector)

3.6 The Government of Kerala (GoK) provides financial support to State PSUs 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 State PSUs (other than Power Sector) for the last three years ending March 2018 are given in **Table 3.3**:

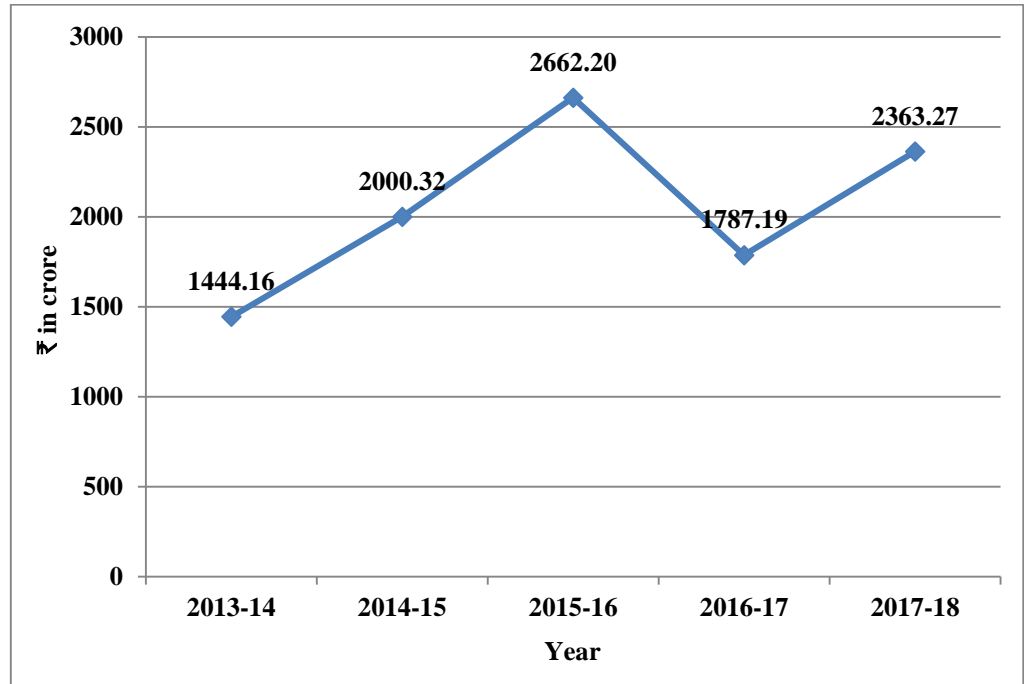
Table 3.3: Details regarding budgetary support to State PSUs (other than Power Sector)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		No. of PSUs	Amount (₹ in crore)	No. of PSUs	Amount (₹ in crore)	No. of PSUs	Amount (₹ in crore)
1	Equity Capital outgo from budget	30	537.89	19	301.05	29	238.68
2	Loans given from budget	19	358.19	17	136.94	24	244.25
3	Grants/Subsidy given	24	1,766.12	27	1,349.20	28	1,880.34
4	Total outgo (1+2+3)		2,662.20		1,787.19		2,363.27
5	Loans written off and interest waived	1	5.07	3	6.20	2	4.34
6	Guarantees issued	9	4,989.66	8	6,150.72	11	7,341.17
7	Guarantee commitment	16	6,455.19	11	7,549.92	11	9,513.05

(Source: Compiled based on information received from PSUs)

The details regarding budgetary outgo towards equity, loans and grants/subsidies for the last five years ending March 2018 are given in **Chart 3.1**:

Chart 3.1: Budgetary outgo towards Equity, Loans and Grants/Subsidies (other than Power sector)



The budgetary assistance given to these PSUs ranged between ₹1,444.16 crore and ₹2,662.20 crore during the period 2013-14 to 2017-18. The budgetary assistance of ₹2,363.27 crore received during the year 2017-18 included ₹238.68 crore, ₹244.25 crore and ₹1,880.34 crore in the form of equity capital, loans and grants/subsidy respectively. The subsidy/grants given by the State Government was mainly to The Kerala State Civil Supplies Corporation Limited (₹525.14 crore), Kerala State Industrial Development Corporation Limited (₹482.22 crore), Kerala Medical Services Corporation Limited (₹455.90 crore) and Vizhinjam International Seaport Limited (₹141.11 crore).

In order to enable PSUs to obtain financial assistance from banks and financial institutions, State Government gives guarantees under the Kerala Ceiling on Government Guarantee Act, 2003, subject to the limits prescribed by the Constitution of India, for which guarantee commission is being charged. The Government would charge a minimum of 0.75 *per cent* as guarantee commission, which shall not be waived under any circumstance. The guarantee commitment of PSUs increased from ₹7,549.92 crore in 2016-17 to ₹9,513.05 crore during 2017-18 whereas the guarantee issued by GoK to PSUs increased from ₹6,150.72 crore in 2016-17 to ₹7,341.17 crore only during 2017-18.

Further, out of ₹94.76 crore guarantee commission payable by 25 PSUs⁴⁴, 19 PSUs⁴⁵ paid ₹79.21 crore⁴⁶ during 2017-18. The accumulated/outstanding

⁴⁴ Kerala State Palmyrah Products Development and Worker's Welfare Corporation Limited has not furnished the details of guarantee commission payable and paid during the year 2017-18 and hence, excluded from total number of PSUs.

⁴⁵ Six PSUs made payments partially during the year 2017-18.

⁴⁶ The Kerala State Financial Enterprises Limited paid ₹0.22 crore excess guarantee commission.

guarantee commission payable by 12 PSUs⁴⁷ was ₹15.95 crore as on 31 March 2018. The PSUs, which had major arrears were Kerala State Electronics Development Corporation Limited (₹5.36 crore), Kerala State Road Transport Corporation (₹1.96 crore) and The Kerala State Cashew Development Corporation Limited (₹3.92 crore).

Reconciliation with Finance Accounts of Government of Kerala

3.7 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs (other than Power Sector) should agree with that of the figures appearing in the Finance Accounts of the Government of Kerala. In case the figures do not agree, the PSUs concerned 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 3.4**:

Table 3.4: Equity, loans and guarantees outstanding as per Finance Accounts of GoK vis-a-vis records of State PSUs (other than Power Sector)

(₹ in crore)

Sl. No.	Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
1	Equity	5,434.64	4,890.93	543.71
2	Loans	5,198.58	4,102.16	1,096.42
3	Guarantees	10,367.54	9,513.05	854.49

(Source: Data furnished by PSUs and Finance Accounts)

Audit observed that out of 133 State PSUs, such differences occurred in respect of 110 PSUs as shown in **Appendix 5**. The differences between the figures are persisting since last many years. The issue of reconciliation of differences was also taken up with the PSUs and the Departments from time to time. **We, therefore, recommend that the State Government and the respective PSUs should reconcile the differences in a time-bound manner.**

Submission of accounts by State PSUs (other than Power Sector)

3.8 Of the total 133 State PSUs (other than Power Sector), there were 118 working PSUs, *i.e.*, 114 Government Companies and four Statutory Corporations and 15 non-working PSUs under the purview of CAG as on 31 March 2018. The status of timelines followed by the State PSUs in preparation of accounts is as detailed under:

Timeliness in preparation of accounts by the working State PSUs

3.8.1 Accounts for the year 2017-18 were required to be submitted by all the working PSUs by 30 September 2018. However, out of 114 working Government Companies, 10 Government Companies submitted their accounts for the year 2017-18 for audit by CAG on or before 30 September 2018 whereas accounts of 104 Government Companies were in arrears. Out of four Statutory

⁴⁷ Including Kerala State Palmyrah Products Development and Worker's Welfare Corporation Limited (₹0.18 crore).

Corporations, the CAG is the sole auditor in two Statutory Corporations (Kerala State Road Transport Corporation and Kerala Industrial Infrastructure Development Corporation) and CAG is doing supplementary audit in two Statutory Corporations (Kerala Financial Corporation and Kerala State Warehousing Corporation). Of these four Statutory Corporations, accounts of one Statutory Corporation (Kerala Financial Corporation) for the year 2017-18 was presented for audit in time. The accounts of Kerala State Road Transport Corporation (KSRTC) for the years 2015-16 to 2017-18 (three accounts), Kerala State Warehousing Corporation for the years 2016-17 to 2017-18 (two accounts) and Kerala Industrial Infrastructure Development Corporation for the year 2017-18 (one accounts) were awaited as on 30 September 2018.

Details of arrears in submission of accounts of working PSUs (other than Power Sector) as on 30 September 2018 are given in **Table 3.5:**

Table 3.5: Position relating to submission of accounts by the working State PSUs (other than Power Sector)

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1	Number of working PSUs	105	108	110	112	118
2	Number of accounts finalised during the year	97	93	96	98	100
3	Number of accounts in arrears	197	237	250	263	281
4	Number of working PSUs with arrears in accounts	88	93	95	99	107
5	Extent of arrears (in years)	1 to 11	1 to 19	1 to 20	1 to 14	1 to 11

(Source: Data collected from PSUs)

Of these 118 working State PSUs, 79 PSUs finalised 100 annual accounts during the period 1 October 2017 to 30 September 2018 which included 11 annual accounts for the year 2017-18 and 89 annual accounts for previous years. Further, 281 annual accounts were in arrears which pertain to 107 PSUs (275 accounts of 104 Government companies and six accounts of three Statutory Corporations). The Administrative Departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the stipulated period. Though the Administrative Departments concerned were informed regularly (twice a year) by the Accountant General (Economic & Revenue Sector Audit), Kerala, the number of accounts in arrears was still on higher side. In addition, this issue was also discussed in the Apex Committee meetings convened (February 2018 and June 2018) by the Chief Secretary. Further, Finance Department, GoK issued a circular (December 2018) that Government would be forced to stop further release of funds and pay revision of employees of PSUs which fail to finalise the accounts up to the previous year and also on maintenance of up-to-date accounts. However, no improvement was noticed. It was further observed that though many PSUs had not finalised their accounts for long, yet the Registrar of Companies did not take any penal action under Section 129 (7) of the Companies Act 2013.

The GoK had invested ₹5,922.25 crore {Equity: ₹681.56 crore (29 PSUs), Loan: ₹625.82 crore (28 PSUs), Subsidy: ₹4,614.87 crore (37 PSUs)} during the years in respect of which accounts were not finalised as detailed in **Appendix 6**. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investment and expenditure incurred were properly accounted for and the purpose for which the amount was invested was achieved or not and thus, Government’s investment in such PSUs remained outside the control of State Legislature.

Audit observations on arrears in finalisation of annual accounts by PSUs is discussed in **Paragraph 5.6** under Part II of the Report.

Timeliness in preparation of accounts by non-working State PSUs

3.8.2 There were arrears in finalisation of accounts by 15 non-working PSUs, details of which are as given below in **Table 3.6**:

Table 3.6: Position relating to arrears of accounts in respect of non-working PSUs

Number of non-working companies	Period for which accounts were in arrears	Number of accounts in arrears
15	1986-87 to 2017-18	161

(Source: Data collected from PSUs)

In respect of non-working companies where accounts were in arrears starting from 1986-87 onwards, the progress in finalisation of the accounts was poor. For example, only one⁴⁸ out of 15 non-working PSUs finalised its accounts during 2017-18.

Placement of Separate Audit Reports of Statutory Corporations

3.9 Out of four Statutory Corporations, one Corporation forwarded its accounts of 2017-18 by 30 September 2018.

Separate Audit Reports (SARs) are audit reports of the CAG on the accounts of Statutory Corporations. These SARs are to be laid before the Legislature as per provisions of the respective Acts. The position depicted in **Table 3.7** shows the status of placement of SARs issued by CAG (up to 30 September 2018) on the accounts of Statutory Corporations in the Legislature.

⁴⁸ Kerala State Wood Industries Limited (2014-15 to 2016-17).

Table 3.7: Status of placement of SARs in State Legislature

Sl. No.	Name of Statutory Corporation	Years up to which SARs placed in Legislature	Years for which SARs issued but not placed in the Legislature
1	Kerala State Road Transport Corporation	2014-15	...
2	Kerala Financial Corporation	2017-18	...
3	Kerala State Warehousing Corporation	2014-15	2015-16
4	Kerala Industrial Infrastructure Development Corporation	2015-16	2016-17

(Source: Data furnished by PSUs/GoK)

Delay in placement of SARs weakens the legislative control over the Statutory Corporations and dilutes the latter's financial accountability. The Government should ensure prompt placement of SARs in the Legislature.

Impact of non-finalisation of accounts of State PSUs (other than Power Sector)

3.10 As pointed in *Paragraph 3.8*, the delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant statutes. In view of the above state of arrears of accounts, the actual contribution of the State PSUs (other than Power Sector) to State GDP for the year 2017-18 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

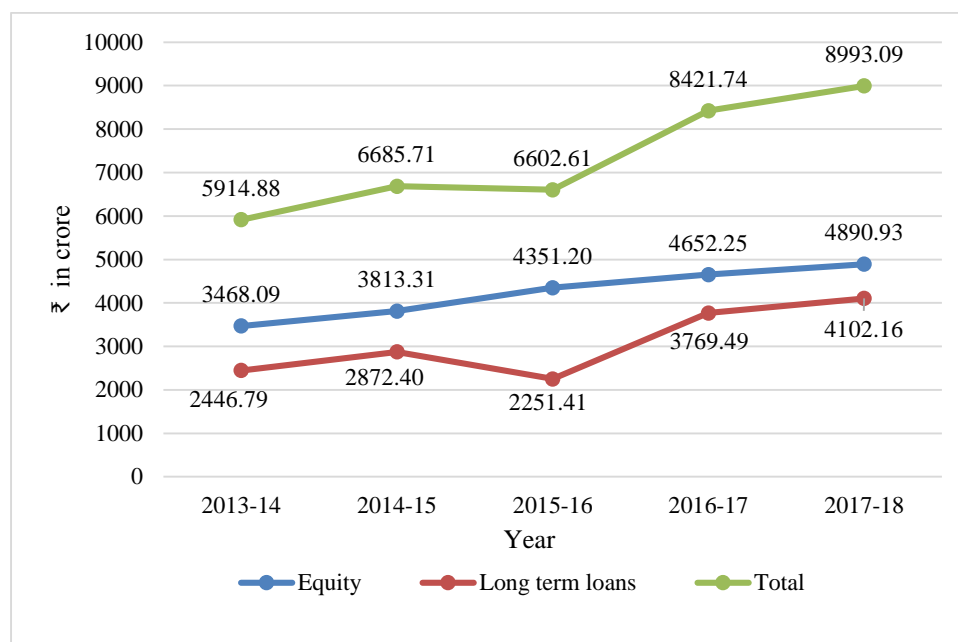
It is, therefore, recommended that the Administrative Departments concerned should strictly monitor and issue necessary directions to clear up the arrears in accounts. The Government may also look into the constraints in preparing the accounts of the PSUs and take necessary steps to clear up the arrears in accounts.

Performance of State PSUs (other than Power Sector)

3.11 The financial position and working results of State PSUs (other than power sector) are detailed in *Appendix 7* as per their latest finalised accounts as on 30 September 2018.

The Public Sector Undertakings are expected to yield reasonable return on investment made by Government in the undertakings. The amount of investment as on 31 March 2018 in the PSUs other than power sector was ₹20,025.00 crore consisting of ₹5,960.75 crore as equity and ₹14,064.25 crore as long term loans. Out of this, Government of Kerala has investment of ₹8,993.09 crore in the 120 PSUs (other than Power Sector) consisting of equity of ₹4,890.93 crore and long term loans of ₹4,102.16 crore.

The year wise statement of investment of GoK in the PSUs (other than Power Sector) during the period 2013-14 to 2017-18 is as follows:

Chart 3.2: Total investment of GoK in PSUs (other than Power Sector)

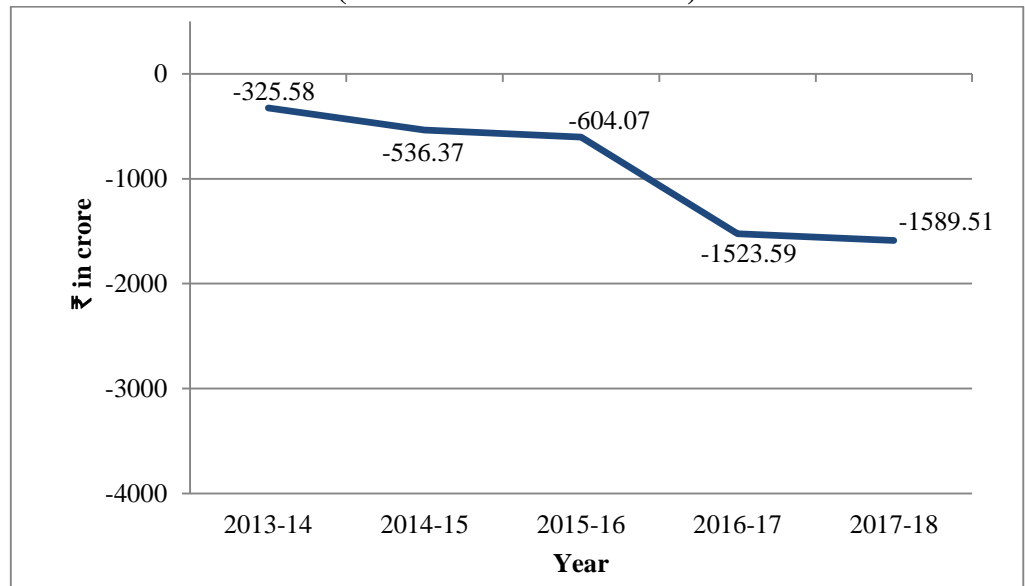
The profitability of a company is traditionally assessed through return on investment, return on equity and return on capital employed. Return on investment measures the profit or loss made in a fixed year relating to the amount of money invested in the form of equity and long term loans and is expressed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

3.12 The Return on Investment is the percentage of profit or loss to the total investment. The overall position of profit earned or loss incurred by the working State PSUs (other than Power Sector) as per the latest finalised accounts⁴⁹ during the period 2013-14 to 2017-18 is given in **Chart 3.3**:

⁴⁹ For instance, latest accounts finalised between October 2017 to September 2018 were considered for the period 2017-18.

Chart 3.3: Profit earned /Loss incurred by working PSUs (other than Power Sector)



An analysis of the latest finalised accounts of all working PSUs (other than Power Sector) in the State revealed that 45 PSUs earned profit of ₹383.91 crore, 64 PSUs incurred loss of ₹1,973.42 crore and one PSU had no profit or loss⁵⁰. Eight working PSUs did not finalise (September 2018) their first accounts.

The major contributors to profit were The Kerala State Financial Enterprises Limited (₹144.41 crore in 2017-18), Kerala State Beverages (Manufacturing and Marketing) Corporation Limited (₹35.13 crore in 2015-16) and The Travancore-Cochin Chemicals Limited (₹27.47 crore in 2017-18). The major PSUs which incurred loss were Kerala State Road Transport Corporation (₹1,431.29 crore in 2014-15), The Kerala State Civil Supplies Corporation Limited (₹107.43 crore in 2014-15) and The Kerala State Cashew Development Corporation Limited (₹88.77 crore in 2012-13).

Of the 118 working PSUs (other than Power Sector) as on 31 March 2018, position of working PSUs (other than Power Sector) which earned profit / incurred loss during 2013-14 to 2017-18 is given in **Table 3.8**:

⁵⁰ Road Infrastructure Company Kerala Limited.

Table 3.8: Details of working Public Sector Undertakings (other than Power Sector) which earned profit / incurred loss during 2013-14 to 2017-18

Financial year	Total number of PSUs (other than 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 marginal profit/ loss during the year	Number of PSUs which had not finalised their first accounts during the year
2013-14	105	51	43	-	11
2014-15	108	47	52	4	5
2015-16	110	48	55	3	4
2016-17	112	43	63	2	4
2017-18	118	45	64	1	8

(Source: Data furnished by PSUs)

Return on Investment on the basis of historical cost of investment

3.13 Out of 133 Public Sector Undertakings (other than Power Sector) of the State, the State Government infused funds in the form of equity, long term loans and grants/ subsidies in 120 PSUs only. The Government has invested ₹8,993.09 crore in these 120 PSUs including equity of ₹4,890.93 crore and long term loans of ₹4,102.16 crore. As on 31 March 2018, the total investments in the form of equity and interest free loans made by GoK and others in the 133 State PSUs (other than Power Sector) was ₹6,221.85 crore.

The Return on Investment from the PSUs has been calculated on the investment made by the GoK and others in the PSUs in the form of equity and loans. In the case of loans, only interest free loans are considered as investment since the Government does not receive any interest on such loans and are, therefore, of the nature of equity investment by Government except to the extent that the loans are liable to be repaid as per terms and conditions of repayment. Thus, investment in these 133 PSUs (other than Power Sector) has been arrived at by considering the equity and the interest free loans as detailed in **Table 3.9**. The funds made available in the forms of the grants/subsidy have not been reckoned as investment since they do not qualify to be considered as investment.

The sector-wise return on investment on the basis of historical cost of investment for the period 2013-14 to 2017-18 is as given in **Table 3.9**:

Table 3.9: Return on Investment on the basis of historical cost of investment

(₹ in crore)

Year-wise, Sector-wise break-up	Total Earnings for the year	Funds invested in the form of Equity and Interest free loans on historical cost			Return on investment on historical cost basis (<i>per cent</i>)
		GoK	Others	Total	
2013-14					
Social Sector	21.39	409.77	59.00	468.77	4.56
Competitive Environment Sector	-357.99	3,245.32	340.51	3,585.83	-9.98
Total	-336.60	3,655.09	399.51	4,054.60	-8.30
2014-15					
Social Sector	9.36	509.25	67.84	577.09	1.62
Competitive Environment Sector	-555.08	3,531.05	473.75	4,004.80	-13.86
Total	-545.72	4,040.30	541.59	4,581.89	-11.91
2015-16					
Social Sector	13.70	565.52	76.41	641.93	2.13
Competitive Environment Sector	-625.90	4,059.78	725.96	4,785.74	-13.08
Total	-612.20	4,625.30	802.37	5,427.67	-11.28
2016-17					
Social Sector	29.14	743.69	179.97	923.66	3.15
Competitive Environment Sector	-1,556.35	4,247.34	840.78	5,088.12	-30.59
Total	-1,527.21	4,991.03	1,020.75	6,011.78	-25.40
2017-18					
Social Sector	40.50	835.72	194.64	1,030.36	3.93
Competitive Environment Sector	-1,634.60	4,316.31	875.18	5,191.49	-31.49
Total	-1,594.10	5,152.03	1,069.82	6,221.85	-25.62

(Source: Data furnished by PSUs)

The return on investment is worked out by dividing the total earnings⁵¹ of these PSUs by the cost of the investments. The return earned on investment ranged between -25.62 *per cent* and -8.30 *per cent* during the period 2013-14 to 2017-18. The overall return on investment was negative during the period which was mainly due to heavy losses incurred by Kerala State Road Transport Corporation (₹1,431.29 crore in 2014-15), The Kerala State Civil Supplies Corporation Limited (₹107.43 crore in 2014-15) and The Kerala State Cashew Development Corporation Limited (₹88.77 crore in 2012-13) in competitive sector. Further analysis revealed that the return on investment from competitive sector has shown a fluctuating trend. The returns from competitive sector reduced from -9.98 *per cent* in 2013-14 to -31.49 *per cent* in 2017-18.

⁵¹ This includes net profit/loss for the concerned year relating to those State PSUs where the investments have been made by the State Government.

Erosion of Net worth

3.14 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. The capital investment and accumulated losses of these 133 State PSUs (other than Power Sector) as per their latest finalised accounts were ₹5,157.39 crore and ₹4,916.01 crore respectively resulting in net worth of ₹241.38 crore. Analysis of investment and accumulated losses disclosed that net worth was eroded fully in 52 out of these 133 PSUs as the capital investment and accumulated losses of these 52 PSUs were ₹1,973.02 crore and ₹8,503.00 crore respectively. Of these 52 PSUs, the maximum net worth erosion was in Kerala State Road Transport Corporation (₹4,329.99 crore), The Kerala State Cashew Development Corporation Limited (₹981.24 crore), The Kerala State Civil Supplies Corporation Limited (₹188.31 crore) and Autokast Limited (₹142.86 crore). Of these 52 PSUs where net worth had been fully eroded, 10 PSUs⁵² earned profit as per their accounts finalised during the year 2017-18 although there were substantial accumulated losses.

Further, the following table indicates total paid up capital, total accumulated profit/ loss, and total net worth of the PSUs (other than Power Sector) where the State Government has made direct investment:

Table 3.10: Net worth of PSUs (other than Power Sector) during 2013-14 to 2017-18

(₹ in crore)

Year	Paid up Capital at end of the year	Accumulated Profit (+) Loss (-) at end of the year	Deferred revenue expenditure	Net worth
2013-14	3,439.95	-2906.26	0.00	533.69
2014-15	3,714.54	-2,818.46	0.00	896.08
2015-16	4,207.21	-3,387.52	0.00	819.69
2016-17	4,747.27	-5,028.98	0.00	-281.71
2017-18	5,121.33	-4,949.67	0.00	171.66

As can be seen, the net worth of these companies fluctuated during the period. It decreased from ₹533.69 crore in 2013-14 to ₹171.66 crore in 2017-18. Out of 120 PSUs, 66 PSUs showed positive net worth and net worth of 45 PSUs was in negative during 2013-14. In respect of remaining nine PSUs, there was no data available for calculation of net worth.

⁵²The Kerala State Civil Supplies Corporation Limited, Keltron Counters Limited, Kerala State Coconut Development Corporation Limited, Kerala Small Industries Development Corporation Limited, The Kerala Agro Industries Corporation Limited, Traco Cable Company Limited, Kinfra International Apparel Parks Limited, Kerala Police Housing and Construction Corporation Limited, Kerala State Electronics Development Corporation Limited and Kerala School Teachers and Non-teaching Staff Welfare Corporation Limited.

Dividend Payout

3.15 The State Government had formulated (December 1998) a dividend policy under which all PSUs are required to pay a minimum return of 20 *per cent* on the paid up share capital or 30 *per cent* of the allocable surplus, whichever is lower.

Dividend payout relating to 120 PSUs (other than Power Sector) where equity was infused by GoK during the period 2013-14 to 2017-18 is shown in **Table 3.11**:

Table 3.11: Dividend payout of PSUs (other than Power Sector) during 2013-14 to 2017-18

(₹ in crore)

Year	Total PSUs where equity infused by GoK		PSUs which earned profit during the year		PSUs which declared/paid dividend during the year		Dividend Payout Ratio (per cent)
	Number of PSUs	Equity infused by GoK	Number of PSUs	Equity infused by GoK	Number of PSUs	Dividend declared/paid	
1	2	3	4	5	6	7	8=7/5*100
2013-14	109	3,468.09	51	1,496.19	18	34.74	2.32
2014-15	109	3,813.31	47	1,341.95	20	28.57	2.13
2015-16	113	4,351.20	48	1,841.64	16	23.36	1.27
2016-17	115	4,652.25	43	1,265.38	9	32.04	2.53
2017-18	120	4,890.93	45	1,607.54	7	10.59	0.66

During the period 2013-14 to 2017-18, the number of PSUs which earned profits ranged between 43 and 51 PSUs. During this period, number of PSUs which declared/paid dividend to GoK ranged between 7 and 20. The Dividend Payout Ratio during 2013-14 to 2017-18 ranged between 0.66 *per cent* and 2.53 *per cent* only.

As per their latest finalised accounts, seven working PSUs declared a dividend of ₹10.59 crore which worked out to 0.22 *per cent* of equity capital of all the PSUs. Only two PSUs⁵³, however, complied with the State Government policy on dividend payment. As a result, there was short payment of dividend to the extent of ₹76.67 crore by 43 PSUs.

Return on Equity

3.16 Return on Equity (ROE) is a measure of financial performance to assess how effectively management is using shareholders' fund 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.

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

⁵³ Kerala State Beverages (Manufacturing and Marketing) Corporation Limited and Malabar Cements Limited.

sold and all debts paid. A positive shareholders fund reveals that the company has enough assets to cover its liabilities while negative shareholders' fund means that liabilities exceed assets.

Return on Equity has been computed in respect of 120 other than Power Sector undertakings where funds had been infused by the State Government. The details of shareholders' fund and ROE relating to 120 PSUs (other than Power Sector) during the period from 2013-14 to 2017-18 are given in **Table 3.12**:

Table 3.12: Return on Equity relating to PSUs (other than Power Sector)

Year	Net Income (₹ in crore)	Shareholders' Fund (₹ in crore)	Return on Equity (per cent)
2013-14	-350.87	533.69	-
2014-15	-551.66	896.08	-
2015-16	-616.89	819.69	-
2016-17	-1528.30	-281.71	-
2017-18	-1593.44	171.66	-

During the last five years ended March 2018, the Net Income of these PSUs were negative. Hence, ROE in respect of these PSUs could not be worked out for this period.

Return on Capital Employed

3.17 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 employed⁵⁴. The details of ROCE of the State PSUs (other than Power Sector) during the period from 2013-14 to 2017-18 are given in **Table 3.13**:

Table 3.13: Return on Capital Employed

Year	EBIT (₹ in crore)	Capital Employed (₹ in crore)	ROCE (per cent)
2013-14	256.09	8,464.72	3.03
2014-15	515.24	8,603.90	5.99
2015-16	684.11	10,019.53	6.83
2016-17	413.08	10,124.91	4.08
2017-18	526.99	10,235.65	5.15

The ROCE of these State PSUs ranged between 3.03 per cent and 6.83 per cent during the period 2013-14 to 2017-18. The ROCE increased over one per cent in 2017-18 mainly due to increase in EBIT (₹310.18 crore) of The Kerala State Financial Enterprises Limited.

⁵⁴ Capital employed = Paid up share capital+ free reserves and surplus+ long term loans - accumulated losses - deferred revenue expenditure.

Analysis of long term loans of the PSUs (other than Power Sector)

3.18 Analysis of the long term loans of the PSUs which had leverage during 2013-14 to 2017-18 was carried out to assess the ability of the companies to serve the debt owed by the companies to the Government, banks and other financial institutions. This is assessed through the interest coverage ratio and debt turnover ratio.

Interest Coverage Ratio

3.19 Interest coverage ratio is used to determine the ability of a PSU to pay interest on outstanding debt and is calculated by dividing the earnings before interest and taxes (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 interest coverage ratio below one indicated that the PSU is not generating sufficient revenues to meet its expenses on interest. The details of interest coverage ratio during the period from 2013-14 to 2017-18 are given in **Table 3.14**:

Table 3.14: Interest coverage ratio of working State PSUs (other than Power Sector) having liability of loans

Year	Interest (₹ in crore)	Earnings before interest and tax (₹ in crore)	Number of PSUs having liability of loans	Number of PSUs having interest coverage ratio more than 1	Number of PSUs having interest coverage ratio less than 1
2013-14	589.00	10.10	55	28	27
2014-15	1,057.29	330.84	58	25	33
2015-16	1,293.73	677.20	63	28	35
2016-17	1,694.93	190.25	62	27	35
2017-18	1,890.85	486.96	60	23	37

Of the 60 State working PSUs (other than Power Sector) having liability of loans during 2017-18, 23 PSUs had interest coverage ratio of more than one whereas remaining 37 PSUs had interest coverage ratio below one which indicates that these 37 PSUs could not generate sufficient revenues to meet their expenses on interest.

Debt Turnover Ratio

3.20 During the last five years, the turnover of these PSUs recorded compounded annual growth of 7.19 *per cent* and compounded annual growth of debt was 24.83 *per cent* due to which the debt turnover ratio degraded from 0.46 in 2013-14 to 0.85 in 2017-18 as given in the **Table 3.15** below:

Table 3.15: Debt Turnover Ratio relating to the State PSUs (other than Power Sector)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Debt (₹ in crore)	5,792.10	8,352.89	9,251.67	11,481.32	14,064.25
Turnover (₹ in crore)	12,527.30	14,130.57	14,562.41	15,487.50	16,535.00
Debt-Turnover Ratio	0.46:1	0.59:1	0.51:1	0.74:1	0.85:1

(Source: Data furnished by PSUs)

The debt-turnover ratio ranged between 0.46 and 0.85 during this period.

Winding up of non-working State PSUs

3.21 Of the 133 State PSUs (other than Power Sector), 15 were non-working companies having a total investment of ₹106.76 crore towards capital (₹39.97 crore) and long term loans (₹66.79 crore) as on 31 March 2018. The number of non-working PSUs at the end of each year during last five years ended 31 March 2018 are given in **Table 3.16**:

Table 3.16: Non-working PSUs

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Number of non-working PSUs	16	15	15	15	15

(Source: Data furnished by PSUs)

Out of the above 15 non-working PSUs, liquidation process was initiated in respect of four non-working PSUs⁵⁵. Since the non-working PSUs are not contributing to the State economy and meeting the intended objectives, these PSUs may be considered for their closure or revival.

Comments on accounts of State PSUs (other than Power Sector)

3.22 Out of 118 working PSUs, 76 PSUs forwarded 96 audited accounts to the Accountant General during the period from 1 October 2017 to 30 September 2018. Of these, 48 accounts of 41 companies were selected for supplementary audit while non-review certificates were issued in respect of 48 accounts of 40 companies. 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 are as given in **Table 3.17**:

Table 3.17: Impact of audit comments on Working Companies (other than Power Sector)

(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		Number of accounts	Amount	Number of accounts	Amount	Number of accounts	Amount
1	Decrease in profit	20	716.33	10	19.90	20	59.08
2	Increase in loss	32	224.29	17	26.43	19	76.61
3	Increase in profit	...	...	5	1.34	5	6.72
4	Decrease in loss	2	1.13	5	3.29	6	6.65
5	Non-disclosure of material facts	8	10.05	27	378.11	6	37.63
6	Errors of classification	24	241.36	35	285.76	17	262.37

(Source: Compiled from the annual accounts of Government Companies)

During the year 2017-18, the Statutory Auditors issued qualified audit reports on 63 accounts. Compliance to the Accounting Standards by the

⁵⁵ Keltron Power Devices Limited, Keltron Rectifiers Limited, Kunnathara Textiles Limited and Vanjinad Leathers Limited.

PSUs remained poor as the Statutory Auditors pointed out 84 instances of non-compliance to the Accounting Standards in 42 accounts.

3.23 The State has four Statutory Corporations, *i.e.*, (i) Kerala State Road Transport Corporation (KSRTC), (ii) Kerala Financial Corporation (KFC), (iii) Kerala State Warehousing Corporation (KSWC) and (iv) Kerala Industrial Infrastructure Development Corporation (KINFRA). The CAG is sole auditor in respect of KSRTC and KINFRA.

Out of four working Statutory Corporations, KFC forwarded annual accounts for the year 2017-18 and KSWC forwarded two accounts for the years 2014-15 and 2015-16 during 1 October 2017 to 30 September 2018. The Statutory Auditors gave qualified audit reports on all the three accounts and were selected for supplementary audit. Further, in case of the accounts of KFC, the CAG issued comment. KINFRA forwarded annual accounts for the year 2016-17 and KSRTC did not forward any accounts during the above period. The accounts of KINFRA was audited and SAR was issued.

The details of aggregate money value of the comments of Statutory Auditors and supplementary audit by the CAG in respect of Statutory Corporations are given in **Table 3.18**:

Table 3.18: Impact of audit comments on Statutory Corporations

(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		Number of accounts	Amount	Number of accounts	Amount	Number of accounts	Amount
1.	Decrease in profit	2	5.42	1	0.03	1	0.71
2.	Increase in loss	1	0.06	1	0.06	2	0.36
3.	Increase in profit	...	...	...	...	...	...
4.	Decrease in loss	...	...	...	...	1	0.03
5.	Non-disclosure of material facts	...	...	...	...	2	63.89
6.	Errors of classification	2	51.30	1	4.64	1	39.24

(Source: Compiled from the annual accounts of Statutory Corporations)

Performance Audit and Compliance Audit Paragraphs

3.24 For the Report of the Comptroller and Auditor General of India (Public Sector Undertakings) for the year ended 31 March 2018, one Performance Audit related to one PSU and six Compliance Audit paragraphs related to 110 PSUs were issued to the Principal Secretaries/Secretaries of the respective Administrative Departments with request to furnish replies within four weeks. Replies were received from the Administrative Departments concerned.

Follow up action on Audit Reports (other than Power Sector)**Replies outstanding**

3.25 The Report of CAG represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The Finance Department, Government of Kerala issued directions to all Administrative Departments in 2017 to furnish Explanatory Notes to Performance Audits/Compliance Audits (CAs)/ Paragraphs included in the Audit Reports of the CAG of India within a period of two months of their presentation to the Legislature for speedy settlement of audit observations. The status of Explanatory Notes not received as of March 2019 is given in **Table 3.19**:

Table 3.19: Explanatory Notes not received (as of March 2019)

Years of the Audit Report (PSUs)	Date of placement of Audit Report in the State Legislature	Total Performance Audits (PAs) and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2014-15	28/06/2016	1	9	0	0
2015-16	23/05/2017	2	11	2	7
2016-17	19/06/2018	2	10	2	10
Total		5	30	4	17

From the above, it could be seen that out of five Performance Audits and 30 Paragraphs, Explanatory Notes to four Performance Audits and 17 paragraphs in respect of 13 departments, which were commented upon, were awaited (March 2019).

Discussion of Audit Reports by Committee on Public Undertakings

3.26 The status of discussion of Performance Audits and CAs/Paragraph that appeared in Audit Report (PSUs) by Committee on Public Undertakings (CoPU) as of March 2019 is shown in **Table 3.20**:

Table 3.20: Performance Audits/ Paragraphs appeared in Audit Reports vis-a-vis discussed as of March 2019

Period of Audit Report	Number of Performance Audits/ Paragraphs			
	Appeared in Audit Report		Discussed	
	PAs	Paragraphs	PAs	Paragraphs
2014-15	1	9	1	7
2015-16	2	11	0	2
2016-17	2	10	0	0
Total	5	30	1	9

Compliance to Reports of Committee on Public Undertakings

3.27 Action Taken Notes (ATNs) to 84 Paragraphs in 21 Reports of the CoPU presented to the State Legislature between December 2008 and December 2018 have not been received (March 2019) as indicated in **Table 3.21:**

Table 3.21: Compliance to CoPU Reports

Year of the CoPU Report	Total number of CoPU Reports	Total number of recommendations in the CoPU Reports	No. of recommendations where ATNs not received
2006-08	1	29	1
2014-16	1	3	3
2016-19	19	93	80
Total	21	125	84

These Reports of CoPU contained recommendations in respect of Paragraphs pertaining to eight Departments, which appeared in the Reports of CAG of India for the years 1999-00 to 2014-15. The pace of receipt of ATNs from GoK to CoPU was not encouraging.

It is recommended that the Government may ensure:

- (a) **sending of replies/ Explanatory Notes to Inspection Reports/ Paragraphs/ Performance Audits and ATNs on the recommendations of CoPU as per the prescribed time schedule;**
- (b) **recovery of loss/ outstanding advances/ overpayments within the prescribed period; and**
- (c) **revamping of the system of response by GoK to audit observations.**