# Executive Summary

## I. Summary of financial performance of Central Public Sector Enterprises

There were 697 Central Government Public Sector Enterprises (CPSEs) under the audit jurisdiction of the Comptroller and Auditor General of India as on 31 March 2020. These included 488 Government Companies, 203 Government Controlled Other Companies and six Statutory Corporations. This Report deals with 427 Government Companies and Corporations (including six Statutory Corporations) and 180 Government Controlled Other Companies. 90 CPSEs (including 23 Government Controlled Other Companies) whose accounts were in arrears for three years or more or were defunct/under liquidation or first accounts were not due are not covered in this Report.

**(Para 1.1.3)**

### Equity holding of Central Government

The accounts of 427 Government Companies and Corporations indicated that the Central Government had an equity holding of ₹4,52,908 crore in share capital. The loans given by Central Government outstanding as on 31 March 2020 amounted to ₹3,04,899 crore. Compared to the previous year, holding of the Central Government in equity of CPSEs registered a net increase of ₹48,485 crore and loans outstanding increased by ₹21,683 crore during 2019-20.

**(Para 1.2, 1.2.1 and 1.2.2.1)**

### Market Capitalisation

The total market value of shares of 58 listed Government Companies (including six subsidiary companies) the shares of which were traded during 2019-20 stood at ₹8,39,970 crore as on 31 March 2020. Market value of shares held by the Central Government in 52 listed Government Companies (excluding six subsidiary companies) stood at ₹7,87,152 crore as on 31 March 2020.

**(Para 1.2.4)**

### Return from Government companies and Corporations

224 Government Companies and Corporations earned profit of ₹1,40,976 crore during 2019-20 of which, 68 *per cent* (₹95,311 crore) was contributed by 60 Government Companies and Corporations in three sectors viz., Power, Petroleum & Coal and Lignite. Return on Equity (ROE) in these 224 CPSEs was 15.31 *per cent* in 2019-20 as compared to 18.69 *per cent* in 233 CPSEs in 2018-19.

**(Para 1.3.1)**

99 Government Companies and Corporations declared a dividend of ₹73,487 crore during the year 2019-20. Out of this, the dividend received/receivable by Central Government amounted to ₹34,944 crore which represented 7.72 *per cent* return on the total investment by the Central Government (₹4,52,908 crore) in all Government Companies and Corporations.

13 Government Companies under the Ministry of Petroleum and Natural Gas contributed ₹26,349 crore representing 35.86 *per cent* of the total dividend declared by all Government Companies and Corporations. Non-compliance with directive of Government of India on declaration of dividend by 49 CPSEs resulted in a shortfall of ₹11,488 crore in the payment of dividend for the year 2019-20.

**(Para 1.3.4)**

There were 181 CPSEs that incurred losses during the year 2019-20. The losses incurred by these companies during the year 2019-20 amounted to ₹68,434 crore compared to ₹40,835 crore in 2018-19.

**(Para 1.3.2)**

**Net Worth/Accumulated Loss**

There were 188 Government Companies and Corporations with accumulated losses of ₹1,74,596 crore as on 31 March 2020. Of these, the net worth of 90 companies had been completely eroded by their accumulated losses. As a result, the aggregate net worth of these companies had become negative to the extent of ₹1,15,829 crore as on 31 March 2020. Only 13 out of these 90 companies earned profit of ₹1,713 crore during the year 2019-20.

**(Para 1.3.3)**

**Rate of Real Return (RORR) on Government Investment**

Out of 607 CPSEs covered in this report, the Central Government has direct investment in 193 CPSEs. RORR in respect of 136 CPSEs (54 listed CPSEs and 82 unlisted CPSEs) has been computed since 2000-01 to compare the same with the conventional rate of return on historical cost. RORR was 11.68 *per cent* in comparison to conventional rate of return on historical cost of 32.82 *per cent* in 2019-20. RORR has shown an increasing trend till 2006-07 after which it started to decline and ranged between 12 *per cent* to 28 *per cent* during the preceding five years from 2015-16 to 2019-20.

The company-wise analysis of RORR for the preceding three years revealed that while listed companies have given RORR between 34 *per cent* and 53 *per cent* during the preceding three years, unlisted CPSEs have given negative returns ranging between three *per cent* and seven *per cent* during the same period.

**(Para 1.4.4)**

**Return on Investment (ROI) of Listed CPSEs**

ROI (Annual Average Rate) and ROI (Compounded Annual Growth Rate) of 54 listed CPSEs have been computed since 2000-01 to assess the benefit obtained from the investment done by the Central Government in these CPSEs. The consolidated ROI (Average Annual Rate) of these 54 CPSEs was 178.21 *per cent* during 2017-18, it reduced to 156.06 *per cent* in 2018-19 and 119.64 *per cent* in 2019-20. Similarly, ROI (CAGR) reduced from 21.46 *per cent* in 2017-18 to 19.74 *per cent* in 2018-19 and 17.45 *per cent* in 2019-20. Consolidated ROI (Annual Average Rate) indicated a continuous declining trend since 2007-08 from 476 *per cent* to 120 *per cent* in 2019-20.

**(Para 1.4.5)**

**Performance of listed CPSEs with private companies**

The performance of 36 listed CPSEs was compared with private companies with similar nature of business during the last five years on the five parameters (ROE, ROCE, EPS, P/E ratio and ICR). It was observed that out of total 36 CPSEs, ROE, ROCE, EPS, P/E ratio and ICR was on the lower side in 16, 17, 29, 28 and 17 CPSEs respectively in comparison to private companies in same sector.

**(Para 1.4.6)**

## II. Oversight Role of CAG

Out of 691 CPSEs (excluding six statutory corporations) under the audit jurisdiction of CAG, Financial Statements for the year 2019-2020 were received from 573 CPSEs by 31 December 2020. While Financial Statements were not due from 35 CPSEs, Financial Statements of 83 CPSEs were in arrear due to different reasons.

**(Para 2.3.2)**

Out of 573 CPSEs from which the Financial Statements were received by 31 December 2020, supplementary audit was undertaken in 334 CPSEs.

**(Para 2.5.1)**

Five CPSEs amended their Financial Statements and statutory auditors of 52 CPSEs revised their Audit Report before laying of the Financial Statements in Annual General Meeting. In addition, various comments highlighting inaccuracies in the Financial Statements were also issued.

**(Para 2.5.1.1 and Para 2.5.1.2)**

The financial impact of significant comments, issued on the financial statements of the selected CPSEs, on profitability and assets/liabilities was ₹4,185.75 crore and ₹15,376.62 crore, respectively.

A few Companies viz. IFCI Limited, ITI Limited, Mahanagar Telephone Nigam Limited, Tungabhadra Steel Products Limited, IRCON Davangere Haveri Highway Limited and Star Union Daiichi Life Insurance Company Limited did not take corrective action on the comments issued on financial statements in the past.

**(Para 2.5.1.3)**

Deviations from the provisions of Accounting Standards/Ind AS in preparation of the Financial Statements were noticed in seven CPSEs by the Statutory Auditors. CAG also pointed out such deviations in 21 CPSEs.

**(Para 2.6)**

Irregularities and deficiencies in the financial reports or in the reporting process observed during supplementary audit which were not material, were communicated to the Management of 194 CPSEs through 'Management Letter' for taking corrective action.

**(Para 2.7)**

## III. Disinvestment Process

The Department of Investment and Public Asset Management (DIPAM) realised an amount of ₹50,299 crore during the year 2019-20 through 15 transactions of disinvestment. During the audit, following issues were noticed:

(i) As against the Revised Estimates of ₹65,000 crore for disinvestment proceeds during the year 2019-20, the actual achievement was only ₹50,299 crore, thus registering a shortfall of 23 *per cent*.

**(Para 3.5)**

(ii) As part of strategic disinvestment, GoI sold (March 2020) its entire 66.67 *per cent* equity in Kamarajar Port Limited (KPL) to Chennai Port Trust (ChPT) for ₹2,383 crore. Due to poor financial condition, ChPT had to raise a loan of ₹1,775 crore at a rate of interest of eight *per cent* per annum for purchasing the GoI's stake in KPL. In addition to principal repayment, it put an additional interest burden of approximately ₹142 crore (per annum) on the ChPT. Thus, the proceeds realised by GoI from disinvestment of KPL was substantially borrowed from the market by ChPT, which defeated the spirit of disinvestment.

**{Para 3.7.2.3(a)}**

(iii) While carrying out the valuation of Kamarajar Port Limited, the Transaction Advisor considered 20 *per cent* company specific discount/ additional risk premium under different valuation methods. Similarly, private land held by THDC India

Limited at and around Dehradun was discounted at 40 *per cent* over market price. Audit is of the view that given the significant impact such assumptions have on the reserve price, justification and underlying reasoning should have been clearly documented.

**{Para 3.7.2.3(b)}**

(iv) The Cabinet approved (November 2018) the mechanism and procedure for sale of the enemy shares held under the custody of Custodian of Enemy Property for India. The sale proceeds of such enemy shares were to be deposited as disinvestment proceeds in the Government account. An amount of ₹1,881 crore was realized from sale of enemy shares during the year 2019-20. However, the share certificates of enemy shares in 45 listed companies and 145 unlisted companies were not available with the Custodian and duplicate share certificates were yet to be issued. Further, the unlisted shares in the physical form were yet to be dematerialised for their disposal.

**(Para 3.7.4)**

(v) As per the revised criteria approved by CCEA (December 2018) for listing of CPSEs in stock exchange viz. 'positive net worth, no accumulated losses and net profit in any one of the immediately three preceding financial years', the number of eligible CPSEs for listing was 133. In the financial year 2019-20, however, only two CPSEs were brought to market for listing, which shows slow progress in listing of CPSEs.

**(Para 3.8.1)**

## IV. Corporate Social Responsibility

The review covered 95 CPSEs (10 Maharatna, 11 Navratna, 47 Miniratna and 27 other companies) under the administrative control of various Ministries/Departments for a period of one year ended 31 March 2020. The following observations were made:

(i) All CPSEs were having minimum three Directors in the CSR committee in accordance with Section 135(1) of the Companies Act, 2013 except for Cotton Corporation of India Limited.

**(Para 4.5.1.1)**

(ii) Out of 95 CPSEs reviewed, 29 CPSEs allocated more than the minimum two *per cent* of average net profit of three immediate preceding financial years in pursuance of its CSR Policy and 60 CPSEs allocated the required minimum two *per cent*. While three CPSEs allocated less than two *per cent*, three CPSEs did not allocate funds on account of negative net profit under section 198 of Companies Act, 2013.

**(Para 4.5.2.1)**

(iii) Out of 95 CPSEs reviewed, 67 CPSEs incurred more than the required minimum two *per cent*, 10 CPSEs incurred the prescribed minimum two *per cent* and 18 CPSEs less than the minimum two *per cent* on CSR.

**(Para 4.5.2.2)**

(iv) In terms of CSR expenditure in the States, the highest CSR expenditure was in Odisha with ₹702.06 crore during 2019-20. It got the highest CSR funding successively for the third year since 2017-18. This amount of ₹702.06 crore was contributed by 37 CPSEs, of which nine Oil and Gas CPSEs alone contributed ₹350.75 crore during the year. Daman & Diu, Andaman & Nicobar, Chandigarh, Manipur, Nagaland and Mizoram were among the States which received least attention during the past three years.

**(Para 4.5.2.5)**

(v) Overhead expenditure exceeded the limit of five *per cent* in respect of three CPSEs, *viz.*, NMDC Foundation, National Minorities Development and Finance Corporation and Mineral Exploration Corporation Limited.

**(Para 4.5.2.7)**

(vi) Out of 95 CPSEs, 29 CPSEs incurred CSR expenditure less than the target of 60 *per cent*, 53 CPSEs achieved the prescribed target while eight CPSEs did not incur any expenditure. Data for the remaining five CPSEs was not available. Similarly, data in respect of CSR expenditure on common theme at aspirational districts was available for 85 CPSEs, of which 34 CPSEs incurred less than 25 *per cent* in the aspirational districts, 32 CPSEs incurred in excess of 25 *per cent* and 19 CPSEs did not incur any expenditure in aspirational districts.

**(Para 4.5.2.8)**

## V. Impact of Implementation of Indian Accounting Standards in selected Non-Banking Financial Companies

Ministry of Corporate Affairs, Government of India notified (16 February 2015) Indian Accounting Standards (Ind AS), converging the hitherto applicable Indian Generally Accepted Accounting Principles (IGAAP) with global standards, namely, International Financial Reporting Standards (IFRS). The Ind AS are mandatorily to be adopted by prescribed class of Companies w.e.f. 1 April 2016 in a phased manner and as per the roadmap laid down for implementation of Ind AS, Non-Banking Financial Companies (NBFCs) came in the third and last phase of implementation, w.e.f. 1 April 2018. Out of 35 NBFCs which have adopted Ind AS, an audit sample of 19 NBFCs was selected across different sectors based on net worth, profit after tax and turnover duly considering sector representation.

**(Para 5.1, 5.2 and 5.4)**

One of the NBFCs in the audit sample, SBI Pension Fund (P) Limited did not adopt Ind AS in the preparation of financial statements for 2018-19, though it was required to do so w.e.f. 01.04.2018 as per the implementation roadmap. However, after CAG's comment was issued (8 July 2019) at the time of certification of accounts pointing out the omission, Board of Directors decided to revise the financial statements as per Ind AS and the NBFC thereafter prepared the accounts as per Ind AS.

**(Para 5.6)**

Audit analysis of selected 19 NBFCs indicated that adoption of Ind AS by the NBFCs impacted profit after tax, revenue, total assets and net worth of the selected NBFCs, in the following manner:

(i) Profit after tax (PAT) increased in seven NBFCs and decreased in 10 NBFCs. There was no impact on PAT in respect of two NBFCs. Cumulatively, the net impact on PAT in the 19 NBFCs was decrease in PAT by ₹201.62 crore.

**(Para 5.8.1)**

(ii) Revenue increased in ten NBFCs and decreased in six NBFCs. There was no change in the revenue of three NBFCs. Cumulatively, the net impact on revenue in the 19 NBFCs was an increase in revenue by ₹672.9 crore.

**(Para 5.8.2)**

(iii) In respect of total assets, eight NBFCs recorded increase in assets and nine NBFCs recorded decrease in assets. There was no change in the assets of two NBFCs. Cumulatively, the net impact on total assets in the 19 NBFCs was a decrease in total assets by ₹6252.04 crore.

**(Para 5.8.3)**

(iv) Net worth of eight NBFCs increased and nine NBFCs decreased. There was no change in net worth in the case of two NBFCs. Cumulatively, the net impact on net worth in the 19 NBFCs was a decrease in net worth by ₹7921.73 crore.

**(Para 5.8.4)**

Hence the impact due to adoption of Ind AS was noticed across the financial statements of all the selected NBFCs. Major changes carried out pertained to fair valuation of financial instruments, accounting of deferred tax, application of Expected Credit Loss method and accounting of employee benefits through valuation of liabilities towards post-employment benefits.

**(Para 5.8)**

Adoption of Ind AS also impacted key operating and financial ratios which provide insight into a company's liquidity, operational efficiency and profitability.

**(Para 5.8.6.1)**

**Recommendations**

1. **In order to validate the assumptions/ judgements made in the valuation process in strategic disinvestments, and to draw requisite assurance that the same were reasonable, the underlying justification and reasoning may be clearly articulated**

**and consistently documented as they have a significant impact on the reserve price and valuation of assets.**

**(Para 3.7.2.4)**

2. **The mechanism of Independent External Monitor needs to function as per its terms of reference so that it can serve its intended purpose of overseeing the transaction process of strategic disinvestments as they are being undertaken, and vet the valuation of the CPSEs/ units, on a concurrent basis.**

**(Para 3.7.2.5)**

3. **Steps may be taken expeditiously to finalise the process of issue of duplicate shares and dematerialisation of shares, towards monetisation of enemy shares within a specified timeframe.**

**(Para 3.7.4)**

4. **Ministry of Corporate Affairs may issue clarification to CPSEs for following uniform practice in calculating the net profit under Section 198 of the Companies Act, 2013 for determining the quantum of CSR allocation.**

**{Para 4.5.2.1(a)}**

5. **Ministry of Corporate Affairs may issue directives to CPSEs for following a uniform practice regarding inclusion of salary in the administrative overheads as prescribed in Rule 4(6) of Companies (CSR Policy) Rules, 2014.**

**(Para 4.5.2.7)**