

CHAPTER - IV

FUNCTIONING OF STATE PSUs (NON-POWER SECTOR)

PART - II

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Introduction

4.1 Telangana State was formed on 02 June 2014¹²¹, following the bifurcation of erstwhile composite State of Andhra Pradesh (AP) into Telangana and the residual State of AP as per the AP Reorganisation Act, 2014. As on 31 March 2018, there were 67 State Public Sector Undertakings (PSUs) which were related to sectors other than Power Sector. These State PSUs (Non-Power Sector) were incorporated between 1937-38¹²² and 2017-18¹²³ and included 64 Government Companies and three Statutory Corporations¹²⁴. The Government Companies further included five¹²⁵ subsidiary companies owned by other Government Companies, two¹²⁶ Joint Venture Companies (JVC) of other Government Companies and 20¹²⁷ Inactive Companies. One Government Company, namely Infrastructure Corporation of Andhra Pradesh Limited (INCAPL) and 19¹²⁸ Inactive Companies were still under demerger process.

The State Government provides financial support to the PSUs in the shape of equity, loans and grants/ subsidy from time to time. Of the 47 working PSUs, the State Government invested funds in 38 PSUs. Out of the remaining nine PSUs, in seven PSUs¹²⁹ equity capital was contributed by other Government Companies/ Institution, one PSU¹³⁰ has no equity capital and the accounts/ information of one PSU¹³¹ was not due as on March 2018.

Contribution to Economy of the State

4.2 A ratio of turnover of the State PSUs (Non-Power Sector) to the Gross State Domestic Product (GSDP) shows the extent of activities of the State PSUs (Non-Power Sector) in the State economy. In Telangana, 47 working State PSUs (Non-Power Sector) contributed to 2.24 *per cent* of the GSDP in

¹²¹ Date of formation of Telangana State/ Effective Date of bifurcation of Government Companies

¹²² The Nizam Sugars Limited.

¹²³ 27 State PSUs (Non-Power Sector) comprising of 24 Government Companies and three Statutory Corporations were demerged between 2014-15 to 2017-18.

¹²⁴ Telangana State Warehousing Corporation, Telangana State Financial Corporation and Telangana State Road Transport Corporation.

¹²⁵ Maheswaram Science Park Limited, eCity Manufacturing Cluster Limited, Fab City SPV (India) Private Limited, Zaheerabad NIMZ Limited and Hyderabad Pharma City Limited as subsidiaries of Telangana State Industrial Infrastructure Corporation Limited.

¹²⁶ Damodhara Minerals Private Limited and TSMDC-SCCL Suliyari Coal Company Limited as JVC of Telangana State Mineral Development Corporation Limited.

¹²⁷ Includes TSMDC-SCCL Suliyari Coal Company Limited which is a JVC of Telangana State Mineral Development Corporation Limited.

¹²⁸ Excluding TSMDC-SCCL Suliyari Coal Company Limited which is exclusive to Telangana.

¹²⁹ Five subsidiaries, one JVC namely, Damodhara Minerals Private Limited and one PSU namely, Hyderabad Growth Corridor Limited.

¹³⁰ T-Works Foundation.

¹³¹ Telangana Rajiv Swagruha Corporation Limited incorporated on 01-03-2018.

2017-18 (Table 4.1). The compounded annual growth¹³² of GSDP of Telangana was 14.22 per cent during the years 2014-18. As against this, the turnover of working PSUs recorded higher compounded annual growth of 348.96 per cent due to increase (90 times) in the turnover owing to increase (from 21 to 47) in the number of PSUs incorporated during this period.

The details of turnover of the working State PSUs (Non-Power Sector) and GSDP of Telangana during the four years period ending March 2018 is given below:

Table 4.1: Details of turnover of working PSUs vis-a-vis GSDP of Telangana

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18
Total Number of working PSUs	21	34	39	47
Number of working PSUs which are required to furnish their Accounts/ information upto 2017-18 ¹³³	17	34	38	46
Number of working PSUs which furnished their Accounts/ information upto 2017-18	16	25	24	28
Turnover	186.17	1111.64	12116.79	16847.81
Percentage change of turnover over previous year	-	497.09	990.00	39.05
GSDP of Telangana	505849.00	577902.00	659676.00	753804.00
Percentage change of GSDP over previous year (₹ 4,51,580 for 2013-14)	12.02	14.24	14.15	14.27
Percentage of Turnover to GSDP of Telangana	0.04	0.19	1.84	2.24

Source: Turnover figures as per information furnished by the PSUs and GSDP figures as per data of Ministry of Statistics and Program Implementation, Government of India

Investment in State PSUs (Non-Power Sector)

4.3 There are 32 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 31 PSUs which function in a competitive environment with private sector undertakings. The position of these State PSUs (Non-Power Sector) have therefore been analyzed under two major classifications viz., those in the social sector and those functioning in competitive environment. Besides, four¹³⁴ PSUs have been incorporated to perform certain specific activities on behalf of the Government and have been categorised under 'others'. Details of total investment in 67 State PSUs (Non-Power Sector) in the form of equity and long term loans as on 31 March 2018 are detailed in *Annexure 3*.

¹³² Rate of Compounded Annual Growth ((value of 2017-18/ value of 2014-15) ^ ((1/ 3years) -1) * 100) where turnover and GSDP for the year 2014-15 were ₹ 186.17 crore and ₹ 5,05,849 crore respectively.

¹³³ PSUs incorporated between January to March of a year can submit their first accounts for a period of 15 months i.e, up to March of next year. Hence, the number of PSUs which are required to furnish accounts is less than the total number of PSUs during the year.

¹³⁴ Telangana State Beverages Corporation Limited, Telangana State Aviation Corporation Limited, Telangana State Police Housing Corporation Limited and Telangana State Technology Services Limited incorporated to perform collection of excise revenue for GoT, scheduled air transport for GoT, buildings construction and civil engineering works for Police Department, GoT and procurement of hardware and software for GoT respectively.

4.4 The sector-wise summary of investment in State PSUs (Non-Power Sector) as on 31 March 2018 is given below:

Table 4.2: Sector-wise investment in PSUs

(₹ in crore)

Sector	Number of PSUs	Investment		
		Equity*	Long term loans*	Total
Social Sector	32	179.50	36756.76	36936.26
Competitive Environment	31	175.74	3860.12	4035.86
Others	4	0.20	0	0.20
Total	67	355.44	40616.88	40972.32

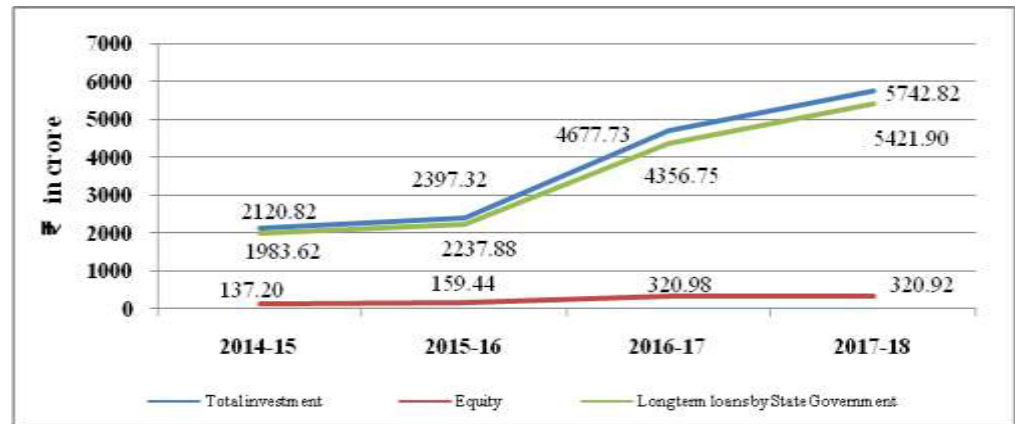
Source: Based on information furnished by PSUs

* The Equity and long-term loans include paid-up capital and loans of Central Government, State Governments and others including Public Financial Institutions and Commercial Banks

The total investment as on 31 March 2018 in the State PSUs (Non-Power Sector) was ₹ 40,972.32 crore consisting of ₹ 355.44 crore as equity and ₹ 40,616.88 crore as long term loans. Out of this, the State Government's investment was ₹ 5,742.82 crore (14 per cent) in 56 State PSUs (Non-Power Sector)¹³⁵ comprising ₹ 320.92 crore capital and ₹5,421.90 crore long-term loans.

The status of investment made by the State Government in the 56 State PSUs (Non-Power Sector) during the period 2014-15 to 2017-18 is as follows:

Chart 4.1: Total investment of State Government in PSUs



Source: Based on information furnished by PSUs

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

4.5 During the year 2017-18, no disinvestment, restructuring or privatization of State PSUs (Non-Power Sector) was done by the State Government. One PSU namely, the INCAPL was still under demerger though the De-merger Plan was approved (May 2015) by the Expert Committee¹³⁶.

¹³⁵ 38 Working PSUs and 18 Inactive PSUs.

¹³⁶ Sheela Bhide Committee was appointed (May/ June 2014) by the State Government of erstwhile AP to review and approve the demerger proposals of all the Government Companies, Corporations and Entities notified in Schedule 9 of the AP Reorganisation Act, 2014.

Budgetary Support to State PSUs (Non-Power Sector)

4.6 The State Government provides financial support to PSUs in various forms through annual budget. The summarized details of budgetary outgo in respect of State PSUs (Non-Power Sector) for the last four years ending March 2018 are as follows:

Table 4.3: Details regarding budgetary support to PSUs

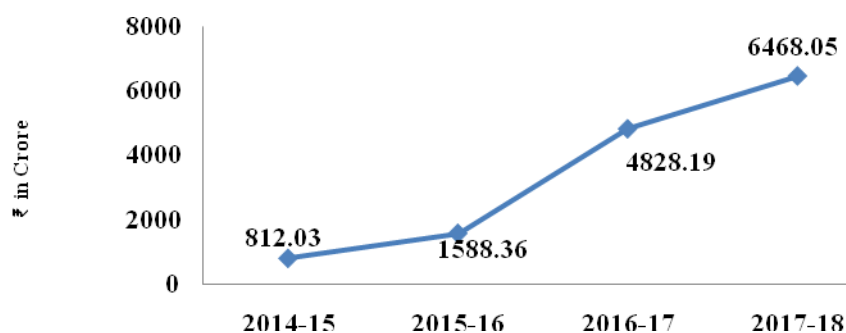
(₹ in crore)

Particulars	2014-15		2015-16		2016-17		2017-18	
	Number of PSUs	Amount	Number of PSUs	Amount	Number of PSUs	Amount	Number of PSUs	Amount
Equity	8	6.85	14	1.63	5	105.08	10	10.47
Loans	1	454.57	1	176.52	2	110.00	4	1144.86
Grants/ Subsidy	6	350.61	14	1410.21	15	4613.11	21	5312.72
Total Outgo¹³⁷	9	812.03	21	1588.36	18	4828.19	27	6468.05
Guarantees issued	0	0	0	0	5	30361.21	7	36570.69
Guarantee Commitment	0	0	0	0	6	35779.46	7	47910.75

Source: Based on information furnished by PSUs

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

Chart 4.2: Budgetary outgo towards Equity, Loans and Grants/ Subsidies



Source: Based on information furnished by PSUs

During 2017-18, the equity addition of ₹ 10.47 crore was mainly on account of equity infused (₹ 5.56 crore) in seven¹³⁸ out of nine¹³⁹ State PSUs (Non-Power Sector) newly incorporated during the year. The grants/ subsidy of ₹ 5,312.72 crore given by the State Government was primarily under the schemes of subsidised food supplies, free/ concessional travel and subsidised housing. Besides, it also included grants/ subsidy provided for construction of Kaleshwaram Irrigation Project Limited.

¹³⁷ The figure represents number of PSUs which have received outgo from budget under one or more heads i.e. equity, loans and grants/ subsidies.

¹³⁸ Hyderabad Road Development Corporation Limited, Musi River Front Development Corporation Limited, Telangana Fiber Grid Corporation Limited, Telangana Industrial Health Clinic Limited, Telangana State Film Development Corporation Limited (demerged unit), Telangana Water Resources Development Corporation Limited and Telangana State Most Backward Classes Development Corporation.

¹³⁹ In addition to the above seven PSUs, two more PSUs namely, T-works Foundation (no equity PSU) and Telangana Rajiv Swagruha Corporation Limited (not due) were incorporated during 2017-18.

4.7 State Government helps the PSUs to raise loans from banks and Public Financial Institutions by giving guarantee for repayment of principal and interest. The outstanding guarantee commitment given for State PSUs (Non-Power Sector) increase by 33.91 *per cent* from ₹ 35,779.46 crore in 2016-17 to ₹ 47,910.75 crore in 2017-18. The guarantee commitment in respect of the Kaleswaram Irrigation Project Corporation Limited (₹ 33,017.36 crore) and the Telangana Drinking Water Supply Corporation Limited (Mission Bhagiratha; ₹ 6,785.14 crore) accounted for 83.08 *per cent* of the total outstanding guarantee commitment.

Reconciliation with Finance Accounts

4.8 The figures in respect of equity, loans and guarantees outstanding as per records of PSUs should agree with that of the figures appearing in the Finance Accounts of the Government of Telangana. In case the figures do not match, the concerned PSUs and the Finance Department should carry out reconciliation of the differences. The position in this regard with regard to 47 working State PSUs (Non-Power Sector) as on 31 March 2018 is given below:

Table 4.4: Equity, loans and guarantees outstanding as per Finance Accounts vis-à-vis records of PSUs

(₹ in crore)

Amount outstanding in respect of	No. of PSUs	As per Finance Accounts	As per records of PSUs	Difference
(A)	(B)	(C)	(D)	(E) = (C)-(D)
Equity [§]	11	101.95	42.17	59.78
Loans [§]	5	4128.90	4697.10	(-)568.20
Guarantees	11	28670.19	47175.68	(-)18505.49

Source: Based on Finance Accounts and information furnished by PSUs

§ Information in respect of only those State PSUs (Non-Power Sector) whose equity and loans were bifurcated on demerger as per finance accounts is considered

It was observed that the major differences existed with respect to the guarantees given by the State Government for raising loans by the working State PSUs (Non-Power Sector). Such differences occurred in respect of 21 out of 47 PSUs as shown in *Annexure 4*. The differences in equity, loans and guarantees were pending reconciliation since long period. The matter was taken up (December 2018) with the State Government and replies were awaited. It is 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 (Non-Power Sector)

4.9 Out of 67 State PSUs (Non-Power Sector) under the audit purview of CAG as of 31 March 2018, there were 20 Inactive PSUs and 47 working PSUs comprising of 43 Government Companies, three Statutory Corporations and one Government Company under demerger. Out of three Statutory Corporations, the CAG is the sole auditor of one Statutory Corporation (Telangana State Road Transport Corporation). The status of timelines followed by the 47 working State PSUs (Non-Power Sector) in preparation of accounts is as detailed under:

Timeliness in preparation of accounts by the working PSUs

4.9.1 As prescribed under the Companies Act 2013, all the working State PSUs (Non-Power Sector) were required to submit accounts for the year 2017-18 by 30 September 2018. Out of 43 working Government Companies only three Government Companies, however, submitted their accounts for the year 2017-18 for audit by CAG on or before 30 September 2018, while all the three Statutory Corporations did not submit their first accounts as on 30 September 2018. Details of arrears in submission of accounts by working State PSUs (Non-Power Sector) as on 30 September 2018 calculated from the date of their incorporation is given below:

Table 4.5: Position of submission of accounts by working PSUs

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18
1	Total Number of PSUs	21	34	39	47
2	Total Number of working PSUs which are required to furnish their accounts	17	34	38	46
3	Number of accounts submitted during current year	5	4	14	16
4	Number of PSUs which finalised accounts for the current year	2	2	3	3
5	Number of previous year accounts finalised during current year	3	2	11	13
6	Number of PSUs with accounts in arrears	15	32	35	43
7	Number of accounts in arrears	25	55	79	106*
8	Extent of arrears	1 to 6 years	1 to 7 years	1 to 4 years	1 to 5 Years

Source: Based on accounts finalized by PSUs as on 30 September of the relevant years

* Actual arrears during 2017-18 was 109, as one PSU namely TSMDC-SCCL Suliyari Coal Company Limited became Inactive during 2017-18, its accounts in arrears (three) was reduced from total arrears for working PSUs and considered in arrears of Inactive PSUs

Of the 47 working State PSUs (Non-Power Sector), 15 PSUs finalised 16 annual accounts during the period from 1 October 2017 to 30 September 2018 which included 3 annual accounts for the year 2017-18 and 13 annual accounts of previous years. Further, 106 annual accounts were in arrears pertaining to 43 State PSUs (Non-Power Sector), as detailed in *Annexure 5*. 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. The arrears in accounts persists though the concerned Departments are being informed regularly (August 2018).

During 2017-18, the State Government provided budgetary support of ₹ 6,465.05 crore (Equity of ₹ 7.47 crore, Loans of ₹ 1,144.86 crore and Grants/ Subsidies of ₹ 5,312.72 crore) to 26 of the 43 working State PSUs (Non-Power Sector) which did not finalise their accounts by 30 September 2018. The PSU wise details of investment made by State Government during the years for which accounts are in arrears are shown in *Annexure 5*.

In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred had been properly accounted for and the purpose for which the amount was invested

was achieved. The State Government's investment in these State PSUs (Non-Power Sector), therefore, remained outside the oversight of State Legislature.

Timeliness in preparation of accounts by Inactive PSUs

4.9.2 There were arrears in finalisation of accounts by 20 Inactive PSUs (including 19 PSUs yet to be demerged), details of which are given below:

Table 4.6: Position relating to arrears of accounts in respect of Inactive PSUs

Sl. No.	Name of non-functional companies	Last financial Year upto which Accounts finalised	Period for which accounts were in arrears
1.	A.P Small Scale Industrial Development Corporation Limited	2001-02	2002-03 to 2017-18
2.	Andhra Pradesh Essential Commodities Corporation Limited	2013-14 (14M)	2014-15 to 2017-18
3.	Andhra Pradesh Fisheries Corporation Limited	1.4.02 to 9.5.02	2002-03 (10-5-2002 to 31-3-2002) to 2017-18
4.	Allwyn Auto Limited	1994-95	1995-96 to 2017-18
5.	Allwyn Watches Limited	1998-99	1999-00 to 2017-18
6.	Andhra Pradesh Automobile Tyres & Tubes Limited	1992-93	1993-94 to 2017-18
7.	Andhra Pradesh Dairy Development Corporation Limited	2013-14 (14 M)	2014-15 to 2017-18
8.	Andhra Pradesh Electronics Development Corporation Limited	2002-03	2003-04 to 2017-18
9.	Andhra Pradesh Steels Limited	1991-92	1993-94 to 2017-18
10.	Apronix Communications Limited	NA	NA
11.	Golkonda Abrasives Limited	1997-98	1998-99 to 2017-18
12.	Hyderabad Chemicals and Fertilizers Limited	1984-85	1985-86 to 2017-18
13.	Krishi Engineering Limited	1984-85	1985-86 to 2017-18
14.	Marine and Communication Electronics (India) Limited	1992-93	1993-94 to 2017-18
15.	PJ Chemicals Limited	1989-90	1990-91 to 2017-18
16.	Proddatur Milk Foods Limited	1983-84	1984-85 to 2017-18
17.	Republic Forge Company Limited	1991-92	1992-93 to 2017-18
18.	Southern Transformers and Electricals Limited	1993-94	1994-95 to 2017-18
19.	TSMDC-SCCL Suliyari Coal Company Limited	First Accounts not submitted	2014-15 to 2017-18
20.	Vidyut Steels Limited	1985-86	1986-87 to 2017-18

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

Placement of Separate Audit Reports of Statutory Corporations

4.10 Separate Audit Reports (SARs) are the audit reports of the CAG on the accounts of Statutory Corporations. These reports are to be laid before the State Legislature as per the provisions of the respective Acts. Out of the three working Statutory Corporations, two Corporations had not submitted their accounts since inception by 30 September 2018. The Telangana State Finance Corporation had however, finalised its accounts up to 2017-18 as single entity along with Andhra Pradesh State Finance Corporation. The same is reflected in the CAG Report of Andhra Pradesh.

Impact of non-finalisation of accounts by State PSUs (Non-Power Sector)

4.11 As pointed out in paragraph 4.9, the delay in finalisation of accounts is in violation of the provisions of the relevant Statutes and entails risk of fraud and leakage of public money. In view of the above state of arrears of accounts, the actual contribution of the State PSUs (Non-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 State Government should issue necessary directions to the Administrative Departments to set targets for individual PSUs and strictly monitor the clearance of arrears. The State Government may also look into the constraints in preparing the accounts of the PSUs and consider outsourcing the work relating to preparation of accounts, wherever the staff is inadequate or lacks expertise.

Performance of State PSUs (Non-Power Sector)

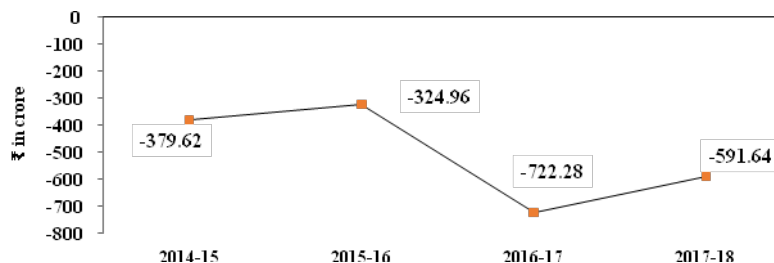
4.12 The financial position and results of the 67 PSUs as on 31 March 2018 are detailed in *Annexure 6*.

The PSUs are expected to yield reasonable return on investment made by State Government. 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

4.13 The Return on Investment (RoI) is the percentage of profit or loss to the total investment. The overall position of Profit earned/ losses incurred by the 47 working PSUs during 2014-15 to 2017-18 is depicted below in Chart 4.3:

Chart 4.3: Profit earned/ Losses incurred by working State PSUs (Non-Power Sector)



Source: Based on accounts and information furnished by PSUs

During 2017-18, out of the 28 PSUs which furnished their accounts/ information, 12 PSUs earned profits and 12 PSUs incurred losses. Further, four PSUs made nil profits which included one working PSU namely, Telangana State Beverages

Corporation Limited which prepared its accounts on “no profit no loss”¹⁴⁰ basis. The increase in losses during 2016-17 and 2017-18 was mainly on account of losses of the Telangana State Road Transport Corporation¹⁴¹.

Major profit making PSUs during the year 2017-18 were, Telangana State Forest Development Corporation Limited (₹ 94.79 crore), Telangana State Minerals Development Corporation Limited (₹ 27.08 crore), Telangana State Warehousing Corporation (₹ 17.51 crore) and Telangana State Technology Services Limited (₹ 15.14 crore) while Telangana State Road Transport Corporation incurred heavy losses (₹ 748.85 crore).

Out of the 12 profit making PSUs, four PSUs namely, Pashamylaram Textiles Park (₹ 0.13 crore), Telangana State Mineral Development Corporation Limited (₹ 27.08 crore), The Nizam Sugars Limited (₹ 0.01 crore) and Telangana State Warehousing Corporation (₹ 17.51 crore) are classified under Competitive Sector.

Out of the remaining eight PSUs, seven are in Social Sector and one PSU namely, Telangana State Technology Services Limited (TSTSL) is classified under ‘Others’ category. Only the TSTSL is engaged in contract supply (IT equipment & software) works majorly on nomination basis.

It is further observed that all the Social Sector PSUs are merely implementing the Government sponsored schemes wherein the margin/ profit element is subsumed as part of scheme grants/ subsidy released by the Government through budget annually. However, the profit making PSUs in Competitive Sector and Others Sector did not receive any budgetary grant/ subsidy during 2017-18.

The position of State PSUs (Non-Power Sector) which earned profit/ incurred loss during 2014-15 to 2017-18 is given below:

Table 4.7: Number of working PSUs which earned profit/ incurred loss

Financial year	Total number of State PSUs (Non-Power Sector) which furnished their accounts/ information	Number of PSUs which earned profits during the year	Number of PSUs which incurred loss during the year	Number of PSUs which earned nil profit during the year
2014-15	16	6	9	1
2015-16	25	14	8	3
2016-17	24	9	13	2
2017-18	28	12	12	4

Source: Based on accounts and information furnished by PSUs

Return on Investment on the basis of historical cost of investment

4.14 An analysis of the earnings *vis-a-vis* investments was carried out to assess the profitability of these PSUs. Out of 47 working PSUs, the State Government infused funds in the form of equity, long term loans and grants/ subsidies in 39 PSUs¹⁴² only. As on 31 March 2018, the State Government invested ₹ 5,512.87

¹⁴⁰ Any difference in expenditure over income was provided by Government.

¹⁴¹ Incorporated on 01 June 2016.

¹⁴² In addition to investment in equity and loans in 38 working PSUs, the State Government gave (2017-18) a grant of ₹ 3.00 crore to Zaheerabad NIMZ Limited which is a subsidiary of Telangana State Industrial Infrastructure Corporation Limited.

crore in 38 working PSUs comprising equity ₹ 264.31 crore and long term loans ₹ 5,248.56 crore and a grant of ₹ 3.00 crore to Zaheerabad NIMZ Limited which is a subsidiary of Telangana State Industrial Infrastructure Corporation Limited.

The Return on Investment (RoI) from the State PSUs (Non-Power Sector) has been calculated on the total investment (investment includes State, Central Governments & Others). In case of PSUs formed due to demerger, the initial investment in the equity and loans is considered at the carrying amounts as on the date of their incorporation. Further, apportionment of assets and liabilities between the successor demerged PSUs (as discussed in **Para 1.5** of Chapter-I) resulted in a Reorganisation/ Demerger Adjustment Reserve (surplus/ deficit) and the same is considered as investment of the State Government since it represented the difference between the balance sheet figures of assets and liabilities as on the date of bifurcation of the erstwhile State of AP. Hence, the investment in equity capital (equity net of Re-organisation/ Demerger Adjustment Reserve) of State Government in the State PSUs (Non-Power Sector) as on the date of bifurcation/ date of incorporation has been considered as the initial investment made by the State Government. In the case of loans, only interest free loans are considered as investment since the State Government does not receive any interest on such loans and are therefore, of the nature of equity investment by State Government except to the extent that the loans are liable to be repaid as per terms and conditions of repayment. 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.

Thus, investment of State Government in these 38 working PSUs has been arrived at by considering the equity and the interest free loans and in cases where interest free loans have been repaid by the PSUs, the value of investment based on historical cost was calculated on the reduced balances of interest free loans over the period.

As on 31 March 2018, the equity of the State government in 38 working PSUs was ₹ 264.31 crore. Out of the outstanding long term loans of ₹ 5,248.56 crore, ₹ 2,215.22 crore were interest free loans based on the reduced balances of interest free loans over the period. Considering initial investment of ₹ 2,235.95 crore made by the State Government in the 38 working State PSUs (Non-Power Sector) in the form of equity of ₹ 265.82 crore (equity of ₹ 211.00 crore as on the date of bifurcation/ date of incorporation *plus* the Reorganisation/ Demerger Adjustment Reserve of ₹ 54.82 crore *minus* accumulated losses of ₹ Nil) and interest free loans of ₹ 1,970.13 crore, additional equity of ₹ 2.55 crore and interest free loans of ₹ 245.09 crore infused during the subsequent years, the investment of State Government in these 38 working PSUs on the basis of historical cost stood at ₹ 2,483.59 crore¹⁴³. The investment of Central Government and Others in the State PSUs (Non-Power Sector) was in the form equity of ₹ 26.78 crore and ₹ 2.58 crore respectively.

The sector-wise return on investment on the basis of historical cost of investment for the period 2014-15 to 2017-18 is as given in Table 4.8:

¹⁴³ ₹ 265.82 crore + ₹ 1,970.13 crore + ₹ 2.55 crore + ₹ 245.09 crore.

Table 4.8: Return on the basis of historical cost of investment**(₹ in crore)**

Financial Year	Investment on historical cost basis				Total Earnings	Return on Investment (in per cent)
	State	Central	Others	Total		
Social Sector						
2014-15	1796.31	0	0	1796.31	-353.93	-19.70
2015-16	2051.70	1.33	0	2053.03	-383.11	-18.66
2016-17	2145.19	1.33	0	2146.52	-2.67	-0.12
2017-18	2150.72	1.33	0	2152.05	98.28	4.57
Competitive Sector						
2014-15	260.83	0	0.71	261.54	-25.69	-9.82
2015-16	261.70	0	2.58	264.28	58.11	21.99
2016-17	262.74	25.45	2.58	290.77	-729.30	-250.82
2017-18	332.77	25.45	2.58	360.80	-705.06	-195.42
Others						
2014-15	0.05	0	0	0.05	0	0
2015-16	0.15	0	0	0.15	0.04	26.67
2016-17	0.15	0	0	0.15	9.69	6460.00
2017-18	0.10	0	0	0.10	15.14	15140.00
Total						
2014-15	2057.19	0	0.71	2057.90	-379.62	-18.45
2015-16	2313.55	1.33	2.58	2317.46	-324.96	-14.02
2016-17	2408.08	26.78	2.58	2437.44	-722.28	-29.63
2017-18	2483.59	26.78	2.58	2512.95	-591.64	-23.54

Source: Based on accounts and information furnished by PSUs

The return on investment is worked out by dividing the total earnings by the cost of the investments. The overall return earned on State Government investment was negative in all the years during the period 2014-15 to 2017-18 and ranged between (-) 14.05 per cent and (-) 29.99 per cent. The negative returns were mainly due to heavy losses incurred by Hyderabad Metro Rail Limited (HMRL) in social sector (₹ -354.14 crore in 2014-15 and ₹ -382.67 crore in 2015-16) and Telangana State Road Transport Corporation (TSRTC) in competitive sector (₹ -749.02 crore in 2016-17 and ₹ -748.85 crore in 2017-18). Further, the profits earned by four PSUs¹⁴⁴ during this period was also off-set by the losses incurred by the HMRL and TSRTC due to which the total earnings remained negative.

The return on investment from social sector showed improving trend (-19.70 per cent in 2014-15 to 4.57 per cent in 2017-18). The returns from 'Others' sector was relatively high mainly due to lower investment in this sector and increase in turnover (₹ 16.16 crore in 2016-17 to ₹ 58.61 crore in 2017-18) of Telangana State Technology Services Limited which secured orders from Government Departments on nomination basis.

The return on State Government investment from competitive sector showed a fluctuating trend. The returns from competitive sector reduced substantially from (-) 9.85 per cent in 2014-15 to (-) 277.57 per cent in 2016-17 mainly due to the losses of TSRTC and decrease in profit of Telangana State Mineral

¹⁴⁴ Telangana State Industrial Infrastructure Corporation Limited, Telangana State Mineral Development Corporation Limited, Telangana State Warehousing Corporation and Telangana Technology Services Limited.

Development Corporation Limited and Telangana State Warehousing Corporation. This Sector recorded improved returns during 2017-18 (-211.88 per cent) which can be mainly attributed to the increase in investment in TSRTC by way of interest free loans (₹ 70.00 crore) and increased profits of Telangana State Minerals Development Corporation Limited (₹ 27.08 crore) and Telangana State Warehousing Corporation (₹ 17.51 crore).

Erosion of Net worth

4.15 Net worth means the sum of the paid-up capital *plus* free reserves and surplus minus accumulated losses and deferred revenue expenditure. Essentially it is a measure of what an entity is worth to the owners. A negative net worth indicates that the entire investment by the owners has been wiped out by accumulated losses and deferred revenue expenditure. The capital investment¹⁴⁵ and accumulated losses of these 47 working State PSUs (Non-Power Sector)¹⁴⁶ as on 31 March 2018 was ₹ 242.00 crore and ₹ 3,771.25 crore respectively resulting in negative net worth of ₹ 3,529.80 crore after deducting deferred revenue expenditure of ₹ 0.55 crore as detailed in **Annexure 6**. Analysis of investment and accumulated losses disclosed that net worth was fully eroded in 11 out of these 47 working PSUs. The net worth of these 11 PSUs was ₹ (-) 4,248.26 crore as their capital investment and accumulated losses were ₹ 120.37 crore and ₹ 4,368.63 crore respectively. Of these 11 PSUs, the maximum net worth erosion was in Telangana State Road Transport Corporation (₹ 3,953.26 crore), The Nizam Sugars Limited (₹ 213.19 crore), Telangana State Irrigation Development Corporation Limited (₹ 24.47 crore), Telangana State Leather Industries Promotion Corporation Limited (₹ 38.35 crore) and Telangana State Minorities Finance Corporation (₹ 14.46 crore). Of these 11 PSUs where net worth had been fully eroded, two¹⁴⁷ PSUs earned profit during the year 2017-18 although there were substantial accumulated losses.

The following table indicates total paid up capital, total accumulated profit/loss, and total net worth of the 38 working PSUs where the State Government has made direct investment.

Table 4.9: Net worth of 38 PSUs during 2014-15 to 2017-18

(₹ in crore)

Year	Paid up Capital at end of the year	Accumulated Loss (-) at end of the year	Deferred revenue Expenditure	Net worth
Social Sector				
2014-15	30.75	-1182.20	0.00	-1151.45
2015-16	20.62	-1499.84	0.01	-1479.23
2016-17	115.44	120.00	0.00	235.44
2017-18	119.95	192.35	0.00	312.30

¹⁴⁵ Includes paid-up capital of Central Government, State Government and Other Parties.

¹⁴⁶ Including 38 working PSUs where the State Government had invested funds in the form of equity and interest free loans.

¹⁴⁷ The Nizam Sugars Limited and Telangana State Minorities Finance Corporation.

Year	Paid up Capital at end of the year	Accumulated Loss (-) at end of the year	Deferred revenue Expenditure	Net worth
Competitive Sector				
2014-15	41.93	-3.08	0.00	38.85
2015-16	44.71	226.35	0.00	271.06
2016-17	121.74	-3273.34	0.00	-3151.60
2017-18	121.74	-3982.62	0.55	-3861.43
Others				
2014-15	0.05	0.00	0.00	0.05
2015-16	0.15	0.04	0.00	0.19
2016-17	0.15	9.73	0.00	9.88
2017-18	0.10	23.06	0.00	23.16
Total				
2014-15	72.73	-1185.28	0.00	-1112.55
2015-16	65.48	-1273.45	0.01	-1207.98
2016-17	237.33	-3143.61	0.00	-2906.28
2017-18	241.79	-3767.21	0.55	-3525.97

Source: Based on accounts and information furnished by PSUs

It can be seen that the net worth of the 38 working PSUs where State Government had infused funds deteriorated from ₹ -1,112.55 crore in 2014-15 to ₹ -3,525.97 crore in 2017-18. Out of 38 working PSUs during 2017-18, net worth of 8¹⁴⁸ PSUs was fully eroded.

Dividend Payout

4.16 As per the guidelines issued by the Public Enterprises Department of the State Government, a PSU shall declare or pay dividend for any financial year out of the profits for that year arrived at after providing for depreciation in accordance with the Companies Act. A minimum rate of dividend on the paid up share capital or the profit for the year was, however, not prescribed.

During the period 2014-15 to 2017-18, the number of PSUs which earned profits ranged between four and 12 of which only one PSU namely, Telangana State Warehousing Corporation declared/ paid dividend since inception of the Telangana State till 2017-18. It was observed that the Dividend Payout Ratio reduced from 5.35 *per cent* in 2015-16 to 1.45 *per cent* in 2017-18 as the equity infused by the State Government increased substantially during 2016-18.

Dividend Payout Ratio relating to 38 PSUs where equity was infused by the State Government during the period from 2014-15 to 2017-18 is shown in Table 4.10:

¹⁴⁸ Telangana Fiber Grid Corporation Limited, Telangana Overseas Manpower Company Limited, Telangana State Irrigation Development Corporation Limited, Telangana State Leather Industries Promotion Corporation Limited, Telangana State Minorities Finance Corporation, Telangana Water Resources Development Corporation Limited, The Nizam Sugars Limited and Telangana State Road Transport Corporation.

Table 4.10: Dividend Payout of 38 PSUs

(₹ in crore)

Year	PSUs where equity is infused by State Government		PSUs which earned profit during the year		PSUs which declared/paid dividend during the year		Dividend Payout Ratio	
	No. of PSUs	Total Equity	No. of PSUs	Total Equity	No. of PSUs	Amount of Dividend	As % of Total Equity	As % of Equity of Profit Making PSUs
1	2	3	4	5	6	7	8 (7/3*100)	9 (7/5*100)
2014-15	11	72.73	4	12.98	0	0	0	0
2015-16	20	65.48	12	63.99	1	3.50	5.35	5.47
2016-17	21	237.33	9	42.79	1	2.00	0.84	4.67
2017-18	23	241.79	12	169.28	1	3.50	1.45	2.07

Source: Based on accounts and information furnished by PSUs

Return on Equity

4.17 Return on Equity is a measure of financial performance to assess how effectively management is using shareholders' fund to create profit 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 sold and all debts paid. A positive shareholders fund reveals that the company has enough assets to cover its liabilities while negative shareholders' funds means that liabilities exceed assets.

In respect of 38 working PSUs of Telangana, where funds had been infused by the State Government, both the Shareholders' fund and the Net Income were negative during all the four years period ended 2017-18 as given in the table below:

Table 4.11: Return on Equity relating to 38 working PSUs

(₹ in crore)

Year	Shareholders' Fund	Net Income/Total Earnings for the year	RoE (%)
2014-15	-1112.55	-379.62	-
2015-16	-1207.98	-324.96	-
2016-17	-2906.28	-722.28	-
2017-18	-3525.97	-591.64	-

Source: Based on accounts and information furnished by PSUs

As can be seen from above table both the Shareholders' fund and the Net Income were negative during all the four years period ended 2017-18. Since the Shareholders' Fund and the Net income during 2014-15 to 2017-18 was negative, the Return on Equity could not be worked out.

Return on Capital Employed

4.18 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 employed¹⁴⁹. The details of total RoCE of all the 47 working PSUs during the period from 2014-15 to 2017-18 is given in table below:

¹⁴⁹ Capital employed = Paid up share capital + free reserves and surplus + long term loans – accumulated losses - deferred revenue expenditure.

Table 4.12: RoCE of 47 working PSUs

(₹ in crore)			
Year	EBIT	Capital Employed	RoCE (%)
2014-15	-329.60	723.02	-45.59
2015-16	-279.63	2890.35	-9.67
2016-17	317.55	11713.11	2.71
2017-18	436.14	12940.86	3.37

Source: Based on accounts and information furnished by PSUs

The RoCE of the PSUs showed improving trend and ranged between (-) 45.59 per cent and 3.37 per cent during the period 2014-15 to 2017-18. The RoCE increased substantially during the years 2016-18 in comparison to 2015-16 due to positive EBIT of Telangana State Civil Supplies Corporation Limited during 2016-17 and increase in EBIT of Telangana Forest Development Corporation Limited and Telangana State Horticulture Development Corporation Limited during 2017-18.

Analysis of Long Term Loans of the PSUs

4.19 Analysis of the Long Term Loans of the 47 working PSUs during 2014-15 to 2017-18 was carried out to assess the ability of these PSUs to serve the debt owed by them to the Government, banks and other financial institutions. This was assessed through the interest coverage ratio and debt turnover ratio.

Interest Coverage Ratio

4.20 Interest coverage ratio is used to determine the ability of a PSU to pay interest on outstanding debt and is calculated by dividing 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 was not generating sufficient revenues to meet its expenses on interest. The details of positive and negative interest coverage ratio in respect of nine working PSUs which had interest burden during the period from 2014-15 to 2017-18 are given in table below:

Table 4.13: ICR of PSUs

(₹ in crore)						
Year	EBIT	Interest	ICR	Total Number of PSUs*	Number of PSUs having ICR more than 1	Number of PSUs having ICR less than 1
2014-15	3.32	6.54	0.5 : 1	2	1	1 ¹⁵⁰
2015-16	39.64	10.47	4 : 1	7	5	2 ¹⁵¹
2016-17	285.23	1015.24	0.3 : 1	9	3	6 ¹⁵²
2017-18	410.30	991.01	0.4 : 1	9	6	3 ¹⁵³

Source: Based on accounts and information furnished by PSUs

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

¹⁵⁰ The Nizam Sugars Limited.

¹⁵¹ Telangana State Agro Industries Development Corporation Limited and Telangana State Leather Industries Promotion Corporation Limited.

¹⁵² Telangana State Horticulture Development Corporation Limited, Telangana State Irrigation Development Corporation Limited, Telangana State Leather Industries Promotion Corporation Limited, The Nizam Sugars Limited, Telangana Overseas Manpower Company Limited and Telangana State Road Transport Corporation.

¹⁵³ Telangana State Leather Industries Promotion Corporation Limited, Telangana Overseas Manpower Company Limited and Telangana State Road Transport Corporation.

Of the nine PSUs having liability of loans from Government as well as banks and other financial institutions during 2017-18, six PSUs had interest coverage ratio of more than one whereas remaining three PSUs had interest coverage ratio below one which indicates that these three PSUs could not generate sufficient revenues to meet their expenses on interest during the period.

During the year 2017-18 out of nine State PSUs (Non-Power Sector), four PSUs accounted interest expenditure on State Government Loans amounting to ₹ 6.12 crore. However, only Telangana State Road Transport Corporation actually paid ₹ 1.38 crore (out of ₹ 4.00 crore) to State Government. Outstanding interest payable to State Government by these four PSUs amounted to ₹ 140.51 crore as on 31 March 2018.

Debt Turnover Ratio

4.21 During the last four years ended March 2018, the debt-turnover ratio of 47 working PSUs ranged between 1:1 and 10:1 during this period. Further, the turnover of the PSUs recorded compounded annual growth of 348.96 per cent and compounded annual growth of debt was 107.53 per cent due to which the debt turnover ratio improved from 10:1 in 2014-15 to 1:1 in 2017-18 as given in table below:

Table 4.14: DTR of PSUs

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18
Debt from Government/ Banks and Financial Institutions	1842.89	4105.85	14623.00	16471.00
Turnover	186.17	1111.64	12116.79	16847.81
Debt-Turnover Ratio	10 : 1	4 : 1	1 : 1	1 : 1

Source: Based on accounts and information furnished by PSUs

Winding up of Inactive State PSUs (Non-Power Sector)

4.22 As on 31 March 2018, there were 20 Inactive PSUs of which 19 PSUs were under demerger. The total investment in these 20 Inactive PSUs was ₹ 234.87 crore, out of which the State Government invested ₹ 229.95 crore in 18 PSUs. The number of Inactive PSUs and their stage of closure at the end of each year during last four years ended 31 March 2018 are given below:

Table 4.15: Inactive PSUs

Particulars	2014-15	2015-16	2016-17	2017-18
Number of Inactive companies	22	22	22	20 ¹⁵⁴
Liquidation by Court (liquidator appointed)	10	10	10	8
Voluntary winding up	0	0	0	1

Source: Compiled from the information included in Audit Report (PSU), Government of Telangana of respective years and the information as furnished by Official Liquidator

Out of the 20 Inactive PSUs, eight PSUs were reported to be in the process of liquidation since decades. The official liquidator was appointed in respect of these companies' way back ranging from four years to 30 years. One PSU namely, TSMDC-SCCL Suliyari Coal Company Limited was reported to be under voluntary winding up. The process of voluntary winding up under the

¹⁵⁴ During 2017-18, three non-working PSUs viz., Andhra Pradesh Tourism Finance Limited, Andhra Pradesh Scooters Limited and Suganthy Alloy Castings Limited were reported to be dissolved.

Companies Act is much faster and needs to be adopted/ pursued vigorously. As these PSUs have been Inactive for a period ranging from the last four years to 30 years, the Government may take appropriate action in regard to these PSUs.

Comments on Accounts of State PSUs (Non-Power Sector)

4.23 Fifteen working companies forwarded 16 audited accounts to the O/o AG (Audit), Telangana during the period from 1 October 2017 to 30 September 2018. Of these, 10 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 are as follows:

Table 4.16: Impact of audit comments on Working 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	0	0	2	0.33	1	0.51
2.	Increase in profit	0	0	0	0	1	0.52
3.	Increase in loss	0	0	2	8.26	3	43.22
4.	Decrease in loss	0	0	0	0	3	24.18
5.	Non-disclosure of material facts	0	0	2	0	4	71.48
6.	Errors of classification	0	0	0	0	5	242.82

Source: Compiled from comments of the Statutory Auditors/ CAG

During the year 2017-18, the Statutory Auditors issued eight unqualified, six qualified and two adverse certificates on 16 accounts.

4.24 All the three working Statutory Corporations have not furnished their separate annual accounts for audit since their inception. The Telangana State Finance Corporation had however, finalised its accounts up to 2017-18 as single entity along with Andhra Pradesh State Finance Corporation.

Performance Audit and Compliance Audit Paragraphs

4.25 For Part-II of the Report of the CAG for the year ended 31 March 2018, two compliance audit paragraphs were issued to the Secretary of the concerned Administrative Department, Government of Telangana with request to furnish replies within two weeks. Replies for two compliance audit paragraphs have been received from the State Government and taken into account while finalising this report. The total financial impact of these compliance audit paragraphs is ₹ 37.88 crore.

Follow up action on Audit Reports

4.26 The Report of the 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, erstwhile Government of Andhra Pradesh, had issued (June 2004) instructions to all Administrative Departments to submit replies/ explanatory notes to paragraphs/ reviews included in the Audit Reports of the CAG of India within a period of three

months of their presentation in the Legislature, in the prescribed format, without waiting for any questionnaires from the CoPU.

As on 30 September 2018, out of 300 PAs/ Paragraphs relating to TS PSUs, Explanatory Notes to 75 PAs/ Paragraphs which were commented upon were awaited as detailed in the table below:

Table 4.17: Explanatory Notes not received

Year of the Audit Report	Date of Placement of Audit Report in the State Legislature	Total PAs and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which ENs were not received			
		PAs	Paragraphs	Exclusive to State		Common (TS & AP)	
				PAs	Paragraphs	PAs	Paragraphs
Upto 2013-14		39	251	0	2	13	50
2014-15	30.03.2016	0	2	0	2	0	0
2015-16	27.03.2017	0	3	0	3	0	0
2016-17	29.03.2018	0	5	0	5	0	0
Total		39	261	0	12	13	50

Source: As compiled by O/o AG (Audit) Telangana

The Administrative Departments and Managements concerned were addressed (March 2019) regarding non-receipt of Explanatory notes and Action Taken Notes to the Reviews and Paragraphs of previous Audit Reports.

Discussion of Audit Reports by Committee on Public Undertakings

4.27 The status of PAs and Paragraphs relating to PSUs that appeared in Audit Reports (PSUs) as on 30 September 2018 and discussed by the Committee on Public Undertakings (CoPU) was as under:

Table 4.18: PAs/ Paragraphs that appeared in Audit Reports vis-à-vis discussed

Year of the Audit Report (Commercial/ PSU)	Number of PAs / Paragraphs			
	Appeared in Audit Report		Discussed	
	PAs	Paragraphs	PAs	Paragraphs
Upto 2013-14	39	251	13	137
2014-15	0	2	0	0
2015-16	0	3	0	0
2016-17	0	5	0	0
Total	39	261	13	137

Source: As compiled by O/o AG (Audit) Telangana

Out of 39 PAs and 261 Paragraphs relating to PSUs, 13 PAs and 137 Paragraphs were discussed by CoPU. The issue of inadequacy of CoPU meetings to discuss the pending PAs/ Paragraphs and the modalities to reduce the pendency were discussed (July 2018) with CoPU. Response to the letters addressed (May 2018 and August 2018) to CoPU in this regard was awaited.

During 2014-18, seven meetings of the CoPU were conducted to discuss the Reports. The last meeting was held on 24 July 2018.

Compliance to Reports of CoPU

4.28 Action Taken Notes (ATNs) on 443 recommendations pertaining to 39 Reports of the CoPU presented in the State Legislature had not been received (September 2018) as detailed in the Table 4.19:

Table 4.19: Compliance to CoPU Reports

Year of the CoPU Report	Total number of CoPU Reports	Total No. of recommendations in CoPU Report	ATNs not received	
			Exclusive to State	Common (TS & AP)
Upto 1998-99	20	568	0	378
2000-01	10	93	0	52
2002-03	1	24	0	0
2004-05	5	37	0	7
2006-07	3	12	0	6
Total	39	734	0	443

Source: As compiled by O/o AG (Audit) Telangana

Note 1: The above information pertains to erstwhile composite State of Andhra Pradesh

Note 2: After 2006-07 no Report was issued by the CoPU

It is recommended that the Government may ensure: (a) submission of replies to Explanatory Notes/ Paragraphs/PAs 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 responding to audit observations.

