

**CHAPTER - II**

**FINANCIAL PERFORMANCE OF STATE  
PUBLIC SECTOR ENTERPRISES  
(OTHER THAN POWER SECTOR)**



## CHAPTER-II

### Financial Performance of State Public Sector Enterprises (Other than Power Sector)

#### 2.1 Introduction

As on 31 March 2020, there were 25 State Public Sector Enterprises (Other than Power Sector) under the audit jurisdiction of the CAG. These State Public Sector Enterprises (SPSEs) include 19 Government Companies, two<sup>25</sup> Statutory Corporations and four<sup>26</sup> Government Controlled other Companies. Two companies<sup>27</sup> out of 19 Government Companies and one company<sup>28</sup> out of four Government Controlled other Companies are inactive. During the year 2019-20, two new SPSEs<sup>29</sup> (Other than Power Sector) were incorporated.

Financial performance of SPSEs is covered in this report and the nature of these SPSEs is indicated in **Table-2.1**.

**Table-2.1: Coverage and nature of SPSEs covered in this report**

Nature of the SPSEs	Total Number of SPSEs	Number of SPSEs covered in the Report				Total	Number of SPSEs of which first accounts were not received or under liquidation
		Accounts up to					
		2018-19	2017-18	2016-17	Accounts up to 2015-16 and previous years		
Government Companies	19	6	3	2	5	16	3 <sup>30</sup>
Statutory Corporations	2	1	1	0	0	2	0
<b>Total:</b>	<b>21</b>	<b>7</b>	<b>4</b>	<b>2</b>	<b>5</b>	<b>18</b>	<b>3</b>
Government Controlled other Companies	4	2	0	1	0	3	1 <sup>31</sup>
<b>Grant total</b>	<b>25</b>	<b>9</b>	<b>4</b>	<b>3</b>	<b>5</b>	<b>21</b>	<b>4</b>

The names of all Government companies/ Government controlled other Companies and Statutory Corporations under the purview of CAG's audit along with month and year of incorporation, administrative department and brief description of activities being carried out by them are detailed in **Appendix-II**.

<sup>25</sup> Himachal Road Transport Corporation and Himachal Pradesh Financial Corporation.

<sup>26</sup> Dharamshala Smart City Limited, Himachal Consultancy Organisation Limited, Shimla Jal Prabandhan Nigam Limited and Himachal Worsted Mills Limited (Inactive Company).

<sup>27</sup> Agro Industrial Packaging India Limited and Himachal Pradesh Beverages Limited.

<sup>28</sup> Himachal Worsted Mills Limited.

<sup>29</sup> Sri Naina Devi Ji and Sri Anandpur Sahib Ji Ropeway Company Limited and Ropeway and Rapid Transport System Development Corporation HP Limited.

<sup>30</sup> Sri Naina Devi Ji and Sri Anandpur Sahib Ji Ropeway Company Limited, Ropeway and Rapid Transport System Development Corporation HP Limited and Shimla Smart City Limited.

<sup>31</sup> Himachal Worsted Mills Limited (Inactive Company).

This Report includes results of SPSEs (Other than Power Sector) based on their latest accounts received till 31 December 2020.

The SPSEs are controlled by the various Departments of the State Government. The position of SPSEs have therefore been divided and analysed as per these Departments (Sectors).

**Summary of financial performance of SPSEs (Other than Power Sector) as per latest accounts finalised as of 31 December 2020**

Number of SPSEs	25
SPSEs covered	25
Paid-up capital (25 SPSEs)	₹1,090.67 crore
Equity investment of Government of Himachal Pradesh (23 SPSEs)	₹1,056.24 crore
Long term loans (10 SPSEs)	₹431.63 crore
Consolidated profit/loss (19 SPSEs)	(-) ₹154.41 crore
Net profit (12 SPSE)	₹42.07 crore
Net loss (7 SPSEs)	(-) ₹196.48 crore
Number of SPSEs where excess of expenditure over income is reimbursed by the State Government or which have not prepared their profit and loss accounts/ first accounts so far	Six
Dividend declared/paid (03 SPSEs)	₹2.25 crore
Dividend not declared as per State Government policy (04 SPSEs)	₹1.34 crore
Total Assets	₹3,629.19 crore
Turnover	₹3,290.26 crore
Net worth	(-) ₹636.18 crore
Accumulated loss	₹1,726.85 crore

**Source:** As per latest finalized accounts.

The ratio of turnover of SPSEs (Other than Power Sector) to Gross State Domestic Product (GSDP) shows the contribution of activities of these SPSEs in the State economy. The **Table-2.2** below provides the details of turnover of the SPSEs (Other than Power Sector) and GSDP of Himachal Pradesh for a period of five years ending 31 March 2020.

**Table-2.2: Details of turnover of SPSEs (Other than Power Sector) vis-a-vis GSDP of Himachal Pradesh (₹ in crore)**

Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
Turnover of SPSEs (Other than Power Sector)	2,471.95	2,743.10	2,821.02	3,400.40	3,290.26
GSDP of Himachal Pradesh (at current prices)	1,14,239	1,25,634	1,38,351	1,53,845	1,65,472
Percentage of SPSE's Turnover to GSDP of Himachal Pradesh	2.16	2.18	2.04	2.21	1.99

**Source:** Compiled based on Turnover figures of all SPSEs (Other than Power Sector) Government of Himachal Pradesh.

The turnover of these SPSEs (Other than Power Sector) has remained stagnant from 2015-16 to 2018-19, but marginally decreased from ₹3,400.40 crore in 2018-19 to ₹3,290.26 crore in 2019-20. The increase in turnover ranged between 2.84 per cent and 20.54 per cent during the period 2015-19, but slightly decreased by 3.24 per cent during 2019-20 against previous year i.e., 2018-19. The increase in GSDP of the State ranged between 7.56 per cent and 11.20 per cent during 2015-20. The compounded annual growth is a useful method to measure growth rate over multiple time periods. The compounded annual growth of GSDP of Himachal Pradesh was 9.71 per cent during last five years. Against the compounded annual growth of 9.71 per cent of the GSDP, the turnover of SPSEs (Other than Power Sector) recorded lower compounded annual growth of 7.41 per cent during last five years. This resulted in decrease in share of turnover of these SPSEs to the GSDP from 2.16 per cent in 2015-16 to 1.99 per cent in 2019-20.

## 2.2 Investment in SPSEs (Other than Power Sector)

The position of these SPSEs has been analysed under categories based on the Departments under which they operate. Of the 25 SPSEs, the State Government invested funds only in 23 SPSEs and no funds were invested in two SPSEs<sup>32</sup>. The amount of investment in equity and loans in 23 SPSEs is detailed in **Appendix-III** and as at the end of 31 March 2020 is given in **Table 2.3**.

**Table-2.3: Equity investment and loans in 25 SPSEs**

(₹ in crore)

Sources of investment	As on 31 March 2019			As on 31 March 2020		
	Equity	Long Term Loan	Total	Equity	Long Term Loan	Total
Central Government	19.03	29.77	20.57	19.03	1.54	20.57
State Government	1,064.64	209.22	1,273.86	1,145.89	220.33	1,366.22
Central/ State Government Companies	6.18	0	6.18	6.18	63.57	69.75
Others	8.67	138.67	147.34	9.22	151.13	160.35
<b>Total</b>	<b>1,098.52</b>	<b>377.66</b>	<b>1,476.18</b>	<b>1,180.32</b>	<b>436.57</b>	<b>1,616.89</b>
Share of State Government to overall equity/loans (in per cent)	96.92	55.40	88.11	97.08	50.47	84.50

**Source:** Compiled based on information received from SPSEs (Other than Power Sector).

As on 31 March 2020, the total investment (equity and long-term loans) in all SPSEs (Other than Power Sector) was ₹1,616.89 crore and registered an increase of ₹140.71 crore over that of 31 March 2019. During 2019-20 the State Government made a significant equity investment in Himachal Road Transport Corporation (₹79.39 crore).

The long-term loans advanced by the State Government constituted 50.47 per cent (₹220.33 crore) of the total long-term loans and registered an increase of ₹11.11 crore over that of 31 March 2019.

The Government of Himachal Pradesh (GoHP) provides financial support to SPSEs

<sup>32</sup> Himachal Consultancy Organisation Limited and Himachal Worsted Mills Limited.

(Other than Power Sector) in various forms through annual budget from time to time. The summarised details of budgetary outgo towards equity, loans, grants/subsidies, loans written off and loans converted into equity in respect of SPSEs during the last three years ending March 2020 are given in **Table-2.4** below:

**Table-2.4: Details of budgetary support to SPSEs (Other than Power Sector)**

Particulars <sup>33</sup>	2017-18		2018-19		2019-20	
	No. of SPSEs	Amount	No. of SPSEs	Amount	No. of SPSEs	Amount
Equity Capital	2	50.80	3	62.85	4	81.25
Loans given	1	5.44	1	4.10	1	3.90
Grants/Subsidies provided	6	423.63	9	416.36	8	671.15
<b>Total Outgo</b>		<b>479.87</b>		<b>483.31</b>		<b>756.30</b>
Loan repayment written off	-	-	-	-	-	-
Loans converted into equity	-	-	-	-	-	-
Guarantees issued during the year	5	192.65	5	115.60	5	108.60
Guarantee Commitment/ Outstanding	5	277.98	1	0.60	6	196.24

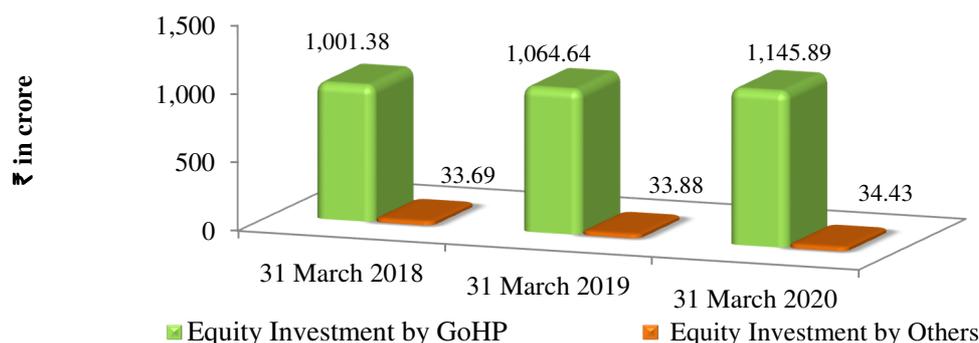
Source: Compiled based on information received from SPSEs (Other than Power Sector).

### 2.2.1 Investment in equity

During 2019-20, the total investment at face value of equity in all SPSEs (Other than Power Sector) registered a net increase of ₹81.25 crore as compared to 2018-19.

Investment in equity by the State Government and others during three years ended 31 March 2020 in these SPSEs (Other than Power Sector) is depicted in the **Chart-2.1**.

**Chart-2.1: Investment as equity in SPSEs (Other than Power Sector)**



Source: Compiled based on information received from SPSEs (Other than Power Sector).

As on 31 March 2020, there was an increase in total equity of ₹145.25 crore (₹144.51 by State Government) as compared to 2017-18 which was 14.03 per cent over that of 31 March 2018. However, equity investment by others during 2018-20 remained stagnant.

<sup>33</sup> Amount represents outgo from State Budget only.

Details of significant investments in equity capital (investment of more than ₹25 crore) made by the State Government as on 31 March 2020 in the paid-up capital of these SPSEs is given in **Table-2.5**.

**Table-2.5: Significant investments made by the State Government**

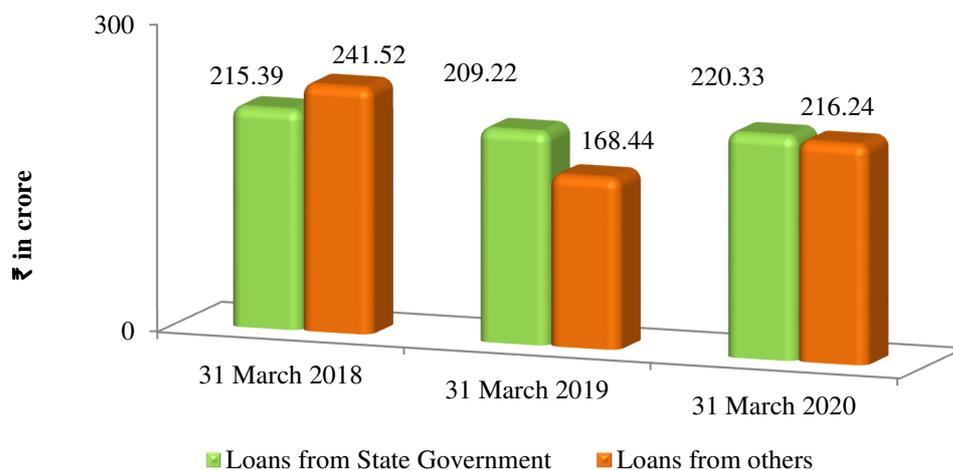
Name of the SPSEs	Name of the Administrative Department	Amount (₹ in crore)
Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited	Horticulture	31.20
Himachal Pradesh Financial Corporation	Industries	92.98
Himachal Pradesh Road & Other Infrastructure Development Corporation Limited	Public Works	25.00
Himachal Pradesh State Industrial Development Corporation Limited	Industries	30.82
Himachal Road Transport Corporation	Transport	842.10

## 2.2.2 Loans given to SPSEs

### 2.2.2.1 Computation of long-term loans outstanding as on 31 March 2020

The total long-term loans outstanding in all SPSEs (Other than Power Sector) from all sources as on 31 March 2020 was ₹436.57 crore. As on 31 March 2020, the long-term loans of these SPSEs registered a decrease of ₹20.34 crore over that of 31 March 2018. Year-wise details of outstanding long-term loans of SPSEs (Other than Power Sector) are depicted in **Chart-2.2**.

**Chart-2.2: Outstanding long-term loans of SPSEs (Other than Power Sector) for the last three years ending 31 March 2020**



**Source:** Compiled based on information received from SPSEs (Other than Power Sector).

As on 31 March 2020, the long-term loans advanced by the State government constituted 50.47 per cent (₹220.33 crore) of the total long-term loans whereas 49.53 per cent (₹216.24 crore) of the total long-term loans were availed from Government of India, financial institutions and others.

2.2.2.2 Adequacy of assets to meet loan liabilities

Ratio of total debt/loans to total assets is one of the methods used to determine whether a Company can stay solvent. To be considered solvent, the value of an entity's assets must be greater than the sum of its loans/debts. The coverage ratio of long-term loans by value of total assets in 10 SPSEs which had outstanding loans as per their latest finalised accounts as on 31 December 2020 is given in **Table-2.6**.

**Table-2.6: Coverage of long-term loans with total assets**

Nature of SPSE	Positive Coverage			
	No. of SPSEs	Assets	Long Term Loans	Ratio of Assets to Loans
	(₹ in crore)			
Statutory Corporation	2	1,173.62	236.49	4.96:1
Government Companies	8	566.17	195.14	2.90:1
<b>Total</b>	<b>10</b>	<b>1,739.79</b>	<b>431.63</b>	<b>4.03:1</b>

**Source:** Compiled based on Annual Financial Statement of the SPSEs till 31 December 2020.

Out of the 10 SPSEs, in one inactive SPSE (Agro Industrial Packaging India Limited), the asset to loan ratio was less than one (0.02:1) as the value of total assets (₹1.33 crore) was lower than the outstanding loans (₹60.15 crore). The highest asset to loan ratio was for Himachal Pradesh State Electronics Development Corporation Limited (206.10:1) mainly due to lesser loan amount.

2.2.2.3 Interest Coverage Ratio

Interest coverage ratio (ICR) is used to determine the ability of a company to pay interest on outstanding debt and is calculated by dividing a company's Earnings Before Interest and Taxes (EBIT) by interest expenses of the same period. The lower the ratio, the lesser is the ability of the company to pay interest on debt. An ICR below one indicates that the company is not generating sufficient revenues to meet its expenses on interest. The details of positive and negative ICR of SPSEs during the period from 2017-18 to 2019-20 are given in **Table-2.7**.

**Table-2.7: Interest Coverage Ratio**

Year	Interest (₹ in crore)	EBIT (₹ in crore)	No of SPSEs	No. of SPSEs having ICR equal to or more than one	No. of SPSEs having ICR less than one
<b>Statutory Corporations</b>					
2017-18	29.86	(-) 100.77	2	0	2
2018-19	33.66	(-) 124.07	2	0	2
2019-20	27.52	(-) 132.78	2	0	2
<b>Government Companies</b>					
2017-18	5.19	13.23	10	8	2 <sup>34</sup>
2018-19	7.04	4.96	10	8	2 <sup>35</sup>
2019-20	7.90	(-)9.96	10	7	3 <sup>36</sup>

**Source:** Compilation based on accounts finalised by SPSEs (Other than Power Sector) as of 31 December 2020.

<sup>34</sup> Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited and Himachal Pradesh State Forest Development Corporation Limited.

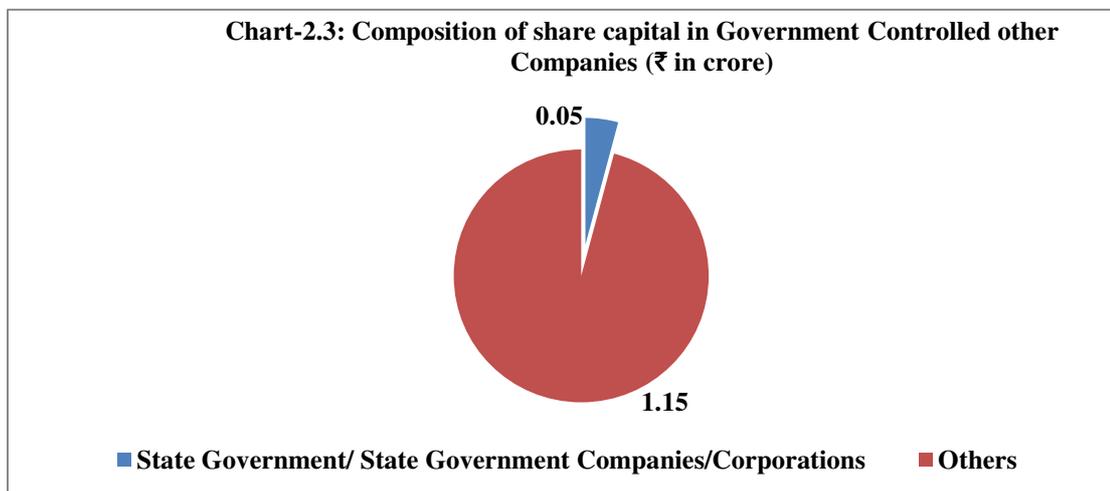
<sup>35</sup> Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited and Himachal Pradesh State Forest Development Corporation Limited.

<sup>36</sup> Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited, Himachal Pradesh State Forest Development Corporation Limited and Himachal Consultancy Organisation Limited.

EBIT of two SPSEs<sup>34</sup> remained less than their interest liabilities for all the three years under review.

#### 2.2.2.4 Investment in Government Controlled other Companies

The capital invested by the State Governments and others in four<sup>37</sup> Government Controlled other Companies as on 31 March 2020 is depicted in **Chart-2.3**.



**Source:** Compiled based on information received from SPSEs (Other than Power Sector).

### 2.3 Return on investment in SPSEs

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 or net worth 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 shareholders 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 shareholder equity means that liabilities exceed assets.

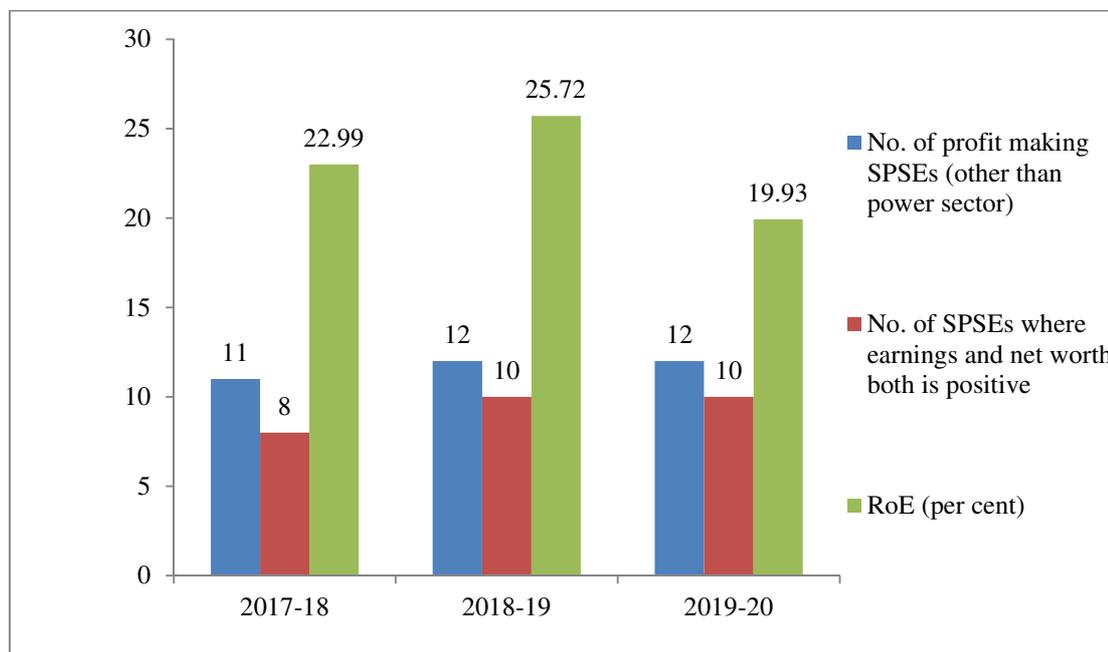
The number of SPSEs that earned profit (₹42.07 crore) was 12 out of 25 SPSEs and seven SPSEs incurred loss of ₹196.48 crore as per their latest finalised accounts as of 31 December 2020 as depicted in **Chart-2.4**. Six<sup>38</sup> SPSEs had either not prepared its

<sup>37</sup> Shimla Jal Prabandhan Nigam Limited, Dharamshala Smart City Limited, Himachal Consultancy Organisation Limited and Himachal Worsted Mills Limited.

<sup>38</sup> SPSEs which have not forwarded their first accounts : i) Shimla Smart City Limited, ii) Sri Naina Devi Ji and Sri Anandpur Sahib Ji Ropeway Company Limited and iii) Ropeway and Rapid Transport System Development Corporation HP Limited.  
SPSEs whose excess expenditure is reimbursed by State : i) Dharmashala Smart City Limited, ii) Shimla Jal Prabandhan Nigam Limited and iii) Himachal Pradesh Road and Other Infrastructure Development Corporation Limited.

first accounts/profit and loss account or their excess of expenditure over income is reimbursed by the State Government.

**Chart-2.4: Number of SPSEs earning profits and their RoE during last three years ending 31 March 2020**



**Source:** Compiled based on accounts finalised by SPSEs (Other than Power Sector).

The two Government Companies which contributed maximum profit as per their latest finalised accounts as of 31 December 2020 are summarised in **Table-2.8**.

**Table-2.8: Top two Government Companies which contributed maximum profit as per their latest finalised accounts as of 31 December 2020**

Sr. No.	Name of profit earning SPSEs	Net profit earned (₹in crore)	Percentage of profit to total SPSEs' profit (₹42.07 crore) which earned profit (12 SPSEs) as per latest finalised accounts
1	Himachal Pradesh State Industrial Development Corporation Limited	13.90	33.04
2	Himachal Pradesh General Industries Corporation Limited	6.97	16.57
	<b>Total</b>	<b>20.87</b>	<b>49.61</b>

**Source:** Compiled based on Annual Financial Statement of the SPSEs till 31 December 2020.

Of the four Government Controlled other Companies, Himachal Consultancy Organisation Limited incurred loss as per their latest finalised accounts, Dharamshala Smart City Limited prepared its first financial statement for the year 2016-17 without profit and loss account, Himachal Worsted Mills Limited is inactive since 2000-01 and in respect of Shimla Jal Prabandhan Nigam Limited, excess of expenditure over income is reimbursable by the State Government.

### 2.3.1 Dividend Payout by SPSEs

The State Government had formulated (April 2011) policy that all profit making SPSEs (except those in welfare and utility sector) should pay a minimum return of

five per cent on the paid-up share capital contributed by the State government, subject to a ceiling of 50 per cent of the profit after tax. As per their latest finalised accounts as of 31 December 2020, 11 working SPSEs (Other than Power Sector) earned an aggregate profit of ₹32.58 crore (excluding inactive SPSE – Himachal Pradesh Beverages Limited) out of which only seven<sup>39</sup> SPSEs were eligible to declare dividend as per State Government policy, however, only three SPSEs declared/paid dividend of ₹2.25 crore and remaining four profit making SPSEs did not pay/provide dividend of ₹1.34 crore. The details of profit earned and dividend declared/paid and not paid by SPSEs is given in the **Table-2.9**.

**Table-2.9 Profit earned and dividend declared by SPSEs as per their finalised accounts as of 31 December 2020**

Category	No. of SPSEs	No. of SPSEs earned profit	No. of SPSEs which were eligible to declare dividend	Paid-up capital	Net profit after tax and interest	No. of SPSEs declared/paid dividend	Dividend declared/paid	No. of SPSEs declared/paid dividend	Dividend not declared/paid as per policy
				(₹ in crore)			(₹ in crore)		(₹ in crore)
SPSEs	25	11	7	85.61	28.28	3	2.25	4	1.34
<b>Total</b>	<b>25</b>	<b>11</b>	<b>7</b>	<b>85.61</b>	<b>28.28</b>	<b>3</b>	<b>2.25</b>	<b>4</b>	<b>1.34</b>

The Himachal Pradesh State Civil Supplies Corporation Limited declared/paid (₹0.35 crore) dividend to the State Government at the rate of 10 per cent on paid-up capital of ₹3.51 crore and Himachal Pradesh State Industrial Development Corporation Limited and Himachal Pradesh General Industries Corporation Limited paid dividend of ₹1.54 crore and ₹0.36 crore respectively at the rate of 5 per cent of paid-up capital. Four SPSEs<sup>40</sup> did not declare/pay dividend of ₹1.34 crore to the State Government as per their latest finalized accounts as of 31 December 2020.

***It is recommended that the State Government may take up the matter regarding non-payment of dividend through its nominees on the Board of Directors.***

### **2.3.2 Sector wise Return on Equity of SPSEs**

Return on equity (RoE)<sup>41</sup> is a measure of financial performance of SPSEs calculated by dividing net income by shareholders' equity. Sector wise RoE of SPSEs during three years ended 31 March 2020 is depicted in **Table-2.10**.

<sup>39</sup> Himachal Pradesh State Civil Supply Corporation Limited, Himachal Pradesh State Industrial Development Corporation Limited, Himachal Pradesh Agro Industries Corporation Limited, Himachal Pradesh Tourism Development Corporation, Himachal Pradesh State Electronic Development Corporation Limited, Himachal Pradesh Handicrafts and Handlooms Corporation Limited and Himachal Pradesh General Industries Corporation Limited.

<sup>40</sup> Himachal Pradesh Agro Industries Corporation Limited, Himachal Pradesh Tourism Development Corporation, Himachal Pradesh State Handicrafts and Handlooms Corporation Limited and Himachal Pradesh State Electronics Development Corporation Limited.

<sup>41</sup> Return on Equity = (Net Profit after Tax and preference Dividend/Equity)\*100 where Equity = Paid-up Capital+ Free Reserves– Accumulated Loss– Deferred Revenue Expenditure.

**Table-2.10: Sector wise Return on Equity**

Sl. No.	Sector	ROE during 2017-18	ROE during 2018-19	ROE during 2019-20
1	Agriculture	(-) 3.04	(-) 6.77	(-) 17.43
2	Finance	(-) 10.56	(-) 15.31	(-) 11.88
3	Infrastructure	17.52	18.66	13.07
4	Manufacturing	43.60	32.42	19.67
5	Services	(-) 21.64	(-) 20.87	(-) 24.87

**Source:** Compiled based on accounts finalised by SPSEs (Other than Power Sector).

## 2.4 SPSEs incurring losses

Details of SPSEs that incurred losses during last three years as per latest finalized accounts are given in **Table-2.11**.

**Table-2.11: Number of SPSEs that incurred losses during last three years as of 30 September of 2018 and 2019 and as of 31 December 2020**

Year	No. of SPSEs incurred loss	Net loss for the year	Accumulated Loss	Net Worth <sup>42</sup>
		(₹ in crore)		
<b>Statutory Corporations (A)</b>				
2017-18	2	100.77	1,280.47	(-) 510.41
2018-19	2	124.07	1,399.04	(-) 578.98
2019-20	2	160.30	1,553.84	(-) 674.78
<b>Government Companies/Government Controlled other Companies (B)</b>				
2017-18	5	5.66	217.25	(-) 148.12
2018-19	5	14.38	231.72	(-) 162.42
2019-20	5	36.18	267.85	(-) 198.55
<b>Total (A+B)</b>				
2017-18	7	106.43	1,497.72	(-) 658.53
2018-19	7	138.45	1,630.76	(-) 741.40
2019-20	7	196.48	1,821.69	(-) 873.33

**Source:** Compiled based on accounts finalised by SPSEs (Other than Power Sector).

Out of total loss of ₹196.48 crore incurred during 2019-20 by seven SPSEs, Himachal Road Transport Corporation reported loss of ₹154.80 crore. Besides this, loss of ₹34.43 crore is attributed to Himachal Pradesh State Forest Development Corporation Limited.

<sup>42</sup> Net worth means the sum total of the paid-up share capital and free reserves and surplus less accumulated loss and deferred revenue expenditure Free Reserves means all reserves created out of Profits and share premium account.

#### 2.4.1 Erosion of Net worth of SPSEs

Net Worth means the sum total of the paid-up capital and free reserves & 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 25 SPSEs as per their latest finalized accounts were ₹1,090.67 crore and ₹1,726.85 crore respectively, resulting in negative net worth of ₹636.18 crore as detailed in **Appendix-I**. The following **Table-2.12** indicates total paid-up capital, total accumulated loss and net worth of SPSEs (Other than Power Sector) where the State Government has made direct investment for the period 2017-20.

**Table-2.12: Net worth of SPSEs during 2017-20 as per their latest finalized accounts**

(₹ in crore)				
Year	Paid up Capital at end of the year	Accumulated Loss (-) at end of the year	Deferred revenue Expenditure	Net Worth
2017-18	976.46	(-) 1,445.90	-	(-) 469.43
2018-19	1,038.41	(-) 1,553.07	-	(-) 514.66
2019-20	1,090.67	(-) 1,726.85	-	(-) 636.18

**Source:** Information as per latest accounts finalized by SPSEs.

During 2019-20, there were 10 SPSEs with accumulated losses of ₹1,876.11 crore as per their latest finalized accounts as of 31 December 2020. Of the 10 SPSEs, five SPSEs incurred losses as per their finalized accounts as of 31 December 2020 amounting to ₹195.99 crore and four SPSEs had not incurred loss, even though they had accumulated loss of ₹53.38 crore. Six out of 25 SPSEs were either newly incorporated (three) or their excess of expenditure over income is reimbursed by the State Government (three).

Net worth of eight out of 25 SPSEs had been completely eroded by accumulated losses. As per their latest finalized accounts, the net worth of these eight SPSEs was (-) ₹890.32 crore against equity investment of ₹969.73 crore and Government loans outstanding was ₹389.13 crore. Of these, two SPSEs<sup>43</sup> had earned profit of ₹1.48 crore. The net worth of two SPSEs<sup>44</sup> out of 25 SPSEs was less than half of their paid-up capital, indicating their potential financial sickness.

<sup>43</sup> Himachal Pradesh State Handicrafts and Handloom Corporation Limited and Himachal Pradesh Tourism Development Corporation.

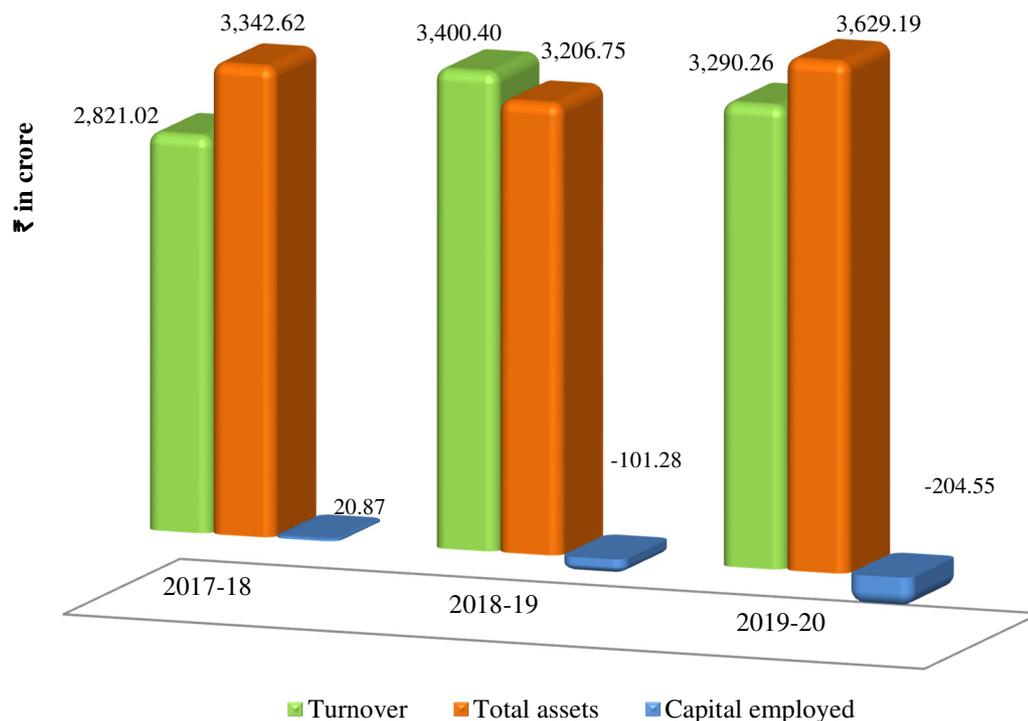
<sup>44</sup> Himachal Pradesh Minorities Finance and Development Corporation and Himachal Pradesh Agro Industries Corporation Limited.

## 2.5 Operating efficiency of SPSEs

### 2.5.1 Turnover, Assets and Capital Employed

The summary indicating turnover, total assets and capital employed of SPSEs over a period of three years<sup>45</sup> is depicted in the **Chart-2.5**.

**Chart-2.5: Turnover, Total Assets and Capital Employed**



**Source:** Information from SPSEs and accounts finalised by SPSEs (Other than Power Sector) as of 31 December 2020.

There was slight increase in turnover from 2017-18 to 2019-20. Total assets increased from ₹3,342.62 crore (2017-18) to ₹3,629.19 crore (2019-20) as detailed in **Appendix-I** and capital employed decreased year after year due to incurring the consolidated net losses by SPSEs during last three years.

### 2.5.2 Return on Capital Employed of SPSEs

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 employed<sup>46</sup>. The details of total ROCE of all the SPSEs (Other than Power Sector) during the period from 2017-18 to 2019-20 are given in **Table-2.13**.

<sup>45</sup> As per their latest finalised accounts as of 31 December 2020.

<sup>46</sup> Capital employed = Paid up share capital + free reserves and surplus + long term loans – accumulated losses - deferred revenue expenditure. Figures are as per the latest year for which accounts of the SPSEs (Other than Power Sector) are finalised.

**Table-2.13: Return on Capital Employed of SPSEs (Other than Power Sector)**

Year	Earnings before interest and tax	Capital Employed	Return on Capital Employed
	(₹ in crore)		(Per Cent)
2017-18	(-) 69.77	20.87	(-) 334.31
2018-19	(-) 84.69	(-) 101.28	NA
2019-20	(-) 103.11	(-) 204.55	NA

**Source:** Information as per latest finalised accounts.

The ROCE of all SPSEs (Other than Power Sector) was negative during 2019-20, primarily because of increase in accumulated losses of Himachal Road Transport Corporation and Himachal Pradesh State Forest Development Corporation Limited by ₹154.80 crore and ₹34.43 crore respectively.

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

In view of the significant investment made by the Government of Himachal Pradesh in 23 (except HIMCON and Himachal Worsteds Mills Limited) SPSEs, Rate of Real Return (RORR) is essential from the perspective of the State Government. Traditional calculation of ROI based only on historical cost of investment may not be a correct indicator of the adequacy of the return on the investment since such calculations ignore the Present Value (PV) of money. Therefore, in addition, RORR is calculated considering the PV of investment.

To bring the historical cost of investments to its PV at the end of each year up to 31 March 2020, the past investments / year-wise funds infused by the GoHP in the all SPSEs have been compounded at the year-wise average rate of interest on Government borrowings which is considered as the minimum cost of funds to the Government, for the concerned year. Therefore, PV of the State Government investment in the shape of equity, interest free loans, grants / subsidies received for meeting out operational and administrative expenditure of these companies till 31 March 2020 was computed.

In order to bring the historical cost of investments to its PV at the end of each year up to 31 March 2020, the past investments/year wise funds infused by the State Government in the SPSEs were computed on the basis of following assumptions:

- Where interest free loans were given to the SPSEs and later converted into equity, the amount of loan converted into equity has been deducted from the amount of interest free loans and added to the equity of that year.
- The average rate of interest on Government borrowings for the concerned financial year<sup>47</sup> was adopted as compounded rate for arriving at the PV since these represent the cost incurred by the Government towards

<sup>47</sup> The average rate of interest on Government borrowings was adopted from the Reports of the Comptroller and Auditor General of India on State Finances (Government of Himachal Pradesh) for the concerned year wherein the calculation for the average rate for interest paid = Interest Payment / [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities)/2] \* 100.

investment of funds for the year and therefore considered as the minimum expected rate of return on investments made by the Government.

- Disinvestment has been deducted while calculating total investment at the end of the year.

#### 2.5.4 Rate of real Return (RORR) on the basis of Present Value of Investment

The Company wise position of State Government investment in the 23 SPSEs in the form of equity and loans since inception of these SPSEs till 31 March 2020 is indicated in **Appendix-2.1**. However, no interest free loans/interest free loans were converted into equity/grants/subsidies or disinvestments made by the State Government during this period.

The consolidated position of the PV of State Government investment in SPSEs (Other than Power Sector) from 1999-2000 to 2019-20 is indicated in **Table-2.14**.

**Table-2.14: Year wise details of investment made by the State Government and present value (Real Return) of Government investment for the period from 1999-2000 to 2019-20**

(₹ in crore)

Year	Present value of total investment at the beginning of the year	Equity infused by the State Government during the year	Net Interest free loans given by the State Government during the year	Interest free loans converted into equity during the year	Grants/subsidies given by State Government for operational and administrative expenditure	Disinvestment by the State Government during the year at face value	Total investment during the year	Total investment at the end of the year	Weighted Average rate of interest on Government borrowings (in per cent)	Present value of total investment at the end of the year	Minimum expected return to recover cost of funds for the year	Total earnings for the year	Return on Investment
A	B	C	D	E	F	G	H	I	J	K	L	M	N
							H=C+D-E+F-G	I=B+H		K=I*(1+J/100)	L=I*J/100		N=M/K*100
Up-to 1999-2000	-	300.04	0.49	-	-	-	300.53	300.53	8.83	327.07	26.54	-	-
2000-01	327.07	32.48	1.51	-	-	-	33.99	361.06	10.15	397.71	36.65	-49.50	-
2001-02	397.71	13.01	-	-	-	-	13.01	410.72	11.06	456.15	45.43	-36.70	-
2002-03	456.15	12.43	-	-	-	-	12.43	468.58	10.37	517.17	48.59	-29.19	-
2003-04	517.17	28.60	-	-	-	-	28.60	545.77	10.98	605.70	59.93	-31.10	-
2004-05	605.70	16.06	-	-	-	-	16.06	621.76	10.60	687.66	65.91	-43.44	-
2005-06	687.66	13.59	0.15	-	-	-	13.74	701.40	9.20	765.93	64.53	-30.72	-
2006-07	765.93	14.30	-	-	-	-	14.30	780.23	9.40	853.57	73.34	-62.08	-
2007-08	853.57	38.31	2.25	-	-	-	40.56	894.13	9.09	975.41	81.28	-46.66	-
2008-09	975.41	53.97	-0.10	-	-	-	53.87	1,029.28	9.19	1,123.87	94.59	-33.88	-
2009-10	1,123.87	117.16	-	-	-	-	117.16	1,241.03	8.59	1,347.64	106.60	-55.92	-
2010-11	1,347.64	34.61	-	-	-	-	34.61	1,382.25	7.78	1,489.79	107.54	-38.15	-
2011-12	1,489.79	26.94	9.50	-	-	-	36.44	1,526.23	7.80	1,645.27	119.05	-72.06	-
2012-13	1,645.27	45.76	5.00	-	-	-	50.76	1,696.03	8.08	1,833.07	137.04	-88.46	-
2013-14	1,833.07	67.49	2.54	-	-	-	70.03	1,903.10	7.71	2,049.83	146.73	-112.41	-
2014-15	2,049.83	44.93	-	-	-	-	44.93	2,094.76	7.91	2,260.46	165.70	-98.97	-
2015-16	2,260.46	43.27	14.54	-	-	-	57.81	2,318.27	7.95	2,502.57	184.30	-175.83	-
2016-17	2,502.57	48.04	10.07	-	-	-	58.11	2,560.68	7.60	2,755.29	194.61	23.85	0.87
2017-18	2,755.29	50.80	8.00	-	-	-	58.80	2,814.09	7.71	3,031.06	216.97	-84.08	-
2018-19	3,031.06	62.85	10.00	-	-	-	72.85	3,103.91	8.32	3,362.15	258.24	-100.71	-
2019-20	3,362.15	81.25	-	-	114.89	-	196.14	3,558.29	7.97	3,841.89	283.60	-154.41	-
<b>Total:</b>	<b>1,145.89</b>	<b>63.95</b>	<b>-</b>	<b>-</b>	<b>114.89</b>	<b>-</b>	<b>1,324.73</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,517.17</b>	<b>-</b>	<b>-</b>

Source: Statistical information received from SPSEs and as per latest finalised accounts.

The present value of investment of the State Government in these SPSEs at the end of 2019-20 increased to ₹3,841.89 crore from ₹300.04 crore in 1999-2000 as the State Government made investments in shape of equity was ₹1,145.89 crore and grants/subsidy for meeting operational and administrative expenses amounting to ₹114.89 crore and interest free loans of ₹63.95 crore. Total earnings for the all the years remained negative or below the minimum expected return to recover cost of funds infused in these SPSEs. From 1999-2000 to 2019-20, the SPSEs earned profit (₹23.85 crore) only during 2016-17 and these SPSEs incurred losses in the rest of financial years.

### **2.5.5 Return on Investment on Historical Cost and Present Value of Investment**

The State Government as on 31-03-2020 had invested ₹1,324.73 crore on historical cost<sup>48</sup> basis. There was only positive return during 2016-17. The Return on Investment at historical cost for 2016-17 was 2.39 *per cent* while on present value the same was 0.87 *per cent*.

### **2.6 Winding up of inactive SPSEs**

Three of the 25 SPSEs were inactive companies having a total investment of ₹19.64 crore (₹17.72 crore in Agro Industrial Packaging India Limited, ₹0.92 crore in Himachal Worsteds Mills Limited and ₹one crore in Himachal Pradesh Beverages Limited) as on 31 March 2020. The number of inactive SPSEs at the end of each year, during last five years ended 31 March 2020, is given in **Table-2.15**.

**Table-2.15: Inactive SPSEs**

<b>Particulars</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
Number of inactive SPSEs	2	2	2	3	3

**Source:** *Compiled from the information included in Audit Reports on PSUs (Economic Sector), GoHP of respective years.*

The Himachal Worsteds Mills Limited has been under liquidation since 2000-01 while the liquidation process in respect of Himachal Pradesh Agro Industrial Packaging India Limited and Himachal Pradesh Beverages Limited is yet to be initiated. The State Government may take appropriate decision regarding winding up of these inactive SPSEs.

<sup>48</sup> *Historical cost of investment for a year is the cumulative total of funds infused by State Government in form of equity and grants/subsidies for operational and administrative expenditure.*

