

# **CHAPTER – IV**

## **ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKINGS)**



## CHAPTER-IV

### ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKINGS)

#### 4.1 Functioning of Public Sector Undertakings

##### 4.1.1 Introduction

The State Public Sector Undertakings (PSUs) consist of the State Government Companies and Statutory Corporations. The PSUs are established to carry out activities of commercial nature keeping in view the welfare of people and the State economy. As on 31 March 2019, there were six PSUs (all working Government companies) in Mizoram as detailed in **Table-4.1.1**:

**Table-4.1.1: Total number of PSUs as on 31 March 2019**

Type of PSU	Working PSUs	Non-working PSUs	Total
Government Companies <sup>43</sup>	6	0	6
<b>Total</b>	<b>6</b>	<b>0</b>	<b>6</b>

None of these companies were listed on the stock exchange which means that the shares of the PSUs cannot be traded in the stock exchange. During the year 2018-19, no new PSU was incorporated and no existing PSU was closed down.

##### 4.1.2 Investment in PSUs

###### 4.1.2.1 State Government's investment in PSUs

The State's investment in its PSUs was by way of share capital/ loans and special financial support by way of grants.

As of 31 March 2019, the investment by the Government of Mizoram (capital and long-term loans) in five<sup>44</sup> out of six PSUs was ₹63.48 crore<sup>45</sup> as detailed in **Table-4.1.2**:

**Table-4.1.2: Details of State's investment in PSUs**

(₹ in crore)

Year	Equity Capital	Long term Loans	Total
2018-19	54.04	9.44	<b>63.48</b>
2014-15	54.04	10.44	<b>64.48</b>

The State Government's investment as on 31 March 2019 consisted of ₹54.04 crore (85.13 *per cent*) towards equity capital and ₹9.44 crore (14.87 *per cent*) in long-term loans as against 83.81 *per cent* (capital) and 16.19 *per cent* (long-term loans) as on 31 March 2015.

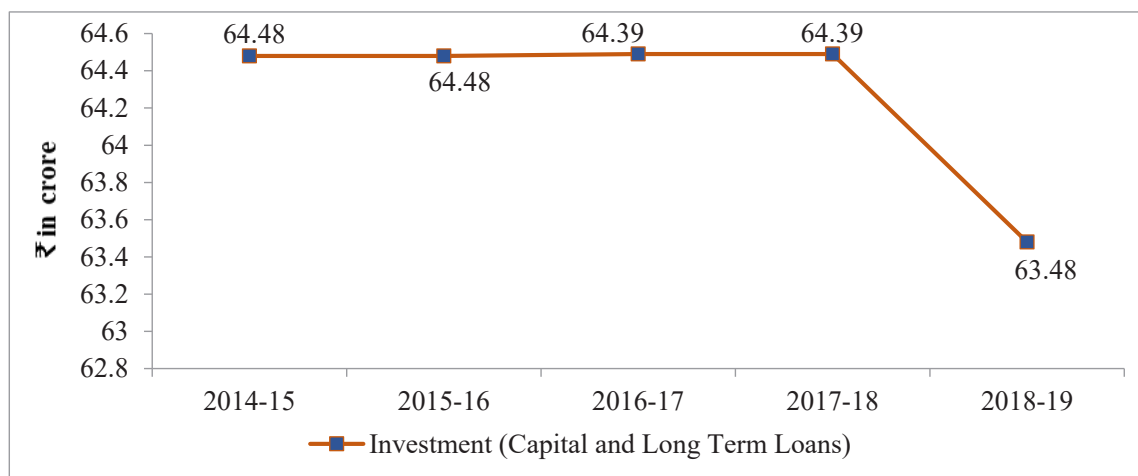
<sup>43</sup> Government Companies includes other companies referred to in Section 139(5) and 139(7) of the Companies Act, 2013

<sup>44</sup> Excluding one PSU (Mizoram Mineral Development Corporation Limited), which is subsidiary of another Government Company (Zoram Industrial Development Corporation Limited) and had no direct investment from the GoM

<sup>45</sup> The figures of investment are provisional and as provided by the PSUs as none of the six PSUs had finalised their accounts for 2018-19 as of September 2019

A graphical presentation of State Government's investment in PSUs during last five years (2014-15 to 2018-19) has been given in **Chart-4.1.1**:

**Chart-4.1.1: State's total investment in PSUs**



As can be noticed from the **Chart** above, the State Government's investment in PSUs during last five years has declined by 1.55 *per cent* from ₹64.48 crore in 2014-15 to ₹63.48 crore as of 31 March 2019 due to reduction (₹one crore) in the loans of Mizoram Handloom and Handicrafts Development Corporation Limited.

During 2018-19, out of five working PSUs<sup>46</sup> where State Government had made direct investment, four PSUs incurred losses and only one PSU (Zoram Industrial Development Corporation Limited) earned profit (₹2.54 crore) as per their latest finalised accounts (**Appendix-4.1.1**). However, this profit making PSU had not declared any dividend. There was no recorded information about the existence of any specific policy of the State Government regarding payment of minimum dividend by the PSUs.

The State Government's investment (historical value) in the five PSUs mentioned above had eroded by 0.24 *per cent* in 2018-19 and the losses of three<sup>47</sup> out of these five PSUs (accumulated losses of ₹44.28 crore) had completely eroded the State's investment in their paid-up capital (₹41.23 crore) as per their latest finalised accounts.

#### 4.1.2.2 Total Sector-wise investment in PSUs

Total investment of State Government and Other Stakeholders (Central Government, Holding companies, Banks, Financial Institutions, *etc.*) in PSUs in various important sectors of economy at the end of 31 March 2015 and 31 March 2019 has been given in **Table-4.1.3**.

<sup>46</sup> Excluding one PSU (Serial No. 6 of **Appendix-4.1.1**), which is subsidiary of another Government Company (Serial No. 2 of **Appendix-4.1.1**) and had no direct investment from the State Government

<sup>47</sup> Serial No. 1, 2 and 4 of **Appendix-4.1.1**

**Table-4.1.3: Sector-wise details of total investments in PSUs**

(₹ in crore)

Sector	Number of PSUs	Total Investment	
		2014-15	2018-19 <sup>48</sup>
Agricultural Marketing	1	6.45	6.45
Financing	1	38.46	45.46
Manufacturing	2	27.45	27.45
Miscellaneous	2	11.24	10.24
<b>Total</b>	<b>6</b>	<b>83.60</b>	<b>89.60</b>

It can be seen from the **Table** above that as compared to 2014-15, the combined investment of State Government and Other Stakeholders during 2018-19 increased in Financing sector by ₹ seven crore (18.20 *per cent*) on account of increase (₹ seven crore) in long term loans of Zoram Industrial Development Corporation Limited.

#### 4.1.3 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per the records of PSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the Finance Department and the PSUs concerned should carry out reconciliation of differences. The position in this regard as on 31 March 2019 is given in **Table-4.1.4**.

**Table-4.1.4: Equity, loans, guarantees outstanding as per the Finance Accounts *vis-à-vis* records of PSUs**

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	6.99	54.04	47.05
Loans	Not available	9.44	9.44
Guarantee	30.38	28.49	1.89

Source: Finance Accounts 2018-19 and PSUs' records

As on 31 March 2019, there were unreconciled differences in the figures of equity (₹47.05 crore), loans (₹9.44 crore) and guarantees (₹1.89 crore) as per two sets of records. The differences occurred in respect of all five PSUs<sup>49</sup> where State Government had made direct investment and reconciliation of these two sets of figures has been pending for more than ten years.

Regarding the Loan figures as per State Finance Accounts, the Finance Department disburses the loans to various Departments of the State Government for different sectoral activities and booked the amount sector-wise in the Finance Accounts. In turn, the Departments disburse these loans to respective PSUs functioning under their administrative control. Hence, the details of the State Government loans provided to various PSUs are not available in the State Finance Accounts.

<sup>48</sup> The figures of investment are provisional and as provided by the PSUs as none of the six PSUs had finalised their accounts for 2018-19 as of September 2019

<sup>49</sup> Excluding PSU at Serial No. 6 of *Appendix-4.1.1* which is subsidiary of another Government Company (Serial No. 2 of *Appendix-4.1.1*) and had no direct investment from the State Government

Though the Principal Secretary, Finance Department, Government of Mizoram as well as the Management of the PSUs concerned were appraised regularly about the differences impressing upon the need for early reconciliation, no significant progress was noticed in this regard.

The State Government and the PSUs concerned may take concrete steps to reconcile the differences in a time-bound manner. The Government should correct the system of financing the PSUs and the Finance Accounts be updated.

#### 4.1.4 Special support and guarantees to PSUs during the year

The State Government provides financial support to PSUs in various forms through annual budgetary allocations. The details of budgetary outgo towards equity, loans and grants/subsidies in respect of PSUs for five years ended 2018-19 are given in **Table-4.1.5**:

**Table-4.1.5: Details of budgetary support to PSUs**

(₹ in crore)

Particulars	2014-15		2015-16		2016-17		2017-18		2018-19	
	No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
Equity Capital outgo from budget	1	1.69	-	-	-	-	-	-	-	-
Loans given from budget	-	-	-	-	-	-	-	-	-	-
Grants provided	4	12.64	3	9.92	4	6.88	2	5.17	2	4.54
<b>Total Outgo (1+2+3)</b>	<b>5</b>	<b>14.33</b>	<b>3</b>	<b>9.92</b>	<b>4</b>	<b>6.88</b>	<b>2</b>	<b>5.17</b>	<b>2</b>	<b>4.54</b>
Guarantees issued during the year	-	-	-	-	-	-	-	-	-	-
Guarantee Commitment (Cumulative)	2	23.63	1	22.68	1	24.93	1	27.34	1	28.49

Source: As furnished by the state PSUs

As can be seen from the **Table** above, the budgetary support provided by State Government to PSUs decreased from ₹14.33 crore in 2014-15 to ₹4.54 crore in 2018-19. During last five years (2014-19), the State Government has not provided any budgetary support in the form of equity capital and long term loans except the equity contribution of ₹1.69 crore provided to one PSU during 2014-15. During 2018-19, the budgetary assistance of ₹4.54 crore in the form of grants/ subsidy was provided mainly to meet the salaries and other establishment expenditure of two PSUs<sup>50</sup>. The State Government did not provide equity assistance to any PSUs during 2018-19.

Government of Mizoram (GoM) provides guarantee under Mizoram Guarantee Act, 2011 for PSUs to avail long term borrowings from Banks and other financial institutions. During 2018-19, Guarantee commitments of ₹28.49 crore were outstanding pertaining to one PSU (Zoram Industrial Development Corporation Limited).

<sup>50</sup> Zoram Industrial Development Corporation Limited (₹2.83 crore) and Mizoram Food and Allied Industries Corporation Limited (₹1.71 crore)

#### 4.1.5 Accountability framework

The audit of the financial statements of a Company in respect of financial years commencing on or after 01 April 2014 is governed by the provisions of the Companies Act, 2013 (Act) and audit of the financial statements in respect of financial years that commenced earlier than 01 April 2014 continued to be governed by the Companies Act, 1956. The new Act has brought about increased Regulatory Framework, wider Management responsibility and higher Professional Accountability.

##### 4.1.5.1 Statutory Audit/ Supplementary Audit

Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG) audit the financial statements of a Government Company. In addition, CAG conducts the supplementary audit of these financial statements under the provisions of Section 143(6) of the Act.

##### 4.1.5.2 Role of Government and Legislature

The State Government exercises control over the affairs of these PSUs through its administrative departments. The Government appoints the Directors of the Board of these PSUs.

The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this purpose, the Annual Reports of State Government Companies together with the Statutory Auditors' Reports and comments of the CAG thereon are required to be placed before the Legislature under Section 394 of the Act.

#### 4.1.6 Arrears in finalisation of accounts

The financial statements of the companies are required to be finalised within six months after the end of the financial year *i.e.* by September end to comply with the provisions of Section 96(1) of the Act. Failure to do so may attract penal provisions under Section 99 of the Act. Timely finalisation of accounts is important for the State Government to assess the financial health of the PSUs and to avoid financial misrepresentation and mismanagement. Persistent delay in finalisation of accounts is fraught with the risk of fraud and leakage of public money going undetected apart from violation of the provision of the Companies Act, 2013.

**Table-4.1.6** provides the details of progress made by the working PSUs in finalisation of their annual accounts as on 30 September 2019.

**Table-4.1.6: Position relating to finalisation of accounts of working PSUs**

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Number of PSUs	6	6	6	6	6
Number of accounts finalised during current year	1	15	15	2	2
Number of working PSUs with arrears in accounts	6	6	6	6	6
Number of accounts in arrears	38	29	20	24	28
Extent of arrears in years	1 to 13	2 to 10	1 to 7	2 to 8	1 to 9

As could be noticed from the **Table** above, the number of PSU accounts in arrears had reduced from 38 Accounts (2014-15) to 20 Accounts (2016-17) due to finalisation of 30 Accounts by the PSUs during 2015-16 and 2016-17. During subsequent two years (2017-19), two PSUs finalised only four Accounts and consequently, the backlog of PSU accounts increased to 28 Accounts as on 31 March 2019.

During 2018-19, out of the six working PSUs, two PSUs<sup>51</sup> had finalised two Annual Accounts. Non-Review Certificates were issued on both the accounts of two PSUs. None of the PSUs had prepared its up-to-date accounts (2018-19) as of 30 September 2019. The earliest accounts in arrears were since 2009-10 (nine Accounts), which related to Zoram Electronics Development Corporation Limited as detailed in **Appendix-4.1.1**.

The administrative departments concerned have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by the PSUs within the stipulated period.

The Accountant General, Mizoram had been regularly pursuing with the Chief Secretary of Mizoram and the administrative departments concerned for liquidating the arrears of accounts of PSUs. However, the State Government and the PSUs concerned could not address the issue to clear pendency of accounts of the PSUs in a time bound manner.

### Recommendations

1. The State Government may ensure clearance of arrears and set the targets for individual PSUs, which may be monitored.
2. The PSUs may get the figures of equity and loans reconciled with the State Government Departments and clear their arrear of accounts.

### 4.1.7 Investment by State Government in PSUs whose accounts are in arrears

The State Government invested ₹27.69 crore in four PSUs (equity: ₹0.25 crore and grants: ₹27.44 crore) during the years for which the accounts of these PSUs had not been finalised as detailed in **Table-4.1.7**.

**Table-4.1.7: Investment by State Government in PSUs having accounts in arrears**

(₹ in crore)

Sl. No.	Name of PSU	Accounts finalised up to	Details of Accounts in arrears		Investment made by State Government during the period for which accounts are in arrears		
			Period	Number	Equity	Grants	Total
1.	Mizoram Agricultural Marketing Corporation Limited	2010-11	2011-12 to 2018-19	08	0.25	1.12	1.37
2.	Zoram Industrial Development Corporation Limited	2016-17	2017-18 to 2018-19	02	-	5.50	5.50
3.	Zoram Electronics Development Corporation Limited	2009-10	2010-11 to 2018-19	09	-	8.42	8.42
4.	Mizoram Food and Allied Industries Corporation Limited	2014-15	2015-16 to 2018-19	04	-	12.40	12.40
<b>Total</b>					<b>0.25</b>	<b>27.44</b>	<b>27.69</b>

Source: Information as furnished by the PSUs

<sup>51</sup> Zoram Industrial Development Corporation Limited (2016-17) and Mizoram Handloom and Handicrafts Development Corporation Limited (2017-18)



In the absence of finalised accounts and their subsequent audit, it cannot be verified if the investments made and the expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not.

The Government may take special steps for expeditious clearance of arrears of accounts of PSUs. Until the accounts are made current, Government may consider not giving further financial assistance to such companies.

#### 4.1.8 Performance of PSUs as per their latest finalised accounts

The financial position and working results of working PSUs are detailed in **Appendix-4.1.1**. **Table-4.1.8** provides the comparative details of working PSUs turnover and State GDP for a period of five years ending 2018-19.

**Table-4.1.8: Details of working PSUs turnover vis-a-vis State GDP**

Particulars	₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Turnover <sup>52</sup>	17.42	5.86	3.77	17.58	13.87
State GDP <sup>53</sup>	12,498.69	13,373.83	17,191.91	19,475.69	22,192.07
Percentage of Turnover to State GDP	0.14	0.04	0.02	0.09	0.06

Source: Latest finalised accounts, Economics and Statistics Department

From the **Table** above, it can be seen that contribution of PSU turnover to the State GDP has reduced from 0.14 *per cent* (2014-15) to 0.06 *per cent* (2018-19) during last five years. This was mainly due to the overall decline of ₹3.55 crore (20.38 *per cent*) in PSU turnover from ₹17.42 crore (2014-15) to ₹13.87 crore (2018-19). Turnover decreased in all the sectors except the Financing sector. The major decrease of ₹8.89 crore (91.93 *per cent*) was in Manufacturing sector from ₹9.67 crore (2014-15) to ₹0.78 crore (2018-19). In Financing sector, however, the PSU turnover increased by ₹5.72 crore (80.68 *per cent*) from ₹7.09 crore (2014-15) to ₹12.81 crore (2018-19).

##### 4.1.8.1 Key parameters

Some other key parameters of PSUs performance as per their latest finalised accounts as on 30 September of the respective year are given in **Table-4.1.9**.

**Table-4.1.9: Key Parameters of PSUs**

Particulars	₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Debt	22.68	23.46	30.68	30.68	31.87
Turnover <sup>54</sup>	17.42	5.86	3.77	17.58	13.87
Debt/ Turnover Ratio (DTR)	1.30:1	4.00:1	8.14:1	1.75:1	2.30:1
Interest Payments	0.07	0.06	0.02	0.02	0.02
Accumulated losses	57.89	57.89	62.09	59.14	57.10

Source: Latest finalised accounts

<sup>52</sup> Turnover of working PSUs as per their latest finalised accounts

<sup>53</sup> Information furnished by the Directorate of Economics and Statistics, Government of Mizoram

<sup>54</sup> Turnover of working PSUs as per the latest finalised accounts as on 30 September of the respective year

### Debt-Turnover Ratio

A low debt-to-turnover ratio (DTR) demonstrates a good balance between debt and income. Conversely, a high DTR can signal of having too much of debt against the income of PSUs from core activities. Thus, the PSUs having lower DTR are more likely to comfortably manage their debt servicing and repayments.

### PSU Debt

As could be seen from the **Table** above, the PSU debt during the period of five years, has increased by ₹9.19 crore (40.52 per cent) from ₹22.68 crore (2014-15) to ₹31.87 crore (2018-19). On the other hand, the PSU turnover during the five years had declined by ₹3.55 crore (20.38 per cent) from ₹17.42 crore (2014-15) to ₹13.87 crore (2018-19). Consequently, there was overall deterioration in the DTR in last five years from 1.30:1 (2014-15) to 2.30:1 (2018-19). Further, the accumulated losses of the PSUs during the five years (2014-19) have recorded marginal decrease of ₹0.79 crore (1.36 per cent) from ₹57.89 crore (2014-15) to ₹57.10 crore (2018-19).

#### 4.1.8.2 Erosion of capital due to losses

The paid-up capital and accumulated losses of six working PSUs<sup>55</sup> as per their latest finalised accounts as on 30 September 2019 were ₹58.61 crore and ₹57.10 crore respectively (**Appendix-4.1.1**).

The Return on Equity<sup>56</sup> (RoE) in respect of two working PSUs<sup>57</sup> was (-) 5.45 per cent as per their latest finalised accounts. The accumulated losses (₹44.46 crore) of remaining four PSUs has completely eroded their paid-up capital (₹41.38 crore) as detailed in **Table-4.1.10**:

**Table-4.1.10: PSUs with primary erosion of paid-up capital**

(₹ in crore)

Sl. No.	Name of PSU	Latest finalised accounts	Paid up capital	Accumulated loss
1.	Mizoram Agricultural Marketing Corporation Limited	2010-11	5.45	6.91
2.	Zoram Industrial Development Corporation Limited	2016-17	15.78	16.46
3.	Mizoram Food and Allied Industries Corporation Limited	2014-15	20.00	20.91
4.	Mizoram Mineral Development Corporation Limited <sup>58</sup>	2014-15	0.15	0.18
<b>Total</b>			<b>41.38</b>	<b>44.46</b>

Source: Latest finalised accounts of PSUs

The accumulated losses of PSUs had eroded public wealth, which is a cause of serious concern and the State Government needs to review the working of these PSUs to either improve their profitability or close their operations.

<sup>55</sup> Including PSU at Serial No. 6 of **Appendix-4.1.1**, which is subsidiary of another Government Company (Serial No. 2 of **Appendix-4.1.1**) and had no direct investment from the State Government

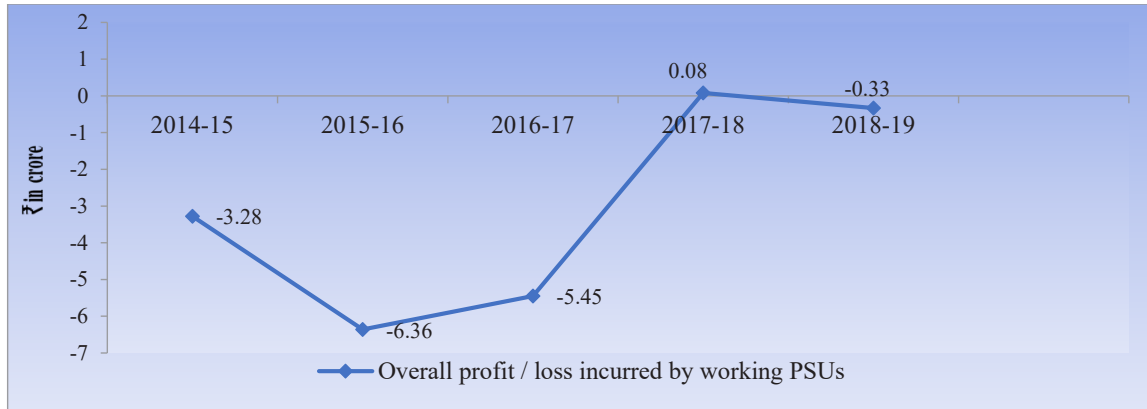
<sup>56</sup> Return on Equity = Net Profit after taxes less preference dividend ÷ Shareholders' Fund/ Equity; Where, Shareholders' Fund/ Equity represents 'Paid up Share Capital plus Free Reserves and Surplus minus Accumulated Loss minus Deferred Revenue Expenditure'

<sup>57</sup> Serial No. 3 and 5 of **Appendix-4.1.1**

<sup>58</sup> 'Mizoram Mineral Development Corporation Limited' is a subsidiary of 'Zoram Industrial Development Corporation Limited' and had no direct investment from the State Government

The overall position of profit/ losses incurred by the working PSUs during 2014-15 to 2018-19 as per their latest finalised accounts as on 30 September of the respective years has been depicted in **Chart-4.1.2:**

**Chart-4.1.2: Overall profit (+)/ losses (-) of working PSUs<sup>59</sup>**



From the **Chart** above, it can be seen that during the last five years, PSUs earned profits (₹0.08 crore) during one year (2017-18) only and incurred losses during the remaining four years ranging between ₹6.36 crore (2015-16) and ₹0.33 crore (2018-19). The profits (₹0.08 crore) earned by the PSUs during 2017-18 were mainly due to profits aggregating ₹2.94 crore earned by Zoram Industrial Development Corporation Limited (₹1.66 crore) and Mizoram Handloom and Handicrafts Development Corporation Limited (₹1.28 crore).

During the year 2018-19, out of six working PSUs, one PSU (Zoram Industrial Development Corporation Limited) earned profit of ₹2.54 crore while remaining five PSUs incurred aggregate losses of ₹2.87 crore. The details of major contributors to profits and losses of working PSUs are given in **Table-4.1.11:**

**Table-4.1.11: Major Contributors to profits and losses of working PSUs**

(₹ in crore)

Name of PSU	Latest finalised accounts	Profit (+)/ loss (-)
<b>Contributors to profit</b>		
Zoram Industrial Development Corporation Limited	2016-17	(+) 2.54
<b>Contributors to losses</b>		
Mizoram Food and Allied Industries Corporation Limited	2014-15	(-) 1.59
Mizoram Agricultural Marketing Corporation Limited	2010-11	(-) 1.02

#### 4.1.8.3 Return on Capital Employed

Return on Capital Employed (ROCE) is a profitability metric that measures the long term profitability and efficiency of the total capital employed by a company. Companies create value when they generate returns on the capital employed. ROCE is an important decision metric for long term lenders. ROCE is calculated by dividing a company's earnings before interest and taxes (EBIT) by the capital employed<sup>60</sup>.

<sup>59</sup> As per the latest finalised accounts as on 30 September of the respective years

<sup>60</sup> Capital employed = Paid up share capital + free reserves and surplus + long term loans – accumulated losses - deferred revenue expenditure

During 2018-19, the overall Capital Employed in six working PSUs as per their latest accounts was ₹33.38 crore. The ROCE of the PSUs ranged from (-) 158.73 *per cent* (Mizoram Agricultural Marketing Corporation Limited) to (+) 8.76 *per cent* (Zoram Industrial Development Corporation Limited<sup>61</sup>). Further, out of six working PSUs, two PSUs<sup>62</sup> had negative Capital employed and hence, their ROCE was not workable (**Appendix-4.1.1**).

#### 4.1.9 Return on Investment on the basis of Present Value of Investment

The Rate of Real Return (RORR) measures the profitability and efficiency with which equity and similar non-interest bearing capital have been employed, after adjusting them for their time value. To determine the RORR on Government Investment in the State PSUs, the investment of State Government in the form of equity, interest free loans and grants/ subsidies given by the State Government for operational and management expenses less the disinvestments (if any), has been considered and indexed to their Present Value (PV) and summated. The RORR is then calculated by dividing the 'profit after tax' (PAT) of the PSUs by the sum of the PV of Government investment.

During 2018-19, out of the five<sup>63</sup> working PSUs where State Government had made direct investment, four PSUs incurred loss and only one PSU<sup>64</sup> earned profit (**Appendix-4.1.1**). On the basis of return on historical value, the State Government investment eroded by 0.24 *per cent* during 2018-19. On the other hand, as per the RORR where the PV of investment is considered, the State Government investment eroded by 0.18 *per cent* as shown in **Appendix-4.1.2**. This difference in the percentage of investment erosion was on account of the adjustment made in the investment amount for time value of money.

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<sup>61</sup> The only PSU with positive ROCE

<sup>62</sup> Serial No. 4 and 6 of **Appendix-4.1.1**

<sup>63</sup> Excluding one PSU (at Serial No. 6 of **Appendix-4.1.1**), which is subsidiary of another Government Company (Serial No. 2 of **Appendix-4.1.1**) and had no direct investment from the State Government

<sup>64</sup> Zoram Industrial Development Corporation Limited