

CHAPTER-III

STATE PUBLIC SECTOR ENTERPRISES

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3.1 Functioning of State Public Sector Enterprises

3.1.1 Introduction

This Chapter presents a summary of financial performance of Government Companies, Corporations and Government controlled other companies. In the Chapter, the term State Public Sector Enterprises (SPSEs) encompasses the State Government owned companies set up under the Companies Act, 2013 and Statutory Corporations set up under the statutes enacted by the Legislature.

A Government Company is defined in Section 2(45) of the Companies Act, 2013 as a company in which not less than 51 *per cent* of the paid-up share capital is held by Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments and includes a company which is a subsidiary of a Government Company.

As on 31 March 2022, the State of Meghalaya had 21 SPSEs (including two non-working) as detailed in **Table 3.1.1**.

Table 3.1.1: Total number of SPSEs as on 31 March 2022

Type of SPSEs	Working SPSEs	Non-working SPSEs ³³	Total
Government Companies ³⁴	17	2	19
Statutory Corporations	2	Nil	2
Total	19	2	21

During the period of two years (2020-21 and 2021-22), three³⁵ new companies were added to CAG's audit purview while no existing company was closed down. None of the Government companies was listed on the stock exchange which means that the shares of the SPSEs cannot be traded in the stock exchange. Both the non-working companies in the State were under the liquidation process since 1986 (Meghalaya Electronics Development Corporation) and 2021 (Meghalaya Bamboo Chips Limited).

3.1.2 Investment in SPSEs

3.1.2.1 Investment in SPSEs by all stakeholders

The investors in Meghalaya PSEs include Government of Meghalaya, Government of India and others. As on 31 March 2022, the total investment (capital and long-term

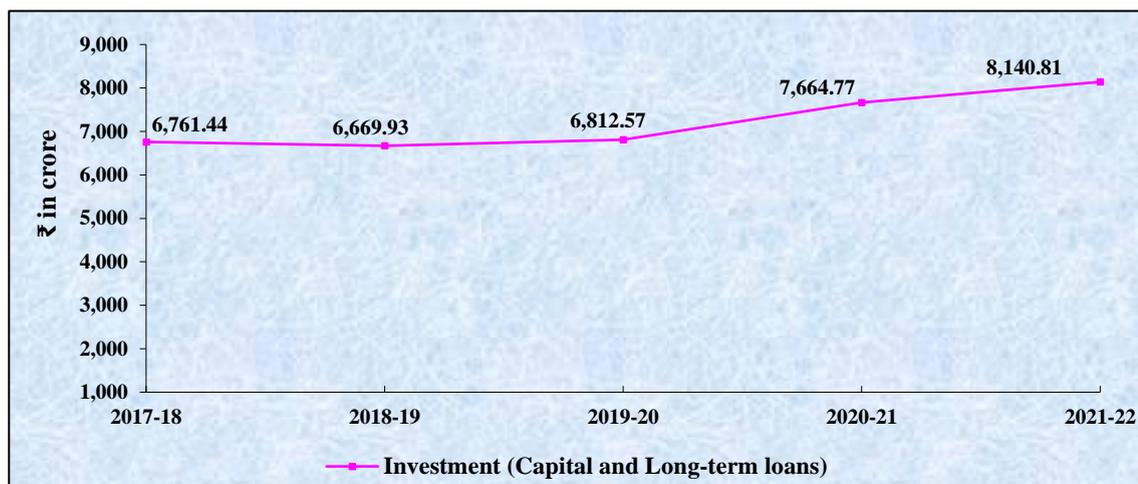
³³ During 2021-22, one company (Meghalaya Bamboo Chips Limited) was categorised as a non-working company.

³⁴ Government Companies include 'Other Companies' referred to in Section 139(5) and 139(7) of the Companies Act, 2013.

³⁵ Meghalaya Infratech Consultancy and Innovation Limited (Date of Incorporation: 3 September 2020); Meghalayan Age Limited (DOI: 17 June 2020); and Livelihood Improvement Finance Company of Meghalaya (DOI: 27 May 2009).

loans) in 21 SPSEs was ₹ 8,140.81 crore³⁶. This total investment consisted of 60.64 per cent towards capital (₹ 4,936.40 crore) and 39.36 per cent in long-term loans (₹ 3,204.41 crore). The investment has grown by 20.40 per cent from ₹ 6,761.44 crore in 2017-18 to ₹ 8,140.81 crore in 2021-22 as shown in **Chart 3.1.1**.

Chart 3.1.1: Total investment in SPSEs



Source: Information furnished by the Companies.

As seen from **Chart 3.1.1**, there was a significant increase (₹ 1,328.24 crore) in SPSEs investment during the last two years from ₹ 6,812.57 crore in 2019-20 to ₹ 8,140.81 crore in 2021-22. The increase was mainly due to increase of ₹ 1,154.01 crore in the equity capital (₹ 9.05 crore) and long term borrowings (₹ 1,144.96 crore) of Meghalaya Power Distribution Corporation Limited (MePDCL) during 2019-22. The loans of MePDCL increased mainly due to additional loans of ₹ 1,101.36 crore borrowed in equal proportion (₹ 550.68 crore each) from Power Finance Corporation Limited and Rural Electrification Corporation Limited during 2020-21 (₹ 672.86 crore) and 2021-22 (₹ 428.50 crore) for Atmanirbhar Bharat Abhiyan scheme.

3.1.2.2 Sector-wise investment in SPSEs by all stakeholders

Total investment (equity and long-term loans) of State Government and Other Stakeholders (Central Government, Holding companies, Banks, Financial Institutions, etc.) in SPSEs under various important sectors at the end of 31 March 2018, 31 March 2021 and 31 March 2022 has been given in **Table 3.1.2**.

Table 3.1.2: Sector-wise details of total investments in SPSEs

(₹ in crore)

Name of Sector	Government/Other Companies			Statutory Corporations			Total Investment		
	2017-18	2020-21	2021-22	2017-18	2020-21	2021-22	2017-18	2020-21	2021-22
Power	6,181.06	7,017.86	7,477.80	0	0	0	6,181.06	7,017.86	7,477.80
Manufacturing	301.15	347.36	347.36				301.15	347.36	347.36
Infrastructure	159.69	174.69	177.84	0	0	0	159.69	174.69	177.84
Service	7.96	10.51	10.51	95.94	103.31	108.31	103.90	113.82	118.82

³⁶ Investment figures are provisional and as per the information provided by the PSEs as none of the 21 SPSEs had finalized their accounts for 2021-22 as of September 2022.

Name of Sector	Government/Other Companies			Statutory Corporations			Total Investment		
	2017-18	2020-21	2021-22	2017-18	2020-21	2021-22	2017-18	2020-21	2021-22
Agriculture & Allied	2.45	1.97	1.97	0	0	0	2.45	1.97	1.97
Miscellaneous	9.83	5.71	11.86	3.36	3.36	5.16	13.19	9.07	17.02
Total	6,662.14	7,558.10	8,027.34	99.30	106.67	113.47	6,761.44	7,664.77	8,140.81

Source: Information furnished by the Companies.

The comparative figures of 2017-18, 2020-21 and 2021-22 show that more than 90 per cent of total investment in SPSEs was in the power sector SPSEs. In monetary terms, during 2021-22 combined investment of State Government and other stakeholders in the power sector was ₹ 7,477.80 crore, in manufacturing sector ₹ 347.36 crore and in infrastructure sector ₹ 177.84 crore. Increase in investment under power sector from 2017-18 to 2021-22 was mainly on account of long terms loans (₹ 1,010.24 crore) borrowed by four power sector companies³⁷, whereas overall increase (₹ 64.36 crore) in investment under manufacturing and infrastructure sector during 2017-22 was mainly on account of equity investment (₹ 52.61 crore) in three SPSEs³⁸. The investment in service sector SPSEs which was meagre at around 1.54 per cent of total investment in 2017-18, further declined to 1.46 per cent in 2021-22. This is an area of concern as the service sector is the main driver of GSDP in the State (55.53 per cent in 2021-22). The Government needs to find ways of attracting higher investment in this sector to boost economic growth.

3.1.2.3 State Government's investment in SPSEs

The State Government's investment in its SPSEs is in the form of share capital, loans and special financial support by way of revenue grants.

As on 31 March 2022, the investment of the State Government (capital and long-term loans) in 21 SPSEs was ₹ 3,340.75 crore³⁹. The comparative change in Government investment in SPSEs from 2017-18 to 2021-22 is depicted in **Table 3.1.3**.

Table 3.1.3: State Government investment Capital and Long terms loans in SPSEs

Year	(₹ in crore)		
	Equity Capital	Long term Loans	Total
2021-22	2,712.69	628.06	3,340.75
2017-18	2,501.78	307.48	2,809.26

Source: Information furnished by SPSEs.

Of the State's total investment as on 31 March 2022, 81.20 per cent was towards capital investment and 18.80 per cent in long-term loans as against 89.05 per cent (capital) and 10.95 per cent (long-term loans) as on 31 March 2018.

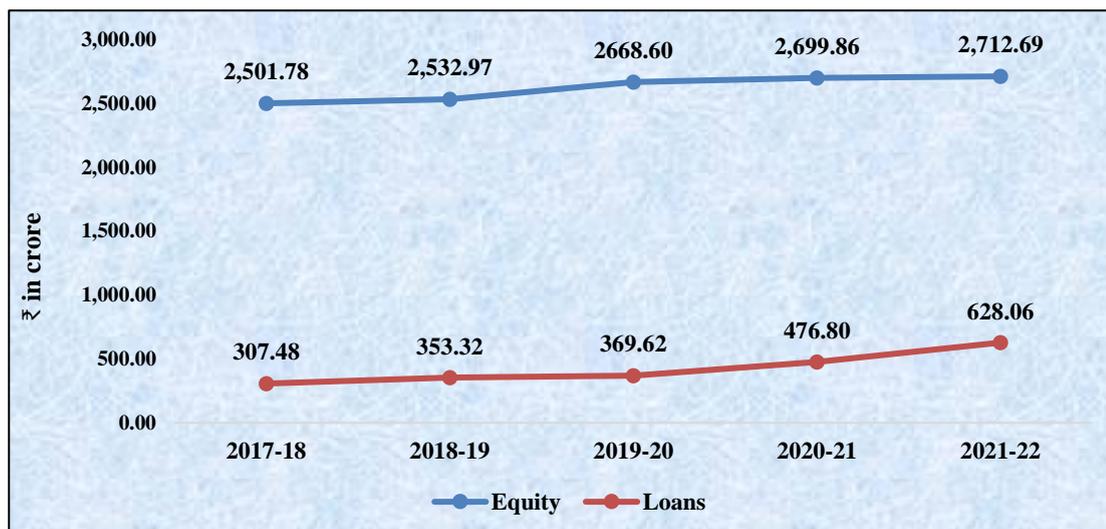
Chart 3.1.2 presents the trend of State Government investment in equity and loans in SPSEs during the last five years (2017-18 to 2021-22).

³⁷ Meghalaya Energy Corporation Limited, Meghalaya Power Generation Corporation Limited, Meghalaya Power Distribution Corporation Limited and Meghalaya Power Transmission Corporation Limited.

³⁸ Mawmluh Cherra Cements Limited (₹34.61 crore), Meghalaya Industrial Development Corporation Limited (₹ 15.00 crore) and Meghalaya Government Construction Corporation Limited (₹ 3.00 crore).

³⁹ Investment figures are provisional and as per the information provided by the SPSEs as none of the 21 SPSEs had finalised accounts for 2021-22 as of 30th September 2022.

Chart 3.1.2: State Government's investment in SPSEs



Source: Information furnished by the Companies.

From **Chart 3.1.2**, it can be observed that equity investment by the State Government grew by 8.43 *per cent* from ₹ 2,501.78 crore in 2017-18 to ₹ 2,712.69 crore in 2021-22. However, loans from the State Government jumped by more than 100 *per cent* from ₹ 307.48 crore in 2017-18 to ₹ 628.06 crore in 2021-22.

During 2021-22, out of 18 working SPSEs⁴⁰ where the State Government had made direct investment, 11 SPSEs incurred losses (₹ 726.65 crore) and only five SPSEs⁴¹ earned profit (₹ 3.13 crore) as per their latest finalised accounts while one SPSE⁴² was functioning on 'no profit no loss' basis and the remaining one⁴³ SPSE had not submitted its first annual accounts.

None of the profit making SPSEs during 2021-22 had 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 SPSEs.

The State Government's investment in SPSEs at historical value had eroded by 16.61 *per cent* in 2021-22. The losses of eight SPSEs⁴⁴ which accumulated to ₹ 3,269.51 crore had completely eroded the State's investment of ₹ 1,162.48 crore in their paid-up capital as per their latest finalised accounts.

3.1.2.4 State Government Investment in Power sector PSEs

The details of investment (equity and long-term loans) in the four power sector SPSEs as on 31 March 2022 is given in **Table 3.1.4**.

⁴⁰ In one working SPSE (Livelihood Improvement Finance Company of Meghalaya), no investment (Equity and Loans) by the State Government.

⁴¹ (1) Forest Development Corporation of Meghalaya Limited, (2) Meghalaya Mineral Development Corporation Limited, (3) Meghalaya Tourism Development Corporation Limited, (4) Shillong Smart City Limited and (5) Meghalaya State Warehousing Corporation.

⁴² Meghalaya Basin Management Agency.

⁴³ Meghalayan Age Limited.

⁴⁴ Serial no. 3, 4, 6, 7, 10, 12, 13 & 18 of **Appendix 3.1.1**.

Table 3.1.4: Investment in Power sector SPSEs as on 31 March 2022

Name of SPSE	Investment (₹ in crore)								
	Equity			Long-Term Loans			Total		Grand Total
	GoM	Others ⁴⁵	Total	GoM	Others ⁴⁶	Total	GoM	Others	
MeECL ⁴⁷	2,214.12	-	2,214.12	-	389.30	389.30	2,214.12	389.30	2,603.42
MePGCL ⁴⁸	-	925.36	925.36	260.34	736.58	996.92	260.34	1,661.94	1,922.28
MePDCL ⁴⁹	-	859.27	859.27	175.45	1,447.95	1,623.40	175.45	2,307.22	2,482.67
MePTCL ⁵⁰	-	425.59	425.59	42.19	1.65	43.84	42.19	427.24	469.43
Total	2,214.12	2,210.22	4,424.34	477.98	2,575.48	3,053.46	2,692.10	4,785.70	7,477.80

Source: Information furnished by the Companies.

As can be seen from **Table 3.1.4**, the total investment of ₹ 7,477.80 crore in Power sector SPSEs as on 31 March 2022, was made up of 59.17 per cent (₹ 4,424.34 crore) equity and 40.83 per cent (₹ 3,053.46 crore) in long-term loans. The State Government's investment (equity and loan) in power sector was 36 per cent (₹ 2,692.10 crore) of the total investment (₹ 7,477.80 crore) while the contribution of the State Government and others (Banks, FIs, etc.) towards the total long-term loans (₹ 3,053.46 crore) of power sector was 15.66 per cent (₹ 477.98 crore) and 84.34 per cent (₹ 2,575.48 crore) respectively.

3.1.3 Budgetary support and guarantees to SPSEs during the year

The State Government provides financial support to SPSEs in various forms through annual budgetary allocations. The details of budgetary outgo towards equity, loans and grants/subsidies in respect of SPSEs for the three years ended 2021-22 are given in **Table 3.1.5**.

Table 3.1.5: Details of budgetary support to SPSEs

(₹ in crore)

Sl. No.	Particulars	2019-20		2020-21		2021-22	
		No. of SPSEs	Amount	No. of SPSEs	Amount	No. of SPSEs	Amount
1.	Equity capital outgo from budget	3	135.53	4	31.26	7	13.43
2.	Loans given from budget	1	2.70	3	107.17	2	151.26
3.	Grants/Subsidy from budget (including capital grants)	6 2	(G)104.48 (S)20.82	11 2	(G) 184.23 (S) 19.77	14 1	(G) 498.58 (S) 5.00
4.	Total Outgo⁵¹ (1+2+3)	9	263.53	14	342.43	17	668.27
5.	Guarantees issued during the year	1	630	0	0	0	0
6.	Guarantee commitment (cumulative)	4	1,689.82	4	1,689.82	4	1,689.82

Source: As furnished by Companies/Corporations. (G): Grants; (S): Subsidies.

Budgetary support to SPSEs in 2021-22 jumped by more than 100 per cent over a period of two years. In 2019-20 it was ₹ 263.53 crore, while in 2021-22 it increased by

⁴⁵ Investment of MeECL in its three subsidiary companies (MePGCL, MePDCL and MePTCL).

⁴⁶ Includes banks and other financial Institutions, etc.

⁴⁷ Meghalaya Energy Corporation Limited.

⁴⁸ Meghalaya Power Generation Corporation Limited.

⁴⁹ Meghalaya Power Distribution Corporation Limited.

⁵⁰ Meghalaya Power Transmission Corporation Limited.

⁵¹ Actual number of SPSEs, which received equity, loans, grants/subsidies from the State Government.

153.58 per cent to ₹ 668.27 crore. As already stated above, major recipients of budgetary support during 2021-22 were four⁵² power sector SPSEs, whose aggregate financial support was ₹ 199.08 crore (equity ₹ 1.88 crore, loan ₹ 151.26 crore and grant ₹ 45.94 crore). Besides, Meghalaya Basin Development Agency also received grant of ₹ 180.55 crore for community and livelihood schemes while Meghalaya Infrastructure Development and Finance Corporation Limited received grant of ₹ 144.50 crore for implementation of Meghalaya Integrated Transport Development Programme.

As on 31 March 2022, the Government of Meghalaya has extended guarantees to loans amounting to ₹ 1,689.82 crore in respect of four SPSEs⁵³ which availed from various institutions (Banks, Financial Institutions and others).

3.1.4 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 continue to be governed by the Companies Act, 1956. The new Act has brought about increased regulatory framework, wider management responsibility and higher professional accountability.

3.1.4.1 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.

Audit of Statutory Corporations is governed by their respective legislations. Out of two Statutory Corporations in Meghalaya, CAG is the sole auditor for Meghalaya Transport Corporation. In respect of the other Corporation (*viz.* Meghalaya State Warehousing Corporation), Chartered Accountants conduct the audit and the CAG conducts the supplementary audit.

3.1.4.2 Role of Government and Legislature

The State Government exercises control over the affairs of these SPSEs through its administrative departments. The Government appoints the Chief Executives and Directors on the Board of these SPSEs.

The State Legislature also monitors the accounting and utilisation of Government investment in the SPSEs. 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.

⁵² Meghalaya Energy Corporation Limited, Meghalaya Power Generation Corporation Limited, Meghalaya Power Distribution Corporation Limited and Meghalaya Power Transmission Corporation Limited.

⁵³ Meghalaya Energy Corporation Limited (₹ 630 crore), Meghalaya Power Generation Corporation Limited (₹ 665.08 crore), Meghalaya Power Distribution Corporation Limited (₹ 393.74 crore) and Meghalaya Government Construction Corporation Limited (₹ one crore).

Similarly, the Annual Reports of Statutory Corporations along with the Separate Audit Reports of CAG are required to be placed before the Legislature as per the stipulations made under their respective governing Acts. The Audit Reports of CAG are submitted to the State Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

3.1.5 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 in accordance with the provisions of Section 96(1) of the Act. Failure to do so may attract penal provisions under Section 99 of the Act. Similarly, in case of Statutory Corporations, their accounts are to be finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

Timely finalisation of accounts is important for the State Government to assess the financial health of the SPSEs and to avoid financial misappropriation 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 provisions of the Act.

Table 3.1.6 provides the details of finalisation of annual accounts of SPSEs as on 30 September 2022.

Table 3.1.6: Position relating to finalisation of accounts of working SPSEs

Sl. No.	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
1.	Number of working SPSEs	16	16	17	17	19 ⁵⁴
2.	Number of accounts finalised during the year	30	16	20	16	14
3.	Number of accounts in arrears	32	32	29	30	38
4.	Number of working SPSEs with arrears in accounts	16	16	17	17	19
5.	Extent of arrears (numbers in years)	1 to 7	1 to 5	1 to 4	1 to 5	1 to 6

Source: Information furnished by the Companies.

The total number of pending accounts marginally declined from 32 in 2017-18 to 29 as on 30 September 2020, but again increased to 38 accounts in 2021-22. The highest pendency of accounts related to Meghalaya Transport Corporation (six accounts) and Forest Development Corporation of Meghalaya Limited (five accounts). Further, one SPSE (Livelihood Improvement Finance Company of Meghalaya), which was added under the audit purview of CAG during the year, had pendency of four accounts as on 30 September 2022.

⁵⁴ During 2021-22, three new SPSEs (Meghalaya Infratech Consultancy and Innovation Limited, Meghalayan Age Limited and Livelihood Improvement Finance Company of Meghalaya) having total seven accounts in arrear were added under the audit purview of CAG while one company (Meghalaya Bamboo Chips Limited) having one year accounts in arrear was categorised as a non-working company.

3.1.6 Investment by State Government in SPSEs whose accounts are in arrears

The State Government invested ₹ 744.09 crore in 18 SPSEs (equity: ₹ 37.13 crore; long term loans: ₹ 151.26 crore and grants: ₹ 555.70 crore) during the years for which the accounts of these SPSEs had not been finalised as detailed in **Table 3.1.7**.

Table 3.1.7: Investment by State Government in SPSEs having accounts in arrears

(₹ in crore)

Sl. No.	Name of SPSE	Accounts finalised up to	Accounts pending finalisation	Investment by State Government during the period of accounts in arrears		
				Equity	Loans	Grants
1.	Forest Development Corporation of Meghalaya Limited	2016-17	2017-18 to 2021-22	-	-	8.99
2.	Meghalaya Industrial Development Corporation Limited	2019-20	2020-21 and 2021-22	15.00	-	-
3.	Meghalaya Government Construction Corporation Limited	2020-21	2021-22	3.00	-	0.36
4.	Meghalaya Infrastructure Development and Finance Corporation Limited	2020-21	2021-22	-	-	144.50
5.	Meghalaya Infratech Consultancy and Innovation Limited	2020-21	2021-22	0.15	-	-
6.	Meghalaya Mineral Development Corporation Limited	2020-21	2021-22	-	-	0.69
7.	Meghalaya Energy Corporation Limited	2020-21	2021-22	1.88	-	-
8.	Meghalaya Power Generation Corporation Limited	2020-21	2021-22	-	50.00	18.25
9.	Meghalaya Power Distribution Corporation Limited	2020-21	2021-22	-	101.26	21.34
10.	Meghalaya Power Transmission Corporation Limited	2020-21	2021-22	-	-	6.35
11.	Meghalaya Tourism Development Corporation Limited	2018-19	2019-20 to 2021-22	-	-	17.14
12.	Meghalaya Handloom & Handicraft Development Corporation Limited	2018-19	2019-20 to 2021-22	-	-	7.07
13.	Meghalaya Basin Management Agency	2020-21	2021-22	-	-	180.55
14.	Shilling Smart City Limited	2020-21	2021-22	-	-	45.00
15.	Meghalayan Age Limited	**	2020-21 and 2021-22	1.00	-	35.00
16.	Livelihood Improvement Finance Company of Meghalaya	2017-18	2018-19 to 2021-22	-	-	10.00
17.	Meghalaya Transport Corporation	2015-16	2016-17 to 2021-22	14.30	-	60.46
18.	Meghalaya State Warehousing Corporation	2020-21	2021-22	1.80	-	-
	Total			37.13	151.26	555.70

Source: Information furnished by the SPSEs. **First Accounts not submitted.

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

The Government may consider setting up a special cell under the Finance Department to oversee the expeditious clearance of arrears of accounts of SPSEs. Until the accounts are made as current as possible, Government may consider not giving further financial assistance to such companies.

3.1.7 Financial Performance

3.1.7.1 Share of SPSEs in State GDP

Table 3.1.8 below provides the comparative details of working SPSEs turnover and State GDP for a period of five years ending 2021-22, based on the latest available annual accounts:

Table 3.1.8: Details of working SPSEs turnover vis-a-vis State GDP

Particulars	(₹ in crore)				
	2017-18	2018-19	2019-20	2020-21	2021-22
Turnover ⁵⁵	1,136.90	1,121.40	1,203.88	1,386.14	1,388.78
State GDP ⁵⁶	29,508.30	32,175.82	34,770.40	34,718.70	37,830.11
Percentage of Turnover to State GDP	3.85	3.48	3.46	3.99	3.67

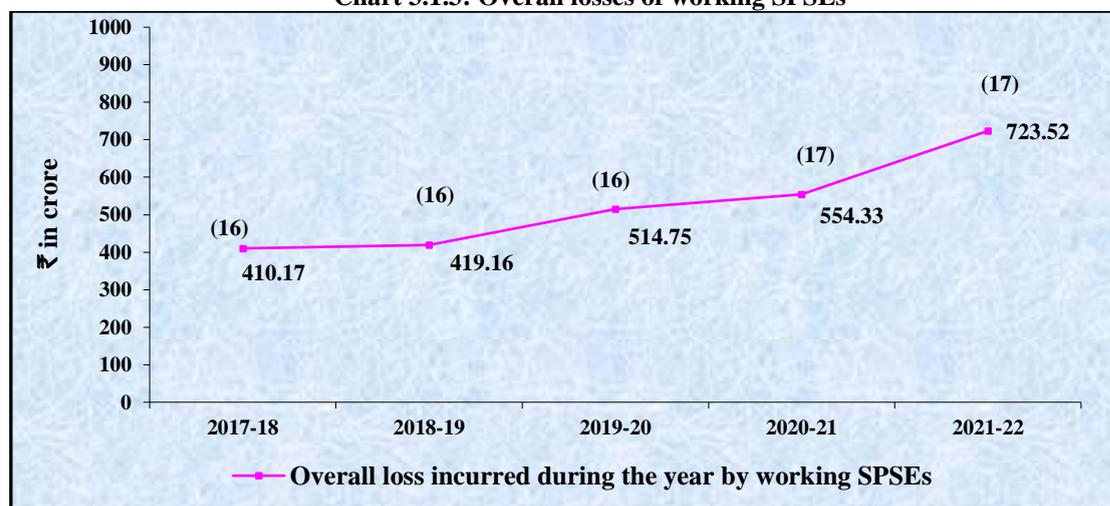
Source: Information furnished by the Companies.

From **Table 3.1.8**, it can be seen that contribution of SPSEs to the State GDP ranged from 3.46 per cent (2019-20) to 3.99 per cent (2020-21) during the five years' period (2017-22). The SPSEs' turnover registered an overall growth of ₹ 251.88 crore (22.15 per cent) during the last five years from ₹ 1,136.90 crore (2017-18) to ₹ 1,388.78 crore (2021-22). This growth in SPSEs' turnover was mainly driven by the increase of ₹ 230.72 crore in the turnover of four power sector companies from ₹ 1,025.14 crore (2017-18) to ₹ 1,255.86 crore (2021-22).

3.1.7.2 Trends of profit and losses in SPSEs

The overall position of losses incurred by the working SPSEs during 2017-18 to 2021-22 as per their latest finalised accounts as on 30 September of the respective year has been depicted in **Chart 3.1.3**.

Chart 3.1.3: Overall losses of working SPSEs⁵⁷



Figures in brackets show the number of working SPSEs in respective years.

From **Chart 3.1.3**, it can be observed that overall losses of working SPSEs during the last five years had shown an increasing trend. The high losses of the working SPSEs during the five years were mainly from power sector SPSEs. During 2020-21 and

⁵⁵ Turnover of working SPSEs as per the latest finalised accounts as on 30 September of respective year.

⁵⁶ Source: Ministry of Statistics & Programme Implementation, Government of India.

⁵⁷ As per the latest finalised accounts as on 30 September of the respective year.

2021-22, the share of losses of power sector SPSEs were to the extent of 93.55 per cent (₹ 518.58 crore) and 93.45 per cent (₹ 676.15 crore) respectively.

Details of profits earned and losses incurred by the SPSEs during 2020-21 and 2021-22 are given in **Table 3.1.9**.

Table 3.1.9: Details of profit/losses by the SPSEs during 2020-21 and 2021-22

Particulars	2020-21	2021-22
Total no. of working SPSEs	17	19 ⁵⁸
Numbers of loss making working SPSEs	12	11
Aggregate loss (₹ in crore)	556.36	726.65
Numbers of profit making working SPSEs	04	05
Aggregate profit (₹ in crore)	2.03	3.13
Number of SPSEs functioning on 'no profit no loss' basis	01	01
Newly added SPSEs, which have not submitted their first accounts	--	02 ⁵⁹

Source: As per latest finalised accounts of the SPSEs.

The details of major contributors to overall losses of working SPSEs during 2020-21 and 2021-22 as per their latest finalised accounts are given in **Table 3.1.10**.

Table 3.1.10: Major contributors to profits and losses of working SPSEs

(₹ in crore)

Name of SPSE	2020-21		2021-22	
	Latest finalised accounts	Profit (+)/ loss (-)	Latest finalised accounts	Profit (+)/ loss (-)
Major losses				
Meghalaya Power Distribution Corporation Limited	2019-20	(-) 427.52	2020-21	(-) 425.48
Meghalaya Power Generation Corporation Limited	2019-20	(-) 55.87	2020-21	(-) 130.74
Meghalaya Power Transmission Corporation Limited	2019-20	(-) 3.08	2020-21	(-) 62.32
Meghalaya Energy Corporation Limited	2019-20	(-) 32.11	2020-21	(-) 57.61
Mawmluh Cherra Cements Limited	2017-18	(-) 13.84	2019-20	(-) 38.04
Major profits				
Meghalaya Tourism Development Corporation Limited	2018-19	(+) 1.18	2018-19	(+) 1.18
Meghalaya Mineral Development Corporation Limited	2019-20	(+) 0.09	2020-21	(+) 0.65
Forest Development Corporation of Meghalaya Limited	2016-17	(+) 0.46	2016-17	(+) 0.46

Source: As per latest finalised accounts of the SPSEs.

3.1.7.3 Losses of Power Sector SPSEs

The position of aggregate losses incurred by four power sector SPSEs during the past three years as per their latest finalised accounts is given in **Table 3.1.11**.

⁵⁸ Includes three new SPSEs added during 2021-22 and excludes one SPSE which was categorised as non-working during 2021-22.

⁵⁹ Including one new SPSE (Livelihood Improvement Finance Company of Meghalaya) incorporated in May 2009, which has not submitted any accounts after it was covered under CAG's audit purview (August 2021).

Table 3.1.11: Details of aggregate losses of power sector SPSEs

Year	2017-18	2018-19	2019-20	2020-21	2021-22
Total No. of power sector SPSEs	4	4	4	4	4
Number of loss making SPSEs	3	3	4	4	4
Number of profit earning SPSEs ⁶⁰	1	1	0	0	0
Net overall losses in power sector (₹ in crore)	(-) 369.72	(-) 369.19	(-) 478.54	(-) 518.58	(-) 676.15
Accumulated losses (₹ in crore)	(-) 1,812.90	(-) 1,836.03	(-) 2,314.57	(-) 3,027.36	(-)3,719.57

Source: Latest finalised accounts of the SPSEs.

3.1.7.4 Erosion of capital in SPSEs

The paid-up capital and accumulated losses of 17⁶¹ working SPSEs as per their latest finalised accounts as on 30 September 2022 were ₹ 4,888.25 crore and ₹ 4,202.56 crore respectively (**Appendix 3.1.1**).

The Return on Equity (RoE) in respect of 10 out of 17 working SPSEs was (-) 8.97 per cent as per their latest finalised accounts. The accumulated losses (₹ 3,269.51 crore) of the remaining eight⁶² working SPSEs had completely eroded their paid up capital (₹ 1,162.48 crore) as per their latest finalised accounts. Of these eight SPSEs, the primary erosion of paid-up capital was in respect of three SPSEs as detailed in **Table 3.1.12**.

Table 3.1.12: SPSEs with primary erosion of paid up capital

Name of SPSE	Latest finalised accounts	Paid up capital	Accumulated losses
Meghalaya Power Distribution Corporation Limited	2020-21	858.39	2,838.34
Mawmluh Cherra Cement Limited	2019-20	197.51	272.84
Meghalaya Transport Corporation	2015-16	93.05	106.69

Source: As per latest finalised accounts of the SPSEs.

Erosion of Capital in Power Sector PSEs

The details of the capital erosion of four power sector SPSEs by their losses as per their latest finalised accounts as on 30 September 2022 has been presented in **Table 3.1.13**.

Table 3.1.13: Capital Erosion in Power Sector SPSEs during 2021-22

Sl. No.	Name of the Company	Latest finalised accounts	Paid up capital	Net loss for the year	Accumulated losses	Net worth ⁶³
1	Meghalaya Power Distribution Corporation Limited	2020-21	858.39	425.48	2,838.34	(-) 1,979.95
2.	Meghalaya Power Generation Corporation Limited	2020-21	924.36	130.74	541.14	(+) 383.22
3	Meghalaya Energy Corporation Limited	2020-21	2,212.25	57.61	257.66	(+) 1,954.59

⁶⁰ During 2016-17 to 2018-19, Meghalaya Power Transmission Corporation Limited was the only power sector SPSE, which registered profit of ₹ 7.17 crore (2016-17) and ₹ 8.15 crore (2017-18 & 2018-19) as per its latest finalised accounts.

⁶¹ Excluding two newly added SPSEs (serial no. 16 & 17 of **Appendix 3.1.1**), which had not submitted any accounts to PAG, Meghalaya.

⁶² Serial no. 3, 4, 6, 7, 10, 12, 13 & 18 of **Appendix 3.1.1**.

⁶³ Net Worth means the sum total of the 'paid-up capital' and 'free reserves and surplus' minus 'accumulated losses' and 'deferred revenue expenditure'.

Sl. No.	Name of the Company	Latest finalised accounts	Paid up capital	Net loss for the year	Accumulated losses	Net worth ⁶³
4	Meghalaya Power Transmission Corporation Limited	2020-21	425.59	62.32	82.43	(+) 343.16
	Total		44,420.59	(-) 676.15	(-) 3719.57	

Source: As per latest finalised accounts of the SPSEs.

It can be seen from **Table 3.1.13** above that during 2021-22, the net worth of one power sector SPSE (MePDCL) was negative at (-) ₹ 1,979.95 crore due to complete erosion of its equity capital by the accumulated losses. The net worth of MePDCL turned negative for the first time during 2016-17 when its paid-up capital (₹ 801.20 crore) was completely eroded by the accumulated losses (₹ 961.42 crore) as per its latest finalised accounts (2014-15) as on 30 September 2017. During October 2017 to September 2022, MePDCL had finalised six annual accounts (2015-16 to 2020-21). However, the net worth of the Company remained negative during all these years.

This gradual process of incurring losses by the power sector SPSEs is a drain on the State's economy and resources. Despite constant deterioration in the overall performance of four power sector SPSEs, the State Government continued to provide significant budgetary support to these SPSEs. Analysis of records of power sector SPSEs revealed that the State Government provided budgetary support aggregating ₹ 665.68 crore to four power sector SPSEs during 2019-20 (₹ 231.97 crore), 2020-21 (₹ 234.63 crore) and 2021-22 (₹ 199.08 crore) by way of equity (₹ 133.82 crore), loans (₹ 261.13 crore) and grants/subsidy (₹ 270.73 crore). This included budgetary support of ₹ 292.09 crore provided to MePDCL during 2019-20 (₹ 50.61 crore), 2020-21 (₹ 118.88 crore) and 2021-22 (₹ 122.60 crore) by way of loans (₹ 156.52 crore) and grants/subsidy (₹ 135.57 crore).

To enable SPSEs to obtain financial assistance from Banks and Financial Institutions, the State Government provides guarantees, subject to the prescribed limits. The guaranteed amount committed by GoM in respect of three SPSEs for loans raised from various institutions (Banks, FIs and others) were ₹ 1,688.82 crore during all three years (2019-20 to 2021-22). These guarantees may become liabilities of the State Government in case of default by the borrowers (power sector SPSEs) as all of them were loss-making SPSEs having huge accumulated losses as discussed above.

3.1.8 Financial parameter

Key parameters of SPSEs financial performance as per their latest finalised accounts as on 30 September of the respective year are given in **Table 3.1.14**.

Table 3.1.14: Key Parameters of SPSEs

Particulars	(₹ in crore)				
	2017-18	2018-19	2019-20	2020-21	2021-22
Debt	1,756.87	1,939.59	1,921.98	1,916.66	2,753.56
Turnover ⁶⁴	1,136.90	1,121.40	1,203.88	1,386.14	1,388.78

⁶⁴ Turnover of working SPSEs as per the latest finalised accounts as on 30 September of the respective year.

Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
Debt/ Turnover Ratio ⁶⁵ (DTR)	1.55:1	1.73:1	1.59:1	1.38:1	1.98:1
Interest Payments	154.94	166.87	251.67	236.25	303.95
Accumulated losses	2,182.97	2,229.77	2,747.35	3,466.72	4,202.56

Source: As per latest finalised accounts of the SPSEs.

3.1.8.1 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 SPSEs from core activities. Thus, the SPSEs having lower DTR are more likely to successfully manage their debt servicing and repayments.

3.1.8.2 SPSE Debt

As can be seen from **Table 3.1.14** above, SPSEs' debts had increased significantly by ₹ 836.90 crore during the last one year from ₹ 1,916.66 crore (2020-21) to ₹ 2,753.56 crore (2021-22). This was mainly due to borrowings (₹ 428.50 crore) availed by MePDCL for implementation of Atmanirbhar Bharat Abhiyan as well as the bonds (₹ 199.00 crore) issued by MeECL for funding the restructuring of high cost borrowings of its three⁶⁶ subsidiaries companies.

During the period of five years (2017-22), the Debt to Turnover Ratio (DTR) has increased from 1.55:1 (2017-18) to 1.98:1 (2021-22), which indicated deteriorated position of PSEs in servicing and repayment of their long-term debts as compared to previous years. The deterioration in the DTR was mainly due to the disproportionate growth in SPSE debts (56.73 per cent) during 2017-22 compared to the increase in SPSE turnover (22.15 per cent) during the corresponding period. Increase in the PSE debts has also led to significant increase in the interest expenditure of SPSEs during 2017-22 from ₹ 154.94 crore (2017-18) to ₹ 303.95 crore (2021-22).

3.1.9 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 SPSEs, 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 SPSEs by the sum of the PV of Government investment.

⁶⁵ Arrived at 'total debt of all SPSEs divided by total turnover of all SPSEs' as per their latest finalised accounts.

⁶⁶ Meghalaya Power Generation Corporation Limited, Meghalaya Power Distribution Corporation Limited and Meghalaya Power Transmission Corporation Limited.

During 2021-22, as per their latest finalised accounts out of 19⁶⁷ working SPSEs where State Government had made direct investment, 11 SPSEs⁶⁸ incurred loss and only five SPSEs⁶⁹ earned profit. On the basis of return on historical value, the State Government investment had eroded by 16.61 *per cent* during 2021-22. As per the RORR where the PV of investment is considered, the State Government investment eroded by 10.30 *per cent* as shown in **Appendix-3.1.2**. This difference in the percentage of investment erosion was on account of the adjustment made in the investment amount for time value of money.

3.1.10 Impact of Audit Comments on Annual Accounts of SPSEs

During October 2021 to September 2022, 13 working companies (out of 19 working companies) had forwarded 14 audited accounts to the Principal Accountant General (Audit), Meghalaya. All the 14 accounts submitted by the 13 working SPSEs were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicated that the quality of maintenance of accounts needed to be improved substantially. The details of aggregate money value of the comments of statutory auditors and CAG are given in **Table 3.1.15**.

Table 3.1.15: Impact of audit comments on working Companies

(₹ in crore)

Sl. No.	Particulars	2019-20		2020-21		2021-22	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	1	0.53	2	0.48	0	0
2.	Increase in loss	10	342.92	11	261.12	7	134.48
3.	Non-disclosure of material facts	5	84.59	3	57.16	8	132.82
4.	Errors of classification	1	0.59	4	49.87	4	10.97

Source: As per latest finalised annual accounts of SPSEs.

During the year 2021-22, the statutory auditors had given qualified certificates for all 14 accounts of 13 working companies. In addition, CAG had also issued qualified opinion on these 14 accounts for supplementary audit. The compliance of companies with the Accounting Standards (AS)/Indian Accounting Standards (Ind AS) remained inadequate as there were 36 instances of non-compliance with AS/Ind AS relating to 10 accounts of nine companies.

During the year 2021-22, one Statutory Corporation (Meghalaya Transport Corporation) forwarded two years' finalised accounts for which Principal Accountant General (Audit), Meghalaya is the sole auditor and both accounts were selected for audit. The other statutory corporation, namely, Meghalaya State Warehousing Corporation did not submit any accounts for audit during 2021-22.

⁶⁷ Including one SPSE (Serial no. 14 of **Appendix 3.1.1**) functioning on 'no profit no loss' basis and two newly added SPSEs (Meghalayan Age Limited and Livelihood Improvement Finance Company of Meghalaya) which had not submitted any Accounts to PAG, Meghalaya.

⁶⁸ Sl. Nos. 2, 3, 4, 5, 6, 8, 9, 10, 11, 13 and 18 of **Appendix 3.1.1**.

⁶⁹ Sl. Nos 1, 7, 12,15 and 19 of **Appendix 3.1.1**.

3.1.10.1 Gist of some of the important comments of the statutory auditors and CAG in respect of accounts of the SPSEs are as under:

Table 3.1.16: Gist of significant comments on the accounts of the SPSEs

Sl. No.	Name of the SPSE	Comments on Accounts
1.	Meghalaya Power Distribution Corporation Limited (Year of Accounts: 2020-21)	<ul style="list-style-type: none"> ➤ During 2019-20, CAG had pointed out short provisioning (₹ 43.37 crore) against time-barred dues (₹ 44.70 crore) against consumers whose supply was disconnected for more than two years as on 31 March 2020 in terms of Section 56 (2) of the Electricity Act, 2003. ➤ During 2020-21, further dues of ₹ 52.39 crore became time-barred while the Company has written off ₹ 11.57 crore against previous unrecoverable dues making total time-barred dues as on 31 March 2021 to ₹ 85.52 crore (₹ 44.70 crore upto 2019-20 minus ₹ 11.57 crore written off during the year plus ₹ 52.39 crore added during 2020-21). Against this, the Company has kept provisions of ₹ 2.57 crore (3 per cent of total outstanding debts) as per its declared Accounting Policy leading to short-provisioning of ₹ 82.95 crore (₹ 85.52 crore minus ₹ 2.57 crore) against time-barred dues relating to consumers whose supply was disconnected for more than two years as on 31 March 2021. ➤ This has resulted in overstatement of 'Trade Receivables-Unsecured, considered good' by ₹ 82.95 crore with corresponding understatement of 'Loss for the year' by the same extent. ➤ The 'Current Liabilities' and 'Loss for the year' of the Company were understated by ₹ 28.83 crore each due to non-provisioning towards the Power Purchase bills raised by Power Grid Corporation of India Limited (₹ 6.66 crore) and North Eastern Electric Power Corporation Limited (₹ 22.17 crore) for the year 2020-21. ➤ The Company accounted the interest of ₹ 8.56 crore payable on PFC loans for the period January 2020 to March 2020 again during the current year (2020-21), though the said liability was already provided in the accounts for 2019-20. This resulted in overstatement of 'Liabilities' and 'Loss for the year' by ₹ 8.56 crore each.
2.	Meghalaya Power Transmission Corporation Limited (Year of Accounts: 2020-21)	<ul style="list-style-type: none"> ➤ The Company has accounted ₹ 5.75 crore, being the value of land purchased by the Company for the construction of three Sub-stations, under 'Capital-Work-in Progress' (pending commissioning of the Sub-Stations). Since land is a separate tangible asset for which, the title and possession has already been transferred (June 2013/October 2015) in the Company's favour, it should have been accounted under 'Property, Plant and Equipment' without waiting for completion of the related Sub-Stations. This has correspondingly resulted in overstatement of 'Capital Work-in-

Sl. No.	Name of the SPSE	Comments on Accounts
		<p>Progress' and understatement of 'Property, Plant and Equipment' by the same extent.</p> <p>➤ The Company has accounted ₹ 27.99 crore, being the cost of three substations and three transmission lines completed and commissioned during prior periods (February 2018 to May 2019), under 'Capital Works in Progress' instead of 'Property, Plant and Equipment' (PPE). This has resulted in overstatement of 'Capital WIP' and understatement of 'PPE' (Gross block) by ₹ 27.99 crore each with corresponding understatement of 'Depreciation' and 'Loss for the year' by ₹ 3.52 crore each (prior period: ₹ 2.04 crore; current year: ₹ 1.48 crore).</p>
3.	<p>Meghalaya Power Generation Corporation Limited (Year of Accounts: 2020-21)</p>	<p>➤ The Company has not charged depreciation (₹ 2.72 crore) on the cost of Renovation, Modernisation and Upgradation of one Hydro Project, which was completed in January 2012 but capitalised during 2016-17. This has correspondingly resulted in understatement of 'Loss for the year' (prior periods) by the same extent.</p> <p>➤ The Company has not transferred the capital cost (₹ 7.70 crore) incurred on Survey and Investigation work of one project (Myntdu Leshka Hydro Electric Project Stage-I) to 'Property, Plant and Equipment' despite commissioning (April 2013) of this project. This resulted in overstatement of 'Capital Work-In- Progress' and understatement of 'Property, Plant and Equipment' (Gross Block) by ₹ 7.70 crore each with corresponding understatement of 'Depreciation' and 'Loss for the year' by ₹ 2.39 crore each.</p>
4.	<p>Meghalaya Energy Corporation Limited (Year of Accounts: 2020-21)</p>	<p>➤ The Company has not accounted ₹ 2.12 crore being the investment made in MeECL Pension Trust out of Staff Pension Fund as on 31 March 2021. This has resulted in understatement of 'Investments' and overstatement of 'Financial Assets-Cash and Cash Equivalents Balances with Banks' (Note-8) by ₹ 2.12 crore each.</p> <p>➤ The Company had wrongly accounted the professional charges (₹ 6.29 crore) paid to the Consultants (Tipson Consultancy Services Limited) being part payment towards arranger's fees for issuing of MeECL Bond as 'Other Expenses', which should be accounted under the head 'Finance Cost'. This has resulted in overstatement of 'Other Expenses' and understatement of 'Finance Cost' by ₹ 6.29 crore each.</p>
5.	<p>Meghalaya Industrial Development Corporation Limited (Year of Accounts: 2019-20)</p>	<p>➤ The Company has not accounted ₹ 1.46 crore being 'Interest accrued on Fixed Deposits' for the current accounting year. This has resulted in understatement of 'Current Assets-interest accrued on fixed deposits' with corresponding overstatement of 'Loss for the year' by ₹ 1.46 crore each.</p>

Sl. No.	Name of the SPSE	Comments on Accounts
6.	Mawmluh Cherra Cement Limited (Year of Accounts: 2019-20)	➤ The Company has not created provisions towards penalty (₹ 4.85 crore) payable to the Directorate of Mineral Resources (DMR) due to default in payment of Royalty & Cess (unpaid since 2009), on the pretext of the Company's intention to approach the State Government for waiver of said penalty. Since no correspondence was found on record to confirm the Company's contention regarding approaching the Government for waiver of the penal liability, the Company should have provided for the same based on the principles of conservatism. This has resulted in understatement of 'Current Liabilities' and 'Loss for the year' by ₹ 4.85 crore each.
7.	Meghalaya Government Construction Corporation Limited (Year of Accounts: 2020-21)	➤ The Company has not created provision of ₹ 3.76 crore against the liability towards Leave Encashment of employees as on 31 March 2021. This has resulted in understatement of 'Current Liabilities' and 'Loss for the year' by ₹ 3.76 crore each.

3.1.11 Coverage of this Report

This Chapter on SPSEs contains four compliance audit paragraphs pertaining to Meghalaya Power Distribution Corporation Limited which is under the administrative control of the Power Department.

COMPLIANCE AUDIT PARAGRAPHS

POWER DEPARTMENT

MEGHALAYA POWER DISTRIBUTION CORPORATION LIMITED

3.2 Avoidable expenditure due to awarding the works to L2 bidders

Award of three works under DDUGJY Phase-I to L2 bidders instead of L1 bidder resulted in avoidable expenditure of ₹ 0.90 crore.

With a view to address the problem of inadequate and unreliable power supply in rural areas and to complete the ongoing work of rural electrification taken up under Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY), Government of India (GoI) launched (December 2014) Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY). The objectives of DDUGJY are (i) to provide electrification to all villages, (ii) feeder separation to ensure sufficient power to farmers and regular supply to other consumers, (iii) improvement of sub-transmission and distribution network to improve the quality and reliability of the supply and (iv) installation of meters to reduce losses. In Meghalaya, Meghalaya Power Distribution Corporation Limited (MePDCL) is the Project Implementing Agency (PIA) for DDUGJY. The funding pattern of this scheme was in the ratio of 85:15⁷⁰ between GoI and Government of Meghalaya (GoM) respectively.

Scrutiny (November-December 2020) of records of MePDCL showed that MePDCL divided the entire State into seven project areas⁷¹ for implementation of DDUGJY⁷² and submitted (August 2015) a proposal/DPR worth ₹ 1,026.93 crore. GoI, however sanctioned ₹ 100.64 crore for Phase-I and ₹ 160.69 crore for Phase-II and released a total of ₹ 180.93 crore for both the phases, as of March 2021. In addition, GoM released its share of ₹ 40.13 crore taking the total funds available with the PIA to ₹ 221.06 crore. The project was completed in January 2022 at a total cost of ₹ 273.12 crore including an outstanding liability of ₹ 90.62 crore due to the contractors.

For implementation of DDUGJY Phase I, MePDCL invited (15 October 2015) e-tender⁷³ for all the seven project areas. As per clause 30.1 of Instructions to Bidders Vol-I: Section-II, which formed part of the contract agreement, MePDCL was to award the contract to the bidder whose bid has been determined to be substantially responsive and to be the lowest evaluated⁷⁴ bid/ rate (also referred to as the L1 bidder). In order to arrive at the evaluated bid/rate, the detailed evaluations were to be carried out by correcting the arithmetical errors and rate inconsistencies as per Clause 27.2 of Instructions to Bidders Vol-I: Section-II wherein the Bidder was to ensure that the prices furnished in various price schedules are consistent with each other. In case of

⁷⁰ Five per cent as own fund and 10 per cent as lender/FI contribution.

⁷¹ East Khasi Hills, West Khasi Hills, Jaintia Hills, Ri- Bhoi, West Garo Hills, South Garo Hills, East Garo Hills.

⁷² To be executed in two phases viz., Phase I-works relating to household electrification and Phase II-works relating to household electrification, metering and system strengthening.

⁷³ A Single Stage Bid Envelope Bidding Procedure followed by e-bidding for price bids was adopted.

⁷⁴ Rates/bid price arrived by TEC after correction of arithmetical errors and rate inconsistencies.

any inconsistency in the prices furnished in the specified price schedules identified in the Bid Form for this purpose, MePDCL was entitled to consider the highest price for the purpose of bid evaluation and use the lowest of the prices in these schedules to award the Contract.

In response to the tender, 20 bidders submitted their bids. The Tender Evaluation Committee (TEC), under the Chairmanship of Chief Engineer (CE), Rural Electrification (RE), opened the bids (26 November 2015) and while declaring 16 out of 18 bidders as qualified for submission of financial bids in respect of six project areas⁷⁵, recommended re-tendering in respect of Jaintia Hills project area, as one out of the two bidders did not comply with the technical and commercial requirements as per bidding document.

Accordingly, tender for Jaintia Hills project area was re-invited (23 December 2015) for which four bids were received and all the four bidders were declared qualified for submission of financial bids.

Financial bids for six project areas and Jaintia Hills area were opened by the TEC on 14 January 2016 and 28 January 2016 respectively. Based on the recommendations of the TEC after evaluation of rates, the CE (RE), MePDCL awarded the works to four Turnkey Contractors (TKCs) during March-April 2016 and the works were completed between December 2018 and July 2019 as per the details given in **Table 3.2.1**.

Table 3.2.1: Details of DDUGJY projects, tender value, issue of Letter of Award (LoA) and date of completion

(₹ in crore)

Sl. No.	Name of Project Area	Selected contractor	Estimated cost (TV)	LoA value	Actual cost	Date of issue of LoA	Date of completion
1.	Jaintia Hills	M/s Star Infratech, Shivaji Market, Tura	6.15	6.15	10.69	18.03.2016	22.12.2018
2.	South Garo Hills		3.17	3.17	4.24	18.03.2016	08.02.2019
3.	West Garo Hills		6.44	6.44	8.85	18.03.2016	03.07.2019
4.	East Garo Hills		19.18	19.18	30.26	18.03.2016	09.05.2019
5.	Ri-Bhoi	M/s Manoj Enterprise, Tura	9.01	9.76	8.40	10.03.2016	22.12.2018
6.	East Khasi Hills	M/s Cabcon India Pvt. Ltd., Kolkata	12.59	13.01	15.05	14.04.2016	12.12.2020
7.	West Khasi Hills	M/s Dhar Construction Co., Shillong	18.79	20.05	20.27	21.04.2016	28.03.2019
Total			75.33	77.76	97.76		

Source: Records of MePDCL. TV: Tender value.

Examination of records like comparative statements, recommendations of the TEC for LoAs and expenditure statement, showed that the LoAs in respect of three projects areas viz., (i) West Khasi Hills (ii) East Garo Hills (iii) Ri-bhoi were awarded as detailed in **Table 3.2.2**.

⁷⁵ East Khasi Hills, West Khasi Hills, Ri- Bhoi, West Garo Hills, South Garo Hills and East Garo Hills.

Table 3.2.2: Details of projects, contractors and issue of LoA

(Amount in ₹)

Name of Project areas	Name of bidders	TEC evaluated ⁷⁶ rate for issuance of LoA	Audit ranking after evaluating the comparative statement	Name of bidder to whom LoA was issued (ranking)	Loss due to non-issue of work order to L1 bidder
(1)	(2)	(3)	(4)	(5)	(6)
West Khasi Hills	M/s Cabcon India Pvt. Ltd. Kolkata	20,05,39,551 (L3)	20,05,39,551 (L1)	M/s Dhar Construction Co., Shillong (L2)	59,38,529
	M/s Dhar Construction Co., Shillong	20,64,78,080 (L1)	20,64,78,080 (L2)		
	M/s Rainbow Electrical, Shillong	20,69,40,302 (L2)	20,69,40,302 (L3)		
East Garo Hills	M/s Star Infratech Godfrey, Tura	19,18,25,644 (L2)	19,18,25,644 (L2)	M/s Star Infratech Godfrey, Tura (L2)	6,636
	M/s James R. Sangma, Tura	19,18,19,008 (L1)	19,18,19,008 (L1)		
	M/s Cabcon India Pvt. Ltd. Kolkata	19,52,87,251 (L3)	19,52,87,251 (L3)		
Ri-bhoi	M/s Reynold Nongsiej, Shillong	9,45,40,795 (L2)	9,45,40,795 (L1)	M/s Manoj Enterprise, Tura (L2)	30,50,196
	M/s Manoj Enterprise, Tura	9,75,90,991 (L1)	9,75,90,991 (L2)		
Total					89,95,361

Source: Records of MePDCL.

It can be seen from **Table 3.2.2** (column-3) that the rankings decided by the TEC on the basis of evaluated bid/rate were erroneous as the rates arrived at for M/s Cabcon India Private Limited, Kolkata for West Khasi Hills project area, M/s James R. Sangma, Tura for East Garo Hills and M/s Reynold Nongsiej, Shillong for Ri-bhoi project areas were the lowest (L1). The erroneous ranking however, led to issue of LoA to L2 bidders for these three project areas by the CE (RE), MePDCL.

Thus, awarding the works to L2 bidders (West Khasi Hills, West Garo Hills and Ri-bhoi project areas) instead of actual L1 bidders not only defeated the purpose and objective of inviting open tender but also resulted in avoidable expenditure to the tune of ₹ 0.90 crore.

On this being pointed out, GoM stated (March 2023) that at the time of opening of the price bids of DDUGJY-I on 14 December 2015, the lump sum bid prices of each bidder were recorded with and without taxes. The detailed evaluations were then carried out as per clause 27.2 of Instructions to Bidders Vol-I: Section-II and the works were awarded accordingly.

The reply does not address the issue of erroneous assignment of rankings (L-1, L-2 and L-3) as per the comparative statement prepared by the TEC which resulted in awarding of work with higher quoted price. Moreover, Audit has not pointed out inconsistencies in arriving at the evaluated bid/rate. As such, prevalence of *mala-fide* intentions and favouritism in allotment of works could not be ruled out.

Recommendation: The State Government may initiate inquiry to ascertain whether the tendering norms were deliberately contravened by the officers of the Department to allow award of work to L2 bidders and initiate disciplinary action against the erring official(s).

⁷⁶ After correcting all arithmetic errors and rate inconsistencies.

3.3 Avoidable expenditure

Despite advisory issued by Cabinet Secretary, injudicious decision of MePDCL for awarding works under SAUBHAGYA to contractors at their quoted rates resulted in avoidable expenditure of ₹ 156.14 crore.

GoI launched (October 2017) the ‘Pradhan Mantri Sahaj Bijli Har Ghar Yojana – SAUBHAGYA’ as a concurrent programme to Deen Dayal Upadhyay Gram Jyoti Yojna (DDUGJY) with an aim to ensure universal household electrification (in both rural and urban areas) by providing last mile connectivity through financial assistance to the DISCOMs/Power Department. Under the SAUBHAGYA, household electrification was envisaged to be achieved for all households in the country through two means *viz.*, (i) providing last mile connectivity to households through grid and (ii) providing connections through stand-alone photovoltaic systems in remote and inaccessible areas not feasible to be connected with grid. The funding pattern of this scheme was in the ratio of 85:15⁷⁷ between GoI and GoM respectively. In Meghalaya, MePDCL was the Project Implementing Agency (PIA) for SAUBHAGYA.

GoM submitted its Letter of Intent to GoI for participation in the implementation of SAUBHAGYA in February 2018 and submitted (May 2018) a proposal/DPR worth ₹ 1,876.15 crore for electrification of 1,49,826 households for approval. Subsequently, GoI sanctioned ₹ 657.06 crore⁷⁸ and released (between May 2018 and December 2022) ₹ 525.30 crore for electrification of the proposed un-electrified households. In addition, GoM provided ₹ 148.67 crore between November 2019 and March 2022. The date of completion of SAUBHAGYA was initially fixed for December 2018, which was extended to December 2020 by GoI due to delay in awarding of projects by MePDCL. The project was completed only in March 2022 at a total cost of ₹ 673.04 crore including an outstanding liability of ₹ 98.48 crore due to the contractors (March 2023). Further scrutiny showed that the works were executed in two parts *i.e.*, first, departmentally which included service connections with related infrastructure for all the 1,62,568 households⁷⁹ at a cost of ₹ 96.44 crore and the second, through Turnkey Contractors (TKCs), scope of which included other additional infrastructure works like installation of Distribution Transformers (DTRs), 11 KV lines and LT lines costing ₹ 476.68 crore.

Scrutiny (November-December 2020) of records of MePDCL showed that for execution of the works under SAUBHAGYA, MePDCL initially planned (07 September 2018) to award the work to the already existing TKCs of DDUGJY. The TKCs of DDUGJY also agreed (10 September 2018) to execute the work of SAUBHAGYA at departmental rates subject to a few minor conditions like providing interest free mobilisation advance, revision of rates for conductors and DTRs or to be

⁷⁷ Five per cent as own fund and ten per cent as lender/FI contribution.

⁷⁸ ₹ 275.73 crore on 06 August 2018, ₹ 207.96 crore on 08 October 2018 and ₹ 173.37 crore on 04 January 2019.

⁷⁹ Increase in households (HHs) electrification from 1,49,826 HHs to 1,62,568 HHS was due to increase of population/ HHs during actual execution of work and same was accorded an approval from GoI in its closure report of scheme.

supplied departmentally, etc. However, GoM decided (10 September 2018) to issue tender notice for executing the work on turnkey mode and split the work into two packages – Package A (Khasi and Jaintia Hills districts) and Package B (Garo Hills). Notice Inviting Tender (NIT) for implementation of 100 per cent household electrification and for providing last-mile connectivity under SAUBHAGYA, was floated (26 September 2018) under Package-A and Package-B with a corrigendum issued on 09 October 2018⁸⁰. The bidding documents included clause 1.4 under preamble (A) of volume –I: section-II Instruction to Bidders (ITB) and clause 30.2 of Volume-I: Section -II ITB, which stated that a bid submitted by a bidder for a particular package shall be treated as non-responsive if the total quoted price is found to be 10 per cent below or above the estimated cost of the package.

It was however noticed that the clauses *ibid i.e.*, Clause 1.4 and Clause 30.2 were deleted (09 October 2018) by the Empowered Committee (Tender)⁸¹ on the ground that they may impede participation of bidders considering that the target for completion of the scheme was December 2018.

In response to the NIT, MePDCL received four bids. The Empowered Committee (Tender), after Techno-Commercial evaluation (October 2018) recommended opening of financial bids submitted by three bidders⁸². While opening the financial bids (November 2018), one bidder⁸³ did not comply with the criteria specified in the bid document. The price quoted by two bidders were as detailed in **Table 3.3.1**.

Table 3.3.1: Quoted price of bidders

(₹ in crore)

Sl. No.	Name of bidders	Package A		Package B	
		Estimated cost	Rate quoted by bidders	Estimated cost	Rate quoted by bidders
1.	M/s Satnam Global Infra Projects Limited, New Delhi	173.60	269.04	179.00	325.11
2.	M/s Onycon Enterprises, Mumbai		283.82		284.61

It can be seen from the table above that the rates quoted by the lowest bidder were 55 per cent (Package A) and 59 per cent (Package B) above the estimated cost put to tender.

In the meantime, the Cabinet Secretary, GoI in a video conference (14 December 2018) with the Chief Secretary to GoM and other officials of GoM/MePDCL, suggested that the NIT of SAUBHAGYA scheme be cancelled, and works be taken up departmentally. The Cabinet Secretary reasoned that the rates quoted by the TKCs were above the

⁸⁰ Extension of date for submission of bids.

⁸¹ The Empowered Committee (Tender) comprising of the following officials of MePDCL: i) Director (Distribution) as Chairman, ii) Chief Engineer (Distribution), iii) Chief Engineer (RE), iv) Company Secretary, v) Chief Accounts Officer/Deputy Chief Accounts Officer, vi) Addl Chief Engineer (Material Management) vii) Addl. Chief Engineer (Planning & Design) was constituted (October 2017) by the MePDCL.

⁸² M/s Satnam Global Infra Projects Limited, New Delhi, M/s Onycon Enterprises, Mumbai and M/s Techno Electric & Engineering Ltd. New Delhi.

⁸³ M/s Techno Electric & Engineering Ltd. New Delhi.

estimated cost and issuing fresh tender will further delay completion of the project. GoM concurred with the proposal and advised MePDCL to comply with the directives of the Cabinet Secretary.

Despite providing assurance to the Cabinet Secretary, MePDCL went ahead with the tender and awarded (February-March 2019) the works to the TKCs, thereby extending undue financial benefit to them and resulting in avoidable expenditure as discussed below:

- Rural Electrification Corporation (REC) had clearly communicated (01 October 2018) to MePDCL that Standard Bid Documents (SBD) issued by the GoI may be customised as per the State's suitability with prior approval of State Level Standing Committee headed by the Chief Secretary on principles of transparency, financial propriety and fair competition. As such, the Empowered Committee (Tender) appointed by MePDCL's Board of Directors did not have the authority to make such changes in the SBD. In view of the facts mentioned above, the bids were liable to be declared non-responsive in terms of clause No. 1.4 under preamble (A) of volume –I: section-II Instruction to Bidders (ITB) and clause 30.2 of Volume-I: Section -II ITB.

Hence, deletion of clause No. 1.4 under preamble (A) and last para of clause 30.2 of Volume -I: Section -II Instruction to Bidders (ITB) by the Empowered Committee (Tender) was not only irregular and contrary to the directions given by REC but also provided undue financial benefits to the TKCs. Moreover, with the deletion of these significant clauses from the bid document, MePDCL was left with no mechanism to filter parties quoting unreasonably high rates.

- In spite of the assurance given by GoM to Cabinet Secretary, MePDCL negotiated (24 December 2018) the price with the contractors and both the contractors agreed to reduce their bid price by five *percentage* point thereby making the quotes 50 and 54 *per cent* above the estimated cost. MePDCL accepted the negotiated rates and issued (25 February 2019) LoA to M/s Satnam Global Infraprojects Limited for Package – A at a tender value of ₹ 260.04 crore and to M/s Onycon Enterprise, Mumbai (05 March 2019) for Package–B, at a tender value of ₹ 275.66 crore.

In this regard, Audit carried out item-wise rate comparison of common items being executed departmentally and through TKCs. It was seen that 86 out of 95 items under 'Supply component' and 44 out of 54 items under 'Erection component' were common. However, the rates quoted by the contractors were much higher than the departmental rates resulting in avoidable expenditure of ₹ 156.14 crore as shown in **Table 3.3.2**.

Table 3.3.2: Statement showing contractors and work wise avoidable expenditure
(₹ in crore)

Name of contractors	Package and component of work	Total No. of common items executed by TKCs and Department	No. of items against which the TKC rates are higher than Departmental (%)	Total cost if executed at Departmental rate	Total payment made to TKCs	Avoidable excess expenditure
M/s Satnam Global Infraprojects Limited	A – Supply	86	70 (81)	155.07	226.19	71.12
	B ⁸⁴ – Supply	86	69 (80)	107.84	157.23	49.39
	A – Erection	44	18 (41)	19.69	22.75	3.06
	B – Erection	44	23 (52)	13.93	16.78	2.85
Sub-total				296.53	422.95	126.42
M/s Onycon Enterprises	B – Supply	86	69 (80)	60.55	87.98	27.43
	B - Erection	44	23 (52)	8.04	10.33	2.29
Sub-total				68.59	98.31	29.72
Grand Total				365.12	521.26	156.14

Based on the rate comparison shown in **Table 3.3.2**, it is evident that MePDCL allowed exorbitantly higher rates to be charged by the TKCs and departmental execution of the 130 items mentioned above could have restricted the expenditure to ₹ 365.12 crore instead of ₹ 521.26 crore paid to TKCs. Thus, due to execution of SAUBHAGYA through TKCs in complete disregard to the advisory issued by the Cabinet Secretary, GoI, MePDCL had incurred avoidable expenditure to the tune of ₹ 156.14 crore.

On this being pointed out, GoM stated (March 2023) that deletion of Clause 30.2 of volume-1 Section II of ITB, was intended to allow the prospective bidders to quote their prices irrespective of any restrictions *i.e.*, to enable the prospective bidders to quote their price without compromising the quality of the work and also to enable the owner to avoid further retendering.

The reply did not address the core issue of awarding the works despite advisory from the Cabinet Secretary which was agreed to by the Chief Secretary as well as the Additional Chief Secretary (Power) to GoM.

3.4 Undue financial benefit to contractors under SAUBHAGYA and DDUGJY

Re-imburement of insurance charges without obtaining documentary evidence in support thereof, resulted in undue financial benefit to TKCs under DDUGJY and SAUBHAGYA to the tune of ₹ 1.96 crore.

For implementation of DDUGJY and SAUBHAGYA, MePDCL issued 22 Letters of Award (LoAs) under Turnkey Contracts (TKCs). With regards to payment against insurance charges, payment conditions for work completed under DDUGJY and SAUBHAGYA were clearly stipulated in the terms and conditions in all the LoAs. The payment against supply of materials shall be on submission of specified documents. As per the terms and conditions for release of payment contained in LoA, payment against insurance charges shall be released on presenting a certified copy of insurance

⁸⁴ M/s Onycon Enterprises expressed (May 2019) their reluctance to continue with the contract citing uncertainty in extension of the scheme and also staggered receipt of funds. MePDCL decided (vide BOD approval during July 2019) to scale down the contract of M/s Onycon Enterprise by 50 per cent. The balance 50 per cent works was awarded to M/s Satnam Global Infraprojects Ltd at the same rate quoted by M/s Onycon Enterprises.

policy/insurance certificate. Further, under clause 30.1 of General Conditions of Contract, specific mention on insurance clause was made in the bidding document, which stipulates that the Contractor shall take joint insurance policy in the names of the Employer and the Contractor. The cost of insurance premium is to be reimbursed to the Contractor on submission of documentary evidence for the premium paid. It was also stipulated that the Contractor shall obtain competitive quotations for such insurance and shall take prior approval from the Employer before taking the insurance.

Scrutiny of records of MePDCL showed that during the period from June 2017 to January 2021, the Company had incurred a total expenditure of ₹ 616.89 crore (**Appendix-3.4.1**) under DDUGJY and SAUBHAGYA which included re-imbursement of ₹ 1.97 crore towards insurance charges as detailed in **Table 3.4.1**.

Table 3.4.1: Details of re-imbursement of insurance charge

(₹ in crore)				
Sl. No.	Name of scheme and contractors	Period covered	Total expenditure	Amount reimbursed as insurance charges
1.	DDUGJY (09 contractors)	01.06.2017 to 22.05.2020	166.23	0.92
2.	SAUBHAGYA (M/s Satnam Global Infraprojects Limited)	28.02.2019 to 08.01.2021	338.05	0.72
	SAUBHAGYA (M/s Onycon Enterprises)	22.03.2019 to 01.08.2020	112.61	0.33
Total			616.89	1.97

It can be seen from **Table 3.4.1** that an expenditure of ₹ 1.97 crore was incurred by MePDCL towards reimbursement of insurance charges. However, Audit observed that against these payments, certified copy of insurance policy amounting to ₹ 58,252⁸⁵ only was submitted by the TKCs of DDUGJY. Documentary evidence like insurance policy/ certificates for the remaining re-imbursement of ₹ 1.96 crore was neither available on record nor furnished to Audit, though called for (February 2022). Further, from the available insurance policy documents, it was noticed that no joint insurance policy in the names of the Employer and the Contractor was ensured and prior approval from MePDCL for taking insurance policy as stipulated in the bidding documents was also not sought. The above indicates that reimbursement of insurances was made without any documentary evidence in support of the supplies being insured, from the TKCs of DDUGJY and SAUBHAGYA.

While accepting the audit observation, the CE (Projects), MePDCL stated (August 2022) that the TKCs of DDUGJY have been intimated (April 2021) to submit copies of insurance documents, which is yet to be received (August 2022). Similarly, in respect of SAUBHAGYA, the GoM stated (March 2023) that letters were issued (10 November 2022) to two TKCs (M/s Satnam Global Infraprojects Limited and M/s Onycon Enterprise Limited) to submit the original insurance policy/insurance certificate to substantiate the amount already paid towards insurance charges within one month. However, till date (March 2023), the said firms have not submitted the

⁸⁵ (i) ₹ 53,352/- M/s Cabcon India Ltd. (Marine-cum-erection policy), (ii) ₹ 2,450 M/s Cabcon India Ltd. (Material Insurance policy) and (ii) ₹ 2,450 M/s Cabcon India Ltd. (Marine insurance policy).

certificates, hence, the amount will be recovered from the outstanding dues.

The reply clearly indicates that MePDCL failed to ensure compliance of its own set rules particularly in checking/verification of insurance documents/policy before reimbursement of the insurance charges claimed by the TKCs, which resulted in undue financial benefit to the tune of ₹ 1.96 crore to the TKCs.

3.5 Avoidable expenditure

Injudicious decision of MePDCL to divert the financial assistance received under UDAY for payment of other loans/liabilities of the company and by investing the balance funds in short-term fixed deposits instead of making immediate repayment of the outstanding loan for which the fund was released by the Government, resulted in avoidable expenditure of ₹ 2.37 crore towards payment of interest and penal interest.

Government of India (GoI), Ministry of Power (MoP) introduced (November 2015) Ujwal Discom Assurance Yojana (UDAY) with the objective to improve the operational and financial efficiency of the State-owned Power Distribution Companies (DISCOMs). The Scheme guidelines stipulated that (i) States shall take over 75 per cent of the DISCOM's outstanding debts as on 30th September 2015 over two years – 2015-16 (50 per cent) and 2016-17 (25 per cent); (ii) Banks/ Financial Institutions (FIs) shall not levy any prepayment charge on the DISCOM debt; (iii) In exceptional cases, where the DISCOM requires equity support, not more than 25 per cent of this grant may be given as equity; (iv) Banks/FIs shall waive off any unpaid overdue interest and penal interest on the DISCOM debt and refund/adjust any such overdue/penal interest paid since 1 October 2013; and (v) Participating States may get additional/priority funding through DDUGJY⁸⁶, IPDS⁸⁷, Power Sector Development Fund or other such scheme of MoP and Ministry of New and Renewable Energy (MNRE), if they meet the operational milestones outlined in UDAY.

To achieve financial turnaround of the Meghalaya Power Distribution Corporation Limited (MePDCL) which had been reeling under severe financial stress and was incurring losses since 2011-12, a tripartite Memorandum of Understanding (MoU) was entered into (09 March 2017) among GoI, Government of Meghalaya (GoM) and the MePDCL for implementation of UDAY. As envisaged in the Scheme guidelines and as per the MoU, GoM took over 75 per cent of the total outstanding debt (₹ 166.67 crore) of MePDCL as on 30 September 2015. Accordingly, GoM sanctioned (17 April 2017) an amount of ₹ 125 crore⁸⁸ for repayment of the outstanding loan which was released to MePDCL on 28 June 2017.

Scrutiny (July 2020) of records of MePDCL showed that MePDCL, despite receipt of funds under UDAY from GoM and being aware of the fact that banks/ FIs would not levy any pre-payment charges/penalty on the DISCOM debt as envisaged under the Scheme, did not pre-close the outstanding loan of ₹ 50 crore (as on 30 September 2015)

⁸⁶ Deen Dayal Upadhyaya Gram Jyoti Yojana.

⁸⁷ Integrated Power Development Scheme.

⁸⁸ Grant ₹ 93.75 crore; Equity ₹ 31.25 crore.

availed from REC and continued repayment as per the original schedule. The loan was finally closed in June 2018 *i.e.*, after 12 months of receipt (28 June 2017) of the UDAY fund.

The UDAY funds were utilised towards repayment of other loans/liabilities not covered under UDAY⁸⁹, simply to avoid them from slipping into Non-Performing Asset (NPA) and the balance fund of ₹ 103.70 crore was invested (July 2017 onwards) under short-term fixed deposits, from which the Company had earned interest amount of merely ₹ 0.26 crore (**Appendix-3.5.1**) during the period from July 2017 to October 2017.

Audit further noticed that due to non-closure of the loan availed from REC, the Company had to make an avoidable payment of ₹ 2.63 crore toward interest and penal interest during the period from July 2017 to June 2018, as detailed in **Table 3.5.1**.

Table 3.5.1: Details of interest and penal interest paid during July 2017 to June 2018

(Amount in ₹)

Months	Principal paid	Interest paid	Penal Interest paid	Total Interest paid
Jul-17	2,08,33,335	30,56,507	2,20,250	32,76,757
Aug-17	2,08,33,331	31,58,391	2,24,085	33,82,476
Sep-17	2,08,33,332	28,38,183	1,54,006	29,92,189
Oct-17	2,08,33,331	27,07,193	2,07,100	29,14,293
Nov-17	2,08,33,336	24,81,593	196435	26,78,028
Dec-17	2,08,33,331	20,01,309	0	20,01,309
Jan-18	2,08,33,336	20,30,393	3,59,376	23,89,769
Feb-18	2,08,33,331	17,46,574	1,67,204	19,13,778
Mar-18	2,08,33,336	15,64,641	1,60,505	17,25,146
Apr-18	2,08,33,331	13,53,595	1,51,035	15,04,630
May-18	2,08,33,336	0	1,02,909	1,02,909
Jun-18	2,08,33,331	13,09,933	1,11,284	14,21,217
Total		2,42,48,312	20,54,189	2,63,02,501

On this being pointed out (July 2022), the Deputy Chief Accounts Officer (Audit), MePDCL, while accepting the audit observation, informed (July 2022) that an amount of ₹ 12.53 crore was utilised for clearing the principal and interest of REC loan availed by MePGCL. The reply confirms that there was diversion of UDAY fund for other purpose.

Thus, the injudicious decision of MePDCL to divert the financial assistance received under UDAY for payment of other loans/liabilities of the Company and to invest the funds in short term fixed deposits resulted in avoidable expenditure of ₹ 2.37 crore⁹⁰.

The matter was reported to the Government (August 2022); their reply is awaited (March 2023).

⁸⁹ Repayment of loans availed by Meghalaya Power Generation Corporation Limited (MePGCL), a sister concern of MePDCL.

⁹⁰ ₹ 2.63 crore - ₹ 0.26 crore.