

Chapter I

Functioning of State Public Sector Enterprises

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1.1 Introduction

The State Public Sector Enterprises (SPSEs) comprise State Government Companies, Government Controlled Other Companies and Statutory Corporations. The SPSEs were established to carry out activities of commercial nature, keeping in view the welfare of the people and contribute to the State economy. As on 31 March 2023, there were 83 SPSEs in Telangana. The details are given in **Table 1.1**.

Table 1.1: Total number of SPSEs as on 31 March 2023

Type of SPSEs	Total
Government Companies ¹	77
Statutory Corporations ²	03
Government Controlled Other Companies ³	03
Total	83

Source: Compiled based on the latest financial statements and information provided by SPSEs

As on 31 March 2023, there were 83 SPSEs in Telangana as detailed in **Appendix 1.1**, including 77 Government Companies⁴, three Statutory Corporations⁵, three Government Controlled Other Companies⁶. There are 16 inactive⁷ SPSEs in the State of Telangana.

Out of 67 working SPSEs, 49 SPSEs whose accounts were in arrears for three or more years as on 30 September 2023 or which did not furnish information to Audit are not covered in this Report. Based on the accounts and/or information for the last three years ended March 2023 as furnished by SPSEs (both power and non-power sectors), analysis of financial performance of 18 working SPSEs is covered in this Chapter.

The summary of financial performance of 18 working SPSEs is as given in **Table 1.2**.

¹ Government Companies referred to in Section 2 (45) of the Companies Act, 2013

² Any Corporation set up under a statute enacted by Parliament/ State Legislature is called a Statutory Corporation

³ As defined in the Companies (Removal of Difficulties) Seventh Order, 2014 notified (4 September 2014), any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments is called Government Controlled Other Company

⁴ Includes 16 inactive SPSEs

⁵ Telangana State Road Transport Corporation, Telangana State Warehousing Corporation and Telangana State Financial Corporation

⁶ Hyderabad Growth Corridor Limited, Karimnagar Smart City Corporation Limited and Greater Warangal Smart City Corporation Limited

⁷ SPSEs that are under liquidation/non-operational/demerger

Table 1.2: Summary of financial performance of working SPSEs

(₹ in crore)

Particulars	Number of SPSEs	Amount
Number of working SPSEs	67	-
SPSEs covered in this Report	18	-
Paid up Capital	18	20,536.93
Long term Loans	18	78,035.15
Net profit	6	3,857.48
Net loss	11	(-) 11,969.66
Zero Profit/ Loss	1	-
Dividend declared	1	129.99
Net worth ⁸	18	(-) 33,005.15

Source: Compiled based on the latest financial statements and information provided by SPSEs as of 30 September 2023

Based on the nature of activities undertaken, these 18 SPSEs have been categorised into seven sectors as depicted in the table below:

Table 1.3: Sector wise turnover vis-à-vis share of turnover of SPSEs in Gross State Domestic Product of Telangana

(₹ in crore)

Sl. No.	Name of the Sector	Number of SPSEs	Turnover for the year	Percentage Share of Turnover in Gross State Domestic Product
1.	Power	7	94,793.90	7.22
2.	Agriculture	2	25.46	0.002
3.	Infrastructure	2	16.19	0.001
4.	Manufacturing	3	320.55	0.024
5.	Service	3	1.82	0.0001
6.	Finance	0	0.00	0.00
7.	Others	1	46.82	0.004
Total		18	95,204.74	7.25

Source: Compiled based on the latest financial statements and information provided by SPSEs as of 30 September 2023

The turnover (₹95,204.74 crore) of these 18 SPSEs was 7.25 per cent of the Gross State Domestic Product (GSDP) of Telangana (₹13,13,391 crore) for the year 2022-23 with contribution of 99.57 per cent by the Power sector.

Out of 18 SPSEs, six SPSEs earned a combined profit of ₹3,857.48 crore in 2022-23, 11 SPSEs incurred losses of (-) ₹11,969.66 crore in 2022-23 as per the latest finalised accounts and information furnished by the SPSEs. One SPSE had no profit no loss during 2022-23.

⁸ Net worth = Paid-up Capital + Free Reserves and Surplus – (Accumulated losses + Deferred Revenue Expenditure)

1.2 Accountability Framework

The audit of the financial statements of a Company in respect of financial years commencing on or after 1 April 2014 is governed by the provisions of the Companies Act, 2013. The audit of a Company in respect of the financial years that commenced earlier than 1 April 2014, however, continues to be governed by the Companies Act, 1956.

According to Section 2(45) of the Companies Act, 2013 (Act), a Government Company is one in which not less than 51 *per cent* of the paid-up capital is held by the Central and/or State Government(s). The subsidiary of a Government Company is also covered under the definition of a Government Company. The process of audit of Government Companies under the Act is governed by the related provisions of Section 139 and 143 of the Act.

1.2.1 Statutory Audit

Audit of Statutory Corporations is governed by their respective legislations. Out of three Statutory Corporations, the Comptroller and Auditor General of India is the sole auditor for Telangana State Road Transport Corporation whereas in respect of Telangana State Warehousing Corporation and Telangana State Financial Corporation, the audit is conducted by the Chartered Accountants appointed under the respective statutes and thereafter, supplementary audit is conducted by the Comptroller and Auditor General of India.

1.2.2 Role of Government and Legislature

The State Government exercises control over the affairs of these SPSEs through its administrative departments. The Chief Executive and Directors on the Board of these SPSEs are appointed by the State Government.

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 to be placed before the Legislature under Section 394 of the Act. Similarly, the Annual Reports of Statutory Corporations along with the Separate Audit Reports of the CAG are to be placed before the Legislature as per the stipulations made under their respective governing Acts. The Audit Reports of CAG in relation to Government Companies and Corporations are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

1.3 Stake of Government of Telangana

The State Government stake in SPSEs falls under three broad categories, *i.e.* Share Capital and Loans, Special Budgetary Support by way of grants and subsidies and Guarantees given to loans availed by SPSEs from Financial Institutions as explained below:

- **Share Capital and Loans** - In addition to the Share Capital Contribution, State

Government also provides financial assistance by way of loans to the SPSEs from time to time.

- **Special Financial Support** - State Government provides budgetary support by way of grants and subsidies to the SPSEs as and when required.
- **Guarantees** - State Government also guarantees the repayment of loans along with interest availed by the SPSEs from Financial Institutions.

1.4 Investment in SPSEs

1.4.1 Equity holding and loans given to SPSEs

As per the finance accounts for the year 2022-23, the Government invested ₹68,654.55 crore⁹ comprising equity of ₹30,559.59 crore in 60 SPSEs and three Corporations and loans and advances of ₹38,094.96 crore.

The Government investment in 18 SPSEs covered in the present chapter in the form of equity and loans as per the records of the SPSEs for the three-year period ended 31 March 2023 is given in **Table 1.4** and shown under **Chart 1.1**.

Table 1.4: Total equity investment and loans in State Public Sector Enterprises

(₹ in crore)

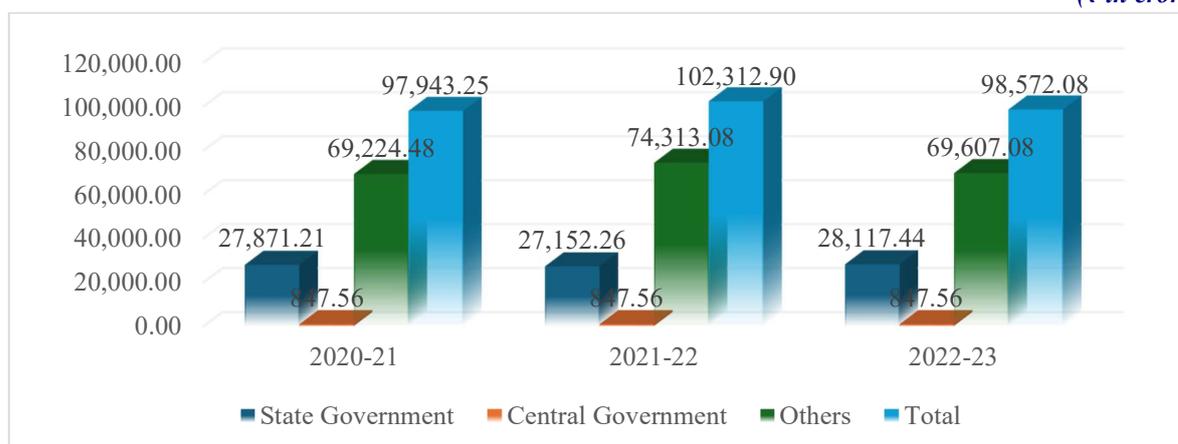
Sources of investment	As on 31 March 2021			As on 31 March 2022			As on 31 March 2023		
	Equity	Long Term Loans	Total	Equity	Long Term Loans	Total	Equity	Long Term Loans	Total
State Government	19,688.77	8,182.44	27,871.21	19,689.27	7,462.99	27,152.26	19,688.85	8,428.59	28,117.44
Central Government	847.56	0.00	847.56	847.56	0.00	847.56	847.56	0.00	847.56
Others	0.82	69,223.66	69,224.48	0.82	74,312.26	74,313.08	0.52	69,606.56	69,607.08
Total	20,537.15	77,406.10	97,943.25	20,537.65	81,775.25	1,02,312.90	20,536.93	78,035.15	98,572.08
Share of State Government in Total Investment (in per cent)	95.87	10.57	28.46	95.87	9.13	26.54	95.87	10.80	28.52

Source: Compiled based on the latest financial statements and information provided by SPSEs as of September 2023

The total investment in these SPSEs marginally increased by less than one per cent during 2020-21 to 2022-23. It is seen that the trend in investment was dominated by long-term loans taken from sources other than the Government and increased marginally by 0.55 per cent within the last three years of which, loans from State Government were 10.80 per cent. The ratio of debt to equity was 3.80¹⁰ for these SPSEs.

⁹ Source: Statement 7 & 8 of Finance Accounts 2022-23
¹⁰ ₹78,035.15 crore/₹20,536.93 crore

Chart 1.1 Investment in SPSEs

(₹ in crore)

1.5 Special support and returns during the year

1.5.1 Information on Subsidy, Grants and Guarantees by State Government

The Government of Telangana (GoT) provides financial support to SPSEs in the form of grants and subsidies through the annual budget. In addition, the Government also provides guarantees for loans raised by the SPSEs. As per the Finance Accounts for the year 2022-23, the State Government disbursed an amount of ₹10,454.41 crore as Grant in aid¹¹ to SPSEs. Further Guarantees¹², amounting to ₹1,90,191.49 crore given by the State Government to SPSEs were outstanding at the end of 2022-23.

The details of Subsidy, Grants and Guarantees given to 18 SPSEs covered in this chapter are given in **Table 1.5**.

Table 1.5: Details regarding budgetary support to SPSEs

(₹ in crore)

Particulars	2020-21		2021-22		2022-23	
	No. of SPSEs	Amount	No. of SPSEs	Amount	No. of SPSEs	Amount
Grants/Subsidies provided	06	5,833.65	05	2,172.36	07	8,431.23
Guarantees issued	02	12,586.93	0	0	03	10,271.70
Guarantee Commitment	06	19,876.20	06	19,459.20	06	26,440.42

Source: Compiled based on the latest financial statements and information provided by SPSEs as of September 2023

The remaining SPSEs did not furnish information despite being requested (September 2023).

¹¹ **Source:** Statement 10 of Finance Accounts 2022-23

¹² **Source:** Statement 20 of Finance Accounts 2022-23

1.6 Arrears in finalisation of accounts

The Financial Statements of the Companies for every financial year are required to be finalised within six months from the end of the relevant financial year *i.e.* by September end in accordance with 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 finalised, audited and presented to the Legislature as per the provisions of their respective Acts. **Table 1.6** provides the details of progress made by working SPSEs in finalisation of accounts as on 30 September 2023.

Table 1.6: Position relating to finalisation of accounts of SPSEs

Sl. No.	Particulars	2022-23
1.	Number of SPSEs	83
2.	Number of accounts finalised during the year	47
3.	Number of accounts in arrears	601
4.	Number of SPSEs with arrears in accounts	71
5.	Extent of arrears (in years)	1 to 38

Source: Records of the office and information provided by SPSEs as of September 2023

The administrative departments have the responsibility of overseeing the activities of the SPSEs. The administrative departments concerned are also responsible to ensure that the SPSEs finalise and adopt their accounts within the stipulated period. In view of the huge arrears in submission of accounts by the SPSEs, the Accountant General (AG) had been taking up the matter with the State Government and the administrative departments concerned for liquidating the arrears of accounts of SPSEs. As on 30 September 2023, however, 71 SPSEs had backlog of 601 accounts with arrears ranging from one to 38 years, which was significant as depicted in *Appendix 1.2*.

1.7 Impact of arrears in accounts

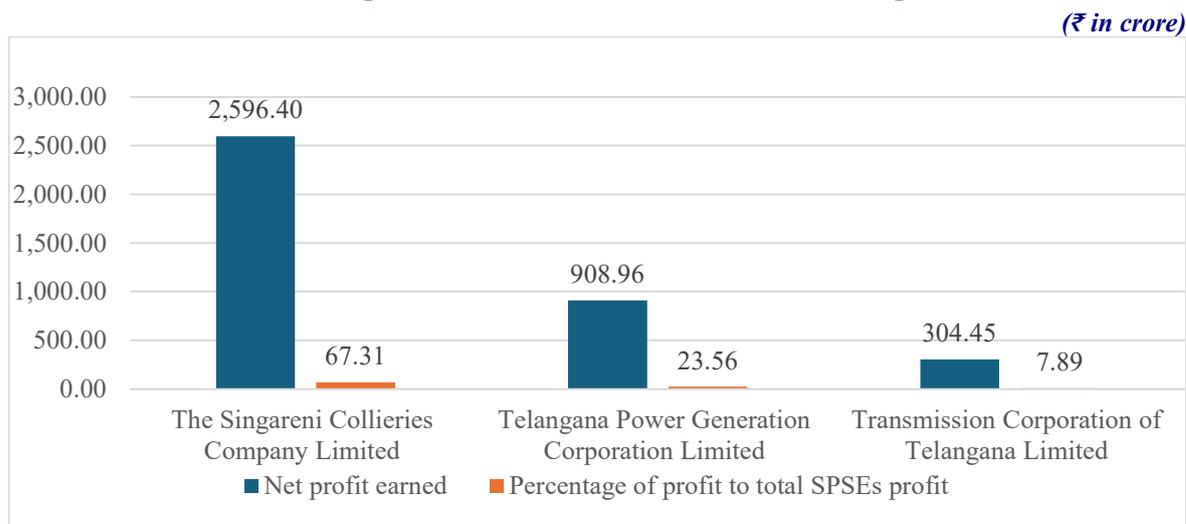
Delays in finalisation of the accounts entail the risk of fraud and leakage of public money apart from violation of the provisions of the relevant Statutes. In view of the position of arrears of accounts as indicated under *Paragraph 1.6*, the actual contribution of SPSEs to the State GDP for the year 2022-23 could not be ascertained and their contribution to the State exchequer could not be reported to the State Legislature.

1.8 Performance of SPSEs

1.8.1 Profit earned by SPSEs

Out of 18 SPSEs covered in this Report, six SPSEs earned a combined profit of ₹3,857.48 crore in 2022-23 as compared to eight SPSEs (out of 18 SPSEs) which earned profit of ₹1,761.29 crore in 2021-22. Three top SPSEs contributed 98.76 *per cent* of the total profit in 2022-23. The details are given in **Chart 1.2**.

Chart 1.2: Top SPSEs which contributed maximum profit



1.8.2 Dividend paid by SPSEs

Out of the six-profit making SPSEs, only one SPSE namely, The Singareni Collieries Company Limited paid dividend of ₹86.66 crore and ₹129.99 crore during the financial years 2021-22 and 2022-23 respectively. The dividend declared as a percentage of Net Profit of this SPSE decreased from 7.06 per cent in 2021-22 to 5.00 per cent in 2022-23. The dividend declared in 2022-23 was higher by ₹43.33 crore (50 per cent) as compared to the previous year.

1.8.3 Return on Capital Employed

Return on Capital Employed (RoCE) measures a company's profitability and efficiency with which its capital is employed. Return on Capital Employed is calculated by dividing a company's Earnings Before Interest and Taxes (EBIT) by the capital employed¹³. The details of Return on Capital Employed of 18 SPSEs during the period 2020-21 to 2022-23 are given in Table 1.7.

Table 1.7: Return on Capital Employed

(₹ in crore)

Particulars	Year	No. of SPSEs	Earnings Before Interest and Tax (EBIT)	Capital Employed	Return on Capital Employed (in per cent)
Government Companies/ Government Controlled Other Companies					
Profit earning	2020-21	7	6,071.55	49,641.81	12.23
	2021-22	8	7,994.50	55,491.43	14.41
	2022-23	6	10,710.15	60,643.39	17.66
Loss incurring	2020-21	9	(-)4,493.99	(-)1,772.51	0.00
	2021-22	8	1,616.75	(-)672.23	0.00
	2022-23	11	(-)8,278.36	(-)17,745.79	0.00
No profit / No loss	2020-21	1	0.00	2,924.00	0.00
	2021-22	1	0.00	2,766.20	0.00
	2022-23	1	0.00	2,132.40	0.00

¹³ Capital Employed = Paid up Share capital + Free Reserves and surplus + Long-term loans – Accumulated losses – Deferred Revenue Expenditure

Particulars	Year	No. of SPSEs	Earnings Before Interest and Tax (EBIT)	Capital Employed	Return on Capital Employed (in per cent)
Total	2020-21	17(*)	1,577.56	50,793.30	3.11
	2021-22	17(*)	9,611.25	57,585.40	16.69
	2022-23	18	2,431.79	45,030.00	5.40

(*)The date of incorporation of Manjeera Lift irrigation Corporation Limited was 20 January 2022 and the first Accounts are from FY 2022-23

Source: Compiled based on the latest financial statements and information provided by SPSEs as of September 2023

As shown in the table above, Return on Capital Employed (RoCE) in 18 SPSEs increased from 3.11 per cent in 2020-21 to 16.69 per cent in 2021-22, whereas RoCE decreased to 5.40 per cent during the year 2022-23. The decrease in RoCE of the 18 SPSEs during 2022-23 by one-third as compared to 2021-22, was on account of decrease in EBIT of Power Sector SPSEs.

Further, the RoCE of seven¹⁴ out of 18 SPSEs (three power sector SPSEs and four non-power sector SPSEs) which generate their own revenue and run on commercial lines was positive (17.70 per cent) for the year 2022-23.

1.8.4 Losses incurred

Out of 18 SPSEs, 11 SPSEs incurred losses during the year 2022-23. The losses incurred by these SPSEs increased to (-) ₹11,969.66 crore in 2022-23 from (-) ₹7,488.94 crore in 2020-21, as given in Table 1.8.

Table 1.8: Number of SPSEs that incurred losses during 2020-21 to 2022-23

(₹ in crore)

Year	No. of loss making SPSEs	Net Loss for the year	Accumulated loss	Net worth ¹⁵
2020-21	9	(-)7,488.94	(-)56,626.87	(-)38,728.87
2021-22	8	(-)1,973.07	(-)56,405.19	(-)38,506.69
2022-23	11	(-)11,969.66	(-)68,848.82	(-)50,925.42

Source: Compiled based on the latest financial statements and information provided by SPSEs

In 2022-23, out of total loss of ₹11,969.66 crore incurred by 11 SPSEs, major portion viz. 92.80 per cent amounting to ₹11,107.50 crore was contributed by three¹⁶ power sector SPSEs. The losses in two DISCOMs (Southern Power Distribution Company of Telangana Limited and Northern Power Distribution Company of Telangana Limited) were mainly due to increase in Power Purchase Cost without proportionate increase in revenue through tariffs. Further, the details of investment in the SPSEs which have incurred losses is given in Table 1.9.

¹⁴ (i)The Singareni Collieries Company Limited (ii) Telangana Power Generation Corporation Limited (iii) Transmission Corporation of Telangana Limited (iv) Telangana Industrial Health Clinic Limited (v) Telangana State Technology Services Limited, (vi) Telangana State Horticulture Development Corporation Limited (vii) Telangana State Mineral Development Corporation Limited

¹⁵ Net worth = Paid-up Capital + Free Reserves and Surplus – (Accumulated losses + Deferred Revenue Expenditure)

¹⁶ Southern Power Distribution Company of Telangana Limited, Northern Power Distribution Company of Telangana Limited and Telangana Renewable Energy Development Corporation Limited

Table 1.9: Investment in SPSEs which have incurred losses in 2022-23*(₹ in crore)*

Sl. No.	Name of Companies/ Corporation	Paid-up capital				Long Term Borrowing				Net Profit after Tax
		GoT	GoI	Others	Total	GoT	GoI	Others	Total	
Government Companies										
1.	Southern Power Distribution Company of Telangana Limited	12,017.93	0.00	0.00	12,017.93	405.29	0.00	15,004.83	15,410.12	(-) 8,147.48
2.	Northern Power Distribution Company of Telangana Limited	5,869.20	0.00	0.00	5,869.20	357.35	0.00	9,669.06	10,026.41	(-) 2,955.96
3.	Telangana Renewable Energy Development Corporation Limited	0.14	0.00	0.00	0.14	0.00	0.00	0.00	0.00	(-)4.06
4.	Telangana Housing Corporation Limited	0.25	0.00	0.00	0.25	7,664.41	0.00	0.00	7,664.41	(-)795.13
5.	T-Works Foundation	0.00	0.00	0.00	0.00	0.00	0.00	22.74	22.74	(-)15.18
6.	Damodhara Minerals Private Limited	0.00	0.00	0.04	0.04	0.00	0.00	0.00	0.00	(-)0.01
7.	Telangana Rajiv Swagruha Corporation Limited	0.05	0.00	0.00	0.05	0.00	0.00	0.00	0.00	(-)25.26
8.	The Nizam Sugars Limited	32.80	0.00	0.37	33.17	0.00	0.00	55.95	55.95	(-)24.90
9.	Telangana Horticulture Development Corporation Limited	0.01	0.00	0.00	0.01	0.00	0.00	0.00	0.00	(-)1.32
10.	Telangana Water Resource Development Corporation Limited	1.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	(-)0.21
11.	Manjeera Lift Irrigation Corporation Limited	0.10	0.00	0.00	0.10	0.00	0.00	0.00	0.00	(-)0.15
Total		17,921.48	0.00	0.41	17,921.89	8,427.05	0.00	24,752.58	33,179.63	(-) 11,969.66
Statutory Corporations										
None of the Statutory Corporations furnished information.										
Government Controlled Other Companies										
None of the Government Controlled Other Companies furnished information.										
Grand total		17,921.48	0	0.41	17,921.89	8,427.05	0.00	24,752.58	33,179.63	(-) 11,969.66

Source: Compiled based on the latest financial statements and information provided by SPSEs as of September 2023

As detailed in **Table 1.9**, the total investment in 11 loss making SPSEs as on 31 March 2023 was ₹51,101.52 crore in which 35.07 per cent was equity capital (₹17,921.89 crore) and 64.93 per cent was long-term loans (₹33,179.63 crore). Out of the total investment,

State Government investment is ₹26,348.53 crore in terms of equity and long-term loan. Investment of ₹24,752.99 crore was raised from other sources.

1.8.5 Erosion of Net Worth in SPSEs

Net worth is the sum total of the paid-up capital, free reserves and surplus less accumulated losses and deferred revenue expenditure. Essentially, it is a measure of what an entity is worth to the owners. A negative net worth indicates that the entire investment by the owners has been wiped out by accumulated losses and deferred revenue expenditure.

As on 31 March 2023, out of 18 SPSEs, there were 10 SPSEs with accumulated losses of ₹68,856.49 crore. Of these 10 SPSEs, nine SPSEs incurred losses amounting to ₹11,964.28 crore during 2022-23 and one SPSE¹⁷ had not incurred loss, even though they had accumulated loss of ₹4.12 crore.

The net worth of nine out of 18 SPSEs had been completely eroded by accumulated loss and their net worth was either zero or negative. As on 31 March 2023, the net worth of these nine SPSEs was (-)₹50,930.63 crore against equity investment of ₹17,921.33 crore. Further, an amount of ₹8,427.05 crore was outstanding towards State Government loans as on 31 March 2023 as shown in **Table 1.10**.

Table 1.10: Details of SPSEs whose Net worth was eroded

(₹ in crore)

Sl. No.	Name of SPSEs	Latest year of finalised Accounts	Total paid up capital	Net profit/ Loss after interest, tax and dividend	Accumulated losses	Net Worth eroded since the account ing period	Net Worth	State Govern ment equity as on 31 March 2023	State Govern ment loan as on 31 March 2023
1.	Northern Power Distribution Company of Telangana Limited	2022-23	5,869.20	(-)2,955.96	(-)18,592.99	2014-15	(-)12,723.79	5,869.20	357.35
2.	Southern Power Distribution Company of Telangana Limited	2022-23	12,017.93	(-) 8,147.48	(-)42,329.50	2014-15	(-)30,311.57	12,017.93	405.29
3.	Damodhara Minerals Private Limited	2022-23	0.04	(-) 0.01	(-) 0.13	2014-15	(-) 0.09	0.00	0.00
4.	Telangana Rajiv Swagruha Corporation Limited	Accounts not finalised since inception	0.05	(-) 25.26	(-) 890.67	2018-19	(-) 890.62	0.05	0.00

¹⁷ Telangana Industrial Health Clinic Limited

Sl. No.	Name of SPSEs	Latest year of finalised Accounts	Total paid up capital	Net profit/ Loss after interest, tax and dividend	Accumulated losses	Net Worth eroded since the accounting period	Net Worth	State Government equity as on 31 March 2023	State Government loan as on 31 March 2023
5.	Telangana Housing Corporation Limited	2015-16	0.25	(-) 795.13	(-) 6,744.81	2015-16	(-) 6,744.56	0.25	7,664.41
6.	Telangana Water Resource Development Corporation Limited	2022-23	1.00	(-) 0.21	(-) 1.28	2022-23	(-) 0.28	1.00	0.00
7.	The Nizam Sugars Limited	2022-23	33.17	(-) 24.90	(-) 276.98	2014-15	(-) 243.81	32.80	0.00
8.	Manjeera Lift Irrigation Corporation Limited	Accounts not finalised since inception	0.10	(-) 0.15	(-) 0.15	2022-23	(-) 0.05	0.10	0.00
9.	T-Works Foundation	2022-23	0.00	(-) 15.18	(-) 15.86	2020-21	(-) 15.86	0.00	0.00
Total			17,921.74	(-)11,964.28	(-)68,852.37		(-)50,930.63	17,921.33	8,427.05

Source: Compiled based on the latest financial statements and information provided by SPSEs as of September 2023

The net worth of the above-mentioned nine SPSEs was completely eroded by accumulated losses and their net worth was negative. The net worth of these nine SPSEs remained negative for a period ranging from one year to nine years.

Out of nine SPSEs having negative net worth, The Nizam Sugars Limited is the only SPSE in which revenue of ₹1.69 crore exceeded the expenses of ₹1.56 crore. In the remaining eight SPSEs, receipts were lower than expenses. The details of Receipts/Revenue, Expenses and Establishment Expenses of these SPSEs are given in **Table 1.11**.

Table 1.11: Receipts/Revenue and Expense position of SPSEs in 2022-23 with Negative Net Worth in 2022-23

(₹ in crore)

Sl. No.	Name of SPSE	Net Worth	Receipts/Revenue	Expenses	Establishment Expenses
1.	Northern Power Distribution Company of Telangana Limited	(-)12,723.79	15,880.03	18,835.99	2,053.82
2.	Southern Power Distribution Company of Telangana Limited	(-)30,311.57	34,254.70	42,243	3,081.80
3.	Damodhara Minerals Private Limited	(-)0.09	0.00	0.006	-

Sl. No.	Name of SPSE	Net Worth	Receipts/Revenue	Expenses	Establishment Expenses
4.	Telangana Rajiv Swagruha Corporation Limited	(-)890.62	0.98	26.24	-
5.	Telangana Housing Corporation Limited	(-)6,744.56	15.21	793.35	49.75
6.	Telangana Water Resource Development Corporation Limited	(-)0.28	0.00	0.21	-
7.	The Nizam Sugars Limited	(-)243.81	1.69	1.56	0.61
8.	Manjeera Lift Irrigation Corporation Limited	(-)0.05	0.00	0.15	-
9.	T-Works Foundation	(-)15.86	1.93	17.12	-
Total		(-)50,930.63	50,154.54	61,917.626	5,185.98

Source: Compiled based on the latest financial statements and information provided by SPSEs as of September 2023

1.9 Comments on Accounts

1.9.1 Audit of accounts of SPSEs under Section 143 of the Companies Act, 2013

During the period from 1 October 2022 to 30 September 2023, 39 Government Companies submitted 45 accounts to the CAG for supplementary audit for the period spanning from 2016-17 to 2022-23. Of these, the CAG reviewed 15 accounts of 14 SPSEs. Non-Review Certificates were issued in respect of 10 accounts of 10 SPSEs. Finalisation of CAG's comments were pending in respect of 20 accounts as on 30 September 2023.

Further, review of 32 accounts of 26 SPSEs which were submitted prior to 30 September 2022, was finalised during the period from 01 October 2022 to 30 September 2023. Non-review certificates were issued in respect of two accounts submitted prior to 30 September 2022.

Of the 47 accounts reviewed and finalised during the period from 1 October 2022 to 30 September 2023, comments of the CAG were issued in respect of 35 accounts. The list of State SPSEs in respect of which comments were issued is given in *Appendix 1.3*.

1.9.2 Significant Comments of the CAG issued as supplement to the Statutory Auditor's reports on Government Companies/ Government Controlled Other Companies

Of the 47 accounts reviewed and finalised during the period from 1 October 2022 to 30 September 2023, CAG's comments were issued in respect of 35 accounts of Government Companies and Government Controlled Other Companies. Some of the significant comments issued have been detailed in *Appendix 1.4*, the financial impact of

which on the profitability was ₹757.21 crore and on assets/ liabilities was ₹31,989.68 crore.

1.10 Disinvestment, Restructuring and Privatisation of SPSEs and any reforms

During the year 2022-23, there was neither disinvestment of any of the SPSEs nor was any SPSE privatised.

1.11 Introduction to Corporate Governance

Corporate Governance focusses on building the confidence of various stakeholders including customers, suppliers, employees, shareholders, bankers and society at large. A company is directed and controlled by the system of rules, practices and process of Corporate Governance. Further, Corporate Governance framework of any State Public Sector Enterprise (SPSE) depends upon the four pillars namely transparency, full disclosure, independent monitoring and fairness to all. Adherence to the principles of Corporate Governance brings accountability, transparency in business and enhances confidence of the stakeholders.

1.12 Provisions contained in the Companies Act, 2013

The Companies Act, 2013 (The Act) was enacted on 29 August 2013 replacing the Companies Act, 1956. In addition, the Ministry of Corporate Affairs had also notified (31 March 2014) Companies Rules¹⁸, 2014 on Management and Administration; Appointment and Qualification of Directors; Meetings of Board and its powers; and Accounts. The Companies Act, 2013 together with the Companies Rules provide a robust framework for Corporate Governance. The requirements, *inter alia* provide for:

Qualifications for Independent Directors along with the duties and guidelines for professional conduct -Sections 149 (6) and (8) and Schedule IV read with Rule 5 of the Companies (Appointment and Qualification of Directors), Rules, 2014;

Mandatory appointment of one Woman Director on the Board of Companies {Section 149(1)};

Mandatory establishment of certain committees *viz.*, Corporate Social Responsibility Committee {Section (135)}, Audit Committee {Section 177(1)}, Nomination and Remuneration Committee {Section 178(1)} and Stakeholders Relationship Committee {Section 178(5)};

Holding of a minimum of four meetings of Board of Directors every year in such a manner that not more than 120 days shall intervene between two consecutive meetings of the Board {Section 173(1)}.

¹⁸ Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014; Companies (Accounts) Rules, 2014; Companies (Appointment and Qualification of Directors) Rules, 2014; Companies (Meeting of Boards and its Powers) Rules, 2014

1.13 SEBI/PED guidelines on Corporate Governance

Since none of the SPSEs of Telangana were listed in the stock exchange, SEBI guidelines on Corporate Governance are not applicable to SPSEs of Telangana. Further, a clarification was sought from the Public Enterprises Department (PED), Government of Telangana (GoT) on whether any guidelines on Corporate Governance were issued to the State Public Sector Enterprises. The PED in its reply has stated that it has not issued any guidelines/orders/circulars to Public Sector Undertakings with respect to Corporate Governance.

1.14 Review of the Compliance of the Corporate Governance provisions

As on 31 March 2023, there were 64 active SPSEs¹⁹ in the nature of Government Companies/Government controlled Other Companies in the State of Telangana under the audit jurisdiction of the CAG. For the purpose of review, an assessment framework was prepared based on the provisions of Corporate Governance contained in the Act, 2013 and Companies Rules made thereunder and issued to the above SPSEs. However, necessary information was received from 28 SPSEs only. The applicability of various provisions of the Act and the rules was assessed based on the information furnished by these 28 SPSEs.

1.15 Meetings of the Board of Directors

The Board is a collective body of either elected or appointed persons that meets at regular intervals to set policies for corporate management and overseeing the activities of an organization. As per Section 2 (10) of the Companies Act 2013, 'Board of Directors' or 'Board', in relation to a company means the collective body of the directors of the Company.

As per Section 173 (1) of the Act, 2013, every company shall hold the first meeting of the Board of Directors (BoD) within thirty days of the date of its incorporation and thereafter hold minimum four meetings of BoD every year in such a manner that not more than one hundred and twenty days shall intervene between two consecutive meetings of the Board.

On review of the number of BoD meetings conducted by each SPSE during the year²⁰, it was noticed that out of 28 SPSEs, six SPSEs did not conduct four BoD meetings during the year 2022-23. Details are shown in **Table 1.12**.

Table 1.12: SPSEs where the number of Board meetings was less than four

Sl.No.	Name of SPSE	No. of Meetings held
1.	Telangana Mineral Development Corporation Limited	1
2.	Telangana Rajiv Swagruha Corporation Limited	2
3.	Telangana Housing Corporation Limited	2

¹⁹ Excluding three Statutory Corporations and 16 inactive SPSEs

²⁰ For the purpose of this framework, financial year has been adopted

Sl.No.	Name of SPSE	No. of Meetings held
4.	Telangana State Minorities Finance Corporation	3
5.	Telangana Horticulture Development Corporation Limited	2
6.	Telangana State Water Resources Development Corporation Limited	3

Source: Compiled based on the information provided by SPSEs as of September 2023

Details of SPSEs where the intervening period between two BoD meetings was found more than the prescribed time limit of 120 days are given in **Table 1.13**.

Table 1.13: Intervening period in holding of two consecutive BoD Meetings

Sl. No.	Name of SPSE	Date of meeting	Date of next Meeting	Intervening period (in days)
1.	Telangana State Water Resources Development Corporation Limited	27.10.2022	16.03.2023	140
		16.03.2023	28.07.2023	134
2.	Telangana Rajiv Swagruha Corporation Limited	25.03.2022	30.08.2022	158
		30.08.2022	31.12.2022	123
3.	The Nizam Sugars Limited	26.08.2022	30.12.2022	126
		13.02.2023	22.06.2023	129
4.	Telangana State Water Resources Infrastructure Development Corporation Limited	07.04.2022	08.09.2022	154
5.	Telangana Horticulture Development Corporation Limited	08.02.2022	01.07.2022	143
		01.07.2022	15.02.2023	229
6.	Telangana Industrial Health Clinic Limited	07.06.2022	12.10.2022	127
7.	Telangana Housing Corporation Limited	25.03.2022	30.08.2022	158
8.	Telangana State Minorities Finance Corporation	18.05.2022	27.10.2022	162
		27.10.2022	25.03.2023	149
		25.03.2023	18.10.2023	207

Source: Compiled based on the information provided by SPSEs as of September 2023

Section 173(3) of the Act, 2013 provides that a meeting of the Board shall be called by giving not less than seven days of notice in writing to every director at his address registered with the company and such notice shall be sent by hand delivery or by post or by electronic means. A review of the dates of the notices issued and the meetings held revealed that the following nine SPSEs conducted BoD meetings without providing the mandated seven days' notice. Details of Board Meetings convened with shorter notice are given in **Table 1.14**.

Table 1.14: Details of Board Meetings called with shorter notice

Sl. No.	Name of SPSE	Date of Notice	Board Meeting Date
1.	Telangana Power Finance Corporation Limited	23.06.2022	28.06.2022
		12.09.2022	15.09.2022
		03.01.2023	05.01.2023
2.	Northern Power Distribution Company of Telangana Limited	26.08.2022	30.08.2022
3.	Telangana State Water Resources Infrastructure Development Corporation Limited	01.04.2022	07.04.2022
4.	Telangana Housing Corporation Limited	15.12.2022	20.12.2022
5.	Telangana Industrial Health Clinic Limited	03.02.2023	07.02.2023
		04.06.2022	07.06.2022
		02.12.2022	05.12.2022
6.	Telangana Industrial Development Corporation Limited	15.03.2023	17.03.2023
		21.11.2022	24.11.2022
		25.08.2022	30.08.2022
7.	Telangana Drinking Water Supply Corporation Limited	16.06.2022	21.06.2022
		11.01.2023	17.01.2023
8.	Telangana Rajiv Swagruha Corporation Limited	26.12.2022	31.12.2022
9.	Telangana State Minorities Finance Corporation	13.05.2022	18.05.2022
		21.10.2022	27.10.2022
		20.03.2023	25.03.2023

Source: Compiled based on the information provided by SPSEs as of September 2023

1.16 Independent Directors on Board

The presence of independent representatives on the Board, capable of taking an independent view on the decisions of the Management is widely considered as a means of protecting the interests of shareholders and other stakeholders.

Section 149 (6) of the Companies Act, 2013 *inter alia* stipulated that an independent director in relation to a company, means a director other than a managing director or a whole-time director or a nominee director and is a person of integrity and possesses relevant expertise and experience. Besides, the independent director shall neither be a promoter himself nor shall be related to the promoters/directors of the company or its holding, subsidiary or associate company. The independent director himself or his relatives shall not have any pecuniary relationship/ transaction (other than remuneration of independent director) with the company, or its subsidiary, or its holding or associate company beyond the monetary limits during the period prescribed in this section. The independent director himself or his relatives shall not hold key managerial position or any other prescribed relationship *viz.*, employees, auditors, companies' secretaries etc. with the company or its holding, subsidiary or associate company during the timeframe prescribed in this section.

As per the power conferred under Section 149 of the Companies Act, Central Government enacted Companies (Appointment and Qualification of Directors) Rules, 2014. As per Rule 4 of the said Rules (i) Public Companies having paid up share capital of ten crore rupees or more; or (ii) Public Companies having a turnover of one hundred crore rupees or more; or (iii) Public Companies having, in aggregate, outstanding loans, debentures and deposits, exceeding fifty crore rupees shall have at least two directors as Independent Directors.

Further, as per Rule 4 (2) of the Companies (Appointment and Qualification of Directors) Rules, 2014, three classes of unlisted public company *i.e.* a joint venture or a wholly owned subsidiary or a dormant company are not required to appoint an independent director.

As per the information available, during FY 2022-23, out of 28 SPSEs, only 15 SPSEs, as shown in **Appendix 1.5**, were required²¹ to appoint Independent Directors (IDs) as per the provisions of the Act, 2013 and Rule 4 mentioned above.

Out of 15 SPSEs, there were no Independent Directors on the Board of nine SPSEs as given in **Table 1.15**.

Table 1.15: SPSEs not having Independent Directors during FY 2022-23

Sl. No.	Name of SPSE
1.	The Singareni Collieries Company Limited
2.	Telangana Power Generation Corporation Limited
3.	Transmission Corporation of Telangana Limited
4.	Southern Power Distribution Company of Telangana Limited
5.	Northern Power Distribution Company of Telangana Limited
6.	Telangana Power Finance Corporation Limited
7.	Telangana Housing Corporation Limited
8.	State Police Housing Corporation Limited
9.	Telangana Horticulture Development Corporation Limited

Source: Compiled based on information provided by SPSEs as of September 2023

Telangana State Water Resources Infrastructure Development Corporation Limited and Kaleshwaram Irrigation Project Corporation Limited stated that they have two and five Independent Directors respectively. However, the Annual Reports (2021-22/2020-21) of these Companies do not designate them as Independent Directors.

Telangana Drinking Water Supply Corporation Limited stated that it had four Independent Directors as they were not having any pecuniary relationship with the company and neither holding any shares in their individual capacity. However, the Government Orders²² issued for constitution of the Board as made available by the above

²¹ The latest available Financial Statements of SPSEs as on 30 September 2022 was considered to determine the applicability of the Provisions of Companies Act, 2013

²² Telangana State Water Resources Infrastructure Development Corporation Limited - March 2021, Kaleshwaram Irrigation Project Corporation Limited - December 2016 and Telangana Drinking Water Supply Corporation Limited - January 2017

three Companies did not specify any Director as Independent Director and their appointments appeared to be *ex-officio* in nature²³

Telangana Mineral Development Corporation Limited stated that some of the existing Directors were re-designated as Independent Directors, however no further information on the appointment of Independent Directors was furnished.

In view of the above, audit is unable to derive any assurance on the presence of the Independent Directors on the Boards of the above four companies. Hence, for the purpose of this assessment, the number of Independent Directors in these companies was taken as “Nil”.

Further, in case of two SPSEs (The Nizam Sugars Limited and Telangana Industrial Health Clinic Limited), a summarized status of the appointment of Independent Directors as per the information furnished by the SPSEs is shown in **Table 1.16**.

Table 1.16: Status of appointment of Independent Director (ID)

Name of SPSE	ID required	Actual No. of ID
The Nizam Sugars Limited	2	1
Telangana Industrial Health Clinic Limited	2	5

Source: Compiled based on information provided by SPSEs as of September 2023

Audit observed that-

- i. The two SPSEs-The Nizam Sugars Limited and Telangana Industrial Health Clinic Limited, stated that the Independent Directors were appointed by their respective Board of Directors and not by the State Government.
- ii. Further, one SPSE, The Nizam Sugars Limited, did not appoint required number of IDs during 2022-23. The minutes of the Annual General Meeting also designated the individuals appointed as ‘Director’ but not Independent Director.
- iii. Three SPSEs - Telangana Power Finance Corporation Limited, Telangana Housing Corporation Limited and State Police Housing Corporation Limited in their response to assessment framework stated that provisions related to appointment of independent director are not applicable to them. However, in view of the Rule 4 of Companies (Appointment and Qualification of Directors) Rules, 2014, the Companies were required to appoint Independent Directors.

1.17 Appointment and Functioning of Independent Directors

1.17.1 Issuance of formal letter of appointment and approval at General Meeting

As per Schedule IV of the Companies Act, 2013, appointment of Independent Director shall be approved at the meeting of shareholders (General Meeting). The appointment of

²³ By virtue of their official Government positions

Independent Directors shall be formalised through a letter of appointment which shall set out the terms and conditions of appointment. Further, the terms and conditions of appointment of Independent Directors are also required to be posted on the Company’s website.

Two SPSEs viz., The Nizam Sugars Limited and Telangana Industrial Health Clinic Limited stated that they have appointed Independent Directors during 2022-23. Both the SPSEs stated that approvals for appointment of Independent Directors were obtained in the General Meeting and formal letter of appointment was issued.

However, in case of The Nizam Sugars Limited, the Minutes of the General Meeting as furnished did not specifically state the appointment of the Director as Independent Director.

1.17.2 Training of Independent Directors

As per Schedule IV {Para III (1)- Duties of Independent Directors} of the Companies Act, Independent Directors shall undergo appropriate induction training and regularly update and refresh their skills, knowledge and familiarity with the company. Audit, however, observed that none of the two SPSEs had arranged for induction training of Independent Directors.

1.17.3 Attending meeting of the Board, Board Committees and General meetings of the Company

Schedule IV (III) (3) of the Act, 2013 provides that Independent Directors should strive to attend all the meetings of Board of Directors and Board Committees of which he/she is a member.

1.17.3.1 Board Meetings

Status of attendance of the Independent Directors who were on the Board at the time of the meeting is given in **Table 1.17**

Table 1.17: Presence of Independent Directors in meetings of the Board

Sl. No.	Name of SPSE	Date of Board meeting	No. of ID on Board	No. of ID attended
1.	The Nizam Sugar Limited	25.06.2022	1	1
		22.07.2022	1	1
		26.08.2022	1	1
		30.12.2022	1	1
		13.02.2023	1	1
2.	Telangana Industrial Health Clinic Limited	07.06.2022	5	5
		12.10.2022	5	4
		05.12.2022	5	5
		07.02.2023	5	3
		14.03.2023	5	4

Source: Compiled based on the information provided by SPSEs as of September 2023

1.17.3.2 Audit Committee Meetings

The status of presence of the Independent Directors on the Board during Audit Committee meetings held in FY 2022-23 is given in **Table 1.18**.

Table 1.18: Attendance of ID in Audit Committee Meetings

Sl. No.	Name of SPSE	Date of meeting	No. of ID on board	No. of ID attended
1.	The Nizam Sugars Limited	22.07.2022	1	1
		26.08.2022	1	1
		13.02.2023	1	1
2.	Telangana Industrial Health Clinic Limited	Audit Committee was not constituted.		

Source: Compiled based of the information provided by SPSEs as of September 2023

1.17.3.3 General Meetings

Schedule IV (III) (5) of the Act, 2013 states that Independent Directors shall strive to attend all the General Meetings of the Company. Audit noticed that Independent Directors in two SPSEs were on the Board at the time of Annual General Meeting (AGM) during FY 2022-23. The details of the Annual General Meeting (AGM) held in 2022-23, number of Independent Directors on the Board of the SPSE and number of Independent Directors who attended the meetings are given in **Table 1.19**.

Table 1.19: Attendance of ID in Annual General Meetings

Sl. No.	Name of SPSE	Date of AGM	No. of ID on board	No. of ID attended
1.	The Nizam Sugars Limited	30.09.2022	1	0
		17.03.2023	1	0
2.	Telangana Industrial Health Clinic Limited	17.05.2023	5	0

Source: Compiled based on the information provided by SPSEs as of September 2023

It could be seen from the table above that the Independent Directors on the Board of the SPSEs did not attend the AGM.

1.17.4 Separate meeting of Independent Directors

As per Schedule IV (VII) (1) of the Act, 2013, the Independent Directors of the company shall hold at least one meeting in a financial year, without the attendance of non-Independent Directors and members of Management. Further, all the Independent Directors of the company shall strive to be present at such meeting to review the performance of non-Independent Directors and the Board as a whole. The performance of the Chairperson of the company would also be reviewed considering the views of executive directors and non-executive directors.

Audit noticed that out of the two SPSEs who have appointed Independent Directors, only one SPSE *i.e.* Telangana Industrial Health Clinic Limited had more than one Independent Director. However, Independent Directors did not conduct a separate meeting during 2022-23 as required by the Act.

In the absence of separate meetings, the purpose of appointing the Independent Directors on the Board of two SPSEs *i.e.* to review the performance of non-Independent Directors, Chairperson and the Board was affected. Further, assessment of the quality, quantity and timeliness of flow of information between the Company's Management and the Board, which is necessary for effective and reasonable discharge of duties could not be carried out as required in Schedule IV (VII) (3) (c).

1.18 Women Directors on Board

Section 149(1) of the Act, 2013 read with Rule 3 of the Companies (Appointment and Qualification of Directors) Rules, 2014 provides for appointment of at least one-woman director in (i) every listed company; (ii) every other public company having (a) paid-up share capital of one hundred crore rupees or more; or (b) turnover of three hundred crore rupees or more. Further, any intermittent vacancy of a woman director shall be filled up by the Board at the earliest but not later than immediate next Board meeting or three months from the date of such vacancy whichever is later.

Audit observed that six SPSEs²⁴, as shown in **Appendix 1.5**, were required to appoint at least one woman director during 2022-23. Of these six SPSEs, only two SPSEs-Northern Power Distribution Company of Telangana Limited and Kaleshwaram Irrigation Project Corporation Limited had at least one-woman director throughout FY 2022-23 as required. In respect of The Singareni Collieries Company Limited, Women Director was appointed only *w.e.f.* 22.02.2023. The remaining three SPSEs did not have at least one women director throughout FY 2022-23 as given in **Table 1.20**.

Table 1.20: SPSEs not having at least one-woman director during FY 2022-23

Sl. No.	Name of SPSE
1.	Southern Power Distribution Company of Telangana Limited
2.	Transmission Corporation of Telangana Limited
3.	Telangana Power Generation Corporation Limited

Source: Compiled based on the information provided by SPSEs as of September 2023

1.19 Filling-up the posts of Key Managerial Personnel

Section 203(1) of the Act, 2013 provides that every company belonging to such class or classes of companies, as may be prescribed, shall have whole time Key Managerial Personnel (KMP) *viz.:* (i) Managing Director (MD), or Chief Executive Officer (CEO) or Manager and in their absence, a Whole Time Director; (ii) Company Secretary; and (iii) Chief Financial Officer (CFO).

Further, Rule 8 of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 provides that every listed company and every other public company having a paid-up share capital of rupees ten crore or more shall have whole-time key managerial

²⁴ Southern Power Distribution Company of Telangana Limited, Transmission Corporation of Telangana Limited, Telangana Power Generation Corporation Limited, Northern Power Distribution Company of Telangana Limited, Kaleshwaram Irrigation Project Corporation Limited and The Singareni Collieries Company Limited

personnel. Section 203(4) of the Act, 2013 further provided that if the office of any whole-time key managerial personnel is vacated, the resulting vacancy shall be filled-up by the Board at a meeting of the Board within a period of six months from the date of such vacancy.

Audit noticed that the paid-up capital of seven SPSEs, as given in **Appendix 1.5** was ₹10 crore or more as per their latest finalised accounts²⁵. Hence, these companies were required to appoint whole time KMPs. Of these seven SPSEs, whole time KMPs were found appointed in five SPSEs²⁶. The deficiency in the appointment of KMP in two SPSEs is shown in **Table 1.21**.

Table 1.21: Status of appointment of KMPs

Sl. No.	Name of SPSE	Status of KMP
1.	The Nizam Sugars Limited	Did not appoint Company Secretary
2.	Telangana Industrial Health Clinic Limited	Did not appoint Company Secretary and Chief Financial officer

Source: Compiled based on the information provided by SPSEs as of September 2023

Review of records related to filling up of KMP vacancies disclosed that the KMP vacancies which occurred during 2022-23 were filled up within a period of six months from the date of such vacancy in five SPSEs as prescribed in Rule 8 of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014.

1.20 Audit Committee

1.20.1 Constitution of Audit Committee

As per Section 177 (1) of the Act, 2013 and Rule 6 of the Companies (Meetings of Board and its powers) Rules, 2014, the BoD of every listed public company and all public companies with a paid up capital of ten crore rupees or more; or having turnover of one hundred crore rupees or more; or having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding fifty crore rupees or more (except Joint Venture Companies and wholly owned subsidiary companies) shall constitute an Audit Committee.

Audit noticed that out of 28 SPSEs, only 15 SPSEs as given in **Appendix 1.5**, were required²⁷ to constitute an Audit Committee of which 10 SPSEs²⁸ have constituted Audit

²⁵ The latest available Financial Statements of SPSEs as on 30 September 2022 was considered to determine the applicability of the Provisions of Companies Act, 2013

²⁶ The Singareni Collieries Company Limited, Kaleshwaram Irrigation Project Corporation Limited, Telangana Power Generation Corporation Limited, Southern Power Distribution Company of Telangana Limited, Northern Power distribution company of Telangana Limited

²⁷ The latest available Financial Statements of SPSEs as on 30 September 2022 were considered to determine the applicability of the Provisions of Companies Act, 2013

²⁸ The Singareni Collieries Company Limited, Telangana Power Generation Corporation Limited, Transmission Corporation of Telangana Limited, Southern Power Distribution Company of Telangana Limited, Northern Power Distribution Company of Telangana Limited, Telangana State Water Resources Infrastructure Development Corporation Limited, The Nizam Sugars Limited, Kaleshwaram Irrigation Project Corporation Limited, Telangana Drinking Water Supply Corporation Limited & Telangana Mineral Development Corporation Limited

Committee and the following five SPSEs have not constituted Audit Committee throughout 2022-23 as shown in **Table 1.22**.

Table 1.22: SPSEs which did not constitute Audit Committee

Sl. No.	Name of SPSE
1.	Telangana Power Finance Corporation Limited
2.	Telangana Industrial Health Clinic Limited
3.	Telangana Housing Corporation Limited
4.	State Police Housing Corporation Limited
5.	Telangana Horticulture Development Corporation Limited

Source: Compiled based on the information provided by SPSEs as of September 2023

Out of the five SPSEs mentioned in **Table 1.22** which did not constitute the Audit Committee, three SPSEs-Telangana Power Finance Corporation Limited, Telangana Housing Corporation Limited and State Police Housing Corporation Limited stated that the provisions related to constitution of Audit Committee are not applicable to them. However, specific reasons for non-applicability were not furnished by them, even as these SPSEs were required to form an Audit Committee as per the Provisions of the Act.

1.20.2 Composition of Audit Committee

Section 177(2) of the Act, 2013 provides that the Audit Committee shall consist of a minimum of three directors, with Independent Directors forming a majority. Further, majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand the financial statements.

Out of 10 SPSEs wherein Audit Committee was constituted, all SPSEs except one SPSE *i.e.* The Nizam Sugars Limited fulfilled the criteria of having at least three directors in their Audit Committee during FY 2022-23. Further, the Independent Directors were not found in nine SPSEs where Audit Committee was constituted.

1.20.3 Terms of Reference for Audit Committee

Section 177(4) of the Act, 2013 provides that every Audit Committee shall act in accordance with the terms of reference (ToR) specified in writing by the Board.

Audit noticed that out of 10 SPSEs which have constituted Audit Committee, the ToR of only six SPSEs, as shown in **Table 1.23** was found approved by their respective Boards.

Table 1.23: SPSEs where ToR of Audit Committee was approved

Sl. No.	Name of SPSE
1.	The Singareni Collieries Company Limited
2.	Telangana Power Generation Corporation Limited
3.	Northern Power Distribution Company of Telangana Limited
4.	Kaleshwaram Irrigation Project Corporation Limited
5.	Telangana State Water Resources Infrastructure Development Corporation Limited
6.	Telangana Drinking Water Supply Corporation Limited

Source: Compiled on the basis of information provided by SPSEs as of September 2023

A review of ToR disclosed that contrary to the stipulations prescribed in Section 177(4), the following points were not included in the ToR, as shown in **Table 1.24**.

Table 1.24: SPSEs which did not include points specified in Section 177(4) in ToR of Audit Committee

Sl. No.	Name of SPSE	Points not included in the ToR
1.	Telangana Drinking Water Supply Corporation Limited	i) Scrutiny of Intercompany loans and investments. ii) Valuation of assets or undertakings of the Company wherever necessary
2.	Telangana State Water Resources Infrastructure Development Corporation Limited	i) Valuation of assets or undertakings of the Company wherever necessary.
3.	The Singareni Collieries Company Limited	i) Approval/any subsequent modification of transactions of the Company with related parties. ii) Scrutiny of Intercompany loans and investments. iii) Valuation of assets or undertakings of the Company wherever necessary. iv) Recommendations of remuneration of Auditors of the Company.

In respect of the SPSEs given in **Table 1.25**, there is no explicit response as to whether the ToR of Audit Committee was approved by their respective Boards or not²⁹, resulting in lack of assurance.

Table 1.25: SPSEs where there is no explicit response on approvals of ToR of Audit Committee by the Board of Directors

Sl. No.	Name of SPSE
1.	Southern Power Distribution Company of Telangana Limited
2.	Transmission Corporation of Telangana Limited
3.	The Nizam Sugars Limited
4.	Telangana Mineral Development Corporation Limited

Source: Compiled on the basis of information provided by SPSEs as of September 2023

1.21 Nomination and Remuneration Committee

As per Section 178(1) of the Act, 2013 and Rule 6 of the Companies (Meetings of Board and its powers) Rules, 2014, the BoD of every listed public company and all public companies with a paid up capital of ten crore rupees or more; or having turnover of a hundred crore rupees or more; or having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding fifty crore rupees or more, shall constitute a Nomination and Remuneration Committee (NRC).

As per the information available, 15 SPSEs, as shown in **Appendix 1.5**, were required to constitute the NRC. However, nine SPSEs have not constituted NRC during 2022-23 as shown in **Table 1.26**.

²⁹ No documents in support of the approval of the ToR of Audit Committee by their respective Board of Directors were furnished by the SPSEs

Table 1.26: SPSEs which have not constituted Nomination and Remuneration Committee

Sl. No.	Name of SPSE
1.	The Singareni Collieries Company Limited
2.	Transmission Corporation of Telangana Limited
3.	Northern Power Distribution Company of Telangana Limited
4.	Telangana Power Finance Corporation Limited
5.	Telangana Housing Corporation Limited
6.	The Nizam Sugars Limited
7.	State Police Housing Corporation Limited
8.	Telangana Horticulture Development Corporation Limited
9.	Telangana Power Generation Corporation Limited

Source: Compiled on the basis of information provided by SPSEs as of September 2023

The Act, 2013 further provides that NRC should consist of three or more non-executive directors out of which not less than one-half shall be Independent Directors. The Chairperson of the Company (whether executive or non-executive) may be appointed as a member of the NRC but shall not chair such Committee.

An analysis of the NRC constituted in six SPSEs disclosed that the composition of the NRC in all these Companies was not as per the provisions of the Act, 2013 as summarised in **Table 1.27**.

Table 1.27: Composition of NRC in SPSEs as on 31 March 2023

Sl. No.	Name of SPSE	Composition and remarks
1.	Southern Power Distribution Company of Telangana Limited	Three non-executive Directors and one executive Director but no Independent Director
2.	Kaleshwaram Irrigation Project Corporation Limited	One Executive Director and Two Directors
3.	Telangana Drinking Water Supply Corporation Limited	All Directors are non-executive Directors but no Independent Director
4.	Telangana Industrial Health Clinic Limited	Two non-executive Directors and one executive Director of which two are Independent Directors
5.	Telangana State Water Resources Infrastructure Development Corporation Limited	Four non-executive Directors of which none are Independent Directors.
6.	Telangana Mineral Development Corporation Limited	Three Directors were present in the Committee. ³⁰

Source: Compiled on the basis of information provided by SPSEs as of September 2023

Audit also observed that except Telangana Industrial Health Clinic Limited and Telangana State Water Resources Infrastructure Development Corporation Limited, in the remaining four SPSEs, the Nomination and Remuneration Committee did not meet even once during the year 2022-23.

³⁰ The details of composition of NRC were not furnished by the company

1.22 Vigil Mechanism

Section 177(9) of the Companies Act, 2013 read with Rule 7 of the Companies (Meetings of Board and its power) Rules, 2014 provides that every listed company; the Companies which accept deposits from the public; the Companies which have borrowed money from banks and public financial institutions in excess of fifty crore rupees shall establish a Vigil Mechanism (VM) for their directors and employees to report genuine concerns and grievances about unethical behaviour, suspected fraud or violation of Company's code of conduct or ethics policy. It provides for adequate safeguards against victimisation of persons who use such mechanism.

As per the information available, 13 SPSEs which have borrowed ₹50 crore or more were required to establish Vigil Mechanism during FY 2022-23 as given in *Appendix 1.5*, out of which eight³¹ SPSEs had established Vigil Mechanism. Four SPSEs, as given in **Table 1.28**, did not have Vigil Mechanism.

Table 1.28: Non-implementation of Vigil Mechanism

Sl. No.	Name of SPSE
1.	Telangana Power Finance Corporation Limited
2.	Telangana Housing Corporation Limited
3.	Telangana Horticulture Development Corporation Limited
4.	The Nizam Sugars Limited

Source: Compiled on the basis of information provided by SPSEs as of September 2023

Another SPSE, State Police Housing Corporation Limited, though stated that Vigil Mechanism was in place, however, has not furnished supporting documents in the form of policy approvals in the absence of which, the facts could not be verified, and no assurance could be obtained on the status of implementation.

Further, three SPSEs Telangana State Water Resources Infrastructure Development Corporation Limited, Telangana Drinking Water Supply Corporation Limited and Kaleshwaram Irrigation Project Corporation Limited stated that the Board had authorized Audit Committee to oversee the Vigil mechanism and report to the Board regarding any concerns.

1.23 Internal Audit Framework

1.23.1 Role of Internal Audit

The Institute of Internal Auditors (IIA) defines "Internal Auditing as independent, objective assurance and consulting activity designed to add value to improve an organisation's operations. The internal audit activity helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the

³¹ The Singareni Collieries Company Limited, Telangana Power Generation Corporation Limited, Transmission Corporation of Telangana Limited, Southern Power Distribution Company of Telangana Limited, Northern Power Distribution Company of Telangana Limited, Telangana State Water Resources Infrastructure Development Corporation Limited, Telangana Drinking Water Supply Corporation Limited and Kaleshwaram Irrigation Project Corporation Limited

effectiveness of risk management, control and governance processes.” Accordingly, the role of internal audit is to provide independent assurance that an organisation’s risk management, governance and internal control processes are operating effectively.

The framework governing internal audits issued by the Institute of Chartered Accountants of India (ICAI) defines internal audit as an independent assurance on the effectiveness of internal controls and risk management processes to enhance governance and achieve organisational objectives.

1.23.2 Legal Framework

A) Section 138(1) of the Act, 2013 read with Rule 13 of Companies (Accounts) Rules, 2014, provides that (a) every listed company; (b) every unlisted public company having paid up share capital of fifty crore rupees or more; or turnover of two hundred crore rupees or more during the preceding financial year; or outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more; or outstanding deposits of twenty-five crore rupees or more at any point of time during the preceding financial year shall be required to appoint an internal auditor, who shall either be a Chartered Accountant or a Cost Accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.

Audit noticed that 13 SPSEs, as given in **Appendix 1.5**, were required to appoint internal auditor. Of these 13 SPSEs,

i) Two SPSEs *viz.*, Telangana Housing Corporation Limited and State Police Housing Corporation Limited did not appoint internal auditor for FY 2022-23. State Police Housing Corporation Limited stated that a Chartered accountant firm was appointed as their internal auditor for the FY 2022-23. However, the appointment letter as furnished was of a later date.

ii) In the remaining 11 SPSEs, where internal auditors were appointed, internal audit in nine SPSEs was conducted by the Chartered Accountant firms/Chartered Accountants whereas in two SPSEs *i.e.* Telangana Power Generation Corporation Limited and The Singareni Collieries Company Limited, the internal audit was conducted by employees of the company. The details of the Internal Audit Framework of these SPSEs is given in **Appendix 1.6**.

B) Section 138 (2) of the Act, 2013 provides that the Central Government may, by rules, prescribe the manner and the intervals in which the internal audit shall be conducted and reported to the Board. However, rules have not been prescribed so far (March 2023) and hence the internal audit in SPSEs was conducted on quarterly, half-yearly and annual basis. Three SPSEs³² submitted the internal audit findings to the Board

³² Telangana Power Finance Corporation limited, Telangana State Water Resource Infrastructure Development Corporation Limited, Telangana Drinking Water Supply Corporation Limited

whereas seven³³ SPSEs submitted the internal audit reports to the Audit Committee, CMD, Director Finance etc., as given in **Appendix 1.6**.

1.24 Conclusions

As on 31 March 2023, 83 State Public Sector Enterprises in Telangana were under the audit jurisdiction of the Comptroller and Auditor General of India (CAG). Of the 83 SPSEs, eight SPSEs relate to power sector and 75 SPSEs relate to non-power sector. Out of these 83 SPSEs, 16 companies were inactive and were either defunct or under liquidation.

Of the 67 working SPSEs, 49 SPSEs (73 *per cent*), whose accounts were in arrears for three or more years as on 30 September 2023 or which did not furnish information to audit, are not covered in this Report. The remaining 18 SPSEs (Power Sector-Seven SPSEs and Non-Power sector -11 SPSEs) registered an annual turnover of ₹95,204.74 crore, which was equal to 7.25 *per cent* of the Gross State Domestic Product (GSDP) of Telangana during 2022-23. As on 31 March 2023, the investment of the Central and State Governments and Others in equity and long term loans in these 18 SPSEs was ₹98,572.08 crore. Out of the 18 working SPSEs, six SPSEs earned profits (₹3,857.48 crore), 11 SPSEs incurred losses (₹11,969.66 crore) and one SPSE reported 'Nil' profit or loss.

The net worth of nine out of 18 SPSEs had been completely eroded by accumulated loss and their net worth was (-) ₹50,930.63 crore against equity investment of ₹17,921.33 crore as on 31 March 2023.

A total of 71 SPSEs (including 16 inactive Companies) have defaulted in timely submission of accounts. Of the 47 accounts reviewed and finalised during the period from 1 October 2022 to 30 September 2023, CAG's comments were issued in respect of 35 accounts, the financial impact of which was ₹757.21 crore on the profitability and ₹31,989.68 crore on assets/liabilities.

Out of 15 SPSEs, where Independent Directors were to be appointed, nine SPSEs did not appoint Independent Directors whereas in one SPSE, required number of Independent Directors were not appointed and no assurance could be obtained on the availability of the Independent Directors in four SPSEs. Further, three SPSEs did not have Woman Director throughout in FY 2022-23. Hundred *per cent* presence of Independent Directors was not ensured by all SPSEs in their Board meetings. Separate meeting of Independent Directors was not conducted in any SPSE.

Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 provide that every listed company and every other public company having a paid-up share capital of rupees ten crore or more shall have three whole-time key managerial personnel (KMP). Audit observed that out of seven SPSEs that were required to appoint KMP, five SPSEs had the required three KMPs and the remaining two SPSEs had

³³ The details of the frequency and reporting of Internal Audit was not furnished by Telangana Mineral Development Corporation Limited

one/two KMP. The intervening period of conducting two consecutive meetings of the Board in eight SPSEs ranged between 123 days and 229 days.

Further, five SPSEs did not constitute Audit committee. Out of ten SPSEs, wherein Audit Committee was constituted, all SPSEs except one SPSE *i.e.* The Nizam Sugars Limited fulfilled the criteria of having at least three directors in their Audit Committee during FY 2022-23. Moreover, the Independent Directors were not found in nine SPSEs, where Audit Committee was constituted.

Nomination and Remuneration Committee (NRC) was not constituted in nine SPSEs, whereas in remaining six (out of 15 eligible SPSEs), composition of NRC was not as per the provisions of the Act. No Vigil mechanism existed in four SPSEs and two SPSEs did not appoint Internal Auditors.

1.25 Recommendations

The State Government may consider

- i. reviewing the functioning of all loss-making SPSEs and taking necessary steps to improve their financial performance;*
- ii. issuing necessary instructions to the Administrative Departments of concerned SPSEs for timely finalisation of accounts and clearance of arrears;*
- iii. reviewing the inactive Government Companies and taking appropriate decisions on their revival/winding up.*

