

CHAPTER I

CHAPTER I

Functioning of State Public Sector Enterprises

1.1 Introduction

The State Public Sector Enterprises (State PSEs) comprise of State Government Companies and Statutory Corporations. The State PSEs 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 28 State PSEs in Chhattisgarh, as given below in **Table 1.1**.

Table 1.1: Total number of State PSEs as on 31 March 2023

Type of State PSEs	Total
Government Companies ¹	27
Statutory Corporations ²	01
Total	28

(Source: Information furnished by the Companies/Corporations)

As on 31 March 2023, there were 28 State PSEs in Chhattisgarh as detailed in **Appendix 1**, including 27 Government Companies and one Statutory Corporation³. During the year, no Government Company got dissolved, while two⁴ State PSEs got merged and no Government Company came under the audit jurisdiction of the Comptroller and Auditor General of India. One⁵ State PSE was debt listed on the National Stock Exchange. There are two⁶ inactive State PSEs in Chhattisgarh.

Out of 28 State PSEs, 20 State PSEs had submitted at least one account for the period 2020-21, 2021-22 and 2022-23 by 30 September 2023, while one working State PSE did not submit its first accounts.

The report covers detailed analysis of 20 State PSEs, based on their latest finalised accounts. The summary of financial performance based on the latest finalised accounts of 20 State PSEs covered in this report is detailed 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 Chhattisgarh State Warehousing Corporation.

⁴ Chhattisgarh State Power Holding Company Limited and Chhattisgarh State Power Trading Company Limited merged (June 2022) with Chhattisgarh State Power Transmission Company Limited and Chhattisgarh State Power Distribution Company Limited respectively.

⁵ Chhattisgarh State Power Distribution Company Limited.

⁶ Chhattisgarh Sondiha Coal Company Limited, CMDC ICPL Coal Limited.

Table 1.2: Summary of financial performance of working State PSEs

Particulars	Number of State PSEs	Amount (₹ in crore)
Total Number of State PSEs	28	--
State PSEs covered in this Report	20	--
Paid up capital	20	6,915.97
Long term loans	20	10,519.65
Net profit	10	879.22
Net loss	07	1,143.10
Zero Profit / loss	03	--
Dividend declared	01	3.64
Net worth	20	745.27

(Source: Compiled on the basis of latest finalised accounts of SPSEs)

Based on nature of activities undertaken, these 20 State PSEs have been categorised into five sectors and percentage share of Turnover in Gross State Domestic Product (GSDP) is as depicted in **Table 1.3**:

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

Sl. No.	Name of the Sector	Number of State PSEs	Turnover for the year (₹ in crore)	Percentage Share of Turnover in Gross State Domestic Product
1	Power	4	28,048.36	6.13
2	Infrastructure	4	10.40	0.002
3	Agriculture and Allied Industries	2	678.55	0.15
4	Services	8	13,294.65	2.91
5	Others	2	140.77	0.03
Total		20	42,172.73	9.22

(Source: Compiled from the latest financial statements of State PSEs)

The turnover (₹ 42,172.73 crore) of these 20 State PSEs was 9.22 *per cent* of the Gross State Domestic Product of Chhattisgarh (₹ 4,57,608.26 crore) for the year 2022-23 with contribution of 66.51 *per cent* by the Power sector.

Ten of the above State PSEs earned a combined profit of ₹ 879.22 crore in 2022-23, seven State PSEs incurred losses of (-) ₹ 1,143.10 crore. The remaining three State PSEs had no profit no loss during 2022-23.

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 is governed by the related provisions of Section 139 and 143 of the Act, *ibid*.

1.2.1 Statutory Audit

Audit of Statutory corporations is governed by their respective legislations. In case of one Statutory Corporation i.e. Chhattisgarh State Warehousing Corporation, the audit is conducted by the Chartered Accountants appointed under the respective statutes and thereafter, supplementary audit is conducted by the CAG.

1.2.2 Role of Government and Legislature

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

The State Legislature also monitors the accounting and utilisation of Government investment in the State PSEs. 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 Report of Statutory Corporations along with the Separate Audit Reports of CAG is 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 Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

1.3 Stake of Government of Chhattisgarh

The State Government stake in State PSEs falls under three broad categories, i.e. Share Capital and Loans, Special Budgetary Support by way of grants and subsidies and Guarantees of loans availed by State PSEs from Financial Institutions.

- **Share Capital and Loans** - In addition to the Share Capital Contribution, GoCG also provides financial assistance by way of loans to the State PSEs from time to time.
- **Special Financial Support** - GoCG provides budgetary support by way of grants and subsidies to the State PSEs as and when required.
- **Guarantees** - GoCG also guarantees the repayment of loans with interest availed by the State PSEs from Financial Institutions.

1.4 Investment in State PSEs

1.4.1 Equity holding and loans given to State PSEs

As per latest finalised financial statements investment in the 28 State PSEs of equity and loans for the three-year period ended 31 March 2023⁷ is given in **Table 1.4:**

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

(₹ in crore)

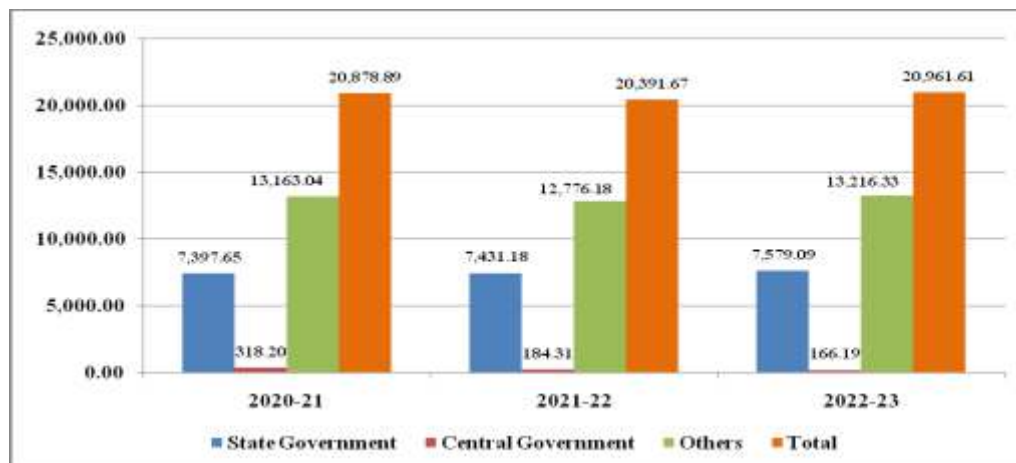
Sources of investment	As on 31 March 2021			As on 31 March 2022			As on 31 March 2023		
	Equity	Long Term Loans	Total	Equity	Long Term Loans	Total	Equity	Long Term Loans	Total
State Government	6,672.82	724.83	7,397.65	6,672.82	758.36	7,431.18	6,733.03	846.06	7,579.09
Central Government	25.42	292.78	318.20	25.42	158.89	184.31	35.22	130.97	166.19
Others	315.46	12,847.58	13,163.04	315.46	12,460.72	12,776.18	315.46	12,900.87	13,216.33
Total	7,013.70	13,865.19	20,878.89	7,013.70	13,377.97	20,391.67	7,083.71	13,877.90	20,961.61
Share of State Government in Total investment (in per cent)	95.14	5.23	35.43	95.14	5.67	36.44	95.05	6.10	36.16

(Source: Compiled from latest financial statements received as on 30 September 2023 and information provided by State PSEs)

It is seen that the trend in investment is dominated by long term loans taken from sources other than the Government which comprised of 92.96 *per cent* of the total loan of which, loans from State Government was a meager 6.10 *per cent*. Ratio of debt to equity was 1.96 for these State PSEs.

Chart 1.1 Investments in State PSEs

(₹ in crore)



⁷ The figures of State PSEs were taken from their financial statements prior to 2022-23 as 25 PSEs did not finalise their accounts for the year 2022-23.

1.5 Special support and returns during the year

1.5.1 Information on Subsidy, Grants and Guarantees by Central/State Government

The GoCG provides financial support to State PSEs in the form of grants and subsidies through the annual budget. In addition, the GoCG provides guarantees for loans raised by the State PSEs for which it charges guarantee commission up to the rate of half a *per cent*. As per latest finalised financial statements of SPSEs, the total maximum amount guaranteed by GoCG was ₹ 9,084.44 crore and guarantee outstanding as on 31 March 2023 was ₹ 4,911.43 crore for State PSEs. Further, Grants of ₹ 9,740.33 crore were given to State PSEs. The details in respect of Subsidy, Grants and Guarantees given to State PSEs are given in **Table 1.5:**

Table 1.5: Details regarding budgetary support to State PSEs

(₹ in crore)

Sl. No.	Particulars	2020-21		2021-22		2022-23	
		No. of State PSEs	Amount	No. of State PSEs	Amount	No. of State PSEs	Amount
(i)	Grants/Subsidies provided	9	8,445.74	10	7,226.58	10	9,740.33
(ii)	Guarantees Outstanding	2	3,426.34	3	3,314.65	3	4,911.43
(iii)	Guarantee Commitment	3	6,682.28	3	11,907.28	3	9,084.44

(Source: Information furnished by the State PSEs)

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 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 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 State PSEs in finalisation of accounts as on 30 September 2023.

Table 1.6: Position relating to finalisation of accounts of State PSEs

Sl. No.	Particulars	2022-23
1.	Number of State PSEs	28
2.	Number of accounts finalised during the year	21
3.	Number of accounts in arrears	47
4.	Number of State PSEs with arrears in accounts	25
5.	Extent of arrears (in years)	01 to 06

(Source: Compiled on the basis of latest finalised accounts and information furnished by the State PSEs)

The administrative departments have the responsibility to oversee the activities of the State PSEs. The administrative departments concerned were also responsible to ensure that the State PSEs finalise and adopt their accounts within the stipulated period. In view of the huge arrears in submission of accounts by the State PSEs, the Accountant General (AG) had been taking up the matter regularly with the GoCG and the administrative departments concerned for liquidating the arrears of accounts of State PSEs. As on September 2023, however, 25 State PSEs had backlog of 47 accounts with period of arrears ranging up to six years, which was significant as depicted in *Appendix 2*.

1.7 Impact of arrears in accounts

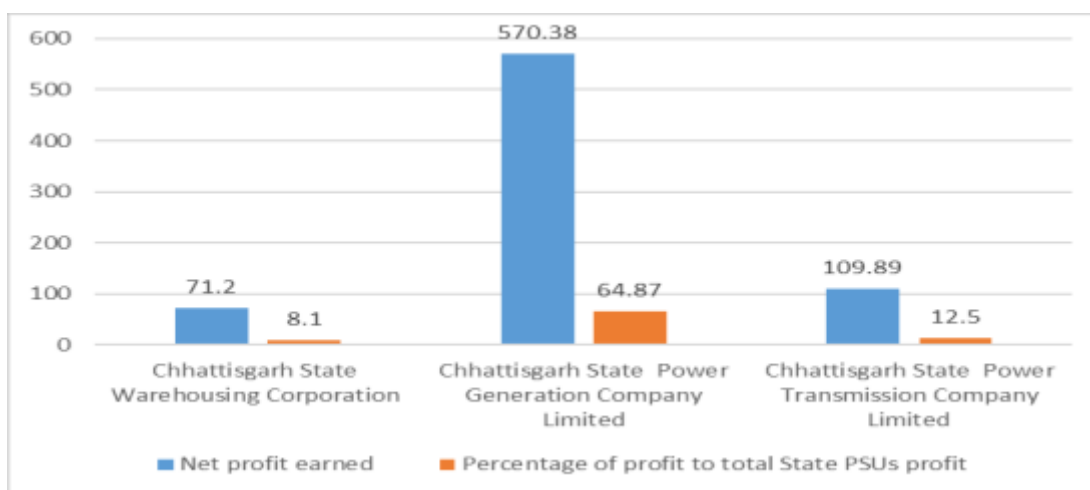
Delay in finalisation of the accounts entail the risk of fraud and leakage of public money apart from violation of the provisions of the relevant statutes. In view of the position of arrears of accounts indicated under *paragraph 1.6*, the actual contribution of State PSEs to the State GDP for the year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

The GoCG may implement a robust monitoring and accountability system to ensure that all State PSEs adhere to the statutory deadlines for finalising and submitting accounts, thereby nurturing transparency and financial discipline within these organisations.

1.8 Performance of State PSEs as per their latest finalised accounts

1.8.1 Profit earned by State PSEs

Out of 20 State PSEs covered in this report, 10 State PSEs earned a combined profit of ₹ 879.22 crore in 2022-23 as compared to 10 State PSEs which earned profit of ₹ 863.06 crore in 2021-22. The main reason for increase in profit was increase in profit of Chhattisgarh Rajya Van Vikas Nigam Limited from ₹ 36.49 crore (2021-22) to ₹ 52.65 crore (2022-23). The top three State PSEs contributed 85.47 *per cent* of the total profit in 2022-23. The details are given in *Chart 1.2*:

Chart 1.2: Top State PSEs which contributed maximum profit (₹ in crore)

(Source: Compiled on the basis of latest finalised accounts of State PSEs)

1.8.2 Dividend paid by State PSEs

The GoCG had not formulated any dividend policy under which all profit making State PSEs are required to pay a minimum *percentage* of return of the profit as dividend.

Out of the 20 State PSEs, 16 had State Government equity. Dividend payout relating to these 16 State PSEs where equity was infused by the GoCG during the period is shown in **Table 1.7**.

Table 1.7: Dividend Payout of State PSEs

(₹ in crore)

Year	Total State PSEs				Dividend Payout in <i>per cent</i>
	which earned profit		which declared/ paid dividend		
1	2	3	4	5	6=5*100/3
2020-21	8	539.88	2	3.84	0.71
2021-22	10	864.67	2	1.15	0.13
2022-23	9 ⁸	879.15	1	3.64	0.41

(Source: Information furnished by the State PSEs)

During the year 2022-23 out of 16 State PSEs having equity of the State Government, nine State PSEs earned an aggregate profit of ₹ 879.15 crore. However, only one State PSE viz. *Chhattisgarh Rajya Van Vikas Nigam Limited* paid dividend of ₹ 3.64 crore in 2022-23 for the year 2021-22.

1.8.3 Return on Capital Employed

Return on Capital Employed (RoCE) measures a company's profitability and the efficiency with which its capital is employed. The RoCE is calculated by dividing a

⁸ Kerwa Coal Limited is excluded in profit earning State PSEs as it does not have GoCG equity

company's earnings before interest and taxes by the capital employed⁹. The details of RoCE of the selected State PSEs during the period 2020-21 to 2022-23 are given in **Table 1.8:**

Table 1.8: Return on Capital Employed

(₹ in crore)

Particulars	Year	No of State PSEs	Earnings Before Interest and Tax	Capital Employed	Return on Capital Employed (in per cent)
Government Companies					
Profit earning	2020-21	8	1,375.64	14,763.55	9.32
	2021-22	10	1,915.29	15,386.52	12.45
	2022-23	9	1,929.58	14,777.65	13.06
Loss incurring	2020-21	10	317.48	-2,220.04	-14.30
	2021-22	8	-798.54	-3,090.27	25.84
	2022-23	7	-360.45	-4,425.73	8.14
No profit / No loss	2020-21	3	0.00	201.54	0.00
	2021-22	3	0.00	202.12	0.00
	2022-23	3	0.00	202.12	0.00
Statutory Corporation					
Profit earning	2020-21	1	187.24	575.92	32.51
	2021-22	1	105.86	651.40	16.25
	2022-23	1	105.86	651.40	16.25
Loss incurring	2020-21	--	--	--	--
	2021-22	--	--	--	--
	2022-23	--	--	--	--
No profit / No loss	2020-21	--	--	--	--
	2021-22	--	--	--	--
	2022-23	--	--	--	--
Total	2020-21	22	1,880.36	13,320.97	14.12
	2021-22	22	1,222.61	13,149.77	9.30
	2022-23	20	1,674.99	11,205.44	14.95

(Source: Compiled on the basis of latest financial statements of State Public Sector Enterprises)

As could be seen from the Table, RoCE in 20 State PSEs is on an upward trend from 14.12 per cent in 2020-21 to 14.95 per cent in 2022-23. Further, RoCE of 11 out of 20 State PSEs (as detailed in **Appendix 3**), which generate their own revenue and run on commercial lines was positive (13.32 per cent) for the year 2022-23. The RoCE of

⁹ Capital Employed = Paid up Share capital plus Free Reserves and surplus + Long-term loans minus Accumulated losses minus Deferred Revenue Expenditure.

remaining six State PSEs, all pertaining to non-power sector, were negative (58.73 per cent) for the year 2022-23. The RoCE of the remaining three State PSEs was zero during 2022-23.

1.8.4 Losses incurred

Out of 20 State PSEs, seven State PSEs incurred losses as per their latest finalised accounts at the end of March 2023. The losses incurred by these State PSEs increased to (-) ₹ 1,143.10 crore in 2022-23 from (-) ₹ 433.14 crore in 2020-21, as given in **Table 1.9** below:

Table 1.9: Number of State PSEs that incurred losses during 2020-21 to 2022-23

(₹ in crore)

Year	No. of loss making State PSEs	Net Loss for the year	Accumulated loss	Net worth ¹⁰
Government Companies				
2020-21	10	-433.14	-7,907.89	-5,551.95
2021-22	08	-1,226.97	-8,921.68	-5,948.87
2022-23	07	-1,143.10	-10,034.72	-7,061.91

(Source: Compiled on the basis of latest financial statement of State PSEs)

In 2022-23, out of total loss of ₹ 1,143.10 crore incurred by seven State PSEs, major portion viz. 99.09 per cent amounting to ₹ 1,132.72 crore was contributed by one power sector State PSE (Chhattisgarh State Power Distribution Company Limited). Further, the details of investments in these State PSEs are given in **Table 1.10** below:

Table 1.10: Investment in State PSEs 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
		GoCG	GoI	Others	Total	GoCG	GoI	Others	Total	
Government Companies										
1	Chhattisgarh State Power Distribution Company Limited	2,886.54	0.00	0.00	2,886.54	64.10	130.97	1,576.61	1,771.68	-1,132.72
2	Chhattisgarh Road and Infrastructure Development Corporation Limited	4.90	0.00	0.00	4.90	0.00	0.00	1,598.68	1,598.68	-0.57
3	Chhattisgarh Police Housing Corporation Limited	2.00	0.00	0.00	2.00	0.00	0.00	558.27	558.27	-7.91
4	Chhattisgarh Infrastructure Development Corporation Limited	4.20	0.00	0.00	4.20	0.00	0.00	0.00	0.00	-0.01
5	Chhattisgarh	37.22	34.30	0.00	71.52	0.00	0.00	0.00	0.00	-1.66

¹⁰ Net worth = Paid-up Capital + Free Reserves and Surplus – (Accumulated losses + Deferred Revenue Expenditure).

Sl. No.	Name of Companies/ Corporation	Paid-up capital				Long Term Borrowing				Net Profit after Tax
		GoCG	GoI	Others	Total	GoCG	GoI	Others	Total	
	Railway Corporation Limited									
6	Chhattisgarh Katghora Dongargarh Railway Limited	0.00	0.00	2.00	2.00	0.00	0.00	0.00	0.00	-0.14
7	Chhattisgarh Kharsia Naya Raipur Railway Limited	0.00	0.00	2.00	2.00	0.00	0.00	0.00	0.00	-0.09
Total		2,934.86	34.30	4.00	2,973.16	64.10	130.97	3,733.56	3,928.63	-1,143.10

(Source: Compiled on the basis of latest financial statement of State Public Sector Enterprises)

As on 31 March 2023, the total investment in seven loss making State PSEs was ₹ 6,901.79 crore in which 43.08 *per cent* was equity capital (₹ 2,973.16 crore) and 56.92 *per cent* comprised long-term loans (₹ 3,928.63 crore). Out of the total investment, GoCG invested ₹ 2,998.96 crore in terms of equity and long-term loan. Investment of ₹ 3,902.83 crore was raised from GoI and other sources.

1.8.5 Erosion of Net worth in State PSEs

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

As on 31 March 2023, out of 20 State PSEs, there were five State PSEs with accumulated losses of ₹ 10,252.86 crore. Of these five State PSEs, four State PSEs incurred losses amounting to ₹ 1,134.61 crore during 2022-23 and one State PSE did not incur loss, even though it had accumulated loss of ₹ 184.71 crore as per the latest finalised accounts. Out of the 20 State PSEs, 12 State PSEs has surplus of ₹ 4,013.84 crore and three State PSEs had neither accumulated losses nor surplus, as per their latest accounts.

Out of the five State PSEs which had accumulated losses, the major portion was due to losses incurred by Chhattisgarh State Power Distribution Company Limited (CSPDCL) of ₹ 10,057.33 crore (98.09 *per cent*). However, the long-term viability of CSPDCL could not be commented upon as it operates in a monopoly environment and the revenue recovery is dependent upon various factors viz., reduction of its aggregate technical and commercial losses, decisions of sector regulator i.e. Chhattisgarh State Electricity Regulatory Commission (CSERC), operational efficiencies etc.

Table 1.11: Detail of State PSEs whose Net worth has eroded as per their latest finalised accounts

(₹ in crore)

Sl. No.	Name of State PSEs	Latest year of finalised Accounts	Total paid up capital	Net profit/ Loss after interest, tax and dividend	Accumulated losses	Net Worth	State Government equity as on 31 March 2023	State Government loan as on 31 March 2023
1	Chhattisgarh State Civil Supplies Corporation Limited	2021-22	4.43	20.64	(-)184.71	(-) 179.33	4.43	0.00
2	Chhattisgarh State Power Distribution Company Limited	2022-23	2886.54	(-) 1132.72	(-)10057.33	(-) 7149.62	2886.54	64.10
Total			2,890.97	(-) 1,112.08	(-) 10,242.04	(-) 7,328.95	2,890.97	64.10

(Source: Compiled on the basis of latest financial statement of State Public Sector Enterprises)

The net worth of the above-mentioned two State PSEs out of the five State PSEs which had accumulated losses had been completely eroded by accumulated losses and their net worth was negative. The net worth of these two State PSEs was (-) ₹ 7,328.95 crore against equity investment of ₹ 2,890.97 crore as on 31 March 2023. In these two State PSEs, the outstanding loans of the State Government as on 31 March 2023 amounted to ₹ 64.10 crore.

1.9 Result of CAG's oversight role

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

As on 30 September 2023, three State PSEs submitted their accounts for the year 2022-23. Further, 17 State PSEs submitted 18 accounts for previous years spanning from 2018-19 to 2021-22.

Of the 21 accounts received during the period (October 2022 to September 2023), supplementary audit and issue of CAG's comments in respect of 14 accounts have been completed and for two accounts non-review certificate (NRC) were issued. Besides, three accounts which were pending at the beginning of October 2022, were also finalised (final comments were issued in respect of two accounts while nil comments were issued for one account). Thus, five accounts (out of 21 received during October 2022 to September 2023) were under progress at various stages. Therefore, final comments were issued in respect of 16 financial statements (as detailed in Appendix 4), while nil comments were issued for one financial statement.

1.9.2 *Significant comments of the CAG issued as supplement to the Statutory Auditors' reports*

Subsequent to the audit of the financial statements for the year 2022-23 and that of the financial statements for the previous years received by 30 September 2023, the Comptroller and Auditor General of India conducted supplementary audit of the 14 financial statements of 13 State PSEs received during the reporting period (October 2022 to September 2023). Some of the significant comments issued on the financial statements of Government Companies, are detailed in *Appendix 5*. The financial impact of these comments on the profitability was ₹ 1,194.79 crore and on assets/liabilities was ₹ 1,231.80 crore.

1.10 *Disinvestment, Restructuring and Privatisation of State PSEs and any reforms in power sector*

During the year 2022-23, there was neither disinvestment of any State PSE nor was any State PSE privatised. During the year 2022-23, Chhattisgarh State Power Holding Company Limited and Chhattisgarh State Power Trading Company Limited merged (June 2022) with Chhattisgarh State Power Transmission Company Limited and Chhattisgarh State Power Distribution Company Limited, respectively, with effect from 1 April 2022.

1.11 *Corporate Governance*

Corporate Governance deals with the adherence to Corporate Governance principles by the Government Companies. Issues related to appointment of Independent Directors/Women Directors in the Board of Directors (BoDs) of the Government Companies, their presence in the meetings of the BoDs and the committees formed there-under, holding of meetings of the Board of Directors etc, are highlighted.

1.11.1 *Introduction*

Corporate Governance focuses on building the confidence of various stakeholders including customers, suppliers, employees, shareholders, bankers and society at large. A Company is directed and controlled with a system of rules, practices and process of the Corporate Governance. Further, Corporate Governance framework of any State PSE depends upon the four pillars namely transparency, full disclosures, independent monitoring and fairness to all. Adherence to the Corporate Governance brings accountability and transparency in business and enhances confidence of the stakeholders.

1.11.2 *Provisions as contained in the Companies Act, 2013*

The Companies Act, 2013 (Act) was enacted on 29 August 2013 replacing the Companies Act, 1956. In addition, Companies Rules, 2014 on Management and Administration, Appointment and Qualification of Directors, Meetings of Board and its powers and Accounts have been notified (March 2014) by the Ministry of Corporate Affairs. The Companies Act, 2013 together with the Rules framed there-under provides the 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) & (8) of the Act 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 prescribed companies {Section 149(1) of the Act}.

Mandatory establishment of certain committees like 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) of the Act}.

1.11.3 SEBI guidelines on Corporate Governance

Subsequent to the enactment of Companies Act, 2013, Securities Exchange Board of India (SEBI) notified (2 September 2015) the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, which came into effect from 1 December 2015 repealing the earlier provisions.

As on March 2023, only one out of the 26 State PSEs i.e. Chhattisgarh State Power Distribution Company Limited was debt-listed on the National Stock Exchange. As per Section 15(1)(A) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the provisions of Regulation 16 to Regulation 27 of chapter IV shall apply to a listed entity which has listed its non-convertible debt securities and has an outstanding value of listed non-convertible debt securities of Rupees Five hundred crore and above. The outstanding value of listed non-convertible debt securities of Chhattisgarh State Power Distribution Company Limited was less than ₹ 500 crore (i.e. ₹ 437.12 crore) as on March 2022, therefore it was not required to comply with the provisions contained in chapter IV of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 regarding corporate governance.

1.11.4 Review of compliance by State Public Sector Enterprises of Chhattisgarh of the Corporate Governance provisions

As on 31 March 2023, there were 27 State PSEs in Chhattisgarh which were under the audit jurisdiction of the CAG. Of these, one State PSE¹¹ which has not submitted its financial statements since inception has been excluded from analysis. Further, out of the 26 State PSEs covered in this report, one State PSE (Chhattisgarh State Power Distribution Company Limited) is debt-listed on National Stock Exchange and one State PSE (Chhattisgarh Rajya Van Vikas Nigam Limited) is a private Company. During scrutiny of records, the observations regarding compliance with provisions of the Companies Act, 2013 and various Rules framed there under are discussed in ensuing paragraphs.

¹¹ Chhattisgarh Information Infrastructure Corporation Limited.

1.12 Composition of Board of Directors

The Board is a collective body of either elected or appointed persons that meet at regular intervals to devise policies for management and oversee the activities of an organisation. As per Section 2 (10) of the Companies Act, 2013, 'BoDs' or 'Board', in relation to a Company, means the collective body of the Directors of the Company.

1.12.1 Independent Directors

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* stipulate that an Independent Director (ID) 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 ID 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 ID himself or his relatives shall not have any pecuniary relationship/ transaction (other than remuneration of ID) with the company, or its subsidiary, or its holding or associate company beyond the monetary limits and during the period prescribed in this section. The ID himself or his relatives shall not hold key managerial position or any other prescribed relationship *viz.*, employee, auditors, companies secretaries, *etc.*, with the company or its holding, subsidiary or associate company during the timeframe prescribed in this section.

Section 149 (4) of the Act, 2013 provides that every listed public company shall have at least one-third¹² of the total number of directors as independent directors. Further, as per Rule 4(1)¹³ of the Companies (Appointment and Qualification of Directors) Rules, 2014, Public Companies (i) having paid up share capital of ten crore rupees or more; or (ii) turnover of one hundred crore rupees or more; or (iii) have, in aggregate, outstanding loans, debentures and deposits, exceeding fifty crore rupees shall have at least two directors as independent directors.

Further, a company covered under this rule is also required to constitute an Audit Committee. Such Audit Committee shall consist of a minimum of three Directors, with Independent Directors forming a majority as per section 177(2) of the Act, 2013.

Rule further provides that where a Company ceases to fulfill any of three conditions for three consecutive years, it shall not be required to comply with these provisions until such time as it meets any of such conditions.

Further, as per Rule 4 (2), three classes of unlisted Public Company i.e. a joint venture or a wholly owned subsidiary or a dormant company is not required to appoint an ID.

¹² For the purposes of this sub-section, any fraction contained in such one-third numbers shall be rounded off as one.

¹³ For the purpose of this Rule, the paid-up share capital or turnover or outstanding loans, debentures and deposits, as the case may be, as on the last date of the latest audited financial statements shall be taken into account.

As per the information available from the State PSEs, 12 out of 25 State PSEs, which were public companies, were required to appoint IDs in compliance with provisions of the Companies Act, 2013 and Rule 4 as mentioned above during the year 2022-23. Based on the review of composition of the BoDs, Audit observed that only State PSE (Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited) had required number of IDs as given in **Table 1.12**.

Table 1.12: Status of appointment of Independent Directors

Particulars	During 2022-23
Number of State PSEs required to appoint IDs	12
Number of State PSEs having required number of IDs	01
Number of State PSEs not having any ID	11

(Source: Compiled on the basis of information provided by State PSEs)

1.12.2 Woman Directors in the Board

Section 149 (1) of the Companies Act, 2013, read with Rule 3 of the Companies (Appointment and Qualification of Directors) Rules, 2014 provided for appointment of at least one Woman Director in (i) Every listed Company; or (ii) Every other Public Companies having (a) paid up share capital of ₹ 100 crore or more; or (b) turnover of ₹ 300 crore 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.

As per the information available from the State PSEs, eight State PSEs were required to appoint Women Directors during 2022-23. Of these eight State PSEs, six State PSEs had at least one Woman Director throughout the financial year 2022-23 as given in the **Table 1.13**.

Table 1.13: State PSEs having at least one Woman Director during 2022-23

Sl. No.	Name of State PSE
1	Chhattisgarh State Marketing Corporation Limited
2	Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited
3	Chhattisgarh State Power Generation Company Limited
4	Chhattisgarh State Power Transmission Company Limited,
5	Chhattisgarh State Power Distribution Company Limited
6	Uttar Chhattisgarh Rajya Vidyut Utpadan Limited

(Source: Compiled on the basis of information provided by State PSEs)

In remaining two State PSEs, the Women Directors were not appointed as on 31 March 2023 as given in below **Table 1.14**.

Table 1.14: State PSEs not having Woman Director during 2022-23

Sl. No.	Name of State PSE
1	Chhattisgarh State Civil Supplies Corporation Limited
2	Chhattisgarh Medical Services Corporation Limited

(Source: Compiled on the basis of information provided by State PSEs)

1.13 Appointment and functioning of Independent Directors

1.13.1 Issuance of formal letter of appointment

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

Audit noticed that one State PSE (Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited) which had Independent Directors on its Board did not issue a formal letter of appointment to the Independent Directors. Moreover, contrary to the prescribed guidelines, the terms and conditions of appointment of Independent Directors were neither found on the Company's records and official website nor furnished to audit.

1.13.2 Training of Independent Directors

As per Schedule IV Para (III) (1), (Duties of Independent Directors) of Companies Act, 2013 the IDs shall undergo appropriate induction training and regularly update and refresh their skills, knowledge and familiarity with the Company.

As stated in *Paragraph 1.12.1* above, one State PSE appointed the Independent Directors on its Board. As per information available from the State PSE, it has not imparted training to the Independent Directors who were on its Board during the financial year 2022-23.

1.13.3 Attending Board meetings, meetings of Board of Committees and General meetings of the Company

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

1.13.3.1 Board meetings

As stated in *Paragraph 1.12.1* above, only one State PSE appointed the required number of Independent Directors. Out of the two meetings of the State PSE's Board of Directors' held during 2022-23, all the Independent Directors attended both the meetings.

1.13.3.2 Meeting of Board Committees

Audit Committee – As per the information available from the only State PSE having Independent Directors on its Board, two¹⁴ meetings of Audit Committee were held during 2022-23, which were attended by all the Independent Directors.

1.13.3.3 General meeting

Schedule IV Para (III) (5) of the Companies Act, 2013 states that Independent Directors shall strive to attend the General Meetings of the Company. As per the information available from the only State PSE having Independent Directors on its Board, the Annual General meetings¹⁵ of the State PSE were attended by the all Independent Directors.

1.13.3.4 Separate meeting of Independent Directors

Schedule IV Para (VII) (1), (Separate Meetings of Independent Directors) of the Companies Act, 2013, requires that Independent Directors shall meet at least once 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 meetings 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.

As per the information available from the State PSE which had Independent Directors on its Board during 2022-23, the Independent Directors have not conducted a separate meeting during 2022-23.

1.14 Filling up the post 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, 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 ₹ 10 crore or more shall have whole-time key managerial personnel. Section 203(4) of the Act, 2013 further provided that if the office of any whole-time KMP 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.

As per the information available, the paid-up capital of eight State PSEs was ₹ 10 crore or more in the financial year 2021-22. Hence, these companies were required to appoint whole time KMPs. Of these eight State PSEs, whole time KMPs were found appointed in four State PSEs¹⁶, whereas, in remaining four State PSEs the

¹⁴ 4th (06 April 2022) and 5th (12 December 2022) meetings of Audit Committee.

¹⁵ 30th and 31st Annual General Meeting of the Company held on 20 April 2023.

¹⁶ Chhattisgarh Railway Corporation Limited, Chhattisgarh State Power Distribution Company Limited, Chhattisgarh State Power Generation Company Limited and Chhattisgarh State Power Transmission Company Limited.

provisions of Companies Act, 2013 regarding appointment of KMPs was partially complied. The status of appointment of whole time KMPs by these State PSEs during the year 2022-23 is given in **Table 1.15:-**

Table 1.15: Status of appointment of KMPs during FY 2022-23

Sl. No.	Name of State PSE	Managing Director, or Chief Executive Officer (CEO) or Manager and in their absence, a Whole Time Director	Company Secretary	Chief Financial Officer
1	Chhattisgarh Rajya Van Vikas Nigam Limited	Yes	Yes	No
2	Chhattisgarh Railway Corporation Limited	Yes	Yes	Yes
3	CMDC ICPL Coal Limited	No	No	No
4	Chhattisgarh Sondiha Coal Company Limited	Yes	Yes	No
5	Chhattisgarh State Power Distribution Company Limited	Yes	Yes	Yes
6	Chhattisgarh State Power Generation Company Limited	Yes	Yes	Yes
7	Chhattisgarh State Power Transmission Company Limited	Yes	Yes	Yes
8	Uttar Chhattisgarh Rajya Vidyut Utpadan Limited	Yes	No	Yes

(Source: Information compiled from data furnished by the State PSEs and financial statements)

1.15 Meeting of Board of Directors and Board Committees

Section 173(1) of the Companies Act, 2013, stipulate that every company shall hold the first meeting of the Board of Directors (BoDs) within thirty days of the date of its incorporation and thereafter hold a minimum number of four meetings of its BoDs every year in such a manner that not more than 120 days shall intervene between two consecutive meetings of the Board. As per information available, out of 26 State PSEs, 16 State PSEs did not conduct the required number of four BoDs meetings during the year 2022-23 as detailed in **Table 1.16** below:

Table 1.16: State PSEs which did not conduct required number of Board meetings in a year

Sl. No.	Name of State PSE
1	Chhattisgarh State Marketing Corporation Limited
2	Chhattisgarh Railway Corporation Limited
3	Chhattisgarh Katghora Dongargarh Railway Limited
4	Chhattisgarh Kharsia Naya Raipur Railway Limited
5	Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited
6	Chhattisgarh Police Housing Corporation Limited
7	Chhattisgarh Road And Infrastructure Development Corporation Limited
8	Bilaspur Smart City Limited
9	Nava Raipur Atal Nagar Smart City Corporation Limited
10	Chhattisgarh Infrastructure Development Corporation Limited
11	Chhattisgarh Mineral Development Corporation Limited
12	Kerwa Coal Limited
13	CMDC ICPL Coal Limited
14	Uttar Chhattisgarh Rajya Vidyut Utpadan Limited
15	Chhattisgarh State Industrial Development Corporation Limited
16	Chhattisgarh Nishakt Jan Vitt Avam Vikas Nigam

(Source: Information compiled from data furnished by the State PSEs and financial statements)

Further, as per the information available, 15 State PSEs did not follow the provision of keeping a gap of not more than 120 days between two consecutive meetings of BoDs during the year 2022-23. A gap range of 121-367 days was noticed in two consecutive meetings of BoDs for the State PSEs as listed in **Table 1.17**.

Table 1.17: State PSEs which did not follow the gap of not more than 120 days between two consecutive meetings of Board of Directors

Sl. No.	Name of State PSE
1	Chhattisgarh Rajya Van Vikas Nigam Limited
2	Chhattisgarh State Marketing Corporation Limited
3	Chhattisgarh Railway Corporation Limited
4	Chhattisgarh Katghora Dongargarh Railway Limited
5	Chhattisgarh Kharsia Naya Raipur Railway Limited
6	Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited
7	Chhattisgarh Police Housing Corporation Limited
8	Chhattisgarh Road And Infrastructure Development Corporation Limited
9	Bilaspur Smart City Limited
10	Raipur Smart City Limited

Sl. No.	Name of State PSE
11	Nava Raipur Atal Nagar Smart City Corporation Limited
12	Chhattisgarh Rural Housing Corporation Limited
13	Chhattisgarh Sondiha Coal Company Limited
14	Uttar Chhattisgarh Rajya Vidyut Utpadan Limited
15	Chhattisgarh State Industrial Development Corporation Limited

(Source: Information compiled from data furnished by the State PSEs and financial statements)

1.16 Audit Committee and Other Committees of the Board

1.16.1 Audit Committee

As per Section 177 (1) of the Companies 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 ₹ 10 crore or more; or having turnover of ₹ 100 crore or more; or having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding ₹ 50 crore or more, except Joint Venture Companies and wholly owned subsidiary companies shall constitute an Audit Committee.

As per the criteria, 12 State PSEs, having the requirement of Independent Directors on their Board, were required to constitute Audit Committee and as per Information available, out of 12 State PSEs, two State PSEs (Chhattisgarh State Marketing Corporation Limited and Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited) had constituted the Audit Committee. The remaining 10 State PSEs, had not constituted the Audit Committee as on 31 March 2023 as given in **Table 1.18** below:

Table 1.18: State PSEs which did not constitute Audit Committee

Sl. No.	Name of State PSE
1	Chhattisgarh Railway Corporation Limited
2	Chhattisgarh State Civil Supplies Corporation Limited
3	Chhattisgarh Medical Services Corporation Limited
4	Chhattisgarh Police Housing Corporation Limited
5	Chhattisgarh Road And Infrastructure Development Corporation Limited
6	Chhattisgarh Rural Housing Corporation Limited
7	Chhattisgarh Mineral Development Corporation Limited
8	Chhattisgarh State Power Distribution Company Limited
9	Chhattisgarh State Power Generation Company Limited
10	Chhattisgarh State Power Transmission Company Limited

(Source: Information compiled from data furnished by the State PSEs and financial statements)

Further, Section 177(2) of the Companies Act, 2013 provides that the Audit Committee shall consist of a minimum of three directors, with independent directors forming a majority. Further, most members of Audit Committee including its

Chairperson shall be persons with ability to read and understand the financial statements.

As per the information available from the State PSEs, though the two State PSEs wherein Audit Committee was constituted had fulfilled the criteria of having at least three members in their Audit Committee during the financial year 2022-23, only one (Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited) had independent directors¹⁷ in the Audit Committee during 2022-23.

1.16.2 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 ₹ 10 crore or more; or having turnover of ₹ 100 crore or more; or having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding ₹ 50 crore or more, shall constitute a Nomination and Remuneration Committee (NRC).

As per information available from the State PSEs, 12 State PSEs were required to constitute the NRC. Only one State PSE (Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited) had constituted the NRC whereas 11 State PSEs as given in **Table 1.19** did not constitute the NRC.

Table 1.19: State PSEs which had no Nomination and Remuneration Committee

Sl. No.	Name of the State PSEs
1	Chhattisgarh State Marketing Corporation Limited
2	Chhattisgarh Railway Corporation Limited
3	Chhattisgarh State Civil Supplies Corporation Limited
4	Chhattisgarh Medical Services Corporation Limited
5	Chhattisgarh Police Housing Corporation Limited
6	Chhattisgarh Road And Infrastructure Development Corporation Limited
7	Chhattisgarh Rural Housing Corporation Limited
8	Chhattisgarh Mineral Development Corporation Limited
9	Chhattisgarh State Power Distribution Company Limited
10	Chhattisgarh State Power Generation Company Limited
11	Chhattisgarh State Power Transmission Company Limited

(Source: Information compiled from data furnished by the State PSEs and financial statements)

The Companies Act, 2013 further provides that the 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.

¹⁷ Chhattisgarh State Marketing Corporation Limited, though required to have independent directors on its Board, had no independent director on its Board.

As per information furnished by the only State PSE having an NRC (Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited), the composition of its NRC was as per the provisions of the Companies Act, 2013.

1.17 Whistle Blower Mechanism

Section 177(9) of the Companies Act, 2013 read with Rule 7 of the Companies (Meetings of Board and its power) Rules 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 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 information available, six¹⁸ State PSEs were required to establish Vigil Mechanism to report genuine concerns or grievances. Of these none of the State PSE established a Vigil Mechanism/Whistle Blower Mechanism.

1.18 Corporate Social Responsibility

1.18.1 An introduction to Corporate Social Responsibility

Corporate Social Responsibility (CSR) is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the local community at large. It recognises the interests of its stakeholders and the general community at large by covering sustainability, social impact and ethics. The concept of CSR rests on the ideology of give and take. Companies take resources in the form of raw materials, human resources etc. from the society. By performing the task of CSR activities, the companies are giving something back to the society.

Section 135 of the Companies Act, 2013, deals with the subject of CSR and lays down the qualifying criteria based on net worth, turnover and net profit during any financial year for companies which are required to undertake CSR activities. The activities which may be included by the companies in their CSR policies are listed in Schedule VII of the Companies Act, 2013. The provisions of Section 135 and Schedule VII of the Companies Act, 2013 are applicable to all companies including State PSEs and makes it mandatory for any company to spend, annually at least two *per cent* of average net profit¹⁹ of three immediate preceding financial years towards CSR activities in case it fulfills the following criteria in immediately preceding financial year:

- (i) a net worth of ₹ 500 crore or more; or
- (ii) turnover of ₹ 1,000 crore or more; or
- (iii) a net profit of ₹ 5 crore or more.

¹⁸ Chhattisgarh Police Housing Corporation Limited, Chhattisgarh Road and Infrastructure Development Corporation Limited, Chhattisgarh Rural Housing Corporation Limited, Chhattisgarh State Power Generation Company Limited, Chhattisgarh State Power Transmission Company Limited and Chhattisgarh State Power Distribution Company Limited.

¹⁹ Calculated as per Section 198 of the Companies Act, 2013.

In February 2014, Ministry of Corporate Affairs (MCA) issued Companies (CSR Policy) Rules, 2014 made applicable to all companies including State PSEs w.e.f. 1 April 2014. Accordingly, the compliance of the provisions of CSR under the Companies Act, 2013 i.e. constitution of CSR Committee, formulation of CSR Policy and spending of prescribed amount on CSR activities came into force from April, 2014.

1.19 Audit findings

As of March 2023, 10 State PSEs fulfilled the eligibility criteria prescribed for CSR. Audit reviewed the compliances of extant provisions regarding CSR by 10 State PSEs²⁰ during the year 2022-23. The Audit findings on extent of compliance with the provisions of the Companies Act, 2013 with regard to constitution of CSR Committee, formulation and compliance of policy, planning and execution of CSR activities and monitoring and reporting thereof by the State PSEs are given in the following paragraphs.

1.19.1 Constitution of CSR Committee and its composition

As per section 135 (1) of the Act, every company having a net worth of ₹ 500 crore or more; or turnover of ₹ 1,000 crore or more; or a net profit of ₹ 5 crore or more during immediately preceding financial year shall constitute a CSR committee of the Board consisting of three or more Directors. Further, as per Section 135(9), where the amount to be spent by a company under sub-section (5)²¹ does not exceed fifty lakh rupees, the requirement under sub-section (1) for constitution of the CSR Committee shall not be applicable and the functions of such Committee provided under this section shall, in such cases, be discharged by the Board of Directors of such company.

Audit noticed that four²² out of 10 State PSEs had constituted CSR committees whereas, five²³ State PSEs were not required to constitute CSR committee as per provisions of Section 135(9) of the Act, as their liability on account of CSR was less than ₹ 0.50 crore. The remaining one State PSE i.e. Chhattisgarh State Civil Supplies

²⁰ Chhattisgarh State Power Generation Company Limited, Chhattisgarh State Power Transmission Company Limited, Chhattisgarh State Power Distribution Company Limited, Chhattisgarh Rajya Van Vikas Nigam Limited, Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited, Chhattisgarh Mineral Development Corporation Limited, Chhattisgarh Medical Services Corporation Limited, Chhattisgarh State Marketing Corporation Limited, Chhattisgarh State Civil Supplies Corporation Limited and Chhattisgarh State Beverages Corporation Limited.

²¹ The Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, at least two *per cent* of the average net profits of the company made during the three immediately preceding financial years, or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy.

²² Chhattisgarh Rajya Van Vikas Nigam Limited, Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited, Chhattisgarh State Power Generation Company Limited and Chhattisgarh State Power Transmission Company Limited

²³ Chhattisgarh State Power Distribution Company Limited, Chhattisgarh State Marketing Corporation Limited, Chhattisgarh Medical Services Corporation Limited, Chhattisgarh State Beverages Corporation Limited and Chhattisgarh Mineral Development Corporation Limited.

Corporation Limited had not constituted CSR committee though it met the required criteria under Section 135 (1).

Further, as per Section 135 (1) of the Companies Act, 2013, the CSR committee shall have at least one independent director. Out of four State PSEs where CSR committees were constituted, two State PSEs (Chhattisgarh State Power Generation Company Limited and Chhattisgarh State Power Transmission Company Limited) had not complied with the Rule of having at least one Independent Director in the committee as they had no independent director on their Board. While one State PSE i.e. Chhattisgarh Rajya Van Vikas Nigam Limited was not required to appoint an independent director on its Board being a private Company.

1.19.2 Framing of CSR policy

Section 135 (3) of the Companies Act, 2013 requires that a Company's CSR Committee shall formulate and recommend to the Board, a CSR Policy. It was seen that out of 10 State PSEs, six²⁴ formulated their CSR policies while the remaining four State PSEs (Chhattisgarh State Power Distribution Company Limited, Chhattisgarh Medical Services Corporation Limited, Chhattisgarh Mineral Development Corporation Limited and Chhattisgarh State Civil Supplies Corporation Limited) did not have CSR policy in place.

1.19.3 Allocation and utilisation of funds

As per provisions of Section 135 (5) of the Companies Act, 2013 the amount required to be spent by the 10²⁵ State PSES during 2022-23 aggregated to ₹18.30 crore, including ₹ 3.62 crore being the balance of CSR liability carried over from previous years. One State PSE i.e. Chhattisgarh State Power Distribution Company Limited which incurred losses persistently, had no liability on account of CSR during any year up to 2022-23. During 2022-23, six State PSEs spent ₹15.95 crore leaving an unspent balance of ₹2.35 crore as detailed in **Table 1.20:**

²⁴ Chhattisgarh Rajya Van Vikas Nigam Limited, Chhattisgarh State Beverages Corporation Limited, Chhattisgarh State Marketing Corporation Limited, Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited, Chhattisgarh State Power Generation Company Limited and Chhattisgarh State Power Transmission Company Limited.

²⁵ One State PSE i.e. Chhattisgarh State Power Distribution Company Limited which incurred losses persistently, had no liability on account of CSR during any year upto 2022-23.

Table 1.20: CSR liability vis-a-vis expenditure incurred during 2022-23*(₹ in crore)*

Sl. No	Name of the State PSE	Carry over amount from previous year	Amount required to be spent for the year 2022-23	Total amount required to be spent for the year 2022-23	Expenditure incurred on CSR during the year 2022-23	Unspent balance at the end of the year
1	2	3	4	5=(3+4)	6	7=(5-6)
1	Chhattisgarh Rajya Van Vikas Nigam Limited	1.40	0.54	1.94	0.83	1.11
2	Chhattisgarh State Beverages Corporation Limited	-0.03	0.19	0.16	0.21	-0.05
3	Chhattisgarh State Marketing Corporation Limited	0.41	0.00	0.41	0.00	0.41
4	Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited	1.37	0.53	1.90	0.44	1.46
5	Chhattisgarh Medical Services Corporation Limited	0.98	0.41	1.39	0.00	1.39
6	Chhattisgarh Mineral Development Corporation Limited	0.00	0.17	0.17	0.03	0.14
7	Chhattisgarh State Power Generation Company Limited	0.81	10.34	11.15	13.66	-2.51
8	Chhattisgarh State Power Transmission Company Limited	-1.72	2.23	0.51	0.78	-0.27
9	Chhattisgarh state Civil Supplies Corporation Limited	0.40	0.27	0.67	0.00	0.67
10	Chhattisgarh State Power Distribution Company Limited	0.00	0.00	0.00	0.00	0.00
	Total	3.62	14.68	18.30	15.95	2.35

(Source: Information compiled from data furnished by the State PSEs and financial statements)

Further, out of the six State PSEs which had unspent balance, only two (Chhattisgarh Rajya Van Vikas Nigam Limited and Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited) transferred their unspent CSR balance to a separate CSR account. However, Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited transferred the unspent balance to a separate CSR account beyond prescribed period of 30 days from end of the financial year.

1.19.4 Range of CSR spend

The total amount to be spent on account of CSR by the nine State PSEs during the year 2022-23 was ₹ 18.30 crore, against which these State PSEs could spend only ₹ 15.95 crore (87.16 per cent). Out of the nine State PSEs, four were required to spend an amount of more than ₹ 1.00 crore however, only one State PSE

(Chhattisgarh State Power Generation Company Limited) spent an amount (₹ 13.66 crore) of more than ₹ 1.00 crore during 2022-23.

1.19.5 Top spenders

Total spend on CSR activities by State PSEs is depicted in **chart 1.3** below:



(Source: Information compiled from data furnished by the State PSEs)

The top spender was Chhattisgarh State Power Generation Company Limited at ₹ 13.66 crore (85.64 *per cent* of total CSR spent by the nine State PSEs) followed by Chhattisgarh Rajya Van Vikas Nigam Limited at ₹ 0.83 crore (5.20 *per cent*).

1.19.6 Administrative overheads

As per CSR Rule 4 (6), Administrative Overheads (OH) are to be restricted to five *per cent* of overall CSR funds. The OH to be disclosed separately should include baseline studies, capacity building and other overheads. During the year 2022-23, six State PSEs incurred expenditure on CSR activities as discussed in **Paragraph 1.19.3**. Audit, however, observed that CSR expenditure by four State PSEs (Chhattisgarh State Power Generation Company Limited, Chhattisgarh State Power Transmission Company Limited, Chhattisgarh Rajya Van Vikas Nigam Limited and Chhattisgarh State Beverages Corporation Limited) did not include any amount on account of administrative overheads. No information was furnished by the remaining two²⁶ State PSEs in this regard.

1.19.7 Manner of implementation of CSR activities

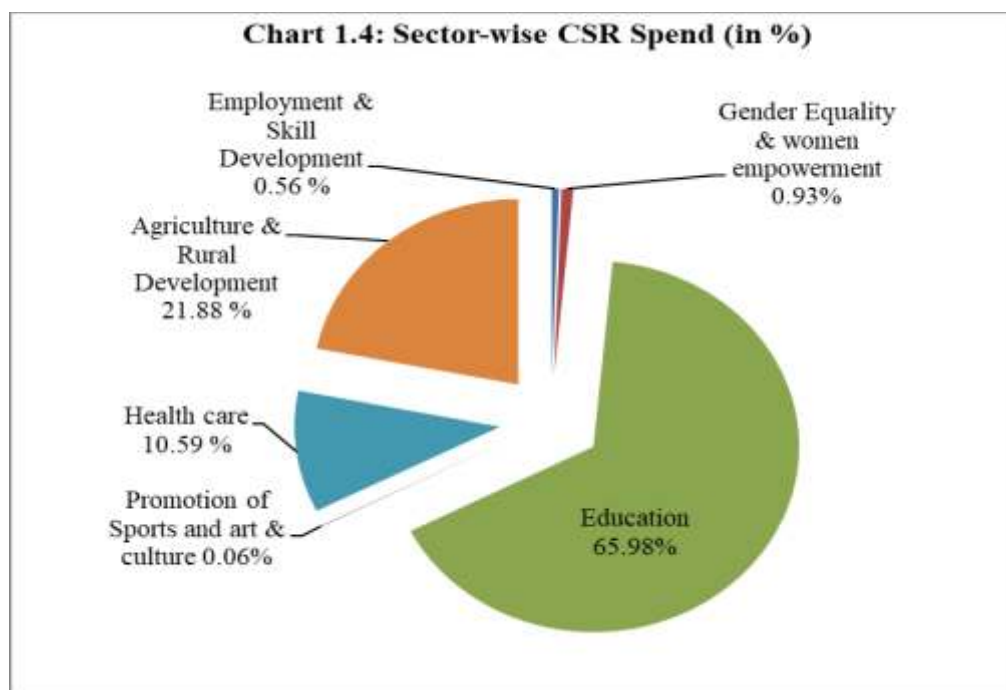
Rule 4 of Companies (CSR) Rules, 2014 exclusively deals with the manner in which the CSR activity is to be undertaken under section 135(1) of the Act. The Board may decide to undertake CSR activities as approved by CSR Committee through a registered trust/society or a company established by the company or its holding or subsidiary or associate company under Section 8 of the Act or otherwise.

²⁶ Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited and Chhattisgarh Mineral Development Corporation Limited.

As discussed in **Paragraph 1.19.3**, six State PSEs implemented the CSR activities during the year 2022-23 of which three State PSEs (Chhattisgarh Rajya Van Vikas Nigam Limited and Chhattisgarh State Beverages Corporation Limited and Chhattisgarh State Power Transmission Company Limited) implemented the CSR activities directly, while the CSR activities of other three State PSEs were executed through implementing agencies viz.– trusts, societies, Government departments, non-Government organisations etc.

1.19.8 Focus areas

The focus areas are depicted in **chart 1.4** below:



(Source: Information compiled from data furnished by the State PSEs)

As indicated above, education sector received the maximum focus (65.98 per cent). Total spend under this head was ₹ 10.53 crore. Next highest spend (₹ 3.49 crore) was in Agriculture and Rural development i.e. 21.88 per cent.

1.19.9 District wise CSR spend

Two State PSEs (Chhattisgarh Rajya Van Vikas Nigam Limited and Chhattisgarh State Power Generation Company Limited) had undertaken CSR activities in more than one District of the State. As on 31 March 2023 there were 33 districts in Chhattisgarh, of which CSR activities were carried out in 11 districts though six out of 10 State PSEs had offices/activities in all districts of the State. Further, major portion (89.21 per cent) of the total CSR spend was concentrated in three districts (Mahasamund ₹ 5.31 crore, Korba ₹ 5.13 crore and Raigarh ₹ 3.80 crore).

1.19.10 Monitoring framework

As per Rule 5(2) of CSR Rules, 2014, the CSR Committee shall institute a transparent monitoring mechanism for implementation of CSR projects/programmes/activities undertaken by the company. Audit observed that all six State

PSEs, which framed their CSR policies, had specified the monitoring mechanism in the policy. Further, Rule 8(3) of the Companies (CSR Policy) Rules, 2014 mandates following class of companies to conduct impact assessment: (i) companies with minimum average CSR obligation of ₹ 10 crore or more in the immediately preceding three financial years; and (ii) companies that have CSR projects with outlays of minimum ₹ 1.00 crore and which have been completed not less than one year before undertaking impact assessment. Impact assessment shall be carried out project-wise only in cases where both the above conditions are fulfilled. In other cases, it can be taken up by the company on a voluntary basis.

In 2022-23, one State PSE (Chhattisgarh State Power Generation Company Limited), which was required to carry out impact assessment of its completed CSR projects, did not carry out impact assessment.

1.19.11 Reporting and disclosure

As per Section 135 (2) and (4) read with Section 134 (3) (o) of the Companies Act, 2013, a Company is required to include an annual report on CSR in their Board Report and place it on the official website. The companies have to disclose the following in the prescribed format:

- Disclose contents of CSR policy, web link of CSR policy, average net profit, composition of CSR Committee, administrative overheads, prescribed amount, unspent amount, reasons for unspent amount.
- Include a responsibility statement signed by the CSR Committee that the implementation and monitoring of CSR Policy was in compliance with the CSR objective and Policy of the Company.

It was noticed that eight of the 10 State PSEs which qualified the criteria prescribed for CSR in Section 135(1) of the Companies Act, 2013, have given disclosure regarding CSR policy, web link of CSR policy, average net profit, composition of CSR Committee, administrative overheads, prescribed amount, unspent amount, reasons for unspent amount etc. in their latest finalised Boards' reports. The remaining two State PSEs (Chhattisgarh State Marketing Corporation Limited and Chhattisgarh Mineral Development Corporation Limited) did not disclose the requisite information in the latest finalised Boards' report. Besides, responsibility statement signed by the CSR Committee was not included in the latest finalised Boards' Reports in case of all the 10 State PSEs. Thus, none of the State PSE fully complied with the reporting and disclosure requirements.

1.20 Conclusion

As on 31 March 2023, there were 28 State PSEs including one Statutory Corporation. Out of 28, there are two inactive State PSEs. Out of 26 working State PSEs, only 20 State PSEs (19 Companies and one Statutory Corporation), whose accounts were in arrears for two or less years as on 30 September 2023 have been considered for detailed analysis of financial performances.

During 2022-23, these 20 State PSEs registered turnover of ₹ 42,172.73 crore, which was equal to 9.22 *per cent* of the GSDP of Chhattisgarh. The contribution of Power

sector State PSEs alone accounts for over 66.51 *per cent* of the total turnover of State PSEs during 2022-23.

The investment in equity and long-term loans in 28 State PSEs was ₹ 20,961.61 crore at the end of 31 March 2023. The outstanding long-term loans of these State PSEs increased from ₹ 13,865.19 crore to ₹ 13,877.90 crore during the year of 2020-21 to 2022-23.

The Profit earned by 10 State PSEs out of 20 State PSEs was ₹ 879.22 crore in 2022-23 as compared to 10 State PSEs which earned profit of ₹ 863.06 crore in 2021-22. Chhattisgarh State Power Generation Company Limited (₹ 570.38 crore), Chhattisgarh State Power Transmission Company Limited (₹ 109.89 crore) and Chhattisgarh State Warehousing Corporation (₹ 71.20 crore) contributed the major portion of the profit. Out of the total loss of ₹ 1,143.10 crore incurred by seven State PSEs, major loss was incurred by Chhattisgarh State Power Distribution Company Limited (₹ 1,132.72 crore).

Out of 28 State PSEs, accounts of 25 State PSEs were in arrears (24 Government Companies, one Statutory Corporation) for various reasons for the year 2022-23. State PSEs were not adhering with the prescribed timeline regarding submission of their Financial Statements as per the Companies Act, 2013. As a result, 47 accounts of 25 State PSEs were in arrears. Supplementary audit of the 14 financial statements of 13 State PSEs received during the reporting period were conducted and significant comments highlighting financial inaccuracies in financial statements impacting the profitability was ₹ 1,194.79 crore and on assets/liabilities was ₹ 1,231.80 crore.

Out of 26 State PSEs reviewed, 25 were public companies, of which 12 State PSEs were required to appoint independent directors, however, only one State PSE appointed independent directors on its Board. As per the extant provisions, eight State PSEs were required to appoint Woman Directors, of which six State PSEs had at least one Woman-Director on their Board.

Contradictory to the provisions of the Act, 16 out of 26 State PSEs did not conduct minimum of four meetings of its Board of Directors. Besides, in case of 15 State PSEs the period between two consecutive meetings was beyond 120 days which ranged between 121 and 367 days.

Out of 26 State PSEs, 12 State PSEs were required to constitute Audit Committee; however, only two State PSEs had audit committees. No whistle blower/vigil mechanism was established in the six State PSEs which were required to comply with the provision.

During the year 2022-23, CSR committee was not constituted by one State PSE while CSR policy was not framed by four State PSEs. Out of nine State PSEs which were required to carry out CSR activities only six were compliant. The focus area of CSR spend was majorly on promotion of education (65.98 *per cent*). The areas of sports, art and culture, employment & skill development, gender equality & women empowerment and environment sustainability attracted minimal attention. The CSR expenditure was incurred in 11 out of 33 districts of the State, of which major portion of the expenditure (89.21 *per cent*) was incurred in three districts.

1.21 Recommendations

The State Government may

- 1. Review the functioning of all loss making/ inactive State PSEs and take necessary steps to improve their financial performance/ winding up.*
- 2. Issue necessary instructions to Administrative Departments to set targets for finalisation of accounts and clearance of arrears,*
- 3. Formulate a dividend policy for the profit making State PSEs.*
- 4. Ensure compliance to provisions of the Companies Act, 2013 for Corporate Governance and Corporate Social Responsibility requirements by the State PSEs.*