CHAPTER-V:
STATE PUBLIC SECTOR ENTERPRISES

Chapter-V

State Public Sector Enterprises

This chapter discusses the financial performance of State Public Sector Enterprises (SPSEs), which included *Government Companies*, *Statutory Corporations* and *Government Controlled Other Companies* (GCOCs). Impact of significant comments issued as a result of supplementary audit of the Financial Statements of these SPSEs conducted by the Comptroller and Auditor General of India (CAG) for the year 2022-23 (or of earlier years which were finalized during the current year) has also been discussed.

5.1 Definition of Government Companies

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

Besides, any other company[23] 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 are referred to in this Report as *Government Controlled Other Companies*.

5.2 Mandate of Audit

Audit of *Government Companies* and *Government Controlled Other Companies* is conducted by the CAG of India under the provisions of section 143(5) to 143(7) of the Companies Act, 2013 read with Section 19 of the CAG's (Duties, Powers and conditions of Service) Act, 1971 and the Regulations made there under. Under the Companies Act, 2013, the CAG appoints the Chartered Accountants as Statutory Auditors for companies and gives directions on the manner in which the accounts are to be audited. In addition, CAG has the right to conduct a supplementary audit of the company's financial statements. The statutes governing some Statutory Corporations require that their accounts to be audited only by CAG.

In Sikkim, there are four Government Companies which are incorporated under the Companies Act, 2013 and are audited under the provisions of the Companies Act, 2013. Besides, there are nine Companies which are incorporated under the Sikkim Registration of Companies Act, 1961. Further, there are four Statutory Corporations which were incorporated under the *Proclamation of the erstwhile Chogyal (King) of Sikkim* and registered under *the Sikkim Registration of Companies Act, 1961*. The companies incorporated under the Sikkim Registration of Companies Act, 1961 and the Statutory Corporations are audited on 'entrustment basis' under Section 19 (3) or 20 (1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (CAG's DPC Act).

[23] *Companies (Removal of Difficulties) Seventh Order,2014 issued by Ministry of Corporate Affairs vide Gazette Notification dated 4 September 2014*

5.3 SPSEs and their contribution to the GSDP of the State

SPSEs consist of State Government Companies and Statutory Corporations. SPSEs are established to carry out activities of commercial nature keeping in view the welfare of people and occupy an important place in the State economy. As on 31 March 2023, there were 17 SPSEs (13 Government Companies and 4 Statutory Corporations) in Sikkim (all working) under the audit purview of the Comptroller and Auditor General of India (C&AG) as listed under ***Appendix 5.1***. None of the SPSE was listed on the Stock exchange.

A ratio of turnover of the SPSEs to the Gross State Domestic Product (GSDP) shows the extent of activities of the SPSEs in the State economy. The details of turnover of working SPSEs are given in ***Appendix 5.2.*** Turnover of working SPSEs and GSDP for a Period of three years ending 31 March 2023 are given in **Table 5.1**

Table5.1: Details of turnover of SPSEs vis-à-vis GSDP of Sikkim

(₹ in crore)

Particulars	2020-21	2021-22	2022-23
Turnover			
Power Sector SPSEs	2,390.28	3,072.12	3,579.41
Agriculture and Allied sector SPSEs	12.50	12.50	12.50
Other SPSEs	356.07	329.26	462.91
Total	**2,758.85**	**3,413.88**	**4,054.82**
GSDP of Sikkim	33,017.83	37,557.40*	42,756.17**
Percentage of Turnover to GSDP of Sikkim			
Power Sector SPSEs	**7.24**	**8.18**	**8.37**
Agriculture and Allied sector SPSEs	**0.04**	**0.03**	**0.03**
Other SPSEs	**1.08**	**0.88**	**1.08**
Total	**8.36**	**9.09**	**9.48**

* *Provisional estimates; **Quick Estimates*

(Source: Compilation based on Turnover figures as per latest finalised accounts of SPSEs and GSDP figures as per Economic and Statistical Organisation, Government of Sikkim)

The contribution of SPSEs to the GSDP of Sikkim showed an increasing trend and it increased from 8.36 *per cent* (2020-21) to 9.48 *per cent* (2022-23) in last three years. During 2022-23, the contribution of power sector SPSEs to the GSDP was 8.37 *per cent* while Agriculture and allied sector SPSEs contributed 0.03 *per cent*. Other sector SPSEs contributed 1.08 *per cent* towards GSDP during the year 2022-23.

As on 31 March 2023, State Government had invested ₹ 82.65 crore (Equity: ₹ 55.63 crore[24] and long-term loans ₹ 27.02 crore) in these SPSEs. Besides, the companies/corporations borrowed funds from financial institutions for its own purposes and on behalf of the Government. The loan outstanding of the companies/corporations amounts to ₹ 13,196.41 crore as of March 2023. In addition to it, ₹ 66.35 crore of Grants was provided to five[25] SPSEs by GoS during the year 2022-23.

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[24] *Including the investment of ₹ 12.50 crore in the preference share capital of Sikkim Power Development Corporation Limited.*

[25] *Gangtok Smart City Development Limited (₹ 45.00 crore), Namchi Smart City Limited (₹ 11.85 crore), Temi Tea (₹ 8.00 crore), Schedule Caste, Schedule Tribe and Other Backward Classes Development Corporation Limited (₹ 1.00 crore) and Sikkim Industrial Development and Investment Corporation Limited (₹ 0.50 crore)*

5.4 Investment in SPSEs and budgetary support

5.4.1 Equity holding and Loans in SPSEs

The sector wise Total Equity, Equity contribution by State Government and Long-Term Loans including the loans given by State Government in 17 working SPSEs as on 31 March 2023 is given below in **Table 5.2**

Table-5.2: Sector-wise investment in SPSEs

Particulars	Investment[26] *(₹ in crore)*					Sector-wise investment to Total investment *(per cent)*
	Total Equity	State Government Equity	Total Long Term Loans	State Government Loans	Total Equity and Long Term Loans	
Power Sector SPSEs	3,673.69	22.86	11,712.68	24.99	15,386.37	90.93
Agriculture and Allied Sector SPSEs	1.13	0.35	Nil	nil	1.13	0.01
Other Sector SPSEs	50.22	32.42	1,483.73	2.03	1,533.95	9.06
Total	**3,725.04**	**55.63**	**13,196.41**	**27.02**	**16,921.45**	**100.00**

Source: Information provided by the SPSEs

The thrust of SPSEs investment was mainly on power sector SPSEs which had received as much as 90.93 *per cent* (₹ 15,386.37 crore) of total investment of ₹ 16,921.45 crore as on 31 March 2023. The State Government's share was 0.49 *per cent* (₹ 82.65 crore) of total investment of ₹ 16,921.45 crore.

During the year 2022-23, six SPSEs had incurred losses (₹ 212.45 crore) as per their latest finalised accounts. As on 31 March 2023, the State Government had invested ₹ 35.15 crore (Equity: ₹ 10.16 crore; Loans: ₹ 24.99 crore) in three[27] out of six loss making SPSEs. Besides, the investment of others (other than the State Government) in four[28] out of these six loss making SPSEs stood at ₹ 3,266.47 crore (Equity: ₹ 11.19 crore; Loans: ₹ 3,255.28 crore) as on 31 March 2023.

5.4.2 Reconciliation with Finance Accounts of the State

The figures in respect of equity and long-term loans extended by the State Government as per records furnished by SPSEs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the SPSEs concerned and the Finance Department are required to carry out reconciliation of differences in figures. The position in this regard as on 31 March 2023 is summarised in ***Table 5.3***.

Table 5.3: Equity and loans outstanding as per the State Finance Accounts *vis-à-vis* records of SPSEs

(₹ in crore)

Particulars	Amount as per the State Finance Accounts	Amount as per records of SPSEs	Difference
Equity	56.58	55.63	0.95
Long-term loans	37.11	27.02	10.09

Source: State Finance Accounts, 2022-23 and information furnished by the SPSEs

[26] *Investment figures (Equity and Long Term Loans) are provisional and as provided by the respective SPSEs except in the case of three SPSEs (serial no. A1, A2 and A11 of Appendix 5.2), which* have finalised their accounts for 2022-23.

[27] *SPSEs at sl no A3, B7 and C10 of Appendix 5.2.*

[28] *SPSEs at serial no. A3, B6, B7 and C10 of Appendix 5.2*

From ***Table 5.3***, it can be noticed that there were unreconciled differences in the figures of equity (₹ 0.95 crore) and long-term loans (₹ 10.09 crore) as per the two sets of records. The difference in equity figures occurred in respect of eight SPSEs[29]. Analysis of reasons for difference in loan figures was, however, not possible as the Finance Accounts did not provide the SPSE-wise details of the loans provided by the State Government. Though the process of reconciliation of these differences had been initiated (September 2018) by the office of the Sr. Deputy Accountant General (A&E), Sikkim in consultation with the Finance Department, Government of Sikkim and PSEs concerned, no significant progress had been achieved in this regard.

The concerned departments of the State Government and the SPSEs should take concrete steps to reconcile the differences in the investment figures (equity and long-term loans) of the State Government as appearing in the State Finance Accounts vis-à-vis SPSE records in a time-bound manner.

5.4.3 Market capitalization of equity investment in SPSEs

There are no SPSEs in Sikkim which are listed on the share market in India.

5.4.4 Disinvestment, Restructuring and Privatisation

During the year 2022-23 there was no case of disinvestment, restructuring and privatization of SPSEs (working or inactive) in Sikkim.

5.5 Returns from SPSEs

5.5.1 Profit earned by SPSEs

Total 11 SPSEs (out of 17 SPSEs) had earned profit during the current (2022-23) as well as previous year (2021-22). However, the profit earned increased to ₹ 1,384.13 crore in 2022-23 as against the profit of ₹ 283.58 crore earned during 2021-22. The details of the major contributors to SPSE-profits during the year 2022-23 have been summarised in **Table 5.4.**

Table 5.4: SPSEs which contributed maximum profit during 2022-23

Name of SPSE	Year of Accounts	Net profit (*₹ in crore*)	Percentage to total profits of SPSEs
Sikkim Urja Limited	2022-23	1,270.19	*91.77*
Sikkim Power Transmission Limited	2022-23	63.28	*4.57*
State Bank of Sikkim	2021-22	37.04	*2.68*
Total		**1,370.51**	**99.02**

Source: Latest Financial Statements of SPSEs

As could be noticed from **Table 5.4** above, three SPSEs had contributed as much as 99.02 *per cent* of the total SPSE-profits (₹ 1,384.13 crore) earned by 11 SPSEs during 2022-23.

Net Profit Ratio[30] assesses a company's ability to earn profits from its sales (turnover). A higher net profit ratio indicates that a company is more efficient at converting sales into actual profit. As a thumb rule, Net Profit Ratio of 5 *per cent* is considered to be a low margin, 10 *per cent* a healthy margin, while 20 *per cent* or more is a high margin.

[29] *SPSEs at serial no. A3, A4, C10, C11, C13, C14, C15 and C17 of Appendix 5.2.*

[30] *(Net Profit ÷ Turnover) x 100*

Net profit ratio of working SPSEs during the year 2022-23 in depicted in **Table 5.5**

Table5.5: Net Profit Ratio of SPSEs

Sector	Net Profit	Turnover	Net profit Ratio (in *per cent*)
Power Sector SPSEs	1,126.54	3,579.41	31.47
Agriculture and Allied sector SPSEs	7.42	12.50	59.36
Other SPSEs	37.72	462.91	8.15
Total	**1,171.68**	**4,054.82**	**28.90**

It could be noticed from **Table 5.5**, the Agriculture & Allied sector SPSEs had been the high margin entities earning a margin of 59.36 *per cent* during the year 2022-23 while the Power sector SPSEs were at second position with a profit margin of 31.47 *per cent.* However, all the SPSEs in all three sectors had positive Net Profit Ratio during 2022-23.

5.5.2 Dividend paid by SPSEs

The Thirteenth Finance Commission had recommended (December 2009) that a minimum dividend of five *per cent* on government equity should be paid by all profit making enterprises. However, the State Government had not adopted the above recommendations. The details of the dividend paid by profit earning SPSEs during last three years from 2020-21 to 2022-23 have been shown in **Table 5.6.**

Table5.6: Dividend Payout by SPSEs

(₹ in crore)

Year	Particulars	No. of SPSEs which earned profit	Paid Up Capital	Net Profit	No. of SPSEs which declared dividend	Dividend Declared
1	2	3	4	5	6	7
2020-21	Power Sector SPSEs	02	463.29	49.76	-	-
	Agriculture and Allied sector SPSEs	02	Negligible	7.73	-	-
	Other SPSEs	05	26.66	24.51	01	1.33
	Total	**09**	**489.95**	**82.00**	**01**	**1.33**
2021-22	Power Sector SPSEs	03	3,668.68	251.93	-	-
	Agriculture and Allied sector SPSEs	02	Negligible	7.73	-	-
	Other SPSEs	06	28.71	23.92	01	1.33
	Total	**11**	**3,697.39**	**283.58**	**01**	**1.33**
2022-23	Power Sector SPSEs	03	3,668.68	1,337.23	-	-
	Agriculture and Allied sector SPSEs	02	Negligible	7.73	-	-
	Other SPSEs	06	28.71	39.17	01	1.33
	Total	**11**	**3,697.39**	**1,384.13**	**01**	**1.33**

Source: Latest Financial Statement of SPSEs.

During 2022-23, out of 11 SPSEs which earned profits as per their latest finalized accounts, only one SPSE (State Bank of Sikkim[31]) declared dividend of ₹ 1.33 crore. Remaining 10 SPSEs, which earned aggregate profits of ₹ 1,347.09 crore did not declare any dividend.

[31] *During 2022-23, State Bank of Sikkim earned a profit of ₹ 37.04 crore as per its latest finalised accounts (2021-22).*

5.6 Debt Servicing

5.6.1 Interest Coverage Ratio

'Interest coverage ratio' is used to determine the ability of a company to pay interest on outstanding debt and is calculated by dividing a company's earnings before interest and taxes (EBIT) by interest expenses of the same period. The lower the ratio, the lesser the ability of the company to pay interest on debt.

An interest coverage ratio below one indicates that the company is not generating sufficient revenues to meet its expenses on interest. The details of interest coverage ratio in SPSEs which had interest burden are given below in **Table 5.7.**

Table 5.7: Interest coverage ratio of SPSEs

Year	Particulars	Interest *(₹ in crore)*	Earnings before interest and tax (EBIT) *(₹ in crore)*	Number of SPSEs having liability of loans from Government, and other financial institutions	Number of companies having interest coverage ratio 'more than one'	Number of companies having interest coverage ratio 'less than one'
2020-21	Power Sector SPSEs	1,642.25	1,216.58	4	2	2
	Other SPSEs	2.10	33.24	4	3	1
	Total	**1,644.35**	**1,249.82**	**8**	**5**	**3**
2021-22	Power Sector SPSEs	1,618.64	1,918.07	4	3	1
	Other SPSEs	1.97	32.04	4	3	1
	Total	**1,620.61**	**1,950.11**	**8**	**6**	**2**
2022-23	Power Sector SPSEs	1,303.51	2,351.03	4	3	1[32]
	Other SPSEs	6.61	52.54	4	3	1[33]
	Total	**1,310.12**	**2,403.57**	**8**	**6**	**2**

Source: Latest Financial Statement of SPSEs

Audit observed that during the last two years (2021-22 and 2022-23), out of total eight SPSEs which had the liability of loans, two SPSEs (one each in Power and Other Sectors) had Interest Coverage Ratio of 'less than one', which indicated that these SPSEs were not generating sufficient revenues to meet their expenses on interest. During the said two years, all the remaining six SPSEs had the Interest Coverage Ratio of 'more than one' and hence, these SPSEs were comfortable in servicing their debt.

5.7 Financial Performance of SPSEs

5.7.1 Return on Capital Employed

Return on Capital Employed (RoCE) is a ratio that measures a company's profitability and the efficiency with which its capital is employed. RoCE is calculated by dividing a company's earnings before interest and taxes (EBIT) by the capital employed[34]. The details of RoCE during the period from 2020-21 to 2022-23 are given below in **Table 5.8.**

[32] *Sikkim Power Investment Corporation Limited (Interest: ₹ 364.34 crore; EBIT: ₹ 153.65 crore).*

[33] *Schedule Caste, Schedule Tribe and Other Backward Classes Development Corporation Limited (Interest: ₹ 0.73 crore; EBIT: ₹ 0.49 crore)*

[34] *Capital Employed = Paid up Share capital + Free Reserves and surplus + Long Term loans-Accumulated losses –Deferred Revenue Expenditure*

Table-5.8: Return on Capital Employed

Year	aParticulars	EBIT (₹ *in crore*)	Capital Employed (₹ *in crore*)	RoCE (in *per cent*)
2020-21	Power Sector SPSEs	1,216.58	15,152.53	8.02
	Agriculture and Allied sector SPSEs	7.42	(-)3.51	Not workable
	Other SPSEs	33.24	674.89	4.93
	Total	**1,257.24**	**15,823.91**	**7.95**
2021-22	Power Sector SPSEs	1,918.07	14,621.20	13.12
	Agriculture and Allied sector SPSEs	7.42	(-)3.51	Not workable
	Others SPSEs	32.04	986.97	3.25
	Total	**1,957.53**	**15,604.66**	**12.54**
2022-23	Power Sector SPSEs	2,351.03	14,165.10	16.60
	Agriculture and Allied sector SPSEs	7.42	(-)3.51	Not workable
	Others SPSEs	52.54	1,469.02	3.58
	Total	**2,410.99**	**15,630.61**	**15.42**

Source: Latest Financial Statement of working SPSEs

As can be observed from **Table 5.8**, the overall RoCE of SPSEs was positive during all the three years from 2020-21 to 2022-23. Further, the RoCE in respect of Power Sector has shown an improving trend from 8.02 *per cent* (2020-21) to 16.60 *per cent* (2022-23) while in the case of Other Sector SPSEs, the RoCE reduced from 4.93 *per cent* (2020-21) to 3.58 *per cent* (2022-23). The RoCE in respect of Agriculture & Allied Sector SPSEs was not workable during any of the lasts three years (2020-21 to 2022-23) due to complete erosion of the capital employed.

5.7.2 Return on Equity by SPSEs

Return on Equity[35] (RoE) is a measure of financial performance to assess how effectively a company's assets are being used to create profit. RoE is calculated by dividing the Net Income (i.e., Net Profit after taxes) by the Shareholders' Fund. It is expressed as a percentage and can be calculated for any company if net income and Shareholders' Fund are both positive numbers.

Shareholders' Fund (Equity) is calculated by *adding* Paid up Capital and Free Reserves/ Accumulated Profits *minus* Accumulated Losses and Deferred Revenue Expenditure and reveals how much would be left for a company's shareholders if all assets were sold and all debts repaid. A positive Shareholders' Fund reveals that the company has enough assets to cover its Liabilities while negative Shareholders' Fund means inadequacy of Assets to repay the Liabilities/debts.

During the year 2022-23, two[36] out of eleven profit earning SPSEs had negative Shareholders' Fund (Net Worth). The ROE of remaining nine profit earning SPSEs stood at 35.95 *per cent* in 2022-23. The net overall RoE in respect of all the 17 SPSEs in Sikkim (all working) including six loss making SPSEs was 45.54 *per cent* in 2022-23.

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[35] *Return on Equity = (Net Profit after Tax ÷ Shareholder's Fund) X 100 where Shareholder's Fund/ Equity represents Paid up Capital plus Free Reserves and Surplus minus Accumulated Losses and Deferred Revenue Expenditure.*

[36] *SPSEs at Serial no. A4 (Sikkim Power Development Corporation Limited) and B9 (Temi Tea) of Appendix 5.2.*

The details of Shareholders' Fund and RoE relating to the SPSEs in Sikkim (all working) during last three years (2020-21 to 2022-23) have been summarised in **Table 5.9**.

Table-5.9: Return on Equity relating to SPSEs

Year	Particulars	Net Income (₹ in crore)	Shareholders' Fund (₹ in crore)	ROE (Percentage)
2020-21	Power Sector SPSEs	(-)373.22	916.13	-40.74
	Agriculture and Allied sector SPSEs	7.42	-3.51	Not workable
	Others SPSEs	23.12	52.53	44.01
	Total	**-342.86**	**965.15**	**-35.51**
2021-22	Power Sector SPSEs	41.24	1,163.73	3.54
	Agriculture and Allied sector SPSEs	7.42	-3.51	Not workable
	Others SPSEs	22.47	58.38	38.49
	Total	**71.13**	**1,218.60**	**5.84**
2022-23	Power Sector SPSEs	1,126.54	2,483.58	45.36
	Agriculture and Allied sector SPSEs	7.42	-3.51	Not workable
	Others SPSEs	37.72	92.81	40.64
	Total	**1,171.68**	**2,572.88**	**45.54**

Source: As per latest finalised accounts of SPSEs

As can be observed from **Table 5.9**, the ROE of SPSEs has shown an improving trend during last three years. The ROE, which was negative at (-) 35.51 *per cent* during 2020-21, had turned positive at 45.54 *per cent* during 2022-23. The turnaround in ROE of SPSEs was mainly attributable to significant increase in the 'Net Income' of Power Sector SPSEs from (-) ₹ 373.22 crore (2020-21) to ₹ 1,126.54 crore (2022-23).

5.7.3 Rate of Return on the basis of present Value of Investment

The Rate of Real Return (RoRR) measures the profitability and efficiency with which equity and similar capital bearing no interest earning have been employed, after adjusting them for the time value. To determine the RoRR on investment, the investment of the State Government in SPSEs in the form of equity, interest-free loans and grants/ subsidies provided by the State Government for operational and management expenses *less* disinvestments (if any) has been considered and indexed to their Present Value (PV) and summated. The RoRR is then calculated by dividing the 'Profit After Tax' (PAT) by the sum of the PV of the State Government investment.

The State Government infused funds in the form of equity, loans (interest free) and grants in 15 SPSEs[37] (out of 17 SPSEs) since inception of these SPSEs. During 2022-23, the said 15 SPSEs (all working) incurred an overall loss of ₹ 161.79 crore comprising profit of ₹ 50.66 crore (9 SPSEs) and loss of ₹ 212.45 crore (6 SPSEs) as per their latest finalised accounts (***Appendix 5.2***).

On the basis of return on historical value, the State Government investment eroded by 200.27 *per cent* during 2022-23. On the other hand, the Rate of Real Return where the present value of investment is considered, the State Government investment eroded by 40.86 *per cent* as shown in ***Appendix 5.3***. This difference in the percentage of investment

[37] *Excluding two SPSEs (serial no. A1 and A2 of* ***Appendix 5.2****), in which State Government had no direct investment in the form of equity, loans or grants, etc.*

erosion was on account of adjustments made in the investment amount for the time value of money.

5.8 SPSEs incurring losses

5.8.1 Losses incurred

Out of total 17 SPSEs (all working) in the State, six SPSEs[38] had incurred losses as per their latest finalised accounts. The losses incurred by these SPSEs decreased to ₹ 212.45 crore during 2022-23 as per their latest finalized accounts from ₹ 424.68 crore incurred by 8 SPSEs during 2020-21 mainly due to turnaround of one Power Sector SPSEs (Sikkim Urja Limited), which earned profit (₹ 1,270.19 crore) during 2022-23 as compared to loss (₹ 212.29 crore) incurred during 2020-21 as per its latest finalised accounts. The summarised details of losses incurred by SPSEs in three sectors (Power, Agriculture & Allied and Others) during the last three years have been given below in **Table 5.10.**

Table-5.10[39]: Sector-wise details SPSEs that incurred losses during 2020-21 to 2022-23

(₹ in crore)

Year	Particulars	No of lossmaking SPSEs	Net loss for the year	Accumulated loss	Net Worth[40]
2020-21	Power Sector SPSEs	2	(-)422.98	(-)2,709.24	496.16
	Agriculture and Allied SPSEs	3	(-) 0.31	(-) 5.47	-4.32
	Other SPSEs	3	(-) 1.39	(-) 16.75	3.56
	Total	**8**	**(-) 424.68**	**(-) 2,731.46**	**495.40**
2021-22	Power Sector SPSEs	1	(-)210.69	(-) 1,210.98	(-) 1,210.97
	Agriculture and Allied SPSEs	3	(-) 0.31	(-) 5.47	-4.32
	Other SPSEs	2	(-) 1.45	(-) 17.63	0.68
	Total	**6**	**(-) 212.45**	**(-) 1,234.08**	**(-) 1,214.61**
2022-23	Power Sector SPSEs	1[41]	(-)210.69	(-) 1,210.98	(-) 1,210.97
	Agriculture and Allied SPSEs	3[42]	(-) 0.31	(-) 5.47	-4.32
	Other SPSEs	2[43]	(-) 1.45	(-) 17.63	0.68
	Total	**6**	**(-) 212.45**	**(-) 1,234.08**	**(-) 1,214.61**

Source: As per latest finalised accounts of SPSEs

Major contributor to the SPSE-losses (₹ 212.45 crore) incurred during 2022-23 was one Power Sector SPSEs (Sikkim power Investment Corporation Limited), which incurred net loss of ₹ 210.69 crore (99.17 *per cent*) *as* per its latest finalised accounts as on 30 September 2023.

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[38] *SPSEs at serial no. A3, B5, B6, B7, C10 and C12 of **Appendix 5.2.***

[39] *Figures for 2021-22 and 2022-23 are identical as none of the six loss incurring SPSEs had finalised their Accounts during 2022-23 (viz. October 2023 to 30 September 2023.*

[40] ***Net worth** means the sum of the 'paid-up share capital' and 'free reserves and surplus' less 'accumulated loss' and 'deferred revenue expenditure'. 'Free reserves' mean all reserves created out of profits but do not include reserves created out of revaluation of assets and write back of depreciation provision.*

[41] *SPSE at serial no A3 of **Appendix 5.2***

[42] *SPSEs at serial no B5, B6 and B7 of **Appendix 5.2***

[43] *SPSEs at serial no C10 and C12 of **Appendix 5.2***

Analysis further revealed that during 2022-23, the losses of one SPSE (Sikkim Power Investment Corporation Limited), were attributable to low revenue generation, which was insufficient to meet its high borrowing cost. Another loss making SPSE (Gangtok Smart City Development Limited) did not have its own revenue and was completely dependent on the Government Grants for implementing the smart city project. Further, the losses of one SPSE (Schedule Caste, Schedule Tribe and Other Backward Classes Development Corporation Limited) were attributable to low revenue generation from its financing activities as well as high employee costs.

The remaining three SPSEs[44] had either 'nil' or 'negligible' revenue from their core activities along with high administrative/employee cost leading to negative operational results during 2022-23.

The Government needs to relook on the viability of these three SPSEs as the scale of operations of these units were very minimal and their sustainability in the long run would be largely depending on the funding from the Government.

5.8.2 Erosion of Capital in SPSEs

As on 31 March 2023, out of total 17 SPSEs in the State, 9 SPSEs had accumulated losses amounting to ₹ 1,343.71 crore. Of these, six SPSEs incurred losses aggregating to ₹ 212.45 crore as per their latest finalised accounts as of 30 September 2023.

The Net Worth of six[45] out of these nine SPSEs was 'negative' as the 'Shareholders' Fund/Equity' (₹ 76.00 crore) of these SPSEs had been completely eroded by their 'Accumulated Losses' (₹ 1,326.32 crore). The Net Worth of these six SPSEs was (-) ₹ 1,250.32 crore as against Equity investment of ₹ 76.00 crore as on 31 March 2023. Out of six SPSEs whose Net Worth (Capital) had been eroded, one SPSE had earned aggregate profit of ₹ 3.76 crore during 2022-23. Out of the said six SPSEs, which had negative Net Worth, one SPSE had outstanding Government loans of ₹ 24.99 crore as on 31 March 2023 as detailed in **Table 5.11.**

[44] *Serial no. B5, B6 and B7 of **Appendix 5.2**.*

[45] *The liabilities/establishment expenditure of these six SPSEs were funded mainly through Government Grants (SPSEs at serial no. 3, 4 and 6 of **Table 5.11),** borrowings (SPSE at serial no. 1 of **Table 5.11)** and retained earnings/reduction in working capital (SPSEs at serial no. 2 and 5 of **Table 5.11).***

Table 5.11: Details of SPSEs whose net worth has been eroded as per their latest finalized accounts

(₹ in crore)

Sl. No.	Name of SPSE	Latest year of Account	Total Paid up capital	Net profit (+)/ (-) After Interest and Tax	Accumulated losses	Net worth	Total Income	Total Expenditure	State Government investment as on 31 March 2023	
									Equity	Loans
1	Sikkim Power Investment Corporation Limited	2020-21	0.01	(-)210.69	(-)1,210.98	(-) 1,210.97	205.43	416.12	0.01	24.99[46]
2	Sikkim Power Development Corporation Limited	2020-21	74.84	3.76	(-)107.64	(-)32.80	16.38	12.62	22.85	Nil
3	Sikkim Poultry Development Corporation Limited	2017-18	Nil	(-)0.15	(-)1.72	(-)1.72	0.00	0.15	Nil	Nil
4	Sikkim Hatcheries Limited	2017-18	0.46	(-)0.14	(-)2.71	(-)2.25	0.06	0.20	Nil	Nil
5	Sikkim Livestock Processing and Development Corporation Limited	2013-14	0.69	(-)0.02	(-)1.04	(-)0.35	0.07	0.09	0.35	Nil
6	Gangtok Smart City Limited	2021-22	Negligible	(-)1.21	(-)2.23	(-)2.23	42.92	44.13	Negligible[47]	0
	Grand Total		**76.00**	**(-)208.45**	**(-)1,326.32**	**(-)1,250.32**	**264.86**	**473.31**	**23.21**	**24.99**

It was seen that the net worth of six SPSEs[48] mentioned above continued to be negative for periods ranging between five and seven years. The gradual increase in the losses of above SPSEs over the years is a drain on the State's economy and resources.

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

5.9 Audit of State Public Sector Enterprises

CAG appoints the statutory auditors of a Government Company and Government Controlled Other Company under Section 139 (5) and (7) of the Companies Act, 2013. CAG has a right to conduct a supplementary audit and issue comments upon or supplement the Audit Report of the statutory auditor. Statutes governing some Corporations require that their accounts be audited by the CAG and a report be submitted to the Legislature.

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46 *As per the provisional Financial Statements of the SPSE for the year 2022-23.*

47 *Rupees seventy only.*

48 *Serial no. 2 and 5 (7 years), serial no. 1 and 4 (6 years) and serial no. 3 and 6 (5 years)*

5.10 Appointment of Statutory Auditors of State Public Sector Enterprises by CAG

Section 139 (5) of the Companies Act, 2013 provides that the Statutory Auditors in case of a *Government Company* or *Government Controlled Other Company* are to be appointed by the CAG within a period of 180 days from the commencement of the financial year.

5.11 Submission of accounts by State Public Sector Enterprises

5.11.1 Need for timely submission

According to Section 394 of the Companies Act, 2013, Annual Report on the working and affairs of a Government Company is to be prepared within three months of its Annual General Meeting[49] (AGM). As soon as may be after such preparation, the Annual Report must be laid before the Legislature, together with a copy of the Audit Report and comments of the CAG upon or as supplement to the Audit Report. Almost similar provisions exist in the respective Acts regulating Statutory Corporations. This mechanism provides the necessary Legislative control over the utilization of public funds invested in the Companies from the Consolidated Fund of State.

Section 96 of the Companies Act, 2013 requires every company to hold AGM of the shareholders once in every calendar year. It is also stated that not more than 15 months shall elapse between the date of one AGM and that of the next. Further, Section 129 of the Companies Act, 2013 stipulates that the audited Financial Statements for the financial year have to be placed in the said AGM for their consideration. Section 129(7) of the Companies Act, 2013 also provides for levy of penalty like fine and imprisonment on the persons including directors of the company responsible for non-compliance with the provision of Section 129 of the Companies Act, 2013.

The annual accounts of various SPSEs were pending as on 30 September 2023, as detailed in the following paragraph.

5.11.2 Timelines in preparation of accounts by Government companies

As of 31 March 2023, there were 13 Government companies[50] under the purview of CAG's audit. Of these, the accounts for the year 2022-23 were due from all 13 Government companies. However, only three companies submitted their accounts for the year 2022-23 for audit by CAG. As on 30 September, total 47 Accounts of 10 Government companies were in arrears, as detailed in ***Appendix 5.4*** for various reasons. Details of arrears in submission of accounts of Government companies are given in **Table 5.12.**

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[49] *In case of the first AGM , it shall be held within a period of nine months from the date of closing of the first financial year of the company and in any other case within a period of six months, form the date of closing of the financial year i.e., 30 September.*

[50] *Excluding four Statutory Corporations discussed in paragraph 5.11.3*

Table-5.12: Details of arrears in submission of accounts

Particulars		Number of Companies	Number of Accounts
Total number of Companies under the purview of CAG's audit as on 31.03.2023		13	--
Less: New Companies from which accounts for 2022-23 were not due		0	0
Number of companies from which accounts for 2022-23 were due		13	13
Number of companies which presented the accounts for the year 2022-23 for CAG's audit by 30 September 2023		03	03
Number of accounts in arrears		**10**	**47**
Break-up of Arrears	(i) Under Liquidation	0	0
	(ii) Defunct	0	0
	(iii) Others	10	47
Age-wise analysis of arrears against 'Others' category	One year (2022-23)	01	01
	Two years (2021-22 and 2022-23)	03	06
	Three years and more	06	40

Source: Complied on the basis of annual accounts received in the office of Accountant General (Audit), Sikkim

5.11.3 Timelines in preparation of accounts by Statutory Corporations

Audit of four[51] Statutory Corporations is conducted by the CAG, who is a supplementary auditor. None of the Statutory Corporations had submitted the Accounts for the year 2022-23 for audit before 30 September 2023. As on September 2023, total 11 Accounts of four Statutory Corporations were pending.

5.12 CAG's oversight –Audit of accounts and supplementary audit

5.12.1 Financial reporting framework

Companies are required to prepare the Financial Statements in the format laid down in Schedule III to the Companies Act, 2013 and in adherence to the mandatory Accounting Standards prescribed by the Central Government, in consultation with National Advisory Committee on Accounting Standards renamed as National Financial Reporting Authority[52]. The Statutory Corporations are required to prepare their accounts in the format prescribed under the rules framed in consultation with the CAG and any other specific provision relating to accounts in the Act governing such Corporations.

5.12.2 Audit of accounts of Government Companies by Statutory Auditors

The statutory auditors appointed by the CAG under Section 139 of the Companies Act, 2013, conduct audit of accounts of the Government Companies and submit their report thereon in accordance with Section 143 of the Companies Act, 2013.

The CAG plays an oversight role by monitoring the performance of the statutory auditors in audit of public sector enterprises with the overall objective that the statutory auditors discharges the functions assigned to them properly and effectively. This function is discharged by exercising the power to:

[51] *Serial no. B8, B9, C16 and C17 of Appendix 5.2*

[52] *Effective from 01 October 2018.*

- Issue directions to the statutory auditors under section 143 (5) of the Companies Act, 2013; and
- Supplement or comment upon the statutory auditor's report under Section 143 (6) of the Companies Act, 2013.

5.12.3 Supplementary Audit of accounts of Government Companies

The primary responsibility for preparation of Financial Statements in accordance with the financial reporting framework prescribed under the Companies Act, 2013 or other relevant Act is of the management of an entity.

The statutory auditors appointed by the CAG under section 139 of the Companies Act, 2013 are responsible for expressing an opinion on the Financial Statements under Section 143 of the Companies Act, 2013 based on an independent audit in accordance with the Standard Auditing Practices of Institute of Chartered Accountants of India and directions given by the CAG. The Statutory auditors are required to submit the Audit Report to the CAG under Section 143 of the Companies Act, 2013.

The certified accounts of selected Government Companies along with the report of the statutory auditors are reviewed by CAG by carrying out a supplementary audit. Based on such review, significant audit observation, if any, are reported under Section 143 (6) of the Companies Act, 2013 to be placed before the AGM.

5.13 Results of CAG's oversight role

5.13.1 Audit of accounts of SPSEs

Eight Financial Statements for the current (2022-23) and previous years were received from five[53] SPSEs from 01 October 2022 to 30 September 2023. All the eight Financial Statements of five SPSEs were reviewed in audit by the CAG. The results of the review are detailed below:

5.13.2 Amendment of Financial Statements

During 2022-23, there is no case of SPSEs amending their Financial Statements before laying the same in the Annual General Meeting (AGM) of the SPSE concerned.

5.13.3 Revision of Auditors Report

During 2022-23, there was no case of revision of Statutory Auditors' Report as a result of supplementary audit of the Financial Statements conducted by the CAG.

5.14 Conclusion

As on 31 March 2023, there were total 17 SPSEs (including four Statutory Corporations) in the State of Sikkim. Out of 17 SPSEs, there were no inactive (non-working) SPSEs. SPSEs did not adhere to the prescribed timeline regarding submission of their Financial Statements except for three SPSEs (Sikkim Urja Limited, Sikkim Power Transmission Limited and Sikkim Industrial Development and Investment Corporation Limited). There were total 58 Accounts of 14 SPSEs in arrears as on 30 September 2023, which

[53] *SPSEs at serial no. A1, A2, C11, C16 and C17 of* ***Appendix 5.***

included 47 Accounts of 10 Government companies and 11 Accounts of 4 Statutory Corporations.

Out of the total profit of ₹ 1,384.13 crore earned by 11 SPSEs, 99.02 *per cent* was contributed by three SPSEs. Further, out of total loss of ₹ 212.45 crore incurred by six SPSEs, loss of ₹ 210.69 crore (99.17 *per cent*) was incurred by one SPSEs (Sikkim Power Investment Corporation Limited). Out of 11 SPSEs which earned profits as per the latest finalized accounts, only one SPSE (State Bank of Sikkim) declared dividend. Remaining 10 SPSEs, which earned aggregate profits of ₹ 1,347.09 crore did not declare any dividend.

5.15 Recommendations

- *State Government may impress upon the Managements of SPSEs to ensure timely submission of their Financial Statements. As many as 58 accounts of 14 SPSEs were in arrears. In the absence of finalised accounts, Government investment in such SPSEs remain outside the oversight of the State Legislature.*
- *State Government may analyze the reason of losses in those SPSEs whose net worth has been eroded and initiate steps to make their operations efficient and profitable.*

(NARMADHA R.)
Accountant General (Audit), Sikkim

Gangtok
The 03 June 2024

Countersigned

(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India

New Delhi
The 12 June 2024