

Chapter I

Summary of Financial Performance of Public Sector Enterprises

1.1 Introduction

1.1.1 Purpose of Report

This Chapter presents the summary of financial performance of Government companies, Statutory corporations and Government controlled other companies. In the Report, the term Public Sector Enterprises (PSEs) encompasses those companies in which the direct holding of the State Government is 51 *per cent* or more and subsidiaries of such Government companies. The Statutory corporations set up under statutes enacted by the Legislature and other companies owned or controlled, directly or indirectly by the State Government have also been categorised as PSEs.

1.1.2 Definition of Government Companies

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

Government company

Any company in which not less than 51 per cent of paid-up share capital is held by Central Government or by one or more State Governments or partly by Central Government and partly by State Government(s) and includes subsidiary of a Government company.

Besides, any other company¹ owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments is referred to in this Report as Government controlled other company.

1.1.3 Mandate of Audit

Audit of Government companies and Government controlled other companies is conducted by the CAG 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

¹ Companies (Removal of Difficulties) Seventh Order, 2014 issued by Ministry of Corporate Affairs vide Gazette Notification dated 04 September 2014.

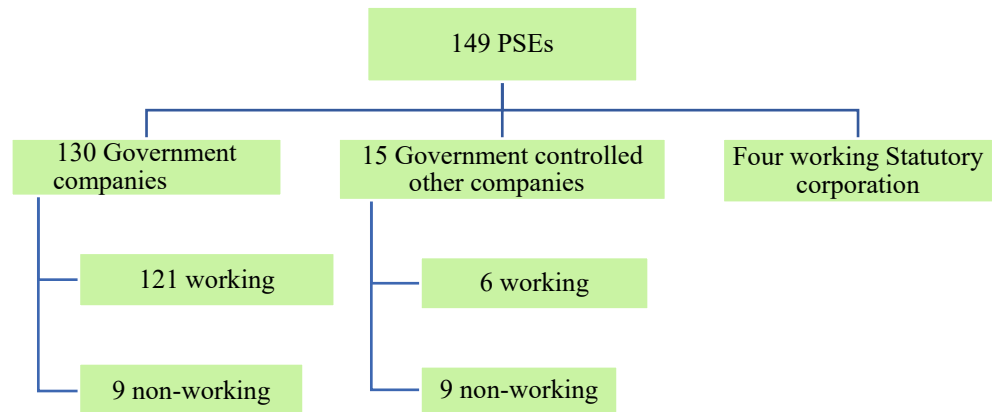
Conditions of Service) Act, 1971 and the Regulations made thereunder. Under the Companies Act, 2013, the CAG appoints Chartered Accountants as Statutory Auditors for companies and gives directions on the manner in which the accounts are to be audited. In addition, CAG has the right to conduct a supplementary audit. The statutes governing the Statutory corporation require that its accounts be either audited or the audit report of statutory auditors be supplemented by the CAG.

1.1.4 Number of PSEs

As on 31 March 2023, there were 149 PSEs in Kerala under the audit jurisdiction of the CAG, out of which 130 are Government companies, 15 Government controlled other companies and four Statutory corporations. Out of 130 Government companies and 15 Government controlled other companies, 127 are working and the remaining 18 are non-working. All the four Statutory corporations are working. No PSEs were listed in Stock Exchanges. However, this report does not cover departmentally managed commercial undertakings.

The PSEs under audit jurisdiction is shown in **Chart 1.1** below.

Chart 1.1: PSEs under audit jurisdiction



During 2022-23, two more PSEs² came under the purview of CAG's audit. This Chapter contains analysis of working results of 131 working PSEs (127 working companies and four Statutory corporations) as indicated in **Table 1.1**. The details of the administrative departments as well as the number of PSEs under respective departments are mentioned in *Appendix 1*.

The nature and coverage of the PSEs is indicated in **Table 1.1**.

² KSRTC-SWIFT Limited and KIIFCON Private Limited.

Table 1.1: Nature and coverage of PSEs

Nature of PSE	Total Number of PSEs	Number of PSEs covered						Number of PSEs not covered
		Accounts finalised upto					Total	
		2019-20	2020-21	2021-22	2022-23	First accounts not finalised		
Government companies	130	35	29	40	14	3	121	9 ³
Statutory corporations	4	1	0	2	1	0	4	0
Government controlled other companies	15	0	0	5	1	0	6	9 ⁴
Total	149	36	29	47	16	3	131	18

(Source: Compiled based on the accounts received from PSEs.)

From Table 1.1, it can be seen that out of 131 working PSEs, three Government companies are yet to finalise their first accounts. The arrears in submission of accounts of these three PSEs⁵ was two years. Non-finalisation and non-submission of accounts on time is a sign of absence of internal control and exposes the companies to the risk of financial fraud. This has been discussed in detail in **Para 2.3.2.1** in “**Arrears in submission of accounts.**”

Of these, summary of financial performance of 131 PSEs is covered in this Report excluding 18 non-working PSEs which were defunct/ under various stages of liquidation. The status of these 18 non-working PSEs is tabulated below:

Table 1.2: Status of PSEs under liquidation

Particulars	Number of PSEs	Period of liquidation/ closure/defunct
Under liquidation by court	5	August 1990- July 2006
Liquidation not yet started though Government issued closure letter	4	March 1996- January 2017
Defunct Companies and Government is yet to issue closure letter	9	1986-87 to 2018-19

It could be seen from the above table that the winding up process of non-working companies is pending since 1986-87.

³ Nine non-working Government companies.

⁴ Nine non-working Government controlled other companies.

⁵ Sports Kerala Foundation, KEL Electrical Machines Limited and KSRTC-SWIFT Limited.

The financial position and working results of 131 working PSEs as per their finalised accounts as on 30 September 2023⁶ are detailed in **Appendix 2**. The Summary of financial performance of PSEs covered in this report is indicated in **Table 1.3**:

Table 1.3: Summary of financial performance of PSEs

Particulars	Number	Amount (₹ in crore)
Number of Government companies, Government controlled other companies and Statutory corporations	149	
PSEs selected for this Report	131 ⁷	
Paid up capital of PSEs	131	10,889.88
Long term loans of PSEs	73	53,717.35
Net profit of PSEs	58	1,368.72
Net loss of PSEs	66	1,873.89
PSEs with zero profit/ loss	4	
PSEs which declared/ paid dividend	7	35.83
Total assets of PSEs	131	1,36,947.41
Value of production of PSEs	106	38,781.41

(Source: Latest finalised accounts of PSEs)

1.1.5 Contribution of the PSEs to the GSDP of the State

A ratio of turnover of the Government companies, Government controlled other companies and Statutory corporations to the GSDP⁸ shows the extent of their activities in the State economy. The details of turnover and the GSDP for a period of three years ended 31 March 2023 are given in **Table 1.4**.

Table 1.4: Turnover of Government companies, Government controlled other companies and Statutory corporations vis-a-vis GSDP of Kerala

Particulars	(₹ in crore)		
	2020-21	2021-22	2022-23
Turnover	34,769.57	35,767.90	38,781.41
GSDP	7,71,724	9,34,542	10,46,188
Percentage of Turnover to GSDP	4.51	3.83	3.71

(Source: Latest finalised accounts PSEs and GSDP figures as per State Finance Audit Report)

It may be seen from the table above, that though the turnover of the PSEs grew from ₹34,769.57 crore in 2020-21 to ₹38,781.41 crore in 2022-23, the growth was not in pace with the increase in GSDP which increased from ₹7,71,724 crore to ₹10,46,188 crore in the corresponding period. Consequently, the percentage of turnover to GSDP declined from 4.51 to 3.71 per cent.

The growth rate of GSDP showed an increase of 11.95 per cent during 2022-23 as compared to 2021-22, however, the aggregate turnover of Government companies, Government controlled other companies and Statutory corporations

⁶ The figures from the latest available accounts have been considered in this Report for the purpose of arriving at working results. For instance, latest accounts finalised between October 2022 to September 2023 were considered for the period 2022-23.

⁷ 18 non-working PSEs are excluded.

⁸ Gross State Domestic Product.

increased by 8.43 *per cent* during the same period. As increase in GSDP was higher when compared to the corresponding increase in share of turnover of PSEs, the percentage of turnover to GSDP declined from 3.83 *per cent* in 2021-22 to 3.71 *per cent* in 2022-23.

1.2 Investment in Government companies and Statutory corporations

The amount of equity and loans in 131 Government companies, Government controlled other companies and Statutory corporations for the two years ending as on 31 March 2023 is given in **Table 1.5**.

Table 1.5: Equity and loans in Government companies, Government controlled other companies and Statutory corporations

(₹ in crore)

Source of investment	As on 31/03/2022			As on 31/03/2023		
	Equity	Long term loan	Total	Equity	Long term loan	Total
State Government	9,817.46	10,621.58	20,439.04	10,015.46	12,302.63	22,318.09
Central Government	158.09	1.11	159.20	163.07	1.31	164.38
State Government companies/Holding companies/ Financial Institutions and others	971.92	33,803.65	34,775.57	987.46	32,404.54	33,392.00
Total investment	10,947.47	44,426.34	55,373.81	11,165.99	44,708.48	55,874.47
Percentage of investment of State Government to total investment	89.68	23.91	36.91	89.70	27.52	39.94

(Source: Details received from PSEs)

1.2 (a) Equity holding

During 2022-23, the total equity holding in the working PSEs covered in this Report, comprised ₹10,015.46 crore invested by State Government, ₹163.07 crore by Central Government and ₹987.46 crore by State Government companies/Holding companies and financial institutions. There was equity infusion of ₹492.64 crore in 27 PSEs, out of which ₹308.28 crore was through budgetary provisions of State Government.

1.2 (b) Loans given to PSEs

During 2022-23, 56 PSEs had State Government loans outstanding of ₹12,302.63 crore as against ₹10,621.58 crore in 53 PSEs during 2021-22. The State Government had given fresh loans of ₹1,696.58 crore to 25 PSEs during the above period. No loan amount advanced by the State Government to the PSEs was converted into equity in 2022-23 except ₹15.31 crore advanced to Handicrafts Development Corporation of Kerala Limited.

The details of investment made in 131 working and 18 non-working PSEs, in the form of equity and long term loans up to 31 March 2023 are detailed in **Appendix 3**.

The details of budgetary support to PSEs by State Government towards equity, loans and grants/subsidies for the period from 2020-21 to 2022-23 are shown in **Table 1.6**.

Table 1.6: Details regarding budgetary support to PSEs by State Government

(₹ in crore)

Sl. No.	Particulars	2020-21		2021-22		2022-23	
		No. of PSEs	Amount	No. of PSEs	Amount	No. of PSEs	Amount
1	Equity Capital	20	215.52	16	119.54	17	308.28
2	Loans given	32	2,362.18	30	2,202.65	21	1,553.24
3	Grants/subsidy provided	37	13,514.25	32	7,471.87	32	11,422.72
	Total		16,091.95		9,794.06		13,284.24
4	Waiver of loans and interest	0	0	0	0	0	0
5	Guarantees issued	18	22,244.31	17	5,270.36	19	32,604.93
6	Guarantee commitment	20	19,099.32	18	5,009.78	18	29,654.51

(Source: Compiled based on information received from PSEs)

1.2.1 Reconciliation with Finance Accounts of Government of Kerala

The balances in respect of equity, loans and guarantees as per the records of State PSEs should agree with that of the figures appearing in the Finance Accounts of the Government of Kerala. In case the figures do not agree, the PSEs concerned, and the Finance Department should carry out reconciliation of the differences. In this regard, the position of 105 PSEs as on 31 March 2023 is shown in **Table 1.7**:

Table 1.7: Equity, loans and guarantees as per Finance Accounts of GoK vis-a-vis records of State PSEs

(₹ in crore)

Sl. No.	Particulars	Amount as per Finance Accounts	Amount as per records of PSEs	PSE accounts exceed the figures in Finance Accounts	PSE accounts fall short of the figures in Finance Accounts
1	Equity	7,153.56	9,879.22	4,503.66	1,778.00
2	Loans	16,208.17	12,225.20	36.37	4,019.34
3	Guarantees	24,847.41	32,683.02	10,983.95	3,148.34

(Source: Compiled based on information received from PSEs and Finance Accounts)

The differences between figures as per Finance Accounts and figures as per records of PSEs in 105 out of 131 State PSEs is shown in **Appendix 4**. Such differences are persisting for many years. The details of difference (PSE wise) were brought to the notice (July 2023) of Chief Secretary as well as Additional Chief Secretary, Finance Department, Government of Kerala. The Government should take steps for time bound reconciliation to avoid inaccurate financial reporting which will undermine the financial accountability and transparency of both the Government Accounts and the records of PSEs in terms of equity, loans and guarantees.

1.2.2 Adequacy of assets to meet loan liabilities

Ratio of total debt to total assets is one of the methods used to determine whether a company can stay solvent. To be considered solvent, the value of an entity's assets must be greater than the sum of its loans/debts *i.e.*, ideally, the Debt Asset ratio should be less than one. The coverage of long term loans by value of total assets in 73 PSEs which had outstanding loans as on 31 March 2023 is given in **Table 1.8**.

Table 1.8: Coverage of long term loans with total assets

Particulars	PSEs having Debt Asset ratio < 1				PSEs having Debt Asset ratio > 1			
	No. of PSEs	Long term loans	Assets	Ratio of debts to assets	No. of PSEs	Long term loans	Assets	Ratio of debts to assets
		(₹ in crore)				(₹ in crore)		
Government companies ⁹	61	41,299.01	1,13,433.93	0.36	8	219.26	79.56	2.75
Statutory corporations	3	8,107.71	13,502.45	0.60	1	4,091.37	1,420.42	2.88
Total	64	49,406.72	1,26,936.38		9	4,310.63	1,499.98	

(Source: Details received from PSEs and latest finalised account of PSEs)

It may be seen from the above table that Debt Asset ratio in respect of 64 PSEs (including three Statutory corporations) was less than one indicating that these PSEs are solvent. However, in respect of nine PSEs, the Debt Asset ratio was more than one which indicated that they may have difficulty to meet financial obligations as the value of total assets of these PSEs was less than the loans outstanding as shown in *Appendix 5*.

1.2.3 Interest Coverage

Interest coverage ratio (ICR) is used to determine the ability of a company to pay interest on debt outstanding 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 is the ability of the company to pay interest on debt. An ICR below one indicates that the company is not generating sufficient revenue to meet its expenses on interest. The details of positive and negative interest coverage ratio of 67 PSEs, which had interest expenses for long term/ short term loans/ cash credit/ overdraft *etc.*, for the period 2022-23 are given in **Table 1.9**.

⁹ Including five Government controlled other companies.

Table 1.9: Interest Coverage Ratio

Particulars	PSEs having Interest Coverage Ratio <1			PSEs having Interest Coverage Ratio ≥1		
	No of PSEs	Interest	Earnings before interest and tax	No of PSEs	Interest	Earnings before interest and tax
Government companies ¹⁰	34	356.19	(-307.57)	30	3,349.96	4,836.30
Statutory corporations	1	495.73	(-511.45)	2	372.38	460.49
Total	35	851.92	(-819.02)	32	3,722.34	5,296.79

(Source: As per the latest finalised accounts of PSEs)

It was observed that 32 PSEs (including two Statutory corporations) having interest liability had ICR equal to or more than one indicating that sufficient revenues were available to meet the interest liability. Similarly, 35 PSEs (including one Statutory corporation) had ICR less than one indicating that these PSEs could not generate adequate income to pay off their interest liability.

1.2.4 Age-wise analysis of interest outstanding on State Government loans

As on 31 March 2023, interest amounting to ₹1,375.59 crore from 36 PSEs¹¹ was outstanding on long term loans provided by State Government. Out of this, interest amounting to ₹133.00 crore was outstanding for less than one year, ₹309.01 crore was outstanding between one to three years and ₹933.58 crore was outstanding for more than three years as shown in *Appendix 6*.

1.2.5 Investment in Government controlled other companies

The capital invested by the State Government and by companies controlled by them in six working Government controlled other companies was ₹60.41 crore as depicted in **Table 1.10/ Chart 1.2**.

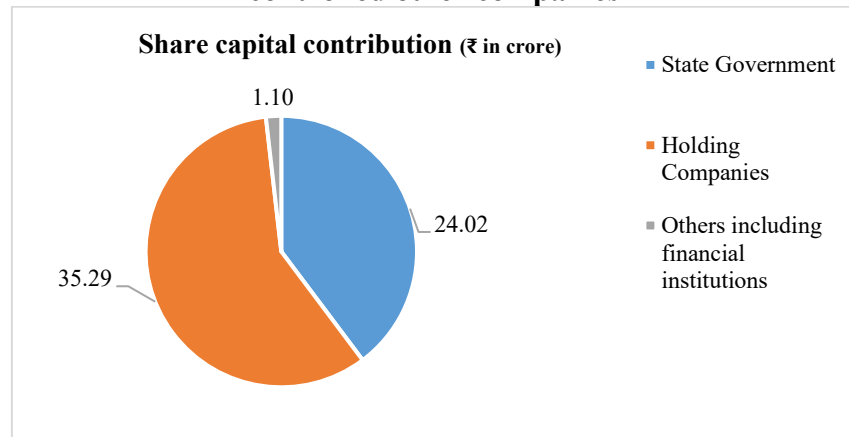
Table 1.10: Composition of share capital in Government controlled other companies

Number of Government controlled other companies	Share capital contribution (₹ in crore)				Total
	State Government	Central Government	Holding Companies	Others including financial institutions	
6	24.02	0	35.29	1.10	60.41

(Source: Details received from PSEs)

¹⁰ Including three Government controlled other companies.

¹¹ Data compiled from the details provided by the PSEs.

Chart 1.2: Share capital contribution in Government controlled other companies

1.3 Return from Government companies, Government controlled other companies and Statutory corporations

1.3.1 Profit earned by working Government companies, Government controlled other companies and Statutory corporations

Out of 131 working PSEs, 16 PSEs submitted their accounts for the year 2022-23. Out of the 16 only 10 PSEs¹² reported aggregate profit of ₹276.73 crore. As per the latest finalised accounts submitted till 30 September 2023, 58 PSEs (including the aforementioned 10 PSEs) earned profit of ₹1,368.72 crore. Whereas for the period ended 30 September 2022, there were 55 PSEs which earned a profit of ₹654.99 crore. Three PSEs¹³ which incurred loss in their respective previous years earned profit as per their latest finalised accounts made available in 2022-23. Likewise, six PSEs which earned profit in their respective previous years suffered loss as per their latest finalised accounts submitted till September 2023 (*Appendix 7*).

The Return on Equity (ROE) of these 58 PSEs mentioned above (including the three Statutory corporations) was 32.37 per cent as compared to 10.32 per cent in 55 PSEs during 2021-22. The increase in the ROE was due to increase in the profit of PSEs from ₹654.99 crore to ₹1,368.72 crore.

ROE in all the 128 PSEs (*i.e.*, excluding three working PSEs which have not submitted their first accounts) *i.e.*, including 58 profit earning, 66 loss making, and four zero profit/loss companies was negative as the overall net income and shareholders' fund of these PSEs was negative during 2022-23.

¹² Malabar Distilleries Limited, Norka Roots, KIIFCON Private limited, KINESCO Power and Utilities Private Limited, Kerala Financial Corporation, Kerala State Industrial Development Corporation Limited, The Travancore-Cochin Chemicals Limited, Steel and Industrial Forgings Limited, Kerala Lifescience Industries Parks Private Limited and The Kerala Minerals and Metals Limited.

¹³ Kerala Forest Development Corporation Limited, Oil Palm India Limited and Kerala State Electricity Board Limited.

The list of PSEs which earned profit of more than ₹100 crore is given in **Table 1.11**.

Table 1.11: Top two PSEs which contributed maximum profit

Sector	Name of PSE	Period of Accounts	Net profit after Interest and Tax (₹ in crore)	Percentage of profit to total PSE profit
Power	Kerala State Electricity Board Limited	2021-22	736.27	53.79
Finance	The Kerala State Financial Enterprises Limited	2021-22	105.49	7.71
Total			841.76	61.50

(Source: As per the latest finalised accounts of PSEs)

Net profit of ₹841.76 crore constituting 61.50 per cent of total profit (₹1,368.72 crore) of PSEs was contributed by these two PSEs.

1.3.2 Loss incurred by PSEs

Out of the 16 PSEs which submitted the accounts for 2022-23, six PSEs¹⁴ incurred loss of ₹38.67 crore. As per the latest finalised accounts submitted till 30 September 2023, 66 PSEs (including one Statutory corporation) incurred loss of ₹1,873.89 crore when compared to ₹4,065.38 crore loss incurred by 63 PSEs which submitted the accounts till 30 September 2022.

The loss incurred by these PSEs decreased to ₹1,873.89 crore from ₹4,065.38 crore as given in **Table 1.12**.

Table 1.12: Number of PSEs that incurred loss

(₹ in crore)

Year ¹⁵	No. of PSEs incurred loss	Net Loss for the year	Accumulated loss	Net worth
2020-21	68	4,496.12	16,651.62	(-) 9,058.15
2021-22	63	4,065.38	8,047.00	(-)10,412.90
2022-23	66	1,873.89	10,834.15	(-)6,378.68

(Source: As per latest finalised accounts of PSEs)

Out of total loss of ₹1,873.89 crore incurred by 66 PSEs, loss of ₹1,327.06 crore was incurred by two PSEs (including one Statutory corporation). **Table 1.13** shows those PSEs which incurred a loss of more than ₹100 crore during the year 2022-23.

¹⁴ The Kerala Ceramics Limited, The State Farming Corporation of Kerala Limited, Handicrafts Development Corporation of Kerala Limited, Kochi Water Metro Limited, KCCP Limited and Vazhakulam Agro and Fruit Processing Company Limited.

¹⁵ The figures from the last available accounts have been considered in this Report for the purpose of arriving at working results.

Table 1.13: PSEs that incurred loss of more than ₹100 crore

Sl. No.	Name of Company/Corporation	Period of Accounts	Net Loss after tax and interest (₹ in crore)
1	Kerala State Road Transport Corporation	2015-16	1,007.18
2	The Kerala State Civil Supplies Corporation Limited	2017-18	106.81

(Source: As per latest finalised accounts of respective PSEs)

1.3.3 Erosion of capital in PSEs

As per their latest finalised accounts submitted till 30 September 2023, out of the 131 working PSEs, 77 had accumulated losses aggregating to ₹18,026.49 crore.

Net worth of 44 out of these 77 PSEs had been completely eroded by accumulated losses and their net worth was negative. The net worth of these 44 PSEs was (-)₹11,227.04 crore against equity investment of ₹5,954.33 crore. Out of 44 PSEs, whose capital had been eroded, 40 PSEs reported loss of ₹1,684.48 crore and three PSEs reported a profit of ₹736.97 crore and one PSE (Vizhinjam International Sea Port Limited) reported no profit/ loss as per their latest accounts.

The consolidated net worth of the 131 working PSEs was negative at ₹2,098.34 crore against their paid up capital of ₹10,889.88 crore.

A review of financial statements received during 2017-18 to 2022-23 from 44 PSEs with negative net worth revealed that 19 PSEs had negative net worth for periods ranging from one to 13 years. Two recently formed PSEs reported negative net worth right from the commencement of their operations. The remaining 23 PSEs had continuous negative net worth throughout the review period. The detailed list of PSEs having negative net worth as per their latest finalised accounts is shown in **Appendix 8**. Net worth was less than half of their paid-up capital in respect of aforesaid 44 out of 77 PSEs with accumulated loss, indicating their potential financial sickness.

1.3.4 Dividend payout by PSEs

The details of profit earned, and dividend declared by Government companies and Statutory corporation are given in the **Table 1.14**:

Table 1.14: Profit earned and dividend declared

(₹ in crore)

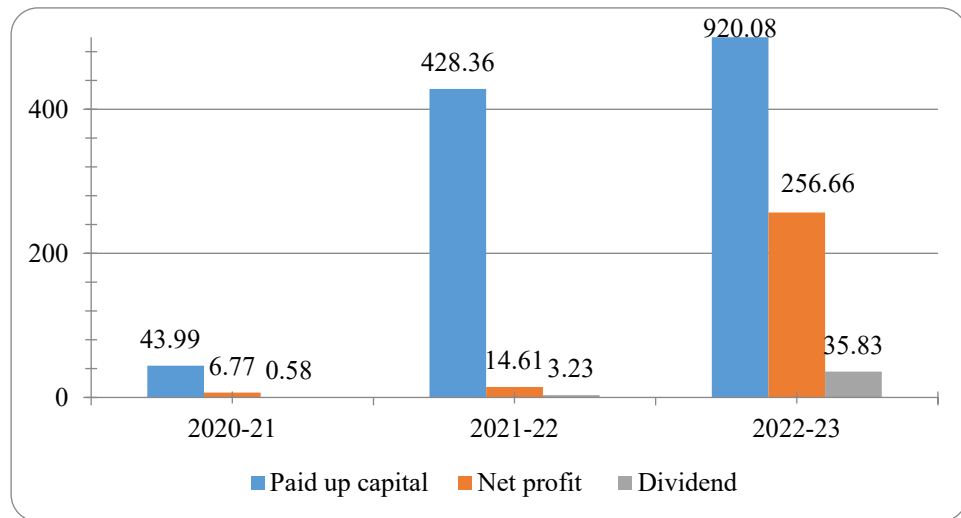
Particulars	No. of PSEs	Paid up capital	Net profit	Dividend declared
Government company ¹⁶	6	293.58	206.47	14.50
Statutory corporation ¹⁷	1	626.50	50.19	21.33
Total	7	920.08	256.66	35.83

(Source: As per latest finalised accounts of PSEs)

Out of 131 working PSEs, seven PSEs (including one Statutory corporation) declared a dividend of ₹35.83 crore as per their latest finalised accounts as against ₹3.23 crore by three PSEs in 2021-22. The dividend declared as a percentage of net profit of these PSEs decreased from 22.11 *per cent* in 2021-22 to 13.96 *per cent* in 2022-23. **Chart 1.3** depicts the dividend declared *vis-a-vis* net profit earned and paid up capital of PSEs which declared dividend during the last three years.

Chart 1.3 : Details of dividend declared, net profit earned and paid up capital

(₹ in crore)



The return in the form of dividend on aggregate investment of ₹6,322.26 crore made by the State Government in equity capital of 58 profit earning PSEs was 0.57 *per cent* in 2022-23 as compared to 0.06 *per cent* in 2021-22.

The State Government had formulated (December 1998) a dividend policy where in all PSEs which make profit were directed that a minimum dividend of 20 *per cent* on the paid up share capital is declared every year without fail. In case sufficient allocable surplus is not available to declare dividend at the above

¹⁶ The Pharmaceutical Corporation (Indian Medicines) Kerala Limited (2021-22), Oil Palm India Limited (2021-22), Kerala Tourism Infrastructure Limited (2020-21), The Kerala State Women's Development Corporation (2021-22), The Kerala State Backward Classes Development Corporation Limited (2021-22) and The Kerala Minerals and Metals Limited (2022-23).

¹⁷ Kerala Financial Corporation (2022-23).

rate, a dividend at lower rate utilising at least 30 *per cent* of such allocable surplus should be declared. However, 55 PSEs (including two Statutory corporations-Kerala State Warehousing Corporation and Kerala Industrial Infrastructure Development Corporation) which earned profit did not declare dividend or declared lesser than the amount prescribed by the Government as given in *Appendix 9*. The total shortfall on this account was ₹873.18 crore.

1.4 Operating efficiency of PSEs

1.4.1 Value of production

The summary indicating value of production, total assets and sum of capital employed¹⁸ in respect of working PSEs over a period of three years is given in the **Table 1.15**.

Table 1.15: Value of Production, Assets and Capital Employed of working PSEs
(₹ in crore)

Year	Number of PSEs	Value of Production	Total Assets	Sum of Capital Employed
2020-21	126	34,769.57	97,571.96	26,411.34
2021-22	131	35,767.90	1,14,454.86	29,336.30
2022-23	131	38,781.41	1,36,947.41	51,619.01

(Source: As per latest finalised accounts of PSEs)

During the year 2022-23, the value of production had increased to ₹38,781.41 crore from ₹34,769.57 crore during 2020-21. Similarly, the total assets and capital employed showed an increasing trend in all the three years.

1.4.2 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. The PSE-wise details of ROCE are given in *Appendix 10*. The consolidated ROCE of PSEs during the period 2020-21 to 2022-23 is given in **Table 1.16**.

Table 1.16: Return on Capital Employed

(₹ in crore)

Year	Number of PSEs	EBIT	Capital employed	ROCE (in percentage)
2020-21	126	(-)862.32	26,411.34	(-)3.26
2021-22	131 ¹⁹	(-)14.98	29,336.30	(-)0.05
2022-23	131 ²⁰	4,487.81	51,619.01	8.70

(Source: As per latest finalised accounts of PSEs)

The EBIT and ROCE of 126 PSEs and 131 PSEs were negative in 2020-21 and 2021-22, respectively. However, the same turned positive in 2022-23 as compared to earlier years.

¹⁸ Capital employed = Paid up capital + Free reserves and surplus + Long Term loans - Accumulated losses - Deferred Revenue Expenditure.

¹⁹ Excluding nine PSEs which had not finalised their first accounts.

²⁰ Excluding three PSEs which had not finalised their first accounts.

1.4.3 Return on Equity of PSEs

Return on Equity²¹ (ROE) is a measure of financial performance of companies calculated by dividing net income by shareholders' equity²². It is expressed as a percentage and can be calculated for any company if net income and shareholders' fund are both positive numbers.

The consolidated ROE of PSEs for the period from 2020-21 to 2022-23 is given in **Table 1.17**.

Table 1.17: Return on Equity

Year	Number of PSEs	Net Profit after tax and preference dividend	Shareholder's Equity	(₹ in crore)
				ROE (in percentage)
2020-21	126	(-)4,035.68	(-)3,290.51	-
2021-22	131 ²³	(-)3,410.39	(-)3,968.29	-
2022-23	131 ²⁴	(-)505.17	(-)2,098.34	-

(Source: As per latest finalised accounts of PSEs)

It can be observed from the table above that for the three years ended 2022-23, both the net profit after tax and the shareholders' equity were negative. Hence, the consolidated ROE could not be worked out for these periods. Negative shareholders' equity indicates that the liabilities of these PSEs have exceeded their assets.

The PSE-wise details of Return on Equity are given in **Appendix 11**.

Sector-wise ROE of PSEs for the three years ended 2022-23 is depicted in **Table 1.18**.

Table 1.18: Sector-wise ROE of PSEs

Sl. No.	Sector	No. of PSEs	ROE in percentage		
			2020-21	2021-22	2022-23
1	Agriculture and Allied	17	(-)8.70	(-)5.00	(-)15.31
2	Finance	12	(-)7.19	(-)6.82	6.51
3	Infrastructure	20	2.30	1.10	7.22
4	Manufacturing	43	*	*	*
5	Power	02	*	*	*
6	Service	37	*	*	*

(Source: As per latest finalised accounts of PSEs)

*The net income and shareholder's equity were negative and hence, ROE was not worked out.

Sector-wise analysis indicated that the PSEs in Infrastructure sector reported positive ROE in all the three years. PSEs in Finance sector reported positive ROE in 2022-23, but reported negative ROE in previous years.

1.4.4 Rate of Real Return on Government Investment

Rate of Real Return on Government Investment (RORR) measures the profitability and efficiency with which equity and similar non-interest bearing

²¹ Return on Equity= (Net profit after tax and preference Dividend/Equity)*100 where Equity = Paid up capital + Free Reserves – Accumulated Loss – Deferred Revenue Expenditure.

²² Paid up capital+free reserves+accumulated profit/(loss).

²³ Excluding nine PSEs which had not finalised their first accounts.

²⁴ Excluding three PSEs which had not finalised their first accounts.

capital have been employed, after adjusting them for their time value, and assumes significance when compared with the conventional Rate of Return (ROR), which is calculated by dividing the Profit After Tax (PAT) by the sum of all such investments counted on historical cost basis.

Out of 131 working PSEs, the State Government had direct investment in 121 PSEs during 2022-23. Audit examined the RORR in these PSEs having State Government investment as detailed in **Table 1.19**.

Table 1.19 : Year-wise details of investment by State Government and Rate of Real Return from 2017-18 to 2022-23

(₹ in crore)

Year	Present value of total investment of State Government at the beginning of the year	Equity infused by the State Government during the year	Interest free loan given by the State Government during the year	Total investment during the year	Average interest rate of Government borrowings	Total investment at the end of the year	Present value of total investment at the end of the year	Minimum expected return to recover cost of funds for the year	Total earnings after tax	RORR in present value (in percentage)	RORR in historical value (in percentage)
i	ii	iii	iv	v=iii+iv	vi	vii=ii+v	viii=vii*(1+vi)/100	ix=vii*vi/100	x	xi=(x)/(viii)*100	xii=(x)/(vii)*100
2017-18	8,153.60	243.65	261.10	504.75	7.48	8,658.35	9,305.99	696.09	(-)1,799.80	(-)19.34	(-)20.79
2018-19	9,305.99	842.62	70.78	913.40	7.34	10,219.39	10,969.50	805.16	(-)3,081.21	(-)28.09	(-)30.15
2019-20	10,969.50	(-)133.98	55.12	-78.86	7.58	10,890.64	11,716.15	888.08	(-)2,138.92	(-)18.26	(-)19.64
2020-21	11,716.15	325.06	48.99	374.05	7.31	12,090.20	12,973.99	948.40	(-)4,044.06	(-)31.17	(-)33.45
2021-22	12,973.99	386.52	10.43	396.95	7.00	13,370.94	14,306.91	1,001.48	(-)3,411.69	(-)23.85	(-)25.52
2022-23	14,306.91	198.00	24.50	222.50	6.78	14,529.41	15,514.50	1,051.88	(-)505.17	(-)3.26	(-)3.48
Total	67,426.14	1,861.87	470.92	2,332.79		69,758.93	74,787.04	5,391.09			

(Source: As per details received from PSEs and latest finalised accounts of PSEs)

During 2017-18 to 2022-23, the total earning after tax was negative in all the years and thus, the RORR was also negative. The total earnings after tax by all the PSEs was below the minimum expected return to recover the cost of funds infused in these PSEs. As per their latest finalised accounts, the PSEs reported a total loss of ₹505.17 crore against the minimum expected return of ₹1,051.88 crore. Out of the total loss, bulk of the loss has been incurred by Kerala State Road Transport Corporation (₹1,007.18 crore).

The RORR of Government investment at present value as well as historical cost was negative during 2022-23 and ranged between (-)3.26 per cent and (-) 31.17 per cent and (-)3.48 per cent to (-)33.45 per cent respectively during 2017-18 to 2022-23.

1.4.5 Sales and Marketing

As on 30 September 2023, only 78 out of 131 working PSEs had furnished the details of total sales for the period from 2020-21 to 2022-23. It was observed that the sales value increased from ₹33,718.42 crore in 2020-21 to ₹44,525.11

crore during 2022-23. During 2022-23, 44 PSEs sold goods/rendered services worth ₹4,453.36 crore to Government sector representing 3.55 per cent of the total sales. The details of total sales, sales to Government sector/PSEs and exports are given in **Table 1.20**.

Table 1.20 : Sales details of PSEs

(₹ in crore)

Year	Total sales		Sales to Government/ PSEs			Export Sales
	Number of PSEs	Sales value	Number of PSEs	Sales value	Percentage of sales to Government/ PSEs	
2020-21	78	33,718.42	42	1,581.57	4.69	87.23
2021-22	76	37,933.67	42	3,631.05	9.57	113.66
2022-23	78	44,525.11	44	4,453.36	10.00	118.30

(Source: Details received from PSEs)

The total sales of ₹44,525.11 crore made by 78 PSEs includes export sales of ₹118.30 crore in 2022-23 made by 14 PSEs.

1.5 Disinvestment

No disinvestment of PSEs has taken place during 2022-23.

1.6 Reply of Government

The Government replied (July 2024) that issues pointed out in the Report are under due consideration of the Government and necessary instructions/directions would be issued to Departments and PSEs to expedite action to settle the issues and adhere to the provision of necessary Act and Statutes in a timely manner.

1.7 Conclusion

Analysis revealed that 77 out of 131 working PSEs had an aggregate accumulated loss of ₹18,026.49 crore and of these 77 PSEs, the net worth of 44 PSEs had been completely eroded by accumulated loss and their net worth was negative. The net worth of these 44 PSEs was (-)₹11,227.04 crore against equity investment of ₹5,954.33 crore. Return on Equity in all the 128 PSEs (including 58 profit earning, 66 loss making and four zero profit/loss companies and excluding three working PSEs which have not submitted their first accounts) was negative as the overall net income of these PSEs was negative during 2022-23. In 105 out of 131 State PSEs, differences between figures as per Finance Accounts and figures as per records of PSEs occurred. Such differences are persisting for many years.

1.8 Recommendations:

- 1. There are 149 SPSEs in Kerala, out of which eighteen are non-working. These companies are either defunct or at various stages of liquidation since 1986-87. Given the prolonged delay, the Government may speed up the process of winding up the defunct SPSEs, to avoid further strain on public finances.*
- 2. The Government needs to evaluate the business models of loss making SPSEs to address the underlying cause of their financial losses. If the business model is not sustainable, Government may review and consider shutting down/divesting its stake in such companies, especially in those whose net worth has been completely eroded.*
- 3. The differences in equity, loans and guarantees between the PSEs and the Government of Kerala, which are lying unattended for a long time should be reconciled in a time-bound manner.*