

CHAPTER 1 GOVERNMENT INVESTMENTS, LOANS & LIABILITIES

1.1 Introductory

1.1.1 The accounts of Government Companies, General Insurance Companies and Deemed Government Companies are test checked and subjected to supplementary audit by the officers of the Comptroller and Auditor General of India (CAG) subsequent to the audit by the Statutory Auditors (Chartered Accountants appointed by the CAG). Some of the Statutory Corporations are either audited by the CAG as Sole Auditor or by the Chartered Accountants appointed as primary auditors. In the case of Corporations, the statutes under which these are set up invariably provide for supplementary audit by the CAG.

1.1.2 As on 31 March 2005, 388 Government Companies/Corporations were under the audit jurisdiction of the Comptroller and Auditor General of India. These included 288 Government Companies, five General Insurance Companies, six Statutory Corporations and 89 Deemed Government Companies of the Central Government.

1.1.3 During the period ended 31 March 2005, 10 Companies (four Government Companies and six Deemed Government Companies) came within the purview of the CAG and six Companies (one Government Company and five Deemed Government Companies) ceased to be Central Government Companies. The details are given below:

New Government Companies

1. Indian Strategic Petroleum Reserves Limited
2. Kutch Railway Company Limited
3. West Bengal Trade Promotion Organisation
4. Sethu Samudram Corporation Limited

New Deemed Government Companies

1. ASREC (India) Limited
2. Eastern Investments Limited
3. Neelachal Ispat Nigam Limited*
4. Pipavav Railway Corporation Limited
5. UTI Investment Advisory Services Limited
6. NABARD Consultancy Services (P) Limited

Ceased Central Government Companies

1. UP Drugs and Pharmaceuticals Limited[⊕]

Ceased Deemed Government Companies

1. Derco Cooling Coils Limited
2. Petronet India Limited
3. PNB Asset Management Limited

* Previously a State Government Company.

[⊕] Has become a State Government Company.

4. Power Trading Corporation Limited
5. Sahayadri Rubbers (P) Limited

1.1.4 Of the six Statutory Corporations whose accounts were required to be audited by the CAG under the respective Statutes, four Corporations, namely, Airports Authority of India, Damodar Valley Corporation, Inland Waterways Authority of India and National Highways Authority of India were solely audited by the CAG. In respect of Food Corporation of India, the audit of which was being conducted in addition to the audit by Chartered Accountants, the CAG was made sole auditor of the Corporation by an amendment to the Food Corporations Act, 1964 in June 2000. In respect of another Corporation, i.e. Central Warehousing Corporation, the CAG has the right to carry out supplementary audit in addition to the audit carried out by the Chartered Accountants as primary auditors.

Analysis of the accounts of these six corporations as also the other PSUs is given in the succeeding chapters.

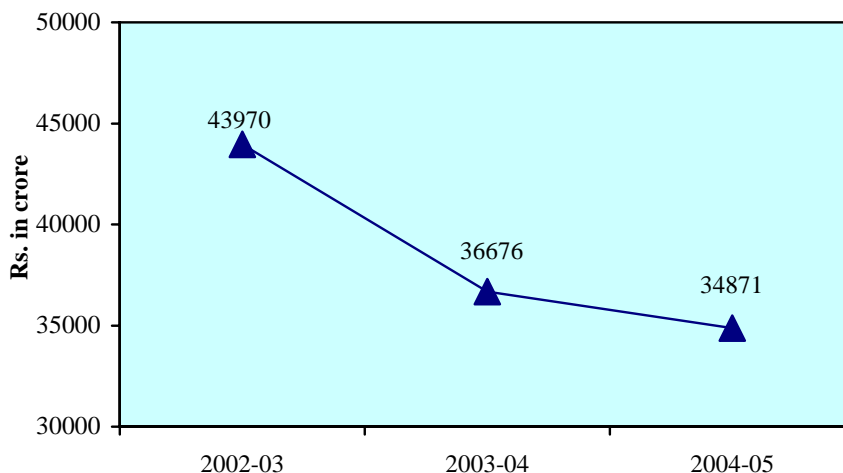
1.1.5 Ministry and Department-wise details of Public Sector Undertakings (PSUs) are given in Appendix I. Ministry/Department-wise details indicating the types and numbers of Government Companies, General Insurance Companies, Statutory Corporations which were subject to audit by the Comptroller and Auditor General of India as on 31 March 2005 are given in Appendix II A and II B. The equity investment in and loans given to these companies by the Central Government, Central Government Companies/Corporations, State Governments and others are also indicated therein. These Appendices do not, however, show the details of 10 PSUs which are defunct/under liquidation, 26 PSUs which have not submitted their accounts for the last three years or more and four PSUs for which accounts are not due.

1.1.6 Under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956, read with Section 19 of the Comptroller and Auditor General's (DPC) Act, 1971, the accounts of the Companies for the financial year are to be submitted for audit within six months from the end of the relevant financial year. More or less similar provisions exist in the statutes governing various statutory corporations. Audited accounts of Government Companies/Corporations are required to be laid on the table of both the Houses of Parliament within a period of nine months from the end of the financial year. The accounts of 278 companies (including 56 Deemed Government Companies) for the current year were submitted for audit by 30 September 2005. The details of 70 PSUs/Deemed Government Companies, accounts of which are in arrears for the year 2004-05 or earlier years as well as 40 PSUs/deemed Government Companies which have not submitted their accounts and are not covered in the report (identified in the appendix by two asterisks - **) referred to in para 1.1.5 are indicated in Appendix III. In respect of 70 PSUs (including 16 Deemed Government Companies), provisional figures have been adopted in this report based on the latest audited accounts.

1.2 Budgetary Outgo

1.2.1 Outgo from the Union Budget to the PSUs during the years from 2002-03 to 2004-05 had shown a declining trend. The outgo for the year 2004-05 was Rs.1804.69 crore (4.92 per cent) less as compared to 2003-04 and Rs.9099.28 crore (20.69 per cent) less as compared to 2002-03 (See Chart 1).

Chart 1 - Total Budgetary Outgo



1.2.2 The table below indicates the structural composition of budgetary contribution towards equity capital, loans, subsidy related to administered prices and grants to PSUs.

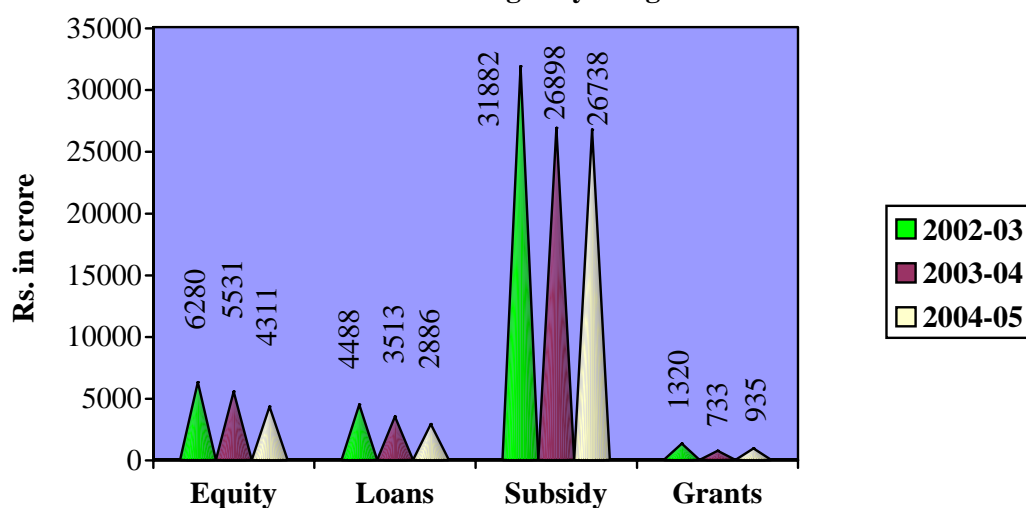
Budgetary Outgo

(Rs. in crore)

	2002-03	2003-04	2004-05
Total Outgo	43970.18	36675.59	34870.90
Outgo on account of subscription to Equity Capital	6280.02	5531.26	4311.21
Outgo due to Loans given	4488.00	3513.36	2885.94
Subsidy related to administered prices	31881.91	26897.63	26738.41
Grants	1320.25	733.34	935.34

1.2.3 The grants for the various purposes released by Government to the PSUs during the year 2004-05 were Rs.935.34 crore. There was an increase of Rs.202 crore (27.55 per cent) in grants when compared to 2003-04. The proportion of outgo through subsidy relating to administered prices as paid/payable to PSUs had decreased marginally by Rs. 159.22 crore when compared to outgo in 2003-04 but decreased by Rs. 5143.50 crore (16.13 per cent) as compared to 2002-03 (See table above and graph below). The outgo by way of loans decreased by Rs.627.42 crore (17.86 per cent) over the previous year. Government continued to subscribe to equity in PSUs and made an investment of Rs.4311.21 crore in 32 PSUs during 2004-05.

Chart 2 - Budgetary Outgo



1.3 Waiver of Dues

Indirect assistance by way of moratorium on repayment of loans or write off and waiver of interest has been a constant feature of Governments' supportive role to PSUs. The table below indicates the details of such assistance for the last three years ending March 2005. The indirect assistance to PSUs decreased by Rs.3484.49 crore (93.71 per cent) in 2004-05 over the previous year i.e., 2003-04.

WAIVER OF DUES

(Rs. in Crore)

	2002-03	2003-04	2004-05
1. Loan repayments written off	363.74	84.37	96.87
2. Interest waived	718.63	3272.54	65.30
3. Penal interest waived	83.36	53.34	28.28
4. Repayment of Loan on which moratorium allowed	342.57	308.29	43.60
Total	1508.30	3718.54	234.05

1.4 Guarantees given by Central Government to Central PSUs

1.4.1 Besides budgetary outgo and waiver of dues, the Central Government extends support to PSUs by way of guarantees for loans availed by the PSUs at a nominal fee. During the three years ending March 2005, the guarantees given by the Central Government to Central PSUs had shown a declining trend. The total amount guaranteed during 2004-05 decreased substantially by 23.02 per cent as compared to the previous year.

Guarantees Given by the Central Government to Central PSUs**(Rs. in crore)**

Guarantees	Amount Guaranteed during			Loans raised against the guarantees	Guaranteed amount outstanding as on 31 March 2005
	2002-03	2003-04	2004-05	2004-05	2004-05
1. Cash Credit from State Bank of India (SBI) and other Nationalised Banks	9206.47	8946.22	8799.20	26567.94	7315.87
2. Loans from other Sources	12889.66	4061.32	897.60	1693.29	4825.64
3. Letters of Credit opened by SBI in respect of Imports	461.08	180.55	301.97	4.70	360.17
4. Payment Obligations under agreements with Foreign Consultants or Contractors	268.26	131.36	254.67	0.00	329.97
Total	22825.47	13319.45	10253.44	28265.93	12831.65

1.5. Investment in Central Government Companies and Corporations

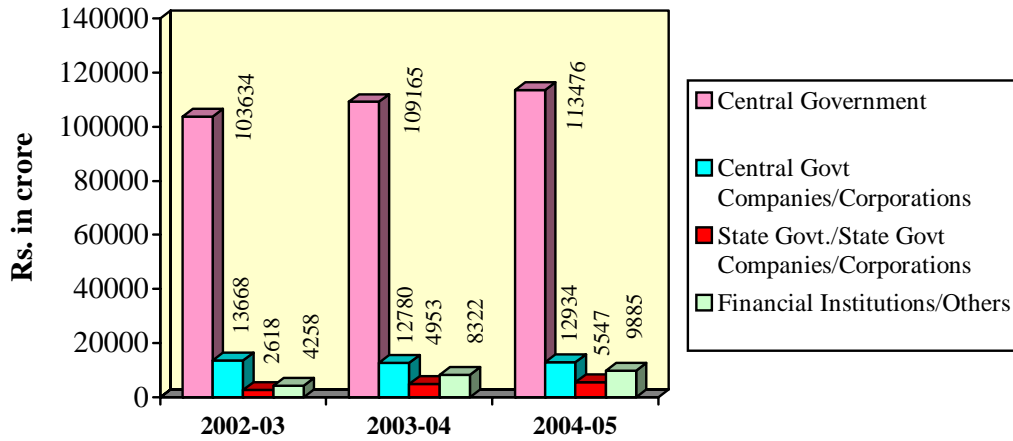
1.5.1 Audit reviewed the accounts of 276 PSUs out of 299 Central Government Companies and Corporations* in existence at the end of 2004-05. The equity investment of the Government of India in 276 companies/corporations (whose accounts have been reflected in the report) and loans given to them amounted to Rs.1,13,476.36 crore and Rs.60666.54 crore respectively. Some Central Government Companies/ Corporations have also contributed to the investment in these public sector undertakings. The details are given below:

(Rupees in crore)

Sources	As on 31 March 2005			As on 31 March 2004		
	Equity	Loans	Total	Equity	Loans	Total
1. Central Government	113476.36	60666.54	174142.90	109165.16	54266.45	163431.61
2. Central Government Companies/ Corporations	12934.48	18170.59	31105.07	12780.46	27786.28	40566.74
3. State Governments/ State Government Companies/ Corporations	5547.13	1251.16	6798.29	4952.95	317.40	5270.35
4. Financial Institutions/Others	9885.27	179391.94	189277.21	8322.09	162686.05	171008.14
Total	141843.24	259480.23	401323.47	135220.66	245056.18	380276.84
Percentage of Central Government Investment to total investments	80.00	23.38	43.39	80.73	22.14	42.98

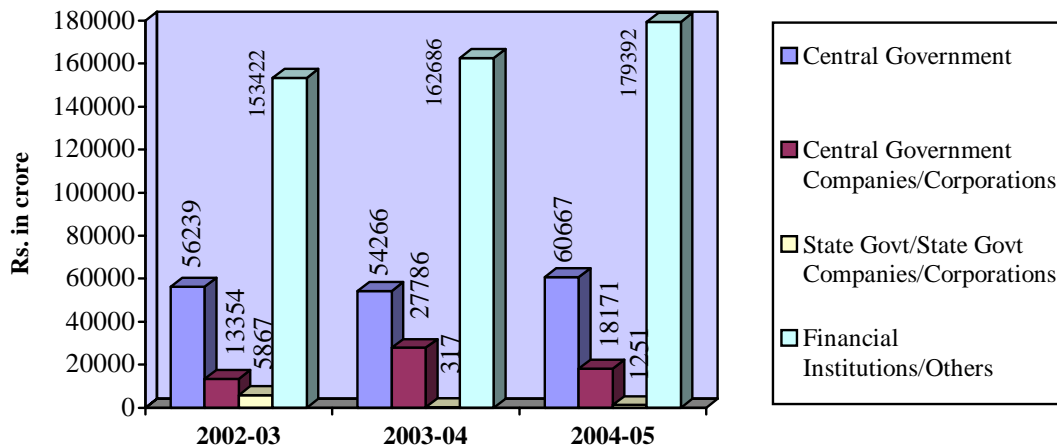
* Other than deemed Government companies as defined in section 619 B of Companies Act, 1956.

Chart 3(a) - Equity investment in Central Government PSUs



1.5.2 During 2004-05, the investment in equity and loans to these PSUs registered a net increase of Rs.6622.58 crore and Rs.14424.05 crore, respectively [See Chart 3(a) and 3(b)]. The Government of India had significantly enhanced its investment in the equity of PSUs under the Ministries of Power (Rs.1330.35 crore), Atomic Energy (Rs.1168.25 crore), Railways (Rs.579.71 crore), Mines (Rs.367.34 crore), Urban Development and Poverty Alleviation (Rs. 303.30 crore). PSUs under the Ministry of Urban Development and Poverty Alleviation (Rs.1264.66 crore), Communication (Rs.699.27 crore), Non-conventional Energy Sources (Rs.427.60 crore) and Railways (Rs.417.73 crore) also received additional Government Loans.

Chart 3(b) - Loans given to Central Government PSUs



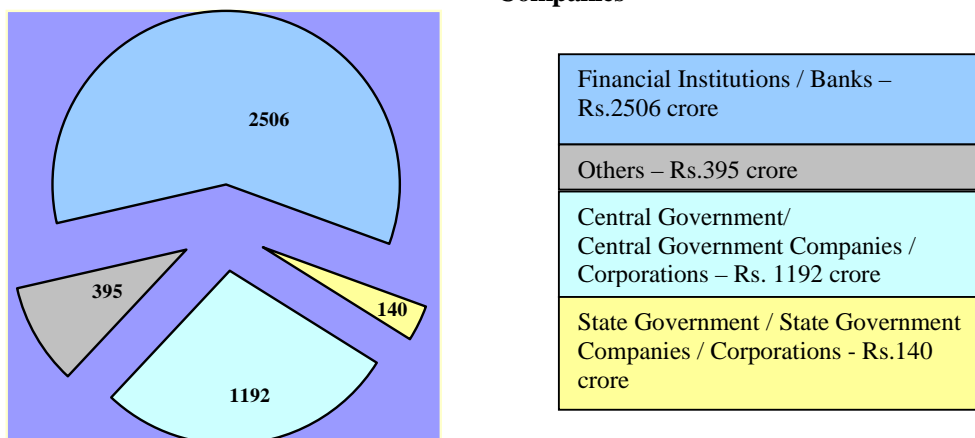
1.6 Deemed Central Government Companies

1.6.1 Section 619-B of the Companies Act, 1956 lays down the criteria for determining whether a company is a Deemed Government Company i.e., whether 51 per cent or more of its paid up share capital is held by Central / State Governments, Central/State Government Companies and Corporations owned or controlled by the Government. There were 89 Deemed Central Government Companies as on 31 March 2005 as listed in Appendix IV.

1.6.2 The capital invested by the Central Government and by Companies and Corporations controlled by it in 72 Deemed Government Companies (whose accounts were reviewed during the year) is given in Appendix V (see also Chart 4). Out of the remaining 17 Deemed Government Companies, seven were either under liquidation or were defunct. The accounts of 10 Companies were not reviewed as the accounts of these companies either were in arrears for more than three years or were not due.

1.6.3 As of 31 March 2005, equity of Rs.4233.49 crore in 72 Deemed Government Companies was contributed by the Government of India (Rs 72.03 crore in two companies), State Governments (Rs.1.14 crore in six companies), Central Government Companies / Corporations (Rs.1119.99 crore in 21 companies), State Government Companies / Corporations (Rs. 139.11 crore in 10 companies), Financial Institutions / Banks (Rs.2506.09 crore in 45 companies) and others (Rs. 395.13 crore in 26 companies).

Chart 4 - Composition of Share Capital in Deemed Government Companies



1.6.4 Of the 72 Deemed Government Companies reviewed in this Report, 43 Companies earned profit of Rs.649.74 crore. Of these, only 19 declared dividend amounting to Rs.20.72 crore which represented 9.03 per cent of their total paid up capital. Nineteen Companies, including two in which the Government of India had invested, incurred losses during 2004-05. Remaining ten companies were in the construction stage.

1.6.5 Dividend of Rs.20.72 crore declared by the Deemed Government Companies during 2004-05 came from the companies under Financial Services and Industrial Development and Technical Consultancy sectors as indicated next page:

(Rs. in crore)

Sector	No. of PSUs	Paid up Capital	Net Profit	Dividend
1.Financial Services	14	228.36	61.28	20.54
2.Industrial Development & Technical Consultancy	5	1.02	1.59	0.18
Total	19	229.38	62.87	20.72

1.7 Disinvestment

1.7.1 The policy of the Government on disinvestment of PSUs was evolved over a period starting from 1991-92. The main objectives of disinvestment are to put national resources and assets to optimal use and in particular to unleash the productive potential inherent in our public sector enterprises. The policy of disinvestment specially aims at:

- ◆ Modernisation and upgradation of Public Sector Enterprises
- ◆ Creation of new assets
- ◆ Generation of employment; and
- ◆ Retiring of public debt

1.7.2 The Disinvestment Commission was set up on 23 August 1996 initially for a period of three years to draw a comprehensive overall long term disinvestment programme, to determine the extent of disinvestment, to monitor the progress of disinvestment process, to take necessary measures and report periodically to the Government on such progress etc. Accordingly, the Commission submitted 12 Reports concerning 58 PSUs. On 16th March 1999, Government classified the PSUs into Strategic and non-strategic for the purpose of disinvestment and also decided to refer all 'non-strategic' PSUs to the Commission to prioritise, examine and make recommendations to the Government taking into consideration Government policy.

1.7.3 After reconstitution of the Disinvestment Commission in July 2001, the Commission submitted ten reports in respect of 33 companies (including four companies on which reports were submitted by the Disinvestment Commission set up in 1996 as mentioned in para above).

1.7.4 The Government decided (27 January 2005) to constitute a "National Investment Fund" (out of the purview of Consolidated Fund of India) into which the realization from the sale of minority shareholding of the Government in profitable PSUs would be channelised. The broad objectives of the fund are (i) investment in social sector projects which promote education, health care and employment and (ii) Capital investment in selected profitable and revivable PSUs that yield adequate returns in order to enlarge their capital base to finance expansion/diversification.

1.7.5 The Government of India had realised Rs. 47,646.43 crore during the period from 1991-92 to 2004-05 from disinvestment of its shares in PSUs including 19 hotels of ITDC and three hotels of Hotel Corporation of India Limited. This includes Rs. 2764.87crore realised in 2004-05 against the target of Rs. 4,000 crore.

1.7.6 In respect of the following 14 companies disinvestments were made to strategic partners.

1. Modern Food Industries (India) Limited
2. Bharat Aluminium Company Limited
3. Lagan Jute Machinery Company Limited
4. CMC Limited
5. HTL Limited
6. Videsh Sanchar Nigam Limited
7. Paradeep Phosphates Limited
8. Kochi Refineries Limited*
9. IBP Limited♥
10. Chennai Petroleum Corporation Limited♥
11. Bongaigaon Refinery and Petrochemicals Limited♥
12. Indian Petrochemicals Corporation Limited
13. Hindustan Zinc Limited.
14. Jessop and Company Limited

* In favour of Bharat Petroleum Corporation Limited

♥ In favour of Indian Oil Corporation Limited