Overview on the Functioning of State Public Sector Undertakings

Introduction

The State Public Sector Undertakings (SPSUs) consist of State Government Companies and Statutory Corporations. The SPSUs are engaged in activities of commercial nature that occupy an important place in the State economy. As on 31 March 2018, there were 91 SPSUs (69 Companies and four Statutory Corporations) and 18 inactive SPSUs. Of the 91 SPSUs, four SPSUs were listed on the stock exchange(s). The active SPSUs registered a turnover of ₹1,25,827.15 crore as per their latest finalised financial statements as on 30 September 2018. The turnover was 9.53 per cent of State’s Gross Domestic Product (GSDP) for 2017-18. The active SPSUs earned aggregate loss of ₹453.35 crore as per their latest finalised financial statements.

Accountability framework

The process for audit of Government Companies in respect of financial years commencing on or after 1 April 2014 is governed by respective provisions of Sections 139 and 143 of the Companies Act, 2013 (Act). The financial statements of Government Companies are audited by Statutory Auditors who are appointed by the Comptroller and Auditor General of India (C&AG) as per the provisions of Section 139(5) or (7) of the Act. These financial statements are subject to supplementary audit by C&AG within 60 days from the date of receipt of the audit report under provisions of Section 143(6) of the Act. Audit of Statutory Corporations is governed by their respective legislations.

Investment in SPSUs

As on 31 March 2018, the investment in 91 SPSUs was ₹1,48,820.22 crore. The thrust of SPSUs investment was mainly in the Infrastructure sector as the percentage share of investment in Infrastructure sector to total investment was 44.67 in 2017-18 as compared to 42.03 in 2013-14. The percentage share of investment in Power sector increased from 31.28 in 2013-14 to 33.13 in 2017-18.
Overview on Functioning of Power sector Undertakings

Introduction

The SPSUs engaged in generation, transmission and distribution of electricity are classified under Power sector. Of the 91 SPSUs, 11 SPSUs are engaged in electricity related business and remaining 80 SPSUs are engaged in other activities as on 31 March 2018. The 11 SPSUs are active State Government Companies, which includes eight subsidiary/ joint venture Companies of other Government Companies. The turnover of Power sector SPSUs recorded continuous increase over previous years and was ₹ 94,544.75 crore as on 2017-18. The increase in GSDP of Gujarat ranged between 11.22 and 13.99 per cent during the period 2013-14 to 2017-18. During last five years against the Compounded Annual Growth Rate (CAGR) of 12.76 per cent of GSDP, the CAGR for turnover of Power sector SPSUs was 3.48 per cent during last five years.

Investment and budgetary support in Power sector SPSUs

As on 31 March 2018, the investment in 11 SPSUs was ₹ 49,302.62 crore. Government of Gujarat (GoG) periodically provides financial support to three Power sector SPSUs as budgetary assistance through annual budget in various forms that ranged between ₹ 6,162.96 crore and ₹ 8,166.86 crore during the period from 2013-14 to 2017-18 no funds were infused in the remaining eight SPSUs. During 2017-18 total budgetary assistance of ₹ 7,550.28 crore received included ₹ 2,878.49 crore, ₹ 50.62 crore and ₹ 4,621.17 crore in the form of equity, loans and grants/subsidy respectively.

Performance and Status of finalisation of financial statements of Power sector SPSUs

Of the 11 Power sector SPSUs, as per their latest finalised financial statements, 10 SPSUs earned profit of ₹ 1,274.56 crore and Bhavnagar Energy Company Limited incurred loss of ₹ 617.31 crore. The financial statement of Gujarat Power Corporation Limited for 2017-18 was in arrears.

Return on investment

GoG infused funds in the form of equity and loans in only three Power sector SPSUs. The Return on investment (RoI) from the three SPSUs based on historical cost ranged between 1.78 and 4.88 per cent during the period from 2013-14 to 2017-18. Further, investment by GoG in the three SPSUs increased from ₹ 200.32 crore in 2004-05 to ₹ 17,841.35 crore in 2017-18. The return based on Present Value (PV) of above investment being ₹ 27,512.43 crore as at 31 March 2018 to total earnings of three SPSUs during 2017-18 was 1.93 per cent. An analysis of investment and accumulated profit/ losses disclosed that the net worth of Power sector SPSUs as on 31 March 2018 was ₹ 22,703.96 crore.
Return on equity and capital employed

The Return on equity in respect of the three SPSUs as on 31 March 2018 was 2.34 per cent. During last five years ended March 2018, the Net Income and Shareholders’ fund was positive. The Return on capital employed of Power sector SPSUs was consistent and ranged between 5.18 and 7.12 per cent during the period from 2013-14 to 2017-18.

Comments on financial statements

Eleven SPSUs forwarded their 13 financial statements during the period from October 2017 to September 2018. Statutory Auditors had given unqualified opinion for ten financial statements and qualified opinion for three financial statements. The compliance of SPSUs with the Accounting Standards/ IND AS remained deficient, as there were 16 instances of non-compliance in seven financial statements.

(Chapter 1)

2. Overview on Functioning of State Public Sector Undertakings

Excluding State Public Sector Undertakings of Power sector

Introduction

The State has 91 SPSUs as on 31 March 2018 of which 11 SPSUs are engaged in electricity related business and remaining 80 SPSUs are engaged in other activities. These 80 SPSUs include 76 State Government Companies (SGCs) and four Statutory Corporations for undertaking different activities. GoG periodically provides financial support to SPSUs in the form of equity, loans and grants/subsidy. Of the 80 SPSUs, GoG invested funds in 58 SPSUs and no funds were infused in remaining 22 SPSUs that were joint venture/subsidiary of SGCs. The turnover of these SPSUs was ₹ 31,282.40 crore as on 2017-18.

Investment and budgetary support in SPSUs

As on 31 March 2018, the investment in 80 SPSUs was ₹ 99,517.60 crore. GoG provides financial support to SPSUs in various forms through the annual budget. The budgetary assistance received by these SPSUs ranged between ₹ 8,132.00 crore and ₹ 9,953.83 crore during the period from 2013-14 to 2017-18. The budgetary assistance of ₹ 9,953.83 crore provided during 2017-18 included loans, grants/subsidy and equity of ₹ 165.20 crore, ₹ 3,934.99 crore and ₹ 5,853.64 crore respectively.

Performance and Status of finalisation of financial statements of SPSUs

During 2017-18, as per their latest finalised financial statements, out of 62 active SPSUs, 38 SPSUs earned profit of ₹ 2,180.01 crore and 20 SPSUs incurred loss of ₹ 3,290.61 crore. Of the total 62 active SPSUs,
37 SPSUs had 57 financial statements in arrears, which ranged between one and four years.

**Return on investment**

Out of 80 SPSUs, GoG infused funds in the form of equity and loans in 56 SPSUs. The Return on investment from these 56 SPSUs on historical cost basis ranged between -27.69 per cent and 1.31 per cent during the period from 2013-14 to 2017-18. Further, investment by GoG in these 56 SPSUs increased from ₹13,928.03 crore in 2004-05 to ₹67,163.90 crore in 2017-18. The Present Value (PV) of investment of GoG up to 31 March 2018 was ₹1,25,225.25 crore. An analysis of investment and accumulated profit/losses disclosed that the net worth of 80 SPSUs as on 31 March 2018 was ₹57,591.38 crore.

**Return on equity and capital employed**

During last five years ended March 2018, net income was reported during financial years (FYs) 2013-14 and 2014-15 and their Return on equity was respectively 1.33 and 0.90 per cent. Since net loss was reported in 56 SPSUs during FYs 2015-16, 2016-17 and 2017-18, Return on equity in respect of these SPSUs was Nil. The Return on capital employed ranged between 3.03 and 5.18 per cent during the period from 2013-14 to 2017-18.

**Comments on financial statements**

Fifty active SPSUs forwarded 61 audited financial statements for audit during the period from October 2017 to September 2018, Statutory Auditors had given unqualified opinion for 48 financial statements and qualified opinion for 13 financial statements. The compliance of SPSUs with the Accounting Standards/IND AS remained deficient, as there were 29 instances of non-compliance in 16 financial statements.

Of the four active Statutory Corporations, two Corporations forwarded financial statements for audit during the period from October 2017 to September 2018. Statutory Auditor expressed qualified opinion on financial statements of Gujarat State Financial Corporation. Gujarat Industrial Development Corporation did not disclose the contingent liability of ₹1,180.98 crore towards demand for income tax.

(Chapter 2)

3. **Performance Audit relating to Statutory Corporation**

Performance Audit on ‘Functioning of Gujarat Industrial Development Corporation’ was conducted. Highlights of the performance audit are given below:

Gujarat Industrial Development Corporation (Corporation) was incorporated on 4 August 1962 under Section 3 of the Gujarat Industrial Development Act, 1962 for assisting in the orderly establishment and organisation of industries in the State. Its main functions in respect of industrial estates include acquisition of land, establishment, development,
management, allotment of plots/sheds and recovery of various service charges from the allottees. As on 31 March 2018, the Corporation had 202 estates, of which 189 were functional. The Corporation had total assets of ₹15,654.98 crore and excess of income over expenditure of ₹161.71 crore as on March 2018.

During Audit, observations with monetary value of ₹526.46 crore including recovery of ₹448.75 crore were pointed out. Against this, the Corporation recovered ₹19.61 crore. Besides, the Corporation took corrective actions on certain observations.

Audit observed that the Corporation achieved most of the objectives envisaged in the State Industrial policy 2009 and 2015 except developing the estates in ‘developing talukas’ of the State.

No major lapses in the land acquisition procedures adopted and pricing were noticed. However, instances of deviations like acquisition of land in coastal regulatory zone area, delay in follow up of refunds for surrendered land and delayed acquisition of land parcels resulting in exchange of developed plots against undeveloped land were noticed.

Audit noticed instances of unfruitful expenditure in construction of multi-level sheds in an unsaturated estate and delay in surrender of unutilised grants to GoG.

During 2013-18, the Corporation fixed the initial allotment price (AP) in 15 estates. Audit observed two instances of non-adherence to the policy/guidelines of GoG for fixing AP and one case of non-adhering to the existing methodology for fixation of AP. This resulted in consequential loss of ₹38.27 crore to the Corporation.

The Corporation failed to verify the payments made to land owners with respect to the legal provisions resulting in overpayments of ₹5 crore and short payment of ₹4.84 crore. Further, there was delayed/non-recovery of additional compensation paid by the Corporation under Land reference Cases from allottees amounting to ₹261.53 crore.

No major deviations were observed with respect to the system laid down for selection of the applicants and allotment.

In two instances of allotment of additional area, the Corporation did not initiate prompt action for recovery of the additional allotment price of ₹147.27 crore.

Due to multiplicity of circulars issued by the Corporation for granting permissions and recovery of fees based on it, there were instances of incorrect application/interpretation of the circulars by field offices. This resulted in short recovery/non-recovery of ₹13.10 crore.

Inadequate system for monitoring of allotted plots in the estates resulted in delayed/unauthorised construction. It also led to unauthorised/non-utilisation of allotted plots.
Audit noticed that the utilisation of allotted plots was not monitored periodically by the Corporation. Due to this, it failed to raise demand for non-utilisation (NU) penalty. Absence of periodical review also led to unauthorised construction on the allotted plots without submission of layout plan. In two instances noticed in test-check, there was non-recovery of NU penalty of ₹26.21 crore due to absence of periodical review system. Joint visits in three test-checked estates revealed unauthorised utilisation of industrial plots for commercial activities.

(Chapter 3)