PRESS RELEASE

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

NEW DELHI
21st DECEMBER, 2022

CAG's General Purpose Financial Reports of Central Public Sector Enterprises (CPSEs)

General Purpose Financial Reports of Central Public Sector Enterprises (CPSEs) Union Government (Commercial) – Report No. 27 of 2022 was laid in Parliament today.

This Audit Report has been prepared under Section 19-A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. This Report consists of five chapters. The report enumerates the status of adherence by Central Public Sector Enterprises (CPSEs) to the provisions of the Companies Act, 2013 and guidelines issued by Securities Exchange Board of India and Department of Public Enterprises (DPE) on Corporate Governance. The report also presents the status of disinvestment of CPSEs and issues observed therein and an analysis of Memoranda of Understanding between Administrative Ministries and Maharatna CPSEs. Some of the salient features of the Report are highlighted below:

I. Summary of financial performance of Central Public Sector Enterprises

There were 717 Central Government Public Sector Enterprises (CPSEs) under the audit jurisdiction of the Comptroller and Auditor General of India as on 31 March 2021. These included 508 Government companies, 203 Government controlled other companies and six Statutory Corporations. This Report deals with 453 Government companies and Corporations (including six Statutory Corporations) and 180 Government controlled other companies. 84 CPSEs (including 23 Government controlled other companies) whose accounts were in arrears for three years or more or were under liquidation or first accounts were not due are not covered in this Report.

(Para 1.1.3)

Equity holding of Central Government

The accounts of 453 Government companies and Corporations indicated that the Central Government had an equity holding of `5,12,547 crore in share capital. The loans given by Central Government remaining outstanding as on 31 March 2021 amounted to `1,83,194 crore. Compared to the previous year, holding of the Central Government in equity of CPSEs registered a net increase of ` 57,909 crore and loans outstanding increased by `60,686 crore during 2020-21.

(Para 1.2, 1.2.1 and 1.2.2.1)

Market Capitalisation

The total market value of shares of 60 listed Government companies (including six subsidiary companies) the shares of which were traded during 2019-20 stood at `12,43,144 crore as on 31 March 2021. Market value of shares held by the Central Government in 54 listed Government companies (excluding six subsidiary companies) stood at `11,72,566 crore as on 31 March 2021.

(Para 1.2.4)

Return from Government companies and Corporations

251 Government companies and Corporations earned profit of `1,95,677 crore during 2020-21 of which, 72 *per cent* (`1,40,083 crore) was contributed by 97 Government companies and Corporations in three sectors viz., Power, Petroleum & Financial Services. Return on Equity (ROE) in these 251 CPSEs was 16.34 *per cent* in 2020-21 as compared to 13.54 *per cent* in 224 CPSEs in 2019-20.

(Para 1.3.1)

112 Government companies and Corporations declared a dividend of `80,105 crore during the year 2020-21. Out of this, the dividend received/receivable by Central Government amounted to `36,982 crore which represented 7.22 per *cent* return on the total investment by the Central Government (`5,12,547 crore) in all Government companies and Corporations.

10 Government companies under the Ministry of Petroleum and Natural Gas contributed `28,388 crore representing 35.44 *per cent* of the total dividend declared by all Government companies and Corporations. Non-compliance with directive of Government of India on declaration of dividend by 20 CPSEs, which were having sufficient fund (retained earnings and General Reserves), resulted in a shortfall of `9,449 crore in the payment of dividend for the year 2020-21.

(Para 1.3.4)

There were 173 CPSEs that incurred losses during the year 2020-21. The losses incurred by these companies during the year 2020-21 decreased to `42,876 crore compared to `67,845 crore in 2019-20.

(Para 1.3.2)

Net Worth/Accumulated Loss

There were 198 Government companies and Corporations with accumulated losses of `2,00,419 crore as on 31 March 2021. Of these, the net worth of 88 companies had been completely eroded by their accumulated losses. As a result, the aggregate net worth of these companies had become negative to the extent of `1,13,894 crore as on 31 March 2021. Only 20 out of these 88 companies earned profit of `973 crore during the year 2020-21.

(Para 1.3.3)

Rate of Real Return (RORR) on Government Investment

Out of 633 CPSEs covered in this report, the Central Government has direct investment in 195 CPSEs. RORR in respect of 173 CPSEs (58 listed CPSEs and 115 unlisted CPSEs) has been computed since 2000-01 to compare the same with the conventional rate of return on historical cost. RORR was 17.52 *per cent* in comparison to conventional rate of return on historical cost of 46.78 *per cent* in 2019-20. RORR has shown an increasing trend till 2006-07 after which it started to decline and ranged between 10 *per cent* and 23 *per cent* during the preceding five years from 2016-17 to 2020-21.

The company-wise analysis of RORR for the preceding three years revealed that while listed companies have given RORR between 33 *per cent* and 51 *per cent* during the preceding three years, unlisted CPSEs have given negative returns ranging between three *per cent* and eight *per cent* during the same period.

(Para 1.4.4)

Return on Investment (ROI) of Listed CPSEs

ROI (Annual Average Rate) and ROI (Compounded Annual Growth Rate) of 58 listed CPSEs have been computed since 2000-01 to assess the benefit obtained from the investment done by the Central Government in these CPSEs. The consolidated ROI (Average Annual Rate) of these 58 CPSEs was 161.18 *per cent* during 2018-19, it reduced to 129.28 *per cent* in

2019-20 and 110.75 *per cent* in 2020-21. Similarly, ROI (CAGR) reduced from 19.94 *per cent* in 2018-19 to 17.88 *per cent* in 2019-20 and 16.40 *per cent* in 2020-21.

(Para 1.4.5)

II. Oversight Role of CAG

Out of 711 CPSEs (excluding six statutory corporations) under the audit jurisdiction of CAG, Financial Statements for the year 2020-2021 were received from 597 CPSEs by 30 November 2021. While Financial Statements were not due from 28 CPSEs, Financial Statements of 86 CPSEs were pending due to different reasons.

(Para 2.3.2)

Out of 597 CPSEs from which the Financial Statements were received by 30 November 2021, supplementary audit was undertaken in 338 CPSEs.

(Para 2.5.1)

Six CPSEs amended their Financial Statements and statutory auditors of 67 CPSEs revised their Audit Report before laying of the Financial Statements in Annual General Meeting. In addition, various comments highlighting inaccuracies in the Financial Statements were also issued.

(Para 2.5.1.1 and 2.5.1.2)

The financial impact of significant comments, issued on the financial statements of the selected CPSEs, on profitability and assets/liabilities was ₹2,645.06 crore and ₹61,739.01 crore, respectively.

A few companies viz. The Fertilizers and Chemicals Travancore Limited, IFCI Limited, ITI Limited and the Orissa Minerals Development Company Limited did not take corrective action on the comments issued on financial statements in the past.

(Para 2.5.1.3)

III. Corporate Governance

The review of Corporate Governance covered 72 listed CPSEs under the administrative control of various Ministries. It was observed that the provisions of the Companies Act, 2013, DPE Guidelines and Regulations of Securities and Exchange Board of India regarding Corporate Governance were not being complied with by some of the CPSEs. The cases of non-compliance noticed are summarized below:

(i) Non-executive directors were less than 50 *per cent* of the Board strength in 32 CPSEs (44 *per cent*); required number of Independent Directors had not been appointed in 59 CPSEs (82 *per cent*).

[Para 3.2 (A and B)]

(ii) Out of 72 listed CPSEs, 37 CPSEs (51 *per cent*) have independent directors but not Women Directors on their Board.

[Para 3.2 (C)]

(iii) The criteria of minimum six directors was not met in 15 out of the 70 (21 *per cent*) listed CPSEs (part of top 2000 listed entities).

[Para 3.2 (D)]

(iv) Out of 70 CPSEs (part of top 2000 listed entities), 17 CPSEs (24 *per cent*) have insufficient quorum of directors at the Board meeting, including at least one independent director.

[Para 3.2 (E)]

(v) Out of 72 CPSEs, Independent Directors could attend only 80 *per cent* of the Board Meetings and Board Committee Meetings in seven CPSEs (10 *per cent*).

[Para 3.3 (B)]

(vi) Out of 72 CPSEs, there was no Audit Committee in three CPSEs (four *per cent*).

(Para 3.4)

(vii) Out of 72 CPSEs, 10 CPSEs (14 *per cent*) failed to follow obligations/ code of conduct with respect to employees including senior management, key managerial persons and directors.

(Para 3.7)

IV. Disinvestment Process

The Department of Investment and Public Asset Management (DIPAM) realised an amount of `32,886 crore during the year 2020-21 through disinvestment (Initial Public Offer, Offer for Sale, Buyback of Shares, Enemy Share Sale and Specified Undertaking of Unit Trust of India). During the audit, following issues were noticed:

(i) Budget Estimates for receipts through disinvestments is found to be increased every year. In 2020-21, it increased by 100 *per cent* to ₹2,10,000 crore from the Budget Estimates of ₹1,05,000 crore for 2019-20. The Budget Estimates of ₹2,10,000 crore was downsized to ₹32,000 crore at Revised Estimates stage. In 2019-20 also, the projected receipts from disinvestment were reduced by 38 *per cent* at Revised Estimates stage.

(Para 4.4)

(ii) Transactions for six CPSEs/Companies viz. Mishra Dhatu Nigam Limited, Garden Reach Shipbuilders and Engineers Limited, Indian Petrochemicals Corporation Limited, Rashtriya Chemicals and Fertilizers Limited, National Fertilizers Limited and NMDC Limited identified for Offer for Sale at Revised Estimates stage could not materialise during 2020-21.

(Para 4.6.2.3)

(iii) In the disinvestment transaction of Rail Vikas Nigam Limited, the shares were majorly picked up by another wholly owned government entity LIC. This leads to transfer of a major chunk of GoI's shares (90.49 *per cent*) from one pocket to another which does not serve the basic purpose of disinvestment.

(Para 4.6.2.4)

(iv) Two CPSEs (SJVN Limited and Antrix Corporation limited) which were planned for buyback of shares at Revised Estimates stage of 2019-20 did not undertake buyback during 2019-20. SJVN Limited was later planned for strategic sale during Revised Estimates stage of 2020-21 which also did not materialise during the year 2020-21.

(Para 4.7)

(v) In February 2019, CCEA approved the procedure and mechanism for Asset Monetization of Immovable Enemy Properties and non-core assets of CPSEs/Public Sector Undertakings (PSUs)/other Government Organization. No sale transaction was carried out by DIPAM since the inception of the policy in February 2019 till the allocation of Asset Monetisation to Department of Public Enterprises in March 2022.

(Para 4.9.2)

V. Analysis of Memoranda of Understanding between Administrative Ministries and Maharatna/ Navratna CPSEs

The review covered analysis of MoU signed by the 14 CPSEs (eight Maharatna companies and six Navratna companies) with their respective Administrative Ministries for the years 2019-20 and 2020-21. During the audit, following issues were noticed:

(i) The MoU guidelines mandated that MoU targets are consistent with the latest Annual Plan, Budget and Corporate Plan of the CPSE. However, in respect of four CPSEs

(CIL, SAIL, ONGC and MTNL), MoUs were finalised without availability of these requisite documents of the CPSEs.

(Para 5.7.1.1)

(ii) MoU targets for IOCL were not as per MoU guidelines. In respect of NTPC and PGCIL, the targets fixed in MoU for excellent rating for the parameter of capital expenditure were lower than the best achievement in the previous five years.

(Para 5.7.2.1)

(iii) In respect of two CPSEs (NTPC and PGCIL), increase in weightage marks for capital expenditure parameter was done without any increase in capital expenditure target and with no justification, as was required in MoU Guidelines. Further, in respect of MTNL, percentage of value of capital expenditure contracts/ projects running/ completed without time/ cost overrun to total value of capital expenditure contracts running/ completed was not arrived on realistic basis.

(Para 5.7.2.2)

(iv) The target for joint ventures/ operating subsidiaries was not incorporated in the MoU of NTPC and MoU was not signed separately. This resulted in non-evaluation/ monitoring of performance of such joint ventures/ operating subsidiaries by the MoP/ DPE as well as non-compliance of requirement of MoU guidelines.

(Para 5.7.2.3)

(v) Eight CPSEs (BPCL, SAIL, ONGC, CIL, SCI, GAIL, IOCL and NLCIL) had not complied with MSME guidelines to procure 20 *per cent* of their annual procurement from micro, small and medium enterprises (MSMEs) including four *per cent* from MSEs owned by SC –STs.

(Para 5.7.2.4)

(vi) In respect of MTNL, there was delay of 279 days in submission of draft MoU to Administrative Ministry.

(Para 5.7.3)

(vii) In respect of three CPSEs (CIL, MTNL and NALCO), there were delays between 27 days and 233 days in signing of MoU for the year 2019-20. In respect of two CPSEs (CIL and ONGC), there were delays between 35 days and 88 days in signing of MoU for the year 2020-21.

(Para 5.7.4.1)