CHAPTER 7

Management of Surplus Cash by CPSE

7.1 Introduction

Central Public Sector Enterprises (CPSEs) occupy an important place in the national economy. In the background of the economic reforms in the country, post 1991, the CPSEs in India recorded sustained growth in business along with significant improvement in performance. As on 31 March 2012, there were 481 CPSEs (338 Government Companies; 137 Deemed Government Companies; and 6 Statutory Corporations). The key financials for the year 2011-12 in respect of 399 active CPSEs* are:

(₹ in crore)

Paid-up Capital	Reserves & Surplus	Turnover	PBT	PAT†
2,70,095	**8,09,797**	**18,51,956**	**1,67,604**	**1,09,274**

Note: PBT: Profit Before Tax; PAT: Profit After Tax

The CPSEs contribution to GDP of ₹ 2,71,448 crore (PBT: ₹ 1,67,604 crore *plus* Manpower Cost: ₹ 1,03,844 crore) was 3.07 *per cent* of total GDP of ₹ 88,55,797 crore in 2011-12. Thus, the CPSEs are a significant force in the national economy.

Dividend is the return the Government gets from its equity in CPSEs and is an important source of revenue for it. For the year 2011-12, 150 CPSEs declared dividend of ₹ 43,388 crore of which the Government of India's share stood at ₹ 27,631 crore.

The trend of cash balances during 2007-08 and 2010-11 in the CPSEs is as follows:

(₹ in crore)

Year	No. of CPSEs	No. of active CPSEs	Cash Balance of active CPSEs
2007-08	419	366	2,67,954
2008-09	438	392	2,95,726
2009-10	451	404	3,04,630
2010-11	**466**	**406**	**3,11,371**

7.1.1 Rationale for selection of topic

Increasing quantum of cash balances with the CPSEs creates an impression that the CPSEs are not giving back enough (in the form of dividends) to their shareholders (mainly the Government of India (GoI)) and they do not have enough plans/ opportunities for effective utilization of this cash. While these CPSEs park their cash in bank deposits, their principal shareholder, the GoI, borrows funds from the market. In this background, the need was felt to examine whether the CPSEs have been distributing dividends adequately and whether they have plans to ensure effective utilization of their cash.

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* *Accounts are in arrear and accounts not due for the F.Y. 2011-12 in respect of 82 CPSEs*

† *The Profit after Tax (PAT) indicated is net of losses suffered by CPSEs.*

7.1.2 Audit objectives

The main objectives of this Audit were to:

- Ascertain whether the CPSEs have a Dividend Policy in place which is in compliance with Department of Public Enterprises (DPE) guidelines and they reward the investors adequately;
- Ascertain whether the CPSEs have made plans for utilization of surplus cash;
- Ascertain whether the CPSEs have an investment policy for surplus cash and if so, whether it appropriately addresses the issues of safety, liquidity and profitability; and
- To comment on the cognizance taken by the Board of Directors and the Ministry of huge cash reserves and actions initiated thereon.

7.1.3 Audit criteria and methodology of audit

The audit criteria adopted for assessing the achievement of the audit objectives were:

- DPE/ Ministry guidelines/ instructions;
- Cash Utilization Plans; and
- Decisions of the CPSEs.

The methodology adopted for attaining the audit objectives with reference to audit criteria includes examination of relevant records, their analyses and interaction with the CPSEs personnel.

7.1.4 Scope of audit

The audit covered a period of five years from 1 April 2007 to 31 March 2012. A sample of 31 CPSEs with an aggregate cash balance of ₹ 1,77,862 crore was selected. The details of sample selection are given below:

Particulars	No. of CPSEs	Cash and Bank Balance (as of 31 March 2011)
Total cash and bank balance	406	₹ 3,11,371 crore
Less: Cash and bank balance of Defence CPSEs[†]	11	₹ 36,312 crore
Cash and bank balance of remaining CPSEs	395	₹ 2,75,059 crore (100%)
Out of the above 395 CPSEs, CPSEs with Cash and bank balance above ₹ 1,000 crore	47	
Out of 47 CPSEs, CPSEs with net cash balance[*] above ₹ 1,000 crore, i.e., cash balance *minus* advances from clients	40	
Sample after excluding the CPSEs belonging to Finance/ Insurance[¥]	34	₹ 1,88,185 crore
Add: Profit making CPSEs with reserves and surplus, thrice their paid-up capital, and in excess of ₹ 500 crore (other than Insurance and Finance CPSEs)	4	₹ 2,879 crore
Total	**38**	**₹ 1,90,954 crore (69%)**
Selected Sample	**31**	**₹ 1,77,862 crore (65%)**

[*] *Net cash balance means Cash in hand plus Cash at Bank less Advances from Clients.*

Defence CPSEs have been excluded from the scope of the review as the huge cash balances are out of the advances received from Army/ Clients against various orders. As such, it is not surplus cash generated from operations.

CPSEs belonging to Finance and Insurance sector have been excluded as these companies require huge cash balances for day to day operations and for unforeseen contingencies.

Of the 38 CPSEs, the following seven CPSEs have been excluded due to the following reasons:

- Delhi Metro Rail Corporation Limited and Chennai Metro Rail Corporation Limited have been excluded as these companies are either in the initial years of their operation or in project execution stage.
- Power Finance Corporation Limited and Rural Electrification Corporation Limited are in the nature of financing companies dedicated for financing power sector and committed to the integrated development of the power and associated sectors. Their nature of operations requires them to maintain and rotate huge cash balances.
- Handicrafts and Handloom Exports Corporation of India Limited is one of the nominated agencies under the Foreign Trade Policy for import of bullion and the cash of the Company mainly represents margin money received from customers against external commercial borrowings for import of precious metal under bullion trade.
- National Highways Authority of India is responsible for development, maintenance and management of national highways. The Authority is dependent upon government grants, borrowings and external aid for implementation of the projects and as such, the cash balance represented in the Balance Sheet is not out of surplus holdings.
- India Trade Promotion Organization is registered under Sec. 25 of Companies Act, 1956 and prohibited from paying any dividend or bonus to its members and intends to apply its profits, if any, or other income in promoting its objectives. As the Company is a non-profit making organization, it is left outside the purview of this review.

The balance 31 CPSEs constitute our final sample (***Appendix XIV***) for audit scrutiny, covering a period of five years from 2007-08 to 2011-12. The key financials of these 31 CPSEs as of **31 March 2012** are given below:

(₹ in crore)

Paid-up Capital	Reserves & Surplus	Turnover	PBT	PAT	Cash & Bank balance
78,064	4,28,548	4,99,875	1,26,037	89,793	1,75,332

7.1.5 Acknowledgement

Audit acknowledges the cooperation and assistance extended by the Managements of different CPSEs at various stages of this Audit.

7.2 Dividend* Payment and Bonus Shares

The Department of Public Enterprise (DPE) is responsible for providing policy and overall guidance to the CPSEs. The guidelines issued by the DPE are advisory in nature and the Board of

* *Dividend is the sum paid regularly (typically annually) by a company to its shareholders out of its profits (or reserves).*

Directors of the CPSEs has the discretion not to adopt these guidelines for reasons to be recorded in writing. DPE had issued guidelines[*] in October 2004 according to which it should be ensured that 'all profit making CPSEs declare a minimum dividend on equity of 20 *per cent* or a minimum dividend payout of 20 *per cent* of post tax profits, whichever is higher. The minimum dividend payout in respect of Oil, Petroleum, Chemical and other Infrastructure Sectors CPSEs shall be 30 *per cent* of post tax profits'.

7.2.1 Dividend payment

None of the CPSEs selected as sample had a specific dividend policy of their own. They are to follow the DPE guidelines framed in this regard[†]. Five CPSEs, all of them being subsidiaries of Coal India Limited, were directed by Coal India to pay a minimum dividend of 60 *per cent* on PAT.

The details of dividend paid by 30 CPSEs for the period from 1 April 2007 to 31 March 2012 are given below:

(₹ in crore)

Year	Equity*	PAT*	Dividend actually paid	Dividend Payout Ratio (DPR)
	(a)	(b)	(c)	(c)/ (b) *100
2007-08	66,627	61,962	21,948	35
2008-09	67,521	62,601	21,329	34
2009-10	68,805	66,488	24,096	36
2010-11	72,130	76,134	26,537	35
2011-12	72,160	89793	34,500	38

Note: DPR indicates the percentage of PAT paid as dividend.

*The details of National Textiles Corporation have been excluded as the Company is having accumulated losses and as such is not liable to pay dividend.

We observed that the Coal India Limited (CIL), which is into mining and derives its income from sale of natural resource (coal), has been consistently paying dividend to GoI/ shareholders ranging between 47 to 81 *per cent* of PAT. Further, it has also directed all its subsidiaries to pay dividend at the rate of 60 *per cent* of its PAT from the year 2007-08. All its subsidiaries, except Central Coalfields Limited, paid 60 *per cent* of PAT as dividend. However, another CPSE, NMDC Limited (NMDC) which is also into mining and derives its income from sale of natural resource (iron ore), paid dividend of 20 to 25 *per cent* of PAT only. The table below indicates the PAT and dividend paid by Coal India Limited and NMDC Limited during the five years ended March 2012.

(₹ in crore)

CPSE	2007-08			2008-09			2009-10			2010-11			2011-12		
	PAT	D.P.	%	PAT	D.P.	%	PAT	D.P.	%	PAT	D.P.	%	PAT	D.P.	%
CIL	2,454	1,995	**81**	3,295	1,705	**52**	3,780	2,210	**58**	4,696	2,209	**47**	8,065	6,245	**77**
NMDC	3,251	652	**20**	4,372	876	**20**	3,447	694	**20**	6,499	1,308	**20**	7,265	1,784	**25**

D.P. – Dividend paid

Though these 30 CPSEs in aggregate, show a healthy dividend payout ratio, individually, seven CPSEs did not pay even the minimum dividend (30 *per cent* of PAT for oil/ infrastructure companies and 20 *per cent* for others) prescribed by DPE. We observed that:

[*] *DPE O.M. No. 15(10)/ 2004 – DPE(GM) dated 18 October 2004*

[†] *Except for Nuclear Power Corporation of India Limited (NPCIL) which has been exempted by GoI from applicability of DPE guidelines. Ministry of Finance (MoF) directed (March 2006) the Department of Atomic Energy to pay dividend at the rate of 30 per cent of PAT in case of NPCIL.*

GAIL (India) Limited defaulted in payment of minimum dividend in 2010-11 citing Company's huge capex plan to invest in ongoing projects. The shortfall in payment of dividend was ₹ 117.30 crore.

NHDC Limited defaulted in paying minimum dividend during the years 2008-09 to 2011-12. The shortfall in payment of dividend works out to ₹ 275.56 crore during 2008-12.

Orissa Minerals Development Company Limited consistently paid dividend at 15 *per cent* of PAT instead of 20 *per cent* during the five years ended March 2012 resulting in short payment of dividend to the extent of ₹ 20.79 crore for five years.

ONGC Videsh Limited, a wholly owned subsidiary of ONGC, has not paid any dividend and has been retaining profits for new/ ongoing projects. The shortfall in dividend accounted to ₹ 2,244.53 crore during 2007-12. The Company has capital works to the extent of ₹ 6,223 crore in progress.

Rashtriya Ispat Nigam Limited did not pay dividend during 2007-08 and has paid dividend below the minimum limits in the remaining years. This short payment amounted to ₹ 742.77 crore. Management stated (August 2012) that the dividend was paid less keeping in view the requirement of funds for its long term growth plan and also for modernization and revamping of its existing Plant and Machinery.

Steel Authority of India Limited defaulted in paying minimum dividend for the year 2008-09 amounting to ₹ 160 crore. However, it followed the DPE guidelines for the subsequent years.

Mangalore Refinery and Petrochemicals Limited, though paid dividend, the pay-out ratio was less than 30 *per cent* stipulated in the DPE guidelines resulting in shortfall of dividend paid to the extent of ₹ 682.13 crore. Management stated that the dividend recommendation was done considering the funds required for the ensuing projects.

Had all the seven CPSEs paid the dividend as stipulated in DPE guidelines, the Government and other shareholders would have received additional dividend payment of ₹ 4243.08 crore during 2007-12.

The DPE guidelines referred to in Para 7.2 prescribe that all profit making CPSEs should pay dividend amounting to (a) 20 *per cent* (30 *per cent* in case of oil/ infrastructure companies) of PAT; OR (b) 20 *per cent* of equity WHICHEVER IS HIGHER. As the dividend is to be paid out of profits earned by the CPSE, it is possible to comply with the provision (a) above, i.e., paying a certain percentage of profit as dividend. However, it is not always possible to comply part (b) above as explained below.

It is possible that the PAT may be less than an amount equal to 20 *per cent* of equity. If one has to pay dividend "whichever is higher of 20% of PAT and equity", as prescribed in DPE guidelines, the company may have to pay more than its PAT as its 20% equity is more than PAT. For example, NHDC Limited had equity of ₹ 1962.58 crore and PAT of ₹ 304.13 crore in 2010-11. As per the DPE guidelines, the dividend payment requirement works out to ₹ 91.24 crore (30 *per cent* of PAT) under part (a) and ₹ 392.52 crore (20 *per cent* of equity) under part (b). The guidelines prescribe that the dividend to be paid should be higher of them. Thus, if NHDC is to comply with the DPE guidelines, it would have to pay ₹ 392.52 crore as dividend. However, it earned PAT of only ₹ 304.13 crore. Since the dividend is paid out of profit, NHDC cannot pay more than ₹ 304.13 crore. Thus, it cannot pay the dividend of ₹ 392.53 crore as required under DPE guidelines.

Ministry in its reply(March 2013) stated that guidelines on declaration of dividend by CPSEs have been issued by the Department of Expenditure vide its OM dated 24.09.2004 which were forwarded to all CPSEs for compliance. Further, it was stated by ministry that under section 205 of the Companies Act, dividend would be paid out of the profit of the company for the financial year, or out of the profits for the previous financial years or out of both.

The reply of ministry is not acceptable as it may also not be feasible for a CPSE to pay dividend throughout the years out of the profits from the previous financial years in order to comply with "whichever is higher" clause. Therefore, it is not always possible to comply with the second part of the DPE guidelines, i.e., payment of dividend equal to 20 *per cent* of equity.

In view of the above, the dividend payment guideline of DPE is deficient to that extent and needs to be modified. Further, DPE requires oil/ infrastructure sector companies to pay minimum 30 *per cent* of PAT as dividend. However, the same is kept at 20 *per cent* of PAT for other companies. Going by the profits and payout of 2011-12, such a 30 *per cent* prescription of minimum dividend payout for all companies would have increased the dividend of shareholders by further ₹ 869 crore.

7.2.2 Issue of bonus shares

DPE vide its guidelines[*] issued in November 1995 and reiterated in November 2011[†] laid down procedure for issue of bonus shares by CPSEs. As per these guidelines:

- The CPSEs which are carrying substantial reserves in comparison to their paid-up capital shall issue bonus shares to capitalize the reserves;
- CPSEs should also consider the need for increasing their authorized capital to accommodate the release of bonus shares; and
- Each Administrative Ministry may direct the enterprises under their control that CPSEs with reserves in excess of three times their paid-up capital should immediately consider the scope for issuing bonus shares.

With reference to issue of bonus shares, we observed that eight out of 31 CPSEs were not required to issue bonus shares as their paid-up capital was less than three times their reserves. In case of other eight CPSEs which were subsidiaries of other CPSEs, there would be no impact on issue of bonus shares to the holding company. The balance 15 CPSEs were required to issue bonus shares as their paid-up capital to reserves ratio was more than 1:3. Further, it was also noticed that, of the 15 CPSEs, 10 CPSEs have already issued bonus shares during 2007-12 and still their ratio was more as indicated below:

(₹ in crore)

Sr. no.	CPSE	Paid up Capital (Mar' 2012)	Reserves (Mar' 2012)	No. of times Reserves	Bonus shares issue during 2007-12
1.	Antrix Corporation Limited	1.00	779.90	780	Not issued
2.	GAIL (India) Limited	1268.48	20356.00	16	In 2008-09 in ratio of 2:1.
3.	MOIL Limited	168.00	2273.31	14	In the ratio of 0.82706:1 in October 2006 and 5:1 during December 2009.
4.	MMTC Limited	100.00	1321.40	13	In the ratio of 1:1 were issued in August 2010.

[*] *DPE O.M. No. DPE/ 12(6)/ 95 – Fin. dated 10 November 1995*
[†] *DPE O.M. No. DPE/ 13(21)/ 1 – Fin. dated 25 November 2011*

5.	National Aluminium Company Limited (NALCO)	1288.62	10426.46	8	In the ratio of 1:1 in March 2011.
6.	Neyveli Lignite Corporation Limited	1677.71	10362.18	6	Not issued
7.	NMDC Limited	396.47	24009.89	61	Company allotted 2 bonus shares for every share held in May 2008.
8.	NTPC Limited	8245.46	65045.71	8	Not issued
9.	Oil India Limited	240.45	17499.09	73	Company allotted 3 bonus shares for every 2 shares held in April 2012.
10.	Oil and Natural Gas Corporation Limited (ONGC)	4277.80	108659.95	25	In the ratio of 1:2 in November 2006 and in the ratio of 1:1 in February 2011.
11.	Power Grid Corporation of India Limited (PGCIL)	4629.73	18,858.05	4	Not issued
12.	Steel Authority of India Limited	4131.00	35,681.00	9	Not issued
13.	The Shipping Corporation of India Limited (SCI)	465.80	6,268.52	13	In the ratio of 1:2 in November 2008.
14.	IRCON International Limited	9.90	1,733.04	175	In 1:1 ratio in October 2012.
15.	Container Corporation of India Limited	129.98	5,476.45	42	In the ratio of 1:1 in 2008-09.

Though 10 out of 15 CPSEs did issue bonus shares during 2007-12, their reserves are still in excess of 3 times their paid up capital. Thus, these CPSEs, in order to comply with the DPE guidelines, should have issued bonus shares more frequently and in larger ratio. Regarding issue of bonus shares, the management of CPSEs replied the following:

- GAIL (India) Limited stated that the financial consultant (February 2012) opined that the time was not conducive to issue bonus shares;
- NALCO attributed the non-issue of bonus shares to global liquidity crisis of 2008 and consequent downturn in prices and profits;
- NMDC stated that it issued bonus shares in 2008 on receipt of directives from the Ministry of Steel;
- NTPC considered that the proposal of bonus issue may not be feasible given the capacity expansion plans of the company;
- ONGC issued bonus shares in 2011 on directions of Cabinet Committee on Economic Affairs and attributed a lack of directives from the Ministry regarding scope and proportion of reserves to be capitalized as the reason for non-compliance with DPE guidelines;
- PGCIL attributed non-issue to massive requirements of equity funds in XII Plan and need to raise funds through equity in near future;
- In case of Steel Authority of India Limited, Ministry of Steel advised (December 2011) the Company to examine and approve the proposal regarding issue of bonus shares as per guidelines of DPE but the same was not considered in the Board in view of the required fund outflow for meeting the expenditure on ongoing modernization/ expansion plan.
- SCI attributed the non-issue of bonus shares subsequent to 2008 to recession in the shipping industry.

Ministry in its reply(March 2013) stated that a decision regarding issue of the bonus shares is taken by the Board of Directors of the concerned CPSEs after considering various factors including likely increase in capital base, ability to service the enlarged equity etc. as per DPE guidelines dated 10.11.1995. DPE has further reiterated these guidelines vide its O.M. dated 25.11.2011. Compliance with DPE's guidelines on the subject is one of the parameters for evaluating the performance of the CPSE under the MoU guidelines for 2012-13.

The reply of ministry is not acceptable as the fact remains the same that 15 CPSEs have not complied with DPE guidelines on issued of bonus shares contained in DPE OM dated 25.11.2011.

We further observed that:

- ANTRIX Corporation Limited has a paid up capital of ₹ 1 crore whereas its reserves were ₹ 779.90 crore as of March 2012. Yet, it had not issued bonus shares. Management stated (August 2012) that the Company had corresponded with the Government on the matter relating to issue of bonus shares and it was verbally informed that since the company was operating in a strategically sensitive area and number of its projects were implemented using the facilities of ISRO, no decision was taken on the issue of bonus shares as it could have a bearing on the national security. However, no written communication was received from GoI. It is not clear as to how GoI getting bonus shares would have a bearing on national security.
- In case of Neyveli Lignite Corporation, Ministry of Coal included issue of bonus shares as one of the parameters in the MoU for the year 2012-13.
- In case of NTPC Limited, issue of bonus shares was included as part of the performance evaluation under Memorandum of Understanding (MoU) with Ministry for the year 2012-13.
- In case of Container Corporation of India Limited, Ministry issued directions in November 2012 to the Company for issue of bonus shares.

Antrix Corporation Limited (Department of Space), GAIL (India) Limited (Ministry of Petroleum & Natural Gas), Power Grid Corporation of India Limited (Ministry of Power), MMTC Limited (Ministry of Commerce) and National Aluminium Company Limited (Ministry of Coal) did not receive any instructions on issue of bonus shares from their Administrative Ministries during 2007-12.

7.2.3 Buy back of shares

DPE issued guidelines[*] dated 26 March 2012 for buy back of shares. As per these guidelines:

- CPSEs are encouraged to buy back their shares to provide sustained investor interest in the Company and protect their market capitalization in the long term interest of the Company's ability to raise funds from the market; and
- CPSEs will amend their Articles of Association (AoA) to provide for buy back of shares, if such provision does not exist in their articles.

In this regard, we observed that:

These provisions do not apply to eight CPSEs[*] which are subsidiaries of other CPSEs. These provisions would not make much difference to five CPSEs i.e. NHDC Limited; Antrix Corporation

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[*] *DPE O.M. No. DPE/ 14(24)/ 2011 – Fin. dated 26 March 2012*

Limited; Rashtriya Ispat Nigam Limited, National Textile Corporation Limited; and Nuclear Power Corporation of India Limited wherein Government of India/ State Governments are holding 100 *per cent* equity.

These provisions are more relevant to 18 CPSEs (***Appendix XV***). Articles of Association (AoA) provides for buy back of shares in case of 16 CPSEs and in case of two CPSEs (SJVN Limited and KIOCL Limited), Managements are in the process of amending AoA to provide for buy back of shares.

7.3 Plans for utilization of cash by CPSEs

The CPSEs should aim at having an investment policy resulting in optimal return. CPSEs have undertaken expansion and diversification projects which require funding. The overall picture as at March 2012 is presented below:

(₹in crore)

Sr.	Name of the CPSE	Cash & Bank balance	Projected Plans	Remarks
1.	NMDC Limited	20,265.00	30,072.00	Planned projects are proposed to be financed fully from internal sources generated in due course of time.
2. to 7.	Coal India Limited & its five subsidiaries	54692.81	90,330.00	
8.	Container Corporation of India Limited	2762.00	6000.00	
9.	MOIL Limited	2,088.42	3,102.75	
10.	Neyveli Lignite Corporation Limited	3,329.10	40,278.00	Planned projects are proposed to be financed from internal sources generated in due course of time coupled with borrowings/ fresh issue of equity.
11.	Mangalore Refinery and Petrochemicals Limited	2,234.72	6,138.63	
12.	Oil India Limited	10,935.48	19,003.02	
13.	Oil and Natural Gas Corporation Limited	20,099.00	1,63,956.00	
14.	ONGC Videsh Limited	344.73	92,860.00	
15.	National Textiles Corporation Limited	1,680.57	1,053.36[†]	
16.	GAIL (India) Limited	931.33	29,963.93	
17.	NHDC Limited	1,707.00	2,000.00	
18.	NHPC Limited	6,003.97	29,000.00	
19.	Power Grid Corporation of India Limited	2,336.88	1,02,034.00	
20.	SJVN Limited	1,888.76	10,400.00	
21.	NTPC Limited	16,146.11	2,19,613.00	
22.	Rashtriya Ispat Nigam Limited	2,068.34	11,183.00	
23.	KIOCL Limited	1,464.54	3,080.00	
24.	The Orissa Minerals Development Company Limited	701.00	1,178.00	
25.	Steel Authority of India Limited	6,416.00	45,000.00	
26.	National Aluminium Company	4,168.35	14,233.00	

[*] *Eight CPSEs are: South Eastern Coalfields Limited; Northern Coalfields Limited; Western Coalfields Limited; Central Coalfields Limited; Mahanadi Coalfields Limited; Mangalore Refinery & Petrochemicals Limited; ONGC Videsh Limited; and The Orissa Minerals Development Company Limited.*

[†] *Plan expenditure for 2012-13 only.*

	Limited			
27.	Nuclear Power Corporation of India Limited	5,160.55	5,460.00[12]	
28.	IRCON International Limited	2623.23	2,954	
29.	ANTRIX Corporation Limited	989.04		No capital outlay plans were prepared. No projection has been made either on internal generation of cash or investment of cash in projects.
30.	MMTC Limited	2,853.12		
31.	The Shipping Corporation of India Limited	1,442.41		
	Total	**175,332.46**	**9,28,892.69**	

As can be seen from the above, except the three CPSEs (Sr# 29, 30 & 31 in the above table), all the other CPSEs have defined and adequate capital outlay plans for the future depicting the utilization of cash balances.

The details of plans for utilization of the surplus cash relating to the 28 CPSEs are given in (***Appendix XVI***). Certain observations have been made in respect of remaining three CPSEs:

- Board of Directors of ANTRIX considered (June 2009) other investment opportunities which were directly in line with the main objective of the Company such as acquiring satellites, investing in space crafts and development of solar cells etc. However, no action has been initiated by the Company and it is continuing to invest in fixed deposits and mutual funds. Further, out of ₹ 989 crore cash and bank balance of ANTRIX as of March 2012, ₹ 462 crore were relating to unutilized advances received from Ministry of Defence.

- MMTC Limited has no long term plans approved by the Board for utilization of surplus cash. As the Company did not prepare estimates regarding surplus cash, the capital outlay plan during five years under review was also not prepared. As on 31 March 2012, the Company had a cash and bank balance of ₹ 2,853.12 crore. Since, there had been no mechanism of 'Capital Outlay Plan' no projection could be made either on internal generation of cash or investment of cash in projects.

- The capital outlay projected for The Shipping Corporation of India Limited during 2010-20, as per the Maritime Agenda of the Ministry of Shipping was ₹ 26,716 crore. The Board of Shipping Corporation decided (February 2012) not to pursue any new acquisitions during the year 2012-13 due to prevailing downturn experienced by the shipping industry and the impact of the same on SCI's revenue generation.

7.3.1 Repayment of loans

DPE vide its guidelines[*] dated 14 December 1994 advised the CPSEs that "funds should not be invested by the PSE at a particular rate of interest for a particular period of time while the PSE is resorting to borrowing at an equal or higher rate of interest for its requirements for the same period of time".

Of the 31 CPSEs, 12 CPSEs had substantial long term borrowings (in excess of ₹ 1,500 crore) as of March 2012. Of the 12 CPSEs, two CPSEs Gail (India) Limited and ONGC Videsh Limited) resorted

[*] *DPE O.M. No. 4/ 6/ 94 – Fin. dated 14 December 1994*

to long term borrowings due to low cash holdings. Of the balance ten CPSEs, six CPSEs* (mainly relating to power sector) have resorted to borrowings as they have to fund the projects in the debt-equity ratio of 70:30 and the tariff is regulated on cost plus basis. In case surplus funds available with the companies are utilized for repayment of loan, the same shall have dual impact on profitability of the companies on account of reduction in tariff, and loss of additional income as interest from surplus fund deployment. The rate of interest on borrowings relating to SJVN Limited ranged from 2.76 to 4.01 *per cent* in comparison to the domestic market interest rate on surplus funds which ranged between 6.75 to 11.95 *per cent*. NHPC Limited and Power Grid Corporation of India Limited prepaid their loans (₹ 384.29 crore by NHPC and ₹ 49.31 crore by POWERGRID) to save additional interest outgo.

In respect of the balance four CPSEs, the cash & bank balance and long term borrowings as on 31 March 2012 are as follows:

(₹ in crore)

Sr.	Name of the CPSE	Cash & Bank balance	Long Term Borrowings	Remarks
1.	Mangalore Refinery and Petrochemicals Limited	2,234.72	3,891.91	The interest rate on the funds invested in banks during 2011-12 ranged between 7.48 to 13.21 *per cent.* However, the major portion of borrowings is from ONGC, another CPSE, which is the majority shareholder in MRPL (71.62 *per cent*).
2.	Steel Authority of India Limited	6,416.00	11,586.66	SAIL made short term fixed deposits of ₹89.50 crore during 2007-08 which were increased to ₹ 2,903.56 crore up to 2011-12, against which the Company obtained ₹ 76.05 crore to ₹ 2,646.00 crore short term loans during the period at an average higher rate of interest ranging between 0.48 to 1.06 *per cent*.
3.	The Shipping Corporation of India Limited	1,442.41	5,525.78	The Company follows the debt equity ratio of 80:20. The rate of interest paid by the Company ranged from 0.22 to 2.80 per cent for USD loan and 6.25 to 10.75 per cent for Rupee loan whereas the interest earned ranged from 1 to 13.60 per cent. However, borrowings were for long term periods for at least 10 years whereas investment of surplus funds was for 18 to 359 days. Hence, interest paid and earned cannot be compared.
4.	Nuclear Power Corporation of India Limited	5,160.55	14,453.89	In order to fund the foreign technology and huge capital required for setting up Reactor projects, the Company has relied on funding from Indian banks and Russia the interest of which was based on floating rates offered after adjusting for base price fixed.

To conclude, CPSEs generally have plans in place for utilization of surplus cash.

7.4. Investment Policy

DPE vide its guidelines dated 27 June 1994† and 14 December 1994 suggested that:

- Investment policies should be clear-cut and transparent;
- Investments should be made only in instruments with maximum safety;

* *Neyveli Lignite Corporation Limited; NTPC Limited; NHDC Limited; NHPC Limited; Power Grid Corporation of India Limited; and SJVN Limited.*

† *DPE O.M. No. DPE/ 4/ 3/ 92 – Fin. dated 27 June 1994*

- The surplus availability may be worked out by preparation of best estimates of availability of funds by the CPSEs and the Administrative Ministry may be kept informed; and
- Board of Directors of all non-financial CPSEs should ensure that decisions regarding investments of funds are transparent and taken only by delegated authority, and such proper authority is monitored by the Board.

7.4.1 Existence of a policy

In this regard, we observed that there was no specific investment policy in respect of 9* CPSEs. They follow the DPE guidelines for investment of surplus funds. The investment policy of the other CPSEs generally focuses on (i) Responsibility and Authority; (ii) Criteria for obtaining bank interest card rates; (iii) Procedure for determination of surplus fund and date of investment; (iv) Functions of the Investment Cell; (v) Procedure for recommending Investment Proposal; (vi) Approval for release of payments etc.

7.4.2 Constitution of a sub-committee for investments

According to DPE guidelines dated 27 June 1994, decisions on investments involving investing short term funds up to one year maturity may be delegated up to prescribed limits of investment, to a designated group of Director[s], which should invariably include CMD and Director (Finance)/ Head of Finance internally. Where such delegation is made, the delegation order should spell out the levels of approval and the powers of each official, which should be strictly observed.

However, in case of the following four CPSEs, we observed that the powers were solely vested with Chairman/ Director (Finance) and no sub-committee as required by DPE was constituted.

- MOIL Limited;
- MMTC Limited;
- IRCON International Limited; and
- KIOCL Limited.

7.4.3 Composition of Investments

The composition of investments of 31 CPSEs is as follows:

(₹ in crore)

	Cash	Bank/ FDs	Govt. Bonds etc.	Equity & Mutual Funds	Corporate Deposits	Misc.	Total
Investments as of 31 March 2012	948	1,72,166	12,162	40,076	7,589	747	**2,33,688**
% to Total	0.4	73.7	5.2	17.2	3.2	0.3	**100**

* *SJVN Limited; MOIL Limited; Oil India Limited and Orissa Mineral Development Corporation Limited (up to March 2012); MMTC Limited; The Shipping Corporation of India Limited; KIOCL Limited; NMDC Limited; and Mangalore Refinery & Petrochemicals Limited.*

DPE vide its instructions issued dated 11 April 2008[*] in respect of investment of surplus funds clarified that "at least to the extent of 60 *per cent* of funds under the control of Ministries/ Departments/ other agencies/ entities etc. be placed with Public Sector Banks (PSBs)".

We observed that:

- All the CPSEs had invested at least 60 *per cent* of their funds in Public Sector banks.
- ANTRIX kept some balances in Current Accounts maintained with State Bank of India and Canara Bank during the years 2007-12 without converting the same into flexi deposits which could have earned interest, resulting in interest loss of ₹ 2.66 crore. Further, the Company kept idle funds over and above the limits, USD 1 million fixed in December 2001, in the EURO/ DOLLAR accounts[†]. Management replied (September 2012) that the company, pending review of the Board of the limits, converted the forex balances into INR only when there was no immediate requirement of funds or the rate was reasonable. The fact remains that the Company has been holding cash in excess of the limits specified.
- North Eastern Coalfields (NEC), Margherita, Assam, a Unit of Coal India Limited (CIL), has transactions with six banks. NEC started auto sweep arrangement with only Punjab National Bank (PNB) from the very beginning but with other banks, with effect from December 2010. CIL did not earn any interest on surplus placed with banks other than PNB till December 2010 and in case of PNB, the interest rate was limited to Auto Sweep rate which was lower than the interest on short term deposits. The total loss on this account to CIL is estimated as ₹ 9.96 crore from April 2009 to March 2012. The ministry in its reply(March 2013) stated that the matter has been referred to the Ministry of Coal of its comments/clarification.

7.4.4 Preparation of estimates and calculation of working capital requirements

The estimates for working out the surplus at each instance of investment have to be worked out before making an investment decision to avoid circumstances leading to pre mature withdrawal of deposits or going for cash credits at higher rates.

In respect of the following three CPSEs, we observed that due procedure in taking investment decisions was not followed:

- ANTRIX Corporation Limited did not have the system of preparing the working capital requirement.
- At MMTC Limited, the surplus cash at each instance of investment was not calculated separately.
- While making investment decisions in KIOCL Limited, the requirement of working capital was not worked out and kept on record.

7.4.5 Safe custody of investments and physical verification

The investments have to be kept under safe custody and should be periodically verified for title of ownership and physical presence to avoid frauds. The documents to be verified include the (i) Fixed Deposit/ Term Deposit receipts; (ii) Account Statements of Banks indicating the electronic holding of investments etc. There is arrangement for safe custody of investments in case of all CPSEs.

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[*] *DPE O.M. No. DPE/ 11(47)/ 2006 – Fin. dated 11 April 2008*

[†] *ANTRIX had kept the amount in Exchange Earners' Foreign Currency Account which is a zero interest bearing account.*

There exists a system of periodic physical verification of title of ownership in case of 28 CPSEs except for MOIL Limited, National Textiles Corporation Limited and ONGC Videsh Limited. In case of ONGC Videsh Limited, all the investments are made and held by the holding company, ONGC. However, in case of MOIL Limited and National Textiles Corporation Limited, there was no record of physical verification of titles of investments. Management of MOIL has assured that periodical physical verification of investments will be included in the internal audit program.

7.4.6 Investments in Inter-Corporate Loans

DPE vide its guidelines dated 14 December 1994 and clarifications dated 1 November 1995 issued instructions regarding investment in Inter-Corporate Loans. As per these guidelines:

- Inter-Corporate loans are permissible to be lent only to CPSEs, which have obtained highest credit rating awarded by one of the established Credit Rating Agencies for borrowings for the corresponding period.
- CPSEs may invest funds only on the basis of such ratings.

As on 31 March 2012, an amount of ₹ 7,589 crore was invested in 'Inter Corporate Deposits' (ICDs) by five CPSEs. This constitutes only 3.2 *per cent* of total investments made by 31 CPSEs. ONGC had invested ₹ 3,000 crore in inter corporate loans to Central 'Navratna' PSEs having highest credit rating. South Eastern Coalfields Limited, Northern Coalfields Limited and Mahanadi Coalfields Limited had invested ₹ 4,144 crore as deposits in Coal India Limited. Oil India Limited invested ₹ 445 crore in ICDs.

We further observed that Container Corporation of India Limited (₹ 43.14 crore), GAIL (India) Limited (₹ 79.35 crore), Mangalore Refinery and Petrochemicals Limited (₹ 600.98 crore), Nuclear Power Corporation of India Limited (₹ 300.00 crore) and National Textiles Corporation Limited (₹ 77.16 crore) advanced loans to their Subsidiaries/ JV companies/ Oil Manufacturing Companies.

7.4.7 Investments in Treasury Bills and GoI securities

DPE vide its OM dated 1 November 1995 clarified that "CPSEs can also select treasury bills and GoI securities up to three years maturity period for the investment of surplus funds".

We observed that none of the CPSEs have invested in Treasury Bills. We also observed that an amount of ₹ 12,162 crore was invested in Government Securities such as Oil Bonds, Power Bonds, State Electricity Board Bonds, India Railway Finance Corporation bonds etc mainly by NHPC Limited, Nuclear Power Corporation of India Limited, Mangalore Refinery & Petrochemicals Limited, IRCON International Limited, Container Corporation of India Limited, Western Coalfields Limited and Mahanadi Coalfields Limited.

7.4.8 Investments in Mutual Funds and Equities

We observed that 21 CPSEs invested in mutual funds/ equities to the tune of ₹ 40,076 crore. This constitutes 17.2 *per cent* of total investments made by 31 CPSEs. Coal India Limited invested ₹ 6,319 crore as equity in its subsidiaries; ONGC invested as equity ₹ 2,041 in subsidiaries, ₹ 509 crore in Joint Ventures (JVs) & Associates and ₹ 1,617 crore in other CPSEs; ONGC Videsh invested ₹ 13,736 crore as equity in wholly owned/ partially owned subsidiaries and jointly controlled entities; NTPC Limited invested ₹ 4,673 crore as equity in subsidiaries/ JVs; and GAIL (India) Limited invested ₹ 3,539 crore as equity in subsidiaries/ JVs/ Associates. Hence, most of the funds invested by the CPSEs are for creation of long term assets.

The investment in Mutual Funds was made in SEBI regulated public sector mutual funds as prescribed by DPE vide its guidelines dated 31 August 2007[*], 15 April 2008[†] and 12 January 2009[‡] which suggested that investments may be made in mutual funds subject to investment in such schemes should not exceed 30 *per cent* of available surplus funds of concerned CPSE.

7.5 Governance by Board and Oversight by Ministry

7.5.1 Governance by Board

The Board of Directors are responsible for the overall supervision of the performance of the Company and play a key role in advising the Company in investment decisions. The CPSEs are following the guidelines of DPE regarding investment of surplus funds and also have plans for utilization of cash. We have noticed that in case of ANTRIX Corporation Limited, even though Board directed (June 2009) the Company for initiating action for diversifying investment, no action was taken by Management and the Board had not taken any feedback on the same. Ministry in its reply(March 2013) stated that the matter has been referred to the Department of Space for its comments.

7.5.2 Oversight by Ministry

The Administrative Ministries monitor the performance of the CPSEs through the Memorandum of Understanding (MoU) signed by the CPSEs with them. The CPSEs have been following the DPE guidelines forwarded by the Administrative Ministries and are having sufficient plans for utilization of surplus cash. There are no major issues relating to the governance by Board or oversight by the Ministry except the following:

- 15 CPSEs whose reserves are more than thrice its paid up capital have not issued bonus shares as stipulated by the DPE and it was also noticed that five Ministries covering five CPSEs referred in Para 7.2.2 have not issued any instructions on issue of bonus shares to the CPSEs during 2007-12.
- Further, no specific instructions were also issued by the Administrative Ministries on the issue of buy back of shares.

7.6 Conclusion

- CPSEs, as per sample, have in general followed the DPE guidelines and have adequate plans for the utilization of surplus cash held by them. 30 CPSEs have paid a total dividend of ₹ 34,500 crore (Dividend Payout Ratio of 38 per cent in 2011-12).
- In case of 15 CPSEs, the reserves are in excess of thrice their paid-up capital. However, bonus shares were not issued as required by DPE. 5 CPSEs of these 15 did not issue bonus shares at all. In case of 10 CPSEs even after issue of bonus shares their reserves remained more than thrice of their paid up capital. They can consider issue of bonus shares as per DPE guidelines. In case of 18 CPSEs, the option of buy back needs to be looked into.
- The CPSEs have been investing in public sector banks as prescribed by DPE as these banks are considered safer. Though, DPE has stipulated a maximum of 30 per cent in Mutual Funds

[*] *DPE O.M. No. DPE/ 11/ 47/ 2006 – Fin. dated 31 August 2007*
[†] *DPE O.M. No. DPE/ 11/ 47/ 2006 – Fin. dated 15 April 2008*
[‡] *DPE O.M. No. DPE/ 11(15)/ 08 – Fin. dated 12 January 2009*

by Navratna/ Miniratna CPSEs, it is noticed that the CPSEs are conservative in investing only a meager amount in Mutual Funds.

7.7 Recommendations

- **The DPE may consider revising its dividend payment guidelines to address the deficiencies pointed out in Paras 7.2.1 – payment of dividend "whichever higher of 20% of PAT and 20% of equity".**
- **15 CPSEs have already defaulted in issue of bonus shares. DPE may like to monitor implementation of DPE guidelines on buy back of shares in consultation with the Administrative Ministries.**

New Delhi
Dated : 28 March, 2013

(A. K. PATNAIK)
Deputy Comptroller and Auditor General
and Chairman Audit Board

Countersigned

New Delhi
Dated : 1 April, 2013

(VINOD RAI)
Comptroller and Auditor General of India