

CHAPTER IV

GOVERNMENT COMMERCIAL

AND

TRADING ACTIVITIES

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4.1 Overview of Union Territory of Puducherry Public Sector Undertakings

Introduction

4.1.1 The Union Territory (UT) Public Sector Undertakings (PSUs) consist of only Government companies. UT PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people and occupy an important place in the State economy. As on 31 March 2017, in UT of Puducherry, there were 12 working Government companies and one non-working Government company. None of the working Government companies were listed on the stock exchange. The details of PSUs in UT of Puducherry as on 31 March 2017 were given in **Table 4.1** below:

Table 4.1 - Total number of PSUs as on 31 March 2017

Type of PSUs	Working PSUs	Non-working PSUs ¹	Total
Government Companies ²	12	1	13
Total	12	1	13

(Source: Details collected from the Government)

The working PSUs registered a turnover of ₹ 366.63 crore, as *per* their latest finalised accounts as of March 2017. This turnover was equal to 1.33 *per cent* of State Gross Domestic Product (GDP) for 2016-17. The working PSUs incurred loss of ₹ 24.79 crore as *per* their latest finalised accounts as of March 2017. PSUs employed 4,778 employees as at the end of March 2017.

Since 2011-12, Pondicherry Electronics Limited is the non-working PSU in UT of Puducherry. The assets and liabilities of this PSU were taken over by its holding Company (Pondicherry Industrial Promotion Development and Investment Corporation Limited) and PSU is in the process of getting its name removed from the records of Register of Companies.

¹ Non-working PSUs are those which have ceased to carry on their operations.

² Government PSUs include companies referred to in Section 139 (5) and 139 (7) of the Companies Act, 2013.

Accountability framework

4.1.2 The process of audit of Government companies is governed by respective provisions of Section 139 and 143 of the Companies Act, 2013 (Act). According to Section 2(45) of the Act, “Government Company” means any Company in which not less than 51 *per cent* of the paid-up share capital is held 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 and includes a Company, which is a subsidiary Company of such a Government Company. Further, as per sub-Section 7 of Section 143 of the Act, the Comptroller and Auditor General of India (CAG) may, in case of any Company covered under sub-Section (5) or sub-Section (7) of Section 139, if considered necessary, by an order, cause test audit to be conducted of the accounts of such Company and the provisions of Section 19 A of CAG’s (Duties, Power and Conditions of Service) Act, 1971, shall apply to the report of such test audit.

Thus, a Government Company or any other Company owned or controlled, directly or indirectly, by the Central Government or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by CAG. An audit of the financial statements of a Company in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

Role of Government and Legislature

4.1.3 The Union Territory Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the Government.

The Legislature of UT also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports together with the Statutory Auditors’ Reports and comments of CAG, in respect of Government companies are to be placed before the Legislature under Section 394 of the Act or as stipulated in the respective Acts. The Audit Reports of CAG are submitted to the Government under Section 19 A of CAG’s (Duties, Powers and Conditions of Service) Act, 1971.

Stake of UT Government

4.1.4 The Union Territory Government’s stake in PSUs is mainly of three types:

- **Share Capital and Loans:** In addition to the share capital contribution, UT Government also provides financial assistance by way of loans to PSUs from time to time.

- **Special Financial Support:** UT Government provides budgetary support by way of grants and subsidies to PSUs, as and when required.
- **Guarantees:** UT Government also guarantees the repayment of loans with interest availed by PSUs from Financial Institutions.

Investment in State PSUs

4.1.5 As of 31 March 2017, the investment (capital and long-term loans) in 12 PSUs was ₹ 733.05 crore, with the capital of ₹ 722.66 crore and ₹ 10.39 crore of long term loans. As on 31 March 2017, the total investment in working PSUs consisted of 98.58 *per cent* towards capital and 1.42 *per cent* in long-term loans. The investment grew by 3.08 *per cent* from ₹ 711.15 crore in 2012-13 to ₹ 733.05 crore in 2016-17.

4.1.6 The sector-wise summary of investments in UT PSUs as on 31 March 2017 is given in **Table 4.2** below:

Table 4.2 - Sector-wise investment in PSUs

Name of the Sector	Working PSUs (₹ in crore)	Investment (in per cent)
Manufacturing	409.51	55.86
Finance	143.74	19.61
Power	99.78	13.61
Service	55.09	7.52
Agriculture and allied	24.93	3.40
Total	733.05	100.00

Special support and returns during the year

4.1.7 The Union Territory Government provides financial support to PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies, loans written off and interest waived in respect of UT PSUs for three years ended 2016-17 are given in **Table 4.3** below:

Table 4.3 - Details of budgetary support to PSUs

(₹ in crore)

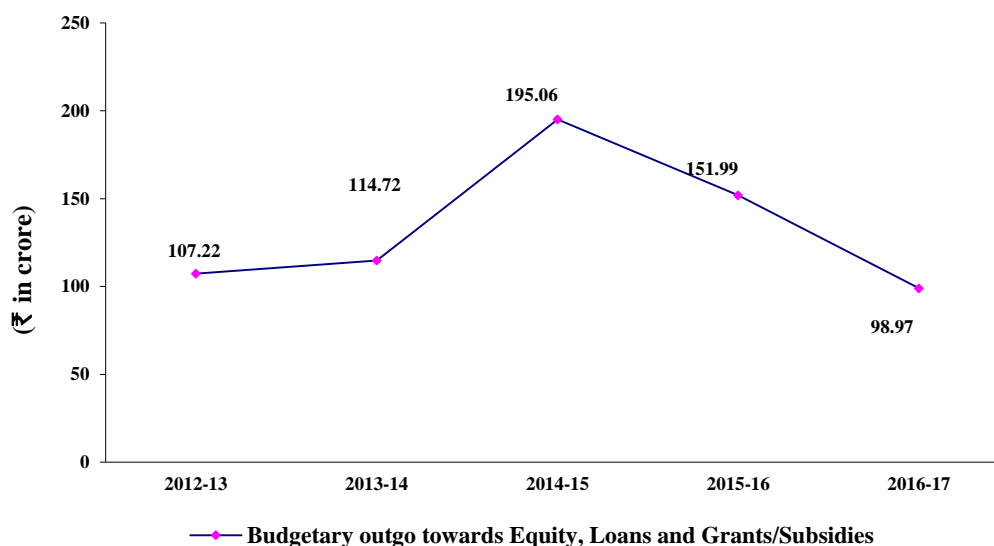
Sl. No.	Particulars	2014-15		2015-16		2016-17	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity capital outgo from budget	3	7.96	1	0.31	Nil	Nil
2	Loans given from budget	Nil	Nil	Nil	Nil	2	4.80
3	Grants/subsidy from budget	9	187.10	7	151.68	8	94.17
4	Total outgo (1+2+3)	9³	195.06	7³	151.99	8³	98.97
5	Loans converted into equity	Nil	Nil	Nil	Nil	Nil	Nil
6	Loans written off	Nil	Nil	1	5.27	Nil	Nil
7	Interest/penal interest written off	Nil	Nil	1	7.71	Nil	Nil
8	Total waiver (6+7)	Nil	Nil	1	12.98	Nil	Nil
9	Guarantees issued	Nil	Nil	Nil	Nil	Nil	Nil
10	Guarantee commitment	1	3.15	1	3.15	1	3.15

(Source: Details furnished by the companies)

The details regarding budgetary outgo towards equity, loans and grants/subsidies for past five years are given in the following **Chart 4.1**:

³ These are the actual number of companies, which received budgetary support in the form of equity, loans and grants/subsidies from UT Government during the respective years.

Chart 4.1 - Budgetary support to PSUs



4.1.8 As regards guarantee commitment, only Puducherry Adi-Dravidar Development Corporation Limited availed the guarantee from GOI against which ₹ 3.15 crore was outstanding as on 31 March 2017.

Reconciliation with Finance Accounts

4.1.9 The figures in respect of equity, loans and guarantees, outstanding as per records of UT PSUs, should agree with that of the figures appearing in the Finance Accounts of the UT of Puducherry. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as on 31 March 2017 is stated in **Table 4.4** below:

Table 4.4 – Equity, loans, guarantees outstanding as per Finance Accounts vis-a-vis records of PSUs

(₹ in crore)			
Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
(1)	(2)	(3)	(4)=(3)-(2)
Equity	710.92	712.39	1.47
Loans	0.94	10.39	9.45
Guarantee	16.15	3.15	(-)13.00

(Source: Finance Accounts and details furnished by the companies)

Audit observed that the differences occurred in respect of equity and loans in three PSU⁴, and guarantees in one PSU⁵. Reconciliation of difference was pending from March 2007 in case of one PSU⁶. The Secretary to Government of UT of Puducherry, Finance Department was addressed (May 2017) and his attention was drawn to the need for reconciliation of figures in Finance Accounts and as furnished by the companies in their respective accounts. The UT Government and PSUs should take concrete steps to reconcile the differences in a time bound manner.

Arrears in finalisation of accounts

4.1.10 The financial statements of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year, *i.e.*, by September end, in accordance with the provisions of Section 96 (1) of the Act. Failure to do so, may attract penal provisions under Section 99 of the Act.

The **Table 4.5** below provides the details of progress made by working PSUs in finalisation of accounts as on 30 September 2017.

Table 4.5 - Position relating to finalisation of accounts of working PSUs

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
1	Number of working PSUs	13	13	12 ⁷	12 ⁷	12 ⁷
2	Number of accounts finalised during the year	10	3	14	7	11
3	Number of accounts in arrears	24	34	29	34	35
4	Number of working PSUs with arrears in accounts	12	13	12	12	12
5	Extent of arrears (years)	1 to 4	1 to 5	1 to 5	1 to 6	1 to 7

(Source: Details compiled by audit based on certified accounts of companies)

It can be observed that the number of accounts in arrears increased from 29 in 2014-15 to 35 in 2016-17.

The administrative departments have the responsibility to oversee the activities of these Companies and ensure that the accounts are finalised and

⁴ Puducherry Agro Products, Food and Civil Supplies Corporation Limited, Puducherry Corporation for the Development of Women and Differently Aabled Persons Limited and Puducherry Road Transport Corporation Limited.

⁵ Puducherry Backward Classes and Minority Development Corporation Limited.

⁶ Puducherry Agro Products, Food and Civil Supplies Corporation Limited.

⁷ One PSU, *viz.*, Pondicherry Electronics Limited had become a non-working Company and is under the process of winding up.

adopted by these PSUs within the stipulated period. The Accountant General (AG), Economic and Revenue Sector Audit, Tamil Nadu brought out the position of the arrears of accounts to the notice of the Secretary, Finance Department every quarter. As there were arrears in accounts in all the 12 working PSUs upto 2016-17, their net worth could not be assessed in Audit.

4.1.11 The Union Territory Government invested ₹ 179.22 crore in nine PSUs (equity: ₹ 6.12 crore (two PSUs), loans: ₹ 4.80 crore (two PSUs) and grants: ₹ 168.30 crore (nine PSUs)), during the years for which accounts were not finalised, as detailed in **Appendix 4.1**. Due to non-finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred was properly accounted for and the purpose for which the amount was invested was achieved or not and thus, UT Government's investment in such PSUs remained outside the control of Legislature.

Impact of non-finalisation of accounts

4.1.12 As pointed out above (Para 4.1.9 to 4.1.11), the delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant Statutes. In view of the above state of arrears of accounts, the actual contribution of PSUs to UT GDP for the year 2016-17 could not be ascertained and their contribution to State Exchequer was also not reported to the Legislature.

It is, therefore, recommended that:

- The Union Territory Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies, which would be monitored by the cell.
- The Union Territory Government may consider outsourcing the work relating to preparation of accounts, wherever the staff is inadequate or lacks expertise.

Performance of PSUs as per their latest finalised accounts

4.1.13 The financial position and working results of working Government companies are detailed in **Appendix 4.2**. A ratio of PSU turnover to UT GDP shows the extent of PSU activities in UT economy. **Table 4.6** depicts the details of working PSUs turnover and UT GDP for a period of five years ending 2016-17.

Table 4.6 - Details of working PSUs turnover vis-a-vis State GSDP

(₹ in crore)

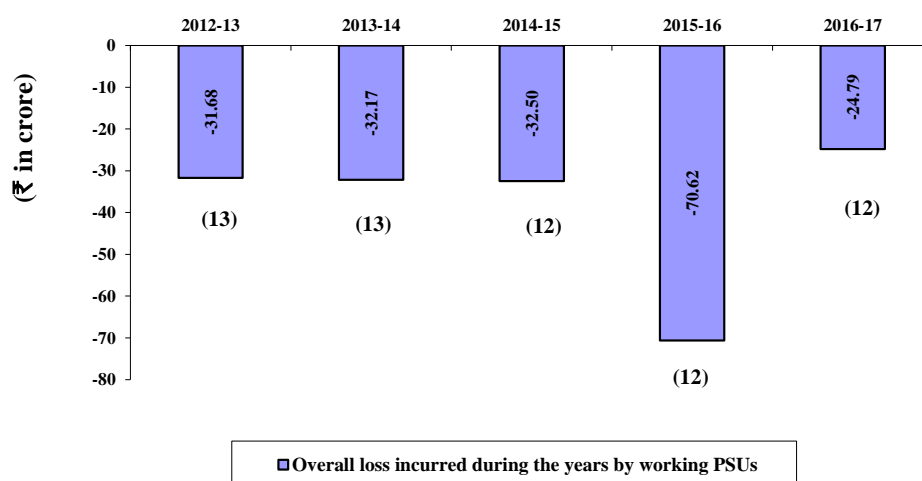
Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Turnover ⁸	373.92	378.86	401.26	362.61	366.63
GSDP	16,768	21,061	25,819	26,533	27,586
Percentage of turnover to GSDP	2.23	1.80	1.55	1.37	1.33

(Source: Details furnished by companies and data on GDP furnished by UT Government)

Turnover of PSUs increased continuously from 2012-13 to 2014-15 but decreased in 2015-16. However, the turnover for 2016-17 increased by 1.11 *per cent* as compared to 2015-16. Percentage of turnover of PSUs to UT GDP decreased from 2.23 in 2012-13 to 1.33 in 2016-17.

4.1.14 Overall losses incurred by working PSUs of UT of Puducherry, during 2012-13 to 2016-17, as per the latest finalised accounts are given below in **Chart 4.2**.

Chart 4.2 – Profit/Loss of working PSUs



(Figures in brackets show the number of working PSUs in respective years)

Working PSUs of UT Government collectively incurred continuous losses in all the five years ending 2016-17. As per the latest finalised accounts, out of 12 working PSUs, four PSUs earned a profit of ₹ 13.20 crore and seven PSUs incurred a loss of ₹ 37.99 crore, leading to overall loss of ₹ 24.79 crore. One⁹ Company neither earned profit nor incurred any loss.

⁸ Turnover as per the latest finalised accounts as on 30 September 2017.

⁹ Puducherry Corporation for Development of Women and Differently Abled Persons Limited.

4.1.15 Some other key parameters of PSUs are given in **Table 4.7** below:

Table 4.7 - Key parameters of State PSUs

(₹ in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Return on Capital employed (Ratio)	-18.80	-19.19	-15.38	-53.60	-7.67
Return on Equity (Ratio)	-31.68	-32.17	-32.50	-70.62	-24.79
Debt	Nil	Nil	12.83	11.86	10.39
Turnover ¹⁰	373.92	378.86	401.26	362.61	366.63
Debt / turnover ratio	Nil	Nil	0.03:1	0.03:1	0.03:1
Interest payments	12.88	12.98	17.12	17.02	17.12
Accumulated losses	496.38	490.12	520.39	550.01	640.29

(Source: Details furnished by the Companies and latest finalised accounts of companies)

4.1.16 The Government of UT of Puducherry did not formulate any policy for payment of minimum dividend on the share capital contributed by it. Out of nine PSUs, which finalised their 11 accounts during the year, two¹¹ PSUs, declared a dividend of ₹ 1.39 crore.

Winding up of non-working PSUs

4.1.17 There was one non-working PSU as on 31 March 2017, which was in the process of getting its name removed from the records of Register of Companies.

Accounts comments

4.1.18 Nine working companies forwarded eleven audited accounts to the CAG during the year 2016-17. Of these, accounts of four companies were selected for supplementary audit. The audit reports of Statutory Auditors appointed by CAG and the supplementary audit of CAG indicated that the quality of maintenance of accounts needs to be improved. The details of aggregate money value of comments of Statutory Auditors and CAG are given in **Table 4.8**:

¹⁰ Turnover of working PSUs, as per the latest finalised accounts, as on 31 March 2017.

¹¹ Puducherry Distilleries Limited and Pondicherry Industrial Promotion Development and Investment Corporation Limited.

Table 4.8 - Impact of audit comments on working companies

(₹ in crore)

Sl. No.	Particulars	2014-15		2015-16		2016-17	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Increase in loss	2	8.58	2	1.51	2	6.81
2	Decrease in loss	1	0.15	1	0.27	Nil	Nil
3	Increase in profit	1	0.42	Nil	Nil	1	0.76
4	Errors of classification	1	2.06	Nil	Nil	Nil	Nil
	Total	5	11.21	3	1.78	3	7.57

(Source: Latest finalised annual accounts of companies)

During the year, the Statutory Auditors issued unqualified certificates for seven accounts and qualified certificates for four accounts. The compliance of companies with the Accounting Standards remained poor, as there were seven instances of non-compliance in three accounts during the year.

Coverage of this Chapter

4.1.19 This Chapter contains a draft paragraph on Blocking up of funds by Puducherry Power Corporation Limited and Puducherry Distilleries Limited involving financial effect of ₹ 92.69 crore.

PUDUCHERRY POWER CORPORATION LIMITED AND PUDUCHERRY DISTILLERIES LIMITED

4.2 Injudicious sanction of loans

Two PSUs did not secure their financial interest on account of injudicious sanction of loans, which led to blocking of ₹ 92.69 crore.

Puducherry Power Corporation Limited (PPCL) and Puducherry Distilleries Limited (PDL) were profit earning Public Sector Undertakings (PSUs) of Union Territory of Puducherry. Both the PSUs have not laid down any norms for investment of their surplus funds. The profits of these PSUs were mainly parked as short term fixed deposits with banks with the approval of their Board of Directors. The details of accumulated profit and fixed deposits

(FDs) of these two PSUs in the last five years up to 2016-17 are given in the following **Table 4.9**.

Table 4.9 - Statement showing profits earned and fixed deposits maintained by the two PSUs in different financial years

(₹ in crore)

Sl. No.	PSU/Year	2012-13	2013-14	2014-15	2015-16	2016-17
	Accumulated Profit					
1.	PPCL	42.94	45.75	31.06	32.02	34.52
2.	PDL	24.24	26.01	28.02*	29.28*	26.70*
	Fixed Deposits					
3.	PPCL	77.68	64.80	54.52	18.92	26.84
4.	PDL	32.07	29.97	26.77	12.78	13.68

*These figures are provisional

It is evident from above that the investments in FDs of these PSUs suddenly decreased during 2015-16 due to sanction of loans to (i) Pondicherry Co-operative Sugar Mills Limited (PCSM), (ii) Pondicherry Textiles Corporation Limited (PTC) and (iii) Pondicherry Co-operative Wholesale Stores Limited (PCWS). These entities were either sick or loss making entities. The details of loans disbursed to these three entities and the loan amounts outstanding as on 31 July 2017 are given in the following **Table 4.10**.

Table 4.10 - Statement showing loans disbursed and outstanding dues as of July 2017

(₹ in crore)

Sl. No.	Loan availed by	From PPCL			From PDL		
		Loan amount sanctioned	Date of sanction	Outstanding Principal and Interest as of July 2017	Loan amount sanctioned	Date of sanction	Outstanding Principal and Interest as of July 2017
1.	PCSM	5.00	July 2011	9.75	13.00	June 2011/ January 2014	18.73
2.	PTC	10.00	September 2015	12.20	---	---	---
3.	PCWS	30.00	February 2016	34.38	15.00	February 2016	17.63
	Total	45.00		56.33	28.00		36.36

Audit noticed that both PSUs did not invoke the security offered for recovery of the loan disbursed and interest thereon as provided for in the short term loan agreement entered into with these entities. Consequently, the outstanding amount accumulated to ₹ 92.69 crore. In this connection audit observed that:

- As per the Memorandum of Association (MOA) of PPCL, it could grant loans only to its customers or others having dealings with it. Therefore, sanction of loans to the three entities not having any dealings with PPCL was *ultra-vires* of MOA.
- The loan amount of ₹ 45 crore was sanctioned by both PSUs to PCWS based on the decision taken at the high level meeting conducted (February 2016) by the then Chief Minister of the Government of Puducherry. The loan amount was disbursed without any security and without incorporating deterrent provisions in the short term loan agreement entered into with PCWS for ensuring loan repayment. PCWS was an entity engaged in distribution of freebies¹² on behalf of Government, therefore, not generating any revenue on its own through its activities. The chances for repayment of the loan by PCWS without any external support were remote. Hence, the accumulation of the dues (repayable only in three months) amounting to ₹ 52.01 crore as of July 2017 was difficult to recover.
- PCSM was a defaulter of the loan obtained from PPCL (₹ five crore) and PDL (₹ three crore) in June/July 2011. While not initiating any steps to recover the loan, this Company was again sanctioned a loan of ₹ 10 crore by PDL in January 2014 ignoring the poor record of repayment of earlier loans.
- PPCL advanced loan of ₹ 10 crore to PTC on the condition that the loan should be repaid out of sale proceeds of its land. Even though the loan was overdue by more than a year in October 2017, PTC did not obtain the Government approval for sale of land. This indicated doubtful recovery of the loan in near future.

Thus, failure of these two PSUs in securing their financial interests on account of injudicious sanction of loans led to blocking of funds to the extent of ₹ 92.69 crore. There is also a remote chance that these PSUs could not even recover the principal amount from those defaulters.

¹² Distribution of mixie and grinders to the public and ration card holders free of cost.

Both the PSUs replied (September/October 2017) that the loans were being followed up. The fact, however, remained that despite follow-ups, no recovery was made by these PSUs (November 2017).

The matter was referred to the UT Government in December 2017; reply was not received (December 2017).



Chennai
The 16 March 2018

(R. THIRUPATHI VENKATASAMY)
Accountant General
(General and Social Sector Audit)
Tamil Nadu and Puducherry

Countersigned



New Delhi
The 21 March 2018

(RAJIV MEHRISHI)
Comptroller and Auditor General of India