

Part-I

Chapter I

**Functioning of Power Sector
Undertakings**

PART-I

Chapter I

Functioning of Power sector Undertakings

1. Introduction

1.1 The State Public Sector Undertakings (SPSUs) engaged in generation, transmission and distribution of electricity are classified under Power sector. 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. The functioning of 80 SPSUs engaged in activities other than Power sector is discussed in Chapter III of Part II. The 11 SPSUs are State Government Companies, which includes eight subsidiary/ joint venture Companies of other Government Companies. Government of Gujarat (GoG) periodically provides financial support to SPSUs in the form of equity, loans and grants/ subsidy. Of the 11 SPSUs, GoG invested funds in three¹ SPSUs and no funds were infused in remaining eight² SPSUs that were subsidiary/ joint venture of State Government Companies. The respective Co-partner/ Holding Companies contributed to the equity of these eight subsidiary/ joint venture Companies.

Contribution to Economy of the State

1.2 The Power sector SPSUs play an important role in the economy of the State. Apart from providing critical infrastructure required for development of the State's economy, the sector also adds significantly to the Gross State Domestic Product (GSDP). The ratio of turnover of SPSUs of Power sector to GSDP is indicative of the scale of SPSU activities in the economy of the State. The details of Power sector SPSUs' turnover *vis-à-vis* GSDP for five years ending March 2018 are given in the **Table 1.1**.

Table 1.1: Details of turnover of Power sector SPSUs *vis-à-vis* GSDP of Gujarat

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Turnover ³ (₹ in crore)	68,065.11	74,271.78	82,115.94	84,049.58	94,544.75
Percentage change in turnover	(-)17.11	9.12	10.56	2.35	12.49
GSDP of Gujarat (₹ in crore)	8,07,623	9,21,773	10,25,188(P)	11,58,151(Q)	13,20,167(A)
Percentage change in GSDP	11.47	14.13	11.22	12.97	13.99
Percentage of Turnover to GSDP of Gujarat	8.43	8.06	8.00	7.26	7.16

Estimate (P) = Provisional, (Q) = Quick estimate and (A) = Actual.

Source: Compiled based on turnover reported by SPSUs in the financial statements finalised in respective years and Statement under Gujarat Fiscal Responsibility Act, 2005 (Budget Publication No. 30 of 2018-19).

¹ Gujarat Urja Vikas Nigam Limited, Gujarat Energy Transmission Corporation Limited and Gujarat Power Corporation Limited.

² Gujarat State Electricity Corporation Limited, Gujarat State Energy Generation Limited, GSPC Pipavav Power Company Limited, Bhavnagar Energy Company Limited, Dakshin Gujarat Vij Company Limited, Madhya Gujarat Vij Company Limited, Paschim Gujarat Vij Company Limited and Uttar Gujarat Vij Company Limited.

³ Turnover of active SPSUs as per the latest finalised financial statements received up to 30 September 2018.

The turnover of Power sector SPSUs has recorded continuous increase over previous years. The increase in turnover ranged between (-) 17.11 and 12.49 *per cent* during the period 2013-18, whereas increase in GSDP of Gujarat ranged between 11.22 and 13.99 *per cent* during the same period. The Compounded Annual Growth Rate (CAGR)⁴ of GSDP was 12.76 *per cent* during last five years. Against the CAGR of 12.76 *per cent* of GSDP, the turnover of Power sector SPSUs recorded lower CAGR of 3.48 *per cent* during last five years. As a result the share of turnover of Power sector SPSUs to GSDP reduced from 8.43 *per cent* in 2013-14 to 7.19 *per cent* in 2017-18. Out of the total turnover of ₹ 94,544.75 crore, ₹ 94,289.23 crore pertains to ten Power sector SPSUs which finalised the financial statements for the year 2017-18. In case of one⁵ SPSU, the turnover of ₹ 255.52 crore was as per the finalised financial statements for the year 2016-17.

Formation of Power sector SPSUs

1.3 Gujarat Electricity Board (GEB) was engaged in Generation, Transmission and Distribution of electricity in Gujarat. GoG enacted the Gujarat Electricity Industry (Reorganisation & Regulation) Act, 2003 to restructure Power sector. Accordingly, GEB was unbundled with effect from 1 April 2005 into seven Companies. All the assets and liabilities of GEB (including equity of ₹ 6,964.14 crore and accumulated losses of ₹ 584.67 crore) were distributed amongst two⁶ Companies according to the provisions of Gujarat Electricity Industry Reorganisation and Comprehensive Transfer Scheme, 2003. Of the seven Companies, Gujarat Urja Vikas Nigam Limited (GUVNL) is Holding Company of remaining six⁷ Companies and had the functional responsibility of trading in electricity. Of the six Companies equity investment in Gujarat Energy Transmission Corporation Limited (GETCO) of GoG and GUVNL was ₹ 12.50 crore (1.81 *per cent*) and ₹ 676.52 crore (98.19 *per cent*) respectively.

Apart from the above seven Companies, remaining four⁸ Companies are engaged in development of energy sector and generation of electricity for sale to GUVNL. Thus, there were 11 Power sector SPSUs in the State as on 31 March 2018. Further, GoG merged (August 2018) Bhavnagar Energy Company Limited (BECL) with GSECL with effect from 01 April 2018.

⁴ CAGR is a useful method to measure growth rate over multiple time-period.

⁵ Gujarat Power Corporation Limited.

⁶ Accumulated loss ₹ 737.29 crore (GUVNL) less accumulated surplus ₹ 152.62 crore (GSECL).

⁷ A generation company *i.e.*, Gujarat State Electricity Corporation Limited (GSECL); a transmission company *i.e.*, Gujarat Energy Transmission Corporation Limited (GETCO); and four distribution Companies *viz.*, Dakshin Gujarat Vij Company Limited (DGVCL), Madhya Gujarat Vij Company Limited (MGVCL), Uttar Gujarat Vij Company Limited (UGVCL) and Paschim Gujarat Vij Company Limited (PGVCL).

⁸ Gujarat Power Corporation Limited (GPCL), Gujarat State Energy Generation Limited (GSEG), GSPC Pipavav Power Company Limited (GPPC) and Bhavnagar Energy Company Limited (BECL).

Disinvestment, Restructuring and Privatisation of SPSUs of Power sector

1.4 No disinvestment, restructuring, and privatisation of the State PSUs in the Power sector took place during the year ended 31 March 2018.

Investment in Power Sector SPSUs

1.5 The activity wise summary of investment in the 11 Power sector SPSUs as on 31 March 2018 is given in **Table 1.2** below:

Table 1.2: Activity wise investment in Power sector SPSUs

(₹ in crore)

Activity	Number of SPSUs	Investment ⁹		
		Equity	Long Term Loans	Total
Generation of power	5	4,483.40	11,393.50	15,876.90
Transmission of power	1	756.51	7,930.74	8,687.25
Distribution of power	4	6,545.62	625.80	7,171.42
Other ¹⁰	1	17,402.74	164.31	17,567.05
Total	11	29,188.27	20,114.35	49,302.62

Source: Compiled based on information received from SPSUs.

Out of the total investment of ₹ 49,302.62 crore in Power sector SPSUs as on 31 March 2018, 59 per cent was towards equity and 41 per cent was towards long-term loans.

The long-term loans advanced by the State Government and Central Government constituted four per cent (₹ 803.80 crore) and 0.38 per cent (₹ 75.46 crore) of the total long-term loans respectively. The Power sector SPSUs availed 95.62 per cent (₹ 19,235.09 crore) of the total long-term loans from other financial institutions¹¹.

Assistance under Ujwal DISCOM Assurance Yojana (UDAY)

1.6 The Ministry of Power (MoP), Government of India launched (20 November 2015) *Ujwal DISCOM Assurance Yojana* (UDAY scheme) for operational and financial turnaround of State owned Power Distribution Companies (DISCOMs). As per provisions of UDAY, the participating States were required to undertake activities for operational and financial turnaround of DISCOMs. In Gujarat the DISCOMs have already achieved financial turnaround prior to introduction of UDAY therefore, the State Government/ DISCOMs have not availed any loan/ assistance under UDAY. In respect of

⁹ This amount will not tally with the equity and long-term loan figures in *Paragraph 1.10*, which is prepared based on latest finalised financial statements whereas details of investment in SPSUs in **Table 1.2** has been prepared based on information furnished by the SPSUs, which includes additions subsequent to latest finalised financial statements.

¹⁰ GUVNL is included under "Others" as it is the holding Company of UGVCL, DGVCL, MGVCL, PGVCL, GSECL, and GETCO. It is engaged in the business of bulk purchase and sale of electricity, supervision, co-ordination of the activities of subsidiary Companies and receives financial support from the State Government to support the four subsidiary DISCOMs.

¹¹ Banks, National Bank for Agriculture and Rural Development, Rural Electrification Corporation, Gujarat State Financial Services Limited, Financial Institutions, Allocation of GoG loan by GUVNL.

operational turnaround, the achievements *vis-à-vis* targets under UDAY regarding different operational parameters relating to the four DISCOMs of the State are given in **Table 1.3** below:

Table 1.3: Parameter wise achievements *vis-à-vis* targets of operational performance up to 30 June 2019

Sl. No.	Parameter of UDAY Scheme	Unit	Target		Achievement	
			Physical	Date of Completion	Physical	(in per cent)
1	Feeder Metering	Nos.	15,141	30 June 2016	15,141	100
2	Urban DT Metering	Nos.	1,37,523	30 June 2017	1,37,523	100
3	Rural DT Metering	Nos.	12,30,443	30 June 2017	12,30,443	100
4	Feeder Segregation	Nos.	7,505	31 December 2017	7,505	100
5	Rural Feeder Audit	Nos.	10,870	31 December 2017	10,870	100
6	Electricity to unconnected household	Nos.	3,42,000	31 March 2019	2,32,109 (September 2018)	68
7	Smart metering	Nos.	3,16,290	31 December 2017	0	0
8	Distribution of LED UJALA	lakh Nos.	255	31 March 2019	392	153
9	AT&C Losses	per cent	13	31 March 2018	13.61	-
10	ACS-ARR Gap	₹ per unit	-0.04	31 December 2015	-0.04 (March 2018)	100
11	Net Income or Profit/ Loss including subsidy	₹ in crore	313	-	339 (March 2018)	108

DT- Distribution Transformers.

Source: State Health Card under UDAY Scheme as per website of the Ministry of Power, GoI.

The State has not achieved target in area of smart metering (Sl. No. 7 of **Table 1.3**) whereas the targets have been achieved in terms of feeder metering, metering at distribution transformers, feeder segregation and distribution of Light Emitting Diodes (LEDs). Further, against the target of AT&C loss of 13 *per cent* the DISCOMS of the State have achieved 13.61 *per cent* AT&C losses up to September 2018.

Budgetary Support to Power sector SPSUs

1.7 The State Government provides financial support to Power sector SPSUs in various forms through the annual budget. The summarised details of budgetary outgo towards equity, loans and grants/ subsidies in respect of Power sector SPSUs for three years ended 2017-18 is given in **Table 1.4**. The table also gives the details of waiver of loans and interest and guarantee issued during the above period. It also gives details of guarantee commitment outstanding at the end of the respective years.

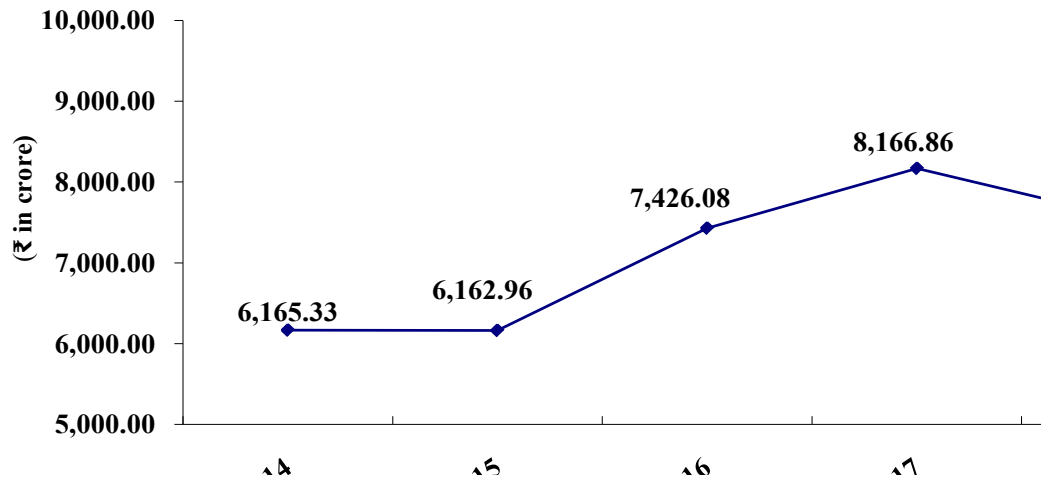
Table 1.4: Details of budgetary support to Power sector SPSUs during last three years

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		No. of SPSUs	Amount	No. of SPSUs	Amount	No. of SPSUs	Amount
1.	Equity Capital outgo from budget	2	3,002.33	3	3,122.15	2	2,878.49
2.	Loans given from budget	-	-	-	-	1	50.62
3.	Grants/ Subsidy from budget	8	4,423.75	8	5,044.71	7	4,621.17
4.	Total Outgo (1+2+3)		7,426.08		8,166.86		7,550.28
5.	Waiver of loans and interest	-	-	-	--	-	-
6.	Loans converted into equity	-	-	-	-	-	-
7.	Guarantees issued during the year	2	1,019.53	-	-	-	-
8.	Guarantee Commitment outstanding at the end of the year	1	313.37	1	0.08	-	-

Source: Compiled based on information received from SPSUs.

The details of budgetary outgo towards equity, loans and grants/ subsidies for past five years are given in **Chart 1.1**:

Chart 1.1: Budgetary outgo towards Equity, Loans and Grants/ Subsidies



Source: Compiled based on information received from SPSUs.

The budgetary assistance received by these PSUs ranged between ₹ 6,162.96 crore and ₹ 8,166.86 crore during the period from 2013-14 to 2017-18. Outgo in the form of equity, loans and grants/ subsidies decreased from ₹ 8,166.86 crore in 2016-17 to ₹ 7,550.28 crore in 2017-18. The budgetary assistance of ₹ 7,550.28 crore received during the year 2017-18 included ₹ 2,878.49 crore, ₹ 50.62 crore and ₹ 4,621.17 crore in the form of equity, loans and grants/ subsidy respectively. GUVNL received (₹ 2,868.49 crore) major share of equity funds from the budgetary outgo for upcoming power projects, transmission projects and research and maintenance activities related to power plants.

Besides, the Ministry of Power, Government of India launched (20 November 2015) *Ujwal DISCOM Assurance Yojana (UDAY)* for operational and financial turnaround of State Owned Power Distributions Companies (DISCOMs). However, the State Government has not availed any loan/ assistance under UDAY.

Further, in order to provide financial assistance to SPSUs from Banks and Financial Institutions, State Government gives guarantee under Gujarat State Guarantee Act, 1963. Such guarantees are given subject to the limits prescribed by the Constitution of India, for which guarantee fee is being charged. This fee varies from 0.25 to one *per cent per annum* as decided (31 December 1988) by the GoG depending upon the loanees. Outstanding guarantee commitments decreased from ₹ 0.08 crore in 2016-17 to Nil in 2017-18. During the year 2017-18, none of the Power sector SPSUs received guarantee commitment.

Reconciliation with Finance Accounts of Government of Gujarat

1.8 The figures in respect of equity, loans and guarantees outstanding as per the records of SPSUs should agree with the corresponding figures

appearing in the Finance Account of the State. In case the figures do not agree, the concerned SPSUs and the Finance Department should carry out reconciliation of the differences. The position in this regard as on 31 March 2018 is given in **Table 1.5** below:

Table 1.5: Equity and guarantees outstanding¹² as per Finance Accounts vis-à-vis records of Power sector SPSUs

(₹ in crore)

Sl. No.	Name of SPSUs	As per Finance Accounts		As per SPSU Records		Difference	
		Paid-up Capital	Guarantee Committed	Paid-up Capital	Guarantee Committed	Paid-up Capital	Guarantee Committed
1	2	3	4	5	6	7	8
1	Gujarat Energy Transmission Corporation Limited	50.00	--	12.50	--	37.50	--
2	Gujarat Urja Vikas Nigam Limited	17,403.42	335.03	17,402.74	--	0.68	335.03
3	Bhavnagar Energy Company Limited	0.43	--	--	--	0.43	--
Total		17,453.85	335.03	17,415.24	--	38.61	335.03

Source: Compiled based on information received from SPSUs and Finance Account.

The differences between the figures mentioned in **Table 1.5** in respect of the three SPSUs are persisting since prior to 2003-04. The issue was taken up by the Principal Accountant General (Economic and Revenue Sector Audit), Gujarat, Ahmedabad regularly, the latest being in January 2019 with the SPSUs/ Departments to reconcile the differences. We, therefore, recommend that the State Government and the SPSUs should reconcile the differences in a time bound manner.

Submission of financial statements by Power sector SPSUs

1.9 All the 11 SPSUs in the Power sector, under the audit jurisdiction of C&AG as on 31 March 2018 finalised their 13 annual financial statements. Of these, ten financial statements pertained to 2017-18, and remaining three financial statements pertained to previous years. As on 31 March 2018, 13 financial statements were prepared as per Indian Accounting Standards (IND AS) (including one¹³ consolidated financial statement).

Table 1.6 provides the details of progress made by active SPSUs in the submission of financial statements as on 30 September 2018.

¹² The SPSUs wise outstanding loan amount is not available in Finance Account therefore the above balance may include loan to SPSUs excluding Power sector.

¹³ Gujarat Urja Vikas Nigam Limited.

Table 1.6 Position relating to submission of financial statements of Power sector SPSUs

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1.	Number of active SPSUs/ other companies	11	11	11	11	11
2.	Number of financial statements finalised during the year	11	11	13 ¹⁴	11 ¹⁵	13 ¹⁶
3.	Number of active SPSUs which finalised financial statements for current year	09	09	10	09	10
4.	Number of previous year financial statements finalised during current year	02	02	03 ¹⁴	02 ¹⁵	03 ¹⁶
5.	Number of financial statements in arrears	02	03 ¹⁴	02 ¹⁵	03 ¹⁶	02 ¹⁷
6.	Number of active SPSUs with arrears in financial statements	02	02	01	03	02
7.	Extent of arrears (numbers in years)	1	1	1	1	1

Source: Compiled based on financial statements of active SPSUs received during the period October 2017 to September 2018.

The Power Sector Companies were generally prompt in submission of financial statements except the consolidated financial statement for 2017-18 of GUVNL and financial statement of GPCL for one year (2017-18) was in arrears during 2017-18.

Performance of Power sector SPSUs

1.10 The financial position and active results of 11 Power sector SPSUs as per their latest finalised financial statements as of 30 September 2018 are detailed in *Annexure 1*.

The SPSUs are expected to yield reasonable return on investment made by Government in the SPSUs. The total investment of State Government and others in the Power sector SPSUs is ₹ 46,675.86¹⁸ crore as on 31 March 2018. The investment consists of ₹ 29,634.27 crore as equity and ₹ 17,041.59 crore as long-term loans. Out of 11 Power sector SPSUs, the State Government infused funds in the form of equity and loans in three¹⁹ Power sector SPSUs only while in other eight Power sector SPSUs funds have been invested by the previously mentioned three SPSUs. GoG invested Equity of ₹ 17,841.35 crore in three Power sector SPSUs and out of long term loans provided, interest bearing long-term loans of ₹ 144.98 crore was outstanding in GUVNL and no interest free loan was outstanding.

The year wise status of investment of GoG in form of equity and long-term loans in the three Power sector SPSUs during the period 2013-14 to 2017-18 is given in **Chart 1.2** below:

¹⁴ This includes one consolidated financial statements of 2014-15.

¹⁵ This includes one consolidated financial statements of 2015-16.

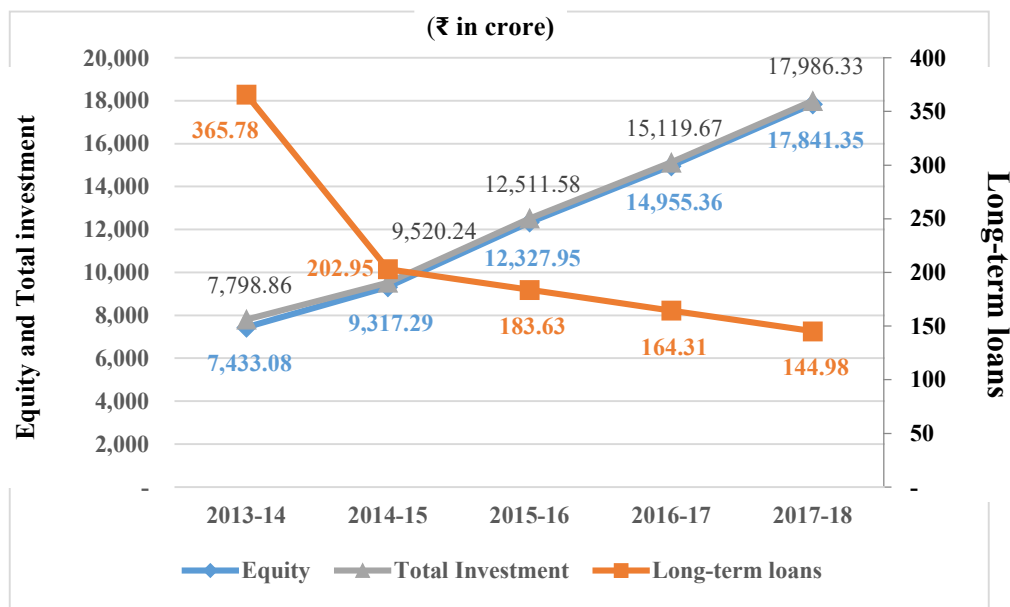
¹⁶ This includes one consolidated financial statements of 2016-17.

¹⁷ This includes one consolidated financial statements of 2017-18.

¹⁸ This amount will not tally with investment amount shown in *Paragraph 1.5* which is prepared based on information furnished by the SPSUs which includes additions subsequent to latest finalised Financial statements.

¹⁹ Gujarat Power Corporation Limited, Gujarat Energy Transmission Corporation Limited, Gujarat Urja Vikas Nigam Limited.

Chart 1.2: Total investment of GoG in Power sector SPSUs



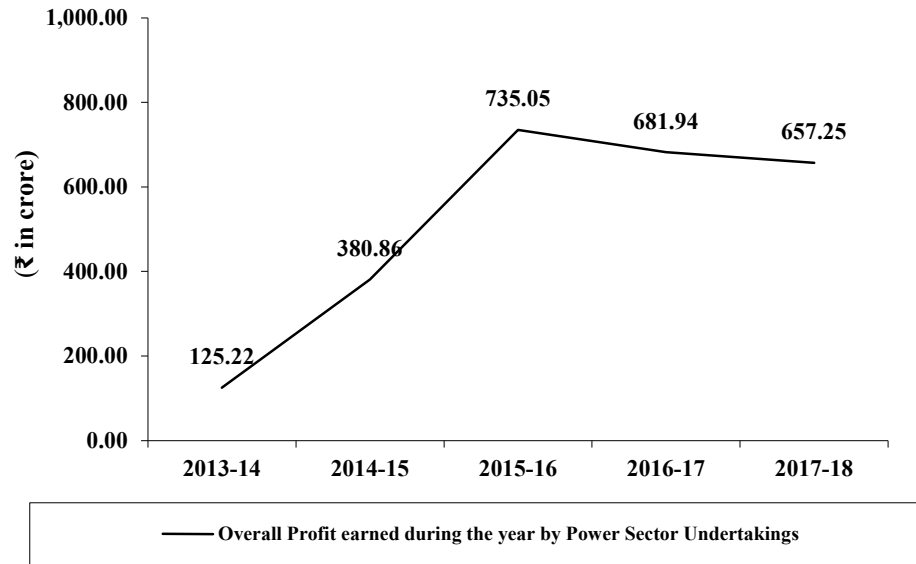
Source: Compiled as per latest finalised financial statements received from SPSUs.

The investment of GoG has grown by 140.03 *per cent* from ₹ 7,433.08 crore in 2013-14 to ₹ 17,841.35 crore in 2017-18 as shown in the **Chart 1.2**.

The profitability of a Company is traditionally assessed through return on investment, return on equity and return on capital employed. Return on investment measures the profit or loss made in a fixed year relating to the amount of money invested in the form of equity and long-term loans and is expressed as a percentage of profit to total investment. Return on capital employed is a financial ratio that measures the Company’s profitability and the efficiency with which its capital is used and is calculated by dividing Company’s earnings before interest and taxes by capital employed. Return on equity is a measure of performance calculated by dividing net profit after tax by shareholders’ fund.

Return on investment

1.11 Return on investment is the percentage of profit or loss to the total investment. The overall position of profit/ losses earned/ incurred after tax by all the Power sector SPSUs during 2013-14 to 2017-18 is depicted below in the **Chart 1.3** below:

Chart 1.3: Profit earned by Power sector SPSUs

Source: Compiled based on latest finalised financial statements received from SPSUs.

As per their latest finalised financial statements received as on September 2018, ten out of 11 active SPSUs, earned profit after tax of ₹ 1,274.56 crore and one SPSU incurred loss of ₹ 617.31 crore (*Annexure 1*). The major contributors to the profit were:

- Gujarat Energy Transmission Corporation Limited (₹ 375.72 crore)
- Gujarat State Electricity Corporation Limited (₹ 229.37 crore)

Losses were incurred by:

- Bhavnagar Energy Company Limited (₹ 617.31 crore)

Position of Power sector SPSUs, which earned/ incurred profit/ loss during 2013-14 to 2017-18 is given in **Table 1.7** below:

Table 1.7: Power sector SPSUs that earned/ incurred profit/loss

Financial year	Total number of SPSUs	Number of SPSUs which earned profits during the year	Number of SPSUs which incurred loss during the year	Others
2013-14	11	08	3	-
2014-15	11	08	3	-
2015-16	11	10	1	-
2016-17	11	10	1	-
2017-18	11	10	1	-

Source: Compiled as per finalised financial statements received from SPSUs in respective years.

(a) *Return on historical cost of investment*

1.11.1 Out of 11 Power sector SPSUs, GoG infused funds in the form of equity and loans in three²⁰ Power sector SPSUs only. GoG did not infuse any

²⁰ Gujarat Power Corporation Limited, Gujarat Energy Transmission Corporation Limited and Gujarat Urja Vikas Nigam Limited.

funds directly in the remaining eight²¹ Power sector SPSUs. In these eight SPSUs equity was contributed by the respective Joint venture/ Holding Companies.

The Return on investment from the three SPSUs has been calculated on the investment made by the GoG in the SPSUs in the form of equity and interest free long term loans. Out of the total long term loans, only interest free loans have been considered as investment of the GoG in these SPSUs. This is so because the interest free loans given to the SPSUs are akin to equity as the Government does not receive any interest on such loans. Further, the funds made available in the forms of grants/ subsidy have not been reckoned as investment since they do not qualify to be considered as investment.

The investment of GoG in these three Power sector SPSUs has been arrived at by considering the equity, adding interest free loans and deducting interest free loans, which were later converted into equity for each year. The investment of GoG in three Power sector SPSUs as on 31 March 2018 was ₹ 17,986.33 crore consisting of equity of ₹ 17,841.35 crore and interest bearing long-term loans of ₹ 144.98 crore. As no interest free loan was outstanding as on 31 March 2018, the investment of the GoG in these three Power sector SPSUs, on the basis of historical cost at the end of 2017-18 stood at ₹ 17,841.35 crore.

The return on investment in the three Power sector SPSUs on historical cost basis for the period 2013-14 to 2017-18 is given in **Table 1.8** below:

Table 1.8: Return on GoG Investment at historical cost

Financial year	Funds infused by the GoG in form of Equity and Interest Free Loans on historic cost basis (₹ in crore)	Total Earnings ²² / Net Losses (₹ in crore)	Return on investment (in per cent)
(1)	(2)	(3)	(4)=(3)÷(2)×100
2013-14	7,433.08	362.78	4.88
2014-15	9,317.29	365.91	3.93
2015-16	12,327.95	302.14	2.45
2016-17	14,955.36	265.95	1.78
2017-18	17,841.35	531.15	2.98

Source: Figures in column 2 are as per information received from SPSUs for respective years and figures in column 3 are as per latest finalised financial statements.

The return on investment of the three Power sector SPSUs ranged between 1.78 per cent and 4.88 per cent during 2013-14 to 2017-18.

(a) Return on present value of investment

1.11.2 In view of the significant investment by Government in the three Power sector Companies, return on such investment is essential from the perspective of State Government. Traditional calculation of return based only on historical cost of investment. In addition, the return on investment can also be calculated considering the Present Value (PV) of money invested on historical cost. PV of the State Government investment was computed where funds had been infused by the State Government in the form of equity and

²¹ Paschim Gujarat Vij Company Limited, Uttar Gujarat Vij Company Limited, Dakshin Gujarat Vij Company Limited, Madhya Gujarat Vij Company Limited, Gujarat State Energy Generation Limited, GSPC Pipavav Power Company Limited, Bhavnagar Energy Company Limited and Gujarat State Electricity Corporation Limited.

²² Net profit earned during the year less losses incurred during the year (by the individual SPSUs).

interest free loans since inception of these Companies till 31 March 2018. The SPSUs return on investment was not sufficient to recover the cost of funds for the year.

The PV of the State Government investment in Power sector SPSUs was computed on the basis of following assumptions:

- Interest free loans (IFL) have been considered as investment infusion by the State Government as there are cases where interest free loans given to the SPSUs were later converted into equity. The amount of loan converted into equity has been deducted from the amount of interest free loans and added to the equity of that year.
- The funds made available in the form of grant/ subsidies have not been reckoned as investment.
- The average rate of interest on government borrowings for the concerned financial year²³ was adopted as compound rate for arriving at PV since they represent the cost incurred by the government towards investment of funds for the year.

1.12 The position of State Government investment in the three Power sector SPSUs in the form of equity and loans since inception of these SPSUs till 31 March 2018 is indicated in **Annexure 2**. The consolidated position of the PV of the State Government investment relating to the three Power sector SPSUs since inception of these SPSUs till 31 March 2018 is indicated in **Table 1.9** below:

Table 1.9: Year wise details of GoG investment and its present value until 2017-18

(₹ in crore)

Financial year	PV of investment at beginning of year	During the year				Avg. interest rate on GoG borrowings (in per cent)	Investment at the end of year	PV of investment at end of year	Minimum expected return to recover cost of funds for the year ²⁴	Total earnings for the year
		Equity infused by GoG	IFL infused by GoG	IFL converted into equity	Total investment					
1	2	3	4	5	6=3+4-5	7	8=2+6	9=8+(8×7)÷100	10=(8×7÷100)	11
Up to 2004-05	-	200.32	-	-	200.32	9.08	200.32	218.51		
2005-06	218.51	1,628.71	-	-	1,628.71	8.06	1,847.22	1,996.10	148.89	91.77
2006-07	1,996.10	756.31	225.58	150	831.89	8.19	2,827.99	3,059.61	231.61	89.31
2007-08	3,059.61	811.61	-	-	811.61	8.12	3,871.22	4,185.56	314.34	54.37
2008-09	4,185.56	120.70	(11.76)	-	108.94	7.80	4,294.50	4,629.47	334.97	59.19
2009-10	4,629.47	97.97	(15.12)	-	82.85	7.64	4,712.32	5,072.34	360.02	118.96
2010-11	5,072.34	703.76	(15.12)	-	688.64	7.56	5,760.98	6,196.51	435.53	296.75
2011-12	6,196.51	518.20	(15.12)	-	503.08	7.63	6,699.59	7,210.77	511.18	338.21
2012-13	7,210.77	1,056.25	(15.12)	-	1,041.13	7.66	8,251.90	8,884.00	632.10	296.14
2013-14	8,884.00	1,539.25	(3.34)	-	1,535.91	7.62	10,419.91	11,213.90	794.00	362.78
2014-15	11,213.90	1,884.21	-	-	1,884.21	7.76	13,098.11	14,114.53	1,016.41	365.91
2015-16	14,114.53	3,010.66	-	-	3,010.66	7.69	17,125.19	18,442.12	1,316.93	302.14
2016-17	18,442.12	2,627.41	-	-	2,627.41	7.67	21,069.53	22,685.56	1,616.03	265.95
2017-18	22,685.56	2,885.99	-	-	2,885.99	7.59	25,571.55	27,512.43	1,940.88	531.15
Total	-	17,841.35	150.00	150.00	17,841.35	-	-	-	-	-

Source. Figures of equity and interest free loans are compiled based on information received from SPSUs and the figure of total earnings is compiled based on latest finalised financial statements.

²³ The average rate of interest on government borrowings was adopted from the Reports of the C&AG of India on State Finances (Government of Gujarat) for the concerned year. The calculation for the average rate for interest paid = Interest Payment ÷ [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities) ÷ 2] × 100.

²⁴ Present value of Total investment at the end of the year less Total investment at the end of the year.

The investment by GoG in these three SPSUs increased from ₹ 200.32 crore in 2004-05 to ₹ 17,841.35 crore in 2017-18. The PV of investment of the State Government up to 31 March 2018 worked out to ₹ 27,512.43 crore. Total earnings for the year 2004-05 to 2017-18 depicted net earnings for the year related to three SPSUs. The total earnings for the year relating to these SPSUs remained positive during 2004-05 to 2017-18, however, the earnings remained substantially below the minimum expected return towards the investment made in these Power sector SPSUs. The return on PV of investment of ₹ 27,512.43 crore to the total earnings of three SPSUs during 2017-18 is as per **Table 1.10** below:

Table 1.10: Return on GoG Funds

(₹ in crore)

Year	Total Earnings/ (Loss)	At historical cost		At Present Value (PV)	
		Investment by GoG in form of Equity and IFL	Return on GoG investment (per cent)	PV of GoG investment at end of the year	Return on PV of GoG investment (per cent)
1	2	3	4=(2÷3)×100	5	6=(2÷5)×100
2013-14	362.78	7,433.08	4.88	11,213.90	3.23
2014-15	365.91	9,317.29	3.93	14,114.53	2.59
2015-16	302.14	12,327.95	2.45	18,442.12	1.64
2016-17	265.95	14,955.36	1.78	22,685.56	1.17
2017-18	531.15	17,841.35	2.98	27,512.43	1.93

Source: Figures of earnings, investment and PV is compiled from Table 1.8.

The returns based on PV were less than the returns based on historic cost as indicated by the comparison of returns during 2017-18. Return based on historic cost was 2.98 *per cent* during 2017-18 whereas return based on PV was only 1.93 *per cent*.

Performance of Power sector SPSUs with investment of GoG

Analysis of net worth of active Power sector SPSUs

1.13 Net worth means the sum total of the paid-up capital and free reserves and surplus minus accumulated losses and deferred revenue expenditure. Essentially, it is a measure of what an entity is worth to the owners. A negative net worth indicates that the entire investment by the owners has been wiped out by accumulated losses and deferred revenue expenditure. The capital investment²⁵ and accumulated profits of the three active SPSUs as per their latest finalised financial statements were ₹ 20,007.95 crore and ₹ 2,696.01 crore respectively as detailed in **Annexure 1**. As on 31 March 2018, the aggregate net worth of all the active SPSUs in the Power sector was positive.

The paid up capital, accumulated profit/ loss and net worth of the three Power sector SPSUs for the period from 2013-14 to 2017-18 are given in **Table 1.11** below:

²⁵ Capital investment=Paid up capital +Free Reserves.

Table 1.11: Net worth of three Power sector SPSUs of Gujarat during 2013-14 to 2017-18

(₹ in crore)

Year	Paid up capital at the end of the year	Free Reserves	Accumulated Profit (+) Loss (-) at end of the year	Net worth
2013-14	7,900.00	1,509.13	1,160.41	10,569.54
2014-15	8,006.32	1,666.05	1,413.50	11,085.87
2015-16	9,459.47	2,109.83	1,690.50	13,259.80
2016-17	14,770.26	2,252.25	2,163.96	19,186.47
2017-18	17,344.48	2,663.47	2,696.01	22,703.96

Source: As per finalised financial statements received in respective years from SPSUs.

Dividend Pay-out

The State Government had not formulated any dividend policy under which the SPSUs are required to pay a minimum return on paid-up share capital contributed by the State Government. As per their latest finalised financial statements, the three active Power sector SPSUs in which the share capital was invested by GoG earned profit of ₹ 531.15 crore. However, none of these SPSUs declared dividend during 2017-18.

The State Government may consider formulating a dividend policy for payment of reasonable return from the profit earning of SPSUs on the paid up share capital contribution by the State Government.

Return on equity

1.14 Return on equity (RoE) is a measure of financial performance to assess how effectively management is using Company's assets to create profits and is calculated by dividing net income (*i.e.* net profit after taxes) by shareholders' funds. It is expressed as a percentage and can be calculated for any Company if net income and shareholders' fund are both positive numbers.

Shareholders' fund of a Company is calculated by adding paid up capital and free reserves net of accumulated losses and deferred revenue expenditure and reveals how much would be left for a Company's stakeholders if all assets were sold and all debts paid. A positive shareholders fund reveals that the Company has enough assets to cover its liabilities while negative shareholders' fund means that liabilities exceed assets.

RoE has been computed in respect of three Power sector SPSUs in which the State Government has infused funds. The details of Shareholders' fund and RoE relating to these three Power sector SPSUs during the period from 2013-14 to 2017-18 are given in **Table 1.12** below:

Table 1.12 Return on equity relating to three Power sector SPSUs where GoG infused funds

Year	Net Income (₹ in crore)	Shareholders' fund (₹ in crore)	RoE (in per cent)
2013-14	362.78	10,569.54	3.43
2014-15	365.91	11,085.87	3.30
2015-16	302.14	13,259.80	2.28
2016-17	265.95	19,186.47	1.39
2017-18	531.15	22,703.96	2.34

Source: As per finalised financial statements received in respective years from SPSUs.

During the last five years ended March 2018, the Net Income and Shareholders' fund was positive.

Return on capital employed in active Power sector SPSUs

1.15 Return on Capital Employed (RoCE) is a ratio that measures a Company's profitability and the efficiency with which its capital is employed. RoCE is calculated by dividing a Company's earnings before interest and taxes (EBIT) by the capital employed²⁶. The details of RoCE of 11 Power sector SPSUs during the period from 2013-14 to 2017-18 are given in **Table 1.13** below:

Table 1.13: Return on Capital Employed

Year	EBIT (₹ in crore)	Capital Employed (₹ in crore)	RoCE (in per cent)
2013-14	2,268.68	43,828.46	5.18
2014-15	3,145.47	49,385.77	6.37
2015-16	3,366.38	47,285.84	7.12
2016-17	3,471.05	55,537.32	6.25
2017-18	3,570.50	59,021.29	6.05

Source: As per finalised financial statements received in respective years from Companies.

The RoCE of Power sector SPSUs was consistent and ranged between 5.18 and 7.12 *per cent* during the period 2013-14 to 2017-18. During the year 2017-18, the EBIT and Capital employed has increased by 2.87 and 6.27 *per cent* respectively as compared to 2016-17.

Analysis of long-term loans of active Power sector SPSUs

1.16 The analysis of long term loans of SPSUs which had leverage during 2013-14 to 2017-18 was carried out to assess the ability of the SPSUs to service the debt owned by the SPSUs to Government, banks and other financial institutions. This is assessed through the Interest Coverage Ratio and Debt Turnover Ratio.

Interest Coverage Ratio

1.17 Interest coverage ratio is used to determine the ability of a Company to pay interest on outstanding debt and is calculated by dividing a Company's earnings before interest and taxes (EBIT) by interest expenses of the same period. The lower the ratio, the lesser the ability of the Company to pay interest on debt. Interest coverage ratio below one indicates that the Company was not generating sufficient revenues to meet its expenses on interest. The details of interest coverage ratio²⁷ in eleven Power sector SPSUs that had interest burden during the period from 2013-14 to 2017-18 are given in **Table 1.14** below:

²⁶ Capital employed= Paid up capital - share application money pending allotment + accumulated profit/ loss + free reserves + long term loan outstanding.

²⁷ Earnings before interest and taxes ÷ Interest.

Table 1.14: Interest coverage ratio of Power sector SPSUs

Year	Interest (₹ in crore)	Earnings before interest and tax (EBIT) (₹ in crore)	No. of SPSUs having liability of interest from Government and Banks and other financial institutions	No. of SPSUs having interest coverage ratio more than 1	No. of SPSUs having interest coverage ratio less than 1
2013-14	1,917.55	2,268.68	10	08	02 ²⁸
2014-15	2,469.15	3,145.47	10	08	02 ²⁹
2015-16	2,320.99	3,366.38	10	10	-
2016-17	2,169.49	3,471.05	10	10	-
2017-18	2,123.69	3,570.50	11	10	01 ³⁰

Source: As per finalised financial statements received in respective years from SPSUs.

It was observed that overall Interest Coverage ratio of the Power sector SPSUs during the period 2013-14 to 2017-18 was more than 1. In 2015-18, all the Power sector SPSUs had interest coverage ratio of more than one except one SPSU *viz.*, Bhavnagar Energy Company Limited.

Debt-Turnover Ratio of Power sector SPSUs

1.18 During the last five years, the turnover of Power sector SPSUs recorded CAGR of 3.48 *per cent* and CAGR of debt was (-1.28) *per cent* due to which the Debt-Turnover Ratio improved from 0.26 in 2013-14 to 0.18 in 2017-18 as given in **Table 1.15** below:

Table 1.15: Debt Turnover Ratio of Power sector SPSUs

Particulars	(₹ in crore)				
	2013-14	2014-15	2015-16	2016-17	2017-18
Debt from Government and Others (Banks and Financial institutions)	17,946.25	19,908.67	18,861.76	19,445.03	17,041.59
Turnover	68,065.11	74,271.78	82,115.94	84,049.58	94,544.75
Debt/ Turnover Ratio	0.26:1	0.27:1	0.23:1	0.23:1	0.18:1

Source: Compiled based on latest finalised financial statements.

Comments on financial statements of Power sector SPSUs

1.19 Eleven Power sector SPSUs forwarded their 13³¹ audited financial statements for supplementary audit during the period October 2017 to September 2018. All the 13 financial statements were reviewed in supplementary audit. The comments in the Audit Report of Statutory Auditors appointed by the C&AG and the supplementary audit of the C&AG mention the significant observations on the financial statements. These comments indicate the quality of financial statements and highlight the areas, which need improvement. The details of aggregate money value of comments of Statutory

²⁸ Gujarat State Energy Generation Limited and GSPC Pipavav Power Company Limited.

²⁹ Gujarat State Energy Generation Limited and GSPC Pipavav Power Company Limited.

³⁰ Bhavnagar Energy Company Limited.

³¹ Includes one consolidated financial statement of Gujarat Urja Vikas Nigam Limited for the year 2016-17 and two financial statements of Bhavnagar Energy Company Limited for the year 2016-17 and 2017-18.

Auditors and the C&AG for the financial statements of 2015-18 are given in **Table 1.16**.

Table 1.16: Impact of audit comments on Power sector SPSUs

(₹ in crore)

Sl. No	Particulars	2015-16		2016-17		2017-18	
		No. of FSs	Amount	No. of FSs	Amount	No. of FSs	Amount
1.	Increase in profit	04	250.50	01	82.67	-	-
2.	Decrease in loss	01	1.13	-	-	-	-
3.	Non-disclosure of material facts	-	-	01	23.85	01	401.00
4.	Errors of classification	01	133.06	01	58.15	07	2,851.94
	Total		384.69		164.67		3,252.94

FSs- Financial Statements.

Source: Compiled from comments of the Statutory Auditors/ C&AG in respect of Government Companies.

The aggregate money value of Statutory Auditors' comments and C&AG's comments during the year 2017-18 was ₹ 3,252.94 crore.

During the period October 2017 to September 2018, the 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.

Follow-up action on Audit Reports

Replies outstanding

1.20 The Report of C&AG of India represents the culmination of the process of audit scrutiny. It is therefore, necessary that they elicit appropriate and timely response from the executive. All the administrative departments of SPSUs need to submit, within three months of their presentation to the Legislature, the explanatory notes indicating the corrective/ remedial action taken or proposed to be taken on CA paragraphs and Performance Audits (PAs) included in the Audit Reports.

There were no explanatory notes pending to be received (July 2019) from any administrative departments of SPSUs on paragraphs and PAs included in the Audit Reports.

Discussion of Audit Reports by Committee on Public Undertakings

1.21 The status as on 30 September 2018 of Performance Audits and CA Paragraphs that appeared in Audit Reports (PSUs) and discussed by Committee on Public Undertakings (COPU) was as under.

Table 1.17: PAs/ CA Paragraphs appeared in Audit Reports vis-à-vis discussed as on 30 September 2018

Period of Audit Report	Number of Performance Audits/ CA paragraphs			
	Appeared in Audit Report		Paragraphs discussed	
	PAs	Paragraphs	PAs	Paragraphs
2013-14	-	2	-	2
2014-15	-	3	-	3
2015-16	2	-	-	-
2016-17	-	2	-	-
Total	2	7	-	5

Source: Compiled based on the discussions of COPU on the Audit Reports.

The discussion on Audit Reports (PSUs) up to 2012-13 has been completed.

Compliance to Reports of COPU

1.22 No Action Taken Notes is pending to be received (September 2018) in respect of recommendations contained in the Reports of COPU.

