

**CHAPTER – III**  
**State Public Sector Undertakings**



## Chapter-III State Public Sector Undertakings

### 3.1 Introduction

As of 31 March 2018, there were six SPSUs (all Government Companies) in Arunachal Pradesh. None of these Companies was listed on the stock exchange. During the year 2017-18, no new PSU was incorporated and no existing SPSU was closed down.

### 3.2 Investment in SPSUs

As of 31 March 2018, the investment<sup>1</sup> in the six SPSUs was ₹ 31.95 crore, comprising ₹ 23.84 crore towards capital and ₹ 8.11 crore in long term loans. The investment has grown by 5.82 per cent from ₹ 30.19 crore in 2013-14 to ₹ 31.95 crore in 2017-18.

The sector-wise summary of investments in the SPSUs as of 31 March 2018 is given below:

**Table 3.1 Sector-wise investment in SPSUs as on 31 March 2018**

(₹ in crore)

Name of Sector	Number of SPSUs		Investment
	Working	Non-Working	
Power	1		12.45
Finance	1	-	12.26
Agriculture & Allied	1	-	4.50
Miscellaneous	1	-	2.48
Manufacturing	-	1	0.24
Infrastructure	1	-	0.02
<b>Total</b>	<b>5</b>	<b>1</b>	<b>31.95</b>

(Source: Compiled based on information received from SPSUs)

As can be seen from the above table, the thrust of investment was mainly in the Power and Finance sectors, which had around 39 per cent and 38 per cent of the total investment respectively, during the year 2017-18. Power sector had the highest investment of ₹ 12.45 crore in the form of equity capital in the lone power sector SPSU (Hydro Power Development Corporation of Arunachal Pradesh Limited), which remained unchanged during the last five years. About 80 per cent of this investment was contributed by the State Government.

As of 31 March 2018, there was one non-working SPSU with a total investment of ₹ 0.24 crore, that had been lying defunct since 1995.

### 3.3 Special support and returns during the year

State Government provides financial support to SPSUs by way of equity, loans and grants/subsidies, etc. Summarized details in this regard for three years ended 2017-18 are given in the following table:

<sup>1</sup> This includes investment of State Government (₹ 27.23 crore), Central Government (₹ 2.00 crore) and others (₹ 2.72 crore). Investment figures as on 31 March 2018 are provisional and as provided by the SPSUs since none of the six SPSUs has finalised its accounts for 2017-18 as of 30 September 2018.

**Table 3.2 Details of budgetary support to SPSUs**

(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		No.	Amount	No.	Amount	No.	Amount
1	Equity Capital outgo from budget	-	-	-	-	-	-
2	Loans given from budget	-	-	-	-	-	-
3	Grants/Subsidy from budget	-	-	2	4.13	2	3.87
<b>4</b>	<b>Total Outgo (1+2+3)</b>	-	-	<b>2</b>	<b>4.13</b>	<b>2</b>	<b>3.87</b>
5	Waiver of loans and interest	-	-	-	-	-	-
6	Guarantees issued	-	-	-	-	-	-
7	Guarantee Commitment	1	2.00	1	2.00	1	2.00

Budgetary assistance during 2016-17 included ₹ 2.45 crore (grants/subsidy) to one SPSU<sup>2</sup> for project development and ₹ 1.68 crore to another SPSU<sup>3</sup> towards salaries and wages of employees and upkeep of tea gardens. During 2017-18, however, the amount of grants/subsidy provided to these two SPSUs was ₹ 0.45 crore and ₹ 3.42 crore respectively.

The guarantee commitment of the State Government extended to Arunachal Pradesh Industrial Development and Financial Corporation Limited remained unchanged at ₹ 2 crore during the last three years, although no guarantee commission was paid to the State Government.

### 3.4 Reconciliation with Finance Accounts

The figures of equity and outstanding loans as per the records of SPSUs should agree with those appearing in the Finance Accounts of the State. The position in this regard as at 31 March 2018 is given below:

**Table 3.3 Equity and outstanding loans as per Finance Accounts vis-a-vis records of SPSUs**  
(₹ in crore)

Details of	Amount as per Finance Accounts	Amount as per the records of SPSUs	Difference
Equity	9.00	19.39	10.39
Loans	Nil	7.84	7.84

The differences in the figures of equity and loans as per the two sets of records are significant, and have not been reconciled for more than ten years. The matter was taken up (December 2018) with the Secretary, Finance Department, Government of Arunachal Pradesh, Administrative Departments of respective SPSUs and the SPSUs concerned for reconciliation of the differences. However, there was no progress in this regard. The Government and the SPSUs concerned should take concrete steps in coordination with the AG Office to reconcile the differences in a time-bound manner.

### 3.5 Arrears in finalisation of accounts

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

The following table provides the details of progress made by working SPSUs in finalisation of accounts as of 30 September 2018.

<sup>2</sup> Hydro Power Development Corporation of Arunachal Pradesh Limited

<sup>3</sup> Arunachal Pradesh Forest Corporation Limited

**Table 3.4 Position relating to finalisation of accounts of working SPSUs**

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1	Number of Working SPSUs	5	5	5	5	5
2	Number of accounts finalised during the year	4	5	1	3	2
3	Number of accounts in arrears	29	29	33	35	38
4	Extent of arrears (numbers in years)	1 to 15	1 to 15	1 to 16	1 to 17	1 to 18

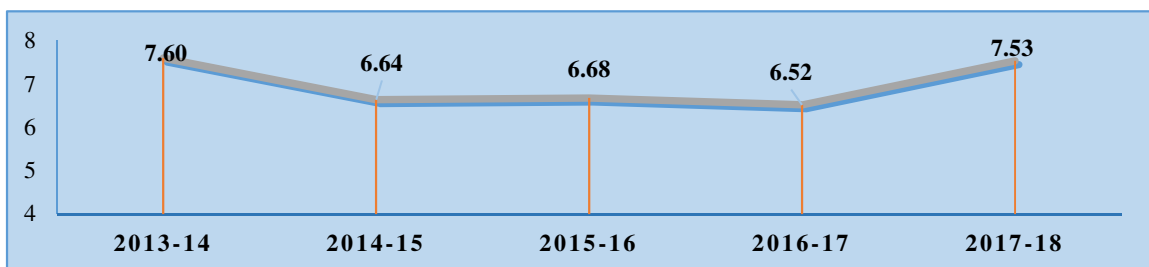
As can be observed from the above table, the number of accounts in arrears has shown an increasing trend during 2013-14 to 2017-18. Arunachal Pradesh Mineral Development and Trading Corporation Limited had the highest arrears of 18 accounts as of 30 September 2018.

Timely finalisation of accounts is important for the State Government to assess the financial health of the SPSUs, avoid financial misappropriation and mismanagement, ensure safety of Government equity, etc. Persistent delay in finalisation of accounts is fraught with the risk of fraud and leakage of public money going undetected apart from violation of the provisions of the Companies Act, 2013. In the absence of up-to-date accounts and their subsequent audit, it could not be ascertained whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not. The Accountant General (Audit)/Principal Accountant General (Audit), Arunachal Pradesh has been taking up this matter regularly with the Chief Secretary, Government of Arunachal Pradesh, to impress upon the Administrative Heads of the SPSUs concerned to expedite liquidation of arrears of accounts of SPSUs).

The Government needs to look into the constraints in preparing the accounts of the SPSUs and initiate appropriate action to address this issue.

### 3.6 Return on Investment

The overall position of the profit earned by State working SPSUs during 2013-14 to 2017-18 as per their latest finalised accounts is depicted below:

**Chart 3.1 Profit of working SPSUs**

(Source: Compiled based on latest finalised accounts of SPSUs).

From the **Chart** above, it can be observed that there was marginal reduction in the profits of the SPSUs from ₹ 7.60 crore (2013-14) to ₹ 7.53 crore (2017-18) during the five years under reference. As compared to the previous year, however, there was a growth of around 15 per cent in the profit of the working SPSUs from ₹ 6.52 crore (2016-17) to ₹ 7.53 crore (2017-18) mainly because of higher profit (₹ 6.31 crore) earned by one SPSU (Arunachal Police Housing and Welfare Corporation Limited) during 2017-18 compared to the previous year.

During the year 2017-18, out of five working SPSUs, three SPSUs earned aggregate net profit of ₹ 10.28 crore, while the remaining two SPSUs incurred loss of ₹ 2.75 crore. The major contributors to profit were Arunachal Police Housing and Welfare Corporation Limited (₹ 6.31 crore) and Arunachal Pradesh Forest Corporation Limited (₹ 3.54 crore) while Arunachal Pradesh Industrial Development and Financial Corporation Limited incurred a loss of ₹ 2.47 crore.

State Government has not formulated (November 2018) any dividend policy to make it mandatory for SPSUs to pay a minimum return on the paid-up share capital contributed by the State Government. None of the three working SPSUs, which earned profit during 2017-18 had declared any dividend.

### **3.7 Return on investment on the basis of historical cost of investment**

Return on investment is the percentage of profit or loss to the total investment. In addition to the equity contribution by the State Government, interest-free loans provided by the Government to these SPSUs should also be considered as Government investment for the purpose of working out the return on investment, as these loans are akin to equity. The funds made available in the form of grants/subsidy should not be reckoned as investment.

State Government invested ₹ 46.79 crore over the years in the six SPSUs in the form of equity (₹ 16.04 crore). The return on this investment during the period 2013-14 to 2017-18 is given in the following table:

**Table 3.5 Return on State Government Investment**

*(₹ in crore)*

<b>Financial year</b>	<b>Funds infused by the State Government in the form of Equity</b>	<b>Total Earnings/Losses</b>	<b>Return on Investment on the basis of historical cost (per cent)</b>
2013-14	14.05	7.60	54.09
2014-15	14.23	6.64	46.66
2015-16	16.23	6.68	41.16
2016-17	16.04	6.52	40.65
2017-18	16.04	7.53	46.95

As can be seen above, the return on State Government investment during the five years under reference has shown a downward trend upto 2016-17 and improved during 2017-18 from 40.65 *per cent* (2016-17) to 46.95 *per cent* (2017-18) due to the increase in the profit of Arunachal Police Housing & Welfare Corporation Limited during 2017-18.

### **3.8 Erosion of Net worth**

Net worth is 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 overall accumulated losses of six SPSUs as per their latest finalised accounts as of 30 September 2018 were ₹ 1.40 crore as against the equity investment of ₹ 16.04 crore (**Appendix-3.1**). Of the six SPSUs, the net worth was eroded completely in case of three SPSUs viz, Arunachal Pradesh Industrial Development and Financial Corporation Limited (equity: ₹ 4.15 crore; accumulated losses: ₹ 22.44 crore), Arunachal Pradesh Forest Corporation Limited (equity: ₹ 4.50 crore; accumulated losses: ₹ 4.58 crore) and Parasuram Cement Limited (equity: ₹ 0.24 crore; accumulated losses: ₹ 2.66 crore).

### 3.9 Return on Capital Employed

Return on Capital Employed (ROCE) measures a Company's profitability and the efficiency with which its capital is employed. It is calculated by dividing an entity's earnings before interest and taxes (EBIT) by capital employed<sup>4</sup>. The details of ROCE of all the six SPSUs during the period 2013-14 to 2017-18 are given below.

**Table 3.6 Return on Capital Employed**

Year	EBIT (₹ in crore)	Capital Employed (₹ in crore)	ROCE (in per cent)
2013-14	8.36	33.53	24.93
2014-15	7.40	36.86	20.08
2015-16	7.44	37.61	19.78
2016-17	7.28	41.68	17.47
2017-18	8.29	45.97	18.03

As can be seen from the Table above, the ROCE of the SPSUs has been decreasing gradually over the period upto 2016-17 mainly due to failure of the SPSUs to maintain the pace of growth in EBIT corresponding to yearly increase in the capital employed. The ROCE increased to 18.03 per cent during 2017-18 due to increase in the EBIT of one SPSU (Arunachal Pradesh Police Housing & Welfare Corporation Limited) from ₹ 5.26 crore (2016-17) to ₹ 6.31 crore (2017-18).

### Compliance Audit Paragraph

#### Arunachal Pradesh Energy Development Agency (APEDA)

### 3.10 Project execution by Arunachal Pradesh Energy Development Agency (APEDA)

Arunachal Pradesh Energy Development Agency (APEDA) was established in 1996 with the objective of promoting, implementing and developing conventional, non conventional, renewable and alternate energy sources. It took up 23 projects during the five year period 2013-14 to 2017-18 for generation of 14.52 Mega Watt of solar power. During this period, it received ₹ 41.72 crore from the Union Ministry of Non-renewable Energy (MNRE) and ₹ 23.55 crore as the State share for implementation of these projects. Audit of APEDA was carried out during April to July 2018 with the objective of ascertaining whether it has implemented the projects within the cost and time envisaged. Significant findings in this regard are discussed below.

<sup>4</sup> Capital employed = Paid-up share capital + free reserves and surplus + long-term loans – accumulated losses – deferred revenue expenditure. Figures are as per the latest year for which accounts of the SPSUs are finalised.

**i. Award of works without tendering**

General Financial Rules, 2005 (Rule 132) stipulate that open tenders should be called for all works costing Rupees five lakh and above. However, audit scrutiny of 10 out of the 23 projects taken up by APEDA during the five-year period 2013-18 revealed that four works were awarded to local contractors without tendering, as detailed below:

**Table 5.2.1: Works executed without call of tenders**

(₹ in lakh)				
Sl. No.	Name of Work	Value of work	No. of work Orders	Range of work order value
1	Installation of SPV Power Plant (150 KWP) at a village in Vijay Nagar- Head Load Carriage	87.34	1	-
2	Installation of SPV Power Pumps for Drinking Water in the State	14.00	1	-
3	Construction of Service Centres for repair & maintenance of renewable energy devices and systems in various districts of AP	216.00	14	5.78 - 29.00
4	Creation of marketing network for renewable energy devices in AP	90.00	6	7.24 - 23.40
<b>Total</b>		<b>407.34</b>	<b>22</b>	

(Source: APEDA records)

In response, APEDA stated (November 2018) that tendering process is the prescribed procedure for awarding works as per GFR in order to ensure competitive bidding and transparency, but it is not always the best choice. It was further stated that, in order to avoid some anticipated issues and problems that were likely to come up in the tendering process, the projects were executed without inviting open tenders.

In such a situation, the Agency should have documented the anticipated problems and obtained necessary orders to deviate from the prescribed procedures.

**ii. Installation of Solar Water Pumping Systems for drinking water**

The Union Ministry of Drinking Water and Sanitation introduced (October 2014) solar pumping systems to tackle drinking water problems of remote non-electrified small hamlets/habitations (with population between 150 and 250) with each scheme costing about ₹ 5.10 lakh excluding the cost of bore well. A target of 100 solar pumps was allocated for Arunachal Pradesh. The MNRE engaged APEDA for identifying the habitations and implementing the project in the State, and released ₹ 14 lakh (January 2015) as first installment.

APEDA utilized ₹ 4.18 lakh out of the fund for installation of solar pumps at Energy Awareness Park, Itanagar town in violation of the scheme guidelines. This installation in the Park was being used for filling water in the existing pond and thus did not serve the intended purpose of providing drinking water facilities to remotely located habitations. APEDA has not identified the habitations for installing drinking water systems as required by MNRE. It did not also obtain the approval of State level Scheme Sanction Committee (SLSSC) for the 48 systems identified by the Public Health Engineering and Water Supply Department. Consequently, MNRE did not release further funds for this purpose.



APEDA stated (November 2018) that installation at Energy Park at Itanagar is helping in filling the water body (pond) as well as feeding drinking water in the park and Urja Bhavan.

The reply of the Agency is not acceptable, as water pumping systems were to be installed to tackle drinking water problems of remote non-electrified and small hamlets/habitations, and not in parks and offices.



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**Itanagar**  
**Dated: 22 November 2019**

**Countersigned**



**(RAJIV MEHRISHI)**  
**Comptroller and Auditor General of India**

**New Delhi**  
**Dated: 25 November 2019**

