

PART-II

CHAPTER-IV

FUNCTIONING OF STATE PUBLIC SECTOR UNDERTAKINGS (OTHER THAN POWER SECTOR)

Introduction

4.1 There were 21 State Public Sector Undertakings (PSUs) as on 31 March 2018 which were related to sectors other than Power Sector. These State PSUs were incorporated during the period 1967-68 and 2017-18 and included 19 Government Companies and two Statutory Corporations *i.e.* Himachal Pradesh Financial Corporation and Himachal Road Transport Corporation. Out of 19 Government Companies two¹ companies are inactive. During the year 2017-18, one PSU² was incorporated.

The State government provides financial support to the State PSUs in the shape of equity, loans and grants/subsidy from time to time. Of the 21 State PSUs (other than Power Sector), the State government invested funds in 18 State PSUs only as the State government did not infuse any funds in the three Government Companies.

Contribution to Economy of the State

4.2 A ratio of turnover of the PSUs to the Gross State Domestic Product (GSDP) shows the extent of activities of the PSUs in the State economy. The table below provides the details of turnover of State PSUs (other than Power Sector) and GSDP of Himachal Pradesh for a period of five years ending March 2018:

Table 4.1: Details of turnover of State PSUs (other than Power Sector) vis-a-vis GSDP of Himachal Pradesh

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Turnover	2,122.23	2,305.90	2,471.95	2,743.10	2,821.02
GSDP of Himachal Pradesh	85,841	95,587	1,10,511	1,24,570	1,35,914
Percentage of Turnover to GSDP of Himachal Pradesh	2.47	2.41	2.24	2.20	2.08

Source: Compiled based on Turnover figures of working PSUs (other than power) and GSDP figures as per Economic Review 2017-18 of Government of Himachal Pradesh.

The turnover of these PSUs has recorded continuous increase over previous years. The increase in turnover ranged between 3.04 *per cent* and 10.97 *per cent* during the period 2013-18, whereas increase in GSDP of the State ranged between 9.11 *per cent* and 15.61 *per cent* during the same period. The compounded annual growth of GSDP was 12.17 *per cent* during last five years. The compounded annual growth is a useful method to measure growth rate over multiple time periods. Against the compounded annual growth of 12.17 *per cent* of the GSDP, the turnover of other than power sector undertakings recorded lower compounded annual growth of 7.43 *per cent* during last five years. This resulted in marginal decrease in share of turnover of these PSUs to the GSDP from 2.47 *per cent* in 2013-14 to 2.08 *per cent* in 2017-18.

¹ Agro Industrial Packaging India Limited and Himachal Worsted Mills Limited which ceased to carry out their operations:

² Dharamshala Smart City Limited.

Investment in State PSUs (other than Power Sector)

4.3 There are some PSUs which function as instruments of the State government to provide certain services which the private sector may not be willing to extend due to various reasons. Besides, the Government has also invested in certain business segments through PSUs which function in a competitive environment with private sector undertakings. The position of these State PSUs have therefore been analysed under five major classifications viz., those in the Agriculture and Allied sector, Financing sector, Infrastructure sector, Manufacturing sector and those functioning in Service sector. Details of investment made in these 21 State PSUs in shape of equity and long term loans upto 31 March 2018 are detailed in *Appendix 4.1*.

4.4 The sector-wise summary of investment in these State PSUs as on 31 March 2018 is given below:

Table 4.2: Sector-wise investment in State PSUs (other than power sector)

Sector	No. of PSUs	Investment (₹ in crore)				
		Equity		Long term loans		Total
		GoHP	Others	GoHP	Others	
Agriculture and Allied	4	76.55	10.50	116.85	1.43	205.33
Financing	4	127.96	6.69	94.62	37.83	267.10
Infrastructure	3	55.82	0	0	0	55.82
Manufacture	2	7.04	1.04	2.97	0	11.05
Service	8	734.01	15.46	0.95	202.26	952.68
Total	21	1,001.38	33.69	215.39	241.52	1,491.98

Source: Compiled based on information received from PSUs.

As on 31 March 2018, the total investment (equity and long term loans) in these 21 PSUs was ₹ 1,491.98 crore. The investment consisted of 69.38 per cent towards equity and 30.62 per cent in long-term loans. The Long term loans advanced by the State government constituted 47.14 per cent (₹ 215.39 crore) of the total long term loans whereas 52.86 per cent (₹ 241.52 crore) of the total long term loans were availed from other financial institutions.

The investment has grown by 39.32 per cent from ₹ 1,070.88 crore in 2013-14 to ₹ 1,491.98 crore in 2017-18. The investment increased due to addition of ₹ 186.28 crore and ₹ 234.82 crore towards equity and long term loans respectively during 2013-14 to 2017-18.

Disinvestment, restructuring and privatisation of State PSUs (other than Power Sector)

4.5 During the year 2017-18, no disinvestment, restructuring or privatisation was done by the State government in State PSUs (other than Power Sector).

Budgetary Support to State PSUs (other than Power Sector)

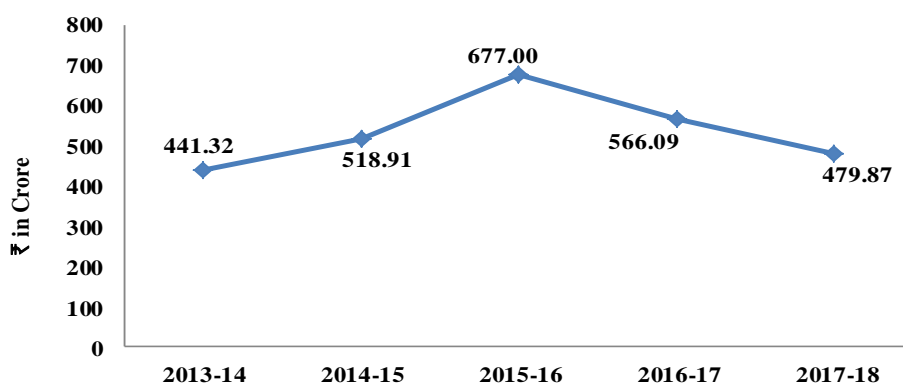
4.6 The Government of Himachal Pradesh (GoHP) provides financial support to State PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies, loans written off and loans converted into equity during the year in respect of State PSUs (other than Power Sector) for the last three years ending March 2018 are as follows:

Table 4.3: Details regarding budgetary support to State PSUs (other than Power Sector) during the years

Particulars ³	2015-16		2016-17		2017-18	
	Number of PSUs	Amount	Number of PSUs	Amount	Number of PSUs	Amount
Equity Capital outgo (i)	5	43.29	3	46.50	2	50.80
Loans given (ii)	1	11.04	1	13.06	1	5.44
Grants/Subsidy provided (iii)	8	622.67	5	506.53	6	423.63
Total Outgo (i+ii+iii)	-	677.00	-	566.09	-	479.87
Loan repayment written off	-	-	-	-	-	-
Loans converted into equity	-	-	-	-	-	-
Guarantees issued	8	204.65	5	284.35	5	192.65
Guarantee Commitment	7	205.14	4	230.92	5	277.98

Source: Compiled based on information received from PSUs.

The details regarding budgetary outgo towards equity, loans and grants/subsidies for the last five years ending March 2018 are given in a graph below:

Graph 4.1: Budgetary outgo towards Equity, Loans and Grants/Subsidies

The annual budgetary assistance to these PSUs ranged between ₹ 441.32 crore and ₹ 677.00 crore during the period 2013-14 to 2017-18. The budgetary assistance of ₹ 479.87 crore given during the year 2017-18 included ₹ 50.80 crore, ₹ 5.44 crore and ₹ 423.63 crore in the form of equity, loans and grants / subsidy respectively. The subsidy/grants given by the State government was primarily to provide free / concessional travel to the public.

In order to enable PSUs to obtain financial assistance from Banks and financial institutions, State government provides guarantee and charges guarantee fee ranging from Zero per cent to one per cent. During 2017-18, the Government had guaranteed loans aggregating ₹ 192.65 crore obtained by five PSUs. The guarantee commitment increased to ₹ 277.98 crore (five PSUs) in 2017-18 from ₹ 230.92 crore (five PSUs) in 2016-17. One PSU⁴ paid guarantee fee of ₹ 0.01 crore during 2017-18.

³ Amount represents outgo from State Budget only.

⁴ Himachal Pradesh State Handicrafts and Handloom Corporation Limited.

Reconciliation with Finance Accounts of Government of Himachal Pradesh

4.7 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs (other than Power Sector) should agree with that of the figures appearing in the Finance Accounts of the Government of Himachal Pradesh. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of the differences. The position in this regard as on 31 March 2018 is stated below:

Table 4.4: Equity, loans, guarantees outstanding as per Finance Accounts of Government of Himachal Pradesh vis-à-vis records of State PSUs (other than Power Sector)

(₹ in crore)			
Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of State PSUs	Difference
Equity	77.29	151.91	74.62
Loans	55.53	163.12	107.59
Guarantees	256.28	251.15	5.13

Source: Compiled based on information received from PSUs and Finance Accounts.

Audit observed that out of 21 State PSUs, such differences occurred in respect of 13 PSUs as shown in *Appendix 4.2*. The differences between the figures are persisting since last many years. The issue of reconciliation of differences was also taken up with the PSUs and the Departments from time to time. Major difference in balances was observed in Himachal Pradesh Financial Corporation. We, therefore, recommend that the State government and the respective PSUs should reconcile the differences in a time-bound manner.

Submission of accounts by State PSUs (other than Power Sector)

4.8 Of the total 21 State PSUs (other than Power Sector), there were 19 working PSUs *i.e.* 17 Government Companies and two Statutory Corporations and two inactive PSUs under the purview of CAG as of 31 March 2018. The status of timelines followed by the State PSUs in preparation of accounts is as detailed under:

Timeliness in preparation of accounts by the working State PSUs

4.8.1 Accounts for the year 2017-18 were required to be submitted by all the working PSUs by 30 September 2018. However, out of 19 working Government Companies, one Government Company submitted its accounts for the year 2017-18 for audit by CAG on or before 30 September 2018 whereas accounts of 18 Government Companies were in arrears. Out of two Statutory Corporations, the CAG is the sole auditor in one Statutory Corporation (Himachal Road Transport Corporation). Of these two Statutory Corporations, accounts of one Statutory Corporation (Himachal Pradesh Financial Corporation) for the year 2017-18 were presented for audit in time. The accounts of Himachal Road Transport Corporation (HRTC) for the year 2017-18 were awaited as on 30 September 2018.

Details of arrears in submission of accounts of working PSUs (other than Power Sector) as on 30 September 2018 are given below:

Table 4.5: Position relating to submission of accounts by the working State PSUs (other than Power Sector)

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1.	Number of PSUs (other than Power Sector)	15	15	16	17	19
2.	Number of accounts submitted during current year	14	13	15	17	11
3.	Number of working PSUs which finalised accounts for the current year	4	1	2	3	1
4.	Number of previous year accounts finalised during current year	10	12	13	14	10
5.	Number of working PSUs with arrears in accounts	11	14	14	13	18
6.	Number of accounts in arrears	19	21	22	22	30
7.	Extent of arrears	One to three years	One to three years	One to three years	One to three years	One to four years

Source: Compiled based on accounts of PSUs received during the period October 2017 to September 2018.

Of these 19 working State PSUs, 11 PSUs had finalised 11 annual accounts during the period 1 October 2017 to 30 September 2018 which included one annual account for the year 2017-18 and ten annual accounts for previous years. Further, 30 annual accounts were in arrears which pertain to 18 PSUs as detailed in **Appendix 4.3**. The Administrative Departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the stipulated period. The concerned Departments were informed quarterly regarding arrear in accounts.

The GoHP had provided ₹ 426.92 crore (Loan: ₹ 8.00 crore, Subsidy: ₹ 418.92 crore) to 8 of the 18 working State PSUs accounts of which had not been finalised by 30 September 2018 as prescribed under the Companies Act, 2013, whereas no investment was made in remaining 10 PSUs during the period for which accounts are in arrears. PSUs wise details of investment made by State government during the years for which accounts are in arrears are shown in **Appendix 4.3**. However, four accounts for the period 2015-16 to 2017-18 pertained to four⁵ of these working State PSUs were finalised and submitted for audit during the period from October 2018 to December 2018 whereas 26 accounts pertained to 18 working State PSUs as detailed in **Appendix 4.3** were awaited till December 2018.

In the absence of finalisation of accounts and their subsequent audit in remaining 14 PSUs, it could not be ensured whether the investments and expenditure incurred had been properly accounted for and the purpose for which the amount was invested was achieved. The GoHP investment in these PSUs, therefore, remained outside the control of State Legislature.

Timeliness in preparation of accounts by inactive State PSUs

4.8.2 There were arrears in finalisation of accounts by two inactive PSUs details of which are as given below:

⁵ Himachal Consultancy Organisation, Himachal Pradesh Agro Industries Corporation Limited, Himachal Pradesh State Electronics Corporation Limited and Himachal Road Transport Corporation.

Table 4.6: Position relating to arrears of accounts in respect of inactive PSUs

S. No.	Name of inactive companies	Period for which accounts were in arrears
1.	Himachal Worsted Mills Limited	2001-02 to 2017-18
2.	Agro Industrial Packaging India Limited	2014-15 to 2017-18

Source: Compiled based on accounts of PSUs received during the period October 2017 to September 2018.

Of these two inactive PSUs, accounts of Himachal Worsted Mills Limited was in the process of liquidation since 2000-01 and its accounts were finalised up to that period. The Agro Industrial Packaging Limited had its accounts in arrears for the years 2014-15 to 2017-18.

Placement of Separate Audit Reports of Statutory Corporations

4.9 Out of two working Statutory Corporations, Himachal Pradesh Financial Corporation had forwarded their accounts of 2017-18 by 30 September 2018.

Separate Audit Reports (SARs) are audit reports of the CAG on the accounts of Statutory Corporations. These reports are to be laid before the Legislature as per the provisions of the respective Acts. Status of annual accounts of Statutory Corporations and placement of their SARs in legislature is detailed below:

Table 4.7: Status of placement of SAR of the Statutory Corporations

Name of the Corporation	Year of Accounts	Month of placement of SAR
Himachal Road Transport Corporation	2016-17	24.03.2018
Himachal Pradesh Financial Corporation	2016-17	27.3.2018
	2017-18	Yet to be laid

Source: Compiled based on information available on the website of Himachal Pradesh Legislative Assembly.

Impact of non-finalisation of accounts of State PSUs (other than Power Sector)

4.10 As pointed in Paragraph 4.8, 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 the State PSUs (other than Power Sector) to State GDP for the year 2017-18 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

It is, therefore, recommended that the Administrative Department should strictly monitor and issue necessary directions to liquidate the arrears in accounts. The Government may also look into the constraints in preparing the accounts of the PSUs and take necessary steps to liquidate the arrears in accounts.

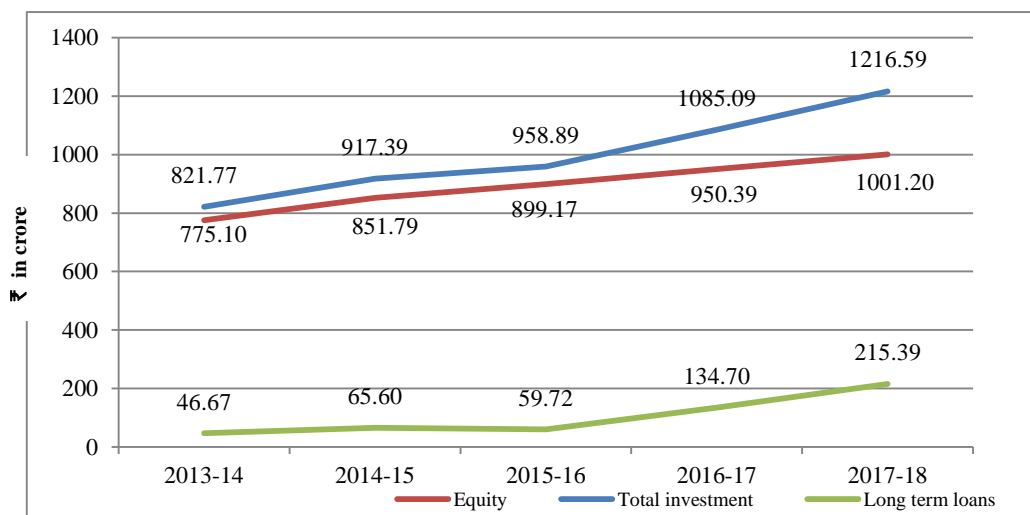
Performance of State PSUs (other than Power Sector)

4.11 The financial position and working results of the 21 State PSUs (other than Power Sector) are detailed in Appendix 4.4 as per their latest finalised accounts as of 30 September 2018.

The Public Sector Undertakings are expected to yield reasonable return on investment made by Government in the undertakings. The total investment of State government and others in the PSUs other than power sector was ₹ 1,491.98 crore consisting of equity of ₹ 1,035.07 crore and long term loans of ₹ 456.91 crore. Out of this, Government of Himachal Pradesh has investment of ₹ 1,216.59 crore in the 18 PSUs other than Power Sector consisting of equity of ₹ 1,001.20 crore and long term loans of ₹ 215.39 crore.

The year wise statement of investment of GoHP in the PSUs other than power sector during the period 2013-14 to 2017-18 is as follows:

Graph 4.2: Total investment of GoHP in PSUs (other than power sector)

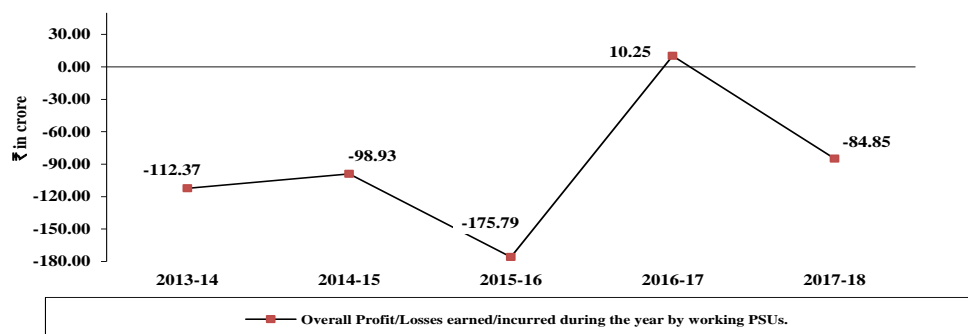


The profitability of a company is traditionally assessed through return on investment and return on capital employed. Return on investment measures the profit or loss made in a fixed year relating to the amount of money invested and is expressed as a percentage of net profit to total investment. Return on capital employed is a financial ratio that measures the company's profitability and the efficiency with which its capital is used.

Return on Investment

4.12 The Return on investment is the percentage of profit or loss to the total investment. The overall position of Profit/losses⁶ earned / incurred by the 19 working State PSUs (other than Power Sector) during 2013-14 to 2017-18 is depicted below in a graph:

Graph 4.3: Profit/Losses earned/incurred by 19 working PSUs (other than Power Sector) during the years



⁶ Figures are as per the latest finalised accounts of the respective years.

The losses of ₹ 112.37 crore incurred by these working PSUs in 2013-14 decreased to ₹ 84.85 crore in 2017-18. According to latest finalised accounts of these 19 working State PSUs, 10 PSUs earned profit of ₹ 24.03 crore and six PSUs incurred losses of ₹ 108.88 crore, two PSUs have not made their first Profit & Loss accounts and one⁷ PSU prepares its accounts on no profit and no loss. Profit during 2016-17 was due to the fact that Himachal Road Transport Corporation (HRTC) earned profit of ₹ 1.73 crore against the loss of ₹ 172.70 crore and ₹ 95.27 crore in the year 2015-16 and 2017-18 respectively as detailed in **Appendix 4.4**.

The top profit making companies were Himachal Pradesh State Industrial Development Corporation Limited (₹ 10.07 crore) and Himachal Pradesh General Industries Corporation (₹ 6.72 crore) while Himachal Road Transport Corporation (₹ 95.27 crore) and Himachal Pradesh Financial Corporation (₹ 5.50 crore) incurred heavy losses.

Of the 19 working PSUs (other than Power Sector) as on 31 March 2018, position of working PSUs (other than Power Sector) which earned/incurred profit/loss during 2013-14 to 2017-18 is given below:

Table 4.8: Details of working Public Sector Undertakings (other than Power Sector) which earned/incurred profit/loss during 2013-14 to 2017-18 as per their latest finalized accounts

Financial year	Total number of PSUs (other than Power Sector)	Number of PSUs which earned profits	Number of PSUs which incurred loss	Number of PSUs which had nil or marginal profit/ loss ⁸
2013-14	15	8	4	3
2014-15	15	6	8	1
2015-16	16	7	5	3
2016-17	17	11	3	2
2017-18	19	9	5	3

(a) Return on Investment on the basis of historical cost of investment

4.13 Out of 21 Public Sector Undertakings (other than Power Sector) of the State, the State government infused funds in the form of equity, long term loans and grants / subsidies in 18 PSUs only. The Government has invested ₹ 1,216.59 crore in these 18 PSUs including equity of ₹ 1001.20 crore and long term loans of ₹ 215.39 crore. The funds made available in the forms of the grants/subsidy have not been reckoned as investment since they do not qualify to be considered as investment. Out of the total long term loans, only Interest free loans have been considered as investment. However, in cases where Interest free loans have been repaid by the PSUs, the value of investment based on historic cost and present value (PV) was calculated on the reduced balances of Interest free loans over the period as detailed in **Table 4.9**.

Out of the released long term loans of ₹ 215.39 crore, ₹ 53.95 crore were interest free loans based on the reduced balances of interest free loans over the period. Thus, the total investment of State government in these 18 PSUs on the basis of historical cost was ₹ 1055.15 crore (₹ 1001.20 crore + ₹ 53.95 crore).

⁷ Himachal Pradesh Road and Other Infrastructure Development Corporation Limited.

⁸ Himachal Pradesh Kaushal Vikas Nigam during 2015-16, Himachal Pradesh Beverages Limited during 2016-17 to 2017-18 and Dharamshala Smart City Ltd. during 2017-18 had not prepared their first final accounts.

The return on investment on the basis of historical cost of investment for the period 2013-14 to 2017-18 is as given below:

Table 4.9: Return on State government Funds on the basis of historical cost of investment

Year	Total Earnings (₹ in crore)	Investment by GoHP in form of Equity and Interest Free Loans on the basis of historical cost (₹ in crore)	Return on State Government on the basis of historical cost (%)
2013-14	-112.37	836.45	-13.43
2014-15	-98.93	881.38	-11.22
2015-16	-175.79	939.19	-18.72
2016-17	10.21	996.32	1.02
2017-18	-84.08	1,055.15	-7.97

The return on State government investment is worked out by dividing the total earnings⁹ of these PSUs by the cost of the State government investments. The return earned on State government investment ranged between -18.72 per cent and 1.02 per cent during the period 2013-14 to 2017-18. The return on State government investment deteriorated during 2017-18 in comparison to that for the period 2016-17 mainly due to increase in losses of Himachal Road Transport Corporation.

(b) Return on Investment on the basis of Present Value of Investment

4.14 An analysis of the earnings *vis-a-vis* investments in respect of those 21 State PSUs (other than Power Sector) where funds had been infused by the State government was carried out to assess the profitability of these PSUs. Traditional calculation of return based only on the basis of historical cost of investment may not be a correct indicator of the adequacy of the return on the investment since such calculations ignore the PV of money. Therefore in addition to the calculation of return on funds invested by GoHP in the 18 companies other than power sector on historical cost basis, the return on investment has also been calculated after considering the PV of money. PV of the State government investment was computed where funds had been infused by the State government in the shape of equity and interest free loan since inception of these companies till 31 March 2018. During the period from 2013-14 to 2017-18, these 18 PSUs had a positive return on investment during the year 2016-17. The return on investment for this year have, therefore, been calculated and depicted on the basis of PV.

The PV of the State government investment in these undertakings was computed on the following assumptions:

- Interest free loans have been considered as fund infusion by the State government. However, in case of repayment of loans by the PSUs, the PV was calculated on the reduced balances of interest free loans over the period. The funds made available in the form of grant / subsidy have not been reckoned as investment since they do not qualify to be considered as investment as indicated by the nature of subsidy indicated in **Paragraph 4.13**.

⁹ This includes net profit/losses for the concerned year relating to those State PSUs where the investments have been made by the State government.

- The average rate of interest on Government borrowings for the concerned financial year¹⁰ was adopted as discount rate for arriving at PV since they represent the cost incurred by the Government towards investment of funds for the year.

For the years 2015-16 and 2017-18 when these 21 companies incurred losses, a more appropriate measure of performance is the erosion of net worth due to the losses. The erosion of net worth of the company is commented upon in **Paragraph 4.17**.

4.15 Position of State Government investment in these 18 State PSUs in the form of equity and loans on historical cost basis for the period from 2000-01 to 2017-18 is indicated in **Appendix 4.5**. Further, consolidated position of NPV of the State Government investment relating to these PSUs for the same period is indicated in table below:

Table 4.10: Year wise details of investment by the State Government and present value (PV) of Government investment for the period from 2000-01 to 2017-18

(₹ in crore)

Financial year	Present value of total investment at the beginning of the year	Equity infused by the State government during the year	Interest free loans given by the State government during the year ¹¹	Total investment at the end of the year	Average rate of interest on government borrowings (in %)	Present value of total investment at the end of the year	Minimum expected return to recover cost of funds for the year	Total Earnings for the year ¹²
	i	ii	iii	iv = ii + iii	v	vi = iv(1+v/100)	vii = iv*v /100	viii
Upto 1999-2000	-	300.03	0.49	300.52	8.83	327.06	26.54	-
2000-01	327.06	32.48	1.51	361.05	10.15	397.69	36.65	-49.50
2001-02	397.69	13.01	-	410.70	11.06	456.13	45.42	-36.70
2002-03	456.13	12.43	-	468.56	10.37	517.14	48.59	-29.19
2003-04	517.14	28.60	-	545.74	10.98	605.67	59.92	-31.10
2004-05	605.67	16.06	-	621.73	10.60	687.63	65.90	-43.44
2005-06	687.63	13.99	0.15	701.77	9.20	766.33	64.56	-30.72
2006-07	766.33	14.27	-	780.60	9.40	853.98	73.38	-62.08
2007-08	853.98	37.82	2.25	894.05	9.09	975.32	81.27	-46.66
2008-09	975.32	54.46	-0.10	1,029.68	9.19	1,124.31	94.63	-33.88
2009-10	1,124.31	117.16	-	1,241.47	8.59	1,348.11	106.64	-55.92
2010-11	1,348.11	34.61	-	1,382.72	7.78	1,490.29	107.58	-38.15
2011-12	1,490.29	26.94	9.50	1,526.73	7.80	1,645.82	119.09	-72.06
2012-13	1,645.82	45.76	5.00	1,696.58	8.08	1,833.66	137.08	-88.46
2013-14	1,833.66	67.49	2.54	1,903.69	7.71	2,050.47	146.77	-112.41
2014-15	2,050.47	44.93	-	2,095.40	7.91	2,261.14	165.75	-98.97
2015-16	2,261.14	43.27	14.54	2,318.95	7.95	2,503.31	184.36	-175.83
2016-17	2,503.31	47.06	10.07	2,560.44	7.60	2,755.04	194.59	10.21
2017-18	2,755.04	50.83	8.00	2,813.87	7.71	3,030.81	216.95	-84.08
Total		1,001.20	53.95					

¹⁰ The average rate of interest on Government borrowings was adopted from the Reports of the C&AG of India on State Finances (Government of Himachal Pradesh) for the concerned year wherein 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.

¹¹ Negative figures of Interest free loans shown in this column represent repayment of loans by the PSUs to the State government during the concerned year.

¹² Total Earning for the year depicts total of net earnings (profit/loss) for the concerned year relating to those 21 PSUs (other than Power Sector) where funds were infused by State government. In case where annual accounts of any PSU was pending during any year then net earnings (profit/loss) for that year has been taken as per latest audited accounts of the concerned PSU.

The balance of investment by the State Government in these PSUs at the end of the year increased to ₹ 1055.15 crore¹³ in 2017-2018 from ₹ 300.52 crore in 1999-2000 as the State Government made further investments in shape of equity (₹ 701.17 crore) and interest free loans (₹ 53.46 crore) during the period 2000-2001 to 2017-2018. The PV of funds infused by the State Government upto 31 March 2018 amounted to ₹ 3,030.81 crore. Total earnings for the year relating to these companies remained negative during 2000-01 to 2015-16 and 2017-18 which indicates that instead of generating returns on the invested funds, these companies did not recover the cost of funds. Further, the positive total earning for the year 2016-17 also remained substantially below the minimum expected return towards the investment made in these, other than power sector, companies.

4.16 As during the year 2016-17 the Government had positive returns on investments made in these PSUs, sector-wise comparison of returns on State government funds at historical cost and at present value for this year is given in table below:

Table 4.11: Return on State Government Funds

(₹ in crore)					
Sector-wise break-up	Total Earnings	Funds invested by the GoHP in form of Equity and Interest Free Loans on historical cost	Return on State government investment on historical cost basis (%) 4=2/3x100	PV of the State government investment at end of the year	Return on State government investment considering the present value of the investments (%)
1	2	3	4	5	6
2016-17					
Agriculture and Allied	-6.06	120.44	-5.03	335.76	-1.81
Financing	9.79	127.23	7.69	317.88	3.08
Infrastructure	-5.29	55.82	-9.48	252.37	-2.10
Manufacture	5.47	7.04	77.56	29.49	18.51
Service	6.30	685.79	0.92	1,819.54	0.35
Total	10.21	996.32	1.02	2,755.04	0.37

The return earned on State government investment on historical cost basis was 1.02 per cent in 2016-17, whereas the returns earned on State Government funds considering the present value of the investments was 0.37 per cent during the same year.

Erosion of Net worth

4.17 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 investment and accumulated losses of these 21 State PSUs (other than Power Sector) as per their latest finalised accounts were ₹ 977.54 crore and ₹ 1,448.97 crore respectively resulting in net worth of ₹ -471.43 crore as

¹³ ₹ 1001.20 crore+₹ 53.95 crore = ₹ 1055.15 crore.

detailed in **Appendix 4.4**. Net worth of the PSUs did not improve despite financial assistance of ₹ 1,552.83 crore by the State Government during last three years in the shape of grants and subsidies. Analysis of investment and accumulated losses disclosed that net worth eroded fully in nine out of these 21 PSUs as the capital investment and accumulated losses of these nine PSUs were ₹ 879.58 crore and ₹ 1,556.38 crore respectively. Of these nine PSUs, the maximum net worth erosion was in Himachal Road Transport Corporation (₹ 1,113.91 crore), Himachal Pradesh Financial Corporation (₹ 166.56 crore), Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited (₹ 83.20 crore) and Agro Industrial Packaging India Limited (₹ 78.23 crore). Of these nine PSUs where net worth had been fully eroded, three¹⁴ PSUs earned profit during the year 2017-18 although there were substantial accumulated losses.

Further the following table indicates total paid up capital, total accumulated profit / loss, and total net worth of the 18 other than power sector companies where the State Government has made direct investment:

Table 4.12: Net worth of 18 other than power sector undertakings during 2013-14 to 2017-18

(₹ in crore)				
Year	Paid Capital at end of the year	Accumulated Profit (+) Loss (-) at end of the year	Deferred revenue Expenditure	Net Worth
2013-14	803.85	-1,089.18	-	-285.33
2014-15	844.63	-1,190.75	-	-346.12
2015-16	885.87	-1,366.15	-	-480.28
2016-17	930.74	-1,187.79	-	-257.05
2017-18	976.47	-1,445.90	-	-469.43

As can be seen, the net worth of these companies fluctuated during the period. It decreased from ₹ -285.33 crore in 2013-14 to ₹ -469.43 crore in 2017-18. Out of 18 PSUs, 9 PSUs¹⁵ showed positive net worth and net worth of eight PSUs¹⁶ was in negative during 2017-18. One¹⁷ PSUs have not prepared their first annual accounts.

¹⁴ Himachal Pradesh Agro Industries Corporation Limited for 2015-16, Himachal Pradesh Tourism Development Corporation Limited for 2015-16 and Himachal Worsted Mills Limited for 2000-01.

¹⁵ Himachal Backward Classes Finance and Development Corporation, Himachal Pradesh Mahila Vikas Nigam, Himachal Pradesh Minorities Finance and Development Corporation, Himachal Pradesh Road and Other Infrastructure Development Corporation Limited, Himachal Pradesh State Industrial Development Corporation Limited, Himachal Pradesh General Industries Corporation Limited, Himachal Pradesh State Civil Supplies Corporation Limited, Himachal Pradesh State Electronics Development Corporation Limited and Himachal Pradesh Kaushal Vikas Nigam.

¹⁶ Himachal Pradesh Agro Industries Corporation Limited, Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited, Himachal Pradesh State Forest Development Corporation Limited, Himachal Pradesh State Handicrafts and Handloom Corporation Limited, Himachal Pradesh Tourism Development Corporation Limited, Himachal Pradesh Financial Corporation, Himachal Road Transport Corporation and Agro Industrial Packaging India Limited.

¹⁷ Himachal Pradesh Beverages Limited.

Dividend Payout

4.18 The State government had formulated (April 2011) a dividend policy under which all profit making PSUs (except those in welfare and utility sector) are required to pay a minimum return of five *per cent* on the paid up capital contributed by the State government subject to a ceiling of 50 *per cent* of profit after tax. As per their latest finalised accounts, 7 PSUs earned an aggregate profit of ₹ 21.22 crore out of which only two¹⁸ PSUs declared / paid a dividend of ₹ 1.89 crore during 2016-17. The remaining five profit making PSUs had not paid any dividend to the State government.

Return on Equity

4.19 Return on Equity (ROE) is a measure of financial performance to assess how effectively management is using shareholders' fund to create profits and is calculated by dividing net income (i.e. net profit after taxes) by shareholders' fund. 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 shareholder equity means that liabilities exceed assets.

Return on Equity has been computed in respect of 18 other than power sector undertakings where funds had been infused by the State Government. The details of Shareholders fund and ROE relating to 18 PSUs (other than Power Sector) during the period from 2013-14 to 2017-18 are given in table below:

Table 4.13: Return on Equity relating to 18 PSUs (other than Power Sector) where funds were infused by the GoHP

Year	Net Income	Shareholders' Fund	ROE
	(₹ in crore)		(%)
2013-14	-112.41	-285.33	-
2014-15	-98.97	-346.12	-
2015-16	-175.83	-480.28	-
2016-17	10.21	-257.05	-
2017-18	-84.08	-469.43	-

During the last five years period ended March 2018, the Net Income during 2013-14 to 2015-16 and 2017-18 were negative and only during 2016-17 Net Income was positive. Since the Net Income and Shareholders' fund of these PSUs were in negative, ROE in respect of these PSUs could not be worked out. However, negative shareholders' fund indicates that the liabilities of these PSUs have exceeded the assets.

Return on Capital Employed

4.20 Return on Capital Employed (ROCE) is a ratio that measures a company's profitability and the efficiency with which its capital is employed.

¹⁸ Himachal Pradesh State Civil Supply Corporation and Himachal Pradesh State Industrial Development Corporation Ltd.

ROCE is calculated by dividing a company's earnings before interest and taxes (EBIT) by the capital employed¹⁹. The details of total ROCE of all the State PSUs (other than Power Sector) together during the period from 2013-14 to 2017-18 are given in table below:

Table 4.14: Return on Capital Employed

Year	EBIT	Capital Employed	ROCE
	(₹ in crore)		(%)
2013-14	-83.01	120.46	-68.91
2014-15	-99.33	259.42	-38.29
2015-16	-177.91	-58.56	NA
2016-17	23.87	226.04	10.56
2017-18	-69.77	20.87	-334.31

The ROCE of these State PSUs ranged between -334.31 *per cent* and 10.56 *per cent* during the period 2013-14 to 2017-18. The ROCE decreased substantially during the year 2017-18 in comparison to 2016-17 and turned into negative return due to increase in losses of Himachal Road Transport Corporation during the year 2017-18.

Analysis of Long Term Loans of the PSUs (other than Power Sector)

4.21 Analysis of the Long Term Loans of the PSUs which had leverage during 2013-14 to 2017-18 was carried out to assess the ability of the companies to serve the debt owed by the companies to the Government, banks and other financial institutions. This is assessed through the interest coverage ratio and debt turnover ratio.

Interest Coverage Ratio

4.22 Interest coverage ratio is used to determine the ability of a PSU to pay interest on outstanding debt and is calculated by dividing earnings before interest and taxes (EBIT) of a PSU by interest expenses of the same period. The lower the ratio, the lesser the ability of the PSU to pay interest on debt. An interest coverage ratio below one indicated that the PSU was not generating sufficient revenues to meet its expenses on interest. The details of positive and negative interest coverage ratio during the period from 2013-14 to 2017-18 are given in table below:

Table 4.15: Interest Coverage Ratio relating to State PSUs (other than Power Sector)

Year	Interest	Earnings before interest and tax (EBIT)	PSUs having liability of loans from Government and Banks and other financial institutions	PSUs having interest coverage ratio more than 1	PSUs having interest coverage ratio less than 1
	(₹ in crore)		(In number)		
2013-14	19.26	-83.01	11	-	11
2014-15	18.45	-99.33	11	-	11
2015-16	40.35	-177.91	10	-	10
2016-17	36.00	23.87	12	-	12
2017-18	35.05	-69.77	12	-	12

¹⁹ 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 PSUs are finalised.

Of the 12 State PSUs (other than Power Sector) having liability of loans from Government as well as banks and other financial institutions during 2017-18, All PSUs had interest coverage ratio below one which indicates that these PSUs could not generate sufficient revenues to meet their expenses on interest during the period.

Debt Turnover Ratio

4.23 During the last five years, the turnover of these PSUs recorded compounded annual growth of 7.43 per cent and compounded annual growth of debt was 4.66 per cent due to which the debt turnover ratio decreased from 0.19 in 2013-14 to 0.17 in 2017-18 as given in table below:

Table 4.16: Debt Turnover Ratio relating to the State PSUs (other than Power Sector)

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Debt from Government and others (Banks and Financial Institutions)	410.31	407.23	426.84	395.84	492.30
Turnover	2,122.23	2,305.90	2,471.95	2,743.10	2,826.45
Debt-Turnover Ratio	0.19:1	0.18:1	0.17:1	0.14:1	0.17:1

Source: Compiled based on Appendix 4.4.

The debt-turnover ratio ranged between 0.19 and 0.17 during this period. The overall accumulated losses increased substantially during the year 2017-18 in comparison to that for the year 2016-17 which was mainly due to increase in accumulated losses of Himachal Road Transport Corporation.

Winding up of inactive State PSUs

4.24 Two of the 21 State PSUs (other than Power Sector) were inactive companies having a total investment of ₹ 78.79 crore (₹ 77.87 crore in Agro Industrial Packaging India Limited and ₹ 0.92 crore in Himachal Worsteds Mills Limited) towards capital (₹ 18.64 crore) and long term loans (₹ 60.15 crore) as on 31 March 2018. The number of inactive PSUs at the end of each year during last five years ended 31 March 2018 are given below:

Table 4.17: Inactive State PSUs

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
No. of inactive companies	2	2	2	2	2

Source: Compiled from the information included in Audit Report (PSU), GoHP of respective years

The Himachal Worsteds Mills Limited had been under liquidation since 2000-01 while the liquidation process in respect of Himachal Pradesh Agro Industrial Packaging India Ltd was yet to be started. The Government may take appropriate decision regarding these PSUs.

Comments on Accounts of State PSUs (other than Power Sector)

4.25 Eleven working companies forwarded 11 audited accounts to the Accountant General during the period from 1 October 2017 to 30 September 2018. All these accounts were selected for supplementary audit. The Audit Reports of Statutory Auditors and supplementary audit conducted by the CAG indicated that the quality of accounts needs to be improved substantially. The details of aggregate money value of the comments of Statutory Auditors and the CAG are as follows:

**Table 4.18: Impact of audit comments on Working Companies
(other than Power Sector)**

(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		Number of accounts	Amount	Number of accounts	Amount	Number of accounts	Amount
1.	Decrease in profit	5	4.99	6	1.72	5	5.29
2.	Increase in profit	2	0.66	1	0.09	1	0.28
3.	Increase in loss	2	6.34	1	0.06	2	0.66
4.	Decrease in loss	2	1.29	2	0.70	-	-
5.	Non-disclosure of material facts	2	3.93	-	-	-	-
6.	Errors of classification	2	0.34	-	-	-	-

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

During the year 2017-18, the Statutory Auditors had issued qualified certificates on eight accounts and adverse certificate on two accounts. Compliance to the Accounting Standards by the PSUs remained poor as the Statutory Auditors pointed out five instances of non-compliance to the Accounting Standards in three accounts.

4.26 The State has two Statutory Corporations *i.e.* (i) Himachal Road Transport Corporation (HRTC) and (ii) Himachal Pradesh Financial Corporation (HPFC). The CAG is sole auditor in respect of HRTC.

Out of two working Statutory Corporations, one Corporation (HPFC) forwarded its annual accounts for the year 2017-18 whereas HRTC forwarded annual accounts for the year 2016-17 during 01 October 2017 to 30 September 2018. All two accounts were selected for supplementary audit. The Statutory Auditors had given qualified certificates on annual accounts of HPFC for the year 2017-18. Further, in case of the accounts of HRTC, the CAG has given a 'true and fair' certificate on the accounts of the year 2016-17.

The details of aggregate money value of the comments of Statutory Auditors and supplementary audit by the CAG in respect of Statutory Corporations are given below:

Table 4.19: Impact of audit comments on Statutory Corporations

(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		Number of accounts	Amount	Number of accounts	Amount	Number of accounts	Amount
1.	Decrease in profit	-	-	1	2.50	-	-
2.	Increase in profit	-	-	-	-	-	-
3.	Increase in loss	1	49.19	-	-	1	34.90
4.	Decrease in loss	1	0.04	1	0.47	1	0.36
5.	Non-disclosure of material facts	1	0.57	-	-	-	-
6.	Errors of classification	-	-	-	-	-	-

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

Compliance Audits Paragraphs

4.27 For the Report of the Comptroller and Auditor General of India (Public Sector Undertakings) for the year ended 31 March 2018, seven compliance audit paragraphs related to Himachal Pradesh State Electronic Development Corporation, Himachal Pradesh Financial Corporation limited, Himachal Pradesh General Industries Corporation Limited, Himachal Pradesh State Handicrafts and Handloom Corporation Limited, Himachal Pradesh State Industrial Development Corporation Ltd., Himachal Road Transport Corporation and Himachal Pradesh Road and Other Infrastructure Development Corporation were issued to the Principal Secretaries/ Secretaries of the respective Administrative Departments with request to furnish replies. Replies on none of the compliance audit paragraphs have been received from the State Government. The total financial impact of these compliance audit paragraphs is ₹ 56.22 crore.

Follow up action on Audit Reports

Replies outstanding

4.28 The Report of the Comptroller and Auditor General of India is the product of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The Finance Department, Government of Himachal Pradesh issued instructions to all Administrative Departments to submit replies/explanatory notes to paragraphs/performance audits included in the Reports of the CAG of India within a period of three months after their presentation to the Legislature, in the prescribed format, without waiting for any questionnaires from the Committee on Public Undertakings (COPU).

Table 4.20: Position of explanatory notes on Audit Reports related to PSUs other than Power Sector (as on 30 September 2018)

Year of the Audit Report (PSUs)	Date of placement of Audit Report in the State Legislature	Total Performance Audits (PAs) and Paragraphs related to Non Power Sector in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2016-17	05.04.2018	-	4	-	3

Source: Compiled based on explanatory notes received from respective Departments of GoHP.

Explanatory notes on three²⁰ compliance audit paragraphs were pending with two departments till September 2018. However, the explanatory notes on one compliance audit paragraphs from one department were received in October 2018.

²⁰ Three compliance audit paragraph relating to Himachal Pradesh Road & Other Infrastructure Development Corporation Limited (01) and Himachal Pradesh Tourism & Development Corporation Limited (02).

Discussion of Audit Reports by COPU

4.29 The status of discussion of Performance Audits and paragraphs related to PSUs (other than Power Sector) that appeared in Audit Reports (PSUs) by the COPU as on 30 September 2018 was as under:

Table 4.21: Performance Audits/Paragraphs appeared in Audit Reports vis-a-vis discussed as on 30 September 2018

Period of Audit Report	Number of Performance Audits/Paragraphs			
	Appeared in Audit Report		Paragraphs discussed	
	Performance Audit	Paragraphs	Performance Audit	Paragraphs
2010-11	-	6	-	6
2011-12	-	8	-	8
2012-13	-	7	-	7
2013-14	-	5	-	2
2014-15	1	3	0	2
2015-16	1	2	0	0
2016-17	-	4	-	0

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

4.30 Action Taken Notes (ATNs) on four reports of the COPU presented to the State Legislature in March 2017 and February 2018 had not been received (30 September 2018) relating to the State PSUs (other than Power Sector) as indicated in the following table:

Table 4.22: Compliance to COPU Reports

Year of the COPU Report	Total number of Reports of COPU	Total number of recommendation in COPU Reports	Number of recommendations where ATNs not received
2014-15	4	23	14
2015-16	4	10	6
2016-17	4	8	8
2017-18	5	31	26

Source: Compiled based on ATNs received on recommendations of COPU from the respective Departments of GoHP.

ATN in respect of recommendation of COPU shown above had not been received till March 2019.