Chapter - IV

4. Functioning of State Public Sector Undertakings (other than Power Sector)

Introduction

4.1. There were 96 State Public Sector Undertakings (PSUs) as on 31 March 2018 which were related to sectors other than Power Sector. These PSUs which were incorporated during the period between 1932-33 and 2017-18, included 90 Government Companies (77 working and 13 non-working) and six Statutory Corporations[64]. The PSUs included 10 subsidiary companies[65] and five associate companies[66].

The State Government provides financial support to the PSUs in the shape of equity, loans and grants/subsidy from time to time. Of the 96 PSUs (other than Power Sector), the State Government invested funds in 89 PSUs only as the State Government did not infuse any funds in seven subsidiary/associate companies[67].

Contribution to economy of the State

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

Table No. 4.1: Details of turnover of PSUs (other than Power Sector) *vis-a-vis* GDP of the State

(₹ in crore)

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1	Turnover	13,664.02	13,877.81	15,415.08	15,193.35	17,523.27
2	GDP of State	8,16,666.00	9,12,647.00	10,12,804.00	11,32,393.00	13,10,879.00
3	Percentage of Turnover to GDP of State	1.67	1.52	1.52	1.34	1.34

The turnover of these PSUs recorded continuous increase over previous years during 2013-14 to 2017-18 except 2016-17, where it had declined by 1.44 *per cent.* The increase in turnover was 1.56 *per cent* in 2014-15, 11.08 *per cent* in 2015-16 and 15.34 *per cent* in 2017-18, while increase in GDP of the State, which was 11.75 *per cent* in 2014-15, increased to 15.76 *per cent* in 2017-18.

[64] KSWC, KSFC, KSRTC, BMTC, NEKRTC and NWKRTC.
[65] NGEFH, MCA, KCDCL, TPL, MTC, KPL, KSVL, MMCL, MCT and KTL.
[66] MSIL, JLR, FKL, KAMCPL and KTCPL.
[67] NGEFH, KCDCL, FKL, KAMCPL, KTCPL, TPL and KSVL.

The compounded annual growth of turnover of PSUs recorded 6.42 *per cent*[68] as against that of GDP of 12.56 *per cent*[69] during last five years. This resulted in decrease in share of turnover of the PSUs (other than Power Sector) to the GDP from 1.67 *per cent* in 2013-14 to 1.34 *per cent* in 2017-18.

Investment in PSUs (other than Power Sector)

4.3. There are some PSUs which were instrumental to the State Government in providing 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 PSUs have therefore been analysed under two major classifications *viz.* those in the social sector and those functioning in a competitive environment. Besides, 48 PSUs which do not fall under any of these two categories have been classified under 'Others'. Details of investment made in these 96 PSUs in the shape of equity and long term loans upto 31 March 2018 are detailed in **Appendix-1(b)**.

4.4. The sector-wise summary of investment[70] (Equity and long-term loans) in these PSUs (other than Power Sector) as on 31 March 2018 is given below:

Table No. 4.2: Sector-wise investment in PSUs (other than Power Sector)

Sl. No.	Sector	Number of PSUs	Investment (₹ in crore)		
			Equity	Long term loans	Total
1	Social Sector	10	1,246.49	282.92	1,529.41
2	PSUs in competitive environment	37	2,388.85	2,774.03	5,162.88
3	Others	49	48,332.04	12,586.60	60,918.64
	Total	**96**	**51,967.38**	**15,643.55**	**67,610.93**

As on 31 March 2018, the total investment (equity and long-term loans) in these 96 PSUs was ₹ 67,610.93 crore. The investment consisted of 76.86 *per cent* towards equity and 23.14 *per cent* in long-term loans. The Long term loans advanced constituted 11.15 *per cent* (₹ 1,744.43 crore) by the State Government and 88.85 *per cent* (₹ 13,899.12 crore) from other financial institutions.

Disinvestment, Restructuring and Privatisation of PSUs (Other than Power Sector)

4.5. The State Government approved and adopted (February 2001) a comprehensive policy on public sector reforms and privatisation of Public

[68] Calculated as $[1(17{,}523.27/13{,}664.02)^{1/1\times4} - 1]\times100$ ($r=n[(A/P)^{1/nt}-1]$ where r=rate of interest, n= compounding term, A=principal *plus* Interest, P= principal and t=compounding period).
[69] Calculated as $[1(13{,}10{,}879.00/8{,}16{,}666.00)^{1/1\times4} - 1]\times100$.
[70] This includes investment by the State Government, Central Government and Others including holding companies.

Sector Undertakings in the State. Accordingly, seven companies[71] were dissolved/amalgamated at the end of September 2018. Further, the Government issued closure orders for 13 non-working Companies[72].

Budgetary support to PSUs (other than Power Sector)

4.6. The State Government provided financial support to PSUs in various forms through the annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies, loans written off, interest waived, guarantees issued and guarantee commitment in respect of PSUs (other than Power Sector) for the three years ended 2017-18 are given below:

Table No. 4.3: Details regarding budgetary support to PSUs (other than Power Sector)

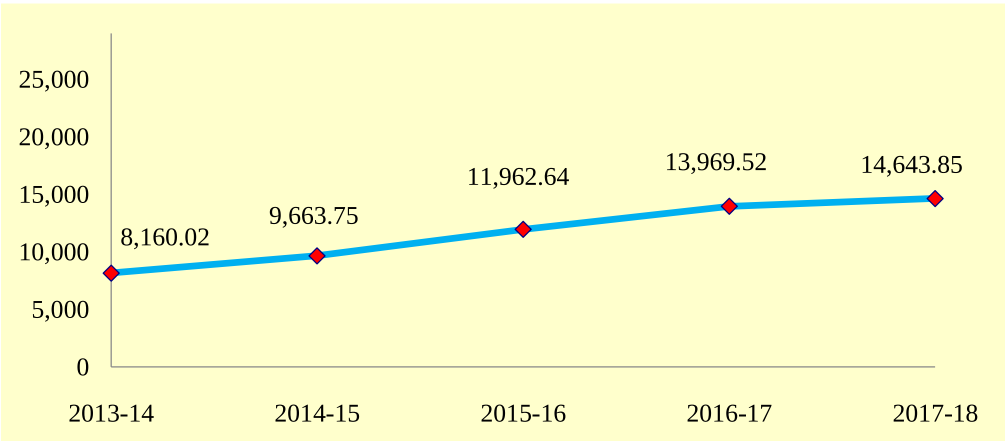
(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity capital outgo from budget	17	3,267.56	11	4,220.80	13	4,100.37
2	Loans given from budget	6	197.07	2	44.70	3	356.33
3	Grants/Subsidy from budget	27	8,498.01	29	9,704.02	30	10,187.15
4	**Total outgo**	**-**	**11,962.64**	**-**	**13,969.52**	**-**	**14,643.85**
5	Waiver of loans and interest	-	-	-	-	-	-
6	Guarantees issued	7	2,434.04	11	2,116.32	8	3,464.19
7	Accumulated Guarantee Commitment	12	9,967.58	15	7,796.23	13	14,303.94

The details regarding budgetary outgo towards equity, loans, grants and subsidies for the past five years ended 2017-18 are given in the following Chart:

Chart No. 4.1: Budgetary outgo towards equity, loans, grants and subsidies

(₹ in crore)



[71] Karnataka Tungsten Moly Limited, Karnataka Agro Proteins Limited, Vishveswaraya Vidyuth Nigam Limited, Karnataka Film Industries Development Corporation Limited, Karnataka Small Industries Marketing Corporation Limited, Chamundi Machine Tools Limited and Karnataka State Textiles Limited.

[72] All the non-working companies as per **Appendix-1(b)**. In respect of NGEF, orders for withdrawal of closure were admitted by Hon'ble High Court of Karnataka in June 2017.

The budgetary support of the State Government in respect of equity, loans and grants and subsidies over a period of five years ending 2017-18 was on the increasing trend. It had increased from ₹ 8,160.02 crore in 2013-14 to ₹ 14,643.85 crore in 2017-18. The budgetary support of ₹ 14,643.85 crore during 2017-18 included equity of ₹ 4,100.37 crore, loans of ₹ 356.33 crore and grants and subsidy of ₹10,187.15 crore.

Guarantees for loan and guarantee commission outstanding

4.7. In order to enable PSUs to obtain financial assistance from Banks and Financial Institutions, the State Government gives guarantee under Karnataka Ceiling on Government Guarantees Act, 1999 (as amended by Act 15 of 2002). The Government charges a minimum of one *per cent* as guarantee commission, which cannot be waived under any circumstances. The guarantee commitment varied from ₹ 9,967.58 crore in 2015-16 to ₹ 7,796.23 crore in 2016-17 and to ₹ 14,303.94 crore during 2017-18. Guarantee fee of ₹ 130.18 crore was paid by nine PSUs during 2017-18. The outstanding accumulated guarantee fees or commission as on 31 March 2018 was ₹ 51.05 crore[73].

Reconciliation with Finance Accounts

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

Table No. 4.4: Equity, loans and guarantees outstanding as per Finance Accounts *vis-a-vis* records of PSUs (other than Power Sector)

(₹ in crore)

Sl. No.	Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
	(1)	(2)	(3)	(4 = 2-3)
1	Equity	45,552.30	50,811.97	(-) 5,259.67
2	Loans	2,069.73	1,742.89	326.84
3	Guarantees	14,675.46	14,303.94	371.52

There were differences in respect of 81 PSUs as shown in the **Appendix – 2(b)**. The major differences in equity and loans were observed in respect of seven companies[74]. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner and take appropriate action for rectifying/adjusting the differences.

[73] The PSUs, which had major arrears were KSPHIDCL (₹ 14.97 crore), KFCSCL (₹ 14.35 crore), RGRHCL (₹ 12.78 crore). The outstanding dues of the remaining PSUs were ₹ 8.95 crore.

[74] KSIIDC, KBJNL, KNNL, CNNL, VJNL (Sl. No. A18, A29, A30, A31 and A32 of **Appendix– 2(b)**) in respect of equity and RGRHCL and KSWC (Sl. No. A27 and B1 of **Appendix – 2(b)**) in respect of loans.

Submission of accounts by PSUs (other than Power Sector)

4.9. The financial statements of the Companies for every financial year are required to be finalised within six months from the end of the relevant financial year, *i.e*. by end of September, in accordance with the provisions of Section 96(1) of the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of the Act. Similarly, in case of Statutory Corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

The following table provides the details of progress made by working PSUs in finalisation of accounts by 30 September 2018:

Table No. 4.5: **Position relating to finalisation of accounts of working PSUs (other than Power Sector)**

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1	Number of working PSUs	70	69	70	79	83
2	Total number of accounts finalised during the year	66	68	61	66	66
3	Number of accounts finalised relating to current year	33	33	26	27	23
4	Number of accounts finalised relating to previous years	33	35	35	39	43
5	Number of accounts in arrears	44	43	54	67	79[75]
6	Number of working PSUs with arrears in accounts	37	37	44	51	60
7	Extent of arrears (number in years)	1 to 3 years	1 to 2 years	1 to 3 years	1 to 4 years	1 to 5 years

During the year, 66 accounts were finalised, which included six accounts of six Statutory Corporations. The number of accounts in arrears increased from 44 (2013-14) to 79 (2017-18). Of the 79 arrears of accounts, 73 accounts pertained to the working Government Companies, which were in arrears ranging between one and five years. The arrears included six accounts pertaining to six Statutory Corporations.

The Administrative Departments have the responsibility to oversee the activities of these PSUs and to ensure that the accounts are finalised and adopted by these PSUs within the stipulated period. The PAG/AG had periodically taken up the matter with the State Government/Administrative Departments concerned for liquidating the arrears of accounts.

4.10. The State Government invested ₹ 9,857.73 crore in 25 out of 60 PSUs (other than Power Sector) during the years, for which accounts were not finalised as detailed in **Appendix-3**. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and

[75] Includes arrears of two PSUs (KBDCL and KSSKDCL – both incorporated during 2016-17) and excludes the arrears of four PSUs (TMTP, HDSCL, SSCL and TSCL) for the year 2016-17 as they were incorporated during February/March 2017 and first accounts were not due. Also excludes the arrears of three accounts of one PSU (BSRCL) as it became non-working.

expenditure incurred were properly accounted for and the purpose for which the amount was invested was achieved or not. Thus, the Government's investment in such PSUs remained outside the control of the State Legislature.

4.11. There were arrears in finalisation of accounts by non-working PSUs. Out of 13 non-working PSUs, five[76] were in the process of liquidation whose accounts were in arrears for thirteen to fifteen years. Of the remaining eight non-working PSUs, four[77] PSUs had no arrears of accounts. Three[78] PSUs had arrears of accounts for one year, while one PSU (BSRCL) had arrears of four years. The position relating to arrears in finalization of accounts of non-working PSUs is given in the following table:

Table No.4.6: **Position relating to arrears in finalisation of accounts of non-working PSUs**

Sl. No.	No. of non-working companies	Period for which accounts were in arrears	No. of years for which accounts were in arrears
1	3	2017-18	01
2	1	2014-15 to 2017-18	04
3	1	2005-06 to 2017-18	13
4	2	2004-05 to 2017-18	14
5	2	2003-04 to 2017-18	15

Placing of Separate Audit Reports in the Legislature

4.12. The position depicted in the following table shows the status of placement of Separate Audit Reports (SARs) issued by the CAG (upto 30 September 2018) on the accounts of Statutory Corporations in the Legislature:

Table No.4.7: **Status of placement of SARs in Legislature**

<table>
<tr><th rowspan="2">Sl. No.</th><th rowspan="2">Name of Statutory Corporation</th><th rowspan="2">Year upto which SARs placed in the Legislature</th><th colspan="2">Year for which SARs not placed in the Legislature</th></tr>
<tr><th>Year of SAR</th><th>Date of issue to the Government/ Present Status (September 2018)</th></tr>
<tr><td>1</td><td>Karnataka State Road Transport Corporation</td><td>2016-17</td><td>2017-18</td><td rowspan="5">Preparation of SAR under progress</td></tr>
<tr><td>2</td><td>Bangalore Metropolitan Transport Corporation</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td>3</td><td>North Eastern Karnataka Road Transport Corporation</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td>4</td><td>North Western Karnataka Road Transport Corporation</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td>5</td><td>Karnataka State Financial Corporation</td><td>2016-17</td><td>2017-18</td></tr>
</table>

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

4.13. As pointed out in Paragraphs **4.9 and 4.10** 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 arrears of

[76] KSVL, NGEF, MCL, KTL and MACCL (In respect of NGEF, orders were issued (August 2017) for withdrawal of closure).
[77] MTC, MLW, VSL and MCT.
[78] KAIC, KPL and MMCL.

accounts, the actual contribution of PSUs to the State GDP for the year 2017-18 could not be ascertained and their contribution to the State exchequer was also not reported to the State Legislature.

It is, therefore, recommended that:

- **The Government may set up a cell to oversee the clearance of arrears of accounts and set the targets for individual companies, which can then be monitored by the cell; and**
- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff was inadequate or lacked expertise.**

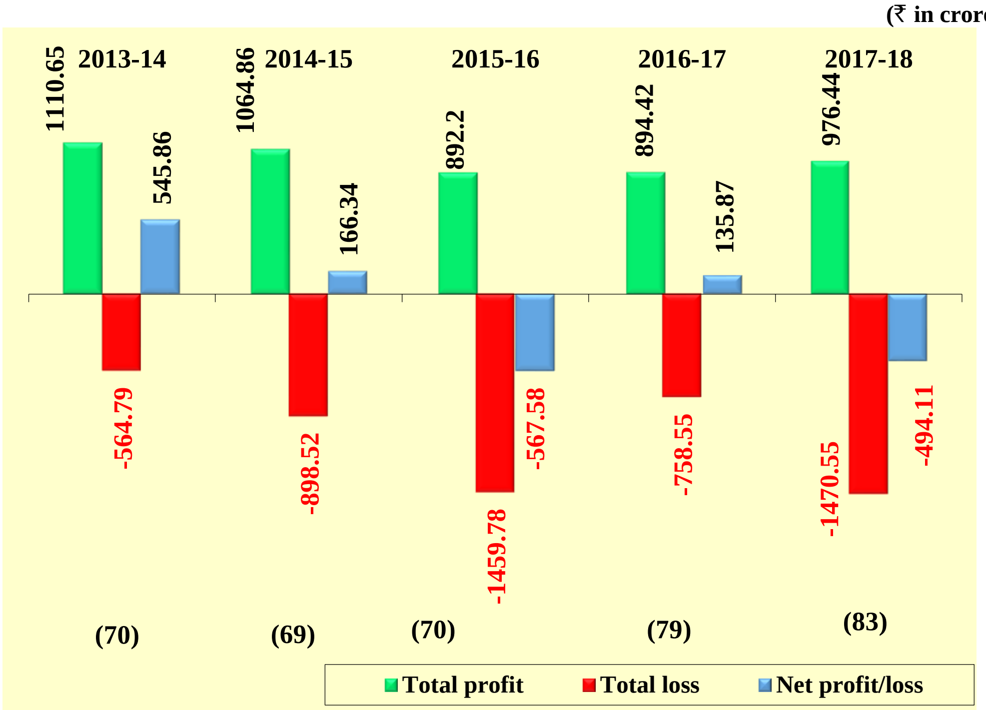
Performance of PSUs (other than Power Sector) as per their latest finalised accounts

4.14. The financial position and working results of working Government Companies and Statutory Corporations are detailed in **Appendix–4(b)** as per their latest finalised accounts as of 30 September 2018.

Overall profit (losses) earned (incurred) by the working PSUs (other than Power Sector) of the State during 2013-14 to 2017-18 are given in the following bar chart:

Chart No. 4.2: Profit/Loss of working PSUs

(₹ in crore)



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

As per their latest finalised accounts, out of the 96 PSUs (other than Power Sector), 83 PSUs are working and 13 PSUs non-working. Out of 83 working PSUs, 45 PSUs earned profit of ₹ 976.44 crore and 25 PSUs incurred loss of ₹ 1,470.55 crore. Four PSUs (TMTP, HDSCL, SSCL and TSCL) did not finalise their first accounts. Five PSUs[79] prepared only a statement of income and expenditure. Further, four[80] PSUs, incorporated during the year, did not finalise their first accounts.

The major contributors to profit were Karnataka State Minerals Corporation Limited (₹ 316.13 crore) and Karnataka Rural Infrastructure Development Limited (₹ 123.97 crore). Huge losses were incurred by Karnataka Neeravari Nigam Limited (₹ 575.92 crore) and Bangalore Metropolitan Transport Corporation (₹ 260.91 crore).

The working PSUs showed net aggregate profits of ₹ 545.86 crore, ₹ 166.34 crore and ₹ 135.87 crore during 2013-14, 2014-15 and 2016-17 respectively and incurred net aggregate loss of ₹ 567.58 crore and ₹ 494.11 crore during the year 2015-16 and 2017-18 respectively. The main reasons for turning overall profit into loss during 2017-18 as compared to the previous year (2016-17), were increase in losses of Bangalore Metropolitan Transport Corporation (by ₹ 274.64 crore) and Karnataka State Road Transport Corporation (by ₹ 228.03 crore).

The position of working PSUs (other than Power Sector) which earned profit/incurred loss during 2013-14 to 2017-18 is given in the following table:

Table No. 4.8: PSUs (other than Power Sector) which earned profit /incurred loss

Sl. No.	Financial year	Total PSUs	Number of PSUs which earned profits during the year	Number of PSUs which incurred loss during the year	Number of PSUs not prepared profit and loss account[81]
1	2013-14	70	40	21	9
2	2014-15	69	41	20	8
3	2015-16	70	43	19	8
4	2016-17	79	45	19	15
5	2017-18	83	45	24	14

Return on Government funds infused in PSUs (other than Power Sector)

4.15. 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. These parameters were discussed in subsequent paragraphs.

[79] RGRHCL, KFCSCL, KVTSDCL, IKF and BBC.
[80] KBDCL, NACDCL, KSSKDCL and MSCL.
[81] Includes PSUs which have prepared accounts on no profit no loss basis, PSUs which have not prepared profit and loss account pending project completion and PSUs not prepared accounts being the first year of their operation.

Out of 96 PSUs (other than Power Sector) of the State existing as at the end of March 2018, the State Government invested funds in 89 PSUs only as the State Government did not infuse any funds in seven subsidiary/ associate companies.

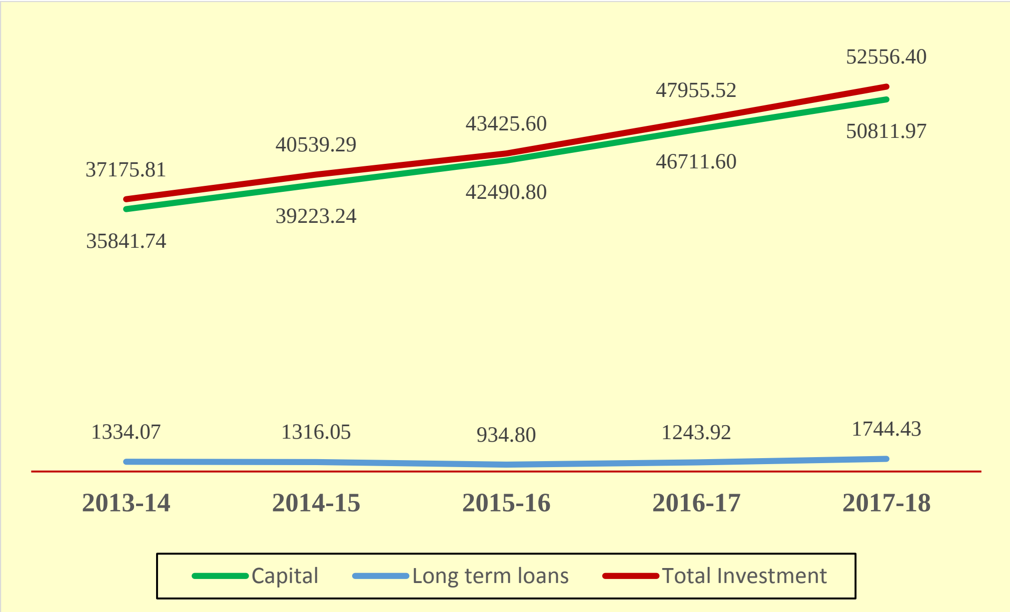
Return on Investment

4.15.1. The PSUs are expected to yield reasonable return on investment made by Government in the PSUs. The amount of investment in the PSUs (other than Power Sector) as on 31 March 2018 was ₹ 52,556.40 crore consisting of ₹ 50,811.97 crore as equity and ₹ 1,744.43 crore as long term loans by the State Government.

The investment grew by 41.37 *per cent* from ₹ 37,175.81 crore in 2013-14 to ₹ 52,556.40 crore in 2017-18 as shown in the following Chart:

Chart No. 4.3: **Investment in PSUs (other than Power Sector) by State Government**

(₹ in crore)



Return on the basis of historical cost of investment

4.15.2. Out of the total long term loans, only interest free loans have been considered as investment of the Government in these PSUs as the interest free loans given to the PSUs are akin to equity since they have not been repaid and parts of the loans have been converted into equity subsequent to sanctions of the loans. Further, the funds made available in the forms of the grants/subsidies have not been considered as investment since they do not qualify to be considered as investment.

The investment of the State Government in 89 out of 96 PSUs (other than Power Sector) was arrived at by considering the investment of State Government as equity, adding interest free loans and deducting interest free loans which were later converted into equity if any, for each year.

As on 31 March 2018, the investment of the State Government in these 89 PSUs (other than Power Sector) was ₹ 52,556.40 crore consisting of equity of ₹ 50,811.97 crore and long term loans of ₹ 1,744.43 crore. Out of the released long term loans, ₹ 47.37 crore was interest free loan. Thus, considering the equity of ₹ 50,811.97 crore and interest free loan of ₹ 47.37 crore as investment of the State Government in these 89 PSUs, the investment on the basis of historical cost at the end of 2017-18 stood at ₹ 50,859.34 crore.

The sector wise return on investment on historical cost basis for the period 2013-14 to 2017-18 is given in the following table:

Table No. 4.9: **Return on State Government Investment on historical cost basis**

Sl. No.	Year wise sector-wise break-up	Total earnings/ losses (-) (₹ in crore)	Equity and interest free loans as at the end of the year (₹ in crore)	Return on Investment (*per cent*)
	2013-14			
1	Social sector	121.21	612.07	19.80
2	PSUs in competitive environment	109.07	2,465.27	4.42
3	Others	134.68	32,808.12	0.41
4	**Total**	**364.96**	**35,885.46**	**1.02**
	2014-15			
1	Social Sector	61.25	756.34	8.10
2	PSUs in competitive environment	9.9	2,505.49	0.40
3	Others	-84.14	36,008.78	(0.23)
4	**Total**	**-12.99**	**39,270.61**	**(0.03)**
	2015-16			
1	Social Sector	119.27	850.24	14.03
2	PSUs in competitive environment	-42.45	2,554.28	(1.66)
3	Others	-826.64	39,133.65	(2.11)
4	**Total**	**-749.82**	**42,538.17**	**(1.76)**
	2016-17			
1	Social Sector	131.85	974.12	13.54
2	PSUs in competitive environment	146.15	2,316.06	6.31
3	Others	-327.73	43,468.79	(0.75)
4	**Total**	**-49.73**	**46,758.97**	**(0.11)**
	2017-18			
1	Social Sector	144.61	1,146.32	12.62
2	PSUs in competitive environment	-372.61	2,241.06	(16.63)
3	Others	-454.04	47,471.96	(0.96)
4	**Total**	**-682.04**	**50,859.34**	**(1.34)**

The return on State Government investment is worked out by dividing the total earnings of PSUs with investment of the State Government in the form of equity and interest free loan. The return on investment of the PSUs, which was 1.02 *per cent* in 2013-14, declined to negative return of 1.34 *per cent* during 2017-18 mainly due to losses incurred by PSUs under competitive environment and other sectors. The overall return on investment was negative during 2014-15 to 2017-18 on account of significant losses incurred by Karnataka Neeravari Nigam Limited[82] (Other sector) and losses incurred by three road transport corporations[83] (PSUs in competitive environment). Karnataka Neeravari Nigam Limited was incurring continuous losses as revenue earned was not sufficient to meet its operating expenditure though the capital and administrative expenditure was funded by the State Government through budgetary support.

Return on the basis of Present Value of Investment

4.15.3. An analysis of the earnings *vis-a-vis* investments in respect of those 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 historical cost of investment may not be a correct indicator of the adequacy of the return on the investment since such calculations ignore the present value of money. The present value of the Government investments has been computed to assess the rate of return on the present value of investments of GoK in the PSUs (other than Power Sector) as compared to the historical value of investments.

In order to bring the historical cost of investments to its present value at the end of each year upto 31 March 2018, the past investments/ year-wise funds infused by the GoK in the PSUs (other than Power Sector) have been compounded at the year-wise average rate of interest on Government borrowings which is considered as the minimum cost of funds to the Government for the concerned year. Therefore, PV of the State Government investment was computed in respect of PSUs (other than Power Sector) during 2010-11 to 2017-18.

The PV of the State Government investment in PSUs (other than Power Sector) was computed on the following assumptions:

- Interest free loans have been considered as investment infusion by the State Government as no amount of interest free loans have been repaid by the PSUs. Further, in those cases where interest free loans given to the PSUs were later converted into equity, if any, 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 grants/subsidies have not been reckoned as investment, as they do not qualify to be considered as investment; and

- The average rate of interest on Government borrowings for the financial year concerned was adopted as the compounded rate for arriving at the PV since it represents the cost incurred by the Government towards investment of funds for the year and therefore considered as the

[82] Loss of ₹ 295.59 crore in 2014-15, ₹ 970.77 crore in 2015-16, ₹ 476.88 crore in 2016-17 and ₹ 575.92 crore in 2017-18.

[83] BMTC (₹ 260.91 crore), KSRTC (₹ 177.08 crore) and NWKRTC (₹ 119.55 crore) incurred during 2017-18.

minimum expected rate of return on investments made by the Government.

4.15.4. The Company-wise position of State Government investment in the PSUs (other than Power Sector) in the form of equity and interest free loans upto 2009-10 and from 2010-11 to 2017-18 is indicated in **Appendix – 5(b).** The consolidated position of PV of the State Government funds relating to PSUs (other than Power Sector) is indicated in the following table:

Table No. 4.10: Year-wise details of funds infused by the State Government and PV of Government funds for the period from 2010-11 to 2017-18

(₹ in crore)

Sl. No.	Financial Year	PV 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	Total investment at the end of the year	Average rate of interest on Government borrowings[84] (in *Per cent*)	PV 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[85]
(a)	(b)	(c)	(d)	(e)	(f=(c+d+e))	(g)	(h=f×(1+g)/ 100)	(i= f×(g/100))	(j)
1	**up to 2009-10**		23,506.04	17.97	23,524.01	6.70	25,100.12	1,576.11	
2	2010-11	23,647.51[86]	3,430.55	15.00	27,093.06	6.40	28,827.01	1,733.96	395.26
3	2011-12	28,827.01	3,411.54	10.25	32,248.80	6.60	34,377.23	2,128.42	149.33
4	2012-13	34,377.23	3,604.19	0.50	37,981.92	6.60	40,488.72	2,506.81	159.98
5	2013-14	40,488.72	3,250.82	-	43,739.54	6.20	46,451.39	2,711.85	364.96
6	2014-15	46,449.84[87]	3,382.63	3.65	49,836.12	6.50	53,075.47	3,239.35	-12.99
7	2015-16	53,075.47	3,267.56	-	56,343.03	6.50	60,005.33	3,662.30	-749.82
8	2016-17	60,005.33	4,220.80	-	64,226.13	6.30	68,272.37	4,046.25	-49.73
9	2017-18	68,272.37	4,100.37	-	72,372.74	6.30	76,932.23	4,559.48	-682.04
10	**Total**		**50,811.97[88]**	**47.37**					

The funds infused by the State Government in PSUs (other than Power Sector) increased to ₹ 50,859.34 crore in 2017-18 from ₹ 23,524.01 crore as at 31 March 2010, as the State Government infused further funds in the shape of equity (₹ 28,668.46 crore), and interest free loans (₹ 29.40 crore) during the period 2010-11 to 2017-18. The PV of funds infused by the State Government upto 31 March 2018 worked out to ₹ 76,932.23 crore.

[84] The average rate of interest on borrowing by the State Government is adopted as per the approved Audit Reports of the C&AG of India on State Finances, GoK. For 2017-18, average rate of interest related to 2016-17 has been adopted as the Audit Report for 2017-18 was not finalised.

[85] Total Earning for the year depicts total of net earnings (profit/loss) for the respective years relating to those PSUs (other than Power Sector) where funds were infused by State Government.

[86] The PV of Bangalore Metro Rail Corporation Limited (BMRCL - ₹ 1,451.16 crore) was removed due to transfer of Audit Jurisdiction to another office and Karnataka Small Industries Marketing Corporation Limited (KSIMC - ₹ 1.45 crore) on merger with KSSIDC.

[87] The PV of Chamundi Machine Tools Limited (CMTL - ₹ 0.86 crore) and Karnataka State Textiles Limited (KSTL - ₹ 0.69 crore) was removed on liquidation.

[88] This excludes equity of BMRCL (₹ 1,360.04 crore), KSIMC (₹ 1.36 crore), CMTL (₹ 0.63 crore) and KSTL (₹ 0.50 crore) as these PSUs were transferred/merged/liquidated.

During 2010-11 to 2017-18, total earnings for the year remained below the minimum expected return to recover cost of funds infused in these PSUs. It was observed that Karnataka Neeravari Nigam Limited was the major contributor for losses during 2014-15 to 2017-18.

4.15.5. The return on State Government funds (at PV) infused in the PSUs (other than Power Sector) indicates the profitability and the efficiency of these PSUs. The return on State Government funds is worked out by dividing the total earnings[89] of these PSUs by the PV of the State Government investments. During 2013-14 to 2017-18, these PSUs had a positive return on investment only in 2013-14. The return on investment for 2013-14 had, therefore, been calculated and depicted on the basis of PV. A comparison of returns on investment as per historical cost and PV of such investment during 2013-14 when there were positive earnings in these PSUs is given in the following table:

Table No. 4.11: Return on State Government Funds

(₹ in crore)

Sl. No.	Sector-wise break-up	Total Earnings	Investment in the form of Equity and Interest Free Loans on historical cost	Return on investment on the basis of historical cost (*per cent*)	PV of the State Government funds at the end of the year	Return on investments on the basis of PV (*per cent*)
1	Social sector	121.21	612.07	19.80	787.07	15.40
2	PSUs in competitive environment	109.07	2,465.27	4.42	3,261.48	3.34
3	Others	134.68	32,808.12	0.41	42,402.84	0.32
4	**Total**	**364.96**	**35,885.46**	**1.02**	**46,451.39**	**0.79**

The return earned on State Government funds (at PV) was 0.79 *per cent* against the return of 1.02 *per cent* earned on historical cost basis during 2013-14. Further, the return on investment at historical cost and PV was higher in social sector PSUs as compared to that of PSUs in competitive environment and other sector PSUs.

Erosion of Net worth

4.15.6 Net worth 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. The net worth[90] of PSUs (other than Power Sector), where the GoK had infused funds during 2013-14 to 2017-18 is indicated in the following table:

[89] This includes net profit/losses for the concerned year relating to those PSUs where the funds have been infused by the State Government.

[90] Paid up capital *plus* Free reserves *less* Accumulated loss.

Table No. 4.12: Net worth of PSUs (other than Power Sector) during 2013-14 to 2017-18

(₹ in crore)

Sl. No.	Year	Paid up Capital at end of the year	Accumulated Profit (+)/ Loss (-) at end of the year	Net worth
1	2013-14	25,342.93	2.88	25,345.81
2	2014-15	25,618.71	-997.76	24,620.95
3	2015-16	29,960.26	-1,179.37	28,780.89
4	2016-17	31,768.92	-1,291.12	30,477.80
5	2017-18	39,191.50	-3,102.81	36,088.69

As seen from the table above, the overall net worth of PSUs (other than Power Sector) was *positive* during the last five years ended 2017-18. However, the net worth of 20[91] out of 89 PSUs was eroded as at 31 March 2018.

Dividend Payout

4.15.7. The State Government formulated (May 2003) guidelines according to which Government nominees on the Boards of Public Enterprises or Joint Ventures, where the State Government had equity holding, should insist on the declaration of minimum dividend of 20 *per cent* on shareholding. In case payment of dividend to this extent was not possible, dividend payout must constitute at least 20 *per cent* of profit after tax. Dividend Payout relating to PSUs (other than Power Sector) during the period 2013-14 to 2017-18 is shown in the table below:

Table No. 4.13: Dividend Payout during 2013-14 to 2017-18

(₹ in crore)

Sl. No.	Year	Total PSUs where equity infused by GoK		PSUs which earned profit during the year		PSUs which declared/paid dividend during the year		Dividend payment as a percentage of Paid up capital
		Number of PSUs	Paid up capital	Number of PSUs[92]	Paid up capital	Number of PSUs	Dividend declared/ paid by PSUs	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8=7/5*100)
1	2013-14	77	19,261.69	37	2,118.52	16	25.93	1.22
2	2014-15	74	34,801.79	47	9,375.59	16	23.52	0.25
3	2015-16	75	29,306.50	44	2,019.65	17	28.70	1.42
4	2016-17	84	31,362.49	45	2,560.47	13	12.18	0.48
5	2017-18	89	38,128.91	46	3,407.45	14	19.44	0.57

During the period 2013-14 to 2017-18, the number of PSUs which earned profits ranged between 37 and 47, out of which only 13 to 17 PSUs have declared dividend. Further, the Dividend payment as a percentage of paid up capital for PSUs during 2013-14 to 2017-18 was very nominal which ranged between 0.25

[91] KSACPL (₹ 25.71 crore), KTAML (₹ 11.64 crore), KSHDCL (₹ 76.68 crore), RGRHCL (₹ 19.31 crore), LIDKAR (₹ 18.25 crore), KSCDCL (₹ 3.42 crore), MPM (₹ 307.05 crore), KSMB (₹ 16.67 crore), MYSUGAR (₹ 407.94 crore), KSTDC (₹ 12.99 crore), KMERCL (₹ 0.22 crore), NWKRTC (₹ 578.19 crore), NEKRTC (₹ 409.96 crore), KAIC (₹ 271.41 crore), MTC (₹ 14.73 crore), KPL (₹ 19.63 crore), MLW (₹ 305.94 crore), MCL (₹ 2.96 crore), MCT (₹ 7.75 crore) and NGEF (₹ 362.34 crore).

[92] This excludes subsidiary/associates where State Government had not directly invested, and includes non-working companies.

per cent and 1.42 *per cent* against the minimum dividend of 20 *per cent* on shareholding.

Further, three PSUs (KSPHIDCL, KSMCL and HGML) in 2013-14, one PSU each in 2014-15 (KSPHIDCL), 2015-16 (KSMCL) and 2016-17 (KSPHIDCL) and two PSUs (KSPHIDCL and HGML) in 2017-18 declared/paid dividend more than the prescribed minimum of 20 *per cent*.

Return on Equity

4.15.8. Return on Equity (ROE) is a measure of financial performance to assess how effectively management is using companies' assets to create profits and is calculated by dividing net profit after taxes by shareholders' fund[93].

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

Table No. 4.14: Return on Equity relating to PSUs (other than Power Sector)

Sl. No.	Year	Net profit after taxes (₹ in crore)	Shareholders' Fund (₹ in crore)	Return on Equity (*per cent*)
1	2013-14	364.96	25,345.81	1.44
2	2014-15	(-) 12.99	24,620.95	-
3	2015-16	(-) 749.82	28,780.89	-
4	2016-17	(-) 49.73	30,477.80	-
5	2017-18	(-) 682.04	36,088.69	-

As seen from the above table, the PSUs (other than Power Sector) earned profit in 2013-14 and incurred loss during 2014-15 to 2017-18. The RoE was 1.44 *per cent* in 2013-14 and was *negative* in subsequent years due to losses during 2014-15 to 2017-18.

Return on Capital Employed

4.15.9. 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 employed[94]. The details of ROCE of PSUs (other than Power Sector) during the period from 2013-14 to 2017-18 are given in table below:

Table No. 4.15: Return on Capital Employed

Sl. No.	Year	EBIT (₹ in crore)	Capital Employed (₹ in crore)	ROCE (*per cent*)
1	2013-14	1,407.10	27,511.92	5.11
2	2014-15	717.56	35,433.69	2.03
3	2015-16	202.37	47,061.69	0.43
4	2016-17	1,095.97	48,347.07	2.27
5	2017-18	983.00	57,151.05	1.72

[93] Shareholder's fund = Paid up capital *plus* Free reserves *less* Accumulated loss.

[94] Capital Employed = Paid up share capital *plus* Free reserves and surplus *plus* long term loans *less* accumulated loss.

The ROCE of PSUs (other than Power Sector) substantially declined from 5.11 *per cent* in 2013-14 to 1.72 *per cent* in 2017-18 indicating the profitability was not encouraging. The ROCE during 2015-16 was very low at 0.43 *per cent* due to decrease in profitability of PSUs.

Analysis of Long term loans of PSUs (other than Power Sector)

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

Interest Coverage Ratio

4.16.1. 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 lessor the ability of the Company to pay interest on debt. An interest coverage ratio of below one indicates that the Company is not generating sufficient revenues to meet its expenses on interest. The details of interest coverage ratio in those PSUs (other than Power Sector) which had interest burden during the period from 2013-14 to 2017-18 are given in the following table:

Table No. 4.16: **Interest coverage ratio of PSUs (other than Power Sector)**

Sl. No.	Year	Interest (₹ in crore)	EBIT (₹ in crore)	Number of Companies having interest burden	Number of Companies having interest coverage ratio more than one	Number of Companies having interest coverage ratio less than one
1	2013-14	488.12	1,407.10	42	25	17
2	2014-15	643.38	717.56	43	25	18
3	2015-16	849.18	202.37	39	22	17
4	2016-17	798.02	1,095.97	30	18	12
5	2017-18	1,246.98	983.00	40	23	17

It was observed that the percentage of PSUs (other than Power Sector) with interest coverage ratio of more than one ranged between 56.41 *per cent* and 60.00 *per cent* during 2013-14 to 2017-18. As at 31 March 2018, 17 out of 40 PSUs had interest ratio of less than one, indicating that these PSUs could not generate sufficient revenues to meet their expenses on interest.

Debt-Turnover Ratio

4.16.2. The debt-turnover ratio is calculated by dividing loans outstanding with turnover at the end of the year. The debt turnover ratio of working PSUs[95] (other

[95] This excludes PSUs where the State Government had no direct investment and non-working PSUs.

than Power Sector) during the last five years is shown in the following table:

Table No. 4.17: Debt Turnover ratio of working PSUs (other than Power Sector)

(₹ in crore)

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1	Debt	8,154.81	9,966.48	10,991.17	17,437.64	20,629.38
2	Turnover	13,651.54	13,854.17	15,399.44	15,173.41	17,489.40
3	Debt-Turnover ratio	0.60:1	0.72:1	0.71:1	1.15:1	1.18:1

The debt-turnover ratio of working PSUs (other than Power Sector) has not improved as the compounded annual growth rate of Turnover (6.39 *per cent*) was less than that of Debt (26.12 *per cent*) during 2013-14 to 2017-18.

Winding up of non-working PSUs (other than Power Sector)

4.17.1. There were 13 non-working PSUs[96] (all companies) as on 31 March 2018. Of these, five PSUs have commenced the liquidation process.

Further, 13 non-working companies also included one Company (Bangalore Suburban Rail Corporation Limited), for which the GoK issued Orders (June 2017) re-constituting the Board of Directors for taking necessary steps for the closure of the Company. The formal orders for closure were yet (September 2018) to be issued. In respect of NGEF, orders for liquidation were issued in August 2004. However, based on an application from GoK, the Hon'ble High Court of Karnataka admitted (June 2017) for withdrawal of closure orders passed earlier. The GoK decided to withdraw the closure orders of NGEF as there were no arrears of loan and proposed for utilisation of land and other valuable properties of the Company for public projects.

The number of non-working companies at the end of each year for the past five years is given below:

Table No. 4.18: **Non-working PSUs Particulars**

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1	No. of non-working companies	14	12	12	12	13

Since the non-working PSUs did not contribute to the State economy and did not meet the intended objectives, these PSUs may be considered for closure. During 2017-18, seven out of thirteen non-working PSUs incurred ₹ 21.45 crore[97] towards administrative costs. This expenditure was financed through rental receipts, interest receipts and other receipts.

[96] As per Annexure 4(b) – 11 PSUs under Competitive Environment and two PSUs in Others.

[97] KAIC (₹ 19.44 crore), MTC (₹ 1.01 crore), KPL (₹ 0.11 crore), MMCL (₹ 0.05 crore), MLW (₹ 0.77 crore), VSL (₹ 0.04 crore) and MCT (₹ 0.03 crore).

4.17.2. The stages of closure in respect of non-working PSUs are given below:

Table No. 4.19: Stages of closure of non-working PSUs

Sl. No.	Particulars	Companies
1	Total number of non-working PSUs	13
2	Of (1) above, the number under	
(a)	Liquidation by Court (liquidator appointed)	5[98]
(b)	Closure, *i.e.* closing orders/ instructions issued but liquidation process not yet started	8

During the year 2017-18, no PSU was wound up. The companies, which have taken the route of winding up by Court order are under liquidation for a period ranging from thirteen years to fifteen years. The process of voluntary winding up under the Companies Act is much faster and requires to be explored.

Comments on Accounts of PSUs (other than Power Sector)

4.18.1. Fifty-four working PSUs (other than Power Sector) forwarded their 60 audited accounts to the Accountant General between 1 October 2017 and 30 September 2018. Of these, 38 accounts (of 35 companies) were selected for Supplementary Audit. The Audit Reports of the Statutory Auditors (appointed by the CAG) and the supplementary audits of the CAG indicate that the quality of maintenance of accounts requires improvement. The details of aggregate money value of comments of statutory auditors and the CAG are given in the following table:

Table No. 4.20: Impact of audit comments on working companies

(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		No.	Amount	No.	Amount	No.	Amount
1	Decrease in profit (accounts)	14	604.30	11	505.90	16	300.12
2	Increase in profit (accounts)	4	30.12	4	13.07	2	17.43
3	Decrease in loss (accounts)	-	-	1	0.57	2	7.29
4	Increase in loss (accounts)	6	13.83	6	36.39	5	37.58
5	Non-disclosure of material facts (instances)	2	-	1	-	2	-
6	Errors of classification (instances)	1	-	-	-	3	-

During the year 2017-18, the Statutory Auditors issued unqualified reports on 20 accounts, qualified reports on 35 accounts and adverse report (which means that accounts did not reflect a true and fair position) on five accounts. The compliance of companies with the Accounting Standards remained poor as there were 90 instances of non-compliance in 29 accounts during the year.

4.18.2. Similarly, six working Statutory Corporations forwarded their six accounts to the AG during the year 2017-18. Of these, four accounts of four Statutory Corporations pertained to sole audit by the CAG, while the other two

[98] Includes NGEF for which, orders for withdrawal of closure were admitted by Hon'ble High Court of Karnataka in June 2017.

were supplementary audit after audit by Statutory Auditors. The Audit Reports of Statutory Auditors and the sole/supplementary audit of the CAG indicate that the quality of maintenance of accounts requires improvement. The details of aggregate money value of comments of the Statutory Auditors and the CAG are given in the following table:

Table No. 4.21: Impact of audit comments on Statutory Corporations

(₹ in crore)

Sl. No.	Particulars	2015-16		2016-17		2017-18	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	1	15.96	3	17.95	2	3.77
2	Increase in profit	-	-	1	116.10	-	-
3	Decrease in loss	-	-	1	0.27	-	-
4	Increase in loss	3	9.50	1	2.67	4	148.06

During the year, all six accounts were issued qualified certificates. Two Statutory Corporations reported a total profit of ₹ 36.15 crore, while four reported losses amounting to ₹ 612 crore.

Response of the Government to Audit

Performance Audits and Compliance Audit Paragraphs

4.19. One Performance Audit and eleven Compliance Audit paragraphs related to PSUs (other than Power Sector) were issued to the Additional Chief Secretaries or Principal Secretaries of the respective Departments to furnish replies. Replies were received for the Performance Audit and all Compliance Audit paragraphs and the views of the Government have been suitably incorporated.

Follow up action on Audit Reports

Replies outstanding

4.20. The Reports of the CAG represent the culmination in the process of audit scrutiny. It is therefore necessary that they elicit appropriate and timely response from the Executive. The Finance Department, Government of Karnataka, issued (January 1974) instructions to all Administrative Departments to submit replies to paragraphs and Performance Audits (PAs) included in the Audit Reports of the CAG within a period of three months of their presentation to the Legislature, without waiting for any questionnaires from the Committee on Public Undertakings (COPU). The status of receipt of replies to the report of Comptroller and Auditor General of India from the GoK is given in the following table:

Table No. 4.22: Replies not received as on 30 September 2018

Year of the Audit Report (PSUs)	Date of placing the Audit Report in the State Legislature	Total PAs and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which replies were not received	
		PAs	Paragraphs	PAs	Paragraphs
2014-15	05.03.2016	1	9	0	0
2015-16	23.03.2017	1	10	1	0
2016-17	22.02.2018	1	10	1	7
Total		**3**	**29**	**2**	**7**

It could be seen that replies for two Performance Audits and seven paragraphs in respect of five Departments[99] were not furnished by GoK (September 2018).

Discussion of Audit Reports by COPU

4.21. The status of Performance Audits (PAs) and paragraphs relating to PSUs (other than Power Sector) appeared in Audit Reports on PSUs and discussed by COPU as on 30 September 2018 was as detailed in the following table:

Table No. 4.23: Status of discussion of PAs and Paragraphs

Period of Audit Report	Number of PAs/paragraphs			
	Appeared in Audit Report		Para discussed	
	PAs	Paragraphs	PAs	Paragraphs
2011-12	1	10	0	10
2013-14	1	10	1	10
2014-15	1	9	1	4
2015-16	1	10	0	4
2016-17	1	10	0	1
Total	**5**	**49**	**2**	**29**

Compliance to Reports of Committee on Public Undertakings (*COPU*)

4.22. Action Taken Notes (ATN) from the Government of Karnataka pertaining to three paragraphs of three Reports of COPU and five *suo-motu* Reports of COPU, presented to the State Legislature between December 2011 and February 2018, were not received (September 2018).

The reports of COPU contained 24 recommendations in respect of paragraphs pertaining to three Departments[100], which appeared in the Reports of the CAG of India between the period 2008-09 and 2014-15 and the five *suo-motu* reports containing 52 recommendations.

It is recommended that the Government may ensure (a) sending replies to inspection reports/draft paragraphs/Performance Audits and ATNs on the recommendations of COPU as per the prescribed time schedule; and (b) revamping of the system of response by the GoK to audit observations.

[99] Finance Department, Urban Development Department, Water Resources Department, Public Works Department and Commerce and Industries Department.

[100] Commerce and Industries Department, Urban Development Department and Social Welfare Department.

Response to Inspection Reports

4.23. Audit observations noticed during audit and not settled on the spot were communicated to the heads of the PSUs and the concerned Departments of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through the respective heads of Departments within a period of one month. The Department-wise break-up of Inspection Reports and audit observations outstanding as on 31 March 2018 is given in **Appendix-6**.

It is recommended that the Government may ensure that a procedure exists for taking action (a) against officials who fail to respond to Inspection Reports based on the reports of Audit Monitoring Cell constituted by the Government; and (b) to recover loss/outstanding advances/overpayment within the prescribed time.