

**Part-II**

**Chapter III**

**Functioning of State Public  
Sector Undertakings  
(*Excluding State Public Sector  
Undertakings of Power sector*)**

## Part - II

### Chapter III

#### Functioning of State Public Sector Undertakings (Excluding State Public Sector Undertakings of Power sector)

##### Introduction

**3.1** The State has 87 State Public Sector Undertakings (SPSUs) as on 31 March 2019. Of this, 10 SPSUs are in Power Sector and remaining 77 SPSUs are engaged in activities other than Power Sector. The functioning of 10 SPSUs under Power Sector is discussed in Chapter I of Part I. The remaining 77 SPSUs of other than Power Sector discussed in this Chapter include 73 State Government Companies<sup>1</sup> (SGCs) and four Statutory Corporations<sup>2</sup> for undertaking different activities. Of these, four SPSUs<sup>3</sup> are listed on stock exchange(s). The SPSUs include 16 inactive SGCs and 16 subsidiary/ joint venture Companies of other Government Companies. During 2018-19, two active SPSUs<sup>4</sup> were classified as inactive SPSUs as they had ceased their operations. Four SPSUs<sup>5</sup> were removed from the list of SPSUs as they cease to exist on dissolution *vide* orders passed by Gujarat High Court. One SPSU<sup>6</sup> came under the purview of the Comptroller and Auditor General of India (C&AG) under Section 139(5) of the Companies Act, 2013. The details of SPSUs of Government of Gujarat (GoG) as on 31 March 2019 are given in **Table 3.1** below.

**Table 3.1: Total number of SPSUs as on 31 March 2019**

Type of SPSUs	Active SPSUs	Inactive SPSUs <sup>7</sup>	Total
Government Companies	57	16	73
Statutory Corporations	4	--	4
<b>Total</b>	<b>61</b>	<b>16</b>	<b>77</b>

**Source:** Compiled based on latest finalised financial statements received from SPSUs until September 2019.

GoG periodically provides financial support to SPSUs in the form of equity, loans and grants/subsidy. Of the 77 SPSUs, GoG invested funds in 61 SPSUs and no funds were invested in remaining 16 SPSUs that were subsidiary/ joint venture companies of other Government Companies. The respective joint

<sup>1</sup> Includes Other Companies referred in Section 139(5) and 139(7) of the Companies Act, 2013.

<sup>2</sup> Gujarat State Warehousing Corporation, Gujarat State Financial Corporation, Gujarat Industrial Development Corporation and Gujarat State Road Transport Corporation.

<sup>3</sup> Gujarat Gas Limited, Gujarat Mineral Development Corporation Limited, Gujarat State Petronet Limited and Gujarat State Financial Corporation.

<sup>4</sup> Alcock Ashdown (Gujarat) Limited and Gujarat Industrial Corridor Corporation Limited.

<sup>5</sup> Gujarat Fintex Limited, Gujarat Siltex Limited, Gujarat Texfab Limited and GSFS Capital and Securities Limited.

<sup>6</sup> Bahucharaji Rail Corporation Limited was incorporated in December 2018 and finalised its financial statements for the year up to 2018-19, the supplementary audit of which was entrusted (October 2019) from the year 2018-19.

<sup>7</sup> Inactive SPSUs are those, which have ceased to carry on their operations.

venture/ Holding Companies contributed to the equity of these 16 joint venture/ subsidiary Companies.

### Contribution to Economy of the State

**3.2** The ratio of turnover of the SPSUs to the Gross State Domestic Product<sup>8</sup> (GSDP) shows the extent of activities of the SPSUs in the State Economy. The **Table 3.2** below provides the details of turnover of SPSUs and GSDP of Gujarat for five years ending March 2019:

**Table 3.2: Details of active SPSUs turnover vis-à-vis GSDP**

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Turnover <sup>9</sup> (₹ in crore)	32,281.76	28,920.56	27,903.73	31,282.40	38,663.01
Percentage change in turnover	5.31	(-)10.41	(-)3.52	12.11	23.59
GSDP of Gujarat (₹ in crore)	9,21,773	10,29,010	11,53,327 (P)	13,14,680 (Q)	15,01,496 (A)
Percentage change in GSDP	14.13	11.63	12.08	13.99	14.21
Percentage of Turnover to GSDP	3.50	2.81	2.42	2.38	2.57

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

**Source:** Compiled based on turnover reported by SPSUs in the financial statements finalised in respective years and Statement under Gujarat Fiscal Responsibility Act, 2005 (Budget Publication No. 30 of 2019-20).

The turnover of SPSUs had recorded variations over previous years. The variation in turnover ranged between (-) 10.41 and 23.59 per cent during the period 2014-2019, whereas increase in GSDP of the State ranged between 11.63 and 14.21 per cent during the same period. The Compounded Annual Growth Rate (CAGR)<sup>10</sup> of GSDP was 13.20 per cent during last five years. Against the CAGR of 13.20 per cent of the GSDP, the turnover of SPSUs recorded lower CAGR of 4.75 per cent during the last five years. As a result, the share of turnover of SPSUs to GSDP reduced from 3.50 per cent in 2014-15 to 2.57 per cent in 2018-19. Out of the total turnover of ₹ 38,663.01 crore, ₹ 30,510.24 crore pertains to 22 active SPSUs which finalised the financial statements for the year 2018-19. In respect of remaining 39 active SPSUs, the turnover of ₹ 8,152.77 crore was taken as per their last finalised financial statements.

### Investment in SPSUs

**3.3** The SPSUs function as instruments of GoG 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 SPSUs, which function in a competitive environment with private sector undertakings. In view of the above, the SPSUs have been analysed under two major classifications viz., those in the social sector and those functioning in competitive environment. SPSUs incorporated to perform some specific activities on behalf of GoG have been categorised under “Others”. Details of investment made in 77 SPSUs in the form of equity, grants/subsidy and long-term loans up to 31 March 2019 are detailed in **Annexure 4**.

<sup>8</sup> As per Statements prepared under the Gujarat Fiscal Responsibility Act, 2005, Budget Publication No. 30 of 2019-20.

<sup>9</sup> Turnover of active SPSUs as per their latest finalised financial statements received up to 30 September 2019.

<sup>10</sup> CAGR is a useful method to measure growth rate over multiple time-period.

**3.4** The sector wise summary of investment in SPSUs as on 31 March 2019 is given in **Table 3.3** below:

**Table 3.3: Sector wise investment in SPSUs as on 31 March 2019**

Sector	Number of SPSUs	Investment (₹ in crore)			
		Equity	Long-term loans	Grant/Subsidy	Total
Social	27	2,969.71	3,917.58	12,037.59	18,924.88
Competitive	35	6,461.57	18,042.88	15,404.32	39,908.77
Others	15	65,415.75	7,221.80	11,409.59	84,047.14
<b>Total</b>	<b>77</b>	<b>74,847.03</b>	<b>29,182.26</b>	<b>38,851.50</b>	<b>142,880.79</b>

**Source:** Compiled based on information received from SPSUs (*Annexure 4*).

As on 31 March 2019, the total investment (equity, long-term loans and grant/subsidy) in the 77 SPSUs was ₹ 1,42,880.79 crore. The investment consisted of 52.39 per cent of equity, 20.42 per cent of long-term loans and 27.19 per cent of grant/subsidy. The long-term loans advanced by the GoG and Government of India (GoI) constituted 23.76 per cent (₹ 6,933.10 crore) and 8.79 per cent (₹ 2,564.73 crore) respectively of the total long-term loans whereas 67.45 per cent (₹ 19,684.43 crore) of the long-term loans were availed from other financial institutions<sup>11</sup>.

The investment has grown by 42.47 per cent from ₹ 1,00,292.76 crore in 2014-15 to ₹ 1,42,880.79 crore in 2018-19.

### Disinvestment, Restructuring and Privatisation of SPSUs

**3.5** No disinvestment, restructuring, and privatisation of the SPSUs took place during the year ended 31 March 2019.

### Budgetary support to SPSUs

**3.6** GoG provides financial support to SPSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies, guarantee issued and guarantee commitment outstanding in respect of active SPSUs for the last three years ending March 2019 are given in **Table 3.4** below:

**Table 3.4: Details of budgetary support to SPSUs during last three years**

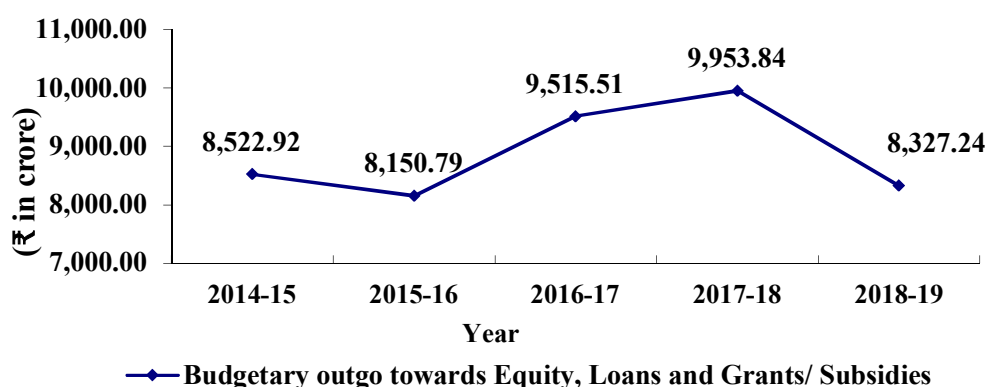
Sl. No.	Particulars	(₹ in crore)					
		2016-17		2017-18		2018-19	
		No. of SPSUs	Amount	No. of SPSUs	Amount	No. of SPSUs	Amount
1.	Equity Capital outgo from budget	12	5,729.96	12	5,853.65	10	4,012.77
2.	Loans given from budget	4	194.69	9	165.20	7	1,109.70
3.	Grants/ Subsidy from budget	17	3,590.86	20	3,934.99	20	3,204.77
4.	<b>Total Outgo (1+2+3)</b>	-	<b>9,515.51</b>	-	<b>9,953.84</b>	-	<b>8,327.24</b>
5.	Guarantees issued during the year	-	-	1	120.50	2	57.32
6.	Guarantee Commitment outstanding at the end of the year	3	234.28	4	201.52	4	75.03

**Source:** Compiled based on information received from SPSUs.

The details regarding budgetary outgo towards equity, loans and grants/subsidies for past five years are given in **Chart 3.1**:

<sup>11</sup> Banks, Gujarat State Financial Services Limited, Financial Institutions.

**Chart 3.1: Budgetary outgo towards Equity, Loans and Grants/Subsidies**



**Source:** Compiled based on information received from SPSUs.

The annual budgetary assistance to these active SPSUs ranged between ₹ 8,150.79 crore and ₹ 9,953.84 crore during the period from 2014-15 to 2018-19. The budgetary assistance of ₹ 8,327.24 crore provided during 2018-19 included loans, grants/subsidy and equity of ₹ 1,109.70 crore, ₹ 3,204.77 crore and ₹ 4,012.77 crore respectively. Sardar Sarovar Narmada Nigam Limited received the major share of equity funds (₹ 3,585.17 crore) from the budgetary outgo for acquisition of capital assets.

In order to provide financial assistance to SPSUs from Banks and Financial Institutions, GoG gives guarantee under Gujarat State Guarantee Act, 1963. Such guarantees are given subject to the limits prescribed by the Constitution of India, for which the guarantee fee is being charged. This fee varies from 0.25 to one per cent per annum as decided (31 December 1988) by GoG depending upon the loanees. The guarantee commitment decreased from ₹ 201.52 crore during 2017-18 to ₹ 75.03 crore during 2018-19. Sardar Sarovar Narmada Nigam Limited received guarantee commitment of ₹ 17.20 crore and Gujarat State Petroleum Corporation Limited received guarantee commitment of ₹ 40.12 crore. Further, two SPSUs<sup>12</sup> paid guarantee fee of ₹ 1.29 crore during 2018-19.

### Reconciliation with Finance Accounts

**3.7** The figures in respect of equity, loans and guarantees outstanding as per the records of SPSUs should agree with the corresponding figures appearing in the Finance Accounts of GoG. In case the figures do not agree, the concerned SPSUs and the Finance Department should carry out reconciliation of the differences. The position in this regard as on 31 March 2019 is given in **Table 3.5** below:

<sup>12</sup> Gujarat State Petroleum Corporation Limited (₹ 0.80 crore) and Sardar Sarovar Narmada Nigam Limited (₹ 0.49 crore).

**Table 3.5: Equity, loans, guarantees outstanding as on 31 March 2019 as per Finance Accounts vis-à-vis records of SPSUs**

(₹ in crore)

Outstanding in respect of	Number of SPSUs	Amount as per Finance Accounts	Amount as per records of SPSUs	Difference
Equity	43	65,778.92	68,359.89	2,580.97
Loans	21 <sup>13</sup>	4,239.46 <sup>14</sup>	6,933.10	2,693.64
Guarantees	16	2,904.87	33.70	2,871.17

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

Audit observed that such differences occurred in respect of 46 SPSUs<sup>15</sup> as detailed in *Annexure 5*<sup>16</sup>. The differences between the figures are persisting since prior to 2003-04. The issue of reconciliation of differences was taken up by the Principal Accountant General (Audit) II Gujarat, regularly, the latest being in July 2020 with the SPSUs/ Departments to reconcile the differences. Major differences were observed in Gujarat State Petroleum Corporation Limited, Sardar Sarovar Narmada Nigam Limited, Gujarat Metro Rail Corporation Limited (formerly known as Metro-link Express for Gandhinagar and Ahmedabad Company Limited), GSPC LNG Limited, Dholera Industrial City Development Limited, Gujarat State Financial Corporation and Gujarat State Road Transport Corporation.

### Submission of financial statements by SPSUs

**3.8.1** Out of 77 SPSUs in other than Power Sector, there were 61 active SPSUs *i.e.* 57 active Companies and four Statutory Corporations, and 16 inactive Companies under the audit jurisdiction of C&AG as of 31 March 2019. **Table 3.6** indicates the position relating to submission of financial statements as on 30 September 2019.

<sup>13</sup> This represents the differences in loan amount reported by SPSUs only.

<sup>14</sup> The SPSU wise information of loans is not available in Finance Accounts therefore the above balance may include loan to SPSUs of Power sector.

<sup>15</sup> This represents SPSUs in which GoG has given budgetary support towards equity, loans and grants/subsidies and such SPSUs are under the audit jurisdiction of C&AG.

<sup>16</sup> SPSU wise loan amount outstanding is not available in Finance Accounts therefore the same is not reflected in the *Annexure 5*.

**Table 3.6: Status for submission of financial statements of active SPSUs as on 30 September 2019**

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1.	Number of active SPSUs/ other companies	57	61	66	62 <sup>17</sup>	61 <sup>18</sup>
2.	Number of financial statements submitted during the year	45	59	63	63	66
3.	Number of active SPSUs, which submitted financial statements for current year	23 <sup>19</sup>	25 <sup>20</sup>	24 <sup>21</sup>	24 <sup>22</sup>	22 <sup>23</sup>
4.	Number of previous year financial statements finalised during current year	20	28	34	34 <sup>24</sup>	40 <sup>25</sup>
5.	Number of financial statements in arrears	58	62	73	58 <sup>26</sup>	67 <sup>27</sup>
6.	Number of active SPSUs with arrears in financial statements	34	35	40 <sup>28</sup>	37	39
7.	Extent of arrears (Numbers in years)	1 to 5	1 to 6	1 to 6	1 to 4	1 to 4

**Source:** Compiled based on financial statements of active SPSUs received during the period October 2018 to September 2019.

Of the total 61 active SPSUs, 50 active SPSUs had finalised their 66 financial statements, of which 26 financial statements pertained to 2018-19 and remaining 40 financial statements pertained to previous years. Thirty-nine SPSUs had 67 financial statements in arrears, which ranged between one and four years as detailed in **Annexure 6**. Out of 50 active SPSUs, which finalised the financial statements during 2018-19, 17 SPSUs prepared 23 financial statements (including four<sup>29</sup> consolidated financial statements of 2018-19 and two<sup>30</sup> Standalone financial statements of 2017-18) as per Indian Accounting Standards.

The Administrative Departments have the responsibility of overseeing the activities of these SPSUs to ensure that the financial statements are finalised and adopted by the SPSUs within the stipulated period. The concerned departments were informed on a quarterly basis regarding arrears of financial statements. In addition, the matter was taken up (January 2020) with GoG for liquidating the arrears of financial statements. However, no significant improvement has been noticed in submission of financial statements for audit.

<sup>17</sup> Four SPSUs were classified as inactive SPSUs during the year and one active SPSU viz. Diamond Research and Mercantile City Limited is included as it submitted financial statement for 2017-18.

<sup>18</sup> Two SPSUs were classified as inactive SPSUs during the year and one active SPSU viz. Bahucharaji Rail Corporation Limited is included as it submitted financial statement for 2018-19.

<sup>19</sup> These 23 SPSUs finalised 25 FSs of 2014-15 that included two consolidated FSs.

<sup>20</sup> These 25 SPSUs finalised 31 FSs of 2015-16 that included six consolidated FSs.

<sup>21</sup> These 24 SPSUs finalised 29 FSs of 2016-17 that included five consolidated FSs.

<sup>22</sup> These 24 SPSUs finalised 29 FSs of 2017-18 that included five consolidated FSs. One SPSU viz. Diamond Research and Mercantile City Limited finalised its FS for 2017-18 but it is not included as its supplementary audit was entrusted from the year 2018-19.

<sup>23</sup> These 22 SPSUs finalised 26 FSs of 2018-19 that included four consolidated FSs.

<sup>24</sup> This includes one consolidated financial statement of 2016-17.

<sup>25</sup> This includes two consolidated FSs of 2016-17 and three consolidated FSs of 2017-18.

<sup>26</sup> This includes one consolidated financial statement of 2017-18.

<sup>27</sup> This includes one consolidated FSs of 2017-18 and four FSs of 2018-19.

<sup>28</sup> Excluding Gandhinagar Railway and Urban Development Corporation Limited and Gandhinagar Rail Infrastructure Development Corporation Limited whose first financial statements were not due.

<sup>29</sup> Gujarat Mineral Development Corporation Limited, Gujarat State Petronet Limited, Gujarat State Petroleum Corporation Limited and Gujarat Gas Limited.

<sup>30</sup> GSPC (JPDA) Limited and GSPC LNG Limited.

GoG invested ₹ 9,262.66 crore in 22 active SPSUs {equity: ₹ 4,399.51 crore (9 SPSUs), loans ₹ 804.10 crore (6 SPSUs) and grants ₹ 4,059.05 crore (17 SPSUs)} during the last three years for which financial statements have not been finalised as detailed in *Annexure 6*. Due to non-finalisation of financial statements and their subsequent audit, proper accounting of investments and expenditure incurred could not be ensured and the investment of GoG in such SPSUs remained outside the control of the State Legislature.

### *Timeliness in preparation of financial statements by inactive SPSUs*

**3.8.2** In addition to the above active SPSUs, as on 30 September 2019, there were arrears in finalisation of financial statements by 11 inactive SPSUs as given in **Table 3.7** below.

**Table 3.7: Arrears of financial statements of 11 inactive SPSUs**

Number of inactive SPSUs	Period for which financial statements were in arrears	Number of years for which financial statements were in arrears
1 <sup>31</sup>	1999-00 to 2018-19	20
2 <sup>32</sup>	2011-12 to 2018-19	8
1 <sup>33</sup>	2012-13 to 2018-19	7
1 <sup>34</sup>	2015-16 to 2018-19	4
2 <sup>35</sup>	2016-17 to 2018-19	3
4 <sup>36</sup>	2018-19	1

**Source:** Compiled based on financial statements of inactive SPSUs received during the period October 2018 to September 2019.

Gujarat Dairy Development Corporation Limited had finalised its financial statements up to 2018-19.

### **Placement of Separate Audit Reports of Statutory Corporations**

**3.9** Separate Audit Reports (SARs) are audit reports of the C&AG on the financial statements of Statutory Corporations. These reports are required to be placed before the Legislature as per the provisions of the respective Acts.

The status of placement of SARs issued by the C&AG (up to 31 March 2020) on the financial statements of Statutory Corporations in the Legislature is given in **Table 3.8** below.

<sup>31</sup> Gujarat Fisheries Development Corporation Limited.

<sup>32</sup> Infrastructure Finance Company Gujarat Limited and Gujarat Foundation for Mental Health and Allied Services.

<sup>33</sup> Naini Coal Company Limited.

<sup>34</sup> BISAG Satellite Communication.

<sup>35</sup> Gujarat State Rural Development Corporation Limited and Gujarat State Construction Corporation Limited.

<sup>36</sup> Gujarat State Machine Tools Corporation Limited, Gujarat Trans Receivers Limited, Alcock Ashdown (Gujarat) Limited and Gujarat Industrial Corridor Corporation Limited.



**Table 3.8: Status of placement of SARs in Legislature as on 31 March 2020**

Sl. No.	Name of Statutory Corporation	Year up to which SARs placed in Legislature	Year for which SARs are yet to be placed in Legislature	
			Year of SAR	Date of issue to the Government/ Present Status
1.	Gujarat State Warehousing Corporation	2012-13	2013-14	9 May 2016
			2014-15	4 August 2017
2.	Gujarat State Financial Corporation	2018-19	--	--
3.	Gujarat Industrial Development Corporation	2017-18	2018-19	Draft SAR under finalisation
4.	Gujarat State Road Transport Corporation	2015-16	2016-17	Draft SAR under finalisation

Source: Compiled based on information received from respective Statutory Corporation.

### Impact of non-finalisation of financial statements of SPSUs

**3.10** As discussed in *Paragraph 3.8*, the delay in finalisation of financial statements may result in risk of fraud and leakage of public money apart from violation of the provisions of relevant statutes. In view of the arrears in finalisation of financial statements as above, the actual contribution of SPSUs to GSDP for the year 2018-19 could not be ascertained and their performance could not be reported to the State Legislature.

*It is therefore, recommended that the Government may monitor the clearance of arrears in finalisation of financial statements.*

Similar recommendation had been made in the Audit Report (PSU), GoG for the year 2016-17 and 2017-18. No significant improvement, however, has been noticed in this regard (October 2019). The number of financial statements in arrear increased from 58 to 67 at the end of September 2019.

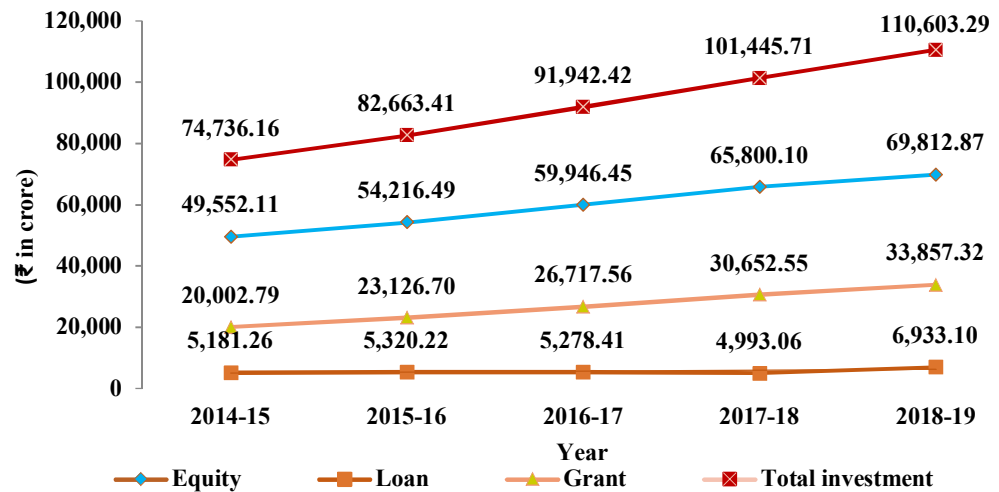
### Performance of SPSUs

**3.11** The financial position and working results of active SPSUs are detailed in *Annexure 7* as per their latest finalised financial statements as of 30 September 2019.

The SPSUs are expected to yield reasonable return on the investment of GoG. The total investment of GoG and others in the SPSUs was ₹ 1,42,880.79 crore. The investment consists of ₹ 74,847.03 crore as equity, ₹ 29,182.26 crore as long-term loans and ₹ 38,851.50 crore as grant/subsidy. Out of this, GoG has investment of ₹ 1,10,603.29 crore in 61 SPSUs in the form of equity (₹ 69,812.87 crore) and long-term loans of ₹ 6,933.10 crore and grant/subsidy (₹ 33,857.32 crore) (*Annexure 4*).

The year-wise investment of GoG in the SPSUs during the period from 2014-15 to 2018-19 is given in **Chart 3.2** below:

**Chart 3.2: Total investment of GoG in SPSUs**



Source: Compiled based on information received from SPSUs.

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, long-term loans and grant/subsidy and is expressed as a percentage of profit to total investment. Return on capital employed is a financial ratio that measures the Company's profitability and the efficiency with which its capital is used and is calculated by dividing company's earnings before interest and taxes by capital employed. Return on equity is a measure of performance calculated by dividing net profit after tax by shareholders' fund.

### ***Return on investment of listed SPSUs of GoG***

**3.12** The Return on investment is the percentage of profit or loss after tax to total investment. Out of 87 SPSUs as on 31 March 2019, four SPSUs<sup>37</sup> are listed on stock exchange(s). GoG invested equity in only three listed SPSUs namely Gujarat Mineral Development Corporation Limited (GMDC), Gujarat State Financial Corporation (GSFC) and Gujarat Gas Limited (GGL). In Gujarat State Petronet Limited (GSPL) equity is invested by its holding SPSU viz. Gujarat State Petroleum Corporation Limited and no equity is invested by GoG therefore GSPL is excluded for computing the RoI on GoG investment in listed SPSUs. The RoI of three listed SPSUs<sup>38</sup> and composite return on investment in the three listed SPSUs for the period from 2014-15 to 2018-19 is given in **Annexure 8**.

The Compounded Annual Growth Rate (CAGR) of GMDC and GSFC increased from *minus 12.56* and *minus 17.74 per cent* to *minus 11.87* and *minus*

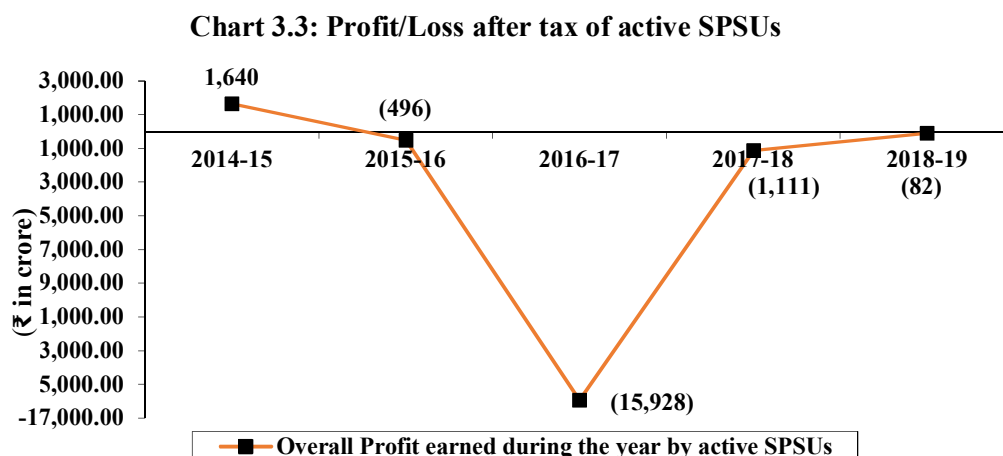
<sup>37</sup> Gujarat Gas Limited, Gujarat Mineral Development Corporation Limited, Gujarat State Petronet Limited and Gujarat State Financial Corporation.

<sup>38</sup> Gujarat Mineral Development Corporation Limited, Gujarat State Financial Corporation and Gujarat Gas Limited.

13.32 per cent respectively. GGL became SPSU in 2015-16, its CAGR increased from *minus 34.67 per cent* in 2016-17 to *minus 31.75 per cent* in 2018-19. The Compounded Annual Growth Rate (CAGR) of GoG investment in the three listed SPSUs was *minus 11.64 per cent* in 2018-19. GMDC's market capitalisation has decreased during 2018-19 due to decline in market price of shares. Similarly, GGL's market capitalisation declined during 2018-19 due to splitting up of its equity share with face value of ₹ 10 into five equity shares with face value of ₹ 2 each. Further, due to high level of default in repayment of dues by the loanees, GSFC has suspended its finance related business activity since 2001-02 and is concentrating on recovery of dues. Due to weak financial condition of GSFC, its accumulated losses were ₹ 2,687.30 crore as per financial statements for the year ended 31 March 2019. As a result, RoI of GoG's investment in the three listed SPSUs has increased from 414.21 in 2014-15 to 521.24 per cent in 2018-19.

### Return on Investment

**3.13** The Return on investment is the percentage of profit or loss after tax to total investment. The overall position of profit earned or losses incurred<sup>39</sup> by the active SPSUs during the period from 2014-15 to 2018-19 are given in the **Chart 3.3** below.



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

As per their latest finalised financial statements, out of 61 active SPSUs, 44 SPSUs earned profit after tax of ₹ 2,487.28 crore and 15 SPSUs incurred loss of ₹ 2,569.64 crore. Of the two SPSUs which neither reported profits nor losses, the excess of expenditure over income of one SPSU<sup>40</sup> was adjusted against capital reserve and non-plan grants while in one SPSU<sup>41</sup> excess of expenditure over income was transferred to works completed.

Net profit of ₹ 487.59 crore was contributed by three SPSUs<sup>42</sup> which functioned in finance, asset management and mining sector that were not open to market competition in the State. This constituted 19.60 per cent of total profit of

<sup>39</sup> Figures as per latest finalised financial statements of the respective years.

<sup>40</sup> Gujarat Women Economic Development Corporation Limited.

<sup>41</sup> Gujarat State Police Housing Corporation Limited.

<sup>42</sup> Gujarat State Investment Limited- ₹ 72.82 crore, Gujarat State Financial Services Limited- ₹ 275.98 crore and Gujarat Mineral Development Corporation- ₹ 138.79 crore.

₹ 2,487.28 crore in all 44 profit making SPSUs during 2018-19. RoE of these three SPSUs in 2018-19 was 5.55 per cent as compared to 35 SPSUs functioning in competitive environment which had negative net worth hence could generate no return on equity. The major contributors to the profit were:

- Gujarat State Petronet Limited (₹ 794.67 crore),
- Gujarat Gas Limited (₹ 417.03 crore),
- Gujarat State Financial Services Limited (₹ 275.98 crore),
- Gujarat State Petroleum Corporation Limited (₹ 259.51 crore).

Losses were incurred by:

- Sardar Sarovar Narmada Nigam Limited (₹ 1,709.96 crore),
- Gujarat State Road Transport Corporation (₹ 424.46 crore),
- Gujarat Water Resources Development Corporation Limited (₹ 150.23 crore),
- Gujarat State Financial Corporation (₹ 114.87 crore).

Of the 61 active SPSUs, the number of active SPSUs, which earned/ incurred profit/ loss<sup>43</sup> during 2014-15 to 2018-19 is given in **Table 3.9** below:

**Table 3.9: Active SPSUs that earned profit/ incurred loss**

Financial year	Number of SPSUs during the year			
	Total	Earned profits	Incurred loss	Others <sup>44</sup>
2014-15	57	41	10	6
2015-16	61	39	13	9
2016-17	66	44	13	9
2017-18	62	38	20	4
2018-19	61	44	15	2

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

### ***Return on investment at historical cost of GoG investment***

**3.14** Out of the 77 SPSUs, GoG infused funds in the form of equity, long-term loans, grants and subsidies in 61 SPSUs<sup>45</sup>. Of these 61 SPSUs, in Gujarat Industrial Development Corporation, Dahej SEZ Limited and Narmada Clean Tech, GoG has provided funds in form of grants and subsidies and no equity/ long-term loan has been infused. GoG has investment of ₹ 1,10,603.29 crore in 61 SPSUs with equity of ₹ 69,812.87 crore, long-term loans of ₹ 6,933.10 crore and grant/subsidy of ₹ 33,857.32 crore. The Real Rate of Return on investment from the SPSUs has been calculated on the investment made by the GoG in the SPSUs in the form of equity, loans and grants/subsidies. In the case of loans, only interest free loans (IFLs) are considered as investment since the GoG does not receive any interest on such loans and therefore are of the nature of equity investment by GoG except to the extent that the loans are liable to be repaid as per terms and conditions of repayment. Thus, investment of GoG in these

<sup>43</sup> Figures as per latest finalised financial statements of the respective years.

<sup>44</sup> Includes SPSUs that had not commenced commercial operations; not finalised its first financial Statements, did not report profit or loss and SPSUs whose excess of income/ expenses was adjusted against grants.

<sup>45</sup> The SPSUs where no Equity/ Long-term loan/ Grant is infused (as shown in **Annexure 4**) by GoG are excluded.

61 SPSUs of other than Power Sector has been arrived at by considering the equity, grant and subsidies and IFLs (net of amount repaid by the SPSUs). The value of investment based on historic cost and present value (PV) was calculated on the reduced balance of IFLs over the period as detailed in **Table 3.10**.

Out of the long-term loans of ₹ 6,933.10 crore in 61 SPSUs, IFLs of ₹ 2,289.83 crore were released to 60 SPSUs<sup>46</sup> based on the reduced balances over the period. Thus, the total investment of GoG in these 60 SPSUs based on historical cost was ₹ 1,05,960.02 crore {₹ 69,812.87 crore(equity) plus ₹ 2,289.83 crore (IFL) plus ₹33,857.32 crore (grant and subsidy)}.

The return on investment on the basis of historical cost of investment for the period 2014-15 to 2018-19 is given in **Table 3.10** below:

**Table 3.10 Return on GoG investment at historical cost**

(₹ in crore)

Year wise Sector wise break up	Total earnings/ (loss) for the year	Investment of GoG in Equity, IFLs and Grants/subsidies	Return on GoG investment (in per cent)
1	2	3	4=(2÷3)×100
<b>2014-15</b>			
Social Sector	90.30	7,955.48	1.14
Competitive Sector	223.37	11,615.97	1.92
Others	194.21	51,066.48	0.38
<b>Total</b>	<b>507.88</b>	<b>70,637.93</b>	<b>0.72</b>
<b>2015-16</b>			
Social Sector	114.87	9,511.92	1.21
Competitive Sector	(843.55)	13,034.39	(6.47)
Others	(678.80)	56,203.73	(1.21)
<b>Total</b>	<b>(1,407.48)</b>	<b>78,750.04</b>	<b>(1.79)</b>
<b>2016-17</b>			
Social Sector	117.09	10,610.21	1.10
Competitive Sector	(16,070.16)	14,933.93	(107.61)
Others	(684.51)	62,442.42	(1.10)
<b>Total</b>	<b>(16,637.58)</b>	<b>87,986.56</b>	<b>(18.91)</b>
<b>2017-18</b>			
Social Sector	(28.31)	12,194.39	(0.23)
Competitive Sector	(1,388.07)	17,023.12	(8.15)
Others	(558.41)	68,598.94	(0.81)
<b>Total</b>	<b>(1,974.79)</b>	<b>97,816.45</b>	<b>(2.02)</b>
<b>2018-19</b>			
Social Sector	(53.66)	13,306.34	(0.40)
Competitive Sector	324.88	18,655.83	1.74
Others	(1,255.06)	73,997.85	(1.70)
<b>Total</b>	<b>(983.84)</b>	<b>1,05,960.02</b>	<b>(0.93)</b>

**Source:** Figures in column 2 is as per latest finalised financial statement and figure in column 3 is as per information received from SPSUs for respective years.

<sup>46</sup> Excludes one SPSU viz., Gujarat Leather Industries Limited (under liquidation) that received loan of ₹ 2.06 crore but no equity or grant from GoG. As the information related to the said loan being interest bearing/ interest free was not available therefore the SPSU is excluded.

The return on GoG investment is worked out by dividing the total earnings<sup>47</sup> of these SPSUs by the cost of GoG investments. The return earned on GoG investment ranged between (-) 18.91 *per cent* and 0.72 *per cent* during the period from 2014-15 to 2018-19. The return on GoG investment deteriorated during 2016-17 due to exceptional loss of ₹ 17,061.20 crore<sup>48</sup> incurred by Gujarat State Petroleum Corporation Limited which resulted in reduction in return on GoG investment in competitive sector from 1.92 *per cent* in 2014-15 to (-) 107.61 *per cent* in 2016-17.

### **Rate of Real Return on GoG Investment (RoRR)**

**3.15** An analysis of the earnings *vis-à-vis* investments in 60 SPSUs where funds had been invested by GoG was conducted to assess the profitability of the SPSUs. In view of the significant investment by GoG in the SPSUs, Rate of Real Return (RoRR) on such investment is essential from the perspective of State Government. 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 PV of money. Therefore, in addition to the calculation of return on investment of GoG in the 60 SPSUs on historical cost basis, the RoRR on investment has also been calculated after considering the PV of money. PV of State Government investment was computed where funds had been infused by GoG as equity, interest free loan and grants and subsidies since 2004-05/ inception of these SPSUs until 31 March 2019. During the period from 2014-15 to 2018-19, these 60 SPSUs had an overall positive return on investment during the year 2014-15. The RoRR for 2014-15 have, therefore, been calculated and depicted based on PV.

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

- Interest free loans (IFLs) have been considered as investment infusion by GoG. However, in case of repayment of loans by SPSUs, the PV was calculated on the reduced balances of IFLs over the period.
- The average rate of interest on GoG borrowings for the concerned financial year<sup>49</sup> was adopted as compounded rate for arriving at PV since they represent the cost incurred by the GoG towards investment of funds for the year.

For the years 2015-16, 2016-17, 2017-18 and 2018-19 when these 60 SPSUs overall had a negative return on investment due to losses incurred by five

<sup>47</sup> This represents net profit after tax/ losses for the concerned year relating to those SPSUs where the investments have been made by the GoG.

<sup>48</sup> GSPC Limited booked impairment loss of ₹ 14,923.54 crore on 80 *per cent* Participating Interest and 10 *per cent* in KG-OSN-2001/ 3 Block (KG Block).

<sup>49</sup> The average rate of interest on GoG borrowings was adopted from the Reports of the C&AG of India on State Finances (GoG) for the concerned year. The calculation for the average rate for interest paid =  $\text{Interest Payment} \div [(\text{Amount of previous year's Fiscal Liabilities} + \text{Current year's Fiscal Liabilities}) \div 2] \times 100$ .

SPSUs<sup>50</sup>, a more appropriate measure of performance is erosion of net worth due to losses. The erosion of net worth is commented in **Paragraph 3.18**.

**3.16** The SPSU wise position of GoG investment in 60 SPSUs in the form of equity, loans and grants and subsidies on historical cost basis for the period from 2004-05 to 2018-19 is indicated in **Annexure 9**<sup>51</sup>. Further, consolidated position of PV of GoG investment relating to these SPSUs for the same period is indicated in **Table 3.11** below:

**Table 3.11: Year wise details of GoG investment and its present value until 2018-19**

(₹ in crore)

Financial year	PV of investment at beginning of year	During the year infused by GoG				Investment at the end of the year	Avg. rate of interest on government borrowings (in per cent)	Net present value of total investment at the end of the year	Minimum expected return to recover cost of funds for the year	Total Earnings/ (losses) for the year
		Equity	Interest free loan/ (Net repaym ent)	Grants/ Subsidies for operation and administrative Expenditure	Total Investment					
1	2	3	4	5	6=3+4+5	7=2+6	8	9=7×(1+(8÷100))	10=(7×(8÷100))	11
Up to 2004-05	-	13,906.88	21.15	697.81	14,625.84	14,625.84	9.08	15,953.87	-	-
2005-06	15,953.87	1,495.83	0.05	811.47	2,307.35	18,261.22	8.06	19,733.07	1,471.85	313.60
2006-07	19,733.07	2,564.69	1.76	955.98	3,522.43	23,255.50	8.19	25,160.13	1,904.63	149.56
2007-08	25,160.13	2,406.62	(0.43)	1,117.66	3,523.85	28,683.98	8.12	31,013.12	2,329.14	729.23
2008-09	31,013.12	5,404.24	0.72	1,341.64	6,746.60	37,759.72	7.80	40,704.98	2,945.26	677.20
2009-10	40,704.98	2,228.59	30.85	2,072.53	4,331.97	45,036.95	7.64	48,477.77	3,440.82	566.02
2010-11	48,477.77	2,218.76	512.96	2,223.13	4,954.85	53,432.63	7.56	57,472.13	4,039.51	792.70
2011-12	57,472.13	3,306.22	145.79	2,287.21	5,739.22	63,211.35	7.63	68,034.38	4,823.03	1,298.06
2012-13	68,034.38	6,020.18	6.38	2,368.16	8,394.72	76,429.10	7.66	82,283.57	5,854.47	1,527.60
2013-14	82,283.57	5,170.72	30.45	2,635.15	7,836.32	90,119.89	7.62	96,987.03	6,867.14	824.57
2014-15	96,987.03	4,829.37	333.35	3,492.05	8,654.77	1,05,641.80	7.76	1,13,839.60	8,197.80	507.88
2015-16	1,13,839.60	4,664.38	323.82	3,123.91	8,112.11	1,21,951.71	7.69	1,31,329.80	9,378.09	(1,407.48)
2016-17	1,31,329.80	5,729.96	(84.30)	3,590.86	9,236.52	1,40,566.32	7.67	1,51,347.75	10,781.44	(16,637.58)
2017-18	1,51,347.75	5,853.65	41.25	3,934.99	9,829.89	1,61,177.64	7.59	1,73,411.03	12,233.38	(1,974.79)
2018-19	1,73,411.03	4,012.77	926.03	3,204.77	8,143.57	1,81,554.60	7.44	1,95,062.26	13,507.66	(983.84)
<b>Total</b>		<b>69,812.87</b>	<b>2,289.83</b>	<b>33,857.32</b>	<b>1,05,960.02</b>					

**Source:** Compiled based on information, latest finalised financial statements and annual reports received from SPSUs.

The balance of investment by GoG in these SPSUs at the end of the year increased to ₹ 1,05,960.02 crore in 2018-19 from ₹ 14,625.84 crore in 2004-05 as GoG further invested equity (₹ 55,905.99 crore), IFLs (₹ 2,268.68 crore) and grants and subsidies (₹ 33,159.51 crore) during the period from 2005-06 to 2018-19. The PV of funds infused by GoG up to 31 March 2019 amounted to ₹ 1,95,062.26 crore. During the period from 2005-06 to 2018-19, total earnings for the year remained below the minimum expected return to recover cost of funds infused in these SPSUs as four<sup>52</sup> SPSUs incurred substantial losses during this period. Further, the profits earned by Gujarat Mineral Development Corporation Limited and Gujarat Gas Limited during the period from 2005-06 to 2018-19 were also set off towards the losses incurred by the four SPSUs due to which the total earnings remained below the minimum expected return from all SPSUs.

<sup>50</sup> Gujarat State Petroleum Corporation Limited, Gujarat State Financial Corporation, Gujarat State Road Transport Corporation, Gujarat Water Infrastructure Limited and Sardar Sarovar Narmada Nigam Limited.

<sup>51</sup> Prepared based on information received from SPSUs/ previous Audit Reports (PSUs)/latest finalised financial statements received from SPSUs.

<sup>52</sup> Gujarat State Petroleum Corporation Limited, Sardar Sarovar Narmada Nigam Limited, Gujarat State Financial Corporation and Gujarat State Road Transport Corporation.

A further analysis of the two profit making SPSUs viz. Gujarat Mineral Development Corporation Limited and Gujarat Gas Limited revealed that the SPSUs could report profits because of their substantial market share in their respective business segments.

**3.17** During last five years, GoG received return on investments in these SPSUs in 2014-15 only. The sector wise comparison of RoI and RoRR on GoG investment is given in **Table 3.12** below:

**Table 3.12: Return on GoG Funds**

(₹ in crore)

Year/ Sector	Total Earnings/ (Losses)	At historical cost		At Present Value (PV)	
		Investment by GoG in form of Equity, IFL and Grants	Return on Investment (in per cent)	Investment of GoG at end of year	Rate of Real Return (in per cent)
1	2	3	4= (2÷3×100)	5	6=(2÷5×100)
<b>2014-15</b>					
Social	90.30	7,955.48	1.14	11,083.57	0.81
Competitive	223.37	11,615.97	1.92	17,439.32	1.28
Others	194.21	51,066.48	0.38	85,316.71	0.23
<b>Total</b>	<b>507.88</b>	<b>70,637.93</b>	<b>0.72</b>	<b>1,13,839.60</b>	<b>0.45</b>
<b>2015-16</b>					
Social	114.87	9,511.92	1.21	13,612.03	0.84
Competitive	(843.55)	13,034.39	(6.47)	20,307.90	(4.15)
Others	(678.80)	56,203.73	(1.21)	97,409.87	(0.70)
<b>Total</b>	<b>(1,407.48)</b>	<b>78,750.04</b>	<b>(1.79)</b>	<b>1,31,329.80</b>	<b>(1.07)</b>
<b>2016-17</b>					
Social	117.09	10,610.21	1.10	15,838.60	0.74
Competitive	(16,070.16)	14,933.93	(107.61)	23,910.75	(67.21)
Others	(684.51)	62,442.42	(1.10)	1,11,598.40	(0.61)
<b>Total</b>	<b>(16,637.58)</b>	<b>87,986.56</b>	<b>(18.91)</b>	<b>1,51,347.75</b>	<b>(10.99)</b>
<b>2017-18</b>					
Social	(28.31)	12,194.39	(0.23)	18,745.17	(0.15)
Competitive	(1,388.07)	17,023.12	(8.15)	27,973.33	(4.96)
Others	(558.41)	68,598.94	(0.81)	1,26,692.52	(0.44)
<b>Total</b>	<b>(1,974.79)</b>	<b>97,816.45</b>	<b>(2.02)</b>	<b>1,73,411.02</b>	<b>(1.14)</b>
<b>2018-19</b>					
Social	(53.66)	13,306.34	(0.40)	21,334.50	(0.25)
Competitive	324.88	18,655.83	1.74	31,808.73	1.02
Others	(1,255.06)	73,997.85	(1.70)	1,41,919.03	(0.88)
<b>Total</b>	<b>(983.84)</b>	<b>1,05,960.02</b>	<b>(0.93)</b>	<b>1,95,062.26</b>	<b>(0.50)</b>

**Source:** Figures in column 2 is as per latest finalised financial statement and figure in column 3 is as per information received from SPSUs for respective years.

The RoI was 0.72 per cent in 2014-15 whereas the RoRR was 0.45 per cent during the same period. Further, during the period, the RoRR of competitive sector was 1.28 per cent in 2014-15 against RoI of 1.92 per cent.

### Performance of SPSUs with investment of GoG

#### Analysis of Net worth of SPSUs

**3.18** Net worth means the aggregate value of the paid-up share capital, all reserves created out of profits and securities premium account after deducting



the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written-off as per the audited financial statements. It does not include reserves created out of revaluation of assets and write-back of depreciation and amalgamation. The capital investment<sup>53</sup> and losses of the 77 SPSUs as per their latest finalised financial statements was ₹ 79,605.77 crore and ₹ 14,282.92 crore respectively resulting in net worth of ₹ 65,322.85 crore as detailed in **Annexure 7**. A further analysis revealed that the erosion in net worth occurred in 18 SPSUs<sup>54</sup> out of total 77 SPSUs. The accumulated losses of these 18 SPSUs were ₹ 23,112.35 crore as against their paid-up capital and free reserves of ₹ 10,370.86 crore. The major erosion was in Gujarat State Petroleum Corporation Limited (₹ 7,941.08 crore), Gujarat State Financial Corporation (₹ 2,579.29 crore), Gujarat State Road Transport Corporation (₹ 774.89 crore) and Alcock Ashdown (Gujarat) Limited (₹ 485.86 crore).

The **Table 3.13** further indicates the total paid up capital, total accumulated profit/ loss and total net worth of the 60 SPSUs where the GoG has made investment in from of equity, loans and grant and subsidies:

**Table 3.13: Net worth of SPSUs during 2014-15 to 2018-19**

(₹ in crore)

Year	Paid up capital at the end of year		Free Reserves	Accumulated Profit/(Loss) at end of the year	Net worth
	Number	Equity			
2014-15	53	44,065.64	9,537.09	(1,696.72)	51,906.01
2015-16	56	47,811.22	10,011.75	(2,479.20)	55,343.77
2016-17	60	51,958.94	10,451.69	(18,946.05)	43,464.58
2017-18	60	59,381.46	10,413.21	(18,314.76)	51,479.91
2018-19	60	66,061.76	11,383.48	(19,216.58)	58,228.66

**Source:** As reported in latest finalised financial statements received from SPSUs.

It can be seen from **Table 3.13** that net worth of the SPSUs varied between ₹ 58,228.66 crore and ₹ 43,464.58 crore. During 2018-19, the net worth improved to ₹ 58,228.66 crore from ₹ 51,479.91 during 2017-18 due to equity infusion.

### **Dividend Pay-out**

**3.19** The Finance Department has issued standing instructions in October 1994 by which all profit making SPSUs were required to pay dividend to the government regularly. Dividend pay-out relating to 57 SPSUs<sup>55</sup> where GoG invested equity is shown in **Table 3.14** below:

<sup>53</sup> Capital investment=Paid-up capital *excluding* share application money pending allotment+ Free Reserves.

<sup>54</sup> Sl. No. 3, 5, 15, 23, 24, 32, 33, 35, 49, 51, 53, 55, 56, 58, 59, 60, 62 and 68 of **Annexure 7**.

<sup>55</sup> Excludes three SPSUs viz. Gujarat Industrial Development Corporation, Narmada Clean Tech and Dahej SEZ Limited where investment of GoG is only in form of grant.

**Table 3.14: Dividend pay-out of SPSUs during 2014-15 to 2018-19**

*(₹ in crore)*

Year	Paid up capital at the end of the year		SPSUs that earned profit in the year		Dividend declared/ paid SPSUs during the year		Dividend Pay-out Ratio (in per cent)
	No.	Equity	No.	Equity	No.	Dividend	
1	2	3	4	5	6	7	8=(7÷5)×100
2014-15	51	44,019.59	31	3,222.33	6 <sup>56</sup>	79.25	2.46
2015-16	53	47,683.77	25	3,130.80	6 <sup>57</sup>	94.21	3.01
2016-17	56	51,827.22	19	5,381.31	5 <sup>58</sup>	83.22	1.55
2017-18	56	59,249.74	10	1,638.28	5 <sup>59</sup>	97.89	5.97
2018-19	57	65,930.14	22	2,196.43	5 <sup>60</sup>	71.68	3.26

**Source:** Compiled based on latest finalised financial statements received in respective year.

During the period from 2014-15 to 2018-19, the profit earning SPSUs ranged between 10 and 31. Of these, the SPSUs, which declared/ paid dividend to GoG ranged between five and six SPSUs. The dividend pay-out ratio during the period from 2014-15 to 2018-19 ranged between 1.55 and 5.97 per cent.

***GoG may consider formulating a dividend policy for payment of reasonable return from profit earning SPSUs on paid up share capital invested by GoG.***

### ***Return on equity***

**3.20** Return on equity (RoE) is a measure of financial performance to assess how effectively the management is using shareholders' fund to earn profit, is calculated by dividing net income (*i.e.*, net profit after taxes) by shareholders' fund and is expressed as a percentage and can be calculated for any SPSUs 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.

<sup>56</sup> Gujarat Mineral Development Corporation Limited, Gujarat State Seeds Corporation Limited, Gujarat Gas Limited, Tourism Corporation of Gujarat Limited, Gujarat Agro Industries Corporation Limited and Gujarat State Warehousing Corporation.

<sup>57</sup> Gujarat State Seeds Corporation Limited, Gujarat Gas Limited, Tourism Corporation of Gujarat Limited, Gujarat Mineral Development Corporation Limited, Gujarat State Financial Services Limited and Gujarat Agro Industries Corporation Limited.

<sup>58</sup> Gujarat State Seeds Corporation Limited, Tourism Corporation of Gujarat Limited, Gujarat Mineral Development Corporation Limited, Gujarat State Financial Services Limited and Gujarat State Civil Supplies Corporation Limited.

<sup>59</sup> Gujarat State Seeds Corporation Limited, Gujarat Gas Limited, Tourism Corporation of Gujarat Limited, Gujarat Mineral Development Corporation Limited and Gujarat State Financial Services Limited.

<sup>60</sup> Gujarat State Seeds Corporation Limited, Gujarat Gas Limited, Tourism Corporation of Gujarat Limited, Gujarat Mineral Development Corporation Limited and Gujarat State Financial Services Limited.

RoE has been computed in respect of 57 SPSUs where GoG has invested in their equity. The details of Shareholders fund and RoE relating to 57 SPSUs during the period from 2014-15 to 2018-19 are given in **Table 3.15** below:

**Table 3.15 Return on equity of SPSUs with investment of GoG in equity**

Year	Net Income/ (loss) (₹ in crore)	Shareholders' fund (₹ in crore)	RoE (in per cent)
1	2	3	4=(2÷3×100)
2014-15	455.56	50,358.23	0.90
2015-16	(1,506.18)	53,640.42	-
2016-17	(16,963.20)	41,430.75	-
2017-18	(2,167.41)	49,261.10	-
2018-19	(1,173.61)	56,016.62	-

Source: Compiled based on latest finalised financial statements received in respective year.

During last five years ended 31 March 2019, RoE was 0.90 *per cent* in 2014-15 as net income reported in that year was positive. RoE in respect of these SPSUs was not worked out during the period from 2015-16 to 2018-19 as net loss was reported by these SPSUs.

### **Return on capital employed in active SPSUs**

**3.21** Return on capital employed (RoCE) is the 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. The details of RoCE of active SPSUs during the period from 2014-15 to 2018-19 are given in **Table 3.16** below:

**Table 3.16: Return on Capital Employed of active SPSUs**

Year	EBIT (₹ in crore)	Capital employed <sup>61</sup> (₹ in crore)	RoCE (in per cent)
1	2	3	4=(2÷3×100)
2014-15	4,911.86	94,827.91	5.18
2015-16	3,173.29	1,04,883.10	3.03
2016-17	(11,383.09)	98,941.94	-
2017-18	4,098.41	95,504.00	4.29
2018-19	5,144.00	99,622.08	5.16

Source: Latest finalised financial statements of SPSUs.

The RoCE of SPSUs ranged between 3.03 and 5.16 *per cent* during the period 2014-15 to 2018-19. During 2016-17, there was no profit after tax hence RoCE was shown as Nil.

### **Analysis of Long-term loans of active SPSUs**

**3.22** Analysis of the long-term loans of the active SPSUs which had leverage during the period from 2014-15 to 2018-19 was carried out to assess the ability of the SPSUs to service the debt of the SPSUs due to the Government, banks and other financial institutions. This has been assessed through the interest coverage ratio and debt turnover ratio.

<sup>61</sup> Capital employed= Paid up capital - share application money pending allotment + accumulated profit/loss + free reserves + long-term loan outstanding.

### Interest Coverage Ratio

**3.23** Interest coverage ratio determines the ability of a SPSU to pay interest on outstanding debt and is calculated by dividing the Company's earnings before interest and taxes (EBIT) by interest expenses of the same period. The lower the ratio, the lesser the ability of the SPSU to pay interest on debt. Interest coverage ratio below one indicates that the Company is not generating sufficient revenues to meet its expenses on interest. The details of positive and negative interest coverage ratio during the period 2014-15 to 2018-19 are given in **Table 3.17** below:

**Table 3.17: Interest Coverage Ratio of active SPSUs**

Year	Interest (₹ in crore)	Earnings before interest and tax (₹ in crore)	Number of SPSUs having liability of loans from Government and Banks and other financial institutions	Number of SPSUs with interest coverage ratio	
				in excess of 1	less than 1
2014-15	2,475.73	3,983.95	21	15 <sup>62</sup>	6
2015-16	2,585.56	2,536.82	23	17 <sup>63</sup>	6
2016-17	4,682.90	(12,183.91)	25	20 <sup>64</sup>	5
2017-18	4,246.65	3,732.31	25	16 <sup>65</sup>	9
2018-19	4,113.41	5,010.73	30	22 <sup>66</sup>	8

**Source:** Latest finalised financial statements received from SPSUs.

Out of the 30 active SPSUs having liability of loans from GoG, banks and other financial institutions during 2018-19, 22 SPSUs had interest coverage of more than one whereas eight SPSUs had interest coverage ratio below one. This indicated that these SPSUs could not generate sufficient revenues to service their interest expenses.

### Debt Turnover Ratio of SPSUs

**3.24** During last five years, the turnover of 61 active SPSUs recorded compounded annual growth of 4.75 per cent and compounded annual growth of debt was (5.40 per cent) due to which the debt turnover ratio improved from 0.70 in 2014-15 to 0.54 in 2018-19. This reflected efficient collection of dues as given in the **Table 3.18** below:

**Table 3.18: Debt Turnover Ratio**

Particulars	(₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Debt from Government and other (Banks and Financial Institutions)	22,600.38	26,466.09	29,747.35	25,650.60	21,033.51
Turnover <sup>67</sup>	32,281.76	28,920.56	27,903.73	31,282.40	38,662.99
Debt Turnover Ratio	0.70:1	0.91:1	1.07:1	0.82:1	0.54:1

**Source:** Latest finalised financial statements received from SPSUs.

The debt turnover ratio ranged between 0.54 and 1.07 during the period.

<sup>62</sup> Sl. No. 1, 7, 8, 9, 10, 14, 18, 31, 32, 39, 40, 42, 43, 47 and 64 of *Annexure 7*.

<sup>63</sup> Sl. No. 1, 3, 7, 8, 9, 10, 14, 16, 18, 31, 39, 40, 42, 43, 47, 62 and 64 of *Annexure 7*.

<sup>64</sup> Sl. No. 1, 3, 7, 8, 9, 10, 14, 16, 18, 20, 28, 37, 39, 40, 41, 42, 43, 47, 62 and 64 of *Annexure 7*.

<sup>65</sup> Sl. No. 1, 3, 9, 10, 14, 16, 18, 28, 37, 39, 40, 42, 43, 47, 64 and 76 of *Annexure 7*.

<sup>66</sup> Sl. No. 1, 3, 4, 5, 9, 10, 14, 16, 18, 28, 31, 32, 37, 39, 40, 41, 42, 43, 47, 64, 72 and 76 of *Annexure 7*.

<sup>67</sup> Turnover of active SPSUs as per the latest finalised financial statements as of 30 September 2019.

## Winding up of inactive SPSUs

**3.25** There were 16 inactive SPSUs as on 31 March 2019. Of these, four SPSUs have commenced liquidation process. The number of inactive SPSUs at the end of each year during past five years is given in **Table 3.19** below.

**Table 3.19: Inactive SPSUs as on 31 March 2019**

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Number of inactive SPSUs	13	14	14	18	16
Number of inactive Corporations	-	-	-	-	-
<b>Total</b>	13	14	14	18	16

**Source:** Compiled from the information included in Audit Report (PSU), GoG of respective years and details received from SPSUs.

The inactive SPSUs are either under liquidation or have been closed/ ceased their operations. They are not contributing to the State's economy. Out of the 16 inactive SPSUs, four are under liquidation as on 31 March 2019. Of the four inactive SPSUs under liquidation, one SPSU<sup>68</sup> is under liquidation since 1997 and liquidation process commenced in remaining three SPSUs<sup>69</sup> between 2002-03 and 2014-15. The investment in 16 inactive SPSUs was ₹ 510.39 crore (Capital ₹ 185.87 crore and Long-term loans ₹ 324.52 crore). Of the 16 inactive SPSUs, Gujarat Dairy Development Corporation Limited has no arrear of accounts.

The stages of closure in respect of inactive SPSUs as on 30 September 2019 are given in **Table 3.20** below.

**Table 3.20: Closure of inactive SPSUs as on 31 March 2019**

Sl. No.	Particulars	SPSUs	Total
1.	Total number of inactive SPSUs	16	16
2.	Of (1.) above, the number of SPSUs under:		
	(a) Liquidation by Court (liquidator appointed)	3	3
	(b) Voluntary winding up (liquidator appointed)	1 <sup>70</sup>	1
	(c) Closure, i.e., closing orders/ instructions issued by the GoG but liquidation process not yet commenced.	12	12

**Source:** Compiled from details received from inactive SPSUs and latest information received in for SPSUs under liquidation.

The winding up of four (liquidation by Court and one Voluntary winding up) SPSUs under the Court order are under liquidation for periods ranging from one to 22 years. The Government may take appropriate decision in respect of remaining 12 inactive SPSUs.

## Comments on financial statements

**3.26** Out of 57 active SPSUs, 47 SPSUs forwarded their 63 audited financial statements for audit during the period from October 2018 to September 2019. Of the 63 financial statements, 48 financial statements were selected for

<sup>68</sup> Gujarat State Textile Corporation Limited.

<sup>69</sup> Gujarat Leather Industries Limited, Gujarat Communications and Electronics Limited and Gujarat Small Industries Corporation Limited.

<sup>70</sup> Gujarat Small Industries Corporation Limited.

supplementary audit. The comments in the Audit Report of Statutory Auditors appointed by the C&AG and the supplementary audit of the C&AG mention the significant observations on the financial statements. These observations indicate the quality of financial statements and highlight the areas, which needs improvement. The details of aggregate money value of opinion of Statutory Auditors and comments of the C&AG for the last three years are given in **Table 3.21** below.

**Table 3.21: Impact of audit comments on financial Statements of active SPSUs**

*(₹ in crore)*

Sl. No.	Particulars	2016-17		2017-18		2018-19	
		No. of FSs	Amount	No. of FSs	Amount	No. of FSs	Amount
1.	Decrease in profit	7	190.61	4	129.77	5	123.36
2.	Increase in profit	4	9.64	3	2.11	3	6.83
3.	Increase in loss	-	-	7	164.65	2	4.04
4.	Decrease in loss	1	2.95	-	-	1	0.03
5.	Non-disclosure of material facts	1	36.35	6	169.97	3	158.97
6.	Errors of classification	8	424.75	3	87.40	10	1,092.47
<b>Total</b>		<b>21</b>	<b>664.30</b>	<b>23</b>	<b>553.90</b>	<b>19</b>	<b>1,385.70</b>

FSs- Financial Statements.

**Source:** Compiled from of the Independent Auditors Report and Comments of C&AG issued to SPSUs.

The aggregate money value of Statutory Auditors' opinion and C&AG's comments during the year 2018-19 was ₹ 1,385.70 crore.

During the period from October 2018 to September 2019, the Statutory Auditors had given unqualified opinion for 45 financial statements and qualified opinion for 21 financial statements and adverse opinion for Gujarat Trans-Receiver Limited. The compliance of SPSUs with the Accounting Standards/ IND AS remained deficient, as there were 35 instances of non-compliance in 19 financial statements during the period October 2018 to September 2019.

**3.27** Similarly, out of four active Statutory Corporations, three Corporations<sup>71</sup> forwarded their financial statements for audit during the period from October 2018 to September 2019. Of these, financial statements of Gujarat State Road Transport Corporation and Gujarat Industrial Development Corporation are subject to sole audit by the C&AG, which was completed and financial Statements of Gujarat State Financial Corporation was selected for supplementary audit. The Audit Report of Statutory Auditors and the sole/supplementary audit of the C&AG mention the significant observations on the financial statements of the Statutory Corporations. These indicate the quality of financial statements and highlight the areas, which need improvement. The details of aggregate money value of opinion of Statutory Auditors and the comments of C&AG are given **Table 3.22** below.

<sup>71</sup> Gujarat State Road Transport Corporation, Gujarat State Financial Corporation and Gujarat Industrial Development Corporation.

**Table 3.22: Impact of audit comments on the financial statements of Statutory Corporations**

(₹ in crore)

Sl. No.	Particulars	2016-17		2017-18		2018-19	
		No. of FSs	Amount	No. of FSs	Amount	No. of FSs	Amount
1.	Decrease in profit	2	28.75	-	-	1	12.52
2.	Increase in profit	1	0.74	-	-	-	-
3.	Increase in loss	1	682.68	1	599.89	1	0.11
4.	Decrease in loss	-	-	-	-	-	-
5.	Non-disclosure of material facts	1	0.09	1	1,180.98	1	31.49
6.	Errors of classification	1	189.25	2	525.11	1	52.57
	<b>Total</b>	<b>6</b>	<b>901.51</b>	<b>4</b>	<b>2,305.98</b>	<b>4</b>	<b>96.69</b>

FSs- Financial Statements.

**Source:** Compiled from the opinion of Independent Auditors Report and Comments of C&AG issued to Statutory Corporations.

The aggregate money value of Statutory Auditors' comments and C&AG's comments during the year 2018-19 was ₹ 96.69 crore.

During the period, Statutory Auditor expressed qualified opinion on financial statements of Gujarat State Financial Corporation.

During the period from October 2018 to September 2019, the Statutory Auditors had given qualified opinion for one financial statement. In case of Gujarat Industrial Development Corporation and Gujarat State Road Transport Corporation we are the sole auditors. The compliance of SPSUs with the Accounting Standards (ASs) remained deficient, as one instance of non-compliance were observed in one financial statement. Few instances of non-compliance of IND AS commented upon in the financial statements of SPSUs are discussed below:

**i. Dahej SEZ Limited (2017-18)**

The invoices of material purchased for construction of road under a work order awarded to a contractor was booked in the Company's books as purchase of material. The Contractor included the material cost in its RA bills. In the Annual Financial Statements, the Company has again included the cost of material ₹ 40.03 lakh in Capital works-in-progress that has resulted in double accounting of material cost under CWIP. This has resulted in overstatement of Capital works-in-progress and Current Liabilities by ₹ 40.03 lakh.

**ii. Gujarat State Petronet Limited (Standalone) (2018-19)**

The Company retrospectively revised Tariff of its 48 customers as per PNGRB order. One among the 48 customers viz., Torrent Power Limited (TPL) objected to the said retrospective billing and obtained a stay order for implementation of the PNGRB order on 10 December 2018 from the Gujarat High Court. The Company, therefore, issued invoices to TPL at the old rates during the financial year 2018-19. The Company did not disclose the above information regarding uncertainty of revenue required by IND AS 115. The disclosure regarding tariff fixation was deficient to above extent.

### iii. Gujarat Metro Rail Corporation Limited (2018-19)

The Company followed the Accounting policy for recognising the price variation claims on its acceptance, which did not comply with requirement of IND AS 37. Therefore, the Company did not recognise the obligation of ₹ 43.35 crore on accrual basis. This has resulted in understatement of Other Current Liabilities and corresponding understatement of Capital Work in Progress by ₹ 43.35 crore.

#### Response of the Government to Audit

##### *Performance Audits and Compliance Audit Paragraphs*

**3.28** For the Report of C&AG of India for the year ended 31 March 2019, one Performance Audit Report and one audit paragraph contained in this report, were issued (May 2020) to the Management of SPSUs and the Additional Chief Secretaries/ Principal Secretaries of the respective Departments with request to furnish replies within four weeks. The replies in respect of one compliance audit paragraph was awaited from the Management/ Department (June 2020).

#### Follow-up action on Audit Reports

##### *Replies outstanding*

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

**Table 3.23: Explanatory notes not received as on 30 September 2019**

Year of the Audit Report	Date of placement of Audit Report in the State Legislature	Total Performance Audits (PAs) and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2013-14	31 March 2015	2	5	1	3
2016-17	19 September 2018	1	6	1	3
<b>Total</b>		<b>3</b>	<b>11</b>	<b>2</b>	<b>6</b>

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

From the above, it could be seen that out of 14 Paragraphs/ Performance Audits, explanatory notes to 8 Paragraphs/ Performance Audits in respect of five<sup>72</sup> Departments were awaited (September 2019).

<sup>72</sup> (i) Health and Family Welfare Department; (ii) Industries and Mines Department; (iii) Roads and Building Department; (iv) Port and Transport Department; and (v) Agriculture, Farmers Welfare; and Co-operation Department.



### Discussion of Audit Reports by Committee on Public Undertakings (COPU)

**3.30** The status as on 30 September 2019 of Performance Audits and Paragraphs that appeared in Audit Reports (PSUs) and discussed by Committee on Public Undertakings (COPU) was as under:

**Table 3.24: Performance Audits/ Paragraphs appeared in Audit Reports vis-a-vis discussed as on 30 September 2019**

Period of Audit Report	Number of Performance Audits (PAs)/ paragraphs			
	Appeared in Audit Report		Paragraphs discussed	
	PAs	Paragraphs	PAs	Paragraphs
2013-14	1	5	-	2
2014-15	1	4	1	3
2015-16	-	4	-	-
2016-17	1	6	-	-
<b>Total</b>	<b>3</b>	<b>19</b>	<b>1</b>	<b>5</b>

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

### Compliance to Reports of COPU

**3.31** Action Taken Notes (ATN) to four recommendations made on three paragraphs which pertained to three Reports of the COPU presented to the State Legislature in March 2017 and September 2018 had not been received (September 2019) as indicated below:

**Table 3.25: Compliance to COPU Reports as on 30 September 2019**

Report of COPU	Total number of recommendations in COPU Report	Number of recommendations for which ATNs not received
12 <sup>th</sup> Report of 13 <sup>th</sup> Assembly	1	1
2 <sup>nd</sup> Report of 14 <sup>th</sup> Assembly	1	1
3 <sup>rd</sup> Report of 14 <sup>th</sup> Assembly	2	2
<b>Total</b>	<b>4</b>	<b>4</b>

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

The Reports of COPU for which ATNs were not received, contained recommendations in respect of paragraphs pertaining to two<sup>73</sup> Departments, which appeared in the Reports of the C&AG of India for the year 2006-07, 2012-13 and 2013-14.

*It is recommended that the Government may ensure that replies to Explanatory Notes/ Draft Paragraphs/ Performance audits and ATNs on the recommendation of COPU are as per the prescribed time schedule.*

<sup>73</sup> (i) Industries and Mines Department; and (ii) Forest and Environment Department.