

Section A

PUBLIC SECTOR UNDERTAKINGS

Introduction

Functioning of State Public Sector Undertakings (Power Sector & Non-Power Sector)

General

1. The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature keeping in view the welfare of the people. They play an important role in the State economy.

2. Telangana State was formed on **02 June 2014**¹, following the bifurcation of erstwhile composite State of Andhra Pradesh (AP) into Telangana and the residual State of AP as per the AP Reorganisation Act, 2014. As on 31 March 2018, there were 75 State Public Sector Undertakings (PSUs) in Telangana (including 72 Government Companies and three Statutory Corporations²) under the audit jurisdiction of the Comptroller & Auditor General of India. During 2017-18, nine Government Companies³ were newly incorporated and three Inactive PSUs⁴ were reported to be dissolved⁵. None of the PSUs was listed on the stock exchange(s).

3. The nature of PSUs and the position of accounts are as given below:

Table 1: Number of State PSUs covered in the Report

Type of PSUs	Total No. of PSUs	No. of PSUs for which Accounts are received during the reporting period ⁶				No. of PSUs for which accounts are in arrears (total arrears)
		Upto 2017-18	Upto 2016-17	Upto 2015-16	Total	
Government Companies ⁷	52	6	7	8	21	45* (114)
Statutory Corporations	3	0	0	0	0	03 (8)
Total Working PSUs	55	6	7	8	21	48 (122)

¹ Date of formation of Telangana State/ Effective Date of bifurcation of Government Companies.

² Telangana State Warehousing Corporation, Telangana State Financial Corporation and Telangana State Road Transport Corporation.

³ Zaheerabad NIMZ Limited, Telangana Fiber Grid Corporation Limited, Telangana State Most Backward Classes Development Corporation, T-works Foundation, Telangana Industrial Health Clinic Limited, Hyderabad Pharma City Limited, Hyderabad Road Development Corporation Limited, Musi Riverfront Development Corporation Limited and Telangana Water Resources Development Corporation Limited.

⁴ Andhra Pradesh Scooters Limited, Andhra Pradesh Tourism Finance Limited and Suganthi Alloy Casting Limited.

⁵ Names of these PSUs were struck off from the Register of Companies by the Registrar of Companies, Hyderabad under Section 248(5) of the Companies Act, 2013. Where the Registrar of Companies has reasonable cause to believe that a company is not carrying on any business or operation for a period of two immediately preceding financial years and has not made any application within such period for obtaining the status of a dormant company, he shall send a notice to the company and all the directors of the company, of his intention to remove the name of the company from the register of companies. At the expiry of the time mentioned in the notice, the Registrar may, unless cause to the contrary is shown by the company, strike off its name from the register of companies, and shall publish notice thereof in the Official Gazette, and on the publication in the Official Gazette of this notice, the company shall stand dissolved.

⁶ From October 2017 to September 2018.

⁷ Includes two PSUs namely, A.P. Tribal Power Company Limited and Infrastructure Corporation of Andhra Pradesh Limited which are under demerger.

Type of PSUs	Total No. of PSUs	No. of PSUs for which Accounts are received during the reporting period ⁸				No. of PSUs for which accounts are in arrears (total arrears)
		Upto 2017-18	Upto 2016-17	Upto 2015-16	Total	
Inactive Government Companies ⁹	20	0	0	0	0	20 (407)
Total	75	6	7	8	21	68 (529)#

Source: Based on annual accounts submitted by Telangana State PSUs

* Accounts of one PSU namely, Telangana Rajiv Swagruha Corporation Limited are not due.

Pending for four years to 34 years.

4. During 2017-18, the working PSUs as per their latest finalised accounts and information furnished registered an annual turnover of ₹ 73,561.62 crore. The turnover relative to the State Gross Domestic Product (GSDP) (₹ 7,53,804 crore) was 9.76 per cent. As on March 2018, the working PSUs had a work force of 1.36 lakh employees and incurred loss of ₹ 4,486.37 crore.

There are 20 Inactive PSUs which have been inactive in the range of four years to 30 years having an investment of ₹ 234.87 crore comprising capital (₹ 61.53 crore) and long term loans (₹ 173.34 crore). This is a critical area as the investments in Inactive PSUs do not contribute to the economic growth of the State.

Accountability framework

5. A Government Company or any other Company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the Comptroller and Auditor General of India (CAG). Audit of Government Companies is governed by respective provisions of Sections 139 and 143 of the Companies Act, 2013. Section 2 (45) defines a “Government Company” as one in which not less than 51 per cent of the paid-up share capital is held by the Government(s). A Government Company includes a subsidiary of a Government Company.

6. Statutory Auditors of the Government Companies are appointed by the CAG under Section 139 of the Companies Act, 2013. The Statutory Auditors conduct audit of accounts of PSUs in accordance with Section 143 of the Companies Act, 2013. The accounts of PSUs are subject to supplementary audit by the CAG under Section 143 of the Companies Act, 2013. The CAG plays an oversight role by monitoring the performance of the Statutory Auditors. The overall objective of CAG audit is that the Statutory Auditors discharge the functions assigned to them. This function is discharged by exercising the powers as under:

- to issue directions to the Statutory Auditors under Section 143(5) of the Companies Act, 2013, and
- to supplement or comment upon the Statutory Auditor’s report under Section 143 (6) of the Companies Act, 2013.

⁸ From October 2017 to September 2018.

⁹ Includes 19 PSUs which are under demerger.

Audit of Statutory Corporations is governed by their respective legislations. Out of the three Statutory Corporations, CAG is the sole auditor for Telangana State Road Transport Corporation. The audit of Telangana State Warehousing Corporation and Telangana State Financial Corporation is conducted by Chartered Accountants, followed by Supplementary audit by the CAG.

Submission of accounts by State Public Sector Undertakings

7. *Need for timely finalisation and submission*

According to Sections 394 and 395 of the Companies Act, 2013, Annual Report on the working and affairs of a Government Company, is to be prepared within three months of its Annual General Meeting (AGM) and as soon as may be after such preparation laid before the House or both the Houses of State Legislature together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the CAG. Almost similar provisions exist in the respective Acts regulating statutory corporations. This mechanism provides the necessary legislative control over the utilisation of public funds invested in the PSUs from the Consolidated Fund of the State.

Section 96 of the Companies Act, 2013 requires every company to hold AGM of the shareholders once in every calendar year. It also states that not more than 15 months shall elapse between the date of one AGM and that of the next. Further, Section 129 of the Companies Act, 2013 stipulates that the audited Financial Statement for the financial year has to be placed in the said AGM for their consideration. Section 129 (7) of the Companies Act, 2013 provides for levy of penalty like fine and imprisonment on the persons including directors of the company responsible for non-compliance with the provisions of Section 129 of the Companies Act, 2013.

8. *Role of Government and Legislature*

The State Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the Government.

The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports of State Government Companies, together with the Statutory Auditors' Reports and comments of the CAG, are to be placed before the Legislature under Section 394 of the Companies Act. Separate Audit Reports are also required to be placed before the Legislature in case of Statutory Corporations as stipulated in the respective Acts.

Audit Reports of the CAG are submitted to the Government for placing before the Legislature under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

Investment in State Public Sector Undertakings

9. *Stake of Government of Telangana*

The State Government has a significant financial stake in these PSUs. This stake is of mainly three types:

- **Share Capital and Loans-** In addition to the Share Capital Contribution, State Government also provides financial assistance by way of loans to the PSUs from time to time.
- **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the PSUs, as and when required.
- **Guarantees-** State Government also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

10. The sector wise summary of investment (equity and long-term loans) in 75 PSUs as on 31 March 2018, is detailed below:

Table 2: Sector wise investment in State PSUs

(₹ in crore)

Name of Sector	Government Companies		Statutory Corporations		Total	Investments		
	Working	Inactive	Working	Inactive		Equity	Long Term Loans*	Total
Power	8	0	0	0	8	11213.63	36732.74	47946.37
Service	12	1	1	0	14	94.56	23487.41	23581.97
Agriculture & Allied	6	3	1	0	10	143.54	13503.72	13647.26
Infrastructure	14	0	0	0	14	38.65	3395.62	3434.27
Manufacturing	4	15	0	0	19	64.87	211.69	276.56
Finance	4	1	1	0	6	13.82	18.44	32.26
Others	4	0	0	0	4	0.20	0.00	0.20
Total	52	20	3	0	75	11569.27	77349.62	88918.89

Source: Based on accounts/ information as furnished by PSUs

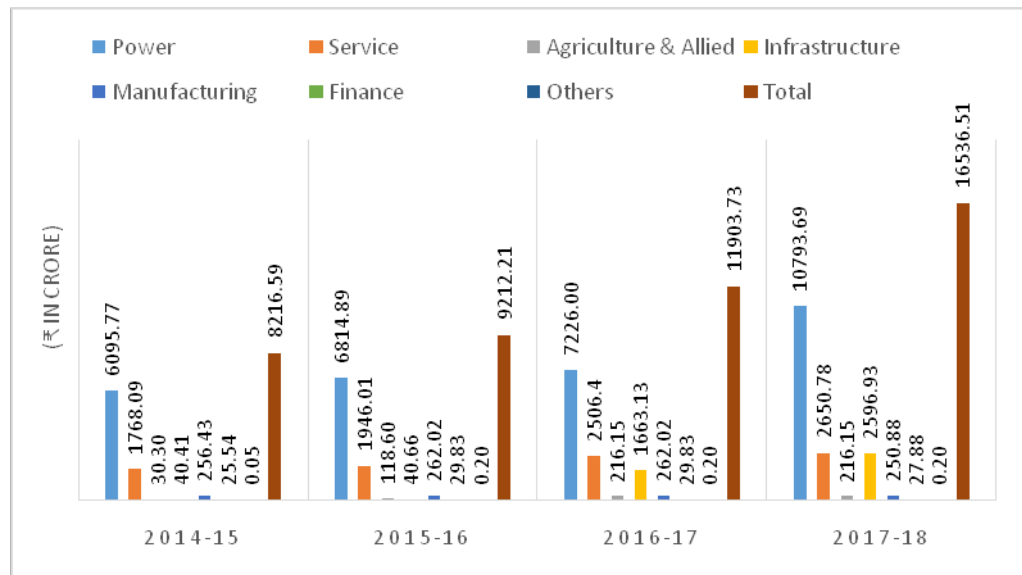
* The long-term loans include loans from Central and State Governments, Public Financial Institutions and Commercial Banks.

As on 31 March 2018, 13.01 per cent of the total investment in State PSUs comprised of equity capital and 86.99 per cent of long-term loans. The long-term loans in 55 working PSUs consisted of ₹ 9,931.76 crore advanced by the Government (both Central & State Governments) and ₹ 67,417.86 crore raised from other sources. The thrust of investment in PSUs was mainly in power sector during the last four years. Out of total investment of ₹ 7,640.68 crore made during the period from 2014-15 to 2017-18, the power sector received investments (equity and long term loans) of ₹ 5,630.70 crore (73.69 per cent).

The pattern of State Government investment in various important sectors as at the end of the years from 2014-15 to 2017-18 is indicated in **Chart 1**:

Chart 1: Sector wise investment in PSUs

₹ in crore)



Source: Based on accounts/ information as furnished by PSUs

The functioning of Power Sector PSUs and State PSUs (Non-Power Sector) together with the Performance Audit (PA) observations and compliance audit observations relating to these broad sectors are discussed separately in the succeeding Chapters under Part-I and II of this Report respectively.

PART I

POWER SECTOR PSUs

