

**CHAPTER-II**  
**Functioning of Power**  
**Sector PSUs**



## CHAPTER-II

### Functioning of Power Sector PSUs

#### 2. Introduction

**2.1** Power sector companies play an important role in the economy of the State. Apart from providing critical infrastructure required for development of the State's economy, the sector also adds significantly to the Gross Domestic Product (GDP) of the State. Table 2.1 provides the details of turnover of the power sector PSUs and GSDP of Odisha for a period of five years ending March 2019:

**Table 2.1: Details of turnover of power sector PSUs vis-a-vis GSDP of Odisha**

Particulars	(₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Turnover	8003.66	8325.75	8530.83	9601.63	9641.40
Percentage change of Turnover over Previous Year	-3.54	4.02	2.46	12.55	0.41
GSDP of Odisha	3,10,810.24	3,32,329.13	3,14,363.78	4,15,981.68	4,86,003.80
Percentage change of GSDP over Previous Year	7.77	6.92	-5.41	32.32	16.83
Percentage of Turnover to GSDP of Odisha	2.58	2.51	2.71	2.31	1.98

(Source: Compiled based on Turnover figures of power sector PSUs and GSDP figures as per information furnished by Finance Department of Government of Odisha)

The compounded annual growth<sup>6</sup> of GSDP of Odisha was 10.99 per cent during the years 2014-19, while the turnover of power sector PSUs recorded lower compounded annual growth of 3.05 per cent during the same period. This resulted in decrease in share of turnover of the power sector PSUs to the GSDP from 2.58 per cent in 2014-15 to 1.98 per cent in 2018-19.

#### 2.2 Formation of Power Sector PSUs

Odisha became the first State in India to reform its electricity sector. Odisha Electricity Reform Act, 1995 setting out the basic framework of the reform which came into force from 01 April 1996 envisaging restructuring of electricity industry for rationalisation of generation, transmission, distribution and supply of electricity. Consequently, Assets and Liabilities belonging to Odisha State Electricity Board (OSEB) were vested in State Government as on 01 April, 1996 and all loans, subventions and obligation of OSEB towards the State stood extinguished.

OSEB was restructured and corporatised into Grid Corporation of Odisha Limited (GRIDCO) and Odisha Hydro Power Corporation Limited (OHPC). GRIDCO took over transmission and distribution business while OHPC took

6 Rate of Compounded Annual Growth  $\left[\left(\frac{\text{value of 2018-19}}{\text{value of 2013-14}}\right)^{\frac{1}{5}} - 1\right] \times 100$  where turnover and GSDP for the year 2013-14 were ₹8297.18 crore and ₹2,88,414.31 crore respectively.

charge of hydel generation business. Total assets and liabilities of OSEB valued at ₹3,600.10 crore was apportioned between GRIDCO (₹2,395.90 crore) and OHPC (₹1,204.20 crore). Total apportioned value included equity of ₹326.20 crore in GRIDCO and ₹300 crore in OHPC.

Odisha Power Generation Corporation Limited (OPGC) the only thermal power company was established as a wholly owned Government Company in November 1984. GoO divested 49 *per cent* of its equity in OPGC in favour of a private investor in early 1999.

Pursuant to enactment of Odisha Electricity Reform (Transfer of Assets, Liabilities, Proceedings and Personnel of GRIDCO to Distribution Companies) Rules 1998, the GoO transferred the distribution assets and properties along with personnel of GRIDCO to four distribution companies namely Central Electricity Supply Company of Odisha Limited, North Eastern Electricity Supply Company of Odisha Limited, Western Electricity Supply Company of Odisha Limited and Southern Electricity Supply Company of Odisha Limited with effect from 26 November, 1998 and these were established as wholly owned subsidiaries of GRIDCO. They were subsequently privatised in April 1999/ September 1999 with disinvestment of 51 *per cent* shareholding of GRIDCO. They now function under the distribution and retail supply license obtained from Odisha Electricity Regulatory Commission (OERC).

In conformity with power vested under Electricity Act, 2003 the GoO through Odisha Electricity Reforms (Transfer of Transmission related Activities) Scheme, 2005 vested the transmission business of the State to a newly incorporated company i.e., Odisha Power Transmission Corporation Limited (OPTCL) from 01 April, 2005. OPTCL now discharges the function of State Transmission Utility (STU) as well as State Load Dispatch Centre (SLDC).

Besides these four companies, five<sup>7</sup> other power sector companies were incorporated (January 2007 to September 2018) as subsidiary/ joint venture companies of OPGC/ Odisha Mining Corporation Limited (OMC)/ Power Grid Corporation of India Limited (PGCIL)/ OHPC/ OPTCL.

Thus, there were nine power sector PSUs in the State as on 31 March 2019. Of these nine Power Sector PSUs, three<sup>8</sup> PSUs could not commence commercial activities till 2018-19.

### **Disinvestment, restructuring and privatisation of Power Sector PSUs**

**2.3** During the year 2017-18, no disinvestment, restructuring or privatisation was done by the State Government in the State PSUs. The government did not furnish information about disinvestments during 2018-19, despite correspondence.

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<sup>7</sup> Odisha Thermal Power Corporation Limited (January 2007), Kalinga Bidyut Prasaran Nigam Private Limited (December 2012), Green Energy Development Corporation of Odisha Limited (April 2013), Odisha Coal and Power Limited (January 2015) and GEDCOL SAIL Power Corporation Limited (September 2018).

<sup>8</sup> Kalinga Bidyut Prasaran Nigam Private Limited, Odisha Thermal Power Corporation Limited and GEDCOL SAIL Power Corporation Limited.

## Investment in Power Sector PSUs

**2.4** The activity-wise summary of investment (GoI, Government of Odisha and other financial institutions) in the power sector PSUs as on 31 March 2019 is given Table 2.2:

**Table 2.2: Activity-wise investment in power sector PSUs**

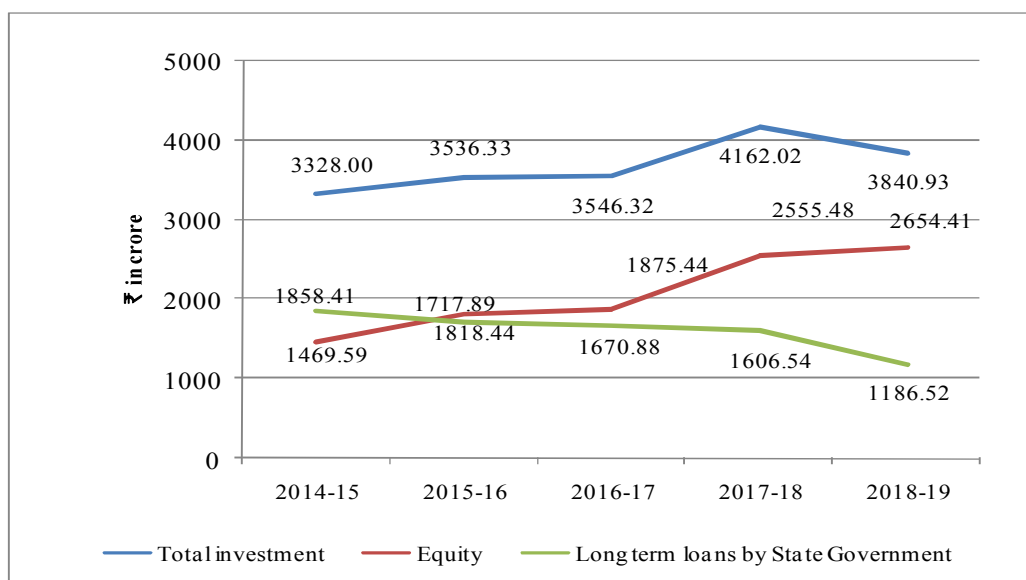
Activity	No. of power sector PSUs	Investment (₹ in crore)		
		Equity	Long term loans	Total
Generation of Power	5	2661.88	6466.93	9128.81
Transmission of Power	2	510.18	634.30	1144.48
Distribution of Power	-	-	-	-
Other <sup>9</sup>	2	876.61	4253.37	5129.98
<b>Total</b>	<b>9</b>	<b>4048.67</b>	<b>11354.60</b>	<b>15,403.27</b>

(Source: Compiled based on information received from PSUs)

As on 31 March 2019, the total investment (equity and long term loans) in nine power sector PSUs was ₹15,403.27 crore. Out of the total long term loans of ₹11,354.60 crore, ₹1,186.52 crore (10.45 per cent) was availed from the State Government and balance ₹10,168.08 crore (89.55 per cent) was availed from financial institutions.

Of the above, the year wise status of investment of Government of Odisha specifically, in the form of equity and long-term loans in the four holding power sector PSUs during the period 2014-15 to 2018-19 is as follows:

**Chart 2.1: Total investment of GoO in four power sector PSU as at end of the year**



<sup>9</sup> There are two power sector undertakings. GRIDCO Limited engaged in business of bulk purchase and bulk sale of power to the four Distribution Companies inside the State and trading of surplus power through traders to promote exchange of power with neighbouring states in the country. Odisha Coal and Power Limited for supply of coal exclusively to OPGC expansion Power Project at Thermal Power Station, Banaharpali, Jharsuguda, Odisha.

## Budgetary Support to Power Sector PSUs

**2.5** The Government of Odisha (GoO) provides financial support to power sector PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies, loans written off and loans converted into equity during the year in respect of power sector PSUs for the last four years ending March 2019 are as follows:

**Table 2.3: Details of budgetary support to power sector PSUs during the years**  
(Amount ₹ in crore)

Particulars <sup>10</sup>	2015-16		2016-17		2017-18		2018-19	
	Number of PSUs	Amount	Number of PSUs	Amount	Number of PSUs	Amount	Number of PSUs	Amount
Equity Capital (i)	1	57.00	3	352.35	3	557.69	3	272.42
Loans given (ii)	1	48.75	1	121.66	1	20.00	1	45.48
Grants/Subsidies provided (iii)	2	967.00	1	66.90	1	10.00	1	10.00
<b>Total Outgo (i+ii+iii)</b>	<b>3<sup>#</sup></b>	<b>1072.75</b>	<b>5</b>	<b>540.91</b>	<b>4<sup>#</sup></b>	<b>587.69</b>	<b>4<sup>#</sup></b>	<b>327.90</b>
Loan repayment written off	1	30.23	-	-	-	-		
Loans converted into equity	-	-	-	-	-	-		
Guarantees issued <sup>11</sup>	-	-	1	1100	-	-	1	2350
Guarantee Commitment <sup>12</sup>	2	1,343.53	1	971.18	1	2,836	1	4186

(Source: As per information furnished by PSUs)

The budgetary assistance received by these PSUs ranged between ₹327.90 crore and ₹1,072.75 crore during 2015-16 to 2018-19. The budgetary assistance of ₹327.90 crore received during the year 2018-19 included ₹272.42 crore, ₹45.48 crore and ₹10.00 crore in the form of equity, loans and grants/subsidies respectively. During 2018-19, grants/subsidies was given for infrastructure assistance to Green Energy Development Corporation of Odisha Limited (₹10.00 crore).

Government of Odisha extends guarantees as provided under Article 293(1) of Constitution of India and fixed prescribed limit for such guarantee to PSUs as per guidelines (November 2002) of Government of Odisha. PSUs seek financial assistance from banks and financial institutions, for which guarantee commission is being charged. The rate is 0.50 per cent on the maximum of the guarantee sanctioned. Outstanding guarantee commitments of GoO increased by 47.60 per cent from ₹2,836.00 crore in 2017-18 to ₹4,186.00 crore in 2018-19 as GRIDCO Limited sought additional guarantee commitment from GoO to avail loans from banks/financial institutions for bridging revenue gap left by OERC. During the year 2018-19, guarantee commission of ₹45.28 crore was paid by the two power sector PSUs.

<sup>10</sup> Amount represents outgo from State Budget only.

<sup>11</sup> Government guarantee issued to the PSUs during a particular year.

<sup>12</sup> Closing balance of Government guarantee in respect of PSUs at the end of a particular year.

<sup>#</sup> Odisha Power Transmission Corporation Limited received equity and grant in 2015-16 and equity and loans in both the years i.e. 2017-18 and 2018-19.

## Reconciliation with Finance Accounts of Government of Odisha

**2.6** The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with the figures appearing in the Finance Accounts of the Government of Odisha. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of the differences. As on 31 March 2019, there were differences in figures in respect of equity, loans and guarantees as stated below:

**Table 2.4: Loans outstanding as per Finance Accounts vis-à-vis records of power sector PSUs**  
(₹ in crore)

Sl. No	Name of PSU	As per records of the State PSUs			As per Finance Accounts of Government of Odisha			Difference		
		Paid-up Capital	Loans outstanding	Guarantee Committed	Paid-up Capital	Loans outstanding	Guarantee Committed	Paid-up Capital	Loans outstanding	Guarantee Committed
1	GRIDCO	576.71	0.00	4186.00	573.44	179.17	4068.87	3.27	-179.17	117.13
2	OHPCL	761.65	986.52		462.80	1278.36		298.85	-291.84	0.00
3	OPGCL	806.05	0.00		1130.46			-324.41	0.00	0.00
4	OPTCL	510.00	200.00			182.49		510.00	17.51	0.00
<b>Total</b>		<b>2654.41</b>	<b>1186.52</b>	<b>4186.00</b>	<b>2166.70</b>	<b>1640.02</b>	<b>4068.87</b>	<b>487.71</b>	<b>-453.50</b>	<b>117.13</b>

*(Source: Information furnished by PSUs and SFAR for the year ended March 2019)*

The differences between the figures are persisting since last many years. The issue of reconciliation of differences was also taken up with the PSUs/ Departments from time to time.

## Submission of accounts by Power Sector PSUs

**2.7** There were nine power sector PSUs under the audit purview of CAG as on 31 March 2019. Accounts for the year 2018-19 were submitted by four<sup>13</sup> of these working PSUs by 30 September 2019 as per statutory requirement. Five PSUs i.e. Kalinga Bidyut Prasaran Nigam Limited, Odisha Coal and Power Limited, Odisha Power Transmission Corporation Limited, GRIDCO Limited and Odisha Power Generation Corporation Limited submitted their accounts on 01 October 2019, 11 October 2019, 16 October 2019, 31 October 2019 and 25 November 2019 respectively. Details of arrears in submission of accounts of power sector PSUs as on 30 September 2019 of each financial year for the last five years ending 31 March 2019 are given below:

**Table 2.5: Position relating to submission of accounts of power sector PSUs**

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1.	Number of PSUs	8	8	8	8	9
2.	Number of accounts submitted during current year	7	8	5	12	5
3.	Number of PSUs which finalised accounts for the current year	5	6	3	7	4
4.	Number of previous year accounts finalised during current year	2	2	2	5	1
5.	Number of PSUs with arrears in accounts	2	2	5	1	5
6.	Number of accounts in arrears	2	2	5	1	5
7.	<b>Extent of arrears</b>	<b>1 year</b>	<b>1 year</b>	<b>1 year</b>	<b>1 year</b>	<b>1 year</b>

*(Source: Database of finalisation of accounts maintained in the AG Office)*

<sup>13</sup> Odisha Hydro Power Corporation Limited, Odisha Thermal Power Corporation Limited, Green Energy Development Corporation of Odisha Limited and GEDCOL SAIL Power Corporation Limited.

The power sector PSUs have been prompt in submission of their annual accounts and the extent of arrears was only one year in case of five companies.

### Performance of Power Sector PSUs

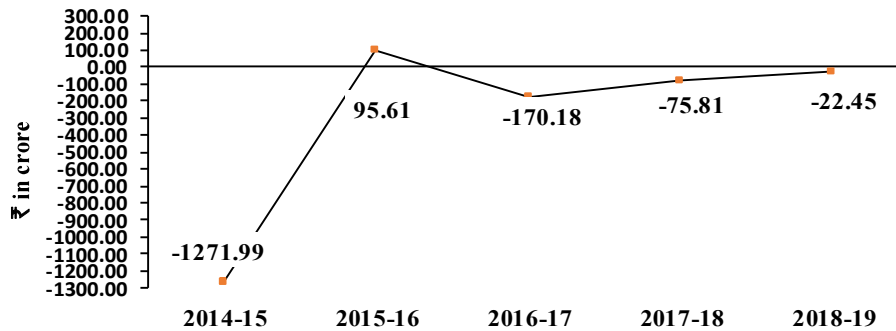
**2.8** The financial position and working results of nine power sector Companies as per their latest finalised accounts as on 30 September 2019 are detailed in *Annexure-1*.

The profitability of a company is traditionally assessed through return on investment, return on equity and return on capital employed.

#### *Rate of Real Return on Investment*

**2.9** Rate of Real Return on investment is the percentage of profit or loss to the Present Value (PV) of total investment. The overall position of Profit/losses<sup>14</sup> earned/incurred by all the power sector PSUs during 2014-15 to 2018-19 is depicted in following chart 2.2:

**Chart 2.2: Profit/Losses earned/incurred by power sector PSUs**



— Overall Profit/Losses earned/incurred during the year by Power Sector Undertakings.

Losses incurred by these nine power sector PSUs were ₹(-)22.45 crore in 2018-19 against loss of ₹(-)1271.99 crore incurred in 2014-15. As per latest finalised accounts for the year 2018-19, out of nine power sector PSUs, five PSUs earned profit of ₹178.34 crore, three PSUs incurred loss of ₹200.79 crore and three<sup>15</sup> PSUs, including one profit making and one loss making PSU, had not yet started operation/commercial production (*Annexure-1*).

<sup>14</sup> Figures are as per the latest finalised accounts during the respective years.

<sup>15</sup> Out of three, GEDCOL SAIL Power Corporation Limited (GSPCL) incurred loss due to administrative and preliminary expenses and Odisha Thermal Power Corporation Limited (OTPC) earned profit from interest on bank deposits.



The top profit making companies were Odisha Hydro Power Corporation Limited (₹144.39 crore), Odisha Power Transmission Corporation Limited (₹19.80 crore) and Odisha Power Generation Corporation Limited (₹4.79 crore) while GRIDCO Limited incurred substantial loss of ₹197.50 crore.

**(a) Rate of Real Return (RORR) on the basis of historical cost of investment**

**2.10** For the purposes of calculation of the RORR, the total figure of investment of Government of Odisha, Government of India and others in these power sector PSUs has been arrived at by considering the equity, adding interest free loans and deducting interest free loans which were later converted into equity/interest bearing loans for each year, grants, subsidies for operational and management expenses minus disinvestments.

Accordingly, the investment of GoO, GoI and others as on 31 March 2019 in these nine power sector PSUs was ₹16845.13 crore consisting of ₹4048.67 crore as equity and ₹11354.60 crore as long term loans (₹15403.27 crore) and ₹1,441.86 crore as grants, subsidies for operational & management expense. Out of the released long term loans, only ₹1,112.64 crore were interest free loans, of which ₹766.20 crore was later converted into interest bearing loans. Thus, considering the net interest free loans of ₹346.44 crore (₹1,112.64 crore - ₹766.20 crore) the investment of GoO, GoI and others in these nine PSUs on the basis of historical cost stood at ₹5836.97 crore (₹4048.67 crore + ₹346.44 crore + ₹1441.86 crore).

The Rate of Real Return on investment on historical cost basis for the period 2014-15 to 2018-19 is as given below:

**Table 2.6: Rate of Real Return on Investment on historical cost basis**

(₹ in crore)						
Financial year	Investment by GoO in form of Equity, interest free loans and Grants, Subsidies on historical cost basis	Investment by GoI in form of Grants, Subsidies on historical cost basis	Investment by others in form of Equity and Grants, Subsidies on historical cost basis	Total Investment in the form of equity, interest free loans and grants/subsidies on historical cost basis	Total Earnings/Losses <sup>16</sup> for the year	Rate of Real Return on Investment (in per cent)
2014-15	2904.98	0.00	572.19	3477.17	-1271.99	-36.58
2015-16	3454.63	2.98	572.67	4030.28	95.61	2.37
2016-17	3578.53	2.98	612.67	4194.18	-170.18	-4.06
2017-18	4268.57	2.98	1446.86	5718.41	-75.81	-1.33
2018-19	4367.50	21.54	1447.93	5836.97	-22.45	-0.38

(Source: Compiled based on information received from PSUs)

The Rate of Real Return on investment of the nine power sector PSUs in 2018-19 was negative. Heavy losses of GRIDCO Limited during the above period contributed to overall losses of the power sector.

**(b) On the basis of Present Value of Investment**

**2.11** Traditional calculation of return based only on historical cost, however, ignores the present value of money. Calculating the RORR on the basis of PV is a more adequate assessment of RORR. However, the eight Power Sector PSUs had a positive return on investment only during the year 2015-16. Therefore, for the year 2015-16 only, the return on investment could be calculated and depicted on the basis of PV.

The PV of the investment in power sector PSUs was computed on the basis of following assumptions:

- The equity infused minus disinvestment and funds made available in the form of the grants, subsidies for operational & management expenses and interest free loans have been reckoned as investment for calculating the Rate of Real Return on Investments. Further, in those cases where interest free loans given to the PSUs were later converted into interest bearing loans, the amount of loan converted into interest bearing loan has been deducted from the amount of interest free loans.
- The average rate of interest on government borrowings for the concerned financial year<sup>17</sup> was adopted as compounded rate for arriving at Present Value since they represent the cost incurred towards investment of funds for the year and therefore, considered as the minimum expected Rate of Real Return on investments.

**2.12** The company wise position of investment by the State Government in the nine power sector PSUs in the form of equity, interest free loans, grants and subsidies for operational & management purpose since inception of these companies till 31 March 2019 is indicated in *Annexure-2*.

Accordingly, the PV of investments of the Government and others up to 31 March 2019 worked out to ₹22,425.35 crore. For 2015-16, RoRR at historical cost and at present value is as given in Table 2.7:

**Table 2.7: Real Rate of Return on total investment on Present Value**  
(₹ in crore)

Financial year	Investment by GoO in form of Equity, interest free loans and Grants, Subsidies for operational and management expenses on historical cost basis	Investment by GoI in form of Grants, Subsidies for operational and management expenses on historical cost basis	Investment by others in form of Equity and Grants, Subsidies for operational and management expenses on historical cost basis	Total Investment in the form of equity, interest free loans and grants/subsidies for operational and management expenses on historical cost basis	PV of the total investment at end of the year	Total Earnings/ Losses <sup>18</sup> for the year	Rate of Real Return on total Investment on historical cost basis (in per cent)	Rate of Real Return on total investment considering PV of the investments (in per cent)
2015-16	3,454.63	2.98	572.67	4,030.28	16,281.08	95.61	2.37	0.59

(Source: Compiled based on information received from PSUs)

<sup>17</sup> The average rate of interest on government borrowings was adopted from the Reports of the C&AG of India on State Finances (Government of Odisha) for the concerned year wherein the average rate for interest paid = Interest Payment/ [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities)/2]\*100.

<sup>18</sup> As per annual accounts of the respective years.

It is evident from the table that the rate of real return on total investment computed on the present value is very low (0.60 per cent 2015-16) even in the year when the eight power sector PSUs had positive earnings.

For the period 2014-15, 2016-17 and 2017-18, when the eight companies taken together incurred losses and in 2018-19 when the nine companies taken together incurred losses, the most appropriate measure of performance is the erosion of net worth due to the losses. The erosion of net worth of the companies has been commented upon in Para 2.13.

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

**2.13** Net worth is the company's sum total of the paid-up capital and free reserves and surplus minus accumulated losses and deferred revenue expenditure. Essentially, it is a measure of what an entity is worth to the owners. A negative net worth indicates that the entire investment by the owners has been wiped out by accumulated losses and deferred revenue expenditure.

The table below indicates paid up capital, accumulated profit/loss and net worth of all power sector PSUs which included the holding and subsidiary companies during the period 2014-15 to 2018-19:

**Table 2.8: Net worth of power sector PSUs**

						(₹ in crore)
Year	No. of power sector PSUs	Paid up Capital	Free Reserves	Surplus	Accumulated Losses	Net worth
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7=3+4+5-6</i>
2014-15	8	1988.11	316.86	1431.78	3359.23	377.52
2015-16	8	2337.44	328.16	1411.99	3468.03	609.56
2016-17	8	2434.44	341.68	1417.08	3830.72	362.48
2017-18	8	3948.67	355.96	1927.93	4469.84	1762.72
2018-19	9	4048.67	377.42	2064.99	4443.12	2047.96

*(Source: Compiled based on information received from PSUs)*

Of the nine Power Sector PSUs, net worth of GRIDCO Limited had fully eroded (₹ -3,853.75 crore).

The State Government continued to provide financial support to the four<sup>19</sup> holding power sector PSUs by infusing substantial equity during the period 2014-19. However, despite infusion of substantial capital, the accumulated losses of these power companies increased from ₹1920.21 crore in 2014-15 to ₹2382.51 crore in 2018-19.

### ***Dividend Payout***

**2.14** The State Government had formulated (December 2011) dividend policy under which all profit making PSUs are required to pay annual dividend of 20 per cent of the State government equity or 20 per cent of the profit after tax, whichever is higher. The minimum dividend payout in respect of PSUs in

<sup>19</sup> Odisha Hydro Power Corporation Limited, Odisha Power Generation Corporation Limited, Odisha Power Transmission Corporation Limited and GRIDCO Limited.

power generation sector should be 30 *per cent* of profit after tax. Subsequently, GoO issued revised (February 2016) guidelines for payment of dividend at the rate of 30 *per cent* for all PSUs. Dividend Payout relating to four power sector PSUs where equity was infused by GoO during the period is shown in Table 2.9:

**Table 2.9: Dividend Payout of four power sector PSUs during 2014-15 to 2018-19**

(₹ in crore)

Year	Total PSUs where equity infused by GoO		PSUs which earned profit during the year		PSUs which declared/paid dividend during the year		Dividend Payout Ratio (%)
	Number of PSUs	Equity infused by GoO	Number of PSUs	Equity infused by GoO	Number of PSUs	Dividend declared/paid by PSUs	
1	2	3	4	5	6	7	8=7/5*100
2014-15	4	1469.59	3	892.88	2	18.89	2.12
2015-16	4	1818.44	3	1241.73	2	23.43	1.89
2016-17	4	1875.44	3	1298.73	2	41.19	3.17
2017-18	4	2555.48	3	1978.77	2	35.92	1.82
2018-19	4	2654.41	3	2077.70	1	18.65	0.90

(Source: Compiled based on information received from PSUs)

During the period 2014-15 to 2018-19, only three PSUs earned profit. During 2018-19, only one PSU (Odisha Hydro Power Corporation Limited) declared/paid dividend to GoO.

The Dividend Payout Ratio during 2014-15 to 2018-19 was very nominal which ranged between 0.90 *per cent* and 3.17 *per cent*. Further, the Dividend Payout Ratio reduced from 2.12 *per cent* in 2014-15 to 0.90 *per cent* in 2018-19 as the base figure of equity by GoO increased.

### **Return on Equity**

**2.15** Return on Equity (RoE) is a measure of financial performance to assess how effectively management is using company's assets to create profits. It is calculated and expressed as a percentage by dividing net income (i.e. net profit after taxes) by shareholders' funds.

Shareholders' funds 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' funds reveals that the company has enough assets to cover its liabilities while negative shareholders' equity means that liabilities exceed assets.

Return on Equity has been computed in respect of all power sector PSUs which included the holding and subsidiary companies and is detailed in the table below:

**Table 2.10: RoE relating to power sector PSUs**

					(₹ in crore)
	Year	No. of power sector PSUs	Net Profit/Loss	Shareholders' funds	RoE in per cent
	1	2	3	4	5=3*100/4
Profit Earning	2014-15	4	193.56	2784.71	6.95
	2015-16	3	233.29	3103.97	7.52
	2016-17	5	237.28	3518.52	6.74
	2017-18	5	124.75	5322.62	2.34
	2018-19	5	178.34	5607.09	3.18
Loss Incurring	2014-15	2	-1465.55	-2407.20	-
	2015-16	4	-137.68	-2494.42	-
	2016-17	2	-407.46	-3156.05	-
	2017-18	2	-200.56	-3559.91	-
	2018-19	3	-200.79	-3559.14	-
Total	2014-15	6	-1271.99	377.51	-336.94
	2015-16	7	95.61	609.55	15.69
	2016-17	7	-170.18	362.47	-46.95
	2017-18 <sup>&amp;</sup>	7	-75.81	1762.71	-4.30
	2018-19 <sup>#</sup>	8	-22.45	2047.95	-1.10

(Source: Compiled based on information received from PSUs)

& KBPNPL and OTPCL had not yet started commercial operation. OTPCL, however, earned profit during the year 2017-18.

# KBPNPL, OTPCL and GSPCL had not yet started commercial operation. OTPCL, however, earned profit during the year 2018-19 and GSPCL incurred loss during the year 2018-19. KBPNPL has neither earned profit nor incurred loss during 2018-19.

The RoE of loss making PSUs were not worked out since both the net profit and shareholders' funds were negative. The RoE in power sector PSUs has shown extremely divergent trends. It was positive in 2015-16 at 15.69 per cent. However, it was negative in 2014-15, 2016-17, 2017-18 and 2018-19 ranging from (-) 1.10 per cent to (-) 336.94 per cent. The main reason for this negative RoE was the huge losses by GRIDCO in these years.

### Return on Capital Employed

**2.16** 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<sup>20</sup>. The details of RoCE of all the nine power sector undertakings during the period from 2014-15 to 2018-19 are given in table below:

**Table 2.11: Return on Capital Employed**

					(₹ in crore)
	Year	No. of power sector PSUs	EBIT	Capital Employed	RoCE (in per cent)
	1	2	3	4	5=3*100/4
Profit Earning	2014-15	4	426.47	5647.11	7.55
	2015-16	3	582.75	6742.64	8.64

<sup>20</sup> Capital employed = Paid up share capital + free reserves and surplus + long term loans - accumulated losses - deferred revenue expenditure. Figures are as per the latest year for which accounts of the PSUs are finalised.

	Year	No. of power sector PSUs	EBIT	Capital Employed	RoCE (in per cent)
	2016-17	5	649.78	7297.45	8.90
	2017-18	5	306.74	12458.00	2.46
	2018-19	5	413.19	12708.32	3.25
Loss Incurring	2014-15	2	-210.32	-151.73	-
	2015-16	4	390.56	493.03	79.22
	2016-17	2	114.63	460.70	24.88
	2017-18	2	302.82	693.46	43.67
Total	2018-19	3	302.59	694.23	43.59
	2014-15	6	216.15	5495.38	3.93
	2015-16	7	973.31	7235.67	13.45
	2016-17	7	764.41	7758.15	9.85
	2017-18 <sup>&amp;</sup>	7	609.56	13151.46	4.63
	2018-19 <sup>#</sup>	8	715.78	13402.55	5.34

(Source: Complied based on information received from PSUs)

& KBPNPL and OTPCL had not yet started commercial operation. OTPCL, however, earned profit during the year 2017-18.

# KBPNPL, OTPCL and GSPCL had not yet started commercial operation. OTPCL, however, earned profit during the year 2018-19 and GSPCL incurred loss during the year 2018-19. KBPNPL has neither earned profit nor incurred loss during 2018-19.

During 2018-19 out of eight power sector PSUs, three were loss making. The RoCE in respect of loss making PSUs, however, was 43.59 per cent as the Capital Employed and Earnings before Interest and Tax (EBIT) of these three PSUs were positive. RoCE of all the power sector PSUs increased to 5.34 per cent in 2018-19 from 4.63 per cent in 2017-18 due to increase in EBIT.

### ***Analysis of long-term loans of the Companies***

2.17 The analysis of the long term loans of the companies which had leverage<sup>21</sup> during 2014-15 to 2018-19 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***

2.18 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 lesser is the ability of the company to pay interest on debt. An interest coverage ratio of below "1" indicates that the company was not generating sufficient revenues to meet its expenses on interest. The details of interest coverage ratio in those power sector companies which had interest burden during the period from 2014-15 to 2018-19 are given in table below:

<sup>21</sup> Leverage means the amount of debt a firm uses to finance assets.

Table 2.12: Interest coverage ratio

Year	Interest (₹ in crore)	Earnings before interest and tax (EBIT) (₹ in crore)	Number of PSUs having liability of loans from Government and banks and other financial institutions	Number of companies having interest coverage ratio more than 1	Number of companies having interest coverage ratio less than 1	Number of companies for which interest coverage ratio was not calculated <sup>22</sup>
2014-15	567.78	216.15	4	2	1	1
2015-16	718.09	973.31	5	4	1	-
2016-17	810.23	764.41	5	4	1	-
2017-18	646.91	609.56	5	3	1	1 <sup>23</sup>
2018-19	644.14	715.78	5	4	1	-

(Source: Compiled based on information received from PSUs)

It was observed that the number of power sector companies with interest coverage ratio of more than one ranged between two and four during 2014-15 to 2018-19.

### Debt-Turnover Ratio

2.19 During the last five years, the turnover of the nine power sector undertakings recorded compounded annual growth of 3.05 *per cent* and compounded annual growth of debt was 15.36 *per cent* due to which the Debt-Turnover Ratio deteriorated from 0.64 in 2014-15 to 1.18 in 2018-19 as given in table below:

Table 2.13: Debt Turnover ratio relating to the power sector PSUs

Particulars	(₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Debt from Government/ Banks and Financial Institutions	5117.87	6626.12	7395.68	11388.75	11354.60
Turnover	8003.66	8325.75	8530.83	9601.63	9641.40
Debt-Turnover Ratio	0.64:1	0.80:1	0.87:1	1.19:1	1.18:1

(Source: Compiled based on information received from PSUs)

### Comments on Accounts of Power Sector PSUs

2.20 Out of nine power sector companies, five companies forwarded five audited accounts for the years 2017-18 and 2018-19 to the Principal Accountant General during 1 October 2018 to 30 September 2019. All five accounts were selected for supplementary audit. The Audit Reports of statutory auditors and supplementary audit conducted by the CAG indicated that the quality of accounts needed some improvement. The details of aggregate money value of the comments of statutory auditors and the CAG for the accounts of 2016-19 are as follows:

<sup>22</sup> Interest coverage ratio could not be calculated as the interest expenses for the year has been capitalised by the company.

<sup>23</sup> Odisha Coal and Power Limited.

**Table 2.14: Impact of audit comments on power sector PSUs**  
(Amount ₹ in crore)

Sl. No.	Particulars	2016-17		2017-18		2018-19	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	1	0.48	4	417.12	2	43.54
2.	Increase in profit	1	15.85	2	39.03	1	17.43
3.	Increase in loss	1	221.47	Nil	Nil	Nil	Nil
4.	Decrease in loss	0	0	0	0	Nil	Nil
5.	Non-disclosure of material facts	Nil	Nil	1	6.00	1	2.42
6.	Errors of classification	Nil	Nil	Nil	Nil	Nil	Nil

(Source: Compiled from comments of the statutory auditors/ C&AG in respect of Government Companies.)

During the year 2018-19, the statutory auditors had issued certifications with qualifications for all the five accounts. Compliance to the Accounting Standards by the PSUs remained poor as the statutory auditors pointed out five instances of non-compliance to the Ind-Accounting Standards in one account of one PSU.

### Compliance Audit Paragraphs

**2.21** For Part-I of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2019, two compliance audit paragraphs were issued to the Secretary of Department of Energy with request to furnish replies within six weeks. Replies in respect of both the audit paragraphs were received from the State Government which were suitably incorporated in this report. The total financial impact of the compliance audit paragraphs is ₹222.10 crore.

### Follow up action on Audit Reports

**2.22** The Report of the Comptroller and Auditor General of India is the product of audit scrutiny. It is, therefore, necessary that the executive furnishes appropriate and timely response. The Finance Department, Government of Odisha issued (December 1993) instructions to all Administrative Departments to submit replies/explanatory notes to paragraphs/performance audits included in the Reports of the CAG of India within a period of three months after their presentation to the Legislature, in the prescribed format, without waiting for any questionnaires from the Committee on Public Undertakings (CoPU). Explanatory notes to 12 Paragraphs/Performance Audits in respect of Department of Energy were awaited (September 2019). The details are given in following table:



**Table No.2.15: Explanatory notes pending in respect of power sector PSUs (as on 30 September 2019)**

Year of the Audit Report (PSUs)	Date of placement of Audit Report in the State Legislature	Total power sector Performance Audits (PAs) and Paragraphs in the Audit Report		Number of power sector PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2013-14	24 August 2015	0	3	0	3
2014-15	26 September 2016	1	1	1	1
2015-16	16 September 2017	0	3	0	3
2016-17	26 March 2018	0	4	0	4
<b>Total</b>	--	<b>1</b>	<b>11</b>	<b>1</b>	<b>11</b>

(Source: Database maintained in the AG Office)

### **Discussion of Audit Reports by CoPU**

**2.23** The status of power sector Performance Audits and Paragraphs that appeared in Audit Reports (PSUs) and those discussed by the CoPU as on 30 September 2019 was as under:

**Table No.2.16: Power sector Performance Audits/ Paragraphs appeared in Audit Reports vis-à-vis discussed as on 30 September 2019**

Period of Audit Report	Number of power sector Performance Audits/ Paragraphs			
	Appeared in Audit Reports		Discussed	
	PAs	Paragraphs	PAs	Paragraphs
2008-09	1	5.5	0	5.5
2009-10	1	5	0	5
2010-11	0	1	0	1
2011-12	1	6	1	6
2012-13	1	3	1	3
2013-14	0	3	0	0
2014-15	1	1	0	0
2015-16	0	3	0	0
2016-17	0	4	0	0
<b>Total</b>	<b>5</b>	<b>31.5</b>	<b>2</b>	<b>20.5</b>

(Source: Database maintained in the AG Office)

Committee on Public Undertakings was apprised of the pendency in the discussion of Audit Report Paragraphs in their first meeting (June 2018). During 2018-19, CoPU had not discussed any paragraphs appearing in the Audit Report relating to Power Sector PSUs.

### **Compliance to Reports of Committee on Public Undertakings (CoPU)**

**2.24** There were no Action Taken Notes (ATNs) pending from Department of Energy.