

**Chapter-V**  
**Financial Performance of**  
**Public Sector Undertakings**



## CHAPTER-V

### Financial Performance of Public Sector Undertakings

This chapter discusses the financial performance of Public Sector Undertakings (PSUs) as revealed from their accounts. PSUs comprise of Government of Jammu and Kashmir (GoJ&K) owned companies set up under the Companies Act, 2013, Statutory Corporations set up under the statutes enacted by the Parliament and Government Controlled Other Companies (GCOCs). Impact of significant comments issued after conducting supplementary audit of the financial statements of these PSUs by the Comptroller and Auditor General (CAG) of India for the year 2020-21 (or of earlier years which were finalised during the current year) has also been discussed in the Chapter.

#### 5.1 Definition of Government Company

A Government Company is defined in Section 2(45) of the Companies Act, 2013 as a Company in which not less than 51 *per cent* of the paid-up share capital is held by Central Government, or by any State Government or Governments, or partly by the State Government and partly by one or more State Governments and includes a Company which is a subsidiary of a Government Company.

Besides, any other Company<sup>1</sup> owned or controlled directly or indirectly, by the Central Government, or by any State or Governments, or partly by the Central Government and partly by one or more State Governments are referred to in this Report as Government Controlled Other Companies.

#### 5.2 Mandate of Audit

Audit of Government companies and Government controlled other companies is conducted by the CAG under the provisions of Section 143(5) to 143(7) of the Companies Act, 2013 read with Section 19 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 and the Regulations made there under. Under the Companies Act, 2013, the CAG appoints Chartered Accountants as Statutory Auditors for Companies and gives directions on the manner in which the accounts are to be audited. In addition, CAG has right to conduct a supplementary audit. The statutes governing Statutory Corporations require their accounts to be audited by CAG.

#### 5.3 PSUs and their contribution to the GSDP of J&K

PSUs are established to carry out activities of commercial nature keeping in view the welfare of people and occupy an important place in the economy of J&K. As on 31 March 2021, there were 42 PSUs in Jammu and Kashmir under the audit jurisdiction of the CAG. These include 39 Government Companies (including six<sup>2</sup> inactive

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<sup>1</sup> Companies (Removal of Difficulties) Seventh Order, 2014 issued by Ministry of Corporate Affairs vide Gazette Notification dated 4 September 2014.

<sup>2</sup> (1) Tawi Scooters Limited (2) Himalayan Wool Combers Limited and (3) Jammu & Kashmir Handloom Handicrafts Raw Material Supplies Organisation Limited (A Subsidiary of Himalayan Wool Combers Limited) (4) Jammu & Kashmir Road Development Corporation Limited and (5) Jammu & Kashmir International Trade Centre and (6) Jammu & Kashmir Asset Reconstruction Limited

Government Companies), two Statutory Corporations and one Government Controlled Other Company<sup>3</sup>. The names of these PSUs are given in **Appendix 5.1**.

One PSU (Jammu and Kashmir Bank Limited) is listed on the stock exchange. There are six inactive PSUs (including four under liquidation) having investment of ₹57.57 crore towards capital (GoJ&K: ₹56.59 crore and Others: ₹0.98 crore) and long term loans ₹0.83 crore (GoJ&K: ₹0.83 crore and Others: Nil). This is a critical area as the investments in inactive PSUs do not contribute to the economic growth of the J&K. The Government may therefore consider continuation these inactive PSUs early.

The ratio of turnover of the PSUs to the Gross State Domestic Product (GSDP) of J&K indicates the contribution of their activities in the economy of J&K. The details of turnover of PSUs are given in **Appendix 5.2**.

**Table 5.1** provides the details of turnover of the PSUs and GSDP of J&K for a period of three years ending March 2021.

**Table 5.1: Details of turnover of PSUs vis-à-vis GSDP of J&K**

Particulars	(₹ in crore)		
	2018-19	2019-20	2020-21
Turnover as per latest finalised accounts	9,784.90	11,298.17	10,590.68
GSDP of J&K	1,54,441.00	1,69,181.79	1,76,282.00
Percentage of Turnover to GSDP of J&K	6.34	6.68	6.01

Source: Compilation based on GSDP figures as per information provided by the GoJ&K, Finance Department, at current prices of respective years and latest finalised accounts of PSUs for year to year comparison.

The contribution of PSUs to the GSDP reduced from 6.34 per cent in 2018-19 to 6.01 per cent in 2020-21. The major contributors to turnover of PSUs in 2020-21 were Jammu & Kashmir Bank Limited (₹8,111.09 crore), Jammu & Kashmir Power Development Corporation Limited (₹1,037.85 crore) and Jammu & Kashmir Small Scale Industries Development Corporation Limited (₹438.50 crore).

## 5.4 Investment in PSUs and Budgetary support

### 5.4.1 Equity holding and Loans given

Details of Investment made in 42 PSUs in form of equity and long term loans upto 31 March 2021 are given in **Appendix 5.3**. Sector wise summary of this investment is given in **Table 5.2**.

**Table 5.2: Government of J&K investment in PSUs**

Name of Sector	Number of PSUs	Investment				Total Investment	Total Investment of GoJ&K
		Equity		Long term loans			
		Total	GoJ&K	Total	GoJ&K		
Power Sector PSUs	6	5,073.32	2,593.54	7,269.04	0.00	12,342.36	2,593.54
Non power Sector PSUs	36	969.10	847.80	5,021.44	1,437.72	5,990.54	2,285.52
<b>Total</b>	<b>42</b>	<b>6,042.42</b>	<b>3,441.34</b>	<b>12,290.48</b>	<b>1,437.72</b>	<b>18,332.90</b>	<b>4,879.06</b>

(Source: Compiled based on information received from PSUs)

The thrust of investment was mainly on power sector. This sector had attracted 67.32 per cent (₹12,342.36 crore) of total investment of ₹18,332.90 crore. The GoJ&K had invested 53.16 per cent (₹2,593.54 crore) of its total investment of ₹4,879.06 crore in power sector PSUs.

<sup>3</sup> Chenab Valley Power Projects (Private) Limited (CVPPPL), a joint venture of JKPCDC, National Hydroelectric Power Corporation (NHPC) and Power Trading Corporation (PTC) wherein Government of Jammu & Kashmir has not made any direct investment

### 5.4.2 Subsidy and Grant to PSUs

The GoJ&K provides financial support to the PSUs in various forms through the annual budget as equity, loans, grants/subsidies, loans written off and loans converted into equity.

Summarized details of budgetary outgo towards equity, loans, grants/ subsidies, loans written off and loans converted into equity in respect of PSUs for the last three years ending March 2021 are given in **Table 5.3**.

**Table 5.3: Details regarding budgetary support by GoJ&K to PSUs during the period 2018-19 to 2020-21**

(₹ in crore)

Sl. No.	Particulars	2018-19		2019-20		2020-21	
		Number of PSUs*	Amount	Number of PSUs*	Amount	Number of PSUs*	Amount
1.	Equity Capital outgo	9	120.74	3	2,616.82	7	83.47
2.	Loans given	9	56.18	8	48.07	7	51.85
3.	Grants/Subsidy provided	8	48.91	12	100.50	11	3,016.38
	<b>Total outgo</b>		<b>225.83</b>		<b>2,765.39</b>		<b>3,151.70</b>
4.	Loan repayment written off	-	-	-	-	-	-
5.	Loans converted into equity	-	-	-	-	2	152.42
6.	Guarantees issued	1	20.00	-	-	-	-
7.	Outstanding Guarantee Commitment	3	1,822.09	3	1,580.90	5	7,698.97

(Source: Compiled based on information received from PSUs)

\* Number of PSUs represents those PSUs which have received outgo from budget under one or more heads i.e. equity, loans and grants/ subsidies.

The increase in assistance during 2020-21 was mainly due to grant/subsidy given to four power sector PSUs viz. Jammu & Kashmir Power Corporation Limited, Jammu & Kashmir Power Transmission Corporation Limited, Jammu Power Distribution Corporation Limited and Kashmir Power Distribution Corporation Limited. The increase in guarantee commitments in the year 2020-21 were in case of Jammu and Kashmir Power Development Corporation Limited (₹1,539.71 crore), Jammu and Kashmir Power Corporation Limited (₹6,012.24 crore), Jammu and Kashmir SC, ST and Backward Classes Development Corporation Limited (₹64.05 crore), Jammu and Kashmir Women's Development Corporation Limited (₹73.87 crore) and Jammu and Kashmir State Financial Corporation Limited (₹9.10 crore).

### 5.4.3 Reconciliation with the Finance Accounts of the Government of Jammu and Kashmir

The figures in respect of equity, loans and guarantees outstanding as per records of PSUs should agree with that of the figures appearing in the Finance Accounts of the GoJ&K. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of the differences. The mismatch between the figures furnished by the PSUs with those depicted in the Finance Account, as on 31 March 2021 is given in **Table 5.4** below:

**Table 5.4: Equity and Loans outstanding as per Finance Accounts vis-à-vis records of PSUs upto March 2021**

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records <sup>4</sup> of PSU	Difference
Share capital	2,969.92	2,970.80	0.88
Outstanding Loans	538.81	907.80	368.79
Guarantees	27.63	7,625.82	7,598.19

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

The differences occurred in respect of eight PSUs as detailed in **Appendix 5.4**. The differences between the figures are persisting for last many years. The issue of reconciliation of differences was also taken up with the PSUs and the Departments from time to time. Major difference in balances was observed in Jammu & Kashmir State Road Transport Corporation relating to both outstanding loans and equity.

The information of outstanding guarantees was awaited from Jammu and Kashmir Power Development Corporation Limited and Jammu and Kashmir Power Corporation Limited which have contributed to the differences discussed in the table above.

It is recommended that the GoJ&K and the respective PSUs should reconcile the differences in accounts in a time-bound manner.

#### 5.4.4 Adequacy of assets to meet loan liabilities in PSUs

Ratio of total debt to total assets is one of the methods used to determine whether a company can stay solvent. To be considered solvent, the value of an entity's assets must be greater than the sum of its loans/debts. The coverage of long term loans by value of total assets in 18 PSUs which had outstanding loans as per their latest finalized accounts as of 30 November 2021 is given in **Table 5.5** below:

**Table 5.5: Coverage of long term loans with total assets**

Nature of PSU	Positive Coverage				Negative Coverage			
	No. of PSUs	Long Term Loans	Assets	Percentage of Assets to Loans	No. of PSUs	Long Term Loans	Assets	Percentage of Assets to Loans
	(₹ in crore)				(₹ in crore)			
Statutory Corporation	2	715.45	1,651.77	230.87	0	0	0	0
Government Company	11	4,573.18	1,34,325.47	2,937.47	5	1,279.20	347.83	27.19
<b>Total</b>	<b>13</b>	<b>5,288.63</b>	<b>1,35,977.24</b>	<b>3,168.12</b>	<b>5</b>	<b>1,279.20</b>	<b>347.83</b>	<b>27.19</b>

(Source: Latest finalized accounts of PSUs).

#### 5.4.5 Market Capitalisation of equity investment in Government Companies

Market Capitalisation represents market value of shares of companies which are listed. As on 31 March 2021, there was only one PSU viz. Jammu & Kashmir Bank Limited, having a total paid-up equity of ₹71.36 crore, listed on the stock exchange. The majority (68.18 per cent) of paid-up equity of ₹71.36 crore of the Bank is held by the Government of Jammu & Kashmir and the remaining (31.82 per cent)<sup>5</sup> by Foreign

<sup>4</sup> Unaudited current figures up to March 2021.

<sup>5</sup> Indian Mutual Funds, Insurance Companies, Non-Resident Indian and Corporate Bodies

Institutional Investors, Resident Individuals and others. The market value of shares of Jammu & Kashmir Bank Limited was ₹1901.35 crore as on 31 March 2021 as compared to ₹881.83 crore as on 31 March 2020.

#### 5.4.6 Disinvestment, restructuring and privatisation

During the year 2020-21, there was no case of disinvestment, restructuring and privatisation of PSUs.

#### 5.5 Returns from PSUs

There were 12 PSUs that reported profit in their financial statements finalised during 2020-21 as detailed in *Appendix-5.5*. The reported profit earned increased to ₹520.12 crore in 2020-21 from ₹346.36 crore in 2019-20.

The details of top three PSUs which contributed maximum profit are summarised in **Table 5.6**.

**Table 5.6: Top three SPSEs which contributed maximum profit**

Name of SPSE	Net profit (₹ in crore)	Percentage of profit to total SPSEs profit
Jammu and Kashmir Bank Limited	428.45	82.37
Jammu and Kashmir Horticulture Produce Marketing and Processing Corporation Limited	31.47	6.05
Jammu and Kashmir Power Development Corporation Limited	20.42	3.93
<b>Total</b>	<b>480.34</b>	<b>92.35</b>

(Source: Latest finalized accounts of PSUs).

It may be seen that these three SPSEs had contributed 92.35 per cent of the total profit of ₹520.12 crore earned by 12 SPSEs during 2020-21.

It is recommended that GoJ&K may review the functioning of its loss making PSUs and consider measures to improve them since they are causing substantial drain on the public exchequer.

#### 5.5.1 Dividend payout by PSUs

As per the latest finalized accounts as of 30 November 2021, 12 PSUs earned an aggregate profit of ₹520.12 crore. No PSU had declared/ paid dividend<sup>6</sup>.

#### 5.6 Debt Servicing and legal compliances

##### 5.6.1 Position of Long Term Loan of PSUs

The details of long term loan of PSUs during the period 2018-19 to 2020-21 are as follow:

**Table 5.7: Details of Long Term Loan**

Year	Long term Loans at the end of the year		
	GoJ&K	Others	Total
2018-19	2,142.76	4,630.89	<b>6,773.65</b>
2019-20	1,567.01	4,358.66	<b>5,925.67</b>
2020-21	1,437.72	10,852.46	<b>12,290.48</b>

(₹ in crore)

<sup>6</sup> Only those PSUs were considered that had submitted accounts for 2020-21

Long Term Loans of the PSUs decreased to ₹5,925.67 crore as on 31 March 2020 from ₹6,773.65 crore as at the end of March 2019. They increased to ₹12,290.48 crore at the end of March 2021 mainly due to the long term loans of ₹1,256.80 crore and ₹6,012.24 crore<sup>7</sup> availed by JKPDC and Jammu & Kashmir Power Corporation Limited respectively from banks and other financial institutions. GoJ&K share in total long term loan of the PSUs decreased from ₹2,142.76 crore by end of March 2019 to ₹1,437.72 crore by end of March 2021.

### 5.6.2 Interest Coverage in PSUs

Interest Coverage Ratio (ICR) 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 the ability of the Company to pay interest on debt. An ICR of below one indicates that the Company was not generating sufficient revenues to meet its expenses on interest.

The details of interest coverage ratio of PSUs as per the latest finalised accounts during the period from 2016-17 to 2020-21 are given below in **Table 5.8**.

**Table 5.8: Interest Coverage Ratio of PSUs**

(₹ in crore)

Year	Interest	EBIT	Number of PSUs having liability of loans from Government and Banks and other financial institutions	Number of PSUs having interest coverage ratio	
				More than 1	Less than 1
2016-17	433.61	-795.05	17	4	13
2017-18	413.61	872.62	17	6	11
2018-19	529.65	1,360.47	15	6	9
2019-20	493.47	-452.04	15	7	8
2020-21	529.36	1,031.19	14	7	7

Of these 14 PSUs<sup>8</sup> having liability of loans from Government as well as Banks and other Financial Institutions during 2020-21, seven PSUs had interest coverage ratio of more than one, whereas remaining seven PSUs had Interest Coverage Ratio below one, which indicated that these seven PSUs could not generate sufficient revenues to meet their expenses on interest during the period.

<sup>7</sup> Including a Special Long Term Transition Loan amounting to ₹11,024.47 crore (Power Finance Corporation Limited: ₹8,234.47 crore and from REC Limited: ₹2,790 crore) sanctioned in favour of Jammu & Kashmir Power Corporation Limited for clearing overdues on account of power purchased, out of which loan amount of ₹6,012.24 crore has been availed.

<sup>8</sup> Excluding six inactive PSUs (1) Tawi Scooters Limited (2) Himalayan Wool Combers Limited and (3) Jammu & Kashmir Handloom Handicrafts Raw Material Supplies Organisation Limited (A Subsidiary of Himalayan Wool Combers Limited) (4) Jammu & Kashmir Road Development Corporation Limited and (5) Jammu & Kashmir International Trade Centre, (6) Jammu & Kashmir Asset Reconstruction Limited, six working PSU (1) Jammu & Kashmir Medical Supplies Corporation Limited, (2) AIC-Jammu & Kashmir EDI Foundation, (3) Jammu Smart City Limited, (4) Jammu Mass Rapid Transit Corporation Pvt. Limited, (5) Srinagar Mass Rapid Transit Corporation Pvt. Limited, (6) Jammu Power Distribution Corporation Limited which never submitted their accounts since inception, 12 PSUs (1) JKB Financial Services Limited (2) Jammu & Kashmir Police Housing Corporation Limited (3) Jammu & Kashmir Cable Car Corporation Limited (4) Jammu & Kashmir Overseas Employment Corporation Limited (5) Jammu & Kashmir Trade Promotion Organisation (6) Jammu & Kashmir Infrastructure Development Finance Corporation P Limited, (7) Srinagar Smart City Limited (8) Jammu & Kashmir Power Transmission Corporation Limited, (9) Jammu & Kashmir Power Corporation Limited, (10) Jammu Power Distribution Corporation Limited, (11) Kashmir Power Distribution Corporation Limited and (12) Jammu & Kashmir IT Infrastructure Development Pvt. Limited which have not availed any loan, and four PSUs (1) Jammu & Kashmir Agro Industries Development Corporation Limited, (2) Jammu & Kashmir Forest Development Corporation Limited (3) Jammu & Kashmir Projects Construction Corporation Limited and (4) Jammu & Kashmir Handloom Development Corporation Limited which have not provided for the interest in their books of account.



### 5.6.3 Age wise analysis of interest outstanding on Government Loans

As on 31 March 2021, interest amounting to ₹2,763.97 crore was outstanding on the long term loans of eight PSUs provided by GoJ&K. The age wise analysis of interest outstanding on Government Loans in PSUs is depicted in **Table 5.9**.

**Table 5.9: Interest outstanding on Government Loans**

(₹ in crore)					
Sl. No	Name of PSU	Outstanding Interest on GoJ&K Loan	Interest on GoJ&K loans outstanding for less than 1 year	Interest on GoJ&K loans outstanding for 1 to 3 years	Interest on GoJ&K loans outstanding for more than 3 years
1.	Jammu and Kashmir Industries Limited	714.69	0.00	118.17	596.52
2.	Jammu and Kashmir Cements Limited	4.57	0.13	0.26	4.18
3.	Jammu and Kashmir Minerals Limited	931.67	19.27	57.73	854.67
4.	Jammu and Kashmir Tourism Development Corporation Limited	0.20	0.00	0.00	0.20
5.	Jammu and Kashmir State Road Transport Corporation	978.78	0.00	184.78	794.00
6.	Jammu and Kashmir Forest Development Corporation Limited	44.08	0.00	0.00	44.08
7.	Jammu and Kashmir Horticulture Produce Marketing and Processing Corporation Limited	1.81	0.19	1.62	0.00
8.	Jammu and Kashmir Handloom Development corporation Limited	88.17	0.00	0.00	88.17
<b>Total</b>		<b>2,763.97</b>	<b>19.59</b>	<b>362.56</b>	<b>2,381.82</b>

(Source: Compiled based on information received from PSUs)

## 5.7 Operating efficiencies of PSUs

### 5.7.1 Value of production

The details of value of production, total assets and capital employed<sup>9</sup> during 2018-19 to 2020-21 are given in **Table 5.10**.

**Table 5.10: Value of production, total assets and capital employed during 2018-19 to 2020-21**

(₹ in crore)			
Year	Value of production	Total assets	Capital employed
2018-19	9,784.90	1,13,642.20	7,653.33
2019-20	11,298.17	1,26,488.40	5,960.28
2020-21	10,590.64	1,36,643.45	5,865.24

(Source: Latest finalized accounts of the Companies)

Value of production and total assets increased from ₹9,784.90 crore and ₹1,13,642.20 crore, respectively in 2018-19 to ₹11,298.17 crore and ₹1,26,488.40 crore, respectively in 2019-20. However, value of production decreased to ₹10,590.64 crore and total assets increased to ₹1,36,643.45 crore in 2020-21. The Capital employed decreased from ₹7,653.33 crore in 2018-19 to ₹5,865.24 crore in 2020-21.

### 5.7.2 Return on Investment in Listed PSUs

ROI is a performance metric to evaluate the efficiency of investment over time in comparison to alternate investment opportunities or a benchmark investment opportunity. Only one PSU of GoJ&K, Jammu & Kashmir Bank Limited is listed on the stock exchange. Calculation of ROI along with compound annual growth rate is given in **Appendix 5.6**. The detail of ROI during last five years ending March 2021 is given in **Table 5.11**.

<sup>9</sup> Capital Employed= Paid-up Capital + Free Reserves and Surplus + Long Term Loans - Accumulated Losses - Deferred Revenue Expenditure.

**Table: 5.11 Return on Investment of Listed PSU**

	<i>(In per cent)</i>				
	2016-17	2017-18	2018-19	2019-20	2020-21
<b>ROI<sup>10</sup></b>	532.82	409.61	361.60	182.79	243.81

The ROI showed a decreasing trend from 2016-17 to 2019-20, however it increased during 2020-21. The compounded annual growth rate decreased from 3.59 per cent to (-)2.05 per cent during 2016-17 to 2019-20 and improved to (-) 0.67 per cent during 2020-21.

### 5.7.3 Return on Capital Employed and Equity in Listed PSUs

The profitability of a Company is traditionally assessed through return on equity and return on capital employed. Return on Capital Employed (ROCE)<sup>11</sup> 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 (ROE)<sup>12</sup> is a measure of performance calculated by dividing the net profit after tax by shareholders fund.

Detail of ROCE and ROE of Jammu and Kashmir Bank Limited, the only listed Company, is given in **Table 5.12**:

**Table 5.12: ROCE and ROE of Listed PSU**

	<i>(In per cent)</i>				
	2016-17	2017-18	2018-19	2019-20	2020-21
<b>ROCE</b>	-36.75	11.55	17.93	-23.18	15.50
<b>ROE</b>	-65.00	7.56	15.46	-61.63	21.00

The ROCE and ROE was high during last five years (except during 2016-17 and 2019-20, mainly due to high Profit after tax earned by Jammu & Kashmir Bank Limited. During 2016-17 & 2019-20, ROCE and ROE was negative due to loss incurred by the Bank.

The ROCE worked at realised value<sup>13</sup> of investment in respect of Jammu & Kashmir Bank Limited is as follows:

**Table 5.13: ROCE for Listed PSU considering share premium**

	<i>(In per cent)</i>				
	2016-17	2017-18	2018-19	2019-20	2020-21
	-33.78	10.12	16.17	-18.06	12.20

The ROCE after considering the share premium account of Jammu & Kashmir Bank Limited, ranged between (-)33.78 per cent to 16.17 per cent during the period 2016-17 to 2020-21.

<sup>10</sup> ROI= (Government's share of the Market Capitalisation of the Company as at 31 March of FY + Present Value of Dividend Receipts of the Government as at 31 March of FY + Present Value of Disinvestment Receipts of the Government as at 31 March of FY) – (Paid-up Equity of the Government as at Inception + Discounted Value of Equity infused by the Government as at Inception + Discounted Value of Subsidy/Grants infused for meeting Operational and Administrative Expenditure as at Inception)/ (Paid-up Equity of the Government as at Inception + Discounted Value of Equity infused by the Government as at Inception + Discounted Value of Subsidy/ Grants infused for meeting Operational and Administrative Expenditure as at Inception)/ Number of intervening annual periods

<sup>11</sup> ROCE = Earnings before Interest and Tax/ Capital Employed. Figures are as per the latest year for which accounts of the PSUs are finalised

<sup>12</sup> ROE=Profit after Tax/Share holders' Fund, Share holders' Fund = Paid up capital + Free Reserves and Surplus– Deferred Revenue Expenditure – Accumulated Losses

<sup>13</sup> Investment including share premium

#### 5.7.4 Return on Capital Employed and Equity of Non-Listed PSUs

The details of ROCE and ROE of non-listed PSUs<sup>14</sup> during the period from 2016-17 to 2020-21 are given in **Table 5.14**.

**Table 5.14: Return on Capital Employed and Equity**

(₹ in crore)						
Year	PBIT	PAT	Capital Employed	Shareholders Fund	RoCE	RoE
2016-17	609.46	226.74	6,586.07	3,273.31	9.25	6.93
2017-18	391.70	-8.52	7,826.10	3,999.47	5.01	-0.21
2018-19	350.81	-29.92	7,779.10	3,811.35	4.51	-0.79
2019-20	480.33	117.26	7,878.91	3,433.16	6.10	3.42
2020-21	437.75	-119.66	7,593.02	3,040.39	5.77	-3.94

The ROCE ranges between 4.51 per cent and 9.25 per cent and ROE ranges between (-)3.94 per cent and 6.93 per cent during the period 2016-17 to 2020-21.

#### 5.7.5 Rate of real return (RORR) on Government Investment PSUs

In order to bring the historical cost of investment to its present value at the end of each year upto 31 March 2021, Present Value (PV) of money invested was computed where funds had been infused by the GoJ&K as equity, interest free loan and interest free loan converted into equity. Grant/ subsidy given by the Government for operational and management expenses have not been considered as bifurcation of grant and subsidy for operational and management expenses and for other purpose was not available since inception of these companies till 31 March 2021.

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

- Interest free loans have been considered as fund infusion. However, in case of repayment of loans by the PSUs, the PV was calculated on the reduced balances of interest free loans over the period.
- The average rate of interest on government borrowings for the concerned financial year was adopted as discount rate for arriving at Present Value since they represent the cost incurred by the Government towards investment of funds for the year.
- The GoJ&K infused ₹5.00 crore as equity in JKPDC. In addition to this, the GoJ&K also provided Plan funds since inception of the Company (1994-95) for creation of Capital Assets, which could not be bifurcated, has not been considered. Plan fund given to JKPDD and Assets transferred to JKPDC by GoJ&K, later converted into equity, has been added to the equity contribution in the year 2019-20.
- JPDCL, KPDCL, JKPTCL and JKPCL started their operations w.e.f. 1 April 2020, hence, equity contribution was considered in the year 2020-21 for the purpose of PV calculation of GoJ&K investment.

<sup>14</sup> Excluding CVPPPL as all its projects are under construction

- For the purpose of PV calculation of GoJ&K investment, the period from 2000-01 till 2020-21 has been taken for considering the investment of GoJ&K in PSUs.

The year wise position of investment made by the GoJ&K in PSUs and calculation of Net Present Value of the investment relating to those PSUs wherein the GoJ&K had made investment is indicated in **Appendix 5.7**.

The historical cost of investment by the GoJ&K in these PSUs at the end of 2020-21 increased to ₹3,565.74 crore<sup>15</sup> from ₹352.29 crore at the beginning of 1999-2000. The GoJ&K made investments in form of equity (₹3,107.79 crore) and interest free loans (₹123.16 crore) during the period 1999-2000 to 2020-21. Besides, GoJ&K made investment of ₹520.12 crore<sup>16</sup> in plan fund during this period in JKPDC.

The PV of the investment infused by the GoJ&K as on 31 March 2021 amounted to ₹6,329.96 crore. The net earnings of PSUs as per their latest finalized accounts was ₹314.11 crore.

An analysis of the earnings *vis-à-vis* investments in respect of 40<sup>17</sup> PSUs where funds had been infused by the GoJ&K was carried out to assess the profitability of these PSUs which is given in **Table 5.15**.

**Table 5.15: Real Rate of Return**

Financial year	PV of total investment at the beginning of the year	Total investment during the year	Total investment at the end of the year	Average rate of interest	PV of total investment at the end of the year	(₹ in crore)	
						Total Earnings <sup>18</sup>	RoRR
2016-17	2,013.32	9.56	2,022.881	7.83	2,181.27	-1,406.44	-69.53
2017-18	2,181.27	101.63	2,282.903	7.23	2,447.96	192.85	8.45
2018-19	2,447.96	143.92	2,591.876	7.20	2,778.49	434.33	16.76
2019-20	2,778.49	2632.7	5,411.19	7.2	5,800.80	-1,022.15	-18.89
2020-21	5,800.80	130.57	5,931.37	6.72	6,329.96	306.12	5.16

During the period from 2016-17 to 2020-21, these 40 PSUs had a positive return on investment (except for the year 2016-17 & 2019-20). During 2020-21, return on GoJ&K Investment on the basis of historical value was 8.81 *per cent*. However, the Real Rate of Return considering the present value of investment was 5.16 *per cent* only.

## 5.8 PSUs incurring losses

There were 16 PSUs that incurred losses during the year 2020-21 as per their latest finalized accounts as detailed in **Appendix-5.8**. The losses incurred by these PSUs increased to ₹1,354.96 crore in 2019-20 from ₹216.93 crore in 2018-19 and decreased to ₹214.51 crore in 2020-21 as per their latest finalized accounts as given below in **Table 5.16**.

<sup>15</sup> Opening balance: (₹352.29 crore) + Equity: (₹3,107.79 crore) + Interest free loans: (₹123.16 crore) - Interest free loan converted into equity: (₹169.92 crore)

<sup>16</sup> This investment was made from 2018-19 to 2020-21 and investment before this period had been converted into equity of GoJ&K

<sup>17</sup> Excluding JKB Financial Services Limited and CVPPPL wherein the GoJ&K had not made any investment

<sup>18</sup> As per the latest finalized accounts

Table 5.16: Summary of PSUs that incurred losses during 2018-19 to 2020-21

Year	No of PSUs incurred loss	Net loss for the year	Accumulated Profit/ Loss	Net Worth <sup>19</sup>
<b>A. Statutory Corporations</b>				
2018-19	2	133.55	(-)1,324.27	(-)959.83
2019-20	2	132.98	(-)1,563.95	(-)1,309.35
2020-21	1	117.62	(-)1,634.94	(-)1,426.98
<b>B. Government Companies</b>				
2018-19	8	83.38	(-)1,039.83	(-)956.10
2019-20	11	1221.98	357.72	527.18
2020-21	14	93.71	(-)1,780.54	(-)1,643.83
<b>C. Government Controlled Other Company</b>				
2018-19	0	-	-	-
2019-20	0	-	-	-
2020-21	1	3.18	49.34	2,773.00
<b>Total PSUs</b>				
2018-19	10	216.93	(-)2,364.10	(-)1,915.93
2019-20	13	1,354.96	(-)1,206.23	(-)782.17
2020-21	16	214.51	(-)3,366.14	(-)297.81

(Source: Latest finalized accounts as on 30 September 2019, 31 December 2020 and 30 November 2021)

Out of total loss of ₹214.51 crore incurred by 16 PSUs in 2020-21, loss of ₹203.64 crore was attributed to seven PSUs listed in Table 5.17 which incurred loss of more than ₹five crore as per their latest information provided. The majority of the loss for the year 2019-20 is attributable to the loss of ₹1139.41 crore reported by Jammu and Kashmir Bank Limited. The bank reported profit in its operations in the year 2020-21 of ₹428.45 crore.

Table 5.17: PSUs (other than power sector) that incurred losses of more than ₹ five crore

Sl. No.	Name of the PSU	Net loss (₹ in crore)
1.	Jammu & Kashmir State Road Transport Corporation	117.62
2.	Jammu & Kashmir Industries Limited	36.39
3.	Jammu & Kashmir State Industrial Development Corporation Limited	20.54
4.	Jammu & Kashmir Handicrafts (Sales and Export) Development Corporation Limited	8.60
5.	Jammu & Kashmir Minerals Limited	8.38
6.	Jammu & Kashmir Tourism Development corporation	6.14
7.	Jammu & Kashmir Scheduled Castes, Scheduled Tribes and Backward Classes Development Corporation Limited	5.97

(Source: Latest finalised accounts as on 30 November 2021)

### 5.8.1 Erosion of Capital in PSUs

As on 31 March 2021, there were 18 PSUs with accumulated losses of ₹3,655.92 crore (Appendix 5.9). Of these 18 PSUs, 15 PSUs incurred losses amounting to ₹211.34 crore and three PSUs had not incurred loss, even though they had accumulated loss of ₹247.44 crore. The net worth of 11 out of 18 PSUs had been completely eroded by accumulated loss and their net worth was negative. The net worth of these 11 PSUs was (-)₹3,148.02 crore against equity investment of ₹458.04

<sup>19</sup> Net worth means the sum total of the paid-up share capital and free reserves and surplus less accumulated loss and deferred revenue expenditure. Free reserves mean all reserves created out of profits and share premium account but do not include reserves created out of revaluation of assets and write back of depreciation provision.

crore as on 31 March 2021. Out of these 11 PSUs, whose capital had been eroded, two PSUs had earned profit of ₹34.64 crore during 2020-21.

## **5.9 Oversight Role of CAG**

### **5.9.1 Audit of Public Sector Undertakings (PSUs)**

Comptroller & Auditor General of India (CAG) appoints the statutory auditors of a State Government Company and State Government Controlled Other Company<sup>20</sup> under Section 139 (5) and (7) of the Companies Act, 2013. CAG has a right to conduct a supplementary audit and issue comments upon or supplement the Audit Report of the statutory auditor. Statutes governing some Corporations require that their accounts be audited by the CAG and a report be submitted to the State Legislature.

### **5.10 Appointment of statutory auditors of PSUs by CAG**

Section 139 (5) of the Companies Act, 2013 provides that the statutory auditors in case of a State Government Company are to be appointed by the CAG within a period of 180 days from the commencement of the financial year.

### **5.11 Submission of accounts by PSUs**

#### **5.11.1 Need for timely submission**

According to Section 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 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 companies from the Consolidated Fund of State.

Section 96 of the Companies Act, 2013 requires every company to hold AGM of the shareholders once in every calendar year. It is also stated 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 also 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.

Despite above, annual accounts of various PSUs were pending as on 31 December 2020, as detailed in the following paragraph.

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<sup>20</sup> A Government Company is defined in Section 2(45) of the Companies Act, 2013 as a company in which not less than 51 per cent of the paid up share capital is held by Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments and includes a company which is a subsidiary of a Government Company. Any other company owned or controlled, directly, or indirectly, by the Central Government or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments are referred to in this Report as Government controlled other Companies.

### 5.11.2 Timeliness in preparation of accounts by Government Companies

As of 31 March 2021, there were 40 Government Companies under the purview of CAG's audit. Of these, accounts for the year 2020-21 were due<sup>21</sup> from 35 Government Companies. However, only three Government Companies submitted their accounts for the financial year 2020-21 for audit by CAG on or before 30 November 2021. Accounts of 37 Government Companies were in arrears for various reasons. Details of arrears in submission of accounts of these are given in **Table 5.18** below:

**Table 5.18: Details of arrears in submission of accounts**

Particulars		Total
Total number of Companies under the purview of CAG's audit as on 31.03.2021		40
Less: New Companies from which accounts for 2020-21 were not due		0
Less: Companies under liquidation/ inactive <sup>22</sup>		6
Number of companies from which accounts for 2020-21 were due		34
Number of companies which presented the accounts for CAG's audit by 30 November 2021		3
Number of companies with accounts in arrears		31
Breakup of Arrears	(i) Defunct	0
	(ii) First Accounts not submitted	6
	(iii) Others	25
Age-wise analysis of arrears against 'Others' category	Up to one year (2020-21)	5
	Up to two years (2019-20 and 2020-21)	14
	Three years and more	17

Details of these companies along with the position of GoJ&K investment in these PSUs during the period of arrear accounts are indicated in **Appendix 5.10**.

### 5.11.3 Timeliness in preparation of accounts by Statutory Corporations

As of 31 March 2021, there were two Statutory Corporations under the purview of CAG's audit. Audit of Statutory Corporations is governed by their respective legislations. Out of the two Statutory Corporations, the C&AG is the sole auditor for Jammu & Kashmir State Road Transport Corporation. In respect of Jammu & Kashmir State Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit is conducted by the C&AG.

The accounts of Jammu & Kashmir State Road Transport Corporation and Jammu & Kashmir Financial Corporation for the years 2019-20 and 2020-21 were awaited as on 30 November 2021.

Details of these Corporations along with the position of GoJ&K investment in these Corporations during the period of arrear accounts are indicated in **Appendix 5.10**.

## 5.12 CAG's oversight - Audit of accounts and supplementary audit

### 5.12.1 Financial reporting framework

Companies are required to prepare the financial statements in the format laid down in Schedule III to the Companies Act, 2013 and in adherence to the mandatory Accounting Standards prescribed by the Central Government, in consultation with National Advisory Committee on Accounting Standards. The statutory corporations

<sup>21</sup> The due date for submission of accounts has been considered as 30 November 2021

<sup>22</sup> Jammu & Kashmir Asset Reconstruction Limited, Tawi Scooters Limited, Himalayan Wool Combers Limited and Jammu & Kashmir State Handloom Handicrafts Raw Materials Supply Organisation Limited (under liquidation); Jammu & Kashmir State Road Development Corporation Limited and Jammu & Kashmir International Trade Centre (inactive)

are required to prepare their accounts in the format prescribed under the rules, framed in consultation with the CAG and any other specific provision relating to accounts in the Act governing such corporations.

### ***5.12.2 Audit of accounts of Government Companies by Statutory Auditors***

The statutory auditors appointed by the CAG under Section 139 of the Companies Act 2013, conduct audit of accounts of the Government Companies and submit their reports thereon in accordance with Section 143 of the Companies Act, 2013.

The CAG plays an oversight role by monitoring the performance of the statutory auditors in audit of public sector undertakings with the overall objective that the statutory auditors discharge the functions assigned to them properly and effectively. This function is discharged by exercising the power:

- 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.

### ***5.12.3 Supplementary Audit of accounts of Government Companies***

The prime responsibility for preparation of financial statements in accordance with the financial reporting framework prescribed under the Companies Act, 2013 or other relevant Act is of the management of an entity.

The statutory auditors appointed by the CAG under section 139 of the Companies Act, 2013 are responsible for expressing an opinion on the financial statements under section 143 of the Companies Act, 2013 based on independent audit in accordance with the Standard Auditing Practices of Institute of Chartered Accountants of India (ICAI) and directions given by the CAG. The statutory auditors are required to submit the Audit Report to the CAG under Section 143 of the Companies Act, 2013.

The certified accounts of selected Government Companies along with the report of the statutory auditors are reviewed by CAG by carrying out a supplementary audit. Based on such review, significant audit observations, if any, are reported under Section 143 (6) of the Companies Act, 2013 to be placed before the Annual General Meeting.

## **5.13 Result of CAG's oversight role**

Position of supplementary audit of the financial statements of the PSUs conducted by the Comptroller and Auditor General (CAG) of India for the year 2020-21 (or of earlier years which were finalized during current year) is discussed in the next paragraph.

### ***5.13.1 Audit of accounts of Government Companies under Section 143 of the Companies Act, 2013***

Financial statements for the year 2020-21 were received from two<sup>23</sup> Government Companies and one Government Controlled Other Company<sup>24</sup> by 30 November 2021. Of these, financial statements of two<sup>25</sup> Government Companies were reviewed in audit by the CAG.

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<sup>23</sup> Jammu and Kashmir Bank Limited and JKB Financial Services Limited

<sup>24</sup> Chenab Valley Power Projects Private Limited

<sup>25</sup> Non review certificate was given to JKB Financial Services Limited for the year 2020-21




32 accounts of previous years were also received during the period 1 January 2021 to 30 November 2021, of which non review certificates were issued for six accounts, comments were issued in case of five accounts and 21 accounts were pending as of 30 November 2021. Further, 42 accounts of 10 PSUs relating to previous years which were received before 1 January 2021 were also reviewed during current year. Of the 42 financial statements, Comments were issued for 32 accounts of eight PSUs and Management Letters were issued to two PSUs for 10 years of their accounts.

#### **5.14 Recommendations**


1. The Government may impress upon those PSUs with arrear in accounts to ensure early finalisation of their Financial Statements as in the absence of their finalisation, Government investments in such PSUs remain outside the legislative oversight; and
2. The UT Government needs to take an early decision regarding commencement of liquidation process in respect of the inactive PSUs as they are neither contributing to economy nor meeting the objectives for which they were set up.

**Srinagar/Jammu**  
**Dated: 08 May 2022**

  
**(Pramod Kumar)**  
**Principal Accountant General (Audit),**  
**Jammu & Kashmir**

**Countersigned**

**New Delhi**  
**Dated: 18 May 2022**

  
**(GIRISH CHANDRA MURMU)**  
**Comptroller and Auditor General of India**

