

## Summary of Financial Performance of Public Sector Undertakings

### 1.1 Introduction

This Report presents the summary of financial performance of Government companies, Statutory corporations and Government controlled other companies. In the Report, the term Public Sector Undertakings (PSUs) encompasses those companies in which the direct holding of the State Government is 51 *per cent* or more and subsidiaries of such Government companies. The Statutory corporations set up under statutes enacted by the Legislature and other companies owned or controlled, directly or indirectly by the State Government have also been categorised as PSUs.

A Government company is defined under 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.

#### *Government company*

*Any company in which not less than 51 per cent of paid-up share capital is held by Central Government or by one or more State Governments or partly by Central Government and partly by State Government(s) and includes 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 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.

There is a total of 150 PSUs in Kerala out of which 146<sup>2</sup> are Government companies and four are Statutory corporations. Out of 146 Government companies, 127 companies are functional and the remaining 19 are non-working. All the four Statutory corporations are functional. The number of PSUs covered in this Report is 131 (127 Government companies and four Statutory corporations. However, this

<sup>1</sup> Companies (Removal of Difficulties) Seventh Order, 2014 issued by Ministry of Corporate Affairs vide Gazette Notification dated 04 September 2014.

<sup>2</sup> Including 16 Government controlled other companies.

report does not cover departmentally managed commercial undertakings.

## **Mandate**

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 thereunder. 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 the right to conduct a supplementary audit. The statutes governing the Statutory corporation require that its accounts be audited only by the CAG.

### **1.1.1 What this Chapter contains**

This Chapter gives an overall picture of the financial performance of the PSUs as revealed from their accounts.

Impact on revision of accounts as well as significant comments issued as a result of supplementary audit of the financial statements of the companies conducted by the CAG for the year 2021-22 (or of earlier years which were finalised during the current year) is given in this Report. This Report also contains the impact of comments issued by the CAG on the financial statements of the Statutory corporation (s).

This Report also gives an overall picture of the status of the adherence of PSUs to the guidelines issued by the Securities and Exchange Board of India (SEBI), Finance Department, Government of Kerala (GoK) and compliance with provisions of Companies Act, 2013 and guidelines issued by (GoK) on Corporate Governance and Corporate Social Responsibility.

### **1.1.2 Number of PSUs**

As on 31 March 2022, there were 150 PSUs in Kerala under the audit jurisdiction of the CAG. These include 130 Government companies, four Statutory corporations and 16 Government controlled other companies as shown in **Table 1.1 below**.

<i>Government companies</i>	<i>130</i>
<i>Government controlled other companies</i>	<i>16</i>
<i>Statutory corporations</i>	<i>4</i>
<i>Total</i>	<i>150</i>

During 2021-22, six more PSUs<sup>3</sup> came under the purview of CAG's audit. This report contains analysis of working results of 131 working PSUs (127 working companies and four Statutory corporations)

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<sup>3</sup> Kochi Water Metro Limited, Kerala Paper Products Limited, KEL Electrical Machines Limited, Sports Kerala Foundation, Restop Private Limited and Additional Skill Acquisition Programme Kerala.

indicated in **Table 1.1**. The details of the administrative departments as well as the number of PSUs under respective departments is mentioned in **Appendix I**.

The nature and coverage of the PSUs is indicated in **Table 1.1**.

**Table 1.1: Nature and coverage of PSUs**

Nature of PSU	Total number of PSUs	Number of PSUs covered						Number of PSUs not covered
		Accounts finalised up to					Total	
		2018-19	2019-20	2020-21	2021-22	Newly formed PSUs		
Government companies	130	48	31	29	4	9	121	9 <sup>4</sup>
Statutory corporations	4	2	1	0	1	0	4	0
Government controlled other companies	16	0	0	6	0	0	6	10 <sup>5</sup>
<b>Total</b>	<b>150</b>	<b>50</b>	<b>32</b>	<b>35</b>	<b>5</b>	<b>9</b>	<b>131</b>	<b>19</b>

(Source: Compiled based on the accounts received from PSUs.)

From Table 1.1, it can be seen that out of 131 working PSUs, nine Government companies are yet to finalise their first accounts. The arrears in submission of accounts of these nine PSUs ranged from one to five years. Non-finalisation and non-submission of accounts on time is a sign of absence of internal control and exposes the companies to the risk of financial fraud. This has been discussed in detail in **Para 2.3.2.1** in “**Arrears in submission of accounts.**”

Of these, summary of financial performance of 131 PSUs is covered in this Report excluding 19 non-functional PSUs<sup>6</sup> which were defunct/ under various stages of liquidation. The status of these 19 non-working PSUs is tabulated below:

<sup>4</sup> Nine non-working Government companies.

<sup>5</sup> 10 non-working Government controlled other companies.

<sup>6</sup> The period from which PSUs were defunct is given in brackets: Keltron Power Devices Limited (2001-02), Keltron Rectifiers Limited (2001-02), Kunnathara Textiles Limited (Not available), Vanjinad Leathers Limited (1985-86), The Kerala Premo Pipe Factory Limited (Not available), The Kerala Asbestos Cement Pipe Factory Limited (Not available), Trivandrum Rubber Works Limited (Not available), Kerala State Wood Industries Limited (2016-17), Kanjikode Electronics and Electricals Limited (Not available), Kerala School Teachers and Non-teaching Staff Welfare Corporation Limited (Not available), Pratheeksha Bus Shelters Kerala Limited (1999-2000), Ashwas Public Amenities Kerala Limited (1999-2000), Kerala Garments Limited (Not available), Kerala Special Refractories Limited (1995-96), SIDCO Mohan Kerala Limited (2000-01), SIDKEL Televisions Limited (1992-93), Astral Watches Limited (2001-02), Kerala State Detergents and Chemicals Limited (2001-02) and Keltron Counters Limited (2003-04).

**Table 1.2: Status of PSUs under liquidation**

Particulars	Number of PSUs	Period of liquidation/ closure/defunct
Under liquidation by court	5	August 1990- July 2006
Liquidation not yet started though Government issued closure letter	6	March 1996- January 2017
Defunct Companies and Government is yet to issue closure letter	8	1986-87 to 2018-19

It could be seen from the above table that winding up process of 19 non-working companies are pending since 1986-87.

The financial position and working results of 131 working PSUs as per their finalised accounts as on 30 September 2022<sup>7</sup> are detailed in *Appendix II*. The Summary of financial performance of PSUs covered in this Report is indicated in **Table 1.3**:

**Table 1.3: Summary of financial performance of PSUs**

Particulars	No.	Amount (₹ in crore)
Number of Government companies and Statutory corporations	150	
PSUs selected for this Report	131 <sup>8</sup>	
Paid up capital of PSUs	131	10,093.98
Long term loans of PSUs	131	33,447.12
Net profit of PSUs	55	654.99
Net loss of PSUs	63	4,065.38
PSUs with zero profit/ loss	4	
PSUs which declared/ paid dividend	3	3.23
Total assets of PSUs	131	1,08,406.60
Value of production of PSUs	63	35,767.90

(Source: Latest finalised accounts of PSUs)

### 1.1.3 Contribution of the PSUs to the GSDP of the State

A ratio of turnover of the Government companies and Statutory corporations to the GSDP<sup>9</sup> shows the extent of their activities in the State economy. The details of turnover and the GSDP for a period of three years ended 31 March 2022 are given in **Table 1.4**.

<sup>7</sup> The figures from the latest available accounts have been considered in this Report for the purpose of arriving at working results. For instance, latest accounts finalised between October 2021 to September 2022 were considered for the period 2021-22.

<sup>8</sup> 19 non-working PSUs are excluded.

<sup>9</sup> Gross State Domestic Product.

**Table 1.4: Turnover of Government companies and Statutory corporations vis-a-vis GSDP of Kerala**

Particulars	(₹ in crore)		
	2019-20	2020-21	2021-22
Turnover	33,840	34,770	35,768
GSDP	8,24,374	7,99,571	9,01,997
Percentage of Turnover to GSDP	4.10	4.35	3.97

(Source: Latest finalised accounts PSUs and GSDP figures as per State Finance Audit Report)

It may be seen from the table above that though the turnover of the PSUs grew from ₹33,840 crore in 2019-20 to ₹35,768 crore in 2021-22, the growth was not in pace with the increase in GSDP which increased from ₹8,24,374 crore to ₹9,01,997 crore in the corresponding period. Consequently, the percentage of turnover to GSDP declined from 4.10 to 3.97.

The growth rate of GSDP showed an increase of 12.81 per cent during 2021-22 as compared to 2020-21, however, the aggregate turnover of Government companies and Statutory corporations increased by 2.87 per cent during the same period.

## 1.2 Investment in Government companies and Statutory corporations

The amount of equity and loans in 131 Government companies and Statutory corporations for the two year ending as on 31 March 2022 is given in **Table 1.5**.

**Table 1.5: Equity and loans in Government companies and Statutory corporations**

Source of investment	As on 31/03/2021			As on 31/03/2022		
	Equity	Long term loans	Total	Equity <sup>10</sup>	Long term loans	Total
State Government	9,430.95	8,365.16	17,796.11	9,817.46	10,621.58	20,439.04
Central Government	135.07	50.54	185.61	158.09	1.11	159.20
State Government companies/Holding companies/ Financial Institutions and others	916.15	29,830.88	30,747.03	971.92	33,803.65	34,775.57
Total investment	10,482.17	38,246.58	48,728.75	10,947.47	44,426.34	55,373.81
Percentage of investment of State Government to total investment	89.97	21.87	36.52	89.68	23.91	36.91

(Source: Details received from PSUs)

### 1.2 (a) Equity holding

During 2021-22, the total equity holding in the working PSUs covered in this Report registered a net increase of ₹465.30 crore comprising ₹386.51 crore invested by State Government, ₹23.02 crore by Central Government and ₹55.77 crore by

<sup>10</sup> Including share capital advance.

State Government companies/Holding companies and Financial Institutions. The State Government infused equity of ₹386.51 crore in 22 PSUs during 2021-22.

## 1.2 (b) Loans given to Government Companies and Statutory corporations

It may be seen from **Table 1.5** that the total long term loans outstanding from all sources in 70 out of 131 PSUs were ₹44,426.34 crore as on 31 March 2022. It was observed<sup>11</sup> that the maturity period of these loans ranged from one year to 29 years, with an average maturity period of about seven years. The rate of interest of the loans ranged from 1 per cent to 19.50 per cent. The average interest rate of all these loans was 10.95 per cent. It was seen that out of these 70 companies, 25 companies were loss making and hence could not pay interest on loans.

During 2021-22, 53 PSUs had State Government loans outstanding of ₹10,621.58 crore as against ₹8,365.16 crore in 52 PSUs during 2020-21. The State Government had given fresh loans of ₹1,715.58 crore to 30 PSUs during the above period. No loan amount advanced by the State Government to the PSUs was converted into equity in 2021-22.

The details of investment made in 131 working and 19 non-working PSUs, in the form of equity and long term loans up to 31 March 2022 are detailed in **Appendix III**.

### 1.2.1 Reconciliation with Finance Accounts of Government of Kerala

The balances in respect of equity, loans and guarantees as per the records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the Government of Kerala. In case the figures do not agree, the PSUs concerned and the Finance Department should carry out reconciliation of the differences. In this regard, the balances as on 31 March 2022 are stated in **Table 1.6**:

**Table 1.6: Statement of equity, loans and guarantees as per Finance Accounts of GoK vis-a-vis records of State PSUs**

*(₹ in crore)*

Sl. No.	Figures in respect of	Amount as per Finance Accounts <sup>12</sup>	Amount as per records of PSUs	Difference*
1	Equity	6,870.80	9,817.46	2946.66
2	Loans	14,672.34	10,621.58	4050.76
3	Guarantees	23,517.77	21,968.14	1549.63

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

\* The above differences exclude the figures wherein PSU accounts fall short of the figures in Finance Accounts by ₹1,712 crore (31 PSUs), ₹4,084.31 crore (44 PSUs) and ₹2,078.65 crore (8 PSUs) in respect of equity, loans and guarantees respectively. Details shown in **Appendix IV**.

It was observed that in 107 out of 131 State PSUs, differences between figures as per Finance accounts and figures as per records of PSUs occurred as shown in **Appendix IV**. Such differences are persisting for many years. Major difference was

<sup>11</sup> In case of 44 PSUs which provided data.

<sup>12</sup> The figures of equity, loans and guarantee outstanding shown in this report is updated as per information received from PSUs till May 2023.

observed in Kerala State Electricity Board Limited. The details of difference (PSU wise) were brought to the notice (December 2022) of Chief Secretary as well as Additional Chief Secretary, Finance Department, Government of Kerala. The Government should take steps for time bound reconciliation to avoid inaccurate financial reporting which will undermine the financial accountability and transparency of both the Government accounts and the records of PSUs in terms of equity, loans and guarantee.

### 1.2.2 Adequacy of assets to meet loan liabilities

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 *i.e.*, ideally, the Debt Asset ratio should be less than one. The coverage of long term loans by value of total assets in 74 PSUs which had outstanding loans as on 31 March 2022 is given in **Table 1.7**.

**Table 1.7: Coverage of long term loans with total assets**

Particulars	PSUs having Debt Asset ratio < 1				PSUs having Debt Asset ratio > 1			
	No of PSUs	Long term loans	Assets	Ratio of debts to assets	No of PSUs	Long term loans	Assets	Ratio of debts to assets
		(₹ in crore)				(₹ in crore)		
Government companies	63	24,915.99	91,145.89	0.27	7	239.88	115.32	2.08
Statutory corporations	3	4,199.88	8,748.18	0.48	1	4,091.37	1,420.42	2.88
<b>Total</b>	<b>66</b>	<b>29,115.87</b>	<b>99,894.07</b>		<b>8</b>	<b>4,331.25</b>	<b>1,535.74</b>	

(Source: Details received from PSUs and latest finalised account of PSUs)

It may be seen from the above table that Debt Asset ratio in respect of 66 PSUs (including three Statutory corporations) was less than one indicating that these PSUs are solvent. However, in respect of eight PSUs, the Debt Asset ratio was more than one which indicated that they may have difficulty to meet financial obligations as the value of total assets of these PSUs was less than the loans outstanding as shown in *Appendix V*.

### 1.2.3 Interest Coverage

Interest coverage ratio (ICR) is used to determine the ability of a company to pay interest on debt outstanding 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 ICR below one indicates that the company is not generating sufficient revenue to meet its expenses on interest. The details of positive and negative interest coverage ratio of 69 PSUs<sup>13</sup>, which had loans outstanding for the period 2021-22 are given in **Table 1.8**.

<sup>13</sup>The difference in number of companies between Table.1.7 and 1.8 is due to the difference in accounting of interest expenses in their financial statements.



**Table 1.8: Interest Coverage Ratio**

Particulars	PSUs having Interest Coverage Ratio <1			PSUs having Interest Coverage Ratio ≥1		
	No of PSUs	Interest	Earnings Before Interest and Tax (EBIT)	No of PSUs	Interest	Earnings Before Interest and Tax (EBIT)
			(₹ in crore)			(₹ in crore)
Government companies	39	2,324.41	(-)628.97	27	142.56	627.81
Statutory corporations	1	495.73	(-)511.45	2	268.60	291.23
<b>Total</b>	<b>40</b>	<b>2,820.14</b>	<b>(-)1,140.42</b>	<b>29</b>	<b>411.16</b>	<b>919.04</b>

(Source: As per the latest finalised accounts of PSUs)

It was observed that 29 PSUs (including two Statutory corporations) having interest liability had ICR equal to or more than one indicating that sufficient revenues were available to meet the interest liability. Similarly, 40 PSUs (including one Statutory corporation) had ICR lesser than one indicating that these PSUs could not generate adequate income to pay off their interest liability.

#### 1.2.4 Age-wise analysis of interest outstanding on State Government loans

As on 31 March 2022, interest amounting to ₹2,395.37 crore from 36 PSUs<sup>14</sup> was outstanding on long term loans provided by State Government. Out of this, interest amounting to ₹133.26 crore was outstanding for less than one year, ₹1,217.58 crore was outstanding between one to three years and ₹1,044.53 crore was outstanding for more than three years as shown in *Appendix VI*.

#### 1.2.5 Investment in Government controlled other companies

The capital invested by the State Government and by companies controlled by Government in six working Government controlled other companies was ₹49.95 crore as depicted in **Table 1.9/ Chart 1.1**.

**Table 1.9: Composition of share capital in Government controlled other companies**

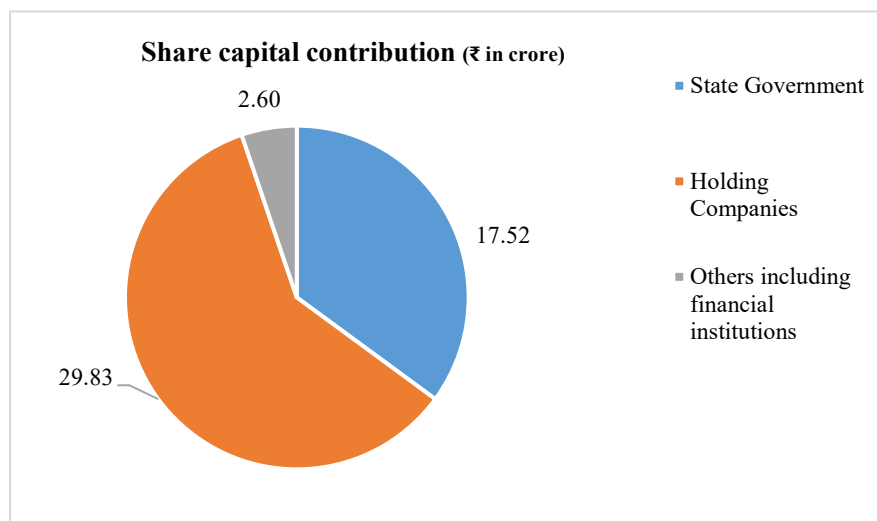
Number of Government controlled other companies	Share capital contribution (₹ in crore)				Total
	State Government	Central Government	Holding Companies	Others including financial institutions	
6	17.52	0	29.83	2.60	49.95

(Source: Details received from PSUs)

<sup>14</sup> Data compiled from the details provided by the PSUs.



**Chart 1.1: Share capital contribution in Government controlled other companies**



### 1.3 Return from Government companies and Statutory corporations

#### 1.3.1 Profit earned by working Government companies and Statutory corporations

Out of 131 working PSUs, five PSUs submitted their accounts for the year 2021-22. Out of the five, only three PSUs (viz., The Kerala Ceramics Limited, The Kerala Minerals and Metals Limited and Kerala Financial Corporation) reported aggregate profit of ₹258.85 crore. As per the latest finalised accounts submitted till 30 September 2022, 55 PSUs (including the aforementioned three PSUs) earned profit of ₹654.99 crore. Whereas for the period ended 30 September 2021, there were 49 PSUs which earned a profit of ₹460.44 crore. Eight PSUs which incurred loss in their respective previous years earned profit as per their latest finalised accounts made available in 2021-22. Likewise, five PSUs which earned profit in their respective previous years suffered loss as per their latest finalised accounts submitted till September 2022 (*Appendix VII*).

The Return on Equity (ROE) of the 55 PSUs mentioned above (including the three Statutory corporations) was 10.32 *per cent* as compared to 7.92 *per cent* in 49 PSUs.

ROE in all the 122 PSUs (*i.e.*, excluding nine working PSUs which have not submitted their first accounts) *i.e.*, including 55 profit earning, 63 loss making and four zero profit/loss companies, was negative as the overall net income of these PSUs was negative during 2021-22.

The list of PSUs which earned profit of more than ₹50 crore is given in **Table 1.10**.

**Table 1.10: Top three PSUs which contributed maximum profit**

Sector	Name of PSU	Period of Accounts	Net profit after Interest and Tax (₹ in crore)	Percentage of profit to total PSU profit
Manufacturing	The Kerala Minerals and Metals Limited	2021-22	226.91	34.64
Service	Kerala State Beverages (Manufacturing and Marketing) Corporation Limited	2018-19	113.13	17.27
Finance	The Kerala State Financial Enterprises Limited	2018-19	77.62	11.85
<b>Total</b>			<b>417.66</b>	

(Source: As per the latest finalised accounts of PSUs)

Net profit of ₹417.66 crore constituting 63.77 per cent of total profit (₹654.99 crore) of PSUs was contributed by these three PSUs.

### 1.3.2 Loss incurred by PSUs

Out of the five PSUs which submitted the accounts for 2021-22, two companies (viz. KCCP Limited and Handicrafts Development Corporation of Kerala Limited) incurred loss of ₹9.58 crore. As per the latest finalised accounts submitted till 30 September 2022, 63 PSUs (including one Statutory corporation) incurred loss of ₹4,065.38 crore when compared to ₹4,496.12 crore incurred by 68 PSUs which submitted the accounts till 30 September 2021.

The loss incurred by these PSUs decreased to ₹4,065.38 crore from ₹4,496.12 crore as given in **Table 1.11**.

**Table 1.11: Number of PSUs that incurred loss**

(₹ in crore)

Year <sup>15</sup>	No. of PSUs incurred loss	Net Loss for the year	Accumulated loss (₹ in crore)	Net worth
2019-20	69	2,620.46	14,197.46	6,650.90
2020-21	68	4,496.12	16,651.62	9,058.15
2021-22	63	4,065.38	18,047.00	10,412.90

(Source: As per latest finalised accounts of PSUs)

Out of total loss of ₹4,065.38 crore incurred by 63 PSUs, loss of ₹3,474.65 crore was incurred by four PSUs (including two Statutory corporations). **Table 1.12**

<sup>15</sup> The figures from the latest available accounts have been considered in this Report for the purpose of arriving at working results.

shows those PSUs which incurred a loss of more than ₹100 crore during the year 2021-22.

**Table 1.12: PSUs that incurred loss of more than ₹100 crore**

Sl. No	Name of Company/Corporation	Period of Accounts	Net Loss after tax and interest (₹ in crore)
1	Kerala State Electricity Board Limited	2020-21	1,822.35
2	Kerala State Road Transport Corporation	2015-16	1,007.18
3	The Kerala State Civil Supplies Corporation Limited	2016-17	403.81
4	Kerala Transport Development Finance Corporation Limited	2018-19	241.31

(Source: As per latest finalised accounts of respective PSUs)

Out of six working Government controlled other companies, two companies<sup>16</sup> incurred loss of ₹6.92 crore.

In this regard, it may be mentioned that CAG had conducted a Performance Audit on the “Performance of Kerala State Electricity Board Limited during pre and post Ujwal DISCOM Assurance Yojana” (Report No. 5 of 2022) in which the performance of KSEBL was assessed. It was observed that while executing the MoU, KSEBL did not opt for take-over of DISCOM debt by the Government of Kerala stating that its debt position, financial loss and AT & C loss were relatively low when compared to other DISCOMs in the country. Nonetheless, the MoU envisaged that KSEBL would improve its financial performance and report profits for 2017-18 and 2018-19. The activities of KSEBL, however, resulted in financial losses, and its loss increased by 161.47 *per cent* from ₹696.66 crore in 2015-16 to ₹1,822.35 crore in 2020-21. The long-term debt of KSEBL increased substantially by 318.72 *per cent* from ₹3,753.51 crore in 2015-16 to ₹15,716.79 crore in 2020-21, mainly on account of employees’ pension liability. As the MoU did not provide for the financial turnaround part, there was no takeover of debt of KSEBL by the Government of Kerala under the Scheme.

### 1.3.3. Erosion of capital in PSUs

As per their latest finalised accounts submitted till 30 September 2022, out of the 131 working PSUs, 75 had accumulated losses aggregating to ₹19,169.12 crore.

Net worth of 46 out of these 75 PSUs had been completely eroded by accumulated losses and their net worth was negative. The net worth of these 46 PSUs (*Appendix-VIII*) was ₹(-)12,460.21 crore against equity investment of ₹6,081.18 crore. Out of 46 PSUs, whose capital had been eroded, 37 PSUs reported loss of ₹3,935.37 crore and eight PSUs reported a profit of ₹78.26 crore and one PSU (Vizhinjam International Sea Port Limited) reported no-profit-no loss.

<sup>16</sup> Kinfra International Apparel Parks Limited and Kinfra Film and Video Park Limited.

In the overall, net worth of all the 131 working PSUs was negative at ₹3,968.29 crore against their paid up capital of ₹10,093.98 crore. In 44 out of 46 PSUs whose capital had been eroded, Government equity was ₹6,077.75 crore.

Net worth was less than half of their paid up capital in respect of seven<sup>17</sup> out of 75 PSUs, indicating their potential financial sickness.

It may be mentioned that the CAG in his Composite Compliance Audit Report 2019-21, carried out a Compliance Audit on ‘Implementation of projects for rejuvenation and revival of PSUs under Department of Industries and Commerce’ (Report No. 8 of the year 2022) and made significant observations on implementation of 16 projects in 18 PSUs. It was observed that despite investing ₹200.17 crore, none of the completed projects performed as envisaged in their respective project reports. Deficiencies in project evaluation, delay in release of funds by Government, diversion of funds by PSUs, deficient project implementation by PSUs *etc.*, led to the non-achievement of intended benefits from the rejuvenation and revival projects.

A study on operational performance of Traco Cable Company Limited for the period 2017-18 to 2021-22 revealed that the average expenditure incurred during the five years from 2017-18 to 2021-22 to generate a revenue of ₹100 was ₹122.16 as shown in the table below:

**Table 1.13: Components and split up of expenditure for earning of ₹100**

Sl. No.	Nature of Expenditure	Amount in ₹ expended to earn a revenue of ₹100
1	Cost of Raw materials consumed	80.11
2	Employee cost	17.99
3	Finance cost	10.92
4	Other expenses	13.14
<b>Total Expenses</b>		<b>122.16</b>

It could be seen that as the expenditure incurred was exceeding the revenue earned, the business model was not a sustainable one. This resulted in poor performance over the years, erosion of capital, and negative Net worth.

#### 1.3.4 Dividend payout by PSUs

The details of profit earned and dividend declared by Government companies and Statutory corporations are given in **Table 1.14**:

<sup>17</sup> Kerala State Drugs and Pharmaceuticals Limited, Steel Industrials Kerala Limited, Kerala State Maritime Development Corporation Limited, Kerala Tourism Development Corporation Limited, Kerala Artisans' Development Corporation Limited, Kerala State Film Development Corporation Limited and Vision Varkala Infrastructure Development Corporation Limited.

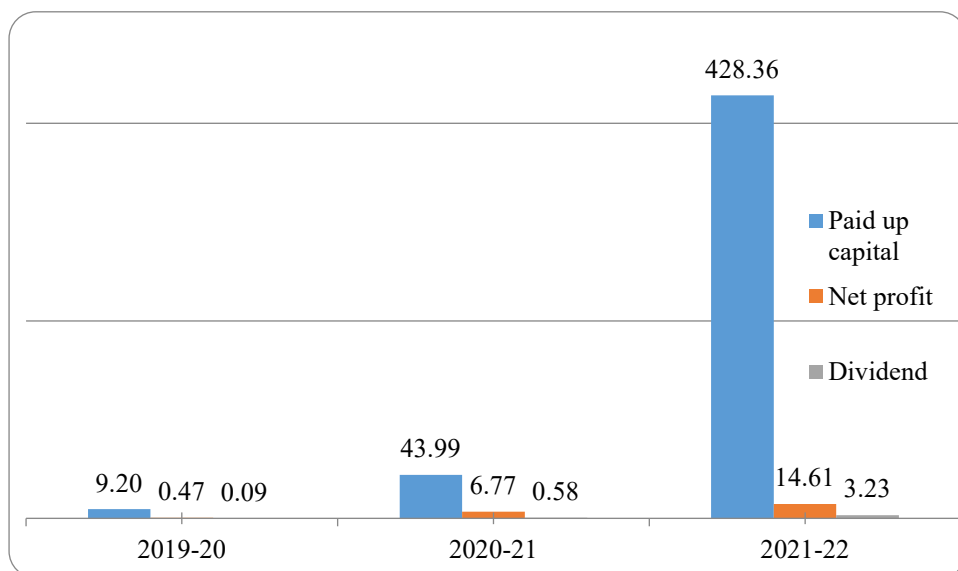
Table 1.14: Profit earned and dividend declared

(*₹ in crore*)

Particulars	No. of PSUs	Paid up capital	Net profit	Dividend declared
Government company <sup>18</sup>	1	1.61	0.48	0.16
Statutory corporation <sup>19</sup>	1	426.50	13.20	1.07
Government controlled other company <sup>20</sup>	1	0.25	0.93	2.00
<b>Total</b>	<b>3</b>	<b>428.36</b>	<b>14.61</b>	<b>3.23</b>

(Source: As per latest finalised accounts of PSUs)

Out of 131 working PSUs, three PSUs (including one Statutory corporation) declared a dividend of ₹3.23 crore as per their latest finalised accounts as against ₹0.58 crore by two PSUs in 2020-21. The dividend declared as a percentage of net profit of these PSUs increased from 19.05 *per cent* in 2019-20 to 22.11 *per cent* in 2021-22. **Chart 1.2** depicts the dividend declared vis-a-vis net profit earned and paid up capital of PSUs which declared dividend during the last three years.



The return in the form of dividend on aggregate investment of ₹2,344.07 crore made by the State Government in equity capital of 51 profit earning PSUs was 0.06 *per cent* in 2021-22 as compared to 0.03 *per cent* during 2020-21.

The State Government had formulated (December 1998) a dividend policy where in, all PSUs which make profit were directed to see that a minimum dividend of 20 *per cent* on the paid up share capital is declared every year without fail. In case sufficient allocable surplus is not available to declare dividend at the above rate, a

<sup>18</sup> Kerala Agro Machinery Corporation Limited (2020-21).

<sup>19</sup> Kerala Financial Corporation (2021-22).

<sup>20</sup> Kinfra Export Promotion Industrial Parks Limited (2020-21).

dividend at lower rate utilising at least 30 per cent of such allocable surplus should be declared. However, 51 PSUs which earned profit did not declare dividend or declared lesser than the amount prescribed by the Government as given in *Appendix IX*. The total shortfall on this account was ₹226.47 crore.

## 1.4 Operating efficiency of PSUs

### 1.4.1 Value of production

The summary indicating value of production, total assets and sum of capital employed<sup>21</sup> in respect of working PSUs over a period of three years is given in the **Table 1.15**.

**Table 1.15: Value of Production, Assets and Capital Employed of working PSUs**  
(₹ in crore)

Year	Number of PSUs	Value of Production	Total Assets	Sum of Capital Employed
2019-20	126	33,839.65	95,311.41	24,813.08
2020-21	126	34,769.57	97,571.96	26,411.34
2021-22	131	35,767.90	1,14,454.86	29,336.30

(Source: As per latest finalised accounts of PSUs)

During the year 2021-22, the value of production had increased to ₹35,767.90 crore from ₹33,839.65 crore during 2019-20. Similarly, the total assets and capital employed showed an increasing trend in all the three years.

### 1.4.2 Return on Capital Employed

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. The PSU-wise details of ROCE are given in *Appendix X*. The consolidated ROCE of PSUs during the period from 2019-20 to 2021-22 is given in **Table 1.16**.

**Table 1.16: Return on Capital Employed**

Year	Number of PSUs	EBIT	Capital employed	ROCE (in percentage)
2019-20	126	1,561.96	24,813.08	6.29
2020-21	126	(-)862.32	26,411.34	(-)3.26
2021-22	131	(-)14.98	29,336.30	(-)0.05

(Source: As per latest finalised accounts of PSUs)

It was observed that EBIT and ROCE of 126 PSUs was positive during 2019-20 and became negative in subsequent years. The overall EBIT improved in 2021-22 compared to 2020-21.

<sup>21</sup> Capital employed= Paid up capital + Free reserves and surplus+ Long Term loans-Accumulated losses-Deferred Revenue Expenditure.

### 1.4.3 Return on Equity (ROE) of PSUs

Return on Equity<sup>22</sup> (ROE) is a measure of financial performance of companies calculated by dividing net income by shareholders' equity. The consolidated ROE of PSUs during the period from 2019-20 to 2021-22 is given in **Table 1.17**.

**Table 1.17: Return on Equity**

(₹ in crore)				
Year	Number of PSUs	Net Profit after tax and preference dividend	Shareholders' equity	ROE (in percentage)
2019-20	126	(-)2,139.05	(-)998.35	-
2020-21	126	(-)4,035.68	(-)3,290.51	-
2021-22	131	(-)3,410.39	(-)3,968.29	-

(Source: As per latest finalised accounts of PSUs)

It can be observed from the table above that during the three years ended 2021-22, both the net profit after tax and the shareholders' equity were negative. Hence, the ROE could not be worked out for these periods. Negative shareholders' equity indicates that the liabilities of these PSUs have exceeded their assets.

The PSU-wise details of Return on Equity are given in **Appendix XI**.

Sector-wise ROE of PSUs during the three years ended 2021-22 is depicted in **Table 1.18**.

**Table 1.18: Sector-wise ROE of PSUs**

Sl. No	Sector	ROE in percentage		
		2019-20	2020-21	2021-22
1	Agriculture and Allied	(-)7.89	(-)8.70	(-)5.00
2	Finance	6.17	(-)7.19	(-)6.82
3	Infrastructure	1.03	2.30	1.10
4	Manufacturing	*	*	*
5	Power	*	*	*
6	Service	*	*	*

(Source: As per latest finalised accounts of PSUs)

\*The net income and equity were negative and hence, ROE was not worked out.

Sector-wise analysis indicated that the PSUs in Infrastructure sector reported positive ROE in all the three years. PSUs in Finance sector reported positive ROE in 2019-20, but reported negative ROE in subsequent years.

<sup>22</sup> Return on Equity = (Net profit after tax and preference Dividend/Equity)\*100 where Equity = Paid up capital + Free Reserves – Accumulated Loss – Deferred Revenue Expenditure.



#### 1.4.4 Rate of Real Return on Government Investment

Rate of Real Return on Government Investment (RORR) measures the profitability and efficiency with which equity and similar non-interest bearing capitals have been employed, after adjusting them for their time value, and assumes significance when compared with the conventional Rate of Return (ROR), which is calculated by dividing the Profit After Tax (PAT) by the sum of all such investments counted on historical cost basis.

Out of 131 working PSUs, the State Government had direct investment in 126 PSUs during 2021-22. Audit examined the RORR in these PSUs having State Government investment as detailed in **Table 1.19**.

**Table 1.19 Year-wise details of investment by State Government and Rate of Real Return from 2017-18 to 2021-22**

(₹ in crore)

Year	Present value of total investment of State Government at the beginning of the year	Equity infused by the State Government during the Year	Interest free loan given by the State Government during the Year	Total investment during the Year	Average interest rate of Government borrowings	Total investment at the end of the year	Present value of total investment at the end of the year	Minimum expected return to recover cost of funds for the year	Total earnings after tax	RORR (in percentage)
i	ii	iii	iv	v=iii+iv	vi	vii=ii+v	viii=vii*(1+vi)/100	ix=vii*vi/100	x	xi=(13)/(11)*100
2017-18	8,153.60	243.65	261.10	504.75	7.48	8,658.35	9,305.99	696.09	-1,799.80	-19.34
2018-19	9,305.99	842.62	70.78	913.40	7.34	10,219.39	10,969.50	805.16	-3,081.21	-28.09
2019-20	10,969.50	-133.98	55.12	-78.86	7.58	10,890.64	11,716.15	888.08	-2,138.92	-18.26
2020-21	11,716.15	325.06	48.99	374.05	7.31	12,090.20	12,973.99	948.40	-4,044.06	-31.17
2021-22	12,973.99	386.52	10.43	396.95	7.00	13,370.94	14,306.91	1,001.48	-3,411.69	-23.85
<b>Total</b>		<b>1,663.87</b>	<b>446.42</b>	<b>2,110.29</b>		<b>55,229.52</b>	<b>59,272.54</b>	<b>4,339.22</b>		

(Source: As per details received from PSUs and latest finalised accounts of PSUs)

During 2017-18 to 2021-22, the total earnings after tax was negative in all the years and thus, the RORR was also negative. The total earnings after tax of all the PSUs was below the minimum expected return to recover the cost of funds infused in these PSUs. As per their latest finalised accounts, the PSUs reported a total loss of ₹3,411.69 crore against the minimum expected return of ₹1,001.48 crore. Out of the total loss, bulk of the loss was incurred by Kerala State Electricity Board Limited (₹1,822.35 crore) and Kerala State Road Transport Corporation (₹1,007.18 crore).

The RORR of Government investment at historical cost as well as present value was negative during 2021-22 and ranged between (-)18.26 per cent and (-) 31.17 per cent during 2017-18 to 2021-22.

### 1.4.5 Sales and Marketing

As on 30 September 2022, only 73 out of 131 working PSUs had furnished the details of total sales for the period from 2019-20 to 2021-22. It was observed that the sales value decreased from ₹26,785.20 crore in 2019-20 to ₹26,300.12 crore during 2021-22. During 2021-22, 36 PSUs sold goods/rendered services worth ₹963.84 crore to Government sector representing 3.66 *per cent* of the total sales. The details of total sales, sales to Government sector/PSUs and exports are given in **Table 1.20**.

**Table 1.20: Sales details of PSUs**

Year	Total sales		Sales to Government/ PSUs			Export Sales
	Number of PSUs	Sales value	Number of PSUs	Sales value	Percentage of sales to Government/ PSUs	
2019-20	61	26,785.20	35	985.21	3.68	76.55
2020-21	62	28,333.44	35	1,109.34	3.92	77.13
2021-22	61	26,300.12	36	963.84	3.66	106.56

(₹ in crore)  
(Source: Details received from PSUs)

The total sales of ₹26,300.12 crore made by 61 PSUs includes export sales of ₹101.24 crore in 2021-22 made by The Kerala Minerals and Metals Limited and Kerala State Coir Corporation Limited.

### 1.5 Disinvestment

No disinvestment of PSUs took place during 2021-22.

### 1.6 Reply of the Government of Kerala

Government of Kerala replied (March 2023) that a circular was issued requiring the PSUs to reconcile figures of equity, loans and guarantees given to them as appearing in their books with that of the figures of GoK. Other issues like non-payment of dividend, current financial position of PSUs *etc.*, are under the consideration of Government and necessary instructions are being given to the institutions concerned to expedite and clear these issues.

### 1.7 Conclusion

This chapter presented the financial performance of Public Sector Undertakings as regards the amount of investment made by the Government in the form of equity and long term loans. The financial performance was measured by ratios indicating their operating efficiency and Return on Investment. Analysis revealed that 75 out of 131 working PSUs had an aggregate accumulated loss of ₹19,169.12 crore and of these 75 PSUs, the net worth of 46 PSUs had been completely eroded by

accumulated loss and their net worth was negative. The net worth of these 46 PSUs was (-) ₹12,460.21 crore against equity investment of ₹6,081.18 crore. Return on Equity in all the 122 PSUs (excluding nine working PSUs which have not submitted their first accounts) *i.e.*, including 55 profit earning, 63 loss making and four zero profit/loss companies was negative as the overall net income of these PSUs was negative during 2021-22. In 107 out of 131 State PSUs, differences between figures as per Finance accounts and figures as per records of PSUs occurred. Such differences are persisting for many years.

## 1.8 Recommendations

- 1. Out of the 150 PSUs in the State, 131 PSUs are functional and 19 Companies are non-functional. These 19 companies are either defunct or at various stages of liquidation. Five companies are under orders (August 1990-July 2006) of liquidation by court and six companies which went (1996-2017) defunct are yet to start liquidation process. For the remaining eight companies which are defunct (1986-2019), Government is yet to issue closure orders. In view of the above long pendency in winding up, Government must expedite the process of winding up.*
- 2. The audit on “Implementation of projects for rejuvenation and revival of PSUs under Department of Industries and Commerce” was carried out in 16 PSUs only. Hence, the Government of Kerala should undertake similar reviews to evaluate the under performance of the remaining PSUs and take suitable steps for mitigating the persistent loss being incurred by the PSUs. Government should extend financial assistance to the PSUs only after evaluating their repayment capacity.*
- 3. Government needs to decide on the business models of the loss-making PSUs in order to address the root cause of the losses. In case the business model is not sustainable, Government should close the companies, especially those whose net worth has been completely eroded, to avoid further straining of the public exchequer.*
- 4. There are differences in equity, loans and guarantees in the accounts maintained by the PSUs and those of the Government of Kerala which are lying unattended for a long time. Therefore, the State Government and the respective PSUs should reconcile the differences relating to equity, loans and guarantees in a time-bound manner.*