

**CHAPTER-VI**  
**ECONOMIC SECTOR**  
**(STATE PUBLIC SECTOR UNDERTAKINGS)**



## CHAPTER - VI

### ECONOMIC SECTOR (STATE PUBLIC SECTOR UNDERTAKINGS)

#### 6.1.1 Introduction

As of 31 March 2023, there were seven State Public Sector Undertakings (SPSUs)<sup>1</sup> in Nagaland as shown in **Table 6.1.1**.

**Table 6.1.1: Total number of SPSUs as on 31 March 2023**

Type of SPSUs	Working SPSUs	Non-working SPSUs	Total
Government Companies <sup>2</sup>	5	2	7
Statutory Corporations	Nil	Nil	Nil
<b>Total</b>	<b>5</b>	<b>2</b>	<b>7</b>

Source: Information as provided by SPSUs

None of these companies are listed on the stock exchange which means that the shares of the SPSUs cannot be traded in the stock exchange. During the year 2022-23, no new SPSU was incorporated and no existing SPSU was closed down.

Regarding one SPSU *viz.* Kohima Smart City Development Limited (KSCDL), analysis is not covered in the report due to non-submission of Accounts.

#### 6.1.2 Investment in SPSUs

The investment in SPSUs includes the investments made by the State Government and Others (including the Central Government, Holding Companies, Banks, Financial Institutions). The State Government's stake in these SPSUs is mainly of three types:

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

As on 31 March 2022 and 31 March 2023, total investment in six SPSUs was ₹118.59 crore and ₹121.96 crore<sup>3</sup> respectively as per details shown in **Table 6.1.2**.

<sup>1</sup> All Government Companies

<sup>2</sup> Government Companies include 'Other companies' referred to in Section 139(5) and 139(7) of the Companies Act 2013

<sup>3</sup> Investment figures are provisional and as per the information provided by the SPSUs, none of the six SPSUs has finalised accounts for 2022-23 as of September 2023

**Table 6.1.2: Details of total investment in six SPSUs as on 31 March 2022 and 31 March 2023**

(₹ in crore)

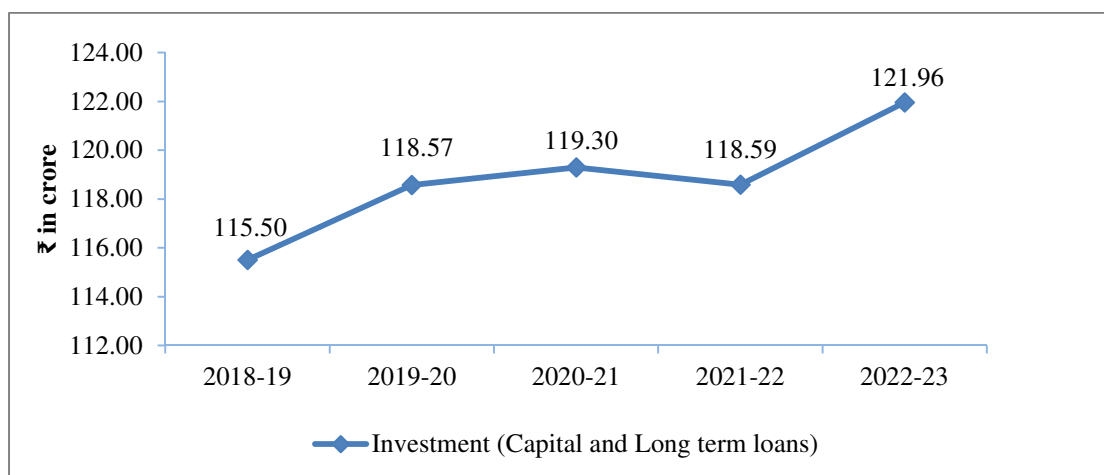
Particulars	2021-22			2022-23		
	Equity Capital	Long-term Loans	Total	Equity Capital	Long-term Loans	Total
State Government	34.34	0.81	35.15	34.34	0.00	34.34
Others*	7.92	75.52	83.44	7.92	79.70	87.62
<b>Total</b>	<b>42.26</b>	<b>76.33</b>	<b>118.59</b>	<b>42.26</b>	<b>79.70</b>	<b>121.96</b>

Source: Information as provided by SPSUs

\* Others include Central Government, holding companies, banks/FIs.

The total investment consisted of 28.16 per cent towards capital and 71.84 per cent in long-term loans as of 31 March 2023. The investment in 2022-23 increased by ₹3.37 crore from 2021-22 due to increase in availing of loan. The investment grew by 5.59 per cent from ₹115.50 crore in 2018-19 to ₹121.96 crore in 2022-23 as shown in **Chart 6.1.1**.

**Chart 6.1.1: Total investment in SPSUs**



Source: Information as provided by SPSUs

Further, it can be seen from **Table 6.1.2** above that, around 28.16 per cent (₹34.34 crore) of the total investment (₹121.96 crore) in SPSUs as on 31 March 2023 was contributed by the State Government. However, there was no recorded information about the existence of any specific policy of the State Government regarding payment of minimum dividend by the SPSUs. During 2022-23, out of four<sup>4</sup> working SPSUs, only one SPSU (Nagaland State Mineral Development Corporation Limited) recorded profit (₹0.46 crore) as per its latest finalised accounts (2020-21) (**Appendix 6.1.1**). However, no dividend was declared by this SPSU.

### 6.1.2.1 Sector-wise investment in SPSUs

The total investment by the State Government and Others (Central Government, Holding companies, Banks, Financial Institutions) in important sectors at the end of 31 March 2019 and 31 March 2023 is shown in **Table 6.1.3**.

<sup>4</sup> Excluding one SPSU (Kohima Smart City Development Limited), which has not finalised its first Accounts.

**Table 6.1.3: Major Sector-wise investment in SPSUs as on 31 March 2023**

(₹ in crore)

Name of Sector	Year of investment	
	2018-19	2022-23
Finance	74.62	82.65
Manufacturing	10.68	14.85
Service	10.97	5.61
Miscellaneous	19.23	18.85
<b>Total</b>	<b>115.50</b>	<b>121.96</b>

Source: Information as provided by SPSUs

As can be seen from **Table 6.1.3** above, the thrust of SPSU investment during 2018-19 and 2022-23 was in Finance sector<sup>5</sup>, which had increased by 10.76 per cent from ₹74.62 crore (2018-19) to ₹82.65 crore (2022-23). The share of this Sector in overall investment increased by 3.16 per cent during 2022-23 (67.77 per cent) from 64.61 per cent during 2018-19.

### 6.1.3 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per the records of SPSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the Finance Department and the SPSUs concerned should carry out reconciliation of differences. The position in this regard as of 31 March 2022 and 2023 is shown in **Table 6.1.4**.

**Table 6.1.4: Variation between Finance Accounts and records of SPSUs**

(₹ in crore)

Outstanding in respect of	2021-22			2022-23		
	Amount as per Finance Accounts	Amount as per records of SPSUs <sup>6</sup>	Difference	Amount as per Finance Accounts	Amount as per records of SPSUs <sup>7</sup>	Difference
Equity	111.05	34.34	76.71	111.05	34.34	76.71
Loans <sup>8</sup>	0.48	0.81	0.33	0.48	0.00	0.48
Guarantees	59.03	19.28	39.75	59.03	88.00	28.93

Source: As per the State Finance Accounts, 2022-23 and information furnished by SPSUs

As can be seen from **Table 6.1.4** above, there were unreconciled differences in the figures of equity (₹76.71 crore), and guarantees (₹39.75 crore in 2021-22 and ₹28.93 crore in 2022-23) as per two sets of records. The differences for equity occurred in respect of all the SPSUs while differences for guarantee relate to two SPSUs<sup>9</sup>.

<sup>5</sup> Finance Sector included only one SPSU (Nagaland Industrial Development Corporation Limited)

<sup>6</sup> Information as provided by SPSUs and includes only the investment made by the State Government.

<sup>7</sup> Information as provided by SPSUs and includes only the investment made by the State Government.

<sup>8</sup> In the State Finance Accounts, 2022-23, the loan figures appear sector-wise and not SPSU-wise, hence, the figures of the State Government loans provided to SPSUs are not available in Finance Accounts.

<sup>9</sup> Serial no. A1 and A4 of **Appendix 6.1.1**.

Though the Finance Department, Government of Nagaland as well as the SPSUs concerned were apprised about the differences impressing upon the need for early reconciliation, no significant progress was noticed in this regard.

***Recommendation: The State Government and the SPSUs concerned may take concrete steps to reconcile the differences in a time-bound manner.***

#### **6.1.4 Accountability framework**

The audit of the financial statements of a Company in respect of financial years commencing on or after 01 April 2014 is governed by the provisions of the Companies Act, 2013 and audit of the financial statements in respect of financial years that commenced prior to 01 April 2014 continue to be governed by the Companies Act, 1956. The new Act has brought about increased regulatory framework, wider management responsibility and higher professional accountability.

##### **6.1.4.1 Statutory Audit/Supplementary Audit**

Statutory Auditors appointed by the C&AG audits the financial statements of a Government Company. In addition, C&AG conducts the supplementary audit of these financial statements under the provisions of Section 143(6) of the Act.

##### **6.1.4.2 Role of Government and Legislature**

The State Government exercises control over the affairs of these SPSUs through its administrative departments. The Government appoints the Chief Executives and Directors on the Board of these SPSUs.

The State Legislature also monitors the accounting and utilisation of Government investment in the SPSUs. For this purpose, the Annual Reports of State Government Companies together with the Statutory Auditors' Reports and comments of the C&AG thereon are required to be placed before the Legislature under Section 394 of the Act.

#### **6.1.5 Arrears in finalisation of accounts**

The financial statements of the companies are required to be finalised within six months after the end of the financial year *i.e.* by 30 September in accordance with the provisions of Section 96(1) of the Act. Failure to do so may attract penal provisions under Section 99 of the Act. As per the Act, the SPSU and every officer of the SPSU who is at default shall be punishable with fine which may extend up to ₹one lakh and in the case of a continuing default, with a further fine which may extend upto ₹5,000 for every day during which such default continues.

Moreover, timely finalisation of accounts is important for the State Government to assess the financial health of the SPSUs and to avoid financial misappropriation and mismanagement. Persistent delay in finalisation of accounts is fraught with the risk of fraud and leakage of public money going undetected apart from violation of the provision of the Companies Act, 2013.

**Table 6.1.5** below provides the details of progress made by the five working SPSUs<sup>10</sup> in finalisation of their annual accounts as on 30 September 2023.

**Table 6.1.5: Position relating to finalisation of accounts of working SPSUs**

Sl. No.	Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
1.	Number of Working SPSUs	5	5	4	5	5 <sup>11</sup>
2.	Number of accounts finalised during the year	8	2	14	3	5
3.	Number of accounts in arrears	18	21	9	15	17
4.	Number of Working SPSUs with arrears in accounts	5	5	4	5	5
5.	Extent of arrears (nos. in years)	1 to 9	1 to 10	1 to 3	1 to 5	1 to 6

Source: Records of the SPSUs

As can be seen from **Table 6.1.5** above, the arrears in accounts of the working SPSUs had increased in the current year. The main reason for increase in arrears was due to non-submission of accounts by KSCDL since its inception (24 March 2017). Further, two SPSUs, viz., Nagaland Handloom & Handicrafts Development Corporation Ltd., and Nagaland Hotels Limited, did not submit any accounts during the year 2022-23.

The administrative departments, which have the responsibility of overseeing the activities of the SPSUs, have to ensure that the SPSUs finalise and adopt their accounts within the stipulated period. The Principal Accountant General (Audit), Nagaland had been pursuing the issue with the administrative departments concerned for liquidating the arrears of accounts of SPSUs. However, the State Government and the SPSUs concerned could not address the issue to clear pendency of accounts of the SPSUs in a time-bound manner.

#### **6.1.6 Investment by State Government in SPSUs whose accounts are in arrears**

The State Government had not invested any equity and loan in SPSUs whose accounts are in arrears. However, an amount of ₹29.54 crore was provided in the form of grant to four working SPSUs.

#### **Recommendations:**

**The State Government may consider-**

- (i) *outsourcing the work, where there is lack of staff expertise, relating to preparation of accounts and take punitive action against the Management of the Company responsible for arrears of accounts.*
- (ii) *consider further financial assistance to such companies until the accounts are made as current as possible.*

<sup>10</sup> As on 30 September 2023, Nagaland Handloom & Handicraft Development Limited finalised its accounts upto 2019-20, Nagaland Hotels Limited finalized upto 2017-18, Nagaland State Mineral Development Corporation Limited and Nagaland Industrial Development Corporation Limited upto 2021-22. One SPSU, viz., Kohima Smart City Development Limited, has not submitted its first accounts as of 30 September 2023.

<sup>11</sup> Includes Kohima Smart City Development Limited incorporated on 24 March 2017.

### 6.1.7 Special support and guarantees to SPSUs during the year

State Government provides financial support to SPSUs in various forms through annual budgetary allocations. The details of budgetary outgo towards equity, loans and grants/subsidies in respect of SPSUs for three years are shown in **Table 6.1.6**.

**Table 6.1.6: Details of budgetary support to SPSUs**

(₹ in crore)

Sl. No.	Particulars	2020-21		2021-22		2022-23	
		No. of SPSUs	Amount	No. of SPSUs	Amount	No. of SPSUs	Amount
1.	Equity Capital outgo from budget	0	0.00	0	0.00	0	0.00
2.	Loans given from budget	1	0.62	1	4.28	0	0.0
3.	Grants/Subsidy from budget	5	26.76	4	28.30	4	29.54
<b>Total Outgo (1+2+3)</b>			<b>27.38</b>		<b>32.58</b>		<b>29.54</b>
4.	Guarantees issued	1	0.62	1	4.28	0	0.00
5.	Guarantee Commitment	1	15.00	1	15.00	2	88.00

Source: Information as provided by the SPSUs

It may be seen from **Table 6.1.6** above that the year-wise budgetary outgo to SPSUs decreased during 2022-23 by ₹3.04 crore as compared to the previous year (2021-22). During all three years under reference, the significant portion of budgetary support ranging between 97.74 per cent (2020-21) and 100 per cent (2022-23) was provided in the form of grants/subsidy.

State Government also guarantees the repayment of loans (with interest) availed by the SPSUs from Banks/Financial Institutions subject to the prescribed limits and payment of guarantee fee of one per cent of the guarantee amount by the SPSUs concerned. The two SPSUs<sup>12</sup> had not paid any guarantee fee to the State Government in absence of any demand from the State Government.

### 6.1.8 Performance of SPSUs as per their latest finalised accounts

The financial position and working results of working SPSUs (all Government companies) as per their latest finalised accounts are detailed in **Appendix 6.1.1**. The comparative details of working SPSU turnover and Gross State Domestic Product (GSDP) for five years ending 2022-23 is shown in **Table 6.1.7**.

**Table 6.1.7: Details of working SPSUs turnover vis-à-vis GSDP**

(₹ in crore)

Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
Turnover <sup>13</sup>	6.70	6.78	6.52	6.05	5.92
GSDP	26,527.42	29,715.87	29,831.64	31,912.54	35,933.96
Percentage of Turnover to GSDP	0.03	0.02	0.02	0.02	0.02

Source: Information as provided by SPSUs and State Finance Audit Report, 2022-23

<sup>12</sup> Nagaland Handloom & Handicrafts Development Corporation Limited and Nagaland Industrial Development Corporation Limited

<sup>13</sup> Turnover of working SPSUs as per the latest finalised accounts as on 30 September of the respective year

A ratio of SPSU-turnover to GSDP shows the extent of SPSU activities in the State economy. It may be noticed from **Table 6.1.7** above that during the last five years (2018-23), the GSDP had grown by 35.46 *per cent* while the turnover of SPSUs during the corresponding period had decreased by 11.64 *per cent*. Thus, the year-wise SPSU-turnover during the period of five years was not commensurate with the growth in the GSDP during the corresponding period. The percentage of SPSU-turnover to GSDP has decreased to 0.02 *per cent* due to rounding off of percentage figures to two decimal points.

### 6.1.8.1 Key parameters

Some other key parameters of SPSUs performance as per their latest finalised accounts as on 30 September of the respective year are shown in **Table 6.1.8**.

**Table 6.1.8: Key Parameters of working SPSUs**

Particulars	(₹ in crore)				
	2018-19	2019-20	2020-21	2021-22	2022-23
Debt	70.05	73.72	71.63	71.85	84.74
Turnover <sup>14</sup>	6.70	6.78	6.52	6.05	5.92
Debt/Turnover Ratio	10.46:1	10.87:1	10.99:1	11.88:1	14.31:1
Interest Payments <sup>15</sup>	2.08	2.06	1.61	1.09	0.86
Accumulated Profits/(Losses)	(66.38)	(68.62)	(67.75)	(73.33)	(96.96)

Source: Annual Accounts of SPSUs

#### **Debt-Turnover Ratio**

A low debt-to-turnover ratio (DTR) demonstrates a good balance between debt and income. Conversely, a high DTR can be a sign of having too much debt against the income of SPSUs from core activities. Thus, the SPSUs having lower DTR are more likely to successfully manage their debt servicing and repayments.

#### **SPSU Debt**

It can be noticed from **Table 6.1.8** above that during the period of five years (2018-23), the SPSU debt had been more than 10 times of their turnover indicating acute difficulties in repayment and servicing of debts by the SPSUs. Consequently, the DTR had been at high levels during all the five years under reference. Further, during 2018-23, the SPSU debts had registered an overall increase of 20.97 *per cent* (₹14.69 crore) while there was an overall decrease of 11.64 *per cent* (₹0.78 crore) in SPSU-turnover during the corresponding period. As a result, the DTR of working SPSUs increased from 10.46:1 (2018-19) to 14.31:1 (2022-23) during the last five-years (2018-23) indicating deteriorated position of SPSUs in servicing and repayment of their long-term debts as compared to previous years.

Further, the high SPSU debts had caused additional pressure on the SPSUs in servicing their debts by way of interest liability. However, as can be noticed from **Table 6.1.8** above, the figures of interest payment by SPSUs during 2019-20 to 2022-23 are not consistent with the SPSU debts during the corresponding years. This was mainly due to non-payment and non-accounting of interest liability against

<sup>14</sup> Turnover of working SPSUs as per the latest finalised accounts as on 30 September of the respective year

<sup>15</sup> Interest payments of working SPSUs as per the latest finalised accounts as of 30 September of the respective year

long-term debts by one SPSU (Nagaland Industrial Development Corporation Limited) during these years. The unaccounted accumulated interest liability of Nagaland Industrial Development Corporation Limited as per its latest finalised Accounts (2021-22) as of September 2023 stood at ₹9.19 crore.

### 6.1.8.2 Erosion of capital due to losses

The paid-up capital and accumulated losses of four working SPSUs as per their latest finalised accounts as on 30 September 2023 were ₹35.14 crore and ₹80.93 crore respectively (**Appendix 6.1.1**).

The accumulated losses (₹81.45 crore) of two working SPSUs had completely eroded their paid-up capital (₹25.55 crore) as per their latest finalised accounts as shown in **Table 6.1.9**.

**Table 6.1.9: SPSUs with erosion of paid-up capital**

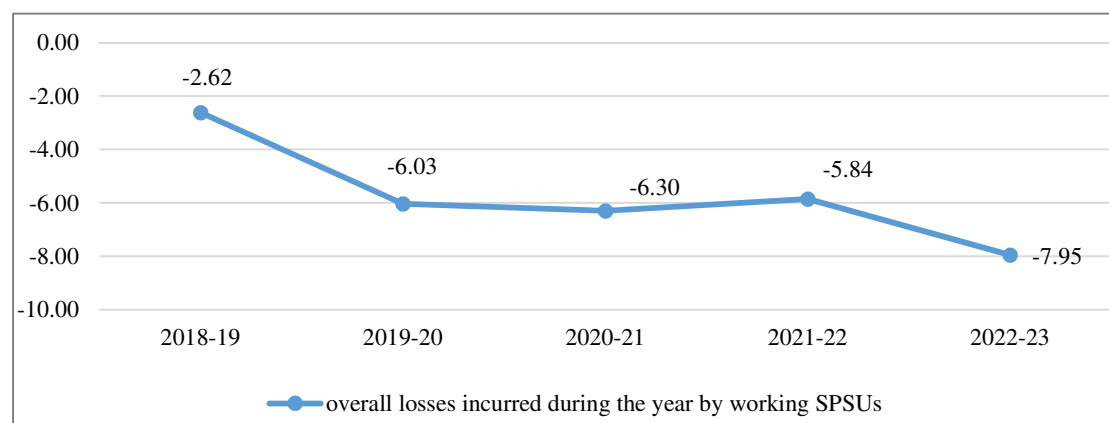
Name of SPSU	Latest finalised accounts	(₹ in crore)	
		Paid up capital	Accumulated losses
Nagaland Industrial Development Corporation Limited	2021-22	23.20	-59.36
Nagaland Hotels Limited	2017-18	2.35	-22.09
<b>Total</b>	--	<b>25.55</b>	<b>-81.45</b>

Source: Records of the SPSUs

The Return on Equity (ROE)<sup>16</sup> of one SPSU (Nagaland Hotels Limited) was not workable due to complete erosion of their equity capital. ROE in respect of one SPSU (Nagaland State Mineral Development Corporation Limited) was positive.

The overall position of the aggregate losses incurred by working SPSUs during 2018-19 to 2022-23 is shown in **Chart 6.1.2**.

**Chart 6.1.2: Losses of working SPSUs**



Source: Latest finalised accounts of the SPSUs as on 30 September of the respective years

As can be noticed from **Chart 6.1.2**, the losses of working SPSUs has increased by 36.13 per cent in 2022-23 as compared to 2021-22. The SPSUs mostly depend on the State Government grants to meet the salary expenditure of its employees since they have less or no income from operations.

<sup>16</sup> ROE = (Net Profit after taxes *minus* preference dividend) ÷ Shareholders' Fund/Equity; Where, Shareholders' Fund/Equity = Paid up Share Capital *plus* Free Reserves and Surplus *minus* Accumulated Loss *minus* Deferred Revenue Expenditure

### 6.1.9 Return on Investment on the basis of Present Value of Investment

The Rate of Real Return (RORR) measures the profitability and efficiency with which equity and similar non-interest bearing capital have been employed, after adjusting them for their time value. To determine the RORR on government investment in the SPSUs, the investment of State Government in the form of equity, interest-free loans and grants/subsidies given by the State Government for operational and management expenses less the disinvestments (if any), has been considered and indexed to their Present Value (PV) and summated. The RORR is then calculated by dividing the 'Profit After Tax' (PAT) of the SPSUs by the sum of the PV of Government investment.

During 2022-23, as per their latest finalised accounts, three SPSUs where State Government had made direct investment, incurred losses and one SPSU *viz.*, Nagaland State Mineral Development Corporation, had shown a net profit of ₹0.46 crore which is mainly due to grant received from the State Government while one SPSU *i.e.*, Kohima Smart City Development Limited has not finalised its accounts since inception. On the basis of return on historical value, the State Government's investment in SPSUs had eroded by (-) 3.13 *per cent* during 2022-23. As per the RORR where the PV of investment is considered, the State Government investment eroded by (-) 1.32 *per cent* as shown in **Appendix 6.1.2**. This difference in the percentage of investment erosion was on account of the adjustment made in the investment amount for time value of money.

### 6.1.10 Impact of Audit Comments on Annual Accounts of SPSUs

During October 2021 to September 2023, four working Companies forwarded nine audited accounts to the Principal Accountant General (Audit), Nagaland. Of these, six accounts were issued Non Review Certificate and three Accounts were selected for audit. Out of these three accounts audited, one was audited during 2021-22 and two were audited during 2022-23.

The Statutory Auditors had given qualified certificate to one account. The details of aggregate money value of comments of Statutory Auditors and C&AG during the last three years is shown in **Table 6.1.10**.

**Table 6.1.10: Impact of audit comments on working Companies**

(₹ in crore)

Sl. No.	Particulars	2020-21		2021-22		2022-23	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1.	Increase in loss	2	2.90	1	1.67	1	10.99
2.	Decrease in profit	0	0	0	0	1	0.06
3.	Errors of classification	2	5.66	0	0	0	0
<b>Total</b>		<b>4</b>	<b>8.56</b>	<b>1</b>	<b>1.67</b>	<b>2</b>	<b>11.05</b>

Source: Comments issued to SPSUs by statutory auditors and C&AG

As can be seen from **Table 6.1.10**, the money value of comments of statutory auditors and C&AG during last three years ranged between ₹1.67 crore (2021-22) and ₹11.05 crore (2022-23) indicating deficiencies with the requirements of 'Generally Accepted Accounting Principles' (GAAP) and Accounting Standards (AS) by the SPSUs.

## **6.1.11 Follow up action on Audit Reports**

### **6.1.11.1 Submission of Explanatory notes**

The Report of the C&AG represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The Administrative Departments concerned are required to submit the explanatory notes to paragraphs/performance audits included in the Audit Reports of the C&AG after their presentation to the Legislature, without waiting for any questionnaires from the Committee on Public Undertakings (COPU). However, the Finance Department, Government of Nagaland had not issued any specific instructions in this regard.

The State Audit Reports for the years from 2013-14 to 2021-22 have already been placed in the State Legislature. These included four compliance audit paragraphs<sup>17</sup> on SPSUs in the SPSU Chapters of these Reports. As per the status available as on 30 September 2023, no explanatory notes were pending to be received from the Administrative Departments concerned against these compliance audit paragraphs.

### **6.1.11.2 Discussion of Audit Reports by COPU**

The status as on 30 September 2023 of Performance Audits and paragraphs on the SPSUs that appeared in State Audit Reports and discussed by the COPU are shown in **Table 6.1.11**.

**Table 6.1.11: Details of performance audits and paragraphs which featured in the State Audit Reports and their discussion held in the COPU**

Period of Audit Report	Number of reviews/paragraphs as on September 2023	
	Paragraphs appeared in Audit Report	Paragraphs discussed
2013-14	1	1
2014-15 & 2015-16	0	-
2016-17	1	1
2017-18	0	-
2018-19	2	2
2019-20 to 2021-22	0	-
<b>Total</b>	<b>4</b>	<b>4</b>

*Source: Audit Reports of the respective years*

During the period 2013-14 to 2022-23, four paragraphs relating to SPSUs had featured in the State Audit Reports which have already been discussed in COPU.

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<sup>17</sup> One compliance audit paragraph appeared in each of the State Audit Report for the year 2013-14 and 2016-17 and two paragraphs appeared in 2018-19