CHAPTER 1
GOVERNMENT INVESTMENTS, LOANS & LIABILITIES

1.1 Introductory

1.1.1 The accounts of Government Companies, General Insurance Companies and Deemed Government Companies are test checked and subjected to supplementary audit by the officers of the Comptroller and Auditor General of India (CAG) subsequent to the audit by the Statutory Auditors (Chartered Accountants appointed by the CAG). Some of the Statutory Corporations are either audited by CAG as Sole Auditor or by the Chartered Accountants appointed as primary auditors. In the case of latter, the statutes under which the Corporations have been set up invariably provide for supplementary audit by the CAG.

1.1.2 As on 31 March 2004, 384 Government Companies/Corporations were under the audit jurisdiction of the Comptroller and Auditor General of India. These included 285 Government Companies, five General Insurance Companies, six Statutory Corporations and 88 Deemed Government Companies of the Central Government.

1.1.3 During the period ended 31 March 2004, 17 Companies (eight Government Companies and nine Deemed Government Companies) came within the purview of the CAG and five Companies (two Government Companies and three Deemed Government Companies) ceased to be Government Companies. The details are given below:

New Government Companies

1. Air India Airport Services Limited
2. Bharatiya Nabhikiya Vidyut Nigam Limited
3. FCI Aravalli and Gypsum Minerals India Limited
4. IAL Airport Services Limited
5. IndianOil Technologies Limited
6. Karnataka Meat and Poultry Marketing Corporation Limited
7. NTPC Tamil Nadu Energy Company Limited
8. Rail Vikas Nigam Limited

New Deemed Government Companies

1. Cochin Port Road Company Limited
2. IDBI Housing Finance Limited
3. Maithon Power Limited
4. New Mangalore Port Road Company Limited
5. Paradeep Port Road Company Limited
6. Tuticorin Port Road Company Limited
7. UTI Asset Management Company Limited
8. UTI Investor Services Limited
9. UTI Trustee Services Limited

Ceased Government Companies

1. TALA Delhi Transmission Limited
2. Jessop and Company Limited

Ceased Deemed Government Companies

1. Discount and Finance House of India Limited
2. PNB Capital Services Limited
3. BOI Assets Management Company Limited

1.1.4 Of the six Statutory Corporations whose accounts were required to be audited by CAG under the respective Statutes, four Corporations, namely, Airports Authority of India, Damodar Valley Corporation, Inland Waterways Authority of India and National Highways Authority of India were solely audited by CAG. In respect of Food Corporation of India, the audit of which was being conducted in addition to the audit by Chartered Accountants, CAG was made sole auditor of the Corporation by an amendment to the Food Corporations Act, 1964 in June 2000. In respect of another Corporation, i.e. Central Warehousing Corporation, CAG has the right to carry out supplementary audit in addition to the audit carried out by the Chartered Accountants as primary auditors.

Analysis of the accounts of these six corporations as also the other PSUs is given in the succeeding chapters.

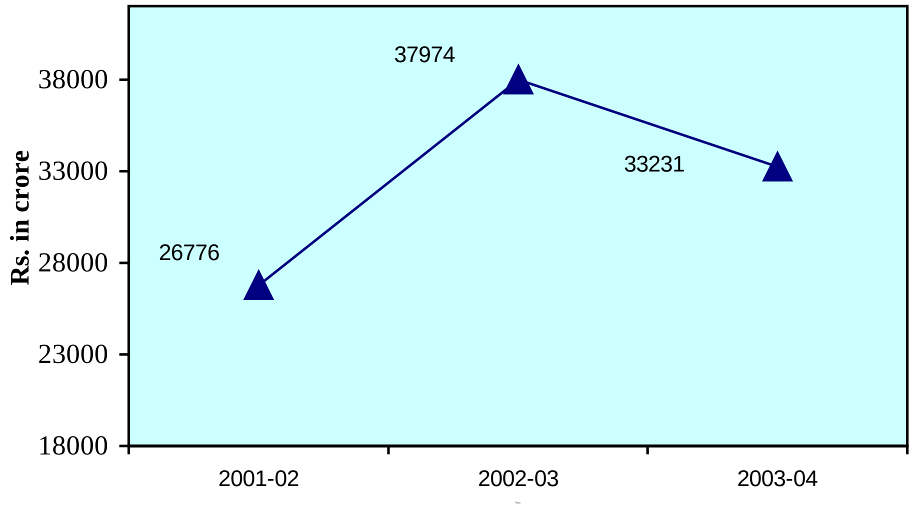
1.1.5 Ministry and Department-wise details of Public Sector Undertakings (PSUs) are given in Appendix I. Ministry/Department-wise details indicating the types and numbers of Government Companies, General Insurance Companies, Statutory Corporations which were subject to audit by the Comptroller and Auditor General of India as of 31 March 2004 are given in Appendix II A and II B. The equity investment in and loans given to these companies by the Central Government, Central Government Companies/Corporations, State Governments and others are also indicated therein. These Appendices do not, however, show the details of 10 PSUs which are defunct/under liquidation, 18 PSUs which have not submitted their accounts for the last three years or more and six PSUs for which accounts are not due.

1.1.6 Under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956, read with Section 19 of the Comptroller and Auditor General's (DPC) Act, 1971, the accounts of the Companies for the financial year are to be submitted for audit within six months from the end of the relevant financial year. More or less similar provisions exist in the statutes governing various statutory corporations. Audited accounts of Government Companies/ Corporations are required to be laid on the table of both the Houses of Parliament within a period of nine months from the end of the financial year. The accounts of 290 companies (including 59 Deemed Government Companies) for the current year were submitted for audit by 30 September 2004. In respect of 60 PSUs (including nine Deemed Government Companies), provisional figures have been adopted in this report based on the latest audited accounts. The details of these 60 PSUs/Deemed Government Companies, accounts of which are in arrears for the year 2003-04 or earlier years as well as 34 PSUs/deemed Government Companies which have not submitted their accounts and not covered in the report (identified in the appendix by two asterisks - **) referred to in para 1.1.5 are indicated in Appendix III.

1.2 Budgetary Outgo

1.2.1 Outgo from the Union Budget to the PSUs during the year 2003-04 had decreased. The outgo for the year 2003-04 was Rs.4742.82 crore less as compared to 2002-03. This represents a decrease of 12.49 per cent as indicated in Chart 1 below:

Chart 1 - Total Budgetary Outgo



1.2.2 The table below indicates the structural composition of budgetary contribution towards equity capital, loans, subsidy related to administered prices and grants of PSUs.

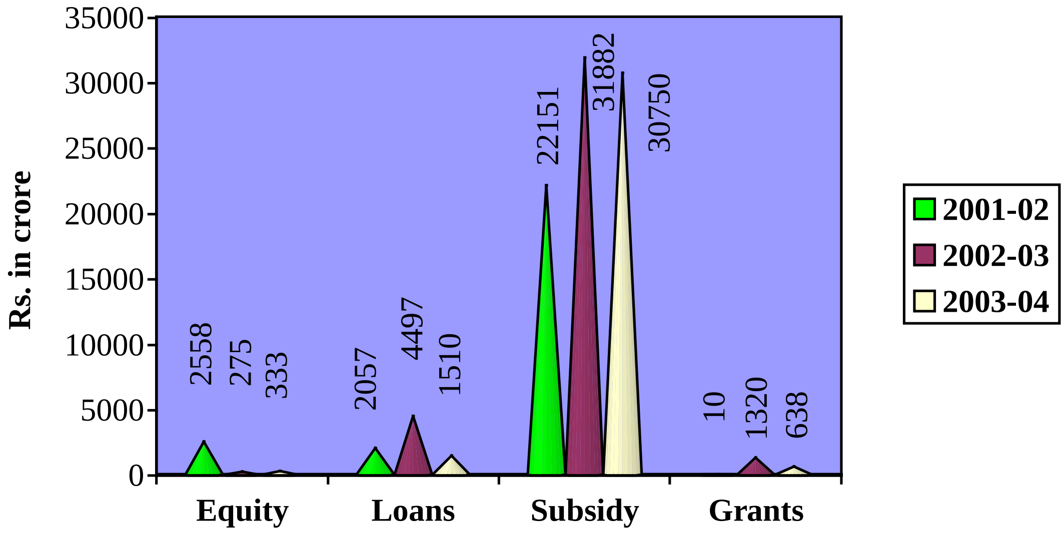
Budgetary Outgo

(Rs. in crore)

	2001-02	**2002-03**	**2003-04**
Total Outgo	**26775.55**	**37974.31**	**33231.49**
Outgo on account of subscription to Equity Capital	2557.86	275.20	333.02
Outgo due to Loans given	2057.19	4497.07	1509.85
Subsidy related to administered prices	22150.65	31881.91	30750.32
Grants	9.85	1320.13	638.30

1.2.3 The grants for the various purposes released by Government to the PSUs during the year 2003-04 was Rs.638.30 crore. There was a reduction of Rs.681.83 crore (51.65 per cent) in grants when compared to 2002-03. The proportion of outgo through subsidy relating to administered prices as paid/payable to PSUs has increased by Rs.8599.67 crore (38.82 per cent) when compared to outgo in 2001-02 but decreased by Rs.1131.59 crore (3.55 per cent) as compared to 2002-03 (See table above and graph below). The outgo by way of loans decreased by Rs.2987.22 crore (66.43 per cent) over the previous year. Government continued to subscribe to equity in PSUs and made an investment of Rs.333.02 crore during 2003-04.

Chart 2 - Budgetary Outgo



1.3 Waiver of Dues

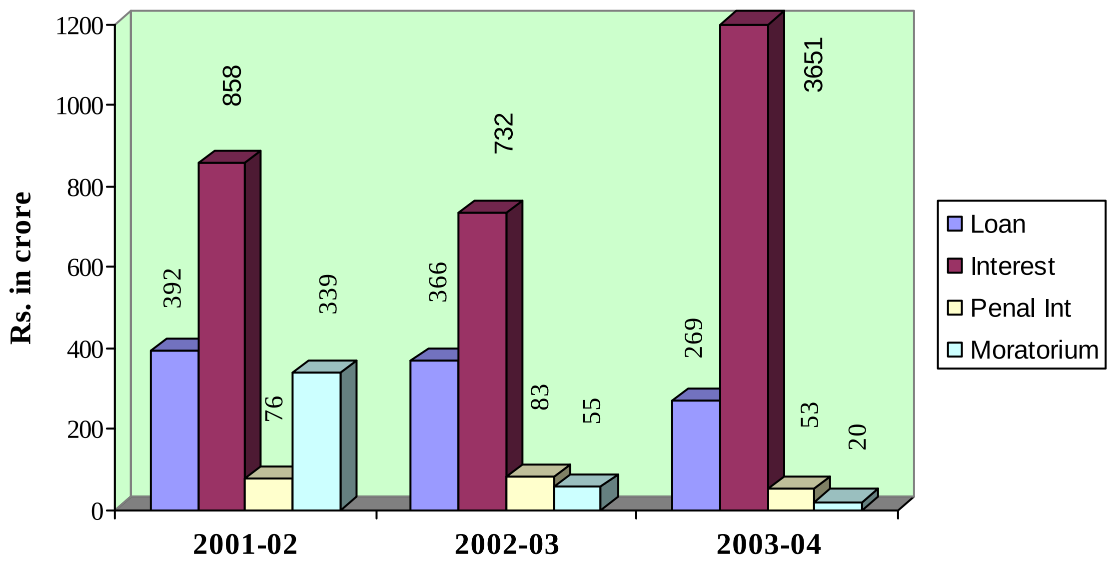
1.3.1 Indirect assistance by way of moratorium on repayment of loans or write off and waiver of interest has been a constant feature of Government's supportive role to PSUs. The table below indicates the details of such assistance for the last three years ending March 2004. The indirect assistance to PSUs increased by Rs.2757.66 crore (223 per cent) in 2003-04 over the previous year i.e., 2002-03. Out of the total waiver of dues, Rs.3203.05 crore (80.20 per cent) were in the coal and textiles sectors.

WAIVER OF DUES

(Rs. in Crore)

	2001-02	2002-03	2003-04
1. Loan repayments written off	391.74	365.93	269.48
2. Interest waived	857.76	732.47	3650.88
3. Penal interest waived	76.45	83.36	53.34
4. Repayment of Loan on which moratorium allowed	339.02	54.51	20.23
Total	**1664.97**	**1236.27**	**3993.93**

Chart 3 - Waiver of Dues



1.4. Guarantees given by Central Government

1.4.1 Besides budgetary outgo and waiver of dues, Central Government extends support to PSUs by way of guarantees for loans availed by them at a nominal fee. During the three years, the guarantees by Central Government had shown a declining trend. The total amount guaranteed during 2003-04 decreased substantially by 47 per cent as compared to the previous year.

Guarantees Given by Central Government

(Rs. in crore)

Guarantees	Amount Guaranteed during			Loans raised against the guarantees	Guaranteed amount outstanding as on 31 March 2004
	2001-02	2002-03	2003-04	2003-04	2003-04
1. Cash Credit from State Bank of India (SBI) and other Nationalised Banks	7332.75	9173.47	7768.74	32563.21	9069.64
2. Loans from other Sources	8677.07	12893.66	4038.30	2111.00	6678.05
3. Letters of Credit opened by SBI in respect of Imports	1326.73	461.61	179.47	2168.85	2633.09
4. Payment Obligations under agreements with Foreign Consultants or Contractors	6563.27	271.00	134.61	0.00	1016.72
Total	**23899.82**	**22799.74**	**12121.12**	**36843.06**	**19397.50**

1.4.2 The total amount of guarantee fee not paid to the Central Government / not provided for in their annual accounts by the following 11 PSUs upto 31 March 2004 works out to Rs.248.74 crore.

Sl No	Name of the PSU	Guarantee fee not paid /Not provided for in the accounts (Rs. in crore)
1	Indian Airlines Limited	144.06
2	Air India Limited	24.06
3	Rural Electrification Corporation Limited	23.87
4	National Buildings Construction Corporation Limited	21.23
5	Hindustan Steel Construction Company Limited	12.45
6	Cement Corporation of India Limited	9.91
7	National Small Industries Corporation Limited	6.15
8	Indian Iron and Steel Company Limited	3.13
9	HMT Limited	2.30
10	Mecon Limited	0.84
11	National Bicycle Corporation Limited	0.74
	Total	248.74

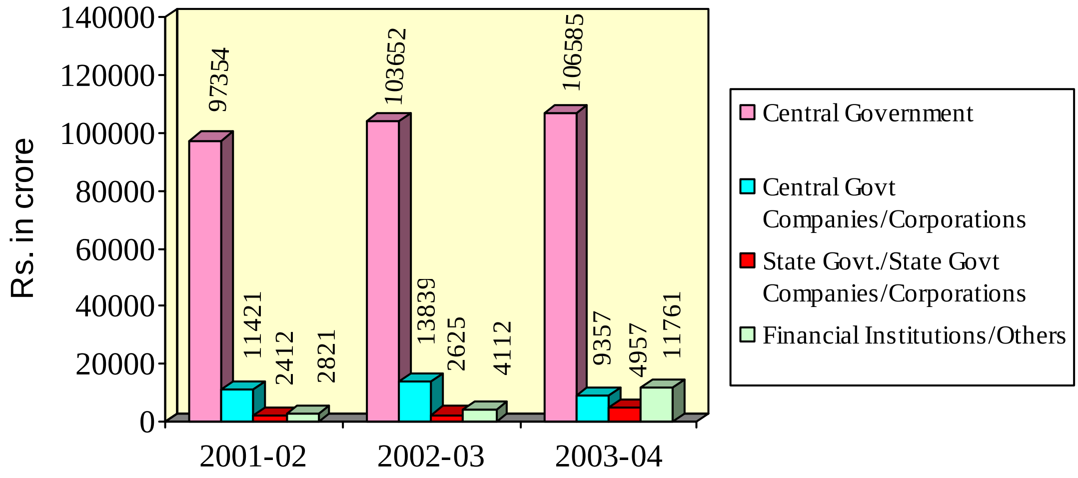
1.5. Investment in Central Government Companies and Corporations

1.5.1 Audit reviewed accounts of 282 PSUs out of 296 Central Government Companies and Corporations in existence at the end of 2003-04. The equity investment of the Government of India in 282 companies/corporations (whose accounts have been reflected in the report) and loans given to them amounted to Rs.1,06,584.54 crore and Rs.55,684.29 crore respectively. Some Central Government Companies/ Corporations have also contributed to the investment in these public sector undertakings. The details are given below:

(Rupees in crore)

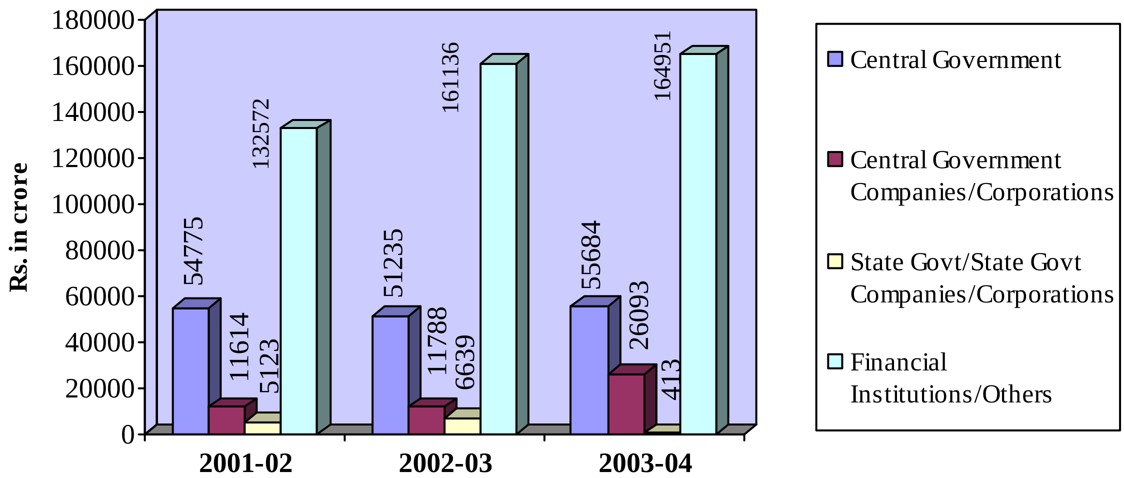
	As on 31 March 2004			As on 31 March 2003		
Sources	**Equity**	**Loans**	**Total**	**Equity**	**Loans**	**Total**
1.Central Government	106584.54	55684.29	162268.83	103652.12	51234.94	154887.06
2.Central Government Companies/ Corporations	9356.95	26093.05	35450.00	13839.26	11787.78	25627.04
3.State Governments/ State Government Companies/ Corporations	4956.77	412.68	5369.45	2625.04	6638.59	9263.63
4. Financial Institutions/Others	11761.11	164951.44	176712.55	4112.47	161136.19	165248.66
Total	132659.37	247141.46	379800.83	124228.89	230797.50	355026.39
Percentage of Central Government Investment to total investments	80.34	22.53	42.72	83.44	22.20	43.63

Chart 4(a) - Equity investment in Central Government PSUs



1.5.2 During 2003-04, the investment in equity and loans to these PSUs has registered a net increase of Rs.8430.48 crore and Rs.16343.96 crore respectively. [See Chart 4 (a) and 4(b)]. The Government of India has significantly enhanced its investment in the equity of PSUs under the Ministries of Power (Rs.1834.29 crore), Atomic Energy (Rs.1342.96 crore), Railways (Rs.665.05 crore), Urban Development and Poverty Alleviation (Rs. 519.20 crore). PSUs under the Ministry of Urban Development and Poverty Alleviation (Rs.1393.02 crore), Heavy Industry and Public Enterprises (Rs.1559.13 crore), Atomic Energy (Rs.386.18 crore), Railways (Rs.292.35 crore) and Surface Transport (Rs.234.05 crore) also received additional Government Loans.

Chart 4(b) - Loans given to Central Government PSUs



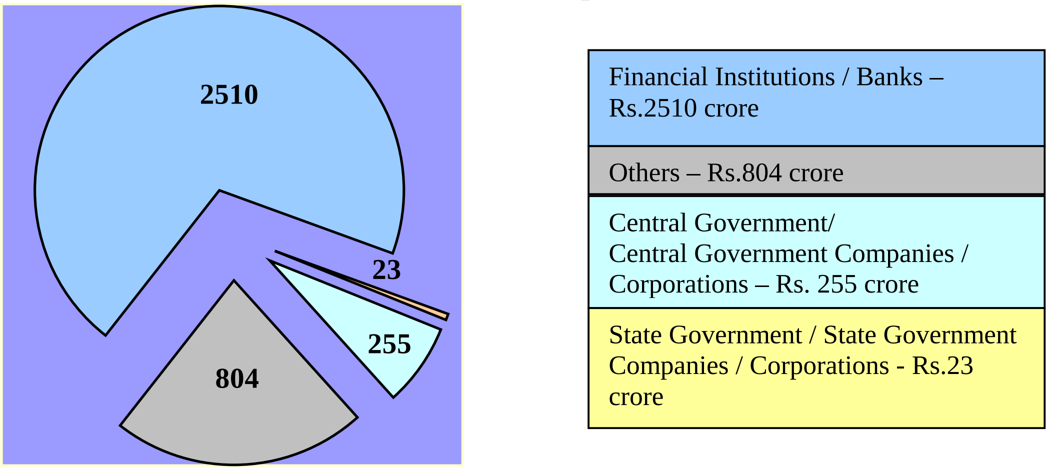
1.6 Central Deemed Government Companies

1.6.1 Section 619-B of the Companies Act, 1956 lays down the criteria for determining whether a company is a Deemed Government Company i.e., whether 51 per cent or more of its paid up share capital is held by Central / State Governments, Central/State Government Companies and Corporations owned or controlled by the Government. According to information available, there were 88 Deemed Central Government Companies as on 31 March 2004 as listed in Appendix IV.

1.6.2 The capital invested by the Central Government and by Companies and Corporations controlled by it in 68 Deemed Government Companies (whose accounts were reviewed during the year) is given in Appendix V (see also Chart 5). Out of the remaining 20 Deemed Government Companies, seven were either under liquidation or were defunct. The accounts of 13 Companies were not reviewed as the accounts of these companies were either in arrears for more than three years or not due.

1.6.3 As of 31 March 2004, equity of Rs.3591.50 crore in 68 Deemed Government Companies was contributed by the Government of India (Rs 0.03 crore in one company), State Governments (Rs.1.05 crore in five companies), Central Government Companies / Corporations (Rs.254.56 crore in nine companies), State Government Companies / Corporations (Rs.21.53 crore in 12 companies), Financial Institutions / Banks (Rs.2510.37 crore in 46 companies) and others (Rs.803.96 crore in 25 companies).

Chart 5 - Composition of Share Capital in Deemed Government Companies



1.6.4 Of the 68 Deemed Government Companies reviewed in this Report, 46 Companies earned profit of Rs.1016.79 crore. Of these, only 25 declared dividend amounting to Rs.313.48 crore which represented 23 per cent of their total paid up capital. Seventeen Companies including one in which Government of India had invested incurred loss during 2003-04. Remaining five Companies did not prepare profit and loss account as they have not commenced commercial activities.

1.6.5 Dividend of Rs.313.48 crore declared by the Deemed Government Companies during 2003-04 mainly came from the companies under Financial Services and Trading & Marketing Sectors as indicated below:

(Rs. in crore)

Sector	No. of PSUs	Paid up Capital	Net Profit	Dividend
1.Financial Services	17	709.26	423.47	199.09
2.Trading & Marketing	2	600.00	261.00	112.00
3. Power	1	72.50	9.84	2.23
4. Industrial Development & Technical Consultancy	5	1.02	1.20	0.16
Total	25	1382.78	695.51	313.48

1.7 Disinvestment

1.7.1 The policy of the Government on disinvestment was evolved over a period from 1991-92. The main objectives of disinvestment are to put national resources and assets to optimal use and in particular to unleash the productive potential inherent in our public sector enterprises. The policy of disinvestments specially aims at:

- Modernisation and upgradation of Public Sector Enterprises
- Creation of new assets
- Generation of employment; and
- Retiring of public debt

1.7.2 The Disinvestment Commission was set up on 23 August 1996 initially for a period of three years to draw a comprehensive overall longterm Disinvestment programme, to determine the extent of Disinvestment, to monitor the progress of Disinvestment process and to take necessary measures and report periodically to Government on such progress etc. Accordingly, the Commission submitted 12 Reports concerning 58 PSUs. On 16th March 1999, Government classified the PSUs into Strategic and non-strategic for the purpose of disinvestment and also decided to refer all 'non-strategic' PSUs to the Commission to prioritise, examine and make recommendations to the Government taking into consideration Government policy. It was also decided that for prioritization, the following criteria would be observed:

(a) Where disinvestment in PSEs would lead to large revenue to the Government;

(b) Where disinvestment can be implemented with minimum impediments and in relatively shorter time span; and

(c) Where continued bleeding of Government resources could be stopped earlier.

1.7.3 After reconstitution of the Disinvestment Commission in July 2001, the Commission submitted ten reports in respect of 33 companies.

1.7.4 The Government of India realised Rs. 30823 crore during the period from 1991-92 to 2003-04 from disinvestments of its shares in the PSUs including 19 hotels of ITDC and three hotels of Hotel Corporation of India Limited. This includes Rs.1335 crore realised upto November 2003 against the target of Rs. 13,200 crore.

1.7.5 In respect of the following 14 companies disinvestments were made to strategic partners.

1. Modern Food Industries (India) Limited
2. Bharat Aluminium Company Limited
3. Lagan Jute Machinery Company Limited
4. CMC Limited
5. HTL Limited
6. Videsh Sanchar Nigam Limited
7. Paradeep Phosphates Limited
8. Kochi Refineries Limited♣
9. IBP Limited♥
10. Chennai Petroleum Corporation Limited♥
11. Bongaigaon Refinery and Petrochemicals Limited♥
12. Indian Petrochemicals Corporation Limited
13. Hindustan Zinc Limited.
14. Jessop and Company Limited

♣ In favour of Bharat Petroleum Corporation Limited

♥ In favour of Indian Oil Corporation Limited

CHAPTER 2
RETURN ON INVESTMENT

2.1 Dividend Policy

2.1.1 The guidelines issued by the Ministry of Finance in 1995 and 1996 envisaged that all profit-making PSUs that were essentially commercial enterprises would declare a minimum dividend of 20 per cent either on equity or on post-tax profit, whichever was higher. Minimum dividend payable by PSUs in Oil, Petroleum, Chemical and other infrastructure sectors was desired at 30 per cent of post-tax profit. The Ministry had further emphasised that the objective of the Government was to achieve minimum return of five per cent on overall investment in all PSUs across the board as against 1.82 per cent achieved in 1993-94.

2.2 Return on Investment

2.2.1 Details of return on investment in Government Companies and Corporations are given in Appendix I indicating their aggregate position with regard to accumulated loss, networth, Sales/Turnover, Profit/Loss before and after depreciation, interest, provision for tax, dividend, etc. Details of percentage of networth to paid-up capital, cash loss, percentage of dividend to paid-up capital, export sales as percentage of net sales, percentage of sales subject to price control during 2001-02 to 2003-04 are indicated in Appendix - VI. In the last two years, the overall percentage of networth to paid up capital in PSUs under all Ministries and Departments decreased from 220.02 in 2002-03 to 204.24 in 2003-04 and cash loss decreased from Rs.16735.42 crore in 2002-03 to Rs.5435.47 crore in 2003-04 (i.e. by 67.52 per cent). Also, accumulated loss of all PSUs decreased marginally by Rs. 956.67 crore (1.17 per cent), i.e. from Rs.81995.19 crore in 2002-03 to Rs.81038.52 crore in 2003-04.

2.3 Profit-earning PSUs

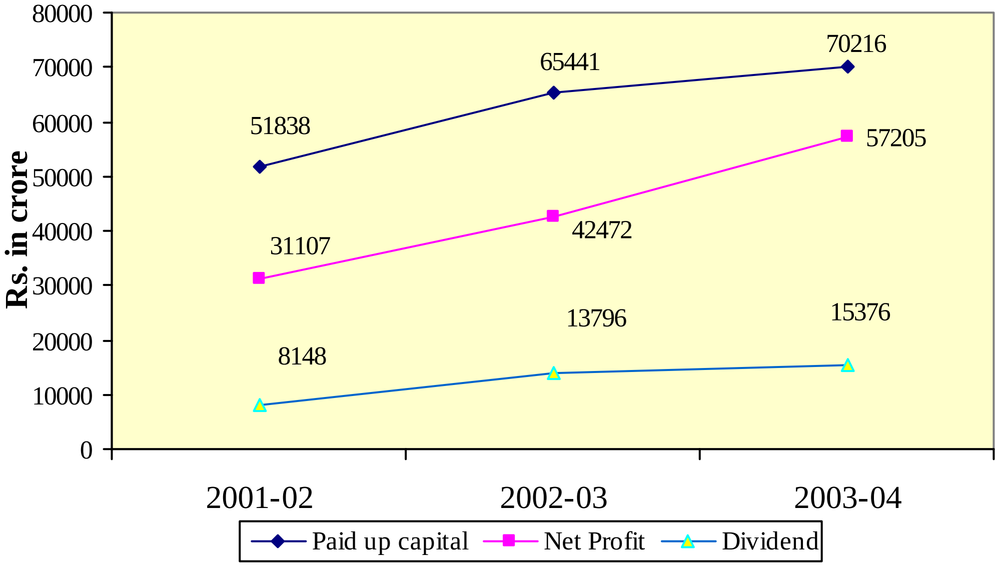
2.3.1 The table below indicates that the number of PSUs earning profits increased and the number of PSUs that declared / paid dividend during the last three years ended 31 March 2004 also increased from 85 in 2001-02 to 99 in 2003-04. However, dividend declared as a percentage of net profit earned by these PSUs increased from 26.19 per cent in 2001-02 to 32.48 per cent in 2002-03 but decreased to 26.88 per cent in 2003-04. In absolute terms, the dividend declared by the PSUs in 2003-04 increased by Rs.1579.97 crore (11.45 per cent) i.e. from Rs. 13796.31 crore in 2002-03 to Rs. 15,376.28 crore in 2003-04 (See Chart 6) which excludes Rs. 0.28 crore declared by one PSU out of reserves. However, 57 PSUs which earned an aggregate profit of Rs. 7514.65 crore in the current year did not declare any dividend.

PROFIT EARNING PSUs

(Rs. in crore)

Year	No. of PSUs earning Profit	PSUs which declared/paid Dividend					PSUs which did not declare Dividend		
		No.	Paid up Capital	Net Profit	Dividend	Percent-age of Dividend to Net Profit	No.	Paid up Capital	Net Profit
1	2	3	4	5	6	7	8	9	10
2001-02	134	85	51837.78	31106.75	8147.96	26.19	49	24534.14	3333.31
2002-03	138	91	65440.83	42471.99	13796.31	32.48	47	22910.77	1512.69
2003-04	156	99	70215.88	57204.71	15376.28[⊕]	26.88	57	32638.10	7514.65
Total profit earned by 156 PSUs during 2003-04 was Rs. 64719.36 crore.(Col 5+ Col 10)									

Chart 6 - Dividend declared by PSUs



2.3.2 Out of the total profit of Rs. 64,719.36 crore earned by 156 PSUs, as much as 80.04 per cent (Rs.51803.48 crore) was contributed by only 42 PSUs under five sectors viz., Petroleum, Power, Telecommunication Services, Coal & Lignite and Steel in which the product prices are administratively determined or regulated to varying degrees. The sector-wise breakup of these 42 PSUs is given in the following table:

Sector	No. of Profit earning PSUs	Net Profit earned (Rs. in crore)	Net Profit as a percentage of total profit
1. Petroleum	14	24023.06	37.12
2. Power	10	10396.51	16.06
3. Telecommunication Services	3	7098.79	10.97
4. Coal & Lignite	7	6137.34	9.48
5. Steel	8	4147.78	6.41
Total	42	51803.48	80.04

[⊕] Excludes dividend of Rs.0.28 crore paid by one PSU out of reserves

2.3.3 During the year 2003-04, only three Companies, viz., HSCC (India) Limited, RITES Limited and Telecommunication Consultants (India) Limited proposed fully paid bonus shares amounting to Rs.4.64 crore. Although the total networth of four PSUs under four Ministries / Departments[♣] exceeded their paid up capital twice over, they neither declared dividend nor issued any bonus shares.

2.4. Dividend Declaration

2.4.1 In the current year, out of total dividend of Rs. 15376.56[⊕] crore declared/ paid by 100 Public Sector Undertakings, dividend received/receivable by the Government of India amounted to Rs.10847.95 crore. The return on aggregate investment of Rs. 65,427.16 crore made by the Government of India in equity capital of 71 PSUs[♦] was 16.58 per cent. Similarly, the Central Government companies received Rs.1830.68 crore as dividend on their investment of Rs. 2477.42 crore in the equity of various subsidiaries (also Government Companies) and thus earned a return of 73.89 per cent.

2.4.2 While 100 PSUs under 28 Ministries/Departments declared dividend in the current year, no dividend was declared by 57 PSUs under 23 Ministries/Departments. The return on networth of Rs.2,70,947.90 crore in all PSUs was four per cent only. The return on the total investment of Rs.1,06,584.54 crore made by the Government of India in all the PSUs was Rs.10,847.95 crore, i.e. 10.18 per cent. This rate of return was higher than the prescribed benchmark of five per cent on overall investment, but less than 30 per cent of post tax profit. This is despite the fact that 99 out of 156 profit-making PSUs declared dividend. The average payout of dividend was more than 13.5 per cent (the rate of interest chargeable on Government Loans) in 20 Ministries/Departments. However, 64 PSUs declared/paid dividend of more than 15 per cent individually, 11 PSUs declared/paid dividend at rates ranging from six to 15 per cent and 24 PSUs declared/paid dividend at less than six per cent of the paid up capital.

2.4.3 The PSUs under the Ministry of Petroleum and Natural Gas contributed 56.60 per cent (Rs.8703.06 crore) of the total dividend (Rs.15376.56 crore) declared by various PSUs in 2003-04.

2.4.4 Details of PSUs which did not comply with the Government's directive on declaration of dividend mentioned in para 2.1.1 above, are given in Appendix VII. From the details it is evident that 35 PSUs under 16 Ministries did not comply with the Government directive. The total shortfall on this account was Rs. 4266.59 crore in 2003-04.

2.4.5 The ratio of dividend to equity which is indicative of shareholders' return on the investment in the equity of the company ranged from 0.01 to 4.74. The top ten PSUs which declared dividend of more than Rs.100 crore, in terms of dividend-equity ratio are as follows:

[♣] Ministry / Department of Civil Aviation, Finance, Information Technology (Department of Electronics) and Union Territory Administration.

[⊕] Includes dividend of Rs.0.28 crore paid by one PSU out of reserves

[♦] Excludes 29 subsidiaries in which no direct Government investment.

Rank	Name of the PSU	Ratio of dividend to equity
1.	Oil and Natural Gas Corporation Limited	2.400
2.	Northern Coalfields Limited	2.397
3.	Hindustan Petroleum Corporation Limited	2.203
4.	Mahanadi Coalfields Limited	2.123
5.	Indian Oil Corporation Limited	2.100
6.	Kochi Refineries Limited	1.999
7.	Bharat Petroleum Corporation Limited	1.750
8.	The Shipping Corporation of India Limited	1.700
9.	Oil India Limited	1.399
10	South Eastern Coalfields Limited	1.073

2.4.6 The top ten PSUs which declared dividend of more than Rs.100 crore, in terms of dividend to networth ratio are as follows:

Rank	Name of the PSU	Ratio of dividend to Networth
1	The Shipping Corporation of India Limited	0.4225
2	National Thermal Power Corporation Limited	0.3055
3	Bongaigaon Refinery and Petrochemicals Limited	0.2815
4	Mahanadi Coalfields Limited	0.1850
5	South Eastern Coalfields Limited	0.1598
6	Northern Coalfields Limited	0.1467
7	Western Coalfields Limited	0.1182
8	Indian Oil Corporation Limited	0.1115
9	Hindustan Petroleum Corporation Limited	0.0964
10	Kochi Refineries Limited	0.0928

2.5 Loss-making PSUs

2.5.1 The number of PSUs that suffered loss during the last 3 years ending 31 March 2004 are given in the following table:

LOSS MAKING PSUs

(Rs. in crore)

Year	No of PSUs suffering loss	Paid-up Capital	Net Loss for the year
2001-02	121	31629.05	11057.31
2002-03	127	27965.33	11973.04
2003-04	116	27116.21	8778.16

2.5.2 Loss in most of the PSUs included in the above table has been accumulating over the years. Due to the changes brought about by the liberalisation of economy, a large number of

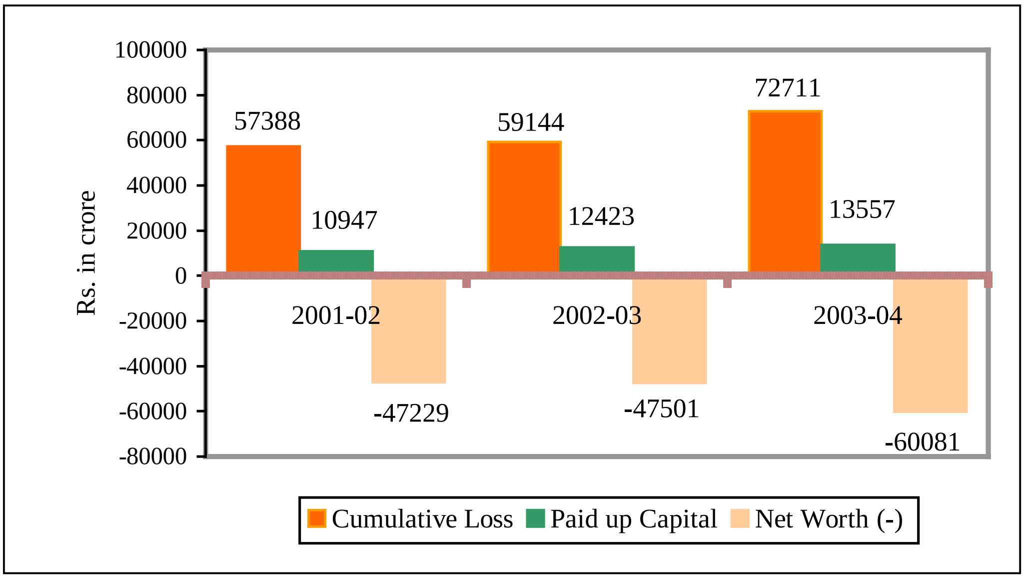
PSUs which had grown exponentially over the years in a virtually non-competitive environment, started facing increasingly severe competition. While many of the PSUs were learning to survive and grow by adapting themselves to the new situation, a large group of PSUs, significant both in number and investment, were beset with serious problems like slow growth, low productivity, inefficient management, inadequate emphasis on research and development, inadequate or unfocussed marketing, shortage of working capital, etc. Low or zero rates of return on the capital invested in these PSUs stunted or hindered economic growth in the country as a whole. The challenges facing these PSUs were to cut costs, increase productivity, market their products and services aggressively, increase profitability and generate surplus. All these parameters ultimately hinged upon the degree of asset utilisation, technological innovations and human resource management.

2.6 Capital Erosion

2.6.1 An investment of Rs.13,557.08 crore as on 31 March 2004, in the equity capital of 93 Companies under 22 Ministries / Departments (See Appendix - VIII) had been completely eroded as a result of losses accumulated by these Companies. Consequently, the networth of these companies became negative (See also Chart 7) and recovery of all the loans given by the Government and other agencies to them became doubtful. Of these 93 companies, 37 were under the Ministry of Heavy Industry and Public Enterprises, 15 under the Ministry of Textiles, six under the Ministry of Chemicals & Fertilizers and six under the Ministry of Steel. The total Central Government loans outstanding against these Companies as on 31 March 2004 amounted to Rs. 31354.22 crore. The total loans remaining unpaid on due dates amounted to Rs.16,495.30 crore (55 PSUs) as on 31 March 2004. Further, interest overdue on the outstanding loans was Rs.20,379.80 crore (39 PSUs) and penal interest leviable for non-payment of loans on due dates amounted to Rs.8392.86 crore (43 PSUs). Of these 93 Companies, 54 were referred to the BIFR as indicated in Appendix - VIII. Out of the companies referred to BIFR, 19 were recommended for closure / winding up/ sale. Revival package was approved in respect of 14 companies. Twenty one cases were under various stages of processing.

Chart 7

Erosion of Networth by Cumulative Loss



2.6.2 The Companies referred to above included 36 companies (Appendix - VIII) having share capital exceeding Rs.50 crore (which had been fully eroded) as on 31 March 2004.

2.7 Profitability Analysis

2.7.1 Company-wise profitability analysis indicating correlation of profit after tax to networth and capital employed, profit before depreciation, interest and tax to sale, net assets and capital employed and dividend to equity is given at Appendix – IX. This revealed that the ratios declined in 2003-04 over previous year in 106 companies. A further analysis revealed that there were negative variations (more than 20 per cent) as compared to previous year in the profit before depreciation, interest and tax to sale in 35 PSUs, profit before depreciation, interest and tax to net asset in 43 PSUs and profit before depreciation, interest and tax to capital employed in 53 PSUs, profit after tax to networth in 56 PSUs and profit after tax to capital employed in 53 PSUs. A summary table indicating the trend of these ratios over a period of three years is given below:

		2001-02	**2002-03**	**2003-04**
1.	Profit before depreciation, interest and tax (Rs. in crore)	90247.01	103244.94	133646.97
2.	Profit before interest and tax (Rs. in crore)	59736.08	74519.21	101714.89
3.	Profit before tax (Rs. in crore)	35582.52	51339.33	77616.20
4.	Profit after tax (Rs. in crore)	23382.75	32011.64	55941.20
5.	Networth ⊗(Rs. in crore)	233460.32	273323.26	270947.90
6.	Capital Employed ♦(Rs. in crore)	390631.34	435639.46	463753.64
7.	Dividend (Rs. in crore)	8165.35	13802.31	15376.56
8.	Paid Up Capital (Rs. in crore)	114007.95	124228.89	132659.37
9.	Profit before depreciation, interest and tax to Networth (Ratio)	0.39	0.38	0.49
10.	Profit before interest and tax to Networth (ratio)	0.26	0.27	0.38
11.	Profit before tax to Networth (Ratio)	0.15	0.19	0.29
12.	Profit after tax to Networth (Ratio)	0.10	0.12	0.21
13.	Profit before depreciation, interest and tax to Capital Employed (Ratio)	0.23	0.24	0.25
14.	Profit after tax to Capital Employed (Ratio)	0.06	0.07	0.12
15.	Dividend to Equity (Ratio)	0.07	0.11	0.12

2.7.2 On the basis of the data for the year 2003-04 furnished by the individual PSUs, the ranking of ten PSUs in terms of ratio of net profit before interest and tax to capital employed and net profit before tax to networth, which help to measure profitability is given below. For this purpose PSUs which declared dividend besides having paid-up capital of Rs.100 crore and above were considered.

⊗ Networth represents paid up capital, share premium and free reserves & surplus less accumulated losses and miscellaneous expenditure not written off.

♦ Capital Employed means sum of net fixed assets and working capital (current assets less current liabilities).

A. Ranking in terms of ratio of net profit before interest and tax to capital employed

Rank	Name of the PSU	Ratio
1	National Thermal Power Corporation Limited	3.47
2	Hindustan Aeronautics Limited	0.94
3	Bongaigaon Refinery and Petrochemicals Limited	0.74
4	South Eastern Coalfields Limited	0.71
5	Mahanadi Coalfields Limited	0.62
6	Western Coalfields Limited	0.50
7	General Insurance Corporation of India Limited	0.44
8	Bharat Petroleum Corporation Limited	0.44
9	Electronics Corporation of India Limited	0.43
10	Kochi Refineries Limited	0.37

B. Ranking in terms of ratio of net profit before tax to networth

Rank	Name of the PSU	Ratio
1	National Thermal Power Corporation Limited	1.67
2	Hindustan Aeronautics Limited	0.84
3	Bongaigaon Refinery and Petrochemicals Limited	0.80
4	The Shipping Corporation of India Limited	0.63
5	Mahanadi Coalfields Limited	0.62
6	Northern Coalfields Limited	0.57
7	South Eastern Coalfields Limited	0.55
8	Kochi Refineries Limited	0.51
9	Western Coalfields Limited	0.47
10	Bharat Petroleum Corporation Limited	0.46

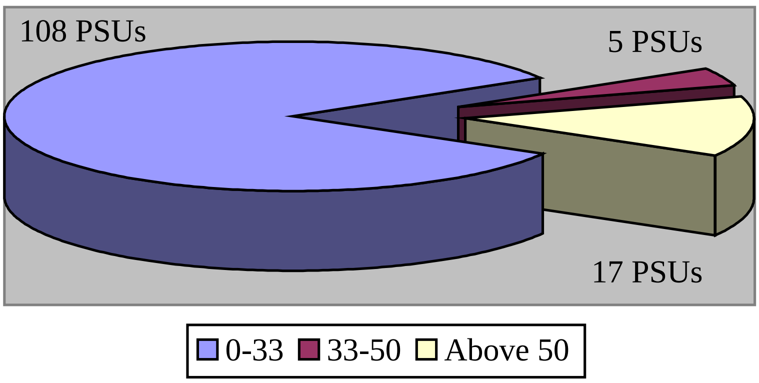
CHAPTER 3
INVENTORY MANAGEMENT

3.1 Management of inventory consisting of raw materials, stores and spares[⊗] and finished goods is a vital area of concern for any public enterprise, especially in the case of manufacturing industries. Excess inventory-holding leads to excessive carrying cost on account of interest, storage and handling charges, insurance, record keeping, inspection and the risk of deterioration in quality and thus adversely affects the profitability of the organisation. Even though the optimum level of inventory varies from industry to industry, it is generally considered that the value of inventory as a percentage of annual consumption should not exceed 33 per cent and the value of finished goods to net sales might be about one month's sale (8.33 per cent).

3.2 Details of value of inventories other than finished goods at the end of the year as a percentage to consumption during the year, the value of finished goods at the end of the year as a percentage to net sales during the year and the net sales as a percentage to capital employed in respect of the PSUs are placed in Appendix - X. The appendix also indicates the sales to the Government departments and PSUs as a percentage of net sales and the value of sundry debtors as a percentage to net sales. A frequency table indicating the holding of inventory at various levels (in percentage) in some of the PSUs is given below:

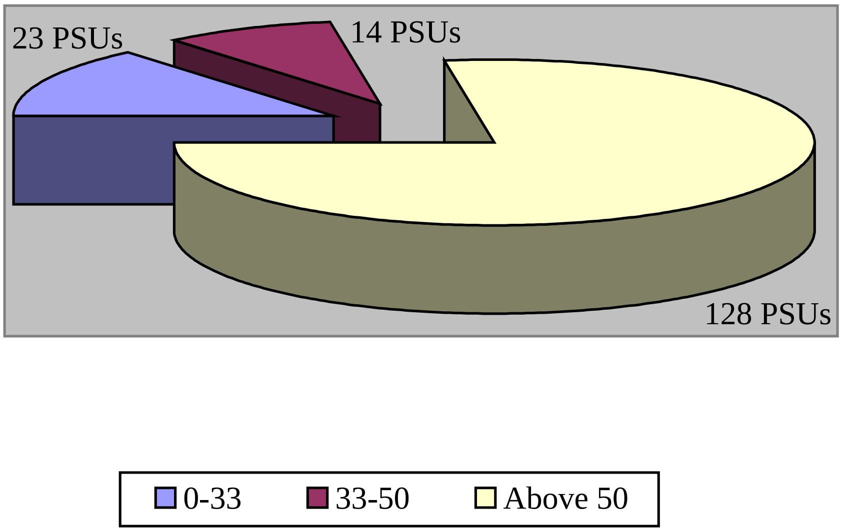
Ranges of Percentage	No. of PSUs with respect to inventory of Raw Materials to annual consumption	No. of PSUs with respect to Inventory of Stores and Spares to annual Consumption
0-33	108	23
33-50	5	14
More than 50	17	128

Chart 8
Percentage of inventory of Raw Material to consumption



[⊗] The value of spares discussed in this Chapter also includes standby equipment and servicing equipment. According to revised Accounting Standard – 2 of the Institute of Chartered Accountants of India, these need to be capitalised.

Chart 9
Percentage of inventory of Stores & Spares to consumption



3.3 In 22 PSUs, the ratio of raw material in stock to annual consumption exceeded 33 per cent and in 17 of these PSUs it exceeded 50 per cent. Similarly, in 142 PSUs, the ratio of stores and spares in stock to annual consumption exceeded 33 per cent and in 128 of these PSUs it exceeded 50 per cent.

3.4 The percentage of finished goods/stock in trade to sales was higher than 8.33 per cent (i.e. one month's sales) in 62 PSUs. The percentage of finished goods/ stock in trade to sales was particularly high in sectors such as Agro based industries, Fertilizer, Trading & Marketing and Computer Services.

3.5 The top ten PSUs having finished goods stock of value more than Rs.30 crore and representing more than one month's sales are given in the following table:

1	HMT Watches Limited
2	The Cotton Corporation of India Limited
3	Coal India Limited
4	Indian Rare Earths Limited
5	HMT Machine Tools Limited
6	Bharat Coking Coal Limited
7	The Fertilizers and Chemicals Travancore Limited
8	Bharat Earth Movers Limited
9	Numaligarh Refinery Limited
10	Central Coalfields Limited

3.6 The top ten PSUs where the value of raw material in stock was more than Rs. 10 crore and represented four months' consumption are given in the following table:

1	Mazagon Dock Limited
2	Garden Reach Ship Builders and Engineers Limited
3	Hindustan Aeronautics Limited
4	Misra Dhatu Nigam Limited
5	Indian Rare Earths Limited
6	Bharat Dynamics Limited
7	Heavy Engineering Corporation Limited
8	HMT Machine Tools Limited
9	Instrumentation Limited
10	Bharat Electronics Limited

3.7 The top ten PSUs where the value of stores and spares in stock was more than six months' consumption (whose annual consumption of stores and spares was more than Rs.100 crore) are given in the following table:

1	Oil and Natural Gas Corporation Limited
2	Gas Authority of India Limited
3	Indian Oil Corporation Limited
4	Oil India Limited
5	Air India Limited
6	Neyveli Lignite Corporation Limited
7	Rashtriya Ispat Nigam Limited
8	Bharat Heavy Electricals Limited
9	Steel Authority of India Limited
10	Kudremukh Iron Ore Company Limited

3.8 In 119 PSUs the value of surplus, obsolete and non-moving inventory as on 31 March 2004 was Rs.352.68 crore (42 PSUs), Rs.796.10 crore (52 PSUs) and Rs.1249.87 crore (76 PSUs) respectively. Of these, the value of surplus/obsolete and/or non moving stock was more than Rs.50 crore in 13 PSUs, as detailed below:

(Rs. in crore)

Sl.No	Name of the PSU	Obsolete/ Surplus	Non-Moving
1.	Steel Authority of India Limited	82.70	231.65
2.	Indian Oil Corporation Limited	190.38	0.00
3.	Nuclear Power Corporation of India Limited	8.27	99.80
4.	Rashtriya Ispat Nigam Limited	9.50	71.41
5.	Bharat Electronics Limited	0.00	86.26
6.	Air India Limited	0.00	111.11
7.	Northern Coalfields Limited	24.21	50.66
8.	Bharat Coking Coal Limited	56.63	0.00
9.	Bharat Heavy Electricals Limited	11.59	43.54
10.	Gas Authority of India Limited	58.65	0.00
11.	National Hydroelectric Power Corporation Limited	26.56	29.23
12.	The Fertilizers and Chemicals Travancore Limited	15.33	40.73
13.	Bharat Earth Movers Limited	17.30	37.29
	Total	501.12	801.68

CHAPTER 4
OPERATING EFFICIENCY

Sales and Marketing

4.1 The overall percentage of sales of PSUs to the Government Sector with reference to their total net sales was 23. During 2003-04, 131 PSUs made sales / rendered services to Government departments worth Rs.64910.53 crore against their net sales of Rs.2,82,234.73 crore. The PSUs, which made at least 90 per cent of their sales/rendered services to the Government sector with value more than Rs.100 crore on the basis of data furnished by these PSUs, except the PSUs in the Power and Petroleum sectors, are given below:

Rank No	Name of the PSU
1	Hindustan Cables Limited
2	Dredging Corporation of India Limited
3	Bharat Dynamics Limited
4	Garden Reach Shipbuilders and Engineers Limited
5	Bharat Electronics Limited
6	Mazagon Dock Limited

4.2 These 131 PSUs that made sales/rendered services to Government departments are characterised by a high level of sundry debtors of Rs.41612.48 crore. The outstanding debtors are significantly high in sectors such as Power, Heavy Industry, Contract and Construction Services and Industrial Development. This underlines the need to improve competitiveness in marketing of goods and services in non-Government and export sectors as well as the need for improvement in their credit policies and realisation from the debtors.

4.3 The top ten PSUs, which made at least 90 per cent of their sales/rendered services to the private sector is given below. For this purpose, PSUs which made sales of Rs.1000 crore and above both to Government and private sectors (in the order of percentage of sales) was considered.

Rank	Name of the PSU
1.	National Aluminium Company Limited
2.	Mangalore Refinery and Petrochemicals Limited
3.	Chennai Petroleum Corporation Limited
4.	MSTC Limited
5.	Rashtriya Chemicals and Fertilizers Limited
6.	Kochi Refineries Limited
7.	The State Trading Corporation of India Limited
8.	MMTC Limited
9.	Gas Authority of India Limited
10.	Indian Oil Corporation Limited

4.4 Eighty PSUs exported goods or rendered services abroad worth Rs.18,236.73 crore against net sales of Rs.2,62,179.88 crore which worked out to 6.96 per cent only. The top ten PSUs (on the basis of percentage of export to their net sales) which exported goods/rendered services exceeding Rs.100 crore during 2003-04 are given below:

Rank No	Name of the PSU
1	Kudremukh Iron Ore Company Limited
2	Telecommunications Consultants India Limited
3	Spices Trading Corporation Limited
4	National Aluminium Company Limited
5	National Mineral Development Corporation Limited
6	RITES Limited
7	PEC Limited
8	Bharat Heavy Electricals Limited
9	MMTC Limited
10	IRCON International Limited

4.5 In terms of absolute value, the following are the top ten PSUs which exported their goods.

Rank No	Name of the PSU	Export Sales (Rs.in crore)
1	Mangalore Refinery and Petrochemicals Limited	4477.45
2	Indian Oil Corporation Limited	3632.83
3	MMTC Limited	1891.20
4	Bharat Heavy Electricals Limited	1742.83
5	National Aluminium Company Limited	1717.27
6	Steel Authority of India Limited	1687.77
7	PEC Limited	1640.58
8	The State Trading Corporation of India Limited	1192.06
9	Kudremukh Iron Ore Company Limited	853.35
10	Rashtriya Ispat Nigam Limited	769.24

Capacity Utilisation

4.6 Capacity utilisation is an index of the efficiency of an enterprise. In order to make an enterprise economically viable as well as to increase its productivity and return on investment, it is indispensable that the capacity of the plant and machinery should be optimally utilised. Besides, an enterprise should also concentrate its attention on effective and efficient management of other vital resources such as inventory, human resources and finance for enhancing productivity.

4.7 The percentage of capacity utilisation with reference to the installed capacity in respect of the major products in the major manufacturing PSUs during the last three years ending 2003-04 is tabulated sectorwise in Appendix - XI. It can be seen from the appendix that capacity utilisation in the major PSUs showed wide variation in all sectors. Even within the same PSUs, the capacity utilisation varied substantially from product to product and from year to year. In general, barring one or two PSUs/products, capacity utilisation during 2003 - 04 was generally good in the Chemicals and Petrochemicals, Coal & Lignite, Mines &

Minerals, Petroleum & Natural Gas, Power and Steel Sectors. A frequency table indicating the trend of capacity achieved by some of the major manufacturing PSUs is given below:

Capacity utilisation in percentage	**No. of PSUs**		
	2001-02	**2002-03**	**2003-04**
0-50	5	6	10
50-100	24	27	28
More than 100	14	21	26
Total	**43**	**54**	**64**

4.8 Among other sectors, high capacity utilisation was noticed in respect of Artificial Limbs Manufacturing Corporation of India Limited, Hindustan Newsprint Limited, Dredging Corporation of India Limited and National Fertilizers Limited.

4.9 PSU-wise correlation of value of production to capital employed, total sales etc is given at Appendix IX. The summary table indicating the trend of these ratios over a period of three years, as given below, indicates increase of the ratios during 2003-04 over the previous year. However, the ratios declined in respect of 50 PSUs.

	Details	**2001-02**	**2002-03**	**2003-04**
1	Value of Production (Rs. in crore)	491059.35	509275.07	616680.47
2	Total Assets (Rs. in crore)	723376.16	849102.08	955182.66
3	Capital Employed (Rs. in crore)	390631.34	435639.46	463753.64
4	Ratio of Value of Production to Total Assets	0.68	0.60	0.65
5	Ratio of Value of Production to Capital Employed	1.26	1.17	1.33

4.10 On the basis of the data for the year 2003-04 furnished by the individual PSUs, the top ten PSUs in terms of ratio of value of production to total assets which helps to measure the management's efficiency in the utilization of its assets, is given below: For this purpose PSUs which declared dividend besides having paid-up capital of Rs.100 crore and above were considered.

Rank	Name of the PSU	Ratio
1	Hindustan Petroleum Corporation Limited	2.72
2	Bharat Petroleum Corporation Limited	2.68
3	Kochi Refineries Limited	2.48
4	Indian Oil Corporation Limited	2.42
5	Bongaigaon Refinery and Petrochemicals Limited	1.83
6	Chennai Petroleum Corporation Limited	1.64
7	Numligarh Refinery Limited	0.95
8	Electronics Corporation of India Limited	0.86
9	Western Coalfields Limited	0.78
10	Gas Authority of India Limited	0.70

Human Resources

4.11 The sales per employee, profit per employee and ratio of labour cost to total cost are given in Appendix XII. The appendix indicates that sales per employee was low in Chemicals & Petrochemicals, Coal, Consumer Products and Textiles sectors and it was high in Petroleum and Financial Services sectors.

Research & Development

4.12 The total expenditure on Research & Development incurred by PSUs during 2003-04 amounted to Rs.915.58 crore. This is only 0.28 per cent of their total expenditure of Rs.325379.36 crore. In terms of absolute value, the following are the PSUs which incurred expenditure of more than Rs.10 crore on Research & Development.

Sl No	**Name of the PSU**	**R&D Expenses** (Rs. in crore)
1.	Hindustan Aeronautics Limited	250.77
2.	Bharat Electronics Limited	130.60
3.	Oil and Natural Gas Corporation Limited	93.83
4.	Bharat Heavy Electricals Limited	90.02
5.	Steel Authority of India Limited	71.90
6.	Indian Oil Corporation Limited	52.09
7.	I T I Limited	51.00
8.	Western Coalfields Limited	48.77
9.	Electronics Corporation of India Limited	45.73
10.	Bharat Petroleum Corporation Limited	13.82
11.	Oil India Limited	11.11

CHAPTER 5
GENERAL INSURANCE

5.1 General Insurance Companies

The General Insurance Corporation of India Limited (GIC), a Government Company registered under the Insurance Act, 1938 as well as the Companies Act, 1956 conducts business in respect of all kinds of insurance policies except motor vehicle and theft insurance. The following companies, which were subsidiary companies of the General Insurance Corporation of India Limited till 21 March 2003, conduct business in all areas of insurance.

(i) National Insurance Company Limited (NIC), Kolkata.

(ii) The New India Assurance Company Limited (NIA), Mumbai.

(iii) The Oriental Insurance Company Limited (OIC), New Delhi.

(iv) United India Insurance Company Limited (UIIC), Chennai.

As on 31 March 2004, the aggregate equity capital of these five Companies was Rs.615 crore and their networth was Rs. 11662.67 crore. The volume of business of these Companies increased from Rs. 12866.37 crore in 2002-03 to Rs.14188.38 crore in 2003-04, registering 10.28 per cent growth over the period.

5.2 Financial Performance

5.2.1 The overall financial performance as well as segment-wise performance of the five Insurance Companies during the years 2001-02 to 2003-04 is given in Appendix – XIII (See also Charts 10 and 11).

Chart-10 Analysis of Profit/Loss in underwriting business of Insurance PSUs

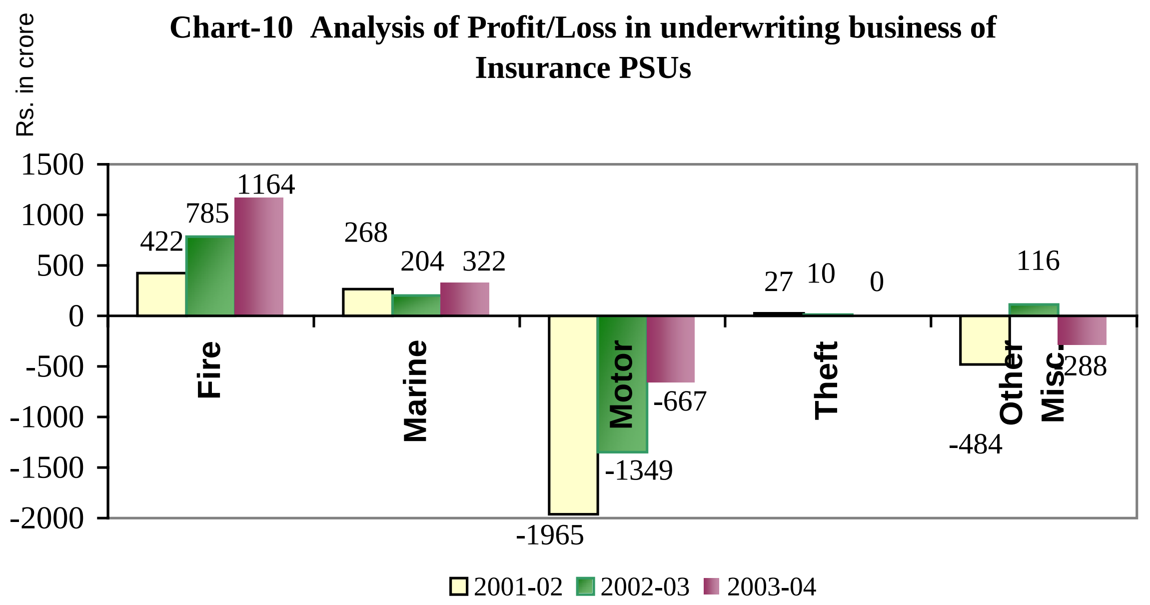
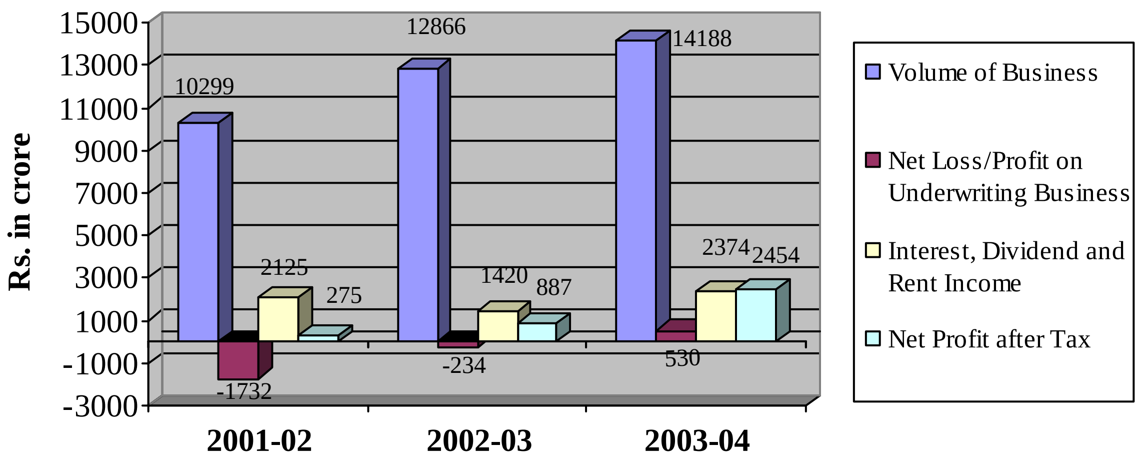


Chart 11 - Total Profit/Loss of Insurance PSUs



5.2.2 The insurance business generated profits under various segments such as fire and marine (Rs. 1485.36 crore). These profits were, however, offset by losses (Rs. 955.28 crore) incurred under motor vehicle insurance and other miscellaneous operations resulting in overall profit (Rs. 530.08 crore) in insurance-related business for all Insurance companies. While two Companies viz. General Insurance Corporation of India and National Insurance Company Limited incurred losses in insurance business during the current year, the other three Companies viz. United India Insurance Company, New India Assurance Company and Oriental Insurance Company have earned profits. All the five companies, however, earned substantial income (Rs. 2373.73 crore) from their non-insurance operations by way of interest, dividend and rent. This helped them to show aggregate profit of Rs.2903.81 crore before tax (Rs.2454.26 crore after tax) as indicated in Appendix - XIV.

5.2.3 The loss incurred by the General Insurance companies in underwriting business was due to the loss in third party claims relating to motor insurance business and the loss arising out of other miscellaneous insurance business as reported in the preceding two years as well. The loss of Rs. 667 crore in motor insurance segment was attributable to the collection of premium substantially lower than the claims paid out.

5.2.4 No capital adequacy norm had been fixed for the insurance companies. However, as per Section 64 VA of the Insurance Act, 1938, solvency margin equivalent to one fifth of the first five crore of rupees and one tenth of the remaining amount of premium income from insurance business during the preceding twelve months is required to be maintained by the insurance companies, failing which the insurer shall be deemed to be insolvent and the insurer may be wound up by the court. Although the solvency margin was maintained by the five insurance companies, in view of ever-increasing exposure to risks, there is a strong need to prescribe capital adequacy norms based on the total risk underwritten by these companies, instead of maintaining solvency margin based on income from general insurance business.

5.2.5 The table given below indicates the percentage of dividend declared by the Insurance Companies for three years ending March 2004.

Percentage of Dividend declared					
Year	**GIC**	**NIA**	**NIC**	**OIC**	**UIIC**
2001-02	20	20	--	--	30
2002-03	22	40	25	20	25
2003-04	30	45	25	25	30

5.3 Reinsurance Operations

5.3.1 The insurance companies reinsure the risk accepted in excess of their retention capacity. This reinsurance is made in accordance with a common annual reinsurance program drawn up in advance by the respective insurance companies. The main objective of the reinsurance program is to prudently retain maximum premium in India while at the same time securing the best possible protection for cost incurred on reinsurance.

5.3.2 The gross direct premium underwritten by the General Insurance Companies and the total net premium retention, after reinsurance, within India during the last three years were as tabulated below:

(Rs. in crore)

	2001-02	**2002-03**	**2003-04**
Gross Direct Premium	12228.69	13887.95	20138.26
Net premium retained in India	11279.47	12224.92	15367.51
Net premium ceded to foreign reinsurers	949.22	1663.03	4770.75
Average retention margin (per cent)	92.24	88.02	76.31

5.3.3 The average retention margin of the Insurance Companies declined over the years although Gross Direct Premium collected by them increased.

5.4 Foreign operations

5.4.1 General Insurance Corporation of India does not carry out any foreign operation. As on 31 March 2004, the General Insurance Companies had invested Rs. 74.19 crore in the total paid up capital of Rs. 76.27 crore of two wholly-owned subsidiaries[✪] carrying out insurance business in two countries. In addition, the Insurance companies operated 21 offices abroad spread over 10 countries.

5.4.2 In overseas operations, the Insurance companies incurred loss of Rs.146.50 crore in 2001-02, Rs.200.60 crore in 2002-03 and made a profit of Rs.3.96 crore in 2003-04 from underwriting business.

✪ 1. India International Insurance Pte Ltd., Singapore
2. The New India Assurance Company (Trinidad & Tobago) Limited

5.4.3 After taking into account the income from other sources, insurance companies made an overall profit of Rs.50.87 crore in 2003-04 as New India Assurance Company Limited earned profit (Rs.98.83 crore) while the other three companies incurred losses in their foreign operations with NIC (Rs. 5.71 crore) and OIC (Rs. 3.24 crore) and UIIC accounting for the maximum loss (Rs.39.01 crore). The profit of Rs.50.87 crore earned in 2003-04 was against the net loss of Rs.116.82 crore and Rs.166.84 crore in 2001-02 and 2002-03 respectively.

5.5 Investments

5.5.1 The income derived by the insurance companies through investment was Rs.3058.21 crore and Rs.3030.61 crore during the years 2001-02 and 2002-03 respectively, which contrasted with the overall losses of Rs.1732.11 crore and Rs.234.34 crore incurred during these years from their insurance business. However, there was profit of Rs.530.08 crore from insurance business and gross income of Rs.3799.14 crore from investment in 2003-04. The return realised on investment was 10.07 per cent in 2001-02, 9.95 per cent in 2002-03 and 10.50 per cent in 2003-04.

5.5.2 Insurance companies had generated an accretion of investment funds to the tune of Rs. 2202.71 crore in 2001-02, Rs. 3037.30 crore in 2002-03 and Rs.2902.45 crore in 2003-04.

CHAPTER 6
MARKET CAPITALISATION

6.1 A review in audit of prices of shares prevailing in the stock market in respect of 23 Government Companies listed in the various stock exchanges for which data was available revealed that the total market value of their equity shares as on 31 March 2004 stood at Rs.3,25,822.02 crore as compared to the total book value of Rs.1,21,365.56 crore indicating an appreciation of Rs.2,04,456.46 crore in value. The total market value of shares in these companies had gone up by Rs.1,80,995.55 crore as on 31 March 2004 as compared to their prices prevailing on 31 March 2003. The details are indicated in Appendix XV.

6.2 The market value of shares held by the Government of India in these companies stood at Rs. 2,58,006.03 crore as on 31 March 2004 as compared to the book value of Rs.93,647.48 crore as on 31 March 2004 indicating an appreciation of Rs.1,64,358.55 crore in the value of investment in these companies. The total market value of shares held by Government in these companies had gone up by Rs.1,43,671.97 crore as on 31 March 2004 as compared to their prices prevailing on 31 March 2003.

In Summary:

At the end of the financial year 2003-04, the number of Public Sector Undertakings under the audit jurisdiction of the C & AG of India was 384 (including 88 deemed Government Companies). A majority of these had finalised the accounts within the prescribed time schedule. A review of the financial statements of 283 PSUs, including one deemed Government Company, indicates that overall investment of the Government of India in the Public Sector by way of equity (Rs.1,06,585 crore) had increased. An additional investment of Rs.2,932 crore was made during the year towards equity of the PSUs, despite the fact that the average return from investments in PSUs continued to be as low as 10.18 per cent. Besides, the Government also provided an amount of Rs.30,750 crore on account of subsidy to the various PSUs operating under the administered price mechanism and grants of Rs.638 crore. The net burden of these PSUs on the central budget after taking into account the dividend received from the profit-making PSUs was Rs.23,473 crore.

Profits were reported by only 156 PSUs, out of which 42 PSUs, operating partially under the administered / regulated prices, contributed 80 per cent of the total profit. Losses were reported by as many as 116 PSUs, out of which 93 had eroded their respective equity bases (Rs.13,557 crore) many times over owing to accumulated losses (Rs.72,711 crore as on 31 March 2004) over the years resulting in negative networth. Sickness had overtaken 54 PSUs and they stood referred to BIFR.

Inventory control and collection of debts by PSUs continued to be areas of serious concern. Most of the PSUs continued to rely for their survival substantially on Government support including supply orders. In the absence of shift in customer base from Government to non-Government and export sectors, the desired improvement in the competitiveness of the PSUs remained to be achieved.

The apparent financial soundness of insurance sector lacked substance. The profit after tax (2003-04) of Rs.2454 crore reported by five Insurance Companies should be viewed in the light of the fact that during the year these companies had earned overall profit of only Rs.530 crore on underwriting risks which was their core business. The rest of the profit was earned from their non-insurance activities such as investments, rent etc.

The market value of shares of 23 listed Government Companies as per prices prevailing on stock markets on 31 March 2004 stood at Rs.3,25,822 crore. This compared favourably with the total book value of these shares at Rs.1,21,366 crore. The market value of shares held by the Government of India in these companies stood at Rs.2,58,006 crore as on 31 March 2004 as compared with the book value of Rs.93,647 crore indicating an appreciation of Rs.1,64,359 crore.

(T.G. SRINIVASAN)
Deputy Comptroller and Auditor General
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New Delhi
Dated:

Countersigned

(VIJAYENDRA N. KAUL)
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