Chapter - 2

Functioning of Power Sector PSUs

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2.1 Introduction

Power sector PSUs play an important role in the economy of the State by providing critical infrastructure required for growth and development of the State. The PSUs in this sector also add significantly to the Gross State Domestic Product (GSDP) of Madhya Pradesh as can be seen from the ratio of these PSUs' turnover to GSDP. Table below provides the details of turnover of the Power Sector PSUs and GSDP of Madhya Pradesh for a period of three years ending March 2019.

Table 2.1: Turnover of Power Sector PSUs *vis-a-vis* GSDP of Madhya Pradesh

(₹ in crore)

Particulars	2016-17	2017-18	2018-19
No. of PSUs	11	11	11
Turnover	64,162.93	66,043.29	77,617.28
Percentage change of turnover compared to preceding year	11.55	2.93	17.52
GSDP of Madhya Pradesh	6,39,219.67	7,07,046.99	8,09,327.00
Percentage change in GSDP as compared to GSDP of preceding year	20.51	10.61	14.47
Percentage of turnover to GSDP of Madhya Pradesh	10.04	9.34	9.59

*(**Source**: Turnover figures: Accounts/ information provided by the Power Sector PSUs and GSDP figures: Economic Review 2018-19 of Government of Madhya Pradesh)*

The percentage turnover of Power Sector PSUs relative to GSDP hovered between 9.34 and 10.04 *per cent* during the three year period 2016-19. The Compounded Average Annual Growth[1] of GSDP was 8.18 *per cent* during the last three years while the turnover of Power Sector PSUs recorded lower compounded annual growth rate of 6.55 *per cent* during the same period.

2.1.1 Formation of Power Sector PSUs

The State Government enacted (February 2001) the Madhya Pradesh Vidyut Sudhar Adhiniyam, 2000 (MPVSA 2000) which *inter alia* provided for reorganisation of electricity industry and preparation of a scheme for transferring the powers, duties and functions of Madhya Pradesh State Electricity Board (MPSEB) to one or more Power Sector companies of the State Government.

2.1.2 Unbundling of MPSEB

The State Government formulated (30 September 2003) the Madhya Pradesh Power Sector Reforms Transfer Scheme, 2003 (MPPSRT Scheme 2003) for unbundling of MPSEB and transfer of assets, properties, liabilities, obligations, proceedings and personnel of MPSEB to five Power Sector Companies (*viz. Madhya Pradesh Power Generating Company Limited (MPPGCL), Madhya Pradesh Power Transmission Company Limited (MPPTCL), Madhya Pradesh Poorva Kshetra Vidyut Vitaran Company Limited (MPPoKVVCL), Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited (MPMKVVCL) and Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited (MPPaKVVCL)*). These five Power Sector Companies came into existence *w.e.f.* November 2001 and all the assets and liabilities

[1] Rate of Compounded Annual Growth [{(Value of 2018-19/Value of 2016-17)^(1/3 years)}-1]*100.

of MPSEB (including equity of ₹ 3,528.02 crore[2] and loans of MPSEB of ₹ 1,151.57 crore) were distributed among these Companies according to the provisions of the MPPSRT Scheme 2003. The State Government incorporated one other Power Sector Company *viz. Madhya Pradesh Urja Vikas Nigam Limited* (MPUVNL) by infusing equity of ₹ 0.69 crore in 1982-83. Besides these six Companies *and (erstwhile Madhya Pradesh Power Trading Company Limited) Madhya Pradesh Power Management Company Limited (MPPMCL)*[3], *four*[4] other Power Sector companies were incorporated (February 2007 to October 2011) as subsidiary companies of MPPMCL/ MPPGCL. These PSUs did not commence any commercial activities as of 2018-19 even after eight years of their incorporation and one of them has already gone into liquidation[5]. Therefore, this Report does not include these four PSUs which were under liquidation or have not commenced operations as of 2018-19 as detailed in ***Annexure 2.1***.

2.2 Restructuring, Disinvestment and Privatisation of Power Sector PSUs

During the year 2018-19, there was no disinvestment of any Power Sector PSU in Madhya Pradesh nor was any of these PSUs privatised.

2.3 Investment in Power Sector PSUs

The activity-wise investment of Central and State Governments and Others (equity and long-term loans) in the Power Sector PSUs as on 31 March 2019 is given in **Table 2.2**:

Table 2.2: Activity-wise investment in Power Sector PSUs

(₹ in crore)

Activity	Number of PSUs	Equity	Long term loans	Total
Generation of Power	1	6310.29[6]	12304.92	18615.21
Transmission of Power	1	3294.35	2666.84	5961.19
Distribution of Power	3	17715.31	35137.28	52852.59
Others[7]	2	100.21[8]	18.99	119.20
PSUs not covered in this Report[9]	4	45.15	8.31	53.47
Total	**11**	**27465.31**	**50136.34**	**77601.65**

(***Source:*** *Compiled based on annual accounts of PSUs*)

As on 31 March 2019, the total investment in Power Sector PSUs comprised of 35.39 *per cent* equity capital and 64.61 *per cent* long-term loans. Out of the above, an investment of ₹ 53.47 crore was made in four PSUs not covered in this Report as these were inactive PSUs (Paragraph 1.1).

The long term loans in Power Sector PSUs consisted of ₹ 28,023.66 crore (55.89 *per cent*) advanced by the State Government and ₹ 22,112.68 crore (44.11 *per cent)* raised from other

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[2] MPPGCL (₹ 1,915.08 crore), MPPTCL (₹ 730.43 crore), MPPoKVVCL (₹ 284.08 crore), MPMKVVCL (₹ 351.88 crore) and MPPaKVVCL (₹ 246.55crore).

[3] As holding company of the three DISCOMs.

[4] Bansagar Thermal Power Company Limited (9-6-2011), Shahpura Thermal Power Company Limited (5-2-2007), Dada Dhuniwale Khandwa Power Limited (25-2-2010), Sri Singaji Power Project Limited (12-10-2011).

[5] Dada Dhuniwale Khandwa Power Limited (2017-18).

[6] Excluding an amount of ₹ 0.25 crore invested by holding company at Sl. no. A1 of *Annexure 2.1* in the subsidiaries at Sl. No. E10 and E11.

[7] Sl. No. D6 and D7 of *Annexure 2.1*.

[8] Excluding an amount of ₹ 16428.32 crore invested by holding company at Sl. No. D7 in the subsidiaries at Sl. No. C3, C4, C5, E8 and E9 of *Annexure 2.1.*

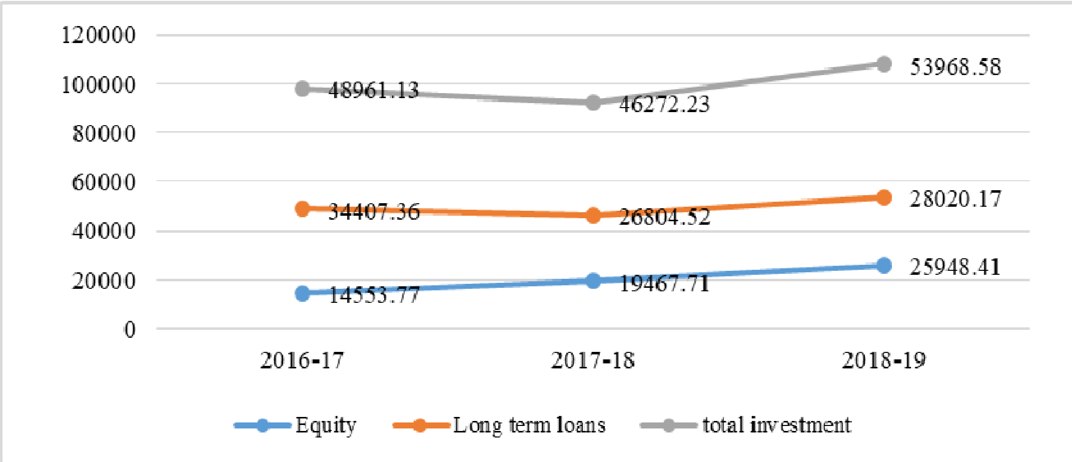
[9] Sl. No. E8 to E11 of *Annexure 2.1*.

financial institutions. During 2016-17, 2017-18 and 2018-19, the State Government has taken over ₹ 12,689.99 crore (48.71 *per cent*) of the outstanding debts (₹ 26,054 crore) of the DISCOMs as on 30 September 2015 under Ujwal DISCOM Assurance Yojana[10] (UDAY) Scheme.

The year–wise details of investment made by the State Government in the form of equity and long term loans in the Power Sector PSUs during the period 2016-17 to 2018-19 are given in **Chart 2.1**:

Chart 2.1: Total investment of GoMP in Power Sector PSUs

(₹ in crore)



2.4 Budgetary Support to Power Sector PSUs

The Government of Madhya Pradesh provides financial support to Power Sector PSUs in various forms through its annual budget. The summarised details of budgetary outgo towards equity, loans, grants/ subsidies, during the year in respect of Power Sector PSUs for the last three years ending March 2019 are given in **Table 2.3**:

Table 2.3: Details relating to budgetary support to Power Sector PSUs

(₹ in crore)

Sl.No.	Particulars	2016-17		2017-18		2018-19	
		No. of PSUs	Amount	No. of PSUs[11]	Amount	No. of PSUs	Amount
(i)	Equity Capital	6	196.93	3	4,913.94	5	1,754.89
(ii)	Loans	6	3,201.44	3	217.12	3	174.72
(iii)	Grants/Subsidies	3	6,273.12	4	9,648.21	2	11,730.32
	Total Outgo (i+ii+iii)	**6**	**9,671.49**	**4**	**14,779.27**	**5**	**13,659.93**
(iv)	Loans converted into equity	3	3,557.00	3	4,010.99	0	0
(v)	Guarantees Outstanding	6	10,086.05	4	2,772.16	6	6,679.22
(vi)	Guarantee Commitment	6	17,809.92	4	6,736.26	6	14,019.24

*(**Source:** Annual accounts of PSUs/ information furnished by the Companies)*

[10] Scheme launched by the Ministry of Power, Government of India for financial and operational turnaround of DISCOMs.

[11] GoMP released equity directly to the three DISCOMS on behalf of their holding company i.e. MPPMCL against which these subsidiaries issued shares to their holding Company. Therefore, for the purpose of infusion of Government's fund, only holding company on behalf of its subsidiaries has been considered. Remaining one Power Sector PSU is Madhya Pradesh Urja Vikas Nigam Limited.

The Ministry of Power (MoP) launched UDAY Scheme in November 2015 for operational and financial turnaround of Distribution Companies (DISCOMs). The provisions of UDAY and status of implementation of the Scheme by the DISCOMs are discussed under ***Paragraph 2.8*** of this Chapter.

2.4.1 Guarantee Fee

The GoMP provides guarantee under Madhya Pradesh Government Guarantees Rules (MPGGR), 2009 for PSUs to seek financial assistance from banks and financial institutions. The Government decided (February 2011) to charge guarantee commission at the rate of half a *per cent* to one *per cent* per annum in case of loan availed by PSUs from banks/ financial institutions without any exception under the provisions of the MPGGR 2009. Outstanding guarantee commitments increased by 108.17 *per cent* from ₹ 6,736.26 crore in 2017-18 to ₹ 14,019.24 crore in 2018-19. During the year 2018-19, guarantee commission of ₹ 14.68 crore was paid by the PSUs to the State Government.

2.5 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per the records of State PSUs should agree with the figures appearing in the Finance Accounts of the Government of Madhya Pradesh. In case the figures do not tally, the concerned PSUs and the Finance Department should carry out reconciliation of the differences. The position in this regard as on 31 March 2019 is given in **Table 2.4**:

Table 2.4: Equity, Loans and Guarantees outstanding as per Finance Accounts vis-à-vis records of Power Sector PSUs

(₹ in crore)

Outstanding in respect of	No. of PSUs	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
(A)	(B)	(C)	(D)	(E) = (C)-(D)
Equity	04	30,884.76	25,948.41	4,936.35
Loans	07	33,162.07	28,023.66	5,138.41
Guarantees	06	6,675.28	6,679.23	- 3.95

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

The differences in the figures of equity, loans and guarantees were pending for reconciliation since long. The matter was taken up with the PSUs/ Departments from time to time. The State Government and the Power Sector PSUs should take concrete steps to reconcile the differences in a time bound manner.

2.6 Submission of Accounts by Power Sector PSUs

2.6.1 Timeliness in preparation of accounts by Power Sector PSUs

Section 96(1) of the Companies Act, 2013 requires that the PSUs finalise their accounts within six months from the end of the relevant financial year, i.e., by September end. Failure to do so may attract penal provisions under Section 99 of the Companies Act, 2013. The following table provides details of progress made by the Power Sector PSUs in finalization of their accounts as on 31 December 2019:

Table 2.5: Position relating to finalisation of Accounts of Power Sector PSUs

Sl. No.	Particulars	2016-17	2017-18	2018-19
1.	No. of PSUs	11	11	11
2.	No. of Accounts submitted during the year	08	13	12
3.	No. of PSUs which finalised Accounts for the current year (2018-19)	05	07	09
4.	No. of previous year Accounts finalised during the year	03	06	03
5.	No. of PSUs with arrears in Accounts	06	04	02
6.	No. of Accounts in arrears	06	04	2[12]
7.	Extent of arrears	One year	One year	One year

*(**Source:** Compiled based on accounts of PSUs received till 31 December 2019)*

The Energy Department, GoMP as the Administrative Department of Power Sector PSUs, has the responsibility to oversee the activities of these entities. Therefore, it has to ensure that the accounts are finalized by these PSUs and adopted by their respective Board of Directors within the stipulated period.

2.6.2 Impact of non-finalisation of Accounts

Delay in finalization of accounts carries the risk of fraud and leakage of public money going undetected apart from violating the provisions of the relevant Statutes. It is therefore, recommended that the State Government take appropriate steps expeditiously to liquidate the arrears in finalization of accounts.

2.7 Performance of Power Sector PSUs

The financial position and working results of 11 Power Sector PSUs as per their latest finalised accounts as of 31 December 2019 are detailed in ***Annexure 2.1***.

Public Sector Undertakings are expected to yield reasonable return on investment made by the Governments. The profitability of a Company is traditionally assessed through return on investment, return on equity and return on capital employed. Rate of Real Return on Investment is the percentage of profit or loss to the Present Value (PV) of total investment. The Rate of Real Return measures the profitability and efficiency with which equity and similar non-interest bearing capital have been employed, after adjusting them for their time value. It 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. Investment for this purpose include equity and interest free loans. Return on Capital Employed is a financial ratio that measures the company’s profitability and the efficiency with which its capital is used and is calculated by dividing company’s earnings before interest and taxes by capital employed. Return on Equity is a measure of performance calculated by dividing net PAT by the shareholders’ fund.

2.7.1 Rate of Real Return on Investment

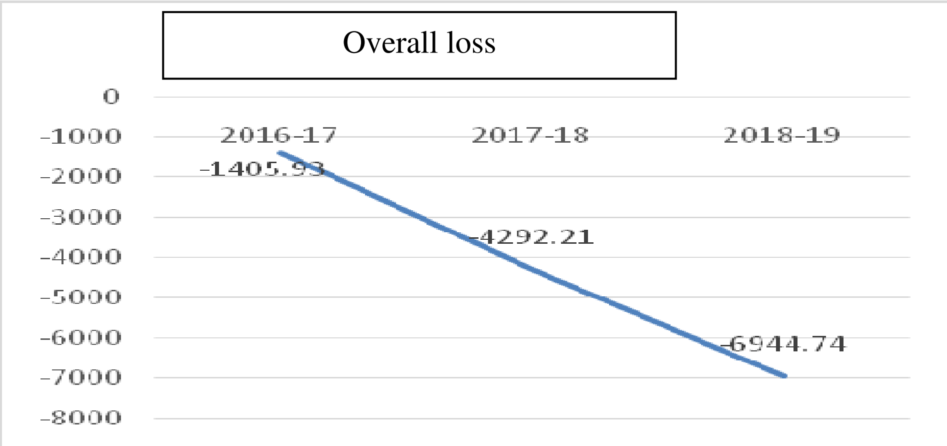
Rate of Real Return on Investment is the percentage of profit or loss to the total investment. The overall position of profit earned/ losses incurred[13] by the Power Sector PSUs during 2016-17 to 2018-19 is depicted in **Chart 2.2**:

[12] One account of MPUVNL and DDKPPL each (the accounts of DDKPPL received upto FY 2016-17, however the PSU being under liquidation w.e.f. 15.11.2017, the account for 2017-18 is considered as in arrear).

[13] Figures are as per the latest finalised accounts during the respective years.

Chart 2.2: Losses incurred by Power Sector PSUs

(₹ in crore)



The loss incurred by the 11 Power Sector PSUs was ₹ 6,944.74 crore in 2018-19 against ₹ 1405.93 crore in 2016-17. According to the latest finalised accounts of seven PSUs covered in this Report, two PSUs (MPPGCL, MPPTCL) earned a profit of ₹ 216.73 crore, three PSUs (MPoKVVCL, MPaKVVCL and MPMKVVCL) incurred a loss of ₹ 7,158.48 crore and two[14] PSUs had break-even status ***(Annexure-2.1)***. Out of the four PSUs not covered in this Report, only one PSU i.e. BTPCL earned a marginal profit of ₹ 0.07 crore.

Out of the total profit of ₹ 216.73 crore, MPPGCL alone earned a profit of ₹ 171.50 crore, which constituted 79.13 *per cent* of the total profits of profit-making PSUs, while MPMKVVCL (₹ 3,837.52 crore) and MPPoKVVCL (₹ 2,896.68 crore) contributed substantially (94.10 *per cent*) to the total loss of ₹ 7,158.48 crore of the DISCOMs.

The number of Power Sector PSUs that earned profit/ incurred loss during 2016-17 to 2018-19 is given in **Table 2.6**:

Table 2.6: Number of Power Sector PSUs which earned profit/ incurred loss

Financial year	Total No. of PSUs	Number of PSUs which reported profits during the year	Number of PSUs which reported loss during the year	Number of PSUs which reported 'Nil' profit/ loss during the year
2016-17	11	2	5	4
2017-18	11	3	3	5
2018-19	11	3	4	4

2.7.1.1 Rate of Real Return on the basis of historical cost of investment

Out of 11 Power Sector PSUs, the State Government infused funds in the form of equity, long term loans and grants/ subsidies in eight PSUs only. The State Government did not infuse any direct funds in the other three PSUs (Shahpura Thermal Power Company Limited, Shri Singaji Power Project Limited and Dada Dhuni Wale Khandwa Power Limited) as of 2018-19. The entire equity of the three PSUs which are subsidiaries of two PSUs[15], was contributed by the concerned holding Companies.

The Return on Investment (RoI) from the eight PSUs was calculated on the investment made by the State Government in the form of equity and loans. In the case of loans, only long term

[14] Net expenses of MPPMCL are entirely distributed amongst its subsidiary companies on whose behalf it functions and the operational loss of MPUVNL have been transferred to GoMP.

[15] MPPGCL and MPPMCL.

loans are considered as investment. Further, the funds made available in the form of grants/ subsidies have not been reckoned as investment since they do not qualify to be considered as investment. The grants given to the Power Sector PSUs under the UDAY Scheme during 2016-17 to 2018-19 has been considered as investment, since this grant was given by the GoMP to take over the debts of the DISCOMs due to banks and financial institutions.

The investment of State Government in these eight PSUs has been arrived at by considering the equity (initial equity net of accumulated losses plus the equity infused during the later years), adding long term loans and deducting long term loans which were later converted into equity for each year.

The investment of State Government as on 31 March 2019 in these eight PSUs was ₹ 53,968.58 crore consisting of equity of ₹ 25,948.41 crore and long term loans of ₹ 28,020.17 crore as detailed in ***Annexure 2.2***.

The RoI on historical cost basis for the period 2016-17 to 2018-19 is given below:

Table 2.7: Rate of Real Return on GoMP investment on historical cost basis

Financial year	Funds infused by the GoMP in form of Equity and Loans on historical cost basis (*₹ in crore*)	Total Earnings/ Losses[16] (*₹ in crore*)	Return on Investment (in *per cent)*
2016-17	48,961.13	-1405.93	-2.87
2017-18	46,272.23	-4292.21	-9.28
2018-19	53,968.58	-6944.74	-12.87

The return on investment of the Power Sector PSUs ranged from (-) 2.87 *per cent* during 2016-17 to (-) 12.87 *per cent* in 2018-19. Losses appear relatively less during 2016-17 mainly due to increase in income of the three DISCOMs because of grant received under UDAY Scheme. Also, the decrease in GoMP funds during 2017-18 was mainly due to decrease in loans of all the three DISCOMs and MPPTCL.

2.7.1.2 Rate of Real Return on the basis of Present Value of Investment

In view of the significant investment by State Government in the eight PSUs, return on such investment is essential from the perspective of State Government. Traditional calculation of return based only on historical cost of investment may not be a correct indicator of the adequacy of the return on the investment since such calculations ignore the present value of money. Therefore, the real return on investment has also been calculated after considering the Present Value (PV) of money. PV of the State Government investment was computed where funds had been infused by the State Government in the form of equity, long term loans and capital grants since finalisation of the Balance Sheets of these Companies after unbundling of erstwhile MPSEB (2000-01) to 31 March 2019.

Present value of the State Government investment in Power Sector PSUs was computed on the basis of following assumptions:

- Long term loans and Capital grants have been considered as investment infusion by the State Government;
- In those cases where interest free loans given to the PSUs, were later converted into equity, the amount of loan converted into equity has been deducted from the amount of interest free loans and added to the equity of that year;

[16] As per annual accounts of the respective years.

- The funds given under UDAY Scheme are considered as investment; and
- The average rate of interest on Government borrowings for the concerned financial year[17] was adopted as discount rate for arriving at Present Value since these represent the cost incurred by the Government towards investment of funds for the year.

For the period 2016-17 to 2018-19, two PSUs[18] prepared their accounts on no-profit and no-loss basis, two PSUs[19] have been earning profit consistently, whereas three PSUs[20] incurred losses (MPPaKVVCL incurred profit in 2016-17). The remaining four PSUs (have not commenced commercial operations as of 2018-19.

The position of State Government investment in the eight PSUs[21] in the form of equity, loans and capital grants since inception of these Companies to 31 March 2019 and the consolidated position of the PV of the State Government investment relating to these since 2000-01 to 31 March 2019 is indicated in **Table 2.8**:

Table 2.8: Year-wise details of GoMP investment and PV of Government funds from 2000-01 to 2018-19

(₹ in crore)

Financial year	Present value of total investment at the beginning of the year	Equity infused by State Government during the year	Loans and capital grants given by State Government during the year	Total investment during the year	Average rate of interest on Government borrowings (in %)	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 for the year[22]
i	Ii	iii	iv	v=iii+iv	vi	vii=ii+v	viii={vii*(1+vi)/100}	ix={vii*vi/100}	x
2000-01	2544.08	-478.85	97.52	-381.33	9.94	2162.75	2377.73	214.98	-1,374.03
2001-02	2377.73	0.00	191.68	191.68	9.19	2569.41	2805.54	236.13	-1,477.23
2002-03	2805.54	-61.53	-1874.87	-1936.40	8.81	869.14	945.71	76.57	-1,476.97
2003-04	945.71	0.25	0.00	0.25	9.41	945.96	1034.97	89.01	-157.5
2004-05	1034.97	0.00	682.04	682.04	8.96	1717.01	1870.86	153.84	148.36
2005-06	1870.86	3949.23	3763.30	7712.53	7.33	9583.39	10285.85	702.46	1,241.50
2006-07	10285.85	162.75	198.01	360.76	7.86	10646.61	11483.43	836.82	554.84
2007-08	11483.43	774.11	-3739.92	-2965.81	7.72	8517.62	9175.18	657.56	-1,729.70
2008-09	9175.18	2048.89	1139.66	3188.55	7.24	12363.73	13258.87	895.13	-3,218.73
2009-10	13258.87	2659.40	1515.05	4174.45	6.94	17433.32	18643.19	1209.87	-3,616.38
2010-11	18643.19	-114.24	1281.62	1167.38	7.07	19810.57	21211.17	1400.61	-2,147.35
2011-12	21211.17	1017.28	5029.04	6046.32	6.91	27257.49	29140.99	1883.49	-2,469.05
2012-13	29140.99	953.84	6613.06	7566.90	6.75	36707.89	39185.67	2477.78	-4,280.84
2013-14	39185.67	893.44	3743.04	4636.48	6.69	43822.15	46753.85	2931.70	-6,197.61

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

18 MPPMCL and MPUVNL.

19 MPPGCL and MPPTCL.

20 MPPoKVVCL, MPPaKVVCL and MPMKVVCL

21 The PV of the investment has been calculated in respect of those eight PSUs only where GoMP funds have been infused in the form of equity, loans and grants. In respect of remaining three PSUs, as there is no operational income, the same were not considered.

22 Total Earnings for the year depict total of net earnings (profit/ loss) for the concerned year relating to those Power Sector PSUs where funds were infused by State Government.

2014-15	46753.85	1204.35	9338.05	10542.40	6.73	57296.25	61152.29	3856.04	-6,588.09
2015-16	61152.29	637.23	2325.81	2963.04	6.86	64115.33	68513.64	4398.31	-4,994.09
2016-17	68513.64	196.93	3260.89	3457.82	6.72	71971.46	76807.94	4836.48	-5,546.12
2017-18	76807.94	4913.94	-7599.35	-2685.41	6.67	74122.53	79,066.51	4943.97	-4,289.15
2018-19	79066.51	1754.90	692.02	2446.92	6.92	81513.42	87154.15	5640.73	-6941.75
Total		**20511.92**	**26656.65**	**47168.57**					

The balance of investment of the State Government in the eight Power Sector PSUs at the end of the year increased to ₹ 49,712.65 crore in 2018-19 from ₹ 2,544.08 crore in 2000-01 as the State Government made further investment in the form of equity (₹ 20,511.92 crore), loans and Capital Grants (₹ 26,656.65 crore).

The PV of investment of the State Government as of 31 March 2019 worked out to ₹ 87,154.15 crore.

It could be seen that total earnings for the year relating to these PSUs remained negative during 2000-01 to 2018-19 (except during the years 2004-05 to 2006-07). Thus, these PSUs had not even recovered the cost of funds to the Government. In the reporting year 2018-19, these Companies have reported highest ever loss of ₹ 6,941.75 crore.

Further, the Government has also given equity/ grant of ₹ 7,568 crore in 2016-17, ₹ 4,621.99 crore in 2017-18 and ₹ 500 crore in 2018-19 to the three DISCOMs under UDAY Scheme for taking over the debts of these DISCOMs due towards banks and financial institutions. This grant is considered as investment of the State Government while calculating the return on investment.

2.7.2 Erosion of Net worth

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

As on 31 March 2019, out of the seven working PSUs, there were five PSUs with accumulated losses of ₹ 54,278.10 crore. Three PSUs incurred losses in the year 2018-19 amounting to ₹ 7,158.48 crore and two PSUs had not incurred loss in the year 2018-19; however these had accumulated losses of ₹ 3,217.12 crore.

Net worth of three out of seven PSUs covered in this Report had been completely eroded by accumulated losses and their net worth was negative. The net worth of these three PSUs was (-) ₹ 33,345.67 crore against equity investment of ₹ 17,715.31 crore in these PSUs as on 31 March 2019. (***Annexure 2.1***).

In all the three PSUs whose capital had been eroded, Government loans outstanding as on 31 March 2019 amounted to ₹ 25,726.88 crore.

Out of the four PSUs not covered in this Report, the Net Worth of only one PSU i.e. BTPCL was eroded.

The **Table 2.9** indicates paid up capital, accumulated profit/ loss and net worth of the three Power Sector PSUs whose net worth has been eroded during the period 2016-17 to 2018-19:

Table 2.9: Net worth of loss making Power Sector PSUs during 2016-17 to 2018-19

(₹ in crore)

Year	Number of PSUs	Paid up Capital at end of the year	Accumulated Profit (+)/ Loss (-) at end of the year	Deferred revenue Expenditure	Net worth
2016-17	3	9,973.21	-37,131.92	-	-27,158.71
2017-18	3	14,040.00	-42,032.03	-	-27,992.03
2018-19	3	17,715.31	-51,060.98	-	-33,345.67

2.7.3 Dividend Payout

The State Government had formulated (July 2005) a dividend policy under which all profit making PSUs are required to pay a minimum return of 20 *per cent* on profit after tax. As per the latest finalised accounts, out of 11 Power Sector PSUs, three PSUs earned an aggregate profit of ₹ 216.80 crore but none of them declared dividend. Dividend payout where equity was infused by GoMP during the period is shown in **Table 2.10**:

Table 2.10: Dividend Payout during 2016-17 to 2018-19

(₹ in crore)

Year	Total PSUs where equity infused by GoMP during the year		PSUs which earned profit during the year		PSUs which declared/ paid dividend during the year		Dividend Payout Ratio *(per cent)*
	No. of PSUs	Equity infused by GoMP	No. of PSUs	Equity infused by GoMP	No. of PSUs	Dividend declared/ paid by PSUs	
(i)	**(ii)**	**(iii)**	**(iv)**	**(v)**	**(vi)**	**(vii)**	**(viii)=vii/v*100**
2016-17	8	196.93	2	445.45	0	0	0
2017-18	8	4,913.94	3	2,655.70	0	0	0
2018-19	5	1,754.90	2	159.28	0	0	0

*(**Source:** Accounts and information furnished by PSUs)*

During the period 2016-17 to 2018-19, two to three PSUs earned profits; however, none of these PSUs declared/ paid dividend to GoMP. In fact, none of these companies have declared/ paid dividend to GoMP since their inception.

2.7.4 Return on Equity

Return on Equity (RoE)[23] is a measure of financial performance to assess how effectively the management is using Company's assets to create profits. It is calculated by dividing net income (i.e. net profit after taxes) by shareholders' fund. It is expressed as a percentage and can be calculated for any company if net income and equity are both positive numbers.

Shareholders' Fund of a Company is calculated by adding paid up capital and free reserves net of accumulated losses and deferred revenue expenditure and reveals how much would be left for a company's stakeholders if all assets were sold and all debts repaid. A positive Shareholders' fund reveals that the Company has enough assets to cover its liabilities, while negative Shareholder's Funds means that liabilities exceed assets.

RoE has been computed in respect of Power Sector PSUs covered in this Report where funds have been infused by GoMP. The details of Shareholders' funds and RoE of the Power Sector PSUs during the period from 2016-17 to 2018-19 are given in **Table 2.11**:

[23] Return on Equity = (Net Profit after Tax and preference Dividend/Equity) *100.

Table 2.11: Shareholders' fund and RoE of Power Sector PSUs

	Year	No. of PSUs	Net Income/ total Earnings for the year[24] (₹ in crore)	Shareholders' Fund (₹ in crore)	RoE (in *per cent*)
Profit Earning	2016-17	3	617.17	- 908.18	-
	2017-18	2	65.21	6043.89	1.08
	2018-19	2	216.73	6,387.52	3.39
Loss Incurring	2016-17	2	- 2020.87	- 20,863.33	-
	2017-18	3	- 5,277.38	- 27,413.62	-
	2018-19	2	- 7,158.48	- 33,345.67	-
No Profit/ No Loss	2016-17	2	--	6,074.81	-
	2017-18	3	--	10,412.76	-
	2018-19	2	--	100.21	-
Total	2016-17	7	- 1403.70	- 15,696.70	-
	2017-18	7	- 5,212.17	- 10,956.97	-
	2018-19	7	- 6,941.75	- 26,857.94	-

*(**Source:** Accounts and information furnished by PSUs)*

As can be seen from the above table, both the Shareholders' fund and the net income were negative during all the three years ending March 2019. Shareholders' fund is appearing negative for the profit earning PSUs due to inclusion of loss ridden MPPaKVVCL. During 2016-17, MPPaKVVCL registered profit mainly due to grant received under UDAY Scheme. Negative Shareholders' fund indicates that the liabilities of the Power Sector PSUs have exceeded the assets and instead of PSUs paying returns to the shareholders, the shareholders owe money to the creditors of the working Power Sector PSUs.

2.7.5 Return on Capital Employed

Return on Capital Employed (RoCE) is a profitability metric that measures the long term profitability and efficiency with which the total capital is employed by a company. RoCE is an important decision metric for long term lenders.

RoCE is calculated by dividing a company's profit/ earnings before interest and taxes (EBIT) by capital employed[25]. The details of RoCE of seven working PSUs during the period from 2016-17 to 2018-19 are given in **Table 2.12**:

Table 2.12: RoCE of Power Sector PSUs

	Year	No. of PSUs	EBIT (₹ in crore)	Capital Employed (₹ in crore)	RoCE (in *per cent*)
Profit earning	2016-17	3	2,442.92	11,667.34	20.94
	2017-18	2	3,873.51	20,084.62	19.29
	2018-19	2	1,812.80	21,359.28	8.49
Loss incurring	2016-17	2	- 961.51	2,578.35	-
	2017-18	3	888.64	2,955.20	30.07
	2018-19	2	- 3,968.14	1,791.60	-
No profit/ No loss	2016-17	2	196.11	6,577.97	2.98
	2017-18	3	303.93	10,738.84	2.83
	2018-19	2	154.88	119.20	129.93
Total	**2016-17**	**7**	**1,677.52**	**20,823.66**	**8.06**
	2017-18	**7**	**5,066.08**	**33,778.66**	**15.00**
	2018-19	**7**	**5,935.82**	**23,270.08**	**25.51**

*(**Source:** Accounts and information furnished by PSUs)*

24 As per annual accounts of the respective years.

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

The RoCE of the Power Sector PSUs ranged between 8.06 *per cent* and 25.51 *per cent* during the period 2016-17 to 2018-19. EBIT and Capital employed appear positive mainly due to the fact that all the Power Sector PSUs are heavily debt ridden and finance cost forms a major part of their expenditure. Consequently, RoCE appears positive, though the Power Sector PSUs are running into heavy losses as discussed in previous paragraph.

2.7.6 Analysis of Long term loans of the Power Sector PSUs

The ability of the Power Sector PSUs to service the debt owned by them to the Government, banks and other financial institutions is assessed through the Interest Coverage Ratio (ICR) and Debt Turnover Ratio (DTR).

2.7.7 Interest Coverage Ratio

The ICR is used to determine the ability of a Company to pay interest on outstanding debt and is calculated by dividing EBIT by interest expenses of the same period. The lower the ratio, the lesser the ability of the company to pay interest on debt. An ICR of below one indicates that the Company was not generating sufficient revenues to meet its expenses on interest. The details of interest coverage ratio of PSUs covered in this Report which had outstanding loans during the period from 2016-17 to 2018-19 are given in **Table 2.13**:

Table 2.13: Details of ICR of Power Sector PSUs

Year	Interest (₹ in crore)	Earnings before interest and tax (EBIT) (₹ in crore)	ICR	Number of PSUs having liability of loans from Government and Banks and other financial institutions	Number of companies having ICR more than 1	Number of companies having ICR less than 1
2016-17	3,441.12	1,577.81	0.46:1	7	3	4
2017-18	4,307.36	-468.30	-0.11:1	7	3	4
2018-19	4,748.77	-2000.46	-0.42:1	6	3	3

(Source: *Accounts and information furnished by PSUs)*

It was observed that the overall ICR of Power Sector PSUs ranged between (-) 0.42:1 to 0.46:1 during 2016-17 to 2018-19. The ICR appeared contrary during the year 2016-17 only due to income booked by DISCOMs on account of grants received under UDAY. The number of PSUs with interest coverage ratio of more than one was consistent during the period from 2016-17 to 2018-19.

2.7.8 Debt-Turnover Ratio

During the last three years, the turnover of 11 PSUs recorded compounded annual growth of 6.55 *per cent* and compounded annual growth of debt was (-) 0.31 *per cent* due to which the Debt-Turnover Ratio improved from 0.78 in 2016-17 to 0.65 in 2018-19 as given in table below:

Table 2.14: Debt-turnover Ratio of Power Sector PSUs

(₹ in crore)

Particulars	2016-17	2017-18	2018-19
Debt from Government and others (Banks and Financial Institutions)	50,609.58	44,345.07	50,136.35
Turnover	64,162.93	66,043.29	77,617.28
Debt-Turnover Ratio	0.78:1	0.67:1	0.65:1

*(**Source:** Accounts and information furnished by PSUs)*

2.8 Assistance under Ujwal DISCOM Assurance Yojana (UDAY)

The Government of India (GoI) launched Ujwal DISCOM Assurance Yojana on 20 November 2015 for operational and financial turnaround of DISCOMs. As per the provisions of UDAY Scheme, the participating States were required to undertake the following measures for operational and financial turnaround of DISCOMs.

2.8.1 Scheme for improving operational efficiency

The participating States were required to undertake various targeted activities for improving the operational efficiencies like compulsory feeder and distribution transformer (DT) metering, consumer indexing and GIS mapping of losses, upgrading or changing transformers and meters, smart metering of all consumers consuming above 200 units per month, Demand Side Management (DSM) through energy efficient equipments, quarterly revision of tariff, comprehensive Information, Education and Communication (IEC) campaign to check theft of power, assure increased power supply in areas where the AT&C losses have been reduced. The timelines prescribed for these targeted activities were also required to be followed so as to ensure achievement of the targeted benefits *viz.* ability to track losses at feeder and DT level, identification of loss making areas, reduce technical losses and minimize outages, reduce power theft and enhance public participation for reducing the theft, reduce peak load and energy consumption *etc.* The outcomes of operational improvements were to be measured through indicators *viz.* reduction of AT&C loss to 15 *per cent* by 2019-20 as per loss reduction trajectory finalised by the Ministry of Power, GoI and States, reduction in gap between average cost of supply and average revenue realised to zero by 2019-20.

2.8.2 Scheme for financial turnaround

The participating States were required to take over 75 *per cent* of DISCOMs' debt by 2020-21 *i.e.* 21.80 *per cent* in 2016-17 and 13.30 *per cent* each year from 2017-18 to 2020-21. The scheme for financial turnaround *inter alia* provided that:

- State will issue non-SLR bonds to raise funds for providing grant/ loan/ equity to the Madhya Pradesh Power Distribution Companies.
- Takeover of debt shall be in the order of non-Capex GoMP debt, followed by debt with highest cost.
- Transfer of funds to the DISCOMs by the State in 2016-17 will be as equity and the remaining transfer in the form of grant.

2.8.3 Implementation of UDAY Scheme

The status of implementation of UDAY Scheme is detailed below:

***(a)* Achievement of operational parameters**

The achievements *vis-a-vis* targets under UDAY Scheme regarding different operational parameters relating to the three State DISCOMs are given in **Table 2.15**:

Table 2.15: Parameter-wise performance *vis-a-vis* targets for the year 2018-19

Parameter of UDAY Scheme	Target period as per MoU	Target	Actual
Financial turnaround			
Takeover of loans of DISCOMs by GoMP by conversion into equity/grant (in ₹ crore)	2018-19	4622.00	500.00
Reduction of AT & C Losses (in *per cent*)	2018-19	17.00	30.16
Elimination of ACS - ARR gap (upto ₹ per unit)	2018-19	0.03	2.68
Tariff Revision in time	2018-19	Timely filing of tariff petition	Tariff for FY 2018-19 revised on 03.05.2018
Billing efficiency (in *per cent*)	2018-19	83.00	72.04
Collection efficiency (in *per cent*)[26]	2018-19	100.00	100.00
Operational turnaround			
Distribution transformers metering (Urban) (in nos.)	2018-19	84,115	73,652
Distribution transformers metering (Rural) (in nos.)	2018-19	4,47,873	2,03,908
Feeder metering (Rural) (in nos.)	2018-19	11,854	13,968
Rural feeder audit (in nos.)	2018-19	11,618	12,316
Smart metering above 500 KWH (in nos.)	2018-19	2,96,644	54,046
Electricity access to un-connected households (nos. in lakh)	2018-19	137.39	138.40
Distribution of LEDs under UJALA scheme (nos. in lakh)	2018-19	300.40	173.74
Physical feeder segregation (in nos.)	2018-19	6862	6946

***(Source:** Information furnished by the three DISCOMs)*

The State has performed poorly in meeting the target for Distribution Transformers (DTR) and smart metering. Further, going by the current trend of progress, the State will find it difficult to achieve the most important target of reduction of AT&C losses to 15 *per cent* by 2019-20.

2.8.4 Implementation of Financial Turnaround

The GOMP conveyed (December 2015) its *'in principle'* consent to the MoP, GoI to take benefit of the UDAY Scheme. Thereafter, tripartite Memorandum of Understanding (MoU) was signed (10 August 2016) amongst the MoP, the GoMP and MPPMCL, on behalf of its three subsidiary State DISCOMs *i.e.* MPMKVVCL/ MPPoKVVCL/ MPPaKVVCL). As per provisions of the UDAY Scheme and tripartite MoU among the State Government, GoI and the DISCOMs, out of total outstanding debt (₹ 34,739 crore) pertaining to the three State DISCOMs as on 30 September 2015, GoMP had to take over 75 *per cent* (₹ 26,054 crore) by 30 September 2020. However, the State Government had not honoured its commitment fully. It took over debt of ₹ 12,689.99 crore (48.71 *per cent*) during the period 2016-17 to 2018-19 as detailed in **Table 2.16**:

[26] As against the above, collection efficiency was between 86.97 and 89.57 *per cent* in respect of the three DISCOMs during 2018-19 based on the information furnished to audit as reported in the Compliance Audit Report on 'Revenue billing and collection efficiency in DISCOMs' as included in this Report.

Table 2.16: Implementation of UDAY Scheme

Year	Equity Investment		Grant		Total	
	Target	**Achievement ₹ in crore *(Per cent)***	**Target**	**Achievement ₹ in crore *(Per cent)***	**Target**	**Achievement ₹ in crore *(Per cent)***
2016-17	7568.00	3,557.00 *(47.00)*	-	4,011.00	7568.00	7,568.00 *(100.00)*
2017-18	-	4,010.99	4622.00	611.00 *(13.22)*	4622.00	4,621.99 *(100.00)*
2018-19	-	-	4622.00	500.00 *(10.81)*	4622.00	500.00 *(10.81)*
Total	**7568.00**	**7,567.99 *(100.00)***	**9244.00**	**5,122.00 *(55.41)***	**16812.00**	**12,689.99 *(75.48)***

***(Source:** Information furnished by DISCOMs)*

The remaining amount of ₹ 13,364.26 crore was to be converted into grant over a period of two years *i.e.* 2019-20 and 2020-21. As evident from **Table 2.16**, targets for investment in the form of grant could not be met for the year 2018-19.

2.9 Comments on Accounts of Power Sector PSUs

Out of the eleven Power Sector PSUs, 10 PSUs forwarded 12 audited accounts to the Accountant General during the period 1 January 2019 to 31 December 2019. Of these, nine accounts were selected for supplementary audit. The Audit Reports of Statutory Auditors and supplementary audit conducted by the CAG indicated that the quality of accounts needs to be improved substantially. The details of aggregate money value of the comments of Statutory Auditors and the CAG for the accounts of 2016-17 to 2018-19 are detailed in **Table 2.17**:

Table 2.17: Impact of audit comments on the accounts of Power Sector PSUs

(₹ in crore)

Sl. No.	Particulars	2016-17		2017-18		2018-19	
		No. of accounts	**Amount**	**No. of accounts**	**Amount**	**No. of accounts**	**Amount**
1.	Decrease in profit	2	10,063.26	0	0	3	254.79
2.	Increase in profit	-	-	0	0	0	0
3.	Increase in loss	1	162.63	1	217.27	1	14.88
4.	Decrease in loss	-	-	-	-	1	258.15
5.	Non-disclosure of material facts	1	7.98	-	-	4	786.75
6.	Errors of classification	2	136.71	1	3,841.00	8	4,780.55

***(Source**: Comments of the Statutory Auditors/ C&AG in respect of Government Companies)*

In respect of 12 accounts received during the period from 1 January 2019 to 31 December 2019, the Statutory Auditors had issued qualified certificates on seven[27] accounts. The compliance to the Accounting Standards by the PSUs remained poor as the Statutory Auditors pointed out 19 instances of non-compliance to the Accounting Standards in four accounts.

[27] Accounts of PSUs at S. No. A1, C1, C2 (for FY 2017-18 and 2018-19 both), C3, D2 (for FY 2017-18 and 2018-19 both) of *Annexure 2.1*.