

**Chapter-5**  
**Functioning of State Public Sector**  
**Undertakings**  
**(Other than Power Sector)**



## CHAPTER-5

### FUNCTIONING OF STATE PUBLIC SECTOR UNDERTAKINGS (OTHER THAN POWER SECTOR)

#### Introduction

**5.1** There were 23 State Public Sector Undertakings (PSUs) as on 31 March 2019 which were related to sectors other than Power Sector. These State PSUs were incorporated during the period 1967-68 and 2018-19 and included 21 Government Companies and two Statutory Corporations *i.e.* Himachal Pradesh Financial Corporation and Himachal Road Transport Corporation. Out of 21 Government Companies three<sup>60</sup> companies are inactive. During the year 2018-19, two PSU<sup>61</sup> were incorporated.

The State Government provides financial support to the State PSUs in the shape of equity, loans and grants/subsidy from time to time. Of the 23 State PSUs, the State Government invested funds only in 18 State PSUs<sup>62</sup>.

#### Contribution to Economy of the State

**5.2** A ratio of turnover of the PSUs to the Gross State Domestic Product (GSDP) shows the extent of activities of the PSUs in the State economy. The table below provides the details of turnover of State PSUs and GSDP of Himachal Pradesh at current prices for a period of five years ending March 2019:

**Table 5.1: Details of turnover of State PSUs *vis-a-vis* GSDP of Himachal Pradesh**

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Turnover	2,305.90	2,471.95	2,743.10	2,821.02	3,400.40
GSDP of Himachal Pradesh (at actual current prices)	1,03,772	1,14,239	1,25,634	1,38,351	1,53,845
Percentage of Turnover to GSDP of Himachal Pradesh	2.22	2.16	2.18	2.04	2.21

Source: Compiled based on Turnover figures of working PSUs and GSDP figures from Budget Analysis 2018-19 of Government of Himachal Pradesh.

The turnover of these PSUs has recorded continuous increase over previous years. The increase in turnover ranged between 2.84 *per cent* and 20.54 *per cent* during the period 2014-19, whereas increase in GSDP of the State ranged between 9.97 *per cent* and 11.20 *per cent* during the same period. The compounded annual growth of GSDP was 10.34 *per cent* during last five years. The compounded annual growth is a useful method to measure growth rate over multiple time periods. Against the compounded annual growth of 10.34 *per cent* of the GSDP, the turnover of other than power sector undertakings recorded lower compounded annual growth of 10.20 *per cent* during the last five years. This resulted in marginal decrease in share of turnover of these PSUs to the GSDP from 2.22 *per cent* in 2014-15 to 2.21 *per cent* in 2018-19.

<sup>60</sup> Agro Industrial Packaging India Limited, Himachal Worsteds Mills Limited and Himachal Pradesh Beverages Limited which ceased to carry out their operations.

<sup>61</sup> Shimla Jal Prabandhan Nigam Limited and Shimla Smart City Limited.

<sup>62</sup> No investment made by the GoHP in Dharamshala Smart City Limited, Shimla Smart City Limited, Himachal Consultancy Organisation Limited, Shimla Jal Prabandhan Limited and Himachal Worsteds Mills Limited.

### Investment in the State PSUs

5.3 There are some PSUs which function as instruments of the State Government to provide certain services which the private sector may not be willing to extend due to various reasons. Besides, the Government has also invested in certain business segments through PSUs which function in a competitive environment with the private sector undertakings. The position of these State PSUs has therefore been analysed under five major sectors viz., those in the Agriculture and Allied sector, Financing sector, Infrastructure sector, Manufacturing sector and in Service sector. Details of investment made in these 23 State PSUs in shape of equity and long term loans upto 31 March 2019 are detailed in *Appendix 5.1*.

5.4 The sector-wise summary of investment in these State PSUs as on 31 March 2019 is given below:

**Table 5.2: Sector-wise investment in State PSUs**

Sector	No. of PSUs	Investment (₹ in crore)						
		Equity		Long term loans		Grants/Subsidy by GoHP	Total	
		GoHP	Others	GoHP	Others		GoHP	Others
Agriculture and Allied	4	76.55	10.50	127.82	1.49	69.17	273.54	11.99
Financing	4	131.41	6.69	77.88	34.08	5.31	214.60	40.77
Infrastructure	4	55.82	-	-	-	1,914.00	1,969.82	-
Manufacture	2	7.04	1.04	2.97	-	-	10.01	1.04
Service	9	793.82	15.65	0.55	132.87	3,203.10	3,997.47	148.52
<b>Total</b>	<b>23</b>	<b>1,064.64</b>	<b>33.88</b>	<b>209.22</b>	<b>168.44</b>	<b>5,191.58</b>	<b>6,465.44</b>	<b>202.32</b>

Source: Compiled based on information received from PSUs. Grants only by GoHP considered.

As on 31 March 2019, the total investment (equity, long term loans and grants/subsidy) in these 23 PSUs was ₹ 6,667.76 crore. The investment consisted of 16.48 per cent towards equity, 5.66 per cent in long-term loans and 77.86 per cent in grants/subsidy. The Long term loans advanced by the State Government constituted 55.40 per cent (₹ 209.22 crore) of the total long term loans, whereas 44.60 per cent (₹ 168.44 crore) of the total long term loans were availed from other financial institutions.

The investment has grown by 83.86 per cent from ₹ 3,626.53 crore in 2014-15 to ₹ 6,667.76 crore in 2018-19. The investment increased due to addition of ₹ 204.79 crore, ₹ 71.50 crore, ₹ 2,764.94 crore towards equity, long term loans and grants/subsidy, respectively during 2014-15 to 2018-19.

### Disinvestment, restructuring and privatisation of State PSUs

5.5 During the year 2018-19, no disinvestment, restructuring or privatisation was done by the State Government in State PSUs.

### Budgetary Support to State PSUs

5.6 The Government of Himachal Pradesh (GoHP) provides financial support to State PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/ subsidies, loans written off and loans converted into equity

during the year in respect of State PSUs for the last three years ending March 2019 are given in table 5.3:

**Table 5.3: Details regarding budgetary support to State PSUs**

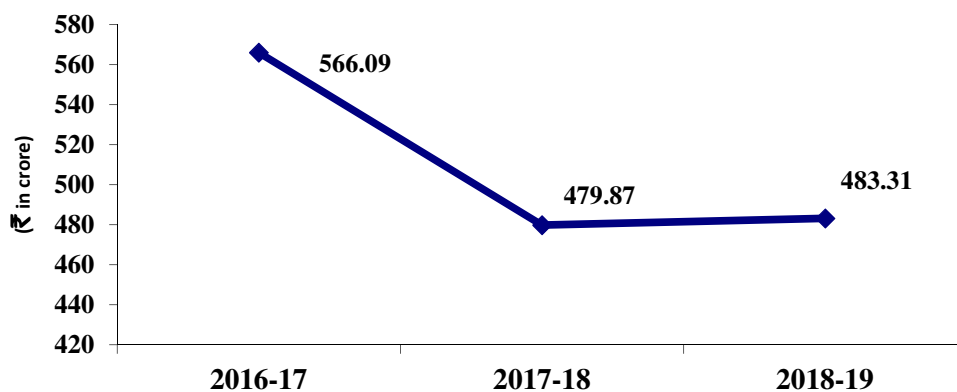
(₹ in crore)

Particulars <sup>63</sup>	2016-17		2017-18		2018-19	
	No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
Equity Capital outgo (i)	3	46.50	2	50.80	3	62.85
Loans given (ii)	1	13.06	1	5.44	1	4.10
Grants/Subsidy <sup>64</sup> provided (iii)	5	506.53	6	423.63	9	416.36
<b>Total Outgo (i+ii+iii)</b>		<b>566.09</b>		<b>479.87</b>		<b>483.31</b>
Loan repayment written off	-	-	-	-	-	-
Loans converted into equity	-	-	-	-	-	-
Guarantees issued	5	284.35	5	192.65	5	115.60
Guarantee Commitment	4	230.92	5	277.98	1	0.60

Source: Compiled based on information received from PSUs.

The details regarding budgetary outgo towards equity, loans and grants/subsidies for the last three years ending March 2019 are given in chart 5.1:

**Chart-5.1: Budgetary outgo towards Equity, Loans and Grants/Subsidies**



The budgetary assistance of ₹ 483.31 crore given as equity, loans and grants/ subsidy was primarily for free / concessional travel to the public, skill development and equity.

In order to enable PSUs to obtain financial assistance from Banks and financial institutions, the GoHP provides guarantee for PSUs and levies guarantee fee upto one *per cent* on loans availed by these PSUs. During the year 2018-19, guarantee fee of ₹ 0.01 crore was paid by one<sup>65</sup> PSU,

### **Reconciliation with the Finance Accounts of the Government of Himachal Pradesh**

**5.7** The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the Government of Himachal Pradesh. In case the figures do not agree, the concerned PSUs and

<sup>63</sup> Amount represents outgo from State Budget only.

<sup>64</sup> Grant to Himachal Road Transport Corporation for reimbursement of cost of free/concessional travel allowed by the State Government.

<sup>65</sup> Himachal Pradesh State Handicrafts and Handloom Corporation Limited.

the Finance Department should carry out reconciliation of the accounts. The position in this regard, as on 31 March 2019, is stated in table 5.4:

**Table 5.4: Equity, loans, guarantees outstanding as per the Finance Accounts of the Government of Himachal Pradesh vis-à-vis records of the State PSUs**

(₹ in crore)			
Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of State PSUs	Difference
Equity	103.18	174.75	71.57
Loans	34.10	184.64	150.54
Guarantees	226.08	216.84	9.24

Source: Compiled based on information received from PSUs and Finance Accounts (Statement numbers 18, 19 and 20)

Audit observed that out of 23 State PSUs, such differences occurred in respect of 12 PSUs as shown in **Appendix 5.2**. The differences between the figures are persisting for the last many years. The issue of reconciliation of differences was also taken up by the Principal Accountant General (Audit), Himachal Pradesh with the PSUs and the Departments from time to time. Major difference in balances was observed in Himachal Pradesh Financial Corporation.

It is recommended that the State Government and the respective PSUs should reconcile the differences in the accounts in a time-bound manner.

### **Submission of accounts by State PSUs**

**5.8** Of the total 23 State PSUs, there were 20 working PSUs *i.e.* 18 Government Companies and two Statutory Corporations and three inactive PSUs. The status of timelines followed by the State PSUs in preparation of accounts is detailed under:

#### **Timeliness in preparation of accounts by the working State PSUs**

**5.8.1** Accounts for the year 2018-19 were required to be submitted by all the working PSUs by 30 September 2019. However, only one<sup>66</sup> Government Company submitted its accounts for the year 2018-19 for audit by the Comptroller and Auditor General of India on or before 30 September 2019.

The Comptroller and Auditor General of India is the sole auditor in one Statutory Corporation (Himachal Road Transport Corporation) and supplementary auditor in another Statutory Corporation (Himachal Pradesh Financial Corporation). The accounts of the Statutory Corporations for the year 2018-19 were awaited as of 30 September 2019.

Details of arrears in submission of accounts of working PSUs as on 30 September 2019, are given in table 5.5:

**Table 5.5: Position relating to submission of accounts by the working State PSUs**

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1.	Number of PSUs	15	16	17	19	20
2.	Number of accounts submitted during current year	13	15	17	11	14
3.	Number of working PSUs which finalised accounts for the current year	1	2	3	1	1
4.	Number of previous year accounts finalised during the current year	12	13	14	10	13
5.	Number of working PSUs with arrears in accounts	14	14	13	18	19
6.	Number of accounts in arrears	21	22	22	30	36
7.	Extent of arrears	One to three years	One to three years	One to three years	One to four years	One to five years

Source: Compiled based on accounts of PSUs received during the period October 2018 to September 2019.

<sup>66</sup> Himachal Pradesh Road and Other Infrastructure Development Corporation Limited.

Of these 20 working State PSUs, 13 PSUs had finalised 14 annual accounts during the period 1 October 2018 to 30 September 2019, which included one annual accounts for the year 2018-19 and 13 annual accounts for the previous years. Further, 36 annual accounts were in arrears which pertain to 19 PSUs as detailed in **Appendix 5.3**. The Administrative Departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the stipulated period.

The concerned Departments were informed quarterly by the Principal Accountant General (Audit), Himachal Pradesh regarding arrears in finalisation of accounts.

The GoHP had provided ₹ 413.17 crore (Loan ₹ 8.99 crore and subsidy ₹ 404.18 crore) to seven of the 19 working PSUs, accounts of which for the year 2018-19 had not been finalised by 30 September 2019. PSU wise details of investment made by GoHP during the years, for which accounts are in arrears are shown in **Appendix 5.3**.

### ***Timeliness in preparation of accounts by inactive State PSUs***

**5.8.2** Of the three inactive PSUs, Himachal Worsted Mills Limited was in the process of liquidation since 2000-01 and its accounts were finalised up to that period. There were arrears in finalisation of accounts by three inactive PSUs, details of which are as given in table 5.6:

**Table-5.6: Position relating to arrears of accounts in respect of inactive PSUs**

S. No.	Name of the inactive companies	Period for which accounts were in arrears
1.	Himachal Worsted Mills Limited	2001-02 to 2018-19
2.	Agro Industrial Packaging India Limited	2014-15 to 2018-19
3.	Himachal Pradesh Beverages Limited	2017-18 to 2018-19

*Source: Compiled based on accounts of PSUs received during the period October 2018 to September 2019.*

### ***Placement of Separate Audit Reports of the Statutory Corporations***

**5.9** No Corporation had forwarded their accounts of 2018-19 by 30 September 2019.

Separate Audit Reports (SARs) are audit reports of the Comptroller and Auditor General of India on the accounts of the Statutory Corporations. These reports are to be laid before the Legislature as per the provisions of the respective Acts. The status of annual accounts of the Statutory Corporations and placement of their SARs in legislature is detailed in table 5.7:

**Table 5.7: Status of placement of SAR of the Statutory Corporations**

Name of the Corporation	Year of Accounts	Month of placement of SAR
Himachal Road Transport Corporation	2017-18	27 August 2019
Himachal Pradesh Financial Corporation	2017-18	11 December 2018

*Source: Compiled based on information available on the website of Himachal Pradesh Legislative Assembly.*

### ***Impact of non-finalisation of accounts of State PSUs***

**5.10** As pointed in Paragraph 5.8, the delay in finalisation of accounts is a violation of the provisions of the relevant Statutes, and it has multiple consequences such as (i) Actual contribution of the PSUs to State GDP for the year 2018-19 could not be ascertained and their

contribution to State exchequer was also not reported to the State Legislature, (ii) It may result in fraud and leakage of public money apart from violation of the provisions of the relevant statutes, (iii) In absence of finalization of accounts and their subsequent audits, oversight by the Statutory Auditors appointed by the Comptroller and Auditor General of India and supplementary audit by the Comptroller and Auditor General of India could not be exercised, (iv) It could not be ensured whether the investments and expenditure incurred had been properly accounted for and the purpose for which the amount was invested was achieved besides being a violation of the provisions of the relevant Statutes.

It is, therefore, recommended that the Administrative Department should strictly monitor and issue necessary directions to liquidate the arrears in accounts. The Government may also look into the constraints in preparing the accounts of the PSUs and take necessary steps to liquidate the arrears in accounts.

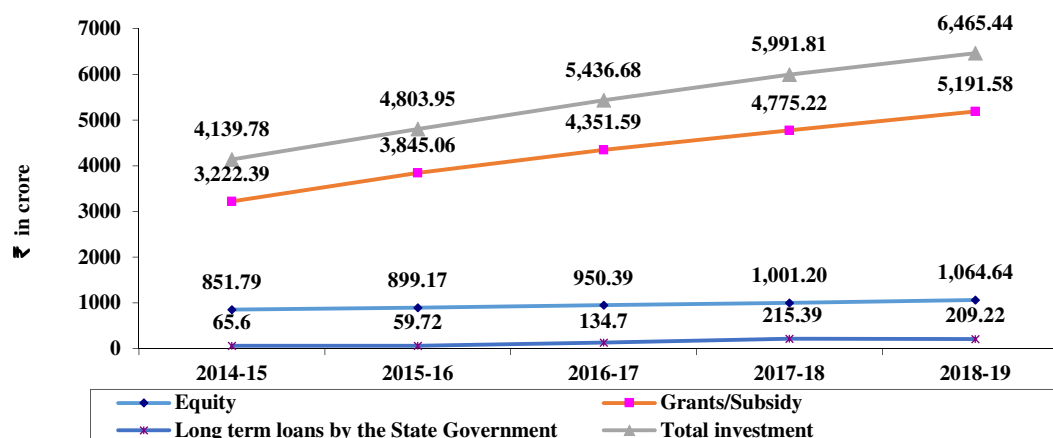
### **Performance of State PSUs**

**5.11** The financial position and working results of the 23 State PSUs as per their latest finalised accounts as of 30 September 2018, are detailed in **Appendix 5.4**.

The Public Sector Undertakings are expected to yield reasonable return on investment made by the Government in these undertakings. The total investment in the PSUs was ₹ 6,667.76 crore consisting of equity of ₹ 1,098.52 crore, long term loans of ₹ 377.66 crore and grants/subsidy of ₹ 5,191.58 crore. Out of this, the Government of Himachal Pradesh has investment of ₹ 1,273.86 crore in the 18 PSUs, consisting of equity of ₹ 1,064.64 crore and long term loans of ₹ 209.22 crore apart from grants/subsidy of ₹ 5,191.58 crore.

The year wise of investment of the GoHP in the PSUs during the period 2014-15 to 2018-19 is given in chart 5.2:

**Chart 5.2: Total investment of the GoHP in PSUs**



The total investment of the GoHP in the PSUs increased 1.56 times during the period from 2014-15 to 2018-19, as shown in the chart 5.2.

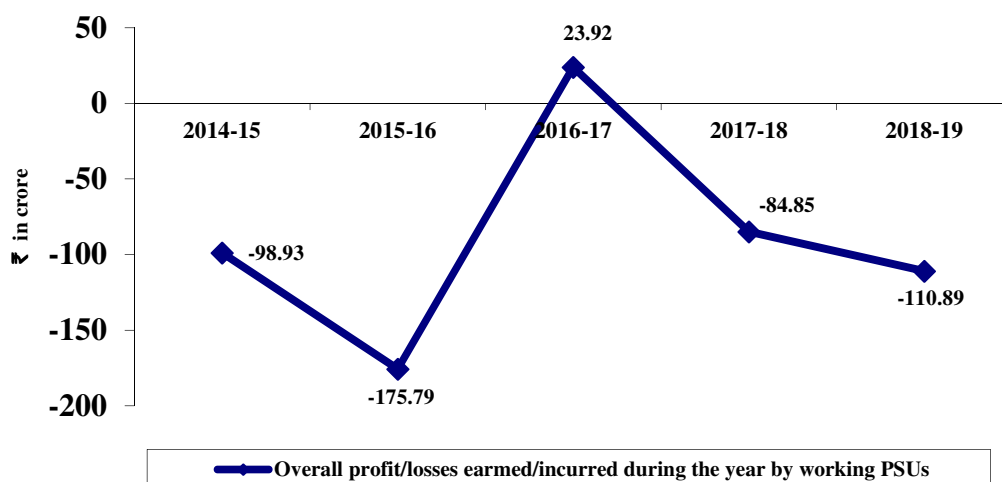
**5.12** The financial performance and profitability of a company is traditionally assessed through Return on Investment (ROI), Return on Equity (ROE) and Return on Capital Employed (ROCE), as discussed in following paragraphs.



## Return on Investment

**5.13 (a)** The Return on investment is the percentage of profit or loss to the total investment. The overall position of Profit/losses<sup>67</sup> earned / incurred by the 16 working State PSUs during 2014-15 to 2018-19, where the State Government has made investment, is depicted below in a chart:

**Chart 5.3: Profit/Losses earned/incurred by 16 working PSUs**



The financial results of other than power sector PSUs for the latest year for which accounts were finalised have been summarised in **Appendix 5.4**.

Of the 20 total working PSUs as on 31 March 2019, position of working PSUs which earned/incurred profit/loss during 2014-15 to 2018-19 is given below:

**Table 5.8: Details of working Public Sector Undertakings which earned/ incurred profit/loss during 2014-15 to 2018-19 as per their latest finalised accounts**

Financial year	Total number of PSUs	Number of PSUs which earned profits	Number of PSUs which incurred loss	Number of PSUs which had not prepared their first accounts or running on no profit no loss basis
2014-15	15	6	8	1
2015-16	16	9	5	2
2016-17	17	12	3	2
2017-18	19	11	5	3
2018-19	20	11	5	4 <sup>68</sup>

Source: Information as per latest finalised accounts received from PSUs.

### (b) Return on Investment related to listed Government Companies

There was one Company<sup>69</sup> listed on the Delhi Stock Exchange (DSE) however, on the request of the Company (1994) and recommendation of DSE the Security and Exchange Board of India accorded (September 2002) consent for delisting the Company. Hence, the performance of the company is not evaluated separately.

<sup>67</sup> Figures are as per the latest finalised accounts of the respective years.

<sup>68</sup> Dharamshala Smart City Limited, Shimla Smart City Limited and Shimla Jal Prabhandhan Nigam Limited had not prepared their first final accounts and Himachal Pradesh Road and Other Infrastructure Development Corporation Limited finalised their account on no profit no loss.

<sup>69</sup> Himachal Pradesh General Industries Corporation Limited.

Return on investment is a performance indicator designed to evaluate the efficiency of investment over time in comparison to alternate investment opportunities or a benchmark investment opportunity.

***Return on Investment on the basis of historical cost of investment***

**5.14** Out of 23 Public Sector Undertakings, the State Government infused funds in the form of equity, long term loans and grants / subsidies in 18 PSUs only. The Government has invested ₹ 1,273.86 crore in these 18 PSUs, including equity of ₹ 1,064.64 crore and long term loans of ₹ 209.22 crore.

The Return on Investment has been calculated on the investment made by the GoHP in the form of equity, loans and grants/subsidy. In the case of loans, only interest free loans are considered as investment, since the Government does not receive any interest on such loans and are therefore in the nature of equity investment by the Government except that the loans are liable to be repaid as per terms and conditions of repayment. Out of long term loans of ₹ 209.22 crore, ₹ 63.45 crore were interest free loans. Thus, the total investment of the State Government in these 18 PSUs on the basis of historical cost was ₹ 1,128.59 crore (equity ₹ 1,064.64 crore and interest free loans ₹ 63.95 crore) as detailed in Table 5.9.

The return on investment on the basis of historical cost of investment for the period 2014-15 to 2018-19 is as given in table 5.9:

**Table 5.9: Return on State Government Funds on the basis of historical cost of investment**

Year	Total Earnings (₹ in crore)	Investment by the GoHP in form of Equity and Interest Free Loans on the basis of historical cost (₹ in crore)	Return on State Government on the basis of historical cost (%)
2014-15	-98.93	881.38	-11.22
2015-16	-175.79	939.19	-18.72
2016-17	23.87	996.32	2.39
2017-18	-84.08	1,055.15	-7.97
2018-19	- 100.71	1,128.59	- 8.92

*Source: Information as per latest finalised accounts as per PSUs.*

The return on the State Government investment is worked out by dividing the total earnings<sup>70</sup> of these PSUs by the cost of the State Government investments. The return earned on the State Government investment ranged between -18.72 per cent and 2.39 per cent during the period 2014-15 to 2018-19. The return on the State Government investment deteriorated during 2017-19 in comparison to that for the period 2016-17, mainly due to increase in losses of Himachal Road Transport Corporation.

***(a) Present Value of Investment***

**5.15** Analysis of the earnings *vis-a-vis* investments in respect of those 18 State PSUs where funds had been infused by the State Government was carried out to assess the profitability of

<sup>70</sup> This includes net profit/losses for the concerned year relating to those State PSUs where the investments have been made by the State Government.

these PSUs. Traditional calculation of ROI is based only on the basis of historical cost of investment which may not be a correct indicator of the adequacy of the return on the investment, since such calculations ignore the present value (PV) of money. Therefore, in addition, Rate of Real Return (RORR) is calculated considering the Present Value (PV) of historical cost of investment. Subsidies / grants were not considered as those were primarily released to provide free / concessional travel to the public, interest subsidy to marginal society, for assets creation and skill development.

The present value (PV) of the State Government investment in these undertakings was computed on the following assumptions:

- Interest free loans have been considered as fund infusion by the State Government. However, in case of repayment of loans by the PSUs, the PV was calculated on the reduced balances of interest free loans over the period. The funds made available in the form of grant / subsidy have not been reckoned as investment, since these do not qualify to be considered as investment, as indicated by the nature of subsidy indicated above.

The average rate of interest on Government borrowings for the concerned financial year<sup>71</sup> was adopted as discount rate for arriving at present value since they represent the cost incurred by the Government towards investment of funds for the year.

The present value of the Government investment has been computed to assess the rate of return on the present value of investment of the GoHP in the State PSUs as compared to historical value of the investment. In order to bring the historical cost of investments to its present value at the end of each year up to 31 March 2019, the past investment/year-wise funds infused by the GoHP in the State PSUs have been compounded at the year-wise average rate of interest on Government borrowings, which is considered as the minimum cost of funds to the Government for the concerned year. Therefore, the Present Value (PV) of the State Government investment was computed in respect of those 18 State PSUs where funds had been infused by the State Government in the shape of equity, interest free loans (no grant/subsidies for operational and administrative expenditure received from State Government) since inception of these companies till 31 March 2019.

For the years 2014-15, 2015-16, 2017-18 and 2018-19 when these 18 companies incurred losses, a more appropriate measure of performance is the erosion of net worth due to the losses. The erosion of net worth of the company is commented upon in Paragraph 5.17.

#### ***Rate of Real Return (RORR) on the basis of Present Value of investment***

**5.16** PSU wise position of the State Government investment in these 18 State PSUs in the form of equity and loans on historical cost basis for the period from 1999-2000 to 2018-19 is indicated in **Appendix 5.5**. Further, consolidated position of PV of the State Government

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<sup>71</sup> The average rate of interest on Government borrowings was adopted from the Reports of the Comptroller and Auditor General of India on State Finances (Government of Himachal 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.

investment relating to these PSUs for the same period is indicated in table 5.10.

**Table 5.10: Year wise details of investment by the State Government and present value (Real Return) of Government investment for the period from 1999-2000 to 2018-19**

(₹ in crore)

Year	Present value of total investment at the beginning of the year	Equity infused by the State Government during the year	Net Interest free loans given by the State Government during the year	Interest free loans converted into equity during the year	Grants/ subsidies given by State Government for operational and administrative expenditure	Disinvestment by the State Government during the year at face value	Total investment during the year	Total investment at the end of the year	Average rate of interest on Government borrowings (in per cent)	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
A	B	C	D	E	F	G	H	I	J	K	L	M
							H=C+D-E+F-G	I=B+H		K=I*(1+J/100)	L=I*J/100	
Upto 1999-2000	-	300.04	0.49	-	-	-	300.53	300.53	8.83	327.07	26.54	-
2000-01	327.07	32.48	1.51	-	-	-	33.99	361.06	10.15	397.71	36.65	-49.50
2001-02	397.71	13.01	-	-	-	-	13.01	410.72	11.06	456.14	45.43	-36.70
2002-03	456.14	12.43	-	-	-	-	12.43	468.57	10.37	517.16	48.59	-29.19
2003-04	517.16	28.60	-	-	-	-	28.60	545.76	10.98	605.69	59.92	-31.10
2004-05	605.69	16.06	-	-	-	-	16.06	621.75	10.60	687.65	65.91	-43.44
2005-06	687.65	13.59	0.15	-	-	-	13.74	701.39	9.20	765.92	64.53	-30.72
2006-07	765.92	14.30	-	-	-	-	14.30	780.22	9.40	853.56	73.34	-62.08
2007-08	853.56	38.31	2.25	-	-	-	40.56	894.12	9.09	975.40	81.28	-46.66
2008-09	975.40	53.97	-0.10	-	-	-	53.87	1,029.27	9.19	1,123.86	94.59	-33.88
2009-10	1,123.86	117.16	-	-	-	-	117.16	1,241.02	8.59	1,347.62	106.60	-55.92
2010-11	1,347.62	34.61	-	-	-	-	34.61	1,382.23	7.78	1,489.77	107.54	-38.15
2011-12	1,489.77	26.94	9.50	-	-	-	36.44	1,526.21	7.80	1,645.25	119.04	-72.06
2012-13	1,645.25	45.76	5.00	-	-	-	50.76	1,696.01	8.08	1,833.05	137.04	-88.46
2013-14	1,833.05	67.49	2.54	-	-	-	70.03	1,903.08	7.71	2,049.81	146.73	-112.41
2014-15	2,049.81	44.93	-	-	-	-	44.93	2,094.74	7.91	2,260.43	165.69	-98.97
2015-16	2,260.43	43.27	14.54	-	-	-	57.81	2,318.24	7.95	2,502.54	184.30	-175.83
2016-17	2,502.54	48.04	10.07	-	-	-	58.11	2,560.65	7.60	2,755.26	194.61	23.87
2017-18	2,755.26	50.80	8.00	-	-	-	58.80	2,814.06	7.71	3,031.03	216.96	-84.08
2018-19		62.85	10.00	-	-	-	3,031.03	3,103.88	8.32	3,362.12	258.24	-100.71
<b>Total:</b>	<b>1064.64</b>	<b>63.95</b>										

Source: Statistical information received from PSUs and as per latest finalised accounts.

Note: No Grant/ subsidy was received from the State Government for operational and administrative expenditure.

During 1999-2000 to 2018-19, total earnings for the year remained below the minimum expected return to recover cost of funds infused in these PSUs as two (Himachal Road Transport Corporation and Himachal Pradesh Financial Corporation) of these PSUs incurred substantial losses during this period. Further, the profit earned by other PSUs during the entire period 1999-2019 were also set off towards the losses incurred by these two PSUs due to which the total earnings remained below the minimum expected return from all these PSUs.

### Erosion of Net worth

**5.17** 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. The capital investment and accumulated losses of these 23 State PSUs as per their latest finalised accounts were ₹ 1,039.51 crore and ₹ 1,556.99 crore, respectively resulting in net worth of ₹ (-) 517.48 crore as detailed in **Appendix 5.4**.

The following table indicates total paid up capital, total accumulated profit / loss, and total

net worth of the 18 companies where the State Government has made direct investment:

Table 5.11: Net worth of 18 PSUs during 2014-15 to 2018-19

(₹ in crore)				
Year	Paid Capital at end of the year	Accumulated Profit (+) Loss (-) at end of the year	Deferred revenue Expenditure	Net Worth
2014-15	844.63	-1,190.75	-	-346.12
2015-16	885.27	-1,366.15	-	-480.88
2016-17	930.73	-1,187.79	-	-257.06
2017-18	976.46	-1,445.90	-	-469.44
2018-19	1,038.41	-1,553.07	-	-514.66

Source: Information as per latest finalised accounts received from PSUs.

Out of 18 PSUs, 11 PSUs<sup>72</sup> showed positive net worth and seven PSUs<sup>73</sup> showed negative net worth during 2018-19.

Out of 23 PSUs, net worth of eight PSUs (Himachal Worsted Mills Limited in addition to the seven discussed above) was negative during 2018-19.

### Dividend Payout

**5.18** The State Government had decided (April 2011) that all profit making PSUs (except those in welfare and utility sector) should pay a minimum return of five *per cent* on the paid up share capital contributed by the State Government, subject to a ceiling of 50 *per cent* of the profit after tax. As per their latest finalised accounts, seven PSUs earned an aggregate profit of ₹ 34.24 crore out of which only three<sup>74</sup> PSUs declared / paid a dividend of ₹ 2.25 crore during 2018-19.

It is recommended that the Government should ensure receipt of dividend from profit making PSUs as is required.

### Return on Equity

**5.19** Return on Equity (ROE) is a measure of financial performance to assess how effectively management is using shareholders' fund to create profits and 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 shareholders' fund 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

<sup>72</sup> Himachal Pradesh Agro Industries Corporation Limited, Himachal Backward Classes Finance and Development Corporation, Himachal Pradesh MahilaVikas Nigam, Himachal Pradesh Minorities Finance and Development Corporation, Himachal Pradesh Road and Other Infrastructure Development Corporation Limited, Himachal Pradesh State Industrial Development Corporation Limited, Himachal Pradesh General Industries Corporation Limited, Himachal Pradesh State Civil Supplies Corporation Limited, Himachal Pradesh State Electronics Development Corporation Limited, Himachal Pradesh Kaushal Vikas Nigam and Himachal Pradesh Beverages Limited.

<sup>73</sup> Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited, Himachal Pradesh State Forest Development Corporation Limited, Himachal Pradesh State Handicrafts and Handloom Corporation Limited, Himachal Pradesh Tourism Development Corporation Limited, Himachal Pradesh Financial Corporation, Himachal Road Transport Corporation and Agro Industrial Packaging India Limited.

<sup>74</sup> Himachal Pradesh State Civil Supply Corporation, Himachal Pradesh State Industrial Development Corporation Limited and Himachal Pradesh General Industries Corporation Limited.

left for a company's stakeholders if all assets were sold and all debts paid. A positive shareholders' fund reveals that the company has enough assets to cover its liabilities while negative shareholder equity means that liabilities exceed assets.

Return on Equity has been computed in respect of 18 public sector undertakings where funds had been infused by the State Government. The details of Shareholders fund and ROE relating to 18 PSUs during the period from 2014-15 to 2018-19 are given in table 5.12:

**Table 5.12: Return on Equity relating to 18 PSUs where funds were infused by the GoHP**

Year	Net Income	Shareholders' Fund (Net worth)	ROE
	(₹ in crore)		(%)
2014-15	-98.97	-346.12	-
2015-16	-175.83	-480.28	-
2016-17	23.87	-257.05	-
2017-18	-84.08	-469.43	-
2018-19	-100.71	-514.66	-

Source: Information as per latest finalised accounts received from PSUs.

### **Return on Capital Employed**

**5.20** Return on Capital Employed (ROCE) is a ratio that measures a company's profitability and the efficiency with which its capital is employed. ROCE is calculated by dividing a company's earnings before interest and taxes (EBIT) by the capital employed<sup>75</sup>. The details of total ROCE of all the State PSUs during the period from 2014-15 to 2018-19 is given in table 5.13:

**Table 5.13: Return on Capital Employed**

Year	EBIT	Capital Employed	ROCE
	(₹ in crore)		(%)
2014-15	-99.33	259.42	-38.29
2015-16	-177.91	-58.56	NA
2016-17	23.87	226.04	10.56
2017-18	-69.77	20.87	-334.31
2018-19	-84.69	-101.28	NA

Source: Information as per latest finalised accounts received from PSUs.

Four PSUs Himachal Road Transport Corporation (HRTC), Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited (HPMC), Himachal Pradesh State Forest Development Corporation Limited (HPSFDC) and Himachal Pradesh Financial Corporation (HPFC) were continuously incurring losses. Of these, HRTC earned profit during 2016-17. Thus, the return on capital employed remained negative for four (except 2016-17) out of last five years.

### **Analysis of Long Term Loans of the PSUs**

**5.21** Analysis of the Long Term Loans of the PSUs during 2014-15 to 2018-19 was carried out to assess the ability of the Companies to service the debt owed by the companies to the Government, Banks and other financial institutions. This is assessed through the Interest Coverage Ratio (ICR) and debt turnover ratio.

<sup>75</sup> 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.

**Interest Coverage Ratio**

**5.22** Interest Coverage Ratio is used to determine the ability of a PSU to pay interest on the outstanding debt and is calculated by dividing earnings before interest and taxes (EBIT) of a PSU by interest expenses of the same period. The lower the ratio, the lesser the ability of the PSU to pay interest on debt. An interest coverage ratio below one indicated that the PSU was not generating sufficient revenues to meet its expenses on interest. The details of positive and negative interest coverage ratio during the period from 2014-15 to 2018-19 are given in table 5.14:

**Table 5.14: Interest Coverage Ratio relating to State PSUs**

Year	Interest	Earnings before interest and tax (EBIT)	PSUs having liability of loans from Government and Banks and other financial institutions	PSUs having interest coverage ratio more than 1	PSUs having interest coverage ratio less than 1
	(₹ in crore)		(In number)		
2014-15	18.45	-99.33	11	-	11
2015-16	40.35	-177.91	10	-	10
2016-17	36.00	23.87	12	-	12
2017-18	35.05	-69.77	12	-	12
2018-19	40.70	-84.69	12	-	12

Source: Information as per latest finalised accounts received from PSUs.

**Debt Turnover Ratio**

**5.23** During the last five years, the turnover of these PSUs recorded compounded annual growth of 10.20 per cent and compounded annual growth of debt was 1.87 per cent, due to which the debt turnover ratio decreased from 0.18 in 2014-15 to 0.13 in 2018-19 as given in table 5.15:

**Table 5.15: Debt Turnover Ratio relating to the State PSUs**

Particulars	(₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Debt from Government and others (Banks and Financial Institutions)	407.23	426.84	395.84	492.30	438.52
Turnover	2,305.90	2,471.95	2,743.10	2,826.45	3,400.40
Debt-Turnover Ratio	0.18:1	0.17:1	0.14:1	0.17:1	0.13:1

Source: Information as per latest finalised accounts received from PSUs.

**Winding up of inactive State PSUs**

**5.24** Three of the 23 State PSUs were inactive companies having a total investment of ₹ 79.79 crore (₹ 77.87 crore in Agro Industrial Packaging India Limited, ₹ 0.92 crore in Himachal Worsted Mills Limited and ₹ one crore in Himachal Pradesh Beverages Limited) as on 31 March 2019. The number of inactive PSUs at the end of each year, during last five years ended 31 March 2019, is given in table 5.16.

**Table 5.16: Inactive State PSUs**

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
No. of inactive companies	2	2	2	2	3

Source: Compiled from the information included in Audit Report (PSU), GoHP of respective years

The Himachal Worsted Mills Limited had been under liquidation since 2000-01 while the liquidation process in respect of Himachal Pradesh Agro Industrial Packaging India Ltd and

Himachal Pradesh Beverages Limited was yet to be start. The Government may take appropriate decision regarding these PSUs.

### **Comments on Accounts of State PSUs**

**5.25** Twelve working Companies forwarded 13 audited accounts to the Principal Accountant General (Audit), Himachal Pradesh during the period from 1 October 2018 to 30 September 2019. All these accounts were selected for supplementary audit. The Audit Reports of Statutory Auditors and supplementary audit conducted by the Comptroller and Auditor General of India indicated that the quality of accounts needs to improve substantially. The details of aggregate money value of the comments of Statutory Auditors and the Comptroller and Auditor General of India, are as follows:

**Table 5.17: Impact of audit comments on Working Companies**

(₹ in crore)

Sl. No.	Particulars	2016-17		2017-18		2018-19	
		Number of accounts	Amount	Number of accounts	Amount	Number of accounts	Amount
1.	Decrease in profit	6	1.72	5	5.29	4	3.76
2.	Increase in profit	1	0.09	1	0.28	3	18.55
3.	Increase in loss	1	0.06	2	0.66	1	9.44
4.	Decrease in loss	2	0.70	-	-	1	0.19
5.	Non-disclosure of material facts	-	-	-	-	-	-
6.	Errors of classification	-	-	-	-	-	-

Source: Compiled from comments of the Statutory Auditors/ Comptroller and Auditor General of India in respect of Government Companies.

During the year 2018-19, the Statutory Auditors had issued qualified certificates on seven accounts and adverse certificate on five accounts. Compliance to the Accounting Standards by the PSUs remained poor as the Statutory Auditors pointed out five instances of non-compliance to the Accounting Standards in three accounts.

**5.26** The State has two Statutory Corporations *i.e.* (i) Himachal Road Transport Corporation (HRTC) and (ii) Himachal Pradesh Financial Corporation (HPFC). The Comptroller and Auditor General of India is sole auditor in respect of HRTC.

Both working Statutory Corporations, did not forward annual accounts for the year 2018-19 during 1 October 2018 to 30 September 2019.

The details of aggregate money value of the comments of Statutory Auditors and supplementary audit by the CAG in respect of Statutory Corporations are as follows:

**Table 5.18: Impact of audit comments on Statutory Corporations**

(₹ in crore)

Sl. No.	Particulars	2016-17		2017-18		2018-19	
		Number of accounts	Amount	Number of accounts	Amount	Number of accounts	Amount
1.	Decrease in profit	1	2.50	-	-	-	-
2.	Increase in profit	-	-	-	-	-	-
3.	Increase in loss	-	-	1	34.90	1	18.99
4.	Decrease in loss	1	0.47	1	0.36	1	0.16
5.	Non-disclosure of material facts	-	-	-	-	-	-
6.	Errors of classification	-	-	-	-	-	-

Source: Compiled from comments of the Statutory Auditors/ Comptroller and Auditor General of India in respect of Statutory Corporations.



### Compliance Audit Paragraphs

**5.27** For the Report of the Comptroller and Auditor General of India (Public Sector Undertakings) for the year ended 31 March 2019, six compliance audit paragraphs related to Himachal Pradesh Beverages Limited, Himachal Pradesh State Forest Development Corporation Limited, Himachal Pradesh General Industries Corporation, Himachal Pradesh Road and Other Infrastructure Development Corporation and Himachal Road Transport Corporation were issued to the Principal Secretaries/ Secretaries of the respective Administrative Departments with request to furnish replies. Replies on five of the compliance audit paragraphs have not been received from the State Government. The total financial impact of these compliance audit paragraphs is ₹ 15.48 crore.

### Follow up action on Audit Reports

#### Replies outstanding

**5.28** The Report of the Comptroller and Auditor General of India is the product of audit oversight. It is, therefore, necessary that these elicit appropriate and timely response from the executive. The Finance Department, Government of Himachal Pradesh had issued instructions to all Administrative Departments to submit replies/explanatory notes to paragraphs/performance audits included in the Reports of the Comptroller and Auditor General of India within a period of three months after its presentation to the Legislature, in the prescribed format, without waiting for any questionnaires from the Committee on Public Undertakings (COPU).

**Table 5.19: Position of explanatory notes on Audit Reports related to PSUs**

(as on 30 September 2019)

Year of the Audit Report (PSUs)	Date of placement of Audit Report in the State Legislature	Total Performance Audits (PAs) and Paragraphs related to Non Power Sector in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	Pas	Paragraphs
2017-18	14 December 2019	-	7	-	7

Source: Compiled based on explanatory notes received from respective Departments of GoHP.

Explanatory notes on the seven compliance audit paragraphs were awaited (October 2020).

### Discussion of Audit Reports by the Committee on Public Undertakings

**5.29** The status of discussion of Performance Audits and paragraphs related to PSUs that appeared in Audit Reports (PSUs) by the Committee on Public Undertakings as on 30 September 2019 was as follows:

**Table 5.20: Performance Audits/Paragraphs of Non-Power Sector appeared in Audit Reports vis-a-vis discussed as on 30 September 2019**

Period of Audit Report	Number of Performance Audits/Paragraphs			
	Appeared in Audit Report		Paragraphs discussed	
	Performance Audit	Paragraphs	Performance Audit	Paragraphs
2011-12	-	8	-	8
2012-13	-	7	-	7
2013-14	-	5	-	5
2014-15	1	3	1	3
2015-16	1	2	1	1
2016-17	-	4	-	1
2017-18	-	7	-	-

Source: Compiled based on the discussions of COPU on the Audit Reports.

The discussion on Audit Reports (PSUs) up to 2012-13 has been completed.

### Compliance to the Reports of Committee on Public Undertakings

**5.30** Action Taken Notes (ATNs) on four reports of the COPU relating to the State PSUs presented to the State Legislature in March 2018 and February 2019 had not been received (31 March 2020) as indicated in table 5.21:

**Table 5.21: Compliance to COPU Reports**

Year of the COPU Report	Total number of Reports of COPU	Total number of recommendation in COPU Reports	Number of recommendations where ATNs not received
2014-15	4	23	-
2015-16	4	10	-
2016-17	4	8	8
2017-18	5	31	5
2018-19	-	-	-

**Source:** Compiled based on ATNs received on recommendations of COPU from the respective Departments of GoHP.

ATN in respect of recommendation of COPU shown above had not been received till March 2020.

### Compliance Audit Paragraphs

This section has six compliance audit paragraphs having a total financial implication of ₹ 15.48 crore.

#### Himachal Pradesh Beverages Limited

##### 5.31 Non-recovery due to system deficiency

*Absence of mechanism for daily / monthly reconciliation of amounts deposited by the licensees and lifting of stock against these, led to sale of liquor (₹5.90 crore) on credit basis and lifting of liquor (₹ 3.79 crore) by using fake / tampered Unique Transaction References (UTRs), without depositing payment with the Company, resulting in non-recovery of ₹9.69 crore.*

The Himachal Pradesh Beverages Limited (Company) was incorporated (April 2016) for regulating the wholesale trading of liquor in the State. The Company started its operations in July 2016. Para 4.1 of Liquor Sales Policy 2016-17 of the Company stipulates that "Issue of stock shall be against 'e' Payment through internet banking or direct credit in the account of the Company through challans/ Real Time Gross Settlement (RTGS) /National Electronics Funds Transfer (NEFT) into various bank branches authorized by the Company. Cash / Pay Order / Demand Draft / cheque was not to be accepted by the Depot and no credit sale was allowed". Accordingly, respective Depot Managers were required to sell liquor to retail licensees, only after receiving advance payments. To implement the policy, a process was put in place, which involved sending of the Bank Statement of amount deposited by the retail licensees on daily basis to all the Depot Managers through electronic mail. Stock was to be issued to the retail licensees after verifying from the Bank statement, that the retail licensees

had deposited the requisite amount. Further, the licensees, were required to submit their respective Unique Transaction Reference (UTR) number generated by their banker in support of transfer of funds to the Company's account for issue of invoice.

Audit observed the following deviations and deficiencies with respect to the implementation of the liquor sales policy:

- I. Although the Bank Statement (indicating the amount deposited by the licensees), was being sent to depots on daily basis, it was not indicated that from which depot the licensees will lift the material. Absence of this critical information enabled the licensees to lift stock from more than one depot against one UTR.
  - The Company, while reconciling the ledger account of the licensees, noticed (June 2017) that during August 2016 to March 2017, eight licensees used 84 UTRs of ₹ 3.38 crore for lifting stock from more than one depot and seven licensees submitted 42 fake / tampered UTRs for ₹ 1.43 crore.
- II. No internal control/monitoring mechanism was put in place by the Accounts Wing of the Company for daily reconciliation of stock issued by the Depot Managers and payment received there against.
  - Twelve<sup>76</sup> Depot Managers issued stock to 19 retail licensees without ensuring the receipt of payment through daily Bank statements, which resulted in issuing of liquor stock valued at ₹ 6.76 crore on credit basis, during July 2016 to March 2017.

The Company could only recover ₹ 1.88 crore out of the total dues of ₹ 11.57 crore (₹ 3.38 crore + ₹ 1.43 crore + ₹ 6.76 crore) until June 2020, leaving a balance of ₹ 9.69 crore.

The Management in its reply stated (September 2018) that FIRs have been lodged against the Depot In-charge and defrauding licensees and process of filing of civil suits has been initiated. Due to insufficient staff and rush of work, the Depot Managers had issued stock on the basis of duplicate UTRs produced by the retailer licensees. It was further stated that Online Payment System has been put in place w.e.f. 16 November 2016, after that such cases have been reduced.

The reply is not tenable as out of 84 cases of using same UTR in more than one depot, 47 cases pertain to period after implementation of Online Payment System. Similarly, out of 42 cases relating to fake / tampered UTRs, 41 were after the implementation of Online Payment System.

The matter was reported to the Government (September 2019); their reply was awaited (June 2020).

***Recommendation: The Department may put in place a system of daily reconciliation of amount received digitally with the stock sold by the field units.***

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<sup>76</sup> Baddi, Bhattakufar, Taradevi, Nagrota, Jalgram, Mussewal, Raja-Ka-Bagh, Deonghat, Solan, Theog, Sundernagar and Hamirpur.

## Himachal Pradesh State Forest Development Corporation Limited

### 5.32 Excess contribution of Employees Provident Fund

***The Himachal Pradesh State Forest Development Corporation Limited made employer's contribution to the Employees Provident Fund at a rate exceeding the prescribed rate of contribution, resulting in excess contribution of ₹2.87 crore.***

The Employees' Provident Funds (EPF) and Miscellaneous Provisions (Amendment) Act, 1988, revised the rates of employer's contribution to provident fund from 8.33 per cent and 10 per cent of wages to 10 per cent<sup>77</sup> and 12 per cent<sup>78</sup> respectively, through Act 10 of 1998 effective from 22 September 1997. In terms of Government of India (GoI) notification<sup>79</sup> dated 9 April 1997, the increased rate was not applicable, *inter alia*, to an establishment for which at the end of any financial year, accumulated loss has exceeded its entire net worth<sup>80</sup> and has also suffered cash loss<sup>81</sup> in such financial year and in the immediate preceding financial year.

Audit noticed (March 2019) that accumulated loss of the Himachal Pradesh State Forest Development Corporation Limited (Company) had exceeded its net worth in March 2014. During the years 2012-13 to 2017-18, the accumulated losses of the Company continued to remain in excess of its net worth and the Company also suffered cash losses. Thus, the Company was required to make employer's contribution to the provident fund at the rate of 10 per cent instead of 12 per cent. The Company, however, continued to make contributions at the rate of 12 per cent which resulted in excess contribution of ₹ 2.87 crore during 2013-14 to 2017-18.

The Management stated (November 2019) that the Company is contributing employer share towards Provident Fund of its employees at the rate of 12 per cent on restricted wages instead of factual wages. The reply of the Management is not tenable, as according to the notification of Government of India dated 9 April 1997, the company was required to make employer's contribution on maximum wages as prescribed under EPF Act and that too at the concessional rate of 10 per cent only.

The matter was reported to the Government (August 2019); their reply was awaited (September 2020).

***Recommendation: The Company should ensure availing benefit of the concessional rates of contribution towards EPF.***

<sup>77</sup> As per Section 6 of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 (Act), the lower rate of employer's contribution (viz. 10 per cent) was applicable in respect of all establishments other than those covered under the first proviso to Section 6.

<sup>78</sup> The first proviso to Section 6 of the Act provided that the Central Government after making such enquiry as it deems fit, may by notification in the Official Gazette specify, that the rate of employer's contribution in respect of an establishment or class of establishments shall be 12 per cent instead of 10 per cent.

<sup>79</sup> Notification no. SO 320 (E) dated 1 May 1997 of Government of India issued in exercise of the powers conferred by the first proviso to Section 6 of the Act.

<sup>80</sup> Paid up capital plus free reserves and surplus less intangible assets.

<sup>81</sup> Loss without providing for depreciation.

## Himachal Pradesh General Industries Corporation Limited

### 5.33 Financial favour to employees

***The Company paid ₹ 58.20 lakh as Bonus to its employees, against admissible amount of ₹ 12.76 lakh as per provisions of the Bonus Act.***

As per the provisions<sup>82</sup> of the Payment of Bonus Act, 1965 (Act) as amended in 2015, applicable to every factory and other establishment in which twenty or more persons are employed on any day during the accounting year, every employer shall pay a minimum bonus of 8.33 per cent of the salary/ wage<sup>83</sup> to each of its employees in the accounting year. If the allocable surplus exceeds the amount of minimum bonus payable in any accounting year, the employer shall pay an amount in proportion to the salary/ wage of the employee subject to a maximum of 20 per cent of such salary or wage. In case, the salary/ wage of the employee exceeds ₹ 7,000 per month, the bonus would be calculated only on the basis of either ₹ 7,000 per month or minimum wages<sup>84</sup>, whichever is higher. However, bonus is not payable to an employee, if his salary/ wage exceeds ₹ 21,000 per month.

Audit observed (July 2017) that the Company had not formulated separate policy for regulating incentive / bonus to its employees, hence, the provisions of the Payment of Bonus Act, 1965 (Act) as amended in 2015 were applicable to the Company. However, during 2015-17, the Company paid bonus to all the employees including its Managing Director<sup>85</sup> (MD), irrespective of the amount of salaries, with maximum ceiling of ₹ 25,000. The Company paid ₹ 58.20 lakh bonus to its all employees including MD, against the admissible amount of ₹ 12.76 lakh, as per provisions of the Bonus Act, despite the fact that the MD was holding additional charge of the Company and had not drawn salary from the Company even for a single month during 2015-17. This had resulted in extension of undue financial favour of ₹ 45.44 lakh to the employees.

The Management stated (September 2017) that the bonus was paid to the employees and workers as per the decision of the Board of Directors (BoD) in view of the profitability of the Company and also keeping in view the fact that majority of employees of the Company are outside the limit of Bonus Act. It was further stated that the payment has been restricted at the rate of 20 per cent of pay subject to maximum bonus of ₹ 25,000.

The reply is not tenable as the BoD is not competent to take the decision *ultra-vires* to the Bonus Act. The maximum ceiling under the Act is 20 per cent of ₹ 7,000/- per month or minimum wages<sup>86</sup>, whichever is higher and only for employees drawing pay less than ₹ 21,000/- per month. Moreover, the Management has accepted the fact that to extend the favour to the employees outside the limit of Bonus Act, the decision was taken.

The matter was reported to the Government (June 2019); their reply was awaited (September 2020).

<sup>82</sup> Clause 8, 9, 11 and 12.

<sup>83</sup> All remuneration and allowances except for overtime work.

<sup>84</sup> Minimum wages for the category fixed by the Government from time to time.

<sup>85</sup> MD had drawn salary of ₹ 74,683 only for 14 days during 2015-17 i.e. from 3 June 2015 to 16 June 2015.

<sup>86</sup> Minimum wages for Industrial workers was ₹ 6,300/- per month.

## Himachal Pradesh Road and Other Infrastructure Development Corporation

### 5.34 Extra expenditure of ₹ 47.19 lakh

*The Company incurred extra expenditure of ₹47.19 lakh on execution of 2,62,163 cubic metre excavation due to injudicious determination of the rate for increased quantity, by applying higher per hour rate for the excavator.*

The Company awarded (October 2013) a work<sup>87</sup> for up-gradation (widening and strengthening) of Theog-Rohru road (National Highway) under the Himachal Pradesh State Roads Project (HPSRP) assisted by the International Bank for Reconstruction and Development (World Bank).

As per the terms and conditions of the contract, for the quantity executed beyond 125 *per cent* of Bill of Quantity (BoQ), the contractor was to be paid at the new rates quoted by him, subject to reasonability ascertained by the Company.

Audit observed that the Company, while approving the new rate for extra item-2 'Construction of sub-grade with approved material- boulder mix, obtained from roadway excavation' had considered the rate of hydraulic excavator as ₹ 1,518 per hour only. Whereas, while determining the new rate for payment of increased quantity beyond 125 *per cent* of the quantity provided in BoQ for roadway excavation and drainage (item 2.01), the Company in contradiction of its own decision had provided the higher rate of ₹ 1,609 for the same hydraulic excavator for which a lower rate of ₹ 1,518 per hour was provided for another item-2 (Construction of sub-grade with approved material – boulder mix, obtained from roadway excavation) in the same contract.

Had the rate of hydraulic excavator been considered at ₹ 1,518 per hour, the rate of excavation would have been worked out to ₹ 329 per cubic metre against which the rate of ₹ 347 per cubic metre, at which the contractor was paid.

Thus, due to injudicious determination of the rate for increased quantity, by applying higher per hour rate for the hydraulic excavator, the Company incurred extra expenditure of ₹ 47.19 lakh<sup>88</sup> on 2,62,163 cubic metre excavation carried out, during the period between January 2017 and October 2017.

The Government stated (June 2020) that the six *per cent* increase in per hour rate of hydraulic excavator operating in hilly area was considered as an average increase for altitude of 2100 metre to 3000 metre. The reply is not justified as two sets of rates for same machinery in the same stretch and similar altitude are not acceptable.

**Recommendation:** *The Company should put in place the internal control mechanism for analysis of rates of items uniformly.*

<sup>87</sup> Under two separate packages (ICB 5-I: Theog- Khara Patthar and NCB-05-II: Khara Patthar to Rohru to C and C Constructions {contractor}).

<sup>88</sup> 2,62,163 cubic metres ₹ 18 (₹ 347-₹ 329) = ₹ 47,18,934 (i.e. ₹ 47.19 lakh).

## Himachal Road Transport Corporation

### 5.35 Non affixing of FASTag–Non-availing of cash back

*The Company could not avail cash back of ₹60.51 lakh on the toll fee paid by its buses, due to non-purchase and affixing of FASTags.*

The National Highway Authority of India (NHAI) rolled out a program for electronic toll collection at toll plazas on national highways called FASTag<sup>89</sup> which was effective from 25 April 2016 and has the validity of five years. For availing this facility, FASTags were to be purchased at a cost of ₹ 500 each and affixed on each bus passing through the toll plazas. To promote the usage of FASTags, the Government offered cash back of 10 per cent, 7.5 per cent and five per cent for the financial years 2016-17, 2017-18 and 2018-19, respectively for all the transactions at all the National Highway Toll plazas, under the control of NHAI.

One time charges for purchase of one FASTag for a bus was ₹ 400 and with ₹ 100 as joining fee i.e. ₹ 500 per bus. Additionally, for operating the FASTags, minimum of ₹ 300 per bus was required to be maintained in the current account to be operated for the purpose.

The Himachal Road Transport Corporation (Company) was running buses on various routes passing through the National Highways. It was noticed that the Company did not purchase the FASTags for its buses and was making cash payment of toll tax at five<sup>90</sup> toll plazas. In the absence of FASTags, 20 Regional offices of the Corporation incurred an expenditure of ₹ 2.88 crore, ₹ 4.14 crore and ₹ 3.92 crore as toll fee at above mentioned toll plazas during 2016-17, 2017-18 and 2018-19 (upto 31 December 2018) respectively. Had the Company purchased and affixed the FASTags on its buses, it could have earned cash back of ₹ 79.46 lakh<sup>91</sup>. It is pertinent to mention here that other state transport corporations such as Haryana Roadways and Chandigarh Transport Undertaking had affixed the FASTags on their buses and were earning cash back on toll fee. Even after taking into consideration the onetime charges of ₹ 16.00 lakh<sup>92</sup> for the entire fleet and interest charges of ₹ 2.95 lakh<sup>93</sup> on minimum balance of ₹ 9.60 lakh for 3,200 buses to be maintained in the current account, the net benefit of ₹ 60.51 lakh would have been available.

Thus, due to non-purchase and affixing of FASTags on the buses, the Company could not avail cash back of ₹ 60.51 lakh, on the payment of toll fee paid during 2016-19.

<sup>89</sup> FASTag is an electronic toll collection system in India, operated by the National Highway Authority of India (NHAI). It employs Radio Frequency Identification (RFID) technology for making toll payments directly from the prepaid or savings account linked to it and lets you pass through the toll plaza without stopping for the cash transaction.

<sup>90</sup> Kurali-Kiratpur, Chandi Mandir, Dappar, Panipat and Bhagan.

<sup>91</sup> Toll paid ₹ 2.88 crore (2016-17) x 10 per cent + ₹ 4.14 crore x 7.5 per cent (2017-18) + ₹ 3.92 crore x 5 per cent = ₹ 79.46 lakh.

<sup>92</sup> 3200 x ₹ 500 = ₹ 16,00,000/-.

<sup>93</sup> ₹ 9,60,000 x 10.25 per cent x 3 years.

The Management stated (October 2020) that the FASTags have been affixed after June 2019 on all the buses plying on interstate routes.

The matter was reported to the Government (January 2020); their reply was awaited (September 2020).

### **5.36 Non-availing of discount**

***Failure of the Management in monitoring the actual discount being provided by oil companies, resulted in excess expenditure of ₹1.39 crore.***

The Himachal Road Transport Corporation (Company) entered into an agreement (September 2015) with M/s Indian Oil Corporation Limited (IOCL) for supply of High Speed Diesel (HSD) with discount of ₹ 1,050 per Kilo Litre (KL) on monthly basis for entire quantity of HSD supplied to the Company, during a month. Clause 12(d) of the agreement stipulated that in the event of any firm commitment from any other oil company to the Company for lesser rates of HSD than the seller, the Company shall call the authorized representative of the IOCL (seller) for negotiation for reducing the price of HSD to a competitive level. In case the seller fails to reduce the price of HSD at comparative level, the Company will be at liberty to terminate the agreement, after giving one month's notice to the seller. A similar Memorandum of Understanding (MoU) was signed by the Company with M/s Bharat Petroleum Corporation Ltd. (BPCL) on 7 November 2015 to supply HSD on same discount as offered by IOCL on supply of HSD to the Company. The MoU was effective from 1 October 2015.

Audit noticed that M/s BPCL allowed discount of ₹ 1,050 per KL to the buyer before levy of Value-Added Tax (VAT) at the rate of 16 per cent with effect from 1 October 2015. Thus, the effective discount was ₹ 1,218 (₹ 1,050 + 16 per cent VAT) per KL, whereas, M/s IOCL, up to 30 June 2017, had allowed discount after levy of VAT, resultantly the Company had to bear VAT of ₹ 168 per KL (₹ 1,218 - ₹ 1,050) on the discount allowed by M/S IOCL. The units of the Company did not notice it timely and consequentially the Management could not take up the matter with M/s IOCL for allowing discount before levy of VAT in their invoices from October 2015 to June 2017. The Company purchased 82,878.84 KL of HSD from M/s IOCL during this period and incurred excess expenditure of ₹ 1.39 crore (82,878.84 KL x ₹ 168 = ₹ 1,39,23,645) due to availing of amount of discount after levy of VAT instead of before VAT, as was being allowed by M/s BPCL. Thus, failure of the Management in monitoring the actual discount being provided by each oil company had resulted in excess expenditure of ₹ 1.39 crore.

The Management in its reply stated (October 2020) that no firm (including M/s BPCL) has committed any offer to supply HSD at lesser rates than M/s IOCL as such there was no




failure on the part of the Management. The reply was not acceptable as in the MOU signed with M/s BPCL it was clearly mentioned that the discount will be allowed before VAT, thus, the effective rate of HSD was lesser than the rate of M/s IOCL. As such, the Management failed to negotiate the matter with M/s IOCL to allow discount before VAT in terms of clause 12(d) of the MOU.

The matter was reported to the Government (January 2020); their reply was awaited (September 2020).

***Recommendation: The Company should ensure that comparison of costs across agencies is done to safeguard its financial interests.***

**Shimla**  
**The 09 March 2021**

  
**(RITU DHILLON)**  
**Pr. Accountant General (Audit),**  
**Himachal Pradesh**

**Countersigned**

**New Delhi**  
**The 23 March 2021**

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

