

Part II

Chapter IV

Functioning of State Public Sector Undertakings (other than Power Sector)

Introduction

4.1 There were 137 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 1927-28 to 2018-19 and included 133 Government Companies and four Statutory Corporations, *i.e.*, Kerala State Road Transport Corporation, Kerala State Warehousing Corporation, Kerala Financial Corporation and Kerala Industrial Infrastructure Development Corporation. The Government Companies further included 16 non-working companies and 15 subsidiary companies (five⁶⁸ working and ten⁶⁹ non-working) owned by other Government Companies.

The State Government provides financial support to the State PSUs in the form of equity, loans and grants/subsidy from time to time. Of the 137 State PSUs (other than Power Sector), the State Government invested funds in 122 State PSUs including three⁷⁰ subsidiaries of Government Companies. The State Government did not infuse any funds in three PSUs⁷¹ and in those 12 Government Companies which were incorporated as subsidiary of other Government Companies. Equity of these 12 subsidiary companies was contributed by the respective Holding Companies.

Contribution to Economy of the State

4.2 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. **Table 4.1** below provides the details of turnover of working State PSUs (other than Power Sector) and GSDP for a period of five years ended March 2019:

⁶⁸ Kinfra Export Promotion Industrial Parks Limited, Kinfra Film and Video Park Limited, Kinfra International Apparel Parks Limited, Keltron Component Complex Limited and Keltron Electro Ceramics Limited.

⁶⁹ Kerala Garments Limited, SIDECO Mohan Kerala Limited, Keltron Counters Limited, Keltron Power Devices Limited, SIDKEL Televisions Limited, Astral Watches Limited, Keltron Rectifiers Limited, Kerala State Wood Industries Limited, Kunnathara Textiles Limited and Vanjinad Leathers Limited.

⁷⁰ Keltron Component Complex Limited, Kerala State Wood Industries Limited and Kunnathara Textiles Limited.

⁷¹ As per information furnished by PSUs, GoK did not invest any funds in KINFRA, Kerala Infrastructure Fund Management Limited and Kerala Social Security Pension Limited (data not furnished).

Table 4.1: Details of turnover of working State PSUs (other than Power Sector) vis-à-vis GSDP of Kerala

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Turnover	14,131	14,562	15,488	16,535	19,123
GSDP	5,12,564	5,61,994	6,16,357	6,86,764	7,74,995
Percentage of turnover of State PSUs (other than Power Sector) to GSDP	2.76	2.59	2.51	2.41	2.47

(Source: Compiled based on turnover figures of working PSUs and GSDP figures as per State Finance Report of GoK)

The turnover of these PSUs has recorded continuous increase over previous years. The increase in turnover ranged between 3.05 per cent and 15.65 per cent during the period 2014-15 to 2018-19, whereas increase in GSDP of the State ranged between 9.64 per cent and 12.85 per cent during the same period. The turnover of these PSUs recorded compounded annual growth of 7.85 per cent during the last five years which was lower than the compounded annual growth of 10.88 per cent of the GSDP of the State. This resulted in marginal decrease in share of turnover of these PSUs to the GSDP from 2.76 per cent in 2014-15 to 2.47 per cent in 2018-19.

Investment in State PSUs (other than Power Sector)

4.3 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 along with private sector undertakings. The position of these State PSUs has, therefore, been analysed under two major classifications viz. those in the social sector and those functioning in the competitive environment sector. Details of investment made in these 137 State PSUs in the form of equity and long term loans up to 31 March 2019 are detailed in *Appendix 3*.

4.4 The sector-wise summary of investment in these State PSUs as on 31 March 2019 is given below in **Table 4.2**:

Table 4.2: Sector-wise investment in State PSUs (other than Power Sector)

Sector	Number of PSUs	Investment (₹ in crore)		
		Equity	Long term loans	Total
Social Sector	35	1,060.92	2,498.91	3,559.83
Competitive Environment Sector	102	5,730.13	11,078.40	16,808.53
Total	137	6,791.05	13,577.31	20,368.36

(Source: Compiled based on information received from PSUs)

As on 31 March 2019, the total investment (equity and long term loans) in these 137 PSUs was ₹20,368.36 crore. The investment consisted of 33.34 per cent towards equity and 66.66 per cent in long term loans. The long term loans consisted of 48.83 per cent (₹6,629.35 crore) from the State Government, 0.31 per cent (₹42.49 crore) from the Central Government and 50.86 per cent (₹6,905.47 crore) from financial institutions.

The investment has grown by 60.28 per cent from ₹12,707.79 crore in 2014-15 to ₹20,368.36 crore in 2018-19. The investment increased due to addition of ₹2,436.15 crore and ₹5,224.42 crore towards equity and long term loans respectively during 2014-15 to 2018-19.

Disinvestment, restructuring and privatisation of State PSUs (other than Power Sector)

4.5 During the year 2018-19, no disinvestment, restructuring or privatisation was done by the State Government in State PSUs (other than Power Sector).

Budgetary Support to State PSUs (other than Power Sector)

4.6 The Government of Kerala (GoK) 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 (other than Power Sector) for the last three years ended March 2019 are given in Table 4.3:

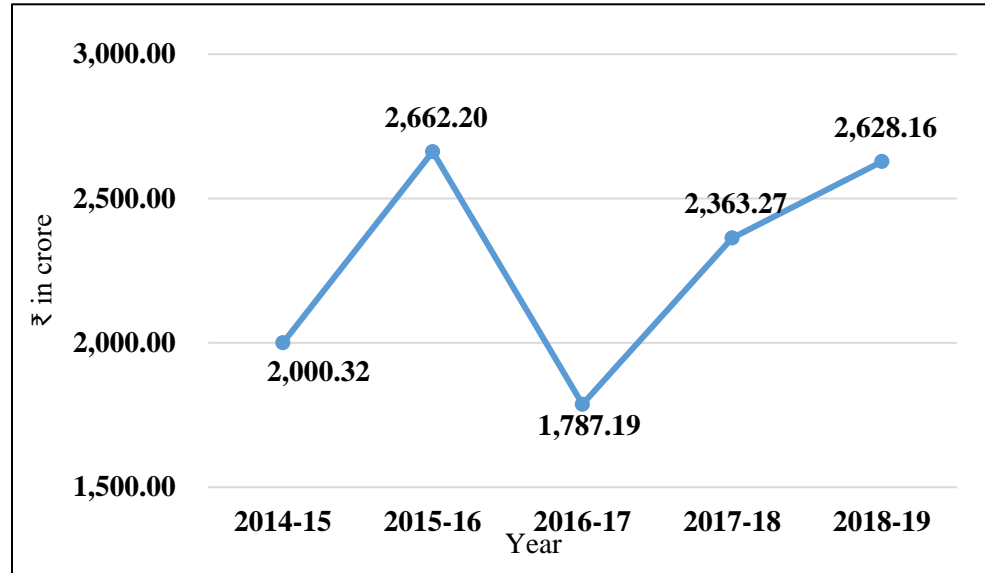
Table 4.3: Details regarding budgetary support to State PSUs (other than Power Sector)

Sl. No.	Particulars	2016-17		2017-18		2018-19	
		No. of PSUs	Amount (₹ in crore)	No. of PSUs	Amount (₹ in crore)	No. of PSUs	Amount (₹ in crore)
1	Equity capital outgo from budget	19	301.05	29	238.68	18	866.71
2	Loans given from budget	17	136.94	24	244.25	19	610.61
3	Grants/Subsidy given	27	1,349.20	28	1,880.34	31	1,150.84
4	Total outgo (1+2+3)		1,787.19		2,363.27		2,628.16
5	Loans written off and interest waived	3	6.20	2	4.34	2	2.52
6	Guarantees issued	8	6,150.72	11	7,341.17	15	17,415.39
7	Guarantee commitment	11	7,549.92	11	9,513.05	16	11,779.28

(Source: Compiled based on information received from PSUs)

The details regarding budgetary outgo towards equity, loans and grants/subsidies for the last five years ending March 2019 are given in **Chart 4.1**:

Chart 4.1: Budgetary outgo towards Equity, Loans and Grants/Subsidies (other than Power sector)



The budgetary assistance given to these PSUs ranged between ₹1,787.19 crore and ₹2,662.20 crore during the period 2014-15 to 2018-19. The budgetary assistance of ₹2,628.16 crore received during the year 2018-19 included ₹866.71 crore, ₹610.61 crore and ₹1,150.84 crore in the form of equity capital, loans and grants/subsidy respectively. The subsidy/grants given by the State Government was mainly to Kerala Medical Services Corporation Limited (₹410 crore), The Kerala State Civil Supplies Corporation Limited (₹383.30 crore), Vizhinjam International Seaport Limited (₹100.69 crore) and Kerala State Industrial Development Corporation Limited (₹43.55 crore).

In order to enable the PSUs to obtain financial assistance from banks and financial institutions, State Government gives guarantees under the Kerala Ceiling on Government Guarantee Act, 2003, subject to the limits prescribed by the Constitution of India, for which guarantee commission is being charged. The Government would charge a minimum of 0.75 *per cent* as guarantee commission, which shall not be waived under any circumstance. The guarantee commitment of PSUs increased from ₹7,549.92 crore in 2016-17 to ₹11,779.28 crore during 2018-19 whereas the guarantee issued by GoK to PSUs increased from ₹7,341.17 crore in 2017-18 to ₹17,415.39 crore during 2018-19.

Further, out of ₹168.69 crore guarantee commission payable by 25 PSUs, 14 PSUs⁷² paid ₹84.41 crore⁷³ during 2018-19. The accumulated/outstanding guarantee commission payable by 13 PSUs was ₹86.12 crore as on 31 March 2019. The PSUs, which had major arrears were Kerala State Road Transport Corporation (₹25.20 crore), The Kerala Ceramics Limited (₹24.48 crore), Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited (₹14.30 crore) and Kerala Urban and Rural Development Finance Corporation Limited (₹10.31 crore).

Reconciliation with Finance Accounts of Government of Kerala

4.7 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs (other than Power Sector) should agree with that of the figures appearing in the Finance Accounts of the Government of Kerala. In case the figures do not agree, the PSUs concerned and the Finance Department should carry out reconciliation of the differences. The position in this regard as on 31 March 2019 is stated in **Table 4.4**:

Table 4.4: Equity, loans and guarantees outstanding as per Finance Accounts of GoK vis-à-vis records of State PSUs (other than Power Sector)

(₹ in crore)

Sl. No.	Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
1	Equity	5,662.25	5,734.05	71.80
2	Loans	6,390.61	6,629.35	238.74
3	Guarantees	17,451.90	17,415.39	36.51

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

Audit observed that out of 137 State PSUs, such differences occurred in respect of 117 PSUs as shown in **Appendix 4**. The differences between the figures are persisting since last many years. The issue of reconciliation of differences was also taken up with the PSUs and the Departments from time to time. We, therefore, recommend that the State Government and the respective PSUs should reconcile the differences in a time-bound manner.

Submission of accounts by State PSUs (other than Power Sector)

4.8 Of the total 137 State PSUs (other than Power Sector), there were 121 working PSUs, *i.e.*, 117 Government Companies and four Statutory Corporations and

⁷² Kerala Electrical and Allied Engineering Company Limited and Traco Cable Company Limited made payments partially during the year 2018-19.

⁷³ Kerala State Women's Development Corporation Limited paid ₹1.84 crore excess guarantee commission.

16 non-working PSUs under the purview of CAG as on 31 March 2019. The status of timelines followed by the State PSUs in preparation of accounts is as detailed under:

Timeliness in preparation of accounts by the working State PSUs

4.8.1 Accounts for the year 2018-19 were required to be submitted by all the working PSUs by 30 September 2019. However, out of 117 working Government Companies, 14 Government Companies submitted their accounts for the year 2018-19 for audit by CAG on or before 30 September 2019 whereas the accounts of 103 Government Companies were in arrears. Out of four Statutory Corporations, the CAG is the sole auditor in two Statutory Corporations (Kerala State Road Transport Corporation and Kerala Industrial Infrastructure Development Corporation) and CAG is doing supplementary audit in two Statutory Corporations (Kerala Financial Corporation and Kerala State Warehousing Corporation). Of these four Statutory Corporations, Kerala Financial Corporation presented the accounts for the year 2018-19 for audit in time. The accounts of Kerala State Road Transport Corporation (KSRTC) for the years 2015-16 to 2018-19 (four accounts), Kerala Industrial Infrastructure Development Corporation for the year 2018-19 (one accounts) and Kerala State Warehousing Corporation for the year 2018-19 (one accounts) were awaited as on 30 September 2019.

Details of arrears in submission of accounts of working PSUs (other than Power Sector) as on 30 September 2019 are given in **Table 4.5**:

Table 4.5: Position relating to submission of accounts by the working State PSUs (other than Power Sector)

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1	Number of working PSUs	108	110	112	118	121
2	Number of accounts finalised during the year	93	96	98	100	131
3	Number of accounts in arrears	237	250	263	281	271
4	Number of working PSUs with arrears in accounts	93	95	99	107	106
5	Extent of arrears (in years)	1 to 19	1 to 20	1 to 14	1 to 11	1 to 12

(Source: Data collected from PSUs)

Of these 121 working State PSUs, 97 PSUs finalised 131 annual accounts during the period 1 October 2018 to 30 September 2019 which included 15 annual accounts for the year 2018-19 and 116 annual accounts for previous years. Further, 271 annual accounts were in arrears which pertain to 106 PSUs (265 accounts of 103 Government Companies and six accounts of three Statutory Corporations). 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. Though the Administrative Departments concerned

were informed regularly (twice a year) by the Accountant General (Economic & Revenue Sector Audit), Kerala, the number of accounts in arrears was still on the higher side. In addition, this issue was also discussed in the Apex Committee meetings convened (February 2018 and June 2018) by the Chief Secretary. Further, Finance Department, GoK issued a circular (December 2018) that Government would be forced to stop further release of funds and pay revision of employees of PSUs which fail to finalise the accounts up to the previous year and also on maintenance of up-to-date accounts. However, no improvement was noticed. It was further observed that though many PSUs had not finalised their accounts for long, the Registrar of Companies did not take any penal action under Section 129 (7) of the Companies Act, 2013.

The GoK had invested ₹7,300.83 crore {Equity: ₹1,223.83 crore (25 PSUs), Loan: ₹1,884.24 crore (24 PSUs), Subsidy: ₹4,192.76 crore (35 PSUs)} during the years in respect of which accounts were not finalised as detailed in **Appendix 5**. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investment and expenditure incurred were properly accounted for and the purpose for which the amount was invested was achieved or not and thus, Government's investment in such PSUs remained outside the control of State Legislature.

Timeliness in preparation of accounts by non-working State PSUs

4.8.2 There were arrears in finalisation of accounts by 16 non-working PSUs, details of which are as given below in **Table 4.6**:

Table 4.6: Position relating to arrears of accounts in respect of non-working PSUs

Number of non-working companies	Period for which accounts were in arrears	Number of accounts in arrears
16	1986-87 to 2018-19	183

(Source: Data collected from PSUs)

In respect of non-working companies where accounts were in arrears starting from 1986-87 onwards, the progress in finalisation of the accounts was poor. For example, only two⁷⁴ out of 16 non-working PSUs finalised its four accounts during 2018-19.

Placement of Separate Audit Reports of Statutory Corporations

4.9 Out of four Statutory Corporations, only Kerala Financial Corporation forwarded its accounts of 2018-19 by 30 September 2019.

Separate Audit Reports (SARs) are audit reports of the CAG on the accounts of

⁷⁴ Kerala State Wood Industries Limited (2017-18), Kerala Special Refractories Limited (2015-18).

Statutory Corporations. These SARs are to be laid before the Legislature as per provisions of the respective Acts. The position depicted in **Table 4.7** shows the status of placement of SARs issued by CAG (up to 30 September 2019) on the accounts of Statutory Corporations in the Legislature.

Table 4.7: Status of placement of SARs in State Legislature

Sl. No.	Name of Statutory Corporation	Year up to which SARs are placed in the Legislature	Year in which SARs are placed in the Legislature
1	Kerala State Road Transport Corporation	2014-15	2018-19
2	Kerala Financial Corporation	2018-19	2019-20
3	Kerala State Warehousing Corporation	2017-18	2019-20
4	Kerala Industrial Infrastructure Development Corporation	2017-18	2019-20

(Source: Data furnished by PSUs/GoK)

Delay in placement of SARs weakens the legislative control over the Statutory Corporations and dilutes the latter's financial accountability. The Government should ensure prompt placement of SARs in the Legislature.

Impact of non-finalisation of accounts of State PSUs (other than Power Sector)

4.10 As pointed in *Paragraph 4.8*, the delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant statutes. In view of the above state of arrears of accounts, the actual contribution of the State PSUs (other than Power Sector) 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.

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

Performance of State PSUs (other than Power Sector)

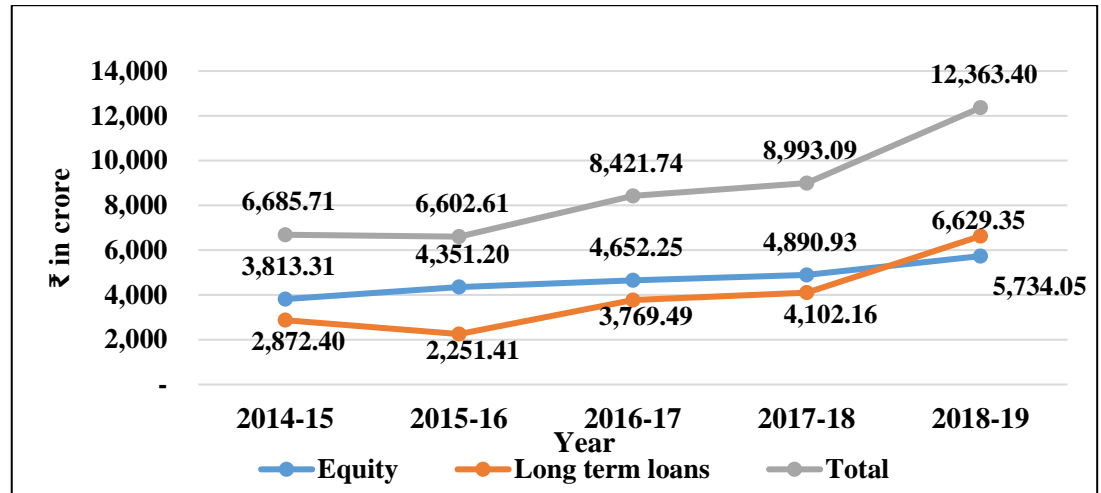
4.11 The financial position and working results of State PSUs (other than Power Sector) are detailed in *Appendix 6* as per their latest finalised accounts⁷⁵ as on 30 September 2019.

⁷⁵ The figures from the last available accounts have been considered in this Report for the purpose of arriving at working results.

The Public Sector Undertakings are expected to yield reasonable return on investment made by the Government. The amount of investment as on 31 March 2019 in the PSUs (other than Power Sector) was ₹20,368.36 crore consisting of ₹6,791.05 crore as equity and ₹13,577.31 crore as long term loans. Out of this, Government of Kerala has investment of ₹12,363.40 crore consisting of equity of ₹5,734.05 crore (122 PSUs) and long term loans of ₹6,629.35 crore (61 PSUs).

The year-wise investment of GoK in the PSUs (other than Power Sector) during the period 2014-15 to 2018-19 is shown in **Chart 4.2**:

Chart 4.2: Total investment of GoK in PSUs (other than Power Sector)



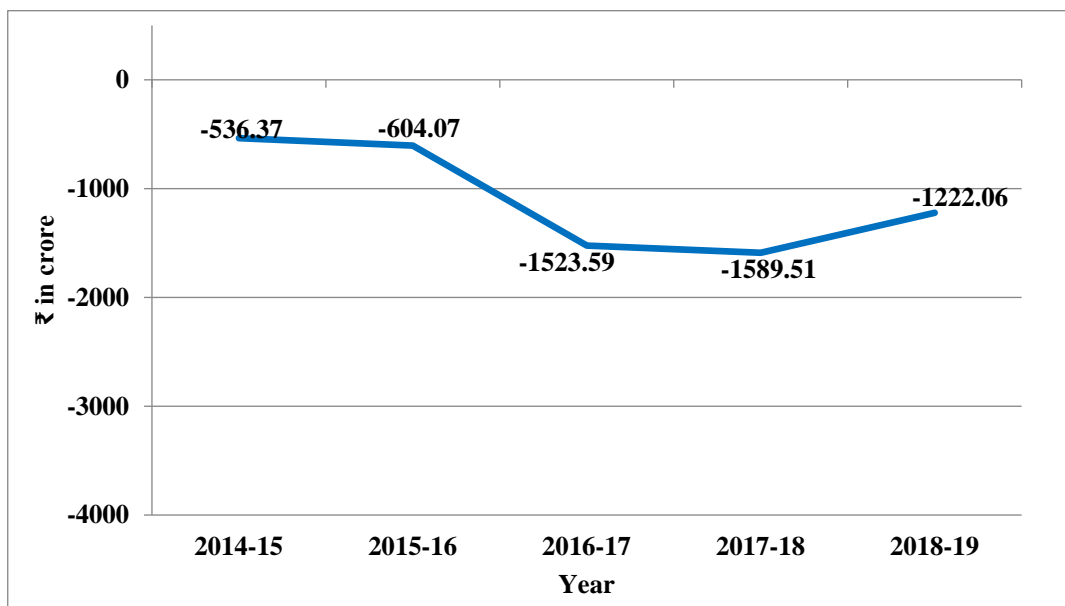
The profitability of a company is traditionally assessed through return on investment, return on equity and return on capital employed. Return on investment measures the profit or loss made in a fixed year relating to the amount of money invested in the form of equity and long term loans and is expressed as a percentage of profit to total investment. 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 profit after tax by shareholders' fund.

Return on Investment

4.12 The Return on Investment is the percentage of profit or loss to the total investment. The overall position of profit earned or loss incurred by the working State PSUs (other than Power Sector) as per the latest finalised accounts⁷⁶ during the period 2014-15 to 2018-19 is given in **Chart 4.3**:

⁷⁶ For instance, latest accounts finalised between October 2018 to September 2019 were considered for the period 2018-19.

Chart 4.3: Profit earned /Loss incurred by working PSUs (other than Power Sector)



An analysis of the latest finalised accounts of all working PSUs (other than Power Sector) in the State revealed that 53 PSUs earned profit of ₹574.49 crore, 58 PSUs incurred loss of ₹1,796.55 crore and two PSUs⁷⁷ had no profit or loss. Eight working PSUs did not finalise (September 2019) their first accounts.

The major contributors to profit were The Kerala State Financial Enterprises Limited (₹144.41 crore in 2017-18), The Kerala Minerals and Metals Limited (₹104.46 crore in 2018-19), Kerala State Beverages (Manufacturing and Marketing) Corporation Limited (₹85.93 crore in 2016-17) and The Kerala State Cashew Development Corporation Limited (₹61.59 crore in 2013-14). The major PSUs which incurred loss were Kerala State Road Transport Corporation (₹1,431.29 crore in 2014-15), Kerala State Textiles Corporation Limited (₹53.17 crore in 2014-15), The Kerala State Civil Supplies Corporation Limited (₹25.91 crore in 2015-16) and Travancore Titanium Products Limited (₹23.63 crore in 2014-15).

Of the 121 working PSUs (other than Power Sector) as on 31 March 2019, position of working PSUs (other than Power Sector) which earned profit/ incurred loss during 2014-15 to 2018-19 is given in **Table 4.8:**

⁷⁷ Road Infrastructure Company Kerala Limited and Vizhinjam International Seaport Limited.

Table 4.8: Details of working Public Sector Undertakings (other than Power Sector) which earned profit / incurred loss during 2014-15 to 2018-19

Financial year	Total number of PSUs	Number of PSUs which earned profit	Number of PSUs which incurred loss	Number of PSUs which had no profit/ loss	Number of PSUs which had not finalised their first accounts
2014-15	108	47	52	4	5
2015-16	110	48	55	3	4
2016-17	112	43	63	2	4
2017-18	118	45	64	1	8
2018-19	121	53	58	2	8

(Source: Data furnished by PSUs)

As on 31 March 2019, there were 83 working PSUs (other than Power Sector) in competitive environment sector which were expected to operate with the objective of earning profit. During 2018-19, 34 of these PSUs earned profit, 44 incurred loss, two had no profit or loss and three did not finalise their first accounts during 2018-19. Further analysis revealed that 49 PSUs in the competitive environment sector reported accumulated loss at the end of 2018-19, of which 22 PSUs continuously incurred loss for the last five years (based on the latest finalised accounts) and the accumulated loss of these PSUs increased from ₹304.62 crore to ₹864.14 crore. Hence, GoK may put in place a mechanism for monitoring the operation of these PSUs in order to ensure their profitable operation.

Return on Investment on the basis of historical cost of investment

4.13 Out of 137 Public Sector Undertakings (other than Power Sector) of the State, the State Government infused funds in the form of equity, long term loans and grants/subsidies in 122 PSUs only. The Government has investment of ₹12,363.40 crore in these PSUs including equity of ₹5,734.05 crore and long term loans of ₹6,629.35 crore. As on 31 March 2019, the total investments in the form of equity and interest free loans made by GoK and others in the 137 State PSUs (other than Power Sector) was ₹7,017.83 crore.

The Return on Investment from the PSUs has been calculated on the investment made by the GoK and others in the PSUs in the form of equity and loans. 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, of the nature of equity investment by Government except to the extent that the loans are liable to be repaid as per terms and conditions of repayment. Thus, investment in these 137 PSUs (other than Power Sector) has been arrived at by considering the equity and the interest free loans as detailed in **Table 4.9**. The funds made available in the forms of the grants/subsidy have not been reckoned as investment since they do not qualify to be considered as investment.

The sector-wise return on investment on the basis of historical cost of investment for the period 2014-15 to 2018-19 is as given in **Table 4.9**:

Table 4.9: Return on Investment on the basis of historical cost of investment

(₹ in crore)

Year-wise, Sector-wise break-up	Total earnings for the year	Funds invested in the form of equity and interest free loans on historical cost			Return on investment on historical cost basis (<i>per cent</i>)
		GoK	Others	Total	
2014-15					
Social Sector	9.36	509.25	67.84	577.09	1.62
Competitive Environment Sector	-555.08	3,531.05	473.75	4,004.80	-13.86
Total	-545.72	4,040.30	541.59	4,581.89	-11.91
2015-16					
Social Sector	13.70	565.52	76.41	641.93	2.13
Competitive Environment Sector	-625.90	4,059.78	725.96	4,785.74	-13.08
Total	-612.20	4,625.30	802.37	5,427.67	-11.28
2016-17					
Social Sector	29.14	743.69	179.97	923.66	3.15
Competitive Environment Sector	-1,556.35	4,247.34	840.78	5,088.12	-30.59
Total	-1,527.21	4,991.03	1,020.75	6,011.78	-25.40
2017-18					
Social Sector	40.50	835.72	194.64	1,030.36	3.93
Competitive Environment Sector	-1,634.60	4,316.31	875.18	5,191.49	-31.49
Total	-1,594.10	5,152.03	1,069.82	6,221.85	-25.62
2018-19					
Social Sector	-4.09	883.81	181.55	1,065.36	-0.38
Competitive Environment Sector	-1,222.32	5,077.02	875.45	5,952.47	-20.53
Total	-1,226.41	5,960.83	1,057.00	7,017.83	-17.48

(Source: Data furnished by PSUs)

The return on investment is worked out by dividing the total earnings⁷⁸ of these PSUs by the cost of the investments. The return earned on investment ranged between -25.62 *per cent* and -11.28 *per cent* during the period 2014-15 to 2018-19. The overall return on investment was negative during the period which was mainly due to heavy losses incurred by Kerala State Road Transport Corporation (₹1,431.29

⁷⁸ This includes net profit/loss for the concerned year relating to those State PSUs where the investments have been made by the State Government.

crore in 2014-15), Kerala State Textiles Corporation Limited (₹53.17 crore in 2014-15), The Kerala State Civil Supplies Corporation Limited (₹25.91 crore in 2015-16) and Travancore Titanium Products Limited (₹23.63 crore in 2014-15) in competitive environment sector. Further analysis revealed that the return on investment from competitive environment sector has shown a fluctuating trend. The returns from competitive environment sector reduced from (-)13.86 per cent in 2014-15 to (-)20.53 per cent in 2018-19.

Erosion of Net worth

4.14 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 and free reserves and surplus of these 137 State PSUs (other than Power Sector) as per their latest finalised accounts were ₹5,655.57 crore, ₹4,944.00 crore and ₹89.37 crore respectively resulting in net worth of ₹800.94 crore. Analysis of investment and accumulated losses disclosed that net worth was eroded fully in 54 out of these 137 PSUs as the capital investment and accumulated losses of these 54 PSUs were ₹2,081.07 crore and ₹8,642.19 crore respectively. Of these 54 PSUs, the maximum net worth erosion was in Kerala State Road Transport Corporation (₹4,290.63 crore), The Kerala State Cashew Development Corporation Limited (₹798.94 crore), The Kerala State Civil Supplies Corporation Limited (₹214.23 crore) and Autokast Limited (₹159.79 crore). Of these 54 PSUs where net worth had been fully eroded, eight PSUs⁷⁹ earned profit as per their latest accounts finalised during the year 2018-19 although there were substantial accumulated losses.

Table 4.10 indicates total paid up capital, total accumulated profit/ loss, and total net worth of the 122 PSUs (other than Power Sector) where the State Government has made direct investment:

Table 4.10: Net worth of PSUs (other than Power Sector) during 2014-15 to 2018-19

(₹ in crore)				
Year	Paid up capital at end of the year	Accumulated profit (+) loss (-) at end of the year	Deferred revenue expenditure	Net worth
2014-15	3,714.54	-2,818.46	0.00	896.08
2015-16	4,207.21	-3,387.52	0.00	819.69
2016-17	4,747.27	-5,028.98	0.00	-281.71
2017-18	5,121.33	-4,949.67	0.00	171.66
2018-19	5,619.51	-4,982.37	0.00	637.14

⁷⁹The Kerala State Cashew Development Corporation Limited, Keltron Counters Limited, Kerala State Coconut Development Corporation Limited, Keltron Component Complex Limited, Kerala Police Housing and Construction Corporation Limited, Kerala State Mineral Development Corporation Limited and Kerala School Teachers, Non-teaching Staff Welfare Corporation Limited and Kerala State Warehousing Corporation.

As can be seen, the net worth of these companies fluctuated during the period. It decreased from ₹896.08 crore in 2014-15 to ₹(-)281.71 crore in 2016-17, but increased to ₹171.66 crore in 2017-18 and to ₹637.14 crore in 2018-19. Out of 122 PSUs, 68 PSUs showed positive net worth and net worth of 46 PSUs was in negative during 2018-19. One PSU had zero net worth and for the remaining seven PSUs, there was no data available for calculation of net worth.

Dividend Payout

4.15 The State Government had formulated (December 1998) a dividend policy under which all PSUs are required to pay a minimum return of 20 *per cent* on the paid up capital or 30 *per cent* of the allocable surplus, whichever is lower.

Dividend payout relating to 122 PSUs (other than Power Sector) where equity was infused by GoK during the period 2014-15 to 2018-19 is shown in **Table 4.11**:

Table 4.11: Dividend payout of PSUs (other than Power Sector) during 2014-15 to 2018-19

(₹ in crore)

Year	PSUs where equity was infused by GoK		PSUs which earned profit during the year		PSUs which declared/paid dividend during the year		Dividend Payout Ratio (<i>per cent</i>)
	Number of PSUs	Equity infused	Number of PSUs	Equity infused	Number of PSUs	Dividend declared/paid	
1	2	3	4	5	6	7	8=7/5*100
2014-15	109	3,813.31	47	1,341.95	20	28.57	2.13
2015-16	113	4,351.20	48	1,841.64	16	23.36	1.27
2016-17	115	4,652.25	43	1,265.38	9	32.04	2.53
2017-18	120	4,890.93	45	1,607.54	7	10.59	0.66
2018-19	122	5,734.05	49	2,126.52	7	12.11	0.57

During the period 2014-15 to 2018-19, the number of PSUs which earned profit ranged between 43 and 49. During this period, number of PSUs which declared/paid dividend to GoK ranged between 7 and 20. The Dividend Payout Ratio during 2014-15 to 2018-19 ranged between 0.57 *per cent* and 2.53 *per cent* only.

As per their latest finalised accounts, seven working PSUs declared dividend of ₹12.11 crore which worked out to 0.21 *per cent* of equity capital of all the PSUs. Only one PSU⁸⁰ complied with the State Government policy on dividend payment. As a result, there was short payment of dividend to the extent of ₹110.12 crore by 48 PSUs.

⁸⁰ Kerala State Beverages (Manufacturing and Marketing) Corporation Limited.

Return on Equity

4.16 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 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 shareholders' fund means that liabilities exceed assets.

Return on Equity has been computed in respect of 122 other than Power Sector undertakings where funds had been infused by the State Government. The details of shareholders' fund and ROE relating to 122 PSUs (other than Power Sector) during the period from 2014-15 to 2018-19 are given in **Table 4.12**:

Table 4.12: Return on Equity relating to PSUs (other than Power Sector)

Year	Net income (₹ in crore)	Shareholders' fund (₹ in crore)	Return on equity (per cent)
2014-15	-551.66	896.08	-
2015-16	-616.89	819.69	-
2016-17	-1,528.30	-281.71	-
2017-18	-1,593.44	171.66	-
2018-19	-1,228.38	637.14	-

During the last five years ended March 2019, the net income of these PSUs were negative. Hence, ROE in respect of these PSUs could not be worked out for this period.

Return on Capital Employed

4.17 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 employed⁸¹. The details of ROCE of the State PSUs (other than Power Sector) during the period from 2014-15 to 2018-19 are given in **Table 4.13**:

⁸¹ Capital employed = Paid up capital + free reserves and surplus + long term loans - accumulated losses - deferred revenue expenditure.

Table 4.13: Return on Capital Employed

Year	EBIT (₹ in crore)	Capital employed (₹ in crore)	ROCE (per cent)
2014-15	515.24	8,603.90	5.99
2015-16	684.11	10,019.53	6.83
2016-17	413.08	10,124.91	4.08
2017-18	526.99	10,235.65	5.15
2018-19	697.50	9,225.19	7.56

The ROCE of these State PSUs ranged between 4.08 *per cent* and 7.56 *per cent* during the period 2014-15 to 2018-19. The ROCE increased over two *per cent* in 2018-19 mainly due to increase in EBIT (₹399.63 crore) of the four PSUs.⁸²

Analysis of long term loans of the PSUs (other than Power Sector)

4.18 Analysis of the long term loans of the PSUs which had leverage during 2014-15 to 2018-19 was carried out to assess the ability of the companies to serve the debt owed by the companies to the Government, banks and other financial institutions. This is assessed through the interest coverage ratio and debt turnover ratio.

Interest Coverage Ratio

4.19 Interest coverage ratio is used to determine the ability of a PSU to pay interest on outstanding debt and is calculated by dividing the 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 is not generating sufficient revenues to meet its expenses on interest. The details of interest coverage ratio during the period from 2014-15 to 2018-19 are given in **Table 4.14**:

⁸² The Kerala Minerals and Metals Limited (₹134.40 crore), The Kerala State Cashew Development Corporation Limited (₹120.21 crore), The Kerala State Civil Supplies Corporation Limited (₹73.44 crore) and Kerala State Beverages (Manufacturing and Marketing) Corporation Limited (₹71.58 crore).

Table 4.14: Interest coverage ratio of working State PSUs (other than Power Sector) having liability of loans

Year	Interest (₹ in crore)	Earnings before interest and tax (₹ in crore)	Number of PSUs having liability of loans	Number of PSUs having interest coverage ratio more than or equal to 1	Number of PSUs having interest coverage ratio less than 1
2014-15	1,057.29	330.84	58	25	33
2015-16	1,293.73	677.20	63	28	35
2016-17	1,694.93	190.25	62	27	35
2017-18	1,890.85	486.96	60	23	37
2018-19	1,666.10	486.48	62	22	40

Of the 62 State working PSUs (other than Power Sector) having liability of loans during 2018-19, 22 PSUs had interest coverage ratio of more than or equal to one whereas remaining 40 PSUs had interest coverage ratio below one which indicates that these 40 PSUs could not generate sufficient revenues to meet their expenses on interest.

Debt Turnover Ratio

4.20 During the last five years, the turnover of these State PSUs recorded compounded annual growth of 7.85 per cent while the compounded annual growth of debt was 12.91 per cent due to which the debt turnover ratio degraded from 0.59 in 2014-15 to 0.71 in 2018-19 as given in the **Table 4.15** below:

Table 4.15: Debt Turnover Ratio relating to the State PSUs (other than Power Sector)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Debt (₹ in crore)	8,352.89	9,251.67	11,481.32	14,064.25	13,577.31
Turnover (₹ in crore)	14,130.57	14,562.41	15,487.50	16,535.00	19,122.57
Debt-Turnover Ratio	0.59:1	0.51:1	0.74:1	0.85:1	0.71:1

(Source: Data furnished by PSUs)

The debt-turnover ratio ranged between 0.51 and 0.85 during this period.

Winding up of non-working State PSUs

4.21 Of the 137 State PSUs (other than Power Sector), 16 were non-working companies having a total investment of ₹91.89 crore towards equity (₹25.30 crore) and long term loans (₹66.59 crore) as on 31 March 2019. The number of non-working PSUs at the end of each year during last five years ended 31 March 2019 are given in **Table 4.16**:

Table 4.16: Non-working PSUs

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Number of non-working PSUs	15	15	15	15	16

(Source: Data furnished by PSUs)

Out of the above sixteen non-working PSUs, liquidation process was initiated in respect of four PSUs⁸³. Since the non-working PSUs are not contributing to the State economy and not meeting the intended objectives, these PSUs may be considered for their closure or revival.

Comments on Accounts of State PSUs (other than Power Sector)

4.22 Out of 117 working PSUs, 94 PSUs forwarded their 127 audited accounts to the Accountant General during the period from 1 October 2018 to 30 September 2019. Of these, 62 accounts of 53 companies were selected for supplementary audit while non-review certificates were issued in respect of 65 accounts of 50 companies. 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 are as given in **Table 4.17**:

Table 4.17: Impact of audit comments on Working Companies (other than Power Sector)

(₹ 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	10	19.90	20	59.08	13	53.10
2	Increase in loss	17	26.43	19	76.61	33	244.36
3	Increase in profit	5	1.34	5	6.72	7	15.50
4	Decrease in loss	5	3.29	6	6.65	8	5.04
5	Non-disclosure of material facts	27	378.11	6	37.63	7	41.07
6	Errors of classification	35	285.76	17	262.37	11	212.80

(Source: Compiled from the annual accounts of Government Companies)

During the year 2018-19, the Statutory Auditors issued qualified audit reports on 83 accounts, unqualified audit reports on 36 accounts, disclaimer on two accounts and adverse opinion on six accounts. Compliance to the Accounting Standards by the PSUs remained poor as the Statutory Auditors and the CAG pointed out 141 instances of non-compliance to the Accounting Standards in 61 accounts.

⁸³ Keltron Power Devices Limited, Keltron Rectifiers Limited, Kunnathara Textiles Limited and Vanjinad Leathers Limited.

4.23 The State has four Statutory Corporations, *i.e.*, (i) Kerala State Road Transport Corporation (KSRTC), (ii) Kerala Financial Corporation (KFC), (iii) Kerala State Warehousing Corporation (KSWC) and (iv) Kerala Industrial Infrastructure Development Corporation (KINFRA). The CAG is sole auditor in respect of KSRTC and KINFRA.

Out of four working Statutory Corporations, KSWC forwarded two accounts for the years 2016-17 and 2017-18 during 1 October 2018 to 30 September 2019. The Statutory Auditors gave qualified certificates on both the accounts and were selected for supplementary audit. The KFC forwarded accounts for the year 2018-19 for which the Statutory Auditor gave unqualified certificates and the same was selected for supplementary audit. KSRTC did not forward any accounts during the above period. KINFRA forwarded annual accounts for the year 2017-18 and the accounts of KINFRA was audited and SAR was issued.

The details of aggregate money value of the comments of Statutory Auditors and supplementary audit by the CAG in respect of Statutory Corporations are given in **Table 4.18**:

Table 4.18: 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	0.03	1	0.71	1	9.79
2	Increase in loss	1	0.06	2	0.36	2	0.36
3	Increase in profit	...	...	...	...	1	0.11
4	Decrease in loss	...	...	1	0.03	...	...
5	Non-disclosure of material facts	...	...	2	63.89	...	...
6	Errors of classification	1	4.64	1	39.24	...	...

(Source: Compiled from the annual accounts of Statutory Corporations)

Compliance Audit Paragraphs

4.24 For the Report of the Comptroller and Auditor General of India (Public Sector Undertakings) for the year ended 31 March 2019, eight Compliance Audit Paragraphs related to 23 PSUs were issued to the Principal Secretaries/ Secretaries of the respective Administrative Departments with a request to furnish replies within four weeks. Replies were received for five Compliance Audit Paragraphs and replies were partially received for two Compliance Audit Paragraphs from Department of Industries and Commerce. The Department of Transport was yet to furnish the reply for one Compliance Audit Paragraph. Exit conferences were held with the Departments concerned and the Compliance Audit Paragraphs were discussed. The

total financial impact of the Compliance Audit Paragraphs was ₹48.16 crore.

Follow up action on Audit Reports (other than Power Sector)

Replies outstanding

4.25 The Report of CAG represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The Finance Department, Government of Kerala issued directions to all Administrative Departments in 2017 to furnish Explanatory Notes to Performance Audits/ Compliance Audits/ Paragraphs included in the Audit Reports of the CAG within a period of two months of their presentation to the Legislature for speedy settlement of audit observations. The status of Explanatory Notes not received as of March 2020 is given in **Table 4.19:**

Table 4.19: Explanatory Notes not received (as of March 2020)

Year of the Audit Report (PSUs)	Date of placement of Audit Report in the State Legislature	Total Performance Audits (PAs) and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2014-15	28/06/2016	1	9	0	0
2015-16	23/05/2017	2	11	2	6
2016-17	19/06/2018	2	10	2	7
Total		5	30	4	13

From the above, it could be seen that out of five Performance Audits and 30 Paragraphs, Explanatory Notes to four Performance Audits and 13 Paragraphs in respect of 12 Departments, which were commented upon, were awaited (March 2020).

Discussion of Audit Reports by Committee on Public Undertakings

4.26 The status of discussion of Performance Audits and Compliance Audits/ Paragraphs that appeared in Audit Report (PSUs) by Committee on Public Undertakings (CoPU) as of March 2020 is shown in **Table 4.20:**

Table 4.20: Performance Audits/ Paragraphs that appeared in Audit Reports vis-à-vis discussed as of March 2020

Period of Audit Report	Number of Performance Audits/ Paragraphs			
	Appeared in Audit Report		Discussed	
	PAs	Paragraphs	PAs	Paragraphs
2014-15	1	9	1	9
2015-16	2	11	0	2
2016-17	2	10	0	1
Total	5	30	1	12

Compliance to Reports of Committee on Public Undertakings

4.27 Action Taken Notes (ATNs) to 138 recommendations in 25 Reports of the CoPU presented to the State Legislature between December 2014 and November 2019 have not been received (March 2020) as indicated in **Table 4.21:**

Table 4.21: Compliance to CoPU Reports

Year of the CoPU Report	Total number of CoPU Reports	Total number of recommendations in the CoPU Reports	No. of recommendations where ATNs not received
2014-16	1	3	3
2016-19	12	61	53
2019-21	12	82	82
Total	25	146	138

These Reports of CoPU contained recommendations in respect of Paragraphs pertaining to nine Departments, which appeared in the Reports of CAG of India for the years 2002-03 to 2014-15. The pace of receipt of ATNs from GoK to CoPU was not encouraging.

It is recommended that the Government may ensure:

- (a) sending of replies/ Explanatory Notes to Paragraphs/ Performance Audits and ATNs on the recommendations of CoPU as per the prescribed time schedule; and
- (b) revamping of the system of response by GoK to audit observations.