Regional Training Institute

Centre of excellence in 'Corporate Governance and Finance'
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(Indian Audit and Accounts Department)

Audit of Corporate Finance

Case Study-1

Management of Surplus Cash by Central Public Sector Enterprises

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Management of Surplus Cash by Central Public Sector Enterprises (CPSEs)

(Chapter 7 of Union Government (Commercial) Report No. 2 of 2013)

Objective

The case study intends to familiarize readers with the guidelines of Department of Public Enterprises (DPE) regarding Cash Management by Public Sector Enterprises that can be useful in the examination of compliance in this area in the audit of PSEs.

Cash Management - Introduction

Cash Management is central to the Corporate Finance practices and activities in any business or commercial venture. An effective cash management system would balance the need to have adequate resources of cash and cash equivalents and also the need to channelize surplus cash into income yielding investments to make the most of the opportunities for investment available. To put it differently effective cash managing involves minimizing liquidity risks as well as opportunity costs. It goes without saying that cash is the lifeline of any business or commercial activity. Apart from concentrating on the core business processes that generate cash and cash equivalents, an organisation needs to make the most of the cash resources available lest it misses out on investment opportunities that may have an effect on its bottom-line.

The pre-eminence of this concept in the case of Central Public Sector Enterprises (CPSEs) can never be over-emphasized as the main stakeholder of these enterprises is the Government of India that represents the public exchequer. The Comptroller & Auditor General of India has come out with a separate chapter in the recent audit report (Chapter 7 of Union Government (Commercial) Report No. 2 of 2013) on Management of Surplus Cash by CPSEs with a view to examining whether the CPSEs have been distributing dividends adequately and whether they have plans to ensure effective utilization of their cash besides ascertaining whether the CPSEs have an investment policy for surplus cash and if so whether it appropriately addresses the issues of safety, liquidity and profitability and also commenting on the cognizance taken by the Board of Directors and the Ministry of huge cash reserves and actions initiated thereon.

The touchstones that the performance of the CPSEs was evaluated against basically emanated from the guidelines issued by the Department of Public Enterprises under the Ministry of Heavy Industries and Public Enterprises. These guidelines would thus form the learning points from this case study and have been mapped to the findings of the audit Report.

Key Learning Points

Para No.	Theme	Audit Finding	Learning Points (DPE Guidelines)
7.2.1	Dividend Payment	DPE guidelines on payment of dividend stated that all profit making CPSEs should pay a dividend of 20 percent of Profits after Tax (PAT) or equity whichever is higher. In case of Oil and infrastructure companies the dividend payout requirement was 30 percent of Profits After Tax (PAT) or 20 percent of equity, whichever is higher. This created an anomalous situation when PAT is less than 20 or 30 percent of equity as it happened in the case of Narmada Hydro-electric Development Corporation NHDC Limited in 2010-11	All profit making CPSEs declare a minimum dividend on equity of 20 *per cent* or a minimum dividend payout of 20 *per cent* post tax profits, whichever is higher. The minimum dividend payout in respect of Oil, Petroleum, Chemical and other infrastructure sectors shall be 30 *per cent* of post tax profits. Dividend Payout is expressed as a percentage of Dividend paid out of (PAT) (DPE Guidelines issued in October 2004)
7.2.2	Issue of Bonus Shares	Though 10 out of 15 CPSEs did issue bonus shares, their reserves were still in excess of 3 times their paid up capital. These CPSEs could have issued bonus shares more frequently and in larger ratio to comply with the DPE guidelines.	• The CPSEs which are carrying substantial reserves in comparison to their paid-up capital shall issue bonus shares to capitalize the reserves • CPSEs should also consider the need for increasing their authorized capital to accommodate the release of bonus shares • Each Administrative Ministry may direct the enterprises under their control that CPSEs with reserves in excess of three times their paid up capital should immediately consider the scope of issuing bonus shares (DPE Guidelines of November 1995 and November 2011)

Other learning points

The other learning points from this case study where audit found the CPSEs to be largely compliant with the DPE guidelines or were in the process of compliance are given below:

Buy back of Shares (DPE Guidelines issued in March 2012)

CPSEs are encouraged to buy back their shares to provide sustained investor interest in the company and protect their market capitalization in the long term interest of the Company's ability to raise funds from the market

CPSEs are required to amend their Articles of Association (AoA) to provide for buy back of shares if such provision does not exist in their articles.

Repayment of loans (DPE Guidelines issued in December 1994)

Funds should not be invested by the CPSEs at a particular rate of interest for a particular period of time while the CPSE is resorting to borrowing at an equal or higher rate of interest for its requirements for the same period of time.

Investment Policy (DPE guidelines issued in June 1994 and December 1994)

- Investment policies should be clear-cut and transparent
- Investments should be made only in instruments with maximum safety
- Surplus availability may be worked out by preparation of best estimates of availability of funds by the CPSEs and the Administrative Ministry may be kept informed and
- Board of Directors of all non-financial CPSEs should ensure that decisions regarding investments of funds are transparent and taken only by delegated authority and such proper authority is monitored by the Board

Composition of Investments (DPE instructions issued in April 2008)

At least 60 *per cent* of funds under the control of Ministries/Department/other agencies/entities are to be placed with Public Sector Banks (PSBs)

Investments in Inter-Corporate Loans (DPE guidelines issued in December 1994 and clarification issued in November 1995)

Inter-Corporate loans are permissible to be lent only to CPSEs which have obtained highest credit rating awarded by one of the established Credit Rating Agencies for borrowings for the corresponding period.

Investments in Treasury Bills and GoI Securites (DPE clarification issued in November 1995)

CPSEs can also select treasury bills and GoI securities up to three years maturity period for the investment of surplus funds.

Conclusion

Audit of Cash Management of PSUs would thus require thorough knowledge of the guidelines issued by the Department of Public Enterprises and also understanding of the concepts of working capital, Dividend Payout, buy back of shares, rules regarding issue of bonus shares, opportunity costs etc.

Encl:

1. Chapter 7 of the C& AG's Audit Report No. 2 of 2013
2. DPE O.M. No.DPE/4/3/92-Fin. dated 27th June, 1994
3. DPE O.M. No. 15(10)/2004-DPE(GM) dated 18th October, 2004
4. DPE O.M. No.4/6/94-Fin. dated 14th December, 1994
5. DPE O.M. No. DPE 4(6)/94-Fin dated 1st November, 1995
6. DPE O.M. No. DPE/12(6)/95-Fin. dated 10th November, 1995
7. DPE OM . No. DPE/11(47)/2006-Fin Dated: 11th April, 2008
8. DPE/14(24)/2011 dated 26 March 2012

List of Key Documents

CHAPTER 7

Management of Surplus Cash by CPSE

7.1 Introduction

Central Public Sector Enterprises (CPSEs) occupy an important place in the national economy. In the background of the economic reforms in the country, post 1991, the CPSEs in India recorded sustained growth in business along with significant improvement in performance. As on 31 March 2012, there were 481 CPSEs (338 Government Companies; 137 Deemed Government Companies; and 6 Statutory Corporations). The key financials for the year 2011-12 in respect of 399 active CPSEs* are:

(₹ in crore)

Paid-up Capital	Reserves & Surplus	Turnover	PBT	PAT†
2,70,095	8,09,797	18,51,956	1,67,604	1,09,274

Note: PBT: Profit Before Tax; PAT: Profit After Tax

The CPSEs contribution to GDP of ₹ 2,71,448 crore (PBT: ₹ 1,67,604 crore *plus* Manpower Cost: ₹ 1,03,844 crore) was 3.07 *per cent* of total GDP of ₹ 88,55,797 crore in 2011-12. Thus, the CPSEs are a significant force in the national economy.

Dividend is the return the Government gets from its equity in CPSEs and is an important source of revenue for it. For the year 2011-12, 150 CPSEs declared dividend of ₹ 43,388 crore of which the Government of India's share stood at ₹ 27,631 crore.

The trend of cash balances during 2007-08 and 2010-11 in the CPSEs is as follows:

(₹ in crore)

Year	No. of CPSEs	No. of active CPSEs	Cash Balance of active CPSEs
2007-08	419	366	2,67,954
2008-09	438	392	2,95,726
2009-10	451	404	3,04,630
2010-11	**466**	**406**	**3,11,371**

7.1.1 Rationale for selection of topic

Increasing quantum of cash balances with the CPSEs creates an impression that the CPSEs are not giving back enough (in the form of dividends) to their shareholders (mainly the Government of India (GoI)) and they do not have enough plans/ opportunities for effective utilization of this cash. While these CPSEs park their cash in bank deposits, their principal shareholder, the GoI, borrows funds from the market. In this background, the need was felt to examine whether the CPSEs have been distributing dividends adequately and whether they have plans to ensure effective utilization of their cash.

* *Accounts are in arrear and accounts not due for the F.Y. 2011-12 in respect of 82 CPSEs*

† *The Profit after Tax (PAT) indicated is net of losses suffered by CPSEs.*

7.1.2 Audit objectives

The main objectives of this Audit were to:

- Ascertain whether the CPSEs have a Dividend Policy in place which is in compliance with Department of Public Enterprises (DPE) guidelines and they reward the investors adequately;
- Ascertain whether the CPSEs have made plans for utilization of surplus cash;
- Ascertain whether the CPSEs have an investment policy for surplus cash and if so, whether it appropriately addresses the issues of safety, liquidity and profitability; and
- To comment on the cognizance taken by the Board of Directors and the Ministry of huge cash reserves and actions initiated thereon.

7.1.3 Audit criteria and methodology of audit

The audit criteria adopted for assessing the achievement of the audit objectives were:

- DPE/ Ministry guidelines/ instructions;
- Cash Utilization Plans; and
- Decisions of the CPSEs.

The methodology adopted for attaining the audit objectives with reference to audit criteria includes examination of relevant records, their analyses and interaction with the CPSEs personnel.

7.1.4 Scope of audit

The audit covered a period of five years from 1 April 2007 to 31 March 2012. A sample of 31 CPSEs with an aggregate cash balance of ₹ 1,77,862 crore was selected. The details of sample selection are given below:

Particulars	No. of CPSEs	Cash and Bank Balance (as of 31 March 2011)
Total cash and bank balance	406	₹ 3,11,371 crore
Less: Cash and bank balance of Defence CPSEs[†]	11	₹ 36,312 crore
Cash and bank balance of remaining CPSEs	395	₹ 2,75,059 crore (100%)
Out of the above 395 CPSEs, CPSEs with Cash and bank balance above ₹ 1,000 crore	47	
Out of 47 CPSEs, CPSEs with net cash balance[*] above ₹ 1,000 crore, i.e., cash balance *minus* advances from clients	40	
Sample after excluding the CPSEs belonging to Finance/ Insurance[¥]	34	₹ 1,88,185 crore
Add: Profit making CPSEs with reserves and surplus, thrice their paid-up capital, and in excess of ₹ 500 crore (other than Insurance and Finance CPSEs)	4	₹ 2,879 crore
Total	**38**	**₹ 1,90,954 crore (69%)**
Selected Sample	**31**	**₹ 1,77,862 crore (65%)**

[*] *Net cash balance means Cash in hand plus Cash at Bank less Advances from Clients.*

Defence CPSEs have been excluded from the scope of the review as the huge cash balances are out of the advances received from Army/ Clients against various orders. As such, it is not surplus cash generated from operations.

CPSEs belonging to Finance and Insurance sector have been excluded as these companies require huge cash balances for day to day operations and for unforeseen contingencies.

Of the 38 CPSEs, the following seven CPSEs have been excluded due to the following reasons:

- Delhi Metro Rail Corporation Limited and Chennai Metro Rail Corporation Limited have been excluded as these companies are either in the initial years of their operation or in project execution stage.
- Power Finance Corporation Limited and Rural Electrification Corporation Limited are in the nature of financing companies dedicated for financing power sector and committed to the integrated development of the power and associated sectors. Their nature of operations requires them to maintain and rotate huge cash balances.
- Handicrafts and Handloom Exports Corporation of India Limited is one of the nominated agencies under the Foreign Trade Policy for import of bullion and the cash of the Company mainly represents margin money received from customers against external commercial borrowings for import of precious metal under bullion trade.
- National Highways Authority of India is responsible for development, maintenance and management of national highways. The Authority is dependent upon government grants, borrowings and external aid for implementation of the projects and as such, the cash balance represented in the Balance Sheet is not out of surplus holdings.
- India Trade Promotion Organization is registered under Sec. 25 of Companies Act, 1956 and prohibited from paying any dividend or bonus to its members and intends to apply its profits, if any, or other income in promoting its objectives. As the Company is a non-profit making organization, it is left outside the purview of this review.

The balance 31 CPSEs constitute our final sample (***Appendix XIV***) for audit scrutiny, covering a period of five years from 2007-08 to 2011-12. The key financials of these 31 CPSEs as of **31 March 2012** are given below:

(₹ in crore)

Paid-up Capital	Reserves & Surplus	Turnover	PBT	PAT	Cash & Bank balance
78,064	4,28,548	4,99,875	1,26,037	89,793	1,75,332

7.1.5 Acknowledgement

Audit acknowledges the cooperation and assistance extended by the Managements of different CPSEs at various stages of this Audit.

7.2 Dividend* Payment and Bonus Shares

The Department of Public Enterprise (DPE) is responsible for providing policy and overall guidance to the CPSEs. The guidelines issued by the DPE are advisory in nature and the Board of

* *Dividend is the sum paid regularly (typically annually) by a company to its shareholders out of its profits (or reserves).*

Directors of the CPSEs has the discretion not to adopt these guidelines for reasons to be recorded in writing. DPE had issued guidelines[*] in October 2004 according to which it should be ensured that 'all profit making CPSEs declare a minimum dividend on equity of 20 *per cent* or a minimum dividend payout of 20 *per cent* of post tax profits, whichever is higher. The minimum dividend payout in respect of Oil, Petroleum, Chemical and other Infrastructure Sectors CPSEs shall be 30 *per cent* of post tax profits'.

7.2.1 Dividend payment

None of the CPSEs selected as sample had a specific dividend policy of their own. They are to follow the DPE guidelines framed in this regard[†]. Five CPSEs, all of them being subsidiaries of Coal India Limited, were directed by Coal India to pay a minimum dividend of 60 *per cent* on PAT.

The details of dividend paid by 30 CPSEs for the period from 1 April 2007 to 31 March 2012 are given below:

(₹ in crore)

Year	Equity*	PAT*	Dividend actually paid	Dividend Payout Ratio (DPR)
	(a)	(b)	(c)	(c)/ (b) *100
2007-08	66,627	61,962	21,948	35
2008-09	67,521	62,601	21,329	34
2009-10	68,805	66,488	24,096	36
2010-11	72,130	76,134	26,537	35
2011-12	72,160	89793	34,500	38

Note: DPR indicates the percentage of PAT paid as dividend.

*The details of National Textiles Corporation have been excluded as the Company is having accumulated losses and as such is not liable to pay dividend.

We observed that the Coal India Limited (CIL), which is into mining and derives its income from sale of natural resource (coal), has been consistently paying dividend to GoI/ shareholders ranging between 47 to 81 *per cent* of PAT. Further, it has also directed all its subsidiaries to pay dividend at the rate of 60 *per cent* of its PAT from the year 2007-08. All its subsidiaries, except Central Coalfields Limited, paid 60 *per cent* of PAT as dividend. However, another CPSE, NMDC Limited (NMDC) which is also into mining and derives its income from sale of natural resource (iron ore), paid dividend of 20 to 25 *per cent* of PAT only. The table below indicates the PAT and dividend paid by Coal India Limited and NMDC Limited during the five years ended March 2012.

(₹ in crore)

CPSE	2007-08			2008-09			2009-10			2010-11			2011-12		
	PAT	D.P.	%	PAT	D.P.	%	PAT	D.P.	%	PAT	D.P.	%	PAT	D.P.	%
CIL	2,454	1,995	81	3,295	1,705	52	3,780	2,210	58	4,696	2,209	47	8,065	6,245	77
NMDC	3,251	652	20	4,372	876	20	3,447	694	20	6,499	1,308	20	7,265	1,784	25

D.P. – Dividend paid

Though these 30 CPSEs in aggregate, show a healthy dividend payout ratio, individually, seven CPSEs did not pay even the minimum dividend (30 *per cent* of PAT for oil/ infrastructure companies and 20 *per cent* for others) prescribed by DPE. We observed that:

[*] *DPE O.M. No. 15(10)/ 2004 – DPE(GM) dated 18 October 2004*

[†] *Except for Nuclear Power Corporation of India Limited (NPCIL) which has been exempted by GoI from applicability of DPE guidelines. Ministry of Finance (MoF) directed (March 2006) the Department of Atomic Energy to pay dividend at the rate of 30 per cent of PAT in case of NPCIL.*

GAIL (India) Limited defaulted in payment of minimum dividend in 2010-11 citing Company's huge capex plan to invest in ongoing projects. The shortfall in payment of dividend was ₹ 117.30 crore.

NHDC Limited defaulted in paying minimum dividend during the years 2008-09 to 2011-12. The shortfall in payment of dividend works out to ₹ 275.56 crore during 2008-12.

Orissa Minerals Development Company Limited consistently paid dividend at 15 *per cent* of PAT instead of 20 *per cent* during the five years ended March 2012 resulting in short payment of dividend to the extent of ₹ 20.79 crore for five years.

ONGC Videsh Limited, a wholly owned subsidiary of ONGC, has not paid any dividend and has been retaining profits for new/ ongoing projects. The shortfall in dividend accounted to ₹ 2,244.53 crore during 2007-12. The Company has capital works to the extent of ₹ 6,223 crore in progress.

Rashtriya Ispat Nigam Limited did not pay dividend during 2007-08 and has paid dividend below the minimum limits in the remaining years. This short payment amounted to ₹ 742.77 crore. Management stated (August 2012) that the dividend was paid less keeping in view the requirement of funds for its long term growth plan and also for modernization and revamping of its existing Plant and Machinery.

Steel Authority of India Limited defaulted in paying minimum dividend for the year 2008-09 amounting to ₹ 160 crore. However, it followed the DPE guidelines for the subsequent years.

Mangalore Refinery and Petrochemicals Limited, though paid dividend, the pay-out ratio was less than 30 *per cent* stipulated in the DPE guidelines resulting in shortfall of dividend paid to the extent of ₹ 682.13 crore. Management stated that the dividend recommendation was done considering the funds required for the ensuing projects.

Had all the seven CPSEs paid the dividend as stipulated in DPE guidelines, the Government and other shareholders would have received additional dividend payment of ₹ 4243.08 crore during 2007-12.

The DPE guidelines referred to in Para 7.2 prescribe that all profit making CPSEs should pay dividend amounting to (a) 20 *per cent* (30 *per cent* in case of oil/ infrastructure companies) of PAT; <u>OR</u> (b) 20 *per cent* of equity <u>WHICHEVER IS HIGHER</u>. As the dividend is to be paid out of profits earned by the CPSE, it is possible to comply with the provision (a) above, i.e., paying a certain percentage of profit as dividend. However, it is not always possible to comply part (b) above as explained below.

It is possible that the PAT may be less than an amount equal to 20 *per cent* of equity. If one has to pay dividend "whichever is higher of 20% of PAT and equity", as prescribed in DPE guidelines, the company may have to pay more than its PAT as its 20% equity is more than PAT. For example, NHDC Limited had equity of ₹ 1962.58 crore and PAT of ₹ 304.13 crore in 2010-11. As per the DPE guidelines, the dividend payment requirement works out to ₹ 91.24 crore (30 *per cent* of PAT) under part (a) and ₹ 392.52 crore (20 *per cent* of equity) under part (b). The guidelines prescribe that the dividend to be paid should be higher of them. Thus, if NHDC is to comply with the DPE guidelines, it would have to pay ₹ 392.52 crore as dividend. However, it earned PAT of only ₹ 304.13 crore. Since the dividend is paid out of profit, NHDC cannot pay more than ₹ 304.13 crore. Thus, it cannot pay the dividend of ₹ 392.53 crore as required under DPE guidelines.

Ministry in its reply(March 2013) stated that guidelines on declaration of dividend by CPSEs have been issued by the Department of Expenditure vide its OM dated 24.09.2004 which were forwarded to all CPSEs for compliance. Further, it was stated by ministry that under section 205 of the Companies Act, dividend would be paid out of the profit of the company for the financial year, or out of the profits for the previous financial years or out of both.

The reply of ministry is not acceptable as it may also not be feasible for a CPSE to pay dividend throughout the years out of the profits from the previous financial years in order to comply with "whichever is higher" clause. Therefore, it is not always possible to comply with the second part of the DPE guidelines, i.e., payment of dividend equal to 20 *per cent* of equity.

In view of the above, the dividend payment guideline of DPE is deficient to that extent and needs to be modified. Further, DPE requires oil/ infrastructure sector companies to pay minimum 30 *per cent* of PAT as dividend. However, the same is kept at 20 *per cent* of PAT for other companies. Going by the profits and payout of 2011-12, such a 30 *per cent* prescription of minimum dividend payout for all companies would have increased the dividend of shareholders by further ₹ 869 crore.

7.2.2 Issue of bonus shares

DPE vide its guidelines[*] issued in November 1995 and reiterated in November 2011[†] laid down procedure for issue of bonus shares by CPSEs. As per these guidelines:

- The CPSEs which are carrying substantial reserves in comparison to their paid-up capital shall issue bonus shares to capitalize the reserves;
- CPSEs should also consider the need for increasing their authorized capital to accommodate the release of bonus shares; and
- Each Administrative Ministry may direct the enterprises under their control that CPSEs with reserves in excess of three times their paid-up capital should immediately consider the scope for issuing bonus shares.

With reference to issue of bonus shares, we observed that eight out of 31 CPSEs were not required to issue bonus shares as their paid-up capital was less than three times their reserves. In case of other eight CPSEs which were subsidiaries of other CPSEs, there would be no impact on issue of bonus shares to the holding company. The balance 15 CPSEs were required to issue bonus shares as their paid-up capital to reserves ratio was more than 1:3. Further, it was also noticed that, of the 15 CPSEs, 10 CPSEs have already issued bonus shares during 2007-12 and still their ratio was more as indicated below:

(₹ in crore)

Sr. no.	CPSE	Paid up Capital (Mar' 2012)	Reserves (Mar' 2012)	No. of times Reserves	Bonus shares issue during 2007-12
1.	Antrix Corporation Limited	1.00	779.90	780	Not issued
2.	GAIL (India) Limited	1268.48	20356.00	16	In 2008-09 in ratio of 2:1.
3.	MOIL Limited	168.00	2273.31	14	In the ratio of 0.82706:1 in October 2006 and 5:1 during December 2009.
4.	MMTC Limited	100.00	1321.40	13	In the ratio of 1:1 were issued in August 2010.

[*] *DPE O.M. No. DPE/ 12(6)/ 95 – Fin. dated 10 November 1995*

[†] *DPE O.M. No. DPE/ 13(21)/ 1 – Fin. dated 25 November 2011*

5.	National Aluminium Company Limited (NALCO)	1288.62	10426.46	8	In the ratio of 1:1 in March 2011.
6.	Neyveli Lignite Corporation Limited	1677.71	10362.18	6	Not issued
7.	NMDC Limited	396.47	24009.89	61	Company allotted 2 bonus shares for every share held in May 2008.
8.	NTPC Limited	8245.46	65045.71	8	Not issued
9.	Oil India Limited	240.45	17499.09	73	Company allotted 3 bonus shares for every 2 shares held in April 2012.
10.	Oil and Natural Gas Corporation Limited (ONGC)	4277.80	108659.95	25	In the ratio of 1:2 in November 2006 and in the ratio of 1:1 in February 2011.
11.	Power Grid Corporation of India Limited (PGCIL)	4629.73	18,858.05	4	Not issued
12.	Steel Authority of India Limited	4131.00	35,681.00	9	Not issued
13.	The Shipping Corporation of India Limited (SCI)	465.80	6,268.52	13	In the ratio of 1:2 in November 2008.
14.	IRCON International Limited	9.90	1,733.04	175	In 1:1 ratio in October 2012.
15.	Container Corporation of India Limited	129.98	5,476.45	42	In the ratio of 1:1 in 2008-09.

Though 10 out of 15 CPSEs did issue bonus shares during 2007-12, their reserves are still in excess of 3 times their paid up capital. Thus, these CPSEs, in order to comply with the DPE guidelines, should have issued bonus shares more frequently and in larger ratio. Regarding issue of bonus shares, the management of CPSEs replied the following:

- GAIL (India) Limited stated that the financial consultant (February 2012) opined that the time was not conducive to issue bonus shares;
- NALCO attributed the non-issue of bonus shares to global liquidity crisis of 2008 and consequent downturn in prices and profits;
- NMDC stated that it issued bonus shares in 2008 on receipt of directives from the Ministry of Steel;
- NTPC considered that the proposal of bonus issue may not be feasible given the capacity expansion plans of the company;
- ONGC issued bonus shares in 2011 on directions of Cabinet Committee on Economic Affairs and attributed a lack of directives from the Ministry regarding scope and proportion of reserves to be capitalized as the reason for non-compliance with DPE guidelines;
- PGCIL attributed non-issue to massive requirements of equity funds in XII Plan and need to raise funds through equity in near future;
- In case of Steel Authority of India Limited, Ministry of Steel advised (December 2011) the Company to examine and approve the proposal regarding issue of bonus shares as per guidelines of DPE but the same was not considered in the Board in view of the required fund outflow for meeting the expenditure on ongoing modernization/ expansion plan.
- SCI attributed the non-issue of bonus shares subsequent to 2008 to recession in the shipping industry.

Ministry in its reply(March 2013) stated that a decision regarding issue of the bonus shares is taken by the Board of Directors of the concerned CPSEs after considering various factors including likely increase in capital base, ability to service the enlarged equity etc. as per DPE guidelines dated 10.11.1995. DPE has further reiterated these guidelines vide its O.M. dated 25.11.2011. Compliance with DPE's guidelines on the subject is one of the parameters for evaluating the performance of the CPSE under the MoU guidelines for 2012-13.

The reply of ministry is not acceptable as the fact remains the same that 15 CPSEs have not complied with DPE guidelines on issued of bonus shares contained in DPE OM dated 25.11.2011.

We further observed that:

- ANTRIX Corporation Limited has a paid up capital of ₹ 1 crore whereas its reserves were ₹ 779.90 crore as of March 2012. Yet, it had not issued bonus shares. Management stated (August 2012) that the Company had corresponded with the Government on the matter relating to issue of bonus shares and it was verbally informed that since the company was operating in a strategically sensitive area and number of its projects were implemented using the facilities of ISRO, no decision was taken on the issue of bonus shares as it could have a bearing on the national security. However, no written communication was received from GoI. It is not clear as to how GoI getting bonus shares would have a bearing on national security.
- In case of Neyveli Lignite Corporation, Ministry of Coal included issue of bonus shares as one of the parameters in the MoU for the year 2012-13.
- In case of NTPC Limited, issue of bonus shares was included as part of the performance evaluation under Memorandum of Understanding (MoU) with Ministry for the year 2012-13.
- In case of Container Corporation of India Limited, Ministry issued directions in November 2012 to the Company for issue of bonus shares.

Antrix Corporation Limited (Department of Space), GAIL (India) Limited (Ministry of Petroleum & Natural Gas), Power Grid Corporation of India Limited (Ministry of Power), MMTC Limited (Ministry of Commerce) and National Aluminium Company Limited (Ministry of Coal) did not receive any instructions on issue of bonus shares from their Administrative Ministries during 2007-12.

7.2.3 Buy back of shares

DPE issued guidelines[*] dated 26 March 2012 for buy back of shares. As per these guidelines:

- CPSEs are encouraged to buy back their shares to provide sustained investor interest in the Company and protect their market capitalization in the long term interest of the Company's ability to raise funds from the market; and
- CPSEs will amend their Articles of Association (AoA) to provide for buy back of shares, if such provision does not exist in their articles.

In this regard, we observed that:

These provisions do not apply to eight CPSEs[*] which are subsidiaries of other CPSEs. These provisions would not make much difference to five CPSEs i.e. NHDC Limited; Antrix Corporation

[*] *DPE O.M. No. DPE/ 14(24)/ 2011 – Fin. dated 26 March 2012*

Limited; Rashtriya Ispat Nigam Limited, National Textile Corporation Limited; and Nuclear Power Corporation of India Limited wherein Government of India/ State Governments are holding 100 *per cent* equity.

These provisions are more relevant to 18 CPSEs (***Appendix XV***). Articles of Association (AoA) provides for buy back of shares in case of 16 CPSEs and in case of two CPSEs (SJVN Limited and KIOCL Limited), Managements are in the process of amending AoA to provide for buy back of shares.

7.3 Plans for utilization of cash by CPSEs

The CPSEs should aim at having an investment policy resulting in optimal return. CPSEs have undertaken expansion and diversification projects which require funding. The overall picture as at March 2012 is presented below:

(₹in crore)

Sr.	Name of the CPSE	Cash & Bank balance	Projected Plans	Remarks
1.	NMDC Limited	20,265.00	30,072.00	Planned projects are proposed to be financed fully from internal sources generated in due course of time.
2. to 7.	Coal India Limited & its five subsidiaries	54692.81	90,330.00	
8.	Container Corporation of India Limited	2762.00	6000.00	
9.	MOIL Limited	2,088.42	3,102.75	
10.	Neyveli Lignite Corporation Limited	3,329.10	40,278.00	Planned projects are proposed to be financed from internal sources generated in due course of time coupled with borrowings/ fresh issue of equity.
11.	Mangalore Refinery and Petrochemicals Limited	2,234.72	6,138.63	
12.	Oil India Limited	10,935.48	19,003.02	
13.	Oil and Natural Gas Corporation Limited	20,099.00	1,63,956.00	
14.	ONGC Videsh Limited	344.73	92,860.00	
15.	National Textiles Corporation Limited	1,680.57	1,053.36†	
16.	GAIL (India) Limited	931.33	29,963.93	
17.	NHDC Limited	1,707.00	2,000.00	
18.	NHPC Limited	6,003.97	29,000.00	
19.	Power Grid Corporation of India Limited	2,336.88	1,02,034.00	
20.	SJVN Limited	1,888.76	10,400.00	
21.	NTPC Limited	16,146.11	2,19,613.00	
22.	Rashtriya Ispat Nigam Limited	2,068.34	11,183.00	
23.	KIOCL Limited	1,464.54	3,080.00	
24.	The Orissa Minerals Development Company Limited	701.00	1,178.00	
25.	Steel Authority of India Limited	6,416.00	45,000.00	
26.	National Aluminium Company	4,168.35	14,233.00	

* *Eight CPSEs are: South Eastern Coalfields Limited; Northern Coalfields Limited; Western Coalfields Limited; Central Coalfields Limited; Mahanadi Coalfields Limited; Mangalore Refinery & Petrochemicals Limited; ONGC Videsh Limited; and The Orissa Minerals Development Company Limited.*

† *Plan expenditure for 2012-13 only.*

	Limited			
27.	Nuclear Power Corporation of India Limited	5,160.55	5,460.00[12]	
28.	IRCON International Limited	2623.23	2,954	
29.	ANTRIX Corporation Limited	989.04		No capital outlay plans were prepared. No projection has been made either on internal generation of cash or investment of cash in projects.
30.	MMTC Limited	2,853.12		
31.	The Shipping Corporation of India Limited	1,442.41		
	Total	**175,332.46**	**9,28,892.69**	

As can be seen from the above, except the three CPSEs (Sr# 29, 30 & 31 in the above table), all the other CPSEs have defined and adequate capital outlay plans for the future depicting the utilization of cash balances.

The details of plans for utilization of the surplus cash relating to the 28 CPSEs are given in (***Appendix XVI***). Certain observations have been made in respect of remaining three CPSEs:

- Board of Directors of ANTRIX considered (June 2009) other investment opportunities which were directly in line with the main objective of the Company such as acquiring satellites, investing in space crafts and development of solar cells etc. However, no action has been initiated by the Company and it is continuing to invest in fixed deposits and mutual funds. Further, out of ₹ 989 crore cash and bank balance of ANTRIX as of March 2012, ₹ 462 crore were relating to unutilized advances received from Ministry of Defence.
- MMTC Limited has no long term plans approved by the Board for utilization of surplus cash. As the Company did not prepare estimates regarding surplus cash, the capital outlay plan during five years under review was also not prepared. As on 31 March 2012, the Company had a cash and bank balance of ₹ 2,853.12 crore. Since, there had been no mechanism of 'Capital Outlay Plan' no projection could be made either on internal generation of cash or investment of cash in projects.
- The capital outlay projected for The Shipping Corporation of India Limited during 2010-20, as per the Maritime Agenda of the Ministry of Shipping was ₹ 26,716 crore. The Board of Shipping Corporation decided (February 2012) not to pursue any new acquisitions during the year 2012-13 due to prevailing downturn experienced by the shipping industry and the impact of the same on SCI's revenue generation.

7.3.1 Repayment of loans

DPE vide its guidelines[*] dated 14 December 1994 advised the CPSEs that "funds should not be invested by the PSE at a particular rate of interest for a particular period of time while the PSE is resorting to borrowing at an equal or higher rate of interest for its requirements for the same period of time".

Of the 31 CPSEs, 12 CPSEs had substantial long term borrowings (in excess of ₹ 1,500 crore) as of March 2012. Of the 12 CPSEs, two CPSEs Gail (India) Limited and ONGC Videsh Limited) resorted

[*] *DPE O.M. No. 4/ 6/ 94 – Fin. dated 14 December 1994*

to long term borrowings due to low cash holdings. Of the balance ten CPSEs, six CPSEs[*] (mainly relating to power sector) have resorted to borrowings as they have to fund the projects in the debt-equity ratio of 70:30 and the tariff is regulated on cost plus basis. In case surplus funds available with the companies are utilized for repayment of loan, the same shall have dual impact on profitability of the companies on account of reduction in tariff, and loss of additional income as interest from surplus fund deployment. The rate of interest on borrowings relating to SJVN Limited ranged from 2.76 to 4.01 *per cent* in comparison to the domestic market interest rate on surplus funds which ranged between 6.75 to 11.95 *per cent*. NHPC Limited and Power Grid Corporation of India Limited prepaid their loans (₹ 384.29 crore by NHPC and ₹ 49.31 crore by POWERGRID) to save additional interest outgo.

In respect of the balance four CPSEs, the cash & bank balance and long term borrowings as on 31 March 2012 are as follows:

(₹ in crore)

Sr.	Name of the CPSE	Cash & Bank balance	Long Term Borrowings	Remarks
1.	Mangalore Refinery and Petrochemicals Limited	2,234.72	3,891.91	The interest rate on the funds invested in banks during 2011-12 ranged between 7.48 to 13.21 *per cent*. However, the major portion of borrowings is from ONGC, another CPSE, which is the majority shareholder in MRPL (71.62 *per cent*).
2.	Steel Authority of India Limited	6,416.00	11,586.66	SAIL made short term fixed deposits of ₹89.50 crore during 2007-08 which were increased to ₹ 2,903.56 crore up to 2011-12, against which the Company obtained ₹ 76.05 crore to ₹ 2,646.00 crore short term loans during the period at an average higher rate of interest ranging between 0.48 to 1.06 *per cent*.
3.	The Shipping Corporation of India Limited	1,442.41	5,525.78	The Company follows the debt equity ratio of 80:20. The rate of interest paid by the Company ranged from 0.22 to 2.80 per cent for USD loan and 6.25 to 10.75 per cent for Rupee loan whereas the interest earned ranged from 1 to 13.60 per cent. However, borrowings were for long term periods for at least 10 years whereas investment of surplus funds was for 18 to 359 days. Hence, interest paid and earned cannot be compared.
4.	Nuclear Power Corporation of India Limited	5,160.55	14,453.89	In order to fund the foreign technology and huge capital required for setting up Reactor projects, the Company has relied on funding from Indian banks and Russia the interest of which was based on floating rates offered after adjusting for base price fixed.

To conclude, CPSEs generally have plans in place for utilization of surplus cash.

7.4. Investment Policy

DPE vide its guidelines dated 27 June 1994[†] and 14 December 1994 suggested that:

- Investment policies should be clear-cut and transparent;
- Investments should be made only in instruments with maximum safety;

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[*] *Neyveli Lignite Corporation Limited; NTPC Limited; NHDC Limited; NHPC Limited; Power Grid Corporation of India Limited; and SJVN Limited.*

[†] *DPE O.M. No. DPE/ 4/ 3/ 92 – Fin. dated 27 June 1994*

- The surplus availability may be worked out by preparation of best estimates of availability of funds by the CPSEs and the Administrative Ministry may be kept informed; and
- Board of Directors of all non-financial CPSEs should ensure that decisions regarding investments of funds are transparent and taken only by delegated authority, and such proper authority is monitored by the Board.

7.4.1 Existence of a policy

In this regard, we observed that there was no specific investment policy in respect of 9* CPSEs. They follow the DPE guidelines for investment of surplus funds. The investment policy of the other CPSEs generally focuses on (i) Responsibility and Authority; (ii) Criteria for obtaining bank interest card rates; (iii) Procedure for determination of surplus fund and date of investment; (iv) Functions of the Investment Cell; (v) Procedure for recommending Investment Proposal; (vi) Approval for release of payments etc.

7.4.2 Constitution of a sub-committee for investments

According to DPE guidelines dated 27 June 1994, decisions on investments involving investing short term funds up to one year maturity may be delegated up to prescribed limits of investment, to a designated group of Director[s], which should invariably include CMD and Director (Finance)/ Head of Finance internally. Where such delegation is made, the delegation order should spell out the levels of approval and the powers of each official, which should be strictly observed.

However, in case of the following four CPSEs, we observed that the powers were solely vested with Chairman/ Director (Finance) and no sub-committee as required by DPE was constituted.

- MOIL Limited;
- MMTC Limited;
- IRCON International Limited; and
- KIOCL Limited.

7.4.3 Composition of Investments

The composition of investments of 31 CPSEs is as follows:

(₹ in crore)

	Cash	Bank/ FDs	Govt. Bonds etc.	Equity & Mutual Funds	Corporate Deposits	Misc.	Total
Investments as of 31 March 2012	948	1,72,166	12,162	40,076	7,589	747	**2,33,688**
% to Total	0.4	73.7	5.2	17.2	3.2	0.3	**100**

* *SJVN Limited; MOIL Limited; Oil India Limited and Orissa Mineral Development Corporation Limited (up to March 2012); MMTC Limited; The Shipping Corporation of India Limited; KIOCL Limited; NMDC Limited; and Mangalore Refinery & Petrochemicals Limited.*

DPE vide its instructions issued dated 11 April 2008* in respect of investment of surplus funds clarified that "at least to the extent of 60 *per cent* of funds under the control of Ministries/ Departments/ other agencies/ entities etc. be placed with Public Sector Banks (PSBs)".

We observed that:

- All the CPSEs had invested at least 60 *per cent* of their funds in Public Sector banks.
- ANTRIX kept some balances in Current Accounts maintained with State Bank of India and Canara Bank during the years 2007-12 without converting the same into flexi deposits which could have earned interest, resulting in interest loss of ₹ 2.66 crore. Further, the Company kept idle funds over and above the limits, USD 1 million fixed in December 2001, in the EURO/ DOLLAR accounts†. Management replied (September 2012) that the company, pending review of the Board of the limits, converted the forex balances into INR only when there was no immediate requirement of funds or the rate was reasonable. The fact remains that the Company has been holding cash in excess of the limits specified.
- North Eastern Coalfields (NEC), Margherita, Assam, a Unit of Coal India Limited (CIL), has transactions with six banks. NEC started auto sweep arrangement with only Punjab National Bank (PNB) from the very beginning but with other banks, with effect from December 2010. CIL did not earn any interest on surplus placed with banks other than PNB till December 2010 and in case of PNB, the interest rate was limited to Auto Sweep rate which was lower than the interest on short term deposits. The total loss on this account to CIL is estimated as ₹ 9.96 crore from April 2009 to March 2012. The ministry in its reply(March 2013) stated that the matter has been referred to the Ministry of Coal of its comments/clarification.

7.4.4 Preparation of estimates and calculation of working capital requirements

The estimates for working out the surplus at each instance of investment have to be worked out before making an investment decision to avoid circumstances leading to pre mature withdrawal of deposits or going for cash credits at higher rates.

In respect of the following three CPSEs, we observed that due procedure in taking investment decisions was not followed:

- ANTRIX Corporation Limited did not have the system of preparing the working capital requirement.
- At MMTC Limited, the surplus cash at each instance of investment was not calculated separately.
- While making investment decisions in KIOCL Limited, the requirement of working capital was not worked out and kept on record.

7.4.5 Safe custody of investments and physical verification

The investments have to be kept under safe custody and should be periodically verified for title of ownership and physical presence to avoid frauds. The documents to be verified include the (i) Fixed Deposit/ Term Deposit receipts; (ii) Account Statements of Banks indicating the electronic holding of investments etc. There is arrangement for safe custody of investments in case of all CPSEs.

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* *DPE O.M. No. DPE/ 11(47)/ 2006 – Fin. dated 11 April 2008*

† *ANTRIX had kept the amount in Exchange Earners' Foreign Currency Account which is a zero interest bearing account.*

There exists a system of periodic physical verification of title of ownership in case of 28 CPSEs except for MOIL Limited, National Textiles Corporation Limited and ONGC Videsh Limited. In case of ONGC Videsh Limited, all the investments are made and held by the holding company, ONGC. However, in case of MOIL Limited and National Textiles Corporation Limited, there was no record of physical verification of titles of investments. Management of MOIL has assured that periodical physical verification of investments will be included in the internal audit program.

7.4.6 Investments in Inter-Corporate Loans

DPE vide its guidelines dated 14 December 1994 and clarifications dated 1 November 1995 issued instructions regarding investment in Inter-Corporate Loans. As per these guidelines:

- Inter-Corporate loans are permissible to be lent only to CPSEs, which have obtained highest credit rating awarded by one of the established Credit Rating Agencies for borrowings for the corresponding period.
- CPSEs may invest funds only on the basis of such ratings.

As on 31 March 2012, an amount of ₹ 7,589 crore was invested in 'Inter Corporate Deposits' (ICDs) by five CPSEs. This constitutes only 3.2 *per cent* of total investments made by 31 CPSEs. ONGC had invested ₹ 3,000 crore in inter corporate loans to Central 'Navratna' PSEs having highest credit rating. South Eastern Coalfields Limited, Northern Coalfields Limited and Mahanadi Coalfields Limited had invested ₹ 4,144 crore as deposits in Coal India Limited. Oil India Limited invested ₹ 445 crore in ICDs.

We further observed that Container Corporation of India Limited (₹ 43.14 crore), GAIL (India) Limited (₹ 79.35 crore), Mangalore Refinery and Petrochemicals Limited (₹ 600.98 crore), Nuclear Power Corporation of India Limited (₹ 300.00 crore) and National Textiles Corporation Limited (₹ 77.16 crore) advanced loans to their Subsidiaries/ JV companies/ Oil Manufacturing Companies.

7.4.7 Investments in Treasury Bills and GoI securities

DPE vide its OM dated 1 November 1995 clarified that "CPSEs can also select treasury bills and GoI securities up to three years maturity period for the investment of surplus funds".

We observed that none of the CPSEs have invested in Treasury Bills. We also observed that an amount of ₹12,162 crore was invested in Government Securities such as Oil Bonds, Power Bonds, State Electricity Board Bonds, India Railway Finance Corporation bonds etc mainly by NHPC Limited, Nuclear Power Corporation of India Limited, Mangalore Refinery & Petrochemicals Limited, IRCON International Limited, Container Corporation of India Limited, Western Coalfields Limited and Mahanadi Coalfields Limited.

7.4.8 Investments in Mutual Funds and Equities

We observed that 21 CPSEs invested in mutual funds/ equities to the tune of ₹ 40,076 crore. This constitutes 17.2 *per cent* of total investments made by 31 CPSEs. Coal India Limited invested ₹ 6,319 crore as equity in its subsidiaries; ONGC invested as equity ₹ 2,041 in subsidiaries, ₹ 509 crore in Joint Ventures (JVs) & Associates and ₹ 1,617 crore in other CPSEs; ONGC Videsh invested ₹ 13,736 crore as equity in wholly owned/ partially owned subsidiaries and jointly controlled entities; NTPC Limited invested ₹ 4,673 crore as equity in subsidiaries/ JVs; and GAIL (India) Limited invested ₹ 3,539 crore as equity in subsidiaries/ JVs/ Associates. Hence, most of the funds invested by the CPSEs are for creation of long term assets.

The investment in Mutual Funds was made in SEBI regulated public sector mutual funds as prescribed by DPE vide its guidelines dated 31 August 2007[*], 15 April 2008[†] and 12 January 2009[‡] which suggested that investments may be made in mutual funds subject to investment in such schemes should not exceed 30 *per cent* of available surplus funds of concerned CPSE.

7.5 Governance by Board and Oversight by Ministry

7.5.1 Governance by Board

The Board of Directors are responsible for the overall supervision of the performance of the Company and play a key role in advising the Company in investment decisions. The CPSEs are following the guidelines of DPE regarding investment of surplus funds and also have plans for utilization of cash. We have noticed that in case of ANTRIX Corporation Limited, even though Board directed (June 2009) the Company for initiating action for diversifying investment, no action was taken by Management and the Board had not taken any feedback on the same. Ministry in its reply(March 2013) stated that the matter has been referred to the Department of Space for its comments.

7.5.2 Oversight by Ministry

The Administrative Ministries monitor the performance of the CPSEs through the Memorandum of Understanding (MoU) signed by the CPSEs with them. The CPSEs have been following the DPE guidelines forwarded by the Administrative Ministries and are having sufficient plans for utilization of surplus cash. There are no major issues relating to the governance by Board or oversight by the Ministry except the following:

- 15 CPSEs whose reserves are more than thrice its paid up capital have not issued bonus shares as stipulated by the DPE and it was also noticed that five Ministries covering five CPSEs referred in Para 7.2.2 have not issued any instructions on issue of bonus shares to the CPSEs during 2007-12.
- Further, no specific instructions were also issued by the Administrative Ministries on the issue of buy back of shares.

7.6 Conclusion

- CPSEs, as per sample, have in general followed the DPE guidelines and have adequate plans for the utilization of surplus cash held by them. 30 CPSEs have paid a total dividend of ₹ 34,500 crore (Dividend Payout Ratio of 38 per cent in 2011-12).
- In case of 15 CPSEs, the reserves are in excess of thrice their paid-up capital. However, bonus shares were not issued as required by DPE. 5 CPSEs of these 15 did not issue bonus shares at all. In case of 10 CPSEs even after issue of bonus shares their reserves remained more than thrice of their paid up capital. They can consider issue of bonus shares as per DPE guidelines. In case of 18 CPSEs, the option of buy back needs to be looked into.
- The CPSEs have been investing in public sector banks as prescribed by DPE as these banks are considered safer. Though, DPE has stipulated a maximum of 30 per cent in Mutual Funds

[*] *DPE O.M. No. DPE/ 11/ 47/ 2006 – Fin. dated 31 August 2007*
[†] *DPE O.M. No. DPE/ 11/ 47/ 2006 – Fin. dated 15 April 2008*
[‡] *DPE O.M. No. DPE/ 11(15)/ 08 – Fin. dated 12 January 2009*

by Navratna/ Miniratna CPSEs, it is noticed that the CPSEs are conservative in investing only a meager amount in Mutual Funds.

7.7 Recommendations

- **The DPE may consider revising its dividend payment guidelines to address the deficiencies pointed out in Paras 7.2.1 – payment of dividend "whichever higher of 20% of PAT and 20% of equity".**
- **15 CPSEs have already defaulted in issue of bonus shares. DPE may like to monitor implementation of DPE guidelines on buy back of shares in consultation with the Administrative Ministries.**

New Delhi
Dated : 28 March, 2013

(A. K. PATNAIK)
Deputy Comptroller and Auditor General
and Chairman Audit Board

Countersigned

New Delhi
Dated : 1 April, 2013

(VINOD RAI)
Comptroller and Auditor General of India

APPENDIX-XIV

(As referred to in Para No. 7.1.4)

Statement indicating the cash and bank balance of CPSEs for sample selected

₹ in crore

Sr. No.	Name of the CPSE	31 March 2011			31 March 2012
		Cash & Bank balance	Advances from customers	Net cash balance	Cash & Bank balance
1	NEYVELI	4,420.73	33.33	4,387.40	3,329.10
2	MRPL	2,415.11	35.50	2,379.61	2,234.72
3	NALCO	3,795.23	54.08	3,741.15	4,168.35
4	NCL	8,626.36	153.08	8,473.28	8,738.30
5	CCL	2,582.77	336.54	2246.23	3,986.20
6	CIL	11,659.52	65.40	11,594.12	15,302.72
7	SECL	6,699.00	1,150.00	5,549.00	8,772.00
8	WCL	4,063.78	654.85	3,408.93	5,503.40
9	MCL	9,887.22	1,277.13	8,610.09	12,390.19
10	OILINDIA	11,767.45	0.00	11,767.45	10,935.48
11	SCI	2,466.74	0	2466.74	1,442.41
12	ONGC	14,331.00	3,304.80	11,026.20	20,099.00
13	MMTC	6,748.24	711.00	6,037.24	2,853.12
14	OVL	474.17	16.11	458.06	344.73
15	NTC	1,789.79	0.00	1,789.79	1,680.57
16	GAIL	1,424.88	444.17	980.71	931.33
17	NHDC	1,330.00	0.00	1,330.00	1,707.00
18	NHPC	5,350.08	428.55	4,921.53	6,003.97
19	POWERGRID	3,680.06	3,520.39	159.67	2,336.88
20	SJVN	2,063.78	0.00	2,063.78	1,888.76
21	NTPC	16,185.26	451.25	15,734.01	16,146.11
22	MOIL	1,880.00	12.00	1,868.00	2,088.42
23	NPCIL	10,068.64	0.00	10,068.64	5,160.55
24	ANTRIX	967.65	1,067.63	-99.98	989.04
25	NMDC	17,228.00	117.00	17,111.0	20,265.00
26	RINL	1,998.89	137.80	1,861.09	2,068.34
27	KIOCL	1,443.83	4.96	1,438.87	1,464.54
28	OMDC	703.00	15.00	688.00	701.00
29	SAIL	17,479.00	642.00	16,837.00	6,416.00
30	IRCON	2,036.00	2,039.00	-3.00	2623.23
31	CONCOR	2,296.00	109.00	2,187.00	2762.00
	Total	**177862.16**	**16780.57**	**161081.59**	**175,332.46**

APPENDIX-XV

(As referred to in Para No. 7.2.3)
Table indicating the shareholding for providing buy back of shares

Sr.	Name of the CPSE	Percentage of GoI/ State Government holding	Remarks
1	CIL	90.00	AoA were amended in September 2012 to allow buy back.
2	IRCON	99.73	
3	CONCOR	63.00	
4	GAIL	57.35	Though AoA provides for buy back, no action has been initiated by Company.
5	KIOCL	99.00	Management stated that it is under process of inclusion of necessary provision in the AoA in respect of buyback of shares.
6	MMTC	99.33	Though AoA provides for buy back, no action has been initiated by Company.
7	MOIL	80.00	
8	NALCO	87.15	
9	NHPC	86.36	Management stated that proposal for restructuring of capital is under examination.
10	NEYVELI	93.56	Though AoA provides for buy back, no action has been initiated by Company.
11	NMDC	90.00	AoA was amended in September 2012 to provide for buy back of shares.
12	NTPC	84.50	AoA was amended by the Board of Directors, pending approval in the Annual General Meeting, in July 2012 to provide for buy back of shares.
13	OILINDIA	78.43	Though AoA provides for buy back, no action has been initiated by Company.
14	ONGC	69.23	
15	POWERGRID	69.42	AoA provides for buy back but the Management stated that the Company has no surplus cash for such buy back.
16	SAIL	85.82	AoA was amended in May 2012 to allow buy back.
17	SCI	63.75	Management stated (August 2012) that it is not in a position to go for buy back of shares.
18	SJVN	89.97	Management stated that it is under process of inclusion of necessary provision in the AoA in respect of buy back of shares.

APPENDIX-XVI

(As referred to in Para No. 7.3)

Table indicating the plans of CPSEs during 2012-17

Sr. no	Name of the CPSE	Major Plans
1.	NMDC	As on 31 March 2012, the Company has a Cash & Bank balance of ₹ 20,265 crore and it projected a cumulative internal generation of ₹ 36,506 crore by 2017. The Company has planned to invest ₹ 30,072 crore by 2017. It will still be left with ₹ 26,699 crore by end of 2017 which it plans to invest in operations. • 3 MTPA steel plant at Nagarnar - ₹ 14,218.45 crore; • 2 MTPA steel plant at Karnataka - ₹ 3,000 crore; • Beneficiation plant at Bacheli - ₹ 1,400 crore; • Development of coal blocks in Madhya Pradesh - ₹ 1,000 crore; • Investment in other ventures - ₹ 4,723 crore etc.
2. to 7.	CIL & its subsidiaries (Central Coalfields Limited; South Eastern Coalfields Limited; Northern Coalfields Limited; Western Coalfields Limited; and Mahanadi Coalfields Limited)	The Company plans to invest ₹ 90,330 crore over next five years ending March 2017. The Board of Directors in April 2012 accorded in principal approval for preparing Detailed Project Report for implementation of conceptual paper for judicious utilization of surplus funds by CIL. • Exploration - ₹ 1,680 crore; • Land acquisition - ₹ 7,500 crore; • Infrastructure development - ₹ 8,650 crore; • Acquisition of coal assets abroad - ₹ 25,000 crore; • Development of Mozambique block - ₹ 10,000 crore; • Joint Ventures - ₹ 5,150 crore; • Coal washing - ₹ 5,200 crore etc.
8.	CONCOR	Plans to invest ₹ 6000 crore on capital works relating to container terminals, railway sidings, acquisition of containers/ rolling stock etc.
9.	MOIL	MOIL had a cash balance of ₹ 2,088.42 crore and it projected a cumulative internal generation of ₹ 3,000.72 crore by 2021 after considering operational and other expenses. The Company plans to invest ₹ 3,102.75 crore and will still be left with ₹ 1986.39 crore, for which there are no concrete plans. Management stated (July 2012) that it is exploring the possibility of investment in mining assets in India and abroad, which entails heavy investment. • Windmill for power generation - ₹ 150 crore; • Land acquisition for augmenting of mining activities - ₹ 275.29 crore; • Addition, Modification & Replacement of machinery - ₹ 225 crore; • Development of Dongri Buzurg mine - ₹ 100 crore; • Exploration and R&D - ₹ 62.99 crore; • Acquisition of mines (India & Abroad) - ₹ 500 crore etc.
10.	NEYVELI	NLC plans to increase its generating capacity to 9,400 MW (current capacity – 2,490 MW) by 2020 by using ₹ 28,194 crore (loan funds) and ₹ 12,084 crore (equity).
11.	MRPL	MRPL plans to invest in Phase III Expansion (₹ 12,160.26 crore), Polypropylene Project (₹ 1,803.78 crore) and Single Point Mooring facility (₹ 1,170.59 crore). Out of the above investment of ₹ 15,134.63 crore, the Company has already spent ₹ 8,996 crore.
12.	OIL INDIA	The Company submitted the capital outlay plan amounting to ₹ 19,003.02 crore for 2012-17.

Sr. no	Name of the CPSE	Major Plan
13.	ONGC	As on 31 March 2012, the Company had a cash balance of ₹ 20,099 crore and it projected a cumulative internal generation of ₹ 4,13,798 crore by 2017. Out of this, Company has planned to invest ₹ 1,63,956 crore on major capital projects/ works and remaining is to be spent on operating expenditure, tax and dividend etc. by 2017. • Schemes and capital acquisitions - ₹ 79,263.52 crore; • Survey – ₹ 6,292.92 crore; • Exploratory drilling – ₹ 44,661,.80 crore; • Development drilling – ₹ 26,505.44 crore; • Joint Venture projects – ₹ 5,220.37 crore etc.
14.	OVL	During 2012-17, the Company has projected a cumulative generation of ₹ 38,357 crore from internal resources and ₹ 54,504 crore from external resources and planned to invest ₹ 92,860 crore in capital projects. • Production - ₹ 23,091.40 crore; • Development/ Appraisal - ₹ 6,585.75 crore; • Exploration - ₹ 16,600.50 crore; and • New ventures/ acquisitions - ₹ 46,582.80 crore.
15.	NTC	NTC prepares annual budget every year which is approved by the Board of Directors. As of 31 March 2012, the Company has a cash balance of ₹ 1,680.57 crore and it projected to earn a loss of ₹ 98.41 crore net of expenses by March 2013. It has planned for capital expenditure of ₹ 1,053 crore, leaving a cash surplus of ₹ 528.80 crore. The capital expenditure is mainly towards reviving old mills.
16.	GAIL	As of 31 March 2012, the Company has a cash balance of ₹ 931.33 crore and it projected a cumulative generation of ₹ 14,878 crore from internal resources and ₹ 18,350 crore from external resources by 2017. The Company has planned to invest ₹ 29,963.93 crore towards capital projects by 2017. • Pipe Line projects - ₹ 13,871.75 crore; • Petrochemical projects - ₹ 7,200.77 crore; • Other capital projects - ₹ 5,584.55 crore etc.
17.	NHDC	Planned for development of 1,320 MW Rewa Thermal Power Project in Madhya Pradesh with equity participation estimated at ₹ 2,000 crore. The Board approved the plan in June 2009. For want of coal linkage, the work of finalization of DPR of the project, Environmental Impact Assessment (EIA)/ Environmental Management Plan (EMP) studies and rail linkage for transportation of fuel and equipment have been held up since 2010. This apart, there is no other capital investment plan for 2012-17 for the Company.
18.	NHPC	Capital commitments for ₹ 29,000 crore by 2017 in existing/ new projects using internal sources, subordinate debts and loans. Major project: • Salal, Uri – II, Chamera – I, II & III, Parbati – II & III, Teesta Low Dam – III & IV, Nimoo Bazgo, Chutak etc.
19.	POWERGRID	The Company plans to invest, between 2012-17, an amount of ₹ 1,02,034 crore on capital works which will be raised to the extent of ₹ 26,124 crore through internal resources, ₹ 4,486 crore through issue of fresh equity, ₹ 57,370 crore from domestic borrowings and ₹ 14,054 crore from external borrowings.
20.	SJVN	The Company projected internal and external budgetary resources of ₹ 10,400 crore by 2017 and has planned to invest ₹ 10,400 crore by 2017.

Sr. no	Name of the CPSE	Major Plan
21.	NTPC	Company estimates to spend an amount of ₹ 2,19,613 crore on capital works (42 ongoing and 12 new projects) during 2012-17. • Solapur Super Thermal Power Project (STPP) 1,320 MW - ₹ 10,509 crore; • Kudgi STPP 2,400 MW - ₹ 16,911 crore; • Barethi STPP 3,960 MW - ₹ 25,515 crore; • Gidderbaha STPP 2640 MW - ₹ 17,776 crore; • Nabinagar STPP 1980 MW - ₹ 12,965 crore; • Barh Thermal Power Project - ₹ 6,498 crore (ongoing); • Mouda STPP - ₹ 4,137 crore (ongoing); • SRHQ Hyderabad - ₹ 6,458 crore (ongoing) etc.
22.	RINL	The Company had an approved future outlay for the 12th Plan during 2012-17 amounting to ₹ 11,183 crore. This funding is proposed to be made through internal funding of ₹ 4,965 crore, loans from financial institutions ₹ 5,950 crore and CENVAT relief from expansion - ₹ 268 crore. • Expansion to 6.3 MTPA - ₹ 2,809 crore; • Blast Furnace 1 & 2 Category 1 repairs – ₹ 1,760 crore; • Seamless Tube Mill - ₹ 2,512 crore • Expansion to 11 MTPA - ₹ 600 crore etc.
23.	KIOCL	As of 31 March 2012, the Company has a cash balance of ₹ 1,464.54 crore and it projected a cumulative generation of ₹ 2,780 crore from internal resources and ₹ 300 crore from external resources by 2017. The Company has planned to invest ₹ 3,080 crore towards capital projects by 2017. • Coke Oven Plant (3 LTPA) - ₹ 452 crore; • Development of railway siding and construction of bulk material handling terminal at Mangalore - ₹ 303 crore; • Development of Ramandurg mines - ₹ 900 crore; • Ductile Spun Pipe Plant - ₹ 309 crore; • Equity for setting up integrated steel plant along with JV partner, Government of Karnataka - ₹ 483 crore; • Eco tourism development at Kudremukh - ₹ 100 crore etc.
24.	OMDC	OMDC has a cash surplus of ₹ 701 crore as of March 2012, has no specific Board approved plan for utilization of surplus. It has not projected the future generations and outflow, however, it plans to invest ₹ 404 crore in installation of beneficiation plant and ₹ 774 crore on installation of Pelletisation Plant during 2012-16.
25.	SAIL	As on 31 March 2012, the Company has cash balance of ₹ 6,415 crore and projected a cumulative internal generation of ₹ 29,400 crore by 2017. It planned to invest ₹ 45,000 crore by 2017 by meeting the deficit from external borrowings.
26.	NALCO	As on 31 March 2012, the Company has a Cash & Bank balance of ₹ 4,168.35 crore and it projected a cumulative internal generation of ₹ 13,098.83 crore by 2017. The Company has planned to invest ₹ 14,233 crore by 2017 by funding the balance from external sources. Major projects are: • Green field projects and expansion plans (₹ 6,026 crore); • Pottangi Bauxite Mine (Phase III) & 5th Stream Refinery (₹ 2,708 crore); • Power Plant (Phase III - 2 X 250 MW) (₹ 2,221 crore).
27.	NPCIL	During 12th Plan period, the Company has proposed to launch 8 projects – Four Indigenous Heavy Water Reactor Projects {(i) Gorakhpur (2X700); (ii) Chutka (2x700); (iii) Mahi Banswara (2x700); (iv) Kaiga – 5&6 (2x700)}; Four Light Water Reactor projects with international co-operation {(i) Kundankulam (2x1000); (ii) Jaitapur (2x1650); (iii) Mithi Virdi (2x1100), (iv) Kovvada (2x1500)}
28.	IRCON	IRCON plans to invest ₹ 2,619 crore in execution of projects on guage conversion/ doubling/ new lines on BOT basis; ₹ 35 crore investment subsidiaries; and ₹ 300 crore in Special Purpose Vehicles as equity.

(DPE O.M. No.DPE/4/3/92-Fin. dated 27th June, 1994)

DPE/Guidelines/III/9

Investment of surplus funds, procedures of investments, banking transactions, responsibilities of Board of Directors, etc.—Recommendations of the Joint Parliamentary Committee.

The undersigned is directed to say that the Joint Parliamentary Committee (JPC) in their report on "irregularities in securities and banking transactions" have made a number of recommendations covering the areas mentioned above. These recommendations have been considered by the Government. The decisions of the Government on these recommendations are given below for information and necessary action by the respective administrative Ministries and the public sector enterprises.

i. It was noted by the Committee that while the Government permitted PSUs to have banking transactions with foreign banks, it was not monitored properly. The Government have decided that the administrative Ministries dealing with particular PSU should monitor adherence to all guidelines issued by the Government. The PSUs should report to the administrative Ministry in case of inability to comply with particular guidelines and the Ministry will consider condonation or enforcement by issue of a Presidential directive. In this connection, attention is also invited to the Department of Public Enterprises OM No. 6/6/88-Coord. dated 8.4.91 wherein it is indicated that the Boards of Directors of the PSUs will have the discretion not to adopt these guidelines for reasons to be recorded in writing. 'The Board Resolution on the subject given the reasons therein should be forwarded both to the administrative Ministries as well as to the DPE. The valid reasons should be fully rendered in speaking orders/ resolutions.

ii. On an observation of the Committee about the policies and procedures followed by the public sector undertakings in respect of the investments of their surplus funds, the Government have taken note of the fact that the policies and procedures followed by the PSUs in many cases were not in conformity with the guidelines and did not satisfy acceptable norms. The administrative Ministries are requested to take appropriate action to demarcate the responsibilities of the Government in its different Ministries/Departments and their nominee Directors as well as the Board of the Public Sector Undertakings, the whole time Directors and its top managers. By effective performance of their respective functions, these agencies should ensure laying down the correct policies and procedures and monitor their faithful implementation.

iii. The Committee have raised the question of the duty and responsibility for ensuring, implementation of guidelines. It is the primary responsibility of the PSU itself to abide by Governmental guidelines. Government recognizes that the prime duties of a Government nominee on the Board of Directors of a PSU are to safeguard the interest of the shareholders, contribute to the efficient functioning of the PSUs and report back the same regularly to the Government. The Department of Public Enterprises and the Cabinet Sectt. had earlier issued instructions in this regard. DPE OM No. 18/1/84-GM dated 19th September, 1984 and Cabinet Sectt. D.O. Letter No. 6/I/7/92-CAB dated 30th September, 1992, addressed to the Secretaries of administrative Ministries may be referred to this matter . The administrative ministries are requested to take action in order to ensure that the nominee Directors comply with the responsibility cast on them and the instructions issued already on the subject are reiterated.

iv. With regard to investment of surplus funds, the Committee have suggested that the policies should be clear-cut and transparent. Administrative Ministries are requested to lay down guidelines for different types of PSUs under their control indicating the destination and procedures of investment of their surplus funds. Administrative Ministries are also requested to direct the Boards of Directors of their PSUs to the effect that instructions regarding investment of fund shall be transparent and taken only by the delegated authority and that exercise of such authority shall be monitored by the Board. The administrative Ministries are also desired to lay down guidelines for the PSU under their control in the matter of regular reporting of financial transactions to the Board having regard to the nature of its business, size of financial transactions and the level to which the financial powers have been delegated.

v. Boards of Directors of all non-financial PSUs should ensure that decisions regarding investments of funds are transparent and taken only by the delegated authority, and that the proper exercise of such authority is monitored by the Board. Boards of all PSUs are directed to lay down clear policies on investment of surplus funds, establish transparent procedures, review delegation of authority and prescribe regular reporting of investments to the Board. The streamlining of policies and procedures is to be with the knowledge of the administrative Ministry and as and when required, the Board will be given guidance by the administrative Ministry. The latter will include the performance of the company in this sphere as one of the items to be considered in its periodic reviews. The administrative Ministry, in turn, will seek the guidance of the DPE and the Ministry of Finance and follow up closely the implementation of the policies on investment laid down by these Ministries. Administrative Ministries are requested to ensure that this course of section is carefully followed by all concerned.

vi. The administrative Ministries and the Public Enterprises are advised to keep the decisions of the Government on these various recommendations of the JPC in view and take appropriate measures in accordance with the Government decision indicated above. The Ministries may, in turn, issue suitable instructions to the enterprises for strict compliance. The action taken in this matter may be intimated to the Department of Public Enterprises.

CHAPTER XII
MISCELLANEOUS

20. **DPE/Guidelines/XII/20**

Guidelines on expenditure management—Fiscal prudence and austerity.

The undersigned is directed to forward herewith a copy of Department of Expenditure's O.M. No. 7(5) E-Coord/2004 dated the 27th September, 2004 on the subject mentioned above and to request that the same may kindly be brought to the notice of the Public Sector Undertakings under the administrative control of Ministries/Departments for strict compliance.

(DPE O.M. No. 15(10)/2004-DPE(GM) dated 18th October, 2004)

Copy of Department of Expenditure's Office Memorandum dated the 24th September, 2004. Guidelines on expenditure management—Fiscal prudence and austerity

In supersession of this Department's OMs dated 17.6.1996, 20.8.1998, 5.8.1999, 24.9.2000 and 10.10.2001 on the subject cited above, the following austerity measures shall take effect from October 1, 2004.

i) All on-going programmes and schemes, both Plan and non-Plan, should be carefully reviewed, scrutinized and evaluated to determine their continued relevance. This exercise should be taken up immediately and completed before the end of this calendar year.

ii) Deviations of expenditure from the prescribed budgetary ceilings should not be allowed. FAs should personally ensure that unauthorized expenditure above the appropriations is not incurred in any circumstances.

iii) It should be ensured that all profit-making PSEs declare a minimum dividend on equity of 20% or a minimum dividend pay out of 20% of post-tax profits, whichever is higher. The minimum dividend pay out in respect of Oil, Petroleum, Chemical and other infrastructure sectors should be 30% of post-tax profits;

iv) All profit-making companies must also consider issuing bonus shares to the Government;

v) All profit-making Joint Venture companies should be asked to make concerted efforts to give a dividend of 20% on Government equity holding;

vi) Other non-tax receipts should be revised so that at least the cost of the services is recovered.

vii) Budget formulation should lay greater emphasis on explicit recognition of the revenue constraints and a realistic projection of the budgetary allocations required for various projects/schemes and there must be rigid adherence to budgetary ceilings. All procedures laid down for incurring both Plan and Non-Plan expenditure on schemes should be followed scrupulously. In view of the severe constrains on resources, additional funds to any

Ministry or Department shall not be provided at the revised estimate stage, except in rare and exceptional circumstances.

viii) No fresh financial commitments should be made on items, which are not provided for in the budget approved by Parliament.

ix) There have been cases of Ministries releasing funds to autonomous bodies year after year, despite the fact that there are substantial balances with them remaining unutilized and kept in deposit with the banks. The Ministries should complete a detailed review of all such cases by 31.10.2004 and, pending such a review, the Ministries are advised not to release funds in such cases. The responsibility for regulating release of funds in these cases will rest with the Financial Advisers (FAs).

x) Most autonomous bodies are given 100% deficit grants. These shall be reduced in a graded manner by 5% in successive years, i.e. to 95% in the first year, 90% in the second year and so on, in respect of such bodies which have the potential of raising resources.

xi) Timely repayment of loans provided by the Government to the PSUs and payment of fees/charges on Government Guarantees should also be monitored by the FAs.

xii) There shall be a mandatory 10% cut in the budgetary allocation for non-plan, non-salary-expenditure, including OTA/honorarium. No re-appropriation of funds to augment these heads of expenditure would be allowed. Austerity must be reflected in furnishing of offices/offices at residences. The expenditure limit prescribed for these purposes shall be strictly enforced.

xiii) Utmost economy should be exercised in use of staff cars and other official vehicles. In accordance with the ceiling prescribed at Sl. No. (xii), there shall be a 10% cut in the consumption and allocation of funds for expenditure on POL and travel.

xiv) Foreign travel should be restricted to unavoidable official engagements. There shall be a ban on foreign travel for Study Tours, Seminars, Workshops etc. funded by the Govt. of India except for annual and other formal meetings of bilateral/multilateral bodies viz. IMF, World Bank, WHO, ILO, Joint Commissions, etc. Size of official delegations, where foreign travel is unavoidable, shall be restricted to the bare minimum.

xv) The rate of per diem allowance for travel abroad to all countries and for all categories, officials/non-officials belonging to Government, autonomous institutions and PSUs shall continue to be depressed by 25% as at present.

xvi) Utmost austerity will be observed in organizing conferences/seminars/ workshops. All grants being given for such purposes would be reviewed by Department of Expenditure.

xvii) Ban on creation of Plan and Non-Plan posts will continue. Any unavoidable proposals for the creation of plan posts including Groups 'B', 'C' and 'D' posts shall continue to be referred to the Ministry of Finance (Department of Expenditure) for approval.

xviii) Every Ministry/Department shall undertake a review of all the posts, which are lying vacant in the Ministry/Department and in the Attached and Subordinate Offices, in consultation with the Ministry of Finance (Department of Expenditure). FAs will ensure that the review is completed in a time bound manner (and, in any event, not later than 31.10.2004) and full details of vacant posts in their respective Ministries etc. are available. Till the review is completed, no vacant posts shall be filled up except with the approval of the Ministry of Finance (Department of Expenditure).

xix) Implementation of existing instructions concerning abolition of posts should be ensured.

xx) Purchase of new vehicles is banned until further orders. Exceptions will be allowed only for meeting the operational requirements of Defence, Central Para Military Forces, etc. New vehicles shall not be purchased even in replacement of condemned vehicles. Hiring of private vehicles from outside shall be limited to the number of vehicles condemned.

2. Secretaries to the Government of India and Financial Advisers are requested to ensure strict compliance of the above instructions.

CHAPTER III
FINANCIAL POLICIES

10. DPE/Guidelines/III/10

Guidelines for Investment of Surplus Funds by Public Sector Enterprises

The Joint Parliamentary Committee [JPC] which enquired into the irregularities in securities transactions had adversely commented on certain investment decisions made by certain PSEs. The Committee had desired that Government should lay down clear guidelines governing investment of surplus funds by Public Sector Enterprises to avoid recurrence of instances of misuse of funds.

Principles concerning investments

2. The Government have considered the observations of the Committee. The undersigned is directed to advise that PSEs should observe the following guidelines in regard to investment of surplus funds:

i. Investments should be made only in instruments with maximum safety.
ii. There should be no element of speculation on the yield obtaining from the investment.
iii. There should be a proper commercial appreciation before any investment decision of surplus funds is taken. The surplus availability may be worked out for a period of minimum one year at any point of time.
iv. Funds should not be invested by the PSE at a particular rate of interest for a particular period of time while the PSE is resorting to borrowing at an equal or higher rate of interest for its requirements for the same period of time.
v. Investment decision should be based on sound commercial judgement. The availability should be worked out based on cash flow estimates taking into account working capital requirements, replacement of assets and other foreseeable demands.
vi. The remaining period of maturity of any instrument of investment should not exceed one year from the date of investment where the investment is made in an instrument already issued. Where investment is made in an instrument newly issued, the final maturity of the instrument should not exceed one year. However, only in the case of term deposits with banks, it can be up to three years.

Eligible Investments

3. Investments may be made in one or more of the following instruments, subject to principles outlined in the previous paragraph:

i. Term deposits with any scheduled commercial bank [i.e., banks incorporated in India] and with a paid up capital of atleast Rs. 100 Crores, fulfilling the capital adequacy norms as prescribed by the R.B.I. from time to time. These adequacy norms should be reflected in the last published balance sheet.

ii. Instruments which have been rated by an established Credit Rating Agency and have been accorded the highest credit rating signifying highest safety e.g. certificates of deposits, deposits schemes or similar instruments issued by scheduled commercial banks/term lending institutions including their subsidiaries, as well as commercial paper of corporates.
iii. Inter-corporate loans are permissible to be lent only to Central PSEs, which have obtained highest credit rating awarded by one of the established Credit Rating Agencies for borrowings for the corresponding period.
iv. Any debt instrument, which has obtained highest credit rating from an established Credit Rating Agency.

4. Authority Competent to Invest

i. Decisions on investment of surplus funds shall be taken by the Public Sector PSU Board. However, decisions involving investing short-term surplus funds up to one year maturity may be delegated up to prescribed limits of investment, to a designated group of Director[s], which should invariably include CMD & Director (Finance)/Head of Finance internally. Where such delegation is made, the delegation order should spell out the levels of approval and the powers of each official, which should be strictly observed. Where such delegation is exercised, there should be a proper system of automatic internal reporting to the Board at its next meeting in all cases.
ii. PSEs should ensure that all investment decisions are in accordance with the regulations as per the Company Law & Government of India instructions and any other relevant legislation and rules as applicable. Any investment already made, which is not in conformity with the above guidelines should not be renewed after maturity.

5. Every PSE should arrange to place the above guidelines at its next Board Meeting and evolve a suitable procedure to cover investment of surplus funds to be followed by company.

6. Necessary instructions may be issued for strict compliance of these guidelines.

7. These guidelines issue in consultation with the Ministry of Finance.

(DPE O.M. No.4/6/94-Fin. dated 14th December, 1994)

Guidelines on investment of surplus funds by Public Sector Enterprises. (DPE O.M. No. DPE 4(6)/94-Fin dated 1st November, 1995)

CHAPTER III
FINANCIAL POLICIES

11. DPE/Guidelines/III/11

Guidelines on investment of surplus funds by Public Sector Enterprises

The Joint Parliamentary Committee (JPC), which enquired into the irregularities in securities transactions had adversely commented on certain decisions of the public sector enterprises in the matter of investment of surplus funds. The Committee had desired that clear guidelines be laid down about investment of surplus funds by public sector enterprises in order to ensure that no misuse of PSU funds recurs. In pursuance of the observations of the JPC, the Government had issued detailed guidelines vide O.M. of even number dated 14th December, 1994. However, as the guidelines dated 14th December, 1994 was a broad outline of the policies in the matter of investment of surplus funds, a need for clarification on specific points has been felt in view of certain queries made by the PSEs and the financial institutions. The clarifications in continuation of the earlier guidelines of 14.12.1994 are given below:

a. The guidelines dated 14th December, 1994 stipulate in para 2(i) and 2(ii) that there should be no element of speculation on the yield in respect of investments made by PSUs. It is clarified that PSUs therefore will not be allowed to invest their surplus funds in UTI and other public and private mutual funds as they are equity based and are, therefore, inherently risky.

b. Para 2(iii) of the earlier guidelines indicated that there should be a proper commercial appreciation before any investment decision of surplus funds is taken, and that the availability of surplus funds may be worked out for a minimum period of one year at any point of time. The Government now feels that as the availability of surplus funds with the PSUs is for short duration, the preparation of advance estimates of surplus funds for one year may be difficult. The public enterprises are, therefore, advised to make their best estimates of the availability of surplus funds in consultation with their administrative Ministry.

c. Para 2(iv) of the earlier guidelines states that the remaining period of maturity of any instrument of investment should not be exceeding one year from the date of investment where the investment is made in an instrument already issued. The Government have now decided that while one year ceiling on the remaining maturity period shall hold good for the general instruments, the public enterprises can also select treasury bills and Government of India securities up to three years maturity period for the investment of surplus funds.

d. The guidelines of December, 1994 have stated that the Term Deposits may be made with any scheduled commercial bank (i.e. bank incorporated in India) and with a paid up capital of atleast Rs.100 Crores, fulfilling the capital adequacy norm as prescribed by the RBI from time to time. It has now been decided that instead of the condition of Rs.100 Crores as paid up capital there will be a condition of Rs.100 Crores as 'net worth' of the bank, i.e. the paid up capital plus free reserves of the bank should not be less than Rs.100 Crores.

e. The guidelines of 14th December, 1994 under Para 3(ii) envisage that the investment may be made in instruments which have been rated by an established Credit Rating Agency and have been accorded the highest credit rating signifying highest safety, e.g. Certificates of Deposits, Deposit Scheme or similar instruments issued by scheduled commercial bank/term lending institutions including their subsidiaries as well as commercial paper of corporates. It is clarified that credit ratings issued by rating agencies are broadly classified as investment grade and non-investment grade. Since "highest credit rating" would mean the top most in the investment grade, which would limit choice and probably lower the overall yield, PSUs will now be free to invest in instruments falling under investment credit rating.

f. The earlier guidelines also envisage that inter-corporate loans shall be permissible to be lent only to Central PSUs which have obtained highest credit rating awarded by one of the established Credit Rating Agencies for borrowing for the corresponding period. The Government reiterate that inter-corporate borrowing programme can also be credit rated by rating agencies and the public enterprises may invest surplus funds only on the basis of such ratings. This would help to avoid the instances of the enterprise providing friendly support to other enterprise on considerations other than safety.

2. The public enterprises are advised to keep the above clarifications in view together with the guidelines given in the OM of even number dated 14th December, 1994 before deciding investment of their surplus funds in any instrument. Further, the existing holding of the enterprise in the UTI schemes or similar schemes of various other public sector and private sector mutual funds have to be disinvested to fall in line with these guidelines. Such investment may however be phased out without running the risk of capital loss with due approval from the Boards of the public enterprises.

3. Administrative Ministries/Departments are requested to suitably advise the public enterprises under their administrative control to strictly comply with these guidelines.

4. These guidelines are issued in consultation with the Ministry of Finance.

(DPE O.M. No. DPE/12(6)/95-Fin. dated 10th November, 1995)

12. DPE/Guidelines/III/12

Issue of Bonus Shares by Public Sector Undertakings simplifying the Procedures.

It has come to the notice of the Govt. that a number of Central Govt. Public Sector Undertakings are carrying substantial reserves in their balance sheets against a relatively small paid up capital base. The question of the need for these enterprises to capitalize a portion of their reserves by issuing Bonus Shares to the existing shareholders has been under consideration of the Govt.

2. The issue of Bonus Shares helps in bringing about at proper balance between paid up capital and accumulated reserves, elicit good public response to equity issues of the public enterprises and helps in improving the market image of the company.

3. Therefore, the Government has decided that the public enterprises, which are carrying substantial reserves in comparison to their paid up capital sold issue Bonus Shares to capitalize the reserves for which the following norms/conditions and criteria may be followed and fulfilled.

4. SEBI guidelines may be followed in deciding the correct proportion of reserves to be capitalized by issuing Bonus Shares. A copy of the bonus issue guidelines of SEBI is enclosed.

5. For the purpose of determining the quantum of bonus issue, PSUs should be guided by the following factors:

(i) Likely increase in capital base from fresh public issues by PSUs in the next two to three years (which will dilute the GOI's equity).

(ii) PSUs should prepare profit projections for the next three years on realistic basis as projected by them in their corporate plan and estimate their ability to service the enlarged equity after taking into account any fresh equity issue they expect to make for their expansion/diversification needs.

6. PSUs are at liberty to engage public/private sector merchant bankers to determine the quantum of bonus and provide advice on related matters. The mode of selection of merchant bankers and any fee payable for their services may be decided by PSU Boards.

7. While recommending proposals for capitalizing reserves, PSUs should also consider the need for increasing their authorized capital to accommodate the release of bonus shares and any subsequent public issues and recommend increase in the capital where necessary.

8. PSUs should ensure that after making the bonus there are enough reserves left which together with future plough-back of profit will be sufficiently large to inspire confidence and support from existing and potential shareholders. This is necessary to remain as an attractive scrip in the market.

9. Each administrative Ministry may direct the enterprises under their control that PSUs having reserves in excess of three times their paid-up capital should immediately consider the scope for issuing bonus shares to GOI (and

pro-rata to other existing shareholders if partial disinvestment had occurred so far). PSUs having large reserves may be allowed to make any public issue only after examining the scope for capitalizing a portion of reserves.

10. Ministries/Departments should expeditiously examine and approve bonus issue proposals if the quantum of bonus and profit projections are found to be properly assessed and the PSUs certify that the proposals are in conformity with the SEBI guidelines.

11. Bonus issue proposals need not be referred to Ministry of Finance (MoF) for approval unless there are special reasons to do so. Likewise proposals involving increase in authorized capital need not be referred to MoF. It has been clarified earlier that increase in authorized capital does not require Cabinet approval.

12. Ministries should keep the Department of Public Enterprises informed about bonus issue proposals and authorized capital increases approved by them.

13. The above conditions shall cut down the procedural delays in obtaining the approval for bonus shares besides enabling the PSUs to finalize public issue plans quickly and tap the capital market when conditions are favourable.

14. The Financial Advisers in the administrative Ministries shall keep a control over the fulfillment of various conditions/criteria as mentioned above before agreeing to the bonus issues.

ENCLOSURE

Copy of Securities and Exchange Board of India (SEBI)'s RMB (DIP Series) Circular No. 2(94-95) dated 15th April, 1994 – Guidelines for Disclosure and Investor Protection.

In tune with the process of liberalization and reforms in the primary market, it has been decided to modify the extant guidelines for issue of bonus shares contained in Section M of the guidelines for Disclosure and Investor Protection issued by SEBI on June 11, 1992. The revised guidelines have done away with certain requirements relating to issue of bonus, namely profitability Test, Residual Reserves Test etc.

A copy of the Press Release dated April 13, 1994 issued by SEBI in this connection is enclosed for your information.

Copy of Securities and Exchange Board of India (SEBI)' s guidelines dated 13th April, 1994 for Disclosure and Investor Protection—Bonus Issue Guidelines.

In keeping with current pace of liberalization and reforms in the Primary Market, the Board of SEBI has decided to modify the extant guidelines for bonus shares, forming Section M of the Guidelines for Disclosure and Investor Protection issued by SEBI on June 11, 1992.

SEBI believes that the Board of Directors of the companies wishing to make bonus issues will take into due consideration the relevant financial factors while deciding on bonus issues and observe the following guidelines.

Section M

(i) These guidelines are applicable to existing listed companies who shall forward a certificate duly signed by the issuer and duly countersigned by its statutory auditor or by a company secretary in practice to the effect that the terms and conditions for issue of bonus shares as laid down in these guidelines, have been complied with.

(ii) Issue of bonus shares after any public/right issue is subject to the condition that no bonus issue shall be made which will dilute the value or rights of the holders of debentures, convertible fully or partly.

In other words, no company shall, pending conversion of FCDs/PCDs, issue any shares by way of bonus unless similar benefit is extended to the holders of such FDCs/PCDs, through reservation of shares in proportion to such convertible part of FCDs or PCDs. The shares so reserved may be issued at the time of conversion(s) of such debentures on the same terms on which the bonus issues were made.

(iii) The bonus issue is made out of free reserves built out of the genuine profits or share premium collected in cash only.

(iv) Reserves created by revaluation of fixed assets are not capitalized.

(v) The declaration of bonus issue, in lieu of dividend, is not made.

(vi) The bonus issue is not made unless the partly-paid shares, if any existing, are made fully paid-up.

(vii) The Company –

1. has not defaulted in payment of interest or principal in respect of fixed deposits and interest on existing debentures or principal on redemption thereof and.

2. has sufficient reason to believe that it has not defaulted in respect of the payment of statutory dues of the employees such as contribution to provident fund, gratuity bonus etc.

(viii) A company, which announces bonus issue after the approval of the Board of Directors must implement the proposals within a period of six months from the date of such approval and shall not have the option of changing the decision.

(ix) There should be a provision in the Articles of Association of the company for capitalization of reserves, etc. and if not, the company shall pass a Resolution at its General Body Meeting making provisions in the Articles of Association for capitalization.

(x) Consequent to the issue of bonus shares if the subscribed and paid-up capital exceed the authorized capital, a Resolution shall be passed by company at its General Body Meeting for increasing the authorized capital.

CHAPTER III
FINANCIAL POLICIES

31. DPE/Guidelines/III/31

Investment of Surplus Funds of Central Public Sector Enterprises (CPSEs).

Reference is invited to this Office Memorandum No. DPE/4/6/94-Fin. Dated 14th December, 1994 on the above mentioned subject. The extant policy of the Central Public Sector Enterprises is to park surplus funds in term deposits with any scheduled commercial bank (i.e. banks incorporated in India) with a paid up capital of at least Rs. 100 crore, fulfilling the capital adequacy norms, as prescribed by the RBI from time to time.

2. It has been brought to the notice of Government that certain agencies/entities under the control of the Departments/Ministries have transferred their entire business, or a substantial part of their business to private sector banks to the virtual exclusion of the public sector banks. On a careful examination of the matter, Government have issued instructions regarding preference to Public Sector Banks for handling Government transactions vide O.M. No. 7(2)/E.Coord/2007 dated 15th January, 2008 (copy enclosed). It has been accordingly decided that at least to the extent of 60% of funds under the control of Ministries/Departments/other agencies/entities etc. be placed with Public Sector Banks. Moreover, in order to avoid undesirable competition amongst banks leading to arbitrary hikes in deposit rates (even for short periods) which have consequences for the economy, it has been decided that the practice of inviting competitive bids for bulk deposits should be discontinued forthwith. Any Department/Ministry or any of the agencies/entities/bodies etc. should, therefore, place their bulk deposits with the bank(s) with whom they have a regular course of business, including public sector banks.

3. The Central Public Sector Enterprises (CPSEs) will also comply with above instructions while making investment decisions with regard to placement of their funds with banks. The Administrative Ministries/Departments are requested to instruct CPSEs suitably under their administrative control in this regard.

4. This issues with the approval of Minister (HI&PE).

(DPE OM No. DPE/11(47)/2006-Fin dated: 11th April, 2008)

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F. No DPE/14(24)/2011-Fin Government of India Ministry of Heavy Industries & Public Enterprises Department of Public Enterprises

Public Enterprises Bhavan Block No. 14. CGO Complex Lodhi Road, New Delhi-110003

Dated: 26th March, 2012

OFFICE MEMORANDUM Subject: Issue of guidelines regarding buyback of shares.

It has been noticed that listed Central Public Sector Enterprises (CPSEs) are not exercising the option to buyback their shares as private companies do to provide for sustained investor interest in the company and protect their market capitalization in the long term interest of the company's ability to raise funds from the market. In order to provide a level playing field to CPSEs vis-à-vis private companies, the following guidelines are issued-

(i) If a CPSE decides to buyback its own shares from the shareholders using surplus cash, Department of Disinvestment (DoD) on behalf of major shareholders may tender/offer equity on behalf of Government of India.

(ii) CPSEs will amend their Articles of Association to provide for buyback of shares, if such provision does not exist in their Articles.

2. All the administrative Ministries are advised to instruct CPSEs under their- administrative control to take necessary steps to implement the above guidelines and submit the Compliance Report on implementation of the guidelines to this Department.

(V.K. Jintial) Director
Tel: 24362770

Copy to

1. Secretaries of all the Administrative Ministries/Department.
2. CEOs of the CPSEs

Internal Distribution

1. PS to Minister
2. PS to Secretary, DPE
3. PS to Secretary, BRPSE
4. PS to Adviser
5. PS to Joint Secretary

A copy is also forwarded to Department of Disinvestment with respect to their DO letter No.5/9/2011-Policy(Vol.III) dated 22.03.2012.