

CHAPTER IV

GOVERNMENT COMMERCIAL

AND

TRADING ACTIVITIES

CHAPTER IV

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

4.1 Public Sector Undertakings of Government of Union Territory of Puducherry

4.1.1 Introduction

Union Territory (UT) of Puducherry established Public Sector Undertakings (PSUs) to carry out activities of commercial nature keeping in view the welfare of people and to occupy an important place in the UT economy. As on 31 March 2019, there were 13 PSUs in UT of Puducherry (including one non-functional¹ Government Company) (Previous year: 13 PSUs) under the audit jurisdiction of the Comptroller and Auditor General of India.

The financial performance of the PSUs on the basis of latest finalised accounts received up to 31st March 2020 is covered in this Chapter. The nature of PSUs and the position of accounts are indicated in **Table 4.1**.

Table 4.1: Nature of PSUs covered in the Chapter

Nature of PSUs	Total Number	Number of PSUs of which accounts received during the reporting period ²				Number of PSUs of which accounts are in arrear (total accounts in arrear) as on 31 March 2020
		Accounts during 2018-19	Accounts during 2017-18	Accounts during 2016-17	Total	
Working Government Companies ³	12	7	9	11	27	12 (44)
Total working PSUs	12	7	9	11	27	12 (44)
Non-Functional Government Companies	1 ⁴	--	--	--	--	--
Total	13	7	9	11	27	12 (44)

The working PSUs registered a turnover of ₹ 376.43 crore as per their latest finalised accounts received up to 31st March 2020. This turnover was equal to 1.03 *per cent* of Gross State Domestic Product (GSDP) for the year 2018-19 (₹ 36,656 crore). The working PSUs incurred an aggregate loss of

¹ Those PSUs which have not been carrying on any business or operation and defined as 'inactive company' under Section 455 of the Companies Act, 2013, are termed as "non-functional Government company" in this Chapter.

² From October 2018 to March 2020.

³ Government PSUs include other Companies referred to in Section 139(5) and 139(7) of the Companies Act, 2013.

⁴ Pondicherry Electronics Limited is in the process of winding up since 2013-14 and its accounts are not anticipated.

₹ 57.76 crore as per their latest finalised accounts. As on March 2019, the State PSUs had employed 4,169 employees.

There is one non-functional PSU as on 31 March 2019, viz., Pondicherry Electronics Limited (PELECON), which is a subsidiary of Pondicherry Industrial Promotion Development and Investment Corporation Limited (PIPDIC). PELECON is in the process of winding up and consequently PIPDIC, the Holding Company, has assumed the assets and liabilities of PELECON during 2012-13. The proceedings for getting the name of PELECON struck off from the Register of Companies under Fast Track Exit Scheme is under process.

4.1.2 Accountability framework

The procedure for audit of Government companies is laid down in Sections 139 and 143 of the Companies Act, 2013 (Act 2013). According to Section 2 (45) of the Act 2013, a Government Company means, any company in which, not less than fifty one *per cent* of the paid-up share capital is held by the Central Government or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments and includes a Company which is a subsidiary company of such a Government Company. Besides, any other Company⁵ owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments are referred as Government Controlled other Companies.

Further, as per sub-Section 7 of Section 143 of the Act, 2013, the Comptroller and Auditor General of India (CAG) may, in case of any company covered under sub-Section (5) or sub-Section (7) of Section 139, if considered necessary, by an order, cause test audit to be conducted on the accounts of such Company and the provisions of Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test audit.

Thus, a Government Company or any other Company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the CAG. An audit of the financial statements of a Company in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

⁵ Ministry of Corporate Affairs (Removal of Difficulties) Seventh Order 2014 dated 4 September 2014.

4.1.3 Statutory audit

The financial statements of the Government Companies (as defined in Section 2 (45) of the Act, 2013) are audited by Statutory Auditors, who are appointed by the CAG as per the provisions of Section 139(5) or (7) of the Act, 2013. The Statutory Auditors submit a copy of the Audit Report to the CAG including, among other things, financial statements of the Company under Section 143(5) of the Act, 2013. These financial statements are also subject to supplementary audit by the CAG within sixty days from the date of receipt of the audit report under the provisions of Section 143 (6) of the Act, 2013.

4.1.4 Submission of accounts by PSUs

4.1.4.1 Need for timely finalisation and submission

According to Section 394 and 395 of the Companies Act, 2013, Annual Report on the working and affairs of a Government Company, is to be prepared within three months of its Annual General Meeting (AGM) and as soon as may be after such preparation laid before the State Legislature together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the CAG. This mechanism provides the necessary legislative control over the utilisation of public funds invested in the companies from the Consolidated Fund of the UT.

Section 96 of the Companies Act, 2013 requires every company to hold AGM of the shareholders once in every calendar year. It is also stated that not more than 15 months shall elapse between the date of one AGM and that of the next. Further, Section 129 of the Companies Act, 2013 stipulates that the audited Financial Statement for the financial year has to be placed in the said AGM for their consideration. Section 129 (7) of the Companies Act, 2013 provides for levy of penalty like fine and imprisonment on the persons including Directors of the company responsible for non-compliance with the provisions of Section 129 of the Companies Act, 2013.

4.1.4.2 Role of Government and Legislature

The UT Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the UT Government.

The UT Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of the CAG, in respect of UT Government Companies are to be placed before the UT Legislature under Section 394 of the Act, 2013 or as stipulated in the respective Acts. The Audit Reports of the CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

4.1.5 Investment by the Government of Union Territory of Puducherry in Public Sector Undertakings (PSUs)

The Government of Union Territory of Puducherry (UT Government) has high financial stakes in the PSUs. This is of mainly three types:

- Share capital and loans - In addition to the share capital contribution, UT Government also provides financial assistance by way of loans to the PSUs from time to time.
- Special financial support - UT Government provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- Guarantees - UT Government also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

The sector-wise summary of investments in the PSUs as on 31 March 2019 is given in **Table 4.2**.

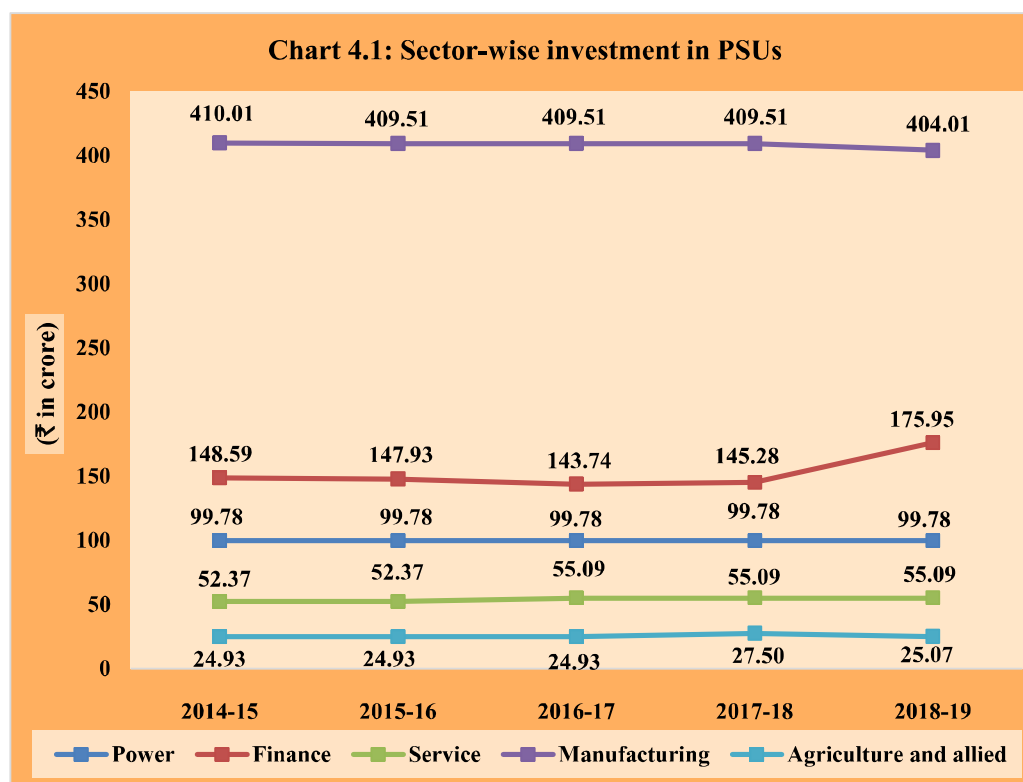
Table 4.2: Sector-wise investment in PSUs

Name of sector	Government Companies		Total	Investment (₹ in crore)		
	Working	Non-functioning		Equity	Long term loans	Total
Power	1	--	1	99.78	--	99.78
Finance	4	--	4	135.75	40.20	175.95
Service	2	--	2	52.37	2.72	55.09
Manufacturing	3	1	4	404.01	--	404.01
Agriculture and allied	2	--	2	24.93	0.14	25.07
Total	12	1	13	716.84	43.06	759.90

(Source: Compiled from the information received from PSUs/latest finalised Annual Accounts)

The thrust of UT Government investment in PSUs was mainly in manufacturing sector which stood at ₹ 404.01 crore (53.17 *per cent*) at the end of March 2019. The investment in Power Sector was ₹ 99.78 crore which constituted 13.13 *per cent* of the total investment.

The investment in various important sectors at the end of 31 March 2014 to 31 March 2019 is indicated in the **Chart 4.1**.



(Source: Data obtained from PSUs).

During the year, the investment in finance sector PSUs increased mainly on account of increase in the long term loans in two PSUs, viz., Puducherry Corporation for the Development of Women and Differently Aabled Persons Limited (PCDWDAP) and Puducherry Backward Classes and Minorities Development Corporation Limited (PBCMDCL).

4.2 Functioning of Power Sector Undertaking

4.2.1 Introduction

There is only one Power Sector company in the Union Territory of Puducherry viz., Puducherry Power Corporation Limited (PPCL). The sector, apart from providing critical infrastructure required for development of the Union Territory's economy, also adds to the Gross State Domestic Product (GSDP). A ratio of Power Sector PSU's turnover to GSDP shows the extent of activities of the PSU in the Union Territory economy. The Compounded Annual Growth Rate (CAGR)⁶ is a useful method to measure growth rate over multiple time periods. **Table 4.3** provides the details of turnover of Power Sector PSU and GSDP of UT Government for a period of five years ended March 2019.

⁶ The Compounded Annual Growth Rate calculated as per the formula: $((\text{Final Value} / \text{Beginning Value})^{1/\text{number of years}} - 1)$.

Table 4.3: Details of turnover of Power Sector PSU vis-à-vis GSDP of UT Government
(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Turnover	96.42	43.72	96.09	79.19	75.66
GSDP of UT Government	22,574	26,617	29,573	32,962	36,656
Percentage of Turnover to GSDP of UT Government	0.43	0.16	0.32	0.24	0.21
Percentage of growth of turnover	20.24	(-) 54.66	119.78	(-) 17.59	(-) 4.46
Percentage of growth of GSDP	3.22	17.91	11.11	11.46	11.21
CAGR of Turnover					(-) 4.73 per cent
CAGR of GSDP					10.18 per cent

(Source: Turnover reported in the latest finalised accounts of working PSU and GSDP figures as per the Report of the CAG on Union Territory Finances for the respective years).

The turnover of Power Sector Undertaking was fluctuating over the five year period. The turnover drastically reduced from ₹ 96.42 crore in 2014-15 to ₹ 43.72 crore in 2015-16 due to major repair works of Rotor, Stator, De-aerator structure *etc.*, at its power plant and increased to ₹ 96.09 crore in 2016-17 and thereafter started declining to ₹ 79.19 crore in 2017-18 and ₹ 75.66 crore in 2018-19. The annual growth rate during the above period showed a fluctuating trend *i.e.*, from 20.24 to 119.78 *per cent* with negative growth rate of 54.66, 17.59 and 4.46 *per cent* during 2015-16, 2017-18 and 2018-19 respectively, whereas, the growth rate of GSDP was fluctuating between 3.22 and 17.91 *per cent*. The CAGR of GSDP during five years ended 2018-19 was 10.18 *per cent*, against which, the CAGR of the turnover of Power Sector Undertaking was negative at 4.73 *per cent* indicating the decrease in share of turnover of Power Sector PSU to GSDP over these five years.

The share of turnover of the Power Sector Undertaking to the GSDP declined from 0.43 *per cent* in 2014-15 to 0.21 in 2018-19. Against the peak demand of 465 MW of the UT of Puducherry, the lone power sector PSU *viz.*, PPCL had only one gas based power plant with 32.5 MW and the balance requirement of power of UT was met from the power allocation from Central Generating Stations and power purchased from Tamil Nadu and hence the share of power sector PSU in GSDP of UT was very low.

4.2.2 Formation of Power Sector Undertaking

Puducherry Power Corporation Limited (PPCL) was formed in March 1993 and is functioning under the Electricity Department of UT Government. The Company's plant at Karaikal was put into operation in January 2000 and is engaged in the generation of power from the plant having a capacity of 32.5 MW (22.9 MW from Gas Turbine and 9.6 MW from Steam Turbine). The entire power generated by the Company is supplied to the Electricity Department of UT Government based on the tariff rates fixed by Joint

Electricity Regulatory Commission. The transmission and distribution activities are carried on by the Electricity Department, UT Government.

Audit of this Power Sector Undertaking is governed by Sections 139 and 143 of the Companies Act, 2013. The financial statements of this Company are audited by the Statutory Auditors appointed by the CAG subject to supplementary audit by the CAG.

4.2.3 Investment in Power Sector Undertaking

The investment made in Power Sector as on 31 March 2019 is given in **Table 4.4**.

Table 4.4: Investment in Power Sector PSU

Activity	Number of PSU	Investment (₹ in crore)		
		Equity	Long term loans	Total
Generation of Power	1	99.78	Nil	99.78
Total	1	99.78	Nil	99.78

(Source: Details furnished by PSU)

During the year 2018-19, UT Government did not invest any funds in PPCL and as on 31 March 2019, the total investment in Power Sector PSU stood at ₹ 99.78 crore which represents equity only.

4.2.4 Budgetary Support to Power Sector Undertaking

During the last three years ended March 2019, UT Government has not provided any financial support to Power Sector PSU in the form of equity, loans and grants/subsidies through annual budget.

4.2.5 Reconciliation with Finance Accounts of UT Government

UT Government has invested in the Power Sector PSU only in the form of equity and has not advanced any loan or stood guarantee as at the end of March 2019.

4.2.6 Submission of accounts by Power Sector Undertaking

Timeliness in preparation of accounts by Power Sector Undertaking

Details of arrears in submission of accounts by the Power Sector Undertaking as on 30th September of each financial year for the last five years ended 31 March 2019 are given in **Table 4.5**.

Table 4.5: Position relating to submission of accounts by Power Sector Undertaking

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1	Number of PSU	1	1	1	1	1
2	Number of accounts submitted during current year	1	1	1	1	1
3	Accounts finalised for the current year	Nil	Nil	Nil	Nil	Nil
4	Number of previous year accounts finalised during current year	1	1	1	1	1
5	Number of accounts in arrears	1	1	1	1	1
6	Extent of arrears	One year	One year	One year	One year	One year

(Source: Compiled from the accounts of Power Sector PSU received during October to September of respective financial years).

The administrative departments need to instruct the PSU for timely finalisation of accounts.

4.2.7 Comments on Accounts of Power Sector Undertaking

The Power Sector Company forwarded its audited accounts for the year 2017-18 to the Accountant General during August 2019. On completion of supplementary audit, NIL Comment was issued. The details of aggregate money value of the comments of the CAG on the accounts for the years 2016-19 are as given in **Table 4.6**.

Table 4.6: Impact of audit comments on Power Sector Undertaking

(₹ in crore)

Sl. No.	Particulars	2016-17		2017-18		2018-19	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	--	--	1	5.24	-	-
2	Increase in profit	--	--	--	--	--	--
3	Increase in loss	--	--	--	--	--	--
4	Decrease in loss	--	--	--	--	--	--
5	Non-disclosure of material facts	--	--	--	--	--	--
6	Errors of classification	--	--	--	--	--	--

(Source: Compiled from comments of CAG)

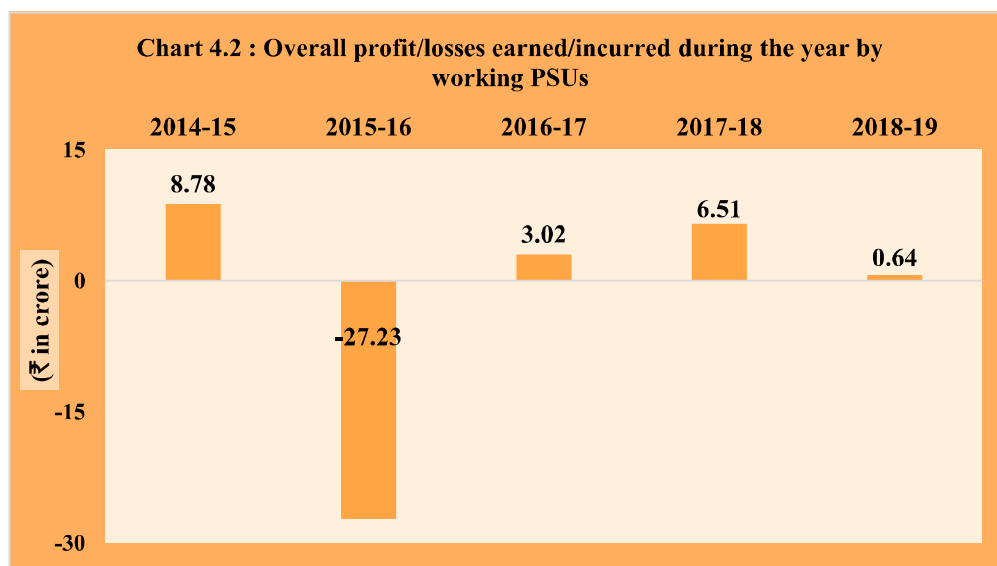
4.2.8 Performance of Power Sector Undertaking

The financial position and working results of the Power Sector Undertaking as per its latest finalised accounts as of September 2019 is detailed in **Appendix 4.1**. The Public Sector Undertaking is functioning on commercial principles and hence it is expected to yield reasonable return on investment

made by Government in the PSU. The total investment made by UT Government in the Power Sector PSU as on 31 March 2019 was only in the form of equity which amounted to ₹ 99.78 crore. The investment has remained constant during 2014-19. The profitability of a company is traditionally assessed through return on investment, return on equity and return on capital employed. Return on investment measures the profit or loss made in a year relating to the amount of money invested in the form of equity and long term loans and is expressed as a percentage of profit to the total investment. Return on capital employed is a financial ratio that measures the company's profitability and the efficiency with which its capital is used and is calculated by dividing company's earnings before interest and taxes by capital employed. Return on Equity is a measure of performance calculated by dividing net profit after tax by shareholders' funds.

4.2.9 Return on Investment (RoI)

Return on investment is the percentage of profit or loss to the total investment. The overall position of profit/loss⁷ earned/incurred by the Power Sector Undertaking during 2014-19 is depicted in **Chart 4.2**.



(Source: As per the latest accounts finalised during respective years)

The Power Sector PSU earned profit in four years amounting to ₹ 18.95 crore and incurred loss of ₹ 27.23 crore during 2015-16 due to major shut down of its power plant. Further the decrease in the profit reported for the year 2018-19 was mainly on account of provision for doubtful advances and interest thereon for ₹ 5.24 crore in its annual accounts for the year 2017-18.

4.2.9.1 Return on the basis of historical cost of investment

The UT Government infused funds only in the form of equity and has not advanced loans/released grants/subsidies to the Power Sector PSU. The RoI

⁷ Figures are as per the latest finalised accounts during the respective years.

from Power Sector PSU has been computed on the investment made by the Government in the form of equity. The investment of the UT Government in the PSU has been arrived at by considering the equity (initial equity net of accumulated losses up to 2009-10). The dividend paid by the PSU has been deducted from the total investment in the respective years. The total equity funds infused by the UT Government in the PSU up to March 2010 stood at ₹ 99.78 crore. During 2010-19, UT Government has not infused any fresh funds into the PSU. During 2010-19, UT Government had received a total dividend of ₹ 23.94 crore and after deducting the same, the net investment at the end of March 2019 stood at ₹ 75.84 crore.

The RoI worked out on investment on historical cost basis on the net earnings for the years 2014-19 are given in **Table 4.7**.

Table 4.7: Return on UT Government investment on historical cost basis

(₹ in crore)

Year	Funds infused by UT Government in the form of equity	Total Earnings profit/loss	Return on Investment (in per cent)
(1)	(2)	(3)	(4)=(3/2x100)
2014-15	80.86	8.78	10.86
2015-16	80.86	(-) 27.23	(-) 33.68
2016-17	80.86	3.02	3.73
2017-18	77.05	6.51	8.45
2018-19	75.84	0.64	0.84

(Source: Latest finalised accounts of the respective years)

The return on investment of the PSU was positive in all the years during 2014-19 except during 2015-16 in which the PSU reported loss. The RoI ranged between 0.84 (2018-19) and 10.86 *per cent* (2014-15) of the investment and RoI was negative during 2015-16 at 33.68 *per cent*. During 2015-16, the Power Sector PSU finalised its accounts for 2014-15 and reported a loss of ₹ 27.23 crore due to major repair expenditure incurred on the plant (₹ 15.47 crore) and payment of penalty (₹ 22.11 crore) to the Gas Authority of India Limited for non-lifting of minimum guaranteed quantity of gas. Further, PPCL witnessed gradual decline in the RoI, mainly on account of shut down of the plant for part of the financial year 2016-17 as well as the provision for doubtful advance and non-recognition of interest on such advance during 2017-18.

4.2.9.2 Return on the basis of present value of the investment

Traditional calculation of return based only on historical cost of investment may not be a correct indicator of the adequacy of the return on the investment since such calculations ignore the present value of money. The present value of the Government investments has been computed to assess the rate of return on the present value of investments of UT Government in the PSU as compared to historical value of investments. In order to bring the historical

cost of investments to its present value at the end of each year up to 31 March 2019, the past investments/year-wise funds infused by the UT Government in the UT PSU has been compounded at the year-wise average rate of interest on Government borrowings which is considered as the minimum cost of funds to the Government for the concerned year. Audit noticed that the PSU generated positive return on investments in all the years from 2010-11 except in 2015-16. The details are furnished in **Table 4.8**.

The Present Value (PV) of the UT Government investment in Power Sector Undertaking was computed on the basis of following assumptions:

- The dividend paid by the PSU has been deducted from the total investment in the respective years.
- The average rate of interest on Government borrowings for the concerned financial year⁸ was adopted as compounded rate for arriving at PV since they represent the cost incurred by the Government towards investment of funds for the year and therefore as the minimum expected rate of return on investments made by the Government.

The consolidated position of the PV of the UT Government investment and the total earnings relating to the Power Sector Undertaking from 2010-11 to 31 March 2019 is indicated in **Table 4.8**.

Table 4.8: Year wise details of investment by the UT Government and PV of Government Funds since inception to 2018-19

(₹ in crore)

Financial year	Present value of total investment at the beginning of the year	Equity infused by the UT Government during the year	Interest free loan given by the UT Government during the year	Interest free loan converted as grant during the year	Dividend paid by the PSU	Total investment at the end of the year after adjusting dividend	Average rate of interest on Government borrowings (in per cent)	Present value of total investment at the end of the year	Minimum expected return to recover cost of funds for the year	Total earnings for the year
(1)	(2)	(3)	(4)	(5)	(6)	(7)= (2+3+ 4-5-6)	(8)	(9)= (7+(7x8) /100))	(10)=(9x 8/100)	(11)
Upto 2009-10	--	99.78	--	--	5.02	94.76	8.00	102.34	8.19	--
2010-11	102.34	--	--	--	4.44	97.90	7.81	105.55	8.24	11.09
2011-12	105.55	--	--	--	--	105.55	7.80	113.78	8.87	0.68
2012-13	113.78	--	--	--	3.18	110.60	8.00	119.45	9.56	7.95
2013-14	119.45	--	--	--	2.77	116.68	7.70	125.66	9.68	6.93
2014-15	125.66	--	--	--	3.51	122.15	7.90	131.80	10.41	8.78
2015-16	131.80	--	--	--	--	131.80	7.50	141.69	10.63	(-) 27.23
2016-17	141.69	--	--	--	--	141.69	7.20	151.89	10.94	3.02

⁸ The average rate of interest on Government borrowings was adopted from the Reports of the CAG of India on Union Territory Finances for the concerned year wherein the calculation for the average rate for interest paid = Interest Payment/ [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities)/2]*100.

Financial year	Present value of total investment at the beginning of the year	Equity infused by the UT Government during the year	Interest free loan given by the UT Government during the year	Interest free loan converted as grant during the year	Dividend paid by the PSU	Total investment at the end of the year after adjusting dividend	Average rate of interest on Government borrowings (in per cent)	Present value of total investment at the end of the year	Minimum expected return to recover cost of funds for the year	Total earnings for the year
(1)	(2)	(3)	(4)	(5)	(6)	(7)= (2+3+ 4-5-6)	(8)	(9)= (7+(7x8) /100))	(10)=(9x 8/100)	(11)
2017-18	151.89	--	--	--	3.81	148.08	8.02	159.95	12.83	6.51
2018-19	159.95	--	--	--	1.21	158.74	7.88	171.25	13.49	0.64
Total		99.78	--	--	23.94					

(Source: Details furnished by PSU)

As discussed in Paragraph 4.2.9.1, the total historical cost of funds infused by the UT Government in the Power Sector Undertaking stood at ₹ 75.84 crore. The PV of funds infused by the UT Government up to 31 March 2019, computed as per the assumptions stated above worked out to ₹ 171.25 crore. The comparative position of RoI worked out on historical cost *vis-à-vis* PV during 2014-19 is given in **Table 4.9**.

Table: 4.9: Return on UT Government Funds

(₹ in crore)

Year	Total earning	Historical cost of funds invested in the form of equity	RoI on historical cost (in per cent)	PV of the funds invested in the form of equity	RoI on the present value (per cent)
(1)	(2)	(3)	(4)= (2)/(3) x 100	(5)	(6)= (2)/(5) x 100
2014-15	8.78	80.86	10.86	131.80	6.66
2015-16	(-) 27.23	80.86	(-) 33.68	141.69	*
2016-17	3.02	80.86	3.73	151.89	1.99
2017-18	6.51	77.05	8.45	159.95	4.07
2018-19	0.64	75.84	0.84	171.25	0.37

*In view of the loss, rate of return was not calculated on PV of the investment.

(Source: As per the latest accounts finalised during respective years)

From the table above, it is evident that the percentage of return on investment under PV method was lesser than the RoI calculated under historical cost method. The rate of return was positive during all the years excepting 2015-16 and ranged between 0.84 and 10.86 *per cent* on the historical cost of funds infused, whereas the rate of return on the PV of investment was lesser between 0.37 and 6.66 *per cent*. As the RoI was negative during 2015-16, the comparison was not made.

4.2.9.3 Net worth

Net worth means the sum total of paid capital plus free reserves and surplus minus accumulated losses and deferred revenue expenditure. Essentially it is a measure of what an entity is worth to the owners. As per the latest finalised

accounts as on 31 March 2019, the PSU had a net worth of ₹ 134.08 crore (**Appendix 4.1**).

4.2.9.4 Dividend payout

The UT Government had not formulated any policy for payment of minimum dividend on the share capital contributed by it. The UT Government had invested ₹ 99.78 crore towards equity of the Power Sector PSU. Against this equity, the dividend paid by the PSU to the Government was ₹ 8.53 crore during 2014-19. Details of total equity infused, profit earned by Power Sector PSU and the dividend paid to the UT Government during 2014-19 are given in **Table 4.10**.

Table 4.10: Declaration of dividend by Power Sector PSU during 2014-19

Year	Total number of PSU		Profit earned	Dividend paid	Dividend pay-out ratio (in per cent)
	Number of PSU	Equity amount			
(1)	(2)	(3)	(4)	(5)	(6)=(5)/(3)x100
2014-15	1	99.78	8.78	3.51	3.52
2015-16	1	99.78	(-) 27.23	--	--
2016-17	1	99.78	3.02	--	--
2017-18	1	99.78	6.51	3.81	3.82
2018-19	1	99.78	0.64	1.21	1.21

(Source: Latest finalised accounts of PSU)

During 2014-19, the dividend pay-out ratio on the total equity investments ranged from 1.21 to 3.82 *per cent*.

4.2.9.5 Return on Equity

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

Shareholders' fund of a company is calculated by adding paid up capital and free reserves net of accumulated losses and deferred revenue expenditure. It reveals how much would be left for a company's stakeholders if all assets were sold and all debts paid. A positive shareholders' fund reveals that the company has enough assets to cover its liabilities while negative figures means that liabilities exceed the assets. RoE has been computed in respect of the Power Sector Undertaking where funds have been infused by the UT Government. The details of shareholders' funds and RoE relating to the PSU during 2014-19 are given in **Table 4.11**.

Table 4.11: RoE of the Power Sector Undertaking where funds infused by UT Government
(₹ in crore)

Year	Net income/Total earnings for the year	Shareholders' funds	RoE (in percentage)
2014-15	8.78	145.53	6.03
2015-16	(-) 27.23	130.84	--
2016-17	3.02	131.80	2.29
2017-18	6.51	133.87	4.86
2018-19	0.64	134.08	0.48

(Source: Latest finalised accounts of the respective years)

As can be seen from the above table, during the last five years ending 2018-19, the net income was positive excepting 2015-16 and the RoE was in the range of 0.48 to 6.03 *per cent* which indicated that the Company has managed its assets to create profit during the above period. During 2015-16, though the shareholders fund was positive, the net income was negative and hence, the RoE was not worked out.

4.2.9.6 Return on Capital Employed

Return on Capital Employed (RoCE) is a ratio that measures the Company's profitability and efficiency with which its capital is employed. RoCE is calculated by dividing a Company's earnings before interest and taxes (EBIT) by the capital employed⁹. The details of RoCE of the Power Sector Undertaking during the years from 2014-15 to 2018-19 are given in **Table 4.12**.

Table 4.12: Return on Capital Employed

Year	EBIT (₹ in crore)	Capital Employed (₹ in crore)	RoCE (in <i>per cent</i>)
2014-15	13.37	145.53	9.19
2015-16	(-) 41.56	130.84	--
2016-17	4.93	131.80	3.74
2017-18	10.51	133.87	7.85
2018-19	1.87	134.08	1.39

(Source: Latest annual accounts finalised during the respective years)

The RoCE of Power Sector PSU was positive during 2014-15 at 9.19 *per cent*. It turned negative during 2015-16 on account of shut down of the plant for major repairs and again it became positive during 2016-17, 2017-18 and 2018-19 at 3.74 *per cent*, 7.85 *per cent* and 1.39 *per cent* respectively. The decline in RoCE was mainly on account of decline in the profit earned by PPCL as explained in Paragraphs 4.2.9 and 4.2.9.1.

⁹ Capital employed = Shareholders funds (after deducting accumulated losses) plus long term loans.

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

4.3.1 Introduction

There are 12 Public Sector Undertakings (PSUs) in the Union Territory of Puducherry (UT) as on 31 March 2019 which related to sectors other than Power Sector. These PSUs were incorporated during the period 1971 to 2005 and are all Government Companies. The above PSUs include one¹⁰ non-functional company which is a subsidiary company of another Government Company.

The UT Government provides financial support to these PSUs in the form of equity, loans and grants/subsidy from time to time. Of the 12 PSUs (other than Power Sector), UT Government invested funds in 11 PSUs and the equity of the subsidiary company was contributed by its holding company.

4.3.2 Contribution to the Economy of the Union Territory

A ratio of turnover of the PSUs to the GSDP shows the extent of activities of the PSUs in the UT economy. The CAGR is a useful method to measure growth rate over multiple time periods. The **Table 4.13** provides the details of turnover of PSUs (other than Power Sector) and GSDP of UT Government for a period of five years ended March 2019.

Table 4.13: Turnover of PSUs (Other than Power Sector) vis-à-vis GSDP of UT

(₹ in crore)					
Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Turnover	304.84	318.89	270.54	307.99	300.77
GSDP of UT Government	22,574	26,617	29,573	32,962	36,656
Percentage of turnover to GSDP of UT Government	1.35	1.20	0.91	0.93	0.82
Percentage of growth of turnover	2.07	4.61	(-)15.16	13.84	(-) 2.34
Percentage of growth of GSDP	3.22	17.91	11.11	11.46	11.21
CAGR of turnover ¹¹					0.27 per cent
CAGR of GSDP					10.18 per cent

(Source: Turnover reported in the latest finalised accounts of working PSUs and GSDP figures as per the Report of the CAG on Union Territory Finances for the respective years)

The aggregate turnover of these PSUs increased from ₹ 304.84 crore in 2014-15 to ₹ 318.89 crore in 2015-16 but declined to ₹ 270.54 crore in 2016-17 and again increased to ₹ 307.99 crore in 2017-18 but declined to ₹ 300.77 crore in 2018-19. The percentage of growth rate of turnover

¹⁰ Pondicherry Electronics Limited.

¹¹ The compounded annual growth rate calculated as per the formula: $((\text{Final Value}/\text{Beginning Value})^{1/\text{number of years}})-1$.

increased from 2.07 in 2014-15 to 4.61 in 2015-16 but declined to (-) 15.16 in 2016-17 and again increased to 13.84 in 2017-18 but again declined to (-) 2.34 in 2018-19. However, the percentage of growth rate of GSDP increased from 3.22 in 2014-15 to 17.91 in 2015-16 and it was fluctuating thereafter, but declined to 11.21 in 2018-19. The GSDP recorded a CAGR of 10.18 *per cent* during 2014-19 whereas during the same period, CAGR of the turnover of PSUs (other than Power Sector) recorded a very low at 0.27 *per cent*. This was evident from the wide fluctuation in the growth rate of turnover of PSUs as well as decrease in share of turnover of these PSUs to GSDP from 1.35 *per cent* in 2014-15 to 0.82 *per cent* in 2018-19.

4.3.3 Investment in PSUs (other than Power Sector)

There are some PSUs which are instrumental/nodal agency to the UT Government to provide certain services which the private sector may not be willing to extend due to various reasons, PSUs of such nature are classified as “Social Sector PSUs”. Besides, the Government has also entered into certain business segments through some PSUs where it faces competition from private players, PSUs of such nature are classified as “Competitive Sector PSUs”. In addition, there is one¹² PSU which was established by UT Government to perform certain activities which cannot be classified under the above two categories, this PSU has been dealt with in this report as “Others”. Details of investment made in 12 PSUs in the form of equity and long term loans up to March 2019 are detailed in **Appendix 4.2**.

The sector-wise summary of investment made in 12 PSUs as on 31 March 2019 are given in **Table 4.14**.

Table 4.14: Sector-wise investment in PSUs (other than Power Sector)

Sector	Number of PSUs	Investment (₹ in crore)		
		Equity	Long term loans	Total
Social Sector	4	33.11	40.34	73.45
Competitive Sector	7	575.50	2.72	578.22
Others	1	8.45	Nil	8.45
Total	12	617.06	43.06	660.12

(Source: Details furnished by PSUs)

As on 31 March 2019, the total investment (equity and long term loans) in 12 PSUs was ₹ 660.12 crore. The investment consisted of 93.48 *per cent* towards equity and 6.52 *per cent* in long term loans. The long term loans were fully advanced by the UT Government.

¹² Puducherry Distilleries Limited.

The investment has grown marginally by 3.81 *per cent* from ₹ 635.90 crore in 2014-15 to ₹ 660.12 crore in 2018-19. The increase was mainly due to loans availed by Social Sector PSUs.

During the year 2018-19, no disinvestment, restructuring or privatisation of PSUs was done by UT Government.

4.3.4 Budgetary Support to PSUs (other than Power Sector)

UT Government provides financial support to PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies and loans converted into equity during the year in respect of PSUs for the last three years ending March 2019 are given in **Table 4.15**.

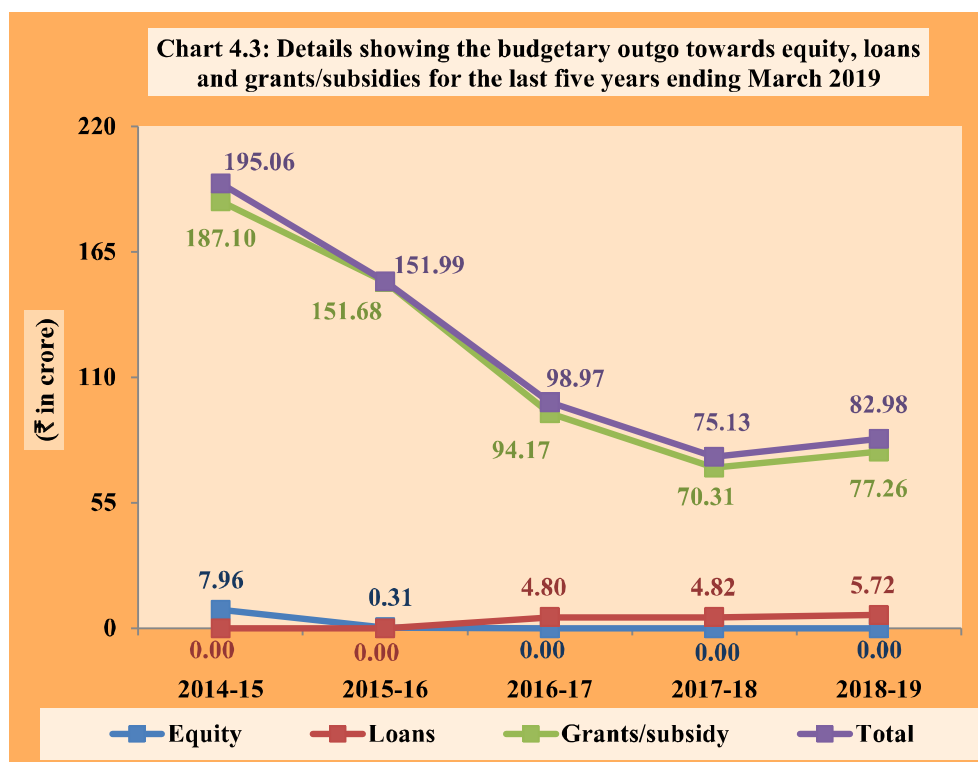
Table 4.15: Budgetary support to PSUs (other than Power Sector) during 2016-19
(₹ in crore)

Sl. No.	Particulars ¹³	2016-17		2017-18		2018-19	
		Number of PSUs	Amount	Number of PSUs	Amount	Number of PSUs	Amount
1	Equity Capital	Nil	Nil	Nil	Nil	Nil	Nil
2	Loans	2	4.80	2	4.82	2	5.72
3	Grants/Subsidy	8	94.17	8	70.31	6	77.26
4	Total Outgo (1+2+3)	8	98.97	8	75.13	6	82.98
5	Loan repayment/ written off	Nil	Nil	Nil	Nil	Nil	Nil
6	Loans converted into equity	Nil	Nil	Nil	Nil	Nil	Nil
7	Guarantees issued	Nil	Nil	Nil	Nil	Nil	Nil
8	Guarantee Commitment	1	3.15	1	3.10	1	3.10

(Source: Compiled from the information furnished by PSUs for the respective years)

The details regarding budgetary outgo towards equity, loans and grants/subsidies for the last five years ending March 2019 are given in **Chart 4.3**.

¹³ Amount represents outgo from Union Territory Budget only.



(Source: As per the latest accounts finalised during respective years)

The budgetary assistance received by these PSUs during the years 2016-17 to 2018-19 ranged between ₹ 75.13 crore and ₹ 98.97 crore. The budgetary assistance of ₹ 82.98 crore received during 2018-19 was in the form of loan (₹ 5.72 crore) and grants/subsidy (₹ 77.26 crore). The subsidy/grants given by UT Government was mainly for payment of salaries to staff and scheme related expenses (₹ 57.67 crore) to Social Sector PSUs during 2018-19.

Besides the budgetary support, UT Government also provides guarantee for PSUs to seek financial assistance from banks and financial institutions. The guarantee commitment given by UT Government outstanding as at the end of March 2019 was ₹ 3.10 crore in respect of one PSU¹⁴.

4.3.5 Reconciliation with Finance Accounts of Government of UT of Puducherry

The figures in respect of equity, loans and guarantees outstanding as per records of PSUs should agree with that of the figures appearing in the Finance Accounts of the Government of UT of Puducherry. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of the differences. The position in this regard in respect of PSUs (other than Power Sector) as on 31 March 2019 is given in **Table 4.16**.

¹⁴ Puducherry Adi-Dravidar Development Corporation Limited.

Table 4.16: Equity/Loans/Guarantees Outstanding as per Finance Accounts of UT Government vis-à-vis records of the PSUs

(₹ in crore)				
Outstanding in respect of	Amount as per records of PSUs	Amount as per Finance Accounts	Number of PSUs involved	Net Difference
Equity	614.34	612.61	2	(-) 1.73
Loans	14.50	0.93	3	13.57
Guarantees	3.10	16.15		(-) 13.05

(Source: Information furnished by PSUs and Finance Accounts of UT Government)

Audit observed that the differences occurred in respect of equity and loans in two¹⁵ PSUs and three¹⁶ PSUs respectively and guarantees in two¹⁷ PSUs. Reconciliation of difference was pending from March 2007 in case of one PSU¹⁸. The Secretary to Government of UT of Puducherry, Finance Department was addressed (November 2019) and his attention was drawn to the need for reconciliation of figures in Finance Accounts and as furnished by the companies in their respective accounts. In spite of similar observations in the previous Audit Reports, the difference persists. The UT Government and PSUs should take concrete steps to reconcile the differences in a time bound manner.

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

The status of timeline followed by the PSUs (other than Power Sector) in preparation and submission of accounts to CAG is discussed below:

Timeliness in preparation of accounts by working PSUs

PSUs are required to submit their annual accounts every year on or before 30 September after close of the respective financial year. However, none of the 11 working PSUs had forwarded their accounts for the year 2018-19 for audit by CAG on or before 30 September 2019 and hence the accounts of all the PSUs were in arrears for periods ranging from one year to nine years.

Details of arrears in submission of accounts by working PSUs (other than Power Sector) as on 30 September of the respective financial years are given in **Table 4.17**.

¹⁵ Puducherry Agro Products, Food and Civil Supplies Corporation Limited and Puducherry Adi-Dravidar Development Corporation Limited.

¹⁶ Puducherry Agro Products, Food and Civil Supplies Corporation Limited, Puducherry Corporation for the Development of Women and Differently Abled Persons Limited and Puducherry Road Transport Corporation Limited.

¹⁷ Puducherry Adi-Dravidar Development Corporation Limited and Puducherry Backward Classes and Minorities Development Corporation Limited.

¹⁸ Puducherry Agro Products, Food and Civil Supplies Corporation Limited.

Table 4.17: Position relating to submission of accounts by the working PSUs (other than Power Sector)

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1	Number of PSUs (other than Power Sector)	11	11	11	11	11
2	Number of accounts submitted during current year	13	6	10	8	7
3	Number of working PSUs which finalised accounts for the current year	Nil	Nil	Nil	Nil	Nil
4	Number of previous year accounts finalised during current year	13	6	10	8	7
5	Number of working PSUs with arrears in accounts	11	11	11	11	11
6	Number of accounts in arrears	28	33	34	37	43
7	Extent of arrears	One to five years	One to six years	One to seven years	One to eight years	One to nine years

(Source: Compiled based on the receipt of accounts from PSUs during October to September of respective financial years)

Of these 11 working PSUs, six PSUs had finalised their seven annual accounts pertaining to previous years during the period 01 October 2018 to 30 September 2019. Further, 43 annual accounts were in arrears which pertain to 11 PSUs for the years ranging from 2010-11 to 2018-19 as detailed in **Appendix 4.3**. The Administrative Departments have the responsibility to oversee the activities of these entities and ensure that the accounts are finalised and adopted by these PSUs in the Annual General Meeting within the stipulated period. The concerned Departments were informed periodically regarding the position of arrears in accounts.

In addition, one non-functional PSU as on 31 March 2019, viz., Pondicherry Electronics Limited (PELECON) which is a subsidiary of Pondicherry Industrial Promotion Development and Investment Corporation Limited (PIPDIC) has not finalised its accounts since 2011-12 and is in the process of winding up.

Due to non-finalisation of accounts and their subsequent audit in these PSUs, it could not be ensured whether the investments and expenditure incurred was properly accounted for and the purpose for which the amount invested was achieved or not. Hence, Audit could not discharge its responsibilities with regard to the accounts of these companies, as required under CAG's DPC Act, 1971 and the Companies Act, 2013. Investment of UT Government in these PSUs, therefore, remained outside the control of UT Legislature.

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

Out of 11 working PSUs, six PSUs forwarded seven audited accounts to the Accountant General during the period from 01 October 2018 to 30 September 2019. These accounts were subjected to either scrutiny at office

level or selected for supplementary audit. The Audit Reports of Statutory Auditors and supplementary audit conducted by the CAG indicated that the quality of accounts needs to be improved substantially. The details of aggregate money value of the comments of Statutory Auditors and the CAG are given in **Table 4.18**.

Table 4.18: Impact of audit comments on Working Companies (other than Power Sector)
(₹ in crore)

Sl. No.	Particulars	2016-17		2017-18		2018-19	
		Number of accounts	Amount	Number of accounts	Amount	Number of accounts	Amount
1	Decrease in profit	Nil	Nil	1	2.37	1	2.33
2	Increase in profit	1	0.76	Nil	Nil	1	0.04
3	Increase in loss	2	6.81	2	7.90	--	--
4	Decrease in loss	Nil	Nil	1	0.60	--	--
5	Non-disclosure of material facts	Nil	Nil	Nil	Nil	--	--
6	Errors of classification	Nil	Nil	2	0.24	--	--

(Source: Compiled from comments of the Statutory Auditors/ CAG in respect of Government Companies)

During the year, the Statutory Auditors had given unqualified certificates for two accounts, qualified certificates for four accounts and adverse opinion for one account submitted by the companies. The compliance of companies with the Accounting Standards remained poor, as there were six instances of non-compliance in five accounts during the year.

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

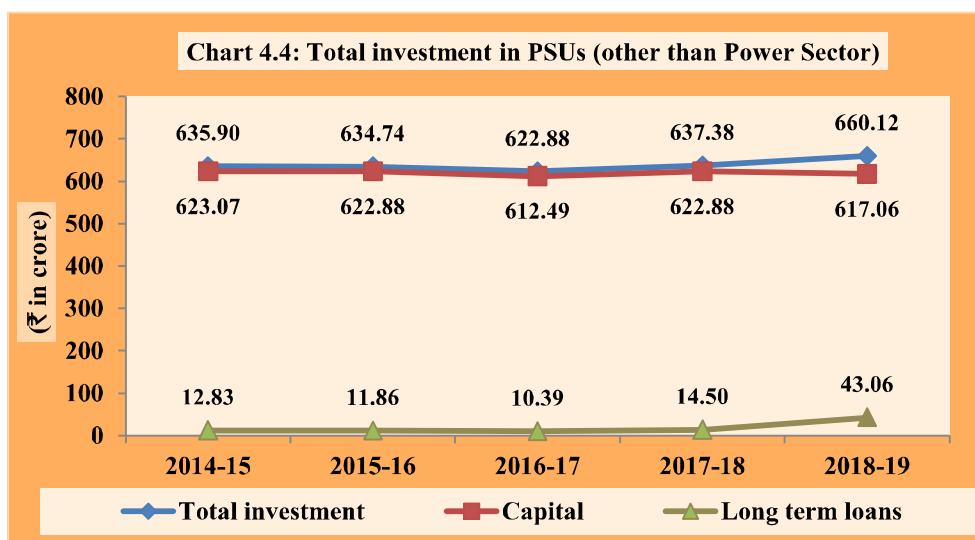
As pointed in Paragraph 4.3.6, the delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant statutes. Out of 11 PSUs which had not finalised their accounts, the UT Government had released a sum of ₹ 5.72 crore in the form of loans to two PSUs and ₹ 77.26 crore as grants to six PSUs during 2018-19, as detailed in **Appendix 4.4**. Thus, the Government of Puducherry had invested ₹ 660.12 crore in 11 PSUs (other than Power Sector) so far in the form of equity and loans, whose accounts had not been finalised for periods ranging from one year to nine years. In view of the above state of arrears of accounts, the actual contribution of the PSUs to the GSDP of UT Government could not be ascertained and their contribution to UT exchequer was also not reported to the UT Legislature. Hence, audit could not discharge its responsibilities with regard to the accounts of these companies, as required under CAG's DPC Act, 1971 and the Companies Act, 2013.

It is, therefore, recommended that the administrative departments should strictly monitor and issue necessary directions to clear the arrears in finalisation of accounts. The Government may also look into the constraints in preparation of accounts by the PSUs and take necessary steps to clear the arrears in accounts.

4.3.9 Performance of PSUs (other than Power Sector)

The financial position and working results of the 12 PSUs (working and non-functional) are detailed in **Appendix 4.1** as per their latest finalised accounts up to 31 March 2020.

The PSUs are expected to yield reasonable RoI on the investments made by Government in the undertakings. The total investment of UT Government in PSUs (other than Power Sector) as on 31 March 2019 consisted ₹ 617.06 crore as equity and ₹ 43.06 crore as long term loans. The year wise status of total investment, equity and long term loans during the five year period 2014-19 is shown in the **Chart 4.4**.



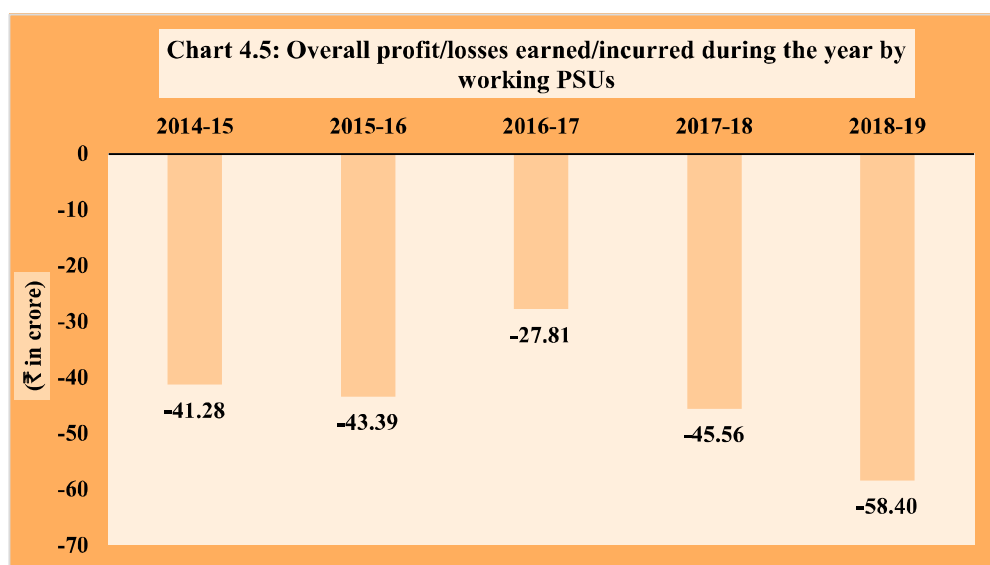
(Source: Data furnished by PSUs in respective years)

The investment has grown by 3.81 *per cent* from ₹ 635.90 crore in 2014-15 to ₹ 660.12 crore in 2018-19. The investment increased due to addition of ₹ 10.39 crore during 2017-18 towards equity and ₹ 28.56 crore towards long term loans during 2018-19.

The profitability of a Company is traditionally assessed through RoI, return on equity and return on capital employed. RoI measures the profit or loss made in a fixed year relating to the amount of money invested in the form of equity and long term loans and is expressed as a percentage of profit to the total investment. Return on capital employed is a financial ratio that measures the company's profitability and the efficiency with which its capital is used and is calculated by dividing company's earnings before interest and taxes by capital employed. Return on equity is a measure of performance calculated by dividing net profit after tax by shareholders' funds.

4.3.10 Return on Investment

The RoI is the percentage of profit or loss to the total investment. The overall position of profit/losses¹⁹ earned/incurred by the 11 working PSUs (other than Power Sector) during 2014-15 to 2018-19 is depicted below in **Chart 4.5**.



(Source: As per the latest accounts finalised during respective years)

The 11 working PSUs incurred losses in aggregate in all the five years during 2014-19 which were in the range of ₹ 27.81 crore to ₹ 58.40 crore. As per the latest finalised accounts, out of 11 working PSUs, three PSUs earned a profit of ₹ 8.71 crore and eight PSUs incurred a loss of ₹ 67.11 crore.

The details of number of PSUs which earned profit/incurred losses during 2014-19 are given in **Table 4.19**.

Table 4.19: Details showing the number of working PSUs (other than Power Sector) which earned profit/incurred loss during 2014-19

Year	Total number of PSUs in the Union Territory	Number of PSUs which earned profit during the year	Number of PSUs which incurred loss during the year	Number of PSUs which reported no profit/loss	Number of PSUs which had marginal profit or loss ²⁰
2014-15	11	1	8	2	5
2015-16	11	2	8	1	6
2016-17	11	3	7	1	7
2017-18	11	3	7	1	7
2018-19	11	3	8	--	--

(Source: As per the latest accounts finalised during respective years)

¹⁹ Figures are as per the latest finalised accounts during the respective years.

²⁰ Profit/losses equal to or less than ₹ five lakh.

As per the latest finalised accounts as on 30 September 2019, the major contributor of profit was Puducherry Distilleries Limited (PDL) (₹ 4.95 crore) and heavy losses were incurred by two Textile Corporations²¹ (₹ 38.67 crore).

(a) RoI on the basis of historical cost of investment

The UT Government infused funds in shape of equity in 11 PSUs (other than Power Sector). As on 31 March 2019, the total investment of the Government in 11 companies stood at ₹ 184.72 crore.

The RoI from PSUs²² has been calculated on the investment made by the UT Government in the form of equity and loans. In the case of loans, only interest free loans have to be considered as investment since the Government does not receive any interest on such loans and are therefore of the nature of equity investment except to the extent that the loans are liable to be repaid as per terms and conditions of repayment. However, the UT Government has not advanced interest free loans to any of the PSUs. The dividend paid by the PSUs have been deducted from the total investment as the Government had got back returns to that extent. The funds made available in the form of grants/subsidies have not been reckoned as investment since they do not qualify to be considered as investments.

During the period 2009-10 to 2018-19, the investment made by the UT Government in these 11 PSUs was ₹ 184.72 crore comprising of equity only. During the same period, two PSUs²³ had paid a total dividend of ₹ 7.71 crore. Thus, the investment of UT Government in these 11 PSUs on the basis of historical cost stood at ₹ 177.01 crore as on 31 March 2019.

The profit earned or losses incurred by the subsidiaries would have ultimate bearing on the holding company and hence the profit/loss of the subsidiaries have to be added to the net earnings (loss). The one subsidiary company viz., Pondicherry Electronics Limited (PELECON) is in the process of winding up and all its assets and liabilities have been assumed by its Holding Company viz., Pondicherry Industrial Promotion Development and Investment Corporation Limited (PIPDIC) during 2012-13. Accordingly, the profit/loss of PELECON up to that period has been considered for arriving at total earnings for the respective years.

The sector-wise RoI on historical cost basis for the years 2014-19 from the PSUs under three different classifications are given in **Table 4.20**.

²¹ Pondicherry Textile Corporation Limited and Swadeshee Bharathee Textile Mills Limited.

²² Including one non-functional PSU.

²³ Pondicherry Industrial Promotion Development and Investment Corporation Limited and Puducherry Distilleries Limited.

Table 4.20: Return on UT Government Funds on historical cost basis

(₹ in crore)

Year-wise / sector-wise break-up	Total earnings	Funds invested in the form of equity on historical cost	RoI on historical cost basis (in percentage)
(1)	(2)	(3)	(4)= (2)/(3)x100
2014-15			
Social Sector	(-) 8.81	25.50	(-) 34.56
Competitive Sector	(-) 37.23	148.85	(-) 25.01
Others	4.76	3.74	127.27
Total	(-) 41.28	178.09	(-) 23.18
2015-16			
Social Sector	(-) 7.30	25.81	(-) 28.29
Competitive Sector	(-) 40.85	148.85	(-) 27.44
Others	4.76	3.74	127.27
Total	(-) 43.39	178.40	(-) 24.32
2016-17			
Social Sector	(-) 1.41	25.81	(-) 5.46
Competitive Sector	(-) 31.35	148.47	(-) 21.12
Others	4.95	2.73	181.32
Total	(-) 27.81	177.01	(-) 15.71
2017-18			
Social Sector	(-) 3.25	25.81	(-) 12.59
Competitive Sector	(-) 47.26	148.47	(-) 31.83
Others	4.95	2.73	181.32
Total	(-) 45.56	177.01	(-) 25.74
2018-19			
Social Sector	(-) 12.28	25.81	(-) 47.58
Competitive Sector	(-) 51.07	148.47	(-) 34.40
Others	4.95	2.73	181.32
Total	(-) 58.40	177.01	(-) 32.99

(Source: As per the latest accounts finalised during respective years)

The return on funds invested was worked out by dividing the total earnings²⁴ by the historical cost of UT Government investments. In all the years under review, the overall RoI was negative and the same ranged between 15.71 to 32.99 *per cent*. At the end of March 2019, the overall RoI was negative at 32.99 *per cent*.

Analysis of RoI revealed that:

The RoI of PSUs under Other Sector category was positive in all the years which increased from 127.27 in 2014-15 to 181.32 *per cent* in 2018-19.

PSUs under Competitive Sector (CS) category witnessed huge losses and the RoI in these PSUs was negative and fluctuating between 21.12 and

²⁴ This includes Net profit (+)/loss (-) of all the PSUs including subsidiaries.

34.40 *per cent*. The major reason for negative return of PSUs under CS category was due to huge losses incurred by all the PSUs, except for the profit reported by PIPDIC during 2013-14 and 2016-17 and ranged between ₹ 31.35 crore and ₹ 51.07 crore during 2014-19. The losses were mainly due to losses incurred by the two textile Companies *viz.*, Pondicherry Textile Corporation Limited and Swadeshee-Bharathee Textile Mills Limited.

In respect of PSUs under Social Sector category, the RoI during 2014-15 to 2018-19 was negative and ranged between 5.46 *per cent* and 47.58 *per cent* which was mainly due to the loss sustained by Puducherry Agro Products, Food and Civil Supplies Corporation Limited (PAPSCO) in its public distribution activities.

(b) *Return on Investments on the basis of Present Value of the investment*

An analysis of the earnings *vis-à-vis* investments in respect of 11 PSUs (other than Power Sector) where funds had been infused by the UT Government was carried out to assess the profitability of these PSUs. Traditional calculation of return based only on historical cost of investment may not be a correct indicator of the adequacy of the return on the investment since such calculations ignore the present value (PV) of money. The PV of the Government investments has been computed to assess the rate of return on the PV of investments of UT Government in the PSUs as compared to historical value of investments. In order to bring the historical cost of investments to its PV at the end of each year, the past investments/year-wise funds infused have been compounded at the year-wise average rate of interest. For the purpose of compounding, the average rate of Government borrowings, which was the minimum cost of funds to the Government for the concerned year was considered. Accordingly, PV of the UT Government investment was computed in respect of those 11 PSUs where funds have been infused by the UT Government in the shape of equity since inception of these companies till 31 March 2019.

The PV of the UT Government investment in 11 PSUs was computed on the basis of following assumptions:

- The loans advanced by the UT Government are interest bearing and hence the same has not been considered for calculating PV as only Interest Free Loans (IFL) has to be considered for the purpose. The funds made available in the form of grant/subsidies have not been reckoned as investment since they do not qualify to be considered as investment as indicated in Paragraph 4.3.10.1.
- The dividend paid by the PSUs has been deducted from the total investment in the respective years.

- The average rate of interest on Government borrowings for the relevant financial year²⁵ was adopted as compounded rate for arriving at PV since they represent the cost incurred by the Government towards investment of funds for the year and therefore considered as the minimum expected rate of RoI made by the Government.

4.3.10.1 The UT Government's investment in these 11 PSUs in the form of equity for the period from 2010-11 to 2018-19 and the consolidated position of the PV and the total earnings of PSUs (other than Power Sector) for the same period are indicated in **Table 4.21**.

Table 4.21: Year-wise details of investment by the UT Government and PV of Government investment for the period from 2010-11 to 2018-19

(₹ in crore)

Financial year	PV of total investment at the beginning of the year	Equity infused by the UT Government during the year	IFL given by UT Government during the year	IFL converted into grant/equity	Dividend paid by the PSUs	Total investment at the end of the year after adjusting dividend	Average rate of interest on Government borrowings (in per cent)	PV of total investment at the end of the year	Minimum expected return to recover cost of funds for the year	Actual total earnings for the year
(1)	(2)	(3)	(4)	(5)	(6)	(7)=(2+3+4-5-6)	(8)	(9)=(7+(7x8/100))	(10)=(9x8/100)	(11)
Upto 2009-10	--	144.52	--	--	1.44	143.08	8.00	154.53	--	--
2010-11	154.53	21.24	--	--	1.03	174.74	7.81	188.38	14.71	(-) 69.89
2011-12	188.38	6.61	--	--	0.93	194.06	7.80	209.19	16.32	(-) 56.49
2012-13	209.19	0.25	--	--	0.44	209.00	8.00	225.72	18.06	(-) 39.63
2013-14	225.72	3.83	--	--	1.47	228.08	7.70	245.64	18.91	(-) 39.10
2014-15	245.65	7.96	--	--	1.01	252.59	7.90	272.55	21.53	(-) 41.28
2015-16	272.55	0.31	--	--	--	272.86	7.50	293.33	22.00	(-) 43.39
2016-17	293.33	--	--	--	1.39	291.94	7.20	312.96	22.53	(-) 27.81
2017-18	312.96	--	--	--	--	312.96	8.02	338.06	27.11	(-) 45.56
2018-19	338.06	--	--	--	--	338.06	7.88	364.70	28.74	(-) 58.40
Total		184.72	--	--	7.71					

(Source: Details as per annual accounts finalised by the PSUs in the respective years)

The funds infused in these PSUs up to March 2010 was ₹ 144.52 crore comprising only of equity. During the period 2010-19, a total equity of ₹ 40.20 crore was infused in these PSUs. During the same period, these PSUs paid a total dividend of ₹ 7.71 crore. After deducting the dividend paid, the total investment worked out to ₹ 177.01 crore. The PV of the funds infused in these PSUs at the end of March 2019 worked out to ₹ 364.70 crore. During 2010-11 to 2018-19, the total earnings was negative in all the years and was

²⁵ The average rate of interest on Government borrowings was adopted from the Reports of the CAG of India on Union Territory Finances for the concerned year wherein the calculation for the average rate for interest paid = Interest Payment / [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities)/2]*100.

thus far below the minimum expected return and consequently the cost of funds infused in these PSUs could not be recovered. The net aggregate loss was in the range of ₹ 27.81 crore to ₹ 69.89 crore against the expected profit between ₹ 14.71 crore and ₹ 28.74 crore. The losses from PSUs under CS and Social Sector had set off the profit earned by the PSU under Other Sector (refer **Table 4.22**).

Analysis of comparison of sector-wise RoI of funds on historical cost with its PV revealed that PSU under Other Sector had positive returns whereas Social and Competitive Sector PSUs had negative returns in all the five years during 2014-15 to 2018-19. If the PSUs are earning profit, the rate of return calculated on historical cost would be higher whereas, the same would be less if calculated on the PV of the investments. In case of losses, the rate of return would already be negative and hence, the comparative position was not calculated. The sector-wise comparative position of RoI on the historical cost with its PV during five years ended 2018-19 are given in **Table 4.22**.

Table 4.22: Comparative position of RoI on historical cost basis and PV

(₹ in crore)

Year wise sector-wise break-up	Total earnings	Historical cost of funds invested in the form of equity	RoI on historical cost (in percentage)	PV of the funds invested in the form of equity	RoI on the PV (in percentage)
(1)	(2)	(3)	(4)	(5)	(6)=((2)/(5)x100)
2014-15					
Social Sector	(-) 8.81	25.50	(-) 34.55	39.53	*
Competitive Sector	(-) 37.23	148.85	(-) 25.01	225.88	*
Others	4.76	3.74	127.27	7.13	66.76
Total	(-) 41.28	178.09	(-) 23.18	272.55	*
2015-16					
Social Sector	(-) 7.30	25.81	(-) 28.28	42.83	*
Competitive Sector	(-) 40.85	148.85	(-) 27.44	242.83	*
Others	4.76	3.74	127.27	7.67	62.06
Total	(-) 43.39	178.40	(-) 24.32	293.33	*
2016-17					
Social Sector	(-) 1.41	25.81	(-) 5.46	45.92	*
Competitive Sector	(-) 31.35	148.47	(-) 21.12	259.90	*
Others	4.95	2.73	181.32	7.14	69.33
Total	(-) 27.81	177.01	(-) 15.71	312.96	*
2017-18					
Social Sector	(-) 3.25	25.81	(-) 12.59	49.60	*
Competitive Sector	(-) 47.26	148.47	(-) 31.83	280.75	*
Others	4.95	2.73	181.32	7.71	64.20
Total	(-) 45.56	177.01	(-) 25.74	338.06	*

Year wise sector-wise break-up	Total earnings	Historical cost of funds invested in the form of equity	RoI on historical cost (in percentage)	PV of the funds invested in the form of equity	RoI on the PV (in percentage)
(1)	(2)	(3)	(4)	(5)	(6)=((2)/(5)x100)
2018-19					
Social Sector	(-) 12.28	25.81	(-) 47.58	53.51	*
Competitive Sector	(-) 51.07	148.47	(-) 34.40	302.87	*
Others	4.95	2.73	181.32	8.32	59.51
Total	(-) 58.40	177.01	(-) 32.99	364.70	*

* In view of the loss, rate of return was not calculated on PV of the investment.

(Source: As per the latest accounts finalised during respective years)

From the **Table 4.22**, it is evident that the RoI under PV method was lesser than the return calculated under historical method. In respect of PSUs under Others category, the rate of return was positive during all the years 2014-19 and ranged between 127.27 and 181.32 *per cent* on the historical cost of funds infused, whereas the rate of return on the PV of investment was between 62.06 and 69.33 *per cent*.

In respect of PSUs under Social Sector, the rate of return calculated on the historical cost of funds infused was negative and it was in the range of 5.46 to 47.58 *per cent* during the years 2014-15 to 2018-19.

PSUs under Competitive Sector (CS) category incurred huge losses amounting to ₹ 207.76 crore, representing 96 *per cent* of the net aggregate losses of ₹ 216.44 crore of all PSUs during 2014-19. The RoI in these PSUs was negative in all the five years which was in the range of 21.12 to 34.40 *per cent* on historical cost. The major reason for negative return from PSUs under CS category was due to losses incurred by the two textile companies viz., Pondicherry Textile Corporation Limited and Swadeshee-Bharathee Textile Mills Limited. Continuous loss of these PSUs resulted in erosion of net worth as discussed in Paragraph 4.3.11.

4.3.11 Erosion of net worth

Net worth means the sum total of paid up capital plus free reserves and surplus minus accumulated losses and deferred revenue expenditure. Essentially, it is a measure of what an entity is worth to the owners. A negative net worth indicates that the entire investment by the owners had been wiped out by accumulated losses and deferred revenue expenditure. As per the latest finalised accounts, the paid up capital of 11 PSUs stood at ₹ 617.06 crore and its aggregate accumulated losses (net of free reserves of ₹ 46.17 crore²⁶ in

²⁶ Puducherry Distilleries Limited (₹ 42.85 crore), Puducherry Backward Classes and Minorities Development Corporation Limited (₹ 2.30 crore) and Pondicherry Industrial Promotion and Development Corporation Limited (₹ 1.02 crore).

three PSUs) stood at ₹ 731.48 crore leaving a negative net worth of these PSUs at ₹ 114.42 crore, the details of which are given in **Table 4.23**.

Table 4.23: Net worth of 11 PSUs (other than Power Sector) during 2014 -19

(₹ in crore)

Year wise sector-wise break-up	Paid up capital	Accumulated profit (+)/ loss(-) at the end of the year	Deferred revenue expenditure	Net worth
2014-15				
Social Sector	32.49	(-) 30.36	--	2.13
Competitive Sector	568.09	(-) 574.91	--	(-) 6.82
Others	8.45	39.13	--	47.58
Total	609.03	(-) 566.14	--	42.89
2015-16				
Social Sector	32.80	(-) 30.13	--	2.67
Competitive Sector	568.34	(-) 590.07	--	(-) 21.73
Others	8.45	39.13	--	47.58
Total	609.59	(-) 581.07	--	28.52
2016-17				
Social Sector	32.80	(-) 32.99	--	(-) 0.19
Competitive Sector	575.51	(-) 682.17	--	(-) 106.66
Others	8.45	42.85	--	51.30
Total	616.76	(-) 672.31	--	(-) 55.55
2017-18				
Social Sector	32.80	(-) 37.69	--	(-) 4.89
Competitive Sector	575.51	(-) 716.79	--	(-) 141.28
Others	8.45	42.85	--	51.30
Total	616.76	(-) 711.63	--	(-) 94.87
2018-19				
Social Sector	33.11	(-) 50.34	--	(-) 17.23
Competitive Sector	575.50	(-) 723.99	--	(-) 148.49
Others	8.45	42.85	--	51.30
Total	617.06	(-) 731.48	--	(-) 114.42

(Source: Audit Reports and latest finalised accounts during the respective years)

It is evident from the above table that only one PSU under Other Sector has been earning profit and had accumulated profit in all the years. Consequently, its net worth was positive and showed increasing trend from ₹ 47.58 crore in 2014-15 to ₹ 51.30 crore in 2018-19.

The six PSUs under CS were incurring losses in all the years during 2014-19 and its accumulated losses increased from ₹ 574.91 crore in 2014-15 to ₹ 723.99 crore in 2018-19. The net worth of these six PSUs was negative

during 2014-15 at ₹ 6.82 crore and the position further deteriorated in the subsequent years and stood at ₹ 148.49 crore at the end of 2018-19. The negative net worth under this category of PSUs was mainly from Pondicherry Textile Corporation (PONTEX) which reported a net erosion of ₹ 206.35 crore at the end of March 2019 which was to some extent compensated by the positive net worth of PIPDIC. The main reason for the negative net worth of PONTEX was the accumulated losses on account of insufficient revenue to absorb the fixed costs.

The net worth of four PSUs under Social Sector category was positive and stood at ₹ 2.67 crore as at the end of 2015-16 and thereafter turned negative and stood at ₹ 17.23 crore at the end of 2018-19.

The negative net worth indicated that the liabilities of these PSUs have exceeded the assets and instead of paying returns to the shareholders, the shareholders owe money.

4.3.12 Dividend payout

The UT Government had not formulated any policy for payment of minimum dividend on the share capital contributed by it. The UT Government had contributed to the equity of all the 11 PSUs in other than Power Sector Category. The total equity contributed by the UT Government in these 11 working PSUs at the end of March 2015 was ₹ 598.76 crore, which increased to ₹ 606.49 crore at the end of March 2019. Against this equity, the dividend paid by the PSUs to the Government was ₹ 1.01 crore during 2014-15 and ₹ 1.39 crore during 2016-17. Details of total equity infused in the 11 PSUs, profit earned by PSUs and the dividend paid to the UT Government during 2014-19 are given in **Table 4.24**.

Table 4.24: Declaration of dividend by PSUs other than Power Sector during 2014-19

(₹ in crore)

Year	Total number of PSUs		Equity infused		PSUs which earned profit		PSUs which declared dividend		Dividend pay-out ratio
	Number of PSUs	Equity amount (including equity infused during the year)	Number of PSUs	Amount	Number of PSUs	Amount	Number of PSUs	Dividend paid	
1	2	3	4	5	6	7	8	9	10 =9/3x100
2014-15	11	598.76	2	3.31	1	4.76	1	1.01	0.17
2015-16	11	599.32	2	0.56	2	6.21	--	--	--
2016-17	11	606.49	2	7.17	3	10.18	2	1.39	0.23
2017-18	11	606.49	--	--	3	8.93	--	--	--
2018-19	11	606.49	--	--	3	8.71	--	--	--

(Source: Latest finalised accounts of PSUs)

During 2014-19, the major contributors to profit were PIPDIC and PDL. Both these PSUs declared a dividend ₹ 2.40 crore against equity investment of ₹ 121.03 crore. The dividend payout on the total equity investments constituted a meagre percentage ranging from 0.17 to 0.23.

4.3.13 Return on Equity

Return on Equity (RoE) is a measure of financial performance to assess how effectively management is using shareholders' funds to earn profits and is calculated by dividing net income (*i.e.*, net profit after taxes) by shareholders' funds. It is expressed as a percentage and can be calculated for any company if both the net income and shareholders' funds are positive. Shareholders' fund of a company is calculated by adding paid up capital and free reserves net of accumulated losses and deferred revenue expenditure and reveals how much would be left for a company's stakeholders if all assets were sold and all debts were paid. A positive shareholders' fund reveals that the company has enough assets to cover its liabilities while negative figures means that liabilities exceed the assets. RoE has been computed in respect of 11 working PSUs (other than Power Sector Undertakings) and the details of shareholders' funds and RoE during 2014-19 are given in **Table 4.25**.

Table 4.25: RoE relating to 11 working PSUs during 2014-19

(₹ in crore)

Year	Net income	Shareholders' funds	RoE (in per cent)
2014-15	(-) 41.28	42.89	--
2015-16	(-) 43.39	28.52	--
2016-17	(-) 27.81	(-) 55.55	--
2017-18	(-) 45.56	(-) 94.87	--
2018-19	(-) 58.40	(-) 114.42	--

(Source: Latest finalised accounts of PSUs)

As can be seen from **Table 4.25**, during all the last five years ending 2018-19, the net income was negative and thus, the RoE could not be worked out.

4.3.14 Return on Capital Employed

Return on Capital Employed (RoCE) is a ratio that measures a company's profitability and the efficiency on the capital employed. RoCE is calculated by dividing a company's EBIT by the capital employed²⁷. The details of RoCE of the PSUs (other than Power Sector) during the period from 2014-15 to 2018-19 are given in **Table 4.26**.

Table 4.26: Return on Capital Employed

(₹ in crore)

Year	EBIT	Capital Employed	ROCE (in per cent)
2014-15	(-) 21.12	55.72	--
2015-16	(-) 23.26	40.38	--
2016-17	(-) 8.71	(-) 45.16	--
2017-18	(-) 23.77	(-) 78.28	--
2018-19	(-) 36.29	(-) 71.36	--

(Source: As per the latest finalised accounts)

²⁷ Capital Employed = Shareholders funds *plus* long term loans.

The EBIT of these PSUs was negative during all the five year period 2014-19 which ranged between ₹ 8.71 crore and ₹ 36.29 crore.

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

Analysis of the long term loans of the PSUs of other than Power Sector which had leverage during 2014-19 was carried out to assess the ability of the companies to service the debt. This was assessed through the interest coverage ratio and debt turnover ratio in the following paragraphs.

4.3.15.1 Interest Coverage

Interest Coverage Ratio (ICR) is used to determine the ability of a PSU to pay interest on outstanding debt and is calculated by dividing EBIT of a PSU by interest expenses of the same period. The lower the ratio, the lesser is the ability of the PSU to pay interest on debt. An interest coverage ratio below one indicated that the PSU was not generating sufficient revenues to meet its expenses on interest. The details of positive and negative interest coverage ratio during the period 2014-19 are given in **Table 4.27**.

Table 4.27: Interest coverage ratio of working PSUs (other than Power Sector)

Year	Interest (₹ in crore)	EBIT (₹ in crore)	Number of PSUs having interest liability	Number of PSUs with negative ICR	Number of PSUs with ICR more than zero and upto one	Number of PSUs having ICR more than one
2014-15	17.07	(-) 21.12	7	4	3	--
2015-16	17.02	(-) 23.26	8	5	2	1
2016-17	17.12	(-) 8.71	8	5	2	1
2017-18	19.82	(-) 23.77	7	4	1	2
2018-19	20.13	(-) 36.29	7	5	--	2

(Source: As per the latest finalised accounts during the respective years)

Of the seven PSUs having liability of loans during 2018-19, five PSUs had negative ICR indicating that these PSUs could not generate adequate income to pay off its interest liability. Two PSUs had ICR more than one indicating sufficient income to pay off its interest burden.

4.3.15.2 Debt turnover ratio

The details of the total debts and the turnover of the PSUs (other than Power Sector) are given in **Table 4.28**.

Table 4.28: Key parameters of the PSUs

Particulars	(₹ in crore)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Debt	12.83	11.86	10.39	16.59	43.06
Turnover	304.84	318.89	270.54	307.99	300.77
Debt-turnover ratio	0.04:1	0.04:1	0.04:1	0.05:1	0.14:1

(Source: As per the latest finalised accounts)

During the last five years, the turnover of these PSUs fluctuated between ₹ 300.77 crore and ₹ 318.89 crore during 2014-15 to 2018-19, whereas the debt ranged between ₹ 10.39 crore and ₹ 43.06 crore during the same period. The debt-turnover ratio remained constant during the period from 2014-15 to 2016-17 and it increased to 0.05:1 during 2017-18 and to 0.14:1 during 2018-19.

4.3.16 Compliance audit paragraphs

In this Chapter on Government Commercial and Trading Activities, one paragraph on “Avoidable loss of revenue” on PIPDIC has been included. The said draft para was issued to the Secretary to Government (Industries) of UT of Puducherry and Under Secretary, Finance Department on 09 June 2020 with request to furnish replies within four weeks. Reply to the draft para is awaited from the UT Government. The financial impact of the para was ₹ 2.59 crore.

4.4 Loss of revenue

INDUSTRIES DEPARTMENT

PONDICHERRY INDUSTRIAL PROMOTION DEVELOPMENT AND INVESTMENT CORPORATION LIMITED

4.4.1 Avoidable loss of revenue

Injudicious decision of downward revision of sub-lease charges of industrial plots resulted in undue benefit to the allottees and loss of revenue of ₹ 2.59 crore to the Company during January 2016 to January 2019.

Pondicherry Industrial Promotion Development and Investment Corporation Limited (PIPDIC) (Company) allots plots²⁸ to entrepreneurs in the various Industrial Estates²⁹ developed by it on premium lease³⁰ basis. The entrepreneurs/allottees construct buildings on the lease hold land and run the units. “No Objection Certificate” (NOC) is sought from Company for sub-leasing their units to third parties, in case the original allottee is unable to run the unit. The Company considers such requests on its merits and issues NOC to sub-lease the plots/sheds by collecting fair rent from the allottee. The Company Board decided (December 2001) that the allottee should pay 50 per cent of the fair rent as assessed by the Company as sub-lease charges for the entire period of sub-lease.

Pondicherry Chamber of Industries (PCI) requested (October 2014 and January 2015) the Company to issue the NOC for sub-leasing the plots without

²⁸ ‘A’ type: 1050 square meter (sq.m); ‘B’ type: 648 sq.m and ‘C’ type: 390 sq.m.

²⁹ Mettupalayam, Sedarpet, Kirumambakkam and Tirubuvanai.

³⁰ Lease for a period of 99 years.

collecting any charges. The request of PCI was examined by the Company and it was decided (March 2015) to compare the practice being followed in neighbouring States on the similar issue. Meanwhile, Government of Union Territory of Puducherry (UT Government) appointed (27 January 2015) two non-official Directors in the Board of the Company. Incidentally, one of the Directors is the Secretary of PCI. The request of PCI was discussed in the Board meeting held in May 2015 in which five³¹ Directors participated. The Managing Director (MD) submitted the proposal stating that the original allottees were sub-leasing their premises to third parties purely for making personal gain and the collection of fair rent was a considered decision (December 2001) of the Board in the larger interest of the Company. MD further stated that the present sub-lease charges at 50 *per cent* of fair rent was more or less equivalent to the rates being charged by the Corporations in Tamil Nadu. During the discussion, the two non-official Directors wanted that NOC should be issued without insisting on fair rent as this has been acting as a disincentive for entrepreneurs. After discussions, the Board decided (May 2015) to reduce rates for sub-lease at a fixed rate of ₹ 15,000, ₹ 10,000 and ₹ 5,000 for A, B and C type plots respectively for three years. But, no justification was recorded for such steep reduction in the sub-lease charges. After reduction in the sub-lease charges, 30 allottees involving 69 plots applied for issue of NOC during the period January 2016 to January 2019. The Company issued NOC to these allottees by collecting sub-lease charges at reduced fixed rate totaling a sum of ₹ 9.73 lakh during January 2016 to January 2019.

During the Compliance Audit for the year 2018-19, audit observed (April 2019) the steep reduction lacked justification which led to undue benefit to the original allottees resulting in loss to the Company. The observations of audit were discussed in the Board Meeting held on 26 July 2019 wherein the Company restored the levy of sub-lease charges based on fair rent *i.e.*, at the rate of 50 *per cent* of fair rent. Accordingly, the fair rent was assessed at ₹ 5 per square feet and the sub-lease charges were fixed at the rate of ₹ 2 lakh, ₹ 1.25 lakh and ₹ 0.75 lakh *per annum* for A, B and C type plots respectively.

In this connection, Audit observed the following:

- In May 2015, the sub-lease charges based on the prevailing fair rent assessed by the Company was ₹ 1,62,696, ₹ 1,00,404 and ₹ 69,720 *per annum* for A, B and C type plots respectively. Against which the Company reduced the sub-lease charges at a fixed rate to ₹ 15,000, ₹ 10,000 and ₹ 7,500 *per annum* respectively which worked out to less than 10 *per cent* of the existing rates. Though the reduction was more than 90 *per cent* of the prevailing rates, no justification was recorded for such steep reduction and hence, the rationale behind the decision lacked financial prudence.

³¹ Non-official Chairman appointed by UT Government, two non-official Directors, Managing Director and Secretary to Government (Industries), UT Government.

- As per Section 184 of the Companies Act, 2013, every Director shall at the first meeting of the Board in which he participates as a Director disclose his concern or interest in any company or companies or bodies corporate firms etc. A contract or arrangement entered into by the company without disclosure or with participation by a director who is concerned or interested in any way, directly or indirectly, in the contract or arrangement shall be voidable at the option of the company. It was noticed that both the non-official Directors who stressed for issue of NOC for sub-lease without insisting on fair rent were holding plots³² in the Industrial Estates of Company either in their name or of their spouse. These non-official Directors did not disclose their interest in these plots while discussing the reduction of sub-lease charges in the Board Meeting which was in contravention of Section 184 of the Act. In the absence of such disclosure, the decision of the Board shall be voidable at the option of the Company. Though, the Company was aware of the fact of the interest of these non-official Directors in the plots and the possibility of gain on sub-lease of such plots on account of reduction in sub-lease charges, it failed to take cognisance of such interest and exercise the option to make the decision void. Under such circumstances, the possibility of collusion between the non-official Directors and officials of the Company could not be ruled out. By invoking the provisions of Companies Act, the Company could have continued to collect the sub-lease charges based on 50 *per cent* of fair rent and avoided the loss to the Company. But the reversal of the decision was made in only July 2019, at the instance of Audit.
- The steep reduction in the sub-lease charges which were applicable during the intervening period *i.e.*, January 2016 to January 2019 had resulted in loss of revenue amounting to ₹ 2.59 crore in issuing NOC to sub-lease the plots/sheds by collecting reduced rent from the allottees as detailed in **Appendix 4.5.**

Thus, the decision of downward revision of sub-lease charges of industrial plots made in May 2015 by the Board of Directors was injudicious which not only resulted in undue benefit to the allottees, but also loss of revenue of ₹ 2.59 crore to the Company.

The Company replied (July 2020) that the Board resolved in May 2015 to reduce the rates of sub-lease on the grounds that the prevailing rates of sub-lease has been acting as a disincentive for the entrepreneurs who aspire for setting up of industries in leased premises. Further, it stated that the industrial promotion in Puducherry was the notion behind this decision. The non-official directors had stated that they were not appointed as Independent

³² Plots A 79 to 82 Plot A 86 in Mettupalayam Industrial Estate (MIE) and Plots C – 97,96 and 89 in MIE respectively.

Directors under Section 149 of the Companies Act, 2013 but they were appointed merely as a Director by Government of Puducherry and hence, the disclosure was not required.

The reply is not tenable as Section 184 of the Companies Act, 2013 stipulates that every director to disclose their interest in any company or companies or bodies corporate firms etc., and hence, their failure to disclose their interest in the industrial plots allotted by the Company was in contravention of the provisions of the Act. Further, the fact remains that the Company restored the sub-lease charges to pre-May 2015 level of collecting 50 *per cent* of fair rent in its Board meeting dated 26 July 2019 only at the instance of Audit observation highlighting the injudicious decision and the resultant loss to the Company. This decision of the Board had resulted in stoppage of further loss and proved that the downward revision in May 2015 was unreasonable and injudicious which resulted in undue benefit to the allottees and loss of revenue of ₹ 2.59 crore to the Company which was avoidable.

The reply of the Government was awaited (September 2020).

It is recommended that in future, while revising the sub-lease charges, the Company should take into account the prevailing fair rent. Further, the disclosure requirements by the Board of Directors as required in Companies Act, 2013 may strictly be adhered to.

Chennai,
The 05 Feb 2021



(DEVIKA NAYAR)
Principal Accountant General
(Audit - I), Tamil Nadu

Countersigned

New Delhi,
The 11 Feb 2021



(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India