

Chapter I

Summary of Financial Performance of State Public Sector Enterprises

Chapter – I

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1.1 Introduction

Purpose of Report

1.1.1 The Report presents the summary of financial performance of Government Companies, Statutory Corporations and Government controlled Other Companies. In this Report, an overall picture of the financial performance of Companies / Corporations is given as disclosed¹ by their accounts and information furnished. Impact of significant comments issued as a result of supplementary audit of the Financial Statements of these State Public Sector Enterprises (SPSEs) conducted by the CAG of India for the financial year 2022-23 (or of earlier years which were finalised during the current year²) has also been discussed in Chapter II of the Report.

The Report also provides an insight over the status of adherence by selected SPSEs to the compliance of provisions of Companies Act, 2013 and other applicable Rules on Corporate Governance and Corporate Social Responsibility during the financial year 2022-23 in Chapter III and Chapter IV respectively. The Report also presents, in Chapter V, the status on impact of implementation of Indian Accounting Standards (Ind AS) and compliance with disclosure requirements by the SPSEs who have transitioned from IGAAP (Indian Generally Accepted Accounting Principles) framework or adopted Ind AS in their first financial statements. Findings of Compliance Audit of the SPSEs are included in Chapter-VI of this Report.

Definition of Govt Companies / Corporations

1.1.2 A Government Company is defined in Section 2 (45) of the Companies Act, 2013 as a company in which not less than 51 *per cent* of the paid-up share capital is held by 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 of a Government Company. The body corporates set up by the State Government under certain acts of the Parliament/ State Legislature (Statutory Corporations) have also been categorized as SPSEs.

Besides, any other company³ 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 is referred to in this Report as “Government Controlled Other Company”.

¹ Six SPSEs did not provide the related information sought. This includes two working companies viz., Karnataka State Medical Supplies Corporation Limited, and Karnataka Handloom Development Corporation Limited.

² Latest accounts certified up to 30 September 2023.

³ Companies (Removal of Difficulties) Seventh Order, 2014 issued by Ministry of Corporate Affairs *vide* Gazette Notification dated 4 September 2014.

Mandate of audit

1.1.3 Audit of Government Companies and Government Controlled Other Companies is conducted by the CAG of India under the provisions of Section 143(5) to 143 (7) of the Companies Act, 2013 read with Section 19 of the CAG's (Duties, Powers, and Conditions of Service) Act, 1971 and the Regulations made thereunder. Under the Companies Act, 2013, the CAG appoints Chartered Accountants as statutory auditors for Companies and gives directions on the manner in which the accounts are to be audited. In addition, CAG has the right to conduct a supplementary audit.

CAG is the sole Auditor of four transport corporations⁴ as per section 33(2) of the Road Transport Corporations Act, 1950. Moreover, supplementary audits are mandated for the Karnataka State Financial Corporation under section 37(6) of the State Financial Corporation Act, 1951 and for the Karnataka State Warehousing Corporation under section 31(8) of the Warehousing Corporations Act, 1962.

1.1.4 SPSEs and their contribution to Gross State Domestic Product (GSDP) of the State

Number of SPSEs

1.1.4.1 SPSEs consist of State Government Companies and Statutory Corporations. SPSEs are established to carry out activities of commercial nature keeping in view the welfare of people and occupy an important place in the State economy. As on 31 March 2023, there were 127 SPSEs in Karnataka, including six Statutory Corporations⁵, 102 Government Companies (including fourteen⁶ inactive Government companies⁷) and 19 Government Controlled Other Companies under the audit jurisdiction of the CAG. The names of these SPSEs are given in **Appendix - 1**. Of these Government Companies, one SPSE (The Mysore Paper Mills Limited) is listed on the stock exchange. The 14 inactive SPSEs have investment of ₹ 160.21 crore towards capital (details vide Table No. 1.3) and ₹ 449.39 crore towards long term loans (details vide Table No. 1.5). This is a critical area as the investments in inactive SPSEs do not contribute to the economic growth of the State.

⁴ Karnataka State Road Transport Corporation, North Western Karnataka Road Transport Corporation, Kalyana Karnataka Road Transport Corporation (*Previously North Eastern Karnataka Road Transport Corporation*) and Bangalore Metropolitan Transport Corporation.

⁵ Karnataka State Road Transport Corporation, North Western Karnataka Road Transport Corporation, Kalyana Karnataka Road Transport Corporation (*Previously North Eastern Karnataka Road Transport Corporation*), Bangalore Metropolitan Transport Corporation, Karnataka State Financial Corporation and Karnataka State Warehousing Corporation.

⁶ Karnataka Agro Industries Corporation Limited, The Mysore Tobacco Company Limited, Karnataka Pulpwood Limited, The Karnataka State Veneers Limited, The Mysore Match Company Limited, The Mysore Lamp Works Limited, Mysore Cosmetics Limited, The Mysore Chrome Tanning Company Limited, NGEF Limited, Karnataka Telecom Limited, The Mysore Acetate and Chemicals Company limited, Bangalore Suburban Rail Company Limited, Vijayanagar Steel Limited and Bangalore Airport Rail Link Limited (under voluntary liquidation).

⁷ Inactive Government Company means a company which has not been carrying on any business or operation.

Contribution of SPSEs to GSDP of the State

1.1.4.2 The ratio of turnover of the SPSEs to the GSDP shows the extent of activities of the SPSEs in the State economy. The details of turnover of SPSEs and GSDP for a period of three years ending 31 March 2023 are given in **Table No. 1.1** below:

Table No. 1.1: Details of turnover of SPSEs vis-à-vis GSDP of Karnataka

(₹ in crore)

Sl. No.	Particulars	2020-21	2021-22	2022-23
1	Number of SPSEs / Corporations	124	125	127
2	Turnover ⁸	77,636	77,410	88,825
3	GSDP of Karnataka ⁹	16,25,073	19,62,725	21,81,217
4	Percentage of Turnover to GSDP of Karnataka	4.78	3.94	4.07

The contribution of SPSEs to GSDP is marginal in all three years.

1.2 Investment in Government Companies and Corporations and Budgetary Support

The total investment in SPSEs was ₹ 2,17,953.64 crore consisting of ₹ 1,18,629.01 crore equity and ₹ 99,324.63 crore borrowings (loans), as at 31 March 2023. The details of investments are given in the subsequent paragraphs.

Equity holding in SPSEs

1.2.1 The State Government has contributed ₹ 1,13,005.23 crore towards equity in 106 SPSEs constituting 95.26 *per cent* of the total equity amounting to ₹ 1,18,629.01 crore in all 127 SPSEs as on 31 March 2023. Total equity in 106 SPSEs stood at ₹ 1,13,654.21 crore and percentage of State Government equity against the same was 99.43 *per cent*.

The sector-wise contribution in equity by State Government and the percentage of such contribution to Total Equity of 106 SPSEs as well as to each sector is shown in **Table No. 1.2** below:

Table No. 1.2: Sector-wise investment in SPSEs towards State Equity

(₹ in crore)

Sl. No.	Name of the Sector	Total Equity		State Government Contribution*			Percentage of State Govt Contribution to Total Equity	Sector-wise percentage of State Govt Contribution
		No of SPSEs	Amount	No of SPSEs	Total Equity	State Equity		
1	Power	11	18,815.04	8	15,048.61	15,048.61	100.00	13.32
2	Finance	26	3,816.35	24	3,815.84	3,721.49	97.53	3.29
3	Service	10	2,350.03	10	2,350.03	2,300.91	97.91	2.04
4	Infrastructure	27	92,870.04	19	91,671.36	91,250.46	99.54	80.75
5	Others	53	777.55	45	768.37	683.76	88.99	0.61
Total		127	1,18,629.01	106	1,13,654.21	1,13,005.23	99.43	100.00

Source: Information / data furnished by SPSEs

* Includes State Government equity of ₹ 3,291.92 crore out of total equity amounting to ₹ 3,347.82 crore in six Statutory Corporations.

⁸ Updated figures adopted for FY 2020-21 and FY 2021-22 duly considering interest income of two SPSEs which were not considered as revenue from operations earlier.

⁹ Updated figures adopted for FY 2020-21 and FY 2021-22.

State Government has mainly infused funds in infrastructure sector (80.75 per cent) followed by power sector (13.32 per cent).

Equity holding in non-working SPSEs

1.2.2 Equity of ₹ 160.21 crore was invested in 12 out of 14 non-working SPSEs as at the end of March 2023. Out of this, State Government invested ₹ 151.37 crore towards their equity as detailed in **Table No. 1.3** below:

Table No. 1.3: Statement showing investment towards equity in non-working SPSEs
(₹ in crore)

Sl. No.	Name of SPSE	State Govt Contribution	Equity contribution by others	Total Equity
1	Karnataka Agro Industries Corporation (KAIC)	55.90	0.00	55.90
2	The Mysore Tobacco Company Limited (MTC)	0.62	0.15	0.77
3	Karnataka Pulpwood Limited KPL (Pulpwood)	13.91	1.25	15.16
4	The Karnataka State Veneers Limited (KSVL)	0.00	1.00	1.00
5	The Mysore Match Company Limited (MMCL)	0.01	0.04	0.05
6	The Mysore Lamp Works Limited (MLW)	10.76	1.05	11.81
7	Mysore Cosmetics Limited (MCL)	0.01	0.15	0.16
8	The Mysore Chrome Tanning Company Limited (MCT)	0.00	0.76	0.76
9	NGEF Limited (NGEF)	46.51	0.00	46.51
10	Karnataka Telecom Limited (KTL)	0.78	2.22	3.00
11	The Mysore Acetate and Chemicals Company Limited (MACCL)	9.96	2.22	12.18
12	Vijayanagar Steel Limited (VSL)	12.91	0.00	12.91
	Grand Total	151.37	8.84	160.21

Source: Information / data furnished by SPSEs

The equity in remaining two non-working SPSEs (BSRCL and BARL) was nil.

Loans given to SPSEs

1.2.3 As at the end of March 2023, 51 SPSEs had outstanding loans of ₹ 99,324.63 crore consisting of (i) loans amounting to ₹ 89,015.69 crore (89.62 per cent) availed from Central Government / other financial institutions and (ii) loans of ₹ 10,308.94 crore (10.38 per cent) given by State Government.

The sector-wise break up of Long-Term Loans including the loans given by State Government to 30 SPSEs as on 31 March 2023 is given in **Table No. 1.4** below:

Table No. 1.4: Sector-wise investment in SPSEs towards Loans
(₹ in crore)

Sl. No.	Name of the Sector	Total long term loans		State Government loans		Sector-wise Percentage of State Govt loans to total outstanding loans
		No. of SPSEs	Amount	No. of SPSEs	Amount	
1	Power	10	70,996.86	3	1,730.4	2.44
2	Finance	8	866.27	5	71.75	8.28
3	Service	4	1,228.95	0	0.00	0.00
4	Infrastructure	8	23,744.88	3	6,716.09	28.28
5	Others	21	2,487.67	19	1,790.70	71.98
	Total	51	99,324.63	30	10,308.94	10.38

Source: Information / data furnished by SPSEs

As seen, 06 SPSEs in Infrastructure and Power sector have relied heavily on loans from State Government.

Loans outstanding from non-working SPSEs

1.2.4 Loans amounting to ₹ 449.39 crore pertaining to nine non-working SPSEs were outstanding as indicated in **Table No. 1.5** below:

Table No. 1.5: Statement showing loans outstanding from non-working SPSEs
(₹ in crore)

Sl. No.	Name of SPSE	Loan outstanding from State Govt.	Loan outstanding from others	Total loan outstanding
1	Karnataka Agro Industries Corporation (KAIC)	68.98	0.00	68.98
2	The Mysore Tobacco Company Limited (MTC)	1.54	0.00	1.54
3	The Karnataka State Veneers Limited (KSVL)	0.00	1.00	1.00
4	The Mysore Match Company Limited (MMCL)	0.23	0.00	0.23
5	The Mysore Lamp Works Limited (MLW)	120.97	3.50	124.47
6	The Mysore Chrome Tanning Company Limited (MCT)	0.12	0.29	0.41
7	NGEF Limited (NGEF)	239.07	0.00	239.07
8	The Mysore Acetate and Chemicals Company Limited (MACCL)	13.11	0.00	13.11
9	Vijayanagar Steel Limited (VSL)	0.58	0.00	0.58
		444.60	4.79	449.39

Source: Information / data furnished by SPSEs

The total outstanding loan from state government in these non-working Companies (₹ 444.60 crore) was 98.93 per cent of total outstanding loans.

Adequacy of assets to meet loan liabilities

1.2.5 Ratio of total debt to total assets is one of the methods used to determine whether a company can stay solvent. To be considered solvent, the value of an entity's assets must be greater than the sum of its loans/ debts. The coverage of Long-Term Loans by value of Total Assets in 51 working SPSEs which had outstanding loans as on 31 March 2023 is given in **Table No 1.6**.

Table No. 1.6: Statement showing category-wise asset coverage
(₹ in crore)

Sl. No.	Category	Positive Coverage (assets>debts)			Negative Coverage (Assets < debts)		
		No of SPSEs	Long Term Loans	Assets	No of SPSEs	Long Term Loans	Assets
1	Statutory Corporations	6	2,674.17	16,014.19	0	0.00	0.00
2	Listed Companies	0	0.00	0.00	1	849.55	396.64
3	Unlisted Companies (Working)	30	77,279.67	2,90,416.49	5	18,071.85	12,919.40
4	Unlisted Companies (Non-working)	4	241.60	342.97	5	207.79	23.16
	Total	40	80,195.44	3,06,773.65	11	19,129.19	13,339.20

Source: Information / data furnished by SPSEs

The details of 11 SPSEs where the value of total assets was less than the outstanding Long-Term Loans is given in **Table No. 1.7**:

Table No. 1.7: Statement showing list of SPSEs with negative asset coverage**(₹ in crore)**

Sl. No.	Name of SPSE	Working Status	Long Term Loans	Assets	Coverage of Assets to Loans (Percentage)
1	Raichur Power Corporation Limited (RPCL)	Working-Unlisted	17,529.14	12663.50	72.24
2	Karnataka Handloom Development Corporation Limited (KHDCL Handloom)	Working-Unlisted	60.13	53.92	89.67
3	Karnataka Silk Marketing Board Limited (KSMB)	Working-Unlisted	22.00	15.16	68.91
4	Karnataka State Agro Corn Products Limited (KSACPL)	Working-Unlisted	24.32	7.26	29.85
5	Karnataka Vocational Training and Skill Development Corporation Limited (KVTSDDL)	Working-Unlisted	436.26	179.56	41.16
6	The Mysore Paper Mills Limited (MPM)	Working-listed	849.55	396.64	46.69
7	Karnataka Agro Industries Corporation Limited (KAIC)	Non-Working	68.98	9.90	14.35
8	The Karnataka State Veneers Limited (KSVL)	Non-Working	1.00	0.00	0.00
9	The Mysore Match Company Limited (MMCL)	Non-Working	0.23	0.03	13.04
10	The Mysore Lamp Works Limited (MLW)	Non-Working	124.47	13.23	10.63
11	The Mysore Acetate and Chemicals Company Limited (MACCL)	Non-Working	13.11	0.00	0.00
Grand Total			19,129.19	13,339.2	69.73

Source: Information / data furnished by SPSEs

* The value of assets were not forthcoming for two non-working SPSEs (MACCL and KSVL) whose accounts are in arrears since the year 2002-03 and 2004-05 respectively.

Market Capitalisation of Equity Investments in Government Companies

1.2.6 As on 31 March 2023, only one SPSE, *i.e.* The Mysore Paper Mills Limited has its shares listed in Bombay Stock Exchange (BSE). During the financial year 2014-15, the company was registered as ‘Sick Company’ under BIFR following which, the operations of the Company ceased in 2015-16. As notified on 06 June 2017, the shares are not traded consequent to suspension of trading in securities by BSE for non-compliance with SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Information on Subsidy, Grants by State / Central Government

1.2.7 Apart from investments through Equity infusion and Long-Term Loans, the State Government also provides financial support to SPSEs in various forms through the annual budget. The budgetary outgo towards equity, loans, grants/subsidies, loans written off and interest waived in respect of these SPSEs for the past three years are shown in **Table No. 1.8**.

Table No. 1.8: Details regarding budgetary support to SPSEs by State Government
(₹ in crore)

Sl. No.	Particulars	2020-21		2021-22		2022-23	
		No. of SPSEs	Amount	No. of SPSEs	Amount	No. of SPSEs	Amount
1	Equity ¹⁰	15	8,098.12	31	15,074.36	23	12,334.66
2	Long Term Loans	3	844.31	5	860.08	5	512.21
3	Grants / Subsidy ¹¹	46	24,316.41	55	33,220.97	61	31,509.56
	Total		33,258.84		49,155.41		44,356.43
4	Waiver of loans and Interest	0	0	0	0	0	0
5	Guarantees issued	9	8,887.37	11	6,180.03	11	12,112.92
6	Guarantee Commitment	16	26,812.70	20	31,411.51	19	35,452.08

Source: Information / data furnished by SPSEs

Audit observed that the long term loans disbursed during 2022-23 included ₹78 crores given to Karnataka State Warehousing Corporation for servicing a loan taken from NABARD. However, the Government Order towards release of this Government loan did not specify the rate of interest or schedule of loan repayment.

1.3 Disinvestment, Restructuring and Privatisation

Disinvestment

1.3.1 The State Government approved (May 2022) closure of Bangalore Airport Rail Link Limited through voluntary liquidation and the unspent amount of ₹ 1.17 crore has been remitted (March 2023) by the Company to the shareholders (GoK and KSIIDC).

Restructuring

1.3.2 The State Government has directed (August 2022) the creation of a new Company (Karnataka Forest Corporation Limited) through merger of three companies *i.e.*, Karnataka State Forest Industries Corporation Limited, and Karnataka Cashew Development Corporation Limited with Karnataka Forest Development Corporation under the purview of Forest, Ecology and Environment Department, Government of Karnataka. The process of merger / amalgamation had not been completed till December 2023.

Privatisation

1.3.3 There were no instances of privatisation of Government Companies during the financial year 2022-23.

¹⁰ Figures for FY 2021-22 were updated based on revised figures furnished by SPSEs.

¹¹ Figures were updated based on revised figures furnished by SPSEs.

1.4 Returns from Government Companies and Corporations

Profit earned by SPSEs

1.4.1 As per their latest certified accounts, 57¹² SPSEs reported profit of ₹ 3132.14 crore in 2022-23 when compared to profit of ₹ 2608.22 crore reported by 55 SPSEs in 2021-22. The Return on Equity (RoE) of the 57 SPSEs increased to 14.80 *per cent* in 2022-23 as compared to RoE of 6.70 *per cent* in 55 SPSEs during 2021-22. The RoE for all the 127 SPSEs in 2022-23, including 56 loss making SPSEs, was (-) 6.96 *per cent*.

The details of top three SPSEs which contributed maximum profit during the year 2022-23 are summarised in **Table No. 1.9** below:

Table No. 1.9: Top three SPSEs which contributed maximum profit

(₹ in crore)

Sl. No.	Name of SPSE	Net profit earned	Percentage of Profit to total SPSEs profit
1	Karnataka Power Transmission Corporation Limited (KPTCL)	828.61	26.46
2	Karnataka State Minerals Corporation limited (KSMCL)	790.92	25.25
3	Karnataka State Investment and Infrastructure Development Corporation (KSIIDC)	269.78	8.61
	Total	1,889.31	60.32

Source: Latest Financial Statements of SPSEs.

The net profit of ₹ 1,889.31 crore contributed by above three SPSEs constituted 60.32 *per cent* of total profit of ₹ 3,132.14 crore by 57 SPSEs.

Dividend paid by the SPSEs

1.4.2 The guidelines¹³ formulated (November 2021)¹⁴ by the State Government, and subsequently notified (October 2022)¹⁵ through an order, stipulates that Board of Directors of SPSEs' which are wholly owned or partially financed by the GoK shall decide the payment of dividend of not less than 30 *per cent* of the profit after tax in a particular year duly considering its operational and financial performance, advice of the GoK and other related matters. Out of 127 SPSEs in the State, GoK has infused equity in 106 SPSEs (including six Statutory Corporations). The details of dividend payout by SPSEs in last three years are shown in **Table No. 1.10** below:

¹² Out of 57 Profit making SPSEs, Accounts of 36 SPSEs were in arrears for one year and Accounts of 10 SPSEs were in arrears for two or more years

¹³ Original guidelines issued in May 2003 had been replaced by a Circular dated 29.03.2021 envisaging dividend payout of 30 *per cent* of profit after tax or 5 *per cent* of Net worth whichever is higher. The said Circular was withdrawn with issue of a fresh circular envisaging dividend payout equivalent to 30 *per cent* profit after tax (PAT).

¹⁴ Finance Department Circular dated 25.11.2021.

¹⁵ Government Order dated 19.10.2022.

Table No. 1.10: Dividend Payout of SPSEs

(₹ in crore)

Sl. No.	Year	Total No. of SPSEs	Total No. of SPSEs which earned Profit	No. of SPSEs which made dividend payout	Paid Up Capital	GoK Equity	Net Profit	Dividend Paid
1	2020-21	124	50	16	208.65	178.11	583.28	59.01
2	2021-22	125	55	18	222.15	191.61	1,116.45	189.35
3	2022-23	127	57	16	220.44	193.13	1,439.37	307.46

Source: Latest Financial Statement of SPSEs.

State Government has infused equity in 13 out of 16 SPSEs which made dividend payout as per latest financial statements certified till September 2023. Of those 13, only four SPSEs¹⁶ made dividend payout equivalent to 30 per cent of profit after tax (PAT). Dividend payout by the remaining nine SPSEs¹⁷ was lower than 30 per cent ranging from 5.89 per cent to 25.96 per cent of PAT. No dividend payout was made by two¹⁸ Statutory Corporations which earned profits.

1.5 Debt Servicing and legal compliances

Interest Coverage Ratio

1.5.1 Interest coverage ratio (ICR) is used to determine the ability of a company to pay interest on outstanding debt and is calculated by dividing a company's earnings before interest and taxes (EBIT) by interest expenses of the same period. The lower the ratio, the lesser is the ability of the company to pay interest on debt. An ICR of below one indicated that the company was not generating sufficient revenues to meet its expenses on interest. The details of positive and negative interest coverage ratio of SPSEs, which had outstanding loans during the period from 2020-21 to 2022-23 are given in **Table No. 1.11**.

Table No. 1.11: Interest Coverage Ratio

Sl. No.	Year	Total Interest paid (₹ in crore)	Total Earnings before interest and tax (EBIT) (₹ in crore)	Number of SPSEs having liability of loans from Government, and other financial institutions	Number of companies having interest coverage ratio more than one	Number of companies having interest coverage ratio less than one	Number of companies whose interest coverage ratio could not be calculated
1	2020-21	9,285.89	5,041.69	52	15	24	13
2	2021-22	9,887.90	1,873.97	52	17	23	12
3	2022-23	10,344.07	7,452.80	51	13	26	12

Source: Latest Financial Statement of SPSEs.

¹⁶ Karnataka State Minerals Corporation Limited, Karnataka Rural Infrastructure Development Limited, Karnataka State Small Industries Development Corporation Limited and Karnataka State Beverages Corporation Limited.

¹⁷ Karnataka Soaps and Detergents Limited, The Mysore Electrical Industries Limited, Karnataka Silk Industries Corporation Limited, The Hutti Gold Mines Company Limited, Mysore Paints and Varnish Limited, Mysore Sales International Limited, Karnataka State Seeds Corporation Limited, Karnataka State Police Housing and Infrastructure Development Corporation Limited and Karnataka State Electronics Development Corporation Limited.

¹⁸ Karnataka State Warehousing Corporation and Karnataka State Financial Corporation.

Further, since 2020-21, the number of SPSEs having ICR of less than one has increased from 24 to 26. Only 13 SPSEs had ICR of more than one and for the remaining 12 SPSEs, ICR could not be calculated due to 'nil value' either in interest expenses or EBIT.

Age-wise analysis of Interest outstanding on principle due but not repaid

1.5.2 As stated in **Para 1.2.3**, 30 SPSEs had an outstanding State Government loan amounting to ₹ 10,308.94 crore as on 31 March 2023. Out of these 30 SPSEs, 15 SPSEs also had an interest component amounting to ₹ 1,891.62 crore outstanding on loan provided by State Government, age wise analysis of which is depicted in **Table No. 1.12**:

Table No. 1.12: Statement showing age-wise analysis of outstanding interest on State Government loans.

(₹ in crore)						
Sl. No.	Category	No of SPSEs	Interest amount outstanding	Interest outstanding for less than one year	Interest outstanding for one to three years	Interest outstanding for more than three years
1	Working-listed	1	85.00	0.00	0.00	85.00
2	Working-Unlisted	8	75.75	8.91	19.22	47.62
3	Non-Working	5	1,581.02	77.23	245.00	1,258.79
4	Working – Statutory Corporation	1	149.85	0.00	0.00	149.85
	Grand Total	15	1,891.62	86.14	264.22	1,541.26

Source: Information / data furnished by SPSEs.

Out of the total outstanding interest, 83.58 *per cent* (amounting to ₹ 1581.02 crore) pertains to five non-working SPSEs.

1.6 Operating efficiency of Government Companies

Analysis of profit earned by SPSEs

1.6.1 As stated in **Para 1.4.1**, 57 SPSEs (including four non-working SPSEs and two statutory corporations) reported a profit of ₹ 3,132.14 crore as per their latest financial statements certified up to 30 September 2023.

Audit analysis of total revenue (revenue from operations plus other income) reported by these SPSEs for relevant years revealed that net profit of ₹ 408.72 crore earned by 32 SPSEs¹⁹ (including one Statutory Corporation) was lower than the other income amounting to ₹ 1,063.80 crore reported by concerned SPSEs (*details in Appendix - 2*) and therefore, did not represent the operating profit.

Performance of listed SPSE with Private Companies

1.6.2 One listed SPSE (The Mysore Paper Mills Limited) in Karnataka, mainly dealing with paper products, sugar, pulp etc, has no operations since financial year 2015-16. Hence, no comparative analysis with private sector is done.

¹⁹ Revenue from operations in 12 SPSEs was nil.

Sales and Marketing

1.6.3 Out of 113 SPSEs (excluding 14 non-working SPSEs), as per the latest certified financial statements, 77 SPSEs have recorded an operating turnover of ₹ 88,824.61 crore during the year from sale of goods / service rendered as against corresponding turnover of ₹ 77,410.25 crore recorded during the previous year. Remaining 36 SPSEs have not accounted revenue from operations.

The breakup of revenue from operations is given in **Table No. 1.13** below:

Table No. 1.13: Statement showing breakup of revenue from operations

Sl. No.	Category	2021-22			2022-23		
		Company	Statutory Corporation	Grand Total	Company	Statutory Corporation	Grand Total
1	No of SPSEs	70	6	76	71	6	77
2	Domestic	70,206.77	7,182.48	77,389.25	83,188.38	5,609.36	88,797.74
3	Export	21.00	0.00	21.00	26.87	0.00	26.87
4	Total Revenue from Operations	70,227.77	7,182.48	77,410.25	83,215.25	5,609.36	88,824.61

Source: Latest Financial Statement of SPSEs

Only two SPSEs (KSDL and MPVL) reported an export turnover of ₹ 26.87 crore.

Expenditure on Research and Development (R&D)

1.6.4 A review of disclosures²⁰ in Directors' Reports in the latest financial statements revealed that no significant expenditure has been incurred by State SPSEs on research and development. Only one SPSE (MPVL) has incurred an expenditure of ₹ 0.99 lakh during financial year 2022-23 (previous year - ₹ 1.67 lakh).

Return on Capital Employed (RoCE)

1.6.5 Return on Capital Employed (RoCE) is a ratio that measures a company's profitability and the efficiency with which its capital is employed. RoCE is calculated by dividing a company's Earnings Before Interest and Taxes (EBIT) by the capital employed²¹. The details of RoCE during 2020-21 to 2022-23 are given below in **Table No. 1.14**.

Table No. 1.14: Return on Capital Employed

Sl. No.	Year	No. of SPSEs	EBIT (₹ in crore)	Capital Employed (₹ in crore)	ROCE (in per cent)
1	2020-21	124	5,041.69	1,45,117.01	3.47
2	2021-22	125	1,873.97	1,58,153.43	1.18
3	2022-23	127	7,452.80	1,58,382.98	4.71

Source: Latest Financial Statement of SPSEs.

²⁰ Section 134 (3) of Companies Act, 2013 read with sub-rule (iv) to Rule 8 (B) of Companies (Accounts) Rules, 2014 on technology absorption require disclosure of expenditure incurred on research and development.

²¹ Capital Employed equals Paid up Share capital plus Free Reserves and surplus plus Longterm loans less Accumulated losses less Deferred Revenue Expenditure.

RoCE was positive during 2020-21 to 2022-23 and increased from 3.47 *per cent* in 2020-21 to 4.71 *per cent* in 2022-23. The lower ROCE at 1.18 *per cent* for the year 2021-22 was due to significant decrease in profitability of SPSEs.

Return on Equity by SPSEs

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

Shareholders' funds are calculated by adding paid up capital and free reserves minus net of accumulated losses and deferred revenue expenditure and reveals how much would be left for a company's stakeholders if all assets were sold and all debts paid. A positive shareholders' fund reveals that the company has enough assets to cover its liabilities while negative shareholder equity means liabilities exceed assets.

The details of net income, shareholders' fund and RoE relating to the SPSEs are given below in **Table No. 1.15**.

Table No. 1.15: Return on Equity relating to SPSEs where funds were infused by the State Government

(₹ in crore)

Sl. No.	Year	No of SPSEs	Net Income (PAT)	Shareholders' Fund	ROE (Percentage)
1	2020-21	124	-5,259.47	54,429.18	-
2	2021-22	125	-8,839.63	60,956.73	-
3	2022-23	127	-4,317.61	62,056.99	-

Source: Latest Financial Statement of SPSEs.

As the RoE could not be arrived at due to overall negative net income of all SPSEs during the period 2020-2023, the year wise RoE for profit / loss making SPSEs has been computed and tabulated in **Table No. 1.16** below:

Table No. 1.16: Return on Equity relating to profit / loss making SPSEs where funds were infused by the State Government

(₹ in crore)

Sl. No.	Particulars	No of SPSEs	Net Income (PAT)	Shareholders' Fund	ROE (Percentage)
2020-21					
1	Profit making	50	2,987.00	35,006.81	8.53
2	Loss making	50	-8,246.47	19,379.71	-42.55
3	Others	24	0.00	42.66	0.00
	Grand Total	124	-5,259.47	54,429.18	
2021-22					
4	Profit making	55	2,608.22	38,912.35	6.70
5	Loss making	50	-11,447.85	22,018.83	-51.99
6	Others	20	0.00	25.55	0.00
	Grand Total	125	-8,839.63	60,956.73	

Sl. No.	Particulars	No of SPSEs	Net Income (PAT)	Shareholders' Fund	ROE (Percentage)
2022-23					
7	Profit making	57	3,132.14	21,172.95 ²²	14.79
8	Loss making	56	-7,449.75	40,684.65	-18.31
9	Others	14	0.00	199.39	0.00
	Grand Total	127	-4,317.61	62,056.99	

Source: Latest Financial Statement of SPSEs.

Audit analysis of RoE data revealed that out of 50 SPSEs who had reported profit in 2020-21, 14 SPSEs recorded losses in 2022-23. During the same period, 12 SPSEs which had recorded losses in 2020-21, reported profits during 2022-23. As per latest certified financial statements, 33 SPSEs had incurred losses in all three years.

The improvement in margin of RoE of 57 profit making SPSEs in 2022-23 is because of change in composition of profit making SPSEs due to inclusion of SPSEs having lower Shareholders' fund.

1.7 Returns from investment by State Government

Return on government Investment in SPSEs (RoI) on historical cost basis

1.7.1 Calculation of return on investment is done on historical cost basis wherein the return on government investment is calculated by dividing the total earnings / losses by the cumulative investment made. For this purpose, apart from the investment in equity, the outstanding interest free loans given by the State Government are also considered as they are akin to equity since they have not been repaid.

Out of ₹ 10,308.94 crore invested by State Government in long-term loans, ₹ 129.12 crore constituted interest free loans. The equity of ₹ 1,13,005.23 crore and interest free loan of ₹ 129.12 crore constitute the total investment of the State Government in these 107 SPSEs (including one SPSE with interest free loan) amounting to ₹ 1,13,134.35 crore at the end of 31 March 2023.

The sector wise return on investment on historical cost basis for the three financial years 2020-21 to 2022-23 is given in **Table No. 1.17**:

Table No. 1.17: Year-wise details of return on investments based on historical cost for the period from 2010-11 to 2022-23

(₹ in crore)					
Sl. No.	Name of the Sector	No. of SPSEs ²³	Total earnings / losses (-)	Equity and interest free loans as the end of the year	Return on investment (per cent)
			2020-21		
1	Power	8	-2,417.18	14,009.66	-17.25
2	Finance	17	-83.40	3,070.83	-2.72

²² The major change in the quantum of Shareholders' fund of profit making and loss-making entity was on account of two SPSEs i.e. KPCL and CNNL having Shareholders fund of ₹ 10,249 crore and ₹ 8,246 crore respectively, which became loss making in 2022-23.

²³ Includes SPSEs without investment in equity and only interest free loan.

Sl. No.	Name of the Sector	No. of SPSEs ²³	Total earnings / losses (-)	Equity and interest free loans as the end of the year	Return on investment (per cent)
			2020-21		
3	Service	10	-973.02	938.23	-103.71
4	Infrastructure	19	-635.30	66,981.54	-0.95
5	Others	44	283.27	681.59	41.56
	Total	98	-3,825.63	85,681.85	-4.46
			2021-22		
1	Power	8	-6,017.45	14,321.58	-42.02
2	Finance	21	488.94	3,822.75	12.79
3	Service	10	-1,296.43	1,166.13	-111.18
4	Infrastructure	20	-1,299.59	80,746.03	-1.61
5	Others	46	727.16	718.20	101.25
	Total	105	-7,397.37	1,00,774.69	-7.34
			2022-23		
1	Power	8	-2,151.54	15,049.55	-14.30
2	Finance	23	398.87	3,805.35	10.48
3	Service	10	-1,123.03	2,303.91	-48.74
4	Infrastructure	19	-1,825.79	91,252.81	-2.00
5	Others	47	1,037.41	722.73	143.54
	Total	107	-3, 664.08	1,13,134.35	-3.24

Source: Latest Financial Statement of SPSEs and Information / data furnished by SPSEs.

The return on State Government investment is worked out by dividing the total earnings of SPSEs with investment of the State Government in the form of equity as well as interest free loan. The overall return on investment of the SPSEs was negative in all the three years. This varied from (-) 4.46 *per cent* in 2020-21 to (-) 7.34 *per cent* in 2021-22 and to (-) 3.24 *per cent* in 2022-23 mainly due to losses incurred by SPSEs in power, service and infrastructure sectors.

As per the latest certified financial statements, 11 SPSEs²⁴ belonging to different sectors were the major contributors to the overall negative return on investment.

Rate of Real Return on Government Investment (RORR)

1.7.2 Calculation of return based only on historical cost of investment may also not be an accurate indicator of the adequacy of the return as such calculations ignore the Present Value (PV) of money.

The rate of real return (RORR) on Government investment measures the profitability and efficiency with which equity and similar non-interest bearing funds were employed after adjusting them for their time value and assumes significance when compared with the conventional rate of returns which is merely derived from dividing the total earnings / losses by the sum of all such investment counted on historical cost basis.

To bring the historical cost of investments to its present value at the end of each year up to 31 March 2023, the past investments/ year-wise funds infused by the GoK in the SPSEs have been compounded at the year-wise average rate of

²⁴ Four SPSEs (BESCOM, HESCOM, CESC and GESCOM) in power sector, three SPSEs (KNNL, KBJNL and VJNL) in infrastructure sector and four SPSEs (KSRTC, BMTC, NWKRTC and KKRTC) in service sector.

interest on Government borrowings which is considered as the minimum cost of funds for the concerned year. Therefore, PV of the State Government investment was computed in respect of SPSEs during 2010-11 to 2022-23. The PV of the Government investments has been computed to assess the real rate of return on the assumption that interest free loans have been considered as investment infusion by the State Government as no interest on such loans has been paid by the SPSEs. Further, in those cases where interest free loans given to the SPSEs were later converted into equity, the amount of loan converted into equity has been deducted from the amount of interest free loans and added to the equity of that year. The funds made available in the form of grants/subsidies have not been reckoned as investment, as they do not qualify to be considered as investment.

The consolidated position of PV of the State Government funds relating to SPSEs is indicated in the following **Table No. 1.18**:

Table No. 1.18: Year-wise details of funds infused by the State Government and PV of Government funds for the period from 2010-11 to 2022-23

(₹ in crore)

Sl. No.	Financial Year	PV of total investment at the beginning of the year	Equity infused by the State Government during the year	Interest free loans given by the State Government during the year	Total investment at the end of the year	Average rate of interest on Government borrowings ²⁵ (in per cent)	PV 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 ²⁶
(a)	(b)	(c)	(d)	(e)	(f=(c+d+e))	(g)	(h=f×(1+g)/100)	(i=f×(g/100))	(j)
1	up to 2009-10		28,042.07	17.97	28,060.04	6.70	29,940.06	1,880.02	
2	2010-11	28,487.45 ²⁷	4,604.75	15.94	33,108.14	6.40	35,227.06	2,118.92	988.43
3	2011-12	35,227.06	4,437.83	10.25	39,675.14	6.60	42,293.70	2,618.56	411.19
4	2012-13	42,293.70	4,704.12	0.50	46,998.32	6.60	50,100.21	3,101.89	415.64
5	2013-14	50,100.21	4,076.13	0.00	54,176.34	6.20	57,535.28	3,358.93	-169.62
6	2014-15	57,533.73 ²⁸	4,097.80	3.65	61,635.18	6.50	65,641.46	4,006.29	359.63
7	2015-16	65,641.46	4,199.52	0.00	69,840.98	6.50	74,380.65	4,539.66	-327.18
8	2016-17	74,380.65	5,092.60	0.00	79,473.25	6.30	84,480.06	5,006.81	-28.44
9	2017-18	84,480.06	4,906.14	0.00	89,386.20	7.70	96,268.94	6,882.74	-721.65
10	2018-19	96,268.94	7,215.22	0.00	1,03,484.16	8.20	1,11,969.86	8,485.70	-1,271.33
11	2019-20	1,11,969.86	7,484.45	20.32	1,19,474.63	6.40	1,27,121.01	7,646.38	-1,841.16
12	2020-21	1,27,121.01	8,098.12	17.00	1,35,236.13	6.20	1,43,620.77	8,384.64	-3,825.63
13	2021-22	1,43,620.77	15,074.35	18.49	1,58,713.61	6.00	1,68,236.42	9,522.82	-7,397.37
14	2022-23	1,68,224.89 ²⁹	12,339.66	25.00	1,80,589.55	6.50	1,92,327.87	11,738.32	-3,664.08
	Total		1,13,005.23³⁰	129.12					

Source: Latest Financial Statement of SPSEs and Information / data furnished by SPSEs.

²⁵ The average rate of interest on borrowing by the State Government is adopted as per the approved Audit Reports of the CAG of India on State Finances, GoK.

²⁶ Total Earning for the year depicts total of net earnings (profit/loss) as per their latest certified accounts during the respective years relating to those SPSEs where funds were infused by State Government.

²⁷ The PV of investment made in Bangalore Metro Rail Corporation Limited (BMRCL - ₹ 1,451.16 crore) was excluded from opening balance due to transfer of Audit Jurisdiction to another office and that in Karnataka Small Industries Marketing Corporation Limited (KSIMC - ₹ 1.45 crore) on merger with KSSIDC.

²⁸ The PV of investment made in Chamundi Machine Tools Limited (CMTL - ₹ 0.86 crore) and Karnataka State Textiles Limited (KSTL - ₹ 0.69 crore) were excluded on liquidation.

²⁹ The PV of investment made in Bangalore Airport Rail-link Limited (BARL - ₹ 11.53 crore) was excluded on voluntary liquidation.

³⁰ Represents actual investment in equity as at the end of March 2023 duly excluding equity of BMRCL (₹ 1,360.04 crore), KSIMC (₹ 1.36 crore), CMTL (₹ 0.63 crore), KSTL (₹ 0.50 crore), and BARL (₹ 5.00 crore) as these SPSEs were transferred/merged/liquidated.

The funds infused by the State Government in SPSEs increased to ₹ 1,13,134.35 crore as at 31 March 2023 from ₹ 28,042.07 crore as at 31 March 2010, as the State Government infused equity (₹ 84,963.16 crore) interest free loans (₹ 129.12 crore) during the period 2010-11 to 2022-23. The PV of funds infused by the State Government up to 31 March 2023 worked out to ₹ 1,92,327.87 crore.

During 2010-11 to 2022-23, total earnings for the year were lower than the minimum expected return to recover cost of funds infused in these SPSEs and turned continuously negative since 2014-15. Audit analysis of total earnings indicated that 29 SPSEs have incurred losses in all three financial years during 2020-2023. Out of 29 SPSEs, nine SPSEs³¹ have contributed significantly (more than ₹ 100 crore) to the reported losses.

The return on State Government funds (at PV) infused in the SPSEs indicate the profitability and the efficiency of these SPSEs. The return on State Government funds is worked out by dividing the total earnings³² of these SPSEs by the PV of the State Government investments. Due to overall negative return on investment by SPSEs during 2020-21 to 2022-23 (Refer **Table 1.18**), the return was not calculated.

1.8 SPSEs incurring losses

Losses incurred by SPSEs

1.8.1 There were 56 SPSEs³³ that incurred losses as per their latest certified accounts. The losses decreased to ₹ 7,449.75 crore compared to losses of ₹ 8,246.47 crore in 2020-21 as given below in **Table No. 1.19**.

Table No. 1.19: Number of SPSEs that incurred losses during 2020-21 to 2022-23.

(₹ in crore)					
Sl. No.	Year	No of loss making SPSEs	Net loss for the year	Accumulated loss	Net Worth ³⁴
Statutory Corporations					
1	2020-21	5	(-) 985.32	(-) 3,141.26	(-) 2,464.55
2	2021-22	4	(-) 1,282.43	(-) 3,877.52	(-) 2,981.46
3	2022-23	4	(-) 1,289.96	(-) 5,912.82	(-) 4,806.56
Government Companies					
1	2020-21	45	(-) 7,261.15	(-) 26,567.37	21,844.26
2	2021-22	46	(-) 10,165.42	(-) 32,951.29	25,000.29
3	2022-23	52	(-) 6,159.79	(-) 31,764.40	45,491.21
Total					
1	2020-21	50	(-) 8,246.47	(-) 29,708.63	19,379.71
2	2021-22	50	(-) 11,447.85	(-) 36,828.81	22,018.83
3	2022-23	56	(-) 7,449.75	(-) 37,677.22	40,684.65

Source: Latest Financial Statement of SPSEs

³¹ Two SPSEs in power sector (HESCOM and CESC), three SPSEs (KNNL, KBJNL and VJNL) in infrastructure sector and four SPSEs being the statutory corporations (BMTC, NWKRTC, KSRTC and KKRTC) in transport sector.

³² As reported in their latest certified financial statements up to Sept 2023.

³³ 56 SPSEs include eight non-working SPSEs.

³⁴ Net worth means the *sum total* of the paid-up share capital and free reserves and surplus *less* accumulated loss and deferred revenue expenditure. Free reserves mean all reserves created out of profits and share premium account but do not include reserves created out of revaluation of assets and write back of depreciation provision.

In 2022-23, out of total loss of ₹7,449.75 crore incurred by 56 SPSEs, significant loss of ₹ 4,417.77 crore was contributed by four SPSEs.³⁵

Erosion of capital in SPSEs

1.8.2 As per latest finalised Accounts, there were 60 SPSEs with accumulated losses of ₹ 46,814.47 crore. Of these, 45 SPSEs incurred losses amounting to ₹ 7,231.07 crore and 15 SPSEs did not incur losses, even though they had accumulated loss of ₹ 3,551.88 crore as per their latest certified accounts. Three out of 60 SPSEs were under liquidation³⁶.

The net worth of 40 out of 60 SPSEs had been completely eroded by accumulated losses and their net worth was either zero or negative (details are indicated in **Appendix - 3**). The net worth of these 40 SPSEs was ₹ (-) 23,297.91 crore against paid up equity of ₹ 10,695.05 crore as on 31 March 2023. Out of 40 SPSEs, whose capital had been eroded (being zero or negative net worth), six SPSEs had earned profit of ₹ 32.10 crore during 2022-23. In 18 out of 40 SPSEs whose capital had been eroded, State Government loans outstanding as on 31 March 2023 amounted to ₹ 3,131.65 crore.

Recommendations:

- 1. There are 127 SPSEs in Karnataka, out of which fourteen are non-working. These companies are either defunct or at various stages of liquidation. Given the prolonged delay, the Government may speed up the process of winding up the defunct SPSEs, to avoid further strain on public finances.***
- 2. The Government needs to evaluate the business models of loss making SPSEs to address the underlying cause of their financial losses. If the business model is not sustainable, Government may review and consider shutting down/divesting its stake in such companies, especially in those who's net worth has been completely eroded.***

³⁵ Bangalore Electricity Supply Company Limited, Hubli Electricity Supply Company Limited, Raichur Power Corporation Limited and Karnataka Neeravari Nigam Limited.

³⁶ The Karnataka State Veneers Limited, Mysore Cosmetics Limited and Bangalore Airport Rail Link Limited (under voluntary liquidation).

