FINANCIAL MANAGEMENT ASSESSMENT AND PROJECTIONS

A. Introduction

1. Under the Power Sector Reform Program, the Government of Madhya Pradesh (GOMP) has unbundled the Madhya Pradesh State Electricity Board (MPSEB) into five wholly owned State Government Companies. Madhya Pradesh Power Transmission Company (MP Transco) is one of such five companies carved out of MPSEB to undertake the activities relating to electricity transmission within the State of Madhya Pradesh. With effect from 1 June 2005, the company has assumed the functions of intra-state transmission of electricity, State Transmission Utility and State Load Dispatch Center as its own business and not as an agent of Madhya Pradesh State Electricity Board.

2. There were three distribution companies (DISCOMs) formed as well namely – Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited Bhopal (DISCOM-C), Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited Jabalpur (DISCOM-E) and Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited Indore (DISCOM-W).

3. Subsequently, in May 2006 one more company, namely Madhya Pradesh Power Trading Company (MP Tradeco) has been carved out of MPSEB to look after the trading of power and other associated activities. In accordance with GOMP decision, the name of MP Tradeco has been changed to MP Power Management Company. The MP Power Management Company (Holding Company) has been made holding company for all the DISCOMS of MP.

4. DISCOM-C, DISCOM-E, DISCOM-W and the MP Transco are the four executing agencies for this proposed loan from the Asian Development Bank (ADB).

5. A financial management assessment (FMA) and review of their past performances and future business projections of the four executing agencies are conducted as part of the financial due diligence of the executing agencies to assess their capacities to implement the Power Transmission and Distribution System Improvement project administered by ADB.

B. Project Description

6. The Project has three outputs: (i) transmission system improvement; (ii) distribution system improvement; and (iii) capacity building for the executing agency staff. The transmission system improvement includes augmentation of sub-station capacity and line lengths across all the voltage levels (132 kV, 220 kV, 400 kV). For the 220 kV and 400 kV voltage levels, the focus is to upgrade the transformer capacity at the existing sub-stations. For the 132 kV transmission network, the target is to create more sub-stations to feed the distribution network while improving the overall quality and reliability of supply. About 1,800 circuit km of transmission line is proposed to be constructed under the project. A total of 32 substations, (12.5% of the current number of sub-stations) comprising of two 400 kV, four 220 kV and twenty-six 132 kV substations are proposed to be constructed. The total capacity addition under the project would be about 4,000 megavolt ampere (MVA) which is 25% of the targeted sub-station capacity addition by MP Transco during the period of 2013-2017. This would result in an increase in the transmission substation capacity from 37,000 MVA in 2013 to 41,000 MVA by 2020.

7. The distribution system improvement includes the construction of new 33/11 kV sub-stations, bifurcation of overloaded 33 kV feeders, additional/augmentation of power transformers, installation of distribution transformers and capacitor banks. Approximately 2,225 circuit kilometers (km) of 33 kV lines and 915 circuit km of 11 kV lines are proposed to be

constructed. A total of 149 new 33/11 kV sub stations are proposed to be constructed and another 328 33/11 kV substation to be upgraded.

C. Financial Management Assessment

8. An effective financial management within the executing agency is a critical success factor for project sustainability, both in the effective use of funds and in the safeguard of assets once created. A FMA of the four executing agencies was conducted as part of the financial due diligence of the executing agencies to assess their capacities to implement the Power Transmission and Distribution System Improvement project administered by ADB. The approach as outlined below has been taken for the study which is also consistent with the methodology recommended as per "*Financial Due Diligence A Methodology Note*, ADB, January 2009."

9. The adequacy of the existing financial management at the executing agencies was evaluated to assess its compliance with ADB's Guidelines[1] and to identify measures that would need to be instituted to ensure compliance with ADB requirements.

10. As part of the due diligence, earlier assessments conducted by ADB were also reviewed. To fully understand the appropriateness of the financial management system in the executing agency, an overall evaluation of the risks is carried out by determining to what extent the current system complies with the requirements of the standards of practice, and what measures need to be taken to ensure effective and acceptable financial management systems prior to beginning of the project.

11. The ADB Financial Management Assessment Questionnaire[2] (FMAQ) was used to collect the relevant information from the executing agencies. Once the issues/weaknesses are identified, the most appropriate mitigation measures have also been recommended for each category of review being undertaken.

1. Findings of the Study and Recommendations – MP TRANSCO

a. Budgeting and Planning

12. MP Transco is a wholly owned State Government Organization. The company's revenue is determined through the tariff approved by the MPERC based on the Multi Year Tariff (MYT) framework. MP Transco has to prepare a business plan including capital expenditure plan for the MYT control period (usually 3 years), based on which the Commission approves the Tariff. The contribution from the State Government in terms of equity/loan is however reliant on the State Annual Budget provided by the Government considering the resource availability.

13. The foreign exchange received from ADB by GOMP via the Central Government and designated for MP Transco is disbursed under the following ways – (i) it is transferred to MP Transco account if the expenses are to be reimbursed or (ii) there is a direct payment to the designated bank in case a letter of credit (LC) is opened for payment to the contractor for turnkey package implementations. The foreign exchange risk is entirely absorbed by GOMP in all the cases.

b. Accounting and Reporting

[1] "Financial Due Diligence A Methodology Note, ADB, January 2009."
[2] Responses to the FMAQ are provided in the Annexure Tables.

14. MP Transco has adequate capacity for project accounting, reporting, and managing funds flow, and has previously managed external projects financed by multilateral and bilateral donor agencies.

15. MP Transco's annual accounts are prepared on accrual accounting basis in accordance with Indian accounting standards. The accounts department is adequately staffed with qualified professionals and recent recruitments have been all qualified chartered accountants. There are few vacant positions which being promotional in nature cannot be filled in on immediate basis and from lateral recruitments. There is no training policy manual existing in the company. However, need based training is provided.

16. The current accounting system is being run by a mix of manual book keeping and a legacy batch processing financial accounting system. An enterprise resource planning (ERP) is awaited where finance and accounts will also be adequately addressed, post which the system will have provisions to generate accounting and reporting statements for management discussions and management information system (MIS) purpose.

17. MP Transco's existing accounting system, the legacy batch processing financial accounting system is inadequate. The company is in advanced stages of implementation of ERP (tender prepared for appointing consultant) and is expected to be on ERP by 2015. A comprehensive ERP is therefore awaited and to fully operationalize the software so as to prepare the accounting and reporting requirements, the MP Transco staff needs to be entirely aware of the features and functionalities of the enterprise system. This may require additional trainings, over and above the knowledge sharing workshops planned by the implementing agency.

c. External and Internal Audit

18. The annual accounts of MP Transco are audited by the statutory auditor appointed by the company and approved by the Comptroller Auditor General's (CAG's) office. A supplementary audit of the annual accounts is being carried out by the CAG office as well.

19. A review of the past years' audited annual accounts has been carried out. It is noticed that the fixed asset registers have not been updated since notification of opening balances by GOMP dated 12 June 2008 to show proper particulars of fixed asset. This will help determine and maintain appropriate schedules of depreciation of fixed asset. It is expected after speaking to Management that this will be updated in the current fiscal year. As the company will be on ERP, it is expected that fixed asset register, current work-in-progress (CWIP) records and inventory control is significantly going to improve and filing tariff petitions and submission of data to MPERC will become easier. Also, the Statutory Auditor has commented on strengthening of the internal audit function to commensurate the size and nature of the business

20. An internal audit department exists with MP Transco which appoints and monitors the work carried out by a chartered accountant firm undertaking the internal audit and also coordinates with other departments for implementing any action recommended by the internal audit team. The chartered accountant firm is appointed through a publicly tendered competitive process. The findings of the internal audit carried out are reported to respective departments and the audit committee. There is a quarterly review by screening committee headed by Managing Director on the compliance. The representatives of Members of Board are members of the Audit Committee as well. No major observation of internal audit has been reported except reporting of minor observations which are rectified.

21. The external audit and internal audit is being carried out in accordance with the rules and procedures laid out by the government of India for all corporations/government companies and can be concluded that this follows the International Standards on Auditing.

d. Risk Analysis

22. A Financial Management Internal Control and Risk Management Assessment were conducted.

Table 1: Risk Analysis and Mitigation Measures – MP Transco

Risk type	**Risk Assessment**[a]	**Risk Description**	**Mitigation Measures**
Inherent Risk: Inherent Risk is the susceptibility of the project financial management system to factors arising from the environment in which it operates			
1. Entity-Specific Risks	N	Record-keeping, internal reporting and monitoring	Strengthen internal management reporting and record keeping through implementing ERP systems Targeted training and capacity building at all levels recommended on internalising the ERP systems
	S	Inadequate control over Fixed Assets - A review of the past years' Audited Annual Accounts has been carried out. It is noticed that the Fixed Asset (FA) registers have not been updated since notification of opening balances by GOMP dated 12th June, 2008 to show proper particulars of FA.	It is expected after speaking to Management that this will be updated in the current fiscal year. Further, on implementation of ERP, the control on FA, Current Work-in-Progress (CWIP) records and inventory control is significantly going to improve
2. Project-Specific Risks	N	Inordinate delays in project implementation due to impending Elections or inadequate monitoring and project planning	Significant planning has been undertaken in project preparatory phases so that procurement of turnkey implementations could be carried out in the early months of 2014 before elections. Use of project planning tools like Microsoft Projects / Primavera in project implementation phase and monitoring of turnkey contracts are recommended
Overall Inherent Risk	**N**		
Control Risk: Control Risk is the risk that the project's accounting and internal control framework are inadequate to ensure project funds are used economically and efficiently			

Risk type	Risk Assessment[a]	Risk Description	Mitigation Measures
1. Staffing	N	Staffing skills are satisfactory for book keeping, but staff responsibilities for the effectiveness of the accounting systems and reports could be improved.	Vacant positions may be temporarily filled with contract appointments. Accounting staff to be mentored to higher skills levels Rotation of accounting duties to be used where feasible Provide regular training on ADB's procurement and disbursement processes to new recruits.
2. Accounting and Reporting	S	Inadequate control over management reporting - Current accounting system is being run by a mix of manual book keeping and a legacy batch processing Financial Accounting system	Comprehensive ERP system to be implemented Training on system skills and use of ERP
	N	The Gratuity, Pension fund, Leave Encashment has been accounted for on the basis of Actuarial Valuation report 2009 and thereafter no Actuarial Valuation was done – This may lead to delay in True-Up of Annual Revenue Requirement	A revised / renewed actuarial valuation be undertaken
3. Internal Audit	S	The Statutory Auditor has commented on strengthening of the Internal Audit (IA) function to commensurate the size and nature of the business	Even though all processes for Internal Audit have been laid out adequately, the IA Department staffing needs to be strengthened for coordinating and monitoring compliance of other Departments on the IA findings Screening Committee review of the IA findings needs to be strengthened and personally driven and monitored by Managing Director
Overall Control Risk	**S**		

[a] H = high, M = moderate, N = negligible or low, S = substantial

e. Assurances / Covenants

23. **Right of Audit**: MP Transco will ensure that contracts financed from the ADB loan facility will include provisions specifying the right of ADB to audit and examine the accounts of the MP Transco detailing records of all contractors, suppliers, consultants, and other service providers as they relate to the project(s) under the facility.

24. **Financial Management**: MP Transco will engage independent auditor to ensure timely and rigorous reconciliations, orderly record keeping, and strict adherence to financial management policies and internal controls, for the preparation and audit of annual project accounts.

2. Findings of the Study and Recommendations – All DISCOMs

a. Budgeting and Planning

25. DISCOM-C, DISCOM-W and DISCOM-W are wholly owned State Government Organizations. Similar to MP Transco, the revenue billed for these companies is also determined through the tariff approved by the MPERC every year. Following the similar principles of tariff filing, the DISCOMs have to project the annual revenue requirement for the ensuing year including the capital investment plan to MPERC for approval and fixation of tariff. The contribution from the State Government in terms of equity/loan support is however reliant on the State Annual Budget provided by the Government considering the resource availability.

26. The foreign exchange received from ADB by GOMP and designated for each of the DISCOM's use is disbursed a similar way as is disbursed for MP Transco and the foreign exchange risk is absorbed by GOMP.

b. Accounting and Reporting

27. All the DISCOMs have adequate capacity for project accounting, reporting, and managing funds flow, and have previously managed external projects financed by ADB.

28. DISCOMs annual accounts' are prepared on accrual accounting basis in accordance with Indian Accounting Standards. Also, the accounts department for each DISCOM is adequately staffed with qualified professionals. A training Institute have recently been commissioned to facilitate DISCOM staff where need based training is provided.

29. There is a Sybase based legacy accounting system in all the DISCOMs. The current accounting system is partially being run on it for generating certain MIS reports. An ERP is awaited where finance and accounts will also be adequately addressed, post which the system will have provisions to generate accounting and reporting statements for management discussions and MIS purpose. In DISCOM-C, this is expected to be rolled out by December, 2013 (HR and few other modules are already being run on ERP and Tata Consultancy Services is the chosen vendor for implementing ERP) while in the other two DISCOMs (DISCOM-E and DISCOM-W), ERP is expected to be rolled out by the year 2015.

30. Additional training on ERP is recommended once implemented in all three DISCOMs.

c. External and Internal Audit

31. The annual accounts of the DISCOMs are audited by the statutory auditor appointed by each of the DISCOM through a competitive process from a list of empaneled vendors approved by CAG. A supplementary audit of the annual accounts is being carried out by the CAG office as well.

32. A review of the audited annual accounts has been carried out for all the DISCOMs. It is observed that capitalization from CWIP is being done only on receipt of technical certificate from the respective field officers and there have been no inconsistencies reported by MPERC in the

tariff orders regarding financial accounting registers, CWIP records and inventory control. The Statutory Auditor for DISCOM-E has commented on strengthening the internal audit practices and extending this to all distribution centers audit. A lack of adequate internal control is observed in most departments with missing audit trails. Also, there have been pending entries in the reconciliation statements in relation to bank accounts of the DISCOM-E which have not been rectified. These balances upon reconciliation may affect the assets/liabilities and profit and loss of prior years. There have been inconsistencies reported by the statutory auditor of DISCOM-W in the year 2011-2012 in the amounts of receivables as recorded in Consumer Ledgers vis-à-vis Consumer Ledgers. The figures are under reconciliation and will be taken up by MPERC during the True-Up exercise.

33. Internal audit is outsourced and carried out by chartered accountant firm in all the three DISCOMs. The internal audit department exists with each of the DISCOMs and is staffed by qualified chartered accountants and it reports to Additional Director, Finance and Accounts. The findings of the internal audit carried out are reported to respective Departments and the audit committee. There is a quarterly review by Screening Committee headed by Managing Director on the compliance. The representatives of Members of Board are members of the Audit Committee as well. No major observation of internal audit has been reported as per Additional Director, DISCOM-C. Minor observations include interest wrongly calculated for ‘n’ number of days; provisions have been made in wrong account codes, etc.

d. Institutional Structure

34. Each of the three DISCOMs, every year, files individual tariff petitions to the Honorable Commission specifying their Annual Revenue Requirements for the ensuing year(s) to which the Commission comes out with a single Tariff Order notifying tariffs for the entire state for various categories of consumers. It was conveyed by GOMP in FY2012-2013 that the tariff for the each consumer category will be kept the same across the state in the foreseeable future.

35. The Madhya Pradesh Power Management Company (the Holding Company), does all the power procurement on behalf of the DISCOMs and allocates the generating capacities to each of the DISCOM based on share of their revenues. With 85% of the total expenses being the power purchase cost for any DISCOM, there is a centralized cash management being carried out by the Holding Company. The revenue receipts from each of the DISCOM are transferred to the Holding Company. There is a book entry adjustment in each DISCOM Account for the power purchase cost. The salary expenses and other O&M expenses are compensated by the Holding Company. There is a non-revenue receipt account with each DISCOM which includes revenues from supervision charges, meter testing charges, interest income, proceeds from sale of scrap, etc. This account is being adjusted against the administrative & general expenses and the civil related contractor payables.

36. The loans are in the books of the DISCOMs and are credited directly to each of the DISCOM accounts, with all project related expenditure being disbursed from the proceeds of the same. A demand is raised by each of DISCOM to the Holding Company for any repayment and interest payment.

e. Risk Analysis

37. A Financial Management Internal Control and Risk Management Assessment were conducted.

Table 2: Risk Analysis and Mitigation Measures - DISCOMs

Risk type	Risk Assessment[a]	Risk Description	Mitigation Measures
Inherent Risk: Inherent Risk is the susceptibility of the project financial management system to factors arising from the environment in which it operates			
1. Entity-Specific Risks	N	Record-keeping, internal reporting and monitoring	Strengthen internal management reporting and record keeping through implementing ERP systems Targeted training and capacity building at all levels recommended on internalising the ERP systems
	S	Inadequate loss reduction and failure to achieve loss reduction targets as given by Commission	100 % Meterization of Agriculture and Domestic (BPL) consumers as suggested by MPERC Intensify efforts in reducing the Distribution Losses through various Technical and Commercial interventions - Aerial Bunched (AB) cabling instead of overhead lines in LT networks in rural as well as in urban area, Automated Meter Reading (AMR) of LT high value consumer, etc.
2. Project-Specific Risks	N	Inordinate delays in project implementation due to impending Elections or inadequate monitoring and project planning (progress review of past ADB Loans show compliance in most cases except few milestones falling short of targets)	Significant planning has been undertaken in project preparatory phases so that procurement of turnkey implementations could be carried out in the early months of 2014 before elections. Use of project planning tools like Microsoft Projects / Primavera in project implementation phase and monitoring of turnkey contracts are recommended
Overall Inherent Risk	**N**		
Control Risk: Control Risk is the risk that the project's accounting and internal control framework are inadequate to ensure project funds are used economically and efficiently			
1. Staffing	N	Staffing skills are satisfactory for book keeping, but staff responsibilities for the effectiveness of the accounting systems and reports could be improved.	Accounting staff to be mentored to higher skills levels Rotation of accounting duties to be used where feasible Provide regular training on ADB's procurement and disbursement processes to new recruits.

Risk type	Risk Assessment[a]	Risk Description	Mitigation Measures
2. Accounting and Reporting	S	Inadequate control over management reporting - Current accounting system is being run on a Sybase based legacy Accounting System in all DISCOMs and provide inadequate control over Management Reporting	Comprehensive ERP system to be implemented Training on system skills and use of ERP
	N	There have been pending entries in the reconciliation statements in relation to Bank accounts of the DISCOM-E which have not been rectified. These balances upon reconciliation may affect the Assets/ Liabilities and profit and loss of prior years	Undertake account and bank reconciliations on a periodic basis
3. Internal Audit	H	The Statutory Auditor has commented on strengthening the Internal Audit practices and extending this to all Distribution Centers' Audit. A lack of adequate internal control is observed in most Departments with missing Audit trails. Even though adequate internal audit processes have been laid out in the DISCOMs, the IA has been restricted to Head Quarters and not been extended to all Division and Sub-Division offices	IA to be extended to all Distribution Centers. Internal Audit Department staffing needs to be strengthened for coordinating and monitoring compliance of other Departments on the IA findings Screening Committee review of the IA findings needs to be strengthened and personally driven by Managing Director
Overall Control Risk	**S**		

[a] H = high, M = moderate, N = negligible or low, S = substantial

f. Assurances / Covenants

38. **Right of Audit**: DISCOMs will ensure that contracts financed from the ADB Loan facility will include provisions specifying the right of ADB to audit and examine the accounts of the DISCOMs detailing records of all contractors, suppliers, consultants, and other service providers as they relate to the Project(s) under the Facility.

39. **Financial Management**: DISCOMs will engage independent Auditor to ensure timely and rigorous reconciliations, orderly record keeping, and strict adherence to financial management policies and internal controls, for the preparation and audit of annual project accounts.

D. Past Financial Performance and Projections

40. MPSEB allocated assets and liabilities to the individual companies as at 31 May 2005. These balance sheets allocations were only provisional. The final opening Balance sheet was notified on 12th June 2008. The utilities accordingly prepared the annual accounts for the year FY2007-08, FY2008-09 and FY2010-11 and had it audited as per final opening balance sheet.

1. Past Financial Performance and Projections - MP TRANSCO

a. Past Financial Performance

41. MP Transco transmission losses came down from 5.23% to 3.74% over the last 5 years. It has also been able to meet the target as given by MPERC. The summary of MP Transco past financial performance is given in Table 2. MP Transco has been consistently reporting losses since 2007-2008. These losses have resulted in an erosion of equity in the balance sheet. The total cumulative losses post unbundling stood at Rs1,386 million as on March 2012. The financial losses for FY2010-2011 are mainly attributed to disallowance of terminal benefits which is allowed in 2013 during True-UP. Also there has been a payment of 'deferred tax for current year' FY2009-2010 until FY2011-12 in spite of MP Transco reporting negative profit before tax (PBT). There has also been a write-off of Rs3,273 million shown in extraordinary items which has contributed to the loss in FY2011-2012.

Table 3 : Summary of MP Transco Past Financial Performance (Rs Million)

Particulars	FY 08	FY 09	FY 10	FY 11	FY 12
P&L Items					
Income	8,049	8,189	10,995	14,489	17,262
R&M	159	216	185	331	450
Employee	1,238	1,404	2,252	1,732	1,918
Terminal Benefit	3,080	3,375	4,826	6,428	7,084
A&G	171	96	245	191	344
Others	0	399	-	-	-
Extraordinary Items	-	-	-	-	3,273
PBITDA	**3,400**	**2,599**	**3,488**	**5,807**	**4,193**
Depreciation	1,776	1,947	2,166	2,471	2,668
PBIT	1,624	652	1,321	3,336	1,525
Finance Charges	2,023	705	1,389	3,339	1,556
PBT	(399)	(53)	(68)	(3)	(31)
Tax	12	(6)	888	181	71
PAT	**(412)**	**(47)**	**(956)**	**(184)**	**(102)**
Balance Sheet Items					
GFA	35,760	39,541	45,446	50,226	52,567
Accumulated Depreciation	(16,824)	(18,772)	(20,916)	(23,358)	(25,951)
WIP	4,802	7,217	6,911	4,186	5,945
Current Assets	11,878	9,947	17,503	21,422	23,635
Total Assets	**35,615**	**37,934**	**48,944**	**52,477**	**56,195**
Equity*	11,394	13,101	20,007	20,260	20,458
Long Term Borrowings	20,169	20,730	21,747	16,752	18,339
Deferred Tax Liability	-	-	887	1,068	1,139
Consumer Contribution	-	-	-	1,398	1,691

Particulars	FY 08	FY 09	FY 10	FY 11	FY 12
Liability for Terminal Benefits	670	-	-	-	-
Current Liabilities & Provisions	3,382	4,103	6,303	12,999	14,568
Total Liabilities	**35,615**	**37,934**	**48,944**	**52,477**	**56,195**
Cash Flow Statement					
Net P&L for the year	(412)	(47)	(69)	(3)	(31)
Depreciation	1,776	1,947	2,166	2,480	2,668
Interest and finance charges	2,023	705	1,389	3,383	1,556
Preliminary Exp W/off	0	0	0	-	-
Interest Received	(26)	(70)	(86)	(165)	(273)
Change in Working capital	(3,633)	2,464	(4,157)	(3,701)	1,918
Cash flow from operating activities	**(271)**	**5,000**	**(757)**	**1,995**	**5,838**
Capital Expenditure	(781)	(6,196)	(5,620)	(1,871)	(4,328)
Investments	-	-	-	-	(3,223)
Interest Received	26	70	86	165	273
Cash flow from investing activities	**(755)**	**(6,127)**	**(5,534)**	**(1,706)**	**(7,278)**
Equity	1,038	1,754	7,862	437	300
Loan	2,785	564	1,016	3,254	1,587
Interest and finance charges	(2,023)	(705)	(1,389)	(3,383)	(1,556)
Long-Terms Provisions	-	-	-	-	316
Cash flow from financing activities	**1,799**	**1,614**	**7,489**	**308**	**648**
Cash Generated	**773**	**487**	**1,198**	**597**	**(792)**
Ratios					
Return on GFA	-1.15%	-0.12%	-2.10%	-0.37%	-0.19%
Debt (LT) / Debt (LT)+Equity*	64%	61%	52%	45%	47%
Basic Earnings Per Share	(4.56)	(0.52)	(10.61)	(1.65)	(0.50)
Diluted Earnings Per Share	(4.13)	(0.39)	(7.00)	(0.87)	(0.50)
Current Ratio	3.51	2.42	2.78	1.65	1.62
Return on Net Worth	-3.6%	-0.4%	-4.8%	-0.9%	-0.5%
PAT/Revenue	-5.1%	-0.6%	-8.7%	-1.3%	-0.6%

GFA = general fix asset, LT = long term, PAT = profit after tax, PBIT = profit before income tax, PBITDA = profit before income tax, depreciation, and amortization, PBT = profit before tax, P&L = profit and loss, R&M = repair and maintenance, WIP = work in progress.
* Equity includes accumulated profits/losses.
Source: MP Transco Annual Reports, ADB analysis.

b. Financial Projections

42. This section sets out the financial projections for MP Transco from FY2012-2013 to FY2019-2020. The MPERC approved tariff order for MP Transco for the period FY2013-2014 to FY2015-2016 has been referred to for drawing projections for revenue and expenses and the Commission's approach on approving tariff for the MYT Period has been considered to determine the transmission tariff applicable in the state for future years. The physical assets additions have been projected based on the 12th Year Plan and the past trend of capital expenditure incurred by MP Transco vis a vis expenditure proposed as per 11th year plan. The operations and maintenance (O&M) expenses have been projected based on the commission's defined norms. A return on equity of 15.5% is considered as approved by commission. Loans required for future capital expenditure has been considered to be repaid in 10 years with a

moratorium period of 1 year. The average rate of interest for past loan has been considered for future interest projections.

43. MP Transco financial projections show that with progressive tariff increases (approved by MPERC) profitability could be achieved from FY2012-2013 onwards. The GFA will grow at a CAGR of ~10% to reach Rs141 billion by the end of FY2021-2022. With profitability in FY2012-2013, MPPTCL's return on average net fixed assets increases to 6.07% in FY2012-2013 to reach 7.36% in FY2021-2022. As a result of this, the company will have sufficient internal cash accrual to contribute to the capital expenditure in the future. As a result of profitability in future, the reserve and surplus will increase and the debt/debt plus equity ratio is forecast to fall from 47% in FY2012-2013 to 41% by FY2016-2017 and to 37% by FY2021-2022. As a result of accumulation of retained earnings from FY2012-13 onwards, MP Transco equity position would be Rs76 billion at the end of FY2021-2022. Current assets equal or exceed current liabilities in all years indicating that MPPTCL can meet its current liabilities.

44. The summary of MP Transco financial projections is given in Table 4:

Table 4: Summary MP TRANSCO Financial Projections (Rs million)

Particulars	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**
P&L							
Revenue from Transmission of Power	17,175	19,190	21,029	22,789	25,173	28,140	31,353
Other Income	345	300	255	210	165	120	75
Total Revenue	17,520	19,490	21,284	22,998	25,338	28,260	31,428
Operating Expenses	10,621	11,752	12,964	14,273	15,741	17,444	19,391
Depreciation	2,862	3,204	3,531	3,812	4,130	4,601	5,082
Interest Charges	1,681	1,821	1,919	2,001	2,151	2,401	2,635
Total Expenses	15,163	16,776	18,414	20,086	22,021	24,445	27,109
Profit Before Tax	**2,356**	**2,714**	**2,870**	**2,912**	**3,316**	**3,814**	**4,319**
Tax	471	569	602	610	695	800	905
Profit After Tax	**1,885**	**2,145**	**2,268**	**2,302**	**2,621**	**3,015**	**3,414**
Balance Sheet							
Gross Fixed Assets	59,850	65,975	72,695	77,037	85,171	95,525	104,087
Accumulated Depreciation	28,813	32,017	35,548	39,360	43,490	48,091	53,173
Net Fixed Assets	31,037	33,958	37,147	37,677	41,681	47,434	50,914
WIP	4,161	2,378	-	-	-	-	-
Current Assets	30,804	35,084	39,483	43,882	48,733	54,007	59,508
Total Assets	**66,001**	**71,421**	**76,630**	**81,559**	**90,414**	**101,441**	**110,422**
Equity*	23,993	27,441	31,012	34,616	39,677	45,798	51,781
Long term Liabilities	21,087	22,641	23,890	24,836	28,132	32,412	34,714
Deferred Tax Liability	1,139	1,139	1,139	1,139	1,139	1,139	1,139
Consumer Contribution	1,691	1,691	1,691	1,691	1,691	1,691	1,691
Current Liabilities	18,091	18,509	18,898	19,277	19,774	20,400	21,097
Total Equity & Liabilities	**66,001**	**71,421**	**76,630**	**81,559**	**90,414**	**101,441**	**110,422**
Cash Flow							
Net P&L for the year	1,885	2,145	2,268	2,302	2,621	3,015	3,414
Depreciation	2,862	3,204	3,531	3,812	4,130	4,601	5,082
Interest and finance charges	1,681	1,821	1,919	2,001	2,151	2,401	2,635
Change in Working capital	(3,522)	(418)	(389)	(379)	(498)	(626)	(697)
Cash flow from operating	**2,905**	**6,751**	**7,329**	**7,737**	**8,404**	**9,390**	**10,434**

Particulars	FY13	FY14	FY15	FY16	FY17	FY18	FY19
activities							
Capital Expenditure	(5,500)	(4,342)	(4,342)	(4,342)	(8,134)	(10,354)	(8,562)
Cash flow from investing activities	**(5,500)**	**(4,342)**	**(4,342)**	**(4,342)**	**(8,134)**	**(10,354)**	**(8,562)**
Equity	1,650	1,303	1,303	1,303	2,440	3,106	2,569
Loan	2,749	1,553	1,249	946	3,296	4,280	2,302
Interest and finance charges	(1,681)	(1,821)	(1,919)	(2,001)	(2,151)	(2,401)	(2,635)
Short term loans	3,522	418	389	379	498	626	697
Cash flow from financing activities	**6,241**	**1,453**	**1,022**	**626**	**4,084**	**5,612**	**2,932**
Cash Generated	**3,646**	**3,863**	**4,009**	**4,020**	**4,353**	**4,648**	**4,804**
Ratios							
Return on NFA	6.07%	6.32%	6.11%	6.11%	6.29%	6.36%	6.70%
DSCR	3.59	3.64	3.68	3.67	3.72	3.71	3.70
Debt/(Debt + Equity*)	47%	45%	44%	42%	41%	41%	40%

DSCR = debt service coverage ratio; P&L = profit and loss; WIP = work-in-progress.
* Equity includes accumulated profits/losses.

2. Past Financial Performance and Projections - DISCOMs

a. Past Financial Performance

45. DISCOM-C has been consistently making losses since MPSEB allocated assets and liabilities to the individual companies as at 31 May 2005. These balance sheets allocations were only provisional. The final opening balance sheet was notified on 12 June 2008. The Commission has not taken the impact of final opening balance sheet while finalizing the Tariff order of FY2010-2011 and has allowed considering it during the time of true up.

46. DISCOM-C made a loss of Rs5,503 million in FY2008-2009 and the losses have risen up to the tune of Rs6,322 million in FY2011-2012. The accumulated losses in FY2011-2012 for DISCOM-C were to the tune of Rs44,080 million. The debt service coverage ratio has been negative in all these years, which indicates that the company is caught in a debt trap, where it is required to borrow from external sources in order to fulfill its financial liability.

47. The deteriorating financial health of the company can be attributed to the low operational efficiency of the company. The T&D losses of the company are around 32.70% (FY 2011-12) and the collection efficiency of the company is close of 90% (including subsidy).

48. DISCOM-C, in FY2011-2012, was sitting on a huge arrear figure. The arrears although represent the current assets of the company but a majority of these arrears are irrecoverable and hence cannot be liquidated into cash and hence are non-performing assets. Another major reason for significant financial losses is that the tariff increase allowed by MPERC is not in-line with the increase in expenses of the company. These losses resulted in an erosion of equity in the balance sheet. DISOMC–C does not meet its own debt service.

49. There is absence of 100% metering in LT domestic consumers and most of the agricultural consumers are unmetered and billed as per assessed units determined by the

Commission. This point to the inability of DISCOM-C in reliably measuring its operational performance.

50. The negative operating cash flow and low Current Ratio along with high receivables and payables days indicate DISCOM-C is not able to generate enough cash to meet its obligations in the past. The summary of DISCOM-C past financial performance is given in Table 5. The summary of DISCOM-W and DISCOM-E are provided in the Annex Tables 1 and Table 2.

Table 5: Summary of DISCOM-C Past Financial Performance (Rs million)

Particulars	FY 08	FY 09	FY 10	FY 11	FY 12
P&L Items					
Income	24,128	27,387	30,986	35,792	43,518
Expenses					
Power Purchases	22,603	24,786	27,632	30,639	40,270
Repairs and maintenance	301	403	273	234	267
Employment Costs	3,162	3,822	4,796	5,103	5,084
Administration/Other	1,910	2,356	2,053	1,276	1,421
Interest	480	645	1,120	3,558	1,554
Depreciation	613	874	978	1,087	1,244
Total Expenses	29,069	32,885	36,851	41,896	49,840
Profit Before Tax	(4,941)	(5,498)	(5,865)	(6,104)	(6,322)
Tax	4	5	-	-	-
Profit/Loss After Tax	**(4,945)**	**(5,503)**	**(5,865)**	**(6,104)**	**(6,322)**
Balance Sheet Items					
Gross Fixed Assets	16,879	20,446	22,567	23,969	30,966
Accumulated Depreciation	10,571	11,344	12,322	13,409	14,653
Net Fixed Assets	6,307	9,103	10,246	10,561	16,313
WIP	4,231	3,630	4,182	6,616	4,109
Current Assets	14,218	22,261	24,230	32,008	37,770
Other Non-current Assets	753	488	5,172	6,558	9,562
Total Assets	**25,510**	**35,482**	**43,829**	**55,742**	**67,755**
Equity*	(7,229)	(10,477)	(12,692)	(15,421)	(23,153)
Long term Liabilities	12,006	17,796	26,629	23,237	54,505
Other Long term liabilities and provisions	2,475	7,829	10,819	12,977	15,450
Current Liabilities	18,258	20,334	19,074	34,948	20,953
Total Equity & Liabilities	**25,510**	**35,482**	**43,829**	**55,742**	**67,755**
Cash flow Statement**					
Net P&L for the year				(6,104)	(6,322)
Depreciation				1,069	1,244
Provisions & Others				1,395	(2,715)
Change in Working capital				(5,122)	(18,408)
Cash flow from operating activities				**(8,762)**	**(26,200)**
GFA & WIP				(5,208)	(7,426)
Cash flow from investing activities				**(5,208)**	**(7,426)**
Equity				2,542	1,186
Other Reserves / Consumer Contribution				835	2,560
Loan				13,516	30,913
Others cash equivalents fdrs				(2,195)	(125)

Particulars	FY 08	FY 09	FY 10	FY 11	FY 12
Cash flow from financing activities				**14,698**	**34,534**
Cash Generated				**727**	**908**
Ratios					
Return on NFA	-78%	-60%	-57%	-58%	-39%
PAT/Revenue	-20%	-20%	-19%	-17%	-15%
D/E*	(1.66)	(1.70)	(2.10)	(1.51)	(2.35)
Current Ratio	0.78	1.09	1.27	0.92	1.80

D/E = debt/equity; Current Ratio = current assets / current liabilities; P&L = profit and loss; WIP = work-in-progress.

* Equity includes accumulated profits/losses.

** Cash flow Statement for FY2008 to FY2010 is not available in English Language.

Source: DISCOM-C Annual Reports.

c. Financial Projections

51. This section sets out the financial projections for DISCOM-C from FY2012-2013 to FY2016-2017. The category wise tariff has been projected to reach the cross subsidy target of +/- 20% by FY2014-2015. The R&M has been projected based on the past trend of R&M expenses as a percent of gross fixed assets and the A&G has been projected based on past trend of A&G expense as a percent of revenue from sale of power. Employee expenses has been projected based on the future projection of manpower additions and retirement.

52. DISCOM-C has committed to bring down the distribution losses during the six year plan period, such that the aggregate distribution losses by FY2016-2017 are 19%, down from the 33% at the end of FY2011-2012. One of the other measures which is proposed to be undertaken to achieve the improved performance is the revision of normative agricultural consumption to reflect the actual consumption and also metering all unmetered consumers as suggested by the Commission as well in the Tariff Order FY2013-14.

53. It is assumed that GOMP shall provide all the support in form of government guarantee for new loans till a period the company is able to raise loans from the market without any guarantee, the necessary equity contribution committed towards capital investments and other administrative support for improving the collection efficiency and prevention of theft.

54. A Financial Restructuring Plan[3] (FRP) was approved by GOMP vide order no 6054/13/2011/02 dated 13.07.2011. Under the FRP, along with conversion of outstanding working capital loans from GOMP into perpetual loan, retention of ED and Cess for the next three years and conversion of this outstanding ED and Cess into perpetual loans, retention of power purchase payables for Sardar Sarovar and conversion of these outstanding payables into perpetual loans, it is also approved that to provide an interest holiday for three years to ensure that the distribution companies have some relief in the cash flows, while the interest rate to be charged thereon would be the base rate of SBI. This FRP intervention would benefit the distribution companies immensely in short term (next 6 years) while in long term it would not decrease the benefit (value) to the Government.

[3] Ministry of Power vide order no 20/11/2012-APDRP dated 5 October 2012 proposed a scheme for Financial Restructuring of State Distribution Companies. There has been no confirmation from GOMP / DISCOMs to endorse the same as most items proposed under the scheme have been considered in earlier notified FRP by GOMP.

55. DISCOM-C financial projections show that with progressive tariff[4] increase as approved by MPERC at cost plus return on equity (ROE) basis, profitability could be achieved by FY2014-FY2015. With profitability in FY2014-FY2015, DISCOM-C's return on average net fixed assets (RONA) increases to 18%. The cash flow position improves with debt service ratio becoming positive and improving to 2.07 in FY2016-FY2017.

56. The self-financing capacity of the company is limited in the short term but improves over the longer term so that the company should be able to contribute to their capital expenditure in the future. As a result of a negative equity position in FY2011-FY2012 and continuing losses until FY2013-FY2014, the debt/equity ratio is forecast to improve but will still remain negative As a result of accumulation of retained earnings from FY2014-FY2015 onwards, DISCOM-C's equity position would be improving from FY2014-FY2015 onwards. The summary of DISCOM-C financial projections is given in Table 6.

Table 6: Summary DISCOM-C Financial Projections (Rs Million)

Particulars	FY13	FY14	FY15	FY16	FY17
Sales (Mus)	9,940	13,143	16,077	20,088	23,952
%change		32%	22%	25%	19%
Average Revenue (Rs/kWh)	4.82	5.31	5.94	5.34	4.71
%change		10%	12%	-10%	-12%
P&L					
Revenue from Sale of Power	47,959	69,780	95,450	107,365	112,924
Other Income	1,025	1,396	1,302	1,439	1,438
Total Revenue	48,984	71,176	96,753	108,804	114,362
Operating Expenses	54,438	70,088	75,696	86,581	90,564
Depreciation	1,544	2,117	2,723	3,193	3,546
Interest Charges	2,552	2,552	8,579	8,051	7,938
Total Expenses	58,534	74,757	86,997	97,825	102,048
Profit Before Tax	**(9,550)**	**(3,580)**	**9,755**	**10,978**	**12,314**
Tax	-	-	1,944	2,188	2,454
Profit After Tax	**(9,550)**	**(3,580)**	**7,811**	**8,790**	**9,860**
Balance Sheet					
Gross Fixed Assets	39,148	52,318	63,705	71,471	79,486
Accumulated Depreciation	16,196	18,314	21,037	24,230	27,776
Net Fixed Assets	22,952	34,004	42,669	47,241	51,710
WIP	10,742	14,444	15,318	14,691	17,825
Current Assets	38,747	40,361	43,324	44,099	43,499
Other Non-current Assets	8,069	11,478	15,627	18,208	19,691
Total Assets	**80,510**	**100,287**	**116,938**	**124,240**	**132,725**
Equity*	(30,847)	(30,570)	(19,486)	(8,253)	10,134
Long term Liabilities	56,124	69,777	85,740	85,951	87,116
Other Long term liabilties and provisions	14,768	19,749	23,433	24,308	25,520
Current Liabilities	40,465	41,330	27,251	22,233	9,956
Total Equity & Liabilities	**80,510**	**100,287**	**116,938**	**124,240**	**132,725**
Cash Flow					
Net P&L for the year	(9,550)	(3,580)	7,811	8,790	9,860

[4] DISCOMs have been achieving the loss targets as provided by MPERC; therefore no disallowance has been assumed in PP cost; disallowances in O&M cost has been considered as per past trends

Particulars	FY13	FY14	FY15	FY16	FY17
Depreciation	1,544	2,117	2,723	3,193	3,546
Interest and finance charges	2,552	2,552	8,579	8,051	7,938
Change in Working capital	(1,820)	3,357	324	5,972	1,467
Cash flow from operating activities	**(7,274)**	**4,446**	**19,437**	**26,007**	**22,812**
GFA	(8,182)	(13,169)	(11,388)	(7,766)	(8,015)
WIP	(6,633)	(3,702)	(874)	626	(3,134)
Investment	1,492	(3,408)	(4,149)	(2,581)	(1,483)
Cash flow from investing activities	**(13,322)**	**(20,280)**	**(16,411)**	**(9,720)**	**(12,632)**
Equity	1,168	1,879	2,395	2,616	7,827
Other Reserves / Consumer Contribution	689	1,979	878	(173)	700
Loan	1,619	13,653	15,963	211	1,164
Other Long term liabilities and provisions	(682)	4,981	3,684	875	1,212
Interest and finance charges	(2,552)	(2,552)	(8,579)	(8,051)	(7,938)
Short term loans	20,630	(3,805)	(17,101)	(11,478)	(12,835)
Cash flow from financing activities	**20,871**	**16,135**	**(2,760)**	**(16,001)**	**(9,870)**
Cash Generated	**274**	**301**	**265**	**286**	**309**
Ratios					
Return on NFA	-42%	-11%	18%	19%	19%
D/E*	(1.82)	(2.28)	(4.40)	(10.41)	8.60
DSCR	(1.99)	(0.27)	1.79	1.95	2.07
Current Ratio	0.96	0.98	1.59	1.98	4.37

D/E = debt/Equity; Current Ratio = current assets / current liabilities; P&L = profit and loss; WIP = work-in-progress.
* Equity includes accumulated profits/losses.
Source: DISCOM-C Business Plan as approved by Board in the year 2013, ADB Analysis.

57. The current financial position of DISCOM-E and DISCOM-W and the financial projections for each of these entities have been developed based on similar lines and have been presented in the Annexure Tables 3 and Table 4. It is evident from the analysis that given the commitment from the DISCOMs on loss reduction and an appropriate financial restructuring package offered by GOMP, the financial health of all the DISCOMs can significantly improve in the longer term.

Table A1: Summary of DISCOM-E Past Financial Performance (Rs Million)

Particulars	FY 09	FY 10	FY 11	FY 12
P&L Items				
Income	24,249	29,294	33,639	39,601
Expenses				
Power Purchases	27,280	27,782	28,581	39,650
Repairs and maintenance	307	231	291	449
Employment Costs	4,102	4,661	5,690	6,230
Administration & General	725	774	743	1,265
Interest	867	1,342	3,412	1,268
Depreciation	851	1,091	948	1,170
Others	876	4,720	3,712	1,256
Total Expenses	35,008	40,601	43,377	51,287
Profit Before Tax	(10,758)	(11,307)	(9,738)	(11,686)
Tax	11	-	-	-
Profit/Loss After Tax	(10,769)	(11,307)	(9,738)	(11,686)
Balance Sheet Items				
Gross Fixed Assets	19,443	21,966	26,002	31,737
Accumulated Depreciation	11,877	12,967	13,915	15,086
Net Fixed Assets	7,566	8,999	12,087	16,651
WIP	6,408	7,669	5,871	6,182
Current Assets	20,087	24,050	29,025	27,964
Other Non-current Assets	507	2,265	4,313	6,030
Total Assets	**34,568**	**42,984**	**51,296**	**56,827**
Equity*	(12,618)	(16,950)	(23,343)	(31,609)
Long term Liabilities	10,197	18,652	42,794	56,198
Current Liabilities	36,989	41,282	31,845	32,238
Total Equity & Liabilities	**34,568**	**42,984**	**51,296**	**56,827**
Cash flow Statement				
P&L	(10,769)	(11,307)	(9,738)	(11,668)
Depreciation	851	1,091	948	1,170
Interest Expense	867	1,342	3,412	1,268
Provisions & Others	464	1,242	2,068	1,950
Change in Working capital	8,202	(685)	(4,135)	(2,210)
Cash flow from operating activities	**(387)**	**(8,317)**	**(7,445)**	**(9,491)**
GFA & WIP	(2,892)	(3,785)	(4,928)	(6,045)
Investments	(467)	(1,758)	-	-
Cash flow from investing activities	**(3,359)**	**(5,543)**	**(4,928)**	**(6,045)**
Equity	1,104	4,111	1,795	1,970
Other Reserves / Consumer Contribution	1,619	2,764	1,306	1,234
Loan	1,859	8,454	13,759	13,404
Interest Expense	(867)	(1,342)	(3,412)	(1,268)
Cash flow from financing activities	**3,716**	**13,988**	**13,448**	**15,339**
Cash Generated	(29)	128	1,076	(197)
Ratios				
Return on NFA	-142%	-126%	-81%	-70%

Particulars	FY 09	FY 10	FY 11	FY 12
PAT/Revenue	-44%	-39%	-29%	-30%
D/E*	(0.81)	(1.10)	(1.83)	(1.78)
Current Ratio	0.54	0.58	0.91	0.87

D/E: Debt / Equity; Current Ratio = Current Assets / Current Liabilities; P&L: Profit & Loss; WIP: Work-in-progress

* Equity includes accumulated profits/losses

Source: DISCOM-E Annual Reports

Table A2: Summary of DISCOM-W Past Financial Performance (Rs Million)

Particulars	FY 09	FY 10	FY 11	FY 12
P&L Items				
Income	32,054	38,312	46,826	55,406
Expenses				
Power Purchases	32,301	36,351	37,894	49,297
Repairs and maintenance	350	360	471	636
Employment Costs	3,828	8,080	4,913	5,342
Administration & General	564	719	866	898
Interest	1,292	1,965	4,534	1,826
Depreciation	963	945	863	1,167
Others	1,084	4,223	3,068	2,482
Total Expenses	40,382	52,643	52,609	61,647
Profit Before Tax	(8,327)	(14,331)	(5,783)	(6,241)
Tax	6	-	-	-
Profit/Loss After Tax	(8,333)	(14,331)	(5,783)	(6,241)
Balance Sheet Items				
Gross Fixed Assets	19,859	20,613	27,227	32,132
Accumulated Depreciation	12,847	13,792	16,017	17,220
Net Fixed Assets	7,012	6,821	11,210	14,912
WIP	9,207	10,593	7,817	7,567
Current Assets	17,357	16,984	25,346	38,456
Other Non-current Assets	859	1,265	1,381	2,140
Total Assets	**34,435**	**35,663**	**45,754**	**63,075**
Equity*	(8,781)	(17,450)	(20,125)	(19,865)
Long term Liabilities	8,701	7,776	30,646	23,305
Perpetual Loan	-	-	-	42,403
Current Liabilities	34,514	45,337	35,233	17,232
Total Equity & Liabilities	**34,435**	**35,663**	**45,754**	**63,075**
Cash flow Statement				
P&L	(8,281)	(14,331)	(5,783)	(6,740)
Depreciation	2,190	945	2,224	1,204
Interest Expense	1,045	1,508	3,486	1,331
Interest Income	(20)	(76)	(147)	(134)
Provisions & Others	156	159	193	3,142
Change in Working capital	9,592	11,558	187	(30,355)
Cash flow from operating activities	**4,681**	**(238)**	**160**	**(31,552)**
GFA & WIP	(2,670)	(2,533)	(3,363)	(4,655)
Investments	(1,107)	(97)	(101)	(760)
Interest Income	20	76	147	134
Cash flow from investing activities	**(3,757)**	**(2,555)**	**(3,318)**	**(5,280)**
Equity	(1,257)	5,073	529	4,079
Other Reserves / Consumer Contribution	2,036	430	379	2,423
Perpetual Loan	-	-	-	42,403
Loan	(1,113)	(925)	7,015	(9,740)
Interest Expense	(1,045)	(1,508)	(3,486)	(1,331)
Cash flow from financing activities	**(1,379)**	**3,070**	**4,437**	**37,834**
Cash Generated	(456)	278	1,280	1,001

Particulars	FY 09	FY 10	FY 11	FY 12
Ratios				
Return on NFA	-119%	-210%	-52%	-42%
PAT/Revenue	-26%	-37%	-12%	-11%
D/E*	(0.99)	(0.45)	(1.52)	(1.17)
Current Ratio	0.50	0.37	0.72	2.23

D/E: Debt / Equity; Current Ratio = Current Assets / Current Liabilities; P&L: Profit & Loss; WIP: Work-in-progress

* Equity includes accumulated profits/losses

Source: DISCOM-W Annual Reports

Table A3: Summary DISCOM-E Financial Projections (Rs Million)

Particulars	FY13	FY14	FY15	FY16	FY17
Sales (Mus)	9,674	10,158	10,666	11,199	11,759
%change	15%	5%	5%	5%	5%
Average Revenue (Rs/kWh)	4.70	4.95	5.84	5.79	5.71
%change	4%	5%	18%	-1%	-1%
P&L					
Revenue from Sale of Power	45,440	50,310	62,253	64,818	67,168
Other Income	3,160	3,540	3,970	4,430	4,710
Total Revenue	48,600	53,850	66,223	69,248	71,878
Operating Expenses	48,570	48,310	50,740	52,390	54,260
Depreciation	3,810	5,020	5,540	5,860	6,160
Interest Charges	3,030	3,840	4,140	4,430	4,670
Total Expenses	55,410	57,170	60,420	62,680	65,090
Profit Before Tax	(6,810)	(3,320)	5,803	6,568	6,788
Tax	-	-	-	-	-
Profit After Tax	**(6,810)**	**(3,320)**	**5,803**	**6,568**	**6,788**
Balance Sheet					
Gross Fixed Assets	59,310	84,720	97,940	107,580	116,220
Accumulated Depreciation	20,110	25,130	30,670	36,530	42,690
Net Fixed Assets	39,200	59,590	67,270	71,050	73,530
WIP	21,220	9,220	5,380	4,280	4,030
Current Assets	29,520	31,300	37,793	42,771	47,799
Total Assets	89,940	100,110	110,443	118,101	125,359
Equity*	(26,930)	(28,220)	(20,397)	(11,819)	(3,011)
Long term Liabilities	46,870	44,430	42,170	39,170	35,020
Current Liabilities	70,000	83,900	88,670	90,750	93,350
Total Equity & Liabilities	89,940	100,110	110,443	118,101	125,359
Cash Flow Statement					
Net P&L for the year	(6,810)	(3,320)	5,803	6,568	6,788
Depreciation	3,810	5,020	5,540	5,860	6,160
Interest and finance charges	3,030	3,840	4,140	4,430	4,670
Change in Working capital	11,420	14,190	4,950	2,170	2,570
Cash flow from operating activities	**11,450**	**19,730**	**20,433**	**19,028**	**20,188**
GFA	(16,640)	(25,410)	(13,220)	(9,640)	(8,640)
WIP	(3,500)	12,000	3,840	1,100	250
Investment	(970)	(2,070)	(120)	(800)	(1,160)
Cash flow from investing activities	**(21,110)**	**(15,480)**	**(9,500)**	**(9,340)**	**(9,550)**
Equity	1,790	1,790	1,780	1,770	1,770
Other Reserves / Consumer Contribution	3,220	240	240	240	250
Loan	7,680	(2,440)	(2,260)	(3,000)	(4,150)
Interest and finance charges	(3,030)	(3,840)	(4,140)	(4,430)	(4,670)
Cash flow from financing activities	**9,660**	**(4,250)**	**(4,380)**	**(5,420)**	**(6,800)**
Cash Generated	**-**	**-**	**6,553**	**4,268**	**3,838**

Particulars	FY13	FY14	FY15	FY16	FY17
Ratios	-17%	-6%	9%	9%	9%
Return on NFA	-17%	-6%	9%	9%	9%
D/E*	(1.74)	(1.57)	(2.07)	(3.31)	(11.63)
Current Ratio	0.42	0.37	0.43	0.47	0.51

D/E: Debt / Equity; Current Ratio = Current Assets / Current Liabilities; P&L: Profit & Loss; WIP: Work-in-progress

* Equity includes accumulated profits/losses

Source: DISCOM-E Business Plan, ADB Analysis

Table A4: Summary DISCOM-W Financial Projections (Rs Million)

Particulars	FY13	FY14	FY15	FY16	FY17
Sales (Mus)	14,680	18,771	20,731	22,572	24,528
%change	24%	28%	10%	9%	9%
Average Revenue (Rs/kWh)	48.58	57.56	76.71	73.55	70.95
%change	11%	18%	33%	-4%	-4%
P&L					
Revenue from Sale of Power	71,315	108,041	159,014	166,022	174,014
Other Income	3,629	3,629	3,629	3,629	3,629
Total Revenue	74,944	111,669	162,642	169,651	177,643
Operating Expenses	89,966	110,634	121,343	129,167	136,777
Depreciation	1,355	1,748	2,234	2,639	2,930
Interest Charges	3,541	6,244	14,903	13,063	10,859
Total Expenses	94,861	118,626	138,480	144,869	150,566
Profit Before Tax	(19,917)	(6,957)	24,162	24,781	27,077
Tax	-	-	7,557	7,349	7,829
Profit After Tax	**(19,917)**	**(6,957)**	**16,605**	**17,432**	**19,248**
Balance Sheet					
Gross Fixed Assets	40,455	53,795	67,212	76,090	83,217
Accumulated Depreciation	18,575	20,323	22,557	25,196	28,125
Net Fixed Assets	21,880	33,472	44,655	50,894	55,092
WIP	11,532	13,623	9,380	8,298	8,967
Current Assets	41,511	53,354	74,303	63,807	60,460
Other Non-current Assets	3,287	5,082	7,891	12,288	19,171
Total Assets	**78,210**	**105,531**	**136,229**	**135,288**	**143,690**
Equity*	(35,984)	(37,963)	(18,038)	2,315	24,281
Long term Liabilities	67,621	83,735	84,245	84,068	84,029
Other Non-current liabilities and provisions	7,235	6,935	6,635	6,335	5,995
Current Liabilities	39,337	52,822	63,386	42,569	29,385
Total Equity & Liabilities	**78,210**	**105,530**	**136,228**	**135,287**	**143,690**
Cash Flow Statement					
Net P&L for the year	(19,917)	(6,957)	16,605	17,432	19,248
Depreciation	1,355	1,748	2,234	2,639	2,930
Provisions for Bad & doubtful debt	3,013	4,098	5,345	4,864	4,347
Interest and finance charges	3,541	6,244	14,903	13,063	10,859
Change in Working capital	(9,304)	(13,529)	(10,831)	7,486	853
Cash flow from operating activities	**(21,313)**	**(8,396)**	**28,256**	**45,484**	**38,237**
GFA	(8,323)	(13,341)	(13,416)	(8,878)	(7,127)
WIP	(3,965)	(2,091)	4,243	1,082	(669)
Investment	(1,136)	(1,795)	(2,809)	(4,397)	(6,882)
Cash flow from investing activities	**(13,425)**	**(17,226)**	**(11,983)**	**(12,194)**	**(14,679)**
Equity	897	2,894	1,687	1,364	1,443
Other Reserves / Consumer Contribution	1,635	2,083	1,632	1,557	1,275
Loan	10,739	16,115	510	(177)	(39)

Particulars	FY13	FY14	FY15	FY16	FY17
Other Long term liabilities and provisions	(1,591)	(300)	(300)	(300)	(340)
Interest and finance charges	(3,541)	(6,244)	(14,903)	(13,063)	(10,859)
Short term loans	24,830	10,573	(3,898)	(23,172)	(15,538)
Cash flow from financing activities	**32,970**	**25,121**	**(15,272)**	**(33,792)**	**(24,059)**
Cash Generated	**(1,768)**	**(501)**	**1,002**	**(501)**	**(501)**
Ratios					
Return on NFA	-91%	-21%	37%	34%	35%
D/E*	(1.88)	(2.21)	(4.67)	36.31	3.46
Current Ratio	1.06	1.01	1.17	1.50	2.06

D/E: Debt / Equity; Current Ratio = Current Assets / Current Liabilities; P&L: Profit & Loss; WIP: Work-in-progress
* Equity includes accumulated profits/losses
Source: DISCOM-W Business Plan, ADB Analysis

Table A5: FMAQ - MP TRANSCO

Topic		Response	Remarks
1.	**Implementing Agency**		
1.1	What is the entity's legal status / registration?	Company	
1.2	Has the entity implemented an externally-financed project in the past	Yes	
1.3	What are the statutory reporting requirements for the entity?	As per Company Act	
1.5	Is the organizational structure appropriate for the needs of the project?	Yes	
2.	**Funds Flow Arrangements**		
2.1	Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.		
2.2	Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Yes	
2.3	What have been the major problems in the past in receipt of funds by the entity?	No	
2.4	In which bank will the Imprest Account be opened?	UBI / ICICI	
2.7	Does the entity have/need a capacity to manage foreign exchange risks? How is the foreign exchange risk mitigated?	Managed at GoMP level	
2.8	How will be the counterpart funds accessed?	Through GoMP for SGIA / re-imbursement; Direct funds flow from ADB for EPC in case of LC / direct payment mode	
3.	**Staffing**		
3.1	What is the (proposed) organizational structure of the F&A department? Attach an organization chart.		
3.3	Is the project finance and accounting function staffed adequately?	Yes; if required more staff will be deployed	
3.4	Is the finance and accounts staff adequately qualified and experienced?	Yes	
3.7	Indicate key positions vacant and the estimated date of appointment.	Yes, however being promotional post it cannot be filled immediately and from outside. If required, same may be temporarily filled with contract appointments	
3.12	What is the training policy for the finance and accounting staff?	No written manual; however most of the recruitment are being done with qualification of CA / ICWA	

Topic		Response	Remarks
4.	**Accounting Policies and Procedures**		
4.3	Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Yes	
4.4	Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes	
4.9	Are bank reconciliations prepared by someone other than those who make or approve payments?	Yes	
	Budgeting System		
4.12	Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Yes, on quarterly basis; reviewed by Management	
4.14	Who is responsible for preparation and approval of budgets?	CE P&D (Planning & Design) – Capital budget	
	Policies And Procedures		
4.20	What is the basis of accounting (e.g., cash, accrual)?	Accrual	
4.21	What accounting standards are followed?	ICAI AS	
4.23	Is the accounting policy and procedure manual updated for the project activities?	N/A	
4.25	Are there written policies and procedures covering all routine financial management and related administrative activities?		
5.	**Internal Audit**		
5.1	Is there an internal audit department in the entity?	Yes	
5.2	What are the qualifications and experience of audit department staff?	Mainly outsourced to CA firm	
5.5	Are actions taken on the internal audit findings?	Yes	
6.	**External Audit**		
6.1	Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Statutory auditor appointed by CAG, supplementary audit of the same by the CAG	
6.2	Are there any delays in audit of the entity?	5-6 months (no pending)	
6.3	Is the audit of the entity conducted according to the International Standards on Auditing?	Yes as per AS prescribed by ICAI	
6.4	Were there any major accountability issues brought out in the audit report of the past three years?	No	
6.6	Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Not anything which is material to Company's operations and business processes	

Topic		Response	Remarks
7.	**Reporting and Monitoring**		
7.1	Are financial statements prepared for the entity? In accordance with which accounting standards?	Yes, as per Indian Accounting Standards	
7.5	Does the reporting system have the capacity to link the financial information with the project's physical progress?	The company is in advanced stages of implementation of ERP (tender floated for appointing consultant)	
7.8	Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	
7.9	Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Partially; Company is using legacy batch processing FA system	
8.	**Information Systems**		
8.1	Is the financial management system computerized?		
8.2	Is the billing system integrated with accounting system (including payments, etc); Also is there a MIS which gets generated from the system and used for Management review?	Manual basis; The company is in advanced stages of implementation of ERP (tender floated for appointing consultant)	
8.3	Can the system produce the necessary project financial reports?	No; ERP awaited	
8.4	Is the staff adequately trained to maintain the system?	N/A	

Table Annexure-6: FMAQ – DISCOM-C

	Topic	Response	Remarks
1.	**Implementing Agency**		
1.1	What is the entity's legal status / registration?	Company	
1.2	Has the entity implemented an externally-financed project in the past	Yes	
1.3	What are the statutory reporting requirements for the entity?	As per Company's Act	
1.5	Is the organizational structure appropriate for the needs of the project?	Yes	
2.	**Funds Flow Arrangements**		
2.1	Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.		
2.2	Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Yes	
2.3	What have been the major problems in the past in receipt of funds by the entity?	No	
2.4	In which bank will the Imprest Account be opened?	Second Generation Imprest Account / State Bank of India	
2.7	Does the entity have/need a capacity to manage foreign exchange risks? How is the foreign exchange risk mitigated?	The State Government manages the foreign exchange risks; on-lending to DISCOMs at Rs	
2.8	How will be the counterpart funds accessed?	Loan	
3.	**Staffing**		
3.1	What is the (proposed) organizational structure of the F&A department? Attach an organization chart.		
3.3	Is the project finance and accounting function staffed adequately?	Yes	
3.4	Is the finance and accounts staff adequately qualified and experienced?	Yes	
3.7	Indicate key positions vacant and the estimated date of appointment.	NA	
3.12	What is the training policy for the finance and accounting staff?	Need based training	
4.	**Accounting Policies and Procedures**		
4.3	Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Yes	
4.4	Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes	

	Topic	Response	Remarks
4.9	Are bank reconciliations prepared by someone other than those who make or approve payments?	Audited by Statutory Auditor	
	Budgeting System		
4.12	Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Estimation and their comparison with actuals are done	
4.14	Who is responsible for preparation and approval of budgets?	CGM (RP) & Dir (Fin) – Prep Board / MD – Approval	
	Policies And Procedures		
4.20	What is the basis of accounting (e.g., cash, accrual)?	Accrual	
4.21	What accounting standards are followed?	Yes	
4.23	Is the accounting policy and procedure manual updated for the project activities?	Yes	
4.25	Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes	
5.	**Internal Audit**		
5.1	Is there an internal audit department in the entity?	Yes	
5.2	What are the qualifications and experience of audit department staff?	Chartered Accountant	
5.5	Are actions taken on the internal audit findings?	Yes	
6.	**External Audit**		
6.1	Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes. M/s Tasky Associates for FY12 and FY13	
6.2	Are there any delays in audit of the entity?	No	
6.3	Is the audit of the entity conducted according to the International Standards on Auditing?	India Accounting Standard is followed	
6.4	Were there any major accountability issues brought out in the audit report of the past three years?	All material issues are disclosed	
6.6	Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No	
6.7	Is the project subject to any kind of audit from an independent government entity	Yes, CAG	
7.	**Reporting and Monitoring**		
7.1	Are financial statements prepared for the entity? In accordance with which accounting standards?	Yes	

	Topic	Response	Remarks
7.5	Does the reporting system have the capacity to link the financial information with the project's physical progress?	Yes; ERP is awaited	
7.8	Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Estimations are compared with originals	
7.9	Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Sybase based Accounting System	
8.	**Information Systems**		
8.1	Is the financial management system computerized?	Partially	
8.2	Is the billing system integrated with accounting system (including payments, etc); Also is there a MIS which gets generated from the system and used for Management review?	Partially	
8.3	Can the system produce the necessary project financial reports?	No; ERP awaited	
8.4	Is the staff adequately trained to maintain the system?	Yes	

Table A7: FMAQ – DISCOM-E

Topic		Response	Remarks
1.	**Implementing Agency**		
1.1	What is the entity's legal status / registration?	Company	
1.2	Has the entity implemented an externally-financed project in the past	Yes	
1.3	What are the statutory reporting requirements for the entity?	As per Company's Act	
1.5	Is the organizational structure appropriate for the needs of the project?	Yes	
2.	**Funds Flow Arrangements**		
2.1	Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.		
2.2	Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Yes	
2.3	What have been the major problems in the past in receipt of funds by the entity?	No	
2.4	In which bank will the Imprest Account be opened?		
2.7	Does the entity have/need a capacity to manage foreign exchange risks? How is the foreign exchange risk mitigated?	No need to manage the foreign exchange risks	
2.8	How will be the counterpart funds accessed?	Loan	
3.	**Staffing**		
3.1	What is the (proposed) organizational structure of the F&A department? Attach an organization chart.		
3.3	Is the project finance and accounting function staffed adequately?	Yes	
3.4	Is the finance and accounts staff adequately qualified and experienced?	Yes	
3.7	Indicate key positions vacant and the estimated date of appointment.	NA	
3.12	What is the training policy for the finance and accounting staff?	Need based training	
4.	**Accounting Policies and Procedures**		
4.3	Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Yes	
4.4	Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes	

Topic		Response	Remarks
4.9	Are bank reconciliations prepared by someone other than those who make or approve payments?		
	Budgeting System		
4.12	Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Estimation and their comparison with actuals are done	
4.14	Who is responsible for preparation and approval of budgets?	Director Finance	
	Policies And Procedures		
4.20	What is the basis of accounting (e.g., cash, accrual)?	Accrual	
4.21	What accounting standards are followed?	Yes	
4.23	Is the accounting policy and procedure manual updated for the project activities?	Yes	
4.25	Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes	
5.	**Internal Audit**		
5.1	Is there an internal audit department in the entity?	Yes	
5.2	What are the qualifications and experience of audit department staff?	Chartered Accountant	
5.5	Are actions taken on the internal audit findings?	Yes	
6.	**External Audit**		
6.1	Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes. Changes every 2 years	
6.2	Are there any delays in audit of the entity?	No	
6.3	Is the audit of the entity conducted according to the International Standards on Auditing?	India Accounting Standard is followed	
6.4	Were there any major accountability issues brought out in the audit report of the past three years?	Internal Control function to be strengthened	
6.6	Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No	
6.7	Is the project subject to any kind of audit from an independent government entity	Yes, CAG	
7.	**Reporting and Monitoring**		
7.1	Are financial statements prepared for the entity? In accordance with which accounting standards?	Yes	

Topic		Response	Remarks
7.5	Does the reporting system have the capacity to link the financial information with the project's physical progress?	Yes; manual interventions are required	
7.8	Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Estimations are compared with originals	
7.9	Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Yes, Accounting System	
8.	**Information Systems**		
8.1	Is the financial management system computerized?	Yes a Sybase based system	
8.2	Is the billing system integrated with accounting system (including payments, etc); Also is there a MIS which gets generated from the system and used for Management review?	Partially	
8.3	Can the system produce the necessary project financial reports?	No; Tenders prepared for implementation of ERP	
8.4	Is the staff adequately trained to maintain the system?	NA	

Table A8: FMAQ – DISCOM-W

	Topic	Response	Remarks
1.	**Implementing Agency**		
1.1	What is the entity's legal status / registration?	Company	
1.2	Has the entity implemented an externally-financed project in the past	Yes	
1.3	What are the statutory reporting requirements for the entity?	As per Company's Act	
1.5	Is the organizational structure appropriate for the needs of the project?	Yes	
2.	**Funds Flow Arrangements**		
2.1	Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.		
2.2	Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Yes	
2.3	What have been the major problems in the past in receipt of funds by the entity?	No	
2.4	In which bank will the Imprest Account be opened?	State Bank of India	
2.7	Does the entity have/need a capacity to manage foreign exchange risks? How is the foreign exchange risk mitigated?	No need to manage foreign exchange risks for ADB loan	
2.8	How will be the counterpart funds accessed?	Loan	
3.	**Staffing**		
3.1	What is the (proposed) organizational structure of the F&A department? Attach an organization chart.		
3.3	Is the project finance and accounting function staffed adequately?	Yes	
3.4	Is the finance and accounts staff adequately qualified and experienced?	Yes	
3.7	Indicate key positions vacant and the estimated date of appointment.	NA	
3.12	What is the training policy for the finance and accounting staff?	Need based training	
4.	**Accounting Policies and Procedures**		
4.3	Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Yes	
4.4	Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes	

Topic		Response	Remarks
4.9	Are bank reconciliations prepared by someone other than those who make or approve payments?	Audited by Statutory Auditor	
	Budgeting System		
4.12	Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?		
4.14	Who is responsible for preparation and approval of budgets?	Director Finance and Managing Director	
	Policies And Procedures		
4.20	What is the basis of accounting (e.g., cash, accrual)?	Accrual	
4.21	What accounting standards are followed?	Yes	
4.23	Is the accounting policy and procedure manual updated for the project activities?	Yes	
4.25	Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes	
5.	**Internal Audit**		
5.1	Is there an internal audit department in the entity?	Yes	
5.2	What are the qualifications and experience of audit department staff?	Chartered Accountant	
5.5	Are actions taken on the internal audit findings?	Yes	
6.	**External Audit**		
6.1	Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes.	
6.2	Are there any delays in audit of the entity?	No	
6.3	Is the audit of the entity conducted according to the International Standards on Auditing?	India Accounting Standard is followed	
6.4	Were there any major accountability issues brought out in the audit report of the past three years?	Nothing major	
6.6	Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No	
6.7	Is the project subject to any kind of audit from an independent government entity	Yes, CAG	
7.	**Reporting and Monitoring**		
7.1	Are financial statements prepared for the entity? In accordance with which accounting standards?	Yes	

Topic		Response	Remarks
7.5	Does the reporting system have the capacity to link the financial information with the project's physical progress?	ERP is awaited; tenders finalized	
7.8	Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Estimations are compared with originals	
7.9	Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Sybase based Accounting System	
8.	**Information Systems**		
8.1	Is the financial management system computerized?	Yes	
8.2	Is the billing system integrated with accounting system (including payments, etc); Also is there a MIS which gets generated from the system and used for Management review?	Yes	
8.3	Can the system produce the necessary project financial reports?	ERP is awaited; tenders finalized	
8.4	Is the staff adequately trained to maintain the system?	Yes	