No. 3(11)/2011-DPE (MoU)
Government of India
Ministry of Heavy Industries & Public Enterprises
Department of Public Enterprises
(MoU Division)
Web-site: http://dpemou.nic.in/
E-mail: mou-dpe@nic.in

Public Enterprises Bhavan,
Block No. 14, 3rd Floor,
CGO Complex, Lodhi Road,
New Delhi -110 003
Dated: 31st October, 2011

OFFICE MEMORANDUM

Subject: Guidelines for Memorandum of Understanding (MoU) between CPSE and Government Department /Ministry for the year 2012-13.

Please find attached a copy of the Guidelines for drafting of MoU for the Financial Year 2012-13.. Please note the following key features:

1.1 **Applicability:** All CPSEs (Holding as well as Subsidiaries), without exception, are required to sign MoUs ; while the Apex/Holding companies are mandated to sign MoUs with their administrative Ministries/Departments, the Subsidiary companies are to sign MoUs with their respective Apex/Holding companies on the same lines as MoU signed between a CPSE and Government of India. The MoU formats for all CPSEs, including the Subsidiaries, are as attached. Those CPSEs who do not adhere to DPE's schedule for signing of MoU will have their MoU performance rated as "**Poor**".

1.2 **Financial Targets (Static parameters):** The basic targets of Gross Sales, Turnover, Gross Margin, Net Profit, Net Worth should be determined on the basis of (i) projection based on last five years' actuals (ii) reference to sectoral as well as industrial growth (iii) forecast of growth outlook for the ensuing year (iv) benchmarking with peer Companies at national and global level , subject to the condition that they are not less than the expected achievement in the previous year 2011-12. Financial Parameters should be fixed using DPE's definitions as appearing in these guidelines (**Annexure-I**). Some common definitional errors (**Annexure- II**) should be avoided.

1.3 **Non-financial Targets:** The non-financial targets should be SMART (Specific, Measurable, Attainable, Results-oriented, Tangible). Targets should be included to assess the performance of the CPSE under Corporate Social Responsibility, R&D, Sustainable Development, Human Resource Management and Corporate Governance, for which 5% weightage on each are earmarked. Major ongoing projects being monitored by the Department of Statistics and Program Implementation should be included.

1.3.1 To the extent possible, the targets for non-financial parameters should be independently verifiable, and CPSE should also specify the agency and means of their verification in draft MoU. In absence of the supporting documents for Non-financial parameters, evaluation based on such criteria whose weightage is as much as 50%, becomes very subjective and the evaluation is reduced to simple acceptance of the figures furnished by the management of CPSEs. The administrative Ministry concerned is entrusted with the responsibility of ensuring that a complete set of documentary evidence for every parameter, both financial and non-financial is submitted by the CPSE to DPE. Without this DPE would be handicapped in its evaluation of the performance of the defaulting CPSEs. ***This would entail an automatic downgrading by at least one notch from the rating claimed by CPSEs in respect of the parameters for which documentary evidence have not been submitted to DPE.***

1.4 **Group Targets:** The performances of some CPSEs are inter-dependent because their operations cut across different Ministries/Departments. CPSEs in the sectors of Energy, Engineering and Transport, etc. can be cited as examples. The actual performance in respect of a few parameters incorporated in MoUs like Project Implementation, Power Generation; Offtake, etc. depend upon the fulfillment of commitment by others. In such circumstances, MoU targets of the concerned CPSEs should be so fixed that they are jointly and severally responsible for their performance, and for achievement of the targets.

1.5 **Revision of Targets:** It is seen at the time of MoU Evaluation that the revision (downward) of MoU Targets is sought by a few CPSEs on account of various reasons. This is not a healthy trend as it amounts to re-fixing of targets when the achievement for the year is almost known. This is against the spirit of the MoU system, which is basically an agreement between the management of the CPSE and the Ministry/Department, under which the enterprise undertakes to achieve the targets set for different parameters *at the beginning of the year*.

In order to discourage this unhealthy trend and to make the MoU target setting more realistic and objective, DPE may take up with the High Power Committee on MoU a proposal that any CPSE whose performance evaluation of MoU is based on revised (downward revision) targets, would not be eligible for any kind of award including MoU Excellence Award and Certificates.

MoU targets should be consistent with the proposed Annual Plan, Budget and Results Framework Document (RFD) of the Ministry/Department and Corporate Plan of the CPSE for 20112-13. As such, once the MoUs are signed, any revision of targets is not permissible. MoU targets are unconditional and non-provisional. **However, the power to permit offsets while performance evaluation of MoU for developments beyond the control of the CPSE (force majeure), based on recommendations of DPE and Task Force, will continue to remain with the HPC.**

1.6 **Task Force:** Task Force on MoU is a neutral and independent body of experts that assist the High Power Committee on MoU and Department of Public Enterprises in setting annual targets of CPSEs at the beginning of the year and performance evaluation of MoUs at the end of the year. For the year 2012-13, CPSEs have been categorized into 12 syndicate groups including "Sick and Loss Making CPSEs – 2 Groups" and "Section 25 CPSEs"; Task Force on MoU for each syndicate normally has 6 members comprising of 1 Convenor (Senior most among the members), 1 Finance/ CA expert and renowned and eminent persons in the field each of Corporate Social Responsibility, R&D, Sustainable Development, Human Resource Management and Corporate Governance. There is one Chairman of the Task Force on MoU. The list of Task Force members, syndicate wise, is available on DPE website **http://www.dpemou.nic.in**.

1.7 The Task Force will commence negotiation meetings from **January 2012** to analyse, discuss and finalise the MoUs in respect of Apex/Holding CPSEs as well as Subsidiary Companies.

1.8 **Time-line:** An advance copy of the draft MoU for 2012-13, including enclosed Annexures and a copy of the Annual Plan, Budget, Corporate Plan of the CPSE and its Subsidiary companies, may be sent directly to DPE, Planning Commission and

Ministry of Statistics and Programme Implementation in hard and soft copies by **30.11.2011.** The main copy, after the approval of the Board of Directors, can be sent to DPE **through the Administrative Ministry/Department by the 15.12.2011.**

2. CPSEs (Holding as well as Subsidiaries) under the administrative control of your Ministry/Department may be advised to draft MOUs for the year 2012-13 on the basis of the enclosed Guidelines. These guidelines are also available on DPE website **http://www.dpemou.nic.in**.

3. CPSEs may draw attention to Ministry of Corporate Affairs Notification dated 28th February 2011 regarding submission of financial data as per Schedule-VI under Section 211 of the Companies Act and subsequent amendments, if any, and follow the said procedure for MoU.

4. CPSE may draw attention to Ministry of Corporate Affairs Notification dated 5th October 2011 regarding submission of their Balance Sheet, Profit & Loss Account and other documents as required under Section 220 of the Companies Act using the Extensible Business Reporting Language (XBRL) taxonomy, which is applicable to (i) all companies listed with any Stock Exchange(s) in India and their Indian subsidiaries; or (ii) all companies having paid up capital of rupees five crore or above; or (iii) all companies having turnover of rupees hundred crore or above. Such CPSEs should submit to DPE financial data for MoU in XBRL taxonomy.

5. CPSEs are advised to implement the IFRS converged Indian Accounting Standards (IND AS), while projecting the Financial parameters in the MoU for which the date of implementation will be notified by the Ministry of Corporate Affairs.

6. Modifications, if any, in these guidelines will be issued before the negotiation meetings of CPSEs with the Task Force.

(J.R. Panigrahi)
Director (MoU)
Tel: 011-2436 0841

To: Secretaries to the Government of India (as per list)

Copy to: Chief Executives of PSEs (as per list)

INDEX

GUIDELINES FOR DRAFTING OF MoU FOR THE YEAR 2012-13

MoU Guidelines for the drafting of MoU for the year 2012-13

Memorandum of Understanding (MoU) is a negotiated agreement and contract between the **Government** and the **Management** of the Central Public Sector Enterprise (CPSE). It is intended to evaluate the performance of the CPSE at the end of the year vis-à-vis the targets fixed in the beginning of the year. CPSE shall follow the below listed guidelines and format while drafting the MoU document.

Part I

1. MISSION AND OBJECTIVES OF THE CPSE

1.1 MISSION/VISION:

Mission should be a concise statement incorporating the rationale for the existence of the enterprise and its business/activities.

The Mission statement should be formulated keeping in view fresh initiatives being planned or /and under active consideration by the enterprise.

1.2 OBJECTIVES OF THE CPSE

The objectives should be related to the mission of the enterprise and listed in order of priority as approved by the Board of Directors of the enterprise.

These objectives should cover quantitative and qualitative; commercial and non-commercial; and static as well as dynamic aspects of the operations of the enterprise.

Efforts should be made to ensure that all the objectives get reflected in the MoU Assessment Format.

1.3 COMMITMENTS / ASSISTANCE FROM THE GOVERNMENT

Commitments/assistance expected from the Government should be relevant and related to the fulfilment of the agreed performance targets.

These obligations should have a direct bearing on the performance of the enterprise, and their effect on the performance should be quantified. However, the targets fixed should not be made conditional or provisional.

2. PERFORMANCE ASSESSMENT TARGETS AND THEIR DETERMINATION

2.1.1 Performance evaluation is based on the 'Balanced Score Card' approach and includes both "financial" and "non-financial parameters" having equal weights of 50% each. However, in the case of syndicate groups "Sick and Loss Making CPSEs" and "Section 25 CPSEs" the weights for financial and non-financial parameters are 40% and 60% respectively.

2.1.2 With a view to distinguishing 'excellent performance' from 'poor performance', 5 different performance targets should be fixed in the MoU assessment format on a 5 point -scale in the ascending order, that is, (1) 'Excellent', (2) 'Very Good', (3) ' Good', (4) ' Fair' and (5) ' Poor'.

2.1.3 The **basic target (B.T.)** will be placed in "Good" column in respect of CPSEs which are in growth phase and are operating below 100% capacity utilization. For CPSEs which are performing near or above 100% capacity utilization and are fully operative, the **basic target** will be placed in "Very Good" column.

2.1.4 No provisional or conditional target fixation is permissible. Hence, all performance targets are unconditional.

2.1.5 Once the MoUs are signed between the CPSEs and the administrative Ministries/Departments, **no revision of targets will be permitted.** The MoU Task Force have the flexibility to select appropriate financial and non-financial parameters, weightage for each of these parameters, spread between basic and other targets subject to broad DPE guidelines. **The power to permit offsets while performance evaluation of MoU for happenings beyond the control of the**

CPSE (force majeure), based on recommendations of DPE and Task Force, will however, continue to remain with the HPC.

2.2 Financial Targets (Static):

Definitions of Financial Parameters: All the financial parameters should conform to definitions which are adopted in the Public Enterprises Survey and laid before the Parliament every year are given in **Annexure - I** attached.

2.2.1 Common definitional errors relating to definitional issues on the financial parameters (refer **Annexure -II**) should be avoided.

2.2.2 CPSE will give a self certification (**Annexure- X**) at the end of the MoU to the effect that while arriving at the targets for negotiation by calculating the financial parameters and management ratios, the definitions and norms laid down in the MoU guidelines of DPE have been strictly and scrupulously followed and no deviations have been made.

2.2.3 The targets set should be realistic, growth oriented and challenging. These targets should be reflected in the Budget Estimates (BE) for the year 2012-13. The target set in MoU should be consistent with those approved by the Planning Commission and the Ministry of Finance. **While evaluating the MoU for the past few years, it has been observed that in the case of a number of CPSEs there is a large difference between the targets fixed and the actual achievements for that year. It is observed that some CPSEs under-pitch their projected performance for the coming year to plead their case for soft targets. In such cases, while undertaking the performance evaluation of MoU, DPE/Task Force will have the liberty to call upon the CMD of the CPSE to explain plausible reasons for such under pitching of targets and over-achievement with grossly high variations.** DPE may take up this issue with the High Power Committee on MoU and suggest for an imposition of penalty marks on CPSE's MoU Score as adjudged by the Task Force. Thus, while fixing targets for the MoU for the year 2012-13, the following methodology shall be followed:

2.2.4 To determine the basic target (BT) for primary parameters like **Gross Sales, Turnover, Gross Margin, Net Profit, Net Worth,** the actual **achievement of past 5 years (Annexure-IX)** can be taken and **a trend line projected** by using any suitable regression method; the projections so estimated can be modulated considering factors such as business environment, projects under implementation and Company's growth forecast to arrive at Basic Target. Basic financial targets should be generally determined by projecting an ambitious growth over achievement or targets of the previous year, unless there was a bad performance in the previous year. In such cases of bad performance, a modest growth on average of the last 3 years' actual performance should be taken as basic target. The targets for other financial parameters and management ratios can then be derived. For CPSEs which have only recently started signing MoUs, the projection shall be done using available data.

2.2.5 The difference in target values between "Very Good" and "Good"; "Good" and Fair"; and "Fair" and "Poor" columns should be at least 5%.

2.2.6 The difference between "Excellent" and "Very Good" targets: For the CPSEs in Manufacturing, Mining & Metals, Contract & Consultancies, Transport & Tourism sectors etc. which are in the growth phase and operating below 100% capacity utilization, the differential of 10% between "Excellent" and "Very Good" should be maintained. In case of CPSEs operating at or above 100% capacity utilization, the Task Force may fix the differential between '"Excellent" and "Very Good" targets in the range of 5% to 10%.

2.2.7 In case of benchmarking targets with national and/or international standards, the discretion of Task Force on MoU will apply.

2.3 Non-Financial Targets

2.3.1 A CPSE can select non-financial parameters in consultation with the administrative Ministry/Department which are considered crucial to its functioning and fulfillment of its objectives. However, non-financial targets fixed should be **SMART (Specific, Measurable, Attainable, Results-oriented, Tangible),** clearly identifiable and verifiable and which should be decided a priori. The draft MoU would necessarily mention about the documentary evidence and authority/source of this document in respect of all non-financial parameters. While setting targets for non-financial parameters at the time of MoU negotiation meetings and similarly, at the time of showing achievements of targets during self evaluation, CPSEs should obtain prior approval of their Board of Directors and then send it to DPE through their administrative Ministry/Department.

2.3.2 Dynamic Parameters

During the deliberations of the MoU negotiation meeting, if the Task Force comes to the conclusion that any of the dynamic parameter(s) as indicated in the MoU Assessment Format is not relevant to a particular CPSE, then the Task Force may evolve new parameters and adjust the balance weight relevant to that particular CPSE.

2.3.3 Ongoing projects implemented by CPSEs of various central Ministries and monitored by Ministry of Statistics and Programme Implementation should be included in non financial targets.

2.3.4 Sector-specific Parameters

Task Force will identify/evolve suitable sector specific parameters that reflect how the macro environment affects the performance of a particular CPSE, which is beyond the control of the CPSE management and pertain to the industry/sector in which the CPSE operates.

2.3.5 Enterprise-specific Parameters

Enterprise-specific parameters relate to parameters like safety, environment, and ecological considerations, i.e. parameters that do not get reflected in increased profits either during the year of investments or later, but are considered important from the viewpoint of the society.

2.3.6 In regard to both "Sector-specific" and "Enterprise–specific" parameters, the Task Force may alter weights in consultation with the Administrative Ministry where fine-tuning is felt necessary and may also club the parameters together under Non-financial parameters, without any distinction between them.

2.3.7 Corporate Social Responsibility

The guidelines lay stress on the link of Corporate Social Responsibility with sustainable development and define Corporate Social Responsibility (CSR) as a philosophy wherein organizations serve the interest of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations.

"Corporate Social Responsibility" has been included as a compulsory element under the 'Non-financial parameters" with a mandatory weightage of 5%. Department of Public Enterprises has already issued Guidelines on Corporate Social Responsibility for CPSEs vide O.M. No.15(3)/2007-DPE(GM) dated 9.4.2010 with subsequent amendments which are available in DPE website http://dpe.nic.in./newgl/glch1223pdf. A CPSE should include targets to assess its performance under Corporate Social Responsibility.

The template for review of CSR activities/projects of CPSEs and awarding of score/marks in MoU by the Syndicate Task Force is given in **Annexure—XI.**

2.3.8 Research & Development

"Research & Development" (R&D) has been included as a compulsory element under the 'Non-financial parameters" with a mandatory weightage of 5%. The basic rationale behind R&D activities is the changed business environment, highly competitive markets, the rapid pace of change in technology, stringent quality control criteria, heightened expectations and demands of customers, lack of transfer of technology and know-how from competitors, etc.

Department of Public Enterprises has issued Guidelines on Research & Development for CPSEs vide O.M. No. 3(9)/2010-DPE (MoU) dated 23rd September 2011 and is available on website http://dpemou.nic.in/MOUFiles/R&D.pdf.

R&D Performance Target Setting cum Evaluation Template is given in **Annexure—XII.**

CPSE will submit the requisite information on R & D in the prescribed Target Setting cum Evaluation Template given at Annexure -XII at the time of (i) submission of draft MoU to the Task Force Syndicates and (ii) submission of self-evaluation report on or before 31st August each year i.e. just before MoU Performance Evaluation by the Task Force.

CPSE is not required to fill up the Score allotted for each Table as the Task Force, on consideration of actual achievement verified by Independent Expert or Research

BS.

Advisory Committee of CPSE, will allot the marks on R&D during evaluation of the MoU.

2.3.9 **Sustainable Development:**

"Sustainable Development" (SD) has been included as a compulsory element under the 'Non-financial parameters" with a mandatory weightage of 5%.

Sustainable Development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Sustainable Development involves an enduring, balanced approach to economic activity, social progress and environmental responsibility.

Department of Public Enterprises has issued Guidelines on Research & Development for CPSEs vide O.M. No. 3(9)/2010-DPE (MoU) dated 23rd September 2011 and is available on website http://dpemou.nic.in/MOUFiles/Sustainable_Dev.pdf.

CPSE will submit the requisite information on Sustainable Development in the prescribed Target Setting cum Evaluation Template given at **Annexure -XIII** at the time of (i) submission of draft MoU to the Task Force Syndicates and (ii) submission of self-evaluation report on or before 31st August each year i.e. just before MoU Performance Evaluation by the Task Force.

CPSE is not required to fill up the Score allotted for each Table as the same will be allotted by the Task Force during evaluation of the MoU.

2.3.10 **Compliance of Corporate Governance**

Corporate Governance involves a set of relationships between a company's management, its Board, its shareholders and other stakeholders and it provides a principled process and structure through which the objectives of the company, the means of attaining the objectives and systems of monitoring performance are also set. It is about commitment to values, ethical business conduct, and transparency and makes a distinction between personal and corporate funds in the management of a company.

Department of Public Enterprises has issued guidelines on Corporate Governance vide O.M. No.18(8)/2005-GM Dated 14th May 2010. Listed CPSEs will follow both SEBI guidelines and DPE guidelines. Non-listed CPSEs would mandatorily follow DPE Guidelines.

DPE has issued vide O.M. No.18 (8)/2005-GM dated 22nd June 2011 requesting all administrative Ministries/Departments to direct the CPSEs under their respective jurisdiction to submit the self-evaluation reports on their compliance with Guidelines on Corporate Governance for CPSEs as per the prescribed formats and also award annual score and grading of CPSEs on compliance of Corporate Governance.

"Compliance of Corporate Governance" has been included as a compulsory element under the 'Non-financial parameters" with a mandatory weightage of 5%.

CPSEs' compliance of DPE's various Guidelines and timely submission of the prescribed Report to DPE will also have a weightage in the MoU.

Submission of data by CPSEs for Public Enterprises Survey published by DPE as per the time schedule in the 5-point scale from Excellent to Poor will have weightage of 1 in MoU. The respective target dates for submission of completed data sheet for PE Survey vis-à-vis timeliness, are indicated below:

Parameter of MoU	**MoU Target**						
	Unit	**Weight**	**Excellent**	**Very Good**	**Good**	**Average**	**Poor**
Date of submission to DPE of completed data-sheet for PE Survey	Date	1	15.9.2011	1.10.2011	15.10.2011	31.10.2011	After 31.10.2011

2.3.11 Human Resource Management

Human Resource Management is key to the success of a CPSE. A CPSE must adopt best HR practices on better manpower planning, strengthening skill development, entrepreneurial culture, training, institutionalization of system of tracking and reward innovation, Voluntary Retirement Scheme, etc.

"Human Resource Management" has been included as a compulsory element under the 'Non-financial parameters" with a mandatory weightage of 5%.

Department of Public Enterprises has issued Guidelines on "Human Resource Management" for CPSEs vide O.M. No. 3(9)/2010-DPE (MoU) dated 29th September 2011 and is available on website http://dpemou.nic.in/MOUFiles/HRM Guidelines.pdf .

A Template for evaluation of HRM parameters in CPSEs is given at **Annexure-XIV.**

Representation of minorities in the CPSEs shall be incentivized and given priority in the MoU. The Task Force will decide this parameter during MoU negotiation meeting.

3. ENCLOSURES WITH DRAFT MoU

During the MoU Exercise 2011-12, there were 11 Syndicate Groups including 2 new and separate syndicates of (i) Sick and Loss Making (ii) CPSEs registered under Section 25. For MoU Exercise 2012-13, there will be two Sick and Loss Making Syndicate Groups. Thus, there will be 12 Syndicate Group in total.

3.1 Key financial indicators of CPSEs relating to last five years along with MoU targets for 2011-12 should be submitted in format enclosed. (**Annexure IX**)

3.1.1 MoU Assessment Format for different sectors

The CPSEs falling broadly in the "Manufacturing", "Mining & Metals", 'Trading & Marketing" , "Contracts & Consultancy" 'and "Financial" sectors may adopt the MoU assessment format in line with the practice followed in previous years and with the approval of the Task Force during negotiation meetings. **(Annexure- III - V.)** . 'Sick and Loss making CPSEs' and 'CPSEs registered under Section 25 of the Companies Act' will adopt the formats **(Annexure-VI & VII)** as discussed above.

3.1.2 The SDR minutes of the MoU negotiation meetings (2011-12) along with the Action Taken Report (ATR) on the minutes of MoU negotiation meetings (2011-12) issued by DPE should be annexed with the draft MoU 2012-13.

3.1.3 A CPSE should submit three copies each of Corporate Plan, Annual Report for 2010-11, Performance up to Quarter ending December 2011 and Reviewed Financial results for the period up to September 2011 to DPE and separately to Task Force Members of the concerned Syndicates.

4. MoU SIGNING PROCESS AND TIMELINES

4.1 All CPSEs (Holding as well as Subsidiaries), without exception, are required to sign MoUs; while the Apex/Holding companies will sign MoUs with their respective Ministries/Departments, the Subsidiary companies will sign MoUs with their respective Apex/Holding companies on the same lines as MoU is signed between a CPSE and Government of India. The MoU formats for all CPSEs, including the Subsidiaries, will remain as attached. Those CPSEs who do not stick to DPE's schedule for signing of MoU will have their MoU performance rated as "Poor".

4.1.1 The revised MoUs based on the minutes of the MoU negotiation meetings should be sent by all CPSEs (Holding as well as Subsidiary Companies) through administrative Ministries/Departments for authentication by DPE before signing of the MoUs.

4.1.2 To ensure that MoU system is conducted effectively in the DPE, the Administrative Ministry/Department & CPSEs (Holding as well as Subsidiary Companies) shall follow the below mentioned timelines:

4.1.3 **Timely submission of MoU for the year 2012-13 :** An advance copy of the draft MoU for 2012-13, including enclosed Annexures and a copy of the Corporate Plan, Annual Plan of the CPSE and its Subsidiary companies, may be sent directly to DPE, Task Force Members, Planning Commission and Ministry of Statistics and Programme Implementation in hard and soft copies by **30th November 2011**. The main copy, with the approval of the Board of Directors, can be sent to DPE through the Administrative Ministry/Department by the **15th December 2011**.

(i) **Timely signing of MoU for the year 2012-13**: Submission of copy of MoU signed between CPSE and Administrative Ministry/ Department and between Subsidiary Company and Apex /Holding CPSE, within the target date of **<u>15th March 2012</u>.**

(ii) **Timely submission of Performance Evaluation Report** (composite score) for the year 2011-12 on the basis of **Audited data (Audited Accounts), Balance Sheet, Profit and Loss Account of the CPSE and documentary evidences in support of achievement of non-financial parameters for the year 2011-12** to DPE and Task Force Members separately after approval of the Board of CPSE and through their Administrative Ministry/Department within the **<u>target date of 31st August 2012</u>.**

(iii) **Non submission of Performance Evaluation Report**: Those CPSEs who do not submit Performance Evaluation Report with annual audited data by the prescribed date will not be evaluated by DPE and CPSEs will be rated **'Poor' in MoU** and will not be eligible for MoU Excellence Awards / Certificates.

5. <u>MoU EVALUATION</u>

Evaluation of MoU of the CPSE is done at the end of the year on the basis of actual achievements vis-à-vis the MoU targets. CPSEs (Holding as well as Subsidiaries) are required to submit performance evaluation reports on the basis of audited data along with Annual Accounts, Balance Sheet, documentary evidences in support of achievement of non-financial parameters, etc. to Department of Public Enterprises, after approval of the Board of CPSE and through the administrative Ministries/Departments within the **<u>target date of 31st August.</u>**

The weighted score for each parameter in the MoU is worked out by taking into account the actual achievements and the weights assigned to that parameter. The overall MoU composite score is, thus arrived at by adding weight score for all parameters. This system is based on 'Five-point' scale and 'criteria weight' for the calculation of Composite Score, which is index of the performance of the CPSE with reference to its targets.

After completing the evaluation of the performance of the MoU signing CPSEs with the assistance and expertise the Task Force, DPE submits the results of MoU Composite score and rating of CPSEs to the High Power Committee on MoU headed by the Cabinet Secretary for its approval. Once the High Power Committee gives its seal of approval to the evaluation done by the Task Force, the composite score and the ratings of the CPSEs become final. Composite score, thus, facilitates measuring the ability of the CPSEs to meet their own commitments and to compare and rank various CPSEs even though the commitments of these enterprises are different.

5.1 PROCESS OF EVALUATION

MoU evaluation of CPSE is done only once in the year **based on audited annual accounts** of the concerned CPSE.

5.1.1 RAW SCORE

Raw Score reflects the 'actual performance' in relation to the 5- point scale of MoU targets (as mentioned in para 2.1.2 above). If actual performance is equal to or more than the "Excellent" target (1), Raw score would be 1.00. If actual performance is equal to or less than the "Poor" target (5), Raw score would be 5.00. If actual performance falls in between "Excellent" (1) and "Very Good" (2) in that case Raw score would be 1 + (Excellent-Actual) ÷ (Excellent-Very Good). If actual performance falls in between "Good" (3) and "Fair" (4) target, in that case Raw score would be 3 + (Good-Actual) ÷ (Good-Fair). The Raw score for the rest can be similarly calculated if 'the actual' falls in between other columns.

5.1.2 COMPOSITE SCORE AND RATING

Composite score is an index of the performance of the CPSE which is calculated as the aggregate of all the weighted score of "the actual achievements" vis-à-vis 'the targets' set out on a 5-point scale. The Composite Score may either be (1), (2), (3), (4), or (5) or may have values between (1 to2), (2 to 3), (3 to 4) or (4 to 5).

The system of grading CPSEs on the basis of MoU Composite Score is as follows:

MoU Composite Score	Rating
1.00 – 1.50	Excellent
1.51 – 2.50	Very Good
2.51 – 3.50	Good
3.51 – 4.50	Fair
4.51 – 5.00	Poor

5.1.3 The concerned Syndicate Group of the Task Force on MoU would finalize the MoU Composite Score and Ratings of CPSEs in each Syndicate by November end.

6. MoU EXCELLENCE AWARDS

6.1. The total number of MoU Excellence Awards are 12 (1 from each of the 10 Syndicate groups, 1 from the listed CPSEs, 1 from amongst the turnaround sick and loss making CPSEs). All other 'Excellent' performing CPSEs get MoU Excellence certificates.

6.1.1 The following three basic principles for selection of CPSEs for MoU Excellence Awards from amongst the Syndicate groups will be adopted:

(i) The profit of the CPSE in the year should be higher compared to the previous year.

(ii) It should not be a loss-making enterprise.

(iii) The composite score of the CPSE should not be more than 1.5 (Excellent rating).

6.1.2 Award is given to the CPSE meeting the above criteria and having the best MoU composite score in the concerned Syndicate Group. In case two or more CPSEs have the same MoU composite score in a Syndicate Group, the CPSE recording the highest growth rate of net profit over the previous year is eligible for the Award.

The selection of 'the best listed CPSE' and 'the best turnaround sick and loss making CPSE' for MoU Excellence Awards will be done by the Department of Public Enterprises.

The "listed CPSEs" with the highest percentage growth in market capitalization are arranged in descending order and the CPSE with the highest growth is selected for the MoU Excellence Award.

CPSE is considered sick if it is referred to either BIFR or BRPSE. Out of such CPSEs, those are eligible for award that has earned profit before tax (PBT) for the year the MoU is under consideration as well as during the immediately preceding year. The CPSE having the best MoU composite score is given the MoU Excellence Award.

6.1.3 Compliance of Corporate Governance will be one of the criteria for the consideration of MoU Excellence Awards.

List of Annexures

Annex-I: Definitions of Financial Parameters

Annex-II: Some Common definitional errors by CPSEs vis-a-vis DPE Guidelines

Annex-III: MoU Assessment Format for Industrial CPSEs– 'Manufacturing and Mining' CPSEs

Annex-IV: MoU Assessment Format for 'Trading and Consulting Sector'

Annex-V: MoU Assessment Format for 'Financial Sector'

Annex-VI: MoU Assessment Format for 'CPSEs registered under Section 25 of the Companies Act'

Annex-VII: MoU Assessment Format for 'Sick and Loss Making CPSEs.

Annex-VIII: MoU Assessment Format for 'CPSEs under Construction'

Annex-IX: Trend of CPSE's Performance on Financial Parameters for last 5 Years.

Annex –X: Self declaration/Certification by CPSE

Annex-XI : Template for CSR Review

Annex-XII: R&D Performance Target Setting cum Evaluation Template

Annex-XIII: S.D. Performance Target Setting cum Evaluation Template

Annex-XIV: Template for HRM Performance Evaluation

Annexure-I

Definitions of Financial Parameters

Gross Margin (or EBIDTA): - represents excess of income over expenditure before providing for depreciation, interest on loans, taxes (including deferred taxes), extra ordinary or exceptional items, prior period adjustments and appropriations to reserves.

Gross Profit: - means excess of income over expenditure before providing for interest, taxes (including deferred taxes), extra ordinary items, prior period adjustments and appropriations to reserves.

Net Profit: - means excess of operating income over expenditure after providing for depreciation, interest, taxes (including deferred taxes), extra ordinary items, prior period adjustments but before providing for appropriations to reserves.

Profit before taxes including deferred taxes and EP (PBTEP) means excess of income over expenditure before providing for taxes (including deferred taxes), extra ordinary items, prior period adjustments and appropriations to reserves.

Profit before EP (PBEP) means excess of income over expenditure after providing for depreciation, interest, taxes but before providing extra ordinary items, prior period adjustments and appropriations to reserves.

Net Worth: - means paid up capital, share application money pending allotment and reserves less accumulated losses and deferred revenue expenditure to the extent not written off.

Gross Block: - represents original cost of procuring and erecting fixed assets as appearing in the annual accounts of the CPSEs at the end of the accounting year and takes into account additions thereto and deductions there from by way of sales and transfers

Capital Employed: - means Gross Block of fixed assets less accumulated depreciation plus working capital.

Working Capital - means all current assets, loans and advances less current liabilities and provisions excluding cash credits and bank overdrafts.

Gross Sales: - represents the total turnover and includes elements of excise duty, commission and discounts, etc.

Turnover/Operating Income - means the aggregate amount for which sales are affected by the company including excise duty and receipts from operations / services rendered.

Added Value: - Added value is the residual after meeting the due returns to labour, capital and materials that reflects the overall efficiency of the CPSEs. Added value may be computed as gross margin less returns to capital, which in turn may be computed as capital recovery factor @4 % the capital employed for social sector CPSEs and @10% for all other CPSEs.

Net Loss means excess of expenditure (including depreciation, interest, taxes, extra ordinary items, prior period adjustments but before providing appropriations to reserves) over operating income.

Return on Equity- It has been computed by deducting dividend on preference shares from Net Profit and divided by Net Worth as adjusted by the amount of preference share capital.

Earning Per Share: It is computed by dividing Net profit with paid-up capital and multiplying it by face value of each share i.e. Rs.10/-. For the purpose of uniformity and comparability face value of equity shares of each CPSE has been assumed at Rs.10/- per share.

Annexure- II

Some Common Definitional Errors by CPSEs vis-à-vis DPE Guidelines

1. Failure to rely on figures appearing in Audited Accounts of the CPSE, or relying on qualified Audited statement is often noticed.

2. Prior period adjustments or exceptional and extra ordinary nature of items have been included in Gross Margin/Gross Profit by CPSEs, whereas as para 1.5.1, and 1.5.2 of MoU guidelines, 2008-09 vide DPE No. 3(30/2007-DPE(MoU) dtd. 02-11-2007 read with Public Enterprises Survey, gross margin/profit should exclude the impact of the above items.

3. Other income has been included in Gross Sales/Gross Turnover, whereas as per para 1.5.7 of MoU guidelines, 2008-09 vide DPE No. 3(30/2007-DPE(MoU) dtd. 02-11-2007 read with Public Enterprises Survey, gross sales means the total turnover .Other income should not be considered as a part of turnover. Gross sales represent total turnover and includes elements of excise duty, commission and discounts etc. Turnover means the aggregate amount for which sales are affected by the company including excise duty and receipt from operations/ service rendered. It should exclude any other income accrued for non-operational reasons.

4. Cash and Bank Balance is to be included in current Assets and Capital employed. As per MoU guidelines and Public Enterprises Survey, capital employed means gross block less accumulated depreciation plus working capital; and working capital is total current assets minus total current liabilities. A few CPSEs have not included cash and bank balance in their current assets and capital employed.

5. Difference in Added Value: As per MoU guidelines, added value may be computed as gross margin less return to capital, which may be computed as capital recovery factor @4% the capital employed for the social sector CPSEs and @10% for all other CPSEs. But, a few CPSEs have calculated it differently (i.e. value added as gross sales less material cost instead of gross margin, lower capital recovery factor, capital employed of units commissioned etc). Capital employed shall be net block of fixed assets plus net working capital and excludes deferred assets, capital work in progress and Investments of CPSE.

6. For oil companies, Gross Margin/Net Profit has been worked out on the basis of audited accounts and no adjustments have been made for under recoveries (positive or negative), since provisions were not made in audited accounts.

7. For power generation companies, net worth/capital employed /gross block should be worked out on the basis of audited accounts of the CPSE as a whole, instead of considering only power producing plant/units. A few CPSEs are now working out these financial parameters by considering only the units producing power and excluding projects under constructions/station under repairs. For working out PBDIT/Total Employment, a few CPSE's are considering number of employees of Power plants producing power/stations under commission instead of total employment of CPSE.

8. It is observed that while projecting the targets in MoU, CPSEs are not considering the valuation of stock, foreign exchange variance, impairment of fixed assets, Profit/loss on sales of assets, Provisions written back etc. However, the same are accounted for in Annual Accounts of the CPSEs and accordingly considered by them while working out gross margin for the purpose of evaluation of MoU. In absence of non-projection of these items, the same shall be excluded from gross margin at the time of MoU evaluation.

9. CPSEs often consider Deferred Assets as a part of their assets & similarly Deferred liabilities as a part of their current liabilities. Both of these needs to be excluded for the purpose of deriving capital employed for the purpose of deriving Added value.

Annexure- III

MoU Assessment Format for Industrial CPSEs-Manufacturing and Mining CPSEs								
Evaluation Criteria			**MoU Target**					**Documentary evidence and source / origin of documents**
1. Static/Financial Parameters	**Unit**	**Weight (in %)**	**Excellent (1)**	**V. Good (2)**	**Good (3)**	**Fair (4)**	**Poor (5)**	
a) Financial indicators- profit related ratios i) Gross margin/gross block ii) Net profit/net worth iii) Gross profit/capital employed	 % % %	 2 10 10						
b) Financial indicators-size related i) Gross margin ii) Gross sales	 Rs. Cr. Rs. Cr.	 8 4						
c) Financial returns- productivity related i) PBDIT/total employment ii) Added value/sales	 % %	 7 9						
Sub-total 1 (a + b + c)		**50**						
2. Dynamic Parameters *								
d) Quality (ISO certification, internalization of quality within SBU/products)								
e) Customer Satisfaction (Customer orientation)								

f) Human Resource Management-HRM								
g) R&D								
h) Adoption of innovative practices								
i) Project implementation (modernization and expansion)								
j) Capital Expenditure/Greenfield investments/Joint Ventures								
k) Extent of globalization (internationalization, joint ventures, exports, strategic, market presence in emerging economies, internationalization along value chain)								
l) Corporate Social Responsibility (CSR)								
m) Sustainable Development								
n) Corporate Governance								

Sub-total (d + e + f + g + h + I + j +k + l + m+ n)								
3. Sector-specific Parameters								
4. Enterprise-specific Parameters								
Total (1+2+3 + 4)		**100**						

***Means of verification (documentary evidence and source/origin of documents) in respect of non-financial targets should be specified by CPSE**

Annexure- IV

MoU Assessment Format for 'Trading and Consulting sector'								
Evaluation Criteria			**MoU Target**					**Documentary evidence and source / origin of documents**
1. Static/Financial Parameter	**Unit**	**Weight** (in %)	**Excellent (1)**	**V.Good (2)**	**Good (3)**	**Fair (4)**	**Poor (5)**	
a) Financial indicators- profit related ratios i) Gross margin / Gross sales ii) Operating turnover/ Employee	 % %	 10 12						
b) Financial indicators-size related i) Gross margin ii) Gross sales	 Rs. Cr. Rs. Cr.	 8 4						
c) Financial returns- productivity related i) PBDIT/total employment ii) Added value/sales	 % %	 7 9						
Sub-total 1 (a + b + c)		**50**						
2. Dynamic Parameters *								
d) Quality (ISO certification, internalization of quality within SBU/products)								