

# MoU Evaluation for 2016-17



सत्यमेव जयते



Workshop with CPSEs & Admin. Ministries  
at New Delhi  
**17th January , 2017**

Department of Public Enterprises  
Ministry of Heavy Industries & Public Enterprises  
Government of India

# Outline of Presentation

- MoU Negotiation 2016-17
- Learnings from MoU Evaluation 2015-16
- MoU Evaluation 2016-17

# **MoU Negotiation 2016-17**

## MoU Negotiation 2016-17 - Status

<b>Particulars</b>	<b>No of CPSEs</b>
No. of CPSEs	382
MoU negotiation (IMC) meetings held	234
CPSEs exempted	143
MoU not submitted by CPSE	5

## Summary of MoU Negotiation

<b>Year</b>	<b>MoU Signed</b>	<b>Exempt</b>	<b>Not Signed</b>	<b>Total</b>
2016-17	234*	143	5	382
2015-16	215	83	Nil	298
2014-15	214	72	6	292
2013-14	197	65	7	269
2012-13	196	52	9	257
2011-12	197	48	10	255

\*Including MoU to be signed.

## Summary of MoUs Signed and Evaluated

<b>Sl. No.</b>	<b>Particulars</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
1	MoUs signed	198	197	196	197	214	215	234
2	Evaluated	161	175	189	189	200	191	\$

\$ Due in September 2017

# MoU Evaluation: Grading of MoU signing CPSEs

<b>Grades</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Excellent	74	67	76	75	77	73
Very Good	30	44	39	39	40	53
Good	20	24	33	37	35	41
Fair	20	24	25	36	29	26
Poor	1	2	2	2	8	07
<b>Total</b>	<b>145</b>	<b>161</b>	<b>175</b>	<b>189</b>	<b>189</b>	<b>200</b>

**Learnings**  
**from MoU Evaluation**  
**2015-16**



# Receipt of MoU self evaluation report 2015-16

<b>Particulars</b>	<b>No of CPSEs</b>
MoU Signed:	215
- Holding	143
- Subsidiary	72
<b>Self Evaluation Report received:</b>	
- Through Admin. ministry	191
- From CPSE	23

## **MoU Evaluation 2015-16 - learnings**

- If the actual performance on the parameter by CPSE is less than the target set for “Poor rating”, then Zero mark would be awarded rather than assigning mark at Poor level.
- If there is any inconsistency between signed MoU and Minutes of Negotiation meeting, generally minutes of negotiation meeting is considered for Evaluation .
- In absence of the supporting documents for Non-financial achievements, this may entail to non achievement of parameter and will be given zero marks i.e. below poor performance .
- Negative marking compliances.

# Negative Marking: Compliance to Public Procurement guidelines by MSME

- CPSEs have to adhere to 20% procurement from MSE and 4% from SC/ST MSEs .
- Status of Negative Marking :
  - **2013-14** : Not Applicable
  - **2014-15** : Nil
  - **2015-16** : **89 CPSE's** have submitted data **44 CPSEs** have complied to 20% out of which only **03 CPSEs** complied to 4% of SC/ST entrepreneurs. Board certification received from 56 CPSEs and **132 CPSEs** got negative rating.

# Negative Marking : Compliance to DPE guidelines MoU 2015-16

- CPSEs have to give a Certificate regarding implementation of Guidelines issued by DPE as per OM No.-DPE/14(38)/10-Fin dated 28<sup>th</sup> June, 2011.
  - Non compliance of DPE guidelines on the basis of certificate submitted will be penalized up to 1 mark .
- Status of Negative Marking :
  - **2013-14** : **65**
  - **2014-15** : **78**
  - **2015-16** : **127 CPSE's** have submitted compliance to DPE and **64 CPSE's** have reported non compliance

## **Negative Marking : Compliance to CSR guidelines**

- CPSEs have to adhere to provision of CSR guidelines as per section 135 of the Companies Act 2013 .
- Status of Negative Marking :
  - **2013-14** : **Not Applicable**
  - **2014-15** : **Not Applicable**
  - **2015-16** : **162 CPSE's** have submitted online data or reported compliance and **28 CPSE's** have reported non compliance.

# Negative Marking : Compliance to Survey Data Entry for 2015-16

- CPSEs have to enter data for PE Survey by 30<sup>th</sup> September 2016
- Status of Negative Marking :
  - **2013-14** : Nil
  - **2014-15** : Nil
  - **2015-16** : **187 CPSE's** have reported compliance and **04 CPSE's** have not submitted survey data

# **MoU Evaluation**

## **2016-17**

# Self Performance Evaluation Report by CPSEs

- CPSEs are required to submit **Self evaluation Sheet** on the basis of audited data along with Annual Accounts/Report, other documentary evidences in support of achievement of financial and non-financial parameters, etc. within the target date of 30 the September, 2017;
  - Submit actual performance of the CPSE as per the Minutes or MoU negotiation meeting ;
  - Where achievements are not verifiable from annual report, resolution of Board of Directors certifying/ confirming achievement.
  - Mandatory compliances of various Guidelines and entry of data as prescribed in MoU guidelines for negative marking ;
- **Self evaluation sheet** should be submitted through its Administrative Ministry/Department by the due date and includes, composite score as well as rating, as calculated by CPSE;



# Documents to be considered in MoU Evaluation 2016-17

The following documents are to be considered by DPE during MoU Evaluation;

- Minutes of the MoU Negotiation Meeting;
- Signed MoU along with Annexure;
- Self Evaluation Sheet submitted by CPSE through Administrative ministry/Holding CPSE ;
- Following documents are required along with the self evaluation sheet ;
  - Annual Report & Financial statements ;
  - Where achievements are not verifiable from annual report, resolution of Board of Directors certifying/ confirming achievement.
- Board resolution/certification for the following mandatory compliances :
  - Compliance of Provisions of Companies Act ;
  - Compliance to provisions of Listing agreement for listed CPSEs .
  - Compliance of DPE guidelines having Financial implications.
  - Compliance of MSME guidelines.

## **Documents considered in MoU Evaluation 2016-17 ..contd**

The following will also be considered by DPE during MoU Evaluation;

- It should not be sick/ incipient CPSE. ( For Excellent CPSEs)
- No adverse observations by CAG on Annual Accounts pointing out misappropriation of funds of any amount or Over/ under statement of profit/ loss (surplus/ deficit)/ assets/ liabilities amounting to 0.1% of Revenue from Operation.
- Holding of AGM without seeking extension of time.
- Submission of Draft MoU/ MoU evaluation, duly approved by the Board, complete in all respects by due date.

# **Additional Eligibility criteria for Excellent rating**

- i. Compliance of provisions of The Companies Act, 2013 or the relevant Act under which they have been regulated (To the extent compliances are within the ambit of CPSE).
- ii. In case of listing CPSE, compliance of Listing Agreement provisions (To the extent compliance are within the ambit of CPSE)
- iii. CPSE should not be sick/incipient CPSE.
- iv. Compliance of DPE guidelines having financial implications
- v. Compliance of Public Procurement Policy for Micro and Small Enterprises issued by M/o Micro, Small and Medium Enterprises.
- vi. No adverse observations by CAG on Annual Accounts pointing out misappropriation of funds of any amount or over/ under statement of profit/loss (Surplus/ deficit)/ assets/ liabilities amounting to 0.1% of Revenue from Operation.
- vii. Holding of AGM without seeking extension of time.
- viii. Submission of draft MoU/ MoU evaluation, duly approved by the Board, complete in all respect by due date.

# **Additional Eligibility criteria for CPSEs other than Excellent rating**

- i. Compliance of provisions of The Companies Act, 2013 or the relevant Act under which they have been regulated (To the extent compliances are within the ambit of CPSE).
- ii. In case of listing CPSE, compliance of Listing Agreement provisions (To the extent compliance are within the ambit of CPSE)
- iii. Compliance of DPE guidelines having financial implications
- iv. Compliance of Public Procurement Policy for Micro and Small Enterprises issued by M/o Micro, Small and Medium Enterprises.
- v. No adverse observations by CAG on Annual Accounts pointing out misappropriation of funds of any amount or over/ under statement of profit/loss (Surplus/ deficit)/ assets/ liabilities amounting to 0.1% of Revenue from Operation.
- vi. Holding of AGM without seeking extension of time.
- vii. Submission of draft MoU/ MoU evaluation, duly approved by the Board, complete in all respect by due date.

## Additional Eligibility Criteria - Case Studies

**Case - A:** XYZ Ltd. submitted self evaluation report with score of 98 (Excellent rating) and as per DPE evaluation, score comes out 96 (Excellent rating). However, it is observed that CPSE has **not complied one or more additional eligibility criteria** listed as above. MoU score would be **reduced to 90 marks** (Very Good rating).

**Case - B:** ABC Ltd. submitted self evaluation report with score of 58 (Good rating) and as per DPE evaluation score comes out 53 (Good rating). However, it is observed that CPSE has **not complied one or more additional eligibility criteria** listed as above. In this case, MoU score would be **reduced by 5 marks** to 48 (Fair rating).

# **Internal Evaluation by DPE: Financial Parameter**

- Computation of financial achievements should be as per definitions given in MoU Guidelines issued by DPE and as per Audited Annual Accounts.
- Financial achievements should be considered after making suitable adjustments for specific comment / recommendations as mentioned in Minutes of Negotiation meeting or MoU. So that actual performance reported is in line with as considered in MoU targets.
  - Example: Adjustment for Plant Shutdown, International price variation, foreign exchange rate variation etc.
- If there is any inconsistency between signed MoU and Minutes of Negotiation meeting, generally minutes of negotiation meeting is considered for Evaluation .

## **Internal Evaluation by DPE: Non-Financial Parameter**

- Non-Financial achievements should be as per the MoU Guidelines issued by DPE and as mentioned in Minutes or MoU, so that actual performance reported is in line with as considered in MoU targets;
- **Where achievements are not verifiable from annual report, CPSE may submit the same by way of resolution from Board of Directors.**
- In absence of the parameter achievement not in annual report / published document or certified by board , this may entail to non achievement of parameter and will be evaluated with zero mark i.e. below poor performance .

## **MoU Evaluation by the IMC**

- DPE evaluates Self Evaluation score sheets submitted by CPSEs through Administrative Ministry/Holding CPSE and the observations and comments will be placed before IMC members;
- Copy of IMC Agenda note is also sent to CPSE to make representation if any before IMC meeting ;
- IMC may accept the view of CPSE or Ministry or DPE or in specific circumstances may take decision independently;



# MoU Evaluation by the IMC

Contd .....

- **Offsets:** No Offsets will be considered by IMC except price variation as detailed in IMC minutes of MoU negotiation meeting .
- **Over-achievement of Targets:** It has been observed that some CPSEs **under-pitch** their projected targets for the coming year during MoU negotiation meeting so as to plead for soft/low targets. In such cases, during MoU evaluation DPE/ IMC may call upon the CMD of the CPSE to explain plausible reasons for such over-achievement due to under pitching of targets.
- **Finalization of Score & Rating :**IMC shall finalize the Minutes of Evaluation Meeting and recommend MoU Scores and Ratings for approval of HPC.

# Adjustments in Financial parameters

- Where price of product is regulated by statutory authorities/ international transparent mechanism and adjustment is to be given as per MoU negotiation minutes, adjustment would be allowed in revenue from operation only. No adjustment would be allowed in any other Financial Parameter.
- There would be no adjustment in Profitability related parameters and Financial ratios due to changes in exchange rate, regulatory prices of raw material or finished goods.

## Case study:

Sl	Product	MoU Qty (MT)	MoU Price (Rs./ MT)	MoU Sale Value target (Rs.)	Operating Profit Target (Rs.)	Actual Price (Rs./ MT)	Revised MoU sale value targets (Rs.)	Revised Operating Profit Target (Rs.)
	A	B	C	D	E	F	G	H
1	A	500	1500	7,50,000	-	1300	6,50,000	-
2	B	1200	1300	15,60,000	-	1350	16,20,000	-
3	C	800	2800	22,40,000	-	2300	18,40,000	-
	<b>Total</b>			<b>45,50,000</b>	<b>5,00,000</b>		<b>41,10,000</b>	<b>5,00,000</b>

In above case, **Turnover target** would be revised to Rs.41.10 lakh, however, **operating profit and all other financial targets** would remain same.

# Evaluation of Efficiency Parameters

➤ Examples for evaluation of Efficiency Parameter:

The targets have been set in terms of reduction as a % over previous year

Parameters	2015-16		Unit	Wt	Excellent	V Good	Good	Fair	Poor
	MoU Target	Provisional/ Actual							
Reduction in Auxiliary power consumption over previous year	Not a Target	1.13 (As % of Gross Generation)	%	3	5.5	4	2	1	0.5

➤ The absolute values for the above parameter will be as follows:

Parameters	2015-16		Unit	Wt	Excellent	V Good	Good	Fair	Poor
	MoU Target	Provisional / Actual							
Reduction in Auxiliary power consumption over previous year	Not a Target	1.13 (As % of Gross Generation)	% of Gross Generation	3	1.068	1.085	1.107	1.119	1.124

# CAPEX Monitoring Parameter

- The parameter is % of value of CAPEX contracts/ projects running/ completed during the year without time/ cost overrun to total value of CAPEX contracts running/ completed during the year.
- The parameter has to be taken in respect of all on-going projects for value above Rs.150 crore or top 10 projects at the time of target setting.
- Time / cost overrun of projects under monitoring of MoSPI will be captured from OCMS system maintained by them.
- Approved value may be original or revised if approved by the competent Authority not lower than the Authority which has approved original cost estimate.
- Parameter of monitoring time and cost overrun of projects for numerator and denominator would be referring to same set of projects. Examples for calculation of CAPEX Monitoring Parameter:

## Examples – MoSPI Monitored Projects

**Case A – Projects having both Time and Cost Overrun and High Value Projects are on-time and no cost overrun**

Sl. No.	Project	Date of approval	Original date of Commissioning	Anticipated date of Commissioning	Approved / original cost (Rs. in Cr)	Anticipated cost (Rs. in Cr)	Cummulative expenditure (Rs. in Cr)	Cost overrun (in %)	Time overrun (in months)
1	Project 1	12/2011	12/2016	12/2016	15166.19	15166.19	1775.00	0.00	0
2	Project 2	01/2008	07/2011	10/2015	4375.35	4375.35	1002.00	0.00	7
3	Project 3	12/2011	08/2015	08/2015	3180.40	3180.40	438.00	0.00	0
4	Project 4	11/2006	03/2013	03/2016	2978.48	3846.30	880.00	29.14	36
5	Project 5	07/2012	08/2017	08/2017	1527.00	1527.00	113.03	0.00	0
					<b>27227.42</b>				

% of value of CAPEX contracts/ projects running/ completed during the year without time/ cost overrun to total value of CAPEX contracts running/ completed during the year = (Approved Cost of Project 1, 3 and 5) / Total Approved Cost) X 100 = (15166.19+3180.40+1527)/27227.42\*100 = 72.99%

## Examples – MoSPI Monitored Projects

### Case B – Projects having both Time and Cost Overrun and High Value Projects are having time & cost overrun

Sl. No.	Project	Date of approval	Original date of commissioning	Anticipated date of commissioning	Approved/ original cost (Rs. Cr)	anticipated cost (Rs. Cr)	Cummulative expenditure (Rs. Cr)	Cost overrun (in %)	Time overrun (in months)
1	Project 1	12/2011	12/2016	12/2017	15166.19	16000.00	1775.00	5.50	12
2	Project 2	01/2008	10/2015	10/2015	4375.35	4375.35	4002.00	0.00	0
3	Project 3	12/2011	08/2015	08/2015	3180.40	3180.40	438.00	0.00	0
4	Project 4	11/2006	03/2016	03/2016	3846.30	3846.30	1880.00	0.00	0
5	Project 5	07/2012	08/2017	08/2017	1527.00	1527.00	113.03	0.00	0
					<b>28095.24</b>				

% of value of CAPEX contracts/ projects running/ completed during the year without time/ cost overrun to total value of CAPEX contracts running/ completed during the year = (Approved Cost of Project 2,3, 4 and 5) / Total Approved Cost) X 100 = (4375.35+3180.40+3846.30+1527)/28095.24\*100 = 46.02%.

## Examples – MoSPI Monitored Projects

### Case C – Projects having only Time Overrun

Sl. No.	Project	Date of approval	Original date of commissioning	Anticipated date of commissioning	approved/ original cost (Rs in Cr)	anticipated cost (Rs in Cr)	cummulative expenditure (Rs in Cr)	Cost overrun (in %)	Time overrun (in months)
1	Project 1	12/2011	12/2016	12/2017	15166.19	15166.19	1775.00	0.00	0
2	Project 2	01/2008	10/2015	10/2015	4375.35	4375.35	1002.00	0.00	0
3	Project 3	12/2011	08/2015	08/2015	3180.40	3180.40	438.00	0.00	0
4	Project 4	11/2006	03/2016	03/2016	3846.30	3846.30	880.00	0.00	0
5	Project 5	07/2012	08/2017	08/2017	1527.00	1527.00	113.03	0.00	6
					<b>28095.24</b>				

% of value of CAPEX contracts/ projects running/ completed during the year without time/ cost overrun to total value of CAPEX contracts running/ completed during the year = (Approved Cost of Project 2, 3, 4 and 5) / Total Approved Cost) X 100 = (15166.19+4375.35+3180.40+3846.30)/28095.24\*100 = 94.56%

## Examples – Projects not monitored by MoSPI

### Case D – Projects of less than Rs.150 crore and not monitored by MoSPI

Sl. No	Name of Project	Approved Cost / Estimated cost	Expenditure Planned During 2016-17	Actual Date / Anticipated date of Commissioning	Milestone in 2016-17	Time Over-run	Cost Over-run	
1	Project A	147	56	Sept.'16	Boxing of Unit-III - 100%	May'16	No	No
					Boxing of Unit-IV - 100%	Sept.'16	No	No
					Commissioning of Unit-III - 100%	June'16	No	No
					Commissioning of Unit-IV - 100%	Sept.'16	Yes	No
2	Project B	140	33.63	DPR under preparation	Drilling - 1000 M, Drifting - 400 M, Hyd. & Metrol. Data Studies & installation of hyd. Instruments	Mar.'17	No	No
					Preparation & Printing of DPR	Mar.'17	No	No
3	Project C	130	90	July'17	Award of project to EPC Contractor.	Oct.'16	No	No
		<b>417</b>	<b>179.63</b>					

% of value of CAPEX contracts/ projects running/ completed during the year without time/ cost overrun to total value of CAPEX contracts running/ completed during the year = (Approved Cost of Project B & C) / Total Approved Cost) X 100 = (140+130)/417\*100 = 64.75%.



# **Inventory of Finished Good and Work in progress (WIP) to Revenue from Operations**

- This parameter was compulsorily taken for CPSEs which had inventory of finished goods and WIP of more than 15 days except CPSE which have been mandated to have minimum stock by the GoI/ Administrative Ministry/ Department.
- Inventory means Inventory of Finished Goods and Work in progress at year end
- Goods in Transit shall be include in Inventory in relevant sub head of finished Good/Work-in-progress/Stock-in-trade.
- For Manufacturing CPSEs : Ratio with reference to inventory of Finished Goods & WIP.
- For Trading CPSEs : Ratio with reference to closing stocks of Goods traded.

# Early Sign of Weakness

## Reduction in Claims against the company not acknowledged as debt over previous year:

- Claims against the company not acknowledged as debt are classified under following sub-heads:
  - Central Government Departments
  - State Government/ Local Authorities
  - CPSEs
  - Others
- The target for this parameter was given on the basis of figures given in ‘**Notes to Accounts to the Balance Sheet**’ under the heading ‘**Contingent Liabilities**’ as ‘**Claims against the company not acknowledged as debt**’.
- Generally targets were given for reduction in-
  - Claims raised by CPSEs and
  - Claims raised by Others
- Reduction in claims **as on 31.03.2017** in comparison to claims **as on 31.03.2016** would be taken for the purpose of MoU Evaluation 2016-17.

# Early Sign of Weakness

## Example:

Claims as on 31.03.2016	-	Rs. 100
<i>Less:</i> Reduction in claims lying as on 31.03.2016	-	Rs. 10
Add: Addition in claims during FY 16-17	-	Rs. 20
Claims as on 31.03.2017	-	Rs. 110

In the above example, there is no reduction in the claims, but an increase of 10% claims as on 31.03.2017 over previous year for the purpose of MoU Evaluation 2016-17.

- Bank Guarantees are shown under contingent liabilities, but generally it does not form part of Claims against the company not acknowledged as debt.

# Other Points

DPE vide OM dated 9th November, 2016 clarified that if the actual performance of the CPSE is less than the target for “Poor rating”, Zero mark would be awarded.

## Case-1

Parameters	Unit	Wt	Excellent (100)	V Good (80)	Good (60)	Fair (40)	Poor (20)	Actual	Score
Sales Turnover	Rs. Cr.	10	1500	1400	1300	1200	1100	1000	0

## Case-2

Parameters	Unit	Wt	Excellent (100)	V Good (80)	Good (60)	Fair (40)	Poor (20)	Actual	Score
Sales Turnover	Rs. Cr.	10	1500	1400	1300	1200	1100	0	0

## Case-3

Parameters	Unit	Wt	Excellent (100)	V Good (80)	Good (60)	Fair (40)	Poor (20)	Actual	Score
Sales Turnover	Rs. Cr.	10	1500	1400	1300	1200	1100	1100	2

# Other Points

- Multiple sub-parameters with and
- In case CPSE has taken **two or more parameters combined with &** then each of the sub parameter is to completed individually as per target so as to get rating . For ex if in R&D there are two activities to be completed by Jan 17/ 15<sup>th</sup> Feb/28<sup>th</sup> Feb/15 th Mar/31<sup>st</sup> Mar 17.

## Example:

Parameters	2015-16		Unit	Wt	Excellent	V Good	Good	Fair	Poor
	MoU Target	Provisional/ Actual							
Activity A and Activity B	NA	NA	Date	5	31.01. 17	15.02. 17	28.02 .17	15.03. 17	31.03 .17

If activity A gets completed on 28<sup>th</sup> Jan, 2017 and activity B on 28<sup>th</sup> Feb, 2017 then achievement of parameter is **Good**.

# Other Points

- For CPSEs who have not taken CAPEX target and instead taken Reduction in Trade Receivables of over 6 months over previous year as a MoU target : In these cases Reduction in Trade Receivables over six months would be on the basis of audited Annual Accounts to be compared as on the last date of the year under reference with last date of the preceding year. i.e. for 2016-17, comparison would be between Trade Receivables of over six months as on **31.03.2016** and **31.03.2017**.

Thank You