

Dr. Saurabh Garg, IAS
Commissioner-cum-Secretary
Department of Public Enterprises



D.O No...../PE
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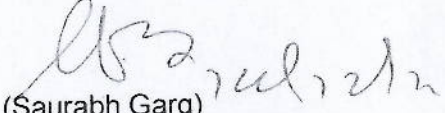
Dear

Sub: *Categorization frame work for State Public Sector Enterprises and delegation of power to the State Public Sector Undertakings.*

To enable the State Public Enterprises to be strong, self sustainable and to face varied challenges of the market , Government of Odisha have implemented Public Enterprises Reforms Programme. Timely strategic and operational decisions are most important measures to be taken by the Board of Directors/ Executive management teams for which delegation of powers and certain level of autonomy by the Government are required for strengthening the Board of Directors of the State PSUs. Considering the same the Department of Public Enterprises have developed a frame work for categorization of State PSUs after due consultation with the Administrative Departments. The Categorization frame work and delegation of power for the State PSUs has been approved by the Cabinet and is applicable to all State PSUs and statutory corporations. This frame work for categorization of State PSUs can be accessed from the DPE's website i.e. www.orissa.gov.in/Public Enterprises/index.htm.

May I request you to implement the categorization frame work for State PSUs to improve the performance of the PSUs

Yours sincerely,


(Saurabh Garg)

To
The Chairman/Managing Director (By name)
All State PSUs.

Cc: All Administrative Department for information and necessary action.

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o/c

Categorization of State Public Sector Enterprises and delegation of power to the State Public Sector Undertakings, Government of Odisha.

Government of Odisha has initiated the pioneering step to categorize its PSEs and delegate powers in select areas to the Board of Directors of the State PSUs, based on the specific categories assigned to the PSEs.

Categorization framework

Based on the wide variation in nature and scale of operations as well as performance, a classification framework comprising the following four categories has been devised for the PSEs:

- a. Bronze: PSEs which have made profits in 2 years out of the last 3 years and have a positive net worth.
- b. Silver: PSEs which meet the eligibility criteria of the Bronze category and which in addition, have posted a minimum pre-tax profit of Rs. 5 Crores in at least one of the three preceding years.
- c. Gold: PSEs which meet the eligibility criteria of the Silver category as well as the following additional criteria:
 - Minimum average annual turnover of Rs. 100 Crores during the last 3 years
 - Minimum net worth of Rs. 100 Crores as on cut-off date
 - Minimum average annual net profit after tax during the last 3 years of Rs. 10 Crores
- d. Platinum: PSEs meeting the eligibility criteria for the Gold category as well as the following additional criteria:
 - Listed on an Indian stock exchange, with minimum prescribed public shareholding under SEBI guidelines
 - Minimum average annual turnover of Rs. 500 Crores during the last 3 years
 - Minimum net worth of Rs. 500 Crores as on cut-off date
 - Minimum average annual net profit after tax during the last 3 years of Rs. 50 Crores

The above categorization framework is intended for initial categorization of the PSUs and going forward the MoU rating and performance evaluation scores will be used for periodic assessment of the category to which the PSE should fall under.

Pre-requisites for delegation of powers to PSEs

The following measures be implemented as a pre-requisite for exercising the powers delegated to its Board of Directors by virtue of being classified in a particular category:

- a) Induction of requisite number of Independent Directors in the Board of Directors as specified in the Corporate Governance Manual for the State PSUs.
- b) The proposals must be presented to the Board of Directors in writing and reasonably well in advance, with an analysis of relevant factors and quantification of the anticipated results and benefits. Risk factors if any must be clearly brought out.

- c) All the proposals, where they pertain to capital expenditure, investment or other matters involving substantial financial or managerial commitments or where they would have a long term impact on the structure and functioning of the PSE, should be prepared by or with the assistance of professionals and experts and should be appraised, in suitable cases, by financial institutions or reputed professional organizations with expertise in relevant areas.
- d) No financial support or contingent liability on the part of the government should be involved as a consequence of the decision.
- e) Before taking decisions involving long-term or major financial commitments, including and especially for new projects and joint ventures, the internal and extra-budgetary resource position and projections should be assessed realistically.
- f) At least one Director from each of the categories- namely, Government Director and Independent Director and the concerned Functional Director(s), (if any) must be present when major decisions are taken, especially when they pertain to investments, expenditure or organizational/capital restructuring.
- g) In the event of any decision on important matters not being unanimous, a majority decision may be taken, but at least two-thirds of the Directors should be present, including those mentioned above, when such a decision is taken. The objections, dissents, the reasons for over-ruling them and those for taking the decision should be recorded in writing.
- h) The PSEs should establish transparent and effective systems of internal monitoring, including the establishment of an Audit Committee of the Board with membership of Independent Directors.

Criteria for Categorization of PSEs

The PSEs which fulfil the following criteria have been considered eligible for categorization:

- Not defaulted on repayment of principal and interest on any loans due to the Government in past 5 years.
- Up to date Audit and finalization of Accounts.
- The PSUs Having positive net worth.

Given the wide variations in the nature and scale of operation of the state PSEs the initial categorization for eligible PSEs have been based on the following financial parameters.

Category	(Rs. Crores)		
	Threshold level for average turnover for last 3 years	Threshold level for Net Worth as on 31 March 2009	Threshold level for average profit after tax for last 3 years
Platinum*	500	500	50
Gold	100	100	10
Silver	None specified	Positive	Pre-tax profit of at least Rs. 5 crores in at least one of the three preceding years
Bronze	None specified	Positive	Profits in 2 years out of last 3 years

* In addition to the above financial parameters, the PSE have to be listed on a recognized stock exchange for qualifying for Platinum category. The threshold levels can be revised by the Government from time-to-time.

Delegation of Powers to the Board

The key strategic and operational decisions which an organization needs to take, the proposed delegation of powers to the Board of individual PSEs would need to cover the following dimensions:

Parameters	Bronze	Silver	Gold	Platinum
Capital Expenditure	Rs.25 Crore or 25% of net worth whichever is less	Rs.50 Crore or 50% of net worth whichever is less	Rs.100 Crore or equal to net worth whichever is lower	No monetary ceiling for capital investments
Allowances and entitlements of employees	To approve DA subject to fulfillment of criteria laid down by Government and prior approval by Administrative Department.	To approve DA subject to fulfillment of criteria laid down by Government and prior approval by Administrative Department	To approve DA subject to fulfillment of criteria laid down by Government and prior approval by Administrative Department	To approve DA subject to fulfillment of criteria laid down by Government and prior approval by Administrative Department
Organization restructuring	To abolish sanctioned posts To swap posts among group C & D without changing total sanctioned posts or grades inter se	To abolish sanctioned posts. To swap posts among sanctioned posts without changing total sanctioned posts or grades inter se. To fill up vacant posts which are statutorily required.	To abolish sanctioned posts. To swap posts among sanctioned posts without changing total sanctioned posts or grades inter se. To fill up vacant posts (excluding class-IV) .	To abolish sanctioned posts. To swap posts among sanctioned posts without changing total sanctioned posts or grades inter se. To fill up vacant posts(excluding class-IV) .
Tours abroad				CMD is empowered to approve tours abroad of functional Directors and senior officers one rank below

				the functional Directors up to five days duration (other than study tours, seminars etc) in emergency under intimation to the Secretary of the Admin. Deptt. after observing required formalities.
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Sitting Fees for Independent Directors

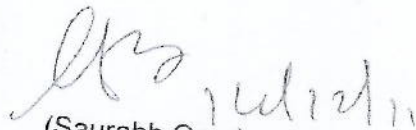
The sitting fees for the Independent Directors per sitting will be as follows:

Platinum	Gold	Silver	Bronze
10,000.00	8,000.00	5,000.00	3,000.00

(Amount in Rs.)

The sitting fee can be revised by the Government from time-to-time.

The process of categorization of PSEs would be an ongoing exercise with a system of periodic reviews. The continuity of PSEs in a particular category for upward/downward movement would be assessed periodically, every 2 or 3 years.


(Saurabh Garg)

Commissioner-cum-Secretary to Government
Department of Public Enterprises