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Government of India
Ministry of Heavy Industries & Public Enterprises
Department of Public Enterprises
(MoU Division)

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Dated: 12th November, 2012

OFFICE MEMORANDUM

Subject: Guidelines for Memorandum of Understanding (MoU) between CPSE and Government Department /Ministry for the year 2013-14.

Please find attached a copy of the Guidelines for drafting of MoU for the Financial Year 2013-14. These guidelines are also available on DPE website <http://www.dpemou.nic.in>.

2. CPSEs (Holding as well as Subsidiaries) may be advised to draft MoU for the year 2013-14 on the basis of the said Guidelines.

3. An advance copy of the draft MoU for 2013-14, including enclosed Annexures and a copy of the Annual Plan, Annual Budget, Corporate Plan of the CPSE and its Subsidiary companies, may be sent directly to DPE in hard and soft copy by **30th November 2012**. The main copy, after the approval of their Board, can be sent to DPE, Planning Commission and Ministry of Statistics and Programme Implementation through the Administrative Ministry/Department by the **15th December 2012**. The approved copies are to be sent in advance by CPSEs to the Task Force members of the concerned Syndicate Group.

4. Modifications, if any, in these Guidelines will be issued before the negotiation meetings of CPSEs with the Task Force Syndicate Groups.

sd /
(Umesh Dongre)
Director
Tel: 011-2436 3066

To:

01. Secretaries to the Government of India (as per list)
02. Chief Executives of CPSEs (as per list)

Also Copy to:

03. Staff Officer to Cabinet Secretary, Cabinet Secretariat
04. Dr. Prajapati Trivedi, Secretary Performance Management, Management Division, Cabinet Secretariat

Guidelines for Memorandum of Understanding (MoU) between CPSE and Government Department /Ministry for the year 2013-14.

1. **Applicability:** All CPSEs (Holding as well as Subsidiaries), without exception, are required to sign MoUs ; while the Apex/Holding companies will sign MoUs with their administrative 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. Those CPSEs who do not stick to DPE's schedule for signing of MoU will have their MoU performance rated as “**Poor**”.
- 1.1 **Exemption from MoU:** In respect of CPSEs, which are closed/not in operation, merged, wound up, shell companies or are sick and on the verge of being closed or merged with no revival package in sight, the administrative Ministry will make recommendation to DPE for permission to exempt from signing MoU and DPE will take a final decision.
- 1.2 **Guiding Principles for setting targets:** MoU targets should be realistic, yet growth oriented, and inspirational and be consistent with the proposed Annual Plan, Budget and Corporate Plan of the CPSE and Results Framework Document (RFD) of the Ministry/Department. It should be the maximum achievable under the given and anticipated circumstances. The financial information disclosed to potential investors in IPO/FPO documents and interest of the shareholders should also be kept in view.
- 1.3 **Financial Targets (Static parameters):** The basic targets of Gross Sales, Turnover, Gross Margin, Net Profit 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 . Financial Parameters and targets in MoU should be fixed using DPE's definitions as appearing in these guidelines (**Annexure-I**).
- 1.4 **Non-financial Targets :** The non-financial targets should be SMART (Specific, Measurable, Attainable, Results-oriented, Tangible). The targets for non-financial parameters should be independently verifiable by an external agency, wherever applicable and CPSE should also specify the documentary evidence they would rely

upon as proof of performance, the source/agency of such documentary evidence. 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 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.

1.5 Group Targets: The performances of some CPSEs are inter – dependent because their operations cut across different Ministries/Departments. 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. In addition to the regular syndicate meetings, either one joint meeting of the syndicates in which these are included may be held, or separate meeting(s) of these CPSEs, Railways, administrative Ministries, DPE and the Convenors of their respective Task Force Syndicates be convened to sort out cross cutting issues.

1.6 Revision of Targets :

Once the MoUs are signed, any revision of targets is not permissible. MoU targets are unconditional and non-provisional. However, during performance evaluation of MoU, for happenings beyond the control of the CPSE(force majeure type situation) , the power to permit offsets based on the recommendations of DPE/Task Force will continue to remain with the High Power Committee(HPC) on MoU.

1.7 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 2013-14 , CPSEs have been categorized into 12 syndicate groups including “Sick and Loss Making CPSEs” and “ Section 25 CPSEs”; Task Force on MoU for each syndicate will normally have 4 to 5 members. There will be one Chairman for Task Force on MoU. The list of Task Force members, syndicate wise will be available on DPE website <http://www.dpemou.nic.in>.

1.8 The Task Force will commence pre-negotiation meetings among themselves in December 2012 to discuss on the draft MoUs received from CPSEs and list out priority areas. Negotiation meetings will commence from **January 2012** to analyse,

discuss and finalise the MoUs in respect of Apex/Holding CPSEs as well as Subsidiary Companies.

- 1.9 **Time-line**: An advance copy of the draft MoU for 2013-14, 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 copy by **30th November 2012**. The main copy, after taking the approval of their Board, can be sent to DPE **through the Administrative Ministry/Department by the 15th December 2012**. **The approved copies will also be sent in advance by CPSEs to the Task Force members (2013-14) of the concerned syndicate group.**

2. CPSEs (Holding as well as Subsidiaries) under the administrative control of your Ministry/Department may be advised to draft MoUs for the year 2013-14 on the basis of the enclosed Guidelines. These guidelines are also available on DPE website <http://www.dpemou.nic.in>.

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GUIDELINES FOR DRAFTING OF MoU FOR THE YEAR 2013-14

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MoU Guidelines for the drafting of MoU for the year 2013-14

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 the 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. The commitments/assurances in the MoU document could be incorporated appropriately in the Result Framework Documents (RFD). 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. It 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 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 Task Force in consultation with the CPSE and administrative Ministry/Department will fix the Basic Target and levels of difference between Excellent, Very Good, Good and so on.
- 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 levels of 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 type situation) , based on recommendations of DPE/Task Force, will however, continue to remain with the HPC.

2.2 Financial Targets:

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 **Annexure – I** is attached.

2.2.1 CPSE will give a self -certification (**Annexure- IX**) at the end of the MoU to the effect that while arriving at the targets of the financial parameters and management ratios, for negotiation 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 aspirational. The target set in MoU should be consistent with the Budget Estimates for 2013-14 and in broad conformity with those approved by the Planning Commission, Ministry of Finance and other statutory or regulatory bodies, as applicable. 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. The Task Force could make appropriate adjustments during performance evaluation and finalize score and rating accordingly. 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 parameters like Gross Sales, Turnover, Gross Margin, Net Profit, Net Worth, the actual achievement of past 5 years (**Annexure-VIII**) and factors such as capacity and its expansion, business environment, projects under implementation and Company's growth forecast should be considered. 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 cases of bad performance, a realistic, achievable target considering growth on average of the last 3 years' actual performance could be taken. 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.

2.2.6 In case of benchmarking 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), and which should be decided a priori at the time of draft MoU and during setting of targets. The targets for non-financial parameters should be clearly identifiable and independently verifiable by an external agency, wherever applicable and CPSE should also specify the documentary evidence they would rely upon as proof of performance, the source/agency of such documentary evidence. The intention is to ensure strict, transparent and objective evaluation.

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 as well as new projects to be implemented by CPSEs including those monitored by Ministry of Statistics and Programme Implementation should be

included in non financial targets. List of projects completed, projects pending with time and cost overruns, percentage of milestones achieved within stipulated time, milestones of the ongoing projects that cannot be completed in the year, etc. should also be specifically mentioned.

2.3.4 Sector-specific and Enterprise-specific Parameters

Task Force will identify/evolve suitable sector- specific and enterprise-specific parameters and may alter weights in consultation with the CPSE /Administrative Ministry where fine-tuning is felt necessary and may also club the parameters together under Non-financial parameters, without any distinction between them.

2.3.5 Physical Targets

In addition to the financial performance of the CPSEs, quantifiable physical targets are very significant because they reflect productivity and efficiency of a CPSE. The Task Force will ensure that adequate weightage is assigned to physical targets in MoU of CPSE.

2.3.7 Corporate Social Responsibility

“Corporate Social Responsibility” is 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 and available in DPE website <http://dpe.nic.in/newgl/glch1223pdf>.

The Task Force in discussion with the CPSEs during the negotiation meetings will finalize projects/activities from the list in the Guidelines issued by DPE.

2.3.8 Research & Development

“Research & Development”(R&D) is a compulsory element under the ‘Non-financial parameters’ with a mandatory weightage of 5%.

The Task Force in discussion with the CPSEs during the negotiation meetings will finalize projects/activities from the list in the Guidelines issued by DPE.

2.3.9 **Sustainable Development:**

“Sustainable Development” (SD) is included as a compulsory element under the ‘Non-financial parameters’ with a mandatory weightage of 5%.

Department of Public Enterprises has issued Guidelines on Sustainable 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.

The Task Force in discussion with the CPSEs during the negotiation meetings will finalize projects/activities from the list in the Guidelines issued by DPE.

2.3.10 **Compliance of Corporate Governance**

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 while non-listed CPSEs would mandatorily follow DPE Guidelines.

In the MoU for 2013-14, “Compliance of Corporate Governance” will not be a parameter under the ‘Non-financial parameters’. However, for non-compliance, negative marking will be imposed.

2.3.11 **Human Resource Management**

“Human Resource Management” remains an element under the ‘Non-financial parameters’. 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](http://dpemou.nic.in/MOUFiles/HRM_Guidelines.pdf) .

The present Template for HRM is perceived to be very lengthy. Therefore, the Task Force in consultation with CPSEs during the negotiation meetings will decide the HR

Parameters which are relevant and significant for better performance and efficiency of the CPSEs.

2.3.12 **Compliance of DPE Guidelines**

Compliance of DPE Guidelines, introduced in MoU of 2012-13 with mandatory weight of 5, will not be mandatory parameters in MoU 2013-14. Since CPSEs are required to comply with the instructions and guidelines of statutory and regulatory bodies, instead of taking them as parameters, negative marking in MoU is being introduced for non-compliance. Task Force will have the liberty to impose penalty of negative marks upto 5 depending on the degree and seriousness of non-compliance.

3. ENCLOSURES WITH DRAFT MoU

For MoU Exercise 2012-13, there were 12 Syndicate Groups in total. The same will continue for MoU Exercise 2013-14.

3.1 Key financial indicators of CPSEs relating to last five years along with MoU targets for 2013-14 should be submitted in format enclosed. (**Annexure VIII**)

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- II -IV.**) . ‘Sick and Loss making CPSEs’ and ‘CPSEs registered under Section 25 of the Companies Act’ will adopt the formats (**Annexure-V & VI**) .

3.1.2 The Summary Records of Discussion (SRD) minutes of the MoU negotiation meetings (2012-13) along with the Action Taken Report (ATR) on the minutes of MoU negotiation meetings (2012-13) issued by DPE should be annexed with the draft MoU 2013-14.

3.1.3 CPSE, while submitting draft MoU should submit three copies each of Corporate Plan, Annual Report for 2011-12, and Reviewed Financial results for the period up to September 2012 to DPE and separately to Task Force Members(2013-14) of the concerned Syndicates. Similarly, performance up to Quarter ending December 2012

should be made available before/during the negotiation meetings.

- 3.1.4 In December 2012, after the receipt of the draft MoUs from the CPSEs, the Task Force could hold internal meetings to discuss among themselves and list out the observations, queries, doubts, etc. and seek requisite information and details from the respective CPSE through DPE. Before the negotiation meeting, the CPSE should send their response to the DPE.

4. MoU SIGNING PROCESS AND TIMELINES

- 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 2013-14** : An advance copy of the draft MoU for 2013-14, 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, Planning Commission and Ministry of Statistics and Programme Implementation and Task Force Members(2013-14) in hard and soft copies by **30th November 2012**. The main copy, with the approval of the Board of Directors, can be sent to DPE through the Administrative Ministry/Department by **15th December 2012**.

- (i) **Timely signing of MoU for the year 2013-14**: 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 **25th March 2013**.

- (ii) **Timely submission of Performance Evaluation Report** for the year 2012-13 on the basis of **Audited data (Audited Accounts), Balance Sheet, Profit and Loss Account of the CPSE in revised Schedule VI as well as pre-revised Schedule VI and documentary evidence in support of achievement of non-financial parameters for the year 2012-13** to DPE and Task Force Members(for the year 2012-13) separately, after approval of the Board of CPSE and through their Administrative Ministry/Department within the **target date of 31st August 2013.**
- (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. MoU EVALUATION

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 to Department of Public Enterprises and the Task Force members of the Syndicate Group, after approval of the Board of CPSE and through the administrative Ministries/Departments within the **target date of 31st August.**

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.

5.1 RAW SCORE

Raw Score reflects the ‘actual performance’ in relation to the 5- point scale of MoU targets.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 $1 + (\text{Excellent}-\text{Actual}) \div (\text{Excellent}-\text{Very Good})$ and so on.

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 on a 5-point scale.

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

<u>MoU Composite Score</u>	<u>Rating</u>
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 by end -November.

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.

6.2 DPE vide O.M. No. 3(13)/2006-DPE(MoU) date 20th August 2007 issued the procedure for evaluation of MoU performance and principles for selection of 10 Excellent Awardees from each Syndicate, and Vide O.M.No. 3(29)/2007-DPE(MoU) date 7th January 2008 issued the methodology to be adopted for the selection of “ best listed” and “best turnaround sick and loss making CPSE” for Excellence Awards.

List of Annexures

- Annex-I:** Definitions of Financial Parameters
- Annex-II:** MoU Assessment Format for Industrial CPSEs– ‘Manufacturing and Mining’ CPSEs
- Annex-III:** MoU Assessment Format for ‘Trading and Consulting Sector’
- Annex-IV:** MoU Assessment Format for ‘Financial Sector’
- Annex-V:** MoU Assessment Format for ‘CPSEs registered under Section 25 of the Companies Act’
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- Annex-VIII:** Trend of CPSE’s Performance on Financial Parameters for last 5 Years
- Annex –IX:** Self declaration/Certification by CPSE

Definitions of Financial Parameters

Gross Margin: - represents excess of income over expenditure before providing for depreciation, interest on loans, taxes (including deferred taxes), extra ordinary 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, extraordinary 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 CPSEs has been assumed at Rs.10/- per share.

Annexure- II

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) <u>Financial indicators-profit related ratios</u>								
i) Gross margin/gross block	%	2						
ii) Net profit/net worth	%	10						
iii) Gross profit/capital employed	%	10						
b) <u>Financial indicators-size related</u>								
i) Gross margin	Rs. Cr.	8						
ii) Gross sales	Rs. Cr.	4						
c) <u>Financial returns-productivity related</u>								
i) PBDIT/total employment	%	7						
ii) Added value/sales	%	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								
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- III

MoU Assessment Format for 'Trading and Consulting sector'

Evaluation Criteria	Unit	Weight (in %)	MoU Target					Documentary evidence and source / origin of documents
			Excellent (1)	V.Good (2)	Good (3)	Fair (4)	Poor (5)	
1. Static/Financial Parameter								
a) Financial indicators- <u>profit related ratios</u>								
i) Gross margin / Gross sales	%	10						
ii) Operating turnover/ Employee	%	12						
b) Financial indicators- <u>size</u> <u>related</u>								
i) Gross margin	Rs. Cr.	8						
ii) Gross sales	Rs. Cr.	4						
c) Financial returns- <u>productivity related</u>								
i) PBDIT/total employment	%	7						
ii) Added value/sales	%	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) Project implementation (modernization and expansion)								
i) Capital Expenditure/Greenfield investments/Joint Ventures								
j) Extent of globalization (internationalization, joint ventures, exports, strategic, market presence in emerging economies, internationalization along value chain)								
k) Corporate Social								

Responsibility (CSR)								
l) Sustainable Development								
n) Adoption of Innovative Practices Sub-total (d + e + f + g + h + i + j + k + l + m)								
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 'Financial sector'								
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) <u>Financial indicators-profit related</u> i) Disbursements ii) Resource Mobilization iii) Loan Sanctions iv) Projects commissioned in value terms v) Financial returns (difference in cost of borrowing and disbursements)		22						
b) <u>Financial indicator-size related</u> i) Gross margin ii) Gross sales (Rs. Crore)	Rs. Cr. Rs. Cr.	8 4						
c) <u>Financial returns-productivity related</u> i) PBDIT/total employment ii) Added value/sales		7 9						
Sub-total 1 (a + b + c)		50						

2. Dynamic Paramters*								
d) Quality (ISO certification, internalization of quality within SBU/products)								
e) Customer Satisfaction (Customer orientation)								
f)) Human Resource Management-HRM								
g) R&D								
h) Project implementation (modernization and expansion)								
i) Capital Expenditure/ Greenfield investments/Joint Ventures								
j) Extent of globalization (internationalization, joint ventures, exports, strategic, market presence in emerging economies, internationalization along value chain)								
k) Corporate Social Responsibility (CSR)								
l) Sustainable Development								

n) Adoption of Innovative Practices								
Sub-total (d+e+f+g+h+ i+j+k+l+m)								
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-V

MoU Assessment Format for 'CPSEs registered under Sec. 25 of the Companies Act, 1956'								
Evaluation Criteria			MoU Target					Documentary evidence and source/origin of documents
1. Static / Financial Parameters (40%)	Unit	Weight (in %)	Excellent (1)	V. Good (2)	Good (3)	Fair (4)	Poor (5)	
1.1 Gross margin	Rs. Cr.	10						
1.2 Disbursements	Rs. Cr.	12						
1.3 % of total resources mobilized from source other than grant in aid of Government	%age	02						
1.4 Financial return (difference of average cost of borrowings and disbursement)	%age	05						
1.5 Gross Margin / Total employment of the CPSE at the yearend as per Audited Accounts	Ratio	02						
1.6 Recoveries as a % of amount due	%age	04						
1.7 Recoveries as a % of amount overdue for varying years	%age	05						
Sub-total 1 (1.1+1.2+1.3+1.4+1.5+1.6+1.7)		40						
2. Non-financial Parameters* (60%)								
2.1 No. of Beneficiaries assisted during the year	No.	10						
2.2 % age of beneficiaries inspected during the year	%age	10						

2.3	% age of beneficiaries found during inspection to have possessed the assets created	%age	08						
2.4	%age of assisted beneficiaries found during inspection to have crossed poverty line	%age	10						
3	%age Reduction in Non-performing assets –year wise break up	%age	05						
4	No of beneficiaries got assisted under other Government schemes	No.	05						
5	No of target group provided Entrepreneurship Development / skill development programme that help them to secure employment	No.	04						
6	Strategic plan prepared	Timeline	02						
7	Partnership with Government departments to leverage existing schemes	No.	02						
8	Partnership with EDP institutes to train beneficiaries	No.	02						
9	Net working with various institutions to achieve their mission/Adoption of Innovative Practices	Timeline	02						
Sub-total-2. (2+3+4+5+6+7+8+9)			60						
Total (1+2)			100						

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

Annexure-VI

MoU Assessment Format for 'Sick and Loss making CPSEs'								
Evaluation Criteria			MoU Target					Documentary evidence and source/origin of documents
1. Static / Financial Parameters (40%)	Unit	Weight (in %)	Excellent (1)	V. Good (2)	Good (3)	Fair (4)	Poor (5)	
1.1 Gross Sales	Rs. Cr.	10						
1.2 Gross Margin	Rs. Cr.	10						
1.3 Gross Profit	Rs. Cr.	05						
1.4 Net Profit	Rs. Cr.	05						
1.5 Cash Generation from Operations	Rs. Cr.	05						
1.6 Working Capital / Turnover	Ratio	05						
Sub-total 1 (1.1+1.2+1.3+1.4+1.5+1.6)		40						
2. Dynamic Parameters* (25%)								
2.1 Physical Targets								
2.2 Order Booking								
2.3 Quality								
2.4 Customer Satisfaction								
2.5 Project Implementation								
2.6 Corporate Social Responsibility (CSR)								
2.7 Sustainable Development								
2.8 Research & Development								

Sub-total-2. (2.1+2.2+2.3+2.4+2.5+2.6+2.7+2.8)		25						
3. Sector / Enterprise Specific Parameters (35%)								
3.1 Preparation / Implementation (as the case may be) of the Business/Revival plan								
3.2 Technology Upgradation								
3.3 Generation of funds from non-performing assets								
3.4) Human Resource Management-HRM (manpower rationalization, productivity improvement, training, motivation and succession planning etc.)								
3.5 Reduction in receivables								
3.6 Inventory Control								
Sub-total-2. (3.1+3.2+3.3+3.4+3.5+3.6)		35						
Total (1+2+3)		100						

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

Annexure- VII

MoU Assessment Format for ‘CPSEs Under Construction’								
Evaluation Criteria			MoU Target					Documentary evidence and source/origin of documents
1. Project Related Parameters	Unit	Weight (in %)	Excellent (1)	V. Good (2)	Good (3)	Fair (4)	Poor (5)	
1.1 Physical Achievement (Time overrun)		25						
1.2 Project Cost (Cost overrun)		25						
Sub-Total (a +b)		50						
2. Dynamic Parameters *								
2.1 Corporate Plan/Vision								
2.2 Project Implementation								
2.3 Corporate Social Responsibility (CSR)								
2.4 Sustainable Development								
2.5) Human Resource Management-HRM								
2.6 Research Development								
Sub-Total (2.1+2.2+2.3+2.4+ 2.5+2.6)								
3. Sector Specific Variables								
4.Enterprise Specific Variables								
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-VIII**(Rs. in Crore)****TREND OF CPSE's PERFORMANCE ON FINANCIAL PARAMETERS FOR THE
LAST FIVE YEARS**

Particulars	2008-09		2009-10		2010-11		2011-12		2012-13		2013-14
	MoU	ACTUAL	MoU	ACTUAL	MoU	ACTUAL	MoU	ACTUAL	MoU	Projected for 31.3.2013	Projected
Production											
Gross Sales											
Gross Margin											
Profit before tax											
Gross Block											
Less dep											
Net block											
share capital of CPSE											
Reserves & surplus of CPSE											
Less deferred revenue exp. / pre-acquisition loss											
Less Profit & Loss A/c											
Net worth of CPSE											
Investment											
Sundry debtors/sales											
Inventory											
Total Current assets											
Total current liabilities & provision											

Net current assets											
Capital employed (Net block + net current assets)											
Total debt (loan funds)											
total assets											
No of employess of CPSE											
Dividend paid											
Add value (gross margin less capital recovery factor 4% of capital employed for social sector and 10% for other CPSE)											
Ratios											
Debt/equity											
Return on Net worth (% age)											
PBDIT/ Total employment of CPSE (Rs.)											
Gross Profit/Capital employed (% age)											
Net Profit / Net Worth (% age)											
<u>Working of gross margin</u>											
Net profit											
Tax											
Net profit before tax											
add Prior period											
add extra ordinary items											
Profit before prior period											
add Interest											

Gross profit											
add depreciation											
Misc. expenditure written off											
Gross Margin before Interest, depreciation & misc. expenditure written off											
Additional for Financial Sector											
Financial Indicator-profit related											
i) Disbursement											
ii) Resource Mobilisation											
iii) Loan sanctions											
iv) Project Commissioned in value terms											
v) financial return (difference of cost of borrowing & disbursement											
Additional for 'Trading & Consultancy Sector'											
i) Gross margin/ gross sales											
ii) Operating turnover/ Total No of employee of CPSE											
Gross margin - profit before interest, depreciation, tax including deferred tax, amortisation, prior period adjustment a/c & extra ordinary											

items - Rs in Crores											
Net profit after tax but before extraordinary items and prior period adjustment a/c											
Added Value (Rs in crores)											

ANNEXURE-IX

Self declaration/certification by CPSE

It is hereby certified that the targets and actual achievements in respect of financial parameters have been worked out as per MoU Guidelines by adopting the norms and definitions laid down in MoU Guidelines for the year 2013-14. In case, any deviation is found at the time of appraisal of performance, DPE is free to evaluate as per audited accounts as per MoU Guidelines. CPSE has no right of claim in this regard.

Authorised Signatory

